

ATTACHMENT B

**County of Santa Clara
457(b) Deferred Compensation and
401(a) Defined Contribution Plans
Investment Policy Statement**

September 29, 2009

County of Santa Clara
457(b) Deferred Compensation and 401(a) Defined Contribution Plans
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D) INTRODUCTION

A) Purpose of Investment Policy Statement. The purpose of this Investment Policy Statement is to record the investment objectives and investment policies for the County of Santa Clara 457 Deferred Compensation and 401(a) Defined Contribution Plans (the “Plans” or “Plan”). The Board of Supervisors has delegated to the County of Santa Clara Defined Contribution Plans Committee (the “Committee”) the responsibility to administer and provide oversight of the Plans. The purpose of the Plan is to provide a vehicle for retirement savings. This Investment Policy Statement supersedes any other Investment policy or guidelines previously adopted by the Committee. It is intended to assist the Committee in meeting its fiduciary responsibility by:

- effectively constructing, supervising, and evaluating the investment program established for the Plans, and by
- establishing a framework for the selection, monitoring, and evaluation of the Plan’s investment fund managers.

Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plans, the Committee intends to operate the plan generally in conformance with ERISA 404(c). Investment decisions made by the Committee will be made for the sole interest of the participants and beneficiaries of the Plans.

This statement is an outline of the Committee’s general investment policies and intended to supersede any earlier statement(s) of investment policies and objectives effective with the date this statement is executed. The Policy may be reviewed annually and revised anytime as necessary to ensure it adequately reflects changes related to the Plans.

It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.

B) Plan Objective. The Plans were established to provide eligible employees an opportunity to accumulate funds for retirement in addition to any other retirement benefits they may be eligible for. The Plans are defined contribution plans that provide for benefits based solely on the amount contributed to each participant’s account plus or minus any income, expenses, and gains or losses.

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C) Investment Option Menu

1) Purpose of Investment Options

- a) Consistent with ERISA 404(c), investment options are selected to provide participants with an opportunity to diversify their accounts across a reasonable risk and reward spectrum.
- b) Participants may select from a combination of investment options and may change the asset allocation of their investments pursuant to the Plans provisions and administrative procedures.

2) Construction of the Investment Option Menu

- a) The number and types of investment options and the investment fund managers retained to manage the investment options are subject to change based upon the Committee's on-going review and evaluation of the investment menu offered to participants.
- b) The Committee may add, replace, or remove investment options or funds at any time when it concludes such a change is in the best interests of Plans participants and beneficiaries, subject to the approval by the Board of Supervisors.
- c) Investment options generally will not be added if, in the Committee's judgment, they are redundant or duplicative of existing options.
- d) The asset classes that may be available in the Plans are listed in the attached Appendix A, along with their benchmarks and peer groups.

II) STATEMENT OF RESPONSIBILITIES

A) Committee

The Committee is appointed by the Board of Supervisors. The committee will discharge its duties under this policy solely in the interest of the participants and beneficiaries. The Committee members are to perform their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Committee members' responsibilities include but are not limited to:

- 1) Selecting the investment design features of the Plans, including:
 - a) drafting the Investment Policy,
 - b) determining the number and types of investment alternatives available to Plans participants, and

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- c) developing Participant investment procedures with Plans record keeper.
- 2) Selecting, monitoring, and evaluating all investment funds in accordance with this Investment Policy.
- 3) Monitoring Plans costs which are charged to Plans assets and or paid by Plans participants, including but not limited to investment management fees, and fees paid to other Plans service providers from Plan assets.
- 4) Providing general investment information to Plans participants regarding the procedures for making investment choices under the Plans and general investment information regarding each of the investment options offered under the Plans. This function may be delegated to staff and/or Plans record keeper.

B) Investment Funds

At present, the Plans primarily utilize mutual funds as Plan investment vehicles. The Committee may select separately managed accounts, collective trusts, commingled pooled funds, and any other funding vehicles as it deems appropriate for use by the Plans. These various funding vehicles and approaches are collectively and interchangeably referred to as investment funds, investment managers, investment fund managers, investment products, and/or registered investment advisors within this policy.

- 1) Responsibilities. All Investment Managers, managing Separate Account assets of the Plans shall maintain the assets of the Plans in compliance with all applicable laws governing the operation of retirement Plans and their fiduciary standards subject to the limitations of their contracts, prospectuses and other documents and regulations governing the investment product. Responsibilities include, but are not limited to, the following:
 - a) Investing Plans assets with the care, skill, prudence, and diligence that would be applied by a prudent professional investor, acting in like capacity and knowledgeable in the investment of retirement funds.
 - b) All transactions undertaken on behalf of the Plans shall be for the sole interest of Plans participants and beneficiaries.
 - c) Exercising full investment discretion in regards to buying, managing, and selling assets held in the portfolio
 - d) With respect to the use of mutual funds or collective trusts, the Committee expects assets of such funds to be invested in accordance with the applicable prospectus, purchase agreement, and/or declaration of trust.

