

METROPOLITAN WATER RECLAMATION DISTRICT
RETIREE HEALTH CARE TRUST

Summary of Investment Policy Revisions 2013

Revised Policy includes the following changes summarized by the applicable section of the policy:

INVESTMENT OBJECTIVES

Low Expenses (page 2, #3)

- a. **Replaced** all references to “mutual fund company” with “investment manager(s)” to more accurately describe the Trust’s allowable investment types. The term “investment manager(s)” is consistently presented throughout the revised investment policy.

TRUST PORTFOLIO AND ASSET ALLOCATION TARGETS (page 3)

- a. **Modified** the “Fund Asset Mix” table to reflect the Trust’s new investment asset allocation targets, as follows:

Asset Class	Fund Asset Mix		
	Minimum	Normal	Maximum
Domestic Equities	25%	30%	50%
Developed International Equities	12%	15%	18%
Fixed Income Securities (Bonds)	40%	45%	50%
Global Balanced Portfolio	7.5%	10%	12.5%
Cash/Cash Equivalents (Money Market)	0%	1%	100%

- b. **Introduced** two new investment asset classes, “Developed International Equities” and “Global Balanced Portfolio”.
- c. **Added** the following sentence: “Alternative investment strategies should be limited to 5% of the market value of the investment portfolio.” This limit was previously included on page 5 and is now repeated here.

INVESTMENT OPTIONS (page 4)

- a. **Revised** the second sentence as follows: “To ensure diversification, the Trust investments will include high-quality strategies that range in objective from capital preservation to capital appreciation, while mitigating the overall level of risk that the Trust undertakes”. This provides a clearer explanation of how the Trust will achieve diversification.

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INVESTMENT PERFORMANCE (page 6, #1)

- a. **Added** the following sentence: “Additionally, over a complete market cycle, the Total Fund performance has a secondary goal of outperforming a weighted passive portfolio comprised of a mix of 20% S&P 500 Index, 10% Small Cap Hybrid Index, 15% MSCI EAFE (net), 45% Barclays Capital U.S. Aggregate Index, and 10% Barclays US TIPS 1-10 Year Index.” This secondary goal was added to better gauge Fund performance by applying a specific benchmark measure.

RISK STANDARDS

A. Credit risk (page 7, #2)

- a. **Revised** the following sentence: “Fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by state, local and foreign governments, or any agency or instrumentality thereof, mortgage-backed and asset-backed securities, corporate bonds, foreign securities (including, but not limited to, corporate issues, sovereign issues, non U.S. dollar denominated securities, Eurobonds, and emerging market debt securities) and municipal issues”. This statement clearly defines limitations of the allowable types of fixed income investments of the Trust.

B. International equity and direct foreign currency exposure risk (page 8, #3)

- a. **Revised** the foreign currency exposure section as follows: “It is generally understood that the entire international equity allocation will be denominated in foreign currency. On a market value basis, this allocation will be limited to 20% of the overall portfolio. Periodically there will be direct foreign currency exposure outside of the international equity allocation. Generally, this exposure will be considered de minimis (acceptable range of 0% - 2%) in the context of the overall portfolio and monitored on a periodic basis to determine whether the allocation is appropriate.” The new language acknowledges that the international equity allocation is denominated in foreign currency and any exposure outside the allocation is considered de minimis in the context of the overall portfolio.

OTHER RESTRICTIONS (page 10)

- a. **Added** a clause to defer to the mutual fund’s investment guidelines as set forth by the mutual fund’s investment manager, as follows: “All mutual fund investments made on behalf of the Metropolitan Water Reclamation District Retiree Healthcare Trust shall be invested in accordance with the investment manager’s investment guidelines for the underlying mutual fund. The investment manager’s guidelines for the mutual fund shall override any restrictions or stipulations as outlined in this document.”

DUTIES OF THE INVESTMENT ADVISORY FIRM (pages 10-11, #3, and #7)

- a. **Added** the ability for the investment advisory firm to utilize investment managers, as follows: “As Fund assets grow, commingled fund and separate account vehicles can be considered.”
- b. **Deleted** the word “initial” from training requirement to reflect requirement to provide on-going training for the Trustees and District Staff.

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POLICY ADOPTION AND AMENDMENT (page 12)

- a. **Updated** the names and titles of current employees and Executive Committee members for the Trust.

APPENDIX 1: Definitions for OPEB Policy and Committee Meetings (pages 13-16)

- a. **Added** definitions of the Commingled Fund, Global Tactical Asset Allocation (GTAA), and Separate Account investment vehicle types.

APPENDIX 2: Asset Class and Benchmark Indices Definitions (page 17)

- a. **Removed** many benchmark details and definitions of investment asset classes not included in the Trust's asset allocation, which has simplified the amount of information presented in the appendices.

- b. **Added** benchmark details and definitions for the Global Tactical Asset Allocation (GTAA).

APPENDIX 3: Benchmark Details (page 18)

- a. **Removed** many benchmark details and definitions of investment asset classes not included in the Trust's asset allocation, which has simplified the amount of information presented in the appendices.

- b. **Added** benchmark details and definitions for the Global Tactical Asset Allocation (GTAA).