SACRAMENTO COUNTY

Investment Policy
For the
Retirement Health Savings Plan

Approved by the
Sacramento County Board of Supervisors

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Amended by the
Sacramento County Board of Supervisors

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NOTE: The County does not guarantee participant contributions and account balances under the RHSP against the risk of principal loss or investment performance.
Sacramento County
Investment Policy
For the Retirement Health Savings Plan

SECTION I.
INTRODUCTION

The County of Sacramento offers to all eligible full-time and covered part-time employees a Retirement Health Savings Plan (“Plan”). The Plan is administered by the County of Sacramento Internal Services Agency Administrator. The Internal Services Agency Administrator is the Plan Administrator (“Administrator”) and is responsible for the general administration of the Plan. The Director of Finance is responsible for selecting investment options.

PURPOSE

The purpose of this Investment Policy (“Policy”) is to provide documentation of the procedures demonstrating care, skill, prudence and diligence that will be used by the Director of Finance in the selection and monitoring of investment options for the Plan.

The Policy intends to establish prudent procedures in the selection and monitoring of investments to allow for participant direction of individual investment selections from a diversified list of investment options.

It is also the intent of this Policy to provide a meaningful framework for the investment management of the Plan assets and that the Policy will not be overly restrictive given the changing economic, business and investment market conditions. It is intended that the objectives be sufficiently specific to be meaningful, but flexible enough to be practical.

The Director of Finance will review the Policy at least annually to make any changes in the procedures and determine whether the Policy is in keeping with the regulations governing the Plan. Additionally, the Director of Finance may recommend amendments to this Policy to the Administrator at any time to reflect changes in the procedures or to incorporate requirements based on new regulations. The Policy will assist the Director of Finance in effectively planning, supervising, monitoring, and evaluating the investment program established in the Plan, in consultation and under advisement of the Administrator.

PLAN OBJECTIVES

The goal of the Plan is to provide all employees with a comprehensive, prudently managed tax-free retirement health savings program. The Plan objectives are the following:
* The Plan is established for the exclusive benefit of the employee participants and their beneficiaries.

* The Plan is a vehicle through which employees may accumulate assets to provide for a portion of their retirement health savings needs.

* The Plan seeks to provide a broad range of investment options recognizing the differing financial objectives, risk and return tolerance and diverse demographics of participants.

* The Plan will seek to provide suitable investment options, considering that participants each have different investment horizons and standards of acceptable risk and returns.

* The Plan will obtain investment options at a reasonable cost and control overall investment related service costs.

* The Plan will establish investment objectives and standards for the investment options offered to assure that the assets are managed in accordance with the Policy.

* The Plan will establish formal criteria to monitor and evaluate the performance results achieved by the investment managers.

* The Plan will provide a formal process for reviewing and modifying the Investment Policy.

* The Plan shall meet the fiduciary responsibility of the Retirement Health Savings Plan Program.
DIRECTOR OF FINANCE DUTIES AND RESPONSIBILITIES

The general duties and responsibilities of the Director of Finance for the investment related matters are as follows:

* Recommends investment policy, the addition, removal and freezing of investment options, conducts due diligence, and monitors investment performance and fees.

* Recommends qualified investment managers and funds which provide a range of risk and return characteristics.

* Recommends a qualified Investment Consultant on selection, evaluation, monitoring of investment options, and other administrative issues as needed.

* Prepares performance reports of investment options portfolio.

* Monitors and evaluates changes in legislation and regulations to ensure compliance regarding investment matters.

* Ensures the communication of the fund performance to all participants by the Plan’s Third Party Administrator.

* Recommends other investment related agreements to the Administrator.

SECTION II.

POLICY GUIDELINES

The Policy will aid in the selection of appropriate investment asset categories and investment options and in the performance monitoring of the investment options. The Director of Finance will review the Policy at least annually to make any changes in the procedures and determine whether the Policy is in keeping with regulations governing the Plan. Additionally, the Director of Finance may recommend amendments to this Policy to the Administrator at any time to reflect changes in the procedures or to incorporate requirements based on new regulations.
CORE INVESTMENT OPTIONS

The Director of Finance selects at least one investment option within each of the investment asset categories listed below. These investment options are referred to as Core Options. The Director of Finance will monitor each fund’s performance, risk measures, management style, investment objectives, and investment expenses, at least annually. A listing of the Core Options is available as Exhibit I—Investment Options Listing & Investment Performance Standards.

