

Investment Policies and Objectives
of the
Lower Colorado River Authority 401(k) Plan
And the
Lower Colorado River Authority Deferred Compensation Plan
Effective as of August 17, 2015

The Lower Colorado River Authority (the “LCRA”) is a conservation and reclamation district created by the Legislature of the State of Texas in 1934.

Pursuant to the enabling legislation of the LCRA, the powers, rights, privileges, and functions of the LCRA are exercised by its Board of Directors. The Board of Directors has the responsibility for and the authority to establish policies to guide management of LCRA affairs.

The Board of Directors adopted the Lower Colorado River Authority 401(k) Plan (the “Prior Plan”) for its eligible employees effective April 1, 1984, and which Prior Plan was amended or restated in its entirety most recently, effective April 1, 2001 (the “401(k) Plan”). The 401(k) Plan is a single-employer defined contribution pension plan.

The Board of Directors adopted the Lower Colorado River Deferred Compensation Plan (the “Prior Deferred Compensation Plan”) for its eligible employees effective April 1, 1981, and which Prior Deferred Compensation Plan was amended or restated in its entirety most recently, effective January 1, 2003 (the “457 Plan”). The 457 Plan is a single-employer eligible 457 plan as defined under Section 457(b) of the Internal Revenue Code.

Article X of the 401(k) Plan and Article VI of the 457 Plan created the Board of Trustees (the “Board”). The Board was delegated the responsibility to administer the 401(k) Plan and 457 Plan (collectively, the “Plans”) in accordance with the respective Plan’s terms, and all powers necessary to accomplish that purpose including, but not limited to, the right, power and authority to: (1) employ and supervise an investment performance evaluation consultant to assist the Board in the selection and evaluation of one or more fund administrators, the establishment of investment objectives and guidelines, and the selection of investment options, and (2) select, employ and compensate, from time to time, such consultants, actuaries, accountants, attorneys, and fund managers, as the Board may deem necessary and advisable for the proper and efficient administration of the Plans.

Article VI of the 401(k) Plan and Article IV of the 457 Plan provide that the Board may designate additional and/or replacement investment options and eliminate any investment options as it deems appropriate. Contributions and earnings thereon shall be invested as

directed by each participant in one or more investment accounts. A designation of investment option elected by a participant remains in force until he or she ceases to be a participant or until he or she delivers notice of his or her designation of a different investment option. A participant may change his or her investment option at any time.

Investment performance evaluation consultants, fund administrators, and other consultants (collectively “Consultants”) employed by the Board shall act in accordance with the provisions of the Plans. Consultants shall act, in connection with the Plans with the care, skill, prudence and diligence that a prudent expert familiar with such matters would use in like circumstances. Consultants shall act in accordance with the applicable laws of the State of Texas.

PURPOSE OF THE PLANS

The Plans are meant to provide eligible employees and participants a method to save for retirement on a tax-deferred basis. The 401(k) Plan is intended to motivate eligible employees and participants to save with matching employer contributions. The Plans are not the primary retirement vehicles offered by the LCRA; the LCRA also sponsors a defined benefit plan to eligible employees. The Plans are individual account plans under the Internal Revenue Code. This policy will document the selection, evaluation, review procedures, guidelines, standards and restrictions that the Board has put in place with respect to the Plans.

ROLE OF THE INVESTMENT POLICY

This policy is intended to define the investment policy of the Plans and identify categories of investments to be made available to participants. This policy also is intended to provide a framework to the Board in supervising, monitoring and evaluating investment assets and to ensure that the Plans are operated in compliance with applicable federal and state requirements.

The policy is intended to meet the following needs:

1. Financial needs and risk tolerance of participants;
2. Objectives of the Board;
3. Need to document expectations regarding investment options offered;
4. Fiduciary duty in selecting and monitoring funds;
5. Need to document objectives, guidelines and standards and encourage communication of these to all parties associated with or benefiting from the Plans; and
6. Desire to ensure that participants have access to sound investment alternatives on a continuing basis.

