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San Bernardino County Employees'  
Retirement Association

POLICY NO.	001	Issue No.	<del>3-04.0</del>
Committee:	Investment	Effective Date:	<del>06/01/20</del>
			<del>17</del>
Policy Category:	Investments	Page(s)	<u>9</u>
Approved			

By: \_\_\_\_\_  
Chair of the Board

**Subject: INVESTMENT PLAN, POLICY AND GUIDELINES**

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### INVESTMENT PLAN, POLICY AND GUIDELINES

#### **I. Purpose and Core Beliefs**

The purpose of this document (herein after referred to as the Investment Policy) is to delineate the investment policy and guidelines of SBCERA. This policy statement is intended to allow for sufficient flexibility in the management oversight process and to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

#### **Core Beliefs:**

- A well-defined governance structure with clearly delineated responsibilities is critical in achieving long-term, consistent success.
- Strategic Asset Allocation sets the amount of resources (risk) spent on each asset class. Because the Strategic Asset Allocation uses static correlation assumptions, Tactical Asset Allocation should be employed to efficiently adjust the portfolio, making tilts explicit versus implicit, based on fundamental and/or economic theory.
- Balancing asset class return contribution with (downside) volatility is an important risk mitigation. The opportunity for active manager out performance is not uniformly distributed across asset classes.
- Leverage on assets can be prudently applied.
- Management of liquidity risk takes precedence over other risk management concerns.

#### **II. Governing Law**

The San Bernardino County Employees' Retirement Association (SBCERA) is the entity established for the purpose of administering the provisions of the County Employees' Retirement Law of 1937, as well as other federal and State laws relating to public employees' retirement systems in the State of California.

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SBCERA was created pursuant to the County Employees Retirement Law of 1937 (hereinafter referred to as the "'37 ACT") and is administered by the Board of Trustees (hereinafter referred to as the "BOARD");

Pursuant to the California Constitution, Article XVI, § 17 and California Government Code Sections 31594 and 31595, the BOARD, may in its discretion, invest, or delegate the authority to invest, the assets of the SBCERA through the purchase, holding, or sale of any form or type of investment 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 (hereinafter referred to as the "STANDARD OF CARE"). As it relates to California Government Code Sections 31594 it is the intent of the Legislature ... to allow the Board of any retirement system ...to invest in any form or type of investment deemed prudent by the board pursuant to the requirements of Section 31595.

### III. Functional Organization and Responsibilities



#### A. Board

The Retirement Board has the responsibility for administration of SBCERA. The County Employees' Retirement Law of 1937, Government Code 31450 et

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seq., permits the Retirement Board, at its discretion, to invest the assets of the Plan through the purchase, holding or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board. The Board is responsible for establishing the Plan's operational and investment policies and guidelines and reviewing ongoing Plan performance.

#### **B. Investment Committee**

The Investment Committee is established by the Board to review all investment related policy and management issues, and make recommendations to the Board regarding appropriate action. The Investment Committee may recommend retention/termination of external service providers.

#### **C. Staff**

The Board has delegated to Staff authority to assist the Investment Committee and the Board to review policy issues, to implement the programs established by the Board and to report to the Board on the ongoing operations of the Plan.

##### **1. Authorities Delegated to Staff**

Pursuant to its authority to delegate functions, the Board hereby delegates to the Chief Investment Officer (CIO) the responsibility to manage the SBCERA investment program subject to the Board-approved investment policies. Such delegation includes:

- Recommending external service providers
- Recommending terminating external service providers
- Managing the SBCERA Informed Rebalancing (TAA) Program and Currency Overlay Program
- Negotiating guidelines for mandates approved by the Board
- Negotiating and executing contracts for mandates approved by the Board
  - Chief Counsel and selected outside investment counsel shall collectively review contract agreements (see Investment Policy 007 for details) and/or address any legal issues arising from existing contract agreements.

#### **IV. General Objectives & Plan Policies**

The **general objectives** define the goals to be achieved through the management of SBCERA assets. The **general plan** provides guidelines to be followed in

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meeting the general objectives. Investment policies will evolve as fund conditions change and as investment conditions warrant.

