

# **City of San Jose 457(b) and PTC Plans**

## **INVESTMENT POLICY STATEMENT**

**September 2020**

## **INTRODUCTION AND PURPOSE**

This statement is set forth to provide a clear understanding of the investment policies, guidelines and objectives related to the administration of the City of San Jose 457(b) and PTC (a mandatory Social Security replacement plan for part-time employees) Plans (hereinafter “Plans”). The Plans are salary deferral retirement savings vehicle available to eligible employees who are interested in saving for retirement on a tax-favored basis. The Plans’ purpose is to provide a vehicle for and to encourage additional savings to supplement the retirement benefits provided to employees.

This Investment Policy Statement is further intended to assist the fiduciaries of the Plans in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring, and evaluation of the investment options and investment providers utilized by the Plans. This Investment Policy Statement will be reviewed at least annually and it can be revised at any time to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the Plans.

## **SUMMARY OF RESPONSIBILITIES**

Plan Sponsor – The City of San Jose is the Plan Sponsor. The Plan Sponsor’s responsibilities include but are not limited to:

- Adopting and amending the Plan Documents;
- Approving Plan services contracts;
- Appointing the Committee members; and
- Designating other fiduciaries of the Plans.

Committee – The Deferred Compensation Advisory Committee (hereinafter “Committee”) serve as Administrator and has responsibility for the operation and administration of the Plans in accordance with the terms of the Plan Documents.

It is the intent of the Committee to fulfill its fiduciary responsibilities with respect to the Plans solely in the interest of the participants and beneficiaries. The Committee members, as fiduciaries, are to perform their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The Committee’s responsibilities also include but are not limited to the following:

- Selecting the investment design features of the Plans, including establishing the investment policy and objectives and the number and types of investment alternatives available to Plan participants;
- Appointing, monitoring and evaluating all investment providers and managers in accordance with guidelines and benchmarks established within this document and consistent with applicable laws;
- Selecting and monitoring other Plan service providers, including, but not limited to, the Plans’ record-keepers, trustees, investment consultants, accountants, and/or any other providers; and
- Monitoring Plan costs which are charged to Plan assets and/or paid by Plan participants, including but not limited to investment management fees, custodial fees and fees paid to other service providers from Plan and/or participant assets.

**Investment Consultant** - The Committee may engage an independent investment consultant (hereinafter “Consultant”) to assist in carrying out the duties and responsibilities of this Investment Policy Statement. Such Consultant must be registered with either State or Federal securities regulators pursuant to the Investment Advisors Act of 1940. The Consultant’s role is to provide information and advice to the Committee on various investment related issues. The Consultant has no discretionary control or authority over the Plans and its assets. In its role as an advisor to the Committee the Consultant acknowledges a fiduciary role with respect to the investment advice provided to the Committee. The services of the Consultant will be set forth in a separate agreement.

**Investment Provider** – An entity that offers investment option products and manages assets for the Plans. Examples of investment option products offered by an investment provider may include mutual funds, commingled trust funds, separate accounts and/or variable annuity contracts.

**Investment Manager** – The person(s) at the Investment Provider responsible for implementing an investment option’s investing strategy and managing its portfolio trading activities.

**Services Providers** – Entities engaged to assist the Plans’ Sponsor and the Committee in regard to the administration of the Plans. This assistance includes Plan enrollment, communication, education, including providing general investment information to Plan participants regarding the procedures for making investment choices under the Plans and general investment information regarding each of the investment options offered under the Plans, distribution processing, record keeping and other administrative functions as prescribed in an agreement entered into between the Plans’ Sponsor and the Services Providers. The Plans may engage multiple Service Providers to complete administrative functions as necessary.

## **GENERAL COMPLIANCE**

The Plans’ investment policies and guidelines shall be reviewed on an annual basis for modifications, as needed, but may be modified at any time as deemed necessary by the Committee.

At minimum, it is intended that participants shall be provided with the following opportunities:

- A. Choose from a minimum of three diverse investment categories, each with materially different risk and return characteristics. At least one of the categories will provide for a high degree of safety and capital preservation.
- B. Make and/or modify investment decisions at least quarterly.
- C. Receive or have access to the following information, as updated:
  - A description of the investment alternatives available under the Plans including a general description of the investment objectives, risk and return characteristics, and type and diversification of assets comprising each alternative;
  - Identification of the designated Investment Providers, Managers and investment products;
  - A description of any transaction fees or expenses charged to the Plans’ participant's account, and information on costs and fees for an investment product that reduces the rate of return to Plan participants (expense ratios); and
  - Prospectuses, annual reports, and semi-annual reports on investment products, if available.

## **GENERAL INVESTMENT POLICY, OBJECTIVES AND STANDARDS**

It is the policy of the Plans to foster an investment environment that encourages and facilitates participant efforts to supplement other sources of retirement income. The Plans will be structured in an attempt to provide Plan participants with an array of investment options that offer competitive rates of return and reasonable overall cost. Participants in the Plans are solely responsible for their own investment decisions and bear the risks and assume responsibility for the results of the investment options that they select. The Plans

Sponsor and Committee make no representations, promises, or warranties regarding the suitability of Plan participation for any participant's individual investment or retirement needs. Additionally, the Plans' Sponsor and Committee(s) make no representations, promises or warranties about the performance of the Plans or the Plans' investments.

The Plans exist in a very dynamic marketplace in which new investment alternatives may become available over time. At present, the market offers a broad array of investment products. These products may include:

- Fixed annuity options
- Variable annuity options
- Co-mingled trust funds
- Mutual funds
- Shares of any company, association or corporation

The primary investment objective of the Plans is to present participants with a range of investment options, which give participants an opportunity to increase the value of their investment assets in a manner consistent with varying levels of participant risk/reward tolerances and investment decision making skills. While the Plans' cannot meet all participant investment preferences and attitudes, the Plans attempt to provide investment vehicles for participants at various levels of investment sophistication and with varying requirements for risk and return.

