

SECTION 24. HUMAN RESOURCES

24.20 DEFERRED COMPENSATION PLAN

**INVESTMENT POLICY, PRODUCT SELECTION AND RETENTION
AND GENERAL PLAN GOVERNANCE POLICY**

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A. PURPOSE. The purposes of this document are to: (1) establish the standards for the Seminole County Government Employees' Deferred Compensation Plan, (2) adopt criteria for the selection and retention of the Plan's investment options, and (3) provide a method for the monitoring, annual evaluation and reporting of the investment options and the Plan generally all as required by Chapter 195, Part IV, Seminole County Code (hereinafter the "Governing Ordinance").

B. POLICY. It is the policy of the County to make available a broad range of investment options that have varying degrees of risk and return for the benefit of the County's employees and those employees of the other constitutional officers who may wish to participate through a qualified and competitively selected Plan Services Provider. By virtue of its sponsorship of the Deferred Compensation Plan (hereinafter the "DCP" or the "Plan") the County bears responsibility for insuring that a reasonable variety of investment options is available, that information regarding those options is available to participants, that program administrative costs are kept to a minimum and that the selected Plan Services Provider is qualified and properly licensed to offer such services. The County's 457(b) Government Deferred Compensation Plan is a participant directed investment program, authorized by Section 112.215, Florida Statutes, and Chapter 195, Part IV, Seminole County Code. The County, in its employer capacity, does not know the retirement need, time horizon, investment preferences or risk tolerance of its employees, and therefore cannot make an investment allocation for the individual. Only the Employee Participant can define these needs and make appropriate investment decisions. Accordingly, the Plan is intended to be a bilateral relationship between the Employee Participant and the Plan Services Provider with the County's sponsorship and oversight responsibilities strictly limited to the functions specified in the Governing Ordinance and this Policy.

C. DEFINITIONS.

(1) *Actively Managed Product.* An investment strategy that relies on active trading strategies in an effort to out-perform the financial returns generated by a market benchmark index.

(2) *Best Interests of the Employee Participants.* Reasonable consideration of cost, continuity, return, risk, flexibility, and security of the individual's beneficial interest in the plan assets.

(3) *Percentile Ranking.* This is the fund's tax-adjusted total-return percentile rank for the specified time period relative to all investment products that have the same Morningstar Category. (The most favorable being 1, and least favorable being 100).

(4) *Default Fund.* An investment option created during the 2006 Pension Protection Act, allowing plans to invest a participant's assets, if it is deemed that the participant has exercised control over the assets in his or her account, into a Qualified Default Investment Alternative ("QDIA"). Each approved Investment Provider shall have a designated QDIA currently within the Deferred Compensation Program in the amount and under such terms as recommended by the Plan Services Provider.



(5) *Deferred Compensation Program (DCP)*. The program created pursuant to Section 112.215 Florida Statutes, which is embodied in the Government Employees' Deferred Compensation Plan Governing Ordinance and administered pursuant to this Policy.

(6) *Investment Product*. A product purchased with the expectation of favorable returns. Investment Products are compiled from securities and financial instruments in order to produce investment returns in the form of income and/or capital appreciation.

(7) *Investment Provider*. A private sector company recommended by and offered through the Plan Services Provider and approved by the County, which offers investment products, investment education, and markets its products to Employee Participants through the Deferred Compensation Program.

(8) *Morningstar*. Morningstar Direct Software, as licensed for Morningstar, Inc., to be used by the Plan Services Provider to evaluate and monitor the quantitative measures of investment products in the Deferred Compensation Program.

(9) *Morningstar Category*. A classification based on an Investment Product's statistics and composition over the past three years.

(10) *Morningstar Overall Rating*. The Morningstar Rating for mutual funds, commonly called the star rating, is a measure, published by Morningstar, Inc., of a fund's risk-adjusted return, relative to other mutual funds in its category. Funds are rated from one to five stars, with the best performers receiving five stars and the worst performers receiving a single star.

(11) *Mutual Fund*. A professionally managed collective Investment Product that pools money from many investors to buy stocks, bonds, short-term money market instruments and other securities.

