

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (FCERA)
INVESTMENT BELIEFS
AS OF DECEMBER 1, 2021

INVESTMENT BELIEFS

The Board of Retirement of the Fresno County Employees' Retirement Association expresses the following core beliefs to help guide the Board's investment of the assets of the system

1. The mission of the investment program

The investment program is designed to satisfy all benefit obligations owed to FCERA members as they come due, and to assure the ability to do that consistently over the entire life of the system. This can be accomplished by collecting appropriate and timely contributions from employers and employees, prudently investing FCERA's assets over the long term and maintaining sufficient liquidity to meet our near-term obligations to members.

2. Plan governance – responsibility and accountability

The Board is responsible for establishing policies for administering the investment program, establishing the strategic asset allocation, and delegating responsibility to implement Board policies and strategies as appropriate. The Board will carefully monitor implementation of the program to assure compliance with Board policies and external requirements.

3. The time horizon of the investment program

FCERA is a long-term and patient investor that can weather near-term volatility to realize the long-term value of its investments. Although volatility often provides near-term opportunities, FCERA manages the fund strategically based upon the long-term prospects of diversified global markets. We believe in reversion to the mean, and that significant changes in asset allocation should be implemented only over a long period of time, making changes based upon well-understood risk and return expectations.

4. Asset allocation and diversification

Prudent asset allocation is the single most important factor contributing to the long-term success of the system. Allocating assets across global public and private markets helps manage risk and ensures the portfolio is broadly diversified for safety, liquidity, and yield over the long term. In general, FCERA favors fewer and larger investments in each asset class, avoiding complexity that does not add to the risk-adjusted returns we seek. Each asset class shall be evaluated based on its cost, diversifying characteristics, risk and return expectations, and with reference to its contribution to the portfolio. The Board sets the overall design of the asset allocation across broad categories establishing appropriate subclasses and styles within the general asset allocation parameters with the input of Staff and Consultants.

5. Strategic & tactical decisions; rebalancing

FCERA believes the long-term success of the investment program derives from an asset allocation based on specific targets, rebalancing back to those targets using a regular and structured process to overcome expected volatility in the asset classes. The Board recognizes that certain risk can be better controlled, and certain opportunities can be capitalized upon if the asset allocation permits staff and consultants with a margin for deviating from the established targets. For this reason, the Board believes that ranges extending modestly from target allocations will accommodate any tactical judgments without adversely impacting the long-term success of the program. A separate rebalancing guide will be reviewed annually.

- 6. Implementation of the program: Active & passive management; efficiency of markets; role of private markets**
Passive management provides low-cost, broad, diversified exposure to efficient global public markets, while active management provides targeted exposure to markets and asset class where inefficiencies may exist. FCERA favors passive management unless active management clearly demonstrates consistently better-than benchmark performance on a net-of-fees basis. Private market investing is necessarily active, targeting higher returns with some degree of increased risk.
- 7. Investment risks and how we will manage them**
As a long-term investor, FCERA believes risk taking should be prudent, intentional, and commensurate with expected returns over time. A diversified portfolio should be designed to balance risk and reward across volatile markets. Market risks should be compensated. Operational and external risks (such as governance, reputational, regulatory and compliance risks) should be mitigated to avoid adverse impacts on the system's financial well-being. As the system becomes more fully funded, the Board believes that it may be prudent to consider slightly lower risk and return targets.
- 8. Liquidity needs and how we will satisfy them**
FCERA believes that as a mature defined benefit plan, the system needs to maintain sufficient liquidity to satisfy its benefit payment obligations to members in a timely manner. The Board believes that its diversified investment portfolio will continue to generate regular and sufficient cash flow for the foreseeable future. Under extreme circumstances liquidity is essential and as such, the Board believes in holding a minimum balance of 2% actual cash, which will be routinely overlaid as either fixed income or equities to maintain target weights.
- 9. Costs, manager performance and how we will manage costs**
Active management will be used in markets that provide unique opportunities for exceeding passive benchmark performance, net of fees. FCERA believes that costs need to be commensurate with demonstrated outperformance on a manager-by-manager basis. The Board will continue to monitor and negotiate terms and fees to preserve the greatest net return on its investments.
- 10. Relationship to funded status and contribution rates**
FCERA believes that prudent management of the investment portfolio will improve the system's funded status and thus enable the Board to reduce employer contributions to the system over time. The goals of the investment program shall include seeking to reduce the level of unfunded liabilities that must be funded from employer contributions.