

**COUNTY OF TULARE  
DEFERRED COMPENSATION PLAN**

**INVESTMENT POLICY AND PROCEDURES STATEMENT**

**Approved December 8, 2014**

# PURPOSES

This investment policy has been developed for the County of Tulare Deferred Compensation Plan to document:

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## GLOSSARY

**Consultant:** An independent third party that specializes in defined contribution plans and provides fiduciary education, investment advice and analysis and counsels the County on recommended courses of action for the benefit of the participants. The consultant also assists the County in maintaining the Plan's compliance to federal and state regulations. The consultant is compensated directly by Tulare County.

**Provider:** The recordkeeper is responsible for maintaining participant account balances by investment, distribution of the product and education to the participants of the product, plan features and investments. The Provider also adheres to the County's Plan Document and is compliant with regulatory requirements.

## INVESTMENT PHILOSOPHY

### POLICY:

The Deferred Compensation Plan (Plan) is a long-term retirement savings vehicle and is intended as a significant source of retirement income for eligible participants. The investment options available from the Plan will cover a broad range of investment risk and reward appropriate for this kind of retirement savings program. Participants bear the risk and rewards of investment returns that result from the investment options that they select. The investment options (funds) made available will be determined by the Deferred Compensation Plan Committee (Committee) and may be changed as a result of periodic reviews.

The mix of investment options appropriate for a participant depends on the combination of a number of factors, including, among others, age, current income, length of time to retirement (or other expected use of the account), tolerance for investment risk, income replacement objectives, and a participant's other assets. To permit participants to establish different investment strategies, the plan may offer up to 10 investment categories, which 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 participant should consider, among others, the following risks:

**Volatility:** The risk of significant decreases in account value (including the loss of principal) over relatively short periods of time.

**Accumulation:** The risk of not accumulating sufficient assets to retire.

**Understanding:** The risk of investing for the wrong reasons.

**Diversification:** The risk of concentrating investments and suffering large losses from a single investment category or similar categories that do not perform well.

Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the Plan generally in conformance with ERISA 404(c). However, the Plan participants will be solely responsible for the investment decisions and investment transactions that they make under the Plan.

## DESCRIPTION OF INVESTMENT OPTION CATEGORIES

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 General Account annuity products, Separate Account Annuity products, Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), "Synthetic" GIC arrangements, and money market instruments, certificates of deposit, and may invest in intermediate and long 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 additional stable value option is the Tucoemas Liquid NCUA option. The objective of this option is to provide an investment option that provides an investment where the principal is insured.

A **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 average portfolio quality may range from AAA to B (or a comparable rating) or better by Moody's, Standard & Poor's or Fitch's ratings services. 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.

A **Balanced Option** invests in several asset classes (typically common stocks, bonds and money market instruments). Investment returns come from both current income and capital changes. Professional investment managers make the asset allocation decisions, and the option can be used by participants who do not wish to self-manage their asset mix. The Balanced Option is expected to produce higher longer-term returns than the Bond Fund option, although volatility may be greater.

Asset allocation, quality and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of a fund. The investment objective is to provide a diversified investment return of current income and capital appreciation.

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 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.** The International Equity Option invests primarily in common stock of established non-U.S. issuers. This fund can be expected to be subject to risk factors not prevalent in domestic markets, including currency risk.

A **Global Equity Option.** The Global Equity Option (aka World Equity Option) invests in common stocks of established non-U.S. issuers as well as domestic common stocks as deemed appropriate by the fund managers. These funds are appropriate for a portion of a participant's account for which additional risk is acceptable in exchange for diversification from options tied to domestic markets. Currency fluctuation will contribute to increased return volatility.

An **Index Fund** invests identically or nearly identically 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 that are appropriate for a given stage or age of an individual's investment life cycle. 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 an 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 appropriate for a given stage of an individual's investment life cycle.

Asset allocation, quality and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of a fund. The investment objective is to provide a diversified investment return of current income and capital appreciation.

**Self-Directed Brokerage Option** will offer a wide array of various families of mutual funds that can be accessed by individual participants.

\*Market capitalization is determined by multiplying the total number of outstanding shares of stock by the market price of the stock. Market capitalization changes with the changes in the price of the stock and increasing or decreasing the outstanding number of shares. A company is considered large if the capitalization is over \$10 billion; mid cap is over \$2 billion up to \$11 billion; small cap is under \$2 billion. However, this changes with significant swings in the stock market. To maintain consistency the 70%, 20%, 10% is used to determine equity asset classes.

