



**457(b) Deferred Compensation Plan,  
401(k) Defined Contribution Plan,  
401(a) Defined Contribution Plan,  
PST Deferred Compensation Retirement Plan  
and Retirement Medical Trust Plan**

**STATEMENT OF INVESTMENT POLICIES  
AND GUIDELINES**

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# TABLE OF CONTENTS

<b>I.</b>	<b>INTRODUCTION AND PURPOSE</b>	<b>page 2</b>
<b>II.</b>	<b>SUMMARY OF RESPONSIBILITIES</b>	<b>page 2</b>
<b>III.</b>	<b>GENERAL COMPLIANCE</b>	<b>page 3</b>
<b>IV.</b>	<b>GENERAL INVESTMENT POLICY, OBJECTIVES AND STANDARDS</b>	<b>page 3</b>
<b>V.</b>	<b>INVESTMENT OPTIONS</b>	<b>page 5</b>
<b>VI.</b>	<b>INVESTMENT OPTION SELECTION GUIDELINES</b>	<b>page 11</b>
<b>VII.</b>	<b>INVESTMENT OPTION REVIEW GUIDELINES AND MONITORING</b>	<b>page 12</b>
<b>VIII.</b>	<b>INVESTMENT OPTION TERMINATION AND WATCH GUIDELINES</b>	<b>page 13</b>
<b>IX.</b>	<b>INVESTMENT OVERSIGHT RESPONSIBILITY AND PROXY VOTING</b>	<b>page 14</b>
<b>X.</b>	<b>GLOSSARY</b>	<b>page 15</b>

## **I. INTRODUCTION AND PURPOSE**

This Statement of Investment Policies and Guidelines (“Investment Policy Statement”) is set forth to provide a clear understanding of the investment policies, guidelines and objectives related to the administration of the 457(b) Deferred Compensation Plan, 401(k) Defined Contribution Plan, 401(a) Defined Contribution Plan, PST Deferred Compensation Retirement Plan and the Retirement Medical Trust (“RMT”) Plan of San Bernardino County (collectively, the “Plans”). The Plans are salary deferral retirement and healthcare savings vehicles available to eligible employees who are interested in saving for retirement and healthcare expenses on a tax-favored basis. The Plans’ purpose is to provide a vehicle for and to encourage additional savings to supplement the retirement benefits provided to employees.

This Investment Policy Statement is further intended to assist the fiduciaries of the Plans in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options and investment providers utilized by the Plans. This Investment Policy Statement will be reviewed at least annually by the Defined Contribution Committee (“Committee”) and can be revised at any time by a majority vote of the Committee to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the Plans.

## **II. SUMMARY OF RESPONSIBILITIES**

**Plans’ Sponsor** – The County of San Bernardino is the Plans’ Sponsor. The Plans’ Sponsor’s responsibilities include but are not limited to:

- Adopting and amending the Plan Documents;
- Approving Plan services contracts;
- Appointing the Defined Contribution Committee members; and
- Designating other fiduciaries of the Plans.

**Plan Administrator** – The County’s Employee Benefits and Services Division Chief, or other designee, shall serve as the Plan Administrator. The Plan Administrator’s duties are outlined in the Defined Contribution Committee’s Bylaws.

**Committee** – The Defined Contribution Committee has the responsibility for the operation of the Plans in accordance with the terms of the respective Plan Documents. It is the intent of the Committee to fulfill its fiduciary responsibilities with respect to the Plans solely in the interest of the participants and beneficiaries. The Committee’s responsibilities are set forth in the Committee’s Bylaws.

**Investment Consultant** - The Committee may engage an independent investment consultant (“Consultant”) to assist in carrying out the duties and responsibilities of this Investment Policy Statement. Such Consultant must be registered with either State or Federal securities regulators pursuant to the Investment Advisors Act of 1940. The Consultant’s role is to provide information and advice to the Committee on various investment related issues. The Consultant has no discretionary control or authority over the Plans and its assets. In its role as an advisor to the Committee, the Consultant acknowledges a fiduciary role with respect to the investment advice provided to the Committee. The services of the Consultant will be set forth in a separate agreement.

**Investment Provider** – An entity that offers investment option products and manages assets for the Plans. Examples of investment option products offered by an investment provider may include mutual funds, commingled trust funds, separate accounts and/or variable annuity contracts.

