
SAVINGS PLUS PROGRAM INVESTMENT POLICY STATEMENT

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I. OVERVIEW

The Savings Plus Program (the “Program” or the “Plan”) consists of a deferred compensation plan (“457(b) Plan”) established in 1974 under Section 457(b) of the Internal Revenue Code (IRC); a tax-deferred thrift plan (“401(k) Plan”) established in 1985 and implemented in 1989 under Section 401(k) of the IRC; a Part-time, Seasonal, and Temporary Employees Retirement Program (“PST Program”) established in 1991 under Section 457 of the IRC; and an Alternate Retirement Program (“ARP”) established in 2004 under Section 401(a) of the IRC, which is closed to new employees hired on or after July 1, 2013.

The Program is administered by the State of California, Department of Human Resources (“CalHR”), rather than by a governing board, or board of directors. CalHR’s Director (“Director”) serves as the Named Fiduciary of the Program, and has delegated fiduciary authority with respect to Plan investments to the Program’s Investment Committee (the “Committee” or “Investment Committee”). The Committee operates under the Investment Committee Charter (“Charter”) and with the guidance of the Program’s Investment Consultants (“Consultants”). The Committee reviews recommendations from Consultants regarding investment-related matters such as portfolio design, investment structure, and investment changes; establishes and maintains this Investment Policy Statement (IPS); and periodically evaluates the Program’s investment performance, investment costs, and administrative costs to participants.

II. PURPOSE

The IPS establishes the Program’s investment objectives, guidelines, and performance standards for the management and oversight of each component of the Program’s investment portfolio. CalHR, as the Plan Sponsor, and the Committee, under the guidance of the Program’s Consultants, evaluate, revise, and oversee the Program’s investments in accordance with the guidelines established in the Plan Documents, the Charter, this IPS, and individual investment manager agreements and guidelines.

This IPS does not create or imply any contract between CalHR and the Committee or any participant. If there is any conflict between this IPS and the Plan Documents or the Charter, the Plan Documents will take precedence followed by the Charter, then this IPS.

III. ROLES & RESPONSIBILITIES

PLAN SPONSOR

CalHR, as the Plan Sponsor, administers the Program. The Director, as the Named Fiduciary, has ultimate oversight of, and responsibility for, the administration of the Program. The Director has delegated oversight of the administration and policy development of the Program to the Program Administrator and Program Staff. Pursuant to the Charter, the Director has delegated to the Committee the authority to recommend investment-related decisions based upon advice and recommendations presented by Consultants.

COMMITTEE

The Committee is the body responsible for establishing and monitoring the Program's investment portfolio and other investment-related programs.

Under the expert guidance of its Consultants, and in accordance with the Charter, the Committee maintains and oversees compliance with the IPS, reviews and analyzes recommendations provided by the Consultants for potential adoption, and addresses other investment-related concerns or issues, including but not limited to:

- A. Selects the Program's Qualified Default Investment Alternative ("QDIA");
- B. Reviews the securities lending program
- C. Votes on matters such as plan design, investment structure, plan monitoring guidelines, and manager standing (includes placing a manager on the Watch List, removing a manager from the Watch List, and terminating/defunding a manager, as described in section VIII) based on recommendations from the Program's Consultants;
- D. Approves the benchmarks used to evaluate performance of the portfolio's investment options;
- E. Reviews investment and transition manager performance (both qualitative and quantitative measures);
- F. Oversees cost effectiveness of the investment options (including review of fees and other compensation received by investment managers), Trustee/Custodian, Securities Lending, Transition Management, and any other third-party investment-operations service provider;
- G. Prioritizes and tracks the status of Committee-approved projects; and
- H. Reviews and approves other information pertinent to the investment portfolio and investment structure to maintain the Program's overall investment objectives including, but not limited, to the following:
 - (i) collateral requirements for and revenue generated from the securities lending program;
 - (ii) frequent trading policy to reduce the negative impact on the performance of investment options;
 - (iii) liquidity and rebalancing policy;
 - (iv) participant demographic analysis; and
 - (v) this IPS.

INVESTMENT CONSULTANTS

CalHR retains independent Consultants to assist in executing provisions of plan design, provider search, investment monitoring, and general consulting. The primary role of Consultants is to assist the Committee and staff in fulfilling fiduciary responsibilities by providing information, analysis, and

recommendations that support a prudent process consistent with the Plan Documents, the Charter, and this IPS. Consultants act in a non-discretionary capacity and agree to act as fiduciaries of the Plan. Specific responsibilities of the Consultants are established and maintained under their respective written agreements with CalHR.

