

# **Alameda County 457(b) and 401(a) Plans Investment Policy Statement**

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**Alameda County  
457(b) and 401(a) Plans  
*Investment Policy Statement***

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## **INTRODUCTION**

Alameda County, a municipal corporation in California, is committed to providing state of the art services to its employees. In order to recruit and retain qualified personnel, the County of Alameda maintains a 401(a) defined contribution pension plan and a 457(b) deferred compensation plan (“the Plans”) to provide County employees with a tax deferred savings program to supplement their retirement income.

Alameda County’s Deferred Compensation Plan Officer, in recognition of his/her fiduciary obligation to responsibly manage the County’s 401(a) and 457(b) retirement plans, will develop and maintain an Investment Policy Statement (IPS) that defines the investment goals and objectives of the Plans. Moreover, the IPS will provide a structured process to be applied to investment menu decisions.

The Investment Policy Statement provides:

- A basis for making disciplined investment menu decisions over time;
- Documentation of the selection process, to help the County manage its fiduciary responsibility;
- Clarification of the Plans’ investment-related goals and objectives, including the types of investment options to be offered;
- A framework for evaluating investment performance;
- Continuity in decision making as Plan fiduciaries change;
- Support for the plan sponsor in managing pressure for change; and/or
- Action plans when performance standards are not met over the specified periods of time.

The Investment Policy Statement will be reviewed annually and revised as needed. Revisions should be considered when:

- The Plans’ investment objectives or funding policies change;
- New investment options are introduced;
- Performance evaluation guidelines have changed; or
- The Plans’ acceptable level of risk has changed.

The overall goal of the IPS is to assure the Plans are managed and administered in the best interest of the County’s employees.

## **I. OBJECTIVES OF THE PLANS**

The Plans are long-term retirement savings programs intended to provide retirement income for eligible plan participants. The investment options available in the Plans should cover a broad range of investment options appropriate for these types of retirement savings programs. In order to meet the investment objectives and fiduciary obligation of the Plans, the Deferred Compensation Plan Officer shall be assisted and advised by a registered investment advisor with specific expertise in retirement plan investments. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Investment Policy Statement serves the following purposes:

- To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plans;
- To establish benchmarks and performance standards for each investment category by which to evaluate fund performance;
- To establish a procedure for reporting and monitoring of the various funds and a methodology for monitoring their performance; and
- To define the procedures for investment fund evaluation and formal fund review.

The Deferred Compensation Plan Officer may terminate, add or replace investment options in any category using the following general criteria:

- Quantitative screens covering:
  - Relative and absolute return;
  - Risk and volatility; and
  - Broad Modern Portfolio Theory statistical measures
- Investment fund performance and manager tenure;
- Costs, including the expense ratio and any other fees; or
- Operational criteria

## **II. PERMISSIBLE INVESTMENTS**

Equity and fixed income investments offered in the Plans shall be exclusively mutual funds or well-diversified, separately managed accounts. Insurance company and investment company stable value funds specifically designed for defined contribution retirement plans may also be included.

## **III. INVESTMENT CATEGORIES**

Responsibility for the number, types and status of individual investment offerings rests with the Deferred Compensation Plan Officer. In general, the Deferred Compensation Plan Officer will seek to offer a sufficient number of investment options to allow each participant the ability to construct a diversified portfolio consistent with his/her reasonable investment objectives. The menu will include at least one option from each of the following categories:

- Stable Value
- Bond/Fixed Income
- Balanced/Domestic Hybrid
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International / World Equity
- Index Funds
- Socially Responsive Fund

Within the categories listed above, the underlying fund offerings should represent different style subsets within the broad market categories, including value, blend and growth for U.S. equity-based investments, developed and emerging markets for international equities, and duration and credit quality for fixed income investments. It is understood that asset class representation will evolve over time.

Additionally, the menu may include an asset allocation strategy based on model portfolios to provide participants access to an investment portfolio based on their risk tolerance without having to select the underlying investment asset categories themselves.

