Investment Objectives and Policy Statement

City of Fresno Deferred Compensation Plan

(Approved by the Deferred Compensation Board on August 22, 2019)

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Foreword

This Investment Objectives and Policy Statement is intended to summarize the underlying philosophy and processes demonstrating care, skill, prudence and diligence in the selection and monitoring of investment options of the City of Fresno Deferred Compensation Plan (the Plan) as an eligible deferred compensation plan within the meaning of Internal Revenue Code Section 457(b). The Plan allows employees to invest voluntarily a portion of their compensation before it is taxed. The amount invested, in addition to any accumulated gain, is available to the employee (or beneficiary) at a future date.

This statement contains:

- A summary of the Plan's structure and underlying philosophy;
- Performance objectives and other criteria to be used by the Deferred Compensation Board (Board) and the Plan Administrator to review and evaluate the investment results of the Plan's investment options; and,
- Responsibilities of the Board, the Plan Administrator and the Third Party Plan Administrator (Trustee).

Periodically, the guidelines contained in this statement are revised and modified as appropriate to reflect changes in the investment environment, manager performance, participant objectives and the Board's expectations.

Plan Structure
457(b)

The Plan constitutes an "eligible deferred compensation plan" within the meaning of Internal Revenue Code §457(b). In accordance with the Plan Document adopted by the City Council on August 15, 2006, the Plan permits the City's Eligible Employees to defer portions of their Compensation until Severance from Employment. As a long-term retirement savings vehicle, the Plan is intended to be a source of supplemental retirement income for eligible participants. Therefore, employees are encouraged to fully participate in the Plan.

The Plan structure establishes and operates a "retirement system" satisfying the requirements of §3121(b)(7)(F) of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), §31.3121(b)(7)-2 of the Income Tax Regulations promulgated there under.

Investment Objectives

The Plan's investment objective is to make available a broad range of diversified investment options that have varying degrees of risk and return. The investment options offered makes it possible for the individual participant to achieve a balanced portfolio consistent with modern portfolio theory.

Risk Tolerance and Rates of Return Expectations

Individual participants vary in their level of risk tolerance. Because participants direct their own investments, the plan will offer a wide spectrum of investment options, including a variety of Mutual Funds, Life Style Funds and a Self-Directed Brokerage Account (SDBA), all with varying levels of risk and return.

Risks associated with the investment options can vary significantly within each investment category and the relative risks of categories may change under certain economic conditions. The third party Administrator will provide participant education and counseling, including investment advice to guide participants in their selection of investment options. Participants may design an investment plan from those options that best meets their individual needs.

Investment Options

The plan seeks to offer a diversified portfolio by making available several investment options in each of the following investment categories:

- Managed Income/Stable Value
- Bonds
- Balanced/Hybrid
- Domestic Equity (Large/Mid/Small – Value/Blend/Growth – Index)
- International/Global Equity

Mutual Funds

The Plan offers a wide variety of Mutual Fund investment choices that:

- Cover a risk/return spectrum of appropriate investment classes;
- Are distinguishable and have distinct risk/return characteristics;
- Are well diversified and professionally managed;
- Provide, in aggregate, the participant with the opportunity to structure a portfolio with risk and return characteristics at any point within a normally appropriate range of investments; and,
- Charge fees that are reasonable for the asset class and investment style.

In addition, the Plan also offers investment choices in Life Cycle Funds and a Self-Directed Brokerage Account.

Life Cycle Funds

Rather than actively managing their own asset allocation strategy, Participants may choose a lifestyle fund in which the objective is to provide a composite rate of return derived from current income and capital appreciation, appropriate for a given state of an individual's investment life cycle. These funds:

- are designed for employees who lack the time or investment knowledge needed to actively make investment choices.
- help participants by turning over asset allocation decisions to investment professionals managing the fund.
- include automatic rebalance to maintain the right investment mix based upon age-appropriate diversification within a single "fund of funds".

Self-Directed Brokerage Account (SDBA)

Another investment option under the Plan is the Fidelity, self-directed brokerage account, BrokerageLink. BrokerageLink is neither a mutual fund nor is it managed by any of the Fidelity Investments group of companies. It is a portal to a broad range of investment options for participants who want to fully manage their investment choices. Participants alone decide how to invest the assets in the BrokerageLink account. Available investments include:

- most listed stocks, corporate bonds, zero-coupon bonds, US Treasury securities, mortgage securities and US government agency bonds, certificates of deposit, unit investment trusts, and foreign securities.
- Mutual funds beyond those available through the standard Plan mutual fund options.
- may include additional fees such as transaction-based fees and commissions.

