

**COUNTY OF SAN MATEO  
DEFERRED COMPENSATION PLAN**

**INVESTMENT POLICY AND PROCEDURES STATEMENT**

**APPROVED ON SEPTEMBER 2, 2014  
BY THE DEFERRED COMPENSATION COMMITTEE**

## PURPOSES

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## INVESTMENT PHILOSOPHY

## **POLICY:**

The Deferred Compensation Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible Participants. The investment options available from the Plan will cover a broad range of investment risk and reward appropriate for this kind of retirement savings program. Participants bear the risk and rewards of investment returns that result from the investment options that they select. The investment options (funds) made available will be determined by the Deferred Compensation Committee (Committee) and may change from time to time.

**Risk Tolerance:** Participants should seek levels of risk exposure that are in line with their investment objectives and their individual tolerance for risk.

The mix of investment options appropriate for a Participant depends on the combination of a number of factors, including, among others, age, current income, length of time to retirement, tolerance for investment risk, income replacement objectives, and a Participant's other assets. To permit Participants to establish different investment strategies, the Plan may offer a variety of investment categories, all of which have varying return and volatility characteristics. It is the responsibility of each Participant to evaluate the investment options and to select an appropriate mix. A Participant should consider, among others, the following risks:

**Volatility:** The risk of significant decreases in account value (including the loss of principal) over relatively short periods of time.

**Accumulation:** The risk of not accumulating sufficient assets to retire.

**Understanding:** The risk of investing for the wrong reasons.

**Diversification:** The risk of concentrating investments and suffering large losses from a single investment category or similar categories that do not perform well.

A risk/reward structure is basic to investments. Generally, investment vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long range accumulation can be lessened through diversification among asset classes. To provide Participants the opportunity to select risk/reward strategies and to diversify the Deferred Compensation assets, the Plan will offer a number of investment alternatives.

## **INVESTMENT PHILOSOPHY (CONTINUED)**

Participants can control their exposure to accumulation and volatility risks by allocating investments among these options. For example, a Participant nearing retirement with high sensitivity to volatility risk might invest more heavily in the Stable Value Fund or General Account (subject to the claims paying ability of the provider) or FDIC insured Certificate of Deposit than a Participant who has many years until retirement. Many other investment options exist. This number and these types were selected because they: (1) each offer a distinct utility to the Participants; (2) provide a spectrum of volatility and accumulation choices; and (3) can be administered, communicated and understood within practical constraints of the Plan's resources.

The Committee will provide Plan Participants with an array of suitable fund selections with an objective of reducing fund fees, expenses, and administration fees normally associated with these investments.

Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the Plan generally in conformance with ERISA 404(c). However, the Plan participants will be solely responsible for the investment decisions and investment transactions that they make under the Plan.

## DESCRIPTION OF INVESTMENT OPTION CATEGORIES

Asset allocation, quality, and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of a fund.

A **Money Market Option** invests in cash equivalent securities with maturities of less than one year. The average quality of the portfolio must be A1, P1, or AAA. The objective of the fund is to protect underlying principal value and produce a reasonable level of current income. While the volatility risk of this option is the lowest, accumulation risk is the highest. A money market fund may not be necessary if the stable value options do not have restrictions on interfund transfers from the stable value fund to other funds in the portfolio.

A **Stable Value, General Account or Fixed Account Option** invests in book value investments which may include General Account annuity products, Separate Account products, Guaranteed Accumulation Accounts (GAAs), Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), "Synthetic" GIC arrangements and money market instruments, and may invest in intermediate term fixed income securities. Investments may either be made directly or through pooled arrangements. The objective of the fund is to provide higher income than a money market fund while still providing no fluctuation in principal value. The overall credit quality of the fixed interest / stable value option must have a rating of Excellent or higher.

A **Bond Option** invests in cash equivalents and marketable fixed income securities. The portfolio may have an average duration that is short, intermediate or long term. The average portfolio quality shall be AA or better as rated by Standard & Poor's or may have an a comparable rating or better by other rating companies, such as Moody's or Fitch's. Sector and issue concentration guidelines will be dictated by the stated policies of the manager of the fund(s) and may include non-U.S. issuers. The investment objective is to provide longer term preservation of capital while earning a high level of current income. However, principal values may fluctuate over time, primarily in response to changes in interest rates and /or other economic conditions that may affect the capital markets.

