AGENDA
IRVINE RANCH WATER DISTRICT
RETIREMENT BOARD SPECIAL MEETING
MONDAY, DECEMBER 9, 2013

| | |
|---|---|
| CALL TO ORDER | 1:30 p.m., Committee Room, Second Floor, District Office<br>15600 Sand Canyon Avenue, Irvine, California |
| ATTENDANCE | Board Member: Peer Swan ____ Board Member: Steve LaMar ____<br>Board Member: Paul Cook ____ |
| ALSO PRESENT | Cheryl Clary ____ ____________ ____<br>Rob Jacobson ____ ____________ ____<br>Tanja Fournier ____ ____________ ____<br>__________ ____ ____________ ____ |

## COMMUNICATIONS

1. Meeting Minutes: Tanja Founier
2. Public Comments
3. Determine the need to discuss and/or take action on item(s) introduced, which came to the attention of the District subsequent to the agenda being posted.
4. Determine which items may be approved without discussion.

## ACTION

5. APPROVAL OF MINUTES OF SPECIAL MEETING OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD – FOURNIER/ JACOBSON

   Recommendation: That the minutes of the November 19, 2013 Special Meeting of the Irvine Ranch Water District Retirement Board be approved as presented.

6. IRWD POST-EMPLOYMENT BENEFITS TRUST INVESTMENT POLICY STATEMENT AND INVESTMENT SELECTION UPDATE – FOURNIER/ JACOBSON

   Recommendation: That the Retirement Board approve the investment policy statement subject to any non-substantive changes.

## OTHER BUSINESS

7. Directors' Comments

8. Adjourn

December 9, 2013
Prepared by: T. Fournier TF
Submitted by: R. Jacobson RJ
Approved by: P. Cook

RETIREMENT BOARD

# MINUTES OF THE SPECIAL MEETING OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD

## SUMMARY:

Provided are the minutes of the November 19, 2013 Special Meeting of the Irvine Ranch Water District Retirement Board for approval.

## FISCAL IMPACTS:

None.

## ENVIRONMENTAL COMPLIANCE:

Not applicable.

## RECOMMENDATION:

THAT THE MINUTES OF THE NOVEMBER 19, 2013 SPECIAL BOARD MEETING OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD BE APPROVED AS PRESENTED.

## LIST OF EXHIBITS:

Exhibit "A" – Minutes – November 19, 2013

MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS
OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD -

NOVEMBER 19, 2013

The Special meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) Retirement Board was called to order by Chairman Swan at 9:20 a.m. on November 19, 2013 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Chairman Peer Swan, Vice Chairman Steve LaMar, and Director Paul Cook
Directors Absent: None

Also Present: Treasurer Robert Jacobson, Assistant Treasurer Fournier, Principal of Buck Global Investment Advisors Martha Spano, and Analyst Buck Global Investment Advisors, Ryan Miller

COMMUNICATION: None.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED - None.

ACTION CALENDAR

INVESTMENT POLICY STATEMENT, INVESTMENT FUND REVIEW AND TRUST PERFORMANCE UPDATE

Treasurer Jacobson reviewed the agenda with the Board which included:

1. Investment Policy and Asset Allocation Review
2. Manager Search Process and Investment Review and Selection

The Board reviewed the draft Investment Policy Statement and requested the following changes:

1. Move the Target Asset Allocation table on page 3 to the Appendix
2. Add the word "current" to the Min-Max Ranges column of the Target Allocation table
3. Eliminate the TIPS asset class, increase the target allocation for Fixed Income from 22% to 28%, and change the Min-Max range for Fixed Income from 15-35% to 10-40%.
4. For the Public Equity category of the table, add Domestic equity and International equity as part of the description, and change the Min-Max range from 50-70% to 30-80%.
5. Reduce Cash Target Allocation from 3% to the percentage that equates to $100,000 of the current assets (approximately 0.2%), and adjust the Min-Max range from 0-10% to 0-30%.

