

AGENDA  
 IRVINE RANCH WATER DISTRICT  
 POST-EMPLOYMENT BENEFITS TRUST RETIREMENT BOARD  
 QUARTERLY MEETING  
 TUESDAY, MAY 17, 2022

This meeting will be held in-person at the District’s headquarters located at 15600 Sand Canyon Avenue, Irvine, California. The meeting will also be broadcasted via Webex for those wanting to observe the meeting virtually.

To observe this meeting virtually, please join online using the link and information below:

Via Web:

<https://irwd.webex.com/irwd/j.php?MTID=mfcf801d7b45e566dffe157372049a2db>

Meeting Number (Access Code): 2488 478 9616

Meeting Password: jhDx69SrcN3

As courtesy to the other participants, please mute your phone when you are not speaking.

PLEASE NOTE: Participants joining the meeting will be placed into the Webex lobby when the Committee enters closed session. Participants who remain in the “lobby” will automatically be returned to the open session of the Committee once the closed session has concluded. Participants who join the meeting while the Committee is in closed session will receive a notice that the meeting has been locked. They will be able to join the meeting once the closed session has concluded.

CALL TO ORDER    10:30 a.m.

ATTENDANCE      Board Member: Peer Swan            \_\_\_\_\_  
                          Board Member: Steve LaMar        \_\_\_\_\_  
                          Board Member: Paul Cook            \_\_\_\_\_

ALSO PRESENT    Cheryl Clary                            \_\_\_\_\_      Rob Jacobson                            \_\_\_\_\_  
                          Jennifer Davis                           \_\_\_\_\_      Dan Quirk, SageView                \_\_\_\_\_  
                          \_\_\_\_\_                                    \_\_\_\_\_      \_\_\_\_\_                                    \_\_\_\_\_

PUBLIC COMMENT NOTICE

If you wish to address the Committee on any item, please submit a request to speak via the “chat” feature available when joining the meeting virtually. Remarks are limited to three minutes per speaker on each subject. You may also submit a public comment in advance of the meeting by emailing [comments@irwd.com](mailto:comments@irwd.com) before 7:30 a.m. on Tuesday, May 17, 2022.

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**COMMUNICATIONS**

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1. Meeting Minutes: Rob Jacobson
2. Public Comments
3. Determine the need to discuss and/or take action on item(s) introduced, which came to the attention of the District subsequent to the agenda being posted.
4. Determine which items may be approved without discussion.

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**INFORMATION**

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5. MINUTES OF THE MEETING OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD – DAVIS / JACOBSON / CLARY

Recommendation: That the minutes of the February 1, 2022 Board Meeting of the Irvine Ranch Water District Retirement Board be approved as presented.

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**ACTION**

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6. IRWD POST-RETIREMENT BENEFITS TRUST INVESTMENT REVIEW AS OF MARCH 31, 2022 – DAVIS / JACOBSON / CLARY

Recommendation: Based on discussions and direction from the Committee, staff and Fund Advisor SageView will implement changes to the investment portfolio, if any.

7. RETIREMENT TRUST GUIDING PRINCIPLES – JACOBSON / CLARY

Recommendation: That the Board provide input for the development of guiding principles for determining the appropriate eventual transfer of District assets from the Trust to CalPERS.


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**OTHER BUSINESS**

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8. Directors' Comments
9. Adjourn

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Availability of agenda materials: Agenda exhibits and other writings that are disclosable public records distributed to all or a majority of the members of the above-named Retirement Board in connection with a matter subject to discussion or consideration at an open meeting of the Retirement Board are available for public inspection in the District's office, 15600 Sand Canyon Avenue, Irvine, California ("District Office"). If such writings are distributed to members of the Retirement Board less than 72 hours prior to the meeting, they will be available from the District Secretary of the District Office at the same time as they are distributed to the Retirement Board, except that if such writings are distributed one hour prior to, or during, the meeting, they will be available electronically via the Webex meeting noted. Upon request, the District will provide for written agenda materials in appropriate alternative formats, and reasonable disability-related modification or accommodation to enable individuals with disabilities to participate in and provide comments at public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, or alternative format requested at least two days before the meeting. Requests should be emailed to comments@irwd.com. Requests made by mail must be received at least two days before the meeting. Requests will be granted whenever possible and resolved in favor of accessibility.

May 17, 2022  
Prepared by: J. Davis  
Submitted by: R. Jacobson / C. Clary  
Approved by: Paul A. Cook 

RETIREMENT BOARD

MINUTES OF THE MEETING OF THE  
IRVINE RANCH WATER DISTRICT RETIREMENT BOARD

SUMMARY:

Provided are the minutes of the February 1, 2022 meeting of the Irvine Ranch Water District Retirement Board for approval.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

RECOMMENDATION:

THAT THE MINUTES OF THE FEBRUARY 1, 2022 BOARD MEETING OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD BE APPROVED AS PRESENTED.

LIST OF EXHIBITS:

Exhibit "A" – February 1, 2022 Minutes

Note: This page is intentionally left blank.

## EXHIBIT "A"

### MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE IRVINE RANCH WATER DISTRICT RETIREMENT BOARD

February 1, 2022

The meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) Retirement Board was called to order telephonically by Chairman Swan at 12:00 p.m. on February 1, 2022.

Directors Present: Chairman Peer Swan, Vice Chairman Steve La Mar, and Paul Cook

Also Present: Treasurer Robert Jacobson, Executive Director of Finance and Administrative Services Cheryl Clary, Assistant Treasurer Jennifer Davis and Dan Quirk of SageView Advisory Group.

COMMUNICATION: None.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None.

#### ACTION CALENDAR

#### MINUTES OF BOARD MEETING

Jennifer Davis presented the minutes from the November 2, 2021 meeting.

On MOTION by Cook, seconded by La Mar and affirmed by Peer Swan, the minutes of the November 2, 2021 meeting were approved as presented.

#### Trust Investment Review

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- A capital markets and legislative update was provided by SageView.
- All trust investment options were reviewed as of 12/31/2021. All options are currently performing in line with benchmarks or above 50th percentile peer group rankings.
- The Portfolio return and expense ratio, style analysis, and asset allocation by fund were reviewed. Of note was the following:
  - As of December 31, 2021, the IRWD Post-Retirement Benefits Trust market value was \$114,815,352, up from \$107,651,466 on September 30, 2021.
  - For the quarter, the net total return was 6.65%, beating the custom benchmark return of 6.51%.
  - For the trailing twelve months, the total return was 17.36%, closely tracking the custom benchmark return of 17.28%.
  - The portfolio is primarily allocated to index funds, leading to a low overall expense ratio of 0.09%.

- The four actively scored funds by SageView all score in the upper half of peer group rankings, while all index funds receive a pass rating.
- The Board adjusted the portfolio’s target allocation as shown in the table below. Trades were executed to achieve this new allocation on February 3, 2022.

Ticker	Fund	12/31/2021 % Target	2/3/2022 % Target
FDRXX	Fidelity Government Cash Reserves	0.0%	0.05%
BCOIX	Baird Core Plus Institutional	16.0%	11.00%
FUMBX	Fidelity Short-Term Treasury Bond Index	0.0%	4.95%
VWEAX	Vanguard High Yield Corporate Bond	4.0%	4.00%
	Fixed Income	20.0%	20.00%
VINIX	Vanguard Institutional Index	50.5%	50.5%
VHYAX	Vanguard High Dividend Yield Index Admiral	9.0%	9.0%
VEXAX	Vanguard Extended Market Index	8.5%	8.5%
VTMNX	Vanguard Developed Markets Index	10.5%	10.5%
VEMAX	Vanguard Emerging Markets Index	1.5%	1.5%
	Equity	80.0%	80.00%

ADJOURNMENT

There being no further business, Chairman Swan adjourned the meeting.

APPROVED and SIGNED this 17<sup>th</sup> day of May 2022.

\_\_\_\_\_  
Board Member, IRVINE RANCH WATER DISTRICT  
RETIREMENT BOARD

\_\_\_\_\_  
Secretary, IRVINE RANCH WATER DISTRICT  
RETIREMENT BOARD

May 17, 2022

Prepared by: J. Davis

Submitted by: R. Jacobson / C. Clary

Approved by: Paul A. Cook



RETIREMENT BOARD

IRWD POST-RETIREMENT BENEFITS TRUST  
INVESTMENT REVIEW AS OF MARCH 31, 2022

SUMMARY:

Staff and a representative from IRWD's pension investment advisor SageView Investment Advisors will present the Portfolio Investment Review for the quarter ended March 31, 2022 and provide an update on current market conditions and any recommended portfolio changes.

BACKGROUND:

Quarterly Investment Review:

As of March 31, 2022, the IRWD Post-Retirement Benefits Trust market value was \$109,290,656, a net decrease of \$5,524,696 from the prior quarter end. The change was due to a decrease in market value of \$6,215,561, capital gains of \$297,791 and dividends in the amount of \$408,163. Trust expenses for the quarter included \$15,000 paid to SageView Advisory Group and \$89 for reporting and transaction fees paid to Fidelity. Portfolio changes during the quarter include a transfer of \$5.5 million of the Baird Core Plus Bond Fund to the Fidelity Short-term Treasury Index Fund. The fund transfer was directed by the Retirement Board following its February meeting. Assets in the Trust are sufficient to meet the District's current CalPERS unfunded liability. The closing balances and fund returns as of March 31, 2022 are as follows:

Investment	Quarterly Return	Quarter End December 31, 2021	Quarter End March 31, 2022	Incr/(Decr)	Percent of Portfolio
<b>EQUITIES</b>					
Vanguard Institutional Index Fund.	-4.60%	\$59,004,199	\$56,287,620	(\$2,716,579)	51.5%
Vanguard Extended Mkt (small/mid) Index Fund	-9.34%	8,988,701	8,149,578	(\$839,123)	7.5%
Vanguard Developed Market Index	-6.04%	11,770,748	11,060,294	(\$710,454)	10.1%
Vanguard Emerging Markets Index	-6.26%	1,673,832	1,569,116	(\$104,715)	1.4%
Vanguard High Dividend Yield Index Admiral	0.71%	10,549,755	10,624,408	\$74,653	9.7%
<b>FIXED INCOME</b>					
Baird Core Plus Bond Fund	-6.14%	18,191,232	11,802,286	(\$6,388,946)	10.8%
Vanguard High-Yield Corporate Fund	-4.20%	4,579,632	4,385,961	(\$193,670)	4.0%
Fidelity Short Term Treasury Bond	-3.42%	0	5,369,224	\$5,369,224	4.9%
<b>CASH-SHORT TERM</b>					
Fidelity Government Cash Reserves		57,253	42,168	(\$15,085)	0.0%
Closing Balance		\$114,815,352	\$109,290,656	(\$5,524,696)	100.0%

For the quarter ended March 31, 2022, the portfolio return was -4.67%, compared to the index-based custom benchmark return of -4.71%. For the one-year period ended March 31, 2022, the return was 10.85%, compared to the index-based custom benchmark return of 8.04%. The Portfolio Investment Review as of March 31, 2022 is provided as Exhibit "A".

