



**SACRAMENTO COUNTY**

**Investment Policy  
For the  
Retirement Health Savings Plan**

*Approved by the  
Sacramento County Board of Supervisors*

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Sacramento County Board of Supervisors*

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**NOTE:** The County does not guarantee participant contributions and account balances under the RHSP against the risk of principal loss or investment performance.

# Sacramento County Investment Policy For the Retirement Health Savings Plan

## SECTION I.

### INTRODUCTION

The County of Sacramento offers to all eligible full-time and covered part-time employees a Retirement Health Savings Plan (“Plan”). The Plan is administered by the County of Sacramento Internal Services Agency Administrator. The Internal Services Agency Administrator is the Plan Administrator and is responsible for the general administration of the Plan. The Director of Finance is responsible for selecting investment options.

### PURPOSE

The purpose of this investment policy is to provide documentation of the procedures demonstrating care, skill, prudence and diligence that will be used by the Director of Finance in the selection and monitoring of investment options for the Plan.

The investment policy intends to establish prudent procedures in the selection and monitoring of investments to allow for participant direction of individual investment selections from a diversified list of investment options.

It is also the intent of this investment policy to provide a meaningful framework for the investment management of the Plan assets and that the investment policy will not be overly restrictive given the changing economic, business and investment market conditions. It is intended that the objectives be sufficiently specific to be meaningful, but flexible enough to be practical.

The Director of Finance will review the investment policy at least annually, determine if it is in keeping with the regulations governing the Plan, and recommend any changes in the procedures or investment policy. The investment policy will assist the Director of Finance in effectively planning, supervising, monitoring, and evaluating the investment program established in the Plan, in consultation and under advisement of the Plan Administrator.

### PLAN OBJECTIVES

The goal of the Plan is to provide all employees with a comprehensive, prudently managed tax-free retirement health savings program. The Plan objectives are the following:

- \* The Plan is established for the exclusive benefit of the employee participants and their beneficiaries.

- \* The Plan is a vehicle through which employees may accumulate assets to provide for a portion of their retirement health savings needs.
- \* The Plan seeks to provide a broad range of investment options recognizing the differing financial objectives, risk and return tolerance and diverse demographics of participants.
- \* The Plan will seek to provide suitable investment options, considering that participants each have different investment horizons and standards of acceptable risk and returns.
- \* The Plan will obtain investment options at a reasonable cost and control overall investment related service costs.
- \* The Plan will establish investment objectives and standards for the investment options offered to assure that the assets are managed in accordance with the investment policy.
- \* The Plan will establish formal criteria to monitor and evaluate the performance results achieved by the portfolio managers.
- \* The Plan will provide a formal process for reviewing and modifying the investment policy.
- \* The Plan shall meet the fiduciary responsibility of the Retirement Health Savings Plan.

## **DIRECTOR OF FINANCE DUTIES AND RESPONSIBILITIES**

Under the direction of the Plan Administrator, the general duties and responsibilities of the Director of Finance for the investment related matters are as follows:

- \* Recommends investment policy, the addition, removal and freezing of investment options, conducts due diligence, and monitors investment performance and fees.
- \* Recommends qualified investment managers and funds which provide a range of risk and return characteristics.
- \* Recommends a consultant whose duties may include assisting in the selection, evaluation, monitoring of investment options and other administrative issues.
- \* Prepares performance reports of investment options portfolio.
- \* Monitors and evaluates changes in legislation and regulations to ensure compliance regarding investment matters.
- \* Ensures the communication of the fund performance to all participants by the Plan's Third Party Administrator.

## **SECTION II.**

### **CORE INVESTMENT OPTIONS**

The Director of Finance selects at least one investment option within each of the investment asset categories listed below. These investment options are referred to as Core Options. The Director of Finance will monitor each fund's performance, risk measures, management style, investment objectives, and investment expenses, at least annually. A listing of the Proposed Core Options is available as Exhibit I—Investment Options Listing & Investment Performance Standards. The Plan Administrator reserves the right to add more investment options to the Core Options to provide participants more opportunities for diversification.

