



COUNTY OF SAN BERNARDINO

DEFINED CONTRIBUTION PLANS AND RETIREMENT MEDICAL TRUST PLAN

INVESTMENT POLICY AND PROCEDURES STATEMENT

ADOPTED	APRIL 29, 2003
AMENDED	JUNE 8, 2004
AMENDED	JULY 19, 2005
AMENDED	JUNE 17, 2008
AMENDED	SEPTEMBER 22, 2009

OBJECTIVE:

This investment policy has been developed for the County's Defined Contribution Plans and the Retirement Medical Trust Plan, to document the following:

- ◆ INVESTMENT PHILOSOPHY
- ◆ INVESTMENT OPTION CATEGORIES
- ◆ INVESTMENT OPTION CHARACTERISTICS
- ◆ INVESTMENT FUND SELECTION
- ◆ STANDARDS OF INVESTMENT PERFORMANCE
- ◆ INVESTMENT FUND EVALUATIONS
- ◆ BLACKOUT PERIODS
- ◆ PROXY VOTES
- ◆ DISCLOSURE OF FEES, COMMISSIONS AND CHARGES
- ◆ INVESTMENT COMMUNICATION TO PARTICIPANTS
- ◆ INVESTMENT EDUCATION
- ◆ REVIEW

INVESTMENT PHILOSOPHY:

POLICY:

The Defined Contribution Plans and the Retirement Medical Trust Plan (Plans) are long-term retirement savings vehicles which are intended to serve as a significant source of retirement income for eligible participants. The investment options available from the Plans will cover a broad range of investment risk and reward appropriate for these kinds of retirement savings programs. Participants bear the risk and rewards of investment returns that result from the investment options that they select. The investment options (funds) made available will be determined by the Defined Contribution Committee (Committee) and may be changed as a result of periodic reviews.

The mix of investment options appropriate for a participant depends upon the combination of a number of factors, including, but not limited to, age, current income, length of time to retirement (or other expected use of the account), tolerance for investment risk, income replacement objectives and a participant’s other assets. To permit participants to establish different investment strategies, the plans may offer up to 12 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 with which 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.
- ◆ **TIME HORIZON:** The risk of investing too conservatively in early years and too aggressively when nearing retirement.

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. In order to provide participants the opportunity to select risk/reward strategies and to diversify the Defined Contribution Plans and Retirement Medical Trust 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 each offer a distinct utility to the participants; 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 endeavor to provide plan participants with an array of suitable fund selections with the goal of reducing fund fees, expenses and administration fees normally associated with these investments.

DESCRIPTION OF INVESTMENT OPTION CATEGORIES:

A **Money Market Option** invests in cash equivalent securities with maturities of less than one year. The average quality of the portfolio must be A1, P1, or AAA. The objective of the fund is to protect underlying principal value and produce a reasonable level of current income. While the volatility risk of this option is the lowest, accumulation risk is the highest. A money market fund may not be necessary if the stable value options do not have restrictions on inter-fund transfers from the stable value fund to other non-competing funds in the portfolio.

A **Stable Value Option** invests in book value investments which may include General Account annuity products, Separate Account Annuity products, Guaranteed Investment Contracts (GICs), Bank Investment Contracts (BICs), "Synthetic" GIC arrangements and money market instruments and may invest in intermediate and long term fixed income securities. Investments may either be made directly or through pooled arrangements. The long term 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 while earning 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 are undervalued by the stock market and have the potential for market appreciation. This asset class may also contain growth funds that invest 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 are undervalued by the stock market and have 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 are undervalued by the stock market and have the potential for market appreciation. This asset class may also contain growth funds that invest 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 / Global 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. 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 suitable 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, such as, 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 or age of an individual's investment life cycle. An aggressive asset allocation fund or an age targeted fund with a longer timeframe will have greater weighting in stocks than a moderate or conservative asset allocation fund or an age targeted fund with a shorter timeframe. 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.