A representative from SageView will present the Portfolio Investment Review for the quarter ended March 31, 2022, update the Board on current market conditions and the portfolio balance, and provide any recommended portfolio changes for the Board's consideration.

FISCAL IMPACTS:

Fiscal impacts are as described above.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act Code of Regulations, Title 14, Chapter 3, Section 15378.

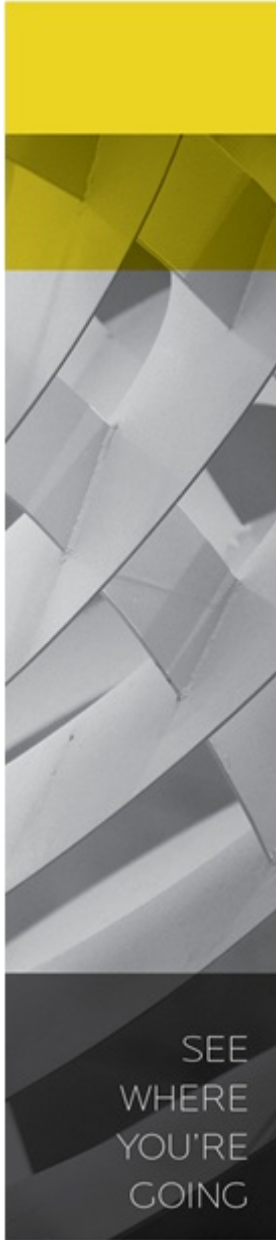
RECOMMENDATION:

Based on discussions and direction from the Board, staff will implement changes to the investment portfolio, if any.

LIST OF EXHIBITS:

Exhibit "A" – The Portfolio Investment Review as of March 31, 2022





# Plan Investment Review

## Irvine Ranch Water District Post-Employment Benefits Trust

For period ending March 31, 2022



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# Section I

## Market Overview

The views are those of SageView Advisory Group and should not be construed as investment advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards. Please consult your financial advisor for more information.

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# Q1 2022 BY THE NUMBERS

## Broad Selloff



A late quarter rally was not enough to salvage the worst quarter for equities in two years, and the worst for bonds since 1980. The Fed launched a rate increase plan to combat stubborn inflation, which particularly impacted the Technology sector. Commodities were the sole bright spot, as western sanctions on Russia were a boon for domestic oil producers, who are ramping up production to meet surging demand.

**-5.26%**

MSCI ACWI Index  
(Qtr)

**-5.93%**

BBgBarc  
Aggregate Bond  
Index (Qtr)

**-5.24%**

FTSE NAREIT All  
REITs Index (Qtr)

## Stubborn Inflation



With consistent inflationary readings at or above 5% since May of 2021, the Fed raised the federal funds rate by 0.25% and signaled six more increases this year. Simultaneously, the Fed has indicated plans to unwind its \$9 trillion asset portfolio, another tool at its disposal to curb inflation. Complicating the issue are both persistent wage growth, which remains above historical averages, and higher energy costs.

**8.5%**

March CPI  
YoY

**6.7%**

Wage Growth  
(4% avg)

**60%**

% of Americans  
worried about  
inflation (Gallup)

## Recession Worries



The yield on the 2-year Treasury note surpassed that of the 10-year, a historically reliable recession predictor. The University of Michigan's Consumer Sentiment Index fell to its lowest level in a decade. Concurrently, the average 30-year fixed mortgage rate jumped to 4.67%, a meaningful increase from the 3.11% at the end of the year. Despite this, the unemployment rate remains historically low at 3.6%.

**62.8**

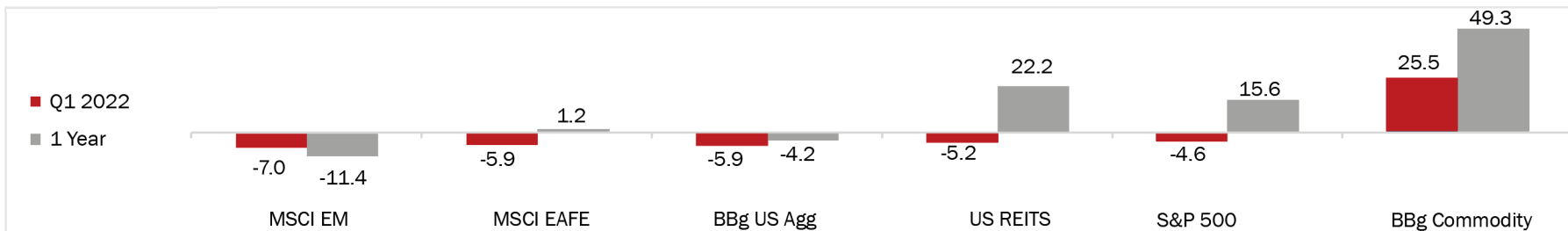
Univ of Michigan  
Consumer Sentiment  
Index (76.8 Feb 2021)

**2.8%**

FOMC GDP  
Growth Projection  
2022

**7 out of 8**

The 2/10 yield curve  
inversion predicting 7  
of last 8 recessions

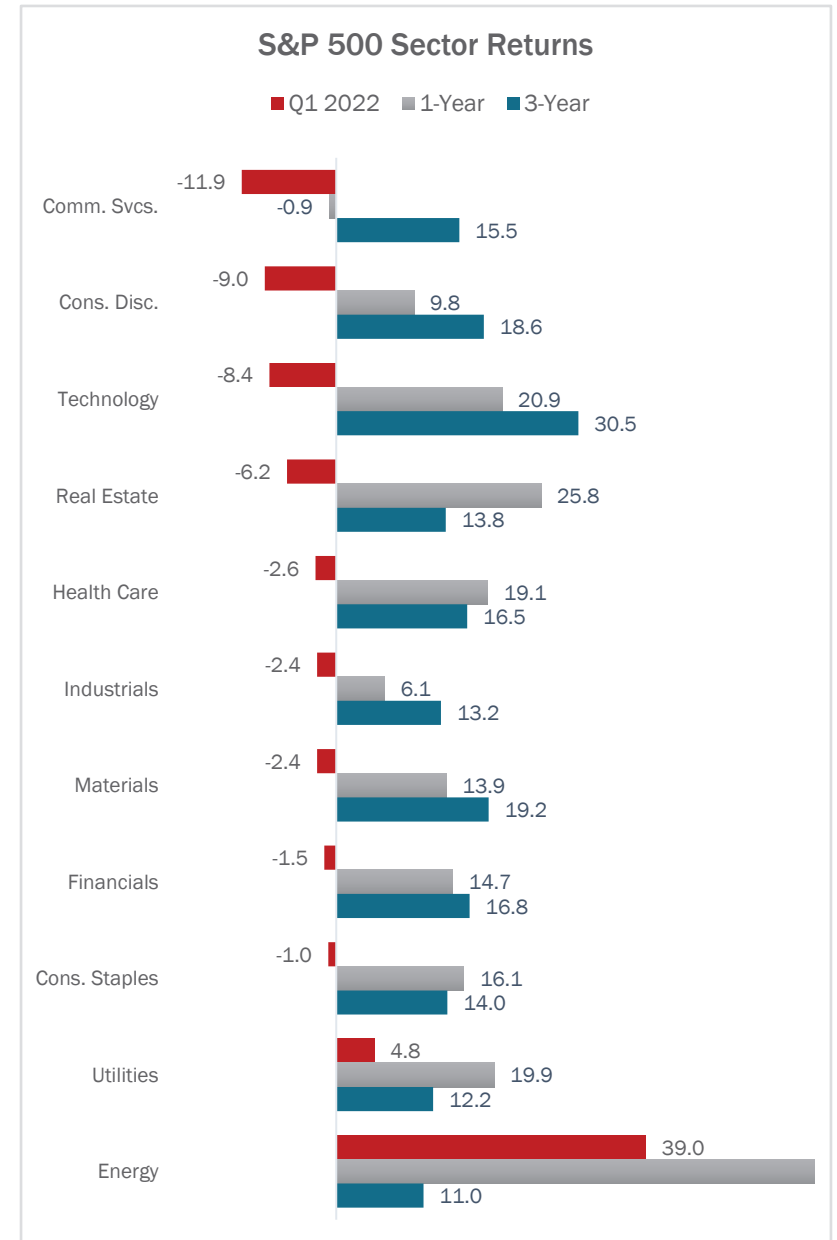
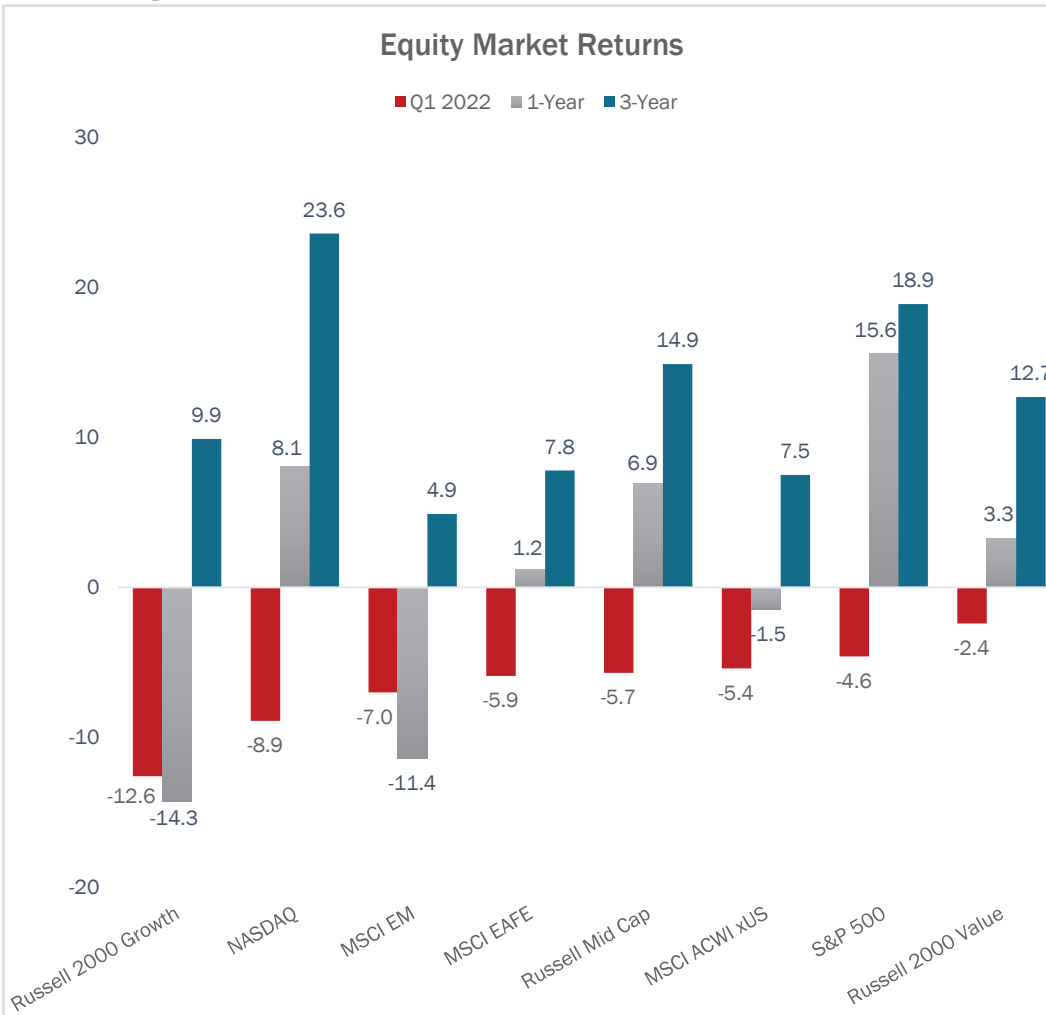


