

***Education Service Center Region 10
Retirement Asset Management Services (“RAMS”)
457(b) FICA Alternative Plan
Investment Policy Statement***

Revised February 4, 2010

I. Introduction

Purpose of the Policy Statement

This Policy Statement (“Statement”) outlines the goals and investment objectives of the Education Service Center Region 10 (“Region”) Retirement Asset Management Services (“RAMS”) programs, specifically the 457(b) FICA Alternative Plan). This Statement also is intended to provide guidelines for the Investment Advisor’s responsibilities for overseeing the Plan’s assets and outlines certain specific investment policies, which will govern how the investments are to be managed.

This Statement:

- Describes an appropriate risk posture for the investment of the Plan’s assets,
- Specifies the target asset allocation policy,
- Specifies the criteria for evaluating the performance of the mutual funds,
- Defines the responsibilities of the Plan’s Investment Committee and its advisors.

The Plan’s Investment Committee (the “Committee”) believes that the investment policies described in this Statement should be dynamic. These policies reflect the Plan’s current status and philosophy regarding the investment of assets. These policies will be reviewed and revised periodically to ensure they adequately reflect changes related to the Plan and the capital markets.

The Committee shall retain the services of a professional Investment Advisor registered directly with the Securities and Exchange Commission to advise it regarding the investment of the Plan’s assets.

Investment Objective

The obligations of the Plan are long-term in nature; consequently, the investment of the Plan’s assets shall have a long-term focus. The Plan shall be invested in accordance with prudent investment practices that emphasize long-term investment fundamentals. This objective will be supported through a well-diversified portfolios structured in a manner consistent with this investment policy.

It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

II. Information about Region 10

The Region provides services under the authority of the Texas Education Code to eighty (80) public school districts and several charter schools. The districts employ approximately 93,000 educators, of which approximately 51,000 are full-time teachers, serving over 724,000 students in eight counties of North Texas.

III. Information about the Plan

The Plan is designed to assist school districts with an alternative to Social Security for eligible employees. The Education Service Center Region 10 Board of Directors (“Board”) authorized the establishment of the 457(b) FICA Alternative Plan at its June, 2004 meeting. The Plan and Trust is established for the investment of assets for the participating Districts and/or their Participants as well as the other services needed for the Districts to establish such

a Plan. Districts may elect to adopt the Plan through an Inter-local Agreement and thereby fund the Plan with District and/or employee contributions, as is appropriate for the Plan.

IV. Responsibilities of the Plan Representatives

The Committee is responsible for the oversight of the Plan's assets. The Committee is comprised of ten members of management appointed by the Executive Director of Region 10. The Committee is responsible for establishing investment objectives and policies for the Plan's assets, as set forth in the guidelines of this Policy. It is expected that the objectives and policies described here, will be used to select the appropriate investment managers for the management of the Plan's assets. The Committee has the responsibility to make changes to the investment policy and to implement the approved policy, guidelines and objectives. The Committee also may appoint consultants and administrators to assist in the management of the Plan's assets.

V. Responsibilities of the Investment Managers

Responsibilities

The Plan's assets will be invested in a separate Trust. The Trust will be invested in mutual funds, bonds and other investments determined by the Committee to be appropriate. Any investment management companies used shall at all times be registered in good standing as an investment advisor under the Investment Advisers Act of 1940. Experienced professionals with proven track records shall manage the Plan's assets.

Asset Allocation

The Plan is expected to operate within an overall *asset allocation strategy* defining the Plan's mix of asset classes. This strategy, as described in section IX, sets a long-term percentage target for the amount of the Plan's values that are to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations.

The asset allocation strategy for each mutual fund's or other investment's portfolio may deviate from the overall Plan's asset allocation; however, the Committee is responsible for monitoring the aggregate asset allocation and will rebalance to the target allocation on a periodic basis.

VI. Investment Objectives

In consideration of the demographics of the Plan's participants, the Plan's cash flow, and the financial status, the Committee has adopted an overall investment objective for the Plan's assets of *maintenance of principal and long-term capital appreciation*. Long-term is defined as a 7-10 year period. However, it is also recognized that most of the participants in the Plan are not long-term employees. Thus, the investments in the Plan should also be appropriately conservative in light of the nature of the employment of the participants.

The Committee shall monitor the Plan's performance on a quarterly and annual basis and evaluate the various mutual funds' and other investments' contributions toward meeting the investment objectives outlined below over a three-to-five year time period, unless otherwise noted.

Primary Performance Standard:

Each investment will be evaluated against its respective index as outlined by Morningstar. Each investment will also be measured or evaluated against its peer group to determine its percentile ranking. Investments that consistently under-perform their index and or stay in the lower peer group rankings will first be added to the watch list. The investment will then be removed, if its performance improves to an appropriate level as determined by the Committee and its Investment Advisor. If the investment does not improve to an appropriate level, it shall be replaced. The time period on which an investment stays in the watch list before removal shall depend on the relevant circumstances of the investment, including but not limited to tenure of the current investment manager, past performance and market conditions.

