WORKERS' COMPENSATION REINSURANCE ASSOCIATION INVESTMENT POLICY

Amended and Restated March 7, 2019

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Section 1
Investment Objectives

The rising cost of workers' compensation insurance during the 1970s concerned Minnesota lawmakers, employers, and insurers. In 1977, the Legislature created a study commission to find ways to address this problem while ensuring fair compensation to injured employees and encouraging their return to gainful employment. As a result of the study commission's recommendations, the Legislature enacted a bill in 1979, which, among other things, created the Workers' Compensation Reinsurance Association (WCRA).

The WCRA, a nonprofit and unincorporated association, is, with minor exceptions, the exclusive provider of reinsurance coverage for Minnesota workers' compensation claims. All insurance carriers authorized to underwrite workers' compensation risks in Minnesota and all employers authorized to self-insure their workers' compensation liabilities in Minnesota are required to be members of the WCRA. The WCRA provides full indemnification to its members for workers' compensation losses under Minnesota Statutes §176 in excess of a member's chosen retention limit. The WCRA is exempt from federal income taxes as a 501(c)(27) organization.

Goals and Objectives

An overall goal of the WCRA is to ensure the availability of low-cost reinsurance protection through predictable and stable rates. The investment function of the WCRA invests the collected premiums to ensure that the WCRA has sufficient assets to satisfy its liabilities. The investment program should consider and respond to the unpredictable nature of the incidence and severity of workers' compensation claims, the long periods over which losses may be paid, and the effect that unanticipated changes in wages, as well as unanticipated changes in treatment, and rehabilitation costs may have on claims.

The investment program's mission statement is to "meet or exceed the target earnings expectation with an acceptable amount of volatility to help ensure the availability of low-cost, competitive, and stable reinsurance rates." The target earnings expectation is established by the WCRA Board of Directors and is formally reviewed at least once every five years.

From an absolute perspective, the objective of the investment program is to meet or exceed the target earnings expectation, net of fees. From a relative perspective, the objective is to meet or exceed the return of the Board-approved policy benchmark, net of fees. These return objectives will be evaluated over extended time frames, such as rolling five-year periods.

Additional Considerations and Influencing Factors

Volatility - The long-term nature of WCRA's liabilities suggests that the investment program can tolerate a fair degree of short-term volatility of returns. The WCRA Board of Directors will weigh the benefits of increasing the probability of achieving the target earnings expectation in the long term with the consequences of short-term volatility of returns to determine an acceptable amount of volatility for the investment program.

Liquidity - Liquidity concerns are important to the WCRA as claim payments are expected to increase at a greater rate than premium cash collections, thus creating negative operating cash flows. Sufficient funds should be maintained to meet ongoing claims and operating expense requirements.

Time Horizon - The time horizon for the WCRA, as an organization, is very long and perpetual as payment of benefits on individual claims can exceed 70 years.

Legal or Regulatory - The WCRA is not regulated like an insurance company because it is not an insurance company. The specific statutory scheme for the WCRA is prescribed by Minnesota law. Additional operating rules and procedures are detailed in WCRA's Plan of Operation, amendments to which must be approved by the WCRA Board of Directors and the Minnesota Commissioner of Labor and Industry. The Plan of Operation requires the WCRA Board of Directors to adopt and annually review an investment policy. While there are no other direct regulatory or legal constraints that affect the WCRA's investment program, the WCRA must exercise reasonable care and prudence in drafting and implementing its investment policy and monitoring its investment program.

Other Circumstances - Even though the WCRA is not required by statute to maintain a minimum level of surplus, the investment program must be sensitive to the impact that investment returns and volatility have on surplus (deficit). The investment staff must work closely with actuarial, accounting, claims, and premium staffs in developing analyses that yield a comprehensive view of the impact that the investment program has on surplus (deficit).

Section 2
Asset Allocation and Rebalancing

WCRA's primary asset allocation is the desired long-term allocation of assets among various broad asset classes. It represents the combination of asset classes believed to be most consistent with WCRA's investment objectives and risk tolerance. The primary asset allocation is not meant to be adjusted in response to transitory market movements. It is changed only when WCRA's investment objectives or risk tolerance is altered, or when significant changes in the capital markets occur that affect the long-term risk-return relationships between the different asset classes. The domestic equity asset allocation is the desired long-term allocation of assets among various domestic stock asset classes.

Under normal conditions, it is expected that the WCRA portfolio will be managed in such a way that the actual asset class allocations will remain within the normal ranges stated below. Investment strategies or market conditions that result in an allocation position for any asset class outside of its normal range as of any quarter end shall be reported to the WCRA Board of Directors.

In its report, the Investment Committee will indicate what steps have been taken or will be taken to bring each asset class within its normal range. However, because the costs of rebalancing may outweigh the perceived benefits or because of market conditions, near-term plans, or other concerns, the Investment Committee may request approval from the WCRA Board of Directors to allow an asset class to temporarily remain outside the normal range. The Investment Committee will update the Board of Directors as long as any asset class remains outside its normal range.

The WCRA Board of Directors has approved the following asset allocation targets and ranges.

WCRA Primary Asset Allocation

Primary Asset Class	*Target**	*Normal Range*
Domestic Equity	35%	30.0% to 40.0%
International Equity	20%	15.0% to 25.0%
Private Equity	15%	10.0% to 20.0%
Fixed Income	20%	15.0% to 25.0%
Private Debt	10%	5.0% to 15.0%

** On a total portfolio basis, the target allocation for equity will be 70%, and the target allocation for debt will be 30%.*

Opportunistic Allocation of Invested Assets

As our experience with investments in distressed debt mortgage-backed securities demonstrated, there may occasionally be attractive short-term opportunities in certain asset classes or types of investments. Opportunistic investments are subject to the following guidelines:

- The investment objective and rationale relating to the opportunistic investment should be documented.
- The investment strategy should be documented and include the actions to be taken, responsibilities, and timeframe.
- The source of funding (reduction in the allocation to existing equity and fixed income investments) will be based on the nature of the opportunistic investment.
- The sell discipline and exit strategy will be developed and documented at the inception of the investment.
- Opportunistic investments, individually or in the aggregate, should not exceed ten percent of the market value of the WCRA's total investments.
- The expected time period or lifecycle for opportunistic investments will typically range from one to four years.
- A benchmark will be selected for the asset class or type of investment. If an appropriate benchmark is not available from normal external sources, an absolute return benchmark may be used.
- Investment Manager "Authorizations and Restrictions" should be prepared and tailored to the specific opportunity.
- Opportunistic investments involving financial leverage are not permitted.
- The income tax consequences (including unrelated business income tax) of the opportunistic investment should be reviewed prior to commitment.

