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**INVESTMENT POLICY STATEMENT**  
**ALEXANDRIA CITY PUBLIC SCHOOLS**  
**SCHOOL BOARD SUPPLEMENTAL RETIREMENT PLAN**

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42 **PART I**

43

44 **A. PURPOSE OF THIS STATEMENT**

45

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

53

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

59

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

65

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

68

69 **B. FIDUCIARY STANDARDS**

70

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

73

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

75

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

80

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

86

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

95

96 **C. ROLES AND RESPONSIBILITIES**

97

98 1. School Board

99

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

104

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

112

113 2. Investment Advisory Board

114

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

127

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

130

- 131 • Updating the investment policy statement and asset allocation;

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

147  
148 The Investment Advisory Board shall meet as often as deemed necessary but no less than quarterly  
149 and must engage the advice of an independent investment advisor at all meetings. At these  
150 quarterly meeting, the members, among other functions, must review the performance of the Plan  
151 and the managers to whom Plan assets are entrusted.

152  
153 3. Legal Counsel

154  
155 The School Board or Superintendent shall obtain legal counsel to advise and represent the  
156 Investment Advisory Board in all matters requiring legal insight and advice. The legal counsel  
157 selected may, but does not have to, be the same as that serving the Board.

158  
159 4. Plan Administrator (“Administrator”)

160  
161 The Chief Human Resources Officer shall act as the Plan Administrator and has the duty of care for  
162 all plan beneficiaries. The Administrator shall be responsible for administering the Plan in  
163 accordance with the Plan document and applicable law.

164  
165 5. Plan Investment Officer

166  
167 In performing its duties as outlined in this policy, the Investment Advisory Board shall rely on a  
168 Plan Investment Officer (“Investment Officer”) to be made aware of required investment or policy  
169 decisions. The Investment Officer shall be the Chief Financial Officer of the school division unless  
170 the School Board decides to hire a Chief Investment Officer. The Investment Officer and his/her  
171 staff are charged with the following responsibilities:

- 172  
173 • Briefing the Investment Advisory Board and/or School Board as appropriate on relevant  
174 investment activities;
- 175 • Implementing the investment decisions and policies as approved by the Investment  
176 Advisory Board and/or School Board;

- 177 • Maintaining the target asset allocation assets in each of the asset classes specified in the
- 178 asset allocation;
- 179 • Assisting in the selection, monitoring and evaluation of the investment managers and/or
- 180 advisors;
- 181

182 The Chief Financial Officer, in his/her capacity as Investment Officer, is empowered to execute and

183 implement decisions made by the School Board and Investment Advisory Board, but not to make

184 investment or policy decisions on his/her own.

185

186 6. Investment Advisor

187

188 The School Board must engage a third-party investment advisor. The investment advisor will give

189 an independent perspective on the Plan, help select record keepers and investment managers, review

190 the asset allocation, and provide investment performance measurements and results. The investment

191 advisor may be called upon to provide this perspective to the Investment Advisory Board, Plan

192 Administrator, Investment Officer, or directly to the School Board.

193

194 The investment advisor is expected to meet with the Investment Advisory Board and/or Investment

195 Officer as needed but no less than quarterly. Quarterly meetings shall include the reporting of the

196 status and outlook of the investment portfolio to include 1) economic climate, 2) performance

197 results compared with designated benchmarks, 3) market values for all portfolio holdings, 4) gains/

198 losses and fees, and 5) any areas of concern or recommended actions. The investment advisor will

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

200

201 7. Actuary

202

203 The School Board shall approve an Actuary to perform a valuation of the plan as often as required

204 to comply with the Governmental Accounting Standards Board (GASB) but no less than every two

205 years.

206

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

208 provides.

209

210 8. Custodian

211

212 The School Board shall approve a Custodian to hold all cash and securities or evidence thereof.

213 The Custodian will be responsible for maintaining records, providing fund accounting on a trade

214 date basis, performance reporting, and other services as defined in its contract.

