CONTRA COSTA COUNTY
Employees' Retirement Association
BOARD OF RETIREMENT

Statement of General INVESTMENT POLICIES And GUIDELINES

Adopted 7/9/85
Last revised 4/08/09

Statement of General INVESTMENT POLICIES and GUIDELINES
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STATEMENT OF GENERAL INVESTMENT POLICIES AND GUIDELINES FOR THE RETIREMENT PLAN TRUST OF THE CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ADOPTED 7/9/85
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I. INTRODUCTION

The Board of Retirement (the "Board") of the Contra Costa County Employees' Retirement Association ("CCCERA") has established the following Statement of General Investment Policies and Guidelines (the "Statement") for the investment of the trust fund (the "Trust") of the CCCERA Retirement Plan (the "Plan"). The Board reserves the right at any time and from time to time to amend, supplement or rescind this Statement.

II. AUTHORITY

The investment of the assets of the Trust shall be in accord with applicable law, including but not limited to the following:

A. Investments shall be solely in the interest of, and for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries, minimizing the contributions of employers thereto, and defraying the reasonable expenses of administering the Trust (Cal. Gov. Code Sec. 31595 (a)).

B. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims (Cal. Gov. Code Sec 31595 (b)).

C. Investments shall be diversified so as to minimize the risk of loss and to maximize the rate of return unless under the circumstances it is clearly prudent not to do so (Cal. Gov. Code Sec. 31595 (c)).

D. In considering potential investment managers, it is the policy of the Board not to exclude managers from consideration based on ethnic background or gender, and not to arbitrarily exclude an emerging firm if, in the opinion of the Board, that firm has equal or superior capabilities to other candidates.

E. It shall be the policy of the Board that an Economically Targeted Investment (ETI) can be considered if and only if it has return and risk characteristics attractive in comparison to other alternatives.

III. ASSET CATEGORIES

For the purpose of setting objectives and guidelines for the investment of the assets of the Trust, the assets shall be considered as divided into five portions described as the **Global Equity Portion,** the **Global Fixed Income Portion,** the **Real Estate Portion**, the **Alternative Investments Portion** and the **Incidental Cash Portion**. The Domestic and International Equity Programs are considered part of the Global Equity Portion. The Domestic Fixed Income Program, the High Yield Fixed Income Program and the Non-Traditional Fixed Income Program are considered parts of the Global Fixed Income Portion.

The Global Equity Portion, the Global Fixed Income Portion, the Real Estate Portion, and the Alternative Investments Portion shall be under the supervision of qualified Investment Managers and shall collectively and individually be called Managed Accounts. The term 'Investment Manager' shall include traditional investment managers that exercise discretionary authority in selecting investments, as well as general partners of limited partnerships in which CCCERA invests and similarly situated management of other entities in which CCCERA invests (collectively, 'Partnerships'). The term "Investment Manager" shall also include investment advisors retained by any such Partnerships, to the extent such investment advisors exercise discretionary authority in selecting investments for any such Partnerships.

A: **The Global Equity Portion** shall consist of investments in common stock and other securities which are convertible into common stock and cash equivalents and securities which are being used as substitutes for common stock. The Global Equity Portion cash and cash equivalents of separate accounts shall be held and invested by the Custodian Bank described in Section V below. The Global Equity Portion may be further divided into domestic, international and global; large, mid and small capitalization; and growth, value, and core.

B: **The Global Fixed Income Portion** shall consist of investments in fixed income securities including cash equivalents. Global Fixed Income may be divided into domestic, international and global Core-plus, High Yield (publicly traded) and Non-Traditional Fixed Income.

C. **The Real Estate Portion** shall consist of investments in real estate through the use of commingled and direct investments, and publicly traded real estate investment trusts (REITs), including cash equivalents.

D: The **Alternative Investments Portion** shall consist of other investments of recognized institutional merit not included in III A, B, C or E, through the use of commingled and direct investments.

E: The **Incidental Cash Portion** shall include short-term monies not allocated to the Managed Accounts, including but not limited to unallocated or prepaid contributions and funds formerly allocated to Investment Manager(s) awaiting reallocation to other Investment Manager(s). The Incidental Cash Portion shall be invested in short-term fixed income instruments.

IV. INVESTMENT OBJECTIVES

A. Total Fund Benchmarks

The general investment objective of **the Trust** is the preservation of capital plus a return from capital appreciation plus current income that meets Trust needs without taking undue risk. The relative return objective is a total return on a market value basis which exceeds that of a custom index composed of appropriate asset class indexes weighted proportionally by corresponding asset class targets. The minimum rate of return objective shall be the actuarial interest assumption, as determined from year to year. The minimum average annualized rate of return objective over a market cycle is 400 basis points in excess of the National Consumer Price Index for all Urban consumers over that market cycle.

B. Global Equity Portion

1. For the combined **Global Equity Portion, the objective is an after fee rate of return in excess of a custom benchmark composed of 60% Russell 3000 and 40% MSCI World ex US**

2. For overall **Domestic Equities**, the objective is an after fee rate of return in excess of the Russell® 3000 and a rate of return within the upper half of the Wilshire COOP database of domestic equity portfolios.

3. For the **Domestic Large Capitalization** sub-set, a rate of return after fees, on a risk-adjusted basis, which is in excess of the Standard & Poor’s Index of 500 Common Stocks and a return within the upper half of the large capitalization database; and

4. For the **Domestic Small Capitalization** sub-set, a rate of return which, after fees, exceeds that of the Russell® 2000 Index and is within the upper half of the small capitalization database.

5. The objective of overall **International Equities** is a rate of return, after fees, which is in excess of the Morgan Stanley Capital International Europe, Australia and the Far East (MSCI EAFE) Index (gross); and which is within the upper half of the appropriate database of international equity investment managers.

C. Global Fixed Income

1. The objective of the overall **Global Fixed Income Portion** is a custom index composed of 80% Barclays Capital US Aggregate, 10% Barclays Capital Global Aggregate and 10% Merrill Lynch High Yield II.

2. The objective of overall **Domestic Fixed Income** (including non-traditional fixed income) is a rate of return which, after fees, is in excess of the Barclays Capital Universal Bond Index and which is within the upper half of the Wilshire COOP database of domestic fixed income portfolios.

3. The objective of the publicly traded **Domestic High Yield Fixed Income** sub-set is to exceed, after fees, the Merrill Lynch High Yield II index and to achieve a rate of return within the upper half of its peer group.

4. The objective of the **Global Fixed Income portfolio(s)** is to exceed, after fees, the rate of return of the Barclays Capital Global Aggregate Bond Index, in U.S. dollar terms un-hedged.

D. Real Estate

1. The objective of the overall **Real Estate Portion** is a rate of return which, after fees, is in excess of a custom index weighted 73 1/3% in the NCREIF Index and 26 2/3% in the Dow Jones Wilshire REIT Index, and which is within the upper half of the Wilshire COOP database of real estate portfolios.

2. The objective for the investments in illiquid real estate (direct and commingled) is the NCREIF Index.

E. Alternative Investments

The objectives of the **Alternative Investments Portion** are:

1. A rate of return after all fees which is in excess of that of the Standard & Poor's 500 stock index plus 4% per year.

2. A rate of return in excess of that of other comparable investments.

F. Incidental Cash

The objective of the **Incidental Cash Portion** is to achieve a return after fees in excess of that of Treasury Bills of a comparable average maturity.

G. **Individual Manager Objectives** are presented in Schedule III.

V. <u>CUSTODIAN BANK and COUNTY TREASURER</u>

A. The custodian bank selected by the Board to act as the principal custodian of assets of the Trust (the "Custodian Bank") may be directed to invest in temporary short-term fixed income investments both for the Managed Account Investment Managers and as a part of the Incidental Cash Portion. Such investments are not to exceed 15 months in maturity. Cash managed for Managed Account Investment Managers shall be considered to be sub-portions of the asset Portions managed by the directing Investment Managers.

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

C. The County Treasurer will manage any assets of the Incidental Cash Portion not managed by the Custodian Bank in accordance with Government Code Section 53601 et al.

VI. <u>ASSET ALLOCATION</u>

A. Targets

The asset allocation targets and their associated ranges, which are a function of the returns and risks from various asset classes and the nature of the Plan's liabilities, are set forth on Schedule I of this Statement. The Board may make tactical adjustments to these targets and ranges, and may change the targets and ranges as appropriate.

B. Rebalancing

To facilitate rebalancing the portfolio and transfer of excess cash with minimal transaction cost or disruption of individual managers' investment strategies:

1. All Investment Managers of separate accounts will remit interest, dividends and rents unless otherwise directed by the Board.

2. At a Board meeting in August and February, and at any other time deemed appropriate, the Board may consider rebalancing that has been, or is to be, implemented by staff as follows:

   a. The under-funded class(es) may be rebalanced with funds from the class(es) that are over-funded according to the asset allocation targets.
   b. Within each class, the under-funded Investment Manager(s) may be rebalanced with funds from the Investment Manager(s) who are over-funded according to the asset allocation targets.
   c. Because of illiquidity and/or structure constraints, real estate and alternative investments will not have funds withdrawn if they are temporarily over-funded, with the exception of REIT investments.

C. Cash Allocation

1. Cash flow “in” that is expected to be needed to meet capital calls or other cash flow requirements will be temporarily placed in the most under-target asset class of either Domestic Equities, Domestic Fixed Income, or REITs according to Schedule II.

2. Cash flow “in” in excess of Item 1 will be allocated to the most under-target asset class which is able to accept new funds, and to the most under-target Investment Manager in the class, until that Investment Manager is brought to target, with the exception that if the Board has decided that an Investment Manager will be precluded from new funding (Section VIII C.3), the next most under-target Investment Manager will be funded.

3. Cash flow “out” will be planned for and will generally come from available cash or from a designated portfolio as in Schedule II.

VII. **INVESTMENT MANAGER SELECTION**

A. Process for Identifying Investment Managers for Consideration

An investment manager candidate may be considered by the Board either as the result of a manager search the Board has authorized or because the candidate has been presented as an idea at a Board meeting by a Board member, by the Chief Investment Officer or by the investment consultant.

