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**SAN LUIS OBISPO COUNTY  
PENSION TRUST**

**BOARD OF TRUSTEES**

**INVESTMENT POLICY STATEMENT**

**February 27, 2023**

**Amends Investment Policy Statement  
originally adopted September 28, 2020,  
Last amended March 22, 2021**

# I. Investment Policy Purpose and Authority

The San Luis Obispo County Pension Trust Board of Trustees, pursuant to applicable County, State and Federal laws and regulations and in keeping with its fiduciary responsibilities, has established this Investment Policy to govern the investment of the assets of the Pension Trust.

The purpose of this Investment Policy is to provide policy guidance and documentation of the authority, role and governance practices of the Pension Trust relative to the investment of the Trust's assets.

In formulating this Investment Policy, the Board of Trustees has followed the provisions of Article XVI, Section 17 of the California State Constitution which are set forth in pertinent part below:

1. Notwithstanding any other provision of law or of the California Constitution to the contrary, the Board of Trustees shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the Pension Trust.
2. The Board of Trustees shall have the sole and exclusive fiduciary responsibility over the assets of the Pension Trust.
3. The Board of Trustees shall have the sole and exclusive responsibility to administer the Pension Trust in a manner that will assure the prompt delivery of benefits and related services to members, participants, and their beneficiaries.
4. The assets of the Pension Trust are trust funds and shall be held for the exclusive purpose of providing benefits to members, participants and their beneficiaries and defraying the reasonable expenses of administering the Pension Trust.
5. That each member of the Board of Trustees shall discharge his or her duty with respect to the Pension Trust solely in the interest of, and for the exclusive purposes of:
  - a. providing benefits to members, retired participants and their beneficiaries
  - b. minimizing contributions to the Pension Trust
  - c. defraying the reasonable expenses of administering the Pension Trust.
6. The Board of Trustees' duty to its members, participants and beneficiaries shall take precedence over any other duty.
7. Each member of the Board of Trustees shall discharge his or her duty with respect to the Pension Trust with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
8. The Board shall diversify the investments of the Pension Trust so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

## II. Investment Objectives

1. The overall objective is to invest the assets of the Pension Trust solely for the benefit of plan members, participants and their beneficiaries while attempting to minimize contributions, investment costs and administration costs.
2. The long-term performance objective for the Pension Trust is to meet or exceed the actuarially assumed rate of return net of fees and expenses, over a complete economic cycle and relevant longer periods.

## III. Investment Philosophy

1. Time Horizon - The Pension Trust will periodically review the portfolio's alignment with the Retirement Plan's liabilities. The investment policy and guidelines are based on a time horizon of greater than five years. The Pension Trust will consider both intermediate-term and longer-term investment return horizons in formulating expected returns and assessing portfolio risk parameters. The Pension Trust's strategic asset allocation is based on this longer-term perspective. Fluctuations of investment results in the interim should be viewed with an appropriate perspective.
2. Risk Tolerance - Investment opportunities in various asset classes have differing risk and return expectations. In general, investments with higher expected returns involve a higher level of risk. The Pension Trust recognizes that some level of risk must be assumed to achieve the long-term investment objectives. The Pension Trust will attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets.
3. Drawdown Risk – The Pension Trust is a retirement system in a negative cashflow status (benefits paid exceed contributions received annually), As a result, the Pension Trust's funded level and required contributions are increasingly sensitive to periods when investment returns are negative even with the expectation that investment markets will recover after such events. As part of its consideration of risk tolerance and asset allocation the Pension Trust will attempt to manage short-term drawdown risk when developing its long-term asset allocation policy and when shifting or rebalancing the portfolio.
4. Liquidity Needs - Sufficient liquidity must be maintained to pay benefits and expenses. Investment income and contributions may or may not exceed projected benefit payments and expenses on an annual basis. Within the constraints of maintaining adequate liquidity for the payment of benefits and expenses, a reasonable portion of the portfolio may be invested in illiquid investments. The liquidity requirements shall be reviewed at least annually.
5. Asset Allocation as Primary Control Over Risk and Return - It is impossible to accurately and consistently predict the future; therefore, the Plan is required to be prudently diversified across

and within asset classes in anticipation of various economic conditions. In a well-diversified portfolio, the overall volatility of investment returns is principally driven by the asset allocation and secondarily driven by the individual investment strategies. As such, asset allocation is the primary tool by which the Board can manage the expected risk/return profile of the Plan.