A **Specialty Fund Option** invests in sector funds that offer specifically targeted investment characteristics. The objective of specialty funds is to invest in specific industries or types of industries that have the potential of exceeding the returns of the general markets, however, may be more volatile. **Socially Responsible funds** and **Emerging Market funds** are included in the Specialty Fund category.

# INVESTMENT OPTION CHARACTERISTICS

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Option	Mid Cap Option	Small Cap Option	International Equity	Global Equity	Index Funds	Asset Allocation Funds	Specialty Funds
Investment Objective	Stable principal and income growth.	Moderate level of current income with stable principal value.	Higher level of current income and increasing principal appreciation values over the long-term.	Competitive returns from both current income and capital growth.	Moderate capital growth and above average current dividend income.	Long-term growth of capital, less emphasis on current income.	Maximum capital gains, little or no emphasis on income.	Long-term growth of capital, little or no emphasis on income.	Long-term growth of capital, little or no emphasis on income.	Closely replicate the performance of a specific market index with consideration for tracking errors and expense charge.	Preselected, diversified portfolios, managed as a single fund.	Targeted investment characteristics, generally a specific industry. May include Socially Responsible funds.
Invests Primarily In	Highest quality money market instruments.	General and Separate Account Annuities, GICs, BICs, Money Market instruments, intermediate-term bonds.	Gov't, agency, investment grade corporate bonds.	Common stocks, investment grade bonds and money market instruments.	Common stocks of high quality relatively mature companies with above average dividends.	Common stocks with prospects for growth superior to that of the broad market.	Common stocks that may be of smaller, higher risk businesses.	Common stocks of non-U.S. issuers with prospects for growth.	Common stocks of non-U.S. issuers with prospects for growth. Global may invest in non-U.S. as well as domestic common stocks.	Domestic stocks or international stocks or bonds, depending on the designated index.	Combinations of international stocks, domestic stocks, bonds, AND stable value, at varying proportions.	Common stocks with prospects for growth superior to that of the broad market. May include Socially Responsible stocks.
Primary Source of Return	Short-term interest income.	Intermediate-term interest income.	Long-term interest income, capital changes.	Capital growth, interest and dividend income.	Capital growth and reinvested dividends.	Capital growth and long-term growth of dividends.	Capital growth.	Capital growth.	Capital growth.	Capital growth and/or income, depending on the designated index.	Growth and interest income.	Capital growth.

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	International Equity	Global Equity	Index Funds	Asset Allocation Funds	Specialty Funds
Volatility Risk Potential	Lowest	Very low	Moderate	Less than stocks but more than bonds.	Similar average volatility as the S&P 500.	High short-term volatility.	Higher short-term volatility. Periods of several years may elapse before showing superior performance.	Highest short-term volatility. Subject to risk factors not prevalent in the domestic markets, such as currency fluctuations.	Highest short-term volatility. Subject to risk factors not prevalent in the domestic markets, such as currency fluctuations.	From high to moderate short term volatility, depending on the designated index.	Low to moderate, depending on the allocation selected.	May have high short-term volatility.
Minimum Participant Investment Time Horizon	Less than one year.	1 to 3 Years	1 to 3 Years	3 to 5 Years	4 to 5 Years	5 Years	5 to 10 Years	5 to 10 Years	5 to 10 Years	3 to 5 years	1 to 5 years, depending on the allocation selected.	3 to 10 Years
Ten Year Accumulation Risk Potential	Highest	Moderate - High	Moderate	Moderate - Low	Low	Low	Low	Low	Low	Moderate to Low, depending on the designated index.	Moderate to Low.	Moderate to Low.

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Equity Option	Mid Cap Equity Option	Small Cap Equity Option	International Equity	Global Equity	Index Funds	Asset Allocation Funds	Specialty Funds
Participant Perception	Safe	Safe. Transfer restrictions need to be carefully communicated.	The interest rate volatility concept may be hard to understand.	Most likely to be misunderstood. Hard to communicate.	Concept easy, differences from Growth Fund are subtle.	Concept easy, actual process sophisticated.	Concept easy. Participants need to understand risks.	Concept may be misunderstood. Risk factors need to be communicated carefully.	Concept may be misunderstood. Risk factors need to be communicated carefully.	Premise of index funds – duplicating performance of a specific market segment – must be communicated	Simple way to invest in a broadly diversified portfolio.	Concept may be misunderstood. Risk factors need to be communicated carefully.

