UCR INVESTMENT POLICY

Purpose
This Policy sets forth the investment policies by which the investment of UCR Plan Reserve Funds and Excess Fees ("UCR Assets") are managed. Deviation from this Policy is not permitted without explicit authorization from the UCR Board of Directors.

Responsibilities

<u>UCR Board of Directors</u>
The Board shall ensure that its fiduciary responsibilities concerning the proper management of the UCR Assets are fulfilled through investment selection and allocation, internal and external management and control, and monitoring the performance of all investments. The Board shall act in accordance with the provisions of applicable laws and with the care, skill, prudence, and diligence considering the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such a matter would use in the conduct of an enterprise of like character.

<u>UCR Finance Subcommittee</u>

Finance Subcommittee members are not held responsible for less than desirable outcomes, rather for adherence to procedural prudence, or the process by which decisions are made in respect to UCR Assets. The Finance Subcommittee is responsible for the development, recommendation, implementation, and maintenance of all policies relative to the investment of UCR Assets and shall:

- develop and propose policy recommendations to the Board with regard to the management of UCR Assets.

- recommend investment policies and objectives for each UCR Reserve Fund and for any Excess Fees held by the UCR Plan, including the study and selection of asset classes, determining asset allocation ranges, and setting performance objectives.

- determine that UCR Assets are prudently and effectively managed with the assistance of the UCR Plan management and any necessary investment consultants and other outside professionals, if any.

- monitor and evaluate the performance of all those responsible for the management of UCR Assets.

- recommend the retention and/or dismissal of any investment consultants and other outside professionals.

- receive and review reports from UCR management, investment consultants, and other outside professionals.

- periodically meet with management, investment consultants, and other outside professionals.

- convene regularly to evaluate whether this policy, investment activities, risk management controls and process continue to be consistent with meeting the goals and objectives set for the management of UCR Assets.

<u>UCR Management (Executive Director, Administrator, Depository Manager)</u>

Management shall be responsible for the day-to-day administration and implementation of policies established by the UCR Board and the UCR Finance Subcommittee concerning the management of UCR Assets. Management shall also be the primary liaison between any investment consultants and other outside professionals retained to assist in the management of UCR Assets. Specifically, management shall:

- oversee the day-to-day operational investment activities of all UCR Assets subject to policies established by the Board and Finance Subcommittee.

- recommend the engagement and/or dismissal of any outside service providers such as: investment consultants, investment managers, banks, trust companies, and any other necessary outside professionals.

- ensure service providers adhere to the terms and conditions of their contracts; have no material conflicts of interests with the interests of the UCR Plan; and that performance monitoring systems are sufficient to provide the Finance Subcommittee with timely, accurate, and useful information.

- regularly meet with outside service providers to evaluate and assess compliance with investment guidelines, performance, outlook, and investment strategies; monitor asset allocation and rebalance assets as directed by the Finance Subcommittee and in accordance with approved asset allocation policies and among asset classes and investment styles; and to tend to all other matters deemed to be consistent with due diligence with respect to prudent management of UCR Assets.

- comply with official accounting and auditing guidelines regarding due diligence and ongoing monitoring of investments. Prepare and issue periodic status reports to the Board and Finance Subcommittee.

Investment Guidelines

Asset Classes

1. <u>Demand Deposits</u> - Demand deposits provide immediate liquidity and principal preservation. Demand deposits are deposit accounts at a chartered financial institution from which funds may be withdrawn at any time, without advance notice. Such accounts include checking or savings accounts, and at some financial institutions, money market accounts. Deposit accounts may, or may not, pay interest on deposits.

2. <u>Short Term Investments</u> - Short term investments are a primary tool for principal preservation and liquidity. Eligible securities within this class include U.S. treasury bills, notes, and bonds with maturities of one year or less, short-dated agency and mortgage-backed debt with government backed principal and interest payments, and various types of bank paper including Certificates of Deposit (CD'S) and some money market funds. Other investments of a similar type and duration may be approved by the Board upon the recommendation of management and the Finance Subcommittee.

3. <u>Fixed Income</u> - Bonds provide a source of diversification relative to an equity-oriented portfolio. The rate of return volatility (investment risk) of fixed income securities is substantially lower than the volatility of equities. In addition, there are significant differences in the pattern of returns between stock and bond investments. When combined with equity securities, a fixed income allocation can serve to reduce the overall risk of the portfolio without materially sacrificing return potential. The fixed income class is perhaps the most diverse capital market. Securities include government, mortgage-backed and corporate bonds of U.S. and non-U.S. issuers. It also includes bonds issued by high quality as well as

low quality companies and countries. The fixed income market may be more efficient than once believed. However, fixed income can experience less efficiency at times and in certain segments such as lower quality bonds.

4. Domestic Equities - Investing in the domestic equity market is a way to participate in one of the largest and most diverse economies in the world through ownership of the companies that make up the economy of the United States. Investment theory and history suggest that the domestic equity markets provide long term price appreciation in an amount that tends to mirror the overall growth in the economy. In addition, stocks have historically provided a return that served as an effective hedge relative to inflation. The domestic equity market is considered by many to be one of the most efficient capital markets in the world. The availability of public information regarding the future prospects of individual companies combined with the numerous market participants rendering assessments of the information contribute to this market's efficiency. Any UCR Assets dedicated to domestic equities will be managed through passive index funds. [While the market is very efficient, neither it nor any other market is perfectly efficient. When appropriate skill is available, it may be possible to successfully use active management techniques to improve upon benchmark returns, with acceptable levels of risk. A portion of UCR Assets dedicated to domestic equities under active management may be utilized to add alpha relative to appropriate benchmarks only by approval of the Board with the recommendation of management and the Finance Subcommittee.]

