Investment Policy Statement

Placer County Deferred Compensation Program

August 04, 2020

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1. Overview & Purpose

Placer County ("County") sponsors the Retirement Accumulation Plan for the Employees of Placer County ("401(k) Plan") and the Placer County Deferred Compensation Plan ("457(b) Plan"), collectively ("Plan" or "Program"). The Plans were established to provide eligible employees, as defined by the terms of each Plan, with an opportunity to save for retirement on a tax-advantaged basis. Plan participants allocate and direct their individual Plan account balances among the investment options offered under the Plans.

The County's Board of Supervisors has delegated fiduciary authority for investment decisions to the Placer County Deferred Compensation Committee ("Committee"). The Committee may further delegate certain investment related responsibilities to investment advisors and managers.

2. Administration of Program

Plans' Sponsor: Placer County

Plan Administrator: The Board of Supervisors has delegated the day to day non-discretionary responsibilities of the Plan Administrator to the Human Resources Department, including serving as staff to assist the Committee.

Committee: To carry out the fiduciary responsibilities involved in the administration of the Program; the Board of Supervisors established a Deferred Compensation Committee.

Investment Advisor: Morningstar Investment Management, LLC.

Record Keeper: Lincoln Retirement Services Company, LLC.

Trustee: Lincoln Financial Group Trust Company.

3. Purpose of Investment Policy Statement

This IPS is being adopted by Committee on behalf of the County to provide guidelines for the investment and management of assets held for the benefit of participants and beneficiaries of the Program. The purpose of the IPS is to:

- Establish a framework for structuring a retirement savings program for Program participants by making available diversified investment options that support a range of long-term needs, goals, and risk tolerances.
- Formulate policies for selecting appropriate asset categories and investment options within the framework of the Program structure.
- Provide Program participants with investment options which, when prudently used, will diversify portfolio risks, and better accommodate the range of risk/return preferences they may have.
- Establish prudent procedures for monitoring and evaluating the performance of the investment options available within the Program.
- Describe the investment process used to select the investment options available within the Program.
- Describe the roles and responsibilities of the various parties that may be involved in the oversight of Program investment activities.

4. Investment Objectives

This IPS provides a framework for the types of investment options to be offered, and the procedures for the ongoing review and evaluation of the Program's investment options.

County and Committee recognize that there is risk inherent in all investments. Furthermore, the County and Committee recognize individual participants each have their own level of tolerance as to the assumption of risk in anticipation of achieving potentially higher returns. The County and Committee encourage participants to seek out appropriate investment advice, as they deem necessary. The dissemination of information and the provision of investment options do not constitute investment advice by County or Committee. Pursuant to Government Code Section 53213.5, County or Committee are relieved of liability for any losses resulting from investment decisions given by a participant.

All investments must have a liquid market. This means that assets will have a ready market for which the asset is transacted on a day-to-day basis through commonly recognized financial markets without regard to fluctuation in principal value. Liquidations from mutual fund investments shall be accessible within a reasonable period of time. However, since plan assets are self-directed by the participants, there is no minimum requirement for a specific level of asset liquidity (such as a minimum percentage of assets in cash equivalents). Further, there shall not be any County or Committee guarantee against market losses due to liquidations.

To the extent possible, transfers among funds within the Plans shall be facilitated daily allowing participants the opportunity to manage risk and return. However, the Securities and Exchange Commission has instituted rules regarding the "trading" of fund shares. Plan funds are not designed to serve as a vehicle for frequent trading in response to short-term fluctuations in the securities markets.

5. Selection of Investment Classes

The Program intends to provide a broad range of investment alternatives. This includes having diversified investment alternatives that are sufficient in permitting Program participants to materially affect the potential return and degree of risk of their accounts, as well as minimizing the risk of large losses. Given the Program’s demographics, the Program will provide a variety of investment options within various asset class categories. These offerings, when prudently used by the Program participants, will diversify individual portfolio risks, and better accommodate the range of risk/return preferences among participants.

Major asset classes to be offered may include:

- Money Market
- Stable Value
- Bonds
- Equity Index Fund
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity

Additionally, a spectrum of target date funds and a Self-Directed Brokerage Account will be offered.

6. Selection and Monitoring of Investment Options

County is responsible for the administration of the Plans, including selecting, monitoring, and evaluating the performance of service providers retained to perform services on behalf of the Program. As permitted in the plan documents, County may retain investment advisers and managers to provide assistance in selecting and monitoring the investment options to be made available under the Program. Committee will periodically review the performance of all investment advisors and managers it retains. If Committee determines that an investment advisor or manager has consistently failed to satisfy the terms of the applicable service agreement, failed to maintain a stable organization; failed to employ the investment approach that formed the basis for Committee's decision to retain the investment advisor or manager, incurred a significant number of complaints by affected Program participants, or otherwise failed to perform its duties, Committee may initiate termination procedures for said investment advisor or manager.

In a separate service agreement ("Advisory Services Agreement"), the County has appointed Morningstar as a discretionary investment manager to the Program with fiduciary responsibility for its investment services. Morningstar will select an appropriate lineup of investment options for the Program and will provide ongoing monitoring of investment options. Morningstar's process for selecting and monitoring the investment options available within the Program is outlined in Exhibit A attached.

If at any time, an investment advisor or manager retained by the County or Committee has not taken on fiduciary duty for its investment advice, the Committee shall amend this policy to include guidelines it will follow when carrying out its duty to select, monitor and replace investment options available under the Plans.