Asset allocation, credit quality, duration and sector concentration guidelines will be dictated by the stated policies of the manager or prospectus of the fund.

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 that can be accessed by individual participants.

*Market capitalization is determined by multiplying the total number of outstanding shares of stock by the market price of the stock. Market capitalization fluctuates with the changes in the price of the stock and increasing or decreasing the outstanding number of shares. Currently, a company is categorized as large if the capitalization is over \$12.6 billion; mid cap is over \$2.18 billion up to \$12.6 billion; small cap is under \$2.18 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.

INVESTMENT OPTION CHARACTERISTICS TABLE 1:

	INVESTMENT OBJECTIVE	PRIMARY INVESTMENT CHARACTERISTICS
MONEY MARKET OPTION	STABLE PRINCIPAL AND INCOME GROWTH	HIGHEST QUALITY MONEY MARKET INSTRUMENTS
STABLE VALUE OPTION	MODERATE LEVEL OF CURRENT INCOME WITH STABLE PRINCIPAL VALUE	GENERAL AND SEPARATE ACCOUNT ANNUITIES, GICs, BICs, MONEY MARKET INSTRUMENTS
BOND OPTION	HIGHER LEVEL OF CURRENT INCOME AND INCREASING PRINCIPAL APPRECIATION VALUES OVER THE LONG TERM	GOVERNMENT AGENCY, INVESTMENT GRADE CORPORATE BONDS
BALANCED OPTION	COMPETITIVE RETURNS FROM BOTH CURRENT INCOME AND CAPITAL GROWTH	COMMON STOCKS, INVESTMENT GRADE BONDS AND MONEY MARKET INSTRUMENTS
LARGE CAP OPTION	MODERATE CAPITAL GROWTH AND ABOVE AVERAGE CURRENT DIVIDEND INCOME	COMMON STOCKS OF HIGH QUALITY, RELATIVELY MATURE COMPANIES WITH ABOVE AVERAGE DIVIDENDS
MID CAP OPTION	LONG TERM GROWTH OF CAPITAL, LESS EMPHASIS ON CURRENT INCOME	COMMON STOCKS THAT MAY BE OF SMALLER, HIGHER RISK BUSINESS
SMALL CAP OPTION	MAXIMUM CAPITAL GAINS, LITTLE OR NO EMPHASIS ON CURRENT INCOME	COMMON STOCKS WITH PROSPECTS FOR GROWTH SUPERIOR TO THAT OF THE BROAD MARKET
INTERNATIONAL / GLOBAL OPTION	LONG TERM GROWTH OF CAPITAL, LITTLE OR NO EMPHASIS ON INCOME	COMMON STOCKS OF NON-U.S. ISSUERS WITH PROSPECTS FOR GROWTH. GLOBAL MAY INVEST IN NON-U.S. AS WELL AS DOMESTIC COMMON STOCKS
INDEX FUNDS	CLOSELY REPLICATE THE PERFORMANCE OF A SPECIFIC MARKET INDEX WITH CONSIDERATION FOR TRACKING ERRORS AND THE EXPENSE CHARGE	DOMESTIC STOCKS OR INTERNATIONAL STOCKS OR BONDS, DEPENDING UPON THE DESIGNATED INDEX
ASSET ALLOCATION FUNDS	PRESELECTED, DIVERSIFIED PORTFOLIOS, MANAGED AS A SINGLE FUND. FUNDS MAY BE RISK BASED OR ESTIMATED-RETIREMENT-DATE BASED	COMBINATION OF INTERNATIONAL STOCKS, DOMESTIC STOCKS, BONDS AND STABLE VALUE AT VARYING PROPORTIONS
SPECIALTY FUNDS	LOW TO MAXIMUM CAPITAL GROWTH OR HIGHER LEVELS OF CURRENT INCOME	DOMESTIC AND/OR INTERNATIONAL STOCKS AND/OR BONDS