#### **Investment Categories**

The Director of Finance recognizes the broad range of investment needs required by participants. The following investment asset categories will be selected to provide a range of risk and return characteristics that will give participants the opportunity to develop an investment portfolio which will meet their desired risk and return requirements as follows:

1. Money Market/Stable Value
2. Bond/Fixed Income
3. Equity (incorporating Large, Mid and/or Small Cap):
  - a. Passive (indexed)
  - b. Blend/Growth and Income
  - c. Growth
  - d. Value

- e. International/Global
4. Target Date Suite

The default fund for new full-time participants who do not direct the investment of their account is the age-appropriate target-date fund.

### **Monitoring Procedure**

1. The Director of Finance will complete a quarterly review to assess the continuing compliance of the Plan's Core Options. The Director of Finance may perform more frequent monitoring as necessary.
2. The quarterly and semi-annual reviews will be used to determine the following:
  - a. Whether performance remains within the standards established by the performance criteria.
  - b. Whether the portfolio manager's investment style has remained consistent.
  - c. What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
  - d. Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

## **ACTIVELY-MANAGED FUNDS**

### **Selection Criteria**

The Director of Finance will recommend actively-managed options for addition to the Core Options using performance and administrative performance criteria as set below.

#### *Performance Criteria*

The Director of Finance will evaluate relative performance for each of the investment options. The following criteria will be used to determine the suitability of an investment option:

1. Investment option returns will be evaluated over a full market cycle, generally five to ten years. This allows for the investment process and style of a particular fund to fully develop in terms of risk, return, style, and overall portfolio characteristics.
2. The Director of Finance will also look at shorter- and longer-term performance information for consideration of extenuating circumstances such as portfolio manager changes and to take into account the length of any extraordinary economic conditions.
3. Returns should meet or exceed those of the appropriate benchmark indices for the objective and style of the investment option and the returns should meet or exceed those of 50% of a peer group of investment options as described by a universe of peers

with similar investment objectives and styles, such as the appropriate Morningstar category.

4. Investment options may also be evaluated on other quantitative and qualitative criteria.

*Administration Performance Criteria*

1. The portfolio manager will preferably have at least three years of experience.
2. The initial deposit or transfer to the fund must constitute less than 10% of the total fund assets.
3. All fees, commissions, and charges will be disclosed to the Director of Finance, the Committee, and all participants.
4. Expense ratios will be within the lowest 50% of funds with a similar objective and style.
5. The investment options will provide for daily valuation and trading.
6. The investment provider must be able to provide communication and reporting services as needed to monitor the performance criteria.

*Watch List Procedure*

The Director of Finance will ordinarily remove an actively-managed fund if it fails to meet the criteria required below. The Director of Finance's procedure for placing an investment option on the Watch List and for removing an actively-managed investment option from the Core Options includes the following:

1. An actively-managed Core Option will be placed on the Watch List if it meets either at least two of conditions "a" through "g" or condition "h":
  - a. Performance below 50% of its peer group for a three-year period
  - b. Performance below 50% of its peer group for a five-year period
  - c. Performance below 50% of its peer group for a ten-year period
  - d. Performance below its benchmarks for a three-year period
  - e. Performance below its benchmarks for a five-year period
  - f. Performance below its benchmarks for a ten-year period
  - g. A Morningstar rating of 2 or below
  - h. Extenuating circumstances
    - i. Change in fees
    - ii. Change of portfolio manager
    - iii. Change of sub-advisor
    - iv. Any violations of SEC rules or regulations
    - v. Performance will be considered over a minimum of a three-year period and a maximum of a ten-year period unless a shorter-term

underperformance is so severe that it warrants the Director of Finance's immediate consideration for removal.

2. To be in good standing and removed from the Watch List, a fund must not have more than one of Watch List criteria "a" through "g" above. However, a fund may have extenuating circumstances that warrants continuation on the Watch List.

