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| POLICY NO. 1.6 PARS Investment Policy | DISTRICT CODE Chapter 3.12 Sections 3.12.010 - 3.12.190 | APPROVAL DATE 09/12/2023 EFFECTIVE DATE 09/13/2023 |
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The Cucamonga Valley Water District PARS Retirement Enhancement Plan (“Plan”) is a defined benefit pension program qualified under Section 401(a) of the Internal Revenue Code and part of the Public Agency Retirement System (PARS), based on the PARS Retirement Enhancement Plan. The Plan is sponsored by Cucamonga Valley Water District (“District”). This Plan provides retirement benefits for eligible retired employees of the District and their beneficiaries who meet the age and service requirements outlined in the plan document.

The Plan is administered by the District. It is the responsibility of the District to 1) establish an investment policy consistent with the objectives of the Plan, 2) review the investment policy at appropriate intervals, and 3) communicate the policy to any and all other persons delegated or appointed by the District to manage or direct the investment of the Plan.

SECTION 1: PURPOSE (3.12.010)

The main investment objective of the Plan is to structure an investment program suitable to the: (1) Long-term needs and risk tolerance and (2) to achieve long-term growth of Plan assets to fulfill the District’s current and long term pension obligations to Plan participants.

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

- A. Document investment objectives, performance expectations and investment guidelines for Plan assets.
- B. Establish an appropriate investment strategy for managing all Plan 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 Plan.
- C. Establish investment guidelines to control overall risk and liquidity.
- D. Establish periodic performance reporting requirements that will effectively monitor investment results and to confirm that the investment policy is being followed.
- E. Comply with all fiduciary, prudence, due diligence and legal requirements for Plan assets.

SECTION 2: INVESTMENT AUTHORITY (3.12.020)

The District's Board of Directors ("Board") is responsible for enacting policies and procedures related to the operation and administration of the Plan. District staff has authority to implement the investment policy and guidelines in the best interest of the Plan to best satisfy the purposes of the Plan.

The Board has the responsibility to set the governance structure of the Plan. The governance structure includes trust oversight, financial management and operational procedures to maintain the Plan. The Plan shall be overseen with the care, skill and diligence of a prudent individual acting in a like capacity. Responsibilities of District staff shall include, but not be limited to, the following:

- A. Shall enter into written contracts with all parties (consultants, actuaries, counsel, custodian, etc.) to the Plan.
- B. Shall take action consistent with fiduciary responsibilities.
- C. Shall recommend periodic amendments to investment guidelines.
- D. Maintain Board-adopted written investment guidelines.
- E. Shall periodically discuss and review matters including conduct and performance of all Plan service providers.
- F. Record and maintain documentation of decisions made.

In implementing this Policy Statement, the Board delegates certain functions to:

- A. An investment advisor ("Advisor") to assist the District in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist District staff in establishing investment policy, objectives, and guidelines; selecting investment managers ("Managers") or mutual funds and other common investment vehicles as

specifically approved from time to time (“Investments”); reviewing Managers and Investments over time; measuring and evaluating performance; and other tasks as deemed appropriate. The Advisor may also select Investments with discretion to purchase, sell, or hold specific securities that will be used to meet the Plan’s investment objectives. Neither the Advisor nor any Manager shall ever take possession of any securities, cash or other assets of the Plan, all of which shall be held by the third-party custodian. The Advisor must be registered with the Securities and Exchange Commission.

- B. A third-party custodian to maintain possession of physical securities and records of street name securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other duties. The third-party custodian will perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan.
- C. A trustee, such as a bank trust department, if the Plan does not have its own Trustees, to assume fiduciary responsibility for the administration of Plan assets; provided, however, that if the Board shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.
- D. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the District in meeting its responsibilities and obligations to administer Plan assets prudently.

SECTION 3: STATEMENT OF INVESTMENT OBJECTIVES (3.12.030)

The investment objectives of the Plan are as follows:

- A. To invest assets of the Plan in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Plan beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
- B. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Plan.
- C. To conserve and enhance the value of Plan assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
- D. To minimize principal fluctuations over the Time Horizon (as defined below).
- E. 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”.

SECTION 4: INVESTMENT GUIDELINES (3.12.040)

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 in certain real estate investments.

"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, and certain real estate investments.

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include inflation protected securities, commodities, and certain real estate investments.

SECTION 5: TIME HORIZON (3.12.050)

The Plan's investment objectives are based on a 10-year investment horizon ("Time Horizon"). Interim fluctuations should be viewed with appropriate perspective. The District 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.

SECTION 6: LIQUIDITY AND DIVERSIFICATION (3.12.060)

In general, the Plan may hold up to 6 months of cash, cash equivalents, and/or money market funds for near term Plan benefits and expenses (the "Plan Distributions"). All remaining assets will be invested in longer-term securities 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.