**Investment Manager** – The person(s) at the Investment Provider responsible for implementing an investment option's investing strategy and managing its portfolio trading activities.

**Services Provider** – An entity engaged to assist the Plans' Sponsor and the Committee in regard to the administration of the Plans. This assistance may include the Plans' enrollment, communication, education, including providing general investment information to Plan 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, distribution processing, record keeping and other administrative functions as prescribed in an agreement entered into between the Plans' Sponsor and the Services Provider.

### **III. GENERAL COMPLIANCE**

The Committee will act as fiduciaries following best practices as established by Article XVI of the California Constitution. These practices include but may not be limited to the Duty of Loyalty, the Duty of Prudence, the Duty to Diversify and the Duty to Follow the Plan Documents.

All plan fiduciaries shall complete comprehensive education and ethics training that covers all aspects of their duties and responsibilities as fiduciaries of the Plans, including but not limited to best practices, plan compliance, legislative and regulatory activities, as well as fund selection, monitoring, and replacement.

It is expected that fiduciaries will be knowledgeable regarding the investment opportunities made available to participants. New fiduciaries shall complete such training within three months of becoming a fiduciary of the Plans. In addition, ongoing training shall be provided to all fiduciaries as established by a schedule to be approved by the Committee. Compliance with these education and training requirements shall be reviewed by the Committee annually.

At minimum, it is intended that participants shall be provided with the following opportunities:

- A. Choose from a minimum of three diverse investment categories, each with materially different risk and return characteristics. At least one of the categories will provide for a high degree of safety and capital preservation.
- B. Make and/or modify investment decisions at least quarterly.
- C. Receive or have access to the following information, as updated:
  - A description of the investment alternatives available under the Plans including a general description of the investment objectives, risk and return characteristics, and type and diversification of assets comprising each alternative;
  - Identification of the designated Investment Providers, Managers and investment products;
  - A description of any transaction fees or expenses charged to the Plan participants' account(s), and information on costs and fees for an investment product that reduces the rate of return to Plan participants (expense ratios); and
  - Prospectuses, annual reports, and semi-annual reports on investment products, if available.

### **IV. GENERAL INVESTMENT POLICY, OBJECTIVES AND STANDARDS**

It is the policy of the Plans to foster an investment environment that encourages and facilitates participant efforts to supplement other sources of retirement income. The Plans will be structured in an attempt to provide Plan participants with an array of investment options that offer competitive rates of return and reasonable overall cost. Participants in the Plans are solely responsible for their own investment decisions and bear the risks and assume responsibility for the results of the investment options that they select. The Plans' Sponsor and Committee make no representations, promises, or warranties regarding the suitability of participation in the

Plans for any participant's individual investment or retirement needs. Additionally, the Plans' Sponsor and Committee make no representations, promises or warranties about the performance of the Plans or the Plans' investments.

The Plans exist in a very dynamic marketplace in which new investment alternatives may become available over time. At present, the market offers a broad array of investment products. These products may include:

- Fixed annuity options
- Variable annuity options
- Co-mingled trust funds
- Mutual funds
- Shares of any company, association or corporation

The primary investment objective of the Plans is to present participants with a range of investment options, which give participants an opportunity to increase the value of their investment assets in a manner consistent with varying levels of participant risk/reward tolerances and investment decision making skills. While the Plans cannot meet all participant investment preferences and attitudes, the Plans attempt to provide investment vehicles for participants at various levels of investment sophistication and with varying requirements for risk and return.

Information that may be used to select which investment products to offer includes, but is not limited to, the following:

- Age, income and other demographic data on the Plans' participants
- Liquidity and administrative constraints imposed on the Plans by service providers
- Development of new investment products in the marketplace
- Level of participant usage of investment products

To enable participants to establish different investment strategies, the Plans will offer investment categories that have varying return and volatility characteristics. It is the responsibility of each participant to evaluate the investment options and to select an appropriate mix.

A risk/reward structure is basic to investments. Generally, those vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long-range asset accumulation can be lessened through diversification among asset classes. To provide participants the opportunity to select risk/reward strategies and to diversify the Plans' assets, the Plans will offer a number of investment alternatives.