Investment Categories

The Director of Finance recognizes the broad range of investment needs required by participants. The following investment asset categories will be selected to provide a range of risk and return characteristics that will give participants the opportunity to develop an investment portfolio which, taken together, will meet their desired risk and return requirements as follows:

1. Money Market
2. Bond/Fixed Income
3. Balanced
4. Equity (incorporating Large, Mid and/or Small Cap):
   a. Index
   b. Blend
   c. Growth
   d. Value
   e. International/Global
5. Asset Allocation/Lifestyle (combined asset categories mix)

The Director of Finance recognizes that within an equity category, the investment style (e.g. value, growth, or growth and income) may differ between investment options.

Selection Criteria

The Director of Finance will select investment options using a fund’s performance and administrative performance criteria as set below.

Performance Criteria

The Director of Finance will evaluate relative fund performance for each of the investment options. The following criteria will be used to determine the suitability of an investment option:

1. Investment option returns will be evaluated over a full market cycle, generally five to ten years. This allows for the investment process and style of a particular fund to fully develop in terms of risk, return, style, and overall portfolio characteristics.

2. The Director of Finance will also look at shorter- and longer-term performance information for consideration of extenuating circumstances such as manager changes and to take into account the length of any extraordinary economic conditions.
3. Returns should meet or exceed those of the appropriate benchmark indices for the objective and style of the investment option and the returns should meet or exceed those of 50% of a peer group of investment options as described by a universe of peers with similar investment objectives and styles, such as the appropriate Morningstar category.

4. Investment options may also be evaluated on other criteria including, but not limited to, Morningstar fund ratings and performance relative to relevant economic indicators.

5. Other investment performance measures will be reviewed to determine the suitability of an investment option over five- and ten-year periods. For example, the standard deviation, which is a statistical measurement of the spread of a fund’s return over a specified period, will be used to compare the volatility of an investment option against similar investment objective and style fund.

**Administration Performance Criteria**

1. All fees, commissions, and charges will be disclosed to the Director of Finance, the Committee, and all participants.

2. The investment options will provide for daily valuation and trading.

3. The investment fund provider must be able to provide communication and reporting services as needed to monitor the performance criteria.

**Monitoring Procedure**

1. The Director of Finance will provide at least annually a review to assess the continuing compliance of all of the Plan’s investment options. The Director of Finance may perform more frequent monitoring as necessary. In addition, the Plan Third Party Administrator will provide semi-annually reviews on the Core Options.

2. The reviews will be used to determine the following:
   a. Whether performance remains within the standards established by the Performance criteria above.
   b. Whether the manager’s investment style has remained consistent.
   c. What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
   d. Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

**Watch List and Removal Procedure**

The Director of Finance will ordinarily terminate a Core Option if it fails to meet the criteria required below, unless other extenuating circumstances are present. The Director of Finance’s procedure for placing an investment option on the Watch List and for removing an investment option from the Core Options will include the following:

1. Monitoring will be completed on a quarterly basis for all Core Options.
2. With the exception of index funds, a Core Option will be placed on the Watch List if it meets either two of conditions “a” through “g” or condition “h”:

   a. The fund performs below 50% of the peer group for a three-year period
   b. The fund performs below 50% of the peer group for a five-year period
   c. The fund performs below 50% of the peer group for a ten-year period
   d. Performance below the appropriate benchmarks for a three-year period
   e. Performance below the appropriate benchmarks for a five-year period
   f. Performance below the appropriate benchmarks for a ten-year period
   g. Morningstar rating of 2 or below
   h. Extenuating Circumstances – includes one or more of the following, but is not limited to:
      i. Change of investment manager
      ii. Change of sub-advisor
      iii. Any violations of SEC rules or regulations
      iv. Performance will be considered over a minimum of a three-year period and a maximum of a ten-year period unless a shorter-term underperformance is so severe that it warrants the Director of Finance’s immediate consideration for removal.

