

Retiree Health Benefit Program Fund Investment Policy

Investment Policy

The investment of funds in the Retiree Health Benefit Program Fund will be made in accordance with the investment policy of the District, which is comparable to that adopted by the California Public Employees Retirement System, developed by the Investment Committee of the Peralta Community College District, and approved by a resolution of the Board of Trustees on December 13, 2005 (the "Investment Policy"). The Investment Policy was adopted to provide guidance and parameters for the investment managers engaged by the District to invest the Retiree Health Benefit Fund. The Investment Policy is subject to revision at any time, and is expected to be reviewed periodically to ensure compliance with the stated objectives of safety, liquidity and diversification.

The Investment Committee will delegate authority only to those investment advisors that meet the following criteria: demonstrable historical track record of outperformance relative to the appropriate benchmark, significant institutional asset management experience, a financially sound firm, and in good standing with the SEC and the NASD. Additionally, the Investment Committee will employ an Investment Manager with the following qualification for at least 85% of the Program Fund Investments: (i) shall be an investment firm registered under "40 Act" in good standing (ii) a firm with substantial experience in investing portfolios for pension and/or health benefits for both public and private entities, (iii) shall have at least \$10 billion of assets under management.

A third party custodian shall custody the assets for all allocations and be responsible for the ultimate reporting of asset values to the Investment Committee.

Financial Guaranty, as Bond Insurer for the District's 2005 OPEB Bonds, will be notified of any material changes in the Board's investment policy. Financial Guaranty may upon reasonable notice, ask questions and receive any materials regarding the investment policy and performance with respect to the Program Fund Investments.

Investment Objectives

The Investment Policy sets forth the following objectives, in order of priority:

- To provide for specified annual or monthly cash flows while achieving longer-term appreciation of both principal and future income for longer-term payment of Health Care Obligations; and
- To attain exposure to a wide range of investment opportunities in various markets while managing risk exposure through prudent diversification.

The investment objective is that the assets, exclusive of contributions and/or withdrawals, grow over the short term and earn, through a combination of investment income and

capital appreciation, a rate of return (time-weighted total return) equal to or in excess of a benchmark comprising 30% S&P 500, 35% Lehman Aggregate Bond Index, 20% MSCI EAFE, 10% Russell 2000 and 5% NAREIT Equity REIT Index.. Performance for the fund will be measured over a full market cycle.

Permissible Investments

Moneys on deposit in the Retiree Health Benefit Program Fund may be invested in the following investments (collectively, "Permissible Investments"), subject to certain limitations more fully described in the Investment Policy: Equities (Domestic and International), Fixed Income, and Cash.

Alternative investments and Tactical Asset Allocation overlay strategies will be reviewed and possibly utilized as deemed prudent by the Investment Committee. Alternative investments will not exceed 15% of the total assets (this excludes the notional value of an overlay strategies).

The Investment Committee will make efforts to allocate a portion of the assets to emerging managers in the future. The emerging manager allocations will be bound by the Investment Policy statement set forth herein.

Equities

The equity portfolio will be diversified by style, size and geography. The exposure of the District to each style shall be managed separately through the use of either mutual funds or individual security selection by a specialist in that style. The holdings in each style's subportfolio is required to be well diversified by sector, however sector concentration may vary from style to style, reflecting the different universe and benchmarks of each.

Mutual funds may be used to gain exposure to market segments for which individual securities selection is not practical; however, whenever possible, the portfolio is to pursue its investment goals through direct securities selection.

With the exception of mutual funds, which are diversified, no issue may, at time of purchase, represent more than 5% of the maximum allowable equity exposure.

The portfolio will not engage in investment transactions involving short sales, commodities, security loans, or unregistered or restricted stock. From time to time, the portfolio may use futures to adjust asset allocation; use of futures is restricted to 15% of market value.

Fixed Income

The fixed income portion of the portfolio is required to use the Lehman Aggregate Bond Index as its benchmark. The average weighted duration of the fixed income securities may range from 80% to 120% of the duration of the benchmark index.

Acceptable Fixed Income Securities

- i. United States Treasury Securities
- ii. Federal Agency Securities
- iii. Mortgage-Backed Securities
- iv. Commercial Mortgage Obligations
- v. Collateralized Mortgage Obligations
- vi. Corporate Obligations, including
 - a. U.S and Yankee Issues
 - b. Supranational (e.g. The World Bank)
 - c. 144a Securities
- vii. Asset Backed Securities
- viii. Money Market Securities, including:
 - a. Master Notes
 - b. Funding agreement
 - c. Commercial Paper
 - d. Banker Acceptances
 - e. Certificates of Deposit
- ix. Repurchase Agreements
- x. Money Market Funds/Sweeps

Cash

Cash investments will be made in Lehman Brothers Institutional Liquidity Funds which seek the highest available current income consistent with safety and liquidity. The Funds seek to provide preservation of capital, daily liquidity and a constant \$1.00 net asset value (NAV) while offering the highest possible yield potential.

Credit Quality and Diversification Parameters

With the exception of securities issued by of the U.S. Government and its agencies, for which there are no restrictions on concentration, no single security or issuer may represent more than 5% of the fixed income portfolio at the time of purchase.

All fixed income securities are required to be rated investment grade (Baa/BBB or higher), with the exception that up to 5% of the fixed income portfolio may be invested in securities in the Ba/BB category. For split-rated issues, the higher rating of National Recognized Statistical Rating Organization (NRSRO) will be considered the security's rating.

Asset Allocations and Targets

The asset allocation is set forth below and the portfolio shall be rebalanced semi-annually to the target weights per the ranges below. The asset allocations targets and ranges will be reviewed periodically and may be changed as deemed prudent by the Investment Committee.

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Tactical Range</u>	<u>Benchmark</u>
Fixed Income	35%	30% - 40%	Lehman Aggregate Index
Large Cap Equity	30%	25% - 35%	S&P 500 Index
International Equity	20%	15% - 25%	MSCI EAFE Index
Small Cap Equity	10%	5% - 15%	Russell 2000 Index
Real Estate	5%	0% - 10%	NAREIT Equity REIT Index

Reporting

Investment managers are required to provide the District with quarterly reports that include all information necessary to effectively monitor the performance of the investment portfolio.