Investment Policy Guidelines

Adopted: January 21, 1996

Re-adopted June 13, 1997; June 19, 1998; June 18, 1999; June 18, 2000; June 24, 2001; June 23, 2002; June 22, 2003; June 27, 2004; June 26, 2005; June 23, 2006; June 22, 2007; June 20, 2008; June 12, 2009; Sept. 11, 2009; June 11, 2010; June 26, 2011; July 19, 2012; March 15, 2013; June 20, 2014; June 20, 2015; June 17, 2016; June 25, 2017

This investment policy governs two separate funds of money:

1. Surplus funds of the Oregon School Boards Association (OSBA).
2. Surplus funds of the OSBA Property and Casualty Education Trust (PACE).

The goal in investing funds is to achieve an optimum rate of return (defined as income plus realized and unrealized capital gains and losses) while ensuring protection of invested cash. The fund seeks a total return of long-term capital appreciation and income net of fees in the range of 4-5% annually adjusted for inflation. Consistent with a spending policy of 3-6% annually of the fund's three-year trailing average principle value, it is anticipated this total return will be enough to support spending from the fund. Such funds may be invested by the executive director of the Oregon School Boards Association or the executive director's designee as the custodial officer.

The Executive Director shall be permitted to enlist an outside investment agency for the purpose of managing operating reserve funds.

INVESTMENT OBJECTIVES

1. To retain liquidity and provide income to meet projected or unexpected cash needs.
2. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
3. To assure the safety of principal.

These objectives are ranked in order of importance. No "speculative" activity on securities is permitted.

1. Investment

    The OSBA Board of Directors has adopted the following asset allocation formula for OSBA's investment advisor. The formula is consistent with the desired objectives and risk tolerances of the funds.

Asset Category	**Preferred Allocation**	**Target Range**
Equities	40%	20-50% Bonds/Fixed
Income	55%	30-70%
Cash/Equivalents	5%	0-20%

2. Exception

The above formula may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement.

Diversification

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

1. 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.
2. Economic Sectors: It is expected that the equity component of the portfolio will reflects a broad economic sector diversification.

Portfolio Constraints

1. Permitted Transactions

    a. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
    b. Bank repurchase agreements, banker acceptances, and commercial paper.
    c. United States Treasury Bills and United States Government Securities that are backed by full faith of the United States Government.
    d. Investment grade (BBB) or better individual corporate or municipal bonds.
    e. Exchange traded funds.
    f. Open end and closed-end mutual funds.
    g. 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).
    h. Master Limited Partnerships (MLPs).
    i. Real Estate Investment Trusts (REITs)

2. Fixed Income Securities

    a. 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 -Pl", as defined by a recognized rating service.
    b. Maturity - The average duration will not exceed 10 years.
    c. 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).
    d. Commercial paper and repurchase agreements, as well as convertible securities and bonds, are considered acceptable assets.

3. Equity Assets

The equity assets will be managed in accordance with the following criteria:

a. Minimum criteria for direct investment in a stock:

Market Value	1 Billion
Minimum Trading Volume	1 Million per day average over a 5 day period
Annual Sales	1 Billion

b. The equity investment in any single company should not exceed 5 percent of the fund's assets. Investments in mutual funds or ETF's would not be subject to this limit.
c. 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.
d. 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).

Prohibited Transactions

1. No assets shall be invested in non-negotiable and non-marketable issues.
2. No assets shall be invested in commodity contract, derivatives, futures, junk bonds, limited partnerships.
3. No assets shall be committed to short sale contracts.
4. No assets shall be invested in equity option contracts, i.e., the purchase or sale of "puts" or "calls" on equity securities.
5. There shall be no purchases or sales of assets between the funds and the Investment Advisor(s) or any affiliate.
6. 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.

PERFORMANCE MEASUREMENT (BENCHMARKS)

For OSBA surplus funds and OSBA PACE surplus funds, the OSBA Board of Directors shall use the following standards for measurement of the rate of return.

1. OSBA surplus funds or portfolio:

   a. Fixed Income – The fixed income portion of the portfolio will be measured against the Bloomberg Barclay's Intermediate Government Corporate Bond Index.
   b. Equities – The large cap equity component of the portfolio will be measured against the S&P 500 (Barra Value) or S&P 500 total (w/ income index).
   c. 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.

2. OSBA PACE surplus funds or portfolio:

   a. Fixed Income – The fixed income portion of the portfolio will be measured against the Bloomberg Barclay's US Aggregate Bond Index.
   b. Equities – The large cap equity component of the portfolio will be measured against the Russell Multi-Asset Core Plus Composite and Russell 1000 Index.
   c. 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.

PAYOUT GUIDELINES

Withdrawal of income from the funds shall be at the written discretion of the OSBA Executive Director or designee following OSBA policy.

Reporting

1. The Custodian will furnish the appropriate OSBA staff monthly 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. The Advisor(s) will furnish the appropriate OSBA staff and finance committee quarterly statements containing the same information enumerated in part A above and is expected to review personally the progress of the Funds with the OSBA Board of Directors at least annually or at such other times as requested.

INVESTMENT PRACTICES

1. Investment Authority

   Investment authority is vested with association's executive director. The executive director is directly responsible to the OSBA board of directors.

   A register of investments will be kept by the executive director at all times. The association's investments will be reviewed with the board annually. Additionally, the investment policy will be reviewed annually with the board.
2. Custody/Safekeeping of Assets

   The association will not normally take delivery of the investment securities purchased. Instead, the association will utilize a custodian, which can provide a timely confirmation of all sales and purchases.
3. Investment Audits

   Once every other year the board of directors or executive director will provide for an audit of the association's investment activity to assure compliance with all applicable laws and policies.