

**CITY & COUNTY OF HONOLULU
DEFERRED COMPENSATION PLAN**

INVESTMENT POLICY AND PROCEDURES STATEMENT

Final August 6, 2015

PURPOSES

This investment policy has been developed for the Deferred Compensation Plan to document:

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INVESTMENT PHILOSOPHY

POLICY:

The Deferred Compensation Plan (Plan) is a long-term retirement savings vehicle that is intended to provide a supplemental source of retirement income for eligible participants. The investment options available from the Plan will cover a broad range of investment risk and potential reward appropriate for this kind of retirement savings program. Participants bear the risk and rewards of investment returns that result from the investment options that they select. The investment options and funds made available will be determined by the Deferred Compensation Committee (Committee) and may be changed as a result of periodic reviews.

The mix of investment options appropriate for a participant depends on the combination of a number of factors, including, among others, age, current income, length of time to retirement, tolerance for investment risk, income replacement/supplement objectives, and a participant's other assets. To permit participants to establish different investment strategies, the plan may offer up to 13 investment categories, which 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 participant should consider, among others, the following risks:

- Volatility:** The risk of significant decreases in account value (including the loss of principal) over relatively short periods of time.
- Accumulation:** The risk of not accumulating sufficient assets to retire.
- Understanding:** The risk of investing for the wrong reasons.
- Diversification:** The risk of concentrating investments and suffering large losses from a single investment category or similar categories that do not perform well.

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 accumulation can be lessened through

diversification among asset classes. To provide participants the opportunity to select risk/reward strategies and to diversify the Deferred Compensation Plan assets, the Plan will offer a number of investment alternatives.

Participants can control their exposure to accumulation and volatility risks by allocating investments among these options. For example, a participant nearing retirement with high sensitivity to volatility risk might invest more heavily in the Stable Income Fund than a participant with many years to retirement. Many other investment options exist. This number and these types were selected because they: 1) each offer a distinct utility to the participants; 2) provide a spectrum of volatility and accumulation choices; and can be administered, communicated and understood within practical constraints of the Plan's resources.

The Committee will attempt to provide plan participants with an array of suitable fund selections with an objective of reducing fund fees, expenses, and administration fees normally associated with these investments.

Although the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the Plan generally in conformance with ERISA 404(c). However, the Plan participants will be solely responsible for the investment decisions and investment transactions that they make under the Plan.

DESCRIPTION OF INVESTMENT OPTION CATEGORIES

A **Stable Value Option** invests in book value investments which may include General Account annuity products, Separate Account Annuity products, Guaranteed Accumulation Accounts (GAAs), Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), "Synthetic" GIC arrangements and money market instruments, and may invest in intermediate term fixed income securities with a duration of 5 years or less. Investments may either be made directly or through pooled arrangements. The objective of the fund is to provide higher income than a money market fund while still providing no fluctuation in principal value.

A **Bond Option** invests in cash equivalents and marketable fixed income securities. The portfolio may have an average duration that is short, intermediate or long term. The average portfolio quality may range from AAA to B (or a comparable rating) or better by Moody's, Standard & Poor's or Fitch's ratings services. Sector and issue concentration guidelines will be dictated by the stated policies of the manager of the fund(s) and may include non-U.S. issuers.

The investment objective is to provide longer term preservation of capital or inflation protection while attempting to earn a high level of current income. However, principal values may fluctuate over time, primarily in response to changes in interest rates.

A **Balanced Option** invests in several asset classes (typically common stocks, bonds and money market instruments). Investment returns come from both current income and capital changes. Professional investment managers make the asset allocation decisions, and the option can be used by participants who do not wish to self-manage their asset mix. The Balanced Option is expected to produce higher longer-term returns than the Bond Fund option, although volatility may be greater.

Asset allocation, quality and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of a fund. The investment objective is to provide a diversified investment return of current income and capital appreciation.

A **Large Capitalization* (Large Cap) Option** invests in those companies that comprise the top 70% of the overall stock market capitalization. This asset class may contain value funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain growth funds that invests in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are blended to include both value and growth stocks. Stocks in this asset class may provide additional investment growth through the reinvestment of dividends.

