

# **OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST INVESTMENT POLICY**

## **(Entity Name)**

### **1.01 Policy**

It is the policy of the (entity name) \_\_\_\_\_ to invest OPEB Trust funds in a manner which will provide sufficient investment return to meet the current and future OPEB benefit cash flow demands of the benefit plan while conforming to all state statutes governing the investment of such OPEB dedicated trust funds.

### **1.02 Scope**

This policy covers all OPEB funds held in trust and invested for the purpose of meeting the obligations under its OPEB defined benefit programs.

Subject to plan provisions, any funds held in trust in the name of an employee or retiree as part of a defined contribution OPEB benefit plan are subject to the investment decisions of the individual employee or retiree, and are thus not subject to provisions of this investment policy.

### **1.03 Prudence**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio.

### **1.04 Objective**

The primary objective, in order of priority, shall be:

- Legality – conformance with federal, state and other legal requirements
- Liquidity – ability to meet obligation without forced sale of assets
- Safety – preservation of capital and protection of investment principal
- Yield - attainment of market rates of return

The portfolio should be reviewed periodically as to its effectiveness in meeting the employer’s needs for safety, liquidity, rate of return, and its general performance.

### **1.05 Delegation of Authority**

Management and administrative responsibility for the investment program is hereby delegated to an OPEB Investment committee consisting of the (List positions to make this the investment committee).

_____	_____
_____	_____
_____	_____

The Committee may contract with or employ technical and professional advice from a qualified firm(s) or individuals as may be needed to provide investment advice or execution of this policy provided such services are rendered to the trust on a fixed fee and non-commissioned basis and do not involve any direct investment with or through the firm providing such financial advice. Upon creation of the trust, this committee shall recommend an initial investment asset allocation to the chief governing body for their approval. Any subsequent changes to this allocation recommended by the Committee shall also be presented to such governing body for approval. (Should we require the allocation in policy?)

### **1.06 Ethics and Conflicts of Interest**

Officers and employees 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the trust.

### **1.07 Authorized and Suitable Investments**

Investments may be made in any type of security instrument allowed for in the Tennessee statutes for the Tennessee Consolidated Retirement System regarding the investment of Trust funds. The following asset types are among those approved for investment (definitions included for less commonly known terms):

#### **Fixed Income Investments**

- **Certificates of Deposit** – Certificates of deposit and other evidence of deposit at financial institutions, bankers' acceptances, and commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency.
- **Money Market Mutual Funds** – Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities.

- **Stable Value Funds** – Stable value funds maintain the value of the principal and all accumulated interest regardless of interest rate moves because of the investments held by the fund. A stable value fund generally holds a mix of high-quality, intermediate-term bonds and guaranteed-interest contracts (GICs) from insurance companies.

### **Government Securities Investments**

- **U.S. Government Notes and Bonds** – U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.

### **Variable Investments**

- **Bond Funds** – A mutual fund which invests in bonds, typically with the objective of providing stable income with minimal capital risk.
- **Balanced Funds** – A mutual fund that buys instruments of or a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.
- **Domestic Equity Funds** – A broad category of mutual funds that invest primarily in instruments of or shares of stock of U. S. companies.
- **International Equity Funds** – A broad category of mutual funds that invest primarily in instruments of or shares of stock of companies from outside the U. S.
- **Equities** – Shares of domestic or international stock to include common and preferred.

All investment/allocation decisions shall reflect the current and future projected cash flow needs of the OPEB plan. The projected cash flow needs shall be determined in part from the data compiled for the OPEB actuarial study conducted at least every two (2) years as required by GASB and the employer's workforce analysis and retirement projections.

### **1.08 Diversification**

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U. S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

### **1.09 Internal control**

The Investment Manager shall insure that the assets of the OPEB Trust are protected from loss, theft or misuse through the implementation of appropriate internal controls.

An annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian as evidenced by safekeeping receipts.

### **1.10 Performance Standards**

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a comparable rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to benchmarks with similar investment options as the portfolio on a regular basis.

### **1.11 Reporting**

The Investment Manager shall provide an investment report at least quarterly. The report should be provided to the chief governing body quarterly and it should be available at any other time by request. The report shall be in a format suitable for review by the general public. An annual report shall also be provided to such body.

### **1.12 Marketing to Market**

A statement of the market value of the portfolio shall be issued to the chief governing body quarterly. Such statement shall be prepared consistent with the Government Finance Officer Association (GFOA) recommended practices. In defining market value, consideration should be given to the GASB Statement 31 pronouncement.

### **1.13 Investment Policy Adoption**

Following adoption of the investment policy by the (entity name) \_\_\_\_\_, the policy shall be reviewed on an annual basis by the Investment Committee and any modifications made thereto must be approved by the Chief Governing Body.

Date: \_\_\_\_\_

\_\_\_\_\_  
Clerk of the Board

NOTICE: This document has not been reviewed by the office of the Attorney General and Reporter