ALLOCATION OF RESPONSIBILITIES

Board – Operating the Plans in full compliance with legal requirements and for the exclusive benefit of the participants and beneficiaries; developing an investment program with a diversified range of funds; identifying appropriate investment options allowing for adequate levels of asset allocation; selecting qualified investment administrators or funds; selecting a trustee or custodian; communicating with money administrators; monitoring investment results with quarterly reviews; taking action if objectives are not being met or guidelines not followed; and monitoring the reasonableness and competitiveness of fees charged.

Investment Administrators – Determine and implement the investment strategy and manage assets under control; adhere to the investment style for which selected; follow stipulated guidelines and standards; supply periodic reports; at least annually meet with the Board to review performance and provide participants with prospectuses and other items required by law.

Trustees - Providing trustee services and providing for the education of participants regarding the importance of equities and asset allocation.

Recordkeeper – Maintaining account balance information on a participant, as well as a total plan basis.

Participants – Determining personal risk level and selecting options appropriate for meeting their unique investment objectives.

INVESTMENT PROGRAM STRUCTURE

The investment objective of the Board is to provide a manageable group of mutual funds that offer the participants a quality product with the ability to properly diversify their investment holdings.

FIDUCIARY RESPONSIBILITIES OF THE FUND MANAGER AND INVESTMENT ADMINISTRATOR

The fund manager and investment administrator is expected to manage the Plans' assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with state and federal requirements. This includes discharging responsibilities with respect to the Plans consistent with the prudent expert-standard as described above and all other fiduciary responsibility provisions and regulations. The fund manager and investment administrator shall at all times be registered in good standing as an investment adviser under the Investment Advisers Act of 1940, and shall acknowledge in writing that it is a fiduciary of the Plans.

INVESTMENT OPTIONS

The Board has determined that a wide range of alternative investment options will be available to participants. The investment options or fund choices are described generally as follows and more fully described herein under Objectives and Benchmarks:

<u>Description</u>	<u>Asset Classes</u>
Fidelity Retirement Money Market Fund	U.S. Treasury Bills, U.S. Bank Certificates of Deposits, U.S. Cash Equivalents.
Fidelity Intermediate Bond Fund	Government, Agency, Mortgage Backed and Corporate Bonds.
Vanguard Intermediate Term Bond Index Fund	Government, Agency, Mortgage Backed and Corporate Bonds.
Vanguard Total Bond Index Fund	Government, Agency, Mortgage Backed and Corporate Bonds.
Fidelity Contra Fund	Stock with expected high growth rates in earnings.
Vanguard Equity Income Fund	Stock with underlying value. Generally low P/E ratio.
Spartan U.S. Equity Index Fund	Stocks representing the 500 largest U.S. companies.
Fidelity Low-Priced Stock Fund	Stocks with underlying value. Generally low P/E ratio.
Vanguard Selected Value Fund	Stocks with underlying value. Generally low P/E ratio.
Spartan Extended Market Index Fund	Stocks in mid- to small-capitalization U.S. companies
Fidelity Diversified International Fund	Stocks domiciled outside the U.S.
Spartan International Index Fund	Stocks domiciled outside the U.S. in developed markets
Vanguard Total International Stock Index Fund	Stocks domiciled outside the U.S. in developed and emerging markets
Fidelity Freedom Income Fund	Bonds, stocks and cash equivalents.
Fidelity Freedom 2000 Fund	Bonds, stocks and cash equivalents
Fidelity Freedom 2005 Fund	Bonds, stocks and cash equivalents
Fidelity Freedom 2010 Fund	Bonds, stocks and cash equivalents.
Fidelity Freedom 2015 Fund	Bonds, stocks and cash equivalents
Fidelity Freedom 2025 Fund	Bonds, stocks and cash equivalents

Fidelity Freedom 2035 Fund	Bonds, stocks and cash equivalents.
Fidelity Freedom 2045 Fund	Bonds, stocks and cash equivalents.
Fidelity Freedom 2055 Fund	Bonds, stocks and cash equivalents.
BrokerageLink	Brokerage Option

OBJECTIVES AND BENCHMARKS

FIDELITY RETIREMENT MONEY MARKET FUND – The investment objective is to invest in high-grade money market instruments. The fund is designed to be a convenient and economic vehicle for the investment of short-term cash reserves. The money market instruments in which the fund invests have low risk and accordingly may not have as high a yield as that available from fixed income funds. The total return of the money market fund is expected to equal the benchmark over successive annual periods. The benchmark is the 90-day Treasury Bill Index.