Source: Morningstar. Returns represent cumulative total return, including dividends US REITS – FTSE NAREIT All REITs

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# EQUITIES

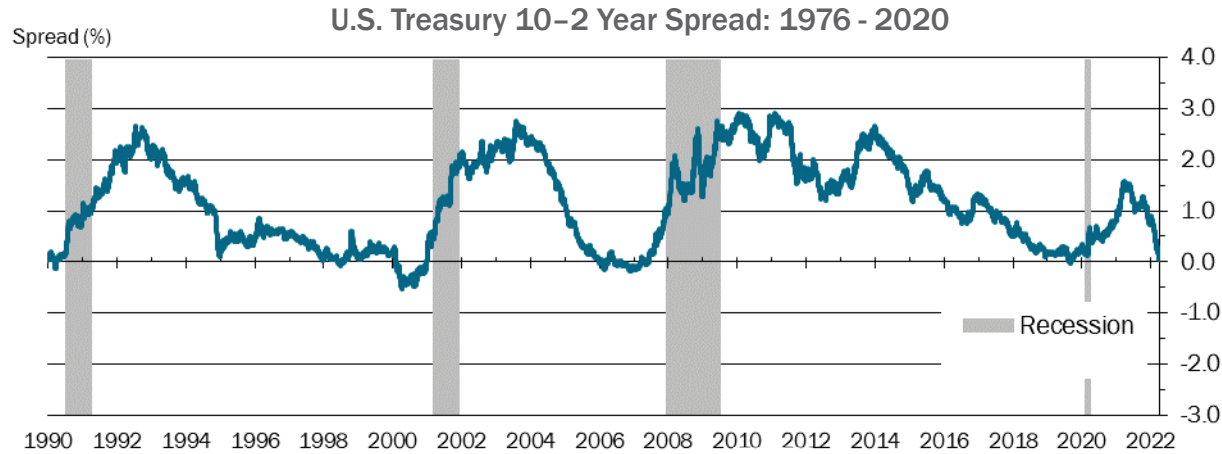
Equity markets fell in Q1 amid geopolitical uncertainty, rising inflation, and ongoing supply chain disruption. Domestic stocks outpaced international developed and emerging markets stocks, defensive companies generally outpaced more cyclical companies, and large caps outpaced small caps. Energy (which rose on oil supply concerns) and Utilities (which have very predictable and resilient cash flows) were the sole bright spots.



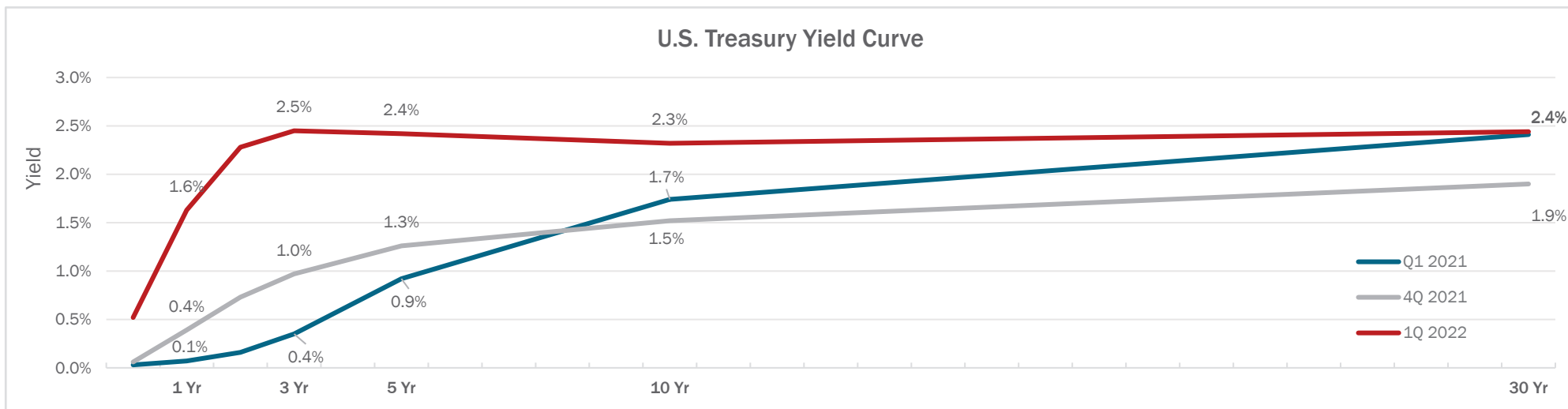
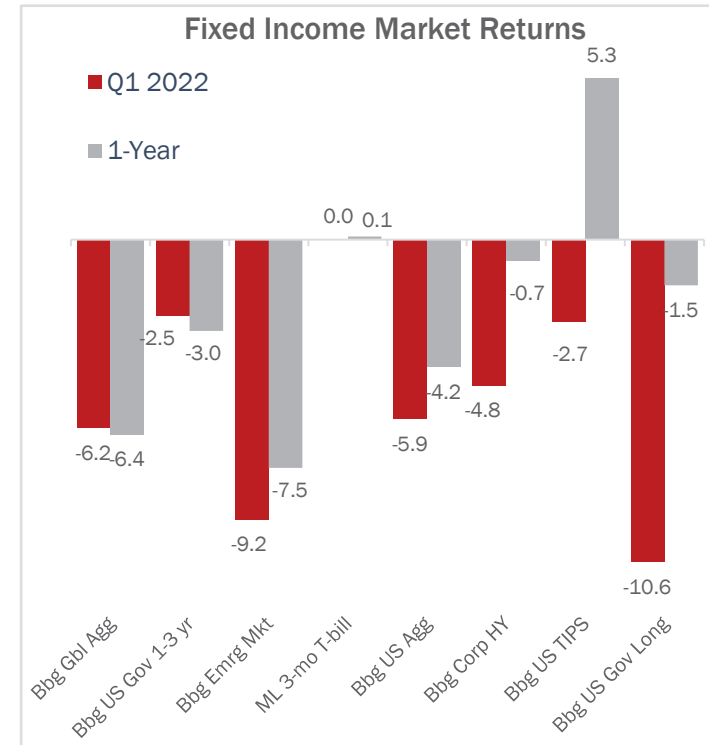
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# FIXED INCOME

US bonds experienced their worst quarter in more than 40 years, as yields rose following the Fed's first interest rate hike since 2018. Short-term rates rose further than longer term rates, resulting in an inverted yield curve. This indicates that bond investors are nervous that measures to combat inflation could tip the economy into recession. On the positive side, higher interest rates lead to higher future returns for bond investors, which may be welcome after years of dismal yields.



Source: Board of Governors of the Federal Reserve System; Bloomberg. Data as of March 31, 2022.



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# Section II

## Investment Summary

## Executive Summary and Observations

- Assets total \$109,290,656 at March 31, 2022, down from \$114,815,352 at December 31, 2021.
- Trade activity during the quarter:
  - Reduced Baird Core Plus by 5% and added 5% position to Fidelity Short Term Treasury Index:

### Target Allocation vs. Actual

Ticker	Fund	03/31/2022		12/31/2021
		3/31/2022	% Actual	% Target
FDRXX	Fidelity Government Cash Reserves	42,168	0.0%	0.0%
FUMBX	Fidelity Short Term Treasury Bond Index	5,369,224	4.9%	0.0%
BCOIX	Baird Core Plus Institutional	11,802,286	10.8%	16.0%
VWEAX	Vanguard High Yield Corporate Bond	4,385,961	4.0%	4.0%
	Fixed Income	21,599,640	19.8%	20.0%
VINIX	Vanguard Institutional Index	56,287,620	51.5%	50.5%
VHYAX	Vanguard High Dividend Yield Index Admiral	10,624,408	9.7%	9.0%
VEXAX	Vanguard Extended Market Index	8,149,578	7.5%	8.5%
VTMNX	Vanguard Developed Markets Index	11,060,294	10.1%	10.5%
VEMAX	Vanguard Emerging Markets Index	1,569,116	1.4%	1.5%
	Equity	87,691,017	80.2%	80.0%
	Total	109,290,656	100.0%	100.0%

- For the quarter, the net total return was -4.67%, compared to the index-based custom benchmark of -4.71% and the peer-group custom benchmark of -5.36%.  
For the past 12 months, the net total return was 10.85%, closely tracking the index-based custom benchmark return of 8.04%, and beating the custom peer group return of 6.26%.
- The portfolio is heavily allocated to index funds, leading to a low overall expense ratio of 0.08%.
- Baird Core Plus and Vanguard High Yield Corporate Bond score in the upper half of SageView's peer group quantitative rankings, while all index funds receive a pass rating.

