INVESTMENT POLICY STATEMENT

ALEXANDRIA CITY PUBLIC SCHOOLS
SCHOOL BOARD SUPPLEMENTAL RETIREMENT PLAN

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PART I

A. PURPOSE OF THIS STATEMENT

The Alexandria City School Board (the "Board") hereby establishes the following policy for administering the investment program of the Alexandria City School Board Retirement Plan (the "Plan"). The purpose of the Plan is to provide supplemental retirement benefits to employees of Alexandria City Public Schools. Statutory authority for the establishment and investment program of this Plan is provided by the Code of Virginia §51.1-800 through §51.1-803. This Investment Policy Statement ("IPS") applies only to beneficiaries covered under the Plan, and may be amended by the Board at any time, but should be reviewed annually.

The objective of the Plan is to maintain actuarial soundness so that funds will be available to meet contractual benefit obligations. This IPS sets forth the investment objectives and guidelines to help ensure that the Plan is managed in a manner consistent with the Plan Document and applicable statutory requirements. The Plan Document shall serve as the controlling document should there be any conflict between this IPS and the Plan Document.

Part 1 of this IPS outlines the roles and authority of persons or entities managing the Plan as well as inherent investment characteristics. It is anticipated that this part will be modified infrequently. Part 2 of this IPS outlines the accepted risk tolerance levels, target asset allocation and the managers chosen to handle each allocation. It is anticipated that this part will be modified more frequently as funding needs and investment performance dictate.

Should separate policies apply for separate managers that differ from those outlined in this IPS, they may be attached as addenda.

B. FIDUCIARY STANDARDS

In striving to attain the objectives set forth below, the Plan will be managed in a manner consistent with fiduciary standards, namely:

1. All transactions shall be in the sole interest of the participants and their beneficiaries, and

2. All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in an expert like capacity and familiar with such matters would use in conduct of an enterprise of like character and with the same aims, and

3. All entities/ persons dealing with the plan are required to disclose conflicts of interest as soon as they become apparent, in writing to the Board or as part of a public meeting when the potential conflict of interest becomes apparent. Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

4. The Board must strive to maintain both the reality and the public perception that its decisions are made solely for the benefit of plan members. All entities dealing with the Plan must conduct themselves in a manner worthy of the public trust, keeping in mind that the Plan is subject to public review and evaluation.
5. Members of the Board and those delegated with investment authority under this Policy (excluding external vendors), when acting in accordance with the written procedures in this Policy, shall be relieved of personal responsibility and liability in the management of the portfolio.

C. ROLES AND RESPONSIBILITIES

1. School Board

The Plan shall be the ultimate responsibility of the Alexandria City School Board who has the authority to make all investment and policy decisions impacting the Plan's existence, investments, benefits, and administration. The School Board may delegate this responsibility to an Investment Advisory Board, except the following which must performed by the School Board.

- To approve any amendments to this Investment Policy Statement, such as roles and responsibilities and changes to the asset allocation; and
- To approve, through the annual budget process or as recommended by the Investment Advisory Board, all employer and employee contributions to the Plan either in total dollar terms or as a percentage of eligible salaries; and
- To review the results of the actuarial valuation study which determines the amounts needed to fund the benefits as prescribed by the Plan document.

2. Investment Advisory Board

The Plan shall be monitored and managed by an Investment Advisory Board consisting of five members: 1) the Plan Administrator/ Chief Human Resource Officer who shall be named as Chair; 2) the Plan Investment Officer/ Chief Financial Officer; 3) one teacher member selected from among active employee participants receiving benefits in a manner prescribed by the human resources department; 4) one retired member actively earning benefits from the plan; and 5) one senior level investment management professional with experience leading and overseeing investment management funds. The three non-administrative members shall serve staggered three-year terms and are eligible for reappointment once. This shall be accomplished by the active teacher member serving an initial term of one year, while the retired member will serve an initial term of two years. Both will be eligible for reappointment and may serve a total of four and five years respectively. The investment professional member and all future non-administrative members may serve two three-year terms for a total of six years.

The Investment Advisory Board shall be responsible for all aspects of plan investment activities including but not limited to:

- Updating the investment policy statement and asset allocation;

- Adopting a realistic actuarial rate of return for the Plan and, based on that and other factors, recommending annually the level of contributions needed to keep the Plan financially sound;
- Constructing a portfolio that will have the potential of earning the actuarial rate of return with a high probability of success, and with as little volatility as possible;
- Responding to changing economic environments through reviews and updates of the portfolio of assets while maintaining compliance to the risk tolerance level and asset allocation targets outlined in this policy and required by the Code of Virginia §51.1-803
- Reviewing, on an annual basis, the third-party administrator's Service Organization Controls Report (SOC 1) as required by the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization;
- Reviewing vendor performance and contractual agreements related to the fund management and performing new solicitations as needed;
- Performing all of these duties effectively and prudently, in full compliance with any applicable laws and regulations as presently stated or as they may be amended in the future.