6. Performance Objectives - The expected and actual investment returns of the total fund will depend on the asset allocation targets, the mix of investment styles within asset classes, and individual manager performance. Therefore, performance objectives have been set at three levels: total fund, asset class, and individual portfolios.

- a. Total Fund

- i. Meet or exceed the actuarial discount rate which has taken into account expected composite portfolio returns. Annualized investment returns (net of fees) should exceed the actuarial discount rate over most five-year periods and over complete economic cycles.
- ii. Meet or exceed the policy benchmark. Annualized investment returns (net of fees) to exceed the policy benchmark over five-year periods. The policy benchmark is a composite of the benchmarks of the asset classes in the asset allocation policy. Composition of the policy benchmark is detailed in Addendum A.

- b. Asset Class

- i. Annualized returns (net of fees) for the asset classes should exceed their respective benchmarks over a five-year period. The asset class benchmarks will be broad market indices that are representative of the investment structure for that asset class. Current benchmarks for the asset classes are shown in Addendum A.

- c. Individual Portfolios

- i. Performance objectives for manager portfolios are stated in the respective investment management agreements. Returns (net of fees) are expected to exceed the respective benchmarks over three to five-year periods. Manager benchmarks will be determined based upon the investment style of the portfolio for which the manager is hired.

7. Compliance – The Board believes that investment policies, in aggregate, are the most important determinants of investment success. Compliance with investment policies should, therefore, be monitored diligently.

## IV. Asset Classes

The asset classes that may be utilized by the Pension Trust include, but are not limited to, the listing shown below. Not all asset classes listed below may be approved for use at any given time. **The asset classes approved by the Board of Trustees at any given time are specified in the Strategic Asset Allocation (SAA) policy contained in Addendum A to this Investment Policy.** The purpose of utilizing multiple asset classes for the investment of Pension Trust assets is to diversify across different assets that respond to economic and capital market conditions differently. The expected returns, volatility of returns, cross-asset-class-correlations, liquidity and cashflow of different asset classes are to be considered in the setting of the Strategic Asset Allocation specified in **Addendum A**.

### Possible Asset Classes:

1. Domestic Equities
2. International / Global Equities
3. International – Developed Market Equities
4. International – Emerging Market Equities
5. Domestic Fixed Income / Bonds
6. International / Global Fixed Income
7. International – Developed Market Fixed Income
8. International – Emerging Market Fixed Income
9. Short Term Cash Equivalents
10. Domestic Real Estate
11. International / Global Real Estate
12. Infrastructure
13. Timber
14. Commodities
15. Private Equity
16. Private Credit
17. Other Alternative Strategies (e.g., Risk Parity, Alternative Risk Premia, Momentum, Volatility Capture, Currency Beta)

## V. Asset Allocation

**The current Strategic Asset Allocation – approved asset classes, target allocations and ranges are detailed in Addendum A as approved by the Board of Trustees of the Pension Trust.**

The Board of Trustees of the Pension Trust has adopted a strategic asset allocation plan based upon the fund's projected actuarial liabilities and liquidity needs, the Pension Trust's risk tolerances and the risk/return expectations for various asset classes. This asset allocation plan seeks to optimize long-term returns for the level of risk that the Pension Trust considers appropriate. Since projected liability and risk/return expectations will change over time, the Pension Trust will conduct a periodic review of the asset allocation plan, at least triennially, to maintain an optimal allocation, and may also revise the asset allocation in response to significantly changing market conditions that have affected valuations and forward-looking expected returns of asset classes. The Pension Trust will review capital market expectations at least annually.

### Functionally Focused Sub-Portfolios

The asset allocation methodology used in this Strategic Asset Allocation (SAA) policy is based on the Functionally Focused Portfolios model. Three primary sub-portfolios are employed – **Liquidity, Growth, and Risk-Diversifying**. Specific investment strategies and investment managers fit within these three Functional sub-Portfolios. The sub-portfolios are described below.