INVESTMENT OPTION CHARACTERISTICS TABLE 2:

	PRIMARY SOURCE OF RETURN	VOLATILITY RISK POTENTIAL
MONEY MARKET OPTION	SHORT TERM INTEREST INCOME	LOWEST
STABLE VALUE OPTION	INTERMEDIATE TERM INTEREST INCOME	VERY LOW TO GUARANTEE OF PRINCIPAL
BOND OPTION	LONG TERM INTEREST INCOME, CAPITAL CHANGES	MODERATE
BALANCED OPTION	CAPITAL GROWTH, INTEREST AND DIVIDEND INCOME	LESS RISK THAN STOCKS BUT MORE RISK THAN BONDS
LARGE CAP OPTION	CAPITAL GROWTH AND REINVESTED DIVIDENDS	SIMILAR AVERAGE VOLATILITY TO THE S&P 500
MID CAP OPTION	CAPITAL GROWTH AND LONG TERM GROWTH OF DIVIDENDS	HIGH SHORT TERM VOLATILITY
SMALL CAP OPTION	CAPITAL GROWTH	HIGHER SHORT TERM VOLATILITY. SEVERAL YEARS MAY ELAPSE BEFORE SHOWING SUPERIOR PERFORMANCE
INTERNATIONAL / GLOBAL OPTION	CAPITAL GROWTH	HIGHEST SHORT TERM VOLATILITY. SUBJECT TO RISK FACTORS NOT PREVALENT IN THE DOMESTIC MARKETS, SUCH AS, CURRENCY FLUCTUATIONS
INDEX FUNDS	CAPITAL GROWTH AND/OR INCOME DEPENDING UPON THE DESIGNATED INDEX	FROM HIGH TO MODERATE SHORT TERM VOLATILITY, DEPENDING UPON THE DESIGNATED INDEX
ASSET ALLOCATION FUNDS	GROWTH AND INTEREST INCOME	LOW TO MODERATE DEPENDING UPON THE ALLOCATION SELECTED
SPECIALTY FUNDS	CAPITAL GROWTH , MAY ALSO HAVE INTERMEDIATE OR LONG TERM INTEREST INCOME	LOW TO HIGH VOLATILITY

INVESTMENT OPTION CHARACTERISTICS TABLE 3:

MINIMUM PARTICIPANT INVESTMENT TIME HORIZON	TEN YEAR ACCUMULATION RISK POTENTIAL	PARTICIPANT PERCEPTION	
MONEY MARKET OPTION	LESS THAN ONE YEAR	HIGHEST	SAFE
STABLE VALUE OPTION	ONE TO THREE YEARS	MODERATELY HIGH	SAFE, HOWEVER TRANSFER RESTRICTIONS NEED TO BE CAREFULLY COMMUNICATED
BOND OPTION	ONE TO THREE YEARS	MODERATE	THE INTEREST RATE VOLATILITY MAY BE HARD TO UNDERSTAND
BALANCED OPTION	THREE TO FIVE YEARS	MODERATE TO LOW	MOST LIKELY TO BE MISUNDERSTOOD, HARD TO COMMUNICATE
LARGE CAP OPTION	FOUR TO FIVE YEARS	Low	EASY CONCEPT, DIFFERENCES FROM GROWTH FUND ARE SUBTLE
MID CAP OPTION	FIVE YEARS	Low	EASY CONCEPT, SOPHISTICATED PROCESS
SMALL CAP OPTION	FIVE TO TEN YEARS	Low	EASY CONCEPT, PARTICIPANTS NEED TO UNDERSTAND RISKS
INTERNATIONAL / GLOBAL OPTION	FIVE TO TEN YEARS	Low	CONCEPT MAY BE MUISUNDERSTOOD. RISK FACTORS NEED TO BE COMMUNICATED CAREFULLY
INDEX FUNDS	THREE TO FIVE YEARS	MODERATE TO LOW, DEPENDING UPON THE DESIGNATED INDEX	PREMISE OF INDEX FUNDS, DUPLICATING PERFORMANCE OF A SPECIFIC MARKET SEGMENT, MUST BE COMMUNICATED
ASSET ALLOCATION FUNDS	ONE TO FORTY DEPENDING ON ALLOCATION	MODERATE TO LOW	SIMPLE WAY TO INVEST IN A BROADLY DIVERSIFIED PORTFOLIO
SPECIALTY FUNDS	ONE TO TEN YEARS	LOW TO HIGH	NEED TO UNDERSTAND THE RISKS MAY BE GREATER DUE TO LIMITED INVESTMENT DIVERSIFICATION

