

County of El Dorado
457 Deferred Compensation Plan
Investment Policy Statement



January 2024

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County of El Dorado 457 Deferred Compensation Plan Investment Policy Statement

INTRODUCTION

The County of El Dorado, a municipal corporation and a political subdivision of the State of California, is committed to providing state of the art services to its employees. In order to recruit and retain qualified personnel, the County of El Dorado (“the County”) maintains a 457(b) deferred compensation plan (“the Plan”) to provide County employees with a tax deferred savings program to supplement their retirement income.¹

In recognition of the fiduciary obligation to responsibly manage the County’s the Plan, the County will develop and maintain an Investment Policy Statement (IPS) that defines the investment goals and objectives of the Plan. 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 Plan’s 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 Plan’s investment objectives or funding policies change;
- New investment options are introduced;
- Performance evaluation guidelines have changed; or
- The Plan’s acceptable level of risk has changed.

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

¹ The County offers two 457 (b) deferred compensation plans, one administered by CalPERS, and another administered by Nationwide. This document is specific to the plan administered by Nationwide.

OBJECTIVES OF THE PLAN

The Plan is a long-term retirement savings program intended to provide retirement income for eligible plan participants. The investment options available in the Plan 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 Plan, the County 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 Plan;
- 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 County 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

PERMISSIBLE INVESTMENTS

Equity and fixed income investments offered in the Plan 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.

INVESTMENT CATEGORIES

Responsibility for the number, types and status of individual investment offerings rests with the County. In general, the County 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

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.

INVESTMENT OPTIONS

The Plan's 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® or similar nationally recognized rating service (i.e., Refinitiv Lipper, Thomson Reuters, etc.).
- B. Criteria - To be added to the Plan's 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® 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 County 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 Plan's 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 County will review the fund's actual investment style relative to its asset category to ensure it remains representative of its asset category.

The County 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 County shall monitor the fund, its operations and performance, for a period of not less than six months and not more than three years.

The County 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 County 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 County.

INVESTMENT PERFORMANCE REVIEW

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

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