**MASTER TRUST OF CALIFORNIA**
**INVESTMENT OBJECTIVES AND POLICIES**
**February 14, 2017**

## I. INTRODUCTION

A. This statement is issued by the Investment Committee ("the Committee") of the Master Trust of California.

B. The purpose of this statement is to foster a clear understanding of the Master Trust of California's ("Master Trust") investment objectives, policies and guidelines among the Committee, the staff, the Master Trust's investment managers.

C. The assets governed by this statement are the financial assets which are invested for long-term total return.

D. The Committee will meet as needed to review this statement and each investment manager's adherence to it. It is the intent of this statement to be both sufficiently specific to be meaningful, and yet flexible enough to be practical and enduring.

E. The Committee may choose a corporate custodian, trustee and/or investment counsel to provide services necessary to perform its obligations as set forth in the policy statement.

## II. GENERAL INFORMATION

The Master Trust of California is a program of the Inland Counties Regional Center, Inc. a California Non-Profit Corporation committed to serving the needs of individual with special needs and their families.

The Master Trust of California is operated by Inland Counties Regional Center, Inc., a California Nonprofit Public Benefit Corporation, to offer trust administration services to persons with developmental disabilities who are clients of the California Regional Center system. All of the trusts administered by the Master Trust of California are Special Needs Trusts which allow the disabled beneficiary to hold assets in trust while retaining eligibility for public benefits such as SSI and Medi-Cal.

Each trust established with the Master Trust of California is a separate individual trust. Each trust receives its own tax identification number and the assets held in that trust can only be used for the Special Needs of the named beneficiary of that trust.

The primary purpose of the trust is to provide for the current and future supplemental needs of the beneficiary, keeping in mind these may be the only funds the beneficiary will ever receive to provide for their current and future supplemental needs. Therefore, the primary investment goal is to minimize risk of loss of principal while providing a reasonable level of current and future income, as well as provide a modest appreciation of principal over time.

## III. MANAGEMENT AND INVESTMENT OBJECTIVES

A. The primary long-term financial objective of the Master Trust is to provide a relatively predictable, stable and constant (in real terms) level of support-both through current income and capital gains-to the beneficiaries of the individual trusts. To achieve this goal, it will be necessary to preserve the real (i.e., inflation-adjusted) purchasing power of the endowment. This objective should be achieved over rolling five- to ten-year periods on a total return basis by the management of risk and a prudent diversification structure

B. The primary investment objective of the Master Trust is to earn an average annual real total return of at least 3% per year, net of management fees, over the long-term (rolling five- to ten-year periods).

## IV. PORTFOLIO COMPOSITION AND ASSET ALLOCATION

A. For the purposes of investment policy, the Master Trust assets shall be considered as two parts: an “equity fund” and a “fixed income fund.” The Committee will establish a long-term policy range or band, as well as a long-term target allocation and band for each sub-asset class.

B. The "equity fund" (including domestic stocks, foreign stocks, and "alternative" equities) is intended to provide long-term capital appreciation and a growing stream of income. It is recognized that the "equity fund" by itself will likely produce greater price variability than the "fixed income fund."

C. The "equity fund" should normally follow the long-term policy targets as set forth in this document at market value. The actual percentage of equities will vary due to market fluctuations, manager allocation discretion, and Committee action, within a band set by the Committee.

D. The purposes of the "fixed income fund" are to provide a hedge against deflation, to provide a source of current income, to help diversify the total trust and to reduce the overall volatility of the trust.

E. The "fixed income fund" should normally follow the long-term policy targets as set forth in this document at market value. The actual percentage of fixed income securities will vary due to market fluctuations, manager allocation discretion and Committee action, within a band set by the Committee.

F. The Committee may, at its discretion, change the near-term ratios of the "equity fund" and the "fixed income fund," but it is anticipated that such changes will be infrequent and within the long-term asset allocation policy ranges as set forth below.

G. Cash equivalents are maintained for operating purposes and at manager’s discretion as equity and bond substitutes.

H. As a general rule, new cash will be used in the direction of the equity/fixed income targets shown above. The Committee may at its discretion direct that new funds be allocated in a different manner.

I. The trust will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). Moreover, the equity fund will allocate to managers who have a distinct and complementary investment style (e.g., “growth” and “value”). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the investment performance of the total trust.

J. The long-term asset allocation policy targets and ranges are set forth below:

| | **Long-Term Policy Targets** | **Long-Term Policy Ranges** |
|---|---|---|
| Equity | | |
| US Domestic | 26% | 10 – 40% |
| Non-U.S.: | | |
| Intl Developed | 7% | 0 - 15% |
| Emerging Markets | 7% | 0 - 15% |
| TOTAL EQUITY | 40% | |
| Alternative Assets | 10% | 0 – 20% |
| TOTAL EQUITY & ALTS | 50% | 40 - 60% |
| | | |
| Fixed Income | | |
| US Domestic | 43% | 30 – 55% |
| International | 5% | 0 - 10% |
| Cash Equivalents | 2% | 0 - 10% |
| TOTAL FIXED INCOME & CASH | 50 | 40 – 60% |
| | | |
| OVERAL TOTAL | 100% | |

## V. GUIDELINES FOR THE "EQUITY FUND"

A. Large-capitalization domestic stock managers will be expected to outperform an appropriate large-cap stock index, such as the S&P 500 index, by one percentage point, net of fees.

