

# Contra Costa County Employees' Retirement Association

## Investment Policy Statement

Adopted: January 14, 1986

Restated: September 28, 2016

Amended: February 5, 2025

# CCCERA INVESTMENT POLICY STATEMENT

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# CCCERA INVESTMENT POLICY STATEMENT

## Contra Costa County Employees' Retirement Association Investment Policy Statement

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Amended: February 5, 2025

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The Contra Costa County Employees' Retirement Association (CCCERA) is a public employee retirement system that was established by the County of Contra Costa on July 1, 1945. CCCERA is administered by the CCCERA Board of Retirement (Board) to provide service retirement, disability, death, and survivor benefits for county employees and fifteen other participating agencies under the County Employees Retirement Law of 1937, California Government Code Section 31450 *et. seq.* (CERL), the California Public Employees' Pension Reform Act of 2013, California Government Code Section 7522 *et. seq.* (PEPRA) and other applicable laws.

### **1. PURPOSE**

CCCERA has established an investment program (Investment Program) designed to provide sufficient assets in a timely manner to pay the benefits due to participants today and in the future, over the long-term. The purpose of this Investment Policy Statement (IPS) is to establish the policies that will guide the Investment Program. This IPS is intended to provide guidance to the Board and to its delegates, the Staff, and third-party professionals. This IPS is supported by the Board's Investment Resolutions, the Investment Procedures (Procedures), and Board policies that reflect the needs of the defined benefit plan (Plan) that the Board administers. The Investment Resolutions, policies and other Board documents identified in Appendix 1 hereto are incorporated into this IPS and made a part hereof by this reference.

### **2. AUTHORITY**

The Investment Program shall be managed in accordance with applicable law, including but not limited to the following:

- The assets of the Plan are trust funds and shall be held for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan (Cal. Const. art. XVI, sec. 17(b); Cal. Govt. Code sec. 31595).

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- The board and its officers and employees shall discharge their duties with respect to the system:
    - (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
    - (b) 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.
    - (c) Shall diversify the investments of the system 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. Const. art. XVI sec. 17(b), (c) and (d); Cal. Gov. Code Sec. 31595 (a), (b) and (c)).

### 3. GOVERNANCE

The Board hereby adopts a governance model whereby specific authority, responsibility, and accountability are either retained by the Board or delegated to others based on areas of expertise and appropriate oversight. The Board retains sole responsibility governing the Plan, setting investment policy, and monitoring the Investment Program. It may choose to delegate specific areas of responsibility provided it retains appropriate oversight of the delegated activity.

#### A. Roles and Responsibilities

##### 1. BOARD OF RETIREMENT

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- The governance model of the Investment Program
- Establishing and maintaining investment policy, including:
  - Investment philosophy
  - This IPS
  - Investment objectives
  - Strategic asset allocation
  - Total fund policy performance benchmark
  - Risk philosophy
- Selecting Board consultants and service providers
- Monitoring the Investment Program

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### 2. STAFF

CCCERA Staff (Staff), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CEO provides general direction and supervision to the CIO. The CEO and the CIO have been delegated authority to execute specific elements of the Investment Program as outlined herein, including the Investment Resolutions. The CEO has the authority to execute and terminate contracts between CCCERA and investment managers or other service providers as approved by the Board. The CIO has the authority to rebalance the portfolio under Section 3.B.1. of this IPS. The CIO also has the authority to manage the investment managers within the Plan under Section 3.B.2 of this IPS.

### 3. GENERAL INVESTMENT CONSULTANT

The General Investment Consultant (Consultant) is engaged by the Board to provide independent, objective investment advice. The Consultant is and shall agree to be a fiduciary to the Plan under California law. The Consultant works with Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the Consultant are contained in an Agreement for Professional Investment Consulting Services, and generally include providing advice with respect to:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among classes and subclasses
- Investment manager selection, evaluation, and termination
- Investment performance monitoring
- Investment risk monitoring
- Capital markets projections
- Coordination with the Plan's actuary in conducting periodic asset/liability studies and other required reporting
- Board education

### 4. SPECIALTY INVESTMENT CONSULTANTS

Specialty consultants may be hired by the Board to work with Staff, the Consultant, and/or the Board. These will typically be asset class consultants (e.g., real estate, private equity, hedge funds) that may operate on a discretionary or non-discretionary basis, as directed by the Board, to meet the objectives of the Investment Program.