#### *Removal Criteria*

1. An actively-managed fund will be removed from the Core Options if it is determined that extenuating circumstances are not in accordance with prudent investment standards or when conditions "a" through "e" below apply; however, the Plan Administrator has discretion to retain any Core Option as long as it remains a prudent option:
  - a. Performance below 50% of its peer group for a five-year period
  - b. Performance below 50% of its peer group for a ten-year period
  - c. Performance below its benchmarks for a five-year period
  - d. Performance below its benchmarks for a ten-year period
  - e. A Morningstar rating of 2 or below
  - f. Extenuating circumstances
    - i. Change in fees
    - ii. Change of portfolio manager
    - iii. Change of sub-advisor
    - iv. Any violations of SEC rules or regulations
    - v. Performance will be considered over a minimum of a five-year period and a maximum of a ten-year period unless a shorter term under performance is so severe that it warrants the Director of Finance's immediate consideration for removal.
2. The Plan Administrator will communicate to all eligible participants the funds subject to removal.
3. After a fund is removed, all existing balances and future contributions will be moved from the removed fund to a similar existing Core Option or a replacement fund. No new contributions or transfers will be accepted into a removed fund.

#### **PASSIVE (INDEXED) FUNDS**

Each passive option's ability to replicate its target index will be impacted by pricing characteristics unique to a particular asset class (i.e. international equity "fair value pricing", bond funds use of different pricing services, etc.). Pricing characteristics specific to a particular asset class and the funds expense ratio should both be factored into evaluating the prudence of the fund's performance.

#### **MONEY MARKET AND STABLE VALUE FUNDS**

The Director of Finance will consider fees and the size of total assets under management when recommending money market and stable value funds for addition to the Core Options.



Specific to stable value, the following will be considered when selecting and monitoring these products:

- The level of experience the provider has with stable value products
- The credit ratings of the stable value wrap providers guaranteeing principal protection
- The market value to book value ratio

### **TARGET-DATE FUNDS**

For target-date funds, the asset allocation and glidepath should be evaluated taking into account factors such as generally accepted investment theories, prevailing investment industry practices, the goals of the Plan, the philosophy of the fiduciaries regarding asset class diversification, the desired relationship of risk (or volatility) and potential return, and the needs and abilities of the participants and beneficiaries. Fees should be below industry average. The Director of Finance will engage in a process to identify and consider those goals, preferences, needs and abilities and to select a default investment consistent with that analysis.

As the analysis techniques effective for comparing target-date funds differ from the analysis used for other investment selections in several respects, criteria listed elsewhere in this investment policy may not apply. Target-date funds will be evaluated and, if necessary, replaced as a suite. The Director of Finance will rely upon the Plan consultant to affirm that the target-date fund family performance remains appropriate with the products' stated investment objectives and glidepath construction methodology. This affirmation will occur no less than annually.

## **SECTION III.**

### **PARTICIPANT COMMUNICATION AND INVESTMENT CONTROL PARAMETERS TO PARTICIPANT OF INVESTMENT OPTIONS**

#### **PARTICIPANT COMMUNICATION**

The Plan will provide for regular communication of investment and Plan information in addition to necessary updates to inform participants of changes to the Plan.

The Plan Third Party Administrator selected and monitored by the Plan Administrator will provide prospectuses and annual reports for each of the investment options under Core Options. Such information will be provided to participants when they enroll in an option for the first time, when there is a revision of the document and whenever a participant requests such documents. The Plan Third Party Administrator will also provide participants with information on returns and risk information for one-, three-, five- and ten-year periods.

Additional Plan information prepared by the Plan Third Party Administrator and reviewed by the Plan Administrator may be distributed through communications to the participants in the manner of their choice directly from the Plan Third Party Administrator or included with the quarterly statements.

The Director of Finance and Department of Finance staff will not provide specific investment advice. The Director of Finance will only provide general investment and retirement saving education to participants to help them in their selection and monitoring of their investment options.

The Plan Third Party Administrator may only provide specific investment advice if there is no conflict of interest in terms of direct gain for the Plan Third Party Administrator by the participant's selection of particular options. Subject to the approved of the Plan Administrator, the Plan Third Party Administrator may elect not to provide any investment advice to participants.

### **PARTICIPANT INVESTMENT CONTROL PARAMETERS**

Participants will have the option to direct the investment of the ongoing contributions and to make changes to those elections at any time. Changes to the investment elections will be made directly with the Plan Third Party Administrator or vendor(s) and will be processed as soon as administratively feasible, but in no event later than two business days after such election change is made by the participant.