SECTION 7: ASSET ALLOCATION (3.12.070)

In order to achieve the greatest likelihood of meeting the Plan'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 Plan’s actuarial discount rate as described in the section titled “Performance Expectations”.

| <u>Asset Classes</u> | <u>Asset Weightings</u> | |
|----------------------|-------------------------|---------------|
| | <u>Range</u> | <u>Target</u> |
| (1) Growth: | | |
| Domestic Equity | 13% - 53% | 33% |
| International Equity | 0% - 37% | 17% |
| Other | 0% - 15% | 0% |
| (2) Income: | | |
| Fixed Income | 30% - 70% | 48% |
| Other | 0% - 15% | 0% |
| (3) Real Return | 0% - 20% | 0% |
| (4) Cash Equivalent | 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.

SECTION 8: REBALANCING PHILOSOPHY (3.12.080)

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.

SECTION 9: RISK TOLERANCE (3.12.090)

The Plan will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon and that is consistent with the Plan’s investment objectives.

SECTION 10: PERFORMANCE EXPECTATIONS (3.12.100)

Over the long-term five years or longer, the performance objective for the Plan will be to achieve an average total annual rate of return that is equal to or greater than the Plan’s actuarial discount rate, which is currently stated at 6.00%. Additionally, it is expected that the annual rate of return on Plan 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 Plan Investments and blended benchmark comparisons for the Plan in its entirety.

SECTION 11: SELECTION OF INVESTMENT MANAGERS (3.12.110)

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

- A. The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission (“SEC”), and Financial Industry Regulatory Agency (“FINRA”) rules, as appropriate.
- B. 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.
- C. The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- D. 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.
- E. 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 Plan assets.

SECTION 12: GUIDELINE OF PORTFOLIO HOLDINGS (3.12.120)

A. 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 following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

SECTION 13: LIMITATIONS ON MANAGERS ' PORTFOLIOS (3.12.130)

A. EQUITIES:

No more than 5% or the weighting in the relevant index (Russell 3000 for U.S. issues and MSACI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation, ownership of the shares of one company shall not exceed 5% of those outstanding, and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

- a. Domestic Equities: Other than these 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.

- b. 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.

B. FIXED INCOME:

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

C. OTHER ASSETS (ALTERNATIVES):

Alternatives may consist of non-traditional asset classes such as real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 20% of the overall portfolio. Prior to adding an allocation to any of the following asset classes, with the exception of publicly-traded mutual fund vehicles, the Advisor shall receive approval from the District.

- a. Other Growth: This category may include asset classes other than traditional domestic or international equities with risk and return characteristics of a growth-oriented investment.
- b. Other Income: This category may include asset classes other than traditional fixed income with risk and return characteristics of an income-oriented investment.
- c. 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. The real assets category may include assets that offer 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.

SECTION 14: CASH EQUIVALENTS (3.12.140)

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

SECTION 15: PORTOFOLIO RISK HEDGING (3.12.150)

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the Investments do not create direct portfolio leverage. One example of a hedge vehicle is an exchange traded fund (“ETF”) which takes short positions.

SECTION 16: PROHIBITED INVESTMENTS (3.12.160)

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, commodities or commodity contracts where the Plan is a counterparty, short sales, margin transactions, private placements (with the exception of Rule 144A securities), or venture capital funds, private equity, or hedge funds. Further, derivatives, options, futures, or any other investment for the sole purpose of direct portfolio leveraging is prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

SECTION 17: SAFEKEEPING (3.12.170)

All assets of the Plan shall be held by a third-party custodian approved by the District and in consultation with the Advisor for safekeeping of Plan 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 Plan Agreement. Investments of the Plan 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.

SECTION 18: CONTROL PROCEDURES (3.12.180)

A. Review of Investment Objectives

The Advisor shall review annually and report to the District the appropriateness of this Policy Statement for achieving the Plan’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.

B. Review of Investment Performance

The Advisor shall report on a quarterly basis to District staff to review the investment performance of the Plan. The Advisor shall also make an annual in-person presentation to the District’s Finance Committee to review the performance and strategy of the Plan. In addition, the Advisor will be responsible for keeping the District advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Plan.

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 indices that will be used include the Russell 3000 for U.S. equities, S&P 500 Index for large cap equities, Russell 2000 Index for small cap equities, MSCI All Country World Index (ACWI) ex US Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia and Far East (EAFE) for developed international equities, Bloomberg Aggregate Bond Index for fixed income

securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 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 Aggregate 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.

C. Investment Reporting

The Chief Financial Officer shall submit a quarterly report of investments to the District’s Board within 45 days following the end of the period covered by the report. The Chief Financial Officer shall maintain complete and timely records of all transactions.

D. Voting of Proxies

The District 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.

SECTION 19: ADOPTION OF INVESTMENT POLICY STATEMENT (3.12.190)

The Policy shall be reviewed, at a minimum, on a biennial basis and the Board must approve modifications, if any. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

POLICY REVISION DATES

09/12/2023 (Resolution No. 2023-9-2)
09/27/2022 (Resolution No. 2022-9-5)
09/22/2020 (Resolution No. 2020-9-2)
09/25/2018 (Resolution No. 2018-9-2)
10/11/2016 (Resolution No. 2016-10-1)
08/25/2015 (Resolution No. 2015-8-4)
09/10/2013
12/11/2012
09/14/2004