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# **Investment Policy Statement**

City of Los Angeles

Deferred Compensation Plan

Adopted May 17, 2011;  
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revised February 18, 2014; and  
revised June 20, 2017

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# 1

## **Purpose of the Investment Policy Statement**

The Board of Deferred Compensation Administration has developed this Investment Policy Statement (Statement) to define the objectives of the City of Los Angeles Deferred Compensation Plan (Plan) and establish policies and procedures for creating the highest probability that these objectives will be met in a prudent manner consistent with governing rules and regulations.

This Statement serves to:

- State the Plan's investment objectives;
- Define the functions and responsibilities of the Board members, staff members, consultant and investment managers for the City's Plan;
- Describe the Plan's investment structure, core option menu, and the underlying investment manager composition of the core options;
- Set forth investment objectives and guidelines for Plan investments;
- Document the investment procurement process established by the Board in adherence with the City's purchasing protocols;
- Define the selection criteria that the Board will use in the procurement process;
- Outline remedies for investments that fail to satisfy these standards; and
- Establish quantitative and qualitative standards for the ongoing evaluation of Plan investments.

In general, it is understood that this Policy is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Board will review this Policy ~~at least annually~~ no less than once every three years, and, if appropriate, amend it to reflect changes in the capital markets, Plan participant objectives, or other relevant factors.

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### **Plan Objectives**

The Plan is a voluntary, participant-directed deferred compensation plan that is an integral part of the City's broader retirement program, which seeks to assist employees and their beneficiaries in obtaining financial security primarily in retirement. The Board believes that achieving this objective is a shared responsibility of both the City and its employees, though ultimately investment risk in the Deferred Compensation Plan is borne by the participants. The objectives for the Deferred Compensation Plan are as follows:

- Assist employees and their beneficiaries in accumulating assets for retirement in a tax efficient way, as allowable under Section 457(b) of the Internal Revenue Code and other governing rules and regulations;
- Provide a benefit which is competitive with that offered by organizations competing with the City of Los Angeles to attract and retain employees;
- Provide a menu of high quality, diversified core investment options that will allow participants of varying risk tolerance to construct portfolios tailored to meet their particular financial goals;
- Increase participant engagement by simplifying the menu of core investment options within major asset classes that are easily understood;
- Minimize investment management and administrative expenses without compromising quality and performance; and
- Afford participants interested in investments other than core menu options access to a broad range of investment opportunities through a self-directed brokerage window.

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## Responsibilities of Plan Participants

The Plan is a voluntary, participant-directed deferred compensation plan. As such, participants in the Plan bear responsibility for deciding the amount of current compensation to defer in the Plan and for developing and monitoring a strategy for the investment of their accounts. By virtue of investing in the Plan, participants are assuming that capital markets can be unpredictable and market volatility is generally unavoidable.

The specific responsibilities of the Plan participants are as follows:

- Determine the amount to contribute to the Plan within the limitations set by the Plan and the Internal Revenue Code;
- Allocate account balances and future deferrals to the available investment options, based on individual circumstances, goals and objectives and risk tolerance;
- Rebalance account balances to the participant's desired allocation due to market movements and account activity; and
- Reallocate account balances and direction of future contributions as personal circumstances and goals and objectives change.

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## Parties Responsible for Plan Management

### Board

The Board will act in the sole interest of the Plan participants and beneficiaries, for the exclusive purpose of providing benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the Plan.- The safeguards to which a prudent investor would adhere must be observed. The Board will act in accordance with the principles set forth in the Prudent Investor standard. Specifically, the Board will discharge its duties with respect to Plan assets “with care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.”

The tasks for which the Board is responsible include:

- Overseeing operation of the Plan pursuant to the City of Los Angeles Administrative Code provisions governing the Plan;
- Establishing and maintaining this Investment Policy Statement;
- Hiring the third party administrator, investment consultant, and other necessary service providers;
- Selecting a diversified Plan investments portfolio for the Plan and determining, with the assistance of the investment consultant and Plan staff, allocations for fund of fund<sup>1</sup> options (i.e., the DCP core options and DCP Profile Portfolios) used in the plan;
- Periodically monitoring the Plan’s investment performance and making investment option changes when necessary;
- Reviewing overall Plan costs to ensure they are reasonable;
- Conducting requests for proposals for any investment and administrative support services necessary;

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<sup>1</sup> The term “fund of funds” is used throughout this document to describe the Plan’s use of multi-investment manager portfolios constructed with the intent of providing superior performance and/or lower volatility of returns through diversification of investment styles.

- Evaluating and selecting from proposals for investment and administrative services to support the plan;
- Entering into investment, trust custody and other contracts and agreements with financial organizations in connection with the investment of funds under the Plan, and contract for the provision of administrative support services when necessary; and
- Assessing on an ongoing basis the performance of the selected vendors.