FIDELITY INTERMEDIATE BOND FUND – The investment objective is to purchase in investment grade bonds of an intermediate maturity. The total return of the fund is expected to equal or exceed the benchmark over a rolling three-year period of time. The benchmark is the Barclays Capital Intermediate Government Credit Bond Index.

VANGUARD INTERMEDIATE TERM BOND INDEX FUND – This fund seeks to track the investment performance of the Barclays Capital U.S. 5-10 Year Government/Credit Float Adjusted Index, an unmanaged benchmark representing the intermediate-term, investment-grade U.S. bond market. The fund provides moderate current income by investing in intermediate-maturity U.S. Treasury, agency and investment-grade corporate securities. The fund’s passive investment style uses a sampling technique to closely match key benchmark characteristics: sector weight, coupon, maturity, effective duration, convexity and credit quality. The benchmark is the Barclays Capital U.S. 5-10 Year Government/Credit Index.

VANGUARD TOTAL BOND INDEX FUND – The fund seeks to track the investment performance of the Barclays Capital U.S. Aggregate Float Adjusted Index, an unmanaged benchmark representing the broad U.S. bond market. The fund invests in investment-grade corporate, U.S. Treasury, mortgage-backed and asset-backed securities with short, intermediate and long maturities in excess of one year, resulting in a portfolio of intermediate duration. The fund’s passive investment style uses a sampling technique to closely match key benchmark characteristics: sector weight, coupon, maturity, effective duration, convexity and credit quality. The benchmark is the Barclays Capital Aggregate Bond Index.

FIDELITY CONTRA FUND – This fund invests in common stocks with a bias toward undervalued assets. These corporations are listed on the New York, American, and other organized stock exchange(s). The investment objective is to equal and/or exceed the

benchmark over a rolling three-year period of time. The benchmark is the S&P 500 Index.

VANGUARD EQUITY INCOME FUND – The fund seeks to provide an above-average level of current income while offering exposure to the stock market. The investment objective is to equal and/or exceed the benchmark over a rolling three-year period of time. The benchmark is the FTSE High Dividend Yield Index.

SPARTAN U.S. EQUITY INDEX – The fund seeks to provide investment results that correspond to the total return performance of the S&P 500 Index. The investment objective is to replicate the return of the S&P 500 on a rolling three-year period of time.

FIDELITY LOW-PRICED STOCK FUND – The fund invests in equity securities that are priced at \$35 per share or less. The investment objective is to equal and/or exceed the benchmark over a rolling three-year period of time. The benchmark is the Russell 2000 Index.

VANGUARD SELECTED VALUE FUND – The fund invests in stocks of medium size U.S. companies. The companies usually have low price/earnings ratios and market capitalizations between \$1.25 billion and \$9.75 billion. The benchmark is the Russell Mid Cap Value Index.

SPARTAN EXTENDED MARKET INDEX FUND - The fund seeks to provide investment results that correspond to the total return stocks of mid- to small-capitalization U.S. companies. The strategy normally invests at least 80% of assets in common stocks included in the Dow Jones U.S. Completion Total Stock Market Index, which represents the performance of stocks of mid- to small-capitalization U.S. companies. The benchmark is the Dow Jones U.S. Completion Index.

FIDELITY DIVERSIFIED INTERNATIONAL FUND – The fund invests in companies outside of the United States. The investment objective is to equal and/or exceed the benchmark over a rolling three-year period of time. The benchmark is the MSCI EAFE Index.

SPARTAN INTERNATIONAL INDEX FUND – The investment objective of this fund is to provide investment results that correspond to the total return of foreign stock markets. The fund typically invests 80% of assets in common stocks included in the Morgan Stanley Capital International Europe, Australasia, Far East Index, which represents the performance of foreign stock markets. The benchmark is the MSCI EAFE Index.

VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND – This fund seeks to track the investment performance of the MSCI All Country World ex USA Investable Market Index, an index designed to measure equity market performance in developed and emerging markets, excluding the United States. The fund invests all most all of its assets in the common stocks included in its target index. The fund allocates its assets based on

each region's weighting in the index. The benchmark is the MSCI All Country World ex US Index.

FIDELITY FREEDOM INCOME FUND – The fund invests in a combination of Fidelity equity, fixed-income, and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to a stable asset allocation strategy designed for investors already in retirement.

FIDELITY FREEDOM 2005 FUND - The fund invests in a combination of Fidelity equity, fixed-income and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to an asset allocation strategy. Having met its target date, it continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. The fund is targeted to investors expected to retire around the year 2005.

FIDELITY FREEDOM 2010 FUND – The fund invests in a combination of Fidelity equity, fixed-income and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to an asset allocation strategy. Having met its target date, it continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. The fund is targeted to investors expected to retire around the year 2010.

FIDELITY FREEDOM 2015 FUND - The fund invests in a combination of Fidelity equity, fixed-income and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to an asset allocation strategy. Having met its target date, it continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. The fund is targeted to investors expected to retire around the year 2015.

FIDELITY FREEDOM 2025 FUND - The fund invests in a combination of Fidelity equity, fixed-income and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to an asset allocation strategy. Having met its target date, it continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. The fund is targeted to investors expected to retire around the year 2025.

FIDELITY FREEDOM 2035 FUND - The fund invests in a combination of Fidelity equity, fixed-income and money market funds (underlying Fidelity funds) and allocates its assets among these funds according to an asset allocation strategy. Having met its target date, it continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. The fund is targeted to investors expected to retire around the year 2035.

FIDELITY FREEDOM 2045 FUND – The fund invests in a combination of Fidelity equity, fixed-income, and money market funds (underlying Fidelity funds) and allocates its assets among these funds. Having met its target date, the fund continues becoming

more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. It is targeted to investors expected to retire around the year 2045.

FIDELITY FREEDOM 2055 FUND – The fund invests in a combination of Fidelity equity, fixed-income, and money market funds (underlying Fidelity funds) and allocates its assets among these funds. Having met its target date, the fund continues becoming more conservative for 5-10 years, until the asset mix is approximately the same as Freedom Income Fund. It is targeted to investors expected to retire around the year 2055.

BROKERAGELINK – Designed for experienced investors who prefer to utilize other financial instruments, such as additional Fidelity funds, non-Fidelity funds that are available, or individual securities, in their retirement plan. Please note that participants will be governed by the restrictions set by the LCRA and Fidelity’s Brokerage Department concerning potential investment vehicles in the Brokerage Option. Eligible securities include: Equities, Corporate Bonds, U.S. Treasuries, Certificates of Deposit (CDs), Zero Coupon Bonds, Mortgage Backed and U.S. Govt. Agency Bonds, Fidelity Mutual Funds (excluding Fidelity Institutional Funds), Non-Fidelity Mutual Funds (via Funds Network), Taxable Unit Investment Trusts, Master Limited Partnerships, and Exchange Traded Funds/REITS.

MEETINGS AND COMMUNICATION WITH THE FUND MANAGERS AND FUND ADMINISTRATORS

A representative of the fund administrator and/or fund manager would meet with the Board annually to review and explain the Plans’ investment results. Written reports of interim performance should be provided on a quarterly basis. Monthly statements of portfolio holdings and transactions should be provided to the Board. The fund manager should be available on a reasonable basis for telephone communication when needed. Any material event that affects the ownership of the fund manager firm or the management of this account must be reported immediately to the Board.

PERFORMANCE EVALUATION

The Board will monitor each fund’s performance on a quarterly basis and will evaluate each fund’s and the Plans’ success in achieving the investment objectives outlined in this document over a rolling three- to five-year time horizon.

Each fund’s performance should be reported in terms of *rate of return*. The returns should be compared to appropriate *market indexes*, for the most recent quarter and for annual and cumulative prior time periods.

Risk as measured by volatility, or standard deviation, should be evaluated on an on-going basis over a rolling three- to five-year time horizon.