

COUNTY OF CONTRA COSTA POST-EMPLOYMENT HEALTH CARE PLAN

INVESTMENT POLICIES AND GUIDELINES DOCUMENT

Adopted February 2011

Revised June 2011

Revised June 2013

Revised September 2015

Revised May 2019

Revised February 2026



Contra Costa County Post-Retirement Health Care Plan Investment Policies and Guidelines Document

In response to the Government Accounting Standards Board (GASB) Statement Number 45 disclosure requirements for Other Post-Employment Benefit (OPEB) Plans, Contra Costa County has adopted a Section 115 Trust Plan that seeks to satisfy these liabilities for certain eligible employees.

Executive Summary

Plan Sponsor:	Contra Costa County (County)
Advisory Body:	Post Retirement Health Benefits Trust Agreement Advisory Body
Plan Administrator:	Contra Costa County Treasurer-Tax Collector
Trust Administrator:	Public Agency Retirement Services (PARS)
Trustee:	U.S. Bank, N.A.
Investment Advisor:	U.S. Bank, N.A., as Trustee has hired PFM Asset Management (Portfolio Manager) via a sub-advisory agreement to serve as the Investment Advisor.
Investment Authority:	Full Investment Authority
Account Number:	6746038001
Current Assets:	\$ 541 Million June 2025
Annual Contributions:	Evaluated annually
Risk Tolerance:	Balanced Objective
Time Horizon:	Long-Term
Assumed Earnings Rate:	6.25%
Investment Objective:	The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth below. The Plan's targeted rate of return is 6.25%. The asset allocation ranges for the Plan are listed below:
Strategic Ranges:	Cash: 0 - 5% Fixed Income: 30-50% Equity: 45-65%
Communication Schedule:	See Portfolio Reporting Requirements Committee meetings quarterly
Income Needs/Cash Flow Required:	To be determined annually by the Plan Administrator.
Unique Needs and Circumstances:	None Known
PFMAM Portfolio Manager:	Andrew Brown, CFA 415-796-5057 Andrew.Brown1@PFMAM.com
U.S Bank Administrative Officer:	Sue Hughes 949-224-7209 Susan.Hughes@usbank.com

Portfolio Constraints

Income Needs/Cash Flow Required: The County has historically not sought disbursements from the Trust.

Client (Signature): _____ **Date:** _____

PFMAM Portfolio Manager: _____ **Date:** _____

U.S. Bank Administrative Officer: _____ **Date:** _____

I. INTRODUCTION

The Board of Supervisors (the "Board") of the County of Contra Costa has established the following Investment Policies and Guidelines Document (the "Document") for the investment of the trust fund (the "Trust") of the Contra Costa County Post-Retirement Health Benefits Plan (the "Plan"). The Board reserves the right at any time and from time to time to amend, supplement or rescind this document.

II. OVERVIEW

The purpose of this Document is to assist the Board and the Portfolio Manager in effectively supervising, monitoring and evaluating the investment of the Plan's portfolio. The investment program is defined in the various sections of the Document by:

- A. Stating the Board's attitudes, expectations, objectives and guidelines for the investment of all assets.
- B. Setting forth an investment structure for managing the Plan's portfolio. 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 anticipated total investment return over the investment time horizon.
- C. Encouraging effective communications between the Board and the Portfolio Manager.
- D. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations of various local, state and federal entities that may impact the Plan's assets.

III. AUTHORITY

The investment of the assets for the Trust shall be in accord with applicable law, including but not limited to the following:

- A. Investments shall be solely in the interest of, and for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries, minimizing the contributions of employers thereto, and defraying the reasonable expenses of administering the Trust (Cal. Gov. Code Sec. 31595 (a)).
- B. Investments 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 (Cal. Gov. Code Sec. 31595 (b)).
- C. 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 (Cal. Gov. Code Sec. 31585 (c)).
- D. In considering potential investment managers, it is the policy of the Board not to exclude managers from consideration based on ethnic background or gender, and not to arbitrarily exclude an emerging firm if, in the opinion of the Board, that firm has equal or superior capabilities to other candidates.
- E. It shall be the policy of the Board that an Economically Targeted Investment (ETI) can be considered if and only if it has return and risk circumstances attractive in comparison to other alternatives.