#### LIQUIDITY

- Purpose - to ensure adequate assets are available to pay benefits over an extended period, thereby allowing the Growth sub-portfolio to invest for the long term with lessened constraints on liquidity.
- Liquidity Allocation – to be established in the setting of the SAA policy specified in Addendum A to this Investment Policy as a certain number of months of gross benefit payments set within an allowable range.
- Replenishment – to be replenished through contribution payments and periodic transfers from the Growth or Risk-Diversifying sub-portfolios as part of routine rebalancing transactions.
- Investments - highly liquid, low volatility securities expected to generate modest levels of return while preserving capital throughout a market cycle. This portfolio will contain assets such as cash, short-term bonds, laddered government bonds, derivatives, and other investments that provide fixed, contractual cash flows with an acceptable level of credit risk.
- Secondary Purpose - a portion of the Liquidity sub-portfolio may be allocated to the Growth sub-portfolio on an opportunistic basis during broad market corrections so long as at least 50% of the SAA Policy target for the Liquidity sub-portfolio is maintained.

- The success of the Liquidity sub-portfolio will be measured by its ability to directly fund benefit payments through low-risk, cash flowing investments, as well as providing a stable offset to the rest of the portfolio during periods of severe market stress.

## **GROWTH**

- Purpose - to grow invested assets over the long term to pay future benefits. Assets from the Growth sub-portfolio may be sold over time and transferred to the Liquidity sub-portfolio as needed.
- Time Horizon, risk and return - The Growth sub-portfolio has a long investment horizon and can, therefore, accept a higher level of risk. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets.
- The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

## **RISK DIVERSIFYING**

- Purpose - to offset the investment risk of the Growth sub-portfolio.
- Time Horizon, risk, and return - investment strategies in the Risk Diversifying sub-portfolio are expected to have return profiles that have a low correlation to those in the Growth sub-portfolio. This low correlation of returns is expected to effectively dampen the market volatility across the entire portfolio.
- Secondary Purpose - the investment strategies in the Risk Diversifying sub-portfolio will offer additional sources of return to those in the Liquidity and Growth sub-portfolios. Assets in the Diversifying sub-portfolio may be sold during times of market stress or when the assets in the Growth Sub-portfolio are impaired to fund the Liquidity sub-portfolio.
- The success of the Risk Diversifying sub-portfolio will be measured by its ability to offset declines in value in the Growth sub-portfolio, as well as its ability to provide liquidity during times of market stress.

## **ADMINISTRATION OF THE FUNCTIONAL SUB-PORTFOLIOS**

- The allocations to the Liquidity, Growth, and Risk Diversifying sub-portfolios will vary over time.
- The Liquidity sub-portfolio will operate as a drawdown vehicle to pay benefits and expenses.
- The Growth and Risk Diversifying sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests.
- In order to reallocate between the functional sub-portfolios, the SAA Policy as shown in Addendum A to this Investment Policy will guide periodic rebalancing transactions.
- The SAA Policy as shown in Addendum A to this Investment Policy will be reviewed annually by the Board of Trustees based on the advice of the Executive Director / CIO and the Investment Consultant(s).

## VI. Investment Managers

### Internal vs. External Investment Management:

The Board of Trustees may from time to time authorize the Pension Trust staff to provide investment management services directly, on an internally managed basis. Any such internal management must consider the professional qualifications and resources of Pension Trust staff. Any such internal management must be fully specified with a stated investment style and goals equivalent to those applied to external investment managers. **In general, the Pension Trust has a strong bias towards utilizing external investment managers.**

### Investment Manager Diversification:

In general, the Pension Trust will employ multiple investment managers across asset classes with diversified investment styles. Examples of investment manager diversification may include but, are not limited to the list shown below.

1. Domestic Equities – diversified by -
  - a. Market capitalization (e.g., small cap, mid cap, large cap)
  - b. Industry and across individual companies
  - c. Investment style (e.g., “growth” and “value”)
  - d. Active investment management and index/ passive/ semi-passive strategies.
  