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- e) All mutual funds shall be registered Investment Companies as defined under the Investment Company Act of 1940 (the “Act”). The Investment Companies need not be classified as “diversified” Investment Companies as defined in the Act.

- 2) Information Provided to the Committee. The Committee may from time to time request the investment fund manager(s) or their representatives to meet with them to discuss the following topics, including but not limited to:
 - a) The investment manager's views concerning the economy and the securities markets, with focus on the likely impact of the fund's strategies on portfolio performance.
 - b) The effects of any changes to the investment fund's organization, investment philosophy, financial condition, or professional staff.

C) Plan Participants

Investment, contribution, and allocation decisions shall be made solely by each Plans participant subject to certain procedural and administrative guidelines and default investment procedures for participants that do not make an investment election. The Committee shall make available investment option performance results and may make available other educational information relating to investment concepts and the investment options. This function may be delegated to staff and/or Plans record keeper. The provision of this information does not constitute investment advice.

The Committee may engage service providers, who in the provision of their services to the Plans and their participants, will provide investment advice. Such service providers must acknowledge in writing that they are assuming fiduciary responsibility for that advice. It is solely the responsibility of each Plans participant to direct the investments in his or her account.

Participant responsibilities include but are not limited to:

- 1) Determining their contribution/deferral rate.
- 2) Selecting their investment options for both existing balances and new contributions going forward.
- 3) Monitoring their asset allocation strategy and making adjustments as personal situations change.
- 4) Electing the timing and form of distributions according to the terms of the Plans.

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D) Plan Administrator

The Committee is also the plan administrator. The plan administrator's duties include but are not limited to:

- 1) Administering and interpreting the provisions of the Plans.
- 2) Making available to Plans participants a Plan summary.
- 3) Providing Plans participants with an annual statement of account.
- 4) Compliance with all laws and regulations governing the Plans.
- 5) Delegating various functions or tasks to individual employees or service providers.

E) Investment Consultant

The primary responsibility of the investment consultant is to inform and advise the Committee on various investment-related issues with respect to the oversight and potential enhancements of the Plans. Such services include but are not limited to:

- 1) Assisting the Committee with developing an appropriate structure for the investment menu.
- 2) Providing timely and accurate reports evaluating the return, risk, and characteristics of each of the funds compared to appropriate indexes and/or peer group universes.
- 3) Apprising the Committee of changes with regard to their funds in a reasonable time frame given the significance of the information.
- 4) Conducting a fund review at the request of the Committee when, for example, noteworthy changes or significant underperformance occurs.
- 5) Assisting the Committee in the search and replacement of existing funds as needed.

The investment consultant's role is to provide information and advice to the Committee. The investment consultant has no discretionary control or authority over the Plans and their assets. However, the investment consultant acknowledges a limited fiduciary role with respect to the advice given to the Committee. This is described in detail in the Investment Consultant Service Agreement.

F) Record keeper

The record keeper has no discretionary authority over the Plans and its assets and is not a fiduciary with respect to the Plans or their assets. The record keeper's responsibilities include but are not limited to:

- 1) Maintaining the Plans' participant account balances in an accurate and confidential manner.

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- 2) Preparation of participant statements.
- 3) Completion of the annual compliance tests as included in its service agreement.
- 4) Providing accurate and timely Plan data and reports to the Committee as included in its service agreement.
- 5) Providing participants with electronic access to account information and transactions as contracted by the Committee.
- 6) Coordination of the provision of fund prospectuses to participants as requested.
- 7) Provision of various participant communication materials as described in its service agreement and/or requested by the Committee.

G) Trustee/Custodian

The trustee/custodian is non-discretionary and takes direction from the Committee. The trustee has fiduciary responsibility with respect to the Plans assets under its control. The trustee's responsibilities include but are not limited to:

- 1) Safekeeping all securities.
- 2) Settling transactions.
- 3) Receiving contributions.
- 4) Allocating contributions among investment accounts as instructed.
- 5) Making participant distributions as instructed.
- 6) Providing periodic account statements to the Committee and other service providers as requested by the Committee.
- 7) Promptly voting all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Keeping detailed records of the voting of proxies and related actions and complying with all applicable regulatory obligations.