In the ordinary course, managers are to be identified and presented to the Board for consideration following the Standard Search Process, below. However, in addition, any Board member, the Chief Investment Officer or the investment consultant who thinks an investment idea or product merits consideration, may raise the matter at a Board meeting whereupon, if the Board agrees, the Board’s Investment Consultant may be asked to review and comment on the subject idea or product. If, after the Consultant’s review the Board concurs that the idea or product merits consideration, the applicable Investment Manager may be invited to appear at a future Board meeting, subject to further due diligence. Alternatively, the Board member may request the matter be placed on an agenda to discuss whether a presentation should be scheduled. In this case, the Board Chair may request that the Board’s Investment Consultant be prepared to offer comment during the meeting, with the intent that the Board could make a decision at the meeting regarding a presentation.

In connection with the Board's consideration of any presentation by an Investment Manager as outlined above, Board members and senior Investment Staff shall publicly disclose at the board meeting any prior communications they have had with the subject Investment Manager, and any actual or potential personal financial interests they may have that could be impacted by the Board's consideration of the Investment Manager.

Once a prospective Investment Manager has been invited to present to the Board, the manager and Board shall abide by the "quiet period" restrictions set forth in Sec. B. 2, below.

B. Standard Search Process

1. Ordinarily, the Board will identify a particular mandate for which one or more Investment Managers are to be engaged. The Board will direct the Investment Consultant and Staff to develop a detailed "Manager Profile," specifying the criteria sought for a manager or managers to fulfill the mandate.

2. Once the Board has directed the Investment Consultant and Staff to develop a Manager Profile, a "quiet period" will ensue, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, *unless* authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board's entering into a contract for the Investment Manager(s) selected for the mandate. The Investment Consultant is responsible for alerting the candidates to the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

3. An Investment Manager search may follow the Board's identification of a mandate. The Investment Consultant will conduct the search in accordance with the Manager Profile. The search criteria will include the scope of the mandate, the investment style, benchmark, fee structure and minimum qualifications for candidates. The minimum qualifications will include successful performance track record relative to benchmark, disciplined investment processes, effective risk management procedures, size of assets under management, experience and capability of staff, organizational stability and applicable regulatory certification and compliance.

4. The Investment Consultant initially will examine its database to identify possible candidates who fit the Manager Profile. Any member of the Board and Staff may also suggest to the Investment Consultant to examine the specific merits of a particular candidate.

5. The Investment Consultant will send out requests for information to qualified candidates meeting the requirements of the Candidate Profile.

6. The Investment Consultant will evaluate candidates and return to the Board with a semi-finalist list, and recommendations for narrowing the list to a finalist list for interview by the Board. Investment Consultant and Staff will

perform on-site due diligence on managers on the finalist list, as directed by the Board.

7. Any investment managers that present to the Board as finalists will have satisfied the Investment Consultant and Staff that they are appropriate candidates.

8. All Investment Manager contracts will be subject to final due diligence and satisfactory documentation following Board approval.

C. Non-Standard Search Process

1. Some investments by their nature present unique opportunities and are not suited for a standard search. For example, time constraints may limit the ability to conduct a full search given the inherent features of closed end funds. Further, there may not be suitable competitors for a unique investment opportunity.

2. When such an investment is brought up at a Board meeting, the Board may request Staff and the Investment Consultant perform due diligence to evaluate the merits of the investment and its suitability, and identify competitive managers.

3. Following the requested due diligence report and an interview with the Investment Manager candidate, the Board may vote to move forward with the investment, subject to further due diligence and documentation following the Board vote.

D. Follow-on Funds

A follow-on fund is an investment which has essentially the same strategy as an illiquid closed end fund from the same Investment Manager in which CCCERA has already invested. When a follow-on fund investment becomes available in an asset class that is under its allocation target, the Board may determine to invest in such a fund without conducting a standard search. Such investment will follow the Non-Standard Search Process outlined in C, above.

E. Alternative Investments - Use of Fund-of-Funds

With investments in private equity, including without limitation, leveraged buyouts and venture capital, the Board has determined that it prefers to use fund-of-funds. This does not preclude the use of individual funds or partnerships, should the characteristics of a particular investment prove compelling and have merit for consideration.

F. Multiple Products with one Investment Manager

The Board will examine the use of one manager for more than one mandate on a case-by-case basis. It is the policy of the Board to restrict assets entrusted to any one investment management organization to no more than one-quarter of the total Trust assets.

VIII. INVESTMENT MANAGER MONITORING

A. Quarterly Review

1. All Investment Managers will report quarterly investment performance and compliance using a standard reporting format specified by the Board. In addition, Investment Managers are encouraged to provide their performance information in their own format as supplemental to the required report.

2. The agenda for each Quarterly Performance Review meeting is mailed to all Investment Managers in advance of the meeting. Quarterly reports are to be received in the Retirement Office in accordance with the instructions as set forth on the agenda.

3. Investment and compliance performance will be reviewed and evaluated quarterly. The Board's Investment Consultant, working with the Custodian Bank, will provide performance reports to the Board on each Investment Manager, on each asset class, and on the Trust assets in total.

4. The Board will review the income generated by its securities lending program on a quarterly basis as part of the Board's performance review process.

B. Custodial Reconciliation

1. All Investment Managers with Managed Accounts held at the Custodian Bank will provide monthly custodial market value reconciliation reports to the Retirement Accounting Manager with copies to the Investment Consultant. The reconciliation reports are to be received in the Retirement Office by the 25^{th} day following the end of each month. This report must include a reconciliation of all cash, holdings and market values.

C. Under Review Policy

1. The Board will decide if an Investment Manager should be under review. Reasons for an Investment Manager to be under review include:

   a. Poor performance,
   b. Failure to meet Board requirements,
   c. Deviation from mandate,
   d. Change in personnel,
   e. Adverse publicity,

f. Change in ownership,
g. Regulatory compliance issues,
h. Risk management issues,
i. Lack of appropriate communication, or
j. Any other reason the Board deems appropriate.

2. If an Investment Manager is placed under review, staff will notify the manager in writing that it has been placed under review.

3. If an Investment Manager is placed under review, the Board will at the same time decide if the manager should be precluded from new funding.

4. At least each quarter, and whenever the Board deems appropriate, the Board will evaluate all Investment Managers under review, and for each such manager take one of three actions:

   a. Decide the manager is no longer under review,
   b. Terminate the manager, or
   c. Keep the manager under review.

5. If the Board determines that an Investment Manager is no longer to be under review, staff will notify the manager in writing of this determination.

6. If the Investment Manager is kept under review, the Board may revisit the question of whether the manager should be precluded from new funding.

D. Investment Manager On-Site Due Diligence

1. The Board may authorize certain of its members to conduct visits to either the home office or a satellite office of a current or prospective Investment Manager or to a real estate property in the portfolio of a real estate Investment Manager.

2. Visits to investment management firms may include but are not limited to:

   a. Review of back office procedures and record keeping
   b. Review of trading operations and resources
   c. Review of research capabilities and operations
   d. Observing investment committee meetings
   e. Review of decision-making processes
   f. Review of risk management procedures
   g. Review of compliance procedures
   h. Review of disaster recovery plan

3. Visits to real estate properties may include but are not limited to:

   a. Site inspection

b. Tour of the surrounding area
c. Visits to competing properties in the area
d. Meetings with building management and leasing agent
e. Meetings with tenants
f. Observing construction or renovation activities

4. The Board members, accompanied by the Board's Investment Consultant and senior investment staff, will normally visit with a prospective Investment Manager prior to hiring, as approved by the Board.

5. Visits to investment management firms may be conducted when an Investment Manager is placed under review or when there has been a change in firm ownership.

6. Generally, not more than three Board members no more than four will be authorized to conduct an Investment Manager visit.

7. A written report on each Investment Manager visit shall be provided to the Board.

8. Informal visits to an Investment Manager or to a real estate property by Board or staff members are encouraged when a Board member or staff member is in the area.

E. Participation on Advisory Committees or Advisory Boards

1. The Board shall not appoint a representative to any advisory committee or board established in connection with any of the limited partnerships (or other entities) in which CCCERA invests, and a Board or staff member shall not accept such a position, unless:

a. The general partner (or other manager of the entity) has agreed, under the partnership agreement, or other agreements specifically incorporated therein, that such representative shall have no authority or discretion to vote to approve or disapprove, or consent to, the activities of the general partner or other manager;

b. The general partner and other manager or advisor have disclaimed any rights against such representative as a member of the advisory committee or board, including subrogation rights; and

c. The general partner and other manager or advisor has agreed that such representative, CCCERA and the partnership (or other entity) shall be indemnified by the partnership, the general partner and other manager or advisor for any actions taken against any of them as to which the representative acted in good faith.

d. The general and limited partners, and other manager or advisor, have expressly agreed in writing that the representative and CCCERA do not owe a fiduciary duty to any of them by reason of its participation on such advisory committee or board.

2. The Board may appoint a representative to such a position on a case-by-case basis consistent with the foregoing provisions.

F. Emergencies

1. An “emergency” will be deemed to exist whenever:

a. A Managed Account suffers the resignation or other loss of its Investment Manager and no appropriate replacement is available; or

b. An Investment Manager dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; or

c. An Investment Manager is “shut down” by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; and

Action to transfer management of the affected Managed Account shall be taken as soon as possible after CCCERA learns of the emergency.

2. In the case of an emergency, the Chief Executive Officer, or in the Chief Executive Officer’s absence, the Deputy Chief Executive Officer or the Chief Investment Officer will:

a. Attempt to notify the Chair and Vice Chair immediately.

b. Notify the Custodian Bank that the Investment Manager’s Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized.

c. Call an emergency meeting of the Board to take action of a more long-term nature.

IX. <u>**AUTHORITY OF INVESTMENT MANAGERS**</u>

Subject to the terms and conditions of this Statement, Investment Managers shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of the assets of the Managed Accounts. The Board expects that the Investment Managers will recommend changes to this Statement at any time when the

Manager views any part of this Statement to be at variance with overall market and economic conditions.

The Managers shall place orders to buy and sell securities and, by notice to the Custodian Bank, shall cause said custodian to deliver and receive securities on behalf of the Trust.

The Board shall either vote or, through a third party administrator, direct the voting of its proxies for all stocks held in its separate account equity portfolios.

X. INVESTMENT GUIDELINES

The following guidelines apply to all Investment Managers. Any further constraints, limitations or authorities to an individual manager, which are specific to that manager and have been agreed to by the manager and CCCERA, also apply.