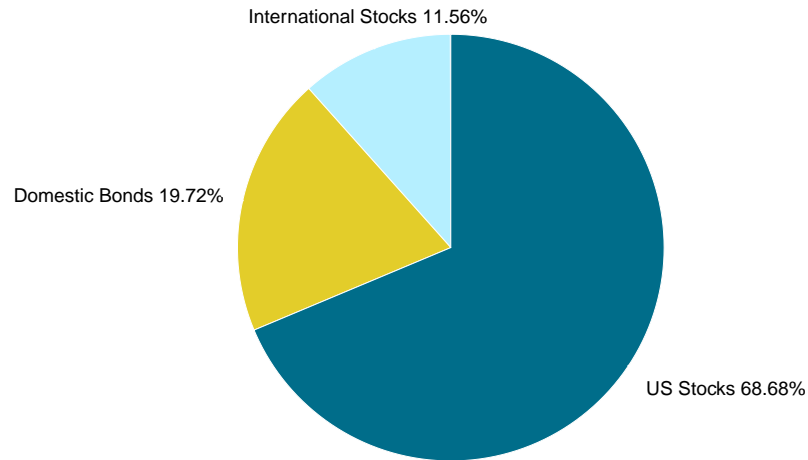




# Asset Allocation by Fund

As of 03/31/2022

Fund	% of Plan Assets	Total Assets
Vanguard Institutional Index I	51.50%	\$56,287,620.35
Baird Core Plus Bond Inst	10.80%	\$11,802,285.92
Vanguard Developed Markets Index Instl	10.12%	\$11,060,294.30
Vanguard High Dividend Yield Index Adm	9.72%	\$10,624,407.92
Vanguard Extended Market Index Admiral	7.46%	\$8,149,577.66
Fidelity® Shrt-Term Trs Bd Index	4.91%	\$5,369,224.10
Vanguard High-Yield Corporate Adm	4.01%	\$4,385,961.35
Vanguard Emerging Mkts Stock Idx Adm	1.44%	\$1,569,116.39
Fidelity® Government Cash Reserves	0.04%	\$42,168.42
<b>Total Market Value:</b>	<b>100.00%</b>	<b>\$109,290,656.41</b>



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# Fund Performance Summary

As of 03/31/2022

Fund Benchmark Category	Asset Class	(%) of Plan	3 Month	YTD	1 Year	3 Years Annualized	5 Years Annualized	10 Years Annualized	Expense Ratio	SageView Ranking
Fidelity® Government Cash Reserves	Money Market-Taxable	0.04%	0.00	0.00	0.01	0.55	0.84	0.44	0.33	NA
ICE BofA US 3M Trsy Bill TR USD*			0.04	0.04	0.06	0.81	1.13	0.63		
Cat: Morningstar Money Market - Taxable			0.00	0.00	0.02	0.54	0.80	0.42	0.41	
Fidelity® Shrt-Term Trs Bd Index	Short Government	4.91%	-3.42	-3.42	-4.02	0.81	1.09	0.94	0.03	NA
BBgBarc Treasury 1-5 Yr TR USD*			-3.37	-3.37	-3.96	0.87	1.13	1.01		
Cat: Morningstar Short Government			-2.71	-2.71	-3.36	0.57	0.84	0.66	0.66	
Baird Core Plus Bond Inst	Intermediate Core-Plus Bond	10.80%	-6.14	-6.14	-4.13	2.39	2.75	3.09	0.30	TOP QUAR
Bloomberg US Agg Bond TR USD*			-5.93	-5.93	-4.15	1.69	2.14	2.24		
Cat: Morningstar Intermediate Core-Plus Bond			-5.75	-5.75	-4.00	2.13	2.39	2.75	0.75	
Vanguard High-Yield Corporate Adm	High Yield Bond	4.01%	-4.20	-4.20	-0.49	4.12	4.33	5.25	0.13	TOP QUAR
ICE BofA US High Yield TR USD*			-4.51	-4.51	-0.29	4.40	4.56	5.70		
Cat: Morningstar High Yield Bond			-3.97	-3.97	-0.40	3.90	3.88	4.77	0.92	
Vanguard High Dividend Yield Index Adm	Large Value	9.72%	0.71	0.71	14.42	12.93	11.08	12.19	0.08	Pass
Russell 1000 Value TR USD*			-0.74	-0.74	11.67	13.02	10.29	11.70		
Cat: Morningstar Large Value			-0.21	-0.21	12.90	13.55	10.82	11.24	0.92	
Vanguard Institutional Index I	Large Blend	51.50%	-4.60	-4.60	15.60	18.90	15.96	14.61	0.04	Pass
S&P 500 TR USD*			-4.60	-4.60	15.65	18.92	15.99	14.64		
Cat: Morningstar Large Blend			-5.18	-5.18	12.11	16.75	14.07	13.02	0.80	
Vanguard Extended Market Index Admiral	Mid-Cap Growth	7.46%	-9.34	-9.34	-5.41	14.17	12.06	12.33	0.06	Pass
S&P Completion TR USD*			-9.34	-9.34	-5.46	14.09	11.96	12.24		
Cat: Morningstar Mid-Cap Growth			-12.35	-12.35	-4.00	15.34	14.79	12.63	1.06	
Vanguard Developed Markets Index Instl	Foreign Large Blend	10.12%	-6.04	-6.04	0.66	8.56	7.18	6.69	0.05	Pass
FTSE Dv Ex US TR USD*			-5.03	-5.03	1.99	9.21	7.72	6.85		
Cat: Morningstar Foreign Large Blend			-7.04	-7.04	-1.60	7.26	6.27	5.87	0.93	
Vanguard Emerging Mkts Stock Idx Adm	Diversified Emerging Mkts	1.44%	-6.26	-6.26	-8.70	5.60	5.83	3.32	0.14	Pass
FTSE EMs AC China A Incl (US RIC) NR USD*			-5.46	-5.46	-6.96	6.25	6.25	3.86		
Cat: Morningstar Diversified Emerging Mkts			-8.63	-8.63	-10.91	5.32	5.58	3.36	1.18	

## \*Investment Policy Benchmark

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# Investment Discussion Summary - Current Investments

Fund Name % of Plan Assets Category	Comment Date	Comments
Baird Core Plus Bond Inst 10.80 Intermediate Core-Plus Bond	03/31/2022	<p>Performance Update (3/31/2022): The Baird Core Plus fund modestly underperformed the Bloomberg U.S. Universal Bond Index in the first quarter. An overweight to Investment Grade Credit, including an overweight to financials and BBB credit, weighed on relative results. Positioning within securitized assets was a headwind, specifically favoring longer duration Agency RMBS securities and holding an overweight to CMBS and ABS. Yield curve positioning also detracted, with an overweight to the middle of the curve as rates ticked up. However, most of this underperformance was muted by an underweight to high yield and emerging market debt. Over the trailing one year, the fund outperformed the benchmark. Active positioning within Investment Grade Credit and underweight allocations to high yield and emerging market debt drove relative performance.</p> <p>Strategy Summary: The fund utilizes a duration neutral approach relative to the benchmark. Typically, portfolio managers hope to generate the most excess return (about 40% of alpha) through security selection, then sector allocation (30% of alpha), yield curve positioning (25% of alpha), and lastly trade execution (5% of alpha). Credit analysts first determine which issuers appear to offer the best value within each sector. Only US dollar denominated securities are utilized in this fund with no use of derivative securities. The prospectus benchmark for the strategy is the BBGBarclays US Universal Index. The standard category benchmark is the BBGBarclays US Aggregate Bond Index. Fund comments are relative to the prospectus benchmark.</p>
Vanguard High-Yield Corporate Adm 4.01 High Yield Bond	03/31/2022	<p>Performance Update (3/31/2022): The Vanguard High Yield Corporate fund underperformed the category for both the quarter and the twelve-month period. U.S. high yield bond spreads widened in Q1 as the strength of credit fundamentals was met with inflation fears, expectations of a hawkish Fed, and concerns stemming from Russia's war on Ukraine. Selection within wireless issuers was the largest contributor to performance. An underweight allocation to and security selection within the Energy sector was the primary detractor. For the twelve-month period, the largest contribution was driven by selection within the wireless and gaming sectors, while selection in and an underweight allocation to the Energy sector detracted most.</p> <p>Strategy Summary: The Fund invests primarily in a diversified group of high yielding, higher risk corporate bonds with medium and lower range credit quality ratings. The Fund invests at least 80% of its assets in corporate bonds that are rated below Baa by Moody's. The Fund may not invest more than 20% of its assets in any of the following, in the aggregate: bonds with credit ratings lower than B or the equivalent, convertible securities, preferred stocks, and fixed and floating rate loans of medium to lower range credit quality. The standard category benchmark is the BB Barclays US Corporate High Yield Bond Index. Fund comments are relative to the prospectus benchmark.</p>

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# IPS Historical Ranking

Fund Name	06/2019	09/2019	12/2019	03/2020	06/2020	09/2020	12/2020	03/2021	06/2021	09/2021	12/2021	03/2022
Fidelity® Government Cash Reserves	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Fidelity® Shrt-Term Trs Bd Index	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Baird Core Plus Bond Inst	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP QUAR	TOP QUAR
Vanguard High-Yield Corporate Adm	TOP DEC	TOP DEC	TOP QUAR	TOP DEC	TOP DEC	TOP DEC	TOP DEC	TOP QUAR	TOP QUAR	TOP QUAR	TOP QUAR	TOP QUAR
Vanguard High Dividend Yield Index Adm	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Vanguard Institutional Index I	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Vanguard Extended Market Index Admiral	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Vanguard Developed Markets Index Instl	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Vanguard Emerging Mkts Stock Idx Adm	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass

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# Fund Score Summary

Fund Name	Ticker	Total Return Composite Ranking	Rolling 12 Mo Perf. (5 Yrs.)	RSquared (3 Yrs)	Modified Sharpe Ratio (36 Mos.)	Alpha (60 Mos.)	Up Capture Ratio (10 Yrs.)	Down Capture Ratio (10 Yrs.)	Batting Average (10 Yrs.)	Expense Ratio	SageView Normalized Ranking
Baird Core Plus Bond Inst	BCOIX	35%	38%	26%	35%	31%	23%	50%	10%	6%	14%
Vanguard High-Yield Corporate Adm	VWEAX	39%	44%	43%	32%	21%	75%	12%	38%	3%	21%

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# Baird Core Plus Bond Inst

BCOIX

Ranking Vs. Peers - Intermediate Core-Plus Bond

March 31, 2022

Intermediate Core-Plus Bond Universe: 803 Funds

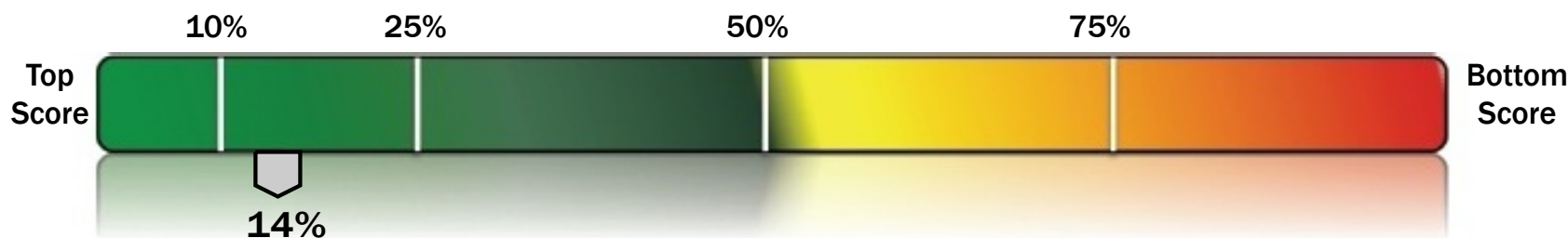
Performance Ranking			Ranking
Total Return Composite Ranking			35.10%
	10 Year	26.00%	
	5 Year	30.00%	
	3 Year	39.00%	
	1 Year	53.00%	
Rolling 12 Month - 5 Years			37.71%