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### 5. INVESTMENT MANAGERS

CCCERA engages Investment Managers to invest and manage CCCERA's assets in accordance with this IPS, the manager's mandate, governing contractual documents and applicable state and federal laws and regulations. The Board has delegated the authority to CCCERA's Chief Investment Officer, on the advice of legal counsel, to negotiate terms of engagement with Investment Managers so as to assure that CCCERA's interests are appropriately furthered and Investment Managers observe a fiduciary standard of care. At a minimum, Investment Managers (and any affiliated General Partners) will be required to comply with all applicable state and federal laws and regulations. Investment Managers shall be registered investment advisors under the federal Investment Advisors Act of 1940, unless expressly exempted from registration.

Subject to this IPS and any specific contractual obligations to the Plan, Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell assets in amounts and proportions that are reflective of the agreed-upon investment mandate.

### 6. CUSTODIAN BANK

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by CCCERA in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of Plan assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

The Custodian Bank shall be authorized to conduct a securities lending program within liquidity and risk constraints as established pursuant to its contract with CCCERA and as overseen by staff.

#### **B. Delegation of Authority**

The Board has delegated authority to the CIO for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. This IPS is used to describe the delegation of authority generally with the Investment Resolutions providing additional requirements and processes. The Board shall be notified monthly or more frequently as

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necessary of all investment decisions made by the CIO under the delegation of authority set forth in this section.

### 1. REBALANCING

The Board recognizes there may be a cost to maintaining strict adherence to a target asset allocation in terms of both transaction costs and opportunity costs. The Board also recognizes that the benefit of cost minimization must be balanced against the assumption of active risk associated with allowing variances to asset allocation targets.

The CIO is delegated the authority to conduct portfolio rebalancing in order to meet two distinct objectives. The first is to maintain the long-term strategic asset allocation targets approved by the Board. The second is to capture valuation-based opportunities by deviating from the long-term strategic asset allocation targets within Investment Resolutions as follows:

#### **i. Routine Rebalancing**

The CIO may periodically rebalance the portfolio within the ranges as set forth in the Investment Resolutions. When such rebalancing activity occurs, the CIO shall notify the Board through monthly reporting.

#### **ii. Tactical Rebalancing**

With prior approval of the Board, the CIO may rebalance the portfolio outside of the asset allocation target ranges as set forth in the Investment Resolutions.

For each of situations listed above, special consideration will be given to illiquid asset classes recognizing that their funding and redemption processes are different than those of the liquid asset classes. As such, each illiquid asset class is assigned a liquid asset class to function as a holding place while the corresponding illiquid strategies are being invested.

Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives. These type of portfolio rebalancing events are reflected in the routine reporting.

### 2. INVESTMENT PORTFOLIO MANAGEMENT

While the Board believes the vast majority of investment return over the long term is dependent on the asset allocation decision and ongoing due diligence, it recognizes additional risk and return may be generated by how the asset allocation is implemented. These implementation decisions will largely be delegated to the CIO to be executed within the parameters established in the Investment Resolutions.

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### **i. Hiring a new manager**

The CIO shall have the authority to hire new managers (i.e., purchase interests in new investment vehicles) for actively managed strategies up to an investment amount of \$150 million per fund, subject to the remaining terms of this IPS. The CIO shall also have the authority to invest any Board-approved allocation to a publicly-traded allocation in a passive vehicle that tracks the Board-approved benchmark index for that allocation.

Subject to the foregoing limitations, the CIO, with the assistance of Staff, the Consultant, and Specialty Consultants, shall be responsible for conducting all due diligence activities in connection with hiring new managers. Since the Board encourages Trustee oversight, the CIO shall encourage Board members to observe the due diligence process and shall include any Board member(s) expressing such interest.

Quiet period. During the process of hiring a new manager, a quiet period will apply during the evaluation process, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, unless authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board entering into a contract with the Investment Manager(s) selected for the mandate. The CIO is responsible for alerting the candidates and the Board to the commencement and duration of the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

In all cases, the hiring process shall be consistent with CCCERA requirements for vendor selection detailed in the Procedures and other CCCERA policies, including but not limited to the Code of Fiduciary Conduct and Ethics, Conflict of Interest Code, Placement Agent Disclosure Policy and Procurement of Products and Services Policy.