A. In General

1. All investments shall comply with all applicable laws of the State of California governing the investment of the pension funds of counties.

2. All securities transactions shall be executed by reputable broker/dealers or banks, including any bank acting as custodian, and shall be at a best execution including, without limitation, best price basis. Those Domestic Equity Investment Managers so directed by the Board are expected to direct up to 25% of their transactions to brokers participating in the Board's commission recapture program. All Investment Managers shall provide periodic transaction information so that the Board may monitor the placement of commissions.

3. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

4. Except for the Real Estate and Alternative Investment Portions, fees paid to Investment Managers shall be based on the Custodian Bank's valuation of the manager's portfolio on a market and trade date basis.

5. All Domestic Equity and Domestic Fixed Income portfolios, unless exempted by the Board, shall not hold securities in any corporation that derives 15% or more if its revenue from tobacco products. All other Investment Managers are encouraged to avoid investments in companies that derive 15% or more of their revenues from tobacco products.

B. Global Equity Portion

The Global Equity Investment Managers may invest solely in equity securities as defined in III A above, subject to the following:

1. The maximum percentage of the value of a Managed Account which may be invested in the securities of a single corporation shall be 10% of the value of the Managed Account at market, unless a different maximum percentage is specified in the Investment Manager’s agreement with CCCERA.

2. A Managed Account shall not hold more than 5% of the equity securities of an issuer, unless a different percentage is specified in the Investment Manager’s agreement with CCCERA.

3. Derivatives shall only be used to obtain exposure to the equity markets, to reduce unwanted exposure to foreign currencies, or as a substitute for an underlying common stock. The Investment Manager shall explain any use of a derivative as a substitute for a common stock.

4. Other securities as detailed in accordance with the Investment Manager’s agreement with CCCERA.

C. Global Fixed-Income Portion

1. Core plus fixed income account securities will be restricted to the following:

   a. Obligations of the U.S. Treasury

   b. Obligations guaranteed by an agency of the United States

   c. Government, agency, quasi-government and supranational bonds.

   d. Certificates of deposit and banker’s acceptance of credit-worthy banks

   e. Corporate, asset backed and mortgage backed securities and structured notes and other evidences of debt, rated Baa or better by Moody’s Investor Services or rated BBB or better by Standard & Poor’s.

   f. Eligible instruments issued pursuant to SEC Rule 144(a) or Regulation S.

   g. Commercial paper (including variable rate notes) of issuers rated P-1 by Moody’s Investor Services and A-1 by Standard & Poor’s.

   h. Lower risk planned amortization class (PAC) collateralized mortgage obligations (“CMO”) and Sequential CMOs. CMOs other than PACs and Sequentials are limited to a maximum of 10% of the fixed income portfolio at cost.

   i. Portfolio holdings in CMOs greater than 15 years or less than negative 15 years in duration (based on a 100 basis point move in rates) are limited to no more than a total of 2% of the fixed income portfolio at cost.

j. Currency Forwards and Non-Deliverable Forwards (NDF's). Such currency forwards shall only be with counterparty banks with A or better credit ratings by Standard & Poor's or Moody's.

k. Fixed income futures, on an unleveraged basis, such that the market notional value of all long contracts shall be covered by cash, cash receivables, or cash equivalents with one year or less in duration.

l. Other securities as detailed in accordance with the Investment Manager's agreement with CCCERA.

2. High yield account(s)

a. Any security permitted for the Core Plus fixed income managers in X.D.1(a)-(e) above.

b. High yield securities as specified in accordance with the Investment Manager's agreement with CCCERA.

D. Incidental Cash Portion

The Incidental Cash Portion shall be invested in the same readily marketable and diversified assets as are enumerated in the Fixed Income Portion Guidelines. The maturity of such assets shall not exceed 15 months. The investments by the County Treasurer shall comply with the laws of the State of California.

The Board may invest in non-negotiable certificates of deposit if the following criteria are satisfied.

1. The CDs are registered in the name of CCCERA.

2. FDIC insurance coverage covers the entire invested amount, and,

3. FDIC insurance is not waived by CCCERA.

XI. SEPARATELY HELD REAL ESTATE

Market appraisals shall be conducted by an independent appraiser every three years on all properties which are separately held.

In accordance with the standards as set forth in the Government Accounting Standards Board (GASB) statement #25, all properties will be reflected in CCCERA's financial statements at fair value.

ADOPTION AND ACCEPTANCE

The Board of Retirement of the Contra Costa County Employees' Retirement Association hereby adopts this Statement of Investment Policies and Guidelines and Schedules thereto.

By: ____________________________________

Date: ____________________________________

The undersigned Investment Manager acknowledges receipt of this Statement and:

1. Warrants that it is currently, and will maintain registration as:
   - An investment advisor under the Investment Advisers Act of 1940,
   - A bank (as defined in that act),
   - An insurance company qualified to perform investment management services under state law in more than one state,
   - A trust operating as an investment company under the Investment Company Act of 1940, or
   - A state-chartered trust company authorized to carry on a trust banking business.
2. By signing this acceptance, acknowledges that it is a fiduciary with respect to assets of the Trust under its management or control (including assets of any Partnership attributable to the Trust).
3. Agrees to include within its periodic report to the Board of Retirement assurance that it believes its investment decisions are in accord with the provisions of this Statement.
4. Agrees to recommend to the Board changes to this Statement at any time when the Investment Manager views any part of this Statement to be at variance with overall market and economic conditions.
5. States that it is unable to provide an unqualified acknowledgment and acceptance of item(s) ____ above but has agreed to explain same and to provide a modified acknowledgment and acceptance as to such item(s), which may be found in ________________.

ACCEPTED

(Investment Manager)

By: ____________________________________
Signature

Date: ____________________________________

Name ____________________________________
Print

Company Name ____________________________________
Print

INVESTMENT POLICY

SCHEDULE I

ASSET CLASS TARGETS

	Target	Range
Global Equity	49 %	44 - 54 %
Global Fixed Income	29 %	24 - 34 %
High Yield Fixed Income	3 %	1 - 5 %
Real Estate	11.5 %	8 - 14 %
Alternative Investments	7 %	5 - 9 %
Cash	0.5 %	0 - 1 %

INVESTMENT POLICY

SCHEDULE II

ALLOCATION OF CASH RECEIVED

IF THE MOST UNDER-TARGET ASSET CLASS IS:	TEMPORARILY PLACE CASH IN:
Equities	PIMCO Stocks Plus portfolio
Fixed Income	Core Plus Fixed Income (ie. PIMCO and/or Lord Abbett and/or Goldman Sachs (core plus account)
Real Estate	Adelante Capital Management

ALLOCATION OF CASH DISPERSED

IF THE MOST OVER-TARGET ASSET CLASS IS:	TEMPORARILY DISPERSE FROM:
U.S. Equities	PIMCO Stocks Plus portfolio
U.S. Fixed Income	Core Plus Fixed Income (ie. PIMCO and/or Lord Abbett and/or Goldman Sachs (core plus account)
U.S. Real Estate	Adelante Capital Management

INVESTMENT POLICY
SCHEDULE III
INVESTMENT MANAGER BENCHMARKS

Manager	Index	Database
Boston Partners	Russell 1000® Value	US Eq Large Value
Delaware	Russell 1000® Growth	US Eq Large Growth
Emerald	Russell 2000® Growth	US Eq Small Growth
Intech Enh+,Lg. Cap Core	S&P 500	US Eq Large Core
PIMCO Stocks Plus*	S&P 500	US Eq Large Core
Progress	Russell 2000®	US Eq Small Core
Rothschild	Russell 2500™ Value	US Eq Small Value
Wentworth	S&P 500	US Eq Large Core
GMO	MSCI EAFE Value	Intl Equity
McKinley	MSCI ACWI X-US Gro	Intl Equity
AFL-CIO Housing	Barclays Capital US Aggregate	US Fixed Income
ING Clarion I, II, III	Merrill Lynch Hi Yld II	US High Yield
Nicholas-Applegate	Merrill Lynch Hi Yld II	US High Yield
PIMCO fixed income	Barclays Capital US Aggregate	US Fixed Income
Lord Abbett	Barclays Capital US Aggregate	US Fixed Income
Goldman Sachs AM	Barclays Capital US Aggregate	US Fixed Income
Lazard Asset	Barclays Capital Global Aggregate (in USD terms unhedged)	
Adelante	DJ-Wilshire REIT	US REIT
Invesco (Int'l REIT)	FTSE EPRA/NAREIT Global exUS	Int'l REIT
Blackrock Realty	NCREIF Apartment +300 bps	US Real Estate
DLJ 1,2,3,4	NCREIF + 500 bps	US Real Estate
FFCA	NCREIF	US Real Estate
Fidelity II, III	NCREIF + 500 bps	US Real Estate
Hearthstone 1, 2	NCREIF + 500 bps	US Real Estate
Invesco 1, 2	NCREIF + 300 bps	US Real Estate
Prudential SPF II	NCREIF + 300 bps	US Real Estate
Adams Street	S&P 500 + 400 bps	
Bay Area Equity 1,2	S&P 500 + 400 bps	
Carpenter	S&P 500 + 400 bps	
Energy Inv. USPF 1, 2, 3	S&P 500 + 400 bps	
Nogales	S&P 500 + 400 bps	
Paladin	S&P 500 + 400 bps	
Pathway	S&P 500 + 400 bps	
PT Timber III	S&P 500 + 400 bps	

CONTRA COSTA COUNTY
Employees' Retirement Association
BOARD OF RETIREMENT

Statement of General
INVESTMENT POLICIES
And GUIDELINES

Adopted 7/9/85
Last revised 10/30/13

Statement of General INVESTMENT POLICIES and GUIDELINES
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STATEMENT OF GENERAL INVESTMENT POLICIES
AND GUIDELINES FOR THE RETIREMENT PLAN TRUST OF THE
CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ADOPTED 7/9/85
AMENDED: 1/14/86, 2/27/86, 10/13/87, 8/9/88, 6/13/89, 8/8/89, 1/8/91, 10/13/92, 2/9/93, 5/2/94, 10/14/97, 5/4/99, 1/9/01, 2/12/02, 06/11/02, 11/06/02, 1/28/04, 5/26/04, 7/28/04, 12/14/05, 10/24/07, 4/08/09, 10/30/13

I. INTRODUCTION

The Board of Retirement (the "Board") of the Contra Costa County Employees' Retirement Association ("CCCERA") has established the following Statement of General Investment Policies and Guidelines (the "Statement") for the investment of the trust fund (the "Trust") of the CCCERA Retirement Plan (the "Plan"). The Board reserves the right at any time and from time to time to amend, supplement or rescind this Statement.