A **Large Capitalization\* (Large Cap) Option** invests in those companies that comprise the top 70% of the overall stock market capitalization. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Stocks in this asset class may provide additional investment growth through the reinvestment of dividends.

## DESCRIPTION OF INVESTMENT OPTION CATEGORIES (CONTINUED)

A **Medium Capitalization\* (Mid Cap) Option** invests in companies that comprise the next 20% of the overall stock market. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Mid-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

A **Small Capitalization\* (Small Cap) Option** invests in companies that comprise the remaining 10% of the overall stock market capitalization. This asset class may contain **value** funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain **growth** funds that invest in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are **blended** to include both value and growth stocks. Small-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

An **International Equity Option** invests primarily in common stock of non-U.S. issuers. This fund can be expected to be subject to risk factors not prevalent in domestic markets, including currency risk.

A **Global Equity Option** (aka World Equity Option) invests in common stocks of non-U.S. issuers as well as domestic common stocks as deemed appropriate by the fund managers. These funds are appropriate for a portion of a Participant's account for which additional risk is acceptable in exchange for diversification from options tied to domestic markets. Currency fluctuation will contribute to increased return volatility.

An **Index Fund Option** invests identically or nearly identically to the market index whose return it seeks to duplicate. The objective of an index fund is to provide market diversification and a market average rate of return reflective of the market segment represented by a given index, e.g., the Standard & Poor's 500.

## DESCRIPTION OF INVESTMENT OPTION CATEGORIES (CONTINUED)

**Asset Allocation Funds (Model Portfolios)** offer an allocation of investments, principally stocks, bonds, and cash or cash equivalents, which are appropriate for a given stage or age of an individual's investment lifecycle. An aggressive asset allocation fund or an age targeted fund with a longer timeframe will have greater weighting in stocks than a moderate or conservative asset allocation fund or age targeted fund with a shorter timeframe. A conservative asset allocation fund will be more heavily weighted toward current income and protection of capital. The objective of an asset allocation fund is to provide a composite rate of return from current income and capital appreciation which is appropriate for a given stage of an individual's investment life cycle. The investment objective is to provide a diversified investment return of current income and capital appreciation.

**Socially Responsible Investing ("SRI")**\* is a mutual fund that has SRI as a stated prospectus objective and which attempts to invest in companies with sustainable business models without compromising investor returns. SRI funds combine thorough financial analysis with environmental, social and corporate governance ("ESG") screening. Although screening criteria varies across the SRI fund universe, these funds will generally avoid companies that are significantly involved in the manufacture of weapons or weapons-related products, manufacture of tobacco products, are involved in gambling as a main line of business, or engage in unethical business practices. In addition to these traditional SRI screens, these funds may look for companies that have positive impacts on the environment, fair workplace practices, robust corporate governance, high product integrity and positive community involvement.

\*The Committee may decide to provide one or more Socially-Responsible Investment (SRI) options in the list of core options, for Participants that are interested in this style of investment choice. SRIs may be categorized in various asset classes. The SRI must remain competitive to its specific asset class and will be subject to investment analysis and potential replacement in the ongoing fund review process. Additionally, the SRI fund must also adhere to its socially responsible criteria. Departures from the criteria must be documented with the Committee and may result in deletion.

**Specialty Funds** are mutual funds that specialize in specific investment instruments or sectors.

**Self-Directed Brokerage Account (SDBA)** will offer a wide array of stocks, bonds and mutual funds that can be accessed by individual Participants. Participants electing the SDBA will be required to acknowledge that they are sufficiently sophisticated and knowledgeable about investment matters that they are capable of making, managing, controlling their own investment choices. Funds in the SDBA are not subject to the Committee's due diligence of the core fund offerings.

\*Market capitalization is determined by multiplying the total number of outstanding shares of stock by the market price of the stock. Market capitalization changes with the changes in the price of the stock and increasing or decreasing the

outstanding number of shares. Morningstar® will be used to determine actual capitalization levels. To maintain consistency the 70%, 20%, 10% is used to determine equity asset classes.