### **Investment Consultant**

The Board may elect to hire an Investment Consultant to assist it in dispensing its duties. The Investment Consultant will acknowledge that it is a Plan fiduciary with respect to investment advice it provides. Specific responsibilities of the Investment Consultant include:

- Advising the Board on the Investment Structure of the Plan, fund selection/removal, objectives, guidelines or performance standards for each investment fund option;
- Evaluating and communicating to the Board the performance results for each investment fund option on an ongoing basis;
- Monitoring investment expenses;
- Documenting these findings no less frequently than in quarterly investment performance reports;
- Providing guidance to the Board on asset allocations of Plan options which employ a fund of fund construction;
- Conducting due diligence and establishing formal ratings of investment strategies across a variety of asset classes that will be documented and available for Board use in its selection and evaluation of investment strategies;
- Advising the Board as to the continuing appropriateness of each investment manager and each investment fund option;
- Assisting the Board in Requests for Proposals from investment providers
- Keeping the Board informed on current investment trends and issues;
- Advising the Board of significant organizational changes at the investment managers' firms including changes in key personnel; and
- Maintaining and recommending changes as necessary to this Statement.

### **Investment Managers**

The managers of the funds/investment strategies (Investment Managers) selected by the Board are responsible for making investment decisions consistent with the approach stated in relevant prospectuses, investment management agreement with the Plan and/or other relevant contracts. Investment Managers are responsible for:

- Managing the portion of the assets under their control in accordance with 1) the objectives, guidelines and performance standards as stated herein; 2) the objectives, guidelines and performance standards adopted for their respective

- investment vehicles; 3) the prudence standards required by law; and/or 4) their specific contracts with the Plan, if applicable;
- Reporting investment results on a regular basis; and
  - Promptly notifying the Board (or its designees) and the Investment Consultant in writing of changes in fund operation and personnel that may negatively impact performance. This includes any organizational or strategy changes that impact asset management.
  - [Voting security proxies in the interest of the Plan.](#)

To the extent that the Plan uses mutual funds and/or collective investment trusts, the Board recognizes that the investment guidelines contained in the governing documents for those vehicles will preside over any in this Investment Policy Statement.

### **Third Party Administrator**

The Third Party Administrator is responsible for performing the following in conjunction with Plan and statutory provisions:

- Updating changes in the Plan.
- Communicating to Plan participants the features, performance and risk of the investment options offered in the Plan.
- Accepting and initiating employee investment direction.
- Enrolling participants in the Plan.
- Maintaining and updating participant accounts.
- Rebalancing fund of fund options back to Board approved target asset allocations as may be provided for within its service agreement with the City.
- Preparing investment activity reports.
- Preparing participant statements.
- Providing participants access to information regarding their investments through its Plan website and customer service representatives.
- Executing all other Plan-related services as provided for in its service agreement with the City.

### **Fund Custodian**

The Board may elect to use the services of a custodian bank (Fund Custodian) if it chooses to use separate account vehicles in the Plan. As directed by the Plan, the Fund Custodian will be responsible for performing the following in conjunction with Plan and statutory provisions:

- Safekeeping of Plan's marketable securities such as stocks, bonds, foreign and domestic currency in separate accounts held in the Plan's name.
- Settling trades and monitoring trade compliance.
- Pricing of securities.
- Effecting foreign exchange transactions, as necessary.
- Preparing a daily net asset value of separate accounts.



- Reporting financial transactions and preparing periodic summaries of transactions, asset valuations, and other related information as deemed appropriate by the Board.
- Providing performance calculations, if requested by the Board
- Monitoring compliance with investment guidelines, if requested by the Board