2. International / Global Equities – diversified by -
  - a. Developed markets
  - b. Emerging markets
  - c. Global markets (including both domestic U.S. and international)
  - d. Individual countries
  - e. Currency exposure and management
  - f. Market capitalization (e.g., small cap, mid cap, large cap)
  - g. Industry and across individual companies
  - h. Investment style (e.g., “growth” and “value”)
  - i. Active investment management and index/ passive/ semi-passive strategies.
  
3. Domestic Fixed Income / Bonds – diversified by –
  - a. Governmental or corporate issuer
  - b. Credit quality
  - c. Industry
  - d. Collateral (e.g., mortgage backed)
  - e. Maturity and Duration
  - f. Yield
  - g. Active or passive management
  - h. Investment Style
  
4. International / Global Fixed Income – diversified by –
  - a. Developed markets

- b. Emerging markets
  - c. Governmental or corporate issuer
  - d. Country
  - e. Currency exposure and management
  - f. Credit quality
  - g. Industry
  - h. Collateral (e.g., mortgage backed)
  - i. Maturity and Duration
  - j. Yield
  - k. Active or passive management
  - l. Investment Style
5. Domestic / International / Global Real Estate Income – diversified by –
- a. Geographic area
  - b. Property type
  - c. Leverage
  - d. Investment style – e.g., “core”, “value added”
  - e. Open end commingled fund or closed end fund (e.g., a limited partnership)
6. Commodities– diversified by –
- a. Active or passive management
  - b. Derivatives used
7. Private Equity, Private Credit, and other private market illiquid funds – diversified by –
- a. Type of investment (e.g., venture capital, buyout, debt, secondary market interests, co-investments)
  - b. General Partner
  - c. Vintage year of limited partnership
  - d. Investment Style

### **Active Investment Management:**

The Pension Trust may from time to time utilize active investment managers to the extent that it holds the expectation that active investment management can generate risk adjusted returns greater than relevant, investable benchmarks over an entire market cycle. The use of passive or index-based investment management will be preferred by the Pension Trust in the absence of expectations of active management outperformance. The Pension Trust will regularly evaluate all active investment managers relative to lower cost alternatives of passive or index-based management.

## **Environmental / Social / Governance:**

The Pension Trust recognizes that the economic value of its investments may be impacted by Environmental / Social / Governance factors. In its capacity as fiduciaries, the Board of Trustees in the interests of prudent diversification should evaluate potential Environmental / Social / Governance factors at the investment manager level as being a reasonable consideration when other expected investment alternatives are estimated to be equal in merit (i.e., all else being equal). The Pension Trust delegates consideration of the merits of any such Environmental / Social / Governance factors at the individual investment level to investment managers employed by the Pension Trust. Investment managers employed by the Pension Trust should consider Environmental / Social / Governance factors (e.g., environmentally sustainable business practices, responsible corporate governance and transparency) in the context of their effects on expected investment returns. The Pension Trust expects its investment managers to be aware of Environmental / Social / Governance factors and consider their impact on diversification and risk in their portfolios.

## **Role of Derivatives, Cash Securities, Long/Short Positions, Leverage:**

In general Pension Trust investments will be in long positions in cash securities markets. Some asset strategies may employ both long and short positions in derivative securities or which may be acceptable depending on the type of investment manager and/or strategy applicable. Some asset strategies may employ leverage which may be acceptable depending on the type of investment manager and/or strategy applicable.

Some investment exposures may be more efficiently achieved with derivative instruments which are acceptable depending on the type of investment manager and/or strategy applicable. Investment managers may be permitted under the terms of individual investment guidelines to use derivative instruments to implement market decisions and security positions and to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or instruments including, but not limited to, futures, forwards, options, swaps and options on futures. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, rebalancing portfolio exposures, securitizing fund level and manager cash, maintaining exposure to a desired asset class while effecting asset allocation changes, adjusting portfolio duration for fixed income and gaining exposure to commodities. Portfolio liabilities associated with investments (i.e. mortgage forward bond purchases, futures, in-the-money short puts, reverse repurchase agreements, etc.) shall be backed by cash equivalents or deliverable securities. No derivatives positions can be established that create portfolio characteristics outside of portfolio guidelines. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

## VII. Investment Policy Statement and Investment Procedures – Review and Revision

The Board of Trustees reserves the right to amend this Investment Policy Statement and the Investment Procedures at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of Fund assets.