Normally, the Investment Committee will recommend approval of an opportunistic investment to the Board of Directors and the Board will be asked to approve the recommendation at its next meeting. However, if the Investment Committee believes the investment strategy should be implemented immediately, the WCRA staff will notify the Board of Directors and ask for an email vote by the Board within three business days. A majority of the Board must approve the investment.

Policy on Active and Passive Management of Investments

US Equities

Policy: Large-cap US equity investments will be passively managed and small-cap US Equities will be actively managed.

Rationale: The large-cap US equity market is very efficient, and it is difficult for an active manager to add value, net of fees, over the long run. The small-cap US equity market is less efficient and there is reasonable opportunity for small-cap managers to add value.

International Equities

Policy: Up to 50 percent of international equities will be passively managed.

Rationale: Academic and investment experts support both sides of the debate regarding active vs. passive management of international equities. Some believe that large-cap developed country equity markets are efficient and it is difficult for an active manager to add value. Others believe that small-cap equities and emerging markets present opportunities for active management. Based on these different views and the WCRA's history of mixed results with active management of international equities, the policy provides for a blend of both active and passive management.

Fixed Income

Policy: Fixed income will be actively managed.

Rationale: Active management of fixed income is consistent with the total-return fixed income strategy used by the WCRA.

Section 3
Policy Benchmark Construction

Policy benchmarks are constructed as single benchmarks or as a combination of benchmarks in varying proportions that represent the risk/return characteristics of each asset class in which the WCRA invests. The proportions used to construct the policy benchmarks are directly related to the target asset allocation approved by the WCRA Board of Directors.

WCRA policy benchmarks are calculated on a monthly basis as the weighted average of its components. Quarterly, year-to-date, annual, and other return periods are calculated by geometrically linking the monthly policy benchmark returns. The WCRA Board of Directors has approved the policy benchmarks listed below.

WCRA Domestic Equity Policy Benchmark

Russell 3000 Index

WCRA International Equity Policy Benchmark

MSCI ACWI x US Index

WCRA Fixed Income Policy Benchmark

Barclays Capital U.S. Aggregate Bond Index

WCRA Alternative Investments

No benchmark—will use actual returns for benchmark reporting purposes

WCRA Combined Policy Benchmark

Asset Class	*Benchmark*	*Proportion*
Domestic Equity	WCRA Domestic Equity Benchmark	35%
International Equity	WCRA Int'l Equity Benchmark	20%
Fixed Income	WCRA Fixed Income Benchmark	20%
Alternative Investments	No benchmark-actual returns	25%
		100%

Section 4
Investment Authorizations and Restrictions for Investment Managers

4.1. ACTIVE INTERNATIONAL STOCK MANAGERS

Each active international stock manager is restricted to holding common stocks, preferred stocks, equity REITs, warrants, ADRs and GDRs (or their equivalents), cash reserves, equity put options, equity call options, equity index futures, currency forwards, currency futures, and currency options. The securities of each manager must adhere to the following criteria and constraints.

1. No exposure to non-MSCI EAFE index countries is permitted without the written authorization of the WCRA. Common and preferred stocks must be registered or listed on an exchange of an authorized country.

2. If written authorization is received, emerging market exposure must not be greater than 5 percentage points overweight or greater than 5 percentage points underweight the emerging market weight (using MSCI definitions) in the MSCI ACWI ex US Standard benchmark and no single emerging market may exceed 15 percent of the account's total market value.

3. Combined securities issued by any one company must not exceed the capitalization weight of the largest company in the manager's benchmark by more than 3 percentage points.

4. Rule 144(a) private placement equity securities may be purchased for the account if, upon issuance, they are publicly traded securities in their local market(s) and can be priced on a daily basis. No other direct/private placements, restricted securities, or 144(a) securities may be held in the account.

5. Equity REITs may be held in the account only for companies that are included in the MSCI ACWI x US Index.

6. No securities of any company that is in formal bankruptcy proceedings may be purchased in the account.

7. U.S.-denominated cash reserves must be invested in the short-term investment fund (STIF) associated with the account. Non-U.S.-denominated cash reserves must either be invested in short-term (original maturity of one year or less) debt securities that are either issued or fully guaranteed by the government of a country contained in the MSCI EAFE index, or they must be invested in "foreign currency on account" with WCRA's custodian. Combined cash reserves must not exceed 15 percent of the account's total market value.

8. As an alternative to direct investment in authorized equity markets and if the manager believes it is prudent and more efficient, the manager is authorized to invest in non-U.S. stock derivative instruments such as equity put options, equity call options, and equity index futures.

9. The manager has no obligation to hedge currency risk and will not be required to do so. However, if the manager believes it is prudent, currency forward, currency future, and currency option contracts are authorized to be used to adjust the effective non-U.S. currency exposure of the account. No net short positions in currencies are allowed in the account.

10. No commingled vehicles other than the authorized STIF may be held in the account without the prior written authorization of the WCRA. Authorized commingled vehicles are subject to the provisions of the "Commingled Vehicles" section of the Authorizations and Restrictions.

11. No investment manager may lend securities held in its account.

12. No financial leverage may be used in the account. The appropriate amount of cash reserves must be maintained in the account to prevent leveraging the portfolio. Short sales and margin purchases are prohibited, except as allowed under Section 9 above.

4.2 ACTIVE DOMESTIC STOCK MANAGERS

Each active domestic stock manager is restricted to holding common stocks, equity REITs, warrants, and short-term investment funds (STIFs). The securities of each manager must adhere to the following criteria and constraints.

1. The stocks held must be issued by corporations organized under the laws of the United States (US) or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the US (including NASDAQ) or Canadian national government at time of purchase. These include Real Estate Investment Trusts (REITs), Business Development Companies (BDCs), and American Depository Receipts (ADRs) traded on such an exchange. Securities issued pursuant to Rule 144A may be purchased for the portfolio if, upon issuance, they will be publicly traded securities and can be priced on a daily basis.