IV. COUNTY PLAN ADMINISTRATOR'S RESPONSIBILITIES

- A. On behalf of the Board, execute all legal and administrative documents pertaining to a trust fund, and take whatever actions are necessary to maintain the County's participation in the trust fund, including compliance with any relevant regulation issued or as may be issued.
- B. Oversee the investment portfolio and monitor performance by means of regular reviews to assure objectives are met and the policy and guidelines are being followed.
- C. Provide the investment manager with all relevant information on the Plan, and shall notify him/her promptly of any changes to this information.
- ~~D.~~ Advise the investment manager of any change in the Plan's circumstances, such as a change in actuarial assumptions, which could possibly necessitate a change to the overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals of the portfolio.
- ~~D.E.~~ The County will coordinate with the Advisor to review every ~~threetwo~~ years the appropriateness of this Policy for achieving the Plan's stated objectives. This review shall encompass a review of both the Investment Policy Statement and also shall include an asset allocation study.

V. PORTFOLIO MANAGERS' RESPONSIBILITIES, POLICIES AND GUIDELINES

All portfolio managers hired by the County will be registered investment advisors with the Securities and Exchange Commission, or will be trust companies that are regulated by State and Federal Banking authorities. Such portfolio managers will maintain proper and adequate insurance coverage including errors & omissions, surety bond and fiduciary liability. In addition, portfolio managers agree to notify the Board and Plan Administrator in writing if they are unable to continue acting in the capacity of a fiduciary or investment advisor.

Portfolio Managers' Responsibilities

The portfolio manager is expected to manage the Plan's portfolio in a manner consistent with this Document and in accordance with State and Federal law and the Uniform Prudent Investor Act. The portfolio manager is a registered investment advisor and shall act as such until the Board decides otherwise.

The portfolio manager shall be responsible for:

1. Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
2. Advising the Plan Administrator about the selection of and the allocation of asset categories every ~~two-three~~ years or as needed.
3. Identifying specific assets and investment managers within each asset category.
4. Monitoring the performance of all selected assets.
5. Recommending changes to any of the above.
6. Periodically reviewing the suitability of the investments, being available to meet with the Board and Plan Administrator at least once each year, and being available at such other times within reason at the Board's request.
7. Preparing and presenting appropriate reports.
8. Informing the Board and Plan Administrator of changes occurring in personnel that are responsible for portfolio management or research.

Investment Manager Policies and Guidelines

The investment policies governing each investment manager hired by the County are as follows:

1. The investment manager is required to accept the responsibilities stated above. These responsibilities include acting as a prudent expert and agreeing to be a fiduciary to the County. The manager will seek to satisfy the County's investment objectives. If a problem exists with these objectives, it is the manager's responsibility to formally discuss these problems in a written communication to the Advisory Body and Plan Administrator. Also, the manager agrees to satisfy the County's prescribed requirements outlined in a subsequent section.
2. Under any and all capital market environments, the investment manager agrees to maintain the investment approach that it ~~is~~ was hired to implement. Significant changes to the manager's investment decision-making process are to be immediately reported in writing to the Board and Plan Administrator. It is the responsibility of the investment manager to fully educate the Board and Plan Administrator as to the specifics of its investment process and internal research that may lead to changes in the firm's investment approach.
3. An investment portfolio constructed for the Board is expected to generally conform to other portfolios managed by the investment organization, exclusive of specific investment guidelines. When the Board guidelines require the investment manager to manage a portfolio significantly different than its other portfolios, it is the responsibility of the manager to communicate in writing the potential impact of the Board's guidelines on the portfolio.
4. The manager will otherwise treat the Plan's portfolio in a manner similar to other comparable portfolios in portfolio construction trading and in all other aspects.
5. Managers shall have full discretionary power to direct the investment, exchange, liquidation and reinvest the assets of the Plan, but must meet the provisions of the Board's investment objectives and policies. The Board expects the manager to recommend changes to this document at any time when the manager views any part of it to be at variance with overall market and economic conditions.
6. Unless otherwise specified, portfolios are to be fully invested in allowable investment securities. Under no circumstance shall an investment manager attempt to "market time" investments in its portfolio(s).