PLAN DESIGN AND PROVIDER SEARCH

The Consultant for plan design and provider search is responsible for providing services and various reports to the Committee, including providing formal biennial plan recommendations for consideration by the Committee, as well as reviewing, analyzing, and evaluating current and future investment options and investment structures. The Consultant also assists in developing RFPs and modified search processes for service providers by providing guidance on industry best practices, assisting in developing minimum qualifications and scope of work criteria, developing evaluation methodology and scoring matrices, evaluating proposals, attending and evaluating finalist interviews, and aiding in implementation and transition.

INVESTMENT MONITORING

The Consultant for investment monitoring services is responsible for providing quarterly investment performance reports to the Committee, which includes both quantitative information and qualitative judgments, specific recommendations for Committee action, Watch List recommendations and updates, and performance and organizational updates for each investment manager. The Consultant also provides quarterly compliance monitoring analyses of separate account investment managers based on daily transactions and provides ongoing monitoring of the securities lending agent, custodian/trustee, transition managers, and other aspects of the investment process, including due diligence visits. Additionally, the Consultant evaluates and reviews equity transaction and foreign exchange costs.

GENERAL CONSULTING

Savings Plus contracts with Consultants for general consulting services not covered in the plan design or investment monitoring Consultant agreements.

INVESTMENT MANAGERS

Investment managers are responsible for making investment decisions related to management of the Plan's assets under their management. The specific duties and responsibilities of each investment manager are as follows:

- A. To manage the Program's assets under its supervision in accordance with guidelines and objectives included in each manager's written investment agreement and consistent with each investment manager's stated investment philosophy and style, as presented to the Committee and the Consultants
- B. To exercise investment discretion with regard to buying, managing, and selling assets held in the portfolio, subject to any limitations contained in this IPS and the manager's written agreement with CalHR;

- C. 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 all applicable laws, rules, and regulations;
- D. To meet with the Committee and its representative(s) as requested; and
- E. To be responsive in a timely manner to the Committee and Consultants.

THIRD PARTY ADMINISTRATOR

The Third Party Administrator's responsibilities include, but are not limited to: consolidated recordkeeping and accounting services for participants; maintaining the Savings Plus website including participant automated account access features; operating a call center and walk-in center; providing a participant self-directed brokerage option; making available fee-based managed account services pursuant to individual agreements between participants and an independent financial expert; reaching out to and educating participants; marketing and communication services; reporting of investment performance to participants and Savings Plus; and maintaining Fact Sheets.

TRUSTEE/CUSTODIAN

The Trustee/Custodian's responsibilities include, but are not limited to, receiving and holding Plan assets, daily valuation and accounting, daily trading and the settlement of trades, the execution of the Savings Plus Securities Lending Program for certain assets under a limited and risk-controlled policy, and certain investment compliance functions.

IV. INVESTMENT STRUCTURE AND PHILOSOPHY

OBJECTIVE

PST PROGRAM AND ARP

The investment goal for assets in the PST Program and in ARP is to achieve a total return consistent with capital preservation by investing in short-duration securities.

457(b) AND 401(k) PLANS

Although the Program is not subject to the Employee Retirement Income Security Act of 1974 (ERISA), the Program's investment structure and portfolio design for the 457(b) and 401(k) Plans are intended to provide participants with the option to invest their assets in a manner such that the investment options satisfy the requirements of ERISA Section 404(c). This section generally requires that the investment structure of a participant-directed defined contribution plan offers participants an opportunity to exercise control over the assets in their individual account and an opportunity to choose from a broad range of investment options that allow participants to construct a diversified portfolio appropriate to the individual's time horizon and risk tolerance.

INVESTMENT STRUCTURE

PST PROGRAM AND ARP

PST Program assets are invested in the Short Term Investment Fund-PST.

ARP assets are invested in the Short Term Investment Fund-ARP until transferred out of ARP or until liquidated by the Program or by the Participant.

457(b) AND 401(k) PLANS

The 457(b) and 401(k) Plans are a voluntary supplemental retirement program that serves to provide an option for participants to complement the participant's defined benefit pension plan. As a voluntary, participant-directed account Plan, the appropriate investment strategy for any individual participant to accumulate retirement savings or achieve other savings objectives is a function of multiple personal factors, including but not limited to age, income, time horizon, risk tolerance, return expectations, accumulation objectives, anticipated pension and Social Security benefits, and other assets outside of the Program.

