

Proposed sample

Investment Policy Statement

Stillwater Fire District

Defined Benefit Length of Service Award
Program

Retirement Plan – Directed by
Board of Fire Commissioners

Approved February, 2016

**RBC Wealth Management, a division of RBC Capital Markets Corporation,
Member NYSE/FINRA/SIPC**

This Investment Policy Statement should be reviewed from time to time with the Sponsoring Board's Investment Advisor. Any change to this policy should be communicated in writing and on a timely basis to the Investment Advisor. If any term or condition of this Investment Policy Statement conflicts with any trust and/or plan document, the document shall control, as long as such term or condition is consistent with the law

Executive Summary

Type of Client:	Non ERISA LOSAP Plan – Board Directed
Plan Name:	Stillwater Fire District LOSAP Defined Benefit Plan
Client Sub-type:	ERISA Exempt
Fiduciary Standard of Care:	Other - Prudent Man Rule
Tax Id:	14-1626421
Current Assets:	\$ 894,000
Time Horizon:	Long - More than 5 years
Modeled Return:	6.0%

Allocation Range Legend

LL: Lower Limit

SA: Strategic Allocation

UL: Upper Limit

Broad Asset Class	Peer Group	LL	SA	UL
Fixed Income - Broad Fixed Income	Multi-sector Bond	5.0	10.0	30.0
	Non-Traditional/Unconstrained	0.0	0.0	20.0
Fixed Income - Global Fixed Income	World Bond	5.0	10.0	30.0
	Emerging Mkts Bond	0.0	0.0	20.0
	Currency	0.0	0.0	30.0
Fixed Income – Int. Fixed Income	Inflation-Protected Bond	0.0	0.0	30.0
	Intermediate-Term Bond	10.0	20.0	50.0
Fixed Income – Short Fixed Income	Short-Term Bond	10.0	20.0	100.0
	Bank Loan	0.0	0.0	30.0
Fixed Income – High Yield	High Yield	0.0	0.0	20.0
Convertible Bond	Convertible	0.0	0.0	10.0
International Equity - Diversified	World Stock	3.0	10.0	20.0
	Diversified Emerging Mkts	0.0	0.0	10.0
Large Cap Equity	Large Blend	5.0	10.0	30.0
Mid Cap Equity	Mid-Cap Blend	0.0	0.0	10.0
Money Market	Money Market Taxable As needed for cash payouts	0.0	5.0	100.0
Other	Conservative Allocation	0.0	5.0	30.0
	Moderate Allocation	0.0	5.0	30.0
	Other/Alternative/Multi-Asset	0.0	0.0	30.0
	Specialty-Natural Res	0.0	0.0	20.0
	Commodities/Mgd Futures	0.0	0.0	10.0
	Specialty-Real Estate	0.0	0.0	10.0
	World Allocation	0.0	5.0	40.0
Small Cap	Small Blend	0.0	0.0	5.0

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Board of Fire Commissioners (Board) in effectively supervising, monitoring and evaluating the investment of the District's Length of Service Award Plan (Plan) assets. The Plan's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all of the Plan's assets.
2. Encouraging effective communications between the Board and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.
4. Setting forth an investment structure for managing the Plan's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
5. Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so all Plan assets are managed in accordance with stated objectives.

Statement of Objectives

Background

The Plan is a defined benefit plan and currently covers xx volunteer participants. Plan size is currently \$ 894,000 and annual contributions should total \$65,000. The purpose of the plan is to retain and recruit active volunteer firefighters and/or EMT's.

This IPS has been arrived at upon consideration by the Board by a wide range of policies, and describes the prudent investment process the Board deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

The objectives of the Plan are:

1. Have the ability to pay all benefit and expense obligations when due.
2. Control costs of administering the plan and managing the investments.
3. Maximize return within reasonable and prudent levels of risk in order to minimize contributions.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than five years. The Plan's strategic asset allocation is also based on this long-term perspective. Short-term liquidity requirements are anticipated to be covered by the plans assets.

Risk Tolerances

The Board recognizes that some risk must be assumed in order to achieve the investment objectives of the plan. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

A 1-yr loss limit of -9.5% has been calculated for the portfolio. Statistically speaking, there is a 5% chance (once in every twenty years) that the 1-year return will actually be lower than -9.5%.

In summary, The Plan's long time horizon, current financial condition and several other factors suggest collectively some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

Performance Expectations

The desired investment objective is a long-term rate of return on assets that is at least 6.00%. The target rate of return for the Plan has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS.

The Board realizes market performance varies and a 6.00% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.

Duties and Responsibilities

Board of Fire Commissioners

As fiduciaries under the Plan, the primary responsibilities of the Board are:

1. Prepare and maintain this Investment Policy Statement.
2. Prudently diversify the Plan's assets to meet an agreed upon risk/return profile.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Plan.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Custodian

Custodians are responsible for the safekeeping of the Plan's assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the Plan.
3. Settle all transactions (buy-sell orders).
4. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Plan since the previous report.
5. Maintain separate accounts by legal registration.

Investment Advisor

The Investment Advisor serves as an objective, third-party professional retained to assist the Board in managing the overall investment process. The Advisor is responsible for managing the assets and guiding the Board through a disciplined and rigorous investment process to enable the Board to meet the fiduciary responsibilities outlined above.

Asset Class Guidelines

The Board believes long-term investment performance, in large part, is primarily a function of asset class mix. The Board has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting given the Plan's long time horizon.

The following asset classes were selected and ranked in ascending order of "risk" (least to most) according to the most recent quarter's median 3-year Standard Deviation values.

