

CITY OF SAN JOSE

457(b) and PTC Plans

Comparison Between Current and Proposed Investment Policy Statements

Section	Sub-Section	Current IPS			Where Found in Proposed IPS			Comments and Rationale for Replacement (second paragraph if applicable)
		Text	Page #		Section	Sub-Section	Page #	
Introduction	Purpose of Investment Policy Statement	<p>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.</p> <p>This policy is intended to be flexible, and the Committee shall be free to deviate from this policy as it deems appropriate.</p> <p>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.</p> <p>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.</p> <p>It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.</p>	1		Introduction and Purpose, General Investment Policy, Objectives and Standards	NA (both cases)	1, 2-3	Both documents state general intention of document to guide investment decision making and that the document will be reviewed annually. The "General Investment Policy Objectives and Standards" of the proposed IPS contains language about how participants are responsible for their own investment decisions.
Introduction	Plan Objective	<p>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.</p>	2		Introduction and Purpose	NA	1	Both documents contain language describing the Plans as voluntary retirement savings vehicles.

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Introduction	Investment Option Menu	<p>Purpose of Investment Options</p> <p>a)Consistent with BRISA 404(c), investment options are selected to provide participants with an opportunity to diversify their accounts across a reasonable risk and reward spectrum.</p> <p>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.</p> <p>2)Construction of the Investment Option Menu</p> <p>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.</p> <p>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.</p>	2	General Compliance	NA	2	<p>Both documents describe the general purpose and functionality of the investment menu. Current IPS contains a graph depicting the relationship between risk and return.</p> <p>Proposed IPS is a bit more detailed and states the minimum number of investment options to be made available (3), as well as frequency of investment decision making, information that participants may receive, and plan-level information that may inform investment option selection.</p>
Statement of Responsibilities	Committee	<p>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.</p> <p>Committee members' responsibilities include, but are not limited to:</p> <p>1)Selecting the investment design features of the Plan, including:</p> <p>a)drafting the Investment Policy,</p> <p>b)determining the number and types of investment alternatives available to Plan participants, and</p> <p>c)developing participant investment procedures with Plan record keeper.</p> <p>2)Selecting, monitoring, and evaluating all investment funds in accordance with this Investment Policy.</p> <p>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.</p> <p>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.</p>	5	Summary of Responsibilities, General Compliance	Plan Sponsor, Committee, NA (in General Compliance)	1,2	<p>Both documents state the Committee's fiduciary role and responsibility to set an investment menu structure, monitor investments and make decisions, and monitor fees paid. The Proposed IPS specifically defines the City of San Jose as the Plan Sponsor and states the Deferred Compensation Advisory Committee by name. The Current IPS states information the participants will receive, which is stated in the "General Compliance" section of the proposed IPS.</p>

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Statement of Responsibilities	Investment Managers	<p>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.</p> <p>1)Standards of Investment Managers. This section describes the standards to which Investment Managers should be held by the Committee or designated subcommittee when initially selected and while performing investment management services.</p> <p>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.</p> <p>b)All transactions undertaken on behalf of the Plan shall be for the sole interest of Plan participants and beneficiaries.</p> <p>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.</p> <p>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.</p>	5-6	Summary of Responsibilities, General Investment Policy, Objectives and Standards	Investment Provider, Investment Manager, NA (in General Investment...)	2, 3	<p>Both documents state the types of investment vehicles that will generally be used. Current IPS describes the fiduciary standards that investment managers are held to.</p> <p>This section puts forward fiduciary standards for the Plans' investments. This however 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. Proposed IPS delineates investment manager and investment provider.</p>
Statement of Responsibilities	Plan Participants	<p>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.</p> <p>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:</p> <p>1)Determining their contribution/deferral rate.</p> <p>2)Selecting their investment options for both existing balances and new contributions going forward.</p> <p>3)Monitoring their asset allocation strategy and making adjustments as personal situations change.</p> <p>4)Electing the timing and form of distributions according to terms of the Plan.</p>	6	General Investment Policy, Objectives and Standards	NA	2-3	<p>Both documents state that the responsibility for investment decisions rests with participants.</p> <p>Information about participants' responsibility with respect to setting contribution and distribution schedules may be extraneous to the purpose of an IPS. The Proposed IPS goes into somewhat greater detail pertaining to factors influencing participant use of investment options.</p>

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Statement of Responsibilities	Plan Administrator	<p>The Committee is also the Plan administrator. The Plan administrator's duties include, but are not limited to:</p> <ol style="list-style-type: none"> 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. 	7	Summary of Responsibilities	Plan Sponsor	2	Both documents describe the high-level governance responsibilities of the City.
Statement of Responsibilities	Investment Consultant	<p>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.</p> <p>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:</p> <ol style="list-style-type: none"> 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. 	7	Summary of Responsibilities	Investment Consultant	2	<p>Both documents state that the Investment Consultant is a fiduciary with respect to the investment advice it provides. The Current IPS notes that the Investment Consultant will assist in manager searches.</p> <p>The Proposed IPS refers to the Investment Consulting Contract about the provision of manager searches. Importantly, the Proposed IPS notes the Investment Consultant does not have discretionary authority.</p>

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Statement of Responsibilities	Record Keeper and Trustee/Custodian	<p>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:</p> <ol style="list-style-type: none"> 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 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. 8) Trustee/Custodian <p>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:</p> <ol style="list-style-type: none"> 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. 	7-8	Summary of Responsibilities	Service Providers	2	<p>The Current IPS has a more extensive description of the responsibilities and services of record-keepers and custodians.</p> <p>In this case, it may be appropriate to amend the Proposed IPS to contain this information.</p>
Committee Process	Meeting Frequency	<p>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.</p>	9	General Compliance	NA	2	<p>The Current IPS allows for a minimum of semi-annual meeting and review.</p> <p>The Proposed IPS states this will be quarterly, which is generally a higher standard.</p>

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Committee Process	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		9	Investment Option Selection Guidelines	NA	9-10	Both documents state that performance (attributable to current management) and style will be reviewed. The Proposed IPS states the specific performance measurement interval and standard, as well as forward-looking considerations with respect to target date funds.
Committee Process	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. 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.		9-10	Investment Option Review Guidelines and Monitoring	NA	10-11	Both documents provide quantitative and qualitative criteria, including the objective to outperform peer group or benchmark over a time period. The Proposed IPS has a longer time period (five years) for performance measurement, which is a closer approximation of a market cycle. Both documents acknowledge the potential for higher volatility of returns over the short-term.

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Committee Process	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.	10, A-5	Investment Option Termination and Watch Guidelines	NA	11-12	The Current IPS refers to Watch List Appendix, which outlines criteria for placing and removing funds from watch status. Generally the process may be completed within a year. The Watch List is scheduled for semi-annual review. Both documents retain the prerogative to deviate from their stated procedures as appropriate. The Proposed IPS contains a similar general approach but delineates different treatment (that is believed to be reasonable) for index funds and target date suites. As Hyas Group practice, the Watch List is reviewed at each performance meeting.
Committee Process	Proxy Voting	The investment managers shall vote proxies at their discretion.	10	Investment Oversight Responsibility and Proxy Voting	NA	10	The Current IPS states that investment managers will vote proxies at their discretion. The Proposed IPS states that proxies (for which the Committee is responsible) will be voted in the best interest of the Plans, which is more directly in line with fiduciary duty.
Appendix A	Description of Investment Option Categories	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: <ul style="list-style-type: none"> 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.	A-1 - A-4	Investment Options	NA	4-9	Both documents contain a description of each peer group and an applicable benchmark. The Proposed IPS contains benchmark and peer group information in a single location.