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, for most of these products, there is not 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 Defined Contribution Plans and the Retirement Medical Trust 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. The equity asset classes offered in the County of San Bernardino portfolio may include various capitalizations in conjunction with the value, blend and growth style categories. Bond categories may include short, intermediate and long term durations and the bond yields may range from low to high, as well as international bonds. Asset allocation funds may include risk based and target categories.
- D. Asset Classes to be offered:

<u>Category</u>	<u>Maximum Number of Funds Options</u>
Small Cap	2 to 5
Mid Cap	2 to 5
Large Cap	3 to 5
Income (Bond)	1 to 5
Balanced	1 to 5
Money Market	0 to 1
International / Global	2 to 5
Stable Value	1 to 2
Index Funds	1 to 5
Asset Allocation Funds	3 to 9
Specialty Funds	0 to 2
Total	16 to 49

- E. 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 Plans. 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. It is recognized that 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 Committee retains the authority to select the mutual funds or Model Asset Allocation Portfolios to be offered by the Defined Contribution Plans and the Retirement Medical Trust Plan. 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 of their respective categories for the most recent five-year and the most recent three-year periods. At this point, those funds that are inappropriate for the Plans will be deleted. Deletion may occur for the following reasons:

- a) The fund is closed
- b) The fund is a specialty or sector fund
- c) The fund has a policy of not being available for defined contribution plans
- d) The fund has loads that it is not willing to waive
- e) The fund has an expense ratio that is uncompetitive in relationship to similarly managed accounts

2. The initial list of funds produced in (1) above shall be ranked according to their annualized performance over the most recent five year investment period. Using these rankings, the following categories of funds shall be selected as semi-finalists:

- a) Small Cap
- b) Mid Cap
- c) Large Cap
- d) Income
- e) Balanced
- f) International / Global
- g) Money Market Funds
- h) Index Funds
- i) Asset Allocation Funds (Funds may be risk based or estimated retirement date based)
- j) Specialty Funds

B. Determination of Finalists

1. Once the list of semi-finalists is determined in (2) above, 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 mutual funds managed per portfolio manager
 - Staff turnover –tenure of manager
 - 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, sector selection, credit quality 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 Operations 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 upon the following:

- Inconsistent performance history
- Excessive 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 a timely and efficient manner

For each fund that qualifies as a semi-finalist, the Committee will review the information collected on each fund and will select a finalist.

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 criterion may be reduced to broaden selection. Total assets of all share classes can be considered if under the same portfolio management.
2. History: A mutual fund (or a clone fund 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
3. It must be compatible with the Plan's administrative and record keeping accounting and system practices

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

STANDARDS OF INVESTMENT PERFORMANCE TABLE 1:

	3 YEAR STANDARD	5 YEAR STANDARD
MONEY MARKET OPTION	COMPETING MONEY MARKET FUNDS WILL BE COMPARED TO TREASURIES	COMPETING MONEY MARKET FUNDS WILL BE COMPARED TO TREASURIES
STABLE VALUE FUND	COMPETING STABLE VALUE FUNDS WILL BE COMPARED BETWEEN INDUSTRY PROVIDERS. LIQUIDITY/TRANSFER RESTRICTIONS AND THE OVERALL CREDIT QUALITY MUST BE CONSIDERED. DIVERSIFICATION OF THE COMPOSITION OF THE STABLE VALUE FUND IS NECESSARY TO MAINTAIN THE SAFETY OF THE FUND. THE BENCHMARK WOULD INCLUDE BARCAP BOND AGGREGATE INDEX.	COMPETING STABLE VALUE FUNDS WILL BE COMPARED BETWEEN INDUSTRY PROVIDERS. LIQUIDITY/TRANSFER RESTRICTIONS AND THE OVERALL CREDIT QUALITY MUST BE CONSIDERED. DIVERSIFICATION OF THE COMPOSITION OF THE STABLE VALUE FUND IS NECESSARY TO MAINTAIN THE SAFETY OF THE FUND. THE BENCHMARK WOULD INCLUDE BARCAP BOND AGGREGATE INDEX.
BOND OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF A UNIVERSE OF BALANCED FUNDS.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF A UNIVERSE OF BALANCED FUNDS.
BALANCED OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF A UNIVERSE OF BALANCED FUNDS.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF A UNIVERSE OF BALANCED FUNDS.
LARGE CAP OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF LARGE CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF LARGE CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.
MID CAP OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF MID CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF MID CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.

STANDARDS OF INVESTMENT PERFORMANCE TABLE 2:

	3 YEAR STANDARD	5 YEAR STANDARD
SMALL CAP OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF SMALL CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT MATCH OR EXCEED THE AVERAGE RETURN OF SMALL CAP FUNDS THAT ARE MANAGED IN A COMPARABLE STYLE.
INTER-NATIONAL ~ GLOBAL EQUITY OPTION	TOTAL TIME-WEIGHTED RATES OF RETURN THAT EXCEED THE AVERAGE RETURN OF A UNIVERSE OF INTERNATIONAL/GLOBAL EQUITY FUNDS WHICH ARE MANAGED IN A COMPARABLE STYLE.	TOTAL TIME-WEIGHTED RATES OF RETURN THAT EXCEED THE AVERAGE RETURN OF A UNIVERSE OF INTERNATIONAL/GLOBAL EQUITY FUNDS WHICH ARE MANAGED IN A COMPARABLE STYLE.
INDEX FUNDS	COMPETING INDEX FUNDS WILL BE COMPARED TO A COMPARABLE STANDARD INDEX. CONSIDERATION IS MADE FOR TRACKING ERRORS AND THE EFFECT OF THE EXPENSE CHARGE ON THE RETURN.	COMPETING INDEX FUNDS WILL BE COMPARED TO A COMPARABLE STANDARD INDEX. CONSIDERATION IS MADE FOR TRACKING ERRORS AND THE EFFECT OF THE EXPENSE CHARGE ON THE RETURN.
ASSET ALLOCATION FUNDS	<p>THE UNDERLYING INVESTMENT FUNDS THAT COMPRISE THE RISK BASED ASSET ALLOCATION FUNDS WILL BE EVALUATED. IF THE EVALUATION RESULTS IN DESELECTING A FUND THAT IS INCLUDED IN THE COMPOSITION OF THE ASSET ALLOCATION FUND(S) THE REPLACEMENT FUND WILL BE ADDED TO THE ASSET ALLOCATION FUND(S) WITH THE APPROPRIATE WEIGHTING.</p> <p>TARGET FUNDS WILL BE COMPARED TO THE INDEX WITH THE APPROPRIATE TIME HORIZON. ASSET ALLOCATION FUNDS THAT COMPRISE THREE OR MORE ASSET CLASSES WILL BE COMPARED TO AN ASSET ALLOCATION INDEX THAT HAS SIMILAR COMPOSITION.</p>	<p>THE UNDERLYING INVESTMENT FUNDS THAT COMPRISE THE RISK BASED ASSET ALLOCATION FUNDS WILL BE EVALUATED. IF THE EVALUATION RESULTS IN DESELECTING A FUND THAT IS INCLUDED IN THE COMPOSITION OF THE ASSET ALLOCATION FUND(S) THE REPLACEMENT FUND WILL BE ADDED TO THE ASSET ALLOCATION FUND(S) WITH THE APPROPRIATE WEIGHTING. TARGET FUNDS WILL BE COMPARED TO THE INDEX WITH THE APPROPRIATE TIME HORIZON. ASSET ALLOCATION FUNDS THAT COMPRISE THREE OR MORE ASSET CLASSES WILL BE COMPARED TO AN ASSET ALLOCATION INDEX THAT HAS SIMILAR COMPOSITION.</p>
SPECIALTY FUNDS	TOTAL TIME WEIGHTED RATES OF RETURN THAT EXCEED THE AVERAGE RETURN OF A UNIVERSE OF FUNDS WITH A SIMILAR INVESTMENT OBJECTIVE AND WHICH ARE MANAGED IN A COMPARABLE STYLE.	TOTAL TIME WEIGHTED RATES OF RETURN THAT EXCEED THE AVERAGE RETURN OF A UNIVERSE OF FUNDS WITH A SIMILAR INVESTMENT OBJECTIVE AND WHICH ARE MANAGED IN A COMPARABLE STYLE.