A **Medium Capitalization* (Mid Cap) Option** invests in companies that comprise the next 20% of the overall stock market. This asset class may contain value funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain growth funds that invests in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are blended to include both value and growth stocks. Mid-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

A **Small Capitalization* (Small Cap) Option** invests in companies that comprise the remaining 10% of the overall stock market capitalization. This asset class may contain value funds that invest in stocks of companies the investment fund manager believes the stock market undervalues and has the potential for market appreciation. This asset class may also contain growth funds that invests in stocks of companies the fund manager believes will grow at a faster rate than its peers or the corresponding market. This asset class may include funds that are blended to include both value and growth stocks. Small-sized companies may be less able to weather economic shifts or other adverse developments than larger, more established companies.

An **International Equity Option** - The International Equity Option invests primarily in common stock of established non-U.S. issuers. This fund can be expected to be subject to risk factors not prevalent in domestic markets, including currency risk.

A **Global Equity Option** - The Global Equity Option (aka World Equity Option) invests in common stocks of established non-U.S. issuers as well as domestic common stocks as deemed appropriate by the fund managers. These funds are appropriate for a portion of a participant's account for which additional risk is acceptable in exchange for diversification from options tied to domestic markets. Currency fluctuation will contribute to increased return volatility.

An **Index Fund** invests identically or nearly identically to the market index whose return it seeks to duplicate. The objective of an index fund is to provide market diversification and a market average rate of return reflective of the market segment represented by a given index, e.g., the Standard & Poor's 500.

Asset Allocation Funds (Model Portfolios) offer an allocation of investments, principally stocks, bonds, and cash or cash equivalents that are appropriate for a given stage of an individual's investment life cycle. An aggressive asset allocation fund will have greater weighting in stocks than a moderate or conservative asset allocation fund. A conservative asset allocation fund will be more heavily weighted toward current income and protection of capital. The objective of an asset allocation fund is to provide a composite rate of return from current income and capital appreciation which is appropriate for a given stage of an individual's investment life cycle.

Real Estate Fund Option is also known as a sector or specialty fund. Under normal market conditions, a real estate fund will invest at least 80% of its net assets in a portfolio of equity securities of companies that are principally engaged in the real estate industry. Real estate companies are defined as companies that generally derive at least 50% of their total revenues or earnings from owning, operating, developing, and/or managing real estate. As a general matter, such a fund may invest in common stocks of large-, mid- and small-sized companies, including real estate investment trusts ("REITs"). (A REIT is a corporation or trust that uses pooled capital to invest in direct ownership of either income property or mortgage loans.) Specialty real estate funds may focus their investments in a single country or they may be global in reach.

Specialty Funds are mutual funds that specialize in specific investment instruments or sectors.

Self-Directed Brokerage Option will offer a wide array of various families of mutual funds or general securities that can be accessed by individual participants.

Independent Investment Advice and Portfolio Management will offer independent (from the provider) professional asset management at an extra cost basis.

*Market capitalization is determined by multiplying the total number of outstanding shares of stock by the market price of the stock. Market capitalization changes with the changes in the price of the stock and increasing or decreasing the outstanding number of shares. In general, a company is categorized as large if the capitalization is over \$10 billion; mid cap is over \$2 billion up to \$10 billion; small cap is under \$2 billion. However, this changes with significant swings in the stock market. To maintain consistency the 70%, 20%, 10% is used to determine equity asset classes.

Note: The Committee desires to provide diversified core investment options that consider the various Morningstar equity style categories including growth, blend, value, small cap, medium cap and large cap mutual funds.