In addition to providing a range of investment options, the Plans seek to provide investment options that are competitive in terms of performance relative to appropriate investment performance and risk benchmarks. The performance and risk relationships of the Plans' investment options will be reviewed periodically. Investment options should generally be given a full market cycle to achieve stated objectives (market cycles normally occur over 3-5 year time periods). Investment options are expected to meet or exceed their pre-determined benchmark index(es) net of fees. Where peer groups are definable, investment options are also expected to perform within the upper half of a sample of same style peers net of fees. In addition to net investment performance, the options' risk characteristics will also be reviewed. The risk associated with an investment option generally should be similar to that of the same-style peer group.

## **V. INVESTMENT OPTIONS**

Investment options offered by the Plans will be categorized or grouped by similarities in investment objectives, style and risk. The Plans' Service Provider and/or Consultant may be asked to assist in determining the categories of investment options. The Plans will be structured to assist participants in meeting their long-term investment objectives by providing investment options within the following permitted investment categories (these categories are further explained in the following pages of this document):

### **Tier 1: Target Retirement Date Pre-Mixed Portfolios Risk-Based Pre-Mixed Portfolios**

### **Tier 2: Asset Class Investment Options**

- Fixed/Stable Value
- Money Market
- US Government Bond
- Total Return Bond
- U.S. Large-Size Company Equity
- U.S. Mid-Size Company Equity
- U.S. Small-Size Company Equity
- International Equity

### **Tier 3: Self-Directed Brokerage**

Investment options and categories may be added or deleted as deemed necessary. At least one investment option shall be available within each investment category.

The following table outlines the objectives and performance benchmarks for each of the Plans' investment options. The risk associated with an investment option will be compared to appropriate risk benchmarks or measures for a same-style group of peer investment options, where definable.

## TIER 1: TARGET RETIREMENT DATE PRE-MIXED PORTFOLIOS

<b>Lifecycle Premixed Portfolio – Retirement Income</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities and U.S. and international equities. Stocks generally will comprise less than 30% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Group:</b>	US Target Date Retirement Income

<b>Lifecycle Premixed Portfolio – 2020, 2025</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities and U.S. and international equities. Stocks generally will comprise up to 55% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2020, US Target Date 2025

<b>Lifecycle Premixed Portfolio – 2030, 2035, 2040, 2045</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities, and U.S. and international equities. Stocks generally will comprise 55%-85% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2030, US Target Date 2035, US Target Date 2040, US Target Date 2045

<b>Lifecycle Premixed Portfolio – 2050, 2055, 2060, 2065</b>	
Provide different levels of income and capital growth dependent upon an individual participant’s specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. and international fixed income securities, and U.S. and international equities. Stocks generally will comprise 85%-90% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the portfolio.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2050, US Target Date 2055, US Target Date 2060, US Target Date 2065+

## TIER 1: RISK-BASED PRE-MIXED PORTFOLIOS

<b>Conservative</b>	
Provide an appropriate asset allocation for investors with a conservative risk and return profile; generally emphasizing capital preservation and current income with a secondary emphasis on total return. This portfolio will be composed of funds offered from the investment menu, with an emphasis on fixed income funds. Approximately 30% of the portfolio is expected to be in equity funds and 70% in fixed income funds.	
<b>Benchmark Index:</b>	Dow Jones Conservative Index
<b>Peer Group:</b>	US Conservative Allocation

<b>Moderate</b>	
Provide an appropriate asset allocation for investors with a moderate risk and return profile; generally seeking to balance capital preservation and current income with total return. This portfolio will be composed of funds offered from the investment menu. Approximately 60% of the portfolio is expected to be in equity funds and 40% in fixed income funds.	
<b>Benchmark Index:</b>	Dow Jones Moderate Index
<b>Peer Group:</b>	US Moderate Allocation

<b>Aggressive</b>	
Provide an appropriate asset allocation for investors with an aggressive risk and return profile; generally emphasizing total return with a secondary emphasis on current income. This portfolio will be composed of funds offered from the investment menu, with an emphasis on equity funds. Approximately 85% of the portfolio is expected to be in equity funds and 15% in fixed income funds.	
<b>Benchmark Index:</b>	Dow Jones Aggressive Index
<b>Peer Group:</b>	US Aggressive Allocation