Money Market Taxable
Short-Term Bond
Intermediate-Term Bond
Conservative Allocation
Multi-sector Bond
Inflation-Protected Bond
Moderate Allocation
World Bond
World Allocation
Large Blend
Foreign Large Blend
Mid-Cap Blend
Small Blend
Specialty-Real Estate
Specialty-Natural Res
Other

*The performance expectations (both risk and return) of each broad asset class are contained in **Appendix A.***

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary depending upon market conditions. Please reference the allocation table in the Executive Summary for the lower and upper limits for each asset class. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation and allocation ranges of the Plan. If there are no cash flows, the allocation of the Plan will be reviewed quarterly.

If the Board judges cash flows to be insufficient to bring the Plan within the target allocation ranges, the Board shall decide whether to effect transactions to bring the allocation of Plan assets within the threshold ranges.

Implementation

The Board will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. Regulatory oversight: Each investment option should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or, (iiii) a registered investment adviser.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated.
6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account.
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class.
8. Expense ratios/fees: The investment option's fees should be fair and reasonable. Core/Satellite approach can be implemented to control expenses. This is the recognition that passive management and index funds should be used for the more efficient asset classes combined with active management for less efficient asset classes.
9. Stability of the organization: There should be no perceived organizational problems.

Monitoring

Performance Objectives

The Board acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Board intends to evaluate investment performance from a long-term perspective.

The Board is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than annually, the Board will meet to review whether each investment option continues to conform to the search criteria outlined in the implementation section; specifically:

1. The investment option's adherence to the watch list criteria;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment options organization.

Benchmarks

The Board has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment option. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Peer Group	Index
Conservative Allocation	Dow Jones U.S. Moderately Conservative
Foreign Large Blend	MSCI World ex US NDTR_D
Inflation-Protected Bond	Lehman Brothers U.S. Treasury TIPS
Intermediate-Term Bond	Lehman Brothers 5-10 Yr Govt/Credit Bond
Large Blend	Russell 1000
Mid-Cap Blend	Standard & Poors Midcap 400 PR
Moderate Allocation	Dow Jones U.S. Moderate Portfolio
Money Market Taxable	3 Month T-Bill
Multisector Bond	Lehman Brothers U.S. Universal Bond
Other	
	3 Month T-Bill
Short-Term Bond	Lehman Brothers 1-5 Yr Govt/Credit Bond
Small Blend	Russell 2000
Specialty-Natural Res	Goldman Sachs Natural Resources
Specialty-Real Estate	DJ Wilshire REIT
World Allocation	MSCI World NDTR_D
World Bond	Citigroup Non-USD WGBI USD

Watch List Criteria

An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. An investment option's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the investment option.
4. There is a significant decrease or increase in the investment option's assets.
5. There is an indication the investment option is deviating from the stated style and/or strategy.
6. There is an increase in the investment option's fees and expenses.
7. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets.

The decision to retain or terminate an investment option cannot be made by a formula. It is the Board's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option.

Measuring Costs

The Board will review at least annually all costs associated with the management of the Plan, including:

1. Expense ratios of each mutual fund against the appropriate peer group.
2. Administrative Fees; costs to administer the Plan, including record keeping, custody and trust services.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the Portfolio.

Investment Policy Review

The Board will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Prepared by:

David M Rogers
RBC Wealth Management

Signature

Date

Approved by:

**Stillwater Fire District
Board of Fire Commissioners**

Chairman

Appendix A

Asset Class Volatility Risk and Estimated Expected Return Rate Assumptions

Asset Allocation Model	Return	Risk	Yield	Dividend	Turnover
Cash	2.00%	2.00%	2.00%	0.00%	100.00%
CDs	2.50%	3.00%	2.50%	0.00%	100.00%
Fixed Annuities	2.50%	3.50%	0.00%	0.00%	5.00%
Intermediate-Term Fixed Income	4.75%	6.00%	4.75%	0.00%	60.00%
Long-Term Fixed Income	5.25%	8.00%	5.25%	0.00%	40.00%
Intermediate-Term Tax Exempt	3.25%	4.00%	3.25%	0.00%	60.00%
Long-Term Municipal	3.75%	8.00%	3.75%	0.00%	40.00%
Corporate Fixed Income	5.50%	8.50%	5.50%	0.00%	40.00%
Mortgage Backed Fixed Income	5.00%	7.50%	5.00%	0.00%	40.00%
High Yield Fixed Income	8.25%	16.00%	8.25%	0.00%	40.00%
Large Value Equities	8.50%	13.25%	0.00%	2.50%	40.00%
Large Growth Equities	9.60%	16.00%	0.00%	1.75%	40.00%
Small Value Equities	10.00%	18.75%	0.00%	2.25%	40.00%
Small Growth Equities	11.10%	22.00%	0.00%	1.50%	40.00%
Mid Cap Equities	9.75%	18.00%	0.00%	2.00%	40.00%
Balanced Funds	6.25%	11.00%	2.00%	0.50%	60.00%
Real Estate	6.50%	14.00%	5.50%	0.00%	10.00%
Futures/Commodities	7.00%	30.00%	0.00%	0.00%	100.00%
Venture Capital/Ltd.Partnerships.	11.50%	35.25%	0.00%	0.00%	10.00%
International Equities	10.00%	22.25%	0.00%	1.75%	40.00%
International Fixed Income	6.00%	13.25%	6.00%	0.00%	40.00%
Emerging Equities	10.50%	40.25%	0.00%	0.75%	40.00%