CONTRA COSTA WATER DISTRICT
OTHER POST-EMPLOYMENT BENEFITS TRUST AGREEMENT

INVESTMENT AND ASSET ALLOCATION POLICY STATEMENTS

Introduction

Pursuant to the Other Post Employment Benefits (OPEB) Trust Agreement established in conformance with Internal Revenue Service regulations, Section 115, the Board of Directors of the Contra Costa Water District (CCWD/District) is charged with the responsibility of establishing the investment program for the Other Post Employment Benefits Trust Agreement (the "Trust"), setting overall objectives and policy guidelines, and selecting and monitoring investment managers. This document will:

- Set forth the investment policy and objectives which the Board judges to be prudent to implement its strategic planning for the investment of the Trust assets.

- Serve as a review document to guide the Board's ongoing supervision of the investment of the Trust assets to ensure that investments remain in accordance with the Board's strategic planning decisions and this statement.

I. PHILOSOPHY AND OBJECTIVES

A. Authority

The Board of Directors of the Contra Costa Water District, acting pursuant to California Water Code Sections 30580, 31001 and 31008 creating the Trust, does hereby establish the following investment and asset allocation policies and guidelines for the investment of assets held in the Trust of the Contra Costa Water District. The Board reserves the right at any time and from time to time to amend, supplement or rescind this statement.

B. Statutory Requirements

Investment of the Trust assets shall meet the following requirements set forth in Sections 53200-53210 and Sections 53215-53221, 53223 and 53224 of the Government Code of California.

1. Each investment shall be solely in the interest of, and for the exclusive purposes of providing benefits to eligible District retirees and their beneficiaries, minimizing the contributions of the District thereto, and defraying the reasonable expenses of administering the Trust.

2. Each investment 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.

3. The 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.

C. Trust Categories

The assets of the Trust shall be divided into six categories denominated the Domestic Equity Account, the International Equity Account, the Domestic Fixed-Income Account, the Real Estate Account, the Emerging Markets Debt Account, and the Multi-Asset Class Account.

1. The Domestic Equity Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of individually managed portfolios and/or commingled domestic equity fund(s) that include domestic equities, cash and cash equivalent investments.

2. The International Equity Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of a commingled international equity fund(s).

3. The Domestic Fixed-Income Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of domestic fixed-income individually managed portfolios and/or commingled domestic fixed income fund(s), cash and cash equivalent investments.

4. The Real Estate Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of a commingled open-end real estate fund(s).

5. The Emerging Markets Debt Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of fixed-income, cash and cash equivalent investments denominated in U.S. dollars and/or local currency.

6. The Multi-Asset Class Account shall be under the supervision and control of one or more qualified Investment Manager(s) and shall consist of commingled world allocation funds.

In general, the Board desires to obtain the optimum rate of investment return possible on the total investment portfolio consistent with the assumption of a prudent level of risk. While safety and protection of principal is a primary concern, the Board believes that a diversified investment portfolio will result in the highest attainable investment return (income plus capital appreciation) consistent with an acceptable level of risk. Specific investment objectives for the Trust are:

- Maintain and enhance purchasing power of the Trust's assets.

- Earn performance rates of return in accordance with the "Performance Measurement Standards" contained in Appendix A.

- Investment returns should be consistent with the level of risk being taken.

II. INVESTMENT POLICY

The December 2013 Actuarial Review Study, accepted by the Board on December 11, 2013, recommended an average rate of return of 7.5%.

The Trust's Investment Policy calls for commitments to Domestic Stocks, International Stocks, Domestic Bonds, Real Estate, Emerging Markets Debt, Multi-Asset Class, and Cash and Cash Equivalent investments. The commitments to each asset class will be controlled by a dynamic Investment and Asset Allocation Policy that allocates investment returns from superior performing asset classes to re-balance investment in asset classes that have fallen below target range.

A. Investment Management Structure

It is not the intention of the designated CCWD Plan Administrator to be involved in day-to-day investment decisions. Therefore, the assets will continue to be allocated to professional investment managers in a manner consistent with Policy objectives.

B. Asset Allocation Policy

The guidelines for the allocation of assets to the investment managers will be as follows:

	Low	Normal	High
Broad Domestic Equity	31%	35%	39%
International Equity	11%	14%	17%
Domestic Fixed Income	24%	28%	32%
Real Estate	5%	8%	11%
Emerging Markets Debt	3%	5%	7%
Multi-Asset Class	7%	10%	13%

The asset allocation was selected as the trust's long-term strategic asset allocation target. When deployed at the Normal commitments, long-term capital market behavior suggests that the portfolio is expected to earn an average of 7.5% annualized return over full economic cycles (typically three to five years).