Information that may be used to select which investment products to offer includes, but is not limited to, the following:

- Age, income and other demographic data on the Plans' participants
- Liquidity and administrative constraints imposed on the Plans by service providers
- Development of new investment products in the marketplace
- Level of participant usage of investment products

To enable participants to establish different investment strategies, the Plans will offer investment categories that 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 risk/reward structure is basic to investments. Generally, those vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long-range asset accumulation can be lessened through diversification among asset classes. To provide participants the opportunity to select risk/reward strategies and to diversify the Plans' assets, the Plans will offer a number of investment alternatives.

In addition to providing a range of investment options, the Plans seek to provide investment options that are competitive in terms of performance relative to appropriate investment performance and risk benchmarks. The performance and risk relationships of the Plans' investment options will be reviewed periodically. Investment options should generally be given a full market cycle to achieve stated objectives (market cycles normally occur over 3-5 year time periods). Investment options are expected to meet or exceed their pre-determined benchmark index(es) net of fees. Where peer groups are definable, investment options are also expected to perform within the upper half of a sample of same style peers net of fees. In addition to net investment performance, the options' risk characteristics will also be reviewed. The risk associated with an investment option generally should be similar to that of the same-style peer group.

## **INVESTMENT OPTIONS**

Investment options offered by the Plans will be categorized or grouped by similarities in investment objectives, style and risk. The Plans' Service Provider and/or Consultant may be asked to assist in determining the categories of investment options. The Plans will be structured to assist participants in meeting their long-term investment objectives by providing investment options within the following permitted investment categories (these categories are further explained in the following pages of this document):

### **A. Tier 1: Target Retirement Date Pre-Mixed Portfolios and Risk-Based Portfolios**

### **B. Tier 2: Asset Class Investment Options**

- Money Market
- Fixed/Stable Value
- Total Return Bond
- Global Bond
- U.S. Large-Size Company Equity
- U.S. Mid-Size Company Equity
- U.S. Small-Size Company Equity
- International Equity

### **C. Tier 3: Specialty Options**

- REIT (Real Estate Investment Trust)
- Others as approved by the Committee

### **D. Tier 4: Self-Directed Brokerage**

Investment options and categories may be added or deleted as deemed necessary. At least one investment option shall be available within each investment category. The Plans may also elect to offer model portfolios that are constructed out of the options offered within each category.

The following table outlines the objectives and performance benchmarks for each of the Plans' investment options. The risk associated with an investment option will be compared to appropriate risk benchmarks or measures for a same-style group of peer investment options, where definable.

## TIER 1: TARGET RETIREMENT DATE PRE-MIXED PORTFOLIOS

<b>Lifecycle Premixed Portfolio – Retirement Income</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities and U.S. and international equities. Stocks generally will comprise less than 30% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date Retirement Income
<b>Lifecycle Premixed Portfolio – 2015, 2020, 2025</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities and U.S. and international equities. Stocks generally will comprise up to 55% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2015, US Target Date 2020, US Target Date 2025
<b>Lifecycle Premixed Portfolio – 2030, 2035, 2040, 2045</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities, and U.S. and international equities. Stocks generally will comprise 55%-85% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2030, US Target Date 2035, US Target Date 2040, US Target Date 2045
<b>Lifecycle Premixed Portfolio – 2050, 2055, 2060, 2065</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities, and U.S. and international equities. Stocks generally will comprise 85%-90% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2050, US Target Date 2055, US Target Date 2060+

<b>Conservative Risk-Based Portfolio</b>	
Provide a risk and returns exposure consistent with a conservative investment allocation that is generally composed of 30% equity securities and 70% fixed income securities and investments. This portfolio will place a primary emphasis on income and volatility mitigation, with a secondary emphasis on capital appreciation and preservation of purchasing power.	
<b>Benchmark Index:</b>	Dow Jones Conservative Index
<b>Peer Groups:</b>	US Conservative

<b>Moderate Risk-Based Portfolio</b>	
Provide a risk and returns exposure consistent with a moderate investment allocation that is generally composed of 60% equity securities and 40% fixed income securities and investments. This portfolio will place a balanced emphasis on income, capital appreciation, and preservation of purchasing power, but will incorporate some attention to volatility mitigation.	
<b>Benchmark Index:</b>	Dow Jones Moderate Index
<b>Peer Groups:</b>	US Moderate

<b>Aggressive Risk-Based Portfolio</b>	
Provide a risk and returns exposure consistent with an aggressive investment allocation that is generally composed of 85% equity securities and 15% fixed income securities and investments. This portfolio will place an emphasis on capital appreciation and growth of purchasing power, but will incorporate some attention to income.	
<b>Benchmark Index:</b>	Dow Jones Aggressive Index
<b>Peer Groups:</b>	US Aggressive

## TIER 2: ASSET CLASS INVESTMENT OPTIONS

<b>Money Market</b>	
Provide current income and a high degree of investment safety with little or no fluctuation of principal.	
<b>Benchmark Index:</b>	90-Day Treasury Bills Index
<b>Peer Group:</b>	Money Market

<b>Fixed / Stable Value</b>	
Provide high current income relative to cash investments and a high degree of investment safety without fluctuation of principal. Investment returns are derived primarily from interest income. A Fixed or General Account option, which is a fixed rate contract that is backed by an insurance company's balance sheet, is to be of mid-investment-grade rating or higher, and backed by a diversified pool of underlying investments. A stable value option will be invested in guaranteed investment contracts (GICs), "synthetic" portfolios, money market instruments, and others, each mainly comprised of investments of short- to intermediate maturity, and which provide for an adequate degree of liquidity. The weighted-average maturity is expected to remain between two and five years at most times. The overall weighted credit-quality rating of the option shall be the equivalent of mid-investment-grade rating or higher. The rating must be obtained from at least one credit rating agency such as Moody, S&P or Duff & Phelps. If the option's weighted rating declines below this level, the option will be evaluated for corrective action.	
<b>Benchmark Index:</b>	1. 5 Year CMT Index 2. 90-Day Treasury Bills Index
<b>Peer Group:</b>	Stable Value