## TIER 2: ASSET CLASS INVESTMENT OPTIONS

<b>Fixed / Stable Value</b>	
Provide high current income relative to cash investments and a high degree of investment safety without fluctuation of principal. Investment returns are derived primarily from interest income. A Fixed or General Account option, which is a fixed rate contract that is backed by an insurance company's balance sheet, is to be of mid-investment-grade rating or higher, and backed by a diversified pool of underlying investments. A stable value option will be invested in guaranteed investment contracts (GICs), "synthetic" portfolios, money market instruments, and others, each mainly comprised of investments of short- to intermediate maturity, and which provide for an adequate degree of liquidity. The weighted-average maturity is expected to remain between two and five years at most times. The overall weighted credit-quality rating of the option shall be the equivalent of mid-investment-grade rating or higher. The rating must be obtained from at least one credit rating agency such as Moody, S&P or Duff & Phelps. If the option's weighted rating declines below this level, the option will be evaluated for corrective action.	
<b>Benchmark Indexes:</b>	1. 5 Year CMT Index 2. 90-Day Treasury Bills Index
<b>Peer Group:</b>	Stable Value

<b>Money Market</b>	
Provide current income and a high degree of investment safety with little or no fluctuation of principal. A government money market portfolio will be structured to maintain a \$1 net asset value and otherwise comport with SEC guidelines addressing liquidity, diversification, and credit quality.	
<b>Benchmark Index:</b>	90-Day Treasury Bills Index
<b>Peer Group:</b>	Money Market

<b>US Government Bond</b>	
Provide current income consistent with preservation of capital and prudent investment management. Primarily US Government and U.S. Government Agency debt securities, A minority portion of the fund may be invested in non-government Mortgage-Backed Securities such as privately issued adjustable rate and fixed rate mortgage loans or other mortgage-related securities, asset-backed securities and corporate securities.	
<b>Benchmark Index:</b>	Bloomberg Barclays U.S. Treasury 5-10 Year Index
<b>Peer Group:</b>	US Intermediate Government

<b>Total Return Bond</b>	
Provide capital appreciation and income through a diversified, actively managed fixed income portfolio. The portfolio's duration is expected to be comparable to that of its Benchmark Index, with some bandwidth allowed for the manager to exercise strategic deviation from the Benchmark. Average credit quality is expected to be investment grade. The fixed income portfolio will normally be primarily comprised of investments including money market instruments, U.S. Government and Agency bonds, mortgage-backed securities, corporate bonds, and others. The manager will be given discretion to hold securities that are not contained within the Benchmark Index, which may include Foreign Bonds, High Yield Bonds, Convertibles, Treasury Inflation Protected Securities, derivatives, and others. The portfolio's aggregated composition and risk and return characteristics however are expected to be reflective of its asset class.	
<b>Benchmark Index:</b>	Barclays Capital US Aggregate Bond Index
<b>Peer Group:</b>	US Intermediate-Term Core Bond

<b>U.S. Large-Size Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization greater than \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included in the portfolio, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> S&P 500 Index
<b>Peer Groups:</b>	<b>Blend:</b> US Large Cap Blend

<b>U.S. Mid-Size Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization between \$2 billion and \$10 billion. Stocks of foreign companies that are traded in the U.S. may also be included in the portfolio, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> Russell US Mid-Cap Index <b>Growth:</b> Russell Mid-Cap Growth Index
<b>Peer Groups:</b>	<b>Blend:</b> US Mid-Cap Blend <b>Growth:</b> US Mid-Cap Growth

<b>U.S. Small-Size Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio with the average market capitalization between \$500 million and \$2 billion. Stocks of foreign companies that are traded in the U.S. may also be included, but generally should not exceed more than 20% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> Russell 2000 Index
<b>Peer Groups:</b>	<b>Blend:</b> US Small Cap Blend

<b>International Equity</b>	
Provide long-term capital appreciation through a diversified, actively managed portfolio of international equities. Stocks of emerging countries may be used at the discretion of the manager, but generally should not exceed more than 30% of the total portfolio.	
<b>Benchmark Indexes:</b>	<b>Blend:</b> MSCI ACWI ex-USA Index (net), MSCI ACWI ex-USA IMI (net)
<b>Peer Groups:</b>	<b>Blend:</b> US Foreign Blend