Because the asset classes do not move concurrently, deviations from the normal commitments will occur through normal market activity. The Upper and Lower limits define the ranges within which market activity will be allowed to shift allocations. The ranges are designed to allow for two years (about one-half the typical market cycle) of expected volatility of the asset class before re-balancing the portfolio. Also, the size of the commitment to each asset class was incorporated in the ranges. Should actual allocations depart from the prescribed ranges; assets will be moved from the over-allocated to the under-allocated asset class.

Future contributions of cash to the Trust will be allocated in a manner that conforms to the Investment and asset Allocation Policy.

C. Investment Objectives and Goals

The following are the general Investment Goals and Objectives for the Total Fund, Domestic Equity Account, International Equity Account, Domestic Fixed-Income Account, Real Estate Account, Emerging Markets Debt Account, and Multi-Asset Class Account. Detailed Performance Measure standards are included in Appendix A of this document.

1. Total Fund

The investment goal for the Total Fund is to exceed the performance of the composite benchmark consisting of:

- Standard & Poor's 500 Index (Large Cap Equity)
- Russell 2000 Index (Small Cap Equity)
- Barclays Capital U.S. Aggregate Bond Index (Domestic Fixed Income)
- Morgan Stanley Capital International All World Index Ex-U.S. (International Equity)
- Dow Jones Wilshire Real Estate Investment Trust (REIT) Index (Real Estate)
- Citi Treasury Bill 3 Month Index

In addition, the Total Fund is expected to perform above average relative to a representative Public Plan Sponsor Database.

2. Domestic Equity Account

The Overall Domestic Equity Account Managers should rank at least at the 50th percentile relative to a broad Equity Manager Database. The Large Cap Equity segment of the portfolio should exceed a benchmark of the S&P 500 and rank above average relative to a representative Large Capitalization Equity Manager Style Group. The Small Cap Equity segment of the portfolio should exceed a benchmark of the Russell 2000 Index and rank above the average relative to a representative Small Cap Equity Manager Style Group.

3. International Equity Account

The International Equity Account should exceed the MSCI ACWI Ex-U.S. Index and rank at least at the 50th percentile relative to broad International Manager Database and at above average relative to a representative Non-U.S. Equity Manager Style Group.

4. Domestic Fixed-Income Account

The Domestic Fixed-Income Account should exceed the Barclay's Capital Bond Index and rank above average relative to a broad Fixed-Income Manager database and above average relative to a representative Core Fixed-Income Style Group.

5. Real Estate Account

The Real Estate Account is expected to perform above average relative to a representative database of equity-oriented, open-end, Real Estate funds. Investment returns should exceed the Dow Jones Wilshire Real Estate Investment Trust (REIT) index.

6. Emerging Markets Debt Account

The Emerging Markets Debt Account should exceed the JP Morgan Emerging Markets Bond Index Global Diversified (JP EMBIG-D) Index and rank above average relative to a broad emerging markets debt manager database and above average relative to a representative style group of peer managers.

7. Multi-Asset Class Account

The Multi-Asset Class Account should exceed the Citi Treasury Bill 3 Month Index and perform above average relative to a representative database of World Allocation funds.

D. Investment Guidelines/Restrictions

The investment managers are expected to perform their fiduciary duty as a prudent person skilled in such matters would and to conform to all State and Federal statutes governing the investment of these funds. Additionally, the following restrictions apply to the stated categories:

1. Broad Domestic Equity Account

- The portfolio assets may be invested in equity securities (and securities convertible into equities). No more than 20% of the broad domestic equity account may be invested in international equity securities.

- No more than 5% of the value (at cost) of the portfolio assets should be invested in the securities of a single issuer.

- The use of short sales, puts, calls or margin purchases is prohibited unless used for the purposes of reducing risk and/or obtaining efficient equity market exposure.

2. International Equity Account

- The portfolio assets may be invested in international equity securities.

- No more than 5% of the value (at cost) of the portfolio assets should be invested in the securities of a single issuer.

- The use of short sales, puts, calls or margin purchases is prohibited unless used as defensive currency hedging using forward contracts, futures, and options.

3. Domestic Fixed-Income Account

- No more than 10% of the portfolio assets shall be invested in the securities of any single issuer, with the exception of the U.S. Government and its Agencies.

- No individual holding shall constitute more than 10% of the market value of the issue.

- All issues shall have a minimum quality rating of Baa (Moody's) or BBBStandard & Poors (S&P). (Bonds rated below this are not considered to be investment grade by these rating agencies.)

- Total fixed-income portfolio shall maintain an average quality rating of A (S&P) at a minimum.

- Money Market Instruments (or funds) are permissible as Cash Investments.

- Any fixed income security with a remaining maturity of one year or less will be considered a cash equivalent investment.

Beyond this, eligible investments for the fixed-income portion of the Securities Account are:

- Obligations of the U.S. Treasury;
- Obligations guaranteed by an agency of the United States;
- Certificates of deposit and banker's acceptance of credit worthy banks;
- Commercial paper (including variable rate notes) of issuers rated P-1 by Moody's Investor Services or A-1 by (S&P).

