

Investment Policy Statement

The Lower Colorado River Authority

Retirement Plan and Trust

Amended January 1, 2021

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INTRODUCTION

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

Pursuant to the enabling legislation of LCRA, the powers, rights, privileges, and functions of LCRA are exercised by the 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 approved the Lower Colorado River Authority Retirement Plan and Trust, as most recently amended and restated effective April 1, 1994, (“the Plan”) Section 9.01 of the Plan created the Board of Trustees (the “Board”). The Board was delegated the responsibility to administer the Plan in accordance with its 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 consultant to assist the Board in the selection and ongoing evaluation of one or more investment managers, the establishment of investment objectives and guidelines, and the allocation of Plan assets among the various investments, and **(2)** select, employ, and compensate, from time to time, such pension trust consultants, actuaries, accountants, attorneys, and investment managers, as the Board may deem necessary and advisable for the proper and efficient administration of the Plan.

Investment consultants, investment managers, and other consultants (collectively, “Consultants”) employed by the Board shall act in accordance with the provisions of the Plan. Consultants shall discharge their duties solely in the interest of participants and beneficiaries of the Plan: (1) for the exclusive purpose of (a) providing benefits to participants and their beneficiaries; and (b) defraying reasonable expenses of administering the Plan; (2) with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent expert acting in like capacity and familiar with matters of the type would use in the conduct of an enterprise with a like character and like aim; (3) by diversifying the investments of the Plan to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and (4) in accordance with the documents and instruments governing the Plan to the extent that the documents and instruments are consistent with governing laws. Consultants shall act in accordance with the applicable laws of the State of Texas as to conduct, management and diversification, which shall apply to each Consultant in the discharge of its duties relative to the management of the assets of the Plan.

The Board reserves the right to terminate a consultant at any time, for any reason.

Purpose

This document establishes the Investment Policy Statement (“Investment Policy”) for The Lower Colorado River Authority’s Retirement Plan and Trust (the “Plan”). The Lower Colorado River Authority’s Board of Trustees (the “Board”) is responsible for managing the investment process of the Plan in a prudent manner.

The Board has arrived at this Investment Policy through careful study of the returns and risks associated with various investment strategies in relation to the current and projected liabilities of the Plan, after consulting with an outside OCIO (as defined below) as is deemed appropriate. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Plan which are described in the “Statement of Objectives” section of this document; however, the Board shall be free to deviate from this Investment Policy when it concludes that it is prudent and in the interest of the Plan to do so and may amend the Investment Policy at any time. The Board is entitled to deference in its interpretation of this Investment Policy.

The Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets.

It is not expected that the Investment Policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the Investment Policy.

Fiduciary Duty & ERISA Compliance

The assets of the Plan will be invested in accordance with all applicable laws in a manner consistent with fiduciary standards including ERISA (if applicable). Specifically:

- Duty of loyalty (exclusive purpose rule)
- Duty of prudence
- Duty to diversify investments
- Duty to follow plan documents to the extent they comply with ERISA
- Duty to avoid non-exempt prohibited transactions

In addition to complying with the Investment Policy, the management of the Plan will be in compliance with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and other applicable laws.

Conflict of Interest

If any member of the Board, Custodian and/or the OCIO has, or appears to have, a conflict of interest that impairs or appears to impair the respective individual’s ability to exercise independent and unbiased judgment in the good faith discharge of his or her duties, he or she shall disclose such conflict.

DUTIES AND RESPONSIBILITIES

The Board is responsible for managing the investment process in a prudent manner with regard to preserving principal while providing reasonable returns. In carrying out these duties, the Board has retained an OCIO as further discussed below to assist in managing the assets of the Plan as set forth in the Investment Management Agreement (the “IMA”). The OCIO’s role is set forth in the IMA and may provide guidance to the Board on matters pertaining to the investment of Plan assets including the creation of the Investment Policy, investment selection, monitoring the Plan’s performance, and compliance with the Investment Policy. All decisions pertaining to the Investment Policy and guidelines for the Investment Policy’s implementation will be made by the Board. The OCIO has authority and responsibility to select appropriate investments in the specific asset classes mandated by this Investment Policy, in accordance with (and subject to) the terms of the investment management agreement executed between the OCIO and The Lower Colorado River Authority (the “Investment Management Agreement” or “IMA”).

Board of Trustees

The Board will retain a qualified OCIO to assist in the development and implementation of the Investment Policy.

The Board will establish the Investment Policy of the Plan. This includes, but is not limited to allocation between return enhancing, risk managing, and alternative assets; selection of acceptable asset classes; and investment performance expectations. The Board periodically will review the Investment Policy.

The Board will regularly review the investment performance of the Plan and will monitor the performance of the OCIO to assure the Investment Policy is being followed and progress is being made toward achieving the objectives..