3. To be in good standing and removed from the Watch List, a fund must not have more than one of Watch List criteria “a” through “g” above. However, a fund may have extenuating circumstances that warrants continuation on the Watch List.

4. A fund will be removed from the Core Options when conditions “a through e” apply or if it is determined that extenuating circumstances are not in accordance with prudent investment standards:

   a. The fund performs below 50% of the peer group for a five-year period.
   b. The fund performs below 50% of the peer group for a ten-year period.
   c. Performance below the appropriate benchmarks for a five-year period.
   d. Performance below the appropriate benchmarks for a ten-year period.
   e. Morningstar rating of 2 or below.
   f. Extenuating Circumstances – includes one or more of the following, but is not limited to:
      i. Change of investment manager.
      ii. Change of sub-advisor.
      iii. Any violations of SEC rules or regulations.
      iv. Performance will be considered over a minimum of a five-year period and a maximum of a ten-year period unless a shorter-term underperformance is so severe that it warrants the Director of Finance’s immediate consideration for termination or replacement.

5. After a fund is removed, all existing balances will be moved from the removed fund to a similar existing Core Option or a replacement fund and future contributions will be deposited in the new Core Option or fund. No new contributions or transfers will be accepted into a removed fund.
6. The Director of Finance will communicate with participants of funds placed on the Watch List and any funds subject to removal.

7. The Director of Finance will amend, if applicable, the Agreement with Plan Third Party Administrator each time any fund is added or removed from the Core Options.

SECTION III.

PARTICIPANT COMMUNICATION AND INVESTMENT CONTROL
PARAMETERS TO PARTICIPANT OF INVESTMENT OPTIONS

PARTICIPANT COMMUNICATION

The Plan will provide for regular communication of investment and Plan information in addition to necessary updates to inform participants of changes to the Plan. Communication will be made through flyers and bulletins to be distributed with paychecks through each department or mailed to each participant’s home. Additionally, information may be distributed in the form of electronic mail messages or through postings to the County of Sacramento Intranet site. Any documents posted to the County Intranet site will be announced through a medium that can be reviewed by all participants, such as notifications mailed to the home or distributed with paychecks.

The Plan Third Party Administrator selected and monitored by the Administrator will provide prospectuses and annual reports for each of the investment options under Core Options. Such information will be provided to participants when they enroll in an option for the first time, when there is a revision of the document and whenever a participant requests such documents. The Plan Third Party Administrator will also provide participants with information on returns and risk information for one-, three-, five- and ten-year periods.

Additional Plan information prepared by the Plan Third Party Administrator and reviewed by the Administrator may be distributed through mailings to the participants directly from the Plan Third Party Administrator or included with the quarterly statements. Video presentations prepared by the Plan Third Party Administrator may also be made available as coordinated by the Director of Finance or Department of Finance staff.

The Plan Third Party Administrator will provide for regular education presentations with at least the following characteristics:

1. Present a variety of formats and topics including basic investment education, asset allocation and discuss general aspects of savings with the Plan; and

2. Presentations will be made at least semi-annually.

The Director of Finance and Department of Finance staff will not provide specific investment advice. The Director of Finance will only provide general investment and retirement saving education to participants to help them in their selection and monitoring of their investment options.
The Plan Third Party Administrator may only provide specific investment advice if there is no conflict of interest in terms of direct gain for the Plan Third Party Administrator by the participant’s selection of particular options. The Plan Third Party Administrator may elect not to provide any investment advice to participants.

**PARTICIPANT INVESTMENT CONTROL PARAMETERS**

Participants will have the option to direct the investment of the ongoing contributions and to make changes to those elections at any time. Changes to the investment elections will be made directly with the Plan Third Party Administrator or vendor(s) and will be processed as soon as administratively feasible, but in no event later than two business days after such election change is made by the participant.

Participants may change where their account balances are invested on a regular basis. Daily valuation will allow participants to direct a change in the investment of their account balance at any time to be executed as soon as administratively feasible, but in no event later than the end of business the following business day.

