

INVESTMENT POLICY STATEMENT

North Orange County Community College District

The purpose of this Investment Policy Statement is to establish a comprehensive strategy for the acceptance and accumulation of invested assets under the **Futuris Public Entity Investment Trust** (the "**Trust**"), which has been adopted for use by **North Orange County Community College District** (the "**Employer**") for, among other things, to assist the Employer in meeting applicable funding requirements for the payment of future retiree health and welfare obligations and other post-employment benefit obligations (generally referred to as "**OPEB Liability**"), but may also be used to fund other purposes related to excess funds of the Employer as allowable under applicable law.

This Investment Policy Statement shall be consistent with the governing law, including the Internal Revenue Code of 1986 as amended from time to time (the "**Code**"), applicable provisions of Governmental Accounting Standards Board Statement Nos. 43 and 45, California laws, including applicable provisions of the California Government Code.

TRUST FUNDING STATEMENT

The purpose of the Trust is to provide a uniform method of investing contributions and earnings of all contributed amounts between funds deposited within the Trust Fund, as such term is defined within the Trust. The Trust shall be funded primarily by irrevocable contributions made by the Employer, but may also include other contributions made by any Participant as determined necessary and appropriate under applicable circumstances and in compliance with underlying legal requirements. These contributions shall be remitted to the Trust on a discretionary basis, as determined by and through the direction of the Employer, or such delegated Trust.

RETIREMENT BOARD

The Retirement Board (the "**Retirement Board**") is directly responsible for the implementation and oversight of this Investment Policy Statement. This responsibility includes the selection and ongoing evaluation of investments and/or investment managers in accordance with applicable laws and regulations. However, these investment responsibilities may be delegated to an authorized third-party trustee. In this case, the Retirement Board has appointed Benefit Trust Company ("**BTC**") as Discretionary Trustee and Trust Fund custodian, who may further designate and delegate any corresponding Investment Manager responsibilities as set forth below. On behalf of the Trust, and as approved by the Retirement Board, BTC shall administer the assets of the Trust in such a manner that the investments are:

- Prudent; in consideration of the stated purpose of the Trust, any underlying Plan and in accordance with Article 16, Section 17 of the California Constitution creating a Retirement System, and California Government Code Sections 53620 through 53622, as applicable;
- Diversified; among a broad range of investment alternatives;

- Permitted; in accordance with the terms of the Trust, any applicable Plan document and in accordance with California Government Code Sections 53620 through 53622 and other applicable requirements;
- Selected; for the exclusive benefit of the Plan participants as it relates to the funding of retiree health and welfare benefits, or as otherwise deemed appropriate for the purposes set forth by the Trust.

The above notwithstanding, the Retirement Board retains the responsibility to oversee the management of the Trust, including BTC's, or any successor trustee's, requirement that investments and assets held within the Trust continually adhere to the requirements of California Government Code.

INVESTMENT OBJECTIVES

The Trust authorizes the use of a broad range of investment choices that have distinctly different risk and return characteristics. In general, assets held in the Trust Fund will be for the primary purpose of meeting present and future OPEB Liability obligations and may be invested in accordance with California Government Code Sections 53600 through 53622 that subject to applicable legal requirements may provide greater latitude to increase purchasing power and capital growth potential if deemed prudent to do so.

Though investment responsibilities are delegated to the Trustee, the Retirement Board determines the target return that is applicable for this Trust as it relates to those assets held in the Trust Fund. Attachment A of this Investment Policy details the target return selected by the Retirement Board. The target return may be modified from time to time by amending the Appendix. Related to the investments and the holding of investments themselves, the Trustee may cause any or all of the assets of the Trust to be commingled, to the extent such investment and the issuance thereof would be exempt under the provisions of Sections 2(a)(36), 3(b)(1) or 3(c)(11) of the Investment Company Act of 1940 or Section 3(a)(2) of the Securities Act of 1933, with the assets of trusts created by others, causing such money to be invested as part of a common and/or collective trust fund.

PERIODIC ANALYSIS AND EVALUATION

The Retirement Board and/or its designees shall periodically meet with the Trustee to review investment performance reports that analyze the performance of the managers selected in each market sector that take into consideration:

- adherence to applicable legal constraints on investment prudence;
- consistency and adherence to stated investment management style and discipline;
- risk adjusted performance relative to managers with similar style;
- long-term investment performance relative to appropriate benchmarks; and
- changes in investment personnel managing the portfolio

ETHICS AND CONFLICT OF INTEREST

Officers, employees, and agents involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and agents involved in the investment process shall abide by the California Government Code Section 1090 et seq. and the California Political Reform Act (California Government Code Section 81000 et seq.)

AMENDMENT


The Retirement Board shall have the right to amend this Policy, in whole or in part, at any time and from time to time.