<b>Total Return Bond</b>	
Provide capital appreciation and income through a diversified, actively managed fixed income portfolio. The portfolio's duration is expected to be comparable to that of its Benchmark Index, with some bandwidth allowed for the manager to exercise strategic deviation from the Benchmark. Average credit quality is expected to be investment grade. The fixed income portfolio will normally be primarily comprised of investments including money market instruments, U.S. Government and Agency bonds, mortgage-backed securities, corporate bonds, and others. The manager will be given discretion to hold securities that are not contained within the Benchmark Index, which may include Foreign Bonds, High Yield Bonds, Convertibles, Treasury Inflation Protected Securities, derivatives, and others. The portfolio's aggregated composition and risk and return characteristics however are expected to be reflective of its asset class.	
<b>Benchmark Index:</b>	Barclays Capital US Aggregate Bond Index
<b>Peer Group:</b>	US Intermediate-Term Core-Plus Bond

<b>Global Bond</b>	
Provide capital appreciation and current income through a diversified portfolio of bonds issued by both domestic and international issuers. Invests in bonds and other debt obligations and fixed income instruments of US and international issuers. The fund may hold a substantial amount of assets in either international or US issuers, depending on the opinion of the manager. Other instruments such as cash, currency, and derivatives may be used in order to pursue the fund's objective.	
<b>Benchmark Index:</b>	Barclays Capital Global Bond ex USD Index
<b>Peer Group:</b>	US World Bond



## TIER 2: ASSET CLASS INVESTMENT OPTIONS

<b>U.S. Large Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization greater than \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included in the portfolio, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> S&P 500 Index, Blended Index <b>Growth:</b> Russell 1000 Growth Index <b>Value:</b> Russell 1000 Value Index
<b>Peer Groups:</b>	<b>Blend:</b> US Large Cap Blend <b>Growth:</b> US Large Cap Growth <b>Value:</b> US Large Cap Value
<b>U.S. Mid-Size Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization between \$2 billion and \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included in the portfolio, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> Blended US Mid-Cap Index <b>Growth:</b> Russell Mid-Cap Growth Index <b>Value:</b> Russell Mid-Cap Value Index
<b>Peer Groups:</b>	<b>Blend:</b> US Mid-Cap Blend <b>Growth:</b> US Mid-Cap Growth <b>Value:</b> US Mid-Cap Value
<b>U.S. Small Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with the average market capitalization between \$500 million and \$2 billion. Stocks of foreign companies that are traded in the U.S. may also be included, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> Blended US Small-Cap Index <b>Growth:</b> Russell 2000 Growth Index <b>Value:</b> Russell 2000 Value Index
<b>Peer Groups:</b>	<b>Blend:</b> US Small Cap Blend <b>Growth:</b> US Small Cap Growth <b>Value:</b> US Small Cap Value

## TIER 2: ASSET CLASS INVESTMENT OPTIONS

<b>International Equity</b>	
Provide long-term capital appreciation through a diversified, actively managed portfolio of international equities. Unless the strategy is dedicated to emerging markets, stocks of emerging countries may be used at the discretion of the manager, but generally should not exceed more than 30% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> Custom International Index (net) <b>Growth:</b> MSCI All Country World Index ex-U.S. Growth (net) <b>Emerging Markets:</b> MSCI Emerging Markets (net) <b>Small/Mid Blend:</b> MSCI AC World ex-USA Small/Mid Blend (net)
<b>Peer Groups:</b>	<b>Blend:</b> US Foreign Blend <b>Growth:</b> US Foreign Growth <b>Emerging Markets:</b> US Emerging Markets <b>Small/Mid Blend:</b> US Foreign Small/Mid Blend

## TIER 3: SPECIALTY OPTIONS

<b>Real Estate (REIT)</b>	
Provide long-term capital appreciation through a diversified, actively managed portfolio of Real Estate Investment Trusts. REITs allow trust ownership of real estate by a group of individuals who purchase certificates of ownership in the trust, which in turn invests the money in real property and distributes the profits back to the investors free of corporate income tax.	
<b>Benchmark Index:</b>	DJ US REIT
<b>Peer Group:</b>	US Real Estate

## TIER 4: SELF-DIRECTED BROKERAGE

<b>Self-Directed Brokerage (SDB)</b>	
For Plan participants who consider themselves to be knowledgeable about investment principles, the Plan may offer a brokerage account option. Such option may be provided through one or more broker-dealers, as defined and regulated by the National Association of Securities Dealers, Securities Exchange Committee or State Securities Departments. Assets held in an SDB will be maintained in the name of the Plan Trustee or custodian for the benefit of the participant who established the account. Permissible investments for an SDB may include registered mutual funds and other securities permitted under State law. It is the SDB account holder's responsibility to adhere to these and any other restrictions placed on him or her by the Committee, broker-dealer or regulatory body. It is also the account holder's responsibility not to engage in transactions prohibited by statute or any regulatory entity. Investment options available through the SDB may contain additional risks and are not monitored by the Committee. The Committee may further restrict permissible investments available in the SDB. Each SDB account holder will be responsible for his or her own commissions, fees or loads applicable to individual securities or mutual fund transactions for the account.	
<b>Benchmark Index:</b>	Not Applicable
<b>Peer Group:</b>	Not Applicable

## INVESTMENT OPTION SELECTION GUIDELINES

Investment options offered to participants will be provided through investment provider(s) accessible on the Services Provider's platform. Before introducing a new investment option, the Committee, in consultation with the Consultant and Services Provider will define the niche to be filled and assess any prospective investment option's performance, quality, and risk characteristics. At a minimum, investment options under

consideration should satisfy performance and risk considerations under actual, not modeled, conditions and over an appropriate time period. Investment option selection considerations may include, but are not limited to the following:

- The investment option should generally, but not necessarily, have a history that spans a full market cycle, normally three to five (3-5) years.
- The investment option should generally meet or exceed its predetermined benchmark index, net of fees.
- The investment option should generally perform at median or within the upper half of a recognized and defined sample of same-style peer options.
- The investment option should be able to demonstrate a consistent performance track record attributable to a specific investment manager or team of managers.
- In selecting Target Retirement Date funds, the Committee shall consider the current and prospective composition of the Target Date funds (based on their glide path), and the corresponding risk and return implications relative to the benchmark and peer group constituents.