## INVESTMENT OPTION CHARACTERISTICS

	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	International Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
Investment Objective	Stable principal and income growth	Moderate level of current income with stable principal value. The fixed option may include an FDIC insured Certificate of Deposit	Higher level of current income and increasing principal appreciation values over the long-term	Moderate capital growth and often distribute current dividend income	Long-term growth of capital, less emphasis on current dividend income	Maximum capital gains, little or no emphasis on current dividend income	Long-term growth of capital, little or no emphasis on current dividend income	Long-term growth of capital, little or no emphasis on current dividend income	Closely replicates the performance of a specific market index with consideration for expense and tracking errors	Preselected diversified portfolios, managed as a single fund; funds may be risk based or estimated retirement date/age based	Moderate capital growth; may also provide for higher levels of current income	Moderate to maximum capital growth or higher levels of current income
Invests Primarily In...	Highest quality money market instruments	General and Separate Account Annuities, GICs, BICs, Money Market instruments, intermediate-term bonds	Gov't, agency, investment grade corporate bonds	Common stocks of high quality, relatively mature companies with that often distribute dividends	Common stocks with prospects for growth superior to that of the broad market	Common stocks which may be of smaller, higher risk businesses	Common stocks of non-U.S. issuers with prospects for growth	Common stocks of primarily non-U.S. issuers with prospects for growth	Domestic stocks or international stocks or bonds, depending on the designated index	Combinations of international stocks, domestic stocks, bonds, AND stable value, at varying proportions	Domestic stocks and/or international stocks and bonds. Investments must meet generally accepted socially responsible criteria	Domestic stocks and/or international stocks and/or bonds



	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	International Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
Primary Source of Return	Short-term interest income	Intermediate-term interest income	Long term interest rate income and capital changes	Capital growth and reinvested dividends	Capital growth and long-term growth of dividends	Capital growth	Capital growth	Capital growth	Capital growth and/or income, depending on the designated index	Growth and interest income	Capital growth and may have long term interest income	Capital growth and/or may have intermediate or long term interest income
Volatility Risk Potential	Lowest	Very low	Low to Moderate	Moderate volatility, similar to the Russell 1000 index	Potential high short-term volatility	Higher short-term volatility; periods of several years may elapse before showing superior performance	Highest short-term volatility; subject to risk factors not prevalent in the domestic markets, such as currency fluctuations	Highest short-term volatility; subject to risk factors not prevalent in the domestic markets, such as currency fluctuations	From high to moderate short term volatility, depending on the designated index	Low to moderate, depending on the allocation selected	Moderate to average volatility	Moderate to high volatility
Minimum Participant Investment Time Horizon†	Less than one year	1 to 3 years	1 to 3 years	4 to 5 Years	5 years	5 to 10 years	5 to 10 years	5 to 10 years	3 to 5 years	1 to 40 years, depending on the allocation selected	1 to 7 years	1 to 10 years
Ten Year Accumulation Risk Potential‡	Highest	Moderate to high	Moderate	Low	Low	Low	Low	Low	Moderate to low, depending on the designated index.	Moderate to low.	Moderate to low	Moderate to low

## INVESTMENT OPTION CHARACTERISTICS (CONTINUED)

	Money Market Option	Stable Value / Fixed Option	Bond Option	Large Cap Option	Mid Cap Option	Small Cap Option	International Equity Option	Global Equity Option	Index Funds	Asset Allocation Funds	Socially Responsible Investment (SRI)	Specialty Fund
<b>Participant Perception‡</b>	Safe	Safe. Transfer restrictions need to be carefully communicated	The interest rate volatility concept may be hard to understand as is understanding the different types and quality of the investments in the bond fund portfolio.	Concept may be difficult to understand due to the variety available , e.g. concentrated funds with a limited number of holdings versus funds with a large number of holdings. Also, differences between value & growth & capitalization variations can be difficult to comprehend	Concept may be difficult to understand due to the variety available -additional risk of investing in midcap stocks needs to be understood and differences between value & growth & capital variations can be difficult to comprehend	Concept easy. Participants need to understand risks of investing in small and in some instances micro stocks and differences between value & growth & capital variations can be difficult to comprehend	Concept may be mis-understood.; risk factors need to be communicated carefully	Concept may be mis-understood; risk factors need to be communicated carefully	Premise of index funds duplicating performance of a specific market segment – must be communicated	Simple way to invest in a broadly diversified portfolio	Need to understand that two factors, financial and socially responsible, determine the underlying investments	Need to understand the risks are greater due to limited investment diversification

‡ The above information is not meant as investment advice and is for informational purposes only.

