



**DISTRICTS MUTUAL INSURANCE  
& RISK MANAGEMENT SERVICES**

| *Collaborators in Risk Management* |

# INVESTMENT POLICY AND INTERNAL CONTROLS MANUAL



## **DISTRICTS MUTUAL INSURANCE COMPANY**

### **INVESTMENT POLICY STATEMENT**

#### **PURPOSE**

This Investment Policy Statement (“IPS”) has been adopted by the Board of Directors (the “Board”) of Districts Mutual Insurance and Risk Management Services (the “DMI”) to establish a clear set of investment principles and guidelines that govern DMI’s investment program. Districts Mutual Insurance and Risk Management Services is a mutual insurance company domiciled under the laws of the State of Wisconsin.

This IPS provides the standards and measurable criteria to be utilized by the Board and the Investment Committee appointed by the Board to monitor investment performance and IPS compliance.

It is intended that this IPS provide for sufficient flexibility to be practically applied, given dynamic business, economic, and investment conditions.

#### **OBJECTIVES**

The long-term strategy of DMI is to maintain an adequate level of capital/surplus, while maintaining appropriate levels of liquidity. DMI funds will be invested prudently to achieve this strategy, and high quality "investment grade" securities are preferred for the investment program. In addition, reasonable diversification of the assets managed by the Investment Manager (the “Portfolio”) will be pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the performance of the overall investment program.

The Investment Objectives are to:

- Preserve, over the long term, the realizable value of invested assets;
- Provide a reasonable and stable level of current income on a tax efficient basis;
- Provide capital appreciation over the long term;
- Provide liquidity to meet projected cash-flow requirements and capital commitments; and
- Closely match investment maturities with DMI’s liabilities.

#### **REGULATORY REQUIREMENTS**

This IPS, serves to meet the regulatory requirements of Chapter 620 of the Wisconsin Insurance Statutes. Specific restrictions of this statute are listed in **Schedule B** to this IPS.

#### **PRUDENCY**

In seeking to attain the investment objectives set forth in this IPS, each member of the Board, DMI Management, as well as the Investment Manager, must act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. All investment actions and decisions

must be based solely on the best interests of DMI's investment program. Any Director, Officer, or Investment Manager must provide full and fair disclosure to the Board of all material facts regarding potential "conflicts of interest," whether "perceived" or "real" in nature.

### **AUTHORITY**

Overall control of DMI's investment program will be vested in the Board as specified in the following levels of responsibility.

#### **A. The Board will:**

1. Meet at least quarterly by phone or in person to:
  - a. Discuss the overall asset allocation of the Investment Portfolios in the context of DMI's current business requirements and discuss the potential impact to the Portfolios of changes in those requirements.
  - b. Review performance statements to monitor the return objectives of the Portfolios, IPS compliance, and investment manager performance versus the performance benchmarks.
2. Review and approve all investment policies for the DMI as recommended by DMI Management.
3. Monitor discretionary investment decisions to ensure they comply with the guidelines and limitations of the IPS.
4. Review the evaluation of other than temporary impairments ("OTTI"), if applicable, submitted by DMI Management and decide on the approval of the OTTI.
5. Review all fees periodically to be sure that they are reasonable in light of services rendered.
6. Review and approve the appointment of any Investment Manager or Custodian as recommended by DMI Management.

#### **B. DMI Management will:**

1. Maximize current investment income of DMI's Operating Cash Portfolio while ensuring compliance with the IPS.
2. In conjunction with the Investment Manager, monitor the Portfolios to ensure compliance with the investment guidelines of the IPS.
3. Annually, review the IPS and recommend appropriate changes to the Board.
4. Prepare quarterly reporting and other materials in support of the Board's responsibilities. Schedule and coordinate quarterly Board meetings.
5. Review the Portfolios for OTTI on a quarterly basis. When impairment is determined, document and present the OTTI evaluation to the Board.
6. Review the performance of the Investment Manager and Custodians at least quarterly. Report findings to the Board, and recommend changes as required.