VI. PORTFOLIO REPORTING REQUIREMENTS

Quarterly Reports:

1. The investment objectives of the portfolio will be clearly stated. Next a narrative description of the portfolio's investment strategy will be provided with a discussion of the factors that proved to be favorable and those that were unfavorable. In addition, a concise statement of the firm's investment decision-making process will be provided and any changes or modifications that were made to the process.
2. Portfolio performance before and after investment management fees:
The manager shall report the quarterly total portfolio rate of return before and after investment management fees have been deducted, as well as cumulative and annual performance on both bases since account inception. Also included in these tables will be the manager's performance benchmarks and ranking with median return of peers.

3. Portfolio asset mix and asset growth:
The portfolio's allocation to the major asset classes will be specified for the beginning and end of the quarter. Market values will be shown for the total account over the same period.
4. Portfolio allocations according to characteristics and other classifications:
Specific portfolio characteristics will be developed and contrasted to those of the portfolio's performance benchmark.
5. Portfolio reconciliation to the custodial bank:
As of quarter-end, the investment manager will reconcile their portfolio market value to that provided by the custodial bank. The custodial trustee accounts for investments on a trade date, full accrual basis. Explanation of any discrepancies shall be provided to the County.

Monthly Reports:

Portfolio summary report and detailed positions and transactions:

A summary report consisting of a statement of changes in market value from the preceding month, a summarized portfolio composition using market values and portfolio performance for the latest month, and a portfolio reconciliation to the custodial market value of the account. The report should also include individual issues in the portfolio as of the most recent month-end along with a list of portfolio purchases and sales.

VII. ASSET CATEGORIES

For purposes of setting objectives and guidelines for the investment of the assets of the Plan, the assets shall be divided into four segments described as: Global Equity, Global Fixed Income, Listed Real Assets, and the Incidental Cash position. The Domestic and International Equity allocations are considered part of the Global Equity segment. The Domestic Fixed Income allocation and the High Yield Fixed Income allocation are considered part of the Global Fixed Income portion of the Plan. Listed Real Assets will encompass both domestic real estate (REIT) investments and the global infrastructure segment.

Global Equity Portion shall consist of investments in common stock and other securities which are convertible into common stock. The Global Equity portion may be further divided into domestic, developed international, emerging market international, and global; large, mid and small capitalization; growth, value, and core.

Global Fixed Income Portion shall consist of investments in fixed income securities including High-Yield bonds as well as securities including cash equivalents.

Listed Real Assets Portion shall consist of investments in real estate through the use of publicly traded real estate investment trusts (REITs) and through the use of commingled funds that invest in publicly traded REITs. Global Infrastructure is also classified as a listed real asset and shall consist of investments in mutual funds or ETFs that invest in global companies that own and operate the infrastructure assets and services essential for economic growth and development.

Incidental Cash Portion shall include short-term monies invested in a money market fund.

VIII. INVESTMENT OBJECTIVES

The general investment objective of the Plan is to maximize total return, subject to the risk and quality constraints described in the Investment guidelines. The relative return objective is a total

return on a market value basis which exceeds that of a custom index composed of appropriate asset class indexes weighted proportionally by corresponding asset class targets. The rate of return objective shall be the actuarial interest assumption, as determined from year to year.