## INVESTMENT FUND SELECTION – STABLE VALUE FUND

There are several different types of stable value funds, including separate and general account annuity products, GIC funds and FDIC products. Also, there is not, for most of these products, a standardized database with performance and other pertinent information that would enable a search process to be conducted. There is also a need to enter into negotiations with the provider regarding investment strategy and style in situations where that is in the discretion of the plan sponsor. For these reasons, the selection of one or more stable value fund products will be conducted through a written request for proposal process to the appropriate vendors.

## INVESTMENT FUND SELECTION - MUTUAL FUNDS

### I. Alignment of Mutual Funds

- A. Mutual funds offered by the Deferred Compensation Plan will be by groupings of like investment policy and risk (volatility of returns).
- B. Contracted fund providers will be used to determine the groupings of mutual funds including index funds, if appropriate, by investment option characteristics. These investment option characteristics are subject to annual verification by the Committee.

C. The equity asset classes offered in the Tulare County portfolio may include value, blend and growth style categories. Bond categories may include short, intermediate and long-term durations and the bond yields may range from low to high. Asset allocation funds may include risk based and target categories. Asset classes to be offered:

<u>Asset Classes</u>	<u>Number of Funds</u>
Small Cap	1 to 5
Mid Cap	1 to 5
Large Cap	1 to 5
Income (Bond)	1 to 5
Balanced	1 to 2
Money Market	0 to 1
International	1 to 3
Global	1 to 2
Stable Value	1 to 3
Index Funds	6 to 10
Asset Allocation Funds	<u>3 to 10</u>

Total 17 to 51

D. At the time of selection, the fund category established by the contracted fund providers for the previous six quarters, will determine the category placement of a fund under the Plan. In the event that a fund has not had consistency of placement within a category over the six quarters prior to selection, it shall be placed in the category most recently determined by contracted fund providers. It is recognized that the placement of a fund within its category may be a consideration in its selection. For example, if a fund has consistently, over a period of time, moved toward the outside ranges of its category, it may not be an appropriate candidate for selection since it may have a high probability of changing categories.

## II. Selection of Funds

The selection process will be documented throughout to provide a history of initial screening, funds deleted, the reasons for the deletion and factors considered by the Deferred Compensation Plan Committee in the final selection.

## A. Initial Screening

1. The initial screening will produce a listing of funds that have outperformed the average of their respective categories for the five most recent five-year periods and the three most recent three-year periods. At this point, those funds that are inappropriate for the Plan will be deleted. Deletion may occur for the following reasons:

- a) The fund is closed
- b) The fund has a policy of not being available for deferred compensation plans
- c) The fund has loads that it is not willing to waive
- d) The fund has an expense ratio that is not competitive in relationship to similarly managed funds.

2. The initial list of funds produced in (1) above shall be ranked according to their annualized performance over the most recent five-year investment period. Using these rankings, the following categories of funds shall be selected as semi-finalists:

- a) Small Cap
- b) Mid Cap
- c) Large Cap
- d) Income
- e) Balanced
- f) International
- g) Global
- h) Money Market Funds
- i) Index Funds
- j) Asset Allocation Funds

#### B. Determination of Finalists

1. Once the list of semi-finalists is determined in (2) above each fund will be reviewed:

- a) Annual performance over each of the immediately preceding three and five calendar years will be evaluated. Consistent performance return in each year of the three and five-year period will be preferred. Consistent performance includes moderate Standard Deviation, (as determined by a comparison with the average standard deviation for that investment style), portfolio manager tenure, outperforming the appropriate benchmark for the three and five year periods and a consistent Risk and Return profile as determined by Morningstar.
- b) The fund's investment category placement over the last three years will be reviewed and funds that remain in the same category will be preferred.

Funds that exhibit consistent performance and satisfy the Minimum Operational Criteria will be preferred.

2. Based on the information collected during the evaluation of the semi-finalists, funds will be reviewed and may be eliminated based on:

- Inconsistent performance history;
- Excessive movement within investment category;
- Qualitative factors such as excessive account turnover or an inappropriate investment style;
- Inability to satisfy the Minimum Operational Criteria; or
- Fund's assets are so large that the portfolio manager lacks the flexibility to buy and sell securities in a timely and efficient manner.

For each fund that qualifies as a finalist the Deferred Compensation Plan Committee will review the information collected on each fund and will make the selection.

### **III. Minimum Criteria for Selection**

#### **A. Minimum Size and History Criteria**

1. Size - to be considered a fund should have net assets of at least \$100 million. The intent is to restrict selection of mutual funds to the size appropriate for the potential cash flow to be generated by the Plan. If, however, this restriction reduces the potential pool of semi-finalists inappropriately, this criterion may be reduced to broaden selection. Total assets of all share classes can be considered if under the same portfolio management.
2. Period of time in operation - a mutual fund (or a clone fund under the same management) should have been in operation for a period of 5 years prior to selection.

