



DRAFT

Investment Guidelines Document

Nevada County

Employee Benefits Fund Pension Plan

June 2017

Investment Guidelines Document

Scope and Purpose

The purpose of this Investment Guidelines Document is to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio identified below and obtained from the Plan Sponsor;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's investment needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

Key Plan Sponsor Account Information as of May 2017

| | |
|----------------------------|---|
| Plan Sponsor: | County of Nevada |
| Governance: | The County Board of Directors for the County of Nevada |
| Plan Name ("Plan"): | County of Nevada Employee Benefit Fund Pension Plan |
| Trustee: | US Bank Contact: Sue Hughes, 949-224-7209 Susan.Hughes@usbank.com |
| Type of Account: | <i>Pension Plan</i> |
| ERISA Status: | Not subject to ERISA |
| Investment Manager: | US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser Contact: Andrew Brown, CFA, 415-705-7605 Andrew.brown@highmarkcapital.com |

Investment Authority: Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).

Investment Objectives and Constraints

The goal of the Plan's investment program is to provide a consistent level of inflation protected income over the medium term, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should seek to earn a return in excess of its policy benchmark over the life of the Plan.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic perspective of the capital markets.

Investment Time Horizon: Medium to Long-term

Anticipated Cash Flows: The initial contribution is estimated to be \$3.2 million. Assets in the Plan will seek to mitigate the impact of future rate increases from Calpers. This Plan may transfer assets at any time to Calpers, any insurers, third party administrators, service providers or other entities providing services in connection with determining the Plan Sponsor's pension obligation, or to the Plan Sponsor for reimbursement of amounts paid toward its pension obligation.

Investment Objective: The primary objective is to provide a consistent level of inflation protected income over the medium-term. The assets in this Plan will eventually be used to fund Pension Plan obligations for assets managed in the Calpers Trust. The assets in this Trust are also available to mitigate the potential negative impact of future rate hikes from Calpers.

Risk Tolerance: *Conservative*
The account's risk tolerance has been rated Conservative, which demonstrates that the account can accept some price fluctuations to pursue its investment objectives.

Strategic Asset Allocation: The asset allocation ranges for this objective are listed below:

| <i>Strategic Asset Allocation Ranges</i> | | |
|--|--------------|-------------|
| Cash | Fixed Income | Equity |
| 0-20% | 60%-95% | 5%-20% |
| Policy: 5% | Policy: 80% | Policy: 15% |

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with your objectives.

Security Guidelines:

Equities

With the exception of limitations and constraints described above, Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

| | |
|--|--------------|
| Total Equities | 5%-20% |
| <i>Equity Style</i> | <i>Range</i> |
| Domestic Large Cap Equity | 5%-20% |
| Domestic Mid Cap Equity | 0%-5% |
| Domestic Small Cap Equity | 0%-7% |
| International Equity (incl Emerging Markets) | 0%-7% |
| Real Estate Investment Trust (REIT) | 0%-5% |

Fixed Income

In the fixed income portion of the account, Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

| | |
|--------------------|-----------|
| Total Fixed Income | 60% - 95% |
|--------------------|-----------|

Eligible Investments

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities (MBS)
- Asset Backed Securities (ABS)
- Collateralized Mortgage Obligations (CMO)
- Commercial Mortgage-Backed Securities (CMBS)

- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates
- Eligible instruments issued pursuant to SEC Rule 144(a)
- Municipal Bonds

Quality

The portfolio will maintain a minimum weighted average quality of A- at all times. Individual securities shall have a minimum quality rating of Baa3 by Moody's or BBB- by Standard & Poor's (S&P).

Duration

The manager will maintain the portfolio duration within +/- 25% of the benchmark duration of the Bloomberg Barclays US Aggregate Bond Index at all times.

Diversification

- No more than 5% of the portfolio assets may be invested in any individual issuer, with the exception of securities issued or guaranteed by the U.S. Government, its agencies, and Government Sponsored Enterprises.
- No more than 10% of the portfolio may be invested in securities issued under Rule 144A.

Performance Benchmarks:

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

Total Portfolio Blended Benchmark

| | |
|--------|--|
| 7.50% | S&P500 Index |
| 1.50% | Russell Mid Cap Index |
| 2.50% | Russell 2000 Index |
| 1.00% | MSCI Emerging Market Index |
| 2.00% | MSCI EAFE Index |
| 0.50% | Wilshire REIT Index |
| 52.25% | Bloomberg Barclays US Aggregate Bond Index |
| 25.75% | ML 1-3 Year US Corp/Gov't Index |
| 2.00% | US High Yield Master II |
| 5.00% | Citi 1Mth T-Bill |

Asset Class/Style Benchmarks

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

| | |
|------------------|-----------------------|
| Large Cap Equity | S&P 500 Index |
| Growth | S&P 500 Growth Index |
| Value | S&P 500 Value Index |
| Mid Cap Equity | Russell Mid Cap Index |

| | |
|------------------------|--|
| Growth | Russell Mid Cap Growth Index |
| Value | Russell Mid Cap Value Index |
| Small Cap Equity | Russell 2000 Index |
| Growth | Russell 2000 Growth Index |
| Value | Russell 2000 Value Index |
| REITs | Wilshire REIT Index |
| International Equity | MSCI EAFE Index |
| Investment Grade Bonds | Bloomberg Barclays US Aggregate Bond Index |
| High Yield | US High Yield Master II |

Security Selection

Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or sub-adviser.

Investment Limitations:

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- 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 REITs
- Derivatives, with exception of ETFs*

**Permissible in diversified mutual funds and exchange-traded funds*

Duties and Responsibilities

Responsibilities of Plan Sponsor

The Debt Advisory Committee of the County of Nevada is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account’s financial situation, funding status, or cash flows, which could possibly necessitate a change to the account’s overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

Responsibilities of Trustee

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.

- Settling all transactions (buy-sell orders).

Responsibilities of Investment Manager

The Investment Manager is responsible for:

- Assisting the Debt Advisory Committee with the development and maintenance of this Investment Policy Guideline document annually or periodically upon request of the Plan Sponsor..
- Meeting with Debt Advisory Committee annually or periodically upon request of the Plan Sponsor to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Researching and monitoring investment advisers and investment vehicles.
- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.
- Periodically reviewing the suitability of the investments, being available to meet with the committee at least once each year, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the committee if changes occur in personnel that are responsible for portfolio management or research.

Acknowledgement and Acceptance

I/We being the Plan Sponsor with responsibility for the account(s) held on behalf of the Plan Sponsor specified below, designate Investment Manager as having the investment discretion and management responsibility indicated in relation to all assets of the Plan or specified Account. If such designation is set forth in the Plan/trust, I/We hereby confirm such designation as Investment Manager.

I have read the Investment Guidelines Document, and confirm the accuracy of it, including the terms and conditions under which the assets in this account are to be held, managed, and disposed of by Investment Manager. This Investment Guidelines Document supersedes all previous versions of an Investment Guidelines Document or investment objective instructions that may have been executed for this account.

_____ Date: _____
 Plan Sponsor: County of Nevada

_____ Date: _____
 Investment Manager: Andrew Brown, CFA, Senior Portfolio Manager, (415) 705-7605