This Investment Policy Statement and the Investment Procedures shall be reviewed, at a minimum, every three years or as directed by the Board of Trustees. Such reviews will focus on the continuing feasibility of achieving the investment objectives and the continued appropriateness of the investment policy relative to the Pension Trust's circumstances.

It is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets generally should not require an adjustment in the investment policy. However, specific policy issues may be visited whenever the Board of Trustees deems necessary. Specific occurrences which might suggest to the Board an earlier review include, but are not limited to, a change in the Fund's circumstances and / or a material change in the capital market environment.

**San Luis Obispo County Pension Trust  
Strategic Asset Allocation (SAA) Policy**

ADDENDUM A

<b>Strategic Asset Allocation Policy</b> <b>Adopted Feb. 27, 2023</b>		<b>TARGET</b>	<b>Limits</b>		<b>Performance Benchmark</b>
			<b>Min.</b>	<b>Max.</b>	
<b>LIQUIDITY</b>					
<b>Total Liquidity Allocation</b>	(a)	<b>10%</b>	<b>5%</b>	<b>20%</b>	Policy mix composite
Cash Equivalents		4%	1%	15%	90 day T-Bills
Short Duration Govt/ IG Credit	(c)	6%	0%	15%	Barclays U.S. Govt/Credit 1-3
<b>GROWTH</b>					
<b>Total Growth Allocation</b>	(b)	<b>75%</b>	<b>25%</b>	<b>95%</b>	Policy mix composite
<b>Equities - Public Market</b>		<b>30%</b>	<b>15%</b>	<b>85%</b>	MSCI ACWI
US Large Cap Growth/Value					S&P 500
US Small/Mid Cap Growth/Value					Russell 2500
Intl. Developed Market Growth/Value					MSCI EAFE
Intl. Emerging Market					
Global		30%	15%	70%	MSCI ACWI
<b>Debt - Public Market</b>	(c)	<b>0%</b>	<b>0%</b>	<b>30%</b>	BC Aggregate Bond
US Core + Bonds IG					FTSE WGBI ex US Treas.
Global Bonds					S&P/LSTA Leveraged Loan Index
Bank Loans					50% JPM EMBI / 25% JPM
Emerging Market Debt					GBIEM / 25% JPM ELMI+
<b>Real Assets</b>		<b>15%</b>	<b>10%</b>	<b>30%</b>	Policy mix composite
Real Estate - Core		5%	5%	15%	NCREIF
Real Estate Value Add		5%	0%	15%	NCREIF
Infrastructure - Global		5%	0%	15%	TBD

**San Luis Obispo County Pension Trust  
Strategic Asset Allocation (SAA) Policy**

ADDENDUM A

<b>Strategic Asset Allocation Policy</b> <b>Adopted Feb. 27, 2023</b>		<b>TARGET</b>	<b>Limits</b> Min. Max.		<b>Performance</b> <b>Benchmark</b>
<b>Private Markets</b>	(e)	30%	5%	45%	(e)
<b>Private Equity</b>		18%	5%	30%	
Diversified PE strategies	(d)				
Specific PE funds					
Equity related alternatives					
<b>Private Credit</b>		12%	5%	25%	
Diversified PC strategies	(d)				
Specific PC funds					
Debt related alternatives					
<b>Other Growth Strategies</b>			0%	10%	
Opportunistic		Varies			
<b>RISK DIVERSIFYING</b>					
<b>Total Risk Diversifying Allocation</b>		15%	5%	30%	
US Treasury - Intermediate/Long Govt.Bonds		8%	4%	15%	Barclays Treasury 7-10 Year Barclays U.S. TIPS 5-10 Index
US Treasury - Inflation Protected - TIPS		7%	3%	15%	
<b>TOTAL</b>		<b>100%</b>			<b>Total Fund Policy mix</b>
<p>(a) Liquidity target ~ 1.3 yrs gross pension benefits - currently ~\$140m ~10%</p> <p>(b) Growth - long-term investments with some illiquidity. Periodic drawdowns to replenish Liquidity as needed.</p> <p>(c) IG = Investment Grade Credit HY = High Yield - below IG Credit</p>		<p>(d) Diversified Private Markets may be Fund-of-Funds and/or Direct LP program</p> <p>(e) To avoid unnecessary and possibly misleading Tracking Error, the Total Fund Policy Benchmark uses actual time-weighted private markets returns applied to actual private market asset class weights rounded to the nearest whole percentage point. The difference in actual weight versus target is allocated to the private market investment's public market "equivalent" (e.g., private equity to public equity; private credit to public fixed income).</p>			