2. The manager shall not hold at any time more than three (3) percent of the total outstanding shares of any corporation in the WCRA's portfolio. If a holding should breach this level or the manager desires to hold a larger position, the manager must notify the WCRA in writing for approval.

3. No direct/private placements, restricted/144(a) securities, or letter stock may be held in the account. Initial public offerings (IPO's) may be purchased, provided that the IPO's have no trading restrictions, trade on a public market, and can be priced daily.

4. No securities of any company that is in formal bankruptcy proceedings may be purchased in the account.

5. Cash reserves must be invested in the STIF associated with the account. The STIF must not exceed 15 percent of the account's total market value.

6. No commingled vehicles other than the authorized STIF may be held in the account without prior written authorization of the WCRA. Authorized commingled vehicles are subject to the provisions of the "Commingled Vehicles" section of the Authorizations and Restrictions

7. No investment manager may lend securities held in its account.

8. No financial leverage may be used in the account. Short sales and margin purchases are prohibited.

4.3 DOMESTIC STOCK INDEX MANAGERS

Each domestic stock index manager is restricted to holding securities that are contained in the index that has been selected as a benchmark, financial futures, and short-term investment funds (STIFs). In addition, U. S. Treasury bills may be held in the account if they serve as collateral for trading financial futures. The securities of each manager must adhere to the following criteria and constraints.

1. The manager is not required to hold all of the securities contained in the benchmark index (i.e. replication). Instead, the manager may utilize stratification or optimization techniques so as to approximate the performance of the benchmark index.

2. If a security is removed from the benchmark index, the manager must sell the security within a reasonable amount of time, as determined by the WCRA.

3. Cash reserves must be invested in the STIF associated with the account. The STIF must not exceed 3 percent of the account's total market value.

4. No commingled vehicles other than the authorized STIF may be held in the account without the prior written authorization of the WCRA. Authorized commingled vehicles are subject to the provisions of the "Commingled Vehicles" section of the Authorizations and Restrictions.

5. No investment manager may lend securities held in its account.

6. No financial leverage may be used in the account. Short sales and margin purchases are prohibited, except for margin purchases allowed under Section 7 below.

7. The notional value of financial futures held in the account may not exceed 3 percent of the account's total market value.

8. U. S. Treasury bills held in the account as collateral for financial futures trading may not exceed 1 percent of the account's total market value.

4.4 MONEY MARKET INSTRUMENT MANAGERS

Each money market instrument manager is restricted to holding U.S. government securities, medium-term notes, bank notes, bankers' acceptances, certificates of deposit, time deposits, repurchase agreements, commercial paper, and short-term investment funds (STIFs). The securities of each manager must adhere to the following criteria and constraints.

1. Securities issued or guaranteed by the U.S. Treasury, U.S. federal agencies, or U.S. government-sponsored agencies are considered U.S. government securities.

2. Issuers of medium-term notes must have a long-term debt rating of "AA" or better by a nationally recognized statistical rating organization (NRSRO).

3. Bank notes, bankers' acceptances, certificates of deposit, and time deposits must be issued by U.S. banks (including savings banks and savings associations) or foreign branches of U.S. banks. The short-term deposit rating of the bank must be "1" (i.e. A-1, P-1, etc.) by a NRSRO. If available, the issuer must have a long-term deposit rating of "AA" or better by a NRSRO.

4. Collateral on repurchase agreements is limited to securities that are approved for direct purchase. The market value (including accrued interest) of the collateral received must exceed 100 percent of the face amount. In order to insure adequate coverage of the repurchase agreement, all collateral must be marked-to-market on a daily basis. The counterparty must be rated "1" by a NRSRO.

5. Combined assets in medium-term notes, bank notes, bankers' acceptances, certificates of deposit, time deposits, and repurchase agreements must not exceed 50 percent of the account's total market value.

6. Commercial paper must be rated "1" by at least two NRSROs. If available, the issuer must have a long-term deposit rating of "AA" or better by a NRSRO. Commercial paper must not exceed 70 percent of the account's total market value.

7. All STIFs must be authorized for use prior to being held in any WCRA account. Authorized STIFs are exempt from the restrictions stated within this document.

8. Combined securities issued by any company or with any counterparty, except U.S. government securities, must not exceed 7 percent of the account's total market value.

9. No foreign securities may be held in the account. Foreign securities are defined as securities issued by a company domiciled outside of the United States.

10. No investment manager may lend securities held in its account.

11. No financial leverage may be used in the account.

12. Maximum maturity and average maturity constraints will be determined on a case-by-case basis, based upon WCRA objectives for the account.

4.5 ACTIVE FIXED INCOME MANAGERS

Each active fixed-income manager is restricted to holding U.S. government securities, corporate fixed-income securities, mortgage-backed securities, asset-backed securities, convertible bonds, municipal bonds, preferred stock, currency and interest rate options, currency and interest rate futures, currency forwards, U.S. pay international bonds, non-U.S. pay international bonds, and money market instruments. The securities of each manager must adhere to the following criteria and constraints.

1. No commingled vehicles other than the authorized short-term investment fund (STIF) may be held in the account without the prior written authorization of the WCRA. All commingled vehicles must be authorized by the WCRA Board of Directors as an appropriate investment vehicle. Authorized commingled vehicles are subject to the provisions of the “Commingled Vehicles” section of the Authorizations and Restrictions.

2. Securities issued or guaranteed by the U.S. Treasury, U.S. federal agencies, or U.S. government-sponsored agencies are considered U.S. government securities. As such, these securities are classified as "AAA" equivalent.

3. Domestic noninvestment-grade securities must not exceed 15 percent of the account's total market value, and the combined securities of any one issuer must not exceed 2 percent of the account’s total market value. A security is considered noninvestment-grade if it is not rated within the four highest rating categories (investment grade categories) by all nationally recognized statistical rating organizations (NRSRO) who rate it. If no such rating is available, the security will be classified as "not rated" and included in the noninvestment-grade category. No security may be purchased if it is rated below "B" by any NRSRO who rate it. No "not rated" security may be purchased if the manager's internal rating is below the equivalent of "B." If a security is downgraded so that any NRSRO rating is below "B," or the manager's internal rating is below the equivalent of "B," the manager will determine the appropriate action based on perceived risk, expected return, and client guidelines for asset quality. However, the manager must notify the WCRA and indicate a course of action.