215

216 The Custodian may not engage in financial transactions related to the Plan that are based on written

217 or oral instructions from any person other than the School Board or the Plan Administrator acting

218 on behalf of the School Board.

219

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

221 provides.

222

223 9. Investment Managers

224  
225 The School Board shall approve Investment Managers to buy and sell securities according to  
226 guidelines established for their particular asset class.

227  
228 Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to  
229 the services they provide.

230  
231 10. Third Party Administrator

232  
233 The School Board may engage a Third Party Administrator (TPA) to calculate and distribute benefit  
234 payments and serve as record keeper.

235  
236 11. Bundled Provider

237  
238 The School Board may select a single entity to perform a combination of the services outlined  
239 above. If that selection is made, the requirements under the different sections will apply to that  
240 portion of the Bundled Provider's work.

241  
242 **D. INVESTMENT CHARACTERISTICS**

243  
244 The purpose of the investment program is to earn the actuarial rate of return with as little risk as  
245 possible. In constructing a portfolio to accomplish this purpose, the School Board, Investment  
246 Advisory Board, and Plan Investment Officer should consider the following characteristics:

247  
248 1. Liquidity

249  
250 The plan needs sufficient liquidity to meet its cash flow needs. Individual investments may have  
251 limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

252  
253 2. Diversification

254  
255 Assets should be diversified among asset categories, sectors and geographic areas to minimize  
256 volatility.

257  
258 3. Time Horizon

259  
260 The time horizon of the Plan is perpetual. In projecting returns for the Plan, the Investment Officer  
261 may consider information from recent history (20 years), long-term history (70 years), a  
262 combination of the two, or projected returns. The Investment Officer must judge that the data gives  
263 the best estimate for future returns by applying evidence from the past to current circumstances.

264  
265 4. Risk Tolerance

266  
267 The primary investment emphasis of the Plans is to meet the actuarial rate of return over an  
268 extended period of time. However, a secondary goal is to preserve capital and achieve consistency

269 of results. The Board should strive to attain these secondary goals while still meeting the actuarial  
270 rate of return.

271  
272 The Board recognizes that risk is present in all investments. The assumption of risk is needed to  
273 achieve satisfactory long-term results. It is the responsibility of the Board, or the Board's  
274 designated Investment Officer, to manage the tradeoff between risk and return given the projected  
275 needs of the Plan, always attempting to minimize the risk of the overall portfolio for any given level  
276 of return.

277  
278 5. Asset Allocation

279  
280 The Investment Officer shall conduct an asset allocation study once every five years or whenever  
281 circumstances dictate. The results from that study shall be used to create an asset allocation which  
282 shall be attached as Part II of this IPS.

283  
284 The asset allocation study requires a projection of cash flows, which are dependent on contributions  
285 made into the plan and disbursements made from the plan in the form of benefits and expenses.

286  
287 6. Rebalancing

288  
289 Once policy targets and ranges for asset allocation are set in the asset allocation study, the  
290 Investment Officer should periodically review the balance of assets in an effort to keep the asset  
291 allocation as close to the policy target as possible while at the same time minimizing transaction  
292 costs.

293  
294 The Investment Officer may recommend rebalancing whenever he/she feels it necessary to respond  
295 to changing economic conditions. However, rebalancing is required if the allocation is plus or  
296 minus 5 percentage points outside the target ranges specified in Part II, and then only on a quarterly  
297 basis at the time of the quarterly performance review.

298  
299 7. Investment Alternatives

300  
301 Investment alternatives are divided into four broad categories: fixed income, equity, real assets, and  
302 diversified.

303  
304 Fixed income investments shall be used primarily to provide stability of principal. Domestic equity  
305 and international equity may be added to enhance return. Real assets add to diversity and protect  
306 against inflation. Diversified managers (including tactical asset allocation and hedge funds) should  
307 raise the overall portfolio return and reduce volatility.

