

POLICY 10.130

INVESTMENT POLICY STATEMENT

FOR

CITY OF SAN BERNARDINO

MUNICIPAL WATER DEPARTMENT

OTHER POST-EMPLOYMENT BENEFITS TRUST

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Preamble

The City of San Bernardino Municipal Water (the “Department”) has established the City of San Bernardino Municipal Water Department Other Post-Employment Benefits Trust (the “Trust”). The Trust is intended to provide for funding of non-pension post-employment benefits (“OPEB”) for employees who meet the eligibility, age, and service requirements outlined in the Department’s plan documents. The Trustees of the Trust hereby adopt this Investment Policy Statement (“Policy Statement”) for the following purposes.

Purpose

The main investment objective of the Trust is to achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Department’s current and long-term OPEB obligations.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations and investment guidelines for Trust assets.
2. Establish an appropriate investment strategy for managing all Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements that will effectively monitor investment results and confirm that the investment policy is being followed.
5. Comply with all fiduciary, prudence, due diligence, and legal requirements for Trust assets.

Investment Authority

The Department has appointed the OPEB Investment Advisory Committee (the “Committee”) consisting of the General Manager, Deputy General Manager, Director of Finance, and Finance Manager to oversee certain policies and procedures related to the operation and administration of the Trust. The Committee will have authority to implement the investment policy and guidelines in the best interest of the Trust to best satisfy the purposes of the Trust. In implementing this Policy Statement, the Committee believes it may delegate certain functions to:

1. An investment advisor (“Advisor”) to assist the Committee in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Committee in establishing investment policy objectives and guidelines and may also select investments with discretion to purchase, sell, or hold specific securities that will be used to meet the Fund’s investment objectives.

The Advisor will: a) adjust asset allocation for the Fund subject to the guidelines and limitations set forth in this Policy; b) select investment managers (“Managers”) and strategies consistent with its role as a fiduciary; c) monitor and review Managers and measure and evaluate their performance against their peers based upon the performance of the total funds under their direct management; and d) execute other tasks as deemed appropriate in its role as Advisor for Trust assets. The investment vehicles allowed may include mutual funds, commingled trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor shall never take possession of securities, cash or other assets of the Trust, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.

2. A custodian and trustee, such as a bank trust department, selected by the Department to assume fiduciary responsibility for the administration of Trust assets, maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
3. Specialists such as attorneys, auditors, actuaries, and retirement plan consultants to assist the Committee in fulfilling its fiduciary responsibilities and obligations to administer Trust assets prudently.

Statement of Investment Objectives

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, respectively, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of contributions, benefits, and/or reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long-term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled “Performance Expectations.”

Investment Guidelines

Within this section of the Policy, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are publicly traded domestic and international equities or equity funds, and certain publicly traded real estate investments, focused on equity risk mitigation or equity-like returns.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: Fixed income securities including inflation protected securities, guaranteed investment contracts, and certain other investments focused on interest rate risk mitigation or income investment-like returns.

"Alternative Assets" - a collection of private investments in asset classes whose primary risk and return characteristics are either capital appreciation, income generation, and/or real returns after inflation. Investments within the Alternative Assets category can private equity, private debt, and/or certain real assets investments.

Time Horizon

The Trust's investment objectives are based on a 20-year investment horizon ("Time Horizon"). Interim fluctuations should be viewed with appropriate perspective. The Committee has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

In general, the Trust will hold up to six months of cash, cash equivalent, and/or money market funds for near -term Trust benefits, and expenses (the "Trust Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

Asset Allocation

The Committee believes that to achieve the greatest likelihood of meeting the Trust's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested

in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than each Trust's actuarial discount rate return over the long-term, as described in the section titled "Performance Expectations."

Portfolio

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
Growth Assets		
Domestic Equity	21% - 61%	41%
International Equity	9% - 39%	19%
Other	0% - 15%	0%
Income Assets		
Fixed Income	5% - 45%	25%
Other	0% - 15%	0%
Real Return Assets	0% - 10%	0%
Alternative Assets	0% - 25%	15%
Private Equity	0% - 10%	5%
Private Debt	0% - 10%	5%
Real Assets	0% - 10%	5%
Other	0% - 10%	0%
Cash Equivalents	0% - 20%	0%

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

Risk Tolerance

Subject to investment objectives and performance expectations, the Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

Performance Expectations

Over the intermediate-term, a rolling five-year period, the performance objective for the Trust will be to achieve an average total annual rate of return which meets or exceeds the Trust's blended benchmark over a rolling 3-year period. Over the long-term, 20 years or longer, the performance objective for the Trust will be to achieve an average total annual rate of return between 6.0% - 6.5%.