4. U.S. pay international bonds must not exceed 20 percent of the account's total market value. U.S. pay international bonds must be investment grade (as defined in paragraph 3 above) at the time of purchase, and the combined securities of any one issuer must not exceed 5 percent of the account’s total market value.

5. Combined assets in "non-agency, private label, or whole loan" mortgage-backed securities must not exceed 25 percent of the account's total market value.

6. Fixed-income securities maturing in one year or less at the time of issuance and the authorized STIF are allowable money market instruments. All money market instruments except STIF must be rated "1" (i.e. A-1, P-1, etc.) by a NRSRO. Collateral on repurchase agreements is limited to securities that are approved for direct purchase. The market value (including accrued interest) of the collateral received must exceed 100 percent of the face amount. In order to ensure adequate coverage of the repurchase agreement, all collateral must be marked-to-market on a daily basis.

7. Combined securities, except U.S. government securities, of any issuer must not exceed 7 percent of the account's total market value. For asset-backed and mortgage-backed securities, the issuer is defined as a separate trust. Sections 3, 4, 8, and 10 further restrict combined securities of one issuer of certain types of investments.

8. No direct/private placements except 144(a) fixed-income securities may be held in the account. 144(a) fixed-income securities must not exceed 20 percent of the account's total market value. No single 144(a) fixed-income security issuer may represent more than 5 percent of the account's total market value.

9. No major corporate sector, such as industrial, financial, utilities, transportation, etc., may exceed 25 percent of the account's total market value.

10. Non-US pay international bonds must not exceed 10 percent of the account's total market value. Non-US pay international bonds must be sovereign debt and must be investment grade (as defined in paragraph 3 above) at the time of purchase. The combined securities of any one issuer must not exceed 5 percent of the account's total market value. The manager has the discretion to hedge the account's currency exposure, up to the amount invested in non-US pay international bonds, using currency options, currency futures, and currency forwards. No net short positions in currencies are allowed in the account.

11. Convertible bonds must not exceed 15 percent of the account's total market value.

12. Preferred stock must not exceed 5 percent of the account's total market value. Convertible preferred stock is considered a subset of preferred stock.

13. Asset-backed securities must not exceed 15 percent of the account's total market value. Securities backed by first- and second-lien mortgages will be classified by the WCRA as mortgage-backed securities.

14. Municipal bonds must be investment grade and must not exceed 15 percent of the account's total market value.

15. No "less stable" mortgage derivative securities may be held in the account. Less stable mortgage derivative securities are defined as securities whose value changes as a multiple of the underlying security. This restriction includes, but is not limited to, securities such as Interest Only (IO) and Principal Only (PO) class bonds, inverse floaters, and super floaters. In contrast, more stable mortgage derivative securities are defined as securities whose price volatility and liquidity are similar to components of the Barclays Capital Mortgage-Backed Securities Index. This includes such securities as Planned Amortization Class (PAC), Sequential Pay, plain vanilla Collateralization Mortgage Obligations (CMO) and Real Estate Mortgage Investment Conduit (REMIC) tranches, as well as mortgage pass-through securities.

16. The portfolio's effective duration must stay within plus or minus 1½ years of the effective duration of the Barclays Capital U.S. Aggregate Bond Index.

17. No financial leverage may be used in the account. The appropriate amount of cash reserves (written definition agreed upon by the WCRA and investment manager) must be maintained in the account to prevent leveraging the account. Short sales and margin purchases are prohibited, except as allowed under Sections 10 and 19.

18. No investment manager may lend securities held in its account.

19. The total net notional exposure from all derivative contracts must be less than 50 percent of the account's net asset value and the total net contribution to duration exposure due to all derivative contracts must be less than 50 percent of the Barclays Capital Aggregate's index duration. All derivatives must be purchased or sold through a governmentally regulated exchange, except for TBA mortgages. All other over-the-counter derivatives, such as interest rate swaps and credit default swaps, are not permitted. All options and futures transactions must be entered into and maintained with a fully offsetting amount of collateral (see collateral definition below). The portfolio may not be leveraged in any way. Total liability exposure due to derivative contracts will be calculated on a net notional value basis. All futures contracts will use their current price to calculate the net notional value. All net positions for puts and calls sold by the manager will have a notional value equal to the current notional value of the underlying contract. All net positions for puts and calls purchased by the manager will have a notional value of zero. The following derivative contracts are subject to the above restrictions: 1) Interest rate futures on U.S. Treasury securities and Eurodollar futures, 2) Interest rate options on U.S. treasury futures and options on Eurodollar futures, and 3) All TBA mortgages.

    Collateral definition: cash and cash equivalents include: 1) All investment grade securities with an effective duration and spread duration of one year or less, 2) All U. S. Treasury securities (excluding U.S. Treasury Inflation Indexed Securities) with an effective duration of three years or less, 3) All U.S. Treasury Inflation Indexed Securities with a maturity of 5 years or less, 4) U.S. Agency debentures from FNMA, FHLMC, FFCB, and FHLB with an effective duration of three years or less, and 5) Any U. S. Treasury security that will satisfy the delivery requirement for a derivative contract currently being held in the manager's account.