## IV. INVESTMENT OPTIONS

The Plans' investment options will be selected to:

1. Maximize returns within reasonable and prudent levels of risk;
2. Provide returns competitive with similar investment options;
3. Provide exposure to a wide range of investment opportunities in various asset classes;
4. Provide reasonable value to participants with respect to total administrative, management, and investment costs; and
5. Provide a broad mix of choices that allows participants to create an individual portfolio with an asset allocation appropriate to their objectives, time horizon and risk tolerance.

### Selection of Investment Options

**A. Guidelines** - The primary evaluation guidelines for adding (selecting) investment options will be based on the following quantitative measures:

1. Risk-adjusted rate of return over multiple time periods;
2. Relative and absolute rate of return over multiple time periods; and
3. Ratings from Morningstar<sup>®</sup> or similar nationally recognized rating service (i.e., Lipper, Thomson Reuters, etc.).

**B. Criteria** - To be added to the Plans' investment menu, the fund should meet the following criteria:

1. Rate of return in the top quartile of funds within its asset class two out of three periods during the previous 1-, 3-, and 5-year rankings.
2. Rate of return in the top half of funds within its asset class for each of the prior 1-, 3-, and 5-year rankings.
3. Fall within the top quartile for the prior 3- and 5-year periods of risk-adjusted return rankings as measured by the Sharpe Ratio.
4. Morningstar<sup>®</sup> rating of three stars or better or, if another rating system is used, a rating that ranks the fund in the top half of its asset class.

The Deferred Compensation Plan Officer may use other recognized statistical measures in lieu of, or in addition to, those outlined above to assist in the evaluation of investment offerings.

## **Maintaining Active Status**

**A. Guidelines** - The primary evaluation guidelines for placing investment options on probation will be based on the following quantitative measures:

1. Risk-adjusted rate of return over multiple time periods;
2. Relative and absolute rate of return over multiple time periods; and
3. Ratings from Morningstar® or similar nationally recognized rating service (i.e., Lipper, Thomson Reuters, etc.).

**B. Criteria** - To maintain active status in the Plans' investment menus, a fund should meet the following criteria:

1. Rate of return in the top half of funds within its asset class two out of three periods during the previous 1-, 3-, and 5-year rankings.
2. Fall within the top half for the prior 3- or 5-year periods of risk-adjusted return rankings as measured by the Sharpe Ratio.

The Deferred Compensation Plan Officer will review the fund's actual investment style relative to its asset category to ensure it remains representative of its asset category.

The Deferred Compensation Plan Officer may use other recognized statistical measures in lieu of, or in addition to, those outlined above to assist in their evaluation. If overall performance of the investment option is acceptable, the fund maintains its open status and no further action is required. Investment options failing to meet the above criteria may be placed on probation or closed.

### **Probation**

When an investment option is placed on probation, the Deferred Compensation Plan Officer shall monitor the fund, its operations and performance, for a period of not less than six months and not more than three years.

The Deferred Compensation Plan Officer recognizes that even though investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained.

### **Terminated Investment Options**

When an investment option is terminated, the Deferred Compensation Plan Officer will eliminate the option from the program, giving participants reasonable notice to transfer their money to a different option. If a participant does not act within the allotted time frame, all remaining assets will be transferred and future contributions directed to the fund selected by the Deferred Compensation Plan Officer.

## **V. INVESTMENT PERFORMANCE REVIEW**

The Deferred Compensation Plan Officer will periodically (at least annually) review the Plans and investment funds, including investment performance. The ongoing monitoring of the underlying plan investment options will be conducted by the Plans' investment advisor. Monitoring should occur on a regular basis and utilize the criteria provided in this Investment Policy Statement.

The Deferred Compensation Plan Officer retains the right to waive any of the above policies if it is deemed that such waiver is in the best interest of the Plans and/or its employees.