Ratio Statistics		Ranking
Modified Sharpe Ratio - 36 Months		35.00%
Alpha - 60 Months		31.00%
Up Capture Ratio - 10 Years		23.00%
Down Capture Ratio - 10 Years		50.00%
Batting Average - 10 Years		10.00%

Style Consistency			Ranking
Style Consistency to Benchmark			
Bloomberg US Agg Bond TR USD	R2		26.00%

Fund Expense		Ranking
Expense Ratio	0.3	6.00%

SageView Normalized Ranking	
SageView Normalized Ranking	14.00%
STATUS	TOP QUARTILE



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# Vanguard High-Yield Corporate Adm

VWEAX

Ranking Vs. Peers - High Yield Bond

March 31, 2022

High Yield Bond Universe: 744 Funds

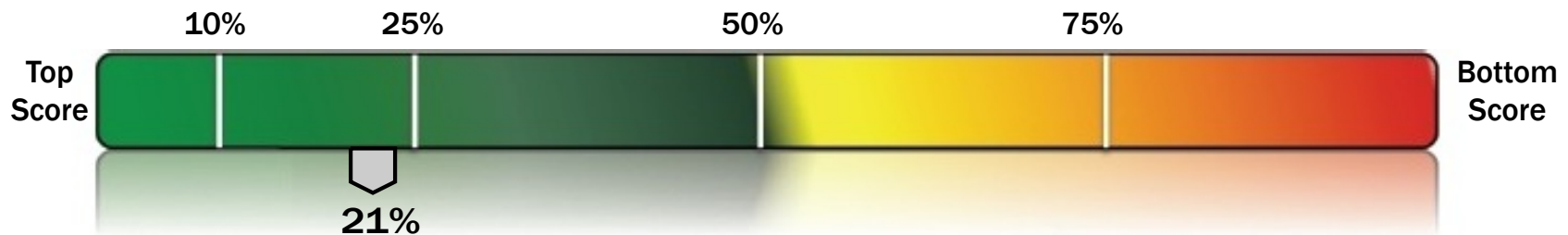
Performance Ranking		Ranking
Total Return Composite Ranking		38.95%
10 Year	30.00%	
5 Year	32.00%	
3 Year	46.00%	
1 Year	57.00%	
Rolling 12 Month - 5 Years		44.12%

Ratio Statistics		Ranking
Modified Sharpe Ratio - 36 Months		32.00%
Alpha - 60 Months		21.00%
Up Capture Ratio - 10 Years		75.00%
Down Capture Ratio - 10 Years		12.00%
Batting Average - 10 Years		38.00%

Style Consistency		Ranking
Style Consistency to Benchmark		
Bloomberg US HY 2% Issuer Cap TR USD	R2	43.00%

Fund Expense		Ranking
Expense Ratio	0.13	3.00%

SageView Normalized Ranking	
SageView Normalized Ranking	21.00%
STATUS	TOP QUARTILE



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# Vanguard Long-Term Investment-Grade Adm

VWETX

Ranking Vs. Peers - Long-Term Bond

Addition

March 31, 2022

Long-Term Bond Universe: 50 Funds

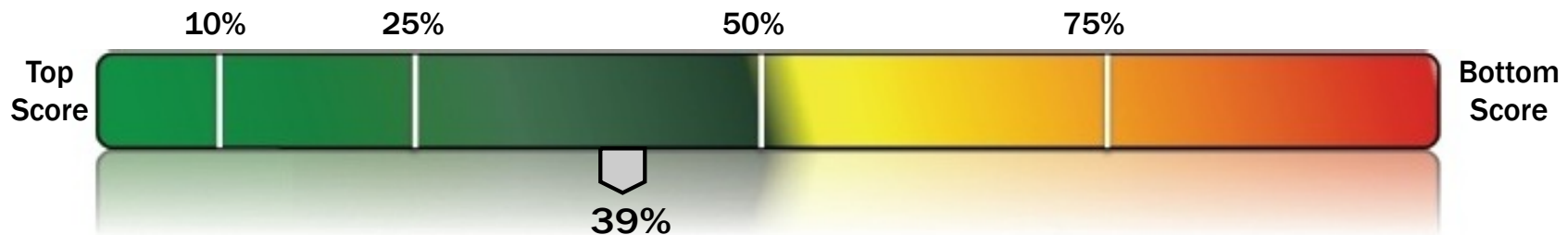
Performance Ranking			Ranking
Total Return Composite Ranking			56.80%
	10 Year	35.00%	
	5 Year	59.00%	
	3 Year	67.00%	
	1 Year	55.00%	
Rolling 12 Month - 5 Years			50.33%

Ratio Statistics		Ranking
Modified Sharpe Ratio - 36 Months		65.00%
Alpha - 60 Months		70.00%
Up Capture Ratio - 10 Years		38.00%
Down Capture Ratio - 10 Years		57.00%
Batting Average - 10 Years		7.00%

Style Consistency			Ranking
Style Consistency to Benchmark			
Bloomberg US Govt/Credit Long TR USD	R2		31.00%

Fund Expense		Ranking
Expense Ratio	0.12	11.00%

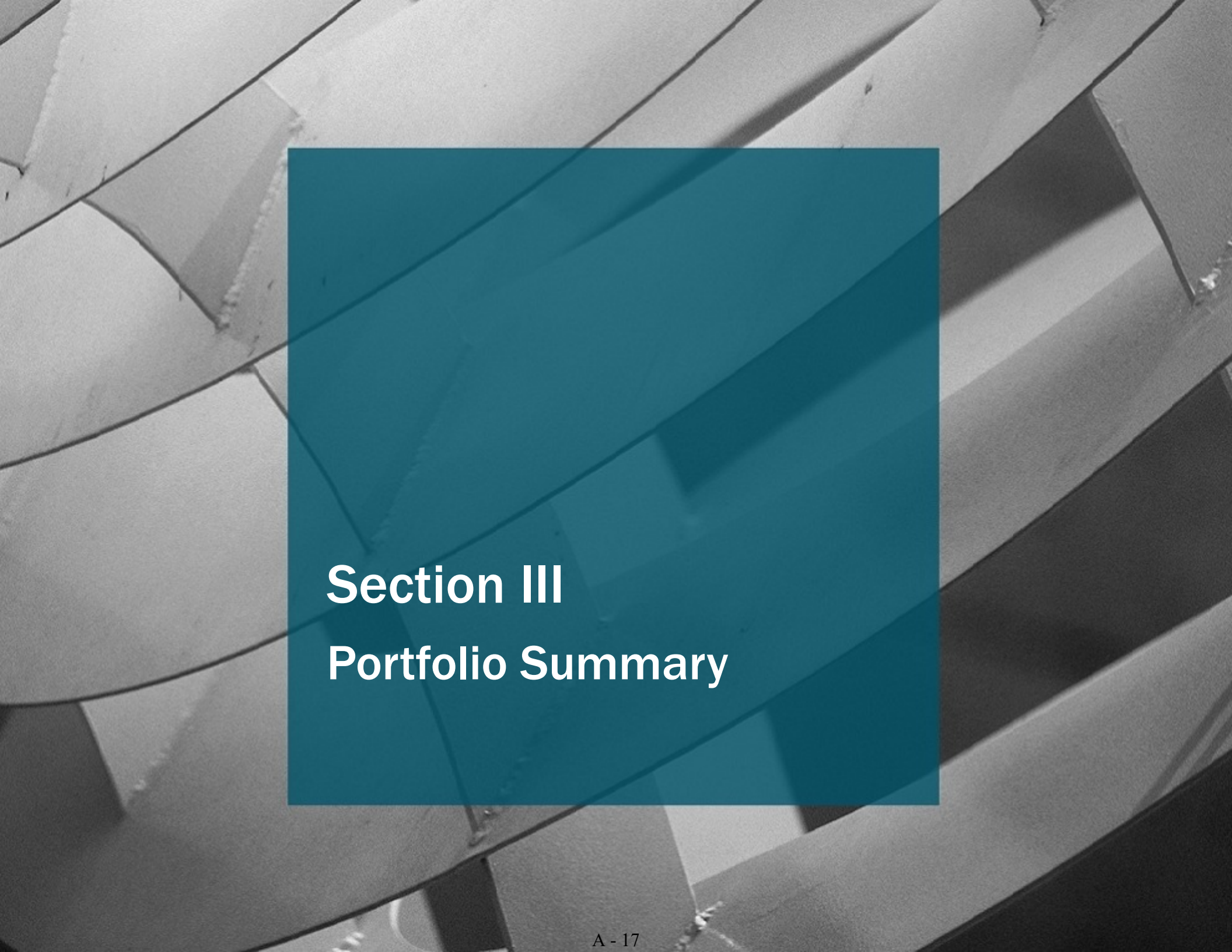
SageView Normalized Ranking	
SageView Normalized Ranking	39.00%
STATUS	2nd QUARTILE



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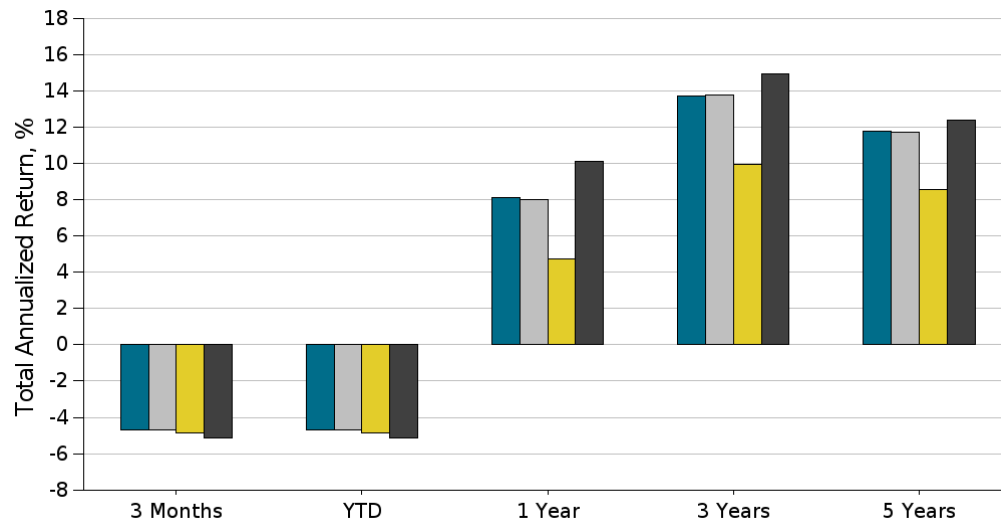