II. **AUTHORITY**

The investment of the assets of the Trust shall be in accord with applicable law, including but not limited to the following:

A. Investments shall be solely in the interest of, and for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries, minimizing the contributions of employers thereto, and defraying the reasonable expenses of administering the Trust (Cal. Gov. Code Sec. 31595 (a)).

B. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims (Cal. Gov. Code Sec 31595 (b)).

C. Investments shall be diversified so as to minimize the risk of loss and to maximize the rate of return unless under the circumstances it is clearly prudent not to do so (Cal. Gov. Code Sec. 31595 (c)).

D. In considering potential investment managers, it is the policy of the Board not to exclude managers from consideration based on ethnic background or gender, and not to arbitrarily exclude an emerging firm if, in the opinion of the Board, that firm has equal or superior capabilities to other candidates.

E. It shall be the policy of the Board that an Economically Targeted Investment (ETI) can be considered if and only if it has return and risk characteristics attractive in comparison to other alternatives.

III. ASSET CATEGORIES

For the purpose of setting objectives and guidelines for the investment of the assets of the Trust, the assets shall be considered as divided into seven portions described as the **Global Equity Portion,** the **Global Fixed Income Portion,** the **Real Estate Portion**, the **Real Assets Portion**, the **Alternative Investments Portion, the Opportunistic Portion** and the **Incidental Cash Portion**. The Domestic and International Equity Programs are considered part of the Global Equity Portion. The Domestic Fixed Income Program, the High Yield Fixed Income Program and the Non-Traditional Fixed Income Program are considered parts of the Global Fixed Income Portion.

The Global Equity Portion, the Global Fixed Income Portion, the Real Estate Portion, the Real Assets Portion, the Alternative Investments Portion and the Opportunistic Portion shall be under the supervision of qualified Investment Managers and shall collectively and individually be called Managed Accounts. The term 'Investment Manager' shall include traditional investment managers that exercise discretionary authority in selecting investments, as well as general partners of limited partnerships in which CCCERA invests and similarly situated management of other entities in which CCCERA invests (collectively, 'Partnerships'). The term "Investment Manager" shall also include investment advisors retained by any such Partnerships, to the extent such investment advisors exercise discretionary authority in selecting investments for any such Partnerships.

A: The **Global Equity Portion** shall consist of investments in common stock and other securities which are convertible into common stock and cash equivalents and securities which are being used as substitutes for common stock. The Global Equity Portion cash and cash equivalents of separate accounts shall be held and invested by the Custodian Bank described in Section V below. The Global Equity Portion may be further divided into domestic, international and global; large, mid and small capitalization; and growth, value, and core.

B: The **Global Fixed Income Portion** shall consist of investments in fixed income securities including cash equivalents. Global Fixed Income may be divided into domestic, international and global core and core-plus, High Yield (publicly traded) and Non-Traditional Fixed Income.

C: The **Real Estate Portion** shall consist of investments in real estate through the use of commingled and direct investments, and publicly traded real estate investment trusts (REITs), including cash equivalents.

D: The **Real Assets Portion** shall consist of investments in real assets, in both public security and private partnership forms. The public security allocations shall be the temporary holder of capital to be called for the real asset private partnerships. Real Assets shall include, but not be limited to, investments in energy production, energy transmission, timber, agriculture, inflation protected securities, commodities and infrastructure.

E: The **Alternative Investments Portion** shall consist of other investments of recognized institutional merit not included in III A, B, C, D or F, through the use of commingled and direct investments.

F: The **Opportunistic Portion** shall consist of investments of recognized institutional merit. This allocation is intended to exploit temporary market or asset dislocations.

G: The **Incidental Cash Portion** shall include short-term monies not allocated to the Managed Accounts, including but not limited to unallocated or prepaid contributions and funds formerly allocated to Investment Manager(s) awaiting reallocation to other Investment Manager(s). The Incidental Cash Portion shall be invested in short-term fixed income instruments.

IV. **INVESTMENT OBJECTIVES**

A. Total Fund Benchmarks

The general investment objective of **the Trust** is the preservation of capital plus a return from capital appreciation plus current income that meets Trust needs without taking undue risk. The relative return objective is a total return on a market value basis which exceeds that of a custom index composed of appropriate asset class indexes weighted proportionally by corresponding asset class targets. The minimum average annualized rate of return objective over a market cycle is 400 basis points in excess of the National Consumer Price Index for all Urban consumers over that market cycle.

B. Global Equity Portion

1. For the combined **Global Equity Portion, the objective is an after fee rate of return in excess of a custom benchmark composed of 60% Russell 3000 and 40% MSCI World ex US**

2. For overall **Domestic Equities**, the objective is an after fee rate of return in excess of the Russell® 3000 and a rate of return within the upper half of a database of domestic equity portfolios.

3. For the **Domestic Large Capitalization** sub-set, a rate of return, after fees, on a risk-adjusted basis, which is in excess of the Standard & Poor 500 and a return within the upper half of the large capitalization database; and

4. For the **Domestic Small Capitalization** sub-set, a rate of return which, after fees, exceeds that of the Russell® 2000 Index and is within the upper half of the small capitalization database.

5. The objective of overall **International Equities** is a rate of return, after fees, in excess of the Morgan Stanley Capital International Europe, Australia and the Far East (MSCI EAFE) Index (gross); and which is within the upper half of the appropriate database of international equity investment managers.

C. Global Fixed Income

1. The objective of the overall **Global Fixed Income Portion** is a custom index composed of 80% Barclays Capital US Aggregate, 10% Barclays Capital Global Aggregate and 10% Merrill Lynch High Yield II.

2. The objective of overall **Domestic Fixed Income** (including non-traditional fixed income) is a rate of return which, after fees, is in excess of the Barclays

Capital Universal Bond Index and which is within the upper half of a database of domestic fixed income portfolios.

3. The objective of the publicly traded **Domestic High Yield Fixed Income** sub-set is to exceed, after fees, the Merrill Lynch High Yield II index and to achieve a rate of return within the upper half of its peer group.

4. The objective of the **Global Fixed Income portfolio(s)** is to exceed, after fees, the rate of return of the Barclays Capital Global Aggregate Bond Index.

D. Real Estate

1. The objective of the overall **Real Estate Portion** is a rate of return which, after fees, is in excess of a custom index weighted 64% in the NCREIF Index and 36% in the Dow Jones Wilshire REIT Index, and which is within the upper half of a database of real estate portfolios.

2. The objective for the investments in illiquid real estate (direct and commingled) is the NCREIF Index, plus an appropriate premium based upon the fund's risk profile, as detailed in Schedule III.

E. Real Assets

1. The objective of the overall **Real Assets Portion** is a rate of return, after fees, in excess of that of the CPI-U Index + 400 basis points

2. The objective for the investments in illiquid real assets (direct and commingled) is the CPI-U Index + 600 basis points.

F. Alternative Investments

The objectives of the **Alternative Investments Portion** are:

1. A rate of return after all fees which is in excess of that of the Standard & Poor's 500 stock index plus 4% per year.

2. A rate of return in excess of that of other comparable investments.

G. Opportunistic Investments

The objective of the **Opportunistic Portion** is:

1. A rate of return after all fees which is in excess of the Total Fund return target.

H. Incidental Cash

The objective of the **Incidental Cash Portion** is to achieve a return after fees in excess of that of Treasury Bills of a comparable average maturity.

I. **Individual Manager Objectives** are presented in Schedule III.

V. **CUSTODIAN BANK and COUNTY TREASURER**

A. The custodian bank selected by the Board to act as the principal custodian of assets of the Trust (the "Custodian Bank") may be directed to invest in temporary short-term fixed income investments both for the Managed Account Investment Managers and as a part of the Incidental Cash Portion. Such investments are not to exceed 15 months in maturity. Cash managed for Managed Account Investment Managers shall be considered to be sub-portions of the asset Portions managed by the directing Investment Managers.

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

C. The County Treasurer will manage any assets of the Incidental Cash Portion not managed by the Custodian Bank in accordance with Government Code Section 53601 et al.

VI. **ASSET ALLOCATION**

A. Targets

The asset allocation targets and their associated ranges, which are a function of the returns and risks from various asset classes and the nature of the Plan's liabilities, are set forth on Schedule I of this Statement. The Board may make tactical adjustments to these targets and ranges, and may change the targets and ranges as appropriate.

B. Rebalancing

To facilitate rebalancing the portfolio and transfer of excess cash with minimal transaction cost or disruption of individual managers' investment strategies:

1. All Investment Managers of separate accounts will remit interest, dividends and rents unless otherwise directed by the Board.

2. At a Board meeting in August and February, and at any other time deemed appropriate, the Board may consider rebalancing that has been, or is to be, implemented by staff as follows:

    a. The under-funded class(es) may be rebalanced with funds from the class(es) that are over-funded according to the asset allocation targets.
    b. Within each class, the under-funded Investment Manager(s) may be rebalanced with funds from the Investment Manager(s) who are over-funded according to the asset allocation targets.
    c. Because of illiquidity and/or structure constraints, real estate, alternative investments and other privately traded investments will not have funds withdrawn if they are temporarily over-funded, with the exception of REIT investments.

C. Cash Allocation

1. Cash flow "in" that is expected to be needed to meet capital calls or other cash flow requirements will be temporarily placed in the most under-target asset class of either Domestic Equities, Domestic Fixed Income, or REITs according to Schedule II.

2. Cash flow "in" in excess of Item 1 will be allocated to the most under-target asset class which is able to accept new funds, and to the most under-target Investment Manager in the class, until that Investment Manager is brought to target, with the exception that if the Board has decided that an

Investment Manager will be precluded from new funding (Section VIII C.3), the next most under-target Investment Manager will be funded.

3. Cash flow "out" will be planned for and will generally come from available cash or from a designated portfolio as in Schedule II.

