

Butte County Deferred Compensation Program

Investment Policy Statement

July 26, 2016
County of Butte
Prepared by the Butte County Deferred Compensation Committee

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BUTTE COUNTY
HUMAN RESOURCES

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I. INTRODUCTION

A. Purpose of Investment Policy Statement

The purpose of this Investment Policy Statement is to record the investment objectives and policies for plans established under the Butte County Deferred Compensation Program (the "Program"). The Butte County Board of Supervisors (the "Board") administers and provides oversight of the Program and retains specific authority *over* determining or amending the documents as to benefit levels, contribution levels, and approval of Investment Policy Statements. The Board has established and delegated certain responsibilities to the Butte County Deferred Compensation Advisory Committee (the "Committee"), to assist the Board in the efficient management of the Program and the Deferred Compensation Plan(s) (the "Plan(s)") established under the Program.

This Investment Policy Statement is an outline of the Committee's general investment policies and is intended to supersede any earlier Investment Policy Statement(s) and objective(s), effective with the date this statement is executed. It is intended to assist the Committee in meeting its fiduciary responsibilities. It is a document that serves to effectively construct, supervise, and evaluate the investment program(s) established for the Plan(s) by:

1. Making a clear distinction between the responsibilities of the Committee, the investment fund managers, Plan participants and beneficiaries, and Program/Plan service providers;
2. Establishing a framework for the selection, monitoring, and evaluation of investment fund managers.

The policies and practices outlined herein will not be overly restrictive, given changing economic, business, and capital market conditions. The intent of these objectives is to be sufficiently specific to be meaningful, but flexible enough to be practical. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein. The Investment Policy Statement may be reviewed annually and revised as necessary to ensure it adequately reflects changes related to the Program.

B. Program and Plan Objectives

The Program was established to provide eligible employees an opportunity to voluntarily defer a portion of their wages to be invested for retirement, on a tax-deferred basis, in approved deferred compensation plan(s) authorized by the Board and regulated by applicable state and federal law. The Program provides for benefits based solely on the amount contributed to each participant's account(s) plus or minus any income, expenses, gains or losses.

The Plan documents and Agreements are the governing Plan documents and contain the specific Plan provisions and requirements for determining eligibility to make and/or receive contributions under the Plan.

The Program is designed to meet the requirements of Section 457 of the Internal Revenue Code of 1986 (the "Code"), as amended. Although the Employee's Retirement Income Security Act of 1974 ("ERISA") does not apply to the Program, the Committee intends to operate the Program generally in conformance with ERISA 404(c). Investment decisions made by the Committee will be made for the sole interest of the participants and beneficiaries of the Plan(s). In addition, it is the intent of the Committee that the Plan(s) conform to the authority set forth in Sections 53212-53214 of the Government Code of the State of California.

C. Plan Participants

The Committee recognizes that the Plans may be a significant source of retirement income for Plan participants and their beneficiaries. Investment contribution, and allocation decisions shall be made solely by each Plan participant, subject to certain procedural and administrative guidelines and default investment procedures for automatically enrolled participants or other participants who do not make an investment election. The Committee shall make available to Plan participants investment fund performance results and other educational information relating to investment concepts and the investment funds. The Committee has made available to participants, via services provided by the record keeper(s), online investment advisory services. The provision of this information and service provides both guidance and advice to the plan participant, and it is solely the responsibility of each plan participant to direct his or her investments in their own accounts. Participants are responsible for the following:

1. Determining their individual contribution deferral rate;
2. Selecting the investment funds for their existing balances and any future contributions;
3. Monitoring the asset allocation strategy and making adjustments as personal situations change;
4. Electing the timing and form of distributions according to the terms of the Plan.

II. STATEMENT OF RESPONSIBILITIES

A. Committee

The Committee has the responsibility, as the named fiduciary under the Program, for the management of all Plan assets as set forth in the Butte County Deferred Compensation Program By-Laws and the governing Program/Plan documents.