After review of the manager search book, the Board requested the liquidation of the Vanguard Balanced fund, place $100,000 in the Federated Money Market Fund to pay trust expenses, and allocate the remaining proceeds as follows:

| Asset Class | Investment | Allocation |
|---|---|---|
| Fixed Income | Metropolitan West Total Return Bond I | 25.00% |
| US Equity | Vanguard Capital Value | 50.00% |
| International Equity | Fidelity Spartan Int. I | 25.00% |

Treasurer Jacobson advised the Board of the balance of the Vanguard Balanced Fund as of October 31, which was $36,712,552.02.

Treasurer Jacobson advised the Board that the cost of fiduciary insurance will be $3,965 annually. The Board directed staff to arrange for the fiduciary coverage for one year.

ADJOURNMENT

There being no further business, Chairman Swan adjourned the meeting.

APPROVED and SIGNED this 9th day of December, 2013.

Board Member, IRVINE RANCH WATER DISTRICT
RETIREMENT BOARD

Secretary, IRVINE RANCH WATER DISTRICT
RETIREMENT BOARD

December 9, 2013
Prepared by: Tanja Fournier
Submitted by: Rob Jacobson/Cheryl Clary
Approved by: Paul Cook

RETIREMENT BOARD

IRWD POST-EMPLOYMENT BENEFITS TRUST
INVESTMENT POLICY STATEMENT AND INVESTMENT SELECTION UPDATE

## SUMMARY:

Based on feedback from the Retirement Board at its November meeting, staff and representatives from the District's plan advisor, Buck Consultants (Buck), revised the draft Investment Policy Statement (IPS) for the Irvine Ranch Water District Post-Employment Benefits Trust (Trust). Staff recommends approval of the IPS subject to any non-substantive changes.

## BACKGROUND:

### Investment Policy Statement:

At its meeting of November 19, 2013, the Retirement Board of Directors (Board) reviewed the Investment Policy Statement and provided feedback and direction to staff and Buck to make the following changes to the Target Asset Allocation table:

- Eliminate the Treasury Inflation Protected Securities (TIPS) asset class, increase the target allocation for Fixed Income from 22% to 28%, and change the Min-Max investment allocation range for Fixed Income from 15-35% to 10-40%.
- For the Public Equity asset class, add "Domestic" equity and "International" equity as sub-categories, and change the Min-Max range from 50-70% to 30-80%.
- Reduce the Target Allocation for Cash from 3.00% to the percentage equating to $100,000 of the current assets (approximately 0.2%), and adjust the Min-Max range for the asset class from 0-10% to 0-30%.

The proposed Investment Policy Statement reflecting the requested changes is attached as Exhibit "A". Staff recommends approval of the IPS subject to any non-substantive changes.

### Asset Allocation:

At the November Board meeting, the Board reviewed the manager search book provided by Buck Consultants, which included detailed information and technical analysis on various mutual funds in the Fixed Income, TIPS, U.S. Equity, International Equity, and Private Equity asset classes. Based on its review of the investment options presented, the Board instructed staff to liquidate the Vanguard Balanced Index Fund, place $100,000 in the Federated Government Money Market Fund to pay pending trust expenses, and allocate the remaining proceeds as follows:

| Asset Class | Investment | Allocation |
|---|---|---|
| Fixed Income | Metropolitan West Total Return Bond I | 25.00% |
| US Equity | Vanguard Capital Value Inv | 50.00% |
| International Equity | Fidelity Spartan International Institutional Index | 25.00% |

Staff contacted Bank of New York Mellon, Trustee for the Trust, and gave investment instructions as outlined above. Subsequent to those instructions, the Trustee advised staff that they were unable to invest in the Fidelity Spartan International Institutional class of shares due to the fund now only accepting new investments from 401(k) plans where Fidelity is acting as the record keeper. Buck Consultants suggested using the Fidelity Spartan International Advantage class, which is open to all investors. Both funds are International Index Funds utilizing the same fund managers and MSCI EAFE index replication strategy. The difference in the share classes is a higher expense ratio of 0.12 for the Advantage share class vs. 0.07 for the Institutional share class, representing an increased fund management fee of approximately $4,500 per year based on the current asset amount. Staff revised the instructions to the Trustee to purchase the Fidelity Spartan International Advantage class shares and will further review the fund selection at the meeting.