The following information is provided for information only. The Deferred Compensation Committee does not provide any type of oversight for Self-Directed Brokerage Accounts. The responsibility for selecting, monitoring and deleting investments in the Self Directed Brokerage Account is the responsibility only of the participant. Participants will be required to acknowledge their voluntary decision to utilize the Self-Directed Brokerage Account and release the County of San Mateo, the Committee and the provider from any fiduciary (or other) liability and responsibility for any losses incurred or other adverse consequences experienced in connection with their SDBA investment decisions.

**Self Directed Brokerage Account**

<b>Investment Objective</b>	<b>DETERMINED BY PARTICIPANT</b>
<b>Invests Primarily In...</b>	Domestic stocks and/or international stocks and/or bonds and / or alternative investments that are either purchased individually or as a mutual fund
<b>Primary Source of Return</b>	Capital growth and/or may have short intermediate or long term interest income
<b>Volatility Risk Potential</b>	<b>DETERMINED BY PARTICIPANT</b>
<b>Minimum Participant Investment Time Horizon</b>	Determined by the individual Participant
<b>Ten Year Accumulation Risk Potential</b>	Low to high depending on the investment
<b>Participant Perception</b>	Needs to understand that <i>only</i> the Participant is responsible for the researching, selecting, managing, controlling and evaluating the investments and the associated risks

## INVESTMENT FUND EVALUATIONS

### POLICY:

The Committee retains the authority to periodically, but no less than annually, evaluate and deselect investment funds. Conditions may arise that create a need for an evaluation on a more frequent basis. It is the responsibility of the Consultant and/or the Provider to bring the reason for the evaluation with accompanying analysis and recommendation to the Committee. During each scheduled review, other factors considered will include:

- A. Change of investment manager
- B. Change of sub-advisor
- C. Significant change in ownership or control
- D. Significant change in fund management style or drift over a prolonged period
- E. Substantive change in portfolio turnover that significantly exceeds the fund's history
- F. Any violation of SEC rules or regulations
- G. Operational difficulties concerning fund transfers or pricing
- H. Excessive costs or trading practices
- I. Negligible use by Participants

### PROCEDURE:

The Committee will conduct quarterly reviews to assess the continuing compliance of all of the Plan's investment funds. The Committee may perform more frequent monitoring as necessary.

The quarterly review will be used to determine the following:

- Whether performance remains within the standards established by the Policy.
- Whether the investment fund manager's investment category has remained consistent.
- What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
- Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

For supported asset classes, an investment manager “score card” will be maintained and documented (see addendum) to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting overall performance.

Asset Allocation funds (risk-based) will be scored and monitored using the previously described guidelines. Unlike other funds which are monitored and scored individually, these funds should be evaluated as a group. Due to the unique importance of these professionally managed and diversified vehicles for participants in the plan, funds failing to achieve criteria standards will be carefully reviewed before removal from the plan (in the absence of a reasonable alternative).

Target-Date (age-based) funds will have strategies that allow the funds to grow more conservatively over time until a certain retirement date or life expectancy date. This roll down process is commonly referred to as a “glide path”. The glide path associated with a set of target-date funds should be reviewed to make sure it is appropriate, and continues to be appropriate, for the Plan and Plan’s participants.

Investments where no score is applied due to specialty focus, short time history or other unique circumstances should be reviewed using a qualitative framework.

The foregoing investment monitoring criteria shall not, under any circumstances, be taken a definitive, conclusive, or controlling for removal, termination, or continuation of an investment option. All determinations should be made by the Committee, in its sole discretion, taking into consideration all relevant facts and circumstances.

## **WATCH LIST**

### **POLICY:**

If an investment fund fails to meet the minimum standards of investment performance outlined in this document, the Investment Subcommittee may take the following steps.

