



# SACRAMENTO COUNTY

## **Investment Policy For the 457(b) and 401(a) Deferred Compensation Plans**

*Approved by the  
Sacramento County Board of Supervisors*

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**NOTE:** The County does not guarantee participant contributions and account balances under the 457 Plan against the risk of principal loss or investment performance.

# Sacramento County Investment Policy For the 457(b) and 401(a) Deferred Compensation Plans

## **SECTION I.**

### **INTRODUCTION**

The County of Sacramento offers two types of deferred compensation plans. The 457(b) Plan (“457 Plan”) is a Deferred Compensation plan available to all eligible full-time and covered part-time employees. The 457 Plan complies with the Internal Revenue Code section 457 and other applicable laws and regulations. Employees are encouraged to enroll in the 457 Plan for the purpose of saving, tax-deferred, a portion of their salary to enhance their retirement income. The 401(a) Plan is available to those participants designated by the County of Sacramento Board of Supervisors as eligible to participate in the 401(a) Plan. One percent of an eligible participant’s base salary that is contributed to the 457 Plan is matched by the County in the 401(a) Plan.

The 457 Plan was established on April 15, 1973, and the 401(a) Plan was established in July 2007. Both plans are governed by Plan Documents approved by the Board of Supervisors. The 457 Plan and the 401(a) Plan (together, hereinafter described as “the Plan”) are administered by the Plan Administrator. The Plan Administrator is responsible for selecting a recordkeeper and the general administration and investment management of the Plan. Under the direction of the Plan Administrator, the Director of Finance is responsible for recommending investment options, working with the Plan consultant, and adhering to this investment policy. The Director of Finance also prepares investment reports and monitors investment options. In addition, the Board of Supervisors established the Deferred Compensation Advisory Committee (“Committee”) to assist, consult, and advise the Plan Administrator and the Director of Finance in matters relating to the general administration and investment options of the Plan.

### **PURPOSE**

The purpose of this investment 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 investment 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 investment policy to provide a meaningful framework for the investment management of the Plan assets and that the investment 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 investment policy at least annually, determine if it is in keeping with the regulations governing the Plan, and recommend any changes in the procedures or investment policy. The investment policy will assist the Director of Finance in effectively planning, supervising, monitoring, and evaluating the investment program established in the Plan. Any amendments to this investment policy will be approved by the Plan Administrator in consultation and under advisement of the Committee before submission to the Board. The Plan Administrator is not required to follow the Committee or Director of Finance recommendations on investment options or other matters related to investment management.

## **PLAN OBJECTIVES**

The goal of the Plan is to provide all employees with a comprehensive, prudently managed tax-deferred 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 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 investment policy.
- \* The Plan will establish formal criteria to monitor and evaluate the performance results achieved by the portfolio managers.
- \* The Plan will provide a formal process for reviewing and modifying the investment policy.
- \* The Plan shall meet the fiduciary responsibility of the Deferred Compensation Plan.

## **DIRECTOR OF FINANCE DUTIES AND RESPONSIBILITIES**

Under the direction of the Plan Administrator, the general duties and responsibilities of the Director of Finance for the investment related matters are as follows:

- \* Recommends investment policy, the addition and removal of investment options, conducts due diligence, and monitors investment performance and fees.
- \* Recommends qualified investment options that provide a range of risk and return characteristics.
- \* Recommends a qualified Plan consultant whose duties may include assisting in the selection, evaluation, monitoring of investment options and other administrative issues.
- \* Prepares performance reports of investment options portfolio to the Committee.
- \* Monitors investment options 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 Trustee.

## **SECTION II.**

### **CORE INVESTMENT OPTIONS**

The Director of Finance will select and recommend 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 as of September 30, 2018, is available as Exhibit I—Investment Options Listing & Investment Performance Standards, and an up-to-date listing of the Core Options is available from the recordkeeper. The Plan Administrator reserves the right to add more investment options to the Core Options to provide participants more opportunities for diversification.

### **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 full-time participants the opportunity to develop an investment portfolio which will meet their desired risk and return requirements as follows:

1. Money Market/Stable Value
2. Bond/Fixed Income
3. Equity (incorporating Large, Mid and/or Small Cap):
  - a. Passive (indexed)
  - b. Blend/Growth and Income

- c. Growth
  - d. Value
  - e. International/Global
4. Target-Date
  5. Environmental, Social, and Governance

The default fund for new full-time participants who do not direct the investment of their account is the age-appropriate target-date fund. Covered part-time employees investment options are limited to cash equivalents to maintain safety and liquidity.