#### **B. Minimum Operational Criteria**

To be considered for inclusion in the Plan and to be a semi-finalist a fund should first meet the size and history criteria above. Next it must satisfy the Minimum Operational Criteria.

1. It must guarantee transactions at the prior day's price.
2. Front end loads and fund surrender charges must be waived.
3. It must be compatible with the Plan's administrative and record keeping accounting and system practices.

The County will have the ability to request mutual funds to pay it a fee for performing administrative services.

## **INVESTMENT FUND EVALUATIONS**

### **POLICY:**

The Committee will conduct quarterly reviews to assess the continuing compliance of all of the Plan's investment funds. The Committee may perform more frequent monitoring as necessary.

The quarterly review will be used to determine the following:

- Whether performance remains within the standards established by the Policy.
- Whether the investment fund manager's investment category has remained consistent.
- What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
- Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

For supported actively-managed asset classes, an investment manager "score card" will be maintained and documented (see addendum on page 19) to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting its overall performance.

Asset Allocation funds and/or accounts (risk-based or age-based) will not be scored and monitored using the previously described guidelines. Unlike other funds which are monitored and scored individually, these funds should be evaluated as a group qualitatively. Due to the unique importance of these professionally managed and diversified vehicles for participants in the Plan, funds or accounts failing to achieve criteria standards will be carefully reviewed before removal from the Plan (in the absence of a reasonable alternative). In addition, funds with short time history should be evaluated qualitatively.

Target-Date (age-based) funds or accounts will have strategies that allow the funds or accounts to grow more conservative over time until a certain retirement date or life expectancy date. This roll down process is commonly referred to as a "glide path". The glide path associated with a set of target-date funds should be reviewed to make sure it is appropriate, and continues to be appropriate, for the Plan and Plan's participants.

Investments that are not supported do not generate a scorecard. Investments where no score is applied due to specialty focus, short time history or other unique circumstances should be reviewed using a qualitative framework.

The foregoing investment monitoring criteria shall not, under any circumstances, be taken as definitive, conclusive, or controlling for removal, termination, or continuation of an investment option. All determinations should be made by the Committee, in accordance with the Plan objectives, taking into consideration all relevant facts and circumstances.

### **Watch List:**

If a fund fails to meet the criteria standards, as determined by its score or other factors, it will be placed on a “watch list.” (In the event a fund receives a score which is below that of “watch list” status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for removal at the earliest administratively reasonable date.) If this fund continues to remain on the “watch list” for the following three quarters, or four of the following seven quarters, the fund should be considered for possible removal.

In addition, an investment fund may be placed on the Watch List if any of the following conditions occur:

- Change of investment fund manager
- Change of sub-advisor
- Significant change in ownership or control
- Significant or prolonged change in investment style or drift
- Substantive change in portfolio turnover that significantly exceeds the fund’s history
- Any violation of SEC rules or regulations or breach of fiduciary duty
- Operational difficulties concerning fund transfers or pricing
- Excessive costs or trading practices
- Negligible use by participants

### **Retention Criteria:**

To be removed from the “watch list” and retained, the investment fund must:

- Meet the criteria standards for four consecutive quarters, then it may be removed from the “watch list”.

Investment funds that do not satisfy the retention criteria will be considered for replacement.

## **Fund Replacement:**

When it is determined that an investment fund is no longer appropriate for the Plan, a replacement fund search may be initiated by the Committee in accordance with Section II Fund Selection and Section III Minimum Criteria for Selection under the heading Investment Fund Selection - Mutual Funds on page 10.

Regarding the Plan assets already deposited with the deselected investment fund, each participant will have a transition period of a length set by the Committee, but not less than 30 days in which he or she may transfer their assets to the replacement fund, or a fund option of the participant's choice.

In the event a participant does not voluntarily select a replacement investment fund(s) by the end of the transition period, the Committee will direct the Plan Trustee to transfer the current balance of the deselected investment fund to the most appropriate existing and/or replacement investment fund within the investment category that has the most superior historical return over the past five (5) years. In the event the Plan Trustee does not offer another investment in the same investment category, the deselected fund will be transferred to the qualified default investment alternative (QDIA) fund.