## **INVESTMENT MANAGER**

DMI may use an Investment Manager recommended by DMI management and approved by the Board to provide the following services:

1. Assist DMI Management in preparing and updating the IPS.
2. Recommend changes to investment objectives, guidelines, and performance measurements as appropriate to better achieve the objectives of the investment program and meet the business needs of DMI.
3. Assist in developing and updating the strategic portfolio allocation for the investment program.
4. Manage DMI invested assets under its control in accordance with the investment guidelines of the IPS.
5. Exercise investment discretion (including holding cash equivalents as an alternative) according to the manager's stated investment objectives and strategy.
6. Provide quarterly investment performance reporting and portfolio analysis.
7. Evaluate the Portfolios for possible OTTI and report these findings to DMI Management quarterly prior to each Board meeting for management evaluation.
8. Other duties as described in any Services Agreements that have been executed by the Investment Manager and DMI.

## **CUSTODIANS**

When a custodian holds investment funds, all Custodial Agreements shall contain provisions that require the custodian to:

1. Provide all reports and custodial affidavits in a timely fashion as required by DMI.
2. Agree to indemnify DMI for any loss of securities DMI has entrusted in their custody, including loss by theft, damage or destruction, but excluding investment losses or other diminution resulting from the custodian's proper performance of its duties; and,
3. In the unlikely event of loss of securities, the securities shall be promptly replaced or the value of the security, and the value of any loss of rights or privileges resulting from said loss, shall be promptly replaced.
4. Other duties as described in any Agreements that have been executed by the Custodian and DMI.

## **INVESTMENT GUIDELINES**

A current list of Allowable Investments and Limitations, including specific asset classes and security types, duration limits, and credit rating requirements are listed in **Schedule A** to this IPS.

Notwithstanding the provisions and limitations set forth in Schedule A, DMI shall at all times abide by applicable state of domicile statutory regulations outlined in Schedule B, including any provisions and allowances for other invested assets or additional investment authority (e.g., the Basket Provision), as may be amended from time to time.

**INTEREST RATE / DURATION RISK**

The duration of the fixed income assets will be managed with consideration to overall market conditions and to DMI's unique duration target, which is determined by DMI's underlying liabilities and surplus.

**Schedule A** to this IPS lists the current guidelines and restrictions related to the effective duration of the fixed income portfolio.

**CREDIT QUALITY**

The credit quality criteria for the individual asset classes are outlined in **Schedule A** to this IPS.

If a security held in the fixed income portfolio becomes out of compliance with the provisions of this IPS, the Investment Manager will notify DMI Management. The compliance issue and any resultant actions to be taken will be discussed at the next quarterly meeting of the Board, unless prudence requires the Board to meet to discuss the compliance issue on a more timely basis, or immediate action must be taken.

Securities that meet the credit quality requirements of the IPS at the time of purchase, but subsequently fall below the credit quality requirements are not required to be immediately sold. The Board, in consultation with its Investment Manager, will determine a disposition plan, if any, for these types of securities.

**PERFORMANCE OBJECTIVES**

The Board, in consultation with the Investment Manager, shall establish target asset allocations and performance objectives on a book yield and total return basis, including the appropriate return benchmarks, for the Portfolio. DMI's overall return benchmark should share as many characteristics of the Portfolio as possible (e.g. duration, government/corporate composition, taxable/tax-exempt composition, quality, standard deviation, etc.).

Return benchmarks, assigned by asset class, for the Portfolios are as follows:

<b>Asset Class</b>	<b>Benchmark</b>
Taxable Fixed Income	Barclays US Intermediate Gov/Credit
Equities	S&P 500

**REBALANCING**

On a quarterly basis, the actual asset allocation of the Portfolios will be reviewed. The Investment Manager will make rebalancing recommendations as appropriate to the Board based upon operational, tax, and relative value considerations.