INVESTMENT OPTION CHARACTERISTICS

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Option	Mid Cap Option	Small Cap Option	International / Global Equity	Index Funds	Asset Allocation Funds
Investment Objective	Stable principal and income growth.	Moderate level of current income with stable principal value.	Higher level of current income and increasing principal appreciation values over the long-term and/or inflation protection	Competitive returns from both current income and capital growth.	Moderate capital growth and above average current dividend income.	Long-term growth of capital, less emphasis on current income.	Maximum capital gains, little or no emphasis on income.	Long-term growth of capital, little or no emphasis on income.	Closely replicate the performance of a specific market index with consideration for tracking errors and the expense charge.	Preselected, diversified portfolios, managed as a single fund.
Invests Primarily In	Highest quality money market instruments.	General and Separate Account Annuities, GICs, BICs, Money Market instruments, intermediate-term bonds.	Gov't, agency, investment grade corporate bonds.	Common stocks, investment grade bonds and money market instruments.	Common stocks of high quality, relatively mature companies with above average dividends.	Common stocks with prospects for growth superior to that of the broad market.	Common stocks that may be of smaller, higher risk businesses.	Common stocks of non-U.S. issuers with prospects for growth. Global may invest in non-U.S. as well as domestic common stocks.	Domestic stocks or international stocks or bonds, depending on the designated index.	Combinations of international stocks, domestic stocks, bonds, AND stable value, at varying proportions.

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Option	Mid Cap Option	Small Cap Option	International/Global Equity	Index Funds	Asset Allocation Funds
Primary Source of Return	Short-term interest income.	Intermediate-term interest income.	Long-term interest income, capital changes.	Capital growth, interest and dividend income.	Capital growth and reinvested dividends.	Capital growth and long-term growth of dividends.	Capital growth.	Capital growth.	Capital growth and/or income, depending on the designated index.	Growth and interest income.

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Option	Mid Cap Option	Small Cap Option	International Equity	Index Funds	Asset Allocation Funds
Volatility Risk Potential	Lowest	Very low	Moderate	Less than stocks but more than bonds.	Similar average volatility as the S&P 500.	High short-term volatility.	Higher short-term volatility. Periods of several years may elapse before showing superior performance.	Highest short-term volatility. Subject to risk factors not prevalent in the domestic markets, such as currency fluctuations.	From high to moderate short term volatility, depending on the designated index.	Low to moderate, depending on the allocation selected.
Minimum Participant Investment Time Horizon	Less than one year.	1 to 3 Years	1 to 3 Years	3 to 5 Years	4 to 5 Years	5 Years	5 to 10 Years	5 to 10 Years	3 to 5 years	1 to 5 years, depending on the allocation selected.

	Money Market Option	Stable Value Option	Bond Option	Balanced Option	Large Cap Option	Mid Cap Option	Small Cap Option	International Equity	Index Funds	Asset Allocation Funds
Ten Year Accumulation on Risk Potential	Highest	Moderate - High	Moderate	Moderate - Low	Low	Low	Low	Low	Moderate to Low, depending on the designated index.	Moderate to Low.
Participant Perception	Safe	Safe. Transfer restrictions need to be carefully communicated.	The interest rate volatility concept may be hard to understand.	Most likely to be misunderstood. Hard to communicate.	Concept easy, differences from Growth Fund are subtle.	Concept easy, actual process sophisticated.	Concept easy. Participants need to understand risks.	Concept may be misunderstood. Risk factors need to be communicated carefully.	Premise of index funds - closely duplicating performance of a specific market segment - must be communicated	Simple way to invest in a broadly diversified portfolio.

INVESTMENT FUND SELECTION – STABLE VALUE FUND

There are several different types of stable value funds, including separate and general account annuity products, GIC funds and FDIC products. Also, there is not, for most of these products, a standardized database with performance and other pertinent information that would enable a search process to be conducted. There is also a need to enter into negotiations with the provider regarding investment strategy and style in situations where that is in the discretion of the plan sponsor. For these reasons, the selection of one or more stable value fund products will be conducted through a written request for proposal process to the appropriate vendors.

INVESTMENT FUND SELECTION - MUTUAL FUNDS

I. Alignment of Mutual Funds

- A. Mutual funds offered by the Deferred Compensation Plan will be by groupings of like investment policy and risk (volatility of returns).
- B. Contracted fund providers will be used to determine the groupings of mutual funds including index funds, if appropriate, by investment option characteristics. These investment option characteristics are subject to annual verification by the Committee.
- C. Categories to be offered:

<u>Category</u>	<u>Maximum Number of Funds Options</u>
Small Cap	3-5
Mid Cap	3-5
Large Cap	3-6
Income (Bond)	3-6
Balanced	1-3

Money Market	0-1*
International	1-3
Global	1-3
Stable Value	1
Index Funds	3-5
Asset Allocation Funds	<u>3-10</u>
Total	22-47

*If the Stable Value Account is liquid to the participant then a money market fund is not necessary.