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**SAN LUIS OBISPO COUNTY  
PENSION TRUST**

**BOARD OF TRUSTEES**

**INVESTMENT PROCEDURES**

**Supplement to Investment Policy Statement**

**February 27, 2023**

# **I. Investment Procedures Purpose and Authority**

The San Luis Obispo County Pension Trust (SLOCPT) Board of Trustees establishes the Investment Policy governing the investment of Pension Trust assets. The Investment Policy Statement (IPS) approved and periodically amended by the Board of Trustees is the guiding document for investments.

This document on Investment Procedures addresses the various procedures that support the implementation of the IPS and thus is supplementary to the Investment Policy Statement. The Investment Procedures are presented herein as a separate document from the IPS for the sake of clarity and a concise focus in the IPS.

The primary responsibility for administering, monitoring, and reporting to the Board of Trustees on the Pension Trust Investment Policy lies with the Executive Director / Chief Investment Officer (CIO).

## **II. Investment Managers**

### **Investment Manager Guidelines:**

All investment managers engaged by the Pension Trust must:

1. Be registered investment advisors with the Securities and Exchange Commission, trust companies that are regulated by State and Federal Banking authorities, or mutual fund companies.
2. Accept fiduciary responsibility and contractually agree to notify the President of the Board of Trustees and the Executive Director in writing if they are unable to continue acting in the capacity of a fiduciary or investment advisor.
3. Maintain insurance coverage, including errors & omissions, surety bond, fiduciary liability, ERISA bond, etc. consistent with normal practices for investment management firms managing retirement plan assets.

Each investment manager hired by the Pension Trust shall be governed by the Investment Policy Statement and these Investment Procedures. Moreover, each investment manager shall be hired by the Board of Trustees pursuant to a written agreement which shall incorporate this Investment Policy Statement and these Investment Procedures and which shall provide that the agreement is terminable at any time, with or without cause, at the discretion of the Board of Trustees.

Investment Managers shall agree to:

1. Maintain the investment approach that the manager was hired to implement under any and all capital market environments.
2. Immediately report in writing to the Board any changes in firm structure, firm management, portfolio management personnel, or the manager's investment decision making process.
3. Fully educate the Pension Trust as to the specifics of the manager's investment process.
4. Exclusive of specific Pension Trust investment guidelines, maintain a portfolio that generally conforms to other portfolios managed by the investment manager for other clients using similar mandates.
5. Otherwise, treat the portfolio managed for the Pension Trust in a manner consistent with comparable portfolios managed for other clients in portfolio construction, trading, and all other aspects.

Members of the investment manager's research and portfolio management teams will comply with the CFA Institute Professional Standards and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the investment manager's investment staff must be immediately reported in writing to the Board.

If the Board delegates proxy voting responsibilities to its investment managers, the investment manager agrees to vote all proxy ballots according to the best economic interest of the Pension Trust and in a manner consistent with any specified Board approved proxy policies.

### **Investment Manager Due Diligence – Retention and Termination:**

The Board of Trustees delegates to Staff, with assistance from its Consultant(s), the process of identifying and recommending investment managers for retention or termination. Staff, working with Consultant(s), will conduct comprehensive due diligence to provide the Board of Trustees with necessary and sufficient information in support of recommendations to retain or terminate external investment managers. The specific elements of due diligence will vary based on the asset class and the characteristics of the individual manager(s) and/or strategies under consideration. The due diligence with respect to underlying investment managers shall include, but is not limited to, an assessment of the merits of investment process and philosophy, resources and talent available to the organization, the likelihood that key resources will remain, risk management processes, internal control and compliance processes and procedures, and other organizational considerations.