20. **PROHIBITED:** Any security issued by the State of Minnesota, its agencies, authorities, instrumentalities and other related entities including, but not limited to, the following:*

- Minnesota Management and Budget
- Minnesota Housing Finance Agency
- Minnesota Office of Higher Education
- Minnesota State Colleges and Universities
- Minnesota Higher Education Finance Authority
- Minnesota State Armory Building Commission
- Minnesota Rural Finance Authority
- Minnesota Public Facilities Authority
- Minnesota Agricultural and Economic Development Authority – conduit borrower
- Iron Range Resources and Rehabilitation
- Metropolitan Airports Commission
- Metropolitan Council
- University of Minnesota

This prohibition also extends to debt obligations for which the State of Minnesota, its agencies, authorities, instrumentalities and other related entities is a conduit borrower or lessee in a lease-purchase transaction including, but not limited to, the following:*

- Port Authority of the City of St. Paul - $52,900,000 Lease Revenue Refunding Bonds, Series 2013-2
- Port Authority of the City of St. Paul - $62,860,000 Lease Revenue Refunding Bonds, Series 2013-3
- City of Bemidji, Minnesota - $6,395,000 Lease Revenue Refunding Bonds, Series 2008

Additionally, prohibited is the purchase of any security issued by any city, county or school district within the State of Minnesota.*

***If there is any uncertainty related to this prohibition and its application to a particular security under consideration, the investment manager must not purchase the security in question.**

4.6 Commingled Vehicles

Sections 1-5 of the Investment Authorizations and Restrictions apply primarily to investments held in separate accounts. While separate accounts are preferable from a control perspective, commingled vehicles may occasionally be needed to accomplish the WCRA's investment objectives.

1. Prior written authorization of the WCRA is required for investments in commingled vehicles other than the authorized short-term investment fund associated with an account.

2. The business reason for using a commingled vehicle must be documented during the selection process.

3. An established benchmark index must be available against which the performance of the commingled vehicle can be measured.

4. The following criteria should be considered in the selection of a commingled vehicle:

    - Length of product history (at least 5 years is preferable).
    - Stability of management team (at least 5 years together is preferable).
    - Total size of vehicle (at least $500 million is preferable).
    - Total number of participants in the vehicle.
    - The size of the other participants' holdings.
    - The WCRA's percentage participation in the vehicle.
    - The costs of entering and exiting the commingled vehicle.

Authorized commingled vehicles are exempt from Sections 1-5 of the Investment Authorizations and Restrictions.

4.7 Distressed Mortgage-Related and Asset-Backed Debt

The investment objective is to take advantage of the supply/demand imbalance in the distressed mortgage-related and asset-backed sectors of the fixed income market.

A manager of distressed debt is restricted to holding agency and non-agency mortgage-backed securities including Subprime and Alt-A mortgages, structured mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, certain mortgage derivative securities, money market instruments, U.S. treasury securities, U. S. government agency securities, interest rate options, interest rate swaps, and treasury futures. The securities of the manager must adhere to the following constraints.

1. No commingled vehicles other than the authorized short-term investment fund (STIF) may be held in the account without the prior written authorization of the WCRA.

2. No individual holding may exceed 2% of the account's total market value.

3. No non-U.S. dollar pay international securities may be held in the account.

4. No "less stable" mortgage derivative securities may be held in the account. Less stable mortgage derivative securities are defined as securities whose value changes as a multiple of the underlying security. This restriction includes, but is not limited to, securities such as Interest Only (IO) and Principal Only (PO) class bonds, inverse floaters, super floaters, Z Bonds, and Support Bonds. In contrast, permissible securities include such securities as Planned Amortization Class (PAC), Sequential Pay, plain vanilla Collateralization Mortgage Obligations (CMO) and Real Estate Mortgage Investment Conduit (REMIC) tranches.

5. The investment manager will seek to limit risk through a focus on relatively high credit quality securities. However, there are no specific constraints on credit quality. Securities rated below investment grade and unrated securities are allowed.

6. There will be no specific "lock-up" period for the portfolio; however, it is understood that there will be a period of illiquidity ranging from two to four years.

7. No financial leverage may be used in the account.

8. The investment manager may not lend securities held in the account.

While it is understood that there is no benchmark available that accurately reflects the investment universe and associated return/risk objectives for the portfolio, for interest rate management and reporting purposes the portfolio will use 3-month US Dollar LIBOR as its benchmark.

4.8 Alternative Investments

Alternative investments are subject to the following guidelines:

- The areas of alternative investment will be limited to private equity, real assets, yield-oriented, and secondary investments. Secondary interest funds are partnerships that purchase interests in previously issued funds. Within private equity, venture capital investments are not allowed.

- The WCRA's participation will be limited to commingled funds or other pooled investments.

- The WCRA will participate in alternative investments exclusively as a limited partner.

- A managing and/or general partner will select, manage, and sell portfolio investments in compliance with a central legal document that governs the operation of the investment pool throughout its life.

- There will be no investments in organizations that have not completed at least one fund, i.e. no first-time fund investments.

- There must be at least four other institutional investors in the fund.
- The WCRA cannot commit more than 20 percent to any one partnership's capital.

Section 5
Roles and Responsibilities

An effective investment policy not only contains clear statements of goals, objectives, expectations, and authorizations and restrictions with respect to investing, but also a clear statement of the roles and responsibilities of the parties involved in the investment function of the WCRA. This section articulates key and/or supporting investment-related roles and responsibilities of the WCRA Board of Directors, the WCRA Investment Committee, and the WCRA staff.

The WCRA utilizes a bottom-up, staff-driven approach to its investment process; issues and ideas are generally initiated by staff. Researched issues, ideas, and recommendations are presented to the Investment Committee for discussion, advice, and advancement. Investment Committee recommendations are then forwarded to the Board of Directors for its consideration. In addition, ideas or issues initiated by the Board of Directors or the Investment Committee are researched by staff and presented to the Investment Committee for discussion.

The Board of Directors, Investment Committee, and staff all participate to some degree in activities with regard to policy, strategy, compliance, performance evaluation, and relationship management. However, their primary responsibilities vary to the degree their function involves approval, advisory, research, reporting, and/or implementation activities.

The responsibilities of the Board of Directors predominantly lie in the policy-making area. The Investment Committee, in its advisory capacity to the Board, supports the Board in its policy responsibilities and recommends specific strategies to implement Board-approved policy. The WCRA staff supports the Board of Directors and the Investment Committee in their responsibilities by developing ideas as well as presenting issues and recommendations. In addition, staff monitors and reports on the investment portfolio with regard to compliance and performance-related issues and manages the relationships with investment managers, the custodian, and other investment-related parties.

The roles and responsibilities of the Board of Directors, Investment Committee, and staff are presented in greater detail in the following pages.

Board of Directors

The Board of Directors has the fiduciary responsibility to affirm that the investments of the WCRA are adequately managed and monitored, ensuring that the WCRA will have adequate funds to meet its long-term obligations. Two functions are critical to the Board of Directors in fulfilling its responsibilities. First, the Board approves key policy decisions and important strategy decisions. Second, the Board stays informed of the status of the investment portfolio and issues associated with the investment function.

