

PRISM Affiliate Risk Captive (ARC) Investment Guidelines

I. Investment Objectives:

1. The primary investment objective of the PRISM ARC investment policy is to identify policies and procedures that will foster a prudent and systematic investment program designed to seek PRISM ARC objectives through a diversified investment portfolio.
2. The Captive Insurance Subsidiary is not beholden to California Government Code and thus can invest in a broader investment universe in order to meet the investment objectives.

II. Asset Allocation:

In investing PRISM ARC Assets, the Investment Manager will conform to the long-term asset allocation targets stated below:

	PRISM ARC Target
Equities	0% - 50% of ARC investment portfolio
Fixed Income	residual percentage after investment in equities up to 100% of the ARC investment portfolio

* Maximum amount of equity exposure shall be measured at time of purchase. Equity allocation can vary in response to changes in the value of fixed securities and/or equities.

1. The equity allocation limitation are specific to the surplus funds of the Captive.
2. The asset manager will be responsible for determining the asset allocation within the targets and rebalance as necessary.
 - a. It is understood that deviations will occur as a result of market impact and cash flow.
 - b. The actual asset allocation will be monitored by the Investment Manager and PRISM ARC.
 - c. At least quarterly, the Investment Manager will rebalance the portfolio allocations to ensure the asset allocation proportions remain within the permitted range.
3. The Fixed Income allocation includes the liquidity portion to meet short-term cash flow requirements. The liquidity portfolio will maintain cash and cash equivalents of \$250,000 as required by the Utah Captive regulations.
4. It is further noted the maximum amount of equity exposure, at time of purchase, will be limited to 50% of the aggregated surplus of the Public Risk Innovation, Solutions, and Management (PRISM) and the PRISM ARC.
 - a. The calculation of 50% of surplus will be made semi-annually by the PRISM ARC and communicated to Investment Manager in writing.

III. Eligible Investments and Diversification:

Investments may be placed in the following asset classes:

1. Equity securities of US and non-US issuers.
2. Fixed income securities of US and non-US issuers.
3. Real Estate Investment Trusts (REITs).
4. Commodities (Investments must be made in a pooled investment vehicle).

Investments may be placed in the following investment vehicles:

1. Mutual funds that invest in permitted asset classes.
2. Exchange Traded Funds (ETFs) that invest in permitted asset classes.
3. Commingled funds that are consistent with the aforementioned asset classes.
4. Individual fixed income securities must meet the following criteria:
 - a. US dollar denominated.
 - b. US Treasury securities or securities guaranteed by the full faith and credit of the US Government, including Treasury Inflation Protected Securities (TIPS).

- c. US Agency securities or instruments of the US Government.
 - d. Domestic Corporate obligations and US dollar denominated foreign corporate, foreign government, and political subdivisions, and Supranational debt obligations issued domestically and abroad.
 - e. Corporate securities rated investment grade by a Nationally Recognized Statistical Rating Organization (NRSRO).
 - f. Municipal securities rated investment grade by a NRSRO.
 - g. Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs) with a rating of at least "AA" by a NRSRO or issued by a Government Sponsored Enterprise (GSE).
 - h. Asset Backed Securities (ABS) with a rating of at least "AA" by a NRSRO.
 - i. With respect to Commercial Paper and other short-term obligations, investments and reinvestments will be limited to obligations rated the equivalent of A-1/P-1/F-1 or higher at time of purchase based on the highest rating assigned by a NRSRO.
 - j. With respect to bonds and other long-term obligations, investments and reinvestments will be limited to obligations rated the equivalent of Baa3/BBB- or higher at time of purchase, based on the highest rating assigned to a security by one of the NRSROs which have assigned a rating to the security.
 - i. Securities rated "BBB" will be in total no greater than 25% of the total assets of the fixed income portfolio based on the highest rating assigned to the security.
 - ii. Securities that are downgraded below Baa3/BBB- by NRSROs referenced above, making the security ineligible for purchase, will be communicated to the client and held at the discretion of the Investment Manager.
 - iii. The invested funds of any single issuer will be less than 5% of the total assets of the fixed income portfolio, with the exception of issuers that are formally guaranteed by the US Government, US Agency securities, Supranational Securities, and government sponsored mortgage backed securities.
 - k. The Investment Manager may invest in a fixed income portfolio that is maintained with a range of +/- 20% of the duration as specified by the client and consistent with the appropriate index.
5. Prohibited Transactions:
- a. Direct short sales of individual securities (the Investment Manager may buy commingled funds that employ short sale techniques).
 - b. Direct margin purchases (the Investment Manager may buy commingled funds and ETFs that employ leverage).
 - c. Direct investment in commodities futures contracts (the Investment Manager may buy commingled funds that use futures contracts).
 - d. Direct investment in real estate or direct real estate lending.
 - e. Hedge Funds.

IV. Performance Standards:

1. The primary performance goal of the equity portfolio is to earn a long-term total return of 8.0%.
2. The primary performance goals of the fixed income portfolios is to earn a long-term return equal to or greater than the performance benchmark selected by both the Investment Manager and the client.
3. Emphasis will be placed on performance over an investment cycle for all asset classes.

V. Ethics and Conflict of Interest

1. All participants in the investment process shall act as custodians of the public trust.
2. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus employees and officials involved in the investment process shall refrain from personal business activity that creates a conflict of interest or the appearance of a conflict with proper execution of the investment program, or impairs the ability to make impartial decisions.

VI. Internal Controls

1. The President is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse.
2. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that valuation of costs and benefits requires estimates and judgments by management.
3. Annually, an independent analysis by an external auditor shall be conducted to review internal controls, account activity, and compliance with policies and procedures.

VII. Authorized Financial Institutions

1. To the extent possible, the President shall endeavor to complete investment transactions using a competitive process whenever possible.
2. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the Captive, except where the Captive utilizes an external investment advisor, in which case the Captive may rely on the advisor for selection.

VIII. Delivery, Safekeeping and Custody

1. Delivery-Versus-Payment (DVP): Settlement of all investment transactions will be completed using standard delivery versus payment procedures.
2. Safekeeping and Custody
 - a. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the Captive's portfolio shall be held in safekeeping in the Captive's name by a third party custodian, acting as agency for the Captive under the terms of a custody agreement executed by the bank and the Captive.
 - b. All investment transactions will require a safekeeping receipt or acknowledgement generated from the trade.
 - c. A monthly report will be received by the Captive from the custodian listing all securities held in safekeeping with current market data and other information. The only exceptions to the foregoing shall be depository accounts and securities purchases made with
 - i. Local government pools
 - ii. Time certificates of deposit
 - iii. Money Market Mutual funds, since the purchased securities are not deliverable
 - iv. Term and non-negotiable instruments, such as Certificates of Deposit, can be held by the President, or in safekeeping as the President deems appropriate.

IX. Mitigating Market Risk in the Portfolio

1. Market risk is the risk that the portfolio value will fluctuate due to changes in the general risk level of interest rates and equity market valuations. The Captive recognizes that, over time, higher risk portfolios have the potential to achieve higher returns. On the other hand, higher risk portfolios have higher volatility of return.
2. The Captive will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term fixed income and equity investments (i.e. higher risk) only with funds that are not needed for current cash flow purposes.