## **INVESTMENT OPTION REVIEW GUIDELINES AND MONITORING**

Investment providers and investment managers are required to comply with all applicable laws, rules, and regulations. However, the Committee takes no responsibility for the failure of such option and/or investment manager to comply with any and all applicable laws, rules or regulations.

It is recognized that certain stable value and Fixed options often have liquidity restrictions. Investment options with sales loads, redemption fees, or other non-investment management related expenses will be avoided to the extent possible.

Investment option performance, risk and style consistency is intended to be evaluated on a quarterly basis. Performance and risk results will be evaluated using comparisons with this policy, pertinent market indices and against other same-style peers, where definable. When necessary, investment option performance and risk may be reviewed more frequently.

The Committee will periodically review the investment options' progress in meeting the Plans' investment objectives. Investment options will be expected to comply with all stated investment objectives, guidelines and applicable rules contained in the prospectus or fund fact sheet. The Committee will review the performance of investment options quarterly to determine if they are achieving the established objectives. Investment performance reviews may include, but are not limited to, a review of:

- Investment portfolios;
- Fees and expenses;
- Investment style, process and philosophy;
- Investment management personnel; and
- Index tracking error.

The performance review will also include measuring the options' investment performance relative to stated benchmarks or respective indexes and peer groups; as well as the monitoring risk measures. The following will be evaluated:

### **Quantitative Measures**

**Active Investment Strategies.** Options employing active management are expected to outperform their stated asset class or style benchmark net of all management fees over a trailing five year time period; and to rank above the 50<sup>th</sup> percentile of the appropriate peer group for the same trailing five year time period. It is

also expected that the risk of each option, as defined by standard deviation of returns, be commensurate with the prescribed strategy relative to the appropriate market index and/or peer group.

**Passive Investment Strategies.** Passive Options are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with marginal tracking error. It is also expected that the risk of each passive option, as defined by standard deviation of returns, be commensurate with the appropriate market index.

### **Qualitative Measures**

The options will also be monitored on an ongoing basis for other material changes which the Committee may determine are of importance to the decision of whether or not to retain an investment option, such as personnel departures; organizational changes; or alterations in investment style, philosophy, or strategy; and adherence to stated guidelines.

**Time Periods.** The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time-periods. Recognizing that short-term fluctuations may cause variations in an option's performance, the Committee intends to employ investment options with long-term investment strategies and will evaluate option performance from a long-term perspective. Performance over market cycles of three to five years will be weighted more heavily than performance over shorter time periods, such as one year or less.

In addition to the qualitative and quantitative measures referenced above, the Committee will also review the investment options' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Downside risk or semi-variance
- Risk/return ratios such as Sharp or Treynor Ratios
- Other statistical measures such as Beta, Alpha and Variance

### **INVESTMENT OPTION TERMINATION AND WATCH GUIDELINES**

Generally, all investment options are expected to remain true to their stated investment objectives and to perform as well as or better than their prescribed performance benchmarks, net of fees. The Committee recognizes the long-term nature of retirement plan investing and the variability of market returns. Periodic underperformance in any of the criteria outlined in this Investment Policy will not necessitate the termination of an option; however, any underperformance will result in consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take.

The Committee may, at any time, place any investment option that it views as having a pattern of underperformance on a watch-status. Reasons the Committee might place an option on a watch status, include but are not limited to, the following:

### **Quantitative Measures**

#### **Actively Managed Options**

- Performance below the prescribed benchmark index over a trailing five year period, combined with
- Performance below the median of its peer group over a trailing five year period

#### **Passively Managed Options**

- Net of fee performance tracking error relative to the respective index that is greater than 15 basis points over a trailing five-year period

Target Date funds will be evaluated based on the performance of the entire suite as held within the Plan. A Target Date suite will normally be viewed as being in violation of investment policy performance criteria if over one-half of the funds in a Target Date suite held within the Plan lag this Investment Policy Statement's prescribed performance measures. The Committee may elect to deviate from this approach if it appears reasonable to do so.

Certain passive investment options operate in a marketplace that includes foreign markets whose exchanges close prior to that of the United States. In these instances, some fund managers may engage in a method of "Fair Value Pricing," whereby the managers adjust the pricing of securities in the Fund to reflect any information that has become available after the close of the applicable foreign market. Discrepancies in performance between the applicable investment option and its performance benchmark that are due to "Fair Value Pricing" will be taken into consideration in evaluating performance of the affected investment options.

### **Qualitative Measures**

- Management team or other significant personnel turnover;
- Changes in the product's investment philosophy, process, style or risk profile;
- Excessive or rapid asset growth or decline;
- Pending regulatory investigations or material legal proceedings;
- Changes to firm ownership;
- Significant increase in management fees or expense ratio.
- In the case of monitoring Target Retirement Date funds, the Committee shall consider the current and prospective composition of the Target Date funds (based on their glide path) and the corresponding risk and return implications relative to the benchmark and peer group constituents.

An investment option may remain on watch status until the Committee decides to take further action. Committee actions include, but are not limited to, the following:

- Removing the investment option from watch status; and
- Terminating the investment option and reallocating the assets to an alternate or replacement investment option by Committee direction.

To be removed from quantitative, performance related watch status, generally, performance for the preceding five year trailing periods should be above the benchmark index or median for at least two consecutive quarters. However, barring any breakdown in process, the Committee may decide to leave an option on watch for as long as they believe it is prudent to do so.