The Investment Advisory Board shall meet as often as deemed necessary but no less than quarterly and must engage the advice of an independent investment advisor at all meetings. At these quarterly meeting, the members, among other functions, must review the performance of the Plan and the managers to whom Plan assets are entrusted.

3. Legal Counsel

The School Board or Superintendent shall obtain legal counsel to advise and represent the Investment Advisory Board in all matters requiring legal insight and advice. The legal counsel selected may, but does not have to, be the same as that serving the Board.

4. Plan Administrator ("Administrator")

The Chief Human Resources Officer shall act as the Plan Administrator and has the duty of care for all plan beneficiaries. The Administrator shall be responsible for administering the Plan in accordance with the Plan document and applicable law.

5. Plan Investment Officer

In performing its duties as outlined in this policy, the Investment Advisory Board shall rely on a Plan Investment Officer ("Investment Officer") to be made aware of required investment or policy decisions. The Investment Officer shall be the Chief Financial Officer of the school division unless the School Board decides to hire a Chief Investment Officer. The Investment Officer and his/her staff are charged with the following responsibilities:

- Briefing the Investment Advisory Board and/or School Board as appropriate on relevant investment activities;
- Implementing the investment decisions and policies as approved by the Investment Advisory Board and/or School Board;

- Maintaining the target asset allocation assets in each of the asset classes specified in the asset allocation;
- Assisting in the selection, monitoring and evaluation of the investment managers and/or advisors;

The Chief Financial Officer, in his/her capacity as Investment Officer, is empowered to execute and implement decisions made by the School Board and Investment Advisory Board, but not to make investment or policy decisions on his/her own.

6. Investment Advisor

The School Board must engage a third-party investment advisor. The investment advisor will give an independent perspective on the Plan, help select record keepers and investment managers, review the asset allocation, and provide investment performance measurements and results. The investment advisor may be called upon to provide this perspective to the Investment Advisory Board, Plan Administrator, Investment Officer, or directly to the School Board.

The investment advisor is expected to meet with the Investment Advisory Board and/or Investment Officer as needed but no less than quarterly. Quarterly meetings shall include the reporting of the status and outlook of the investment portfolio to include 1) economic climate, 2) performance results compared with designated benchmarks, 3) market values for all portfolio holdings, 4) gains/ losses and fees, and 5) any areas of concern or recommended actions. The investment advisor will acknowledge in writing that it is a fiduciary of the plan relative to the services that it provides.

7. Actuary

The School Board shall approve an Actuary to perform a valuation of the plan as often as required to comply with the Governmental Accounting Standards Board (GASB) but no less than every two years.

The Actuary will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

8. Custodian

The School Board shall approve a Custodian to hold all cash and securities or evidence thereof. The Custodian will be responsible for maintaining records, providing fund accounting on a trade date basis, performance reporting, and other services as defined in its contract.

The Custodian may not engage in financial transactions related to the Plan that are based on written or oral instructions from any person other than the School Board or the Plan Administrator acting on behalf of the School Board.

The Custodian will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

9. Investment Managers

The School Board shall approve Investment Managers to buy and sell securities according to guidelines established for their particular asset class.

Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to the services they provide.

10. Third Party Administrator

The School Board may engage a Third Party Administrator (TPA) to calculate and distribute benefit payments and serve as record keeper.

11. Bundled Provider

The School Board may select a single entity to perform a combination of the services outlined above. If that selection is made, the requirements under the different sections will apply to that portion of the Bundled Provider's work.

D. INVESTMENT CHARACTERISTICS

The purpose of the investment program is to earn the actuarial rate of return with as little risk as possible. In constructing a portfolio to accomplish this purpose, the School Board, Investment Advisory Board, and Plan Investment Officer should consider the following characteristics:

1. Liquidity

The plan needs sufficient liquidity to meet its cash flow needs. Individual investments may have limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

2. Diversification

Assets should be diversified among asset categories, sectors and geographic areas to minimize volatility.

3. Time Horizon

The time horizon of the Plan is perpetual. In projecting returns for the Plan, the Investment Officer may consider information from recent history (20 years), long-term history (70 years), a combination of the two, or projected returns. The Investment Officer must judge that the data gives the best estimate for future returns by applying evidence from the past to current circumstances.

4. Risk Tolerance

The primary investment emphasis of the Plans is to meet the actuarial rate of return over an extended period of time. However, a secondary goal is to preserve capital and achieve consistency of results. The Board should strive to attain these secondary goals while still meeting the actuarial rate of return.

The Board recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of the Board, or the Board's designated Investment Officer, to manage the tradeoff between risk and return given the projected needs of the Plan, always attempting to minimize the risk of the overall portfolio for any given level of return.

5. Asset Allocation

The Investment Officer shall conduct an asset allocation study once every five years or whenever circumstances dictate. The results from that study shall be used to create an asset allocation which shall be attached as Part II of this IPS.

The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the plan and disbursements made from the plan in the form of benefits and expenses.