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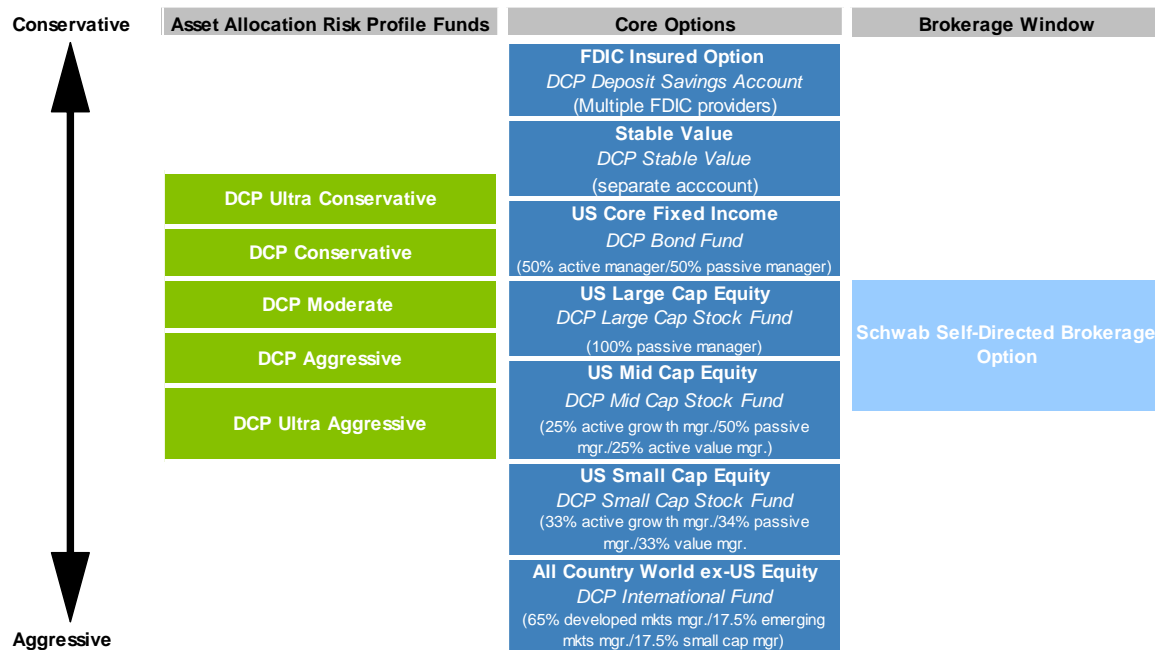
## Investment Structure and Investment Options

*Governing Principle:* The Board's Governing Principle is that an investment menu limited to a focused selection of distinct investment choices and consisting of investment options identified by asset class rather than investment provider will promote effective asset allocation strategies for plan participants. The Board believes a menu structured in this manner (1) provides sufficient diversification opportunities in major asset classes enabling participants to establish investment strategies appropriate for their individual investment objectives and risk tolerance; (2) reduces the potential for participant confusion leading to investment choices inconsistent with a participant's investment objectives and risk tolerance; (3) promotes clearer visibility of investment choices as they represent various asset classes; and (4) leverages Plan assets to maximize opportunities for reduced investment management costs for Plan participants.

*Investment Structure:* The Plan's investment structure (i.e., broad categorization of investment options) can be segmented into tiers, with each designed to meet the varying needs of different participants.

Tier	Philosophy
<del>Tier 1 I</del> — Risk Profile Portfolios - Asset Allocation	Allows participants to choose the diversified investment portfolio that best fits their time horizon, risk tolerance, and investment goals. Designed for investors who want a 'streamlined' approach to investing— <del>and a professionally managed asset allocation</del> . These options will comprise underlying investments in the Plan's <del>Tier 2 II</del> , Core Option Menu.
<del>Tier 2 II</del> — Core Option Menu	Allows participants to create their own portfolios based on the asset classes (or types of investments) that best fit their time horizon, risk tolerance and investment goals.
<del>Tier III 3</del> — Brokerage Window	Allows participants interested in investments outside <del>Tier 1 and 2</del> <a href="#">the Risk Profile Portfolios and Core Option menu</a> the opportunity to invest in a broad array of additional mutual funds, stocks, bonds and other investment alternatives based on their time horizon, risk tolerance, investment goals and/or preferences.

*Investment Options:* The Board, with the assistance of its Investment Consultant, has selected an array of investment options to fit within this structure that span the risk/return continuum. The Board will review this list of options periodically to affirm its appropriateness for the Plan. At any time the Board may decide to add or remove options as it deems necessary. – A depiction of the Plan’s investment options follows.



*Fund of Fund options:* The Board, with the advice of the Investment Consultant, has decided to use a multi-manager, fund of funds framework for many of the Plan’s investment options. The Board’s intent in building custom fund of funds is to enhance the diversification of these options by blending investment managers (both passive and active) with complementary investment styles. The desired outcome is investment options with superior expected risk/return characteristics relative to comparable single strategy options. ~~Periodically, but not less than every three years~~ Generally annually, the Board or its designee will conduct a ~~formal~~ review of the Plan’s fund of fund asset allocations, with the assistance of the Investment Consultant, to affirm their appropriateness in light of changes in market conditions, the Plan’s investment option line-up, participant demographics, and other relevant factors. Based on the initial review, a comprehensive review of the fund of fund asset allocations will be conducted if it is determined that changes may be warranted. At any time, the Board may elect to add, alter, or remove underlying components within the Fund of Funds options.

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## **Investment Search and Procurement Policy**

The Board will utilize mutual fund searches and/or institutional manager procurements to fill the various investment mandates comprising the Plan investment menu. A mutual fund search is defined as a review of the broad universe of mutual fund investment vehicles available within a specific investment category and for which a contractual relationship between the fund manager and the City's Plan is not available or required. An institutional manager procurement is defined as a review of proposals from institutional investment product (e.g. separate accounts, commingled trusts, and bank deposit savings accounts) managers within a specific investment category which require a contractual relationship between the fund manager and the City's Plan.