D. At the time of selection, the fund category established by the contracted fund providers for the previous six quarters, will determine the category placement of a fund under the Plan. In the event that a fund has not had consistency of placement within a category over the six quarters prior to selection, it shall be placed in the category most recently determined by contracted fund providers. The placement of a fund within its category may be a consideration in its selection. For example, if a fund has consistently, over a period of time, moved toward the outside ranges of its category; it may not be an appropriate candidate for selection since it may have a high probability of changing categories.

II. Selection of Funds

The selection process will be documented throughout to provide a history of initial screening, funds deleted, the reasons for the deletion and factors considered by the Committee in the final selection.

A. Initial Screening

The initial screening will produce a listing of funds that have outperformed the average or median of their respective categories for the five most recent five-year and three most recent three-year periods. At this point, those funds that are inappropriate for the Plan will be deleted. Deletion may occur for the following reasons:

- a) The fund is closed,
- b) The fund has an expense ratio that is uncompetitive in relationship to similarly managed funds,
- c) The fund has a policy of not being available for deferred compensation plans,
- d) The fund has loads that it is not willing to waive.

B. Determination of Finalists

1. Once the list of semi-finalists is determined, each fund will be reviewed:
 - a) Annual performance over each of the immediately preceding three and five calendar years will be evaluated. Consistent performance return in each year of the three and five-year period will be preferred. Consistent performance includes moderate Standard Deviation, (as determined by a comparison with the average standard deviation for that investment style), portfolio manager tenure, outperforming the appropriate benchmark for the three and five year periods and a consistent Risk and Return profile as determined by Morningstar.
 - b) The fund's investment category placement over the last three years will be reviewed and funds that remain in the same category will be preferred.
 - c) A questionnaire will be sent to the provider. Issues to be addressed in the questionnaire include:
 - Number of accounts per portfolio manager
 - Portfolio manager tenure
 - Equity Investment style, including average market capitalization, portfolio turnover, number of holdings, consistency of style, sector weighting and security selection.
 - Fixed Income Investment style, including duration management, credit quality, sector selection, and security selection style. This question should include review of investment process, ability to articulate process as well as consistency of style or process.
 - Fees and expenses
 - Confirm Minimum Operational Criteria compliance
 - Disclosure that , based on the knowledge of the provider, the fund family has not participated in unethical trading practices

Funds that exhibit consistent performance and satisfy the Minimum Operational Criteria will be preferred.

2. Based on the information collected during the evaluation of the semi-finalists, funds will be reviewed and funds may be eliminated based on:

- Inconsistent performance history
- Excessive style movement within investment category
- Qualitative factors such as excessive account turnover or an inappropriate investment style
- Inability to satisfy the Minimum Operational Criteria
- Fund's assets are so large that the portfolio manager lacks the flexibility to buy and sell securities in an efficient and timely manner.

For each fund that qualifies as a finalist the Committee will review the information collected and will make selection.

III. Minimum Criteria for Selection

A. Minimum Size and History Criteria

1. Size - to be considered a fund should have net assets of at least \$100 million. The intent is to restrict selection of mutual funds to the size appropriate for the potential cash flow to be generated by the Plan. If, however, this restriction reduces the potential pool of semi-finalists inappropriately; this criteria may be reduced to broaden selection. Total assets in all share classes can be considered if under the same management.
2. Period of time in operation - a mutual fund (or a different share class under the same management) should have been in operation for a period of 5 years prior to selection.

B. Minimum Operational Criteria

To be considered for inclusion in the Plan and to be a semi-finalist a fund should first meet the size and history criteria above. Next it must satisfy the Minimum Operational Criteria.