(12) *Observation Status*. The condition of a mutual fund at the time of the Plan Services Provider's periodic review having a Morningstar Overall rating within category greater than 50th percentile **and** a Morningstar Overall rating of less than 3 stars **or** a Morningstar 5-year percentile ranking within category greater than 75th percentile.

(13) *Passively Managed Product (Index Fund)*. An investment strategy that produces the same level and pattern of financial returns generated by a market benchmark index.

(14) *Performance Benchmark*. A market benchmark index that is designated by an Investment Product's prospectus for use in measuring investment performance.

(15) *Sharpe Ratio*. A risk-adjusted measure that is calculated by dividing the excess return by total risk incurred by an investment to determine reward per unit of risk.

(16) *Termination Review Status.* The mutual fund is in Observation Status for four consecutive quarters as monitored by the Plan Services Provider and reported to the County.

(17) *Termination.* At least two consecutive quarters in Termination Review Status **and** a Morningstar 1-year percentile ranking within category greater than 50th percentile at quarter end.

All other capitalized terms used hereinafter shall have the same meanings ascribed to them as set forth in the Governing Ordinance.

D. APPROVAL AND TERMINATION OF INVESTMENT PRODUCTS. Initial or present selection of Investment Products to be made available through the DCP and subsequent replacement or termination of Investment Products must be presented in writing by the Plan Services Provider at the time this Policy is adopted and at least annually thereafter as a part of the required reporting and evaluation to the County as set forth in Subsection 24.20 L hereof.

(1) **New Investment Product Approvals.** Review and approval of present and/or new Investment Products must be made using the quantitative criteria listed in Section I, Table A, and the qualitative criteria listed in Section D(3) of this Policy. The Plan Services Provider shall evaluate the performance history, investment goals and objectives and recommendations made by those Investment Product vendors and if all criteria are met, submit those present and proposed new investment products to the County for annual review and approval. The County, acting by and through the Board of County Commissioners, has final approval authority for all Investment Product changes. This process must be completed and documented by the Plan Services Provider prior to the offering of new products to Employee Participants. This process does not apply to products offered in the Self Directed Brokerage Window as hereinafter described if such option is offered by the Plan Services Provider.

(2) **Termination of Existing Investment Products.** A product may be terminated based on either quantitative criteria listed in Section J., Table B, or qualitative criteria listed in Section D(3) hereof. The Plan Services Provider shall submit proposed Investment Product terminations to the County at least annually for review and comment. The County reserves the right to make the final determination for product retention or termination. Once approved for termination, the identified fund shall be removed from the DCP and those assets and deferrals will be mapped to similar Investment Products no later than thirty (30) days after notice to those Employee Participants having accounts invested in those products. The Plan Services Provider shall have the affirmative responsibility for providing said notice to the affected Employee Participants. This process does not apply to products offered and provided through the Self Directed Brokerage Window.

(3) **Criteria for Approval or Termination of Investment Products.** In deciding which Investment Products to approve for availability in the DCP or terminate from the DCP, the Plan Services Provider shall periodically and as necessary review the following factors:

(a) *Qualitative Factors.**

- (i) Costs – including administrative fees as compared to the average of similar products and taking into consideration the investment objective(s)
- (ii) Liquidity
- (iii) Transaction limitation
- (iv) Diversification
- (v) History – how long the investment product has been in existence
- (vi) Management tenure or departure
- (vii) Reputation and regulatory record of an investment management firm
- (viii) Level of assets under management
- (ix) Absolute returns
- (x) Adherence to investment style
- (xi) Merger of fund companies

*** Initiation of a civil or criminal proceeding by any governmental agency against an Investment Provider alleging violations of state or federal securities laws or regulations shall constitute sufficient grounds for disapproval or termination of any Investment Product. The Plan Services Provider shall immediately report to the County the occurrence of any such proceedings involving any Investment Provider offering products to the DCP.**

(b) Quantitative (Performance) Factors.

- (i) When evaluating mutual funds for approval and reporting such approval to the County, the Plan Services Provider shall consider the specific criteria outlined in Table A.
- (ii) When evaluating mutual funds for termination and reporting of same to the County, the Plan Services Provider shall consider the specific criteria outlined in Table B.

