

**CITY OF PLANO**  
**457 DEFERRED COMPENSATION**

**INVESTMENT POLICY STATEMENT**

**June, 2012** (revised)

## **I. THE PLAN**

The City of Plano sponsors a 457(b) Deferred Compensation Plan (the Plan) for the benefit of its employees. It is intended to provide eligible employees with the long-term accumulation of retirement savings through employee contributions to individual participant accounts and the earnings thereon.

The Plan is intended to fully comply with all applicable state and federal laws and regulations governing §457(b) governmental deferred compensation plans.

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to self-direct their account balances among a range of investment options and construct diversified portfolios that span the risk/reward spectrum. Participants and beneficiaries alone bear the risk of investment results from the options and asset mixes they select.

## **II. THE PURPOSE OF THE INVESTMENT POLICY STATEMENT**

This investment policy statement is intended to communicate investment policy and procedures to the Plan's participants and assist the Plan's Oversight Committee in making investment-related recommendations in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options utilized by the Plan. Specifically, this Investment Policy Statement:

- Defines the Plan's investment objectives;
- Defines the roles of those responsible for the Plan's investments;
- Describes the criteria and procedures for selecting investment options;
- Establishes investment procedures, measurement standards and monitoring procedures;
- Describes ways to address investment options that fail to satisfy established objectives;
- Provides appropriate diversification within investment vehicles.

This Investment Policy Statement will be reviewed at least annually, and, if appropriate, can be amended at any time to reflect changes in the Plan's operations, participants' objectives, or other factors relevant to the Plan.

### **III. GENERAL OBJECTIVES**

The City of Plano 457 Plan is intended to provide participants:

- Exposure to a wide range of investment options including:
  - Actively and passively managed mutual fund investment options;
  - A credited interest option through a stable value product;
  - Target date and/or target risk funds that simplify the investment decision making process for plan participants;
  - A Self Directed Brokerage Option (SDBO) that allows plan participants to select mutual fund investments not included in the Plan's primary menu and/or general securities including individual stocks and bonds.
- Investment options that are price and performance competitive within their peer groups at the time of their selection and appropriate for varying levels of risk tolerance of participants in the Plan;
- Effective control of the Plan's administrative costs;
- A loan provision.

### **IV. ROLES AND RESPONSIBILITIES**

The City of Plano (the "City") is responsible for all decisions regarding the operations of the Plan. To assist the City with this responsibility and to ensure that all decisions regarding the Plan and its investments are made solely in the interest of all participants and beneficiaries of the Plan, the City has appointed an Oversight Committee (the "Committee") comprised of City employees and a retiree who are participants in the Plan. The City has also contracted with an outside third party administrator (the "Administrator") to assist in the management and administration of the Plan and retains the services of an outside Plan Consultant (the "Consultant"). The Consultant's role is to provide specific industry expertise and direction to the City and the Committee to capably fulfill their fiduciary responsibilities to the Plan, particularly with respect to the selection and evaluation of the Plan's investment options and administrative functions including the selection and oversight of the Administrator.

The primary role of the Plan's Oversight Committee is to provide recommendations to the City regarding the Plan in the following areas:

- The establishment and maintenance of the Plan's Investment Policy Statement;

- The recommendation for the selection of suitable investment options for the Plan and the regular evaluation of the Plan's investment options against specific qualitative and quantitative factors and the recommendation of corrective action for those options failing the criteria;
- The recommendation for the selection of the Plan's Administrator and the monitoring of the performance of the Plan's Administrator.

The Committee meets at least quarterly in an open forum and is charged with making recommendations to the City about and for the Plan that are exclusively in the best interests of the Plan's participants and beneficiaries. Final decision making authority for all decisions about the Plan rests with the City. Any action or recommendation regarding the Plan by any City official, any member of the Oversight Committee, or the Plan's Consultant that might create a conflict of interest, the potential of a conflict of interest, unjustifiable fees or expenses for the Plan, or any self-dealing is strictly prohibited.

## **V. SELECTION OF INVESTMENTS**

The recommendation of investment options for the Plan is among the Committee's most important responsibilities. Set forth below are the considerations and guidelines employed in fulfilling this responsibility.

### **A. Investment Selection**

The Plan provides a range of investment options that span the risk/reward spectrum and allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. Major asset classes to be offered in the Plan may include:

#### Stable Value Product

##### Income

- Core Bond
- Intermediate Term Corporate/US Government Bond
- High Yield Bond
- International/Global Bond

##### Domestic Equity

- Large Cap Core/Blend
- Large Cap Growth
- Large Cap Value
- Mid Cap Core/Blend

- Mid Cap Growth
- Mid Cap Value
- Small Cap Core/Blend
- Small Cap Growth
- Small Cap Value

International/Global Equity

- International Equity
- Emerging Market Equity
- Global Equity

Target Date/Target Risk Funds

Specialty

- Real Estate
- Retirement Income Option
- Natural Resources/Commodity

**B. Initial Selection Criteria**

Actively managed investment options in the Plan are selected using the following criteria:

- Each investment option has at least five (5) years of investment experience as of the date of review;
- Each investment option has a performance percentile ranking in the top third of its Morningstar peer group for the last three (3) year and/or five (5) year performance period ending on the date of review;
- Each investment option has a total net expense ratio that is equal to or less than the average of its Morningstar peer group.