A. Total Fund Benchmarks

The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth. The Plan's targeted rate of return is 6.25%. The relative return objective is a total return on a market value basis which exceeds that of a custom index composed of appropriate asset class indexes weighted proportionally by corresponding asset class targets. The custom benchmark composition would include 37.34% Russell 3000 Index, 18.546% MSCI-ACWI Ex-US Index, 3.25% MSCI World Core Infrastructure Index, 3.25% MSCI-US REIT Index, 41.34.5% Bloomberg US Aggregate Bond Index, 2.5% ICE BofA High Yield Index, 1% 90-Day T-Bill Index.

B. Domestic Equity

1. For the Domestic equity portion of the Plan, a rate of return in excess of the Russell 3000 Index.
2. For the Domestic Large Capitalization portion of the Plan, a rate of return in excess of the Russell 1000 Index, and a return in the upper half of the corresponding large capitalization style universe (Lipper, Morningstar or similar).
3. For the Domestic Small Capitalization portion of the Plan, a rate of return in excess of the Russell 2000 Index, and a return in the upper half of the corresponding small capitalization style universe (Lipper, Morningstar, or similar).
4. For the Domestic Mid-cap portion of the Plan, a rate of return in excess of the Russell Mid-Cap Index, and a return in the upper half of the corresponding mid-capitalization style universe (Lipper, Morningstar, or similar)

C. International Equity

1. The objective for the international equity portion of the Plan is a return in excess of the MSCI-ACWI Ex-US Index, and a return in the upper half of the corresponding International Equity style universe (Lipper, Morningstar or similar).
2. For the emerging market international equity portion of the Plan, a rate of return in excess of the MSCI-Emerging Market Index, and a return in the upper half of the corresponding international emerging market equity style universe (Lipper, Morningstar, or similar)

D. Fixed Income

1. The objective for the fixed income portion of the Plan is a return in excess of the Bloomberg US Aggregate Index, and a return in the upper half of the corresponding intermediate-term fixed income style universe (Lipper, Morningstar or similar).
2. The objective for the high-yield portion of the Plan is a return in excess of the ICE BofA High Yield Index, and a return in the upper half of the corresponding High Yield style universe (Lipper, Morningstar or similar).

E. Listed Real Assets

1. The objective for the real estate portion of the Plan is a return in excess of the MSCI-US REIT Index, and a return in the upper half of the corresponding Universe of REIT funds (Lipper, Morningstar or similar).
2. The objective for the global infrastructure portion of the Plan is a return in excess of the MSCI World Core Infrastructure Index and a return in the upper half of the corresponding global infrastructure style universe (Lipper, Morningstar or similar).

~~F.~~—Incidental Cash

The objective of the cash portion is to achieve a return in excess of the 90-Day T-Bill Index.

IX. ASSET ALLOCATION

Targets

The asset allocation targets and their associated ranges, which are a function of the returns and risks from various asset classes and the nature of the Plan's liabilities, are set forth below in Table 1. The Board will review its asset allocation position as needed or a minimum of once every three to five years. The Board may make tactical adjustments to the targets and ranges, and may change the targets and ranges as appropriate.

The Investment manager is responsible for maintaining the balance between fixed income and equity securities based on the asset allocation. The parameters shown in Table 1 shall be adhered to in managing the portfolio:

Table 1

	<u>Target Mix</u>	<u>Allocation Ranges</u>	
		<u>Minimum</u>	<u>Maximum</u>
Total Domestic Equity			
Large Cap	19%	13%	32%
Mid-Cap	6%	2%	10%
Small Cap	9%	4%	12%
Global Equity	8%	4%	12%
International Equity (Developed)	10%	4%	16%
International Equity (Emerging)	0%	0%	4%
Fixed Income	43%	30%	50%
High Yield	0%	0%	4%
Real Estate	4%	0%	8%
Cash (Money Market)	1%	0%	5%
Alternatives	0%	0%	10%