The Committee shall fulfill its fiduciary responsibilities with respect to the Program, solely in the interest of the participants and beneficiaries, in accordance with all applicable state and federal laws governing the conduct of fiduciaries. The fiduciaries are to perform their duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person, acting in like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

1. In fulfilling its fiduciary duty, the Committee shall be responsible for administering and overseeing all Program/Plan operations and management, which includes:
 - a. Administering and interpreting the provisions of the Plan, to include maintaining and updating Program/Plan documents in conformance with applicable laws and regulations;
 - b. Making available to Plan participants information and documentation about the features of the 457 Deferred Compensation Plan;
 - c. Providing Plan participants with a quarterly statement of account;
 - d. Complying with all laws and regulations governing the Plan(s), and assuring fiduciary obligations are met;
 - e. Drafting and keeping current an investment policy for the Program and, as appropriate, submitting the original policy and all updates to the Board for approval;

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- f. Promptly reviewing and researching all proxies received and taking related actions in a manner consistent with the long-term interest and objectives of the investors and the fiduciary responsibilities of the 457 Deferred Compensation Committee members. Keeping detailed records of such voting and all other related actions and complying with all applicable regulatory obligations;
 - g. Creating, merging, terminating, or otherwise modifying trusts, custodial arrangements, separate accounts, relationships with investment funds and other vehicles for investment of Plan assets;
 - h. With the concurrence of the Board, appointing and terminating trustees, custodians, investment consultants, actuaries, accountants, legal counsel, Plan record keepers, administrators, insurance companies, and any and all service providers;
 - i. Delegating various functions or tasks to service providers, including Plan and investment fund recordkeeping; and assigning Program/Plan duties to individual departments and employees;
 - j. Presenting to the Board updates on Program/Plan effectiveness including recommendations for Program/Plan changes based on available enhancements, service standards and cost efficiency.
2. An established process for Committee meetings will be adhered to:
- a. The Committee shall meet at least quarterly or as called by the Chair of the Committee to review the performance of the investment funds. The Committee may invite various service providers, staff members, consultants, or other guests as desired;
 - b. A majority of the Committee members shall constitute a quorum. Decisions will require three or more affirmative votes by the members participating at the meeting. The Chair may make arrangements to resolve voting deadlocks. The agreement or disagreement of any member may be by means of any form of written or oral communication, subject to the provisions of the Ralph M. Brown Act (Government Code Section 54950 et seq.).

B. Investment Fund Managers

Historically, the Program and Plans have primarily offered mutual funds as available investment options. The Committee may utilize separately managed accounts, commingled pooled funds, mutual funds, variable annuity contracts and any other funding vehicles it deems appropriate for use by the Plans, consistent with governing law and regulations. These various funding vehicles and approaches are collectively and interchangeably referred to as investment funds, managed funds or family of funds. The professionals charged with offering or managing these investments are collectively and interchangeably referred to as investment managers, investment fund managers, or Registered Investment Advisors within this policy.

1. General Responsibilities

All investment managers and registered investment advisors managing assets of the Plans shall maintain the assets of the Plans in compliance with all applicable laws and regulations. Responsibilities include, but are not limited to, the following:

- a. Plan assets shall be invested with the care, skill, prudence, and diligence that would be applied by a prudent professional investor, acting in like capacity and knowledgeable in the investment of retirement funds;

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- b. All transactions undertaken on behalf of a Plan shall be for the sole interest of Plan participants and beneficiaries;
- c. With respect to the use of mutual funds, the Committee expects assets of such funds to be invested in accordance with the applicable prospectus;
- d. In general, the primary responsibility of each fund is to invest assets in accordance with the mandate received from the Committee and/or its own prospectus or purchase agreement and declaration of trust;
- e. All mutual funds shall be registered investment companies as defined under the Investment Company Act of 1940 (Act). The investment companies need not be classified as "diversified" investment companies as defined in the Act. Variable investment options may be offered through a variable annuity contract or a trust agreement.

2. Information Provided to the Committee

The Committee may, from time to time, request any Investment Fund Manager or their representative(s) to meet with the committee to discuss the following topics, including but not limited to:

- a. Views concerning the economy and the securities markets, with focus on the likely impact of the fund's strategies on portfolio performance;
- b. The effects of any changes to a given investment fund's organization or family of funds, investment philosophy, financial condition, or professional staff.

3. Specific Duties

The specific duties and responsibilities of each investment fund manager are as follows:

- a. Managing Plan assets invested in the funds in accordance with their mandates or those contained within their published guidelines or prospectus;
- b. Exercising full investment discretion in regards to buying, managing and selling assets held in the portfolio;
- c. Promptly voting all fund proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each investment fund shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.

C. Investment Consultant

The primary responsibility of an Investment Consultant is to inform and advise the Committee on various investment related issues with respect to the structure and oversight of the Plans and any potential enhancements of the Plans. Such services include:

- 1. Assisting the Committee with determining an appropriate process for structuring the investment menu;
- 2. Providing timely and accurate quarterly reports evaluating return, risk and characteristics (where available) of each of the existing Plan funds compared to appropriate indexes and/or peer group universes;
- 3. Apprising the Committee of material changes with regard to a Plan's investment funds, in a reasonable time frame;

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4. Conducting an investment fund review at the request of the Committee when, for example, noteworthy changes or significant under-performance occurs;
5. Assisting the Committee in the search and replacement of existing investment funds, when a review so merits this change.