**Section III**  
**Portfolio Summary**

# Portfolio Return vs. Custom Benchmark

As of 03/31/2022

Performance As Of March 31, 2022	3 Month	YTD	1 Year	3 Year	5 Year	Std Dev 5 Yr	Prospectus Exp Ratio
Irvine Ranch Water District Post-Employment Benefits Trust	-4.67	-4.67	10.85	16.37	NA	12.88	0.08
Irvine Ranch Water District Post-Employment Benefits Trust Custom Benchmark	-4.71	-4.71	8.04	13.80	11.73	12.92	NA
Irvine Ranch Water District Post-Employment Benefits Trust Custom Category Averages Benchmark	-5.36	-5.36	6.26	12.31	10.57	14.07	0.84
Institutional Portfolio 60-30-10	-4.87	-4.87	4.76	9.97	8.55	9.29	NA
MSCI World NR USD	-5.15	-5.15	10.12	14.98	12.42	15.37	NA



- Irvine Ranch Water District Post-Employment Benefits Trust
- Irvine Ranch Water District Post-Employment Benefits Trust Custom Benchmark
- Institutional Portfolio 60-30-10
- MSCI World NR USD

<sup>1</sup>Industry Average Exp Ratio 0.89%. Based on plan assets \$50Mil+

Benchmark	Weight
S&P 500 TR USD	51.50%
Bloomberg US Agg Bond TR USD	10.80%
FTSE Dv Ex US TR USD	10.12%
Russell 1000 Value TR USD	9.72%
S&P Completion TR USD	7.46%
BBgBarc Treasury 1-5 Yr TR USD	4.91%
ICE BofA US High Yield TR USD	4.01%
FTSE EMs AC China A Incl (US RIC) NR USD	1.44%
ICE BofA US 3M Trsy Bill TR USD	0.04%

<sup>4</sup>Industry Average Expense Ratio Source: *401(k) Averages Book*, 20th Edition, published by HR Investment Consultants

The Institutional Portfolio 60-30-10 consists of 60% MSCI World NR USD, 30% Bloomberg US Agg Bond TR USD and 10% ICE BofA US 3M Trsy Bill TR USD

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# Management Style Analysis

As of 03/31/2022

Domestic Equity Style Box

	VALUE	BLEND	GROWTH
LARGE CAP	<ul style="list-style-type: none"> <li>Vanguard High Dividend Yield Index Adm (\$99.30 bn)</li> </ul>	<ul style="list-style-type: none"> <li>Vanguard Institutional Index I(\$207.22 bn)</li> </ul>	
MID CAP			<ul style="list-style-type: none"> <li>Vanguard Extended Market Index Admiral (\$7.10 bn)</li> </ul>
SMALL CAP			

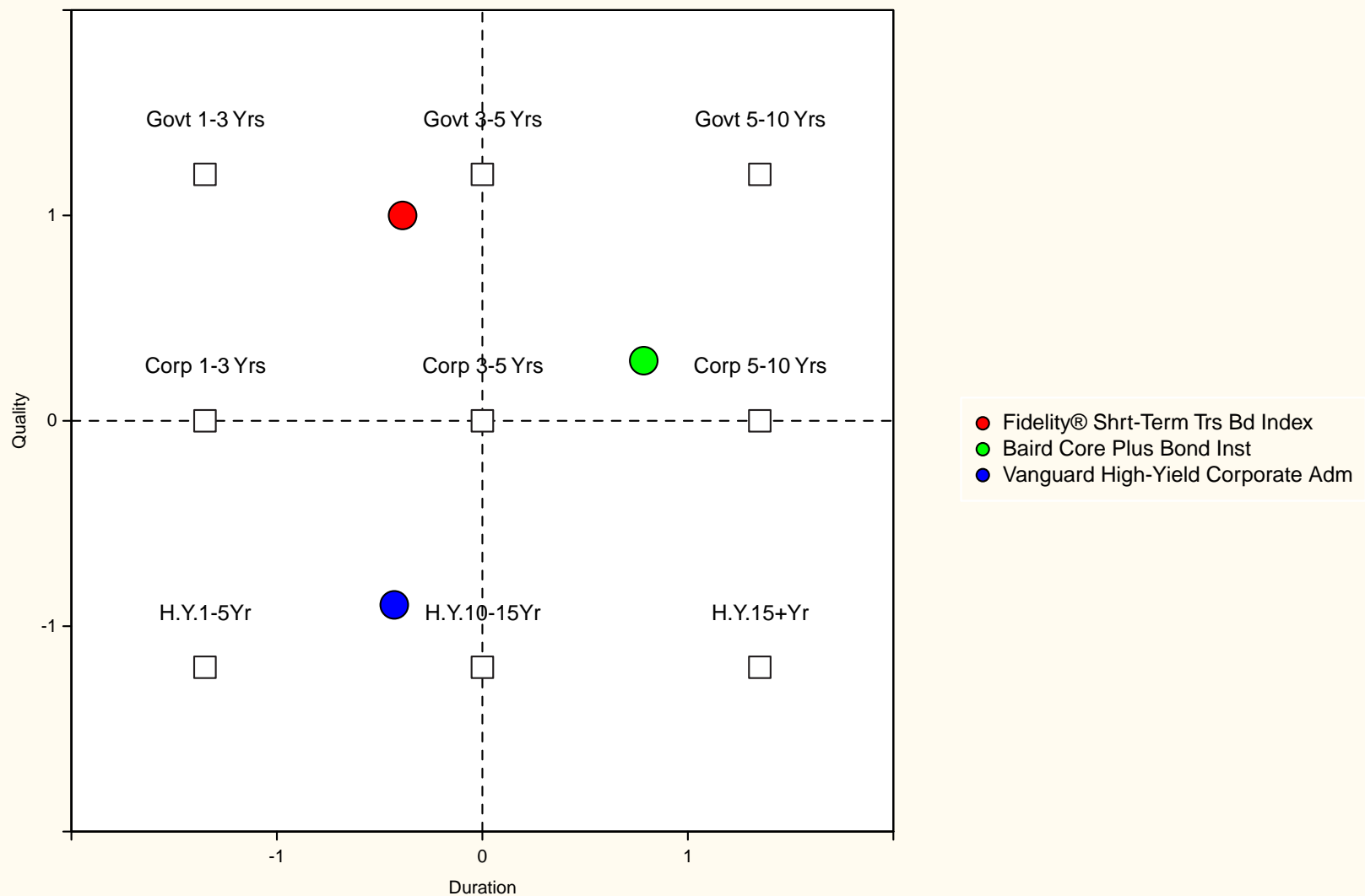
Average Market Cap. listed in parentheses