POLICY

- The Board of Directors will annually review and (re)approve the *WCRA Investment Policy* and revisions. This review includes, but is not limited to, statements and guidelines regarding:
    - Investment Objectives.
    - Asset Allocation and Rebalancing.
    - Policy Benchmark Construction.
    - Roles and Responsibilities.
    - Investment Authorizations and Restrictions for Investment Managers.
    - Investment Manager Evaluation Guidelines.
    - Other Future Additions to the *WCRA Investment Policy*.
- The Board of Directors will approve exceptions to the *WCRA Investment Policy*.
- The Board of Directors will authorize the use of investment-related programs such as, but not limited to, commission recapture, securities lending, cash overlay, etc.
- The Board of Directors will hire/fire custodians, investment managers, and investment-related program providers.
- The Board of Directors will annually review and certify WCRA compliance/noncompliance with “Investment Authorizations and Restrictions for Investment Managers.”
- The Board of Directors will review overall investment portfolio performance and asset allocation at least quarterly.
- The Board of Directors will from time to time adopt rules or other resolutions governing the *WCRA Investment Policy.* The Board may delegate to its committees, officers, employees, or agents, including investment counsel, the ability to act in place of the Board of Directors in the investment of WCRA funds.

Investment Committee

The Investment Committee, in its role as an advisory committee to the Board of Directors, supports the Board of Directors in fulfilling its responsibilities regarding the investment function, including policy, strategy, and monitoring the investment portfolio. The Investment Committee also advises staff regarding investment issues and strategy implementation.

POLICY/POLICY SUPPORT

- The Investment Committee will review at least annually the *WCRA Investment Policy* and advise the Board of Directors of results and recommendations.

STRATEGY

- The Investment Committee will advise on the implementation of the *WCRA Investment Policy* and other objectives as approved by the Board of Directors.

- The Investment Committee will advise on the implementation of investment-related programs that have been approved by the Board of Directors.

- The Investment Committee will authorize the specific use of a short-term investment fund (STIF) in investment accounts among STIF options approved by the Board of Directors.

MONITORING AND REPORTING

- The Investment Committee will review investment strategies and report results, recommendations, and decisions to the Board of Directors.

- The Investment Committee will monitor investment managers and the overall investment portfolio for policy compliance and will report results to the Board of Directors at least annually.

- The Investment Committee will monitor the performance of the overall investment portfolio, its components, and other investment-related programs, and will report results and recommendations to the Board of Directors at least quarterly.

Staff

The staff manages the day-to-day requirements of the investment function and supports the Board of Directors and Investment Committee in their fiduciary and advisory responsibilities to the WCRA.

POLICY/POLICY SUPPORT

- Staff will review at least annually the *WCRA Investment Policy* and advise the Investment Committee of results and recommendations.

STRATEGY/STRATEGY SUPPORT

- Staff will implement Investment Committee investment strategies as they relate to the *WCRA Investment Policy* as approved by the Board of Directors.

- Staff will review investment strategies and advise the Investment Committee of results and recommendations.

COMPLIANCE/REPORTING

- Staff will monitor the overall investment portfolio and its components, investment managers, and investment-related programs for policy compliance, and will report results and recommendations to the Investment Committee at least quarterly.

PERFORMANCE/REPORTING

- Staff will monitor the performance of the overall investment portfolio, its components, investment managers, and investment-related programs, and report results and recommendations to the Investment Committee at least quarterly.

RELATIONSHIP

- Staff will review and monitor custodial relationships of the WCRA and, as needed, report recommendations to the Investment Committee.

- The WCRA president and the vice president finance and investments are authorized to give instructions and take such other actions as necessary to direct and maintain the WCRA's relationship with investment managers, banks, trust companies, or other organizations that assist in carrying out the *WCRA Investment Policy*. The senior staff reviews, and president is authorized to sign, contracts related to investment management relationships, fee schedules, commission-recapture program, security-lending program, and other investment-related programs approved by the Board of Directors.

Section 6
Investment Manager Evaluation Guidelines

The objective of these guidelines is to provide a framework by which investment management relationships can be consistently evaluated against stated performance and/or other objectives established for each investment manager by the WCRA. These guidelines include quantitative and qualitative considerations when evaluating managers' relationships and performance. The guidelines also document reporting and monitoring responsibilities of the investment managers and the WCRA staff. While these guidelines establish a framework for evaluation, staff may consider additional information and analyses when evaluating relationships and performance of the managers. The *Investment Manager Evaluation Guidelines* do not alter the contractual terms or create any new rights or remedies between the WCRA and its investment managers.

Investment Manager Relationships and Performance Objectives

Relationships with investment managers are established by the WCRA to acquire investment management expertise to attain the long-term investment objectives of the association. These objectives are established by the Board of Directors and documented in the *WCRA Investment Policy.*

Generally, objectives of the investment manager's relationship and performance include:

- Achieving results that support the long-term investment objectives.
- Adhering to the *WCRA Investment Policy* in achieving those objectives.

The investment management relationships and performance will be evaluated by the WCRA under four broad categories: asset class and style, value added, future expectations, and policy compliance.

Background

The WCRA will determine appropriate asset classes in which to invest in order to achieve the long-term investment objectives established by the Board of Directors. An appropriate benchmark will be assigned which the WCRA believes is representative of the risk/return characteristics of the particular asset class. Once asset classes and benchmarks have been established, the WCRA hires investment managers for that particular asset class and investment style with the established benchmark as the basis for performance evaluation. The WCRA expects that for active management styles, the manager will outperform the established benchmark on a net-of-fees basis. For passive management styles, however, the expectations will be to track the performance of the assigned benchmark within a predetermined level.

Before an investment manager is hired, the WCRA will analyze historical composite returns and historical portfolio characteristics for the organization to determine that the manager's style is consistent with the established benchmark for that asset class. The WCRA will use return-based style analysis and portfolio-based style analysis to assess the style consistency. Once an investment manager is hired by the WCRA, the association will review results periodically to confirm continued style consistency. Investment manager performance will be evaluated on actual assets managed and periodically compared to the manager's own composite performance as well as comparative management style peer results.