The custodian, trustee, or investment vendor(s) reserve the right to establish fees to discourage frequent trading as necessary to reduce investment option management expenses. The Plan Third Party Administrator, in the interest of investment option competition, may establish other restrictions on the frequency of changing investment options.

Other restrictions on the frequency of changes to investment elections or asset allocation may be established to reflect changes in the regulations governing the Plan or changes in policy and procedures.
## INVESTMENT OPTIONS AS OF 12/31/2009

### EXHIBIT I

& INVESTMENT PERFORMANCE STANDARDS

<table>
<thead>
<tr>
<th>Category</th>
<th>Fund</th>
<th>Related Market Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stable Value</strong></td>
<td>Vantagepoint Money Market Fund</td>
<td>30-Day Treasury Bill</td>
</tr>
<tr>
<td><strong>Income (Bond)</strong></td>
<td>Vantagepoint Low Duration Bond</td>
<td>ML 1-3 Government/Corp Index or Morningstar Short-Term Bond</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Inflation Protected Securities</td>
<td>Barclays Capital U.S. Treasury Inflation Protected Securities</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Core Bond Index (Class 2)</td>
<td>Barclays Capital U.S. Aggregate Bond</td>
</tr>
<tr>
<td><strong>Balanced</strong></td>
<td>Vantagepoint Asset Allocation</td>
<td>S&amp;P 500 or Asset Allocation Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Model Portfolio Savings Oriented</td>
<td>Barclays Capital U.S. Int Aggregate Bond or Savings Oriented Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Model Portfolio Conservative Growth</td>
<td>Barclays Capital U.S. Int Aggregate Bond or Conservative Growth Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Model Portfolio Traditional Growth</td>
<td>S&amp;P 500 or Traditional Growth Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Model Portfolio Long-Term Growth</td>
<td>S&amp;P 500 or Long-Term Growth Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Model Portfolio All-Equity Growth</td>
<td>S&amp;P 500 or All-Equity Growth Custom</td>
</tr>
<tr>
<td><strong>Large Cap Blend</strong></td>
<td>Vantagepoint 500 Stock Index (Class 1)</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Broad Market Index (Class 1)</td>
<td>DJ Wilshire 5000</td>
</tr>
<tr>
<td><strong>Large Cap Growth</strong></td>
<td>Neuberger Berman Socially Resp</td>
<td>S&amp;P 500 S&amp;P 500</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Growth &amp; Income</td>
<td>Russell 1000 Growth</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Growth</td>
<td></td>
</tr>
<tr>
<td><strong>Large Cap Value</strong></td>
<td>Vantagepoint Equity Income</td>
<td>Russell 1000 Value</td>
</tr>
<tr>
<td><strong>Mid Cap Blend</strong></td>
<td>Vantagepoint Mid/Small Company Index (Class 1)</td>
<td>DJ Wilshire 4500</td>
</tr>
<tr>
<td><strong>Mid Cap Growth</strong></td>
<td>Vantagepoint Aggressive Opportunities</td>
<td>Russell MidCap Growth</td>
</tr>
<tr>
<td><strong>Mid Cap Value</strong></td>
<td>Vantagepoint Select Value</td>
<td>Russell MidCap Value</td>
</tr>
<tr>
<td><strong>Small Cap Blend</strong></td>
<td>Vantagepoint Discovery</td>
<td>Russell 2000</td>
</tr>
<tr>
<td><strong>Int’l. Equity</strong></td>
<td>Vantagepoint International</td>
<td>MSCI EAFE (Net)</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Overseas Equity Index (Class 1)</td>
<td>MSCI EAFE (Net)</td>
</tr>
<tr>
<td><strong>Milestone Funds/ Lifecycle Funds</strong></td>
<td>Vantagepoint Retirement Income Fund</td>
<td>S&amp;P 500, Barclays Capital U.S. Intermediate Aggregate Bond , or Milestone Custom</td>
</tr>
<tr>
<td></td>
<td>Vantagepoint Milestone 2010, 2015, 2020, 2025, 2030, 2035, 2040 Funds</td>
<td></td>
</tr>
</tbody>
</table>

1 Lifecycle funds will also be evaluated based on their asset allocation mixes, ability to span the risk/return spectrum and the underlying funds that comprise each lifecycle fund. These options are intended for participants who choose to not make asset allocation decisions.
EXHIBIT II

DEFINITIONS

Benchmark – An index used to measure investment returns of securities having similar characteristics. Such characteristics may include market capitalization, geographic location of the company that issued the security, etc.