(c) Limitations. With the exception of redemption fees or restrictions imposed with the approval of the County after recommendation by the Plan Services Provider for excessive trades or inappropriate market timing, Investment Products offered through the program shall not have restrictions, penalties, market value adjustments or surrender charges relating to exchanges or withdrawals and must offer full liquidity to the Plan’s Employee Participants. Commissions shall only be allowed for stock and exchange traded fund transactions through a self-directed brokerage window.

E. REPORTING AND REVIEW. The Plan Services Provider shall, at least annually, conduct performance reviews for each Investment Provider's products in the program, which review shall be as of September 30th of each calendar year. If the Plan Services Provider deems it necessary as a result of initial performance review findings, in person reviews will be held with the Investment Provider as a part of the annual review process and made a part of the annual report to the County. Prior to finalizing the annual report, the Investment Providers will be given a list of the concerns found by the Plan Services Provider so they may have ample time to prepare a response. It shall be the Plan Services Provider's responsibility to initiate the review and Investment Provider interview process within a timeframe sufficient to assure completion of the annual report to the County on or before December 1st of each year as provided below.

On or before December 1 of each year, the Plan Services Provider shall prepare and submit to the County a written Annual Performance Report on the DCP as of the immediately preceding September 30th which shall contain text, statistical and graphic presentations of at least the following elements:

- (1) Investment Provider Information, Product Summary and Glossary of Essential Terms
- (2) Accounts, Deferrals, Assets and Distributions to include the following:
 - (a) Summary of Employee Participant Accounts
 - (b) Summary of Deferrals
 - (c) Summary of Plan Assets
 - (d) Summary of Distributions
- (3) Detail of Fixed Accounts
- (4) Annualized Investment Products Performance Report
- (5) Plan Participant Survey Report (similar to that used by the State of Florida)

There is hereby established the Deferred Compensation Plan Review Committee (hereinafter the "Committee") for purposes of receipt and evaluation of the Annual Report submitted by the Plan Services Provider. The Committee shall be comprised of the County Manager or his or her designee, the Resource Management Director and one person appointed by the County Manager who shall be a full time, permanent County employee and Plan Participant. The Plan Services Provider shall deliver the required annual report to the Committee. After the Committee's initial review of the annual report, they shall, within thirty (30) days of receiving the annual report, provide the Board of County Commissioners a summary presentation of the Plan's performance results, its compliance with this Section of the Administrative Code and recommended modifications to the Plan, suggested compliance improvements or reporting practices of the Plan Services Provider that may be indicated. A representative from the Plan Service Provider shall be present and available for questions at the time of the



Committee's summary presentation to the Board. The Board shall consider the summary report presented by the Committee at a regularly scheduled meeting, and if the Board concurs in any recommended changes, the Committee shall communicate them to the Plan Services Provider who shall then implement such changes or recommendations as soon as practicable within the then current fiscal year.

(6) Quarterly Review. The foregoing notwithstanding, the Plan Services Provider shall also designate the local point of contact who may be the same person or persons responsible for conducting the Annual Performance Report for purposes of addressing matters of Plan and Investment Product performance, new or terminated Investment Products or any other matters of importance during the fiscal year with the Committee. Such meetings or discussions shall be conducted at least quarterly and may be done by telephonic conference.

F. FIXED ACCOUNT REVIEW. At least semi-annually, the Plan Services Provider shall request and review the following information from each Investment Provider offering a guarantee of principal and interest account:

- (1) Average Maturity and Average Life of the fixed account(s)
- (2) Effective Duration to Average Maturity and Average Life, as appropriate for use in the Crediting Rate Formula.
- (3) Market Value vs. Book Value
- (4) Current Investment Policy Statement Compliance Letter
- (5) Underlying Investment Portfolio guidelines regarding allocation to Sectors, Ratings, Derivatives, types of securities
- (6) Sector weightings
- (7) Average ratings of corporate bonds held and percentage (%) of whole portfolio with ratings below BBB+
- (8) Crediting Rate Formula
- (9) Reporting of any changes in the operation of the fund
- (10) List of people who can make changes involving the fund

