

INVESTMENT POLICY STATEMENT

FOR

CENTRAL CONTRA COSTA SANITARY DISTRICT

SECTION 115 TRUST PENSION FUND

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Central Contra Costa Sanitary District (the District) has established a section 115 Trust known as the Central Contra Costa Sanitary District Section 115 Pension Trust (the “Trust”). This Trust will be used to invest monies to fund the District’s unfunded liability in the Contra Costa Employees’ Retirement Association (“CCCERA”). The Trustees of the Trust hereby adopt this Investment Policy Statement (“Policy Statement”) for the following purposes.

Purpose

Funds set aside in the Section 115 Trust are safeguarded from diversion to other budgetary uses and generally may be invested in a broader range of securities than would typically be permitted for public agency operating funds, potentially increasing earnings. Therefore, higher returns can improve The District’s ability to meet future pension obligations. An additional advantage of holding funds in the Trust rather than contributing an equivalent amount directly to CCCERA is that the District retains control over the timing and amount of disbursements from the Trust. Retaining control of the funds in the Trust provides the flexibility to meet current or accrued liabilities based on the financial circumstances at that time. The District also controls the timing of contributions to the Trust.

The main investment objective of the Trust is to achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss.

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

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

Investment Authority

The Board of Directors of the District has oversight responsibility for the Plan as plan sponsor. The Board receives oversight support from the Finance Committee (the “Committee”) to oversee certain policies and procedures related to the operation and administration of the Trust. The Board has authorized the General Manager to implement the investment policy and guidelines in the best interest of the Trust to best satisfy the purposes of the Trust. In implementing this Policy Statement, the General Manager believes it may delegate certain functions to:

1. The District's Treasurer to enforce of the investment policy and recommend amendments as needed to reflect changes in the District objectives, external laws and regulations, as well as other factors. The Treasurer provides direction and oversight to the Finance Manager, who serves as Plan Administrator over the plan.
2. The Finance Manager, to manage the day-to-day administration of the plan serving as Plan Administrator. In this capacity, the Plan Administrator shall support the Treasurer in enforcing the investment policy and recommending changes thereto as needed. Following Board authorization, the Plan Administrator is authorized to execute the investment policy and other plan documents. The Plan Administrator shall serve as the primary contact with the investment advisor, custodian, trustee, and specialists.
3. An investment advisor ("Advisor") to assist the Plan Administrator in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Plan Administrator in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Trust subject to the guidelines and limitations set forth in this Policy Statement. The Advisor will also select investment managers ("Managers") and strategies consistent with its role as a fiduciary for the Trust. The investment vehicles allowed may include mutual funds, commingled trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers; measuring and evaluating performance; and other tasks as deemed appropriate in its role as Advisor for Trust assets. The Advisor may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds, that will be used to meet the Trust's investment objectives. The Advisor shall never take possession of securities, cash or other assets of the Trust, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.
4. A custodian selected by the Trust to maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
5. A trustee appointed by the Trust, such as a bank trust department, if the Trust does not have its own Trustees, to assume fiduciary responsibility for the administration of Trust assets; provided, however, that if the Plan Administrator shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.
6. Specialists such as attorneys, auditors, actuaries and, retirement plan consultants to assist the Plan Administrator in meeting its responsibilities and obligations to administer Trust assets prudently.

Statement of Investment Objectives

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long-term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled "Performance Expectations".
6. The account's risk tolerance has been rated moderately conservative, which demonstrates that the account can accept some price fluctuations to pursue its investment objectives.
7. The current target rate of return for the Trust is 5.14%.

Investment Guidelines

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

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

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

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns, net of inflation. Investments within the Real Return category may include, but are not limited to, inflation protected securities, commodities, certain real estate investments, natural resources, liquid alternatives and hedge funds.