The Board understands that the most important performance expectation is the achievement of long-term investment results that are consistent with the Plan’s Investment Policy. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

The Board recognizes that this real return objective may not be meaningful during some time periods. To ensure that investment opportunities available over a specific time period are fairly evaluated, comparative performance statistics (including benchmark indices) will be used to evaluate investment results.

Outsourced Chief Investment Officer (“OCIO”)

The OCIO retained by the Board will assist the Board in establishing the Investment Policy and guidelines contained in the Investment Policy.

In accordance with the terms of the Investment Management Agreement, the OCIO will be responsible for managing the asset allocation, determining investment strategy, and implementing through permissible investment vehicles. The OCIO will monitor asset allocation across and among asset classes and provide timely reporting to the Board.

Custodian

The Custodian(s) has possession of securities for safekeeping, settlement of trades, and the collection of income. In addition, the Custodian(s) will process contributions and withdrawals and provide comprehensive monthly statements.

STATEMENT OF OBJECTIVES

Primary Plan Objective

The primary objective of the Plan is to provide a source of retirement income for its participants and beneficiaries. The financial objectives of the Plan have been established in conjunction with a comprehensive review of the current and projected financial requirements.

Plan Financial Objectives

The primary financial objective of the Plan is to improve the funded status of the Plan. A secondary financial objective is, where possible, to minimize pension expense volatility. The objective is based on a long-term investment horizon and interim fluctuations should be viewed with appropriate perspective.

There can be no assurance that these objectives will be met. The Board also realizes and agrees that historical performance is no guarantee of future performance.

STATEMENT OF INVESTMENT POLICY

Asset Allocation Targets

Because of the importance of asset allocation in meeting the Plan’s long-term return objectives, it will be reviewed at least annually by the Board. The long-term target asset allocation for the Plan is expressed in Schedule A of the IMA. If the Board changes the bands below, such changes shall not be binding upon the OCIO until the Board has provided written notice of such changes to the OCIO pursuant to the IMA.

	<u>Minimum %</u>	<u>Maximum %</u>
Return Enhancement Strategies	60%	80%
Risk Management Strategies	10%	30%

Alternatives	0%	20%
Cash Equivalent Reserves	0%	10%

Within each asset class, assets will be invested in accordance with the guidelines set out below.

Strategy Descriptions

Return Enhancement: Investments that seek to provide equity-like, long-term capital appreciation while potentially recognizing substantial fluctuations in year-to-year performance. Examples are equities and higher yielding fixed income instruments.

Risk Management: Investments that seek to decrease downside risk in a portfolio or act as a hedge against plan liabilities. Examples are cash and fixed income instruments.

Alternatives: Investments that seek to either provide Return Enhancement through long-term appreciation or Risk Mitigation through decreased downside risk within a portfolio. The defining characteristics of these asset types is uncorrelated source of returns, less liquidity, and private market access.

Cash Equivalent Reserves: The Plan may temporarily hold cash in anticipation of upcoming transaction activity.

In accordance with the terms of the Investment Management Agreement, the OCIO will retain discretion with respect to the investments used by the OCIO to implement the Plan’s strategy.

Adherence to Policy Targets and Rebalancing

The asset allocation established by this Investment Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

Rebalancing among investment products will occur with the intent that the target asset allocation is maintained within acceptable ranges. The OCIO will identify the amount of assets that should be reallocated in order to bring the Plan back into compliance with the asset allocation within the Investment Management Agreement and, to the extent set forth in the Investment Management Agreement, will issue the instructions to the Custodian for the transfer of funds.

Investment Securities, Strategies and Diversification

As described in the Investment Management Agreement, the OCIO implements through pooled investment vehicles, including mutual fund products, separately managed accounts, collective investment trust funds, and/or other alternative fund products. The principal investment objectives and strategies of the investment products can be found in the prospectus, offering documents, and related governing documents, which govern and control any investment product’s objective, strategy, and permitted investments.

It is the responsibility of the Board to read and understand the information contained in the governing documents.

CONTROL PROCEDURES

Review of Assumptions

All major assumptions including, but not limited to, capital market assumptions and actuarial assumptions will be subject to an annual review by the Board. This review will focus on an analysis of major differences

between the Plan's assumptions and actual experience.

Review of OCIO and Investments

Investment performance will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy for achieving these objectives. In addition, the validity of the stated objective will be reviewed annually.

The OCIO will report on a quarterly basis to review the total Plan, focusing on:

- Investment adherence to this Investment Policy and guidelines
- Material changes in the investment organizations such as in investment philosophy and personnel, etc.
- Drivers of funded status changes
- Appropriateness of asset allocation and progress toward goals
- Comparison of long-term investment results to appropriate benchmarks as well as market index returns