VII. **INVESTMENT MANAGER SELECTION**

A. Process for Identifying Investment Managers for Consideration

An investment manager candidate may be considered by the Board either as the result of a manager search the Board has authorized or because the candidate has been presented as an idea at a Board meeting by a Board member, by the Chief Investment Officer or by the Investment Consultant.

In the ordinary course of business, managers are to be identified and presented to the Board for consideration following the Standard Search Process, below. However, any Board member, the Chief Investment Officer or the investment consultant who thinks an investment idea or product merits consideration, may raise the matter at a Board meeting. If the Board agrees that the idea has merit, the Board's Investment Consultant may be asked to review and comment on the investment. If, after the Consultant's review the Board concurs that the idea or product merits consideration, the applicable Investment Manager may be invited to appear at a future Board meeting, subject to further due diligence. Alternatively, the Board member may request the matter be placed on an agenda to discuss whether a presentation should be scheduled. In this case, the Board Chair may request that the Board's Investment Consultant be prepared to offer comment during the meeting, with the intent that the Board could make a decision at the meeting regarding a presentation.

In connection with the Board's consideration of any presentation by an Investment Manager as outlined above, Board members and senior Investment Staff shall publicly disclose at the board meeting any prior communications they have had with the subject Investment Manager, and any actual or potential personal financial interests they may have that could be impacted by the Board's consideration of the Investment Manager.

Once a prospective Investment Manager has been invited to present to the Board, the manager and Board shall abide by the "quiet period" restrictions set forth in Sec. B. 2, below.

In all instances when CCCERA is considering a new investment, the prospective firm must complete the CCCERA Placement Agent questionnaire prior to presenting to the Board.

B. Standard Search Process

1. Ordinarily, the Board will identify a particular mandate for which one or more Investment Managers are to be engaged. The Board will direct the Investment Consultant and Staff to develop a detailed "Manager Profile,"

specifying the criteria sought for a manager or managers to fulfill the mandate.

2. Once the Board has directed the Investment Consultant and Staff to develop a Manager Profile, a "quiet period" will ensue, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, *unless* authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board's entering into a contract for the Investment Manager(s) selected for the mandate. The Investment Consultant is responsible for alerting the candidates to the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

3. An Investment Manager search may follow the Board's identification of a mandate. The Investment Consultant will conduct the search in accordance with the Manager Profile. The search criteria will include the scope of the mandate, the investment style, benchmark, fee structure and minimum qualifications for candidates. The minimum qualifications will include successful performance track record relative to benchmark, disciplined investment processes, effective risk management procedures, size of assets under management, experience and capability of staff, organizational stability and applicable regulatory certification and compliance.

4. The Investment Consultant initially will examine its database to identify possible candidates who fit the Manager Profile. Any member of the Board and Staff may also suggest that the Investment Consultant to examine the specific merits of a particular candidate.

5. The Investment Consultant will send out requests for information to qualified candidates meeting the requirements of the Candidate Profile.

6. The Investment Consultant will evaluate candidates and return to the Board with a semi-finalist list, and recommendations for narrowing the list to a finalist list for interview by the Board. Investment Consultant and Staff may perform on-site due diligence on finalist managers, as directed by the Board.

7. Any investment managers that present to the Board as finalists will have satisfied the Investment Consultant and Staff that they are appropriate candidates.

8. All Investment Manager contracts will be subject to final due diligence (including an on-site visit) and satisfactory documentation following Board approval.

C. Non-Standard Search Process

1. Some investments by their nature present unique opportunities and are not suited for a standard search. For example, time constraints may limit the ability to conduct a full search given the inherent features of closed end funds. Further, there may not be suitable competitors for a unique investment opportunity.

2. When such an investment is brought up at a Board meeting, the Board may request Staff and the Investment Consultant perform due diligence to evaluate the merits of the investment and its suitability, and identify competitive managers.

3. Following the requested due diligence report and an interview with the Investment Manager candidate, the Board may vote to move forward with the investment, subject to further due diligence and documentation following the Board vote.

D. Follow-on Funds

A follow-on fund is an investment which has essentially the same strategy as an illiquid closed end fund from the same Investment Manager in which CCCERA has already invested. When a follow-on fund investment becomes available in an asset class that is under its allocation target, the Board may determine to invest in such a fund without conducting a standard search. Such investment will follow the Non-Standard Search Process outlined in C, above.

E. Alternative Investments - Use of Fund-of-Funds

With investments in private equity, including without limitation, leveraged buyouts and venture capital, the Board has determined that it prefers to use fund-of-funds. This does not preclude the use of individual funds or partnerships, should the characteristics of a particular investment prove compelling and have merit for consideration.

F. Multiple Products with one Investment Manager

The Board will examine the use of one manager for more than one mandate on a case-by-case basis. It is the policy of the Board to restrict assets entrusted to any one investment management organization to no more than one-quarter of the total Trust assets.

VIII. **INVESTMENT MANAGER MONITORING**

A. Quarterly Review

1. All Investment Managers will report quarterly investment performance and compliance using a standard reporting format specified by the Board. In addition, Investment Managers are encouraged to provide their performance information in their own format as supplemental to the required report.

2. The agenda for each Quarterly Performance Review meeting is mailed to all Investment Managers in advance of the meeting. Quarterly reports are to be received in the Retirement Office in accordance with the instructions as set forth on the agenda.

3. Investment and compliance performance will be reviewed and evaluated quarterly. The Board's Investment Consultant, working with the Custodian Bank, will provide performance reports to the Board on each Investment Manager, on each asset class, and on the Trust assets in total.

4. The Board will review the income generated by its securities lending program on a quarterly basis as part of the Board's performance review process.

B. Custodial Reconciliation

1. All Investment Managers with Managed Accounts held at the Custodian Bank will provide monthly custodial market value reconciliation reports to the Retirement Accounting Manager with copies to the Investment Consultant. The reconciliation reports are to be received in the Retirement Office by the 25th day following the end of each month. This report must include a reconciliation of all cash, holdings and market values.

C. Under Review Policy

1. The Board will decide if an Investment Manager should be under review. Reasons for an Investment Manager to be under review include:

   a. Poor performance,
   b. Failure to meet Board requirements,
   c. Deviation from mandate,
   d. Change in personnel,
   e. Adverse publicity,
   f. Change in ownership,
   g. Regulatory compliance issues,
   h. Risk management issues,

i. Lack of appropriate communication, or
j. Any other reason the Board deems appropriate.

2. If an Investment Manager is placed under review, staff will notify the manager in writing that it has been placed under review.

3. If an Investment Manager is placed under review, the Board will at the same time decide if the manager should be precluded from new funding.

4. At least each quarter, and whenever the Board deems appropriate, the Board will evaluate all Investment Managers under review, and for each such manager take one of three actions:

   a. Decide the manager is no longer under review,
   b. Terminate the manager, or
   c. Keep the manager under review.

5. If the Board determines that an Investment Manager is no longer to be under review, staff will notify the manager in writing of this determination.

6. If the Investment Manager is kept under review, the Board may revisit the question of whether the manager should be precluded from new funding.

D. Investment Manager On-Site Due Diligence

1. The Board may authorize certain of its members to conduct visits to either the home office or a satellite office of a current or prospective Investment Manager or to a real estate property in the portfolio of a real estate Investment Manager.

2. Visits to investment management firms may include but are not limited to:

   a. Review of back office procedures and record keeping
   b. Review of trading operations and resources
   c. Review of research capabilities and operations
   d. Observing investment committee meetings
   e. Review of decision-making processes
   f. Review of risk management procedures
   g. Review of compliance procedures
   h. Review of disaster recovery plan

3. Visits to real estate properties may include but are not limited to:

   a. Site inspection

b. Tour of the surrounding area
c. Visits to competing properties in the area
d. Meetings with building management and leasing agent
e. Meetings with tenants
f. Observing construction or renovation activities

4. The Board members, accompanied by the Investment Consultant and senior investment staff and/or CEO, will normally visit with a prospective Investment Manager in its offices prior to hiring, as approved by the Board.

5. Visits to investment management firms may be conducted when an Investment Manager is placed under review or when there has been a change in firm ownership.

6. Generally, not more than three Board members and no more than four will be authorized to conduct an Investment Manager visit.

7. A written report on each Investment Manager visit shall be provided to the Board.

8. Informal visits to an Investment Manager (existing or prospective) or to a real estate property by Board or staff members are encouraged when a Board member or staff member is in the area.

E. Participation on Advisory Committees or Advisory Boards

1. The Board shall not appoint a representative to any advisory committee or board established in connection with any of the limited partnerships (or other entities) in which CCCERA invests, and a Board or staff member shall not accept such a position, unless:

a. The general partner (or other manager of the entity) has agreed, under the partnership agreement, or other agreements specifically incorporated therein, that such representative shall have no authority or discretion to vote to approve or disapprove, or consent to, the activities of the general partner or other manager;

b. The general partner and other manager or advisor have disclaimed any rights against such representative as a member of the advisory committee or board, including subrogation rights; and

c. The general partner and other manager or advisor has agreed that such representative, CCCERA and the partnership (or other entity) shall be indemnified by the partnership, the general partner and other manager or advisor for any actions taken against any of them as to which the representative acted in good faith.

d. The general and limited partners, and other manager or advisor, have expressly agreed in writing that the representative and CCCERA do not owe a fiduciary duty to any of them by reason of its participation on such advisory committee or board.

2. The Board may appoint a representative to such a position on a case-by-case basis consistent with the foregoing provisions.

F. Emergencies

1. An “emergency” will be deemed to exist whenever:

   a. A Managed Account suffers the resignation or other loss of its Investment Manager and no appropriate replacement is available; or

   b. An Investment Manager dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; or

   c. An Investment Manager is “shut down” by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; and

2. Action to transfer management of the affected Managed Account shall be taken as soon as possible after CCCERA learns of the emergency.

3. In the case of an emergency, the Chief Executive Officer, or in the Chief Executive Officer’s absence, the Deputy Chief Executive Officer or the Chief Investment Officer will:

   a. Attempt to notify the Chair and Vice Chair immediately.

   b. Notify the Custodian Bank that the Investment Manager’s Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized.

   c. Call an emergency meeting of the Board to take action of a more long-term nature.

IX. AUTHORITY OF INVESTMENT MANAGERS

Subject to the terms and conditions of this Statement, Investment Managers shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of the assets of the Managed Accounts. The Board expects that the Investment Managers will recommend changes to this Statement at any time when the Manager views any part of this Statement to be at variance with overall market and economic conditions.

