

Iowa Communities Assurance Pool Investment Policy

Purpose and Scope

The purpose of this investment policy is to provide guidelines for the investment of funds held by the Iowa Communities Assurance Pool (ICAP) in accordance with appropriate standards of safety, yield, and liquidity. It is intended to provide sufficiently specific objectives and procedures, but flexible enough to be practical and serve ICAP's present needs as well as into the future.

Background

ICAP was formed in August, 1986 for the primary purpose of managing and funding third-party liability claims against its members pursuant to the authority granted by Iowa Code Section 670.7. Membership is available to cities, counties, and other public entities as permitted by law and as determined by the Board of Directors.

The ICAP Board of Directors (Board) consists of seven members who provide guidance and recommendations to Sedgwick (Administrator) consistent with an intergovernmental contract. The Administrator, as directed by the Board, contracts with various service providers/contractors and performs such duties as settling and paying claims, providing financial reports, marketing and underwriting new members, investing pool funds and other administrative tasks.

The funds of the Pool consist of an annual budgetary fund component and a cumulative reserve fund component. Annual contributions to the budgetary fund are applied towards the payment of current year expenses and prior claims to be paid in the current year. Annual contributions to the cumulative reserve fund represent capital to be used to fund a shortage in the budgetary fund or to refund contributions to terminated or withdrawn members.

The Board, by resolution, has determined that it is in ICAP's best interest to contract the investment of pool funds with a professional investment firm, (Investment Firm). In September, 1988 the Board selected the firm now known as Graystone Consulting (a business unit of Morgan Stanley) to provide investment services for ICAP.

Investment Objectives

The investment portfolio shall be designed to attain at least a market-average rate of return throughout budgetary and economic cycles, taking into account ICAP's investment risk constraints and the cash flow characteristics of the portfolio.

The specific investment return objective over the long term is to achieve a rate of return of at least three percent (3%) over the rate of inflation as measured by the consumer price index (CPI).

The investment portfolio will be compared to a composite manager benchmark which aggregates individual investment manager benchmarks in pro-rata proportion to the total portfolio.

Moderate Growth of Capital over the long-term is the foremost objective of ICAP. The primary measure of risk is the loss of capital over the investment horizon.

Investment Guidelines

1. Types of Assets

The following classification of assets are available for selection by the Pool's investment advisor.

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|----|---------------------------|----|-----------------------------|
| A. | Common Stocks | E. | Real Estate |
| B. | Preferred Stocks | F. | Money Market & Cash Equivs. |
| C. | Government Bonds | G. | Alternative Investments |
| D. | Corporate Bonds (incl HY) | H. | Convertible Securities |

2. Equity Investments

A. It is recognized that to improve the probability of achieving the performance goals it may be necessary to seek issues outside the New York Stock Exchange. The use of the American Stock Exchange, Regional Exchanges, over-the-counter issues, American Depository Receipts, International Ordinary Shares, Convertible Securities, and Alternative Investments are considered acceptable.

B. Stocks held need not represent a cross section of the economy. The Investment Manager may invest up to twenty percent (20%) of the total portfolio (at cost) in one industry, (such as drugs, auto, retail, utilities, etc.) and not more than five percent (5%) of the total portfolio (at cost) in one company. Investments shall not exceed more than one percent (1%) of the issuing company's outstanding stock.

In the event that changes in the equity portfolio render the Pool out of compliance with the above guidelines, the Investment Firm shall notify the Board's Investment Committee immediately so that corrective action may be taken or a waiver of compliance issued by the Investment Committee. In no event shall the above guidelines require the Investment Manager to buy or sell investments disadvantageously in order to comply with the Investment Policy.

3. Fixed Income Investments

A. Fixed income investments shall be continuously managed and reviewed.

B. Individual fixed income bonds rated < BB, in the aggregate, may not be more than five percent (5%) of the total investment portfolio, as designated by S&P or Moody's Rating Service. Any fixed income mutual fund shall have an average bond portfolio rating of BB or higher.

- C. The Investment Firm will report on individual fixed income bonds rated < BB and with a market value > 1% of the total investment portfolio.
- D. No Investment Manager may invest more than five percent (5%) (at cost) of the fixed income portfolio in any one company. Obligations of the U.S. Government are exempted from this requirement.

In the event that changes in the fixed income portfolio render the Pool out of compliance with the above guidelines, the Investment Firm shall notify the Board's Investment Committee immediately so that corrective action may be taken or a waiver of compliance issued by the Investment Committee. In no event shall the above guidelines require the Investment Manager to buy or sell investments disadvantageously in order to comply with the Investment Policy.

- E. Government bonds are defined as direct or indirect obligations of the U.S. Government and Agency paper only.

4. **Real Estate and Alternative Investments**

- A. Real estate and alternative investments will represent no more than twenty-five (25%) of total investable assets.
- B. Investments in alternative investments that are illiquid, defined as having liquidity requirements that are greater than once per quarter, will represent no more than twenty (20%) of total investable assets.

5. **Cash and Cash Equivalents**

- A. All cash, wherever and whenever possible, will be invested in interest bearing securities with daily liquidity and standard settlement of T+2 business days.

Investment Constraints

The standard of prudence to be used by the Investment Firm shall be the "prudent person" and shall be applied in the context of managing an overall portfolio. The types of investment and general allocation guidelines of the overall portfolio are as follows:

Cash or cash equivalents	4% to 30%
Fixed income securities	25% to 90%
Real Estate / Alternative Investments	0% to 25%
Equities	0% to 50%

The value of the overall portfolio shall be measured in accordance with generally accepted accounting principles (i.e. cash at cost and cash equivalents valued at market, fixed income securities valued at market and equities valued at market). Real estate investments and Alternative Investments shall be valued at cost for the purposes of the above guidelines unless

estimated market value is available. The overall portfolio shall be defined as all investable assets in the Graystone/Morgan Stanley accounts.

Delegation of Authority

The Investment Firm's role is that of a non-discretionary advisor to the Board. The Investment Firm may recommend separate Investment Managers for specific investment strategies. The Investment Firm and any Investment Managers shall observe all conditions of this policy.

The Board shall review the written investment policy at least once every 3 years.

Internal Controls

The Administrator shall establish a system of internal controls all of which shall be documented in writing. The internal controls shall be reviewed by the Board and ICAP's auditor. The controls shall be designed to document transfers of funds from Bilbrey Insurance Services Incorporated (BISI), as delegated by the Administrator to the Investment Firm, require proper authorization and review of all transactions, and prevent losses of ICAP funds from fraud, employee error, and misrepresentation until such time that said funds are under the control of the Investment Firm.

Reporting

The Investment Firm shall send confirmations of each transaction to a member of the Board's Investment Committee (designated by the Board of Directors). The Investment Firm shall submit monthly investment reports that disclose all investment transactions and current investments by investment types and individual securities, including original acquisition cost, current market value, disposition proceeds, maturity date, yield and administrative expenses. Any extraordinary losses shall be reported to the Board's Investment Committee immediately. The Investment Firm shall provide an annual report that summarizes recent market conditions, economic developments and anticipated conditions. The annual report shall also summarize the past performance; current portfolio in terms of securities, maturities, risk characteristics and other features; and include the total investment return (net of management fees and other expenses) as compared with investment objectives and appropriate bond indexes, stock indexes and the performance of similar funds.

The Investment Firm shall prepare, at least quarterly, a compliance report for review by the Board and the Administrator. Upon receiving the compliance report, the Administrator will reconcile the report to ICAP's financial records and to the investment policy guidelines and constraints. Any variances identified will be communicated to the Investment Firm, and if unresolved, shall be submitted to the Board.