### **Prohibited Transactions, Transactions and Brokerage:**

The following transactions will be prohibited: selling on margin; "prohibited transactions" as defined under ERISA; transactions that involve a broker acting as a "principal" where such broker is also the investment manager who is making the transaction; and any or all investment activities forbidden by Securities and Exchange Commission or other applicable governing bodies. The Pension Trust hereby instructs its investment managers to seek best execution when conducting all trades. Managers are instructed to seek to minimize commission and market impact costs when

trading securities. Also, either internally or through an externally provided transaction cost evaluation service, investment managers are expected to measure the costs associated with their investment trades. When trading securities, best execution is the paramount consideration and this objective is expected to provide for and protect the best economic interest of the Pension Trust.

### **Placement Agents:**

The Pension Trust will not use the services of investment managers secured through the use of external Placement Agents as that term is defined in Section 7513.8(d) of the California Government Code.

## **III. Investment Custody**

### **Master Custodian:**

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the Trust, is delegated the responsibility of holding the assets and evidence of interests owned by the Pension Trust in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of the Pension Trust assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

The Custodian Bank shall be authorized to conduct a securities lending program within liquidity and risk constraints if established by the Board.

### **Separate Account vs. Commingled Funds:**

The Pension Trust may hold its investments in separate accounts managed by investment managers and custodied by a master custodian. The Pension Trust may also hold its investments in pooled, commingled accounts, mutual funds, collective trusts, limited partnership interests or similar arrangements. In general, the Pension Trust has a bias in favor of commingled funds where available.

## **IV. Investment Consultants**

The Board of Trustees of the Pension Trust recognizes that the employment of highly qualified investment consultants is necessary to the discharge of its fiduciary duties. Accordingly, it is the policy of the Pension Trust to consistently employ a general investment consultant. From time to time the Pension Trust may employ more specialized investment consultants as deemed necessary for particular asset classes (e.g., real estate, private equity, other alternatives).

## **V. Investment Administration**

### **Liquidity Management:**

**Liquidity and Asset Allocation** - The Executive Director/CIO shall at least monthly analyze the status of the Liquidity Pool under the adopted Investment Policy Statement considering contributions, benefit payments, investment cashflows, administrative expenses and the net liquidity needs of the Pension Trust and include appropriate measures in the monthly report to the Board of Trustees required below under “Reporting”.

**Cash Management** – The Executive Director/CIO will manage the cash transactions of the Pension Trust such that benefit payments are made in a timely manner. A reserve of liquid funds shall be maintained equal to at least three months of expected benefit payments.

### **Portfolio Rebalancing:**

The Pension Trust recognizes the importance of regular and disciplined rebalancing of its asset allocation to match the target allocations and remain within the approved asset mix ranges as specified in Addendum A to the Investment Policy Statement. Accordingly, the Executive Director/CIO is authorized by this policy to evaluate the need for rebalancing at least quarterly and effect regular rebalancing of the asset mix as needed, but no less than annually if needed.

Portfolio rebalancing necessary to maintain the targeted level of the Liquidity Pool under the adopted Investment Policy Statement shall be performed monthly by the Executive Director / CIO.

## **Proxy Voting:**

The Pension Trust acknowledges that the ownership of equities requires proxies to be voted and commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in managing its other assets. As a responsible fiduciary, the Pension Trust will exercise its proxy voting rights in the sole interest of the Plan's members, participants, and their beneficiaries in accordance with all applicable statutes.

Consequently, all proxies shall be voted by the Pension Trust's equity investment managers consistent with their respective policies on proxy voting and in the best interest of the shareholders. The investment managers will provide a copy of their proxy voting guidelines to the Pension Trust when first hired and whenever there are changes thereafter. The Executive Director/CIO will monitor the voting of proxies by external investment managers managing separate accounts to ensure that all proxies are being voted and to identify any potential policy concerns with such votes. The Executive Director/CIO will report to the Board of Trustees as necessary with respect to proxy voting.