CAPS – Capped Floating Rate Notes with an upper limit on the coupon rate. The investor forgoes the possibility of obtaining a return above the cap rate if market interest rates exceed the cap rate.

Commodities – Bulk good such as grains, metals, and foods traded on a commodities exchange or on the spot market.

Currencies – 1. Any kind of money that is in circulation in an economy. 2. Anything that functions as a medium of exchange, including coins, banknotes, checks, bills of exchange, promissory notes, etc. 3. (or legal tender) The money in use in a particular country. 4. The time that has to elapse before a bill of exchange matures.

Currency Options – A contract giving the right either to buy or to sell a specified currency at a fixed exchange rate within a given period. The price at which the buyer has the right to buy or sell the currency.

Currency Warrants – A detachable option included in securities issue giving the holder the right to purchase from the borrower additional securities denominated in a currency different from that of the original issue. The coupon and price of the securities covered by the warrant are fixed at the time of the sale of the original issue. A currency warrant may also be considered a negotiable currency option.

Financial Futures – A contract to trade a financial instrument, such as a Treasury bill, at a specific price and on a specific future date. As interest rates rise or fall, the value of such contracts fall or rise, respectively. Traders use these contracts to speculate on the direction of interest rates.

Index Fund – A mutual fund that keeps a portfolio of stocks designed to match the performance of a stock market or one of its sectors as measured by an index of selected stocks, such as Standard & Poor’s 500 Index.

Interest Rate Options – A form of option enabling traders and speculators to hedge themselves against future changes in interest rates.

Limited Partnerships – Organization made up of a General Partner, who manages a project, and limited partners, who invest money but have limited liability, are not involved in day-to-day management, and usually cannot lose more than their capital contribution. Usually limited partners receive income, capital gains, and tax benefits; the general partner collects fees and a percentage of capital gains and income. Typical limited partnerships are in real estate, oil and gas, and equipment leasing, but they also finance movies, research and development, and other projects. Typically, public limited partnerships are sold through brokerage firms, for minimum investments of $5,000, whereas private limited partnerships are put together with fewer than 35 limited partners who invest more than $20,000 each.
Options – In general: right to buy or sell property that is granted in exchange for an agreed-upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money.

Peer Group – A group of investment funds managed in the same Style and having similar objectives.

Precious Metals – Any of several metals, including gold and platinum, which have high economic value.

Socially Conscious Fund – Any fund that invests according to non-economic guidelines. It may include investments based on such issues as environmental and social responsibilities. It also includes, but is not limited to, funds that avoid companies involved in promoting tobacco, alcohol, gambling, nuclear and military weapons industries.

Tax-exempt securities (including mutual funds and UITs) – Obligation whose interest is exempt from taxation by federal, state, and/or local authorities. It is frequently called a municipal bond (or simply a municipal), even though it may have been issued by a state government or agency or by a county, town, or other political district or subdivision. The security is backed by the full faith and credit or by anticipated revenues of the issuing authority. Interest income from tax-exempt municipals is free from federal income taxation as well as from taxation in the jurisdiction where the securities have been issued. Thus, New York City obligations are triple tax-exempt to city residents who income is taxed on the federal, state, and local levels. (A very few municipalities tax residents for their own otherwise tax-exempt issues.)

Mutual Funds that invest exclusively in tax-exempt securities confer the same tax advantages on their shareholders. However, while a fund's dividends would be entirely tax-exempt on a shareholder’s federal tax return, they would be free from state income tax only in proportion to the amount of interest income derived from the taxpayer’s home state, assuming no interstate reciprocity arrangements pertain.

The return to investors from a tax-exempt bond is less than that from a corporate bond, because the tax exemption provides extra compensation; the higher the tax bracket of the investor, the more attractive the tax-free alternative becomes. Municipal bond yields vary according to local economic factors, the issuer’s perceived ability to repay, and the security’s quality rating assigned by one of the bond-rating agencies.