

***Education Service Center Region 10  
Teacher/Employee Recruitment and Retention Program (TERRP), 457(b) FICA Alternative  
Plan and 457 Cooperative and Master Plan  
Investment Policy Statement***

Revised February 23, 2005

## **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”) Teacher/Employee Recruitment and Retention Program, 457(b) FICA Alternative Plan and 457 Cooperative and Master Plan (the “Plans”). This Statement also is intended to provide guidelines for the Investment Advisor’s responsibilities for overseeing the Plans’ assets and outlines certain specific investment policies, which will govern how the investments are to be managed. Although each of the Plans has a separate Trust, to the greatest extent possible administratively, each of the Plans’ assets shall be invested in the same manner. This common investment methodology shall be referred to in this Statement as the “TERRP Portfolio.” An exception to this methodology shall be made for the accounts of Participants in the 457 Cooperative and Master Plan who choose to direct the investment of their accounts. Such Participants shall be allowed to allocate their funds as they wish but the investment options offered to these Participants shall be the same as the options used in the TERRP Portfolio, with the exception of individual securities.

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 Plans’ Investment Committee and its advisors.

The Plans’ Investment Committee (the “Committee”) believes that the investment policies described in this Statement should be dynamic. These policies reflect the Plans’ 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 Plans 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 Plans’ assets.

### **Investment Objective**

The obligations of the Plans are long-term in nature; consequently, the investment of the Plans’ assets shall have a long-term focus. The Plans shall be invested in accordance with prudent investment practices that emphasize long-term investment fundamentals. This objective will be supported through a well-diversified portfolio 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-one (81) public school districts and several charter schools. The districts employ approximately 40,000 educators, of which approximately 31,000 are full-time teachers, serving over 500,000 students in eight counties of North Texas.

### **III. Information about the Plans**

The Plans are designed to assist school districts attract and retain quality teachers and other employees, provide a high quality low cost way for educators to save for retirement and to provide participating school districts with an alternative to Social Security for eligible employees. The Education Service Center Region 10 Board of Directors (“Board”) originally authorized the establishment of the TERRP and TERRP Trust under Section 401(a) of the Internal Revenue Code at its June 20, 2001 meeting. The Board authorized the establishment of the 457 Cooperative and Master Plan at its August 21, 2002 meeting and authorized the establishment of the 457(b) FICA Alternative Plan at its June, 2004 meeting. The Plans and Trusts are 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 Plans. Districts may elect to adopt the Plans through an Inter-local Agreement and thereby fund the Plans with District and/or employee contributions, as is appropriate for each of the Plans. Determination of District contributions to the TERRP relates to such things as performance, attendance, contract renewal and other measurements.

### **IV. Responsibilities of the Plans Representatives**

The Committee is responsible for the oversight of the Plans’ 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 Plans’ 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 Plans’ 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 Plans’ assets.

### **V. Responsibilities of the Investment Managers**

#### **Responsibilities**

The Plans’ assets will be invested in a separate Trust for each Plan but all Trust assets will be invested the same to the extent possible administratively. These Trust assets will be referred to collectively as the “TERRP Portfolio.” The TERRP 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 Plans’ assets.

#### **Asset Allocation**

The Plans are expected to operate within an overall *asset allocation strategy* defining the Plans’ mix of asset classes. This strategy, as described in section IX, sets a long-term percentage target for the amount of the Plans’ 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 Plans’ 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 Plans’ participants, the Plans’ cash flow, and the financial status, the Committee has adopted an overall investment objective for the Plan’s assets of *long-term capital appreciation*. Long-term is defined as a 7-10 year period.

The Committee shall monitor the Plans' 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 Plans is the determination of an appropriate risk tolerance. The Committee examines two important factors that affect the Plans' 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 Plans' assets. The Plans will be diversified among the following investment styles and monitored versus the relative benchmarks as outlined below:

<b><u>Investment Style</u></b>	<b><u>Benchmark</u></b>
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 Plans' return objectives and risk parameters, the mix of assets for the Plans as a whole and for each individual investment manager shall be generally maintained as follows:

<b><u>Asset Class</u></b>	<b><u>Minimum</u></b>	<b><u>Target</u></b>	<b><u>Maximum</u></b>
Domestic Equity		<b>52.0%</b>	
Large Cap Growth	8.0%	13.0%	18.0%



Large Cap Value	8.0%	13.0%	18.0%
Mid Cap Growth	4.0%	8.0%	12.0%
Mid Cap Value	4.0%	8.0%	12.0%
Small Cap Growth	2.5%	5.0%	9.0%
Small Cap Value	2.5%	5.0%	9.0%
International Equity	4.0%	8.0%	15.0%
Domestic Fixed Income	25.0%	38.0%	50.0%
Cash Equivalents	0.0%	2.0%	5.0%

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

Participants in the 457 Cooperative and Master Plan shall have their contributions automatically invested in the TERRP Portfolio. However, after they enroll in the 457 Plan, they may elect to allocate their account values to any of the investments in the TERRP Portfolio in any proportion of their choosing. Participant assets in the TERRP Portfolio shall be rebalanced periodically in the same manner as other TERRP Portfolio assets.

*The Committee shall authorize deviations from this asset mix structure when it determines that the aggregate deviation does not constitute a material departure from the spirit of the target allocation.*

## **X. Performance Evaluation**

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

The Plans' 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.

## **XI. 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 effective as February 23, 2005.

**Region 10 Education Service Center  
TEACHER/EMPLOYEE RECRUITMENT AND RETENTION PLAN, 457(B) FICA  
ALTERNATIVE PLAN AND 457 COOPERATIVE AND MASTER PLAN  
INVESTMENT ADVISORY COMMITTEE**

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