III) COMMITTEE PROCESS

- A) Meeting Frequency.** The Committee will meet at least ten times per year to conduct its business. Following each calendar quarter, the Committee will review the investment performance of the funds offered in the plan (excluding any funds in the self directed brokerage account. The Committee will also review the investment policy and investment options offered in the plan on an annual basis.
- B) Investment Fund Selection.** Searches for investment funds should include candidates that have demonstrated success in similar assignments. In selecting an investment fund, a

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due-diligence process is followed, which analyzes the investment fund including but not limited to the following characteristics:

- 1) Investment performance track record and consistency of returns achieved with risks taken.
- 2) Alignment of fund investment philosophy, process, and style with plan option objectives.
- 3) Size and experience of professional staff.
- 4) Tenure of investment management team.
- 5) Competitiveness of Investment management fees.
- 6) Compatibility with plan trading requirements.
- 7) An assessment of fund statistics measuring risk related to its benchmark.

C) Investment Fund Performance Evaluation. The Committee or a delegated Committee member or staff member will review the performance of investment funds at least four times each year, to determine if they are achieving the established objectives. Performance benchmarks and peer groups will be established for each fund and/or asset class at the time the class is included. The performance review will include measuring the funds' investment performance to stated benchmarks and peer groups, as well as monitoring risk measures and other factors utilized in section III B above. In addition, the following general criteria will be evaluated:

- 1) Quantitative Measures.
 - a) Active Investment Strategies. Funds employing active management are expected to rank above the 50th percentile of the appropriate peer group for the rolling three and five year time periods. The benchmarks, peer groups and risk measures are outlined in Appendix A.
 - b) Passive Investment Strategies. Passive Funds are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with marginal tracking error. Typically rolling three and five year periods will be evaluated. It is also expected that the risk of each fund, as defined by standard deviation of returns, be commensurate with the appropriate market index. The benchmarks are outlined in Appendix A.

2) Qualitative Measures.

The funds will also be monitored on an ongoing basis for other material changes which the Committee may determine are of importance to the decision to retain an investment fund, including but not limited to:

- personnel departures
- organizational changes
- alterations in investment style, philosophy, or strategy
- significant changes in assets under management

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- significant increase in fund expenses/costs

3) Time Periods.

The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time-periods. Recognizing that short-term fluctuations may cause variations in a fund's performance, the Committee intends to employ investment funds with long-term investment strategies and will evaluate fund performance from a long-term perspective. Performance over market cycles of three, five and 10 years will be weighted more heavily than performance over shorter time periods such as one year or less.

D) Investment Fund Termination and Watch Status. The Committee recognizes the long-term nature of retirement plan investing and the variability of market returns. Periodic underperformance in any of the criteria outlined in this policy will not necessitate the termination of a fund. Underperformance will provoke thoughtful consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take.

The Committee will place a fund on watch if, for two consecutive quarters, the fund's performance is below the 60th percentile of its peer group over both the three- and five-year rolling periods. A fund that is on watch will undergo a greater level of review and analysis. A fund may remain on watch status until the Committee decides to take further action. Committee actions include, but are not limited to the following:

- Remove the fund from watch status
- Continue the fund watch status
- Terminate the fund and reallocate fund assets to an alternate fund or replacement fund by Committee direction

A fund may be removed from watch status if performance exceeds median for both conditions noted above for two consecutive quarters.

Other factors that may contribute to placing a fund on watch are:

- Significant change in the risk profile of the portfolio as measured by the standard deviation of returns
- Significant increase in management fees or expense ratios
- Turnover in the management team of the portfolio
- Significant increase or decrease of assets under management
- Deviation from style for which the fund was selected
- Significant organizational change, changes in ownership, mergers, etc
- Other factors, which the Committee may determine, are important for consideration

The Committee will endeavor to use its best judgment and information available to act in a prudent manner on behalf of the plan and its participants. The Committee reserves the

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right to terminate any investment fund at any time for any reason when it determines such termination is in the best interests of the Plans and its participants and beneficiaries, subject to approval by the Board of Supervisors.

