

***STATEMENT OF INVESTMENT POLICY***

for the

***RETIREMENT INVESTORS' CLUB***

of the

***STATE OF IOWA***

**DEPARTMENT OF ADMINISTRATIVE SERVICES  
HUMAN RESOURCES ENTERPRISE**

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## **INTRODUCTION**

I, Mollie K. Anderson, as Trustee of the State of Iowa Retirement Investors' Club (Program), the State of Iowa's deferred compensation program, hereby adopt this Statement of Investment Policy (Policy) for the Program. This Policy shall be reviewed from time to time, and may be amended as needed, to ensure that it meets the Program's objectives.

### **Objectives of the Program**

The Program is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The Program is provided as a means for employees to supplement their public retirement and Social Security (for those eligible) benefits. The investment options available in the Program cover a broad range of investment risks and potential rewards appropriate for this kind of retirement savings program. Participants bear the risks and reap the potential rewards of investment returns that result from the investment options they select. Investments will be made for the sole interest of the participants and beneficiaries of the Program.

The Program's objectives in providing multiple investment fund options are:

- To provide participants with investment fund options that are diversified across a range of risk levels, asset classes, and investment strategies to accommodate the participants' varying levels of risk tolerance and financial goals;
- To provide a variety of investment opportunities in order to promote participation in the Program;
- To help employees save for retirement while reducing their current income tax; and
- To provide a benefit which, in the context of the other compensation and benefits offered by the State, competes to attract and retain employees.

### **Purpose of the Policy**

The purpose of this statement is to establish the investment policy for the management of the assets in the Program. This Policy may be modified, in whole or in part, by the Trustee at any point in time. The staff of the Department of Administrative Services, working in conjunction with the Trustee, may

provide supplemental guidelines for the investment options and operational guidelines for the Program. This Policy also serves to:

- Establish an investment program for participants to structure an investment portfolio that seeks to meet their individual return objectives and risk tolerances;
- Make clear distinction between responsibilities of the Trustee, the active investment providers, and the fund managers;
- Define the categories of asset classes offered by the Program;
- Establish investment criteria for each asset class offered within the Program;
- Establish benchmarks and performance standards for each asset class to evaluate each option's performance;
- Establish a procedure and methodology for reporting and monitoring; and
- Define the procedures for investment fund evaluation and formal fund review.

## **DISTINCTION OF RESPONSIBILITIES**

### **Trustee**

As a fiduciary under the Program, the Trustee, through designated staff within in the Human Resources Enterprise, shall:

1. Establish the types of investment alternatives available to Program participants.
2. Conduct proper due diligence in the selection of the investment providers retained to manage the investment portfolios. Investment providers retained by the Trustee must be a bank, an insurance company, a mutual fund organization, or a registered investment adviser as defined by the Investment Advisers Act of 1940.
3. Monitor and evaluate the performance results achieved by the fund managers.
4. Ensure that there is a comprehensive employee communication program in place that provides information to assist participants in making

decisions regarding the investment of contributions and existing balances among the investment choices offered in the Program.

## **Fund Manager**

In general, the primary responsibility of the fund manager is to invest assets in accordance with the investment objectives of the fund, the requirements of federal and state law, and in accordance with their own judgments concerning relative investment values. Accordingly, the fund managers are responsible for determining the prices at which securities are bought and sold. As distinguished from the Trustee, who is responsible for investment policy, the fund managers are responsible for developing the investment objectives and strategies for each fund and the implementation thereof.

The specific duties and responsibilities of each fund manager or its representative are as follows:

1. To manage the fund's assets in accordance with the guidelines and objectives contained within their published guidelines.
2. To exercise full investment discretion in regard to buying, managing, and selling assets held in the fund's portfolio.
3. To vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each fund manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
4. To provide the investment provider with regular investment reports as outlined in this Investment Policy.
5. To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations.

## **Investment Provider**

In general, the primary responsibility of the active investment provider is to propose and manage an investment portfolio in accordance with this Investment Policy and maintain individual accounts for participants.