## **Reporting:**

1. Monthly reports on the estimated investment performance and status of the Pension Trust shall be made to the Board of Trustees. Monthly reports shall include estimates of the asset allocation status of the investment funds relative to the adopted asset allocation policy.
2. Quarterly reports on investment performance shall be made to the Board of Trustees and shall include a review of the Pension Trust's adherence to investment style and discipline as set forth by the Investment Policy Statement and these Investment Procedures, a review of current strategy, and recent investment performance. Investment performance is to be evaluated on a total return basis. Quarterly reports will include a report on asset allocation policy compliance.
3. An annual report on expected capital market returns and recommendations for potential modifications to asset allocation policy shall be made to the Board of Trustees.

## **Policy Compliance Monitoring:**

The Executive Director and/or the Chief Investment Officer shall monitor the compliance of the Pension Trust's Investment Managers with the requirements of the Investment Policy Statement and these Investment Procedures and their respective investment management agreements and report any instances of non-compliance to the investment consultant and to the Board of Trustees.

## **Funds Transfers:**

1. Funds transfers, including wire transfers, outside of the accounts of the Master Custodian may be necessary for purposes that include –
  - a. Benefit payments
  - b. Administrative expenses
  - c. Transfers to or from commingled investment accounts, mutual funds or limited partnerships.
  
2. All Wire Transfer Instructions shall –
  - a. Be in writing or submitted via a secure online portal to the Custodian Bank.
  - b. Require the signatures or electronic validation through a secure online portal to the Custodian Bank of at least two officers of the Pension Trust as may be designated from time to time by Board of Trustees action.
  - c. Wire Transfer Instructions for amounts in excess of \$5,000,000 shall always require the signature or electronic validation through a secure online portal to the Custodian Bank of the Executive Director or the Deputy Director.
  - d. Wire Transfers shall be verified by the Bank via telephone with one of the Pension Trust employees authorized as officers with signing authority over the account consistent with the Bank's policy on wire transfers or verified via electronic validation through a secure online portal to the Custodian Bank.

## **VI. Responsibilities and Delegation of Authority**

### **Responsibilities of the Board of Trustees:**

In keeping with the provisions of California State Constitution, the Board of Trustees shall have the following responsibilities under this policy:

1. Establish Policy and Policy Guidelines.
2. Delegation of Specific Authority to Qualified Investment Personnel or Providers
3. Designate the Executive Director of the Pension Trust to act as the Chief Investment Officer (CIO) or designate other staff or service providers/consultants to act as the CIO under the supervision of the Executive Director.
4. Establish the Strategic Asset Allocation (SAA) Policy.
5. Monitor Compliance and Adherence to This Policy.
6. Retaining and terminating investment managers based on recommendations of the Executive Director, CIO, and Investment Consultant(s).
7. Retaining and terminating key professionals including General Counsel, Investment Counsel, and Investment Consultants.

### **Responsibilities of the Executive Director:**

The Executive Director shall have the following responsibilities under this policy:

1. Management and Supervision of the investment activities of the Pension Trust
2. Adherence to and implementation of the Investment Policy Statement and these Investment Procedures including periodic rebalancing transactions
3. Management and Supervision of the Chief Investment Officer and other investment staff if applicable
4. Respond to Information Requests from the Board of Trustees
5. Maintenance of Due Diligence of Custodian Banks, Consultants and External Managers
6. Ensure Policy Compliance, Identify Areas for Review and Revision
7. Implement Asset Allocation Decisions of the Board of Trustees

8. Manage internally managed investment portfolios if directed by the Board of Trustees and execute investment trades as necessary.
9. Manage the cashflow of the Pension Trust to ensure the timely payment of benefits.

## **VII. Investment Policy Statement and Investment Procedures – Review and Revision**

The Board of Trustees reserves the right to amend the Investment Policy Statement and these Investment Procedures at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of Plan assets.

The Investment Policy Statement and these Investment Procedures shall be reviewed, at a minimum, every three years or as directed by the Board of Trustees. Such reviews will focus on the continuing feasibility of achieving the investment objectives and the continued appropriateness of the investment policy relative to the Pension Trust's circumstances.

It is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets generally should not require an adjustment in the investment policy. However, specific policy issues may be visited whenever the Board of Trustees deems necessary. Specific occurrences which might suggest to the Board an earlier review include, but are not limited to, a change in the Fund's circumstances and/or a material change in the capital market environment.