The Board has the option of conducting a mutual fund search or institutional manager procurement, or a combination of both, depending upon which it finds to be in the best interests of the Plan and Plan participants in meeting the objectives of its Investment Policy.

Searches and procurements for specific investment categories generally will occur once every 5 years, within a schedule determined by the Board, and will follow the procedures outlined below.

- 1) Plan staff and Investment Consultant draft proposed selection criteria for a given investment category, and develop a recommendation to the Board as to whether a mutual fund search and/or institutional manager procurement best meets Investment Policy objectives for that particular investment mandate and is in the best interests of the Plan and its participants.
- 2) The Board considers, may modify, and then adopts a finding for the search vehicle (mutual fund search and/or institutional manager procurement) and the selection and scoring criteria.
- 3) Mutual Fund Search - If the Board elects a mutual funds search, the Investment Consultant and staff will conduct an investment manager search of qualifying mutual fund investment strategies, applying the search and evaluation criteria as set forth by the Board. The Investment Consultant and staff will prepare a list of top-scoring firms, the number of which will be

determined on a case-by-case basis (as dictated by the Board) taking into consideration factors such as the investment mandate and size of the potential provider pool. The Board's Investments Committee will review the search results and consider the recommendations of its staff and consultant, and other relevant data, in developing a recommendation for the full Board. Once the Board elects a fund, the Plan's third-party-administrator will be directed to activate that fund for the City's Plan within its recordkeeping platform.

- 4) Institutional Manager Procurement - If the Board elects an institutional manager procurement, staff and the Investment Consultant will issue a Request for Proposal (RFP) in the form of a public notice informing interested vendors that any investment strategies which ~~meet~~ the published search criteria will be considered; that a response as to the specific investment mandate criteria is not required assuming their fund data is already maintained on the Investment Consultant's database, but a response to the RFP questionnaire regarding the City's general contracting requirements is required in order for the fund to be considered; and that if the proposer's fund data is not on the Investment Consultant's database the proposer is able to provide that data, without limitation, to the Investment Consultant to ensure that their investment strategy will be considered if it meets the Board's criteria.

The Investment Consultant and staff will rank the responses to the RFP based on the Board's adopted ~~criteria~~[selection](#) and scoring criteria. The Board's Investments Committee will review the fund listing and consider the recommendation and all relevant data in arriving at a recommendation for the full Board. Once the Board selects a fund, the vendor will be required to execute a contract with the Board and meet all of the City's applicable general and specific contracting requirements— if it is not able to do so, the search will be brought back to the Board to make another selection. Once a contract is executed, the Plan's third-party-administrator will be directed to activate that fund for the City's Plan within its recordkeeping platform.

## Investment Selection and Termination

The Board's finding with regards to the selection of Investment Managers is that qualitative factors can be as significant as quantitative ones in determining future investment success.- The Board's finding is derived from the substantial body of academic and practitioner research that indicates investing in actively managed strategies based on recent out-performance tends to lead to sub-par results in subsequent periods. The Board's recognition of the value qualitative factors have in the selection process is intended to mitigate the possibility of investment strategies being added to the Plan at the peak of their cycle.

The Board, in collaboration with the Investment Consultant and Staff, has developed minimum qualifications and selection criteria for Investment Manager candidates that it believes will offer the best prospects of future success.- Both qualitative and quantitative measures will be considered in the selection process.

### Minimum Qualifications:

The Board has established the following minimum expectations of potential Investment Manager candidates. Specifically, it is seeking strategies with:

- sufficient assets under management (20% of strategy assets at time of hire), such that the Plan would not represent a significant percentage of total assets;
- an amount of assets sufficient to maintain the manager's commitment to providing supporting resources yet not so large as it would hinder effective implementation of the investment strategy;
- a well-defined investment process compatible with the investment objectives of the Plan that has been offered for at least ~~three~~-five years;
- a verifiable track record that demonstrates consistent adherence to the stated investment approach;
- accessibility in an appropriate investment vehicle for the Plan such as a daily valued mutual fund, commingled trust, or separate account;
- historical risk and return characteristics that are consistent with the specified role; and
- performance that is generally competitive over long-term periods when compared to the stated benchmark and that of similar strategies offered in the marketplace.