1. It must guarantee transactions at the prior day's price.
2. Front end loads and fund surrender charges must be waived. Reasonable redemption fees may be allowed.
3. It must be compatible with the Provider's administrative and record keeping accounting and system practices.

The City will have the ability to request mutual funds to pay it a fee for performing administrative services.

STANDARDS OF INVESTMENT PERFORMANCE

INVESTMENT FUND EVALUATIONS

The Committee will conduct semiannual reviews to assess the continuing compliance of all of the Plan's investment funds. The Committee may perform more frequent monitoring as necessary.

The semiannual review will be used to determine the following:

- Whether performance remains within the standards established by the Policy.
- Whether the investment fund manager's investment category has remained consistent.
- What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
- Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

For supported actively managed asset classes, an investment manager "score card" will be maintained and documented (see addendum) to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting its overall performance.

Asset Allocation funds and/or accounts (risk-based or age-based) will not be scored and monitored using the previously described guidelines. Unlike other funds which are monitored and scored individually, these funds should be evaluated as a group qualitatively. Due to the unique importance of these professionally managed and diversified vehicles for participants in the Plan, funds or accounts failing to achieve criteria standards will be carefully reviewed before removal from the Plan (in the absence of a reasonable alternative). In addition, funds with short time history should be evaluated qualitatively.

Target-Date (age-based) funds or accounts will have strategies that allow the funds or accounts to grow more conservative over time until a certain retirement date or life expectancy date. This roll down process is commonly referred to as a "glide path". The glide path associated with a set of target-date funds should be reviewed to make sure it is appropriate, and continues to be appropriate, for the Plan and Plan's participants.

Investments which are not supported do not generate a scorecard. Investments where no score is applied due to specialty focus, short time history or other unique circumstances should be reviewed using a qualitative framework.

The foregoing investment monitoring criteria shall not, under any circumstances, be taken as definitive, conclusive, or controlling for removal, termination, or continuation of an investment option. All determinations should be made by the Committee, in accordance with the Plan objectives, taking into consideration all relevant facts and circumstances.

Watch List:

If a fund fails to meet the criteria standards, as determined by its score or other factors, it will be placed on a “Watch List.” (In the event a fund receives a score which is below that of “Watch List” status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for removal at the earliest administratively reasonable date.) If this fund continues to remain on “Watch List” for the following three quarters, or four of the following seven quarters, the fund should be considered for possible removal.

In addition, an investment fund may be placed on the Watch List if any of the following conditions occur:

- Change of investment fund manager
- Change of sub-advisor
- Significant change in ownership or control
- Significant or prolonged change in investment style or drift
- Substantive change in portfolio turnover that significantly exceeds the fund’s history
- Any violation of SEC rules or regulations or breach of fiduciary duty
- Operational difficulties concerning fund transfers or pricing
- Excessive costs or trading practices
- Negligible use by participants

Retention Criteria:

To be removed from the Watch List and retained, the investment fund must:

- Meet the criteria standards for four consecutive quarters, then it may be removed from the Watch List.

Investment funds that do not satisfy the retention criteria will be considered for replacement.

Fund Replacement:

When it is determined that an investment fund is no longer appropriate for the Plan, a replacement fund search may be initiated by the Committee in accordance with Section II Fund Selection and Section III Minimum Criteria for Selection.

Regarding the Plan assets already deposited with the deselected investment fund, each participant will have a transition period of a length set by the Committee, but not less than 30 days in which he or she may transfer their assets to the replacement fund, or a fund option of the participant's choice.

In the event a participant does not voluntarily select a replacement investment fund(s) by the end of the transition period, the Committee will direct the Plan Trustee to transfer the current balance of the deselected investment fund to the most appropriate existing and/or replacement investment fund within the investment category that has the most superior historical return over the past five (5) years. In the event the Plan Trustee does not offer another investment in the same investment category, the deselected fund will be transferred to the qualified default investment alternative (QDIA) fund.