The Investment Consultant's role is to provide information and advice to the Committee. The Investment Consultant has no discretionary control or authority over the Plan(s) and Plan assets. However, in his/her role as an advisor to the Committee, the Investment Consultant acknowledges a limited fiduciary role with respect to the investment advice provided to the Committee.

Should the Committee retain the services of a qualified independent investment consultant, the Investment Consultant must be registered with either State or Federal securities regulators pursuant to the Investment Advisers Act of 1940. The Investment Consultant will provide a copy of the Uniform Application for Investment Advisor Registration Commission ADV Form Part II for the Investment Consultant, and his or her company, to the Committee during the annual investment performance review, and will disclose whether the Investment Consultant has an ownership or other interest in any of the investment funds being reviewed or recommended by the Investment Consultant. The Investment Consultant will immediately notify the Committee of any Security and Exchange Commission (SEC) or other regulatory investigations related to the type of services provided to the Committee, or of any felony conviction.

D. Record Keeper

The Record Keeper has no discretionary authority over the Plan(s) or Plan assets and is not a fiduciary with respect to the Plan(s) or its assets. The Record Keeper is responsible for:

1. Maintaining a Plan's participant account balances in an accurate and confidential manner;
2. Preparation of quarterly participant statements;
3. Provision of accurate and timely Plan data and reports to the Committee as provided in their service agreement;
4. Providing participants with electronic access to account information and transactions as provided in its service agreement;
5. Coordination of the provision of fund prospectuses to participants as requested;
6. Provision of various participant communication materials, as described in the service agreement or as requested by Committee.

E. Trustee/Custodian

The Trustee/Custodian is non-discretionary and takes direction from the Committee or its delegates. The Trustee/Custodian has fiduciary responsibility with respect to a Plan's assets under its control. The Trustee/Custodian is charged with the following responsibilities:

1. Safekeeping all securities;
2. Settling transactions;
3. Receiving contributions;
4. Allocating contributions among investment accounts as instructed;

5. Making participant distributions as instructed;
6. Providing periodic account statements to the Committee and other service providers, as requested by the Committee.

III. INVESTMENTS

A. Investment Fund Menu

1. Purpose of Investment Fund Menu
 - a. Consistent with ERISA 404(c), investment funds are selected to provide participants with an opportunity to diversify their assets across a reasonable risk and reward spectrum;
 - b. Participants may select from any combination of investment funds, and may change the asset allocation of their investments, pursuant to Plan provisions.
2. Construction of the Investment Fund Menu
 - a. The number and types of investment funds, and the investment fund managers retained to manage the investment funds, are subject to change, based upon the Committee's on-going review and evaluation of the investment menu offered to participants;
 - b. The Committee may add, replace, or remove investment funds at any time it concludes such a change is in the best interests of Plan participants and beneficiaries;
 - c. Investment funds generally will not be added if, in the Committee's judgment, they are redundant or duplicative of existing funds;
 - d. When selecting investment funds, the Committee will bear in mind the wide range of participants' needs;
 - e. The asset classes of investment funds that may be available in the Plan are described in the attached Appendix.

B. Investment Fund Selection

Searches for investment funds should include candidates that have demonstrated success and a well-documented, reliable track record. In selecting an investment fund, a due diligence process is followed that analyzes the investment fund in terms of the following attributes among others:

1. Investment performance track record and consistency of returns achieved with risks taken;
2. Alignment of fund investment philosophy, process, and style with Plan investment fund objectives;
3. Size and experience of professional staff;
4. Tenure of investment management team;
5. Competitiveness of investment management fees;
6. Compatibility with Plan Record Keeper platform trading requirements

C. Investment Fund Performance Evaluation

The Committee will review the performance of investment funds at least annually and, preferably quarterly, to determine if the funds are achieving the established objectives. Performance objectives will be established for each fund and/or asset class at the time the class is included. The performance review will include measuring each fund's investment performance against stated benchmarks and peer groups as well as monitoring risk measures. Records of rating reviews, discussion notes, and determinations will be maintained in the formal Butte County Deferred Compensation Program files housed in the Human Resources Department. The following general criteria will be used in the evaluation:

1. Quantitative Measures

- a. Active Investment Strategies. Funds employing active management are expected to rank above the 50 percentile of the appropriate peer group for the rolling three and five year time periods. It is also expected that the risk of each fund, as defined by standard deviation of returns, be commensurate with the appropriate market index and/or peer group. The benchmarks and peer groups are outlined in the Appendix;
- b. Passive Investment Strategies. Passive Funds are expected to track the performance of the index strategy that the investment fund is designed to replicate, less management fees, with marginal tracking error. Typically, rolling three and five year periods will be evaluated. It is also expected that the risk of each investment fund, as defined by standard deviation of returns, be commensurate with the appropriate market index. The benchmarks and peer groups are outlined in the Appendix.

2. Qualitative Measures

The funds will also be monitored on an ongoing basis for other material changes that the Committee may determine are of importance to the decision to retain an investment fund, such as personnel departures; organizational changes; alterations in investment style, philosophy, or strategy; and adherence to stated guidelines.

3. Time Periods

The Committee acknowledges that fluctuating rates of return characterize the securities market, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in a fund's performance, the Committee intends to employ investment funds with long-term investment strategies and will evaluate fund 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.

D. Investment Fund Termination and Watch Status

All investment funds are expected to perform according to their prescribed objectives under this Investment Policy Statement. 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 policy will not necessitate the termination of a fund. Underperformance will provoke thoughtful consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take.

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The Committee will place a fund on watch if, for two consecutive quarters, the fund's performance is below the 50th percentile of its peer group over both the three-year and five-year rolling periods. A fund that is on watch will undergo a greater level of review and analysis. A fund may remain on watch status until the Committee decides to take further action. Committee actions include, but are not limited to the following:

1. Remove the fund from watch status;
2. Continue the fund's watch status;
3. Terminate the fund and reallocate fund assets to an alternate fund or replacement fund by Committee direction.

A fund may be removed from watch status if performance exceeds the median for the conditions for two consecutive quarters.

In addition to performance rankings, other factors contributing to placing a fund on watch are:

1. Significant change in the risk profile of the portfolio as measured by the standard deviation of returns;
2. Significant increase in management fees or expense ratios;
3. Turnover in the management team of the portfolio;
4. Significant increase or decrease of assets under management;
5. Deviation from investment style for which the fund was selected;
6. Significant organizational change, changes in ownership, mergers, etc.;
7. Additional factors, as determined by the Committee.

The Committee will endeavor to use its best judgment and available information to act in a prudent manner on behalf of the Plan participants. The Committee reserves the right to terminate any investment fund, at any time and for any reason, when it determines such termination is in the best interests of the Plan participants and beneficiaries.

E. Asset Classes

The Committee will consider the following asset classes for possible inclusion in the Plan(s) as investment choices to be made available to participants:

- **Domestic Equity Funds**
 - o Capitalization- Large Cap, Mid Cap, Small Cap
 - o Style -Growth, Value, or Blended styles
- **International/Global Equity Funds**
 - o Capitalization- Large Cap, Mid Cap, or Small Cap
 - o Style -Growth, Value, or Blended styles
- **Bond Funds**
 - o Investment Grade (Portfolio Weighted Average of A)
 - o Portfolio Duration (Long-Term, Intermediate, or Short-Term)

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- o Government, Corporate, or Blended
- o Domestic and/or International/or Global
- o Inflation Protected
- o High Yield
- **Cash & Equivalents Funds**
 - o Money Funds
 - o Stable Value Funds such as insurance company Guaranteed Investment Contracts (GIGs) or Bank Investment Contracts (BIGs) and Synthetics
- **Pre-Set Asset Allocation Funds**
 - The Committee may decide to offer Pre-Set Asset Allocation Funds and/or balanced funds which are intended to provide an investor with an asset allocation option that they may determine is aligned with their own risk and return preferences. These asset allocation type funds are broadly diversified by asset class, issuer, issue type, and economic sector. These Pre-Set Asset Allocation Funds may be made up of funds currently offered individually as fund choices (see Appendix). The Committee may utilize outside research in making a determination of the asset allocations of the Pre-Set Asset Allocation Funds.
- **Specialty Funds (Real Estate, Precious Metals, Sector Funds)**
- **Other Asset Classes**

The Committee may also consider other asset classes or strategies, such as:

 - Self-Directed Brokerage Account
 - Bank Certificates of Deposit
 - Other FDIC insured products

IV. ADOPTION & SIGNATURE

This Investment Policy Statement is hereby adopted and effective on this 26th day of July, 2016,

