

PROCEDURE 706 INVESTMENTS – OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST

I. Delegation of Authority

The Director of Business Services, or designee, is designated as Investment Officer of the school district and is responsible for investment decisions and activities under the direction of the Executive Director of Finance and Operations. The Director of Business Services, or designee, will operate the investment program consistent with this policy. In order to optimize total return through vigilant portfolio management, resources will be allocated to the OPEB Portfolio management program.

A. Ethics and Conflicts of Interest

Officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Further, no officer involved in the investment process will have any interest in, or receive any compensation from, any investments in which the school district is authorized to invest, or the sellers, sponsors, or managers of those investments.

B. Indemnification

Investment officers and employees of the school district acting in accordance with this Investment Procedure and such written operational policies as may be established by the school district, and who otherwise exercise due diligence and act with reasonable prudence, will be relieved of personal liability for an individual security's credit risk or market changes.

C. Amendment

This procedure will be reviewed from time to time by the School Board Treasurer with regards to the procedure's effectiveness in meeting the OPEB Trust's needs for safety, liquidity, rate of return, diversification, and general performance. Any substantive changes will be reported to the Independent School District 279 School Board.

II. General Standard Prudent Investment

The standard of prudence is to be applied by the Investment Officer in the context of managing the overall portfolio. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suited to the OPEB Trust.

III. Monitoring and Adjusting the Portfolio

The Investment Officer will routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments.

IV. Internal Controls

The Business Services Department will establish a system of internal controls, which will be reviewed annually by the independent auditor. The controls will be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions.

V. Credit Risk and permitted investments:

The school district will diversify use of investments to avoid incurring unreasonable risks inherent in over- investing in specific instruments, individual financial institutions or maturities. Allowable

investments will be defined by applicable Minnesota laws, including laws applicable to public pensions, along with any further constraints defined below.

- A. State and Local Securities:
- B. Any security which is a general obligation of any state or local government with taxing powers must be rated "A" or better by a national bond rating service;
- C. Any security which is a revenue obligation of any state or local government must be rated "AA" or better by a national rating service.
- D. Investment Grade Corporate Bonds: Must be rated in the highest 4 rating categories by at least two nationally recognized rating agencies.
- E. International Securities are not allowed.
- F. Mortgage-backed securities are allowed excluding high-risk mortgage-backed securities as defined in Minnesota laws governing deposit and investment of local public funds.
- G. Concentration Risk – Diversification is a key component of reducing risk in a portfolio. Investments are limited to a maximum of 5% exposure to any corporate issuer excluding equity fund exposure.
- H. Maturity Scheduling: Investment maturities for OPEB funds will be scheduled to meet at least the near term projected cash flow needs, taking into account actuarial projections and board requirements. The school district's OPEB Trust will diversify use of investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual institutions or maturities.
- I. Competitive Selection of Investment Instruments Investments are to be made in accordance with best execution practices. Getting competitive quotes is encouraged, but depending on the type of security is not always available. The goal is to seek the best overall result for the school district's OPEB Trust under the current circumstance in the market.
- J. When utilizing an investment advisor for the management of OPEB Trust funds, the investment advisor will maintain a listing of financial institutions which are approved as trading counter parties.

VI. Safekeeping Securities

- A. Third party safekeeping is required for all securities. To accomplish this, the securities must be held only at the following locations:
 - 1. at a Federal Reserve Bank or its branch office;
 - 2. at another custodial facility, which will be a trust or safekeeping department through book-entry at the Federal Reserve, unless physical securities are involved, or
 - 3. in an uninsured account with an eligible broker.
- B. Safekeeping will be documented by an approved written agreement between the Independent School District 279 School Board and the holder of the securities. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement, or custody agreement.

VII. Reporting Requirements

The investment officer will generate monthly reports for management purposes. In addition, the Independent School District 279 School Board will be provided with a monthly report which will include data on investment instruments being held, as well as any narrative necessary for clarification. The investment officer will provide monthly reports for management purposes.

Procedure 706 Adopted: 1/19/16

Legal References

M.S. Ch. 118A

M.S. Ch. 356A

School Board

INDEPENDENT SCHOOL DISTRICT 279

Maple Grove, Minnesota