### Qualitative Selection Criteria- (Active and Passive Management)

The Board has selected qualitative factors with the advice of the Investment Consultant that it believes are predictive of an Investment Manager's future success. These factors coincide with the Investment Consultant's standard rating methodology which assesses the likelihood of out-performing the stated benchmark on a risk-adjusted basis. The qualitative factors are:

*Idea Generation:* Focuses on assessing the strength and quality of an investment manager's research capabilities. Areas emphasized include:

- Depth and competency of investment personnel
- Degree to which the structure of the investment team is conducive to success
- Team's skills at sourcing high value investment ideas
- Knowledge of the investable universe

*Portfolio Construction:* Focuses on assessing whether an investment manager effectively integrates its highest conviction ideas consistently by adeptly constructing the portfolio (i.e., these securities should represent a meaningful share of strategy assets). -All else equal, it is expected that the Plan's active managers will effectively implement best ideas in their portfolios as opposed to a diffuse, benchmark-like portfolio construction.

*Strategy Implementation:* Focuses on assessing how well a manager manages assets in the strategy. Particular attention will be paid to the manager's ability to effect transactions and manage portfolio transaction costs. More broadly, scrutiny will be given to how a manager handles substantial cash flows from investments. Preference will be given to those managers that have demonstrated a history of managing the capacity of their strategies in the interest of investors.

*Business Management:* -Focuses on identifying managers that run their firms in alignment with investor interests. Specific criteria evaluated include:

- Firm ownership
- Management
- Compensation of key personnel
- Personnel turnover
- Client turnover
- Investment fees

### **Quantitative Selection Criteria (Active Management):**

Both long- and short-term quantitative factors will play a role in the evaluation of potential active investment manager candidates as well. The Board expects that over the long-run, exemplary active investment managers will distinguish themselves from the benchmark and the peer group. In the short-run, however, the Board believes, based on academic and practical research, that active manager short-term performance is mean-reverting, and consequently, high quality investment strategies that have demonstrated short-term underperformance will not be unduly penalized.

*Long-term quantitative measures (over a 103-year or longest available period):*

- Demonstrated record of net-of-fee excess performance relative to the strategy's stated benchmark and peer group.
- Risk-adjusted performance that is superior to the benchmark and peer group as judged by the strategy's Return/Risk Ratio or Information Ratio (average annualized excess return divided by annualized standard deviation of excess returns).

*Short-term quantitative measures (~~over a~~ less than 3 years ~~period~~):*

- Performance below the median of the strategy's peer universe will not be unduly penalized.

### **Quantitative Selection Criteria (Passive Management):**

It is expected that passive Investment Manager candidates will have a history of tracking their stated benchmark within a reasonable range. Passive Investment Manager candidates will be assessed from a quantitative standpoint based on the tracking error of their respective index strategies. Preference will be given to those managers that demonstrate the lowest level of tracking error relative to comparable funds after fees.

### **Investment Manager Termination:**

The Plan generally will perform searches for specific investment categories once every 5 years~~The expected term of an Investment Manager's tenure with the Plan will be 5 years.~~ Incumbent managers may be retained over that 5 year period if they successfully meet search criteria and exceed the qualifications of alternative managers within their comparable universe. Under certain circumstances, ~~however,~~ it may be necessary to replace the manager before the 5-year period due to deterioration in the Investment Consultant's formal rating of the Investment Manager's strategy or due to other qualitative or quantitative factors. These factors may include but are not limited to underperformance relative to the benchmark and peer group median over an extended period of time, changes in the firm and key personnel that may have an adverse effect on the strategy, investment style drift, organizational soundness or reliability, or changes in investment philosophy.

The Board meets with the Staff and Investment Consultant to review each blended investment option and underlying Investment Manager on a quarterly basis and will take the necessary action, up to and including terminating an Investment Manager, if it is not meeting standards or if qualitative factors arise that are detrimental.

*Consultant ratings:* -The Consultant's rating of an investment strategy signifies its opinion as to the prospects for out-performance relative to a suitable benchmark, on a risk-adjusted basis, over a full market cycle (generally three to five years). The Consultant will rate strategies as having either above average, average, or below average prospects for outperformance. The Investment Consultant will routinely apprise the Board of its current ratings of the Plan's Investment Managers.



If at any time during the Investment Manager's term, the Investment Consultant downgrades its formal rating of the investment strategy to average or below average, the Investment Consultant will communicate this to the Board. The Board will evaluate each downgrade on a case-by-case basis for a determination regarding whether the Investment Manager should be terminated or retained. In conducting its evaluation, the Board shall consider the specific circumstances regarding the downgrade, the risks/benefits for retaining the Manager, the length of time remaining until a future procurement for a like product is scheduled within the asset class, and any other factors which could have a material impact on the likelihood of the Investment Manager to fulfill its investment mandate for the duration of its scheduled presence in the Plan. If the Board elects to terminate the Investment Manager, the Board shall consider all available options for the transfer of assets, including transfer to existing investment managers within a blended asset class fund of funds, a future manager selected as a result of procurement, or other options that are consistent with adherence to the mandate of the investment option under the Plan.

## Investment Option Performance Standards

Each ~~investment option~~ Investment Manager's performance shall be evaluated based on the following qualitative and quantitative standards ~~as outlined following~~.