Staff will provide the Board with an update on the performance of the Trust assets at the meeting.

FISCAL IMPACTS:

As of November 30, 2013, Trust assets totaled $37,286,898.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act Code of Regulations, Title 14, Chapter 3 Section 15378.

RECOMMENDATION:

THAT THE RETIREMENT BOARD APPROVE THE INVESTMENT POLICY STATEMENT SUBJECT TO ANY NON-SUBSTANTIVE CHANGES.

LIST OF EXHIBITS:

Exhibit "A" – Investment Policy Statement

Exhibit "A"

# The Irvine Ranch Water District

# Post-Employment Benefits Trust

Draft Investment Policy Statement

December 9, 2013

## Table of Contents

## BACKGROUND

On June 24, 2013, the Irvine Ranch Water District (IRWD or "District") created the IRWD Post-Employment Benefits Trust ("Trust") which is an Internal Revenue Code Section 115 trust. The Trust is separate from the IRWD California Public Employees Retirement Plan (PERS). Contributed assets are to be used for the sole purpose of providing retirement benefits, and potentially other post employment benefits (OPEB), to IRWD PERS participants and their beneficiaries. The Trust was created to:

- Set aside future contributions to fund the unfunded liabilities over and above the stated PERS contributions, and potentially fund other IRWD post retirement benefit obligations

In doing so, the Trust is intended to:

- Minimize unfunded post retirement obligations realized on IRWD's balance sheet
- Reduce IRWD's future pension liability over time in a prudent and gradual manner
- Assist in maintaining and protecting the District's credit ratings
- Pay certain benefit and expense obligations when due
- Maximize returns within reasonable and prudent levels of risk in order to minimize contributions
- Control costs by prudently managing the trust assets
- Maintain flexibility in determining the future level of contributions
- Limit risk exposure through prudent diversification

## INVESTMENT AUTHORITY

IRWD's Board of Directors has appointed a Retirement Board (the "Board") as the Trustee of the Trust to oversee certain policies and procedures related to the operation and administration of the Trust. The Board consists of two IRWD Board members (as further defined in the Trust Document) and the General Manager, and will have authority to implement the Investment Policy Statement (IPS) in the best interest of the Trust. In implementing this IPS, the Board may delegate certain functions to:

1. An investment consultant to assist the Board in the investment process and to maintain compliance with this IPS. The investment consultant may assist in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The investment consultant must be registered with the Securities and Exchange Commission ("SEC").
2. A custodian to physically maintain possession of securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other things. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
3. A co-trustee, such as a bank trust department to assume fiduciary responsibility for the administration of Trust assets.
4. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the Board in meeting its responsibilities and obligations to administer Trust assets prudently.

## FIDUCIARY STANDARDS

The Board is subject to the following duties under relevant state and federal laws:

a) The assets of the Trust shall be held for the exclusive purposes of providing benefits to members of IRWD PERS and OPEB participants and their beneficiaries and defraying reasonable expenses of administering the Trust.
b) The Board shall discharge their duties with respect to the Trust solely in the interest of, and for the exclusive purposes of providing benefits to, IRWD PERS and OPEB participants and their beneficiaries, and defraying reasonable expenses of administering the Trust. The Board shall discharge their duties 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 like character and with like aims.
c) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Trust's assets shall utilize 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 like character and with like aims, and shall comply with all applicable laws, rules and regulations.