The Managers shall place orders to buy and sell securities and, by notice to the Custodian Bank, shall cause said custodian to deliver and receive securities on behalf of the Trust.

The Board shall either vote or, through a third party administrator, direct the voting of its proxies for all stocks held in its separate account equity portfolios.

X. **INVESTMENT GUIDELINES**

The following guidelines apply to all Investment Managers. Any further constraints, limitations or authorities to an individual manager, which are specific to that manager and have been agreed to by the manager and CCCERA, also apply.

A. In General

1. All investments shall comply with all applicable laws of the State of California governing the investment of the pension funds of counties.

2. All securities transactions shall be executed by reputable broker/dealers or banks, including any bank acting as custodian, and shall be at a best execution including, without limitation, best price basis. Those Domestic Equity Investment Managers so directed by the Board are expected to direct up to 25% of their transactions to brokers participating in the Board's commission recapture program. All Investment Managers shall provide periodic transaction information so that the Board may monitor the placement of commissions.

3. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

4. Except for the private partnerships, fees paid to Investment Managers shall be based on the Custodian Bank's valuation of the manager's portfolio on a market and trade date basis.

5. All Domestic Equity and Domestic Fixed Income portfolios, unless exempted by the Board, shall not hold securities in any corporation that derives 15% or more if its revenue from tobacco products. All other Investment Managers are encouraged to avoid investments in companies that derive 15% or more of their revenues from tobacco products.

B. Global Equity Portion

The Global Equity Investment Managers may invest solely in equity securities as defined in III A above, subject to the following:

1. The maximum percentage of the value of a Managed Account which may be invested in the securities of a single corporation shall be 10% of the value of the Managed Account at market, unless a different maximum percentage is specified in the Investment Manager's agreement with CCCERA.

2. A Managed Account shall not hold more than 5% of the equity securities of an issuer, unless a different percentage is specified in the Investment Manager's agreement with CCCERA.

3. Derivatives shall only be used to obtain exposure to the equity markets, to reduce unwanted exposure to foreign currencies, or as a substitute for an underlying common stock. The Investment Manager shall explain any use of a derivative as a substitute for a common stock.

4. Other securities as detailed in accordance with the Investment Manager's agreement with CCCERA.

C. Global Fixed-Income Portion

1. Core plus fixed income account securities will be restricted to the following:

   a. Obligations of the U.S. Treasury

   b. Obligations guaranteed by an agency of the United States

   c. Government, agency, quasi-government and supranational bonds.

   d. Certificates of deposit and banker's acceptance of credit-worthy banks

   e. Corporate, asset backed and mortgage backed securities and structured notes and other evidences of debt.

   f. Eligible instruments issued pursuant to SEC Rule 144(a) or Regulation S.

   g. Commercial paper (including variable rate notes) of issuers rated not less than P-2 by Moody's Investor Services and A-2 by Standard & Poor's.

   h. Lower risk planned amortization class (PAC) collateralized mortgage obligations ("CMO") and Sequential CMOs. CMOs other than PACs and Sequentials are limited to a maximum of 10% of the fixed income portfolio at cost.

   i. Currency Forwards and Non-Deliverable Forwards (NDF's). Such currency forwards shall only be with counterparty banks with A or better credit ratings by Standard & Poor's or Moody's.

   j. Derivatives may be used to obtain exposure to the fixed income markets, to adjust portfolio risk, and to reduce unwanted exposure to foreign currencies.

k. Other use of derivatives than e. and h. above, including credit default swaps, interest rate swaps (except for centrally cleared,) IO's, PO's, inverse floaters and CMO support bonds, shall not in the aggregate exceed 15% of the portfolio measured at the time of investment.

l. Other securities as detailed in accordance with the Investment Manager's agreement with CCCERA.

2. High yield account(s)

a. Any security permitted for the Core Plus fixed income managers in X.D.1(a)-(e) above.

b. High yield securities as specified in accordance with the Investment Manager's agreement with CCCERA.

D. Incidental Cash Portion

The Incidental Cash Portion shall be invested in the same readily marketable and diversified assets as are enumerated in the Fixed Income Portion Guidelines. The maturity of such assets shall not exceed 15 months. The investments by the County Treasurer shall comply with the laws of the State of California.

The Board may invest in non-negotiable certificates of deposit if the following criteria are satisfied.

1. The CDs are registered in the name of CCCERA.

2. FDIC insurance coverage covers the entire invested amount, and,

3. FDIC insurance is not waived by CCCERA.

XI. **SEPARATELY HELD REAL ESTATE**

Market appraisals shall be conducted by an independent appraiser every three years on all properties which are separately held.

In accordance with the standards as set forth in the Government Accounting Standards Board (GASB) statement #25, all properties will be reflected in-CCCERA's financial statements at fair value.

XII. **SECURITIES LITIGATION**

CCCERA's custodian is responsible for the filing and reporting of all proofs of claim in U.S. securities litigation class action lawsuits for which CCCERA is eligible. CCCERA will retain one or more law firms or securities monitoring services to monitor CCCERA's securities litigation class action lawsuits. For international class action lawsuits, staff may work with legal counsel to determine the proper course of action.

Further details are contained in the CCCERA Securities Litigation policy.

ADOPTION AND ACCEPTANCE

The Board of Retirement of the Contra Costa County Employees' Retirement Association hereby adopts this Statement of Investment Policies and Guidelines and Schedules thereto.

By: ___________________________________
Date: ___________________________________

The undersigned Investment Manager acknowledges receipt of this Statement and:

1. Warrants that it is currently, and will maintain registration as:
   - An investment advisor under the Investment Advisers Act of 1940,
   - A bank (as defined in that act),
   - An insurance company qualified to perform investment management services under state law in more than one state,
   - A trust operating as an investment company under the Investment Company Act of 1940, or
   - A state-chartered trust company authorized to carry on a trust banking business.
2. By signing this acceptance, acknowledges that it is a fiduciary with respect to assets of the Trust under its management or control (including assets of any Partnership attributable to the Trust).
3. Agrees to include within its periodic report to the Board of Retirement assurance that it believes its investment decisions are in accord with the provisions of this Statement.
4. Agrees to recommend to the Board changes to this Statement at any time when the Investment Manager views any part of this Statement to be at variance with overall market and economic conditions.
5. States that it is unable to provide an unqualified acknowledgment and acceptance of item(s) ____ above but has agreed to explain same and to provide a modified acknowledgment and acceptance as to such item(s), which may be found in ________________.

ACCEPTED

By: ___________________________________
Signature

Date: ___________________________________

Name ___________________________________
Print

Company Name ___________________________________
Print

INVESTMENT POLICY

SCHEDULE I

ASSET CLASS TARGETS

	Target	Range
Global Equity	42.6 %	40- 55%
Global Fixed Income	24.4 %	20 - 30 %
High Yield Fixed Income	5%	2 - 9 %
Real Estate	12.5 %	10 - 16 %
Real Assets	5%	0 - 10 %
Alternative Investments	10 %	5 - 12 %
Opportunistic	0%	0 - 5 %
Cash	0.5 %	0 - 1 %

INVESTMENT POLICY

SCHEDULE II

ALLOCATION OF CASH RECEIVED

IF THE MOST UNDER-TARGET ASSET CLASS IS:	TEMPORARILY PLACE CASH IN:
Equities	PIMCO Stocks Plus portfolio
Fixed Income	Core Plus Fixed Income (ie. PIMCO and/or Lord Abbett and/or Goldman Sachs (core plus account))
Real Estate	Adelante Capital Management
Real Assets	Wellington Total Return

ALLOCATION OF CASH DISPERSED

IF THE MOST OVER-TARGET ASSET CLASS IS:	TEMPORARILY DISPERSE FROM:
Equities	PIMCO Stocks Plus portfolio
Fixed Income	Core Plus Fixed Income (ie. PIMCO and/or Lord Abbett and/or Goldman Sachs (core plus account)
Real Estate	Adelante Capital Management
Real Assets	Wellington Total Return

INVESTMENT POLICY
SCHEDULE III
INVESTMENT MANAGER BENCHMARKS

Manager	Index	Database
Ceredex	Russell 2000® Value	US Eq Small Value
Delaware	Russell 1000® Growth	US Eq Large Growth
Emerald	Russell 2000® Growth	US Eq Small Growth
Intech Large Cap Core	S&P 500	US Eq Large Core
PIMCO Stocks Plus	S&P 500	US Eq Large Core
Robeco Boston Partners	Russell 1000® Value	US Eq Large Value
TBD	MSCI EAFE Value	Intl Equity
William Blair	MSCI ACWI ex-US Growth	Intl Equity
Artisan Partners	MSCI ACWI	Global Equity
First Eagle	MSCI ACWI	Global Equity
INTECH	MSCI ACWI	Global Equity
JP Morgan	MSCI ACWI	Global Equity
AFL-CIO Housing	Barclays Capital US Aggregate	US Fixed Income
Goldman Sachs	Barclays Capital US Aggregate	US Fixed Income
Lord Abbett	Barclays Capital US Aggregate	US Fixed Income
PIMCO	Barclays Capital US Aggregate	US Fixed Income
Torchlight I, II, III, IV	Merrill Lynch Hi Yield Master II	US High Yield
Allianz Global	Merrill Lynch Hi Yield Master II	US High Yield
Lazard Asset	Barclays Capital Global Aggregate	Global Fixed Income
Adelante	Wilshire REIT	US REIT
Invesco (Int'l REIT)	FTSE EPRA/NAREIT Global ex-US	Int'l REIT
PIMCO All Asset	CPI + 400 bps	N/A
Wellington Total Return	CPI + 400 bps	N/A
Commonfund IX	CPI + 600 bps	N/A
Angelo Gordon VIII	NCREIF + 500 bps	US Real Estate
DLJ RECP II, III, IV, V	NCREIF + 500 bps	US Real Estate
Hearthstone I, II	NCREIF + 500 bps	US Real Estate
Invesco I, II, III	NCREIF + 300 bps	US Real Estate
LaSalle	NCREIF + 300 bps	US Real Estate