### TIER 3: SELF-DIRECTED BROKERAGE

Self-Directed Brokerage	
<p>For Plan participants who consider themselves to be knowledgeable about investment principles, the Plan may offer a brokerage account option. Such option may be provided through one or more broker-dealers, as defined and regulated by the National Association of Securities Dealers, Securities Exchange Committee or State Securities Departments. Assets held in a Self-Directed Brokerage account will be maintained in the name of the Plan Trustee or custodian for the benefit of the participant who established the account. Permissible investments for a Self-Directed Brokerage account may include registered mutual funds and other securities permitted under applicable law and as approved by the Committee. Futures, options, partnerships and core funds are not permitted. It is the account holder's responsibility to adhere to these and any other restrictions placed on the account holder by the Committee, broker-dealer or regulatory body. It is also the account holder's responsibility not to engage in transactions prohibited by statute or any regulatory entity. Investment options available through the account may contain additional risks and are not monitored by the Committee. The Committee may further restrict permissible investments available in the Self-Directed Brokerage. Each Self-Directed Brokerage account holder will be responsible for the account holder's own commissions, fees or loads applicable to individual securities or mutual fund transactions for the account.</p>	
<b>Benchmark Index:</b>	Not Applicable
<b>Peer Group:</b>	Not Applicable

### VI. INVESTMENT OPTION SELECTION GUIDELINES

Investment options offered to participants will be provided through Investment Provider(s) accessible on the Services Provider's platform. Before introducing a new investment option, the Committee, in consultation with the Consultant and Services Provider will define the niche to be filled and assess any prospective investment option's performance, quality, and risk characteristics. At a minimum, investment options under consideration should satisfy performance and risk considerations under actual, not modeled, conditions and over an appropriate time period. Investment option selection considerations may include, but are not limited to the following:

- The investment option should generally, but not necessarily, have a history that spans a full market cycle, normally three to five (3-5) years.
- The investment option should generally meet or exceed its predetermined benchmark index, net of fees.
- The investment option should generally perform at median or within the upper half of a recognized and defined sample of same-style peer options.
- The investment option should be able to demonstrate a consistent performance track record attributable to a specific investment manager or team of managers.
- In selecting Target Retirement Date funds, the Committee shall consider the current and prospective composition of the Target Date funds (based on their glide path), and the corresponding risk and return implications relative to the benchmark and peer group constituents.

## **VII. INVESTMENT OPTION REVIEW GUIDELINES AND MONITORING**

Investment Providers and Investment Managers are required to comply with all applicable laws, rules, and regulations. The Committee takes no responsibility for the failure of the Investment Providers and Investment Managers to comply with any and all applicable laws, rules or regulations.

It is recognized that certain Stable Value and Fixed options often have liquidity restrictions. Investment options with sales loads, redemption fees, or other non-investment management related expenses will be avoided to the extent possible.

Investment option performance, risk and style consistency is intended to be evaluated on a quarterly basis. Performance and risk results will be evaluated using comparisons with this policy, pertinent market indices and against other same-style peers, where definable. When necessary, investment option performance and risk may be reviewed more frequently.

The Committee will periodically review the investment options' progress in meeting the Plans' investment objectives. Investment options will be expected to comply with all stated investment objectives, guidelines and applicable rules contained in the prospectus or fund fact sheet. The Committee will review the performance of investment options quarterly to determine if they are achieving the established objectives. Investment performance reviews may include, but are not limited to, a review of:

- Investment portfolios;
- Fees and expenses;
- Investment style, process and philosophy;
- Investment management personnel; and
- Index tracking error.

The performance review will also include measuring the options' investment performance relative to stated benchmarks or respective indexes and peer groups; as well as the monitoring risk measures. The following will be evaluated:

### **Quantitative Measures**

**Active Investment Strategies.** Options employing active management are expected to outperform their stated asset class or style benchmark net of all management fees over a trailing five-year time period; and to rank above the 50<sup>th</sup> percentile of the appropriate peer group for the same trailing five-year time period. It is also expected that the risk of each option, as defined by standard deviation of returns, be commensurate with the prescribed strategy relative to the appropriate market index and/or peer group.

**Passive Investment Strategies.** Passive Options are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with marginal tracking error. It is also expected that the risk of each passive option, as defined by standard deviation of returns, be commensurate with the appropriate market index.

### **Qualitative Measures**

The options will also be monitored on an ongoing basis for other material changes which the Committee may determine are of importance to the decision of whether or not to retain an investment option, such as personnel departures; organizational changes; or alterations in investment style, philosophy, or strategy; and adherence to stated guidelines.