### **MONITORING PROCEDURE**

1. The Director of Finance will complete a quarterly review to assess the continuing compliance of the Plan's Core Options. The Director of Finance may perform more frequent monitoring as necessary.
2. The quarterly and semi-annual reviews will be used to determine the following:
  - a. Whether performance remains within the standards established by the performance criteria.
  - b. Whether the portfolio 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.

### **ACTIVELY-MANAGED FUNDS**

#### **Selection Criteria**

The Director of Finance will recommend actively-managed options for addition to the Core Options using performance and administrative performance criteria as set below.

#### **Performance Criteria**

The Director of Finance will evaluate relative 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 portfolio 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 quantitative and qualitative criteria.

### **Administration Performance Criteria**

1. The portfolio manager will preferably have at least three years of experience.
2. The initial deposit or transfer to the fund must constitute less than 10% of the total fund assets.
3. All fees, commissions, and charges will be disclosed to the Director of Finance, the Committee, and all participants.
4. Expense ratios will be within the lowest 50% of funds with a similar objective and style.
5. The investment options will provide for daily valuation and trading.
6. The investment provider must be able to provide communication and reporting services as needed to monitor the performance criteria.

### **Watch List Procedure**

The Director of Finance will ordinarily remove an actively-managed fund if it fails to meet the criteria required below. The Director of Finance's procedure for placing an investment option on the Watch List and for removing an actively-managed investment option from the Core Options includes the following:

1. An actively-managed Core Option will be placed on the Watch List if it meets either at least two of conditions "a" through "g" or condition "h":
  - a. Performance below 50% of its peer group for a three-year period
  - b. Performance below 50% of its peer group for a five-year period
  - c. Performance below 50% of its peer group for a ten-year period
  - d. Performance below its benchmarks for a three-year period
  - e. Performance below its benchmarks for a five-year period
  - f. Performance below its benchmarks for a ten-year period
  - g. A Morningstar rating of 2 or below
  - h. Extenuating circumstances
    - i. Change in fees
    - ii. Change of portfolio manager
    - iii. Change of sub-advisor
    - iv. Any violations of SEC rules or regulations

- v. 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.
2. 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.

### **Removal Criteria**

1. An actively-managed fund will be removed from the Core Options if it is determined that extenuating circumstances are not in accordance with prudent investment standards or when conditions "a" through "e" below apply; however, the Plan Administrator has discretion to retain any Core Option as long as it remains a prudent option:
  - a. Performance below 50% of its peer group for a five-year period
  - b. Performance below 50% of its peer group for a ten-year period
  - c. Performance below its benchmarks for a five-year period
  - d. Performance below its benchmarks for a ten-year period
  - e. A Morningstar rating of 2 or below
  - f. Extenuating circumstances
    - i. Change in fees
    - ii. Change of portfolio manager
    - iii. Change of sub-advisor
    - iv. Any violations of SEC rules or regulations
    - v. Performance will be considered over a minimum of a five-year period and a maximum of a ten-year period unless a shorter term under performance is so severe that it warrants the Director of Finance's immediate consideration for removal.
2. The Plan Administrator will communicate to all eligible participants the funds subject to removal.
3. After a fund is removed, all existing balances and future contributions will be moved from the removed fund to a similar existing Core Option or a replacement fund. No new contributions or transfers will be accepted into a removed fund.

### **PASSIVE (INDEXED) FUNDS**

Each passive option's ability to replicate its target index will be impacted by pricing characteristics unique to a particular asset class (i.e. international equity "fair value pricing", bond funds use of different pricing services, etc.). Pricing characteristics specific to a particular asset class and the funds expense ratio should both be factored into evaluating the prudence of the fund's performance.

### **MONEY MARKET AND STABLE VALUE FUNDS**

The Director of Finance will consider fees and the size of total assets under management when recommending money market and stable value funds for addition to the Core Options.



Specific to stable value, the following will be considered when selecting and monitoring these products:

- The level of experience the provider has with stable value products
- The credit ratings of the stable value wrap providers guaranteeing principal protection
- The market value to book value ratio

### **TARGET-DATE FUNDS**

For target-date funds, the asset allocation and glidepath should be evaluated taking into account factors such as generally accepted investment theories, prevailing investment industry practices, the goals of the Plan, the philosophy of the fiduciaries regarding asset class diversification, the desired relationship of risk (or volatility) and potential return, and the needs and abilities of the participants and beneficiaries. Fees should be below industry average. The Director of Finance will engage in a process to identify and consider those goals, preferences, needs and abilities and to select a default investment consistent with that analysis.