Long Wharf II, III, IV	NCREIF + 300 bps	US Real Estate
Oaktree REOF V, VI	NCREIF + 500 bps	US Real Estate
Siguler Guff DREOF I, II	NCREIF + 300 bps	US Real Estate
Adams Street	S&P 500 + 400 bps	
Bay Area Equity 1,2	S&P 500 + 400 bps	
Carpenter	S&P 500 + 400 bps	
Energy Inv. USPF 1, 2, 3, 4	S&P 500 + 400 bps	
Nogales	S&P 500 + 400 bps	
Paladin	S&P 500 + 400 bps	
Pathway	S&P 500 + 400 bps	
Oaktree PIF 2009	CPI + 400 bps	

I85-01

Contra Costa County Employees' Retirement Association

Investment Policy Statement

Adopted: January 14, 1986

Restated: September 28, 2016

I85-01

CCCERA INVESTMENT POLICY STATEMENT

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CCCERA INVESTMENT POLICY STATEMENT

Contra Costa County Employees' Retirement Association

Investment Policy Statement

Adopted: January 14, 1986

Restated: September 28, 2016

AMENDED: 1/14/86, 2/27/86, 10/13/87, 8/9/88, 6/13/89, 8/8/89, 1/8/91, 10/13/92, 2/9/93, 5/2/94, 10/14/97, 5/4/99, 1/9/01, 2/12/02, 06/11/02, 11/06/02, 1/28/04, 5/26/04, 7/28/04, 12/14/05, 10/24/07, 4/08/09, 10/30/13, 9/28/16

The Contra Costa County Employees' Retirement Association (CCCERA) is a public employee retirement system that was established by the County of Contra Costa on July 1, 1945. CCCERA is administered by the CCCERA Board of Retirement (Board) to provide service retirement, disability, death and survivor benefits for county employees and sixteen other participating agencies under the County Employees Retirement Law of 1937, California Government Code Section 31450 *et. seq.* (CERL), the California Public Employees' Pension Reform Act of 2013, California Government Code Section 7522 *et. seq.* (PEPRA) and other applicable laws.

1. PURPOSE

CCCERA has established an investment program (Investment Program) designed to provide sufficient assets in a timely manner to pay the benefits due to participants today and in the future, over the long-term. The purpose of this Investment Policy Statement (IPS) is to establish the policies that will guide the Investment Program. This IPS is intended to provide guidance to the Board and to its delegates, the Staff and third-party professionals. This IPS is supported by the Board's Investment Resolutions, the Investment Procedures (Procedures), and Board policies that reflect the needs of the defined benefit plan (Plan) that the Board administers. The Investment Resolutions, policies and other Board documents identified in Appendix 1 hereto are incorporated into this IPS and made a part hereof by this reference.

2. AUTHORITY

The Investment Program shall be managed in accordance with applicable law, including but not limited to the following:

- The assets of the Plan are trust funds and shall be held for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan (Cal. Const. art. XVI, sec. 17(b); Cal. Govt. Code sec. 31595).

- The board and its officers and employees shall discharge their duties with respect to the system:
  (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

  (b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

  (c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

  (Cal. Const. art. XVI sec. 17(b), (c) and (d); Cal. Gov. Code Sec. 31595 (a), (b) and (c)).

3. GOVERNANCE

The Board hereby adopts a governance model whereby specific authority, responsibility, and accountability are either retained by the Board or delegated to others based on areas of expertise and appropriate oversight. The Board retains sole responsibility governing the Plan, setting investment policy, and monitoring the Investment Program. It may choose to delegate specific areas of responsibility provided it retains appropriate oversight of the delegated activity.

A. Roles and Responsibilities

1. BOARD OF RETIREMENT

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- The governance model of the Investment Program
- Establishing and maintaining investment policy, including:
  - Investment philosophy
  - This IPS
  - Investment objectives
  - Strategic asset allocation
  - Allocation-level performance benchmarks
  - Risk philosophy
- Engaging Board consultants and service providers

- Monitoring the Investment Program

2. STAFF

CCCERA Staff (Staff), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CEO provides general direction and supervision to the CIO. The CEO and the CIO have been delegated authority to execute specific elements of the Investment Program as outlined herein as well as in the Investment Resolutions. The CEO has the authority to execute and terminate contracts between CCCERA and investment managers or other service providers as approved by the Board. The CIO has the authority to rebalance the portfolio under Section 3.B.1. of this IPS. The CIO also has the authority to manage the investment managers within the Plan under Section 3.B.2 of this IPS.

3. GENERAL INVESTMENT CONSULTANT

The General Investment Consultant (Consultant) is engaged by the Board to provide independent, objective investment advice. The Consultant is and shall agree to be a fiduciary to the Plan under California law. The Consultant works with Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the Consultant are contained in an Agreement for Professional Investment Consulting Services, and generally include providing advice with respect to:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among classes and subclasses
- Investment manager selection, evaluation and termination
- Investment performance monitoring
- Investment risk monitoring
- Capital markets projections
- Coordination with the Plan's actuary in conducting periodic asset/liability studies and other required reporting
- Board education

4. SPECIALTY INVESTMENT CONSULTANTS

Specialty consultants may be hired by the Board to work with Staff, the Consultant, and/or the Board. These will typically be asset class consultants (e.g., real estate, private equity, hedge funds) that may operate on a discretionary or non-discretionary basis, as directed by the Board, to meet the objectives of the Investment Program.

5. INVESTMENT MANAGERS

Investment Managers are delegated the responsibility of investing and managing Plan assets in accordance with this IPS and all other applicable laws and the terms of the applicable investment documents evidencing CCCERA's acquisition of an interest in an investment vehicle, and other controlling documents. Each Investment Manager must be (1) an investment advisor registered under the Investment Advisors Act of 1940; (2) a bank, as defined in that Act; (3) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Plans' assets; (4) a trust operating as an investment company under the Investment Company Act of 1940; or (5) a state-chartered trust company authorized to carry on a trust banking business. Each Investment Manager shall agree that it is a fiduciary of the Plan under California law. Subject to this IPS and their specific contractual obligations to the Plan, Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

6. CUSTODIAN BANK

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 CCCERA 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 Plan 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 as established by the Board.

B. **Delegation of Authority**

The Board has delegated authority to the CIO for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. This IPS is used to describe the delegation of authority generally with the Investment Resolutions providing additional requirements and processes. The Board shall be notified timely of all investment decisions made by the CIO and their implications to the Plan.

CCCERA INVESTMENT POLICY STATEMENT

1. REBALANCING

The Board recognizes there may be a cost to maintaining strict adherence to a target asset allocation in terms of both transaction costs and opportunity costs. The Board also recognizes that the benefit of cost minimization must be balanced against the assumption of active risk associated with allowing variances to asset allocation targets.

The CIO is delegated the authority to conduct portfolio rebalancing in order to meet two distinct objectives. The first is to maintain the long-term strategic asset allocation targets approved by the Board. The second is to capture valuation-based opportunities by deviating from the long-term strategic asset allocation targets within Zones 1 and 2 as follows:

i. Zone 1

The CIO may periodically rebalance the portfolio within Zone 1 ranges as set forth in the Investment Resolutions. When such rebalancing activity occurs, the CIO shall notify the Board at the next regularly scheduled meeting.

ii. Zone 2

With prior approval of the Board, the CIO may rebalance the portfolio within Zone 2 ranges as set forth in the Investment Resolutions. When such rebalancing activity occurs, the CIO shall notify the Board at the next regularly scheduled meeting.

For each of the zones listed above, special consideration will be given to illiquid asset classes recognizing that their funding and redemption processes are different than those of the liquid asset classes. As such, each illiquid asset class is assigned a liquid asset class to function as a holding place while the corresponding illiquid strategies are being invested.

Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.

2. INVESTMENT PORTFOLIO MANAGEMENT

While the Board believes the vast majority of investment return over the long term is dependent on the asset allocation decision and ongoing due diligence, it recognizes additional risk and return may be generated by how the asset allocation is implemented. These implementation decisions will largely be delegated to the CIO to be executed within the Investment Resolutions.

i. Hiring a new manager

The CIO shall have the authority to hire new managers (i.e., purchase interests in new investment vehicles) in accordance with the Plan's active risk budget and up to an investment amount of $100 million. The $100 million shall represent the cumulative total amount of originally committed capital under the management of a single investment manager and its affiliates. (By way of example, two vintage year funds under one manager with a commitment of $50 million each would reach the total of $100 million.) The CEO shall have authority to execute the contracts, consistent with the delegation of authority outlined in this IPS. Any cumulative commitment above $100 million shall require explicit Board approval. In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents, including but not limited to the Code of Fiduciary Conduct and Ethics, Conflict of Interest Code, Placement Agent Disclosure Policy and Procurement of Products and Services Policy.

Subject to the foregoing limitations, the CIO, with the assistance of the Consultant and Specialty Consultants, shall conduct all due diligence activities in connection with hiring new managers. The CIO shall invite the involvement of one or more Board members in the due diligence process.

Quiet period. During the process of hiring a new manager, a quiet period will apply during the evaluation process, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, unless authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board entering into a contract with the Investment Manager(s) selected for the mandate. The CIO is responsible for alerting the candidates and the Board to the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

ii. Investing in a new closed-end fund with an existing manager

In the case of closed-end funds with a limited investment lifecycle, additional investments are periodically required to maintain asset allocation targets. For such follow-on investments, Staff shall have the authority to make additional investments in an amount necessary to maintain the intended exposure, as estimated by a detailed funding analysis. Any additional investment beyond that which is required to maintain the intended exposure must be pre-approved by the Board.

In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents (e.g., Procurement of Products and Services Policy, Placement Agent Disclosure Policy, Conflict of Interest Code).

iii. Terminating existing managers

The Board recognizes investments may need to be adjusted or removed from the Plan portfolio from time to time for a variety of reasons, including:

- Organizational changes including those to the people and processes in place
- A manager's style has deviated from the initial investment thesis
- A manager's style, strategy, ethics, or philosophy is no longer appropriate for the Investment Program
- Underperformance relative to benchmark or other expectations
- Uncompetitive pricing compared to available alternatives

The CIO shall have the authority to terminate investment managers. Absent emergency circumstances (described below), prior to terminating a manager, the CIO shall present a detailed termination memo to the Board that includes:

- Purpose of the mandate
- Reason(s) for termination
- Specific plan to replace or temporarily invest the assets

Although the Board's explicit approval is not required, it shall maintain veto authority should a majority of the Board decide the planned termination is not in the best interest of the Plan.

