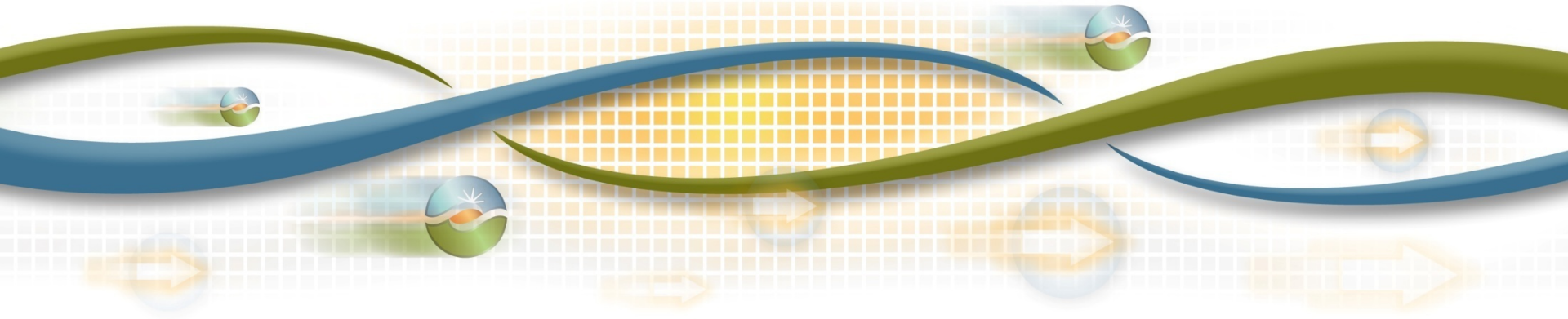


Decision on Investment Strategy of the Retirees Medical Plan Assets

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The ISO maintains a Retirees Medical Plan to help eligible retirees with ongoing medical benefit costs.

- Plan assists employees who have met the eligibility requirements with medical benefit costs in retirement.
- Strict accounting rules govern the calculation of the liabilities and annual expenses of the plan.
- Third-party actuary prepares annual report for use in financial statements. As of December 31, 2012:
 - Liabilities are approximately \$20 million
 - Annual expenses are \$3 million

There is currently a mismatch of the asset strategy to the growing liabilities.

- Assets to offset liabilities are held in two accounts:
 - \$6.5 million in a trust account
 - \$14 million in corporate reserves
- Assets are invested in short to medium-term fixed income securities.
 - Investment return has averaged 1.87% over the past three years
 - Yield to maturity is much lower as large percentage of return a result of unrealized capital gains due to declining interest rates.
- Liabilities are strongly influenced by health care costs.
 - Actuarial report uses a 5-8% growth rate over the life of the plan.

Management proposes a new investment strategy of the designated assets to better match the liabilities.

- Reinvest the designated assets in the Moderate Portfolio of the ISO's Pre-Mixed Portfolio Allocations defined in the 401(k) plan.
 - Portfolio has targeted allocations of 55% equities, 45% fixed income
 - Assets would benefit from the exposure to additional asset classes
 - Investments would be in professionally managed mutual funds monitored quarterly by the Employee Pension Benefits Committee
 - Portfolio has averaged an 8.1% annual return over the past three years, and 8.8% over the past ten years.

The targeted allocation of the Moderate Portfolio diversifies assets across a broad spectrum.

Equity Total		55%
	International	28%
	Small Cap	4%
	Mid Cap	4%
	Large Cap	19%
Fixed Total		45%
	Alternative strategies	10%
	Long-term	25%
	Short-term	10%

Management proposes a new investment strategy of the designated assets to better match the liabilities.

- Authorize the Employee Pension Benefits Committee to approve the specific language of the investment policy and to monitor the investment strategy of the assets.
 - Committee convenes on a quarterly basis with a third-party fiduciary consultant.
 - Due diligence is performed on performance of all approved funds.
 - Management will submit and brief the Audit Committee on final approved policy language.
 - Recommended changes to the strategy will return to the Audit Committee for their decision.

In conclusion, the proposed strategy will be a more appropriate matching of the assets to the liabilities.

- A long-term investment strategy is needed to match the long-term liabilities associated with the Retiree Medical Plan.
- Inserting the Employee Pension Benefits Committee into the process adds much more structure and due diligence to the investment strategy of the assets.