308  
309 It is not required for the School Board to use all four asset classes.

310  
311 8. Performance Standards

312  
313 Each manager hired will be assigned a benchmark. Managers are expected to exceed their  
314 benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style



315 over a market cycle. Guidelines for each of the four asset classes will be specified unless  
316 commingled funds are utilized, in which case the policies of the funds take precedence. Currently  
317 all investment strategies used are offered through a Bundled Provider as commingled funds.

318

319 **E. SELECTION OF INVESTMENT OPTIONS**

320

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

323

324 The Investment Officer shall utilize appropriate investment options for implementing the asset  
325 allocation strategy based on the evaluation of qualitative and quantitative factors. The selection  
326 process will focus on the following five key aspects of an investment management firm and their  
327 investment options:

328 **1. Organization**, an efficient and successful investment management organization such as stable  
329 firm ownership, clear business objectives, industry reputation, and experienced and talented  
330 investment staff;

331

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

335

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

339

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

342

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

344

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

347

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

351

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

354

355 **F. MONITORING OF INVESTMENT OPTIONS**

356

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

361  
362 The Investment Officer shall evaluate the investment options quarterly, in addition to using any  
363 other factors he/she believes are appropriate. These factors are intended to ensure that decisions to  
364 retain investment options are made with a prudent degree of care, and that excessive risk is  
365 minimized. Among the events that the Investment Officer will examine closely in its review of the  
366 investment options are:

- 367
- 368 1. Poor performance relative to passive indexes and/or peer groups over longer time periods  
369 (e.g. three and five years), or ranking in a peer universe below the top half;  
370
  - 371 2. A change in the manager of an investment option, or departure of one or more key  
372 investment professionals;  
373
  - 374 3. Involvement of the manager of an investment option or key investment professionals in  
375 material litigation or fraud;  
376
  - 377 4. Material “style drift” of the investment option – that is, change in investment strategy of the  
378 investment option inconsistent with the investment strategy at the time the option is  
379 selected; and  
380
  - 381 5. A change in the ownership, control, or resources of the investment management  
382 organization.  
383

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

388 **Part II**

389  
 390 The following section outlines investment decisions under which the School Board Supplemental  
 391 Retirement Plan is currently operating. It is anticipated that the details outlined in Part I will result  
 392 in modification of these decisions on a routine basis.

393  
 394 **A. OVERVIEW**

395  
 396 The Alexandria City School Board (the “Board”) has a long-standing relationship with the Principal  
 397 Financial Group. As a Bundled Provider, described under Section C.11. of Part I of this IPS,  
 398 Principal provides services outlined under Sections C.7. - C.11. including actuary, custodian,  
 399 investment managers and third party Administrator.

400  
 401  
 402 **B. BENEFITS INDEX**

403  
 404 As an insurance company, Principal is also providing guaranteed benefits to plan participants as  
 405 they retire. To ensure there are sufficient assets in the plan, Principal calculates a Benefits Index  
 406 which represents current claims on assets as a percentage of available assets, adjusted for the  
 407 volatility of the asset allocation. Based on Principal’s assertions, that Index must always be below  
 408 100%. If it reaches 100%, Principal asserts the right to force the Alexandria City School Board to  
 409 put more money into the plan, or allow Principal to annuitize all participants then in pay status.

410  
 411 The Benefits Index currently requires the Board to maintain an asset allocation with a large portion  
 412 of assets in fixed income instruments. Because of its critical role, the Benefits Index is specified in  
 413 this IPS.

414  
 415 **C. ASSET ALLOCATION**

416

417 ASSET CLASS	TARGET	RANGE	INDEX
418 Equity	40.0%	25%-65%	S&P 1500/ MSCI EAFE
419 Real Assets	15.0%	5%-20%	NCREIF ODCE
420 <u>Fixed Income</u>	45.0%	40%-60%	<u>BC Aggregate</u>
421 TOTAL	100.0%		

422  
 423  
 424  
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429  
 430