The Committee reserves the right to terminate investment option relationships at any time, for any reason when it determines such termination is in the best interests of the Plans and its participants and beneficiaries. Upon termination, further contributions or transfers to an investment option may be frozen, or the option may be replaced with or without transferring existing assets from the replaced option. Once the decision to terminate an option and remove it from the Plans is made, asset transfer and liquidation should be handled to the best advantage of the Plans, with due consideration given to the anticipated effect on affected participants and beneficiaries.

### **INVESTMENT OVERSIGHT RESPONSIBILITY AND PROXY VOTING**

The Committee shall have overall responsibility for the selection, monitoring and termination of all investment managers. Additionally, the Committee shall be responsible for reviewing and maintaining these investment policies and guidelines.

Proxy votes required by investment managers shall be cast by those parties designated by the Committee.

Voting rights shall be exercised in the best interest of the participants and beneficiaries of the Plans. The Committee may insist that they exercise their voting rights themselves by communicating their intention to do so in a timely manner.

## **GLOSSARY**

### **Annualized Return**

Rate of return of the account smoothed as though the return occurred equally over twelve-month periods. When the specified time frame is for less than a year, the rate of return is projected as though the same performance continues to occur for a twelve-month period.

### **Benchmarks**

A standard against which the performance of the portfolio can be measured, typically against a standard index, although a client manager may also set the benchmark.

### **Duration**

The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates. Time periods are weighted by multiplying by the present value of its cash flow divided by the bond's price (a bond's cash flows consist of coupon payments and repayment of capital). A bond's duration will almost always be shorter than its maturity, with the exception of zero-coupon bonds, where maturity and duration are equal.

### **Growth Style Investing**

Growth investors purchase companies that have above-average earnings growth and/or above-average sales growth rates.

### **Investment Objectives**

The overall financial objectives of an investor. For example, whether the investor requires income or capital appreciation. The investor's objectives govern the investment strategy.

### **Large Cap**

Large Capitalization – refers to those companies with a market capitalization of greater than \$10 billion.

### **Liquidity**

The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

### **Market Capitalization**

The dollar value of a public company based on the total number of shares of stock available multiplied by the price per share.

### **Mid Cap**

Mid Capitalization – refers to those companies with a market capitalization between \$2 and \$10 billion.

### **Net of Fees**

After subtraction of management fees.

## **GLOSSARY - CONTINUED**

### **Peer Group**

Contemporaries of the same asset class that can be compared against one another to achieve a larger sense of how the particular portfolio is performing.

### **Portfolio**

Refers to the complete list of securities held in an investment vehicle.

### **Small Cap**

Small Capitalization – refers to those companies with a market capitalization between \$500 million and \$1.99 billion.

### **Standard Deviation**

Measures the range of returns and is based on a Normal Curve. Managers with lower standard deviations than the index have historically had returns that tended to fall closer to their mean return compared to the index. Managers with higher standard deviations than the index have historically had returns that tended to be further dispersed around the mean than the index. This is another measure of volatility, but it doesn't distinguish downside performance from upside performance.

### **Value Style Investing**

Value investors rely on an examination of the underlying or unrealized value of a company as the primary criterion for deciding whether or not to buy a company's stock. Value stocks are often priced lower than growth stocks due to slower growth expectations, recent financial difficulty, or a host of other reasons.



**On behalf of the City of San Jose 457(b) and PTC Plans, this Investment Policy Statement is adopted by the Committee and effective on this date:**

Signature: \_\_\_\_\_

Name:

Date: \_\_\_\_\_

City of San Jose Deferred Compensation Advisory Committee  
Comments and Suggestions on the Plans' Current Investment Policy Statement

The Hyas Group has reviewed the current Investment Policy Statement (IPS) for the Plans overseen by the City of San Jose Deferred Compensation Advisory Committee and has the following comments and suggestions. The draft IPS proposed by the Hyas Group incorporates the comments and suggestions provided below.

1. Add reference to the PTC Plan as appropriate as the current IPS only refers to the 457(b) Plan.
2. We note that parts a) and b) under the "Standards of Investment Managers" section on pages 5-6 may be inapplicable to mutual funds since they are not considered fiduciaries to plan assets. Retaining this section in its current form may subject the Plans to standards that are difficult to monitor or enforce.
3. A performance measurement period, as described under the "Quantitative Measures" section on page 9, of five years may be more appropriate as we find this duration to be a conservative approximation of a market cycle. The window of "three years and longer" stated in this section is not exact and could be as short as three years, which is generally a more volatile holding period. Making decisions off a shorter, more volatile, holding period can create unnecessary turnover in the investment menu.
4. The performance measurement period for passive funds in the "Quantitative Measures" section should also be explicitly specified. It is our view here as well that five years is appropriate. We would also give an explicit tracking error band of 0.15% net of fees. Lastly along these lines, international stock indexes (such as those held within the Vanguard Target Date series) may have greater, albeit acceptable tracking error due to mandated "fair value pricing". We also add language stating that tracking error attributable to fair value pricing is acceptable.
5. We would consider modifying the "Watch List" to be based on five-year performance (rather than three- or five-years) and remove reference to the Sharpe Ratio as a basis for going on watch. This is because a fund could plausibly lag both its policy and benchmark indefinitely (incurring inadequate economic gain to participants) and be retained.



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Adopted June 2019

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**D) INTRODUCTION**

**A) Purpose of Investment Policy Statement.** The purpose of this Investment Policy Statement is to record the investment objectives and investment policies for the City of San Jose 457 Deferred Compensation Plan (the “Plan”). The City of San Jose Deferred Compensation Advisory Committee (the “Committee”) has the responsibility to administer and provide oversight of the Plan. The Committee may designate a subcommittee to act on its behalf. The purpose of the Plan is to provide a vehicle for retirement savings. This Investment Policy Statement supersedes any other Investment Policy or guidelines previously adopted by the Committee. It is intended to assist the Committee in meeting its fiduciary responsibility by:

- effectively constructing, supervising, and evaluating the investment program established for the Plan, and by
- establishing a framework for the selection, monitoring, and evaluation of the Plan’s investment fund managers.