### Qualitative Standards

The following qualitative standards will be used in the evaluation of the Investment Managers:

- Adherence to stated investment philosophy, process, and stated guidelines
- Strength of investment process (e.g., idea generation, portfolio construction, transaction cost management, etc.)
- Organizational strength (i.e., the degree to which the firm is run in the interest of investors)
- Retention and attraction of key investment professionals associated with the management of the investment option
- Degree of transparency in disclosing relevant information that may have an adverse impact on performance

### Quantitative Standards

- Investment Performance results will be measured net of fees against a respective market index and peer group median over rolling three- and five-year periods. ~~Peer universes will be composed of institutional managed funds comprising comparable strategies.~~ The comparative indices and universes may be updated from time to time due to changes in investment strategy and/or underlying investments.
- Volatility will be measured by the standard deviation of quarterly returns and should be reasonably comparable to each fund's respective market index and the respective peer group averages. ~~Funds with greater volatility than their indices should earn commensurate rate of return with that incremental volatility.~~
- Passively managed strategies will be evaluated based on their degree of tracking relative to their stated benchmarks. It is expected that passive funds generally will track their stated benchmark with a reasonable tolerance.

Following are the investment return objectives for each Plan investment category. It is expected that the funds designated for each investment category will meet or exceed these performance objectives.

Investment Option	Comparative Manager Peer Group <del>Universe</del> Median <del>3 and 5 Years</del>	Relative Market Index <del>3 and 5 Years</del>
DCP Stable Value Fund	Stable Value Universe	3-year Constant Maturity Treasury + 50 bps after 7/1/2008 <del>linked to</del> (50% Citigroup 3-month T-bill/50% ML 1-3 Treasury Index for prior dates)
DCP Bond Fund – <a href="#">Active Bond Mgr.</a> – <a href="#">Passive Bond Mgr.</a>	<b>Core Bond Universe</b>  <a href="#">Core Bond Universe</a>  <a href="#">Bond Index Universe</a>	<del>Bloomberg Barclays Capital US Aggregate Bond Index</del> <a href="#">Bloomberg Barclays US Aggregate Bond Index</a> <a href="#">Bloomberg Barclays US Aggregate Bond Index</a>
DCP Risk Profile Portfolios	<del>N/A</del> <b>Respective Target Risk Universes</b>	<b>Custom indices*</b>
DCP Large Cap Stock Fund	US Large Cap <del>Core</del> <a href="#">Index Universe</a>	S&P 500 Index
DCP International <a href="#">Stock Fund</a> – Developed Int'l Mgr. – Emerging Markets Mgr. – International Small Cap	<del>All Country</del> <b>World ex-US Universe</b> <del>Developed Int'l</del> <a href="#">World ex-US Universe</a> Emerging Markets Universe Int'l Small Cap Universe	<del>MSCI ACWI ex-US IMI Index</del> <b>DCP International Stock Custom Benchmark*</b> MSCI EAFE Index MSCI Emerging <a href="#">Markets</a> Index MSCI EAFE Small Cap Index
DCP Mid Cap Stock Fund – Active Mid Value Mgr. – Active Mid Growth Mgr. – Passive Mgr.	<b>US Mid Cap Core Universe</b> US Mid Cap Value Universe US Mid Cap Growth Universe <del>N/A</del> <a href="#">US Mid Cap Index Universe</a>	<del>Russell Midcap Index</del> <b>DCP Mid Cap Stock Custom Benchmark*</b> Russell Midcap Value Index Russell Midcap Growth Index <del>Russell Midcap Index</del> CRSP US Mid Cap Index or index currently tracked by the passive fund
DCP Small Cap Stock Fund – Active Small Value Mgr. – Active Small Growth Mgr. – Passive Mgr.	<b>US Small Cap Core Universe</b> US Small Cap Value <del>Universe</del> US Small Cap Growth <del>Universe</del> <del>N/A</del> <a href="#">US Small Cap Index Universe</a>	<del>Russell 2000 Index</del> <b>DCP Small Cap Stock Custom Benchmark*</b> Russell 2000 Value Index Russell 2000 Growth Index <del>Russell 2000 Index</del> CRSP US Small Cap Index or index currently tracked by the passive fund

Note: Bold indicates primary benchmark for fund of fund option.

\* Each Custom Benchmark comprises a blend of the underlying funds' indices and weights.

## Appendix A

### Investment Option Profiles

Option	DCP Deposit Savings Account
Objectives	<ul style="list-style-type: none"> <li>No principal loss</li> <li>Income consistent with the foregoing objective</li> </ul>
Primary Investments	Demand deposit accounts with multiple reputable banks that are backed by the FDIC. Amounts held in excess of FDIC limits, currently \$250,000 per bank will be collateralized pursuant to California Government Code Sections 16521, 16610-16622, and 16625-16629, as applicable.
Source of Return	<ul style="list-style-type: none"> <li>Interest income</li> </ul>
Expected Return	Low
Expected Risk	Low
Investment Vehicle	Bank demand deposit account insured by the FDIC
Portfolio Structure	Typically account will be administered by three different institutions with equal portions of the total asset pool, but this may change in accordance with the policy set forth in Appendix B.