### **ii. Terminating existing managers**

The Board recognizes investments may need to be adjusted or removed from the Plan portfolio from time to time for a variety of reasons, including:

- Organizational changes including those to the people and processes in place
- A manager's style has deviated from the initial investment thesis
- A manager's style, strategy, ethics, or philosophy is no longer appropriate for the Investment Program
- Underperformance relative to benchmark or other expectations



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- Uncompetitive pricing compared to available alternatives

The CIO shall have the authority to terminate investment managers. Absent emergency circumstances (described below), prior to terminating a manager, the CIO shall present a detailed termination memo to the Board that includes:

- Purpose of the mandate
- Reason(s) for termination

Although the Board's explicit approval is not required, it shall maintain veto authority should a majority of the Board decide the planned termination is not in the best interest of the Plan.

Emergency termination. An emergency will be deemed to exist when an investment strategy suffers the resignation or other loss of its portfolio manager(s) and no appropriate replacement is available; when an investment management firm dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; when an investment management firm is actually or effectively shut down by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; when the Plan's investment is in jeopardy of material loss; or when such other developments with the investment management firm give concern to the CIO that the investment is no longer prudent for the Investment Program. Staff shall take action to transfer management of the affected investment strategy as soon as possible after CCCERA learns of the emergency. In the case of an emergency, the CEO, or in the CEO's absence, the Deputy CEO or the CIO will attempt to notify the Chair and Vice Chair of the Board immediately; notify the Custodian Bank that the Investment Manager's Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized; and may call a special meeting of the Board to take further action.

#### 4. INVESTMENT PHILOSOPHY

The Investment Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of the fiduciary obligations. The statements below set forth the Board's Investment Philosophy:

##### **Plan objectives should guide all decision making**

The Investment Program is designed to provide benefits to participants over a long term without accepting undue risks that could be detrimental to the participants or Plan sponsors. The Investment Program, therefore, must be managed in a prudent manner recognizing the relationships between the benefits promised to participants and their beneficiaries, the financial health of the Plan sponsors, and the exposures within the Investment Program.

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### **Asset allocation drives portfolio volatility and returns**

It is impossible to accurately and consistently predict the future; therefore, the Plan is required to be prudently diversified across and within asset classes in anticipation of various economic conditions. In a well-diversified portfolio, the overall volatility of investment returns is principally driven by the asset allocation and secondarily driven by the individual investment strategies. As such, asset allocation is the primary tool by which the Board can manage the expected risk/return profile of the Plan.

### **Short-term investing**

Over shorter investment periods of up to five (5) years, volatility can be more detrimental to the success of the Investment Program. Because paying benefits to participants and their beneficiaries occurs continuously, the forced selling of assets during broad market corrections to meet these payments could result in the long-term impairment of investable capital. By maintaining a portion of the portfolio invested in low-volatility, highly liquid securities and investment strategies, the Investment Program will be able to mitigate or avoid the forced selling of assets during broad market corrections.

### **Long-term investing**

Over longer investment periods, volatility can be managed more effectively to produce beneficial results for the Investment Program. Market corrections will occur and when they do, patient and well-capitalized investors are able to wait until the market recovery takes place. Additionally, broad market corrections have historically provided investment opportunities for those with available capital and the foresight to make additional investments.

### **Fees**

Fees directly impact the investment results of the Investment Program but are necessary to appropriately compensate the investment management of the Investment Program. Fees must, therefore, be measured closely against the value the Investment Program expects to earn and aligned to ensure incentives are consistent with the objectives of the Plan.

## **5. INVESTMENT OBJECTIVES**

The investment objectives of the Investment Program are:

- To provide liquidity to meet retiree benefit payments in a timely manner;
- To produce long-term real growth to meet future retiree benefit payments and maintain a funding surplus or closing a funding gap over time; and
- To protect the assets against the adverse impacts of investment market volatility.

Investment objectives specific to the individual investment strategies are further defined in the Board's Investment Strategy portion of this IPS.