6. Rebalancing

Once policy targets and ranges for asset allocation are set in the asset allocation study, the Investment Officer should periodically review the balance of assets in an effort to keep the asset allocation as close to the policy target as possible while at the same time minimizing transaction costs.

The Investment Officer may recommend rebalancing whenever he/she feels it necessary to respond to changing economic conditions. However, rebalancing is required if the allocation is plus or minus 5 percentage points outside the target ranges specified in Part II, and then only on a quarterly basis at the time of the quarterly performance review.

7. Investment Alternatives

Investment alternatives are divided into four broad categories: fixed income, equity, real assets, and diversified.

Fixed income investments shall be used primarily to provide stability of principal. Domestic equity and international equity may be added to enhance return. Real assets add to diversity and protect against inflation. Diversified managers (including tactical asset allocation and hedge funds) should raise the overall portfolio return and reduce volatility.

It is not required for the School Board to use all four asset classes.

8. Performance Standards

Each manager hired will be assigned a benchmark. Managers are expected to exceed their benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style over a market cycle. Guidelines for each of the four asset classes will be specified unless commingled funds are utilized, in which case the policies of the funds take precedence. Currently all investment strategies used are offered through a Bundled Provider as commingled funds.

E. SELECTION OF INVESTMENT OPTIONS

The Investment Officer and Bundled Provider must ensure selected investment managers fulfill the mandates in the asset allocation. The following criteria provide guidance in selecting managers.

The Investment Officer shall utilize appropriate investment options for implementing the asset allocation strategy based on the evaluation of qualitative and quantitative factors. The selection process will focus on the following five key aspects of an investment management firm and their investment options:
1. Organization, an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff;

2. Investment philosophy, a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls;

3. Adequate resources, current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems;

4. Performance, historical returns and risks relative to passive indexes, and peer groups over market cycles;

5. Diversification benefit, correlation of different assets in the context of the total portfolio;

6. Investment management fees, the proposed fee structure relative to the industry and other competing candidates to ensure fees are appropriate.

These factors are chosen to help ensure that investment option selections are made with a prudent degree of care, and that excessive risk is avoided. The Investment Officer may also include other factors that they believe are appropriate to a specific investment option selection exercise.

In performing the functions above, the Investment Officer shall work with an independent investment advisor or a bundled provider.

F. MONITORING OF INVESTMENT OPTIONS

The objective of the investment option monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall dictate the timing and manner of response.

The Investment Officer shall evaluate the investment options quarterly, in addition to using any other factors he/she believes are appropriate. These factors are intended to ensure that decisions to retain investment options are made with a prudent degree of care, and that excessive risk is minimized. Among the events that the Investment Officer will examine closely in its review of the investment options are:

1. Poor performance relative to passive indexes and/or peer groups over longer time periods (e.g. three and five years), or ranking in a peer universe below the top half;

2. A change in the manager of an investment option, or departure of one or more key investment professionals;

3. Involvement of the manager of an investment option or key investment professionals in material litigation or fraud;

4. Material "style drift" of the investment option – that is, change in investment strategy of the investment option inconsistent with the investment strategy at the time the option is selected; and

5. A change in the ownership, control, or resources of the investment management organization.

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the Investment Officer or Bundled Provider must decide whether to recommend retention or replacement of the manager.

Part II

The following section outlines investment decisions under which the School Board Supplemental Retirement Plan is currently operating. It is anticipated that the details outlined in Part 1 will result in modification of these decisions on a routine basis.

A. OVERVIEW

The Alexandria City School Board (the "Board") has a long-standing relationship with the Principal Financial Group. As a Bundled Provider, described under Section C.11. of Part I of this IPS, Principal provides services outlined under Sections C.7. - C.11. including actuary, custodian, investment managers and third party Administrator.

B. BENEFITS INDEX

As an insurance company, Principal is also providing guaranteed benefits to plan participants as they retire. To ensure there are sufficient assets in the plan, Principal calculates a Benefits Index which represents current claims on assets as a percentage of available assets, adjusted for the volatility of the asset allocation. Based on Principal's assertions, that Index must always be below 100%. If it reaches 100%, Principal asserts the right to force the Alexandria City School Board to put more money into the plan, or allow Principal to annuitize all participants then in pay status.

The Benefits Index currently requires the Board to maintain an asset allocation with a large portion of assets in fixed income instruments. Because of its critical role, the Benefits Index is specified in this IPS.

C. ASSET ALLOCATION

ASSET CLASS	TARGET	RANGE	INDEX
~~Domestic Equity~~	~~30.0%~~	~~25%-50%~~	~~S&P 1500~~
~~International Equity~~	~~10.0%~~	~~0%-15%~~	~~MSCI EAFE~~
Equity	40.0%	25%-65%	S&P 1500/ MSCI EAFE
Real Assets	15.0%	5%-20%	NCREIF ODCE
Fixed Income	45.0%	40%-60%	BC Aggregate
TOTAL	100.0%		

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