Note: Morningstar Principia Plus will be utilized to determine universe of average performance rates by category. Funds not achieving the established benchmarks may be retained at the sole discretion of the Committee.

INVESTMENT FUND EVALUATIONS:

POLICY:

The Committee retains the authority to periodically, but no less than annually, evaluate and deselect investment funds. Three (3) and five (5) year Standards of Investment Performance will be applied to all investment funds in the Plan. Each standard shall apply independently to the portfolio of each investment fund and is expected to be achieved net of investment management fees and expenses but not administrative, marketing and enrollment fees. For funds without comparable indices or peer groups, such as general account products, the Committee will compare the performance to other investment instruments in the market.

During the contract period, the Committee may request a comparison of current funds in the portfolio to similarly managed funds that are available for possible inclusion in the portfolio. Based on the comparisons, the Committee may opt to replace funds that may have performed better during a different economic cycle.

If an investment fund fails to meet the minimum standards of investment performance as outlined in this document, for both the rolling three (3) and five (5) year measurable periods, the Committee may take the following steps. The Committee may, in its discretion, if circumstances warrant, proceed directly to Step 2.

PROCEDURE:

Step 1. The investment fund should immediately be placed on up to a one-year probation. Retention at the end of that one year probation period will be contingent on the following:

- The fund should perform above the average of its investment style universe and the relative market index over three- year periods; or
- The fund should perform in the top quartile of its investment style universe and the relative market index over the past one-year period; and
- The Sharpe Ratio must exceed the average Sharpe Ratio for the applicable peer group; and
- Performance over these periods will be reviewed to justify retention.

Investment funds that do not satisfy the retention criteria at the end of that probation period will be considered for replacement— see Step 2.

Step 2. Deselect the fund. A replacement fund search may be initiated and the Committee may select a replacement fund. Regarding the Plan assets already deposited with the deselected 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. During the transition period, reminders may be sent to participants monthly prior to eliminating the fund.

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

Other reasons for probationary review of investment funds may include:

- Change of investment manager
- Change of sub-advisor
- Significant change in ownership or control
- Significant or prolonged change in fund management 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

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

PROXY VOTES:

POLICY:

The Plan Administrator is authorized to review Proxy Voting Requests and to vote proxy after receiving a recommendation report from the consultant for the Defined Contribution plans.

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. The nature of all variances between gross return and net return will be disclosed to plan participants .

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 Plan 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 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 County.

Chairman, Defined Contribution Plan Committee
County of San Bernardino