The 457(b) and 401(k) Plans each intend to offer a broad range of investment options, including at least three investment alternatives, each of which is diversified and has materially different risk and return characteristics. By selecting among such investment alternatives, participants have the opportunity to diversify their balances and construct portfolios consistent with their unique individual circumstances, goals, time horizons, and risk tolerance.

The 457(b) and 401(k) Plans currently offer participants twenty-five (25) investment options through the following three-tiered structure:

1. Tier I – Asset Allocation Options: This tier consists of eleven (11) custom Target Date Funds. The funds are constructed using a combination of the Program's core investment options and specialty investment strategies as recommended by the Consultants and approved by the Committee.
2. Tier II – Core Options: This tier consists of five (5) index funds, four (4) actively managed equity funds, one (1) actively managed socially responsible fund, one (1) actively managed bond fund, one (1) actively managed diversified real return fund, one (1) Short Term Investment Fund, and one (1) Short Term Investment Fund-Cash fund. Except for the index funds and the socially responsible fund, the Program investment options are constructed through the use of fund-of-fund structures.
3. Tier III – Specialty Option: This tier provides a self-directed brokerage account option.

The following table illustrates this three-tiered structure:

Savings Plus Investment Structure					
Risk Spectrum	Tier I. Asset Allocation Options	Tier IIa. Passive Core Options	Tier IIb. Active Core Options	Tier III. Specialty Options	
Conservative  Aggressive	Asset Allocation Target Date Funds Income - 2065 (in 5 year increments)		<u>Capital Preservation</u> Short Term Investment Fund - Cash Short Term Investment Fund		
			<u>Fixed Income</u> Bond Index Fund	<u>Fixed Income</u> Bond Fund	
				<u>Inflation Sensitive</u> Diversified Real Return Fund	
				<u>Specialty Balanced Fund</u> Socially Responsible Fund	
			<u>Large Cap U.S. Equity</u> Large Cap Index Fund	<u>Large Cap U.S. Equity</u> Large Cap Fund	
			<u>Mid Cap U.S. Equity</u> Mid Cap Index Fund	<u>Mid Cap U.S. Equity</u> Mid Cap Fund	
			<u>International Equity</u> International Index Fund	<u>International Equity</u> International Fund	
			<u>Small Cap U.S. Equity</u> Small Cap Index Fund	<u>Small Cap U.S. Equity</u> Small Cap Fund	
					<u>Brokerage Window</u> Schwab PCRA

Participants who fail to give investment instructions regarding either their balance or future contributions to the 457 Plan or the 401(k) Plan are invested in the QDIA selected by the Committee, which is intended to comply with rules for ERISA-governed plans set forth in United States Department of Labor Regulation, section 2550.404c-5.

SELF-DIRECTED BROKERAGE ACCOUNT (SDBA)

Participants may make their own investment decisions and have full discretion over the investment options available to them on the brokerage platform. Participants assume all responsibility for the investments they choose in the SDBA. Participant investment elections through the SDBA option are subject to the Investment Guidelines of the SDBA provider.

The Program does not limit participant investments within SDBA, other than regulatory or lawful restrictions. The Program prohibits the purchase of Master Limited Partnerships (MLP) and Publicly Traded Partnerships (PTP) because the Program is a governmental tax-exempt program and these holdings can create taxable income. Participant investment elections through the SDBA are otherwise excluded under this Policy.

EXCESSIVE TRADING POLICY

The Committee has adopted a policy on excessive trading by plan participants. Excessive trading (also known as frequent trading or market timing) is the practice of buying and selling investments frequently in an attempt to capitalize on short-term movements or pricing disparities in the market. This practice increases fund expenses, which results in higher fees and adversely affects fund performance for all participants invested in the fund.

Designed to protect participants from the potential negative impacts of market timing, the excessive trading policy imposes a redemption fee based on a percentage of the value of the sale of securities in certain investment options if the sale occurs within a specified timeframe from the purchase date.

Proceeds from such fees flow back into the unit value of the affected investment options to compensate for the increased costs resulting from the frequent trading activity.

The Committee may from time to time revise the excessive trading policy to change the redemption fee percentage, holding period, or list of specific investment options subject to the excessive trading policy.

INVESTMENT OPTIONS

The 457(b) and 401(k) Plans offer participants a diversified selection of investment options with materially different risk and return characteristics from which to invest their assets. The table on the following page summarizes the investment options and their benchmarks.