B. Small-capitalization domestic stock managers will be expected to outperform an appropriate small-capitalization stock index, such as the Russell 2000 Index, by one percentage point, net of fees.

C. Non-U.S. and other equity managers will be expected to outperform corresponding generally accepted indexes by one percentage point net of fees.

D. E. Common stock performance against objectives is to be measured as needed and evaluated over rolling five-year periods. It is recognized that the objectives may be difficult to attain in every five-year period, but should be attainable over a complete market cycle.

E. Common stock managers will normally invest in common stocks. However, such managers may at their discretion hold investment reserves of either cash equivalents or bonds (including convertible issues) so long as they remain principally invested in their primary asset class. Limitations, if any, on the timing and extent of the use of equity substitutes may be specified in mutually agreed upon guidelines to be furnished to the equity manager. Under normal circumstances, however, it will be incumbent upon equity managers to notify the Master Trust of intentions to hold substantial (i.e., greater than 10%) amounts of equity substitutes. It is understood that performance (including any cash or bonds) will be measured against the indices mentioned above.

F. Common stock managers may not sell securities short, buy securities on margin, borrow money or pledge assets, or buy or sell uncovered options, commodities or currencies without the advance approval of the Committee.

G. Multi-Hedge Funds will be expected to produce net real total returns of at least 4% over rolling five-year periods with relatively low volatility and low correlations with traditional common stocks. As such, the purpose of absolute return funds-collectively-is to reduce portfolio volatility and improve overall diversification.

H. Inflation-Hedging Assets include asset classes that are collectively expected to perform better than traditional common stocks during periods of high, unanticipated inflation. Such asset classes may include asset-rich investments such as real estate, oil & gas, timber and commodities, or bonds whose value is linked to inflation (e.g., TIPS). Such asset classes will be expected to collectively produce net real returns of at least 6% over rolling 10-year periods.

## VII. GUIDELINES FOR THE "FIXED INCOME FUND"

A. The investment objective of the "fixed income fund" is to outperform the Barclays Capital Aggregate Bond Index by one-half percentage point, net of fees, over rolling five-year periods. Individual fixed income managers may be expected to outperform other indexes, or hybrid indexes, which more closely parallel the manager’s investment style. Such indexes will be determined on a case by case basis in consultation with the manager.

B. Money market instruments as well as bonds may be used in the "fixed income fund," but equities and convertible bonds are excluded. If utilized, US and global bond managers are expected to employ active management techniques.

C. The average quality of the "fixed income fund" will be "A" or higher, as determined by ratings by Moody’s or Standard & Poor’s. No more than 10% of the fund shall be rated below investment grade (BBB). Issues of state or municipal agencies may be purchased where deemed appropriate for the tax efficiency of the portfolio.

D. In general, the "fixed income fund" shall be well diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure.

E. A maximum of 5% of the fund may be invested in the securities of any single issuer, except that issues of the U.S. Government or agencies of the U.S. Government may be held in the US bond portfolio without limitation.

## VII. GUIDELINES FOR TRANSACTIONS

Except under unusual circumstances, all transactions should be entered into on the basis of best execution, which means best realized net price. Notwithstanding the above, commissions may be designated for payment of services rendered to the trust in connection with its management.

## VIII. MONITORING OF OBJECTIVES AND RESULTS

A. All objectives and policies are in effect until modified by the Committee, which will review them as needed for their continued appropriateness. The Master Trust Investment Committee will meet as needed to review the performance of the Investment Advisor.

B. If at any time any manager believes that any policy guideline inhibits his or her investment performance, it is his or her responsibility to communicate this view to the Committee.

C. The total trust will be monitored on a continual basis for consistency of investment philosophy, return relative to objectives, and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions, and performance volatility. The trust will be reviewed by the Committee as needed, but results will be evaluated over rolling five-year periods. However, the Committee will regularly review the managers to confirm that the factors underlying the performance expectations remain in place.

D. Investment managers will report the following information to the Committee at least quarterly: total return (on time-weighted basis, before fees and after fees) in the aggregate, and disaggregated for the equity and fixed income portions, net of all commissions, and purchases and sales for the quarter. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Committee promptly of any change in firm ownership or fundamental investment philosophy, any significant change in organizational structure or professional personnel, any change in portfolio manager(s) for the Master Trust’s account, or any change in the manager’s registration status with any regulatory agencies such as the S.E.C.

E. The Committee will periodically review the related services provided to the trust, including custody services, performance evaluation and consulting.

## IX. SECURITIES LENDING

It is the policy of the Master Trust to generally avoid securities lending. The Master Trust will seek to minimize the risk associated with this practice.