4. Real Estate Account

The Real Estate portfolio shall be funded with participation in one or more open-end commingled funds that have the following characteristics:

- Well diversified with primarily fully-leased properties;

- A low level of financial leverage;

- A low level of anticipated lease-up risk;
- Little or no developmental activity;
- REIT's are allowed.

5. Emerging Markets Debt Account

- Emerging Markets Debt shall be diversified by both country and region;
- Emerging Markets Debt shall be denominated in U.S. dollars and/or local currency;
- Emerging Markets Debt will be managed by one or more qualified professional investment managers, and may be accessed via pooled funds or mutual fund vehicles.

6. Multi-Asset Class Account

- No single underlying fund will normally exceed 50% of total assets;
- Combined investments in inflation related underlying funds including Treasury Inflation Protected Securities (TIPS), commodities, or real estate will not normally exceed 75% of total assets.

E. Proxy Voting Policy

The investment managers shall vote proxies at their discretion.

F. Communication

At a minimum, the investment manager is expected to communicate with the OPEB Committee quarterly. Quarterly communications should include:

- Current Strategy; and
- Recent Investment Performance
- Demonstration of Compliance with Investment Guidelines
- Significant Organizational Changes
- Key Personnel Changes
- New/Lost Accounts

APPENDIX A

PERFORMANCE MEASUREMENT STANDARDS

The performance expectations of the CCWD Other Post Employment Benefits Trust Agreement will be communicated to the investment manager(s). Performance will be measured and evaluated quarterly, or more frequently when circumstances warrant.

Performance Measurement Periods

The measurement period for complete evaluation will be trailing twelve quarter periods and complete market cycles. Market cycles are defined to include both a rising and a declining leg. Generally, a rising leg will be defined as a period of at least two consecutive quarters of rising stock prices. A declining leg shall usually be defined as a period of two consecutive quarters of declining stock prices. Therefore, a minimum period of evaluation shall be one year and more typically three to five years. The performance of each asset class relative to custom composite benchmark indices will also be evaluated over trailing twelve quarter periods and market cycles.

Quarterly performance will be evaluated to test progress toward attainment of longer term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on performance comparisons with investment managers employing similar styles.

A. Total Fund

Over all time periods, short and long, cumulative and recent, the total fund performance will be measured versus a hypothetical benchmark portfolio of its passively managed components with the asset class weightings equal to the strategic asset allocation target mix. This hypothetical benchmark portfolio will consist of:

- 28% Standard & Poor's 500 Index
- 8% Russell 2000 Index
- 33% Barclays Capital Bond Index
- 14% Morgan Stanley Capital International All Country World Index Ex-U.S.
- 7% Dow Jones Wilshire REIT Index
- 10% Citi Treasury Bill 3 Month Index

Over complete market cycles (defined as equity market cycles), the Total Fund is expected to outperform the hypothetical benchmark portfolio and perform above average relative to a representative Public Plan Sponsor Database.

1. **Domestic Equity Account**

The Overall Domestic Equity Account Managers should exceed the top half of a representative peer group and rank at the 50^{th} percentile relative to a broad Equity Manager Database. The Large Cap Equity segment of the portfolio should exceed a benchmark of the S&P 500 and rank above average relative to a representative Large Capitalization Equity Manager Style Group. The Small Cap Equity segment of the portfolio should exceed a benchmark of the Russell 2000 Index and rank above average relative to a representative Small Cap Growth Equity Manager Style Group.

2. **International Equity Account**

The portfolio will rank above average relative to a broad Non-U.S. Equity Manager Database and the MSCI ACWI Ex-U.S. Index as long-term performance goals. In addition, over short periods as will as long, the portfolio performance goal will be above average performance of a representative International Equity Style Group.

3. **Domestic Fixed-Income Account**

The fixed-income portfolio will be expected to maintain above average ranking versus a representative Fixed Income Manager Database and to outperform the Barclay's Capital Bond Index. The portfolio will also be expected to maintain above average ranking versus a Core Fixed-Income Style Manager Database.

4. **Real Estate Account**

The Real Estate portfolio is expected to maintain above average ranking versus a representative database of equity-oriented, open-end Real Estate Funds. Investment returns should exceed the benchmark of the Dow Jones Wilshire REIT Index.

5. **Emerging Markets Debt Account**

The Emerging Markets Debt Account should exceed the JP Morgan Emerging Markets Bond Index Global Diversified (JP EMBIG-D) Index and rank above average relative to a broad emerging markets debt manager database and above average relative to a representative style group of peer managers.

6. **Multi-Asset Class Account**

The Multi-Asset Class Account should exceed the Citi Treasury Bill 3 Month Index and perform above average relative to a representative database of World Allocation funds.

The complete evaluation measurement period will coincide with U.S. Market Equity cycles.