#### **Step 1. PROCEDURE for MAINTAINING or ELIMINATING FUNDS on the WATCH LIST**

If a fund fails to meet the criteria standards, as determined by its score, it may be placed on a Watch List. In the event a fund receives a score which is below that of Watch List status, or experiences extraordinary circumstances which may render it

inappropriate to maintain, it may be considered for removal at the earliest administratively reasonable date. If this fund continues to remain on the Watch List for the following three (3) quarters, or four (4) of the following seven (7) quarters, the fund should be considered for possible removal.

If the fund meets criteria standards for four (4) consecutive quarters, it may be removed from the Watch List.

On a quarterly basis each fund on the Watch List will be reviewed and monitored to determine if further action is necessary at that time.

Investment funds that do not satisfy the retention criteria at the end of that Watch List period will be considered for replacement—see Step 2. If after one year on the Watch List the fund’s performance does not warrant removal from the Watch List, and the Deferred Compensation Advisory Committee determines that the fund should not be deselected at that time, the fund will remain on the Watch List and the rationale for retaining this fund will be documented.

## Step 2. PROCEDURE for REPLACING FUNDS

A fund search may be initiated and a replacement fund selected. An alternative to identifying and selecting a new replacement fund may be to transfer the assets of the deleted fund into an existing fund in the portfolio that has similar investment characteristics.

Regarding the Plan assets already deposited with the deleted fund, each Participant will be notified of the deletion of the fund and the selection of a replacement fund. Each participant will have a transition period of a length set by the Deferred Compensation Advisory Committee, but not less than 60 days in which he or she may transfer their assets to the replacement fund or a fund option of the Participant’s choice. During the 60 (sixty) day transition period, reminders may be sent to Participants monthly prior to eliminating the fund.

In the event a Participant does not voluntarily select a replacement fund(s) by the end of the 60 (sixty) day transition period, the Deferred Compensation Advisory Committee will direct the provider to transfer the current balance of the deleted fund to the most appropriate existing and/or replacement fund within the asset class/ category. In the event the provider does not offer or cannot obtain another investment in the same asset class/category, the deleted fund will be transferred to the stable value fund of that provider.

## **INVESTMENT FUND SELECTION – STABLE VALUE FUND**

There are several different types of stable value funds, including separate and general account annuity products, GIC funds and FDIC products. Also, there is not, for most of these products, a standardized data base with performance and other pertinent information that would enable a search process to be conducted. There is also a need to enter into negotiations with the provider regarding investment strategy and style in situations where that is in the discretion of the Plan sponsor. For these reasons, the selection of one or more stable value fund products will be conducted through a written request for proposal process directed by the Committee.

## **INVESTMENT FUND SELECTION - MUTUAL FUNDS**

### **I. Alignment of Mutual Funds**

- A. Mutual funds offered by the Deferred Compensation Plan will be by groupings of like investment objectives and risk characteristics (volatility of returns).
- B. Contracted mutual fund companies will be used to determine the groupings of mutual funds including index funds, if appropriate, by investment option characteristics. These investment option characteristics are subject to annual verification by the Deferred Compensation Advisory Committee.
- C. The following is a target portfolio that includes the asset classes and asset categories ~~and numerical range~~ of available funds that may comprise the portfolio for the County of San Mateo Deferred Compensation Plan. Consideration must be given for temporary style drift.
- D. At the time of selection, the fund category established by the contracted fund providers for the previous six quarters, will determine the category placement of a fund under the Plan. In the event that a fund has not had consistency of placement within a category over the six quarters prior to selection, it shall be placed in the category most recently determined by contracted fund providers. It is recognized that the placement of a fund within its category may be a consideration in its selection. For example, if a fund has consistently, over a period of time, moved toward the outside ranges of its category, it may not be an appropriate candidate for selection since it may have a high probability of changing categories.

