



Georgia School Boards Association Risk Management Fund
Policy Statement of Investment Objectives and Guidelines
As Revised September 15, 2003

INTRODUCTION

The Georgia School Boards Association, Inc. (GSBA) sponsors and administers a program of property and liability coverage through the Georgia School Boards Association Risk Management Fund (the "Fund"). The Fund is structured under the laws of Georgia as a nonprofit instrumentality of its member organizations and is designed to meet the statutory requirement applicable to self-insured property/liability pools in Georgia. Membership is extended only to public school districts in Georgia created pursuant to law. State law authorizes the establishment of a group liability fund as an alternative mechanism for members of the pool to meet property/liability obligations, to reduce administrative costs, and to reduce claims through active programs for loss prevention and loss control.

The Fund is established under the statutes of Georgia as an interlocal risk management agency. It is managed in accordance with and subject to the terms, conditions and provisions set forth in the agreement, pertinent statutes, and the by-laws adopted by the trustees. The Fund is managed by a nine member board of trustees (the "Trustees"). General administration, marketing, loss prevention and loss control of the Fund is the responsibility of GSBA (the "Administrator"). The address of the Fund is 5120 Sugarloaf Parkway, Lawrenceville, Georgia 30043.

The Trustees retain two broker-administrators, 1.) Marsh, 3475 Piedmont Road, NE, Atlanta, Georgia 30305, 2.) Willis Insurance Services of Georgia, P.O. Box 905260, Charlotte, North Carolina 28290-5260 to undertake certain activities on behalf of the Fund including underwriting, marketing, reporting, and brokerage services. The Trustees also retain the services of a third-party claims administrator to process, investigate, defend and settle claims made against the Fund. Claims administration is provided to the Fund by Underwriters Safety & Claims, 1700 Eastpoint Parkway, P.O. Box 23790, Louisville, Kentucky 40223.

Contributions to the Fund are held, managed and invested by the Trustees in accordance with these investment guidelines and with investment management agreements between the Fund and one or more asset managers (the "Investment Managers"). The Trustees also engage an independent investment consulting firm to assist the Fund in the attainment of its objectives and to monitor compliance with the adopted objectives and guidelines. The Trustees have retained DB Alex. Brown, Asset Manager Evaluation Service (AMES) (the "Consultant"), 3414 Peachtree Road, Suite 900, Atlanta, Georgia 30326 for this purpose.

PURPOSE

The purpose of this Policy Statement (the "Policy") of Investment Objectives and Guidelines is to assist the Board of Trustees of the Georgia School Boards Association Risk Management Fund in more effectively supervising and monitoring the investment of the Fund assets.

In the various sections of this Policy document, the Trustees define this investment program by:

1. Stating in a written document the Trustees' attitudes, expectations and objectives in the investment of the Fund assets,
2. Providing guidelines for the investment portfolio that control the level of risk assumed and ensure that assets are managed in accordance with stated objectives,
3. Encouraging effective communication between the Trustees, the Consultant and their Investment Manager,
4. Establishing criteria to monitor and evaluate the performance results achieved by the Investment Manager(s),
5. Providing cash flow projections while conforming to all state statutes governing investment of assets

STATEMENT

This Policy Statement represents the Trustees' current philosophy regarding the investment of the Fund assets. It is the desire of the Trustees that the Fund assets be invested in a manner which will provide the highest investment return with the maximum security.

The primary asset classes within the Fund's investment portfolio will be:

I. Operating Cash

To provide for the preservation of capital and liquidity and to ensure that all present operating expenses and obligations are met.

II. Fixed Income Portfolio

To obtain a favorable total return on invested assets through a "liquid" diversified portfolio of high quality income-producing assets which stress preservation of capital and income.

OBJECTIVES

The stated objectives of the Trustees are as follows:

1. To achieve a total rate of investment return consistent with investment benchmarks and guidelines;
2. To earn a real return that exceeds inflation (CPI) over any rolling three-to-five year period or market cycle;
3. To satisfy all fiduciary and other controlling laws and regulations.
4. To provide cash flow consistent with operating projections.

These objectives shall be accomplished using a portfolio of fixed income and equity investments in a total mix which an investment manager feels is conducive to participation in rising markets while allowing for adequate protection in falling markets. It is the intent of the Trustees to give an external investment manager full investment discretion with the exception of any restrictions specifically noted in the following paragraphs. All securities within this Fund must meet the criteria to be Admitted Assets by the Georgia Department of Insurance.

I. Operating Cash

A. Policy

The primary objectives of operating cash are safety, liquidity, and return on investments to ensure that all present operating expenses and obligations are met and that the funds earn a maximum yield on the short-term investment of idle cash.

B. Delegation of Authority

The Trustees/Administrator shall be responsible for the management of operating cash to include determining cash flow needs and the transfer of excess operating funds to the fixed income portfolios.

C. Investment Restrictions

1. All investments made for operating cash must meet the criteria of Admitted Assets by the Georgia Department of Insurance.
2. Funds held on deposit must be with one or more solvent banks approved by the Board of Trustees.

D. Categories of Investment Securities

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The following vehicles may be used in the management of operating cash:

1. Operating checking accounts
2. Money market savings accounts
3. Overnight repurchase agreement sweep accounts
4. Short-term (less than one-year) Certificates of Deposit
5. Local Government Investment Pool (Georgia Fund 1)

E. Collateralization

Collateralization will be required on the following:

1. Funds in excess of the FDIC limit with a single banking institution
2. Certificates of deposit in excess of the FDIC limit
3. Repurchase agreements

To anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom the Fund has a current custodial agreement. A clearly market evidence of ownership (safekeeping receipt) must be supplied to the Fund and retained. The right collateral substitution if granted.