Option	DCP Stable Value
Objectives	<ul style="list-style-type: none"> <li><del>Preservation of Capital</del> No principal loss</li> <li>Returns in excess of money market funds</li> <li>Income commensurate with a short duration, high quality bond portfolio</li> </ul>
Primary Investments	Traditional investment contracts issued by banks and insurance companies, synthetic contracts, money market instruments, short-duration fixed income securities or commingled vehicles investing in such securities, and separate account contracts.
Source of Return	<ul style="list-style-type: none"> <li>Contract income</li> <li>Interest income</li> </ul>
Expected Return	Low
Expected Risk	Low

<b>Investment Vehicle</b>	Separately managed account
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<b>Option</b>	<b>DCP Bond Fund</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Principal preservation</li> <li>Modest total return that outpaces inflation</li> </ul>
<b>Primary Investments</b>	Government, corporate and mortgage-backed fixed income securities with an average portfolio duration between three and six years; high-yield and international issues may be used opportunistically <del>up to 15% and 20%, respectively, in each asset class.</del>
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>Interest income</li> <li>Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Low/Moderate
<b>Expected Risk</b>	Low/Moderate
<b>Investment Vehicle</b>	Unitized fund of mutual funds
<b>Portfolio Structure</b>	50% passive manager/50% active manager

<b>Option</b>	<b>Risk Profile Portfolios</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Income and capital appreciation commensurate with the risk posture of each fund</li> <li>Total return of each risk-based lifecycle fund shall correspond to the asset allocation (between stocks, bonds, cash, and other asset classes) at any given point time.</li> </ul>
<b>Primary Investments</b>	<p><b>Asset Allocation:</b> The asset allocation mix of each of the DCP Risk Profile Portfolios shall be determined by the Board with input from the Investment Consultant and Staff. –It is expected that each fund will be appropriately diversified among various asset classes based on the fund’s stated investment objectives. –It is also expected that the entire array of funds will be differentiated by asset allocation so that each fund has unique risk/return characteristics.</p> <p><b>Equity Segment:</b> The equity portfolio of each fund shall be invested in a diversified array of the Plan’s core equity (US and international) options.</p> <p><b>Fixed Income Segment:</b> The fixed income component of each fund shall be invested in either the DCP Stable Value or DCP Bond Fund.</p>
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>Interest and dividend income</li> <li>Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Low to high based on asset allocation mix/time horizon
<b>Expected Risk</b>	Low to high based on asset allocation mix/time horizon

<b>Portfolio structure</b>	Fund of funds comprising investment options in the core line menu. Allocations for each of the DCP Risk Profile Portfolios are presented <del>in the appendix</del> <a href="#">below</a> .
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DCP Risk Profile Portfolios Allocation	<i>Ultra Conservative (%)</i>	<i>Conservative (%)</i>	<i>Moderate (%)</i>	<i>Aggressive (%)</i>	<i>Ultra Aggressive (%)</i>
DCP Stable Value	35.0	15.0	0.0	0.0	0.0
DCP Bond Fund	50.0	50.0	42.0	25.0	10.0
DCP Large Cap Stock Fund	6.0	15.0	20.0	25.0	30.0
DCP Mid Cap Stock Fund	2.0	3.0	6.0	8.0	10.0
DCP Small Cap Stock Fund	2.0	3.0	6.0	8.0	10.0
DCP International Stock Fund	5.0	14.0	26.0	34.0	40.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<b>Option</b>	<b>DCP Large Cap Stock Fund</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ Track the return of the S&amp;P 500 Index</li> <li>▪ High total return</li> </ul>
<b>Primary Investments</b>	All the stocks comprising the S&P 500 Index and in the same proportion as the Index.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Dividend income</li> <li>▪ Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Moderate/High
<b>Expected Risk</b>	Moderate/High
<b>Portfolio structure</b>	100% passive manager

<b>Option</b>	<b>DCP International Stock Fund</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ High total return</li> <li>▪ Provide non-U.S. equity exposure thereby enhancing participant diversification opportunities</li> </ul>
<b>Primary Investments</b>	Non-U.S. stocks of developed and emerging markets countries within all market capitalizations.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Capital appreciation/depreciation</li> <li>▪ Dividend income</li> </ul>
<b>Expected Return</b>	High
<b>Expected Risk</b>	High
<b>Portfolio structure</b>	65% <a href="#">active</a> developed international manager/17.5% <a href="#">active</a> emerging markets manager /17.5% <a href="#">active</a> international small cap manager