## INVESTMENT FUND SELECTION - MUTUAL FUNDS (CONTINUED)

	Number of Funds		
<b>Money Market Fund</b>	0 to 1 Fund*		
<b>Stable Value/Fixed Account Fund</b>	1 Fund		
<b>Bond Fund</b>	1 to 2 Funds		
<b>Global Equity Fund</b>	1 to 2 Funds		
<b>International Equity Fund</b>	1 to 2 Funds		
<b>Index Fund</b>	1 to 5 Funds		
<b>Asset Allocation Fund**</b>	6 to 8 Funds		
<b>Equity Capitalization/Style</b>	<b>Value</b>	<b>Blend</b>	<b>Growth</b>
<b>Large Capitalization</b>	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
<b>Mid-Capitalization</b>	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
<b>Small Capitalization</b>	1 to 2 Funds	1 to 2 Funds	1 to 2 Funds
<b>Socially Responsible Investment Fund</b>	1 to 2 Funds***		
<b>Self Directed Brokerage Account</b>	Limited to 50% of Account to specified retail fund list, individual stocks and bonds		

\*Money market funds may not be necessary if the stable value/general account is liquid and without monetary encumbrances to the Participant.

\*\*Asset Allocation category may include balanced funds, risk based lifestyle funds or time/age based life-cycle funds.

\*\*\*The Committee may decide to provide one or more Socially-Responsible Investment (SRI) options in the list of core options, for Participants that are interested in this style of investment choice. SRIs may be categorized in various asset classes. The SRI must remain competitive to its specific asset class and will be subject to investment analysis and potential replacement in the ongoing fund review process. Additionally, the SRI fund must also adhere to its socially responsible criteria. Departures from the criteria must be documented with the Deferred Compensation Advisory Committee and may result in deletion.



# INVESTMENT FUND SELECTION - MUTUAL FUNDS (CONTINUED)

## II. Minimum Criteria for Selection

To be considered for inclusion in the Plan, a fund should first meet the size and history criteria above. Next it must satisfy the Minimum Operational Criteria below:

### A. Minimum Size and History Criteria

1. Size: To be considered, a fund should be at least \$100 million. Total assets in all share classes can be considered if under the same management team. The intent is to restrict selection of mutual funds to the size appropriate for the potential cash flow to be generated by the Plan. If, however, this restriction reduces the potential pool of funds inappropriately, this criterion may be reduced to broaden selection. Any criteria reduction proposed by the consultant/provider is reviewed by the Committee. The Committee shall approve, change or modify the consultant's recommendation. The change will be documented in the recommendation report to the Committee.
2. Period of time in operation: A mutual fund (or a clone fund under the same management) should have been in operation for a period of 5 years prior to selection.

### B. Minimum Operational Criteria

1. It must guarantee transactions at the prior day's price.
2. Front end loads and fund surrender charges must be waived.
3. It must be compatible with the Plan's administrative and record keeping accounting and system practices.
4. The County will have the ability to request mutual funds to pay the County a fee for performing administrative services.

## III. Selection of Funds

The selection process is used to add a new fund or to delete a current fund. The recommendation to add or delete a fund will be documented in writing for the Committee's consideration. The written report, which is typically prepared by the Committee's consultant, will contain the reasons for the recommendation to add or delete a fund and the factors considered to support the recommendation using the following process:

## INVESTMENT FUND SELECTION - MUTUAL FUNDS (CONTINUED)

### A. Screening Funds

1. The initial screening of a new fund will produce a listing of funds that have outperformed the average of their respective peer group according to their score card. For all funds, including a new fund or deleting an existing fund in the Plan may also occur for the following reasons:
  - a) The fund is closed.
  - b) The fund has a policy of not being available for deferred compensation plans.
  - c) The fund has loads that it is not willing to waive.
  - d) The fund has an expense ratio that is uncompetitive in relationship to similarly managed funds.
  - e) The risks taken are too high for the achieved performance as determined through a Sharpe Ratio analysis.
2. If the criterion stated above in Step 1 above is too restrictive, the Committee may modify one or more of the criteria in the initial screening process and, as a result, may include in the evaluation/selection funds that do not meet all of the criteria stated. The reason(s) supporting the exception and the methodology used to develop the initial list for consideration must be documented and included in the minutes of the Committee meeting.
3. The initial list of funds produced in Steps 1 and 2 above shall be compared to the fund(s) relative peer group and within the peer group shall be ranked according to the fund's annualized performance over the most recent five-year investment period. The numeric ranking will be identified. The relative peer groups may include:
  - a) Small Capitalization (value, blend and growth styles may be considered)
  - b) Mid Capitalization (value, blend and growth styles may be considered)
  - b) Large Capitalization (value, blend and growth styles may be considered)
  - c) Bond (may include domestic and foreign investments)
  - d) International Equity (may include large, mid and small cap investments)
  - e) Global Equity (may include large, mid and small cap investments)
  - f) Money Market Funds
  - g) Stable Value, General Account or Fixed Account Option
  - h) Index Funds
  - i) Asset Allocation Funds/Target Date Funds