**This policy is intended to be flexible, and the Committee shall be free to deviate from this policy as it deems appropriate.**

**ERISA 404(c) Safe Harbor Compliance.** Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, in recognition of the intent of ERISA, other legislation and regulatory guidance, and the trend of retirement plan convergence, the Committee intends to operate the Plan generally in conformance with ERISA 404(c). Investment decisions made by the Committee or designated subcommittee will be made for the sole interest of the participants and beneficiaries of the Plan.

This statement is an outline of the Committee’s general investment policies and intended to replace and supersede any earlier statement(s) of investment policies and objectives effective with the date this statement is executed. The Policy may be reviewed annually and revised any time as necessary to ensure it adequately reflects changes related to the Plan. This document is intended to be a ‘living document’ and is intended to be easy to change. The most commonly modified aspects of the policy, such as benchmarks and fund options, are included as appendices.

It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.

# City of San José

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**B) Plan Objective.** The Plan was established to provide eligible employees an opportunity to accumulate funds for retirement in addition to any other retirement benefits they may be eligible for. The Plan is a deferred compensation plan which provides benefits based solely on the amount contributed to each participant's account plus or minus any income, expenses, and gains or losses.

#### C) Investment Option Menu

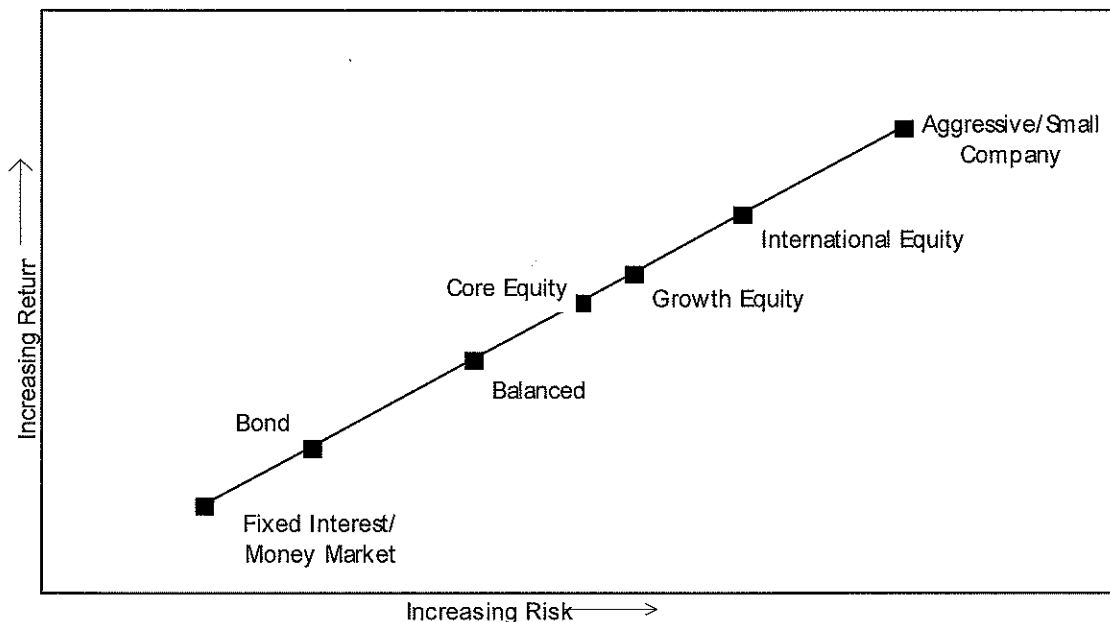
##### 1) Purpose of Investment Options

- a) Consistent with ERISA 404(c), investment options are selected to provide participants with an opportunity to diversify their accounts across a reasonable risk and reward spectrum.
- b) Participants may select from a combination of investment options and may change the asset allocation of their investments pursuant to the Plan provisions and administrative procedures.

##### 2) Construction of the Investment Option Menu

- a) The number and types of investment options and the investment fund managers retained to manage the investment options are subject to change based upon the Committee's on-going review and evaluation of the investment menu offered to participants.
- b) The Committee or designated subcommittee may add, replace, or remove investment options or funds at any time when it concludes such a change is in the best interests of Plan participants and beneficiaries. Investment options are found in Appendix A.

#### Conceptual Relationship of Investment Options Relative to Risk and Return



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**II) STATEMENT OF RESPONSIBILITIES**

**A) Committee**

The committee will discharge its duties under this policy solely in the interest of the participants and beneficiaries. The Committee members are to perform their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Committee may designate one or more subcommittees to act on its behalf.

Committee members' responsibilities include, but are not limited to:

- 1) Selecting the investment design features of the Plan, including:
  - a) drafting the Investment Policy,
  - b) determining the number and types of investment alternatives available to Plan participants, and
  - c) developing participant investment procedures with Plan record keeper.
- 2) Selecting, monitoring, and evaluating all investment funds in accordance with this Investment Policy.
- 3) Monitoring Plan costs which are charged to Plan assets and or paid by Plan participants, including but not limited to investment management fees, and fees paid to other Plan service providers from Plan assets.
- 4) Providing general investment information to Plan participants regarding the procedures for making investment choices under the Plan and general investment information regarding each of the investment options offered under the Plan. This function may be delegated to staff and/or Plan record keeper.

**B) Investment Managers**

At present, the Plan primarily utilizes mutual funds as Plan investment vehicles. The Committee or designated subcommittee may select separately managed accounts, collective trusts, commingled pooled funds, and any other funding vehicles as it deems appropriate for use by the Plan. These various funding vehicles and approaches are collectively and interchangeably referred to using the term investment manager investment funds, investment fund managers, investment products, mutual funds, and/or registered investment advisors within this policy.

- 1) Standards of Investment Managers. This section describes the standards to which Investment Managers should be held by the Committee or designated

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subcommittee when initially selected and while performing investment management services.