Additionally, it is expected the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual investments, and established blended benchmark comparisons for each Trust, respectively.

Each portfolio manager must meet the following criteria:

- The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Agency ("FINRA") or industry recognized standards, as appropriate.
- The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal ("RFP"), or other questionnaire.
- The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.
- Where other than common funds such as mutual funds or commingled trusts are utilized, the Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to investment of Trust assets.

Guidelines for Portfolio Holdings

Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the "Guidelines for Portfolio Holdings"). However, given the nature of the investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

Limitations on Managers' Portfolios

EQUITIES

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be

invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions, and sectors.

Other Growth. These assets have growth characteristics but are not invested in broadly diversified equities. Examples of Other Growth assets include, but are not limited to, some forms of publicly traded real estate (REIT) with growth characteristics, convertible bonds, or other publicly traded assets that exhibit growth characteristics.

FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

Other Income. These assets have income characteristics but are not invested in broadly diversified fixed income. Examples of Other Income assets include, but are not limited to, some forms of publicly traded real estate (REIT) with income characteristics, preferred equities, or other publicly traded assets that exhibit income characteristics.

REAL RETURN ASSETS

Real Return Assets typically consist of commodities funds, Treasury Inflation Protected Securities (TIPS), and other assets expected to produce positive real returns after inflation.

ALTERNATIVE ASSETS

Alternatives may consist of non-traditional asset classes such as private equity, private debt real assets, and hedge funds/diversifying assets, when deemed appropriate.

Private Equity: Private equity is less liquid than publicly traded equity securities and can provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities.

Private Debt: Private debt is less liquid than publicly traded debt and can provide returns that are greater than what is available in publicly traded markets. The private debt portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, direct lending, distressed debt, multi-asset credit, structured credit, mezzanine debt, real estate debt, and special situations. Due to their higher risk, private debt investments are expected to provide higher long-term returns than publicly traded debt securities.

Real Assets: Real assets are typically physical assets that have intrinsic worth due to their substance and properties. Real assets are primarily used for their lower correlation to traditional assets (i.e., stocks and bonds) and their inflation hedging properties. Categories of real asset investments include, but are not limited to, real estate, infrastructure, land, farmland, timberland, precious metals, and commodities. Real assets include securities and assets with varying levels of liquidity. Private real assets are illiquid and long-term in nature, whereas public real assets are publicly traded and more liquid. The benefit of lower correlation investments is that, when implemented correctly, these investments can potentially improve a portfolio's expected risk-adjusted return over the long-term. The real assets category can be extended to include other forms of assets that offer similar inflation hedging properties such as pooled vehicles holding, commodities contracts, index-linked derivative contracts, and certain forms of intellectual property.

Hedge Funds/Diversifying (collectively, "Hedge Funds"): Hedge Funds are typically less liquid than publicly traded funds and are expected to provide volatility and/or other risk dampening effects on the portfolio. Examples of risks that may be hedged include but are not limited to volatility risk, interest rate risk, and market tail risk. Hedge Funds may include investments in a wide variety of commingled/partnership and direct investment including but not limited to exchange traded funds ("ETF"), equity securities, debt securities, and/or derivative contracts of various types. Hedge Funds may not produce returns in excess of publicly traded equity securities or debt securities but are expected to reduce overall portfolio risk.

CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

Safekeeping

All assets of the Trust shall be held by a custodian approved by the Committee for safekeeping of Trust

assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement. Investments of the Trust not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

Control Procedures

Review of Investment Objectives

The Advisor shall review annually and report to the Committee the appropriateness of this Policy Statement for achieving the Trust's stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

Review of Investment Performance

The Advisor shall report on a quarterly basis to the Committee to review the investment performance of the Trust. In addition, the Advisor will be responsible for keeping the Committee advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Trust.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in equity, fixed income, and alternatives markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the Bloomberg U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The Alternative Assets class and the "Other" categories will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

Voting of Proxies

The Committee recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.

Adoption of Investment Policy Statement

Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Water Board and provided to the Advisor, Trustee, and other Specialists. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

Policy Review

Established:	<u>August 2013</u>
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