## INVESTMENT POLICY OBJECTIVES

The purposes of the IPS are to:

- Articulate the Board's consensus view of the Trust's long-term investment objectives and risk tolerance.
- Establish the Trust's investment constraints, such as liquidity needs, time horizon, legal and regulatory requirements, and unique circumstances.
- State in a written document the Board's expectations, objectives and guidelines for the investment of all Trust assets.
- Set forth an investment structure for managing all Trust assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification, and total investment return over the long term.
- Establish formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
- Comply with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state and federal entities that may impact plan assets.

## INVESTMENT GUIDELINES

### Time Horizon

The Trust's investment objectives are based on a 20 to 25-year investment horizon so that interim fluctuations should be viewed with appropriate perspective. The Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

**Asset Allocation**

The Board believes that to achieve the greatest likelihood of meeting the Trust's investment objectives, balance between risk and return, and optimal diversification, assets will be invested in accordance with an asset allocation study completed in September 2013.

The current asset allocation policy of the Trust (at market value) as of 11/19/13 is set forth in Exhibit A and represents the long term allocation policy of the Trust.

The Board is committed to implementing and maintaining the long term asset allocation policy, within the permitted ranges. The Board recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy. In such circumstances, the Board will monitor the status of the asset allocation policy and seek to comply with the policy when it is possible and prudent to do so.

The long-term asset allocation of the Trust will be reviewed at a minimum every three to five years, based on the results of an asset allocation study. Such studies may also be performed on an interim basis, as necessary. The Board can review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary. On a quarterly basis the Board will monitor the current asset allocation policy against the long term allocation and rebalance as it deems necessary.

The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investments within the broad asset classes that comprise the asset allocation policy. The investment structure and any changes thereto do not necessarily require that an asset allocation study be performed.

**Risk Tolerances**

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

**Rebalancing**

The asset allocation of the Trust will be monitored on a quarterly basis and the assets of the Trust may be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical and will be conducted in accordance with the rebalancing procedures established by the Board.

When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until the allocation is within the guideline ranges.

**Diversification**

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

Consistent with the paragraph above:

a) No single investment management firm shall be authorized to manage more than 15% of the Trust's actively managed assets without Board approval. There is no limit on the amount of passively managed assets that an investment management firm shall be authorized to managed.
**b)** As a general rule, Trust assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval
**c)** **Liquidity Management:** The projected cash flow needs of the Trust are to be reviewed at least quarterly and the custodian and investment managers of the Trust are to be informed in writing in a timely manner of the liquidity needs of the Trust. If necessary, cash flow needs will be coordinated through the Trust's rebalancing provisions contained herein.

### Performance Expectations

Over the long-term, for a rolling five-year period, the performance objective for Trust assets 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.

### HIRING & TERMINATING INVESTMENT MANAGERS

The Board, with the assistance of the Investment Consultant, shall prudently select appropriate investment managers to manage the assets of the Trust. Managers must meet the following criteria:

- The investment manager must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
- With respect to Trust assets invested in a mutual fund, the Manager must provide historical quarterly performance data for the mutual fund compliant with Securities Exchange Commission ("SEC") and National Association of Securities Dealers ("NASD") standards.
- The investment manager must provide historical quarterly performance data compliant with Global Investment Performance Standards ("GIPS"), calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style and reported net of fees.
- The investment manager must provide detailed information on history of the firm, key personnel, key clients, fee schedule (including most favored nation clauses), and support personnel.
- The investment 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 manager for portfolios other than Pooled Vehicles (see Guidelines for Portfolio Holdings) must confirm that it has received, understands and will adhere to this IPS and any manager-specific policies by signing a consent form provided by the Board.
- Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the Trust.

Staff-level procedures shall be prepared detailing the additional criteria and processes to be used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Board from time to time.

The procedures noted above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment consultant and/or investment staff, containing investment staff's and/or the investment consultant's recommendations and summary analysis.

**MONITORING INVESTMENT MANAGERS**

The Trust's investment managers will be monitored on an ongoing basis and may be terminated by the Board at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Trust.

