



Executive Committee Workshop

AGENDA

Thursday, July 15, 2021
1:00 p.m. – 2:00 p.m.

This meeting shall consist of a simultaneous Zoom teleconference call at the ACWA JPIA, 2100 Professional Drive, Roseville, CA 95661 and remote sites.

[Link to Zoom](#)

Meeting ID: 661 516 2566

Passcode: 1234

Zoom Call In #: (669) 900-6833

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Sells	I. Roles - Who is who in CWIF a. JPIA Executive Committee b. Board of Directors c. Officers d. Vendors e. Regulator	
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	V. Open Discussion	

Adjournment

**Related items enclosed*

ACWA JPIA
How does CWIF Operate?
July 15, 2021

BACKGROUND

At the November 26, 2018 meeting, the Board of Directors approved a resolution to proceed with forming the California Water Insurance Fund (CWIF) a Captive Insurance Company. The Captive is a private company wholly owned by the JPIA, domiciled in the state of Utah. In addition to paid in Equity the JPIA also cedes losses at the primary level for the Liability and Workers' Compensation Programs.

CURRENT SITUATION

	<u>Program Year</u>	<u>Program</u>	
Paid in Equity			\$22 million
Prepaid Claims and Expenses	2019-2020	Liability	\$19 million
Paid Claims and Expenses	2019-2020	Liability	\$(3 million)
Prepaid Claims and Expenses	2020-2021	Liability	\$21 million
Prepaid Claims and Expenses	2019-2020	Work Comp	<u>\$6.5 million</u>
Book Value 3/31/2021			\$65.5 million
Market Value 3/31/2021			<u>\$77.3 million</u>
Unrealized Gain			\$11.8 million
Rate of Return since inception			18%

As of June 30, 2021, the book value of the CWIF portfolio was \$65,224,426 vs. a market value of \$77,212,829. The rate of return since inception was approximately 18.0% vs. a rate of return on the JPIA portfolio of approximately 1.49%

RECOMMENDATION

None, informational only.

California Water Insurance Fund
Investment Policy Statement
Adopted October 28, 2019

ACWA JPIA has established an insurance captive known as California Water Insurance Fund (CWIF). The creation of CWIF will create greater independence for excess and reinsurance coverage placement, and provide greater efficiencies for managing and financing risk. The California Water Insurance Fund Board (the “Board”) has been appointed to oversee certain policies related to the operation and administration of CWIF. The purpose of this Investment Policy Statement is to document investment objectives and establish an appropriate investment strategy including an investment time horizon, asset allocation targets and ranges, performance expectations and periodic performance reporting requirements.

1. Investment Objectives

- a. To invest assets of CWIF in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of ACWA JPIA beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
- b. To provide for funding and anticipated withdrawals on a continuing basis for payment of long-term liabilities and reasonable expenses of operation of CWIF.
- c. To enhance the value of CWIF assets over the long term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
- d. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding an average annual target of 7% over a 20-year period.

2. Time Horizon

CWIF’s investment objectives are based on a long-term investment horizon (“Time Horizon”) of twenty years or longer. Interim fluctuations should be viewed with appropriate perspective. The long-term investment horizon contemplates risks and duration of investment losses, which are carefully weighed against the long-term potential for appreciation of assets.

3. Liquidity and Diversification

In general, CWIF may hold some cash, cash equivalent, and/or money market funds for near-term liabilities and expenses (the “CWIF Distributions”). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments

or industries.

4. Use of an Investment Advisor

An investment advisor (“Advisor”) may be hired to assist CWIF in the investment process and to maintain compliance. The Advisor may assist CWIF in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for CWIF subject to the guidelines and limitations set forth in this Investment Policy Statement. The Advisor will also select investment managers and strategies consistent with its role as fiduciary. The investment vehicles allowed may include exchange traded funds (“ETFs”), mutual funds, commingled trusts, collective trusts, separate accounts, limited partnerships and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers; measuring and evaluating performance; and other tasks as deemed appropriate in its role as Advisor for CWIF.

5. Asset Allocation

To achieve the greatest likelihood of meeting CWIF’s investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than CWIF’s target rate of return over the long term.

Asset Classes	Asset Weightings	
	Range	Target
Growth Assets		
Domestic Equity	22% – 52%	42%
International Equity	3% – 33%	23%
Other	0 – 10%	0%
Income Assets		
Fixed Income	25% – 70%	35%
Other	0% – 10%	0%
Real Return Assets	0% – 10%	0%
Cash Equivalents	0% – 20%	0%

The total allocation to Growth Assets may not exceed 75% of the overall portfolio. Additionally, the total allocation to Other Assets is limited to 20% of the overall portfolio. The asset allocation range represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause

the asset mix to fall outside these ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

6. Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of SEC Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

7. Limitations on Managers' Portfolios

Every effort shall be made by the Advisor, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Investment Policy Statement. Given the nature of the investments, it is recognized that there may be deviations between this Investment Policy Statement and the objectives of these investments. If deviations occur, the Advisor shall notify CWIF.

Equities. No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix of the equity of companies from multiple countries, regions and sectors.

Fixed Income. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

Other Assets (“Alternatives”). Alternatives may consist of non-traditional asset classes such as, private equity, private debt, real estate and inflation hedge. Prior to adding an allocation to any of these asset classes, with the exception of publicly-traded mutual funds or ETFs, the Advisor shall receive approval from the Board.

Real Return Assets. Real return assets may consist of collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation.

Cash Equivalents. Cash equivalents are investments designed to provide liquidity. Investments may include funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

8. Safekeeping

All assets of CWIF shall be held by a custodian approved for safekeeping assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Agreement. Investments of CWIF not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

9. Performance Expectations

Over the long-term the performance objective will be to achieve an average total annual rate of return that is equal to or greater than 7%. Additionally, it is expected that the annual rate of return on CWIF assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual investments and blended benchmark comparisons in its entirety.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. The Advisor shall report the investment performance to the Board and officers on a quarterly basis. In addition, the Advisor will be responsible for keeping the Board and officers advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the portfolio.

10. Review of Investment Policy Statement

The Advisor shall review annually and report to the Board and officers the appropriateness of this Investment Policy Statement for achieving CWIF’s stated objectives.

Adopted by: California Water Investment Fund Board:

Thomas A. Cuquet
Chairman, CWIF Board

Date

Lorin Barker
Secretary, CWIF Board

Date