ADOPTION

The Retirement Board hereby adopts the provisions of this Investment Policy Statement as of this 14th day of January, 2016.

By: 


Brian Farnestock, Interim Vice Chancellor – Finance and Facilities

By: 

Irma Ramos, Vice Chancellor – Human Resources

By: 

Dale Craig, Full-Time Faculty Representative

By: 

Tina Johannsen, Full-time Faculty Representative

By: 

Bea Bates, Classified Representative

By: 

Carol Brown, Classified Representative

By:

Jacqueline Rodarte
Jacqueline Rodarte, Trustee Representative

By:

Joe Boyle
Joe Boyle, Retiree Representative

By:

James A. Phillips
Jim Phillips, Retiree Representative

APPENDIX A: Target Return

Subject to the ability of the Retirement Board and Trustee to deviate from these guidelines as set forth under the heading "Investment Objectives" in the Statement, the Retirement Board has determined after due consideration to the time horizon of the trust, trust liquidity needs, and the District's risk tolerance and capacity for risk, that the Trust Fund shall be invested with the objective of achieving an annualized target net rate of return of 7.5% in order to meet the Plan's actuarial assumption (as determined by Retirement Board's Actuarial Consultant), as well as an additional .5% to cover the costs of trust administration, GASB 43 and GASB 45 compliance.

In accordance with Article 16 Section 17 of the California Constitution creating a retirement system and California Government Code sections 53620 through 53622, the Retirement Board has the authority to invest or reinvest funds intended for the payment of employee retiree health benefits under a prudent investor standard and shall diversify investments so as to minimize the risk of loss and to maximize the rate of return. The Trustee shall establish investment portfolios on a discretionary basis to meet the diverse needs of the Trust and its applicable purposes. Applicable provisions and requirements of, in particular, the California Government Code (specifically provisions under Sections 53216.1, 53216.5 and 53216.6, as applicable) shall be examined before selecting the investment portfolios to achieve the targets stated above.

The Trustee shall manage the Trust investments on a discretionary basis such that the total allocation among various investment styles, capitalizations, fund managers and securities is established and re-balanced from time-to-time so as to meet the Trust's overall target return objectives with the least amount of risk. The Trust assets shall not be invested in any proprietary investment vehicles of the Trustee or any of its affiliates or advisors.

Equity Investments

The purpose of the aggregate equity allocation within the Trust is to provide a total return consisting primarily of appreciation, with dividend income a secondary consideration. In order to maximize return opportunity while minimizing risk, the Trustee shall, in its discretion, allocate the Trust's equity allocation among a diverse group of equity fund managers, taking into consideration such factors as investment style (value, growth, international, etc.) as well as the capitalization (large, mid, small, etc.) of the investment.

Permitted equity investments shall include:

- Publicly traded common stocks, preferred stocks, securities convertible into common stocks, and securities which carry the right to buy common stocks, listed on a major United States stock exchange, including stocks traded through the NASDAQ Stock Market;
- American Depository Receipts ("ADRs");
- SEC-registered open-end mutual funds and Bank, Insurance Company or Trust Company commingled funds which invest primarily in stocks and other instruments which are

allowable securities under these policies and objectives;

- Closed-end SEC-registered mutual funds which invest primarily in stocks and other instruments which are allowable securities under these policies and objectives; and
- Exchange Traded Funds (“ETFs”) which invest primarily in stocks and other instruments which are allowable securities under these policies and objectives.

In managing the equity portfolio, the Trustee shall not do any of the following:

- buy equity securities on margin;
- short-sell equity securities;
- buy or sell futures contracts in any form, except that the Trustee is authorized to buy or sell such contracts specifically for purposes of, and only for purposes of, a hedge against portfolio loss;
- buy or sell put or call options on stocks, indexes or futures contracts;
- buy or sell foreign securities not registered through an SEC filing or not denominated in U.S. dollars; or
- buy or sell any securities which are not publicly traded.

However, all of the above restrictions shall be permitted in open-end or closed-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, and the investments provide for daily liquidity.

Additionally, certain securities may not be held directly, but only in open-end or closed-end mutual funds, comingled funds, or ETFs. These include common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common stocks of non-U.S. companies traded on global exchanges, traded in any currency, as well as restricted securities of U.S. and non-U.S. companies, including securities issued through private offerings, and forward currency contracts or currency futures contracts to hedge foreign currency exposure.

Not more than 5% of the Trust assets shall be invested in any single equity security issue or issuer. The foregoing limitation is not intended to apply to the percentage of Trust assets invested in a single diversified mutual fund.

Both an investment fund manager’s performance and the performance of individual securities, if purchased, will be compared to the following benchmarks based upon the particular investment style and capitalization range:

Domestic Equities:	S&P 500
International Equities:	MSCI EAFE and ACWI ex.U.S.

