

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
February 5, 2014

President Martin called the meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on February 5, 2014 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

President Martin led in the Pledge of Allegiance to the flag.

Directors TED F. MARTIN, M. SCOTT GOLDMAN, WILLIAM H. KAHN, JERARD B. WERNER, and JOSE F. VERGARA were present.

Also present were ROBERT R. HILL, General Manager/Assistant Secretary, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, BOB ADAMS, HIGHMARK Representative, BAIE NETZER, HIGHMARK Representative, and SUDHIR PARDIWALA, Raftelis Representative (joined the meeting during the Closed Session only).

Oral Communications - Public Comments

President Martin stated that at this time members of the public may address the Board or they may reserve this opportunity with regards to an item on the agenda, until the Board discusses said item later in today's meeting.

There were no comments.

PLAN ADMINISTRATOR MEETING

At approximately 7:32 o'clock a.m. President Martin called the Plan Administrator meeting of the El Toro Water District's Retirement Savings Plan and Trust Agreement to order.

The minutes are attached hereto and made a part of these minutes.

Close Plan Administrator Meeting

At approximately 8:09 o'clock a.m. the Plan Administrator meeting was closed and the Board took a short recess. Also at this time, Mr. Adams and Ms. Netzer left the meeting.

Regular Session

At approximately 8:20 o'clock a.m. President Martin called the Regular Session back to order and the Board went directly into Closed Session.

Attorney Report

Closed Session

Open/Regular Session

At approximately 9:40 o'clock a.m. the Board returned to Open Session. Also at this time, Ms. Welsch returned to the meeting, while Vice President Goldman, Mr. Pardiwala, and Mr. Cafferty left the meeting.

Report on Closed Session

Mr. Granito reported that at approximately 8:20 o'clock a.m. the Board went into Closed Session as reflected on today's agenda. No reportable action was taken.

Mr. Granito reported that the Board returned to Open Session at approximately 9:40 o'clock a.m.

General Manager Action Item

Water Supply Conditions & Governor's "Emergency Drought Declaration"/MWDSC's "Water Supply Alert"

Mr. Hill stated that included in today's Board package is the Governor's declaration.

Mr. Hill stated that ETWD has an Ordinance with mandatory permanent conservation measures. He further stated that staff will update the Board at the February Board meeting and present a draft Conservation Resolution.

Director Kahn asked what the Board should be considering. Mr. Hill replied that the Board should consider enhancing outreach to customers regarding the drought situation and encouraging them on how to conserve water.

Director Vergara stated that the Governor had a meeting at MET, where he stated that the President called him and asked what he could do to help the state of California.

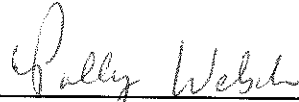
Mr. Hill stated that after further discussion, staff will return to the Board with recommended action on further outreach efforts.

Adjournment

There being no further business to come before the Board, the following motion was duly made and passed.

Motion: Director Werner moved, seconded by Director Vergara and unanimously carried across the Board that today's meeting be hereby adjourned at 10:05 o'clock a.m.

Respectfully submitted,

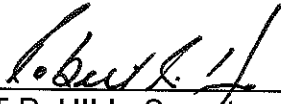


POLLY WELSCH
Recording Secretary

APPROVED:



TED F. MARTIN, President of
the El Toro Water District and the
Board of Directors thereof



ROBERT R. HILL, Secretary
of the El Toro Water District and
the Board of Directors thereof

MINUTES OF THE PLAN ADMINISTRATOR
MEETING OF THE
EL TORO WATER DISTRICT
RETIREMENT PLAN AND TRUST AGREEMENT

February 5, 2014

President Martin called the meeting of the Plan Administrator of the El Toro Water District's Retirement Plan and Trust Agreement to order at 7:32 o'clock a.m. on February 5, 2014.

The following persons as the Governing Board of the El Toro Water District serving as Plan Administrators were present: TED F. MARTIN, M. SCOTT GOLDMAN, WILLIAM H. KAHN , JERARD B. WERNER, and JOSE F. VERGARA.

Also present were ROBERT R. HILL, General Manager/Secretary, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, BOB ADAMS, HighMark representative, and BAIE NETZER, HighMark representative.