BLACKOUT PERIOD

POLICY:

In accordance with the Sarbanes-Oxley Act of 2002, the Plan will give plan participants a minimum of 30-day advance notice of "blackout periods" affecting their rights to direct investments, take loans (if available) or obtain distributions. Blackout periods may occur when plans change record-keepers, record-keeping systems or investment options. Individual participants will receive a blackout notice that contains, among other things:

- The reasons for the blackout period,
- A description of the rights that will be suspended during the blackout period,
- The start and end dates of the blackout period,
- A statement advising participants to evaluate their current investments based on their inability to direct or diversify assets during the blackout period.

PROXIES

Any proxies received will be reviewed and researched by the Deferred Compensation Committee's consulting firm. The consulting firm will make a recommendation based on their findings as to whether the committee should vote a proxy or not. The chairman or designee has the authority to either vote the proxy or to call a special meeting of the full committee.

The Chairman will make a report as to how proxies were voted at the quarterly meetings.

DISCLOSURE OF FEES, COMMISSIONS AND CHARGES

POLICY:

All fees, commissions and charges for each selected investment option must be fully disclosed to the Committee before the option can be made available to Plan participants. That is, in its review of a fund's performance history, the Committee must be shown the fund's gross performance less all applicable fees, commissions and charges, and the resulting net return.

In addition, these fees, commissions and charges will be disclosed to all participants at enrollment and at any other time as appropriate. It will be disclosed to Plan participants the nature of all variances between gross return and net return.

INVESTMENT COMMUNICATIONS TO PARTICIPANTS

POLICY:

Information about each investment option will be given or made available to Plan participants to help them to make informed investment choices. The provider shall provide at least quarterly statements of fund performance to each participant.

Upon request, copies of investment fund prospectuses or similar equivalent information will be provided to participants as well as such other information as the Committee has available such as a list of underlying investments for a given fund.

INVESTMENT EDUCATION

POLICY:

It is the Committee's objective to provide participants with ongoing investment education. The purpose of the investment education program is to provide information and tools to assist in the development of a personal investment strategy for employees and facilitate the achievement of savings and retirement goals.

REVIEW

POLICY:

It is the intention of the Committee to review this document at least annually and make necessary amendments.

If at any time a fund investment manager feels that these policy standards cannot be met, or that the guidelines constrict management, the Committee should be notified in writing so that recommendation for changing the policy, if deemed appropriate, can be made by the Committee to the City.

ADDENDUM TO INVESTMENT FUND EVALUATIONS

Scorecard System Methodology™

The Scorecard System methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The Scorecard System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best). Although the Scorecard System has the ability to measure Active, Passive and Asset Allocation investing strategies, it will be used to evaluate only Actively Managed Asset classes in the Plan over a five year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20% of the score is qualitative, taking into account things such as manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy. The following pages detail the specific factors for evaluating the active investing strategy.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into the Plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with the Policy to help identify which funds need to be discussed as "watch-list" or removal candidates; which funds continue to meet some minimum standards and continue to be appropriate; and/or which new top-ranked funds should be included in the Plan.

<i>Scorecard Point System</i>	
Good:	9-10 Points
Acceptable:	7-8 Points
Watch List:	5-6 Points
Poor:	0-4 Points

Active Strategies

Active strategies are investment strategies where the fund manager is trying to add value and out-perform the market averages (for that style of investing). Typically, these investment strategies have higher associated costs due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard** System is trying to identify those managers who can add value on a consistent basis within their own style of investing.

Weightings	Active Strategies	Maximum Points
Style Factors 30%	Style Analysis: Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.	1
	Style Drift: Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.	1
	R-Squared: Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80%. This statistic measures whether the benchmark used in the analysis is appropriate.	1
Risk/Return Factors 30%	Risk/Return: Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.	1
	Up/Down Capture Analysis: Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.	1
	Information Ratio: Measures a fund's relative risk and return. Fund passes if ratio is > 0. This statistic measures the value added above the benchmark, adjusted for risk.	1
Peer Group Rankings 20%	Returns Peer Group Ranking: Fund passes if its median rank is above the 50 th percentile.	1
	Information Ratio Peer Group Ranking: Fund passes if its median rank is above the 50 th percentile. This ranking ranks risk adjusted excess return.	1
Qualitative Factors 20%	Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors which may impact future performance.	2
Total		10