Evaluation Criteria - Overview

The investment management relationships and performance will be evaluated by the WCRA under four broad categories. The categories are described below and defined in detail in the sections that follow.

<u>Asset Class and Style</u>

The WCRA will evaluate the investment manager to determine if the manager has historically and is currently managing assets in a style-consistent manner as compared to the established benchmark.

<u>Value Added</u>

The WCRA will evaluate whether value added has been achieved. The evaluations are based on net of fees results and will consider both absolute returns of the managed portfolio as well as risk-adjusted returns of the portfolio. Active managers are expected to add value, net of fees, relative to the established benchmark over the long term; passive style managers are expected to track the performance of the assigned benchmark within a predetermined level.

<u>Future Expectations</u>

The WCRA will assess whether systems, resources, and other factors are in place which lead us to conclude that value added will continue to be achieved in the future. Qualitative analyses, as distinguished from return-based and portfolio-based quantitative analyses, will be used to determine whether those factors which have contributed to positive historical performance continue to be in place.

<u>Compliance</u>

The WCRA will annually provide the *WCRA Investment Authorizations and Restrictions* and any amendments to each investment manager. The investment manager is expected to comply with the investment authorizations and restrictions and quarterly certify to the WCRA that it has complied with the policy. The WCRA staff will monitor compliance on a quarterly basis.

In the event of noncompliance, whether reported by the investment manager or detected by the WCRA staff, the investment manager will be required to provide a statement describing the noncompliance event, the reason for its occurrence, and actions planned to correct that event and to prevent its occurrence in the future.

Evaluation Criteria - Asset Class and Style

The WCRA will evaluate the investment manager to determine if the investment manager has historically and is currently managing assets in a style-consistent manner as compared to the established benchmark. This will be done through a combination of return-based style analysis and portfolio-based style analysis.

Return-Based Style Analysis

Return-based style analysis looks at the historical return behavior of a portfolio and attributes its performance to a combination of indexes representing various asset classes. This analysis does not reveal exactly how the portfolio was invested but shows which asset classes the portfolio acted most like in its performance. Modern portfolio theory statistics are used to assess how closely the performance of the portfolio moves with the performance of the benchmark and whether the portfolio tends to be more or less volatile than the benchmark. If a trend appears to be developing or changing, this will prompt discussions with the investment manager.

Portfolio-Based Style Analysis

When used in conjunction with return-based style analysis, portfolio-based style analysis helps confirm an investment manager's style or indicates possible shifting. Portfolio-based style analysis refers to the attributes of the portfolio's holdings, such as market capitalization, P/E ratio, credit quality, and duration. The portfolio's attributes are compared with the established benchmark's attributes. Significant deviations from the benchmark or from past portfolio characteristics may be an indication that the investment manager is making a temporary or permanent style change. Significant deviations may also be an indication of manager "bets." Again, any such significant deviations will prompt discussions with the investment manager.

Sample time periods subject to evaluation are rolling 3-year periods, rolling 5-year periods, and since inception. Sample quantitative methods are as follows:

1. Correlation with Benchmark (R-Squared and Tracking Error)
2. Volatility to Benchmark (Beta)
3. Volatility of Portfolio and Volatility of Benchmark (Standard Deviation)
4. Style Attribution Software (Frontier Analytics)
5. Portfolio Statistics
    - Market Capitalization
    - Duration
    - P/E and P/B Ratios
    - Maturity
    - Yield Measures
    - Credit Quality
    - Sector Exposure
    - Other Statistics

Evaluation Criteria - Value Added

The WCRA will evaluate whether value added has been achieved. The evaluations are conducted using net of fees results and will consider both absolute returns of the managed portfolio and risk-adjusted returns of the portfolio. Active managers are expected to add value to the established benchmark over the long term; passive managers are expected to track the performance of the assigned benchmark within a predetermined level.

<u>Absolute Net-of-Fees Returns</u>

Absolute performance of the investment manager will be compared against the performance of the established benchmark across a variety of time periods. The WCRA will evaluate the investment manager's performance over full market cycles. Therefore, the results of the longer time periods (i.e. rolling 5-year) will be given the greatest emphasis. Periods of less than 3 years will be used to detect positive and negative trends and to prompt discussions with the investment manager. Sample time periods subject to evaluation are as follows: quarterly returns, up market returns, down market returns, rolling 1-year returns, rolling 3-year returns, rolling 5-year returns, and returns since inception.

<u>Risk Adjusted Net-of-Fees Returns</u>

The return that the portfolio provided after adjusting for its volatility is another consideration for evaluation. "Alpha," "Return Per Unit of Standard Deviation", and "Sharpe Ratio" are each risk-adjusted statistics. Alpha measures the difference between a portfolio's actual return and its expected performance given its level of risk as measured by beta. A positive alpha figure indicates that the portfolio has performed better than its beta would predict. The "Return Per Unit of Standard Deviation" of the portfolio is compared to the "Return Per Unit of Standard Deviation" of the benchmark. A higher number is preferable to a lower number. The same comparison is made with the "Sharpe Ratio." These methods help determine if the WCRA is being adequately rewarded for the risks that are being taken. Both measures are evaluated in the context of rolling periods to determine if trends persist or change. Sample time periods subject to evaluation are rolling 3-year periods and rolling 5-year periods.

Evaluation Criteria - Future Expectations

The WCRA will assess whether systems, resources, and other factors are in place which lead to the conclusion that value added will continue to be achieved in the future. Qualitative analysis, as distinguished from return-based and portfolio-based quantitative analysis, will be used to determine whether those factors that have contributed to historical performance continue to be in place.

At least once a year, the WCRA will conduct due diligence meetings with each investment manager. This may involve visiting the investment manager's place of business and/or a meeting at the WCRA office with staff. In addition, the WCRA will send an annual questionnaire to each investment manager to gather qualitative and quantitative information. This will allow the WCRA to make comparisons among investment managers and to assess the investment manager's consistency from year to year. Below are some of the qualitative factors that will be addressed.