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### 6. INVESTMENT STRATEGY

The Board has chosen to employ an investment strategy that seeks to align the Investment Program with the investment objectives listed in Section 5 of this IPS. The strategy divides the portfolio into three functional sub-portfolios—Liquidity, Growth, and Diversifying—to address each investment objective highlighted in Section 5. The Liquidity Sub-portfolio is dedicated to funding near-term benefit payments. It is joined with the longer-term Growth Sub-portfolio, as well as the Diversifying Sub-portfolio, which is intended to offset some of the investment risks embedded in the Growth Sub-portfolio. While the three sub-portfolios are aligned with the investment objectives individually, collectively they allow the Investment Program to provide appropriate risk and return characteristics.

#### A. Asset Allocation

The Board has adopted a strategic asset allocation based on the Plan's projected actuarial liabilities, liquidity needs, risk tolerance and the risk/return expectations for various asset classes. This asset allocation seeks to optimize long-term returns for the level of risk the Board considers appropriate. The current asset allocation table may be found in the Asset Allocation Investment Resolution.

Since projected liability and risk/return expectations will change over time, the Board will conduct a periodic review of the strategic asset allocation to maintain an expected optimal allocation. The Board may also revise the asset allocation in response to significantly changing conditions that have affected valuations and forward-looking expected returns of asset classes. The Board will review capital market expectations annually. The result of this review will be used to update the Investment Resolutions as needed.

#### B. Functional Sub-portfolios

As noted previously, the investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the Liquidity Sub-portfolio is assessed annually and is based on the projected benefit payments and expenses of the Plan. The remaining assets are invested in the Growth and Diversifying sub-portfolios. Annually the Board shall review the relative size and composition of these sub-portfolios and revise them as necessary through Investment Resolutions. The functional sub-portfolios are set forth below:

##### 1. LIQUIDITY SUB-PORTFOLIO

The purpose of the Liquidity Sub-portfolio is to ensure adequate assets are available to pay benefits over an extended timeframe as outlined in the Investment Resolutions. The Board has established a target allocation amount of 36 months' worth of projected benefit payments in the Liquidity Sub-portfolio, which will be drawn down and replenished annually. The assets will be invested in highly liquid, low volatility securities expected to generate modest levels of return while preserving capital

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throughout a market cycle. This portfolio may contain assets such as cash, short-term bonds, laddered government bonds, derivatives, and other investments that provide fixed, contractual cash flows with an appropriate level of credit risk. As a secondary purpose, a portion of the Liquidity Sub-portfolio may be allocated to the Growth Sub-portfolio during broad market corrections so long as at least 12 months of projected benefit payments and expenses are maintained in the Liquidity Sub-portfolio.

The success of the Liquidity Sub-portfolio will be measured by its ability to directly fund benefit payments through low-risk, cash flowing investments, as well as providing a stable offset to the rest of the portfolio during periods of severe market stress.

### 2. GROWTH SUB-PORTFOLIO

The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate, and other private assets.

The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

### 3. DIVERSIFYING SUB-PORTFOLIO

The purpose of the Diversifying Sub-portfolio is to offset the investment risk of the Growth Sub-portfolio. Investment strategies in the Diversifying Sub-portfolio are expected to have return profiles that have a low correlation to those in the Growth Sub-portfolio. This is expected to effectively dampen the market volatility across the entire portfolio. As a secondary objective, the investment strategies in the Diversifying Sub-portfolio will offer additional sources of return to those in the Liquidity and Growth sub-portfolios.

The success of the Diversifying Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

### 4. INTERACTION BETWEEN THE FUNCTIONAL SUB-PORTFOLIOS

The allocations to the Liquidity, Growth, and Diversifying sub-portfolios will vary over time. The Liquidity Sub-portfolio will operate as a drawdown vehicle to pay benefits and expenses. The Growth and Diversifying sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order

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to reallocate between the functional sub-portfolios, the Board will conduct two annual reviews: an annual capital review to assess the relative value and risks associated with each asset class; and an annual funding plan to determine how to replenish the Liquidity Sub-portfolio.

Annually the CIO and Consultant jointly shall deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year.

Additionally, and subsequent to the capital markets review, the CIO will present an annual funding plan, which will provide a recommendation of how best to replenish the Liquidity Sub-portfolio for the next projected 36 months of benefits payments and expenses. The CIO will provide a monthly report to the Board on the progress of funding the Liquidity Sub-portfolio through a combination of harvesting income from the Growth and Diversifying sub-portfolios, asset sales in the Growth and/or Diversifying sub-portfolios or the use of contributions. Under normal market conditions, the balance in the Liquidity Sub-portfolio is expected to vary between 24 and 36 months of projected benefit payments and expenses.

