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## Investment Guidelines for OSBA

Approved: February 5, 2021

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In accordance with OSBA policy 4400 – Financial Investments OSBA, these guidelines govern the investments of the Oregon School Boards Association.

### **OBJECTIVES:**

The primary objective, as outlined in policy 4400, is protection of the principal. The second objective is to maintain the liquidity to meet projected or unexpected cash needs. The third is to attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.

The goal in investing funds is to achieve a total return (defined as income plus realized and unrealized capital gains and losses) of long-term capital appreciation and income net of fees in the range of 4-5% annually adjusted for inflation, while ensuring protection of invested cash.

It is anticipated that this total return will allow for an annual distribution to the OSBA operating budget as outlined in policy 4100 – Budget.

### **CUSTODIAL OFFICER:**

OSBA’s executive director, or their designee, is designated as the custodial officer and has the authority to invest funds as outlined in this guideline.

The executive director shall contract with an outside investment agency for the purpose of managing operating reserve funds and the Finance Committee shall determine their level of involvement in the process for contracting with an outside investment agency.

### **PARAMETERS FOR INVESTING:**

#### Asset Allocation:

The following asset allocation formula shall be used for decision-making by OSBA’s contracted investment advisor. The formula is consistent with the desired objectives and risk tolerances of the funds. This formula may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement.

<b>Asset Category</b>	<b>Preferred Allocation</b>	<b>Target Range</b>
Equities: Common and Preferred	40%	30 - 70%
Fixed Income:	55%	30 - 70%
Cash/Equivalents	5%	0 - 20%
Real Property	N/A	N/A

#### Diversification:

The purpose of diversification is to ensure that no single investment, security, class of investments or industry group will have a dominant position in the portfolio of investments.

In order to minimize the risk of large losses in individual security positions, the portfolio will be constructed to attain extensive diversification in both equity and fixed income investments with no material concentration of plan assets in any single security or industry group with the exception of U.S. Government and Agency obligations.

It is expected that the equity component of the portfolio will reflect a broad economic sector diversification.

Fixed Income Securities:

1. Quality: In addition to government Treasuries and Agencies, all other marketable issues held should have a minimum quality rating of investment grade or better at time of purchase as designated by a recognized rating service. For purposes of commercial paper holdings, issues held should have a minimum quality rating of "A1 - P1", as defined by at least one recognized rating service.
2. Maturity: The average duration will not exceed 10 years.
3. Limitation: The maximum investment in any one fixed income security will be limited to 5% of the fixed income portfolio, at time of purchase (Government and Agency obligations are excluded from this limitation).
4. Commercial paper and repurchase agreements are considered acceptable assets.

Equity Assets:

1. Minimum criteria for direct investment in a stock:

Market Value	1 Billion
Minimum Trading Volume	500,000 shares per day average over a 5-day period
Annual Sales	1 Billion
2. The equity investment in any single company should not exceed 5% of the fund's assets. Investments in mutual funds or ETF's would not be subject to this limit.
3. Investment in Mid, Small Cap, and International equities may also be made through the use of mutual funds or ETF's. Mutual funds and/or ETF's selected will be diversified and generally conform to the above-mentioned company and industry guidelines.
4. Exchange Traded Funds (ETF) are open-end funds that trade like a stock and are designed to track an index. Therefore, ETF's should be used to provide the desired diversification in the portfolio where allocation weighting is small (less than 5% of portfolio).
5. Preferred Equities of Corporations with the issue being listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and large and medium capitalization companies listed on the National Association of Securities Dealers Exchange (NASDAQ) are considered acceptable assets. They should have a minimum quality rating of investment grade or better by at least one recognized ratings service at time of purchase.

Real Property:

1. The process for purchasing real property is outlined in OSBA's guideline on purchasing Real Property.
2. The purchase of real property will be considered by the finance committee, with final approval by the board of directors, to determine if the purchase is an acceptable asset for the organization.

Permitted transactions:

1. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
2. Bank repurchase agreements, banker acceptances, and commercial paper.
3. United States Treasury Bills and United States Government Securities that are backed by full faith of the United States Government.
4. Investment grade (BBB) or better individual corporate or municipal bonds.
5. Exchange traded funds.
6. Open end and closed-end mutual funds.
7. Equities of Corporations listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and large and medium capitalization companies listed on National Association of Securities Dealers Exchange (NASDAQ).
8. Master Limited Partnerships (MLPs).
9. Real Estate Investment Trusts (REITs)

*Prohibited transactions:*

1. No “speculative” activity on securities is permitted.
2. No assets shall be invested in non-negotiable and non-marketable issues.
3. No assets shall be invested in commodity contract, derivatives, futures, junk bonds, limited partnerships.
4. No assets shall be committed to short sale contracts.
5. No assets shall be invested in equity option contracts, i.e., the purchase or sale of “puts” or “calls” on equity securities.
6. There shall be no purchases or sales of assets between the funds and the Investment Advisor(s) or any affiliate.
7. There shall be no purchases, sales, or other transactions in connection with which the Investment Advisor(s) or any affiliate receives any payment or its own account, whether as underwriter, investment banker, or broker.
8. Individual issues of convertible preferred stocks are not allowed.

**PERFORMANCE MEASUREMENTS:**

The following standards will be used to measure the rate of return:

1. Fixed Income – The fixed income portion of the portfolio will be measured against the Bloomberg Barclay’s Intermediate Government Corporate Bond Index.
2. Equities – The large cap equity component of the portfolio will be measured against the S&P 500 (Barra Value) or S&P 500 total return (w/ income index).
3. Cash – The cash positions will be measured against the 90-Day Treasury Bill return. It is understood that total return performance of the funds will be measured over market cycle, generally assured a period of three to five years.

**SALE/PURCHASE OF AN SECURITY OR INVESTMENT**

When approval is needed for the buying or selling of a security or investment it shall require the consent of the Executive Director or their designee and either the Business Services Director or Deputy Executive Director.

**PAYOUT GUIDELINES:**

Withdrawal of income from the funds shall be at the written discretion of OSBA's executive director or designee as per OSBA policy 4100 – Budget.

**REPORTING:**

The designee of the contracted investment agency will provide OSBA the following information:

1. Monthly, the appropriate staff will receive status reports of the funds reflecting quantity of individual security purchased, security cost basis, percentage of asset allocation by security, month ending value, and any other data requested by the appropriate OSBA staff from time to time.
2. Quarterly, the appropriate staff and the finance committee will receive statements containing the same information listed above.
3. Annually, or at such other times as requested, the representative of the investment agency will present to the Finance Committee and the OSBA Board of Directors a progress report of the funds.

**INVESTMENT PRACTICES:**

1. Investment Authority: Investment authority is vested with association's executive director or their designee.
2. Register of Investments: A register of investments will be kept by the executive director or their designee at all times.
3. Custody/Safekeeping of Assets: The association will not normally take delivery of the investment securities purchased. Instead, the association will utilize a third-party custodian, which can provide a timely confirmation of all sales and purchases.
4. Investment Audits: Once every other year the executive director will provide for an audit of the association's investment activity to assure compliance with all applicable laws and policies.

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