**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 an option's performance, the Committee intends to employ investment options with long-term investment strategies and will evaluate option performance from a long-term perspective. Performance over market cycles of three to five years will be weighted more heavily than performance over shorter time periods, such as one year or less.

In addition to the qualitative and quantitative measures referenced above, the Committee will also review the investment options' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Downside risk or semi-variance
- Risk/return ratios such as Sharp or Treynor Ratios
- Other statistical measures such as Beta, Alpha and Variance

### **VIII. INVESTMENT OPTION TERMINATION AND WATCH GUIDELINES**

Generally, all investment options are expected to remain true to their stated investment objectives and to perform as well as or better than their prescribed performance benchmarks, net of fees. 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 Investment Policy Statement will not necessitate the termination of an option; however, any underperformance will result in consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take.

The Committee may, at any time, place any investment option that it views as having a pattern of underperformance on a watch-status. Reasons the Committee might place an option on a watch status, include but are not limited to, the following:

#### **Quantitative Measures**

##### Actively Managed Options

- Performance below the prescribed benchmark index over a trailing five-year period, combined with
- Performance below the median of its peer group over a trailing five-year period

##### Passively Managed Options

- Net of fee performance tracking error relative to the respective index that is greater than 15 basis points over a trailing five-year period

Target Date funds will be evaluated based on the performance of the entire suite as held within the Plan. A Target Date suite will normally be viewed as being in violation of investment policy performance criteria if over one-half of the funds in a Target Date suite held within the Plan lag this Investment Policy Statement's prescribed performance measures. The Committee may elect to deviate from this approach if it appears reasonable to do so.

Certain passive investment options operate in a marketplace that includes foreign markets whose exchanges close prior to that of the United States. In these instances, some fund managers may engage in a method of "Fair Value Pricing," whereby the managers adjust the pricing of securities in the fund to reflect any information that has become available after the close of the applicable foreign market. Discrepancies in performance between the applicable investment option and its performance benchmark that are due to "Fair Value Pricing" will be taken into consideration in evaluating performance of the affected investment options.

### **Qualitative Measures**

- Management team or other significant personnel turnover;
- Changes in the product's investment philosophy, process, style or risk profile;
- Excessive or rapid asset growth or decline;
- Pending regulatory investigations or material legal proceedings;
- Changes to firm ownership; and
- Significant increase in management fees or expense ratio.
- In the case of monitoring Target Retirement Date funds, the Committee shall consider the current and prospective composition of the Target Date funds (based on their glide path) and the corresponding risk and return implications relative to the benchmark and peer group constituents.

An investment option may remain on watch status until the Committee decides to take further action. Committee actions include, but are not limited to, the following:

- Removing the investment option from watch status; and
- Terminating the investment option and reallocating the assets to an alternate or replacement investment option by Committee direction.

To be removed from quantitative, performance related watch status, generally, performance for the preceding five-year trailing periods should be above the benchmark index or median for at least two consecutive quarters. However, barring any breakdown in process, the Committee may decide to leave an option on watch for as long as it believes it is prudent to do so.

The Committee reserves the right to terminate investment option relationships at any time, for any reason when it determines such termination is in the best interests of the Plans and their participants and beneficiaries. Upon termination, further contributions or transfers to an investment option may be frozen, or the option may be replaced with or without transferring existing assets from the replaced option. Once the decision to terminate an option and remove it from the Plans is made, asset transfer and liquidation should be handled to the best advantage of the Plans, with due consideration given to the anticipated effect on affected participants and beneficiaries.

### **IX. INVESTMENT OVERSIGHT RESPONSIBILITY AND PROXY VOTING**

The Committee shall have overall responsibility for the selection, monitoring and termination of all Investment Managers. Additionally, the Committee shall be responsible for reviewing and maintaining these investment policies and guidelines.

Proxy votes required by investment managers shall be cast by those parties designated by the Committee. Voting rights shall be exercised in the best interest of the participants and beneficiaries of the Plans. The Committee may insist that they exercise their voting rights themselves by communicating their intention to do so in a timely manner.

## **X. GLOSSARY**

### **Alpha**

An investment's excess return relative to one that is viewed as commensurate with its degree of risk.