	<u>Target Mix</u>	<u>Allocation Ranges</u>	
		<u>Minimum</u>	<u>Maximum</u>
<u>Total Domestic Equity</u>	<u>37.0%</u>	<u>24%</u>	<u>45%</u>
<u>Large Cap</u>	<u>27.75%</u>	<u>18%</u>	<u>41%</u>
<u>Mid Cap</u>	<u>7.25%</u>	<u>3%</u>	<u>11%</u>
<u>Small Cap</u>	<u>2.0%</u>	<u>1%</u>	<u>6%</u>
<u>International Equity (Developed)</u>	<u>13.75%</u>	<u>8%</u>	<u>31%</u>
<u>International Equity (Emerging)</u>	<u>4.75%</u>	<u>2%</u>	<u>9%</u>
<u>Real Estate</u>	<u>3.25%</u>	<u>1%</u>	<u>8%</u>
<u>Global Infrastructure</u>	<u>3.25%</u>	<u>1%</u>	<u>8%</u>
<u>Total Fixed Income</u>	<u>37.0%</u>	<u>30%</u>	<u>50%</u>
<u>Domestic Fixed Income</u>	<u>34.5%</u>	<u>24%</u>	<u>50%</u>
<u>High Yield</u>	<u>2.5%</u>	<u>0%</u>	<u>6%</u>
<u>Cash (Money Market)</u>	<u>1%</u>	<u>0%</u>	<u>5%</u>

Rebalancing

1. From time to time, market conditions may cause the asset allocation to vary from the established target. To remain consistent with the asset allocation guidelines established by this document, the investment manager will at a minimum rebalance the portfolio on a quarterly basis.
2. The Board and Plan Administrator have the authority to issue instructions to the investment manager to liquidate securities for reallocation to other managers.
3. On an annual basis, the Board and Plan Administrator shall develop a cash flow plan for the subsequent year. This plan will take into consideration expected cash needs both for the payment of benefits as well as to fund under-allocated or new asset classes.

X. INVESTMENT GUIDELINES

The following guidelines apply to all Investment managers. Any further constraints, limitations or authorities to an individual manager, which are specific to that manager and have been agreed to by the manager and the Plan Administrator also apply.

Global Equity

1. The maximum percentage of the Plan which may be invested in the securities of a single corporation shall be 10% of the value of the Plan.
2. The Plan shall not hold more than 5% of the equity securities of an issuer.

Global Fixed Income

The Fixed Income account securities will be restricted to the following:

1. Obligations of the U.S. Treasury
2. Obligations guaranteed by an agency of the United States, including agency Mortgage-Backed Securities and agency commercial mortgage-backed securities.
3. Government, agency, quasi-government and supranational bonds.
4. Certificates of deposit and banker's acceptance of credit-worthy banks.
5. Individual Corporate bond investments shall be "Investment Grade" with a minimum effective credit quality rating of BBB- at the time of purchase.
6. Eligible instruments issued pursuant to SEC Rule 144(a) or Regulation S.
7. Commercial paper (including variable rate notes) of issuers rated at least P-1 by Moody's Investor Services or A-1 by Standard & Poor's.
8. Lower risk planned amortization class (PAC) collateralized mortgage obligations ("CMO") and Sequential CMOs. CMOs other than PACs and Sequentials are limited to a maximum of 10% of the fixed income portfolio at cost.
9. Portfolio holdings in CMOs greater than 15 years or less than negative 15 years in duration (based on a 100 basis point move in rates) are limited to no more than a total of 2% of the fixed income portfolio at cost.
10. High yield securities may be held, but they will be held using a high-yield mutual fund
11. Investment-grade bonds backed by the interest and principal payments on loans for certain types of assets, such as automobiles, credit cards or student loans, known as asset-backed securities.
12. Municipal bonds

Quality

The fixed income individual securities portfolio will maintain a minimum weighted average effective quality of A- at all times. At the time of purchase, individual securities shall have a minimum effective quality rating of BBB-.