As the analysis techniques effective for comparing target-date funds differ from the analysis used for other investment selections in several respects, criteria listed elsewhere in this investment policy may not apply. Target-date funds will be evaluated and, if necessary, replaced as a suite. The Director of Finance will rely upon the Plan consultant to affirm that the target-date fund family performance remains appropriate with the products' stated investment objectives and glidepath construction methodology. This affirmation will occur no less than annually.

### **NON-CORE INVESTMENT OPTIONS**

The Plan Administrator may make available Non-Core Options, investment options outside of the Core Options, if there are no fees to the Plan. Any fees would be paid directly by the Plan participants electing Non-Core Options. There will be no review of the performance, risk measures, management style, investment objectives, and fees, commissions, and charges of these 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. The Plan Trustee selected and monitored by the Plan 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 Trustee will also provide participants with information on returns and risk information for one-, three-, five- and ten-year periods. The Plan Trustee will only provide general information regarding the investment options available under the Non-Core Options.

Additional Plan information prepared by the Plan Trustee and reviewed by the Plan Administrator may be distributed through communications to the participants in the manner of their choice directly from the Plan Trustee or included with the quarterly statements. 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 Trustee may only provide specific investment advice if there is no conflict of interest in terms of direct gain for the Plan Trustee by the participant's selection of particular options. Subject to the approval of the Plan Administrator, the Plan Trustee may elect not to provide any investment advice to participants.

#### **PARTICIPANT INVESTMENT CONTROL PARAMETERS**

Participants will have the option to direct the investment of their ongoing contributions and to make changes to those elections at any time. Changes to the investment elections will be made directly with the Plan Trustee 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 Plan Trustee and portfolio managers reserve the right to establish fees to discourage frequent trading as necessary to reduce investment option management expenses. The Plan Trustee, 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 by the Plan Administrator to reflect changes in the regulations governing the Plan or changes in the investment policy or procedures.

**INVESTMENT OPTIONS AS OF 09/30/2018  
& INVESTMENT PERFORMANCE STANDARDS**

**EXHIBIT I**

<u>Category</u>	<u>Fund</u>	<i>Comparative Benchmarks</i>	
		<u>Peer Group Universe Median</u>	<u>Related Market Indices</u>
Short-Term	FIMM Government Portfolio Instl		FTSE 3-Month Treasury Bill
Stable Value	Wells Fargo Stable Value Fund E		FTSE 3-Month Treasury Bill
Income (Bond)	MetWest Total Return Bond Fund Plan Vanguard Total Bond Market Instl	Morningstar	Bloomberg Barclays U.S. Aggregate Bond Vanguard Spliced Barclays Aggregate Float Adjusted
Large Cap	Fidelity Contrafund K6 JP Morgan Equity Income R6 Parnassus Core Equity Inv Vanguard Institutional	Morningstar	S&P 500 Russell 1000 Value S&P 500 S&P 500
Small/Mid Cap	JP Morgan Small Cap Equity R6 Vanguard Extended Market Inst	Morningstar	Russell 2000 S&P Completion
International Equity	Oakmark International Instl Vanguard Total International Stock Instl	Morningstar	MSCI World ex US FTSE Global All Cap ex US
Target-Date	Vanguard Target Retirement Income, 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050, 2055, 2060, and 2065 Trust I Funds	Morningstar	Vanguard Target Retirement Composite

**DEFINITIONS**

**Assets Class** – A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds), and cash equivalents (money market instruments).

**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.

**Environmental, Social, and Governance** – A set of standards for a company's operations that socially conscious investors used to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers, and the community where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights.

**Money Market Fund** – A mutual fund with investments directed in short-term money market instruments only, which normally can be withdrawn with 24-hour's notice without penalty. Money market funds vary primarily in terms of the mix of assets in which they invest.

**Passive 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.

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

**Plan Trustee** – An individual or financial institution designated to hold in trust any assets of the Plan for the purpose of providing benefits under the Plan.

**Stable Value Fund** – An investment vehicle found in both company retirement plans and, quite recently, IRA accounts. Stable value funds are comprised of mostly "synthetic GICs" (known also as wrapped bonds) because of their inherent stability. These bonds can be short or intermediate term with longer maturities than other choices such as money market funds. They are paired (or wrapped) with insurance contracts to guarantee a specific minimum return.

**Target-Date Fund** – A fund that automatically resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame that is appropriate for a particular investor.

**Wrap Provider** – A bank, insurer, or other financial company that guarantees that participants will receive principal and accumulated interest even if the securities held in a fund's portfolio decline in value.