- a) Investing Plan assets with the care, skill, prudence, and diligence that would be applied by a prudent professional investor, acting in like capacity and knowledgeable in the investment of retirement funds.
- b) All transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.
- c) With respect to the use of mutual funds or collective trusts, the Committee expects assets of such funds to be invested in accordance with the applicable prospectus, purchase agreement, and/or declaration of trust.
- d) All mutual funds shall be registered Investment Companies as defined under the Investment Company Act of 1940 (the "Act"). The Investment Companies need not be classified as "diversified" Investment Companies as defined in the Act.

**C) Plan Participants**

Investment, contribution, and allocation decisions shall be made solely by each Plan participant subject to certain procedural and administrative guidelines and default investment procedures for participants that do not make an investment election. The Committee shall make available investment option performance results and may make available other educational information relating to investment concepts and the investment options. This function may be delegated to staff and/or Plan record keeper. The provision of this information does not constitute investment advice.

The Committee or designated subcommittee may engage service providers, who in the provision of their services to the Plan and its participants, will provide investment advice. Such service providers must acknowledge in writing that they are assuming fiduciary responsibility for that advice. It is solely the responsibility of each Plan participant to direct the investments in his or her account.

Participant responsibilities include, but are not limited to:

- 1) Determining their contribution/deferral rate.
- 2) Selecting their investment options for both existing balances and new contributions going forward.
- 3) Monitoring their asset allocation strategy and making adjustments as personal situations change.
- 4) Electing the timing and form of distributions according to terms of the Plan.



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**D) Plan Administrator**

The Committee is also the Plan administrator. The Plan administrator's duties include, but are not limited to:

- 1) Administering and interpreting the provisions of the Plan.
- 2) Making available to Plan participants a Plan summary.
- 3) Providing Plan participants with an annual statement of account.
- 4) Compliance with all laws and regulations governing the Plan.
- 5) Delegating various functions or tasks to individual employees or service providers.

**E) Investment Consultant**

The investment consultant's role is to serve as an independent and unbiased fiduciary that provides information and advice to the Committee or designated subcommittee as a fiduciary to the Plan.

The primary function of the investment consultant is to inform and advise the Committee on various investment-related issues with respect to the Plan. Such services include, but are not limited to:

- 1) Assisting the Committee with developing an appropriate structure for the investment menu.
- 2) Providing timely and accurate reports, evaluating the return, risk, and characteristics of each of the funds compared to appropriate indexes and/or peer group universes.
- 3) Apprising the Committee of changes with regard to their funds in a reasonable time frame given the significance of the information.
- 4) Conducting a fund review at the request of the Committee when, for example, noteworthy changes or significant underperformance occurs.
- 5) Assisting the Committee in the search and replacement of existing funds as needed.

**F) Record Keeper**

The record keeper has no discretionary authority over the Plan and its assets and is not a fiduciary with respect to the Plan. The record keeper's responsibilities include, but are not limited to:

- 1) Maintaining the Plan participant account balances in an accurate and confidential manner.
- 2) Preparation of participant statements.
- 3) Completion of the annual compliance tests as included in its service

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agreement.

- 4) Providing accurate and timely Plan data and reports to the Committee as included in its service agreement.
- 5) Providing participants with electronic access to account information and transactions as contracted by the Committee.
- 6) Coordination of the provision of fund prospectuses to participants as requested.
- 7) Provision of various participant communication materials as described in its service agreement and/or requested by the Committee.

**G) Trustee/Custodian**

The trustee/custodian is non-discretionary and takes direction from the Committee or designated subcommittee. The trustee has fiduciary responsibility with respect to the Plan assets under its control. The trustees' responsibilities include, but are not limited to:

- 1) Safekeeping all securities.
- 2) Settling transactions.
- 3) Receiving contributions.
- 4) Allocating contributions among investment accounts as instructed.
- 5) Making participant distributions as instructed.
- 6) Providing periodic account statements to the Committee or designated subcommittee and other service providers as requested by the Committee or designated subcommittee.

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**III) COMMITTEE PROCESS**

- A) Meeting Frequency.** The Committee or designated subcommittee will review the investment performance of the funds offered in the Plan no less frequently than semi-annually. The Committee or designated subcommittee will also review the Investment Policy and investment options offered in the Plan on an annual basis. The Committee may choose to meet on a more frequent basis (e.g., monthly, bi-monthly, or quarterly). The Committee may designate one or more subcommittees which may meet periodically.
- B) Investment Manager Selection.** Searches for investment managers and funds should include candidates that have demonstrated success in similar assignments. In selecting an investment manager, a due-diligence process is followed, which analyzes the investment fund including, but not limited to the following characteristics:
- 1) Investment performance track record and consistency of returns achieved with risks taken
  - 2) Alignment of fund investment philosophy, process, and style with Plan option objectives
  - 3) Size and experience of professional staff
  - 4) Tenure of stability of investment management team and parent organization
  - 5) Fees
  - 6) Compatibility with Plan trading requirements
  - 7) An assessment of fund statistics measuring risk related to its benchmark
- C) Investment Fund Performance Evaluation.** Performance benchmarks and peer groups will be established for each fund and/or asset class. The performance review will include measuring the funds' investment performance to stated benchmarks and peer groups, as well as monitoring risk measures and other factors utilized in section III B above. In addition, the following general criteria will be the basic standard of satisfactory performance:
- 1) Quantitative Measures.
    - a) Active Investment Strategies. Funds employing active management are expected to outperform their benchmark or peer group, and preferably both, over trailing periods of three years and longer.
    - b) Passive Investment Strategies. Passive funds are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with minimal tracking error.

Benchmarks are found in Appendix A.

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2) Qualitative Measures.

The funds will also be monitored on an ongoing basis for other material changes which the Committee or designated subcommittee may determine are of importance to the decision to retain an investment fund including, but not limited to:

- 1) personnel departures
- 2) organizational changes
- 3) alterations in investment style, philosophy, or strategy
- 4) significant changes in assets under management
- 5) significant increase in fund expenses/costs

3) Time Periods.