- j) Specialty Funds
- k) Socially Responsible Funds

Note: Self-Directed Brokerage Accounts (SDBA) are not monitored by the Committee. Participants who invest in SDBAs are responsible for the selection, management and control of these investments.

## **B. Fund Review**

1. Once the peer group ranking list is determined in Screening of Funds, each fund will be reviewed for the following:
  - a) Annual performance over each of the immediately preceding five calendar years will be evaluated. Consistent performance return in each year of the five year period will be preferred. Consistent performance includes moderate Standard Deviation, (as determined by a comparison with the average standard deviation for that investment style), portfolio manager tenure, outperforming the appropriate benchmark for the three- and five-year periods and a consistent Risk and Return profile as determined by Morningstar.
  - b) The fund's investment category placement over the last three years will be reviewed and funds that remain in the same category will be preferred.
  - c) Issues to be addressed in determining fund selection shall include:
    - i. Number of funds managed per manager
    - ii. Portfolio manager tenure
    - iii. Equity investment style , including average market capitalization, portfolio turnover, number of holdings, consistency of style, sector weighting, risk, information ratio where appropriate, and security selection
    - iv. Fixed income investment style, including duration management, sector selection, credit quality and security selection style. This question should include review of investment process, ability to articulate process as well as consistency of style or process.
    - v. Fees and expenses
    - vi. Confirm Minimum Operational Criteria compliance

- vii. Disclosure that, based on the knowledge of the provider, the fund family has not participated in unethical trading practices

Funds that exhibit consistent performance and satisfy the Minimum Operational Criteria will be preferred.

- 2. Based on the information collected during the evaluation of the funds, each fund being considered for addition or deletion to the Plan will be reviewed and may be eliminated based on:
  - a) Inconsistent performance history
  - b) Excessive movement within investment category
  - c) Qualitative factors such as excessive account turnover or an inappropriate investment style
  - d) Inability to satisfy the Minimum Operational Criteria
  - e) Fund's assets are so large that the portfolio manager lacks flexibility to buy and sell securities in an efficient and timely manner.

### **C. Final Selection**

The Committee will review the written recommendation and review the reports submitted documenting the review process for each fund being considered for inclusion in the Plan and/or deletion from the Plan. The Committee approves all new funds added to the Plan and all funds to be deleted from the Plan.

## **LOANS**

### **POLICY:**

Subject to Internal Revenue Service and United States Treasury rulings and regulations, the plan may give Plan Participants the ability to obtain loans from their Deferred Compensation account. Loans would be administered directly by the Plan Provider. Participants must be active employees and eligible for contributions to the Deferred Compensation Plan. Non repayment of the loan will be subject to current applicable Federal and State taxes and penalties that apply. The Committee reserves the right to limit the amount loaned and the number of loans available to an eligible Participant.

## **BLACKOUT PERIOD**

### **POLICY:**

The Plan will give Plan Participants a minimum of 30-day advance notice of “blackout periods” affecting their rights to direct investments, take loans (if available) or obtain distributions. Blackout periods may occur when plans change record-keepers, record-keeping systems or investment options. Individual Participants will receive a blackout notice that contains, among other things:

- The reasons for the blackout period;
- A description of the rights that will be suspended during the blackout period;
- The start and end dates of the blackout period; and
- A statement advising Participants to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

## **DISCLOSURE OF FEES, COMMISSIONS AND CHARGES**

### **POLICY:**

All fees, commissions and charges for each selected investment option must be fully disclosed to the Committee before the option can be made available to Plan Participants. That is, in its review of a fund’s performance history, the Committee must be shown the fund’s gross performance less all applicable fees, commissions and charges, and the resulting net return.