VII. Risk Tolerance

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (i.e. volatility of return) is associated with a higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Plan is the determination of an appropriate risk tolerance. The Committee examines two important factors that affect the Plan's risk tolerance:

Financial Ability to accept risk within the investment program and,
Willingness to accept return volatility.

The Committee has analyzed the behavior of the asset allocation set forth below in Section IX within different economic environments and is comfortable with a risk level *similar to* the volatility level of the Policy Index.

VIII. Investment Strategy

The Committee expects to utilize a diversified approach in managing the Plan's assets. The Plan will be diversified among the following investment styles and monitored versus the relative benchmarks as outlined below:

<u>Investment Style</u>	<u>Benchmark</u>
Domestic Equity-Large Cap Growth	As determined by Morningstar
Domestic Equity-Large Cap Value	As determined by Morningstar
Domestic Equity-Mid Cap Growth	As determined by Morningstar
Domestic Equity-Mid Cap Value	As determined by Morningstar
Domestic Equity-Small Cap Growth	As determined by Morningstar
Domestic Equity-Small Cap Value	As determined by Morningstar
International Equity	As determined by Morningstar
Domestic Fixed Income	As determined by Morningstar

IX. Asset Allocation Strategy

In line with the Plan's return objectives and risk parameters, the mix of assets for the Plan as a whole and for each individual investment manager shall be generally maintained as follows:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equity		25.0%	
Large Cap Growth	4.0%	6.0%	8.0%
Large Cap Value	4.0%	6.0%	8.0%
Mid Cap Growth	2.0%	4.0%	6.0%
Mid Cap Value	2.0%	4.0%	6.0%
Small Cap Growth	1.0%	2.5%	4.0%
Small Cap Value	1.0%	2.5%	4.0%
International Equity	2.0%	6.0%	10.0%
Domestic Fixed Income	50.0%	70.0%	100.0%
Cash Equivalents	0.0%	5.0%	20.0%

Since capital appreciation or depreciation and trading activity in each individually managed portfolio may result in a deviation from the Plan's overall asset allocation; the aggregate asset allocation will be monitored and may be rebalanced to target allocation on a periodic basis.

The Committee authorizes deviations from this asset mix structure, including up to 100% cash equivalent at the discretion of the investment advisors, when the aggregate deviation does not constitute a material departure from the spirit of the target allocation and/or the investment objective.

X. Fixed Income Portfolio for the 457(b) FICA Alternative Plan

The Committee believes that it is prudent to offer an alternative Fixed Income Portfolio investment option for the 457(b) FICA Alternative Plan. This alternative investment option will be a single portfolio in which all participant accounts of an employer will be invested. The employer may choose either this Fixed Income Portfolio or the portfolio described in Section IX.

The Fixed Income Portfolio shall be invested only in fixed interest instruments insured, guaranteed, issued or backed by the U.S. Government. The duration of instruments will be based on the interest rate environment and the need to assure that there is adequate liquidity to make benefit payments to participants in the employers' 457(b) FICA Alternative Plans.

XI. Performance Evaluation

The Investment Advisor shall present the Plan's investment performance to the Committee on a quarterly basis. The Committee will evaluate the Plan's success in achieving the investment objectives, outlined in this document, over a three-to-five year time horizon.

The Plan's performance shall be reported in terms of *rate of return* and *changes in dollar value*. The returns shall be compared to appropriate *market indices*, for the most recent quarter and for annual and cumulative prior time periods. The portfolio's *asset allocation* shall also be reported on a quarterly basis.

As defined in section VI, investment performance will be measured against each investment's respective index and peer group performance. Fund selection will also be evaluated based on volatility or standard deviation. The goal is to achieve above average returns with below average risk or volatility. Portfolio performance can be measured by creating a weighted average index. This weighted average index is based on the individual investment index and weighted based on the percentage invested in each investment.

XII. Fund Sponsor Approval

The Committee may authorize deviations from the investment policies and constraints outlined in this document when it determines that the aggregate deviation does not constitute a material departure from the spirit of this investment policy.

The investment policy as set forth in this document will be reviewed annually by the Committee who can approve and implement changes. If at any time the Investment Advisor feels that these objectives cannot be met or that the investment guidelines constrict performance, the Committee shall be so notified. By initial and continuing acceptance of these objectives and guidelines, the Investment Advisor concurs with the provisions of this document.

**Region 10 Education Service Center
Retirement Asset Management Services 457(b) FICA Alternative Plan
INVESTMENT ADVISORY COMMITTEE**

By: Gordon A. Taylor Date: 2-4-10

Title & District: Assoc. Director Region 10 ESC

By: Linda Henrie Date: 2-4-10

Title & District: Supt. Mesquite ISD

By: Joel Williams Date: 2/4/10

Title & District: Supt. Kaufman ISA

By: Styl Strubley Date: 2/4/10

Title & District: CFD, McKinney ISD

By: Br Neal Date: 2/4/10

Title & District: Supt. Savoy ISD

By: Rub Reedy Date: 2/4/2010

Title & District: Supt., Frisco ISD

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