In the event that certain Trust assets are passively managed, the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmarks and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:

a) Failure to adhere to the terms of a contract between the manager and the Trust.
b) Loss of an investment professional(s) directly responsible for managing the Trust's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
c) The sale of the investment management firm to another entity, or other change in ownership.
d) The purchase of another entity by the investment management firm.
e) Significant account losses and/or extraordinary addition of new accounts.
f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.
g) Any other event which may impair the manager's ability to perform in a satisfactory manner or put the Trust's assets at undue risk of loss.

**GUIDELINES FOR PORTFOLIO HOLDINGS**

The investment consultant shall make every effort to prudently select funds that follow the guidelines listed below:

**Pooled Vehicles**

Until the Trust reaches a size, where investment in separate accounts are viable and appropriate, the Trust will invest in Pooled Vehicles, such as commingled and/or mutual funds.

Pooled Vehicles are regulated by either the Office of the Comptroller of the Currency ("OCC") or the SEC and provide the Trust the ability to appropriately diversify its holdings in a cost effective manner. Inherent within the Pooled Vehicle structure is the limitation on customizing the underlying security selection based on Trust specific economic, social or other screens.

Upon attaining asset size where use of a separate account structure is viable and appropriate, the selection of individual asset managers will be considered along with Pooled Vehicles for inclusion in the Trust. Separate accounts are governed by contract. When using separate accounts, the Trust may develop addenda to this IPS to constrain the individual asset manager using economic, social or other screening techniques.

The Trust assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Trust. The type of investment vehicles utilized by the Trust will be revisited as the asset size of the portfolio increases.

Every effort shall be made, to the extent practical, prudent and appropriate, to select commingled funds and\or mutual funds that have investment objectives and policies that are consistent with this IPS (as outlined below in the Equities and Fixed Income sections). However, given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between this IPS and the objectives of these pooled vehicles. A commingled fund or mutual fund will not be included in Trust portfolio unless it complies with the Investment Company Act of 1940's diversification requirement.

**Cash Equivalents**

Cash equivalent reserves shall consist of cash instruments having a quality rating of A-I, P-I or higher, as established by Moody's or Standard & Poor's. Bankers' acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least $50 million.

Short-term corporate obligations must be rated A or better by Moody's or by Standard & Poor's.

**Equities**

Investment in common stocks, preferred stocks and publicly traded Real Estate Investment Trusts shall be restricted to high quality, readily marketable securities of corporations that are actively traded on a major exchange.

Not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category.

Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the investment manager(s).

The overall non-U.S. equity allocation should include a diverse global mix of at least 10 countries.

The emerging markets exposure as defined by Morgan Stanley Capital International Inc. should be limited to 35% of the non-U.S. portion of the portfolio.

In order to maintain an effective money management structure that is style neutral, the target growth to value allocation in all market capitalizations is one-to-one. However, in no case will the growth to value allocation for market capitalizations exceed two-to-one. Conversely, value shall not exceed growth by the same ratio.

**Fixed Income**

Fixed income investments shall be high quality, marketable securities with a preponderance of the investments in:

1. U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and
2. Investment Grade municipal or corporate issues including convertibles.

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 at least "A", according to one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody's or Standard & Poor's) have assigned ratings of Baa3 or BBB- ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities. If the credit quality of any one issue should drop below investment grade (as defined by two of the three rating agencies - Fitch, Moody's and Standard & Poor's), the investment manager should notify the Board and the investment consultant immediately detailing their plan of action regarding the security.

Active bond management is permissable and may require transactions that will temporarily lower the return or change the maturity of the portfolio in anticipation of market changes. Holdings of individual securities should be liquid so as not to incur unnecessary transaction costs.

**Prohibited Investments**

The following investments and transactions are not authorized and shall not be purchased: letter stock and other unregistered securities, short sales, margin transactions, private placements (with the exception of Rule 144A securities), venture capital funds, hedge fund, and other investment securities specifically restricted by the Board.