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# Manager Style Box

Fixed Income - Single Computation  
April 2012 - March 2022

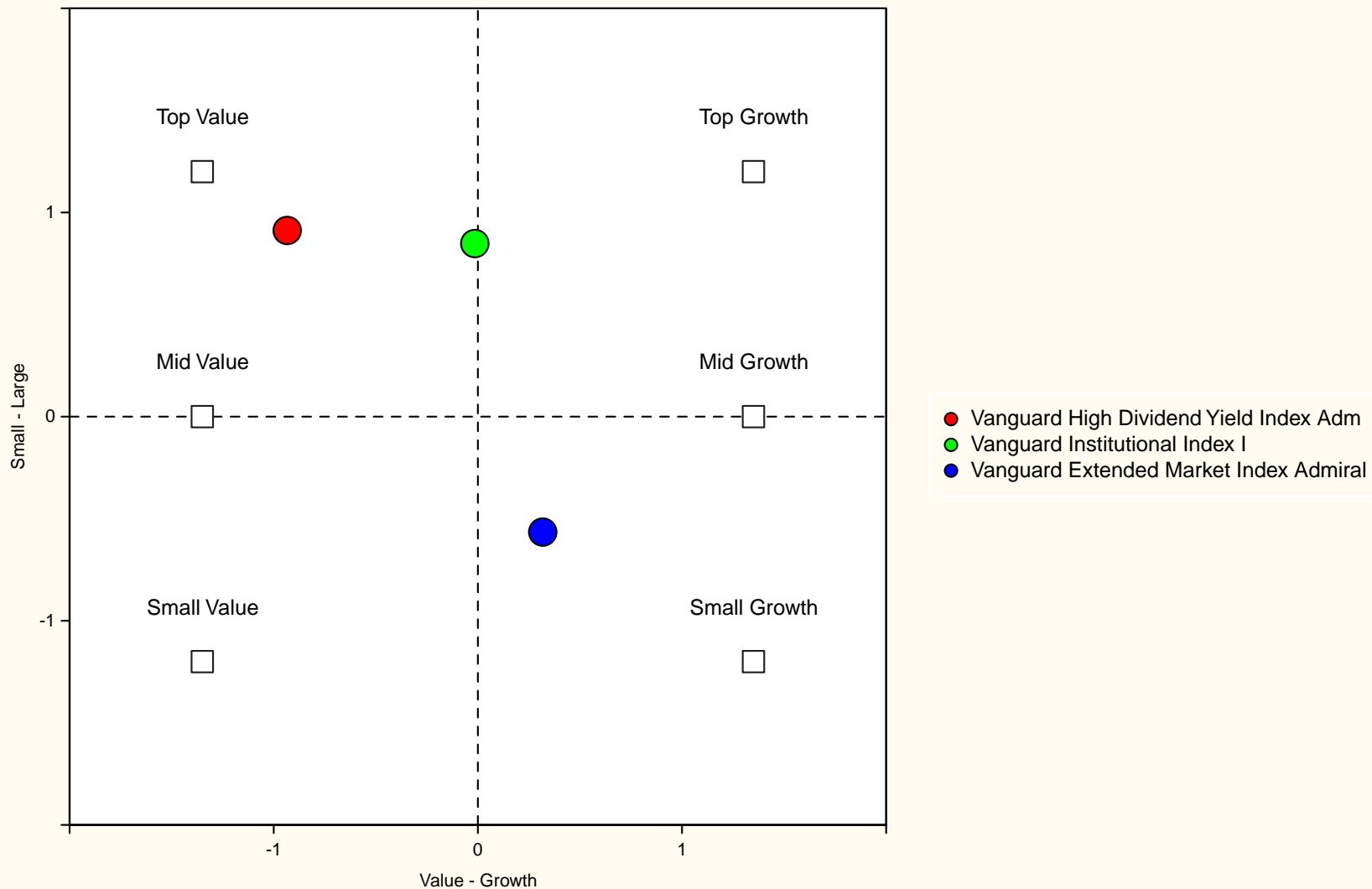


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# Manager Style Box

Equity - Single Computation  
April 2012 - March 2022

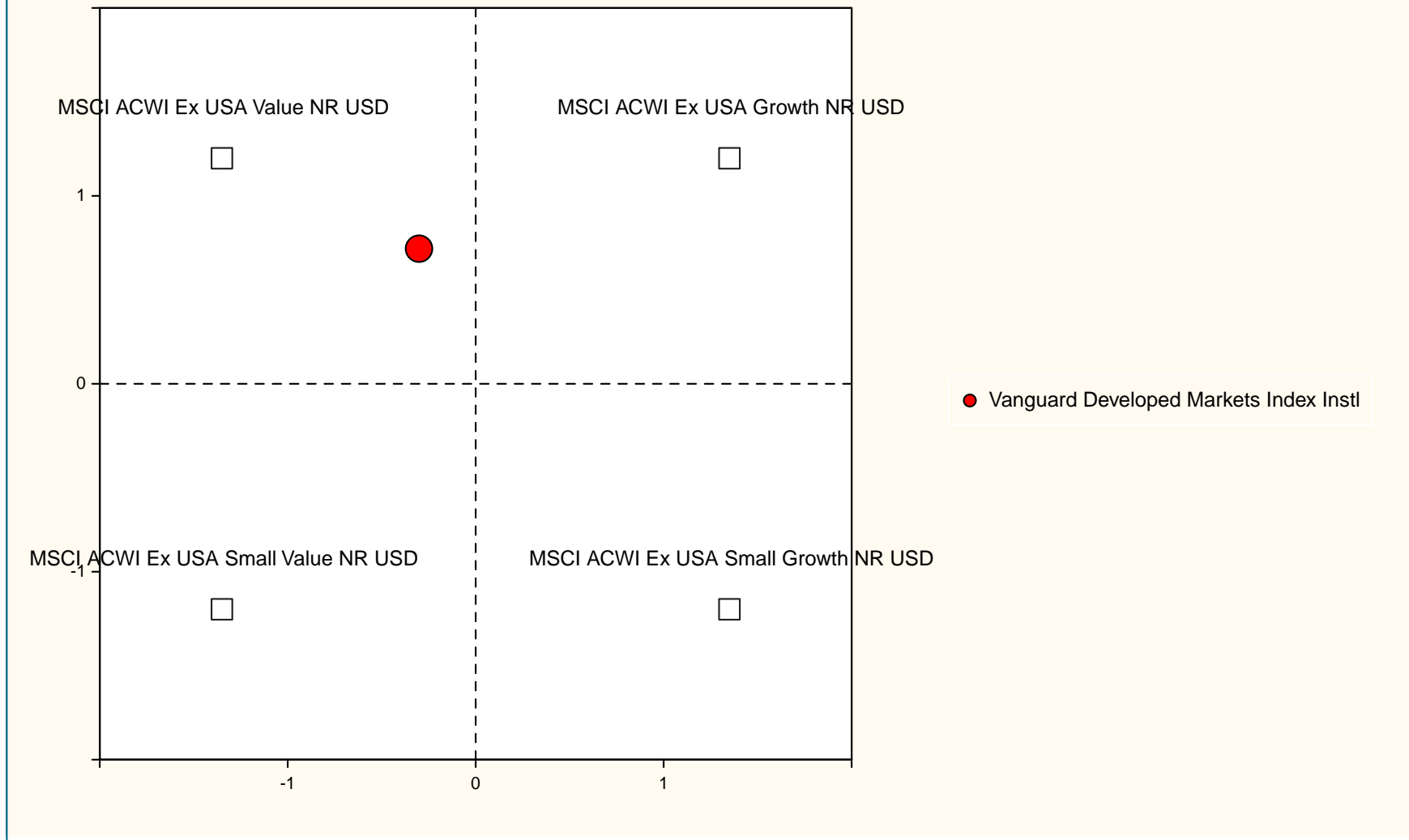


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# Manager Style Box

International Equity - Single Computation  
April 2012 - March 2022

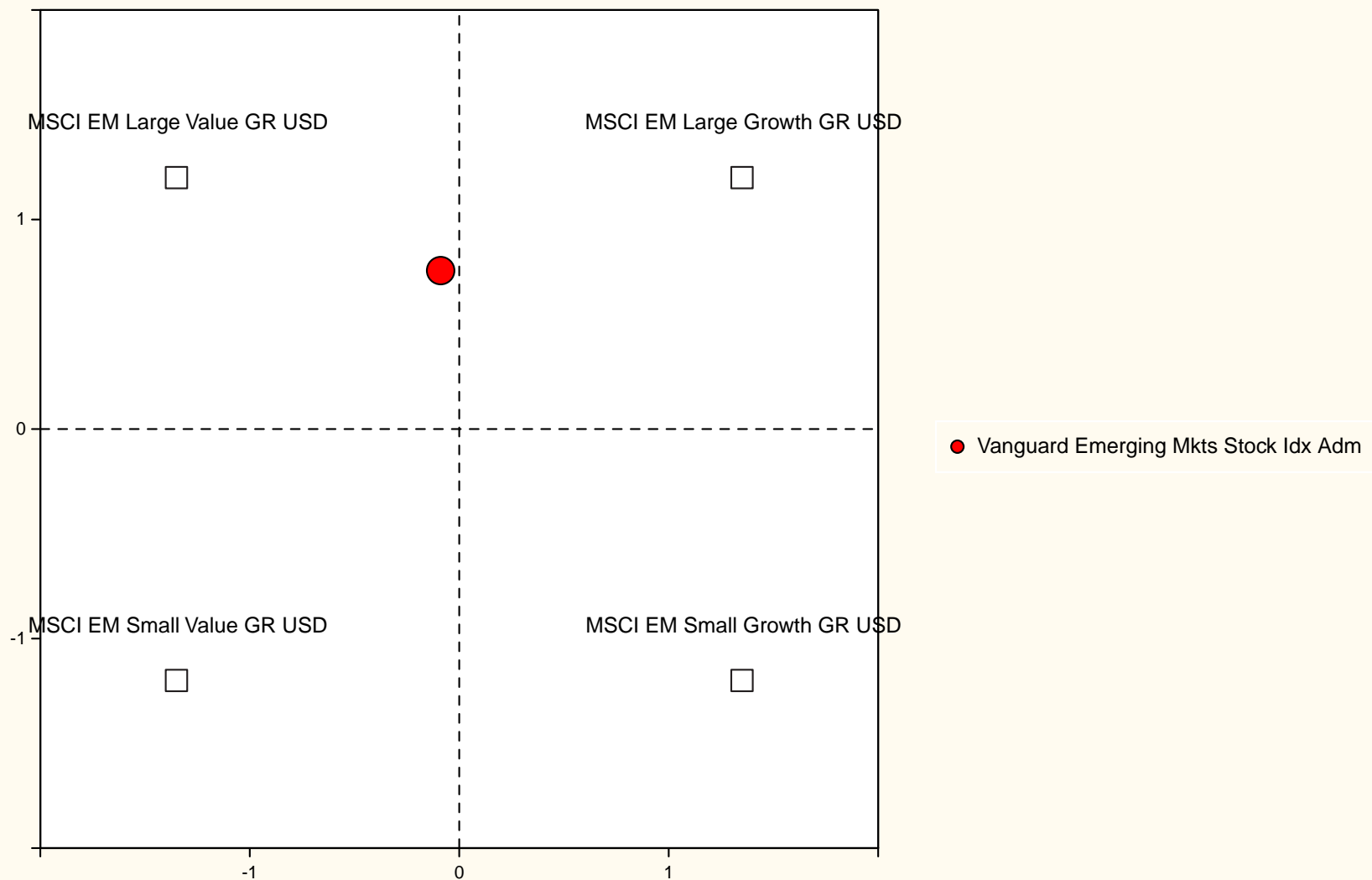


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# Manager Style Box

Emerging Market - Single Computation  
April 2012 - March 2022



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**Section V**  
**Appendix**



# ACTIVE INVESTMENT OPTIONS ANALYSIS CRITERIA

All active plan investment options are reviewed quarterly against their peer group and index benchmark to determine the performance and quality of each offering. Each are evaluated using the following criteria:

1. Trailing 1, 3, 5 and 10 year returns – Total return is a basic measure of a fund's performance. Fund returns over each period are factored into a weighted average, based on the life of a fund. Recent returns receive a slightly higher weighting, while older returns, which may have been produced under different conditions, are weighted less.
2. Rolling period returns – A rolling period return divides a longer time frame into smaller time periods. A rolling 12-month return over five years is computed by first calculating a single period return over the first twelve months. Next, it calculates the 12-month return for months 2-13. The process continues until finally reaching the 12-month period spanning months 48-60. The final rolling figure reflects the average of all of the 12-month returns.
3. Batting Average – Batting average is calculated by (1) tallying the number of months in a given observation window where the investment return is greater than the return of the peer group median return and (2) dividing this amount by the total number of months in the observation window. The result is a ratio that ranges between 0 and 1. A batting average of greater than 0.50 signifies that the investment has outperformed the peer group more frequently than it has underperformed, irrespective of the magnitude of any outperformance or underperformance.
4. Style Consistency to the appropriate index – We utilize R-squared to assess whether the funds selected for the plan continue to operate and perform as expected within their appropriate asset class. R-squared measures the closeness between a fund's returns and movements in the benchmark. All active funds have some deviation from their benchmark, but excessive deviation could indicate that a fund is drifting away from its stated category mandate.
5. Modified Sharpe Ratio – The standard Sharpe Ratio calculation is calculated by subtracting the risk-free rate of return (the US Treasury Bill is typically used) from the portfolio return and dividing the result by the portfolio's standard deviation. A higher Sharpe ratio indicates that the portfolio was able to generate a higher return per unit of risk. Modified Sharpe Ratio is a related statistic that is equal to the Sharpe Ratio under normal circumstances. However, the Modified Sharpe calculation adds an exponent to the denominator that effectively raises the denominator to the -1 power in circumstances in which an investment's excess return is negative. This modification ensures that investments with both negative excess returns and higher standard deviations rank lower than investment with negative excess returns and lower standard deviations. Under the standard Sharpe Ratio calculation, the opposite is true.
6. Alpha – The use of Alpha allows us to gauge the effectiveness of the manager. Alpha is the difference between the portfolio's actual return and its expected return given the funds level of risk as calculated by beta.
7. Up Capture Ratio – The up capture ratio calculates the percentage of return of an index that a fund has captured during up market cycles. It tracks the fund's relative performance versus the appropriate index when the index is going up.
8. Down Capture Ratio – The down capture ratio calculates the percentage of return of an index a fund has captured during down market cycles. Funds that perform well in this category tend to reduce the downside loss for investors during bear markets.
9. Expense Ratio – The expense ratio is compared to the appropriate category average expense and then given a score based upon that percentage. This rewards low-cost funds and penalizes high-cost funds. Expense ratios are effectively "double weighted" in our scoring methodology, because performance returns are already net of expenses. Since fiduciaries are encouraged to carefully manage expenses, we believe explicitly factoring in fund fees is prudent.