AYES: Supervisor Wahl, Kirk, Lambert, Teeter and Chair Connelly

NOES: None

ABSENT: None

NOT VOTING: None

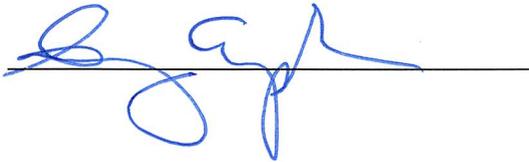


BILL CONNELLY, Chair
Butte County Board of Supervisors

ATTEST:

Paul Hahn

Chief Administrative Officer
and Clerk of the Board of Supervisors



V. APPENDIX

Description of Typical Plan Investment Funds and Benchmarks

The Asset Classes and Benchmarks listed below are intended as examples. They are not all-inclusive, and are subject to change based on market place practices. The Primary Benchmarks identified in a fund's prospectus will also be utilized.

Asset Class/Fund	Primary Benchmark	Secondary Benchmark	Peer Group Universe
Stable Value/Fixed Accounts	Ryan Labs Blend Guaranteed Investment Contract (GIC) Index T-Rowe Price GIC Index	Treasury Bills (T-Bills)	Stable Value
Money Market	T-Bills	Short Term Investment Fund (STIF) and Cash Composites	Money Market
Government National Mortgage Association (GNMA) Bond	Barclays GNMA Index	Barclays Treasury 1-3 Year Index	Intermediate Government
Intermediate-Term Bond Index	Barclays U.S. Aggregate Bond Index		Intermediate-Term Bond
Intermediate-Term Bond	Barclays U.S. Aggregate Bond Index		Intermediate-Term Bond
Inflation Protected Bond	Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index		Inflation Protected Bon
Global Bond	Barclays Global Aggregate Bond Index	Barclays <i>U.S. Aggregate Bond Index</i>	World Bond
High Yield Bond	Barclays High Yield Bond Index SofA Merrill Lynch US High Yield 88-8 Rated Constrained Index		High Yield Bond
Balanced	US Balanced Index		Moderate Allocation
Pre-Set Asset Allocation Funds (target date or risk-based)	Appropriate Index	Custom Index	Appropriate Universe

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Asset Class/Fund	Primary Benchmark	Secondary Benchmark	Peer Group Universe
Large Cap Index	Standard & Poor's (S&P) 500 Index		Large Cap Core/Blend
Large Cap Blend	S&P 500 Index	Russell1000	Large Cap Core/Blend
Large Cap Growth	Russell1000 Growth Index	S&P 500 Index	Large Growth
Large Cap Value	Russell1000 Value Index	S&P 500 Index	Large Value
Mid Cap Index	Russell Mid Cap Index	Morgan Stanley Capital Appreciation (MSCI) US Mid Cap 450 Index	Mid Cap Core/Blend
Mid Cap Blend	Russell Mid Cap Index	MSCI US Mid Cap 450 Index	Mid Cap Core/Blend
Mid Cap Growth	Russell Mid Cap Growth Index	Russell Mid Cap Index	Mid Cap Growth
Mid Cap Value	Russell Mid Cap Value Index	Russell Mid Cap Index	Mid Cap Value
Small Cap Index	Russell2000 Index	MSCI US Small Cap 1750 Index	Small Cap Core/Blend
Small Cap Blend	Russell2000 Index	MSCI US Small Cap 1750 Index	Small Cap Core/Blend
Small Cap Growth	Russell 2000 Growth Index	Russell 2000 Index	Small Cap Growth
Small Cap Value	Russell 2000 Value Index	Russell 2000 Index	Small Cap Value
Foreign Large Cap Index	MSCI All Country World Index (ACWI) ex-US MSCI EAFE Index	MSCI Europe, Australasia & Far East (EAFE) Index	Foreign Large Blend
Foreign Large Cap Blend	MSCI ACWI ex-US MSCI EAFE Index		Foreign Large Blend
Foreign Large Cap Growth	MSCI ACWI ex-US Growth MSCI EAFE Index	MSCI ACWI ex-US	Foreign Large Growth

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Asset Class/Fund	Primary Benchmark	Secondary Benchmark	Peer Group Universe
Foreign Large Cap Value	MSCIACWI ex-US Value MSCIEAFE Index	MSCIACWI ex-US	Foreign Large Value
Global Equity	MSCIACWI		World Stock
Specialty Funds (Real Estate, etc.)	Relevant Sector Index	Relevant Sector Index	Relevant Sector