Derivatives, options and futures will be allowed as portfolio protection strategies, not as return enhancement strategies. No natural resource properties such as oil, gas or timber may be held except by purchase of publicly traded securities or within Pooled Vehicles, but direct ownership of real estate may be allowed. The purchase of collectibles is also prohibited.

**Safekeeping**

All securities shall be held by a custodian appointed by the Board for safekeeping. The custodian shall produce statements monthly, 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. Assets of the Trust held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

**CONTROL PROCEDURES**

**Review of Investment Objectives**

The investment consultant shall review annually the appropriateness of the IPS for achieving the Trust's stated objectives. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the IPS.

**Review of Investment Performance**

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

The investment consultant shall compare the investment results on a quarterly basis to appropriate benchmarks, as well as market index returns in both equity and debt markets. Examples of benchmarks and indexes that will be used include the S&P 500 Index for large cap equities, Russell 2000 Index for small cap equities, MSCI Europe, Australia, and Far East Index (EAFE) for international equities, Barclays Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill Index for cash equivalents.

**Derivative Securities**

Derivative securities are financial instruments that "derive" their value from an underlying commodity, index, or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:

a) Equitizing cash during portfolio transitions until "physical" securities are in place.

b) Managing asset allocation on a temporary basis.

c) Hedging foreign currency risk, subject to approved limits.

In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Board. Speculative positions in derivatives, however, are not authorized under any circumstances.

Given the nature of many investment managers' mandates under a commingled/mutual fund it is recognized and understood that investment managers retained by the Trust may use derivatives that are contrary to the paragraphs above.

This IPS allows for the use of derivatives within the specific commingled portfolios being managed by the investment managers retained by the Trust

The use of derivatives in any separately managed portfolio must be authorized by the Board and stated in this IPS prior to being utilized within the Trust.

**OTHER**

**Investment Costs**

Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix of the Trust. The Board will be provided reports on investment costs of the Trust at least annually.

**Valuation of Investments**

The Trust's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset. Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

**Proxy Voting**

Proxies must be voted in the best interest of shareholders — in this case the IRWD Trust and its participants and beneficiaries. The Board may engage the services of one or more third parties including but not limited to its custodian, investment managers, and consultants, to vote proxies for common stocks owned in its portfolios. Such parties must exercise their authority to vote as fiduciaries to the Trust and in accordance with applicable standards of prudence.

The Board may establish proxy voting guidelines to further guide the voting of the Trust's proxies. Any third parties retained to vote the proxies of the Trust shall provide periodic reports to the Board on their activities.

As of the date of this IPS, the Board has delegated its proxy voting authority on all domestic and international securities to the Investment managers/ Fund managers responsible for voting the proxies on domestic and international securities.

**ADOPTION OF INVESTMENT IPS STATEMENT**

Any changes and exceptions to the IPS will be made in writing and adopted by the Board. Once adopted, change and exceptions will be delivered to each investment manager, as appropriate, bye the investment advisor.

**Approved by the Irvine Ranch Water District Retirement Board:**

Resolved by:

Date

# Exhibit A

| Asset Classes | Target Allocation | Current Min-Max Ranges |
|---|---|---|
| Cash | .2% | 0-30% |
| Public Equity<br>Domestic equity<br>International equity | 61.00% | 30-80% |
| Private Equity | 3.00% | 0-5% |
| Fixed Income | 28.00% | 10-40% |
| Real Estate | 5.00% | 0-10% |

## Exhibit B

Fund Investment Lineup as of December 2013

| Asset Category | Fund Name | Ticker | Peer Universe | Benchmark |
|---|---|---|---|---|
| *Stability/Cash* | Federated Government Obligation Fund #5 | | | |
| *Fixed Income Bond* | Metrolpolitan West Total Bond Fund | MWTIX | Intermediate Term Bond | BarCap Aggregate Bond Index |
| *Domestic Equity* | Vanguard Institutional Index I | VINIX | Large Blend | S & P 500 Index |
| *International Equity* | Fidelity Spartan International Index Advantage Fund | FSIVX | Foreign Blend | MSCI EAFE index |