II. Fixed Income Portfolio:

A. Policy

The objective is to obtain a favorable total return utilizing various classes of investment grade fixed income securities. Due to the "short-tail" nature of reserves, the fixed income portfolio should be of a relatively short duration, producing a consistent cash income yield.

B. Performance Guidelines

The total return on the portfolio should be judged against the total return of the Merrill Lynch 1-3 Index (net of fees) over each rolling three-to-five year period.

C. Investment Restrictions

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1. All securities must meet the criteria to be Admitted Assets by the Georgia Department of Insurance, as applicable.
2. In compliance with the Georgia Insurance Code requirements with the exception of U. S. Treasury securities and Government backed agencies, the securities of any one issue shall not exceed ten percent (10%) of Fund assets without the approval of the Georgia Department of Insurance.
3. All fixed income securities shall be rated investment grade or of a higher quality as defined by both Moody's and Standard and Poor's. In the event of a downgrade below an investment grade rating by either rating agency, the security will be sold at the discretion of the Manager within six months of the lowered ranking. The GSBA has a limitation of fixed income securities below an "A" rating of 15% of the total fixed income portfolio.
4. All fixed income securities shall be dollar denominated.
5. The weighted average duration of the fixed income portfolio shall at all times be less than 3 years.
6. Leverage techniques, private placements, short techniques or any direct participation plans cannot be used.
7. Futures, commodities or options techniques cannot be utilized.

D. Categories of Investment Securities

Funds

- § Georgia Fund 1
- § Georgia Extended Asset Pool
- § SunTrust Common Trust Funds

Government Securities

- § U.S. Treasuries, Agencies backed by the full faith and credit of the U.S. Government and other Sponsored Enterprises ("GSE's")

Corporate Securities

- § Corporate fixed income securities
- § Asset backed securities
- § Short-term investments and money market instruments to include money market mutual funds
- § U.S. preferred and adjustable rate preferreds (non-convertible)
- § Yankee or Eurodollar issues
- § Real Estate Investment Trusts (REIT's)

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Mortgage Backed Securities

§ Including generic pass-throughs issued by GNMA, FHLMC, FNMA only)

§ Non-agencies

§ Collateralized Mortgage Obligations Commercial Mortgage Backed Securities

RESPONSIBILITIES

I. Investment Managers

- A. Provide written documentation of portfolio activity, portfolio valuations, performance data, and other information as requested by the Fund or the Consultant within 30 days of the end of each quarter. Each Manager's quarterly report should include a summary of all executions including transaction price.
- B. Report immediately to the Fund and Consultant, in writing, any substantive changes in investment strategy, portfolio structure or portfolio manager, and market value of managed assets as well as significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization.
- C. Send an ADV (SEC registration statement) on an annual basis to the Consultant. If any changes are made to key personnel, ownership or any other critical areas of the Investment Manager's firm, a copy of the amended ADV should be sent to the Fund and Consultant.
- D. Exercise discretionary authority over the assets entrusted to him subject to these guidelines, objectives, and restrictions. Such authority will include reporting to the NAIC in accordance with the Georgia Department of Insurance.
- E. Vote all proxy(s) and give a general summary report to the Trustees of proxy voting activities on an annual basis and provide to the Trustees their guidelines on proxy voting activities.
- F. Acknowledge in writing the receipt of this Policy Statement of Investment Objectives and Guidelines and the acceptance of its terms. If any Investment Manager believes at any time that any changes, additions or deletions to the Statement are advisable, it will be the responsibility of the Manager to recommend, in writing, such changes to the Fund and Consultant.

II. Trustees/Administrator

- A. Review the Policy Statement of Investment Objectives and Guidelines at least annually and revise or confirm as appropriate.
- B. Assist in the selection of Investment Managers, Consultants and other vendors.

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- C. Meet at least annually with each Investment Manager for due diligence.
- D. Develop investment objectives and performance measurement standards which are consistent with the financial needs of the Fund.
- E. Periodically review and evaluate investment results in the context of predetermined performance standards and implement corrective action as needed.

III. Consultant

- A. Assist in the development and implementation of investment policies, objectives, and guidelines.
- B. Prepare and present performance evaluation reports in accordance with the Investment Management and Consultants Association promulgated standards and attend Trustee meetings to present evaluation reports. Investment returns shall be related to objectives and performance benchmarks in conjunction with the Consultant's presentation of results. The Consultant's performance reporting will be quarterly or any interim time period as designated by the Fund.
- C. Review any contracts and fees for both current and proposed Investment Managers.
- D. Communicate investment objectives and guidelines to the Investment Managers, monitor their adherence to such policies, and report violations to the Fund.
- E. Notify the Fund of any changes in personnel or ownership of the consulting firm.
- F. Assist the GSBA staff and the Trustees with certain tasks.
- G. From information obtained from the Custodial and Investment Manager reports, advise the Fund of substantive changes in the market value of the Plan's total asset base and/or holdings with an Investment Manager as a result of dramatic changes in market conditions.

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The address of the Trustees/Administrator to the GSBA Workers' Compensation Fund is the following:

Ms. Jeannie M. Henry, Secretary/Treasurer
Georgia School Boards Association
5120 Sugarloaf Parkway
Lawrenceville, GA 30043

The address of the Consultant to the GSBA Workers' Compensation Fund is the following:

L. Ferber Buckley
DB Alex. Brown
3414 Peachtree Road, Suite 900
Atlanta, Georgia 30326

The address of the Manager to the GSBA Workers' Compensation Fund is the following:

Trusco Capital Management
50 Hurt Plaza, Suite 1400
Atlanta, GA 30309

Approved by:

For the Trustees/Administrator

For the Consultant

Name

Name

Title

Title

Date

Date

For the Investment Manager

Name

Title

Date