#### A. General Objectives of SBCERA

1. The overall objective of SBCERA is to provide participants with retirement, disability, death and survivor benefits as provided for under the County Employees' Retirement Law of 1937. This will be accomplished through employer/employee contributions, and an investment plan designed to maintain adequate funding of the plan's liabilities over time.
2. SBCERA's Investment Policy is designed to produce a total portfolio long-term real return that adequately funds its liabilities, meets expenses and minimizes the cost of funding the Plan. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal. Due emphasis will also be placed on the preservation of capital necessary to meet Plan liabilities.
3. All transactions undertaken are for the exclusive purpose of providing benefits solely for SBCERA's participants and beneficiaries, while defraying reasonable administrative expenses associated with this Investment Policy.

#### B. General Plan

The allocation of assets among various asset classes shall be approved by the Board and shall identify the target (and ranges), as a percentage of total portfolio assets, for each asset class utilized by SBCERA. See Asset Allocation and Investment Structure Exhibit 1

1. A formal review of each SBCERA asset class shall be conducted by the Board at least every three years. The information for these reviews shall come from Staff, outside consultants and investment managers, as they may be retained.
2. Professional investment managers may be retained to assist in managing SBCERA assets. Each investment manager shall function under a formal contract that delineates its responsibilities. A formal set of investment guidelines detailing administrative and performance requirements will be provided as an exhibit to the investment management contract. The Board has developed

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specific due diligence and compliance policies for ongoing monitoring (See Investment Policy 007).

3. The Board shall allocate net pension fund contributions on an on-going basis in accordance with this investment Plan.
4. The Board may utilize the services of an investment management consultant for the purpose of performance review, asset allocation studies, manager screening and selection and topical studies. The comments and recommendations of the consultant shall be considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions.
5. The Board shall utilize the services of a custodial bank, prime broker, or trust institution for holding SBCERA assets to ensure clear title of SBCERA assets.
6. The Board shall administer the investments of SBCERA at reasonable cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to SBCERA.
7. Investments shall not be made to the detriment of long term investment results regardless of the apparent rationale for social good or the immediate needs of the local, state or national economy.
8. The Board shall operate the investment program in compliance with all applicable federal and state laws and regulations concerning the investment of pension assets.
9. No investment or action pursuant to an investment may be taken unless expressly permitted by this Plan.

#### **V. Asset Allocation Plan and Objectives**

##### **A. Objectives**

SBCERA has a long term investment horizon, and utilizes an asset allocation methodology which encompasses a strategic, long-run perspective on capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major

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determinant of the Plan's investment performance. Asset allocation modeling identifies asset classes the Plan will utilize, and the target percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. (Exhibit 1 outlines the Fund's current asset allocation targets and acceptable ranges)

#### **B. General Strategies**

The asset allocation plan provides diversification to the Plan's overall investment program and is to be managed over time to:

1. Maximize the probability of obtaining a target return at a prudent level of risk. To accomplish this, the Plan considers the following:
  - a) Historical and expected long-term capital market risk and return behavior.
  - b) Multiple scenario analysis
  - c) The correlation of returns among the relevant asset classes.
  - d) The perception of future economic conditions, including inflation and interest rate assumptions.
  - e) The projected liability stream of benefits and the costs of funding to both covered employees and employers.
  - f) The relationship between the current and projected assets of the Plan and the projected actuarial liability stream.
2. Minimize the risk of large loss.
3. Meet or exceed the assumed actuarial interest rate over the long-term.
4. Provide for full investment of the Plan assets. All assets of SBCERA are to remain invested at all times in either cash equivalents or other asset classes as designated by the Plan.