Specific responsibilities of each active investment provider include:

1. Establishing and maintaining an investment portfolio that contains at least one fund in each of the general asset classes defined in this Policy. The investment provider shall present funds to the Trustee for approval before they are incorporated into the offered portfolio.
2. Daily recordkeeping of the Plan as it relates to their Plan participants.
3. Communication to participants, including asset allocation and risk assessment tools, as well as general information about each investment offering.
4. Serving as a custodian for participant transactions.
5. Serving as an intermediary between the fund managers and the Trustee.

### INVESTMENT ALTERNATIVES

While it is the responsibility of each participant to determine the appropriate asset mix according to his or her individual investment time horizon, tolerance for volatility, investment preferences, etc. it is the intent of the Trustee to provide a range of distinct choices which allow participants to select risk and return strategies that meet their objectives.

The choices provided shall provide coverage under the broad asset classes shown in Appendix A.

### INVESTMENT CRITERIA

The Trustee has determined that it is in the best interest of the Program's participants and beneficiaries that investment criteria be established for each investment alternative and each fund manager. It is clearly understood that these criteria are to be viewed over the long term (three and five year time periods).

The investment criteria will include but are not limited to the following:

- ❖ Fund's Investment Objective
  - Must be defined and consistently pursued
- ❖ Fund's Investment Strategy
  - Must be defined and consistently pursued

- ❖ Performance Numbers
  - Long-term focus
  - Near or above market benchmark noted in Appendix B over long-term cumulative time periods
  - Net of fees basis
  
- ❖ Value Added and Risk Statistics will also be reviewed, including:
  - Sharpe Ratio
  - Alpha
  - Beta
  - Standard Deviation
  - R-Squared
  
- ❖ Qualitative Factors such as:
  - Assets under management
  - Manager tenure
    - Must have continuity of key investment professionals (not applicable for index Funds.)
  - Organizational structure and stability
  - Involvement in material litigation
  - Investigation by governmental authorities

## INVESTMENT REPORTING

Each of the investment providers, working with the fund managers or their representatives, is required to provide the Trustee with investment reports. Such reports, at a minimum, shall contain the following information:

- rates of return for the current quarter, year-to-date, 1, 3, 5, 10 years or since inception on a calendar quarter basis;
- rates of return on a rolling three-year basis;
- risk-adjusted performance including alpha and Sharpe ratio on a three and five-year basis;
- risk statistics including beta, standard deviation and downside risk on a three and five-year basis;
- assets under management;
- manager tenure; and
- strategy statements or prospectuses that describe the investment strategies and objectives currently in place.

In addition, the investment provider shall require the fund managers to provide them with information within 30 days of the event relating to any changes in the funds currently offered under the Plan, including changes in:

- investment objectives or strategies;
- organizational structure or stability; and
- key fund manager staff.

The investment provider shall promptly forward all such information to the Trustee or designee.

### **Investment Provider Meeting**

Staff will meet with each active investment provider not less than once every twelve months. Each meeting will include a review of the near-term and long-term performance of each of the investment options offered to participants by the investment provider. The investment provider will be expected to articulate the due diligence process used to select and monitor investments in the Program. Finally, each investment provider will be expected to discuss the current investment strategy for each of the options, and any other pertinent issues related to the fund manager's organization, personnel, or investment process.

### **FORMAL FUND REVIEW**

The Trustee may place a fund on formal review for a period of up to one year. At the end of this period, the Trustee may continue the fund under formal review status, remove the fund from formal review, or remove the fund. During the time that a fund is under formal review, the Trustee may conduct a detailed evaluation of the fund, its operations, and its performance.

For the period under which a fund is under formal review the Trustee may:

1. Suspend contributions to the fund from existing participants; or
2. Close the fund to new enrollees.

### **REMOVAL OF FUND**

When the Trustee removes a fund:

1. The fund is closed to new investors;
2. The fund may not receive new funds from current investors; or
3. All investments within the fund must be reallocated elsewhere.

This Policy is hereby adopted for the investment of funds within the Program. It is designed to provide sufficient offerings to allow participants to develop portfolios appropriate to their risk tolerances and return objectives. Any questions about this Policy should be directed to the Program's Plan Administrator.