Fund	Comparative Manager Universe	Relative Market Index
Tier I – Target Date Options		
Target Date Funds	Not Applicable	Each Fund Will Be Evaluated Compared to Customized Indices Based on Target Allocation Mixes ¹
Tier II – Passive Core Options		
Small Cap Index Fund	Not Applicable	Russell 2000 Index
International Fund	Non-U.S. Equity Mutual Fund Universe	MSCI ACWI ex-U.S. IMI (net)
Mid Cap Index Fund	Not Applicable	S&P Mid-Cap 400 Index
Large Cap Index Fund	Not Applicable	S&P 500 Index (Tracking Error +/- 0.10%) ²
Bond Index Fund	Not Applicable	Bloomberg Barclays U.S. Aggregate Bond Index
Tier II – Active Core Options		
Small Cap Fund	U.S. Small-Cap Equity Mutual Fund Universe	Russell 2000 Index
International Fund	Non-U.S. Equity Mutual Fund Universe	MSCI ACWI ex-U.S. IMI (net)

Mid Cap Fund	U.S. Small-Cap Equity Mutual Fund Universe	Russell Midcap Index
Large Cap Fund	U.S. Large-Cap Equity Mutual Fund Universe	Russell 1000 Index
Socially Responsible Fund	U.S. Balanced Mutual Fund Universe	60% S&P 500 Index 40% Bloomberg Barclays U.S. Aggregate Bond Index
Diversified Real Return Fund	Not Applicable	Consumer Price Index (CPI), plus a 3.0% premium (CPI +3%)
Bond Fund	U.S. Core Plus Fixed Income Mutual Fund Universe	60% Bloomberg Barclays U.S. Aggregate Bond Index / 40% Bloomberg Barclays Global Aggregated Bond Index (Unhedged)
Short Term Investment Fund	U.S. Short Duration Fixed Income Mutual Fund Universe	Bloomberg Barclays 1-3 Year Government/Credit Bond Index
Short Term Investment Fund – Cash	Money Market Mutual Fund Universe	90-day U.S. Treasury Bill
Tier III – Specialty Options		
Self-Directed Brokerage Account	Not Applicable	Not Applicable

¹ Target Date Funds will also be evaluated based on their target allocation mixes, ability to span the risk/return spectrum, and the underlying funds that comprise each Target Date Fund. These investment options are intended for participants who are in need of default investment options and are based on personal factors, including age, income, time horizon, risk tolerance, return, and accumulation objectives.

² Tracking error is defined as the standard deviation of the return of the Fund relative to the return of the specific market index.

V. INVESTMENT MANAGER SELECTION CRITERIA

With guidance from the Consultant for plan design and provider search services, the Program employs a search process to select investment managers. This process generally includes the following steps:

- A. Formulation of specific investment manager search criteria that reflects the minimum qualifications, mandatory requirements, a strategy specific questionnaire, and investment guidelines (as applicable) for the mandate under consideration.
- B. Solicitation to the Program's current provider database, the CalHR's bidder's list, and the Consultant's recommended universe of qualified candidates based on the Consultant's proprietary manager search database.
- C. Advertising in relevant publications as determined by CalHR.
- D. Analysis of qualified candidates in terms of:
 - (i) Quantitative characteristics (e.g., return, risk, other relevant portfolio characteristics) and fees relative to similar funds or mandates
 - (ii) Qualitative characteristics such as key personnel, investment philosophy, and decision-making process.
- E. Selection and hiring of finalist candidate based on review and analysis of solicitation responses by the Program and the Consultant.

The Program may employ a modified search process for expediency in which the Consultant for plan design and provider search services leads the search process.

VI. TARGET DATE FUND SUITABILITY

The Committee and the Consultant for plan design and provider search services periodically evaluate the Plan's Target Date Funds (TDF) by appraising the suitability of the TDF glide path based on the Plan's underlying demographics and plan design. The evaluation process generally includes the following factors:

- A. Consideration of how well the TDF's characteristics align with eligible employees' ages, gender, initial salary and salary growth, likely retirement dates, and other sources of retirement income, as well as other demographic characteristics of the participant population.
- B. Examination of whether there have been any significant changes in the Plan, the participant population, or the TDF under examination.
- C. Understanding of the TDF investments—the allocation in different asset classes (stocks, bonds, cash), individual investments, and how these might change over time.
- D. Review of the fund's fees and investment expenses.

VII. PERFORMANCE MONITORING

The Consultant monitors investments and provides the Committee with a quarterly review of the performance of the Plan's investment options. In evaluating all investment managers, the Consultant and the Committee consider qualitative and quantitative factors likely to impact the future performance of the investment options.