For purposes of determining an effective rating, when three agencies rate a security (S&P, Moodys, Fitch) the middle rating will be used. When only two of the three agencies rate a security the lower of the two ratings will be used. When only one agency rates a security that rating will be used.

Duration

The manager will maintain the portfolio duration within +/- 25% of the Bloomberg US Aggregate Bond Index duration at all times for the individual fixed income securities portfolio.

Real Estate

Investments in Real Estate will be made through individual REIT securities as well as commingled funds that invest in REITs. Separately held real estate investments are prohibited.

Incidental Cash

The incidental cash portion of the Plan shall be invested in readily marketable and diversified assets as are enumerated in the Fixed Income Portion Guidelines. Additionally, money market funds and repurchase agreements are acceptable cash oriented investments.

XI. PROHIBITED ASSETS

The Plan wishes to avoid investments in the following investment categories:

- Precious metals
- Private Equity
- Venture Capital
- Short sales
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions
- Commodities Transactions Puts, calls, straddles, or other option strategies,
- Purchases of real estate, with the exception of REIT mutual funds or REIT ETFs
- Derivatives, with exception of ETFs
- Contra Costa County Issued Bonds
- Non-agency (or Private Label) Mortgage-Back Securities

The investment manager will not make direct investments in any of the prohibited assets listed above. However, external third-party managers hired by the investment manager may invest in some of the assets listed above in order to achieve their stated investment objectives. For example, managers pursuing market-neutral, absolute return or other alternative strategies may combine long positions with short positions in order to produce a return stream that is less volatile than the volatility a long-only strategy could achieve.

XII. FUND SELECTION PROCESS

Funds selected as investments in the Plan will be expected to have undergone a rigorous screening process that searches for managers and styles that will produce above average returns within acceptable risk parameters. The evaluation process will consider the following factors:

- Performance track record
- Fund assets
- Manager tenure with fund
- Expense ratios
- Market capitalization
- Style consistency
- Number of holdings
- Assets in top 10
- Portfolio turnover
- Sector weighting allocations
- Standard deviation
- Sharpe ratio

Performance evaluation of the Funds will take into consideration both performance relative to a benchmark index as well as performance relative to a universe of the fund's peers. Evaluation metrics versus a representative benchmark will utilize a twelve-month rolling performance record compared to a representative benchmark over a three, five, seven and ten-year period (if/when available).

A fund is expected to rank above the median in its appropriate peer group for the three, five and ten-year periods (if/when available).

An additional requirement for all funds utilized in the Plan is that the fund families that sponsor the funds will have filled out and returned a request for proposal (RFP) submitted to them by the investment manager. This RFP will highlight significant areas such as organizational factors,

composition of assets, portfolio characteristics, investment process, fee structure, internal compliance controls, and an overview of the investment personnel.

Investment mutual funds may be removed from the investment portfolio from time to time. Factors that the investment manager will consider in regards to removing a fund include, but [isare](#) not limited to:

- Performance that is inconsistent with the manager's style or our expectations
- Performance that conflicts with peers and style universes
- Annualized return trails the benchmark or median return on a 3-year basis for more than three consecutive quarters
- Security selection not in agreement with the manager's investment philosophy/process
- Purchases that lead to abnormal portfolio concentrations
- Sector and industry exposures that are inconsistent with the manager's guidelines
- Unusual tracking error to the benchmarks
- Inadequate transparency between the manager's comments and portfolio holdings
- Inconsistencies related to the manager's remarks on style, sector, and market cap weightings
- Instability at the manager's investment management firm
- Modifications to the investment process and/or risk controls that interfere with a firm's strategy
- Staffing adjustments that may result in poor performance
- The fund selection process described above is not required for any passive investments, including index-based mutual funds or exchange-trade funds (ETFs).