Emergency termination. An emergency will be deemed to exist when an investment strategy suffers the resignation or other loss of its portfolio manager(s) and no appropriate replacement is available; when an investment management firm dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; when an investment management firm is actually or effectively shut down by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; when the Plan's investment is in jeopardy of material loss; or when such other developments with the investment management firm give concern to the CIO that the investment is no longer prudent for the Investment Program. Staff shall take action to transfer management of the affected investment strategy as soon as possible after CCCERA learns of the emergency. In the case of an emergency, the CEO, or in the CEO's absence, the Deputy CEO or the CIO will attempt to notify the Chair and Vice Chair of the Board immediately; notify the Custodian Bank that the Investment Manager's Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized; and may call a special meeting of the Board to take further action.

4. INVESTMENT PHILOSOPHY

The Investment Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of the fiduciary obligations. The statements below set forth the Board's Investment Philosophy:

Plan objectives should guide all decision making

The Investment Program is designed to provide benefits to participants over a long term without accepting undue risks that could be detrimental to the participants or Plan sponsors. The Investment Program, therefore, must be managed in a prudent manner recognizing the relationships between the benefits promised to participants and their beneficiaries, the financial health of the Plan sponsors, and the exposures within the Investment Program.

Asset allocation drives portfolio volatility and returns

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.

Short-term investing

Over shorter investment periods of up to five (5) years, volatility can be more detrimental to the success of the Investment Program. Because paying benefits to participants and their beneficiaries occurs continuously, the forced selling of assets during broad market corrections to meet these payments could result in the long-term impairment of investable capital. By maintaining a portion of the portfolio invested in low-volatility, highly liquid securities and investment strategies, the Investment Program will be able to mitigate or avoid the forced selling of assets during broad market corrections.

Long-term investing

Over longer investment periods, volatility can be managed more effectively to produce beneficial results for the Investment Program. Market corrections will occur and when they do, patient and well-capitalized investors are able to wait until the market recovery takes place. Additionally, broad market corrections have historically provided investment opportunities for those with available capital and the foresight to make additional investments.

Fees

Fees directly impact the investment results of the Investment Program but are necessary to appropriately compensate the investment management of the Investment Program. Fees must, therefore, be measured closely against the value the Investment Program expects to earn and aligned to ensure incentives are consistent with the objectives of the Plan.

5. INVESTMENT OBJECTIVES

The investment objectives of the Investment Program are:

- To provide liquidity to meet retiree benefit payments in a timely manner;
- To produce long-term growth to meet future retiree benefit payments and maintain a funding surplus or closing a funding gap over time; and
- To protect the assets against the adverse impacts of rising inflation and investment market volatility.

Investment objectives specific to the individual investment strategies are further defined in the Board's Investment Strategy portion of this IPS.

6. INVESTMENT STRATEGY

The Board has chosen to employ an investment strategy that seeks to align the Investment Program with the investment objectives listed in Section 5 of this IPS. The strategy divides the portfolio into three functional sub-portfolios—Liquidity, Growth, and Diversifying—to address each investment objective highlighted in Section 5. The Liquidity Sub-portfolio is dedicated to funding near-term benefit payments. It is joined with the longer-term Growth Sub-portfolio as well as the Diversifying Sub-portfolio, which is intended to offset some of the investment risks embedded in the Growth Sub-portfolio. While the three sub-portfolios are aligned with the investment objectives individually, collectively they allow the Investment Program to provide appropriate risk and return characteristics.

A. Asset Allocation

The Board has adopted a strategic asset allocation based on the Plan's projected actuarial liabilities, liquidity needs, risk tolerance and the risk/return expectations for various asset classes. This asset allocation seeks to optimize long-term returns for the level of risk the Board considers appropriate. The current asset allocation table may be found in the Asset Allocation Investment Resolution.

Since projected liability and risk/return expectations will change over time, the Board will conduct a periodic review of the strategic asset allocation to maintain an expected optimal allocation. The Board may also revise the asset allocation in response to significantly changing conditions that have affected valuations and forward-looking expected returns of asset classes. The Board will review capital market expectations annually. The result of this review will be used to update the Investment Resolutions as needed.

B. Functional Sub-portfolios

As noted previously, the investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the Liquidity Sub-portfolio is assessed annually and is based on the projected benefit payments and expenses of the Plan. The remaining assets are invested in the Growth and Diversifying sub-portfolios. Annually the Board shall review the relative size and composition of these sub-portfolios and revise them as necessary through Investment Resolutions. The functional sub-portfolios are set forth below:

1. LIQUIDITY SUB-PORTFOLIO

The purpose of the Liquidity Sub-portfolio is to ensure adequate assets are available to pay benefits over an extended timeframe as outlined in the Investment Resolutions. The Board has established a target allocation amount of 48 months' worth of projected benefit payments in the Liquidity Sub-portfolio, which will be drawn down and replenished annually. The assets will be invested in 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 a minimum level of credit risk. As a secondary purpose, a portion of the Liquidity Sub-portfolio may be allocated to the Growth Sub-portfolio during broad market corrections so long as at least 24 months of projected benefit payments and expenses are maintained in the Liquidity Sub-portfolio.

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.

2. GROWTH SUB-PORTFOLIO

The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. Assets from the Growth Sub-portfolio may be sold over time and transferred to the Liquidity Sub-portfolio as needed. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. 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.

3. DIVERSIFYING SUB-PORTFOLIO

The purpose of the Diversifying Sub-portfolio is to offset the investment risk of the Growth Sub-portfolio. Investment strategies in the Diversifying Sub-portfolio are expected to have return profiles that have a low correlation to those in the Growth Sub-portfolio. This is expected to effectively dampen the market volatility across the entire portfolio. As a secondary objective, the investment strategies in the 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 in order to fund the Liquidity Sub-portfolio.

The success of the 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.

4. INTERACTION BETWEEN THE FUNCTIONAL SUB-PORTFOLIOS

The allocations to the Liquidity, Growth, and 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 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 Board will conduct two annual reviews: an annual capital review to assess the relative value and risks associated with each asset class; and an annual funding plan to determine how to replenish the Liquidity Sub-portfolio.

Annually the CIO and Consultant jointly shall deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year.

Additionally and subsequent to the capital markets review, the CIO will present an annual funding plan, which will provide a recommendation of how best to replenish the Liquidity Sub-portfolio for the next projected 48 months of benefits payments and expenses. The CIO will provide a monthly report to the Board on the progress of funding the Liquidity Sub-portfolio through a combination of harvesting income from the Growth and Diversifying sub-portfolios, asset sales in the Growth and/or Diversifying sub-portfolios or the use of contributions. Under normal market conditions, the balance in the Liquidity Sub-portfolio is expected to vary between 36 and 48 months of projected benefit payments and expenses.

C. **Investment Strategy Attributes**

All investment strategies, whether currently used by the Investment Program or being considered for inclusion in the Investment Program, will be evaluated on their own unique risk and return characteristics as well as their contribution to the overall Investment Program's risk and return characteristics. Other risks pertaining to the individual investment strategies and/or the firm managing the strategy will also be considered.

Fees and expenses of the investment strategies will be closely evaluated against competitive strategies and the value provided for the services rendered. While lower fees are clearly preferred over higher fees, the Plan seeks to identify investment strategies capable of providing value for participants by generating investment returns in excess of benchmark returns plus fees. Fee structures will be evaluated to ensure appropriate incentives are provided to achieve the desired outcomes for the Investment Program.

7. RISK PHILOSOPHY

The Board recognizes that the assumption of investment risk is necessary to meet the Plan's objectives. Investment risk is viewed as both the annualized standard deviation of investment returns (volatility) and drawdown exposure. Drawdown exposure measures the expected investment loss during a market correction. Additional sources of risk include regulatory, governmental, counterparty, environmental, social and currency. Investment risk, in and of itself, is intrinsically neither good nor bad; it is a condition accepted in the pursuit of investment returns. The goal in managing investment risk is to ensure that an acceptable level of risk is being taken at the total Plan portfolio level. To accomplish this goal, the Plan invests in broad asset classes, via specific investment strategies within those asset classes, which have desirable expected return, risk, and correlation characteristics. While the individual strategies have a wide range of risk and return characteristics, the correlations between the strategies allows for effective portfolio diversification.

The approach used in constructing the portfolio further focuses on the risk characteristics by ensuring the preservation of the Liquidity Sub-portfolio assets as detailed previously in this IPS. Because these assets are invested in lower risk and lower return investments, the assets are well protected. This then allows for the Growth Sub-portfolio to assume greater investment risk in pursuit of higher expected returns. The Diversifying Sub-portfolio then offsets a portion of the investment risk embedded in the Growth Sub-portfolio to protect against drawdown risks.

8. PORTFOLIO MONITORING

In discharging its fiduciary duty to prudently manage the Investment Program, the Board has developed the following structure for ongoing monitoring of existing investment managers. Reporting processes are, therefore, designed to provide the Board with the information needed to execute this oversight function. Accurate, timely, and clear reporting to the Board of the Plan's assets, investment risks and returns, portfolio costs, and investment decisions are essential to assisting the Board in discharging its fiduciary duties.

The CIO and General Investment Consultant will monitor individual investment managers' performance quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The General Investment Consultant will present a portfolio investment performance report to the Board on a quarterly basis. Performance will be measured for the total portfolio as well as sub-portfolios and individual portfolios. Each investment manager shall have a clear role within the total fund. The quarterly report will highlight any variance from that role.

The CIO, with the assistance of the General Investment Consultant and Specialty Consultants, shall conduct periodic on-site due diligence activities in connection with evaluating managers. The CIO shall invite the involvement of one or more Board members in the due diligence process. Additionally, the Board may from time to time determine that it is in the best interest of the participants and beneficiaries for one or more Board members to visit the offices of an investment manager, in order to further the Board members' understanding of the manager's strategy and its role in the CCCERA portfolio.

CCCERA INVESTMENT POLICY STATEMENT

APPENDIX 1: REFERENCED INCORPORATED DOCUMENTS

The documents referenced in the Investment Policy Statement are listed below and incorporated by reference into this IPS:

- CCCERA Board Investment Resolutions
- Placement Agent Disclosure Policy
- Code of Fiduciary Conduct and Ethics
- Conflict of Interest Code
- Procurement of Products and Services Policy
- Other Investment-Related Board Actions