**OTHER THAN TEMPORARY IMPAIRMENTS ("OTTI")**

On a quarterly basis, all equity securities and any fixed income security which then carries an NAIC rating of "3, 4, 5 or 6", or otherwise experiences a significant decline in market value (30% or more below cost), shall be evaluated by DMI Management, with assistance as requested from the Investment Manager, for purposes of determining whether any impairment to its value is other than temporary. If any impairment of a security is

determined to be other than temporary by the Board, its value shall be written down to the current market value of the security, and recorded as a realized loss. Such criteria in making this determination shall include all of the following:

1. *Length of time such security's value has been impaired, and whether the value has decreased as a result of a credit event or as a result of changes in interest rates.* Generally, a decrease as a result of a credit event over a period exceeding twelve months would be considered other than temporary, whereas a decrease as a result of changes in interest rates, with an expectation of a full return of principal, would be considered temporary.
2. *Extent of value impairment.* Generally, an impairment exceeding 30% of the adjusted cost basis should be evaluated in more detail to determine if the impairment is likely other than temporary.
3. *Other extenuating circumstances surrounding the security.* The outside Investment Manager shall provide an assessment of the security along with a determination of value based upon cash flows or other means when a "market" does not currently exist for a particular security.

Adopted by the Board of Directors of Districts Mutual Insurance Company on \_\_\_\_\_.

Districts Mutual Insurance Company:

Madison Scottsdale, a division of Madison  
Investment Advisors, LLC:

By: \_\_\_\_\_

By: \_\_\_\_\_

## SCHEDULE A

ALLOWABLE INVESTMENTS AND LIMITATIONS	
Asset Class (Maximum Concentration as a % of Market Value)	Limit
Cash	100%
U.S. Certificates of Deposit	50%
Per Issuer Limit - CD's	5%
U.S. Direct Obligation/Full Faith and Credit Money Market Funds	100%
Per Issuer Limit - Money Market Fund	10%
U.S. Commercial Paper	50%
Per Issuer Limit - Commercial Paper	5%
U.S. Treasury Bills/Notes	100%
U.S. Government/Agencies	75%
U.S. Agency Mortgage-Backed and Asset-Backed securities (including RMBS, CMBS, CMO)	50%
Per Single Pass-Thru Pool - U.S. Agency MBS, ABS	5%
Other Asset-Backed securities	10%
Per Issue Limit - Other Asset-Backed securities	5%
U.S. Corporate Bonds	50%
Per Issuer Limit - Corporate Bonds	5%
U.S. Taxable Municipal Bonds	70%
Per Issuer Limit - Municipal Bonds	5%
Asset Class (Maximum Concentration as a % of Capital & Surplus*)	Limit
U.S. Preferred Stock	20%
Per Issuer Limit - Preferred Stock	5%
U.S. Equities, International Equities (\$USD), and Exchange Traded Funds (ETFs) / Mutual Funds	35%
Per Individual Issuer Limit - U.S. and International Equities (\$USD)	5%
Basket Provision	
Investments in asset classes not specified above, but not specifically prohibited by statute, including that portion of any investment which exceeds its specified limit	5%
Duration Restrictions	Term
Effective duration of portfolio	5 Years or less
Credit Quality (minimum at time of purchase)	Rating
U.S. Fixed Income Securities	NAIC 2
U.S. Money Market Funds	Aa2/AA
U.S. Commercial Paper	P-1/A-1
U.S. Certificates of Deposit if above FDIC insured limit	A3/A-

\* Based on most recently filed financial statement figures

**SCHEDULE B**

<b>STATE OF WISCONSIN CHAPTER 620 RESTRICTIONS</b>	
<b>Concentration</b>	<b>Limit* (% of Admitted Assets)</b>
Maximum invested in bonds or other evidences of indebtedness of the U.S. or Canada or political subdivisions thereof, if not amortizable	5%
Maximum invested in a single issuer, excluding U.S. Government securities	10%
Maximum invested in the common stock of a single corporation	3%
<b>Basket Provision</b>	<b>State Statute</b>
Maximum invested in investments not otherwise permitted	See 620.22 (9)

\* Based on most recently filed financial statement figures