### **C. Investment Strategy Attributes**

All investment strategies, whether currently used by the Investment Program or being considered for inclusion in the Investment Program, will be evaluated on their own unique risk and return characteristics, as well as their contribution to the overall Investment Program's risk and return characteristics. Other risks pertaining to the individual investment strategies and/or the firm managing the strategy will also be considered.

Fees and expenses of the investment strategies will be closely evaluated against competitive strategies and the value provided for the services rendered. While lower fees are clearly preferred over higher fees, the Plan seeks to identify investment strategies capable of providing value for participants by generating net-of-fee investment returns in excess of benchmark returns. Fee structures will be evaluated to ensure appropriate incentives are provided to achieve the desired outcomes for the Investment Program.

## **7. TOTAL FUND POLICY PERFORMANCE BENCHMARK**

The total fund policy benchmark is the weighted average return of the investment manager benchmark indices at their target weights. The fund benchmark return is the return attributable to the target asset class allocations.

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The purpose of a benchmark is to establish target investment exposures, facilitate the reporting to the Board, and to provide a relative measure to gauge success. Total fund policy benchmarks will be reflected in the Investment Resolutions.

### **8. RISK PHILOSOPHY**

The Board recognizes the assumption of investment risk is necessary to meet the Plan's objectives. Investment risk is viewed as both the annualized standard deviation of investment returns (volatility) and drawdown exposure. Drawdown exposure measures the expected investment loss during a market correction. Additional sources of risk include regulatory, governmental, counterparty, environmental, social and currency. Investment risk, in and of itself, is intrinsically neither good nor bad; it is a condition accepted in the pursuit of investment returns. The goal in managing investment risk is to ensure an acceptable level of risk is being taken at the total Plan portfolio level. To accomplish this goal, the Plan invests in broad asset classes, via specific investment strategies within those asset classes, which have desirable expected return, risk, and correlation characteristics. While the individual strategies have a wide range of risk and return characteristics, the correlations between the strategies allows for effective portfolio diversification.

The approach used in constructing the portfolio further focuses on the risk characteristics by ensuring the preservation of the Liquidity Sub-portfolio assets as detailed previously in this IPS. Because these assets are invested in lower risk and lower return investments, the assets are well protected. This then allows for the Growth Sub-portfolio to assume greater investment risk in pursuit of higher expected returns. The Diversifying Sub-portfolio then offsets a portion of the investment risk embedded in the Growth Sub-portfolio to protect against drawdown risks.

### **9. PORTFOLIO MONITORING**

In discharging its fiduciary duty to prudently manage the Investment Program, the Board has developed the following structure for ongoing monitoring of existing investment managers. Reporting processes are, therefore, designed to provide the Board with the information needed to execute this oversight function. Accurate, timely, and clear reporting to the Board of the Plan's assets, investment risks and returns, portfolio costs, and investment decisions are essential to assisting the Board in discharging its fiduciary duties.

The CIO and General Investment Consultant will monitor individual investment managers' performance quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The General Investment Consultant will present a portfolio investment performance report to the Board on a quarterly basis. Performance will be measured for the total portfolio as well as sub-portfolios and individual portfolios. Each investment manager shall have a clear role within the total fund. The quarterly report will highlight any variance from that role.

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The CIO, with the assistance of the General Investment Consultant and Specialty Consultants, shall conduct periodic on-site review activities in connection with evaluating managers. Since the Board encourages member oversight, the CIO shall query Board members as to their interest in observing the review process and shall include any Board member(s) expressing such interest. Additionally, the Board may from time to time determine that it is in the best interest of the participants and beneficiaries for one or more Board members to visit the offices of an investment manager, in order to further the Board members' understanding of the manager's strategy and its role in the CCCERA portfolio.

# CCCERA INVESTMENT POLICY STATEMENT

## APPENDIX 1: REFERENCED INCORPORATED DOCUMENTS

The documents referenced in the Investment Policy Statement are listed below and incorporated by reference into this IPS:

- CCCERA Board Investment Resolutions
- Placement Agent Disclosure Policy
- Code of Fiduciary Conduct and Ethics
- Conflict of Interest Code
- Procurement of Products and Services Policy
- Other Investment-Related Board Actions