IV) ASSET CLASSES

The Committee will consider the following asset classes for possible inclusion in the Plans as investment choices to be made available to participants:

- **Domestic Equity Funds**
 - Capitalization - Large Cap, Mid Cap, Small Cap
 - Style – Growth, Value, or Blended styles
- **International Equity Funds**
 - Capitalization - Large Cap, Mid Cap, or Small Cap
 - Style – Growth, Value, or Blended styles
- **Bond Funds**
 - Investment Grade (Portfolio Weighted Average of A or better)
 - Portfolio Duration (Long-Term, Intermediate, or Short-Term)
 - Government, Corporate, or Blended
 - Domestic and/or International
- **Cash & Equivalents Funds**
 - Money Funds
 - Stable Value Funds (GIC/BIC/Synthetics)
- **Pre-Set Asset Allocation Funds**

Target Retirement Date funds, Risk Based Asset Allocation funds, or other balanced risk type investment funds. These funds may be either existing investment fund products or constructed from combinations of funds available to the Plans.
- **Other Asset Classes.** The Committee may also consider other asset classes or strategies.
- **Self-Directed Brokerage Accounts.** The Committee may offer self-directed brokerage accounts. This Investment Policy statement does not apply to the investments made by participants in their self directed brokerage accounts. The Committee will have no investment oversight responsibilities with regard to these accounts.

V) ERISA 404(c) STATEMENT

ERISA 404(c) Safe Harbor Compliance. Although the Plans are not subject to ERISA, it is the Committee's intent that the Plans generally comply with ERISA 404(c) guidelines. However, the Plans participants will be solely responsible for the investment decisions and investment transactions that they make under the Plans.

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VI) ADOPTION & SIGNATURE:

This Investment Policy Statement is adopted by the Board of Supervisors and is effective on this 29th day of September, 2009.

**ON BEHALF OF THE
BOARD OF SUPERVISORS:**

LIZ KNISS, President
Board of Supervisors

Signed and certified that a copy of this document
has been delivered by electronic or other means to
the President, Board of Supervisors

ATTEST:

MARIA MARINOS
Clerk of the Board of Supervisors

APPROVED AS TO FORM AND LEGALITY:

MIGUEL MÁRQUEZ
Acting County Counsel

By: _____


LARRY A. KUBO
Deputy County Counsel

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Appendix A. Plan Investment Benchmarks

Asset Class / Fund	Primary Benchmark	Secondary Benchmark
Money Market	Money Market Universe	90-day T-bills
Stable Value	Stable Value Universe	Ryan Labs GIC Index
Intermediate Term Bond Index	Barclays Capital U.S. Aggregate Bond Index	Intermediate Bond MF Universe
Intermediate Term Bond	Intermediate Bond MF Universe	Barclays Capital U.S. Aggregate Bond Index
Treasury Inflation Protected Secs.	Inflation Protected Bond MF Universe	Barclays Capital U.S. TIPS Index
High Yield Bond	High Yield Bond MF Universe	Barclays Capital U.S. High Yield Index
Foreign Bond	World Bond MF Universe	Barclays Capital Global Aggregate Index
Balanced	Appropriate MF Universe	Custom Index
Pre-Set Asset Allocation Funds (target date or risk-based)	Appropriate MF Universe	Custom Index
Large Cap Index	S&P 500 Index	Large Cap Core/Blend MF Universe
Large Cap Blend	Large Cap Core/Blend MF Universe	S&P 500 Index
Large Cap Growth	Large Growth MF Universe	Russell 1000 Growth Index
Large Cap Value	Large Value MF Universe	Russell 1000 Value Index
Mid Cap Index	Russell Mid Cap Index	Mid Cap Core/Blend MF Universe

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Asset Class / Fund	Primary Benchmark	Secondary Benchmark
Mid Cap Blend	Mid Cap Core/Blend MF Universe	Russell Mid Cap Index
Mid Cap Growth	Mid Growth MF Universe	Russell Mid Cap Growth Index
Mid Cap Value	Mid Value MF Universe	Russell Mid Cap Value Index
Small Cap Index	Russell 2000 Index	Small Cap Core/Blend MF Universe
Small Cap Blend	Small Cap Core/Blend MF Universe	Russell 2000 Index
Small Cap Growth	Small Growth MF Universe	Russell 2000 Growth Index
Small Cap Value	Small Value MF Universe	Russell 2000 Value Index
Foreign Large Cap Index	MSCI ACWI ex-US	Non-US MF Universe / Foreign Large Blend MF Universe
Foreign Large Cap Blend	Non-US MF Universe / Foreign Large Blend MF Universe	MSCI ACWI ex-US
Foreign Large Cap Growth	Non-US MF Universe / Foreign Large Growth MF Universe	MSCI ACWI ex-US Growth
Foreign Large Cap Value	Non-US MF Universe / Foreign Large Value MF Universe	MSCI ACWI ex-US Value
Global Equity	World Stock Universe	MSCI ACWI
Specialty Funds	Relevant Sector MF Universe	Relevant Sector Index