## **BLACKOUT PERIOD**

### **POLICY:**

In accordance with the Sarbanes-Oxley Act of 2002, the Provider will give plan participants a minimum of 30-day advance notice of "blackout periods" affecting their rights to direct investments, take loans (if available) or obtain distributions. Blackout periods may occur when plans change recordkeepers, recordkeeping systems or investment options. Individual participants will receive a blackout notice that contains, among other things:

- The reasons for the blackout period,
- A description of the rights that will be suspended during the blackout period,
- The start and end dates of the blackout period,
- A statement advising participants to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

## **DISCLOSURE OF FEES, COMMISSIONS AND CHARGES**

### **POLICY:**

All fees, commissions and charges for each selected investment option must be fully disclosed to the Deferred Compensation Plan Committee before the option can be made available to plan participants. That is, in its review of a fund's performance history, the Deferred Compensation Plan Committee must be shown the fund's gross performance less all applicable fees, commissions and charges, and the resulting net return.

In addition, these fees, commissions and charges will be disclosed to all participants at enrollment and at any other time as appropriate. It will be disclosed to plan participants the nature of all variances between gross return and net return.

## **INVESTMENT COMMUNICATIONS TO PARTICIPANTS**

### **POLICY:**

Information about each investment option will be given or made available to Plan participants to help them to make informed investment choices. The Plan shall provide at least quarterly statements of fund performance to each participant.

Upon request, copies of investment fund prospectuses or similar equivalent information will be provided to participants as well as such other information as the Committee has available such as a list of underlying investments for a given fund.

## **INVESTMENT EDUCATION**

### **POLICY:**

It is the Deferred Compensation Plan Committee's objective to provide employees with ongoing investment education. The purpose of the investment education program is to provide information and tools to assist in the development of a personal investment strategy for employees and facilitate the achievement of savings and retirement goals.

## **REVIEW**

### **POLICY:**

It is the intention of the Committee to review this document at least every three years and make necessary amendments.

If at any time a fund investment manager feels that these policy standards cannot be met, or that the guidelines constrict management, the Deferred Compensation Plan Committee should be notified in writing so that recommendations for changing the policy, if deemed appropriate, can be made by the Committee to the County.

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Chairman, Deferred Compensation Plan Committee  
Tulare County

### **Investment Policy Statement History**

Approved - June 9, 2003

Approved - April 19, 2005

Approved - May 23, 2011

Approved - September 10, 2012

Approved - September 29, 2014

# ADDENDUM TO INVESTMENT FUND EVALUATIONS SECTION (PAGE 14)

## Scorecard System Methodology™

The Scorecard System methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The Scorecard System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best). Although the Scorecard System has the ability to measure Active, Passive and Asset Allocation investing strategies, it will be used to evaluate only Actively Managed Asset classes in the Plan over a five year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20% of the score is qualitative, taking into account things such as manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy. The following pages detail the specific factors for evaluating the active investing strategy. Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into the Plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with the Policy to help identify which funds need to be discussed as "watch-list" or removal candidates; which funds continue to meet some minimum standards and continue to be appropriate; and/or which new top-ranked funds should be included in the Plan.

## Scorecard System Methodology

### *Active Strategies*

**Active strategies** are investment strategies where the fund manager is trying to add value and out-perform the market averages (for that style of investing). Typically, these investment strategies have higher associated costs due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard** System is trying to identify those managers who can add value on a consistent basis within their own style of investing.

<i>Scorecard Point System</i>	
<b>Good:</b>	<b>9-10 Points</b>
<b>Acceptable:</b>	<b>7-8 Points</b>
<b>Watch List:</b>	<b>5-6 Points</b>
<b>Poor:</b>	<b>0-4 Points</b>

Weightings	Active Strategies	Maximum Points
Style Factors 30%	<b>Style Analysis:</b> Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.	1
	<b>Style Drift:</b> Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.	1
	<b>R-Squared:</b> Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80%. This statistic measures whether the benchmark used in the analysis is appropriate.	1
Risk/Return Factors 30%	<b>Risk/Return:</b> Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.	1
	<b>Up/Down Capture Analysis:</b> Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.	1
	<b>Information Ratio:</b> Measures a fund's relative risk and return. Fund passes if ratio is > 0. This statistic measures the value added above the benchmark, adjusted for risk.	1
Peer Group Rankings 20%	<b>Returns Peer Group Ranking:</b> Fund passes if its median rank is above the 50 <sup>th</sup> percentile.	1
	<b>Information Ratio Peer Group Ranking:</b> Fund passes if its median rank is above the 50 <sup>th</sup> percentile. This ranking ranks risk adjusted excess return.	1
Qualitative Factors 20%	Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors which may impact future performance.	2
<b>Total</b>		<b>10</b>