Each fund is benchmarked to a specific market index, and fund performance is evaluated and compared to a relevant peer group using Morningstar category classifications. A fund is given a peer group ranking for each criterion, shown as a percentage. The percentage rankings for all criteria are then averaged to give a fund its average ranking score. All funds with at least a three year track record are scored in the above manner. A fund is then classified as Top Decile, top Quartile, 2nd Quartile, 3rd Quartile or 4<sup>th</sup> Quartile based upon the overall score compared to all other funds within that particular asset category.


# PASSIVE INVESTMENT OPTIONS ANALYSIS CRITERIA

All passive investment options are reviewed quarterly against their peer group and index benchmark to determine the performance and quality of each offering. Each are evaluated using the following criteria:

1. Expense Ratio – The percentage of fund assets, net of reimbursements, used to pay for operating expenses and management fees, including 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund, except brokerage costs. Fund expenses are reflected in the fund's NAV. Sales charges are not included in the expense ratio. The Prospectus Net Expense Ratio is collected annually from a fund's prospectus.
2. Tracking Error – A measure of the difference in returns between an investment and a benchmark. Tracking error is reported as a standard deviation of the difference between the returns of an investment and its benchmark.
3. R-Squared – A statistical metric that ranges from zero to 100 and measures the percentage of portfolio's performance that is explained by the movement of its benchmark index. R-Squared is helpful in assessing the reliability of alpha and beta in explaining a portfolio risk and return characteristics. An r-squared of 100 would mean that the portfolio's performance movements are perfectly correlated with those of the benchmark over time, and would suggest that alpha and beta may be relied upon with a high degree of confidence.
4. Beta – A measure of the volatility, or systematic risk, of an investment in comparison to a market index as a whole. Beta is calculated using regression analysis. Beta represents the tendency of an investment's returns to respond to moves in the market or index that it's calculated against. A beta of 1 indicates that the investment's price moves with the market. A beta of less than 1 means that the investment is theoretically less volatile than the market. A beta of greater than 1 indicates that the investment's price is theoretically more volatile than the market. The reliability of an investment's beta is a function of the investment's r-squared value in relation to the benchmark. A high r-squared value signifies that the beta measure is reliable, while a low r-squared signifies that it is potentially inaccurate.

Each of the criteria above carries a proprietary weight. An index fund is evaluated and ranked in each of the above criteria relative to their peer group. A fund is given a peer group ranking for each criterion. The percentage rankings for all criteria are then weighted to give a fund its average ranking score.

The raw score is then normalized on a scale of 1 to 100, with 1 being the best and 100 the worst. The top 75% of the funds in a category receive a passing score, while the bottom 25% fail.

May 17, 2022  
Prepared by: R. Jacobson  
Submitted by: C. Clary  
Approved by: Paul A. Cook 

## RETIREMENT BOARD

### IRWD RETIREMENT TRUST GUIDING PRINCIPLES

#### SUMMARY:

IRWD has fully funded its pension liability through a combination of contributions to CalPERS as well as its Section 115 Pension Benefits Trust. The Trust is irrevocable, and funds can only be utilized for paying the District's retirement obligations. As of April 30, 2022, the Trust had an asset balance of \$101.6 million. Future contributions will be transferred from the Trust to CalPERS at the District's discretion.

At the meeting, Staff will provide an update to the Retirement Board on developing guiding principles for determining the appropriate transfer of assets from the Trust to CalPERS. Staff plans to return to the Committee in June with specific recommendations for transferring Trust assets.

#### BACKGROUND:

IRWD recognizes that defined benefit plans and the related future pension obligations pose significant issues for many government agencies. The District has taken a proactive approach to address the issue and in 2013 established an irrevocable trust to substantially fund its CalPERS unfunded liability. Previously, the District's only option for committing additional funds to reduce its unfunded liability was to send the funds to CalPERS for its investment management. Establishing a separate trust to "pre-fund" the CalPERS unfunded liability provided the District with an alternative that would allow for investment of assets by a separate professional fund manager selected and monitored by the District, with the trust's funds transferred to CalPERS at opportune times. The key benefits in establishing the Trust were:

- Retaining more control of District assets;
- Diversifying risk; and
- Providing alternatives to CalPERS asset management;

The Trust holds funding contributions for IRWD pending future remittance to the CalPERS pension trust fund which will be applied to retiree benefit payments associated with the plan. Future contributions will be transferred from the Trust to CalPERS at the District's discretion. In addition, Section 115 Trusts have also been used by public agencies to pre-fund and invest for their Other Post- Employment Benefits (OPEB) obligations.

Investment policy and asset allocation decisions relating to the Trust are made by a Retirement Board consisting of two members from the IRWD Board of Directors and the IRWD General Manager. In 2013, the District made an initial \$35.0 million contribution to the Trust, and since then has made additional contributions ranging from \$1.9 million to \$12.8 million. As of April 30, 2022, the value of the assets in the Trust was approximately \$101.6 million.

The following schedule shows the recent history of pension plan assets and liabilities including the Trust assets (in thousands):

<b>Fiscal Year</b>	<b>Total Pension Liability</b>	<b>Total Pension Assets</b>	<b>Total Pension Assets as a Percentage of the Total Percent Funding of Pension Liability</b>
06/30/19	\$275,457	\$284,426	103.2%
06/30/20	291,334	301,256	103.4%
06/30/21	306,889	315,287	102.7%
6/30/22	323,148	283,306	121.1%

At the meeting, staff will present a PowerPoint, a draft of which is attached as Exhibit “A”, which includes the development of guiding principles to determine the appropriate and eventual transfer of assets from the Trust to CalPERS. Utilizing these draft guiding principles, staff plans to return to the Committee in June with specific recommendations for transferring Trust assets.

**FISCAL IMPACTS:**

Unable to determine at this time.

**ENVIRONMENTAL COMPLIANCE:**

This item is not a project as defined in the California Environmental Quality Act Code of Regulations, Title 14, Chapter 3, Section 15378.


**RECOMMENDATION:**

That the Board provide input for the development of guiding principles for determining the appropriate eventual transfer of District assets from the Trust to CalPERS.

**LIST OF EXHIBITS:**

Exhibit “A” – Draft PowerPoint Presentation

Exhibit "A"



# RETIREMENT TRUST GUIDING PRINCIPLES

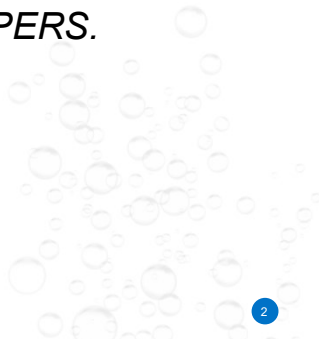

MAY 17, 2022

**DRAFT**

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## PURPOSE OF GUIDING PRINCIPLES

*To guide IRWD’s approach to determining the eventual transfer of funds from the IRWD Retirement Trust to CalPERS, ensuring that the Trust’s fund balance does not exceed the required uses to fully fund CalPERS.*



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## TRUST FUND OBJECTIVES

1. Establish an irrevocable trust, controlled by representatives from the IRWD Board and Staff, to fund, invest, and distribute assets intended to offset IRWD's CalPERS pension obligations and Other Post-Employment Benefits (OPEB).
2. To invest funds to generate a return without assuming an inappropriate level of risk.



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## BENEFITS OF TRUST FUND

- Agency Control: The IRWD Retirement Board can invest funds, within certain guidelines, that consider an acceptable level of risk.
- Professional Advising: A professional investment management team, selected and monitored by the District Retirement Board, advises IRWD.
- Investment Diversification: The Retirement Trust allows IRWD to invest in equities and other asset classes, and to diversify from the CalPERS investment portfolio.
- Trust Disbursement: Funds eventually transferred to CalPERS – timing and quantity – done at IRWD's discretion.



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## ANNUAL COMPREHENSIVE FINANCIAL REPORT

(\$ in thousands)

Fiscal Year <sup>(1)</sup>	Total Pension Liability	CalPERS Assets	Net Pension Liability/ (Asset)	Pension Benefits Trust Assets	CalPERS Assets as a Percentage of the Total Pension Liability	Pension Benefits Trust Assets as a Percentage of the Total Pension Liability	Total Pension Assets as a Percentage of the Total Pension Liability
06/30/20	\$ 291,334	\$ 222,867	\$ 68,467	\$ 78,389	76.5%	26.9%	103.4%
06/30/21	306,889	232,184	74,705	83,103	75.7%	27.0%	102.7%
06/30/22	323,148	283,306	39,842	107,930	87.7%	33.4%	121.1%

<sup>(1)</sup> As of the measurement date June 30, 2019, 2020, and 2021 respectively.



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## CALPERS PENSION BENEFIT FORMULA

Estimated Counts as of June 30, 2020:

	Classic	Tier 2	PEPRA	Total	Percentage
Active Employees	169	42	185	396	41%
Inactive Employees (1)	419	31	113	563	59%
<b>Total</b>	<b>588</b>	<b>73</b>	<b>298</b>	<b>959</b>	<b>100%</b>
Percentage	61%	8%	31%	100%	

(1) Inactive employees include retirees and employees who were working or not working at a CalPERS / reciprocal agency.



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## POSSIBLE USES FOR THE PENSION BENEFITS TRUST

- Trust Fund is limited to specific purposes
- Uses can include all costs associated with the District's CalPERS obligation including:
  - Normal costs associated with annual payroll
  - Unfunded accrued liability (UAL)
  - Additional discretionary payments to CalPERS to reduce the unfunded liability and
  - Costs related to Trust Fund management
- Requires IRWD Board action to approve transfers from the irrevocable trust to CalPERS



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## PROPOSED GUIDING PRINCIPLES

- a. Manage trust fund to avoid stranded assets
  - Maintain asset balance consistent with projected needs
- b. Pay annual normal cost / UAL through combination of trust fund and user rates; repay Replacement Fund loan from user rates
  - Avoid spikes in user rates by utilizing trust fund
  - Once UAL is fully funded, utilize the trust as a pension rate-stabilization fund
- c. Disburse funds from Trust when maximum balance is exceeded and consider adding funds when Trust is below minimum balance.



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## PROPOSED GUIDING PRINCIPLES, CONTINUED

### d. Fund Target Balance Range:

- Minimum - When CalPERS UAL is fully funded, the fund balance will serve as a pension stabilization fund for unanticipated fluctuations in UAL and/or the normal costs.
  - ✓ Minimum balance to be two years budgeted normal costs
- Maximum – Not to exceed the CalPERS UAL, 3 to 5 years annual normal costs and any additional discretionary payments

### e. Use of the Trust Fund to be reviewed periodically with the Retirement Board



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## NEXT STEPS – JUNE F&P COMMITTEE MEETING

Upon feedback of guiding principles, staff will develop and present specific recommendations for a plan to eventually transfer the Trust assets to CalPERS.



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