<b>Option</b>	<b>DCP Mid Cap Stock Fund</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ High total return</li> <li>▪ Diversification within the mid/small cap equity market segment</li> </ul>

<b>Primary Investments</b>	Domestic stocks with market capitalizations that are similar to those of stocks found in Russell Midcap Index. The total portfolio should exhibit characteristics representative of a core equity investment style, including price/earnings and price/book ratios similar to that of the Russell Midcap Index.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Dividend income</li> <li>▪ Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Very High
<b>Expected Risk</b>	Very High
<b>Portfolio structure</b>	50% passive manager/25% <a href="#">active</a> growth manager/25% <a href="#">active</a> value manager

<b>Option</b>	<b>DCP US Small Cap Stock Fund</b>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ High total return</li> <li>▪ Diversification within the mid/small cap equity market segment</li> </ul>
<b>Primary Investments</b>	Domestic stocks with market capitalizations that are similar to those of stocks found in Russell 2000 Index. The total portfolio should exhibit characteristics representative of a core equity investment style, including price/earnings and price/book ratios similar to with the Russell 2000 Index.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Dividend income</li> <li>▪ Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Very High
<b>Expected Risk</b>	Very High
<b>Portfolio structure</b>	34% passive manager/33% <a href="#">active</a> growth manager/33% <a href="#">active</a> value manager

<b>Option</b>	<b>Self-Directed Brokerage Account</b>
<b>Objectives</b>	Provide participants with an additional investment options beyond the lifecycle risk profile portfolios and core option array.
<b>Primary Investments</b>	Mutual funds, stocks, bonds, Treasuries, Certificates of Deposit (CDs), Exchange Traded Funds (ETFs) or other investments with varying risk/return characteristics accessed through a self-directed brokerage account.
<b>Source of Return</b>	<ul style="list-style-type: none"> <li>▪ Interest and/or dividend income</li> <li>▪ Capital appreciation/depreciation</li> </ul>
<b>Expected Return</b>	Varies
<b>Expected Risk</b>	Varies

## Appendix B

### **DCP Deposit Savings Account Allocation Policy**

The Deferred Compensation Plan's FDIC-Insured Savings Account option's (FDIC Option's) foremost objective is capital preservation. Secondly, the FDIC Option will seek to optimize returns in a prudent manner without compromising its primary objective. The FDIC Option uses multiple bank providers in order to provide an enhanced level of insurance coverage to Participants. The number of providers used will be a function of many factors including market conditions, participant utilization and balances, Board risk tolerance, and operational feasibility.

Typically this account will be administered by three different institutions with equal allocations of the total asset pool. The Board may adjust these allocations based on both institutional viability as well as interest rate differentials.

Institutional Viability – Because the capital preservation objective of the FDIC Option is directly related to the institutional viability of the underlying providers, the Board reserves the right to adjust the allocations among its providers in the event that the Board, in consultation with its staff and Investment Consultant, determines that a provider's financial conditions have deteriorated significantly and present a strong risk of near-term insolvency or similar institutional deterioration. In this event, the Board reserves the right to remove any or all of the assets from the at-risk provider and shift those assets to the remaining providers.

Interest Rate Differentials - While it is expected that FDIC Option bank accounts will pay interest based on short-term market rates, it is recognized that they may use different reference rates which could differ meaningfully at certain points of the interest rate cycle. Consequently, the Board will regularly review rates offered by each of the FDIC Option's bank providers to determine whether yield enhancements could be delivered to participants in a manner consistent with capital preservation. The review process will be conducted as follows:

**Step 1:** Annually, the Board and Staff will direct the Investment Consultant to analyze current rates offered by each of the FDIC option providers to determine if any rate dominates the others by more than 0.25%. In addition, the Investment



Consultant will conduct an informal survey of major banks' then current demand deposit rates to understand if better investment opportunities may exist.<sup>2</sup>

**Step 2:** If no extraordinary rate differential exists, the Investment Consultant will provide written notice of this to the Board and the FDIC Option will be allocated equally among each provider by the third-party administrator (TPA). If the 0.25% threshold is exceeded, however, the Investment Consultant, if it deems prudent under circumstances then present, will provide written correspondence to the Board recommending that it direct the TPA to allocate 50% of FDIC option assets to the high interest bearing account and split the remaining balance equally among the remaining bank accounts.

**Step 3:** The Board will review this recommendation, and if it deems prudent under circumstances then current, will delegate Staff to issue such a directive to the TPA.

**Step 4:** The TPA will implement the Board's directive and take necessary steps from an administrative perspective to ensure a seamless transition.

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<sup>2</sup> Mercer conducted such an exercise in August and found that no major banks were offering rates substantially different from what City National and Bank of America currently offer. Our findings are that Bank of the West's current 1.0% rate is an outlier case.