Participants may change where their account balances are invested on a regular basis. Daily valuation will allow participants to direct a change in the investment of their account balance at any time to be executed as soon as administratively feasible, but in no event later than the end of business the following business day.

The Third Party Administrator and portfolio managers reserve the right to establish fees to discourage frequent trading as necessary to reduce investment option management expenses. The Plan Third Party Administrator, in the interest of investment option competition, may establish other restrictions on the frequency of changing investment options.

Other restrictions on the frequency of changes to investment elections or asset allocation may be established by the Plan Administrator to reflect changes in the regulations governing the Plan or changes in the investment policy or procedures.

**PROPOSED CORE OPTIONS  
& INVESTMENT PERFORMANCE STANDARDS**

**EXHIBIT I**

<u>Category</u>	<u>Fund</u>	<i>Comparative Benchmarks</i>
		<u>Related Market Index</u>
Stable Value / Money Market	Fidelity Investments Money Market (FRGXX) VantagePoint Plus Fund R10 (92208J709)	FTSE 3-Mo Treasury Bill ICE BofAML U.S. 3-Month T-Bill
Income (Bond)	Vanguard Total Bond Market Index I (VBTIX) Met West Total Return Bond Plan (MWT SX)	BBgBarc US Aggregate Float Adjusted BBgBarc US Aggregate Bond
Large Cap Blend	Vanguard Institutional Index I (VINIX) Parnassus Core Equity Institutional (PRILX)	S&P 500 S&P 500
Large Cap Growth	Fidelity Contrafund K6 (FLCNX)	S&P 500
Large Cap Value	JPMorgan Equity Income R6 (OIEJX)	Russell 1000 Value
Mid Cap Blend	Vanguard Extended Market Index Instl (VIEIX)	S&P Completion
Small Cap Blend	JPMorgan Small Cap Equity R6 (VSENX)	Russell 2000
International Equity	Vanguard Total International Stock Index I (VTSNX) Oakmark International Institutional (OANIX)	FTSE Global All Cap ex US (USA) MSCI World ex USA
Target Date Funds	Vanguard Institutional Target Retirement Income, 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050, 2055, 2060, 2065 Institutional Funds	Target Retirement Composite Indices

## EXHIBIT II

### DEFINITIONS

**Assets Class** – A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds), and cash equivalents (money market instruments).

**Benchmark** – An index used to measure investment returns of securities having similar characteristics. Such characteristics may include market capitalization, geographic location of the company that issued the security, etc.

**Money Market Fund** – A mutual fund with investments directed in short-term money market instruments only, which normally can be withdrawn with 24-hour's notice without penalty. Money market funds vary primarily in terms of the mix of assets in which they invest.

**Passive Fund** – A mutual fund that keeps a portfolio of stocks designed to match the performance of a stock market or one of its sectors as measured by an index of selected stocks, such as Standard & Poor's 500 Index.

**Peer Group** – A group of investment funds managed in the same Style and having similar objectives.

**Plan Trustee** – Someone who has the exclusive authority and discretion to manage and control the plan assets. The trustee can be subject to the direction of a named fiduciary and the named fiduciary can appoint one or more investment managers for the plan's assets.

**Socially Conscious Fund** – Any fund that invests according to non-economic guidelines. It may include investments based on such issues as environmental and social responsibilities. It also includes, but is not limited to, funds that avoid companies involved in promoting tobacco, alcohol, gambling, nuclear and military weapons industries.

**Stable Value Fund** – An investment vehicle found in both company retirement plans and, quite recently, IRA accounts. Stable value funds are comprised of mostly "synthetic GICs" (known also as wrapped bonds) because of their inherent stability. These bonds can be short or intermediate term with longer maturities than other choices such as money market funds. They are paired (or wrapped) with insurance contracts to guarantee a specific minimum return.

**Target-Date Fund** – A fund that automatically resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame that is appropriate for a particular investor.

**Wrap Provider** – A bank, insurer, or other financial company that guarantees that participants will receive principal and accumulated interest even if the securities held in a fund's portfolio decline in value.