HighMark's Proposed 401(k) Alternative Investment Option

Mr. Grandy stated that Mr. Adams and Ms. Netzer are here today to review HighMark's proposed alternative investment options for ETWD's 401(k) plan.

Ms. Netzer stated that she would be discussing HighMark's Alternative Investment Solutions, Alternative Investments and their role in a Portfolio, the Investment Policy Statement, and Portfolio Scenarios with Alternatives.

Ms. Netzer discussed understanding volatility drag, portfolio diversification, cumulative returns, and strategies.

Ms. Netzer stated that higher return strategies are not used. She further stated that diversifying alternative strategies increases risk-adjusted returns, lowers risks, is reliant on manager selections, and the timing has minimal impact.

Ms. Netzer stated that there are times in the investment period where bonds will not perform well for the portfolio.

Director Kahn asked what percentage of the investments are in hedge funds. Ms. Netzer replied none, as compared to hedge funds, mutual funds offer lower minimums, simple tax reporting, lower fees, greater transparency, and better liquidity.

ACTION ITEM

Revised ETWD Investment Policy Statement for the Retirement Savings Plan

Mr. Grandy stated that staff reviewed the IPS with the Board last month and has revised the IPS to allow the investment advisor the ability to use their discretion to invest a portion from the funds in "alternative investments".

Mr. Grandy stated that in order to adopt the alternatives that HighMark is suggesting for the portfolio, we need to modify the IPS. He further stated that included in the Board package is a redline version of the proposed changes.

Mr. Adams stated that proposed changes are being made to the Background and Purpose section of the IPS. He further stated that the plan is not an ERISA plan.

Mr. Hill asked about the expectation in terms of performance for the various portfolios, based on inclusion of the alternatives. Ms. Netzer stated that the alternative portfolio is designed to complement the bond area of the portfolio.

Mr. Adams stated that on page 8 of the IPS, the original benchmark is changed, and entire secondary benchmark table is removed and replaced with a paragraph.

Director Werner asked if HighMark could highlight the differences between the benchmarks and the alternatives. Mr. Adams replied yes.

Director Vergara asked if there is a time restriction to make changes to the IPS. Mr. Grandy replied no, although these are long term investments, the Board has the discretion to amend and modify the IPS at any time.

Director Vergara agreed that it would be a good idea to track the alternatives over a three month period to see if the returns are accomplishing what is expected.

Ms. Netzer stated that Treasury Inflation Protected Securities (TIPS) are issued by the U.S. Government and the payment rises on inflation, more than nominal Treasuries do.

Mr. Adams stated that the investments that HighMark uses offer daily liquidity.

Director Kahn asked if HighMark invests in commodity futures. Ms. Netzer replied yes.

Mr. Grandy summarized that the proposed changes to the IPS are to add the alternatives to the portfolio, reconfirm that we are comfortable with allowing HighMark to invest in proprietary funds, and modifying the benchmark to allow for the alternatives, and will continue to report benchmarks in the quarterly report.

President Martin asked for a motion.

Motion: Director Werner made a motion, seconded by Director Vergara and unanimously carried across the Board to adopt the proposed revisions to the District's 401(k) Retirement Savings Plan Investment Policy Statement.

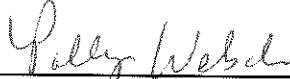
Roll Call Vote:

Director Vergara	yes
Director Kahn	yes
President Martin	yes
Vice President Goldman	yes
Director Werner	yes

ADJOURNMENT

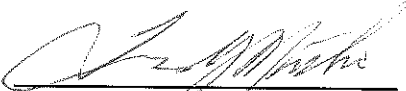
President Martin asked if there were any questions, comments or business to come before the Board (Plan Administrator). There being none, the meeting adjourned at approximately 8:09 o'clock a.m.

Respectfully submitted,

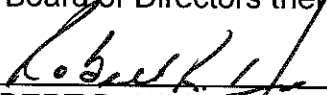


POLLY WELSCH
Recording Secretary

APPROVED:



TED F. MARTIN, President
of the El Toro Water District and
the Board of Directors thereof



ROBERT R. HILL, Secretary
of the El Toro Water District and
the Board of Directors thereof