5. International Equities - The international equity markets are an increasingly larger share of the investment opportunity set. In addition, because international company stocks tend to react to local as well as global influences, the fluctuations in the returns of international equity markets are only partially related to the movements in the domestic equity market. Further, capital market theory suggests that we should be fully diversified in a global sense.

General Guidelines

The UCR Plan is a tax-exempt entity as described in section 115 (1) of the Internal Revenue Code. This tax-exempt status should be always considered by the Board, the Finance Subcommittee, UCR management, and any outside consultant or professional when making investments for the UCR Plan.

Except for situations approved by the Board upon recommendation of the Finance Subcommittee, UCR management, and any outside consultant or professional, all UCR Assets shall be readily marketable and shall not be invested in any of the following: hedge funds, short positions (excluding temporary short positions held by mutual funds or exchange traded funds), private equity investments, futures and options contracts, private fixed income investments, commodities, crypto currency, or non-U.S. currency.

Once an investment or asset class has been approved by the Board, UCR Assets may be invested in that investment asset/asset class upon recommendation of management and outside investment consultants. Transactions and transfers between and among approved investment assets/asset classes may be made upon the recommendation of management and investment consultants. Any such investment must be consistent with the duration and allocation set forth in this investment policy. Any such investment may be made upon the approval of the UCR Board Chair or the UCR Finance Subcommittee Chair.

The following investment asset and asset classes are approved for investment of UCR Assets:

- For all UCR Reserves and UCR Excess Fees – Demand Deposits at the Bank of North Dakota ("BND") and Truist Bank ("Truist"); Certificates of Deposit and Money Market accounts (to include the Truist DLA account) at BND and Truist; U.S. Treasury bills and notes.

- For the UCR Directors and Officers Insurance Reserve – mutual funds and exchange traded funds ("ETF's") investing in a passive index of domestic equities to include the Wilshire 5000, the CRSP US Total Market Index, the Russell 3000, and the MSCI U.S. Brand Market Index. Any such mutual fund or ETF must have an expense ratio of 0.15% or less. Mutual funds and ETF's investing in a passive index of domestic fixed income securities to include the Bloomberg US Aggregate Bond Index, the Bloomberg US Aggregate Float Adjusted Index, and the Bloomberg US TIPS 0-5 Index. Any such mutual fund or ETF must have an expense ratio of 0.15% or less.

UCR Reserve Funds

Liquidity Reserve

The objective of the Liquidity Reserve is to provide administrative operating funds for the UCR Plan during the current UCR registration year until such time as the registration fee for that year produces sufficient funds to cover the budgeted expenditures for that year. Because these funds must be available over the course of the current year, they are to be deposited in demand deposits or other short-term investments with maturities to match the anticipated need for the funds during the year. Preservation of principal is the primary objective, with the highest return possible as the secondary objective, given preservation of principal.

Financial Reserve

The objective of the Financial Reserve is to provide continued administrative operating funds for the UCR Plan in the event that the UCR Fee does not provide sufficient revenue to meet the budgeted administrative cost allowance. Because of the lengthy fee setting process set by federal statute and the unique requirements set by the UCR Act, the Board determined two years' worth of administrative funds are required to be held in reserve to provide sufficient time for the Board to recommend, and US DOT/FMCSA to promulgate a new fee to provide sufficient revenue to fund the administrative cost allowance. Because these funds must be available over a time period of one to three years, they are to be deposited in demand deposits, other short-term investments, and fixed income investments with maturities to match the anticipated need for the funds during this period. Preservation of principal is the primary objective, with the highest return possible as secondary objective, given preservation of principal.

Unbudgeted Expense Reserve

The objective of the Unbudgeted Expense Reserve is to provide funds for unplanned, non-discretionary expenses incurred by the UCR Plan from time to time. Because these funds must be available over the course of the current year, they are to be deposited in demand deposits or other short-term investments with maturities spread over the course of the year. Preservation of principal is the primary objective, with the highest return possible as the secondary objective, given preservation of principal.

Special or Capital Projects Reserve

The objective of the Special or Capital Projects Reserve is to provide funds for projects that might require significant capital over a period of years. These funds must be available over a relatively short time horizon not to exceed three years. Because these funds must be available over a time period of no more than three years, they are to be deposited in demand deposits, other short-term investments and fixed income investments with maturities to match the anticipated need for the funds during this period. Preservation of principal is the primary objective, with the highest return possible as the secondary objective, given preservation of principal.

Directors and Officers Insurance Reserve

The objective of the Directors and Officers Insurance Reserve is to provide funds to cover any claims and the defense of any claims against the directors and officers of the UCR Plan. At least 10 percent of this fund shall be maintained in demand deposits and another 15 percent in other short-term investments with maturities spread across a twelve-month period. The remainder of this fund may be invested in fixed income and domestic equities with a target allocation of 65 percent fixed income and 35 percent domestic equities. These investments should be reviewed quarterly and rebalanced when either of these components is more than 5 percent from its target allocation.

UCR Excess Fees

The UCR Plan may accumulate excess fees when revenue for a registration year exceeds the cumulative entitlements of the participating states and the administrative cost allowance for the UCR Plan. When this happens, these funds are held by the UCR Plan and distributed to the states in a future year in conjunction with a reduction of the UCR fee in that future year. As these funds are held in trust for the states, the preservation of principal is the primary objective, with the highest return possible as the secondary objective, given the preservation of principal.

The funds shall be available during the period from mid-January to mid-March of the year in which they are to be distributed to the states and shall be invested in demand deposits, other short-term investments, and fixed income investments with maturities to match this need for the funds.