In situations where a participant has not provided investment direction with respect to some or all assets allocated to the participant's account, the default investment options for such assets is the target date fund. The most appropriate fund, given the participant's age is the current default investment option; however, from time to time, the Committee may change the default investment option at its sole discretion.

7. Proxy Voting

The Committee may authorize the Trustee/Investment Provider to vote on behalf of the Program for all proxies that are returned. Proxies not voted upon by the Trustee/Investment Provider will be forwarded to the Committee.

8. Coordination with Plan Document

Notwithstanding the foregoing, if any term or condition of this IPS conflicts with any term or condition in the plan documents, the plan documents shall control.

9. Other Provisions

By adoption of this IPS prior investment policy statements that may have previously been adopted by the County are revoked.

The Committee will review this IPS periodically; and, if appropriate, amend the IPS to reflect changes in the market, Program objectives, or other factors relevant to the Program.

The Committee may amend this IPS at any time. Changes will reflect long-term considerations rather than short-term changes in the financial markets.

Exhibit A
Morningstar's Investment Process

This document is attached to and made a part of the IPS and outlines the process Morningstar uses to select and monitor the investment options available under the Program.

Scope of Investment Universe

County understands that by selecting Morningstar and its services, the universe of available funds may be limited as part of Record Keeper's administrative offering. This universe of investment options may include options that are both proprietary and non-proprietary investments of Record Keeper or its affiliates. From time to time, Record Keeper may change the investments available under and as part of the product, contract or platform. Morningstar may or may not make changes to the Morningstar Insight Series Lineup based on these changes. At all times, Morningstar decides on which funds are included in the Morningstar Insight Series Lineup.

Investment Selection Process

From the investment universe defined above, Morningstar evaluates quantitative and qualitative factors to select investment options to meet a variety of investment objectives. In addition, Morningstar uses returns-based style analysis and holdings-based style analysis of the investment options to determine the investment's style over time.

Once investments are placed into their appropriate asset class categories, Morningstar applies a series of screens designed to flag funds that exhibit characteristics that its experience has shown to hinder long-term performance. Next, Morningstar uses use a multitude of statistics to begin to assess the overall quality of an investment option and to evaluate investment style, structure, and performance. Some of the factors Morningstar considers in this stage of the process are:

- Fees
- Management tenure
- Style consistency
- Relative alpha
- Volatility
- Fund size
- Asset exposure
- Holding concentration
- Turnover

After this quantitative review, Morningstar reviews investments from a qualitative perspective, to develop a fundamental understanding of the investment and to create an investment thesis that identifies the rationale for selecting the investment, as well as the barometers by which its success is measured. The thesis also identifies the specific factors Morningstar will monitor to ensure the investment continues to meet expectations.

Morningstar reviews a number of characteristics of an investment that could be relevant to it successfully filling its intended role. Morningstar observes which types of markets the investment fares best in, and which types are trouble for the investment's style, and determines what it is about the investment that explains the pattern. Morningstar uses many factors to evaluate investments, including:

- Investment sub-style
- Manager skill (including history at other funds)
- Impact of asset growth on performance
- Source of investment ideas
- Investment decision-making process
- Actions in previous market environments
- Manager ownership
- Process repeatability
- Performance attribution

Lineup Design

The area of behavioral finance has shown that investors don't always behave rationally and that the manner in which a problem is posed can impact individual actions. Morningstar is mindful of simple heuristics employed by participants in making investment-related decisions and designs lineups that attempt to drive better action on the part of investors.

The following are several of the concepts Morningstar considers when constructing a lineup:

- Choice Overload – Participants should have options, but they shouldn't be given so many choices that they become overwhelmed.
- Naïve Allocations – A lineup should be balanced and diverse such that an individual making naïve allocations (equally weighting all investment options is the most common) will still produce a portfolio of reasonable risk-reward tradeoff.
- Loss Aversion – Ensure that the volatility and relative performance of the investment options are appropriate for the given investment category.

Lineup Construction

Using the process outlined above, Morningstar narrows the universe of investment options to create an investment lineup appropriate for the Program. Morningstar strives to select investments to fill a distinct stylistic role within a lineup, and carefully assesses how each investment can be expected to fit with other investments. To accomplish this, Morningstar relies largely on our holdings-based style analysis (returns-based style analysis plays a more limited role in this process) to deconstruct each investment into its individual holdings. This means drilling down into individual holdings and comparing them with the holdings of other offerings in the lineup. Morningstar evaluates stock overlap and return correlation between investment options, Morningstar® Style Box placement, and how sector exposures complement those of investment options. Morningstar strives to choose funds that are clearly different from one another, rather than similar or redundant. The goal is to establish a specific role for each investment option in the Program lineup that minimizes holdings overlap and maximizes diversification.

Ongoing Investment Monitoring Process

Morningstar's investment professionals will continue to monitor and evaluate the specific investment options on an ongoing basis. However, Morningstar is not responsible for the ongoing monitoring of company stock options or self-directed brokerage options within the Program. Morningstar continues to evaluate the investment options based on the same process used in the review and selection stage but understands that the ongoing due diligence of an investment option presents different challenges. Morningstar remains objective about a fund that it has already determined to be an appropriate option. As such, Morningstar focuses on specific issues or events that could change its opinion of the investment option and challenges its original investment thesis. The monitoring process focuses on the following issues:

- Regulatory issues
- Organizational and/or manager changes
- Management team updates
- Style and process consistency
- Portfolio characteristics
- Risk-adjusted performance
- Asset growth

Morningstar performs a fundamental review of any investment options that appear to have strayed from their investment styles, have experienced management and/or organizational changes, have failed one or more of the initial quantitative screens used in selection or have relative declines in their performance or risk rankings.