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Mollie K. Anderson, Trustee  
Retirement Investors' Club  
Department of Administrative Services

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Date

## APPENDIX A

### Fund Asset Classes

Fund Type	Fund Description
Principal Protection	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Seek the highest level of stable income consistent with the safety of principal afforded by the portfolio's investments.</li> <li>○ <i>Asset Allocation:</i> may hold traditional GICs, book value guaranteed U.S. Government and Agency securities and money market securities.  May also be backed by an insurance company's general account assets.</li> </ul>
Fixed Income	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide current income with the ability for security price appreciation.</li> <li>○ <i>Asset Allocation:</i> primarily investment grade fixed income securities.</li> </ul>
Balanced (Balanced/ Lifestyle)	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide exposure to both equity and fixed income investments to simplify the asset allocation decision for Program participants.</li> <li>○ <i>Asset Allocation:</i> a pre-defined range of equity versus fixed income exposure to which the manager will adhere</li> <li>○ <i>Additional Funds:</i> The Program may offer lifestyle funds which have distinctly different allocations to domestic and foreign stocks, bonds and/or money market investments. Each fund is structured with a specific risk profile in mind.</li> </ul>
Core Equity (Large Cap Equity)	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide broad equity market exposure with the opportunity for capital appreciation and income through dividends.</li> <li>○ <i>Asset Allocation:</i> primarily in the common stocks of large capitalization domestic companies that are considered by the manager to have superior capital appreciation potential relative to the market</li> </ul>
S&P 500	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Primarily replicate the Standard &amp; Poor's 500 Index. Investment returns are expected to be derived primarily from capital appreciation and to a lesser degree from dividend income.</li> <li>○ <i>Asset Allocation:</i> common stocks of domestic companies</li> </ul>
Aggressive Equity (Mid Cap, Small Cap, Concentrated, Sector Specialty)	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Broad category that encompasses funds that provide opportunity for aggressive growth and the ability to dramatically underperform or outperform the broad market during different market periods.</li> <li>○ <i>Asset Allocation:</i> primarily small or mid capitalization stocks</li> <li>○ <i>Additional Funds:</i> The Program may also include funds which employ an investment strategy such as a concentration or sector specialty style that is inherently less diversified than a typical fund.</li> </ul>
International Equity	<ul style="list-style-type: none"> <li>○ <i>Objective:</i> Provide investors with exposure to a broad range of stocks largely based outside of the U.S for the purpose of capital appreciation. Currency hedging may also be employed by the manager with the primary objective to protect currency translation exposure or create an initial position in a country.</li> <li>○ <i>Asset Allocation:</i> primarily stocks</li> </ul>

## APPENDIX B

### Fund Array and Performance Benchmarks

<u>Investment Category Asset Classes</u>	<u>Sub-Asset Class Categories</u>	<u>Market Benchmark</u>
Principal Protection	Stable Value/GIC	91 Day T-Bill
	Money Market	90 Day T-Bill
Fixed Income	Government Mortgages	Lehman Brothers GNMA Index
	Intermediate Term High Quality	Lehman Brothers Aggregate Bond Index
	High Yield	Lehman Brothers High Yield Bond Index
Balanced - Balanced/Lifestyle	Traditional Balanced	60% S&P 500/40% Lehman Brothers Aggregate Bond Index
	Lifestyle Funds	Customized benchmarks established by proportional allocation of the benchmarks of the underlying asset classes
Core Equity - Large Cap Equity	Large Cap Value	S&P 500 Value Index
	Large Cap Blend	S&P 500 Index
	Large Cap Growth	S&P 500 Growth Index
S&P 500	Core Equity Passive	Depending on individual fund strategy: S&P 500 Index, Wilshire 5000 Index, Russell 3000 Index
Aggressive Equity - Mid Cap and Small Cap Equity	Mid Cap Value	S&P BARRA Mid Cap Value Index
	Mid Cap Blend	S&P 400 Index
	Mid Cap Growth	S&P BARRA Mid Cap Growth Index
	Small Cap Value	Russell 2000 Value Index
	Small Cap Blend	Russell 2000 Index
	Small Cap Growth	Russell 2000 Growth Index
International Equity	Non-U.S. Equity Large Value	MSCI EAFE Value Index
	Non-U.S. Equity Large Blend	MSCI EAFE Index
	Non-U.S. Equity Large Growth	MSCI EAFE Growth Index
Sector Specialty	Technology	Pacific Stock Exchange Technology Index