<u>People and the Organization</u>

1. Ownership Structure of the Firm
   - Broadly Based or Concentrated
   - Ownership Structure Changes
   - Method of Compensation

2. Professional Turnover
   - Portfolio Manager
   - Research Analysts
   - Traders
   - Key Support Staff

3. Background and Qualifications of Professionals

4. Fiduciary Requirements
   - Past or Pending Litigation
   - Bonding/Insurance
   - SEC or Other Regulatory Actions
   - Internal Controls over Business Operations
   - Procedures and Controls to Comply with WCRA Policy

5. Business Plan by Style and Total Assets
   - Historical Growth
   - Planned Growth
   - Addition/Loss of Accounts
   - Assets Under Management by Asset Class

6. Client Service Support
   - Number of Accounts Serviced
   - Overall Staffing Level Changes

Investment Approach and Philosophy

1. Consistency in Investment Approach
    - General Investment Philosophy
    - Factors Contributing to Competitive Advantage
    - Methods Used to Add Value
    - Degree of Expected Deviation from Benchmark Characteristics
    - Investment Style Utilized
    - Buy Discipline
    - Sell Discipline

2. Decision-Making Process
    - How are Ideas Generated
    - Research Sources
    - Decision Maker(s)

Evaluation Criteria - Compliance

The WCRA annually provides the *WCRA Investment Authorizations and Restrictions* and any amendments to each of its investment managers. The investment managers, as one of their responsibilities, are expected to comply with the *WCRA Investment Authorization and Restrictions*. The WCRA staff monitors guidelines compliance on a quarterly basis using a checklist approach. The checklist is derived from the *WCRA Investment Authorizations and Restrictions*, and WCRA staff uses it to document the review of each managed portfolio. Staff communicates with the investment manager in the event of a suspected noncompliance issue.

In the event of noncompliance, whether reported by the investment manager or detected by the WCRA, the investment manager will be required to provide a statement describing the noncompliance event, the reason for its occurrence, and actions planned to correct that event and to prevent its occurrence in the future.

The investment managers are expected to certify to the WCRA quarterly that they have complied with the *WCRA Investment Authorizations and Restrictions*.

Evaluation Criteria - Watch List

Investment managers will be placed on a "watch list" if any of the following concerns appear. Generally, the watch list concerns are those which the WCRA believes to be material and likely to negatively impact the future performance reported by the investment manager.

The WCRA will notify the investment manager of the concern. The investment manager must respond and demonstrate that a material change has not occurred or that future performance will not be negatively impacted because of the material change.

Process

If a “watch list” concern appears during the course of monthly, quarterly or other periodic analysis by the WCRA, the WCRA staff will notify the investment manager of the observation. The investment manager is expected to formally respond to the WCRA’s notification, addressing the specific concern by confirming or clarifying WCRA’s perception and observation of the concern and demonstrating that a material change has not taken place or that future performance will not be negatively impacted because of the material change.

The WCRA will include in its quarterly report and analysis to the Investment Committee any watch list activity and responses, including both adequate and inadequate investment manager responses to WCRA concerns.

If an investment manager continues on the watch list due to additional or repeated concerns, inadequate response, or no response to concerns expressed by the WCRA, the investment manager may be asked to appear before the WCRA Investment Committee to discuss a continued business relationship with the WCRA.

WCRA “Watch List” Concerns

Asset Class and Style
- Perceived change in the manager’s investment style.
- Inability to adequately maintain the portfolio consistent in style to the assigned benchmark.

Value Added
- Inability to add value in at least 2 of the 6 most recent calendar quarters.
- Inability to add value on a 5-year rolling basis for two consecutive quarters.

Future Expectations
- A change in the ownership structure of the firm.
- A change in the portfolio management team.
- A significant change in the investment approach.
- Not adequately responding to requests for information.

Compliance
- Inability to address why a noncompliance event occurred.
- Inability to demonstrate measures implemented to prevent a future occurrence.

Reporting and Communications Activities, Responsibilities and Expectations

The WCRA's reporting and communications expectations are designed to allow the WCRA to effectively evaluate each investment manager's performance and relationship with the association. Activities and communications support formal reporting to the Investment Committee and the Board of Directors and, ultimately, document the success of the portfolio in achieving stated objectives.

<u>Monthly Activities and Reporting</u>

The WCRA staff monitors performance results on a monthly basis, based upon information provided by the WCRA's custodian, and supplemented and corroborated by the investment manager's reported results and staff's own analysis.

- Investment Manager Responsibilities

  Investment managers are expected to provide information which, on a monthly basis, assists WCRA staff in evaluating monthly results. Information should include:

  - Performance results.
  - Portfolio holdings.
  - Portfolio statistics relevant to the particular asset class managed.
  - Other information providing insight into performance or investment decisions.
  - "Watch List" responses, as requested.

<u>Quarterly Activities and Reporting</u>

More detailed analyses are prepared by WCRA staff on a quarterly basis and include not only results monitoring, but performance evaluation, compliance review results, watch list responses for concerns raised during the quarter, conclusions, and recommendations as required. These detailed analyses are discussed with the Investment Committee at its quarterly meetings. Summarized results, discussions, conclusions and recommendations are presented to the Board of Directors at its quarterly meetings.

- Investment Manager Responsibilities

  The investment managers are expected to certify quarterly that they have complied with the *WCRA Investment Authorizations and Restrictions.* In addition, the Investment managers are expected to provide information that assists WCRA staff in evaluating quarterly results. Often the additional information will be sought by the WCRA staff on an informal basis through phone contact with the investment manager during the course of report compilation and research.

Annual Activities and Reporting

Annual activities and reporting are directed towards those aspects of an investment manager's performance and relationship evaluation that are either longer term in nature (i.e. outlooks and expectations for the economy or the asset class managed), or qualitative in nature (i.e. review of investment manager philosophy, style, staff, etc.). Annual activities include due diligence meetings with investment managers.

- Investment Manager Responsibilities

  WCRA staff visits to the investment managers' offices are designed to conduct due diligence with respect to the relationship and update the WCRA about developments in the investment manager's organization and business. The WCRA will provide an Investment Manager Questionnaire as preparation for the visit and/or annual review of the investment manager's organization. The questionnaire will also serve as the basis for discussions and visits. Additionally, these meetings are an appropriate time to review the *WCRA Investment Authorizations and Restrictions* and should incorporate discussions about any guidelines that the investment manager believes limit in some way its ability to fully achieve expectations or the organization's internal policies.