### **Annualized Return**

Rate of return of the account smoothed as though the return occurred equally over twelve-month periods. When the specified time frame is for less than a year, the rate of return is projected as though the same performance continues to occur for a twelve-month period.

### **Benchmarks**

A standard against which the performance of the portfolio can be measured, typically against a standard index, although a client manager may also set the benchmark.

### **Beta**

A statistical measure of an investment's volatility and degree of co-movement relative to its benchmark. A beta of 1.0 implies that an investment has exhibited the same degree of volatility as its benchmark and has tended to closely track the performance of its benchmark. A beta that is above (below) 1.0 implies that an investment has exhibited higher (lower) overall volatility than its benchmark. Beta is often viewed as indicative of an investment's sensitivity to "systematic" or market risk.

### **Downside Risk**

The risk that an investment's returns may be negative. Downside Risk, which is more pronounced in investments with higher volatility and expected returns, is often considered in terms of frequency of loss as well as magnitude thereof.

### **Duration**

The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates. Time periods are weighted by multiplying by the present value of its cash flow divided by the bond's price (a bond's cash flows consist of coupon payments and repayment of capital). A bond's duration will almost always be shorter than its maturity, with the exception of zero-coupon bonds, where maturity and duration are equal.

### **Growth Style Investing**

Growth investors purchase companies that have above-average earnings growth and/or above-average sales growth rates.

### **Investment Objectives**

The overall financial objectives of an investor. For example, whether the investor requires income or capital appreciation. The investor's objectives govern the investment strategy.

### **Large Cap**

Large Capitalization – refers to those companies with a market capitalization of greater than \$10 billion.

## **GLOSSARY (continued)**

### **Liquidity**

The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

### **Market Capitalization**

The dollar value of a public company based on the total number of shares of stock available multiplied by the price per share.

### **Mid Cap**

Mid Capitalization – refers to those companies with a market capitalization between \$2 and \$10 billion.

### **Net of Fees**

After subtraction of management fees.

### **Peer Group**

Contemporaries of the same asset class that can be compared against one another to achieve a larger sense of how the particular portfolio is performing.

### **Portfolio**

Refers to the complete list of securities held in an investment vehicle.

### **Semi-Variance**

The variance of returns below a certain number, typically zero or the average return within a data sample. Semi-Variance is viewed as a measure of volatility of returns that fall below expectation.

### **Sharpe Ratio**

A measure of risk-adjusted returns. The Sharpe Ratio is the ratio of an investment's excess return (typically versus its index or a "risk-free" investment such as Treasury Bills) relative to its standard deviation for the corresponding period. A high (low) Sharpe Ratio indicates that an investment has provided a high (low) amount of excess return relative to the amount of risk it has incurred in doing so.

### **Small Cap**

Small Capitalization – refers to those companies with a market capitalization between \$500 million and \$1.99 billion.

### **Standard Deviation**

Measures the range of returns and is based on a normal curve. Managers with lower standard deviations than the index have historically had returns that tended to fall closer to their mean return compared to the index. Managers with higher standard deviations than the index have historically had returns that tended to be further dispersed around the mean than the index. This is another measure of volatility, but it doesn't distinguish downside performance from upside performance.



## **GLOSSARY (continued)**

### **Treynor Ratio**

A measure of risk-adjusted returns. The Treynor Ratio is the ratio of an investment's excess return (typically versus its index or a "risk-free" investment such as Treasury Bills) relative to its Beta for the corresponding period. A high (low) Treynor Ratio indicates that an investment has provided a high (low) amount of excess return relative to the degree of risk it has incurred versus its applicable market in doing so.

### **Value Style Investing**

Value investors rely on an examination of the underlying or unrealized value of a company as the primary criterion for deciding whether or not to buy a company's stock. Value stocks are often priced lower than growth stocks due to slower growth expectations, recent financial difficulty, or a host of other reasons.

### **Variance**

The square root of Standard Deviation.

**On behalf of the 457(b) Deferred Compensation Plan, 401(k) Defined Contribution Plan, 401(a) Defined Contribution Plan, PST Deferred Compensation Retirement Plan and the Retirement Medical Trust Plan of San Bernardino County, this Statement of Investment Policies and Guidelines is adopted by the Committee.**

Approved by a unanimous Defined Contribution Committee vote on November 18, 2020.