Under the fund-of-funds investment option structure for the 457(b) and 401(k) Plans, each investment option offered to participants consists of separate and distinct investment strategies. The Committee monitors performance at two levels: investment option and underlying component investment manager strategy. Performance results are measured by:

- A. Investment Options: Total time-weighted rates of return net of investment management fees and all fund expenses including Program expenses (i.e., explicit costs paid for administration or other Program costs);
- B. Underlying component investment manager strategy: Total time-weighted rates of return. Investment manager returns are net of investment and fund direct fees such as trading compared to its benchmark and universe but gross of program expenses. FDIC/NCUA insured deposit savings account returns are based on their contracted value;
- C. Against a respective market index and universe median over rolling three-year and five-year periods.

The Committee may place an investment manager on the Watch List, as described in section VIII below, if the manager fails to meet any of the Qualitative or Quantitative Standards.

FACTORS CONSIDERED IN PERFORMANCE MONITORING

QUALITATIVE STANDARDS

Quantitative Standards include criteria that investment managers consistently meet the established performance standards (i.e. benchmark/peer universe), over the preceding 3/5-year period

QUALITATIVE STANDARDS

Qualitative Standards include the following criteria:

- A. Compliance with stated investment guidelines, contract terms, and state or federal laws and rules
- B. Adherence to stated investment style and philosophy
- C. Ownership stability and alignment of interests with investors
- D. Retention and attraction of key investment professionals associated with the management of the investment fund
- E. Litigation and assessment of impact on future investment performance
- F. Disclosure of relevant information that may have an adverse impact on performance

VIII. WATCH LIST

A number of factors may contribute to an investment strategy or manager's over-performance or under-performance at any given time, including market dynamics, investment skill, and pure chance. Because an investment strategy or manager's performance might be attributable to factors that do not reflect deficiencies in skills or strategy, under-performance over certain time periods, by itself, is not always cause to recommend termination. The Committee uses a Watch List to identify investment managers whose performance or other factors are cause for further assessment, possible termination, or other action such as ongoing dialogue and heightened alert toward the investment firm or strategy in question, as further described in this section, until such concerns are resolved.

An active investment manager is expected to outperform its market index and manager universe median over the long-term. A passive investment manager is expected to satisfy its tracking error standards over the long-term. At its discretion, the Committee may place an investment manager on the Watch List if the performance standard is not met for four (4) consecutive quarterly observations of the trailing three-year and five-year periods. Violation of any of the Qualitative Standards identified above can also result in an investment manager being placed on the Watch List or potentially being terminated.

Once an investment manager is placed on the Watch List, the Consultant performs additional investment monitoring as due diligence. The results of their findings are reviewed at each quarterly Committee meeting. The Committee evaluates and then votes on the Consultant's recommendation as to whether the investment manager should be removed from the Watch List or terminated if

circumstances exist that would warrant such action. Otherwise, the investment manager remains on the Watch List.

The Committee recognizes unique circumstances each time an investment manager is terminated and replaced. The action plan for replacement may depend on the value of assets, number of participant accounts, and whether similar replacement funds exist within the current investment options menu. Once the Consultant provides their recommendation to terminate and replace an investment manager, the Committee reviews the circumstances with the investment Consultant to deliberately decide on a prudent and reasonable process for replacement of the investment fund or investment manager.

IX. INVESTMENT POLICY REVIEW PROCEDURES

As a general rule, the Committee intends to review and, as necessary, update this IPS no less than biennially. However, it is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets generally should not merit an adjustment in the investment policy.

X. ACKNOWLEDGEMENT OF APPROVAL

The undersigned hereby acknowledges the foregoing Investment Policy Statement, which was originally adopted in March 2003 and approved in its current form on June 22, 2020.

Name: Eraina Ortega

Title: Director, California Department of Human Resources

Signature:

A handwritten signature in cursive script that reads "Eraina Ortega".

Prior approval/adoption dates include:

March 2006

April 2008

January 2012

April 2014

April 2015

May 2016

XI. APPENDIX

Plan information and list of current providers as of **June 2020**.

Plan Information

Names of Plan(s):	457(b) Plan, 401(k) Plan, PST Program, ARP
Plan Sponsor:	California Department of Human Resources Savings Plus Program 1515 S Street, Suite 500N, Sacramento, CA 95811
Plan Contact:	Michelle Berklacich, Program Administrator 916-324-0536
Recordkeeper:	Nationwide Retirement Solutions, Inc.
Plan Investment Consultants:	Callan LLC, Wilshire Associates Incorporated, RVK Inc., Segal Marco Advisors