At least 50% of the target date/target risk funds must meet the above criteria.

Passively managed options (i.e., indexed funds) that are consistently managed to their published benchmark index are selected for the Plan solely on the basis of their net cost to participants.

The Plan's Stable Value product is selected based on:

- The product's focus and ability to effectively guarantee the safety of participants' contributions
- The quality of the product's underlying portfolio in assuring the relative safety of contributions

- The historical earnings of the product relative to its appropriate peer group
- An expense structure that compares favorably to the product's peer group.

The Committee may recommend and the City may approve any investment option for inclusion in the Plan that is deemed to be appropriate for the Plan's participants even though it may not meet all of the above criteria.

## **VI. INVESTMENT MONITORING AND REPORTING**

The Committee is aware that the ongoing review and analysis of investment options is just as important as the due diligence implemented during the initial investment selection process. The Committee may recommend the elimination, replacement, or addition of a particular fund and/or style of investment management if they deem it appropriate for the Plan. The process for monitoring investment options is outlined below.

### **A. On-Going Quarterly Monitoring**

The Committee assisted by the Plan's Consultant and/or Plan's Administrator, will perform an analysis of all investment options included in the Plan on a quarterly basis. The monitoring process will focus on:

- 1) **QUALITATIVE CRITERIA:** The investment option's continued ability to meet all qualitative criteria that caused it to be initially included in the Plan. A substantive change in qualitative criteria may include, but is not necessarily limited to:
  - a. The option has changed managers, or such a change appears imminent;
  - b. The option has had a significant change in ownership or control;
  - c. The option has changed its investment mandate or has experienced style drift, departing from the investment objectives or parameters in the prospectus;
  - d. The option has changed its cost structure;
  - e. The investment option's management or affiliated management has violated or is under investigation for the alleged violation of an SEC, FINRA, federal or state rule or regulation or the alleged violation of its own rules, regulations, or prospectus;
  - f. The option has experienced difficulty in transacting trades, fund transfers, or pricing;

- g. The option has experienced other changes or problems in its procedures, operations, investing, reporting, or lack of employee participation which, in the Committee's opinion, has or could detract from the objectives of the Plan;
- h. The option has experienced minimal participation by Plan participants, minimal dollars invested, or a prolonged period of minimal deferrals being invested.
- i. Any other circumstance regarding the option that the Committee determines is in conflict with this Policy Statement;

2) **QUANTITATIVE CRITERIA:** Any actively managed investment options in the Plan is expected to consistently perform in the top 50<sup>th</sup> percentile of its Morningstar peer group on a rolling three (3) year basis. Any option that does not meet the criteria will be included on a "watchlist" (see B below).

3) **SPECIFIC STABLE VALUE PRODUCT CRITERIA**

The following factors will be considered in the on-going evaluation of the stable value product in the Plan:

- a. The product's current market-to-book value ratio
- b. The average quality of the product's underlying portfolio
- c. The average duration of the product's underlying portfolio
- d. The creditworthiness of the product's GIC and Wrap issuer(s)
- e. The product's current yield compared to its peer group
- f. The product's expense structure relative to its peer group.

**B. Formal Watchlist**

If the Committee determines that any of the above qualitative and quantitative factors or any other development regarding the Investment Manager's performance or organization warrants a more thorough examination, the Committee may recommend to the City that the investment option be included on a formal "watchlist".

- 1) If the Committee has determined that an investment option fails the criteria in VI.A. 1-3 above for the current quarter, then the fund may be placed on a "watchlist". While a fund is on "watch" no action will be taken and additional information will be gathered as to why the option has failed the Plan's criteria.

- 2) If the investment option's deficiencies continue for four consecutive quarters or seven of the trailing twelve quarters, the Committee may recommend notifying participants of this fact and/or close the option to new contributions and/or eliminate the option from the Plan's investment menu. Additionally, the Committee may recommend a replacement option in the same asset class.
- 3) Participants in options eliminated from the Plan will be given a reasonable period of time to transfer their balance from the affected option to another available option within the Plan. If the participant does not respond in a timely manner, the Plan may affect a transfer of the balance to an appropriate investment option available in the Plan at that time.
- 4) The Committee may make a recommendation to take corrective action against any investment option in the Plan at any time. The watchlist is not the only route for removing an existing investment option. Serious irreparable deficiencies in an investment option may prompt a recommendation for the immediate removal of an option by the Committee without it first being watch-listed.
- 5) Participants may secure a listing of any investment option in the Plan that has been "watch-listed" from the Plan's administrator.
- 6) Should an investment option that was on the watchlist subsequently resolve the qualitative or performance issues that caused it to be included on the watchlist, it will be taken off the list and considered again to be in "good standing".

## **VII. PARTICIPANT EDUCATION AND COMMUNICATION**

The Plan provides for effective participant education, counseling and account management services through a variety of media including the services of an on-site, salaried representative, as needed. The Plan may also provide comprehensive financial planning, investment advisory, or other services which may assist participants in achieving their long term retirement related goals.

## **VIII. COORDINATION OF THE PLAN DOCUMENT**

Notwithstanding the foregoing, if any term or condition of the investment policy conflicts with any term or condition in the Plan document, the terms and conditions of the Plan document shall control.