City of Tucson
Employees Voluntary Deferred Compensation Plan
Investment Policy Statement
As of 6/13/14

The Investment Policy Statement for the City of Tucson Employees Voluntary Deferred Compensation Plan (the "Plan") serves to document the objectives, policies and guidelines regarding Plan investments. The City of Tucson Employees Voluntary Deferred Compensation Management Board (the "Board"), is responsible for selecting and maintaining appropriate investment options for the Plan. The Board, while conducting its activities on behalf of the Plan, recognizes that:

- The guidelines and procedures set forth in this document are intended to represent efforts on the part of the Board to fulfill its fiduciary responsibilities;
- The Board must discharge its duties in accordance with the documents governing the Plan, solely in the interest of participants and beneficiaries and for the exclusive purpose of providing savings and investment alternatives to participants and their beneficiaries and defraying reasonable plan administrative expenses;
- The Board must administer the Plan's investment program with the care, skill, and diligence of a prudent investor;
- Plan investments are directed by Plan participants with varying risk tolerances and retirement investment needs;
- A broad range of investment fund options must be offered to satisfy participants' varying needs in terms of risk/return requirements;
- Investment fund options must be monitored to ensure that they continue to meet return expectations over time and continue to be prudent and appropriate for the Plan;
- Investment policy guidelines contained herein are not intended to be a legal document or construed as legal advice. They are solely intended to be a guide. As such, the Plan document and Trust supersede all conflicting matters (if any) herein.

With regard to an investment or overall investment oversight, the Board shall give appropriate consideration to those facts and circumstances that the Board knows or should know are relevant to a particular investment or the investment line-up. This includes the role that the investment policy plays in that portion of the investment program affected. The Board shall then act accordingly.

Appropriate consideration shall include a determination that the investment or investment strategy is reasonably designed, as part of the investment program, to further the purposes of the Plan. As such, this takes into consideration the risk of loss and opportunity for gain (or other return on investment) associated with the investment or investment strategy. Consideration shall also be given to: (1) the composition of the program with regard to diversification; (2) the liquidity and current return of the program relative to the anticipated requirements (or needs) of the participants of the Plan; and (3) the projected return of the program relative to the objectives of the Plan.

I. Investment Options

The Board will select and maintain a diversified set of investment fund options. To ensure diversification, the fund line-up will include a broad choice of funds that range in objective from capital preservation to capital appreciation and have a risk spectrum from conservative to aggressive.

- Each fund option should have a distinct risk/return profile within the line-up to provide diversification with the following requirements:

    1. Each fund's investment objective, style, risk-level and performance expectations should be understandable.
    2. Funds employing exceptionally risky investment strategies or complex strategies that are difficult to understand will be deemed inappropriate for the retirement investment program being offered through the Plan.
    3. Avoid duplication, when possible, of fund types by style or risk/return orientation that could lead to fund proliferation and may cause participant confusion.

To ensure proper diversification, the fund line-up must include at least three investment alternatives, each of which: (a) is diversified; (b) has materially different risk and return characteristics; (c) enable participants to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant or beneficiary; and (d) when combined with investments in the other alternatives tends to minimize, through diversification, the overall risk of a participant's or beneficiary's portfolio. In this regard, the Board agrees that it is appropriate, at a minimum, to include the following asset types/styles:

- Bond Funds – at a minimum, the following two types:

    1. Capital preservation funds such as a money market and/or stable value funds
    2. Core bond fund

- Balanced Funds – at a minimum, one of the following:

    1. Traditional balanced fund
    2. Lifestyle funds that serve as a standalone investment program, e.g., static allocation or aged-based multi-asset class funds

- Domestic Equity Funds – at a minimum, the following four types (may include index funds):

    1. Conservative
    2. Core

3. Growth
4. Aggressive Growth

- International Equity Fund(s);
- Any other additional investment options may be considered from time to time such as a self-directed brokerage program.

The Board has the sole discretion to establish and alter the fund line-up as deemed appropriate to meet the above stated guidelines, unless additional approvals, as set forth in the Plan document, are required.

The Board may deem it appropriate to close or eliminate a fund option as a result of the review process set forth in Section III. of this Policy Statement. Before such action is taken, full consideration will be given to:

- The impact on participants and the Plan investment program;
- Alternative options for participants invested in the closing fund;
- The appropriate timing of such a change given administrative, communications and other investment program matters;
- A possible replacement fund, if appropriate, prior to eliminating the fund in question.

II. <u>Investment Performance and Risk Standards</u>

Quantitative and qualitative investment standards will be set to provide guidance in the selection and retention of investment fund options for the Plan. The standards serve to ensure that fund options meet minimum performance and risk expectations appropriate for successful retirement investing.

1. For the quantitative standards, fund performance will be objectively measured against appropriate market benchmarks and peers to ensure that each fund is performing in line with expectations for that asset class and style. Each fund's performance will be measured in the following manner:

   A. Against a pre-established market benchmark and peer group that reflects the fund's asset class and style.
   B. The peer group will consist of a broad universe of like-style funds as compiled and measured by a consultant or other third party database such as Morningstar, Lipper or other rating service.
   C. The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three and five-year periods.
   D. Fund performance is expected to exceed benchmark returns and median peer returns over rolling periods as measured by both:

- Investment returns of the funds in the line-up using a 3 month, 1 year, 3 year and 5 year comparison period (net of fees);
- Risk-adjusted returns by comparing the fund's performance against the 3 year Sharpe Ratio

2. The qualitative (non-investment performance) standards will also be reviewed to confirm the appropriateness of the fund options in the line-up. Such standards will consider:

   A. Company management – to ensure that the fund organization is stable and adequately supports fund management.
   B. Fund management – to ensure that portfolio management resources are stable and positioned to produce successful results in the future.
   C. Fund fees – to ensure that fees are in line with peers and do not have an inordinate negative impact on net-of-fee performance results.

III. Investment Program Review and Monitoring

At least quarterly, the Board will:

- Review the performance of each fund utilizing the standards stated above;
- Determine whether a fund should be placed on probation (watch list), closed or eliminated from the fund line-up due to:

  1. Investment performance that falls below standards
  2. Inappropriate investment style drift
  3. Other relevant reasons, such as a portfolio manager change, a fee increase, etc;

- Establish, review or change a previously established plan of action for funds on probation for the purpose of taking action, if appropriate.

At least annually, the Board will:

- Review the adequacy of the fund line-up as measured by guidelines set forth in Section I. of this Policy Statement.

IV. Policy Statement Amendment and Governing Provisions

This Investment Policy Statement may be amended from time to time by the Board in light of internal or external factors that affect the Plan, its investment program or the Board's fiduciary responsibilities.

If any provisions herein are inconsistent with the Plan document or Trust, the Plan document or Trust prevails, except where otherwise required by law.