Review Criteria - Investment Options

The Plan Administrator and Third Party Plan Provider will track performance of the Investment Options on a quarterly basis and fully review these options at least annually. The annual review will include, but not be limited to, evaluations of the following:

- Historical return and risk results versus the appropriate benchmarks;
- Any changes in process, philosophy, and/or personnel; and,
- Fees and expense levels.

Fund performance continues to be compared using quantifiable measures:

- Sharpe Measures
- Fund Returns
- Morningstar Ratings

The Board has determined that the use of the Morningstar "category" rating would be of value to interested plan participants. The category rating compares funds to their peers within the specific asset class, giving a more "apples to apples" comparison. The Benchmark is the 50th percentile of retail funds in the asset class on the Morningstar database.

There are <u>three categories</u> of fund performance:

- Above Benchmark
- Below Benchmark
- Neutral (This category has been added to indicate both above and below benchmark measurements within evaluation period)

There are <u>four levels</u> of fund evaluation analysis:

I. <u>Performance Measurement Period</u>

Performance evaluated is over a full market cycle of a three-to-five-year period. Evaluation of funds, with more than three years' history, to determine if performance is above or below benchmark.

II. <u>Sharpe Measure Analysis</u>

- Sharpe measure indicates the return per unit of risk.
- Sharpe measure equals:

$$\frac{\textit{\textbf{Fund Rate of Return - Risk Free Rate of Return (90-day T-bill)}}}{\textit{\textbf{Standard Deviation of the Fund's Returns (i.e. risk)}}}$$

- The higher the Sharpe measure, the better the performance.

III. <u>Funds Returns Analysis</u>

Above benchmark performers are Funds with performance greater than the 50th percentile for two or more measurement periods.

IV. <u>Morningstar 3 to 5 Star Analysis</u>

- Above Benchmark Funds reflect Morningstar ratings of 3 to 5 stars.

- Below Benchmark Funds reflect Morningstar ratings of 1 or 2 stars.

The policy of the Board is to review all of our investment options on an annual basis. Performance benchmarks and objectives established are guidelines for review of each fund for measurement purposes. Following the annual review, decisions with respect to each current investment option and consideration given for new options include the following:

1. Retain fund for the next twelve months.
2. Place fund on a “watch list” when the overall fund rating is “at” or “below” benchmark.
3. Close fund to new contributions because it no longer meets the investment criteria.
4. New funds will be added for two reasons:
   a. To replace a closed fund, or
   b. To provide additional choices for participants.

A change in fund manager or other unusual situation may require a special review. The Board will publish the results of the investment review annually for all plan participants.

Measurement of each investment will be against recognized, appropriate indices and within universes of mutual funds and investment options with similar styles. Performance evaluated is over a full market cycle of a three-to-five year period.

In general, each investment alternative should outperform median returns for similar investment alternatives as shown by Morningstar Category.

Responsibilities

Plan Administrator:

The duties and responsibilities of the Plan Administrator include:

- Present any necessary revisions to the Board’s Investment Policy Statement to the Board for their consideration,

- With assistance of the Third Party Plan Administrator, develop, review, and revise the Investment Policy Statement,

- Evaluate and measure investment alternatives,

- Notify the Board of any issue that may impact the investment of Plan assets, e.g., change in ownership, professional staff, investment philosophy and/or process,

- With assistance of the Third Party Plan Administrator, evaluate and recommend investment alternative changes, and

- Communicate with and report to the Board on a regular basis.

Board:

The duties and responsibilities of the Board include:

- Approve Plan Investment Policy Statement,
- Approve addition/deletion of investment options, and
- Review and approve of reports provided by the Plan Administrator and Third Party Plan Administrator.

Third Party Plan Administrator:

The duties and responsibilities of the Third Party Plan Administrator include:

- Communicate with and report to the Plan Administrator and the Board on a regular basis,
- Communicate with and report to the participants on a regular basis,
- Notify the Plan Administrator and the Board of any issue that may impact the investment of Plan assets, e.g., change in ownership, professional staff, investment philosophy and/or process, and
- Assist Plan Administrator, in developing, reviewing, and revising Plan Investment Policy Statement
- Offer investment education and advice to participants,
- Notify the Plan Administrator and the Board of any issue that may impact the investment of Plan assets, e.g., change in ownership, professional staff, investment philosophy and/or process, and
- Monitoring Plan assets with the care, skill, prudence and diligence that an investment professional should exercise in the investment of those assets.