#### **VI. Investment Structure**

##### **A. Objectives**

After asset allocation, the most significant effect on the Plan's return and risk is the investment structure. Accordingly, the investment structure should be managed with as much care and prudence as the Plan's asset allocation to achieve the highest return possible, consistent with an acceptable level of asset

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volatility and a prudent level of risk. (See Exhibit 1 for the current investment structure policy)

#### **B. General Strategies**

1. Where markets are efficient, the investment structure should provide diversified market exposure while controlling risk, and should minimize cost. In this condition, passive exposure will be favored over active strategies.
2. Where the markets are less efficient, the structure will favor active managers to enhance returns.
3. In the equity portfolio, large, mid, and small capitalization, value and growth style stocks, or derivatives may be considered. .
4. In the debt portfolio, government, corporate, structured instruments, and derivatives may be considered.
5. Within both equity and debt markets, public and private assets will be considered with attention given to liquidity considerations that may constrain illiquid allocations despite potentially attractive returns.

#### **C. Performance Measurement and Review**

Special attention will be paid to risk based performance measures.

1. The Plan's investment returns should meet or exceed the assumed actuarial interest rate plus expenses over the long term (defined as ten year horizons).
2. Individual manager portfolios shall be judged according to benchmarks which reflect the objectives and characteristics of their strategic role within the Plan.
3. The Board shall review the long-term investment performance of the Plan at least quarterly.

### **VII. Investment Program Implementation**

#### **A. Manager and Advisor Policy**

1. Manager Utilization

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SBCERA may utilize externally managed portfolios based on the specific needs of the Plan. Each investment manager functions under a formal contract which delineates responsibilities and appropriate performance expectations. All managers will be expected to acknowledge in writing that they are fiduciaries and as such, will be expected to know and comply with applicable manager specific portfolio guidelines. Portfolio performance will be evaluated relative to its adopted benchmark and peer group on a regular basis. No more than 10% of total plan assets (as measured by net asset value and excluding forward commitments of capital) should be allocated to any one investment management organization, or to any one holding company comprised of one or more investment management subsidiaries unless it is desirable to do so in the informed opinion of the Board. This limit shall not apply to passive investment strategies or instruments used for asset allocation/rebalancing purposes at the total plan level. In addition, SBCERA shall not represent more than 20% of an investment management organization's assets under management, unless it is desirable to do so in the informed opinion of the Board.

A plan to cure a breach of the Manager Utilization provision will be presented to the Investment Committee (or Board) by SBCERA staff in consultation with the Board's investment consultant (as applicable). Any cure plan will consider the needs of the SBCERA portfolio and the reasons for exceeding the utilization limit on a case-by-case basis.

#### **2. Manager Authority**

The Plan's investment managers shall have discretion and authority to direct and manage the investment and reinvestment of assets, determine portfolio strategy, determine security selection and determine timing within their asset class, subject to Policy guidelines, guidelines specific to their portfolio, applicable local, state and Federal statutes and regulations. Investment managers shall have discretion to establish and execute transactions with established regional and national securities broker/dealers as needed. Investment managers are required to achieve best available prices and most favorable executions with respect to all portfolio transactions, as market conditions permit. It is each manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies through Board action.

### **VIII. Review and Modification of Investment Plan**



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The Investment Committee shall review the Plan pursuant to Policy 005 – Periodic Review of Board Policies to determine if modifications are necessary or desirable and ensure policy is implemented. If modifications are required, they shall be recommended by the Investment Committee and approved by the Board and promptly communicated to all investment managers and other interested persons.

#### IX. Emergency Actions

In response to the financial crisis of 2008, it is the Board's core belief that liquidity risk outweighs other investment risks. During periods of market disruptions it is critical to the security of the pension assets to be able to act quickly.

For these reasons, the Board delegates to the Board Chair, the Investment Committee Chair, and the CIO, acting in agreement and not acting separately, during periods of market disruptions, which involve liquidity risk when time is of the essence and it is impractical or impossible to convene a Board meeting; the power to take whatever actions under the circumstances 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. All such actions will be reviewed by the Board and ratified or unwound at the next regularly scheduled Board meeting.

#### X. Agreement

By signing page one of this Statement of Investment Plan, Policy and Guidelines the Board indicates its agreement therewith.

Adopted

at San Bernardino, California on June, 2017

By: \_\_\_\_\_, Board Chair

LOUIS FIORINO