The Trustee shall pay particular attention to rolling 3 and 5 year time frames as well as shorter periods should the situation warrant. In addition, the Trustee shall measure and compare the exposure to risk of the Trust’s equity portfolio with benchmarks appropriate for the investment

style and capitalization range of each such investment.

Fixed Income Investments

The purpose of the aggregate fixed income allocation within the Trust is to provide a total return consisting of income and appreciation, while preserving capital by investing in a diversified portfolio of high quality fixed income securities. The investment objective of the fixed income portfolio is to achieve a total return commensurate with the overall bond market as measured by the Barclay's Aggregate Bond Index for domestic securities, and the Barclay's Global Bond Index for international securities, with attention given to rolling 3 and 5 year time frames as well as shorter periods should the situation warrant. In addition, the Trustee shall measure and compare the exposure to risk of the Trust's fixed income portfolio with benchmarks appropriate for the investment style and capitalization range of each such investment.

Permitted securities shall include:

- Obligations of the U.S. Government and its agencies;
- Bonds issued by U.S. Corporations or U.S. subsidiaries of foreign companies that are incorporated within the U.S. and carry a minimum BBB rating;
- Certificates of Deposit issued by banks or savings and loans of sound financial condition under FDIC management, with never more than the FDIC coverage amount (including interest) deposited to any single institution;
- Money market funds and money market instruments of an investment grade commonly held in money market funds such as repurchase agreements, banker's acceptances, commercial paper, etc.
- SEC-registered open-end mutual funds and Bank, Insurance Company and Trust Company commingled funds which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- Closed-end SEC registered mutual funds which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- Exchange Traded Funds ("ETFs") which invest primarily in bonds and other instruments which are allowable securities under these policies and objectives;
- Investment grade foreign government or corporate bonds carrying a minimum BBB rating, whether or not denominated in U.S. currency, and whether or not hedged for foreign currency risk.
- Securities backed by pools of consumer or corporate receivables other than mortgages ("Asset-backed Securities"), provided that these securities have been registered with the SEC for public offering and that they meet the requirements of these policies and objectives and carry a minimum BBB rating; and

- U.S. Agency mortgage-backed pass-through securities.

In managing the fixed income portion of the Trust assets, the Trustee shall not do any of the following:

- buy fixed income securities on margin;
- short-sell fixed income securities;
- buy or sell futures contracts in any form, except that the Trustee is authorized to buy or sell such contracts specifically for purposes of, and only for purposes of, a hedge against portfolio loss;
- buy or sell put or call options on bonds, indexes or futures contracts;
- buy or sell foreign securities not registered through an SEC filing or not denominated in U.S. dollars; or
- buy or sell any securities which are not publicly traded except U.S. Government or agency-backed mortgages.

However, all of the above restrictions shall be permitted only in open-end or closed-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives, prudent management, risk mitigation, and the investments provide for daily liquidity. In addition, investment in non-investment grade bonds or loans by such funds shall be permitted so long as the average aggregate rating of the funds are investment grade, and in the opinion of the Trustee the proportion of non-investment grade bonds to investment grade bonds in the portfolio is prudent.

Not more than 5% of the Trust assets shall be invested in any single debt security issue or issuer. The foregoing limitation is not intended to apply to the percentage of Trust assets invested in a single diversified mutual fund, nor does the limitation apply to obligations of the U.S. Government and its agencies, U.S. agency mortgage-backed pass-through securities or to a mutual fund that invests in such obligations or securities.

Use of Mutual Funds

The Retirement Board envisions that the Trustee will invest predominantly in open and closed-end mutual funds. The Board recognizes that the limitations and restrictions set forth in this Statement cannot be imposed on the managers of such mutual funds and that mutual funds held by the Trust may be managed outside of the requirements of this Statement. Nonetheless, the Trustee shall seek to identify mutual funds that comply as closely as possible to these guidelines and shall diligently monitor for prompt removal and replacement of those that do not.

Performance Review

In the execution of its fiduciary responsibilities, the Trustee shall review, on a regular basis, the performance of the various investments and fund managers employed by the Trust to determine if assets are being properly managed according to the stated objectives and policies set forth in the Trust Agreement and in this Statement. The Trustee shall view performance and investment risk on the basis of a full 3 to 5-year market cycle, though the stated objectives and policies of

the Trustee may result in the prompt sale of a security or dismissal of a fund manager based upon shorter term results. In addition, any deviation or change in the structure, management or investment style of any fund manager employed shall precipitate a review by the Trustee to determine whether or not that manager should be retained.

Change of Target Return

The Retirement Board may, from time to time, discuss with Trustee the need to change target investment returns for the trust as conditions or characteristics of the Trust, or applicable Fund requirements change. In the event a change is made, a new Appendix A will be adopted by the Retirement Board to reflect the change.