Time Horizon

The Trust’s investment objectives are based on a long-term investment horizon (“Time Horizon”) of five years or longer. Interim fluctuations should be viewed with appropriate perspective. The Board has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

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

Asset Allocation

The Board believes that to achieve the greatest likelihood of meeting the Trust’s investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust’s target rate of return over the long-term, as described in the section titled “Performance Expectations”.

| <u>Asset Classes</u> | <u>Asset Weightings</u> | |
|---------------------------|-------------------------|---------------|
| | <u>Range</u> | <u>Target</u> |
| Growth Assets | | |
| Domestic Equity | 10% - 35% | 18% |
| International Equity | 3% - 20% | 9% |
| Other | 0% - 20% | 3% |
| Income Assets | | |
| Fixed Income | 50% - 80% | 68% |
| Other | 0% - 20% | 0% |
| Real Return Assets | 0% - 20% | 0% |
| Cash Equivalents | 0% - 20% | 2% |

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

Rebalancing Philosophy

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

Risk Tolerance

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

Performance Expectations

Over the long-term, five years or longer, the performance objective for the Trust will be to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate. Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

Selection of Investment Managers

The Advisor shall prudently select appropriate Managers to invest the assets of the Trust. Managers must meet the following criteria:

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

Guidelines for Portfolio Holdings

Direct Investments by Advisor

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

Limitations on Portfolio Holdings

EQUITIES

No more than 5% of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by Bloomberg (BB) Sector standards.

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

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

FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies.

Eligible Investments

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities (MBS)
- Asset Backed Securities (ABS)
- Collateralized Mortgage Obligations (CMO)
- Commercial Mortgage-Backed Securities (CMBS)
- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates
- Municipal Bonds
- Fixed income mutual funds.
- Eligible instruments issued pursuant to SEC Rule 144a (only if the Client is a documented Qualified Institutional Buyer ; QIB)

Quality

The individual securities portfolio will maintain a minimum weighted average effective quality of A- at all times. At the time of purchase, individual securities shall have a minimum effective quality rating of BBB-.

For purposes of determining an effective rating, when three agencies rate a security (S&P, Moodys, Fitch) the middle rating will be used. When only two of the three agencies rate a security the lower of the two ratings will be used. When only one agency rates a security that rating will be used.

Duration

The manager will maintain the portfolio duration within +/- 25% of the Bloomberg U.S. Aggregate Bond Index duration at all times for the individual securities portfolio.

Diversification

- No more than 30% of the portfolio may be invested in securities issued under Rule 144A* without registration rights (no limit on Rule 144a securities with registration rights).

* Note: Rule 144A is an administrative rule under the SEC allowing, under certain circumstances, for qualified institutional investors to trade certain securities with other institutional investors without registering the trade with the SEC. Specifically, the rule allows private companies, both domestic and international, to sell unregistered securities, also known as Rule 144 securities, to qualified institution buyers (QIBs) through a broker-dealer.

OTHER ASSETS (ALTERNATIVES)

Diversifying Liquid Alternatives: Primary objective shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using liquid alternative strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Liquid alternatives may also invest across asset classes. For purposes of asset allocation targets and limitations, liquid alternatives funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as “Other” in the Growth Assets category while a long/short credit fund will be categorized as “Other” in the Income Assets category. Multi-strategy liquid alternatives funds that cannot be easily categorized under one asset class will be included in “Other” under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

Real Assets: Real assets are typically physical assets that have intrinsic worth due to their substance and properties. Real assets are primarily used for their lower correlation to traditional assets (i.e. stocks and bonds) and their inflation hedging properties. Categories of real asset investments include, but are not limited to, real estate, infrastructure, land, farmland, timberland, precious metals, and commodities. Public real assets are publicly traded and liquid. The benefit of lower correlation investments is that, when implemented correctly, these investments can potentially improve a portfolio’s expected risk-

adjusted return over the long-term. The real assets category can be extended to include other forms of assets that offer similar inflation hedging properties such as pooled vehicles holding: commodities contracts, Treasury Inflation Protected Securities (“TIPS”), index-linked derivative contracts, certain forms of intellectual property, and the equity of companies in businesses thought to hedge inflation. For purposes of asset allocation targets and limitations, real assets may be categorized as “Other” under either the Growth Assets or Income Assets category or in the Real Return Assets category, depending on the nature and risk/return profile of the investment.

CASH EQUIVALENTS

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

Portfolio Risk Hedging

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the investments are not used for the sole purpose of leveraging Trust assets. One example of a hedge vehicle is an exchange traded fund (“ETF”) which takes short positions.

Prohibited Investments

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

Safekeeping

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

Control Procedures

Review of Investment Objectives

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

Review of Investment Performance

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

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies, MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, Bloomberg U.S. Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the Bloomberg Barclays U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The categories "Other" will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

Voting of Proxies

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

Adoption of Investment Policy Statement

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

Executed by the Central Contra Costa Sanitary Plan Administrator (following Board approval):

Plan Administrator

Date