The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in a fund's performance, the Committee intends to employ investment funds with long-term investment strategies and will evaluate fund performance from a long-term perspective. Performance over three, five and ten year periods will be weighed more heavily than performance over shorter time periods, such as one year or less.

**D) Investment Fund Termination and Watch Status.** The Committee recognizes the long-term nature of retirement plan investing and the variability of market returns. Periodic underperformance in any of the criteria outlined in this policy will not necessitate the termination of a fund. Underperformance will provoke thoughtful consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take, including termination.

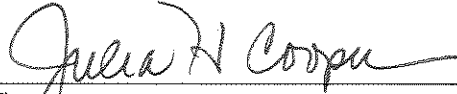
Criteria for placing a fund or investment option on the Watch List, as well as criteria for evaluating the Watch List, are located in Appendix A.

**E) Proxy Voting.** The investment managers shall vote proxies at their discretion.

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**IV. ADOPTION & SIGNATURE:**

AS APPROVED BY THE DEFERRED COMPENSATION ADVISORY  
COMMITTEE ON June 17, 2019:



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Julia Cooper  
Deferred Compensation Advisory Committee Chair  
City of San José



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Date

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**Appendix A: Investment Options, Benchmarks, and Watch List Criteria**

**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 Option** invests in book value investments which may include Separate Account products, Guaranteed Investment Contracts (GICs), "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.

An **Intermediate-Term 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 fund is expected to primarily invest in investment grade securities, with a minimum of 80% of assets invested in securities rated BBB or higher. 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.

An **International Bond Option** invests in bonds issued by foreign governments and corporations based out of the United States. In addition to the risks typically associated with fixed income investments, this investment option is also subject to risks of changing currency exchange rates, possible sovereign defaults, credit conditions in international fixed income markets as well as other risks.

A **Treasury Inflation Protected Securities (TIPS) Option** invests primarily in inflation-linked bonds issued by the United States Treasury. The fund may invest up to 20% of its portfolio in non-TIPS bonds such as ordinary treasury bonds, corporate bonds or international bonds.

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

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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 invests 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.

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 invests 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 invests 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. Investment funds in this category may focus on developed markets, developing markets, or a combination of the two.

An **Index Fund Option** invests identically or nearly identical 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.

**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

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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.

Asset allocation categories may include balanced funds, risk based lifestyle funds and/or time/age based life-cycle funds.

**A Socially Responsible Investing ("SRI") Option** 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, engage in unethical business practices, or conduct business in certain countries. 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 DCAC 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.

**A Real Estate Option** is a mutual fund that primarily invests in real estate investment trusts (REITs) as well as corporations involved in real estate and land development.

**A Self-Directed Brokerage Account ("SDBA") Option** 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 and that they are capable of making, managing, and controlling their own investment choices. Investments in the SDBA are not subject to the due diligence of the core fund offerings.



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**Benchmarks**

Investment Option / Fund	Peer Group	Passive Benchmark
Money Market	Money Market Universe	90-day T-bills
Stable Value	Money Market Universe	90-day T-bills Barclay's US Intermediate Aggregate Bond Index
Intermediate Term Bond	Intermediate Bond Universe	Barclays Capital U.S. Aggregate Bond Index
Treasury Inflation Protected Secs.	Inflation Protected Bond Universe	Barclays Capital U.S. TIPS Index
Foreign Bond	World Bond Universe	Citi World Government Bond Index
Balanced	Appropriate Equity Allocation Universe	
Pre-Set Asset Allocation Funds (target date or risk- based)	Appropriate Equity Allocation Universe	
Large Cap Index/Blend	Large Cap Core/Blend Universe	S&P 500 Index
Large Cap Growth	Large Cap Growth Universe	S&P 500 Growth Index
Large Cap Value	Large Cap Value Universe	S&P 500 Value Index
Mid Cap Blend	Mid Cap Core/Blend Universe	Russell Mid Cap Index
Mid Cap Growth	Mid Cap Growth Universe	Russell Mid Cap Growth Index
Mid Cap Value	Mid Cap Value Universe	Russell Mid Cap Value Index
Small Cap Blend	Small Cap Core/Blend Universe	Russell 2000 Index
Small Cap Growth	Small Cap Growth Universe	Russell 2000 Growth Index
Small Cap Value	Small Cap Value Universe	Russell 2000 Value Index
Foreign Index Fund	Foreign Large Blend Universe	FTSE Global All Cap Ex-U.S.
Foreign Large Cap	Foreign Large Blend Universe	MSCI ACWI Ex-U.S.
Foreign Small Cap	Foreign Small/Mid Cap Universe	MSCI EAFE Small Cap
Emerging Markets	Diversified Emerging Markets Universe	MSCI EM
Real Estate	Relevant Sector Universe	FTSE NAREIT All Equity REITs

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**WATCH LIST**

**POLICY:**

If a fund or investment option fails to meet the standards of investment performance over a three or five year investment horizon, or if there are other concerns about the investment option, the Committee or designated subcommittee may take the following steps.

The fund or investment option may be placed on the Watch List. The Committee or designated subcommittee will attempt, but is not required, to make a decision to retain or remove the investment option during the following 12 months. The Committee may, in its discretion, terminate any fund or investment option at any time. Funds or investment options placed on the Watch List may be retained for criteria which includes, but is not limited to, the following:

- Investment performance above the average of its applicable peer group over a three or five year investment horizon
- Investment performance above the applicable passive benchmark over a three or five year investment horizon
- Sharpe ratio above the average Sharpe ratio for the applicable peer group or passive benchmark over a three or five year investment horizon.

On at least a semi-annual basis each fund on the Watch List will be reviewed and monitored.

Funds or investment options that do not satisfy the above criteria, or are not recommended for retention for other reasons, will be considered for replacement.