In addition, these fees, commissions and charges will be disclosed to all Participants at enrollment and at any other time as appropriate. It will be disclosed to Participants the nature of all variances between gross return and net return.

## **INVESTMENT COMMUNICATIONS TO PARTICIPANTS**

### **POLICY:**

Information about each investment option will be given or made available to Participants to help them to make informed investment choices. The Plan shall provide at least quarterly statements of fund performance to each Participant.

Upon request, copies of investment fund prospectuses or similar equivalent information, list of underlying investments for a given fund, and other information that the Committee has available will be provided to Participants electronically, in hard copy or through a web link.

## **INVESTMENT EDUCATION**

### **POLICY:**

It is the Committee's objective to provide employees with ongoing investment education. The purpose of the investment education program is to provide information and tools to assist in the development of a personal investment strategy for employees and facilitate the achievement of savings and retirement goals.

## REVIEW

### POLICY:

The Committee will review this document annually. If, at any time, a Provider or Consultant feels that these policy standards cannot be met, or that the guidelines contained herein constrict the appropriate management of the investment funds, the Provider or Consultant must submit the specific recommendation and reasons for such a recommendation in writing to the Committee. The Committee will review the policy recommendation and determine whether to support or not to support the Provider's or Consultant's policy recommendations.

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Human Resources Director, Chair, Deferred Compensation Committee

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Date

**ADDENDUM TO INVESTMENT FUND EVALUATIONS**

## Scorecard System Methodology™

The **Scorecard** System methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The **Scorecard** System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best) and has the ability to measure Active, Passive and Asset Allocation investing strategies. Active and Asset Allocation strategies are evaluated over a five year time period, and Passive strategies are evaluated over a three year time period.

Eighty percent of the fund’s score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20% of the score is qualitative, taking into account things such as manager tenure, the fund’s expense ratio relative to the average fund expense ratio in that asset class category, and the fund’s strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund’s stated investment strategy. The following pages detail the specific factors for each type of investing strategies.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a plan as an investment option. General fund guidelines are shown in the “Scorecard Point System” table below. The Scorecard Point System is meant to be used in conjunction with our sample Investment Policy Statement, in order to help identify what strategies need to be discussed as a “watch-list” or removal candidate; what strategies continue to meet some minimum standards and continue to be appropriate; and/or identify new top-ranked strategies for inclusion into a plan.

## Scorecard System Methodology

### Active Strategies

**Active strategies** are investment strategies where the fund manager is trying to add value and out-perform the market averages (for that style of investing). Typically, these investment strategies have higher associated costs due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard** System is trying to identify those managers who can add value on a consistent basis within their own style of investing.

	<b>Scorecard Point System</b>		<b>Maximum Points</b>
<b>Weightings</b>	<b>Good:</b>	<b>9-10 Points</b>	
	<b>Acceptable:</b>	<b>7-8 Points</b>	
	<b>Watch List:</b>	<b>5-6 Points</b>	
	<b>Poor:</b>	<b>0-4 Points</b>	
	<b>Active Strategies</b>		
<b>Style Factors</b> 30%	<b>Style Analysis:</b> Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.		<b>1</b>



	<p><b>Style Drift:</b> Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.</p> <p><b>R-Squared:</b> Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80%. This statistic measures whether the benchmark used in the analysis is appropriate.</p>	1
Risk/Return Factors 30%	<p><b>Risk/Return:</b> Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.</p>	1
	<p><b>Up/Down Capture Analysis:</b> Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.</p>	1
	<p><b>Information Ratio:</b> Measures a fund's relative risk and return. Fund passes if ratio is &gt; 0. This statistic measures the value added above the benchmark, adjusted for risk.</p>	1
Peer Group Rankings 20%	<p><b>Returns Peer Group Ranking:</b> Fund passes if its median rank is above the 50<sup>th</sup> percentile.</p>	1
	<p><b>Information Ratio Peer Group Ranking:</b> Fund passes if its median rank is above the 50<sup>th</sup> percentile. This ranking ranks risk adjusted excess return.</p>	1
Qualitative Factors 20%	<p>Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors, which may impact future performance.</p>	2
<b>Total</b>		<b>10</b>