G. SELF-DIRECTED BROKERAGE WINDOW (SDBW). Subject to the express, prior approval of the Board of County Commissioners, the Plan Services Provider may offer Employee Participants the opportunity to invest in individual stocks, additional mutual funds, exchange traded funds (ETFs), options, and other investment alternatives through a self-directed brokerage window. The sole purpose of this alternative is to enhance the DCP by providing additional investment choices so as to accommodate the Employee Participant's desire for greater investment flexibility. In offering the SDBW, the Plan Services Provider and the SDBW Company will notify those interested Employee Participants that the investment alternatives available through the SDBW

have not been subjected to any selection process, are not monitored, require investment expertise to prudently manage, and may pose the risk of substantial loss.

(1) Selection of Stock Brokerage Firm. The Plan Services Provider, subject to County approval, will select the on-line brokerage firm to provide the SDBW for electing Employee Participants. In making that decision, the Plan Services Provider will consider the following factors: (1) the expense structure of the brokerage accounts, (2) the administrative needs of the Plan, including record keeping and adherence to the DCP rules, and (3) Best Interests of the Employee Participants who express an interest in this option or who are active participants therein.

(2) Monitoring of Brokerage Accounts. The Plan Services Provider shall monitor the SDBW for proper operation including accounting for transactions and record keeping based on reports from the broker(s). To the extent that SDBW alternative(s) are being used by Employee Participants, those activities shall be included within the annual report to the County; provided, however, that the Employee Participant's personally selected investments therein shall not be subject to the product performance, retention or termination review as hereinabove required for Investment Products offered through and by the Plan Services Provider. Investment alternatives within the SDBW are not to be deemed as designated by the County and, therefore, will not be closely monitored for performance by the County. Instead, the SDBW is intended to provide those individuals electing to participate with another option to broaden their selection of investment alternatives. The County does not recommend or advocate participation by any individual nor does it assume any responsibility for poor investment performance, financial losses or unsatisfactory levels of service that may result from the broker's services.

H. INVESTMENT ADVISORY SERVICES. Upon express prior approval by the Board of County Commissioners, the Plan Services Provider may also offer Employee Participants the opportunity to enroll in accounts providing Actively Managed Products. Actively Managed Products are personalized investment portfolios that are tailored by an investment company to meet the specific needs of the Employee Participants. These services are aimed at providing Employee Participants with additional or necessary guidance to invest in funds that will aid them in reaching their retirement goals. Services may range from financial advice concerning a Participant's account with no active trading of funds by the advisor, to an advisor actively managing a participant's account by periodically rebalancing their holdings according to their specific investor profile. These services may be offered to all Employee Participants in the DCP for a fee. If such services are to be provided by a third party vendor instead of the Plan Services Provider, the Board of County Commissioners reserves the right to review and approve the selection of that firm and the terms of the contract governing the provision of such services. All fees, charges and costs associated with providing these additional services shall be borne by the Employee Participants or the Plan Services Provider or shared by both as shall be determined by agreement between them; the County shall not be responsible for any portion of said additional fees or expenses.

I. TABLE A
Quantitative Approval Criteria for New Products
***Monitoring Guidelines
for Investment Products
in the Deferred
Compensation Program***
Approval Characteristic
Approve
Disapprove
Ranking (relative return)

Morningstar percentile ranking within the fund's category is less than or equal to the 50th percentile for a 3 and 5-year period if available. A minimum of three years history is required.

Morningstar percentile ranking within the fund's category is greater than the 50th percentile for the previous 3 and 5-year period. A minimum of three years history is required.

Risk Adjusted Returns

Morningstar overall rating is greater than or equal to 4 stars or Morningstar Sharpe Ratio greater than or equal to the 50th percentile if the Morningstar rating is 3 stars.

Morningstar overall rating is less than 3 stars.

Manager

(Team approaches will be evaluated on a case-by-case basis.)

Manager tenure on the fund is greater than or equal to three years.

Manager tenure on the fund is less than three years.

Fees

Investment management fees must be less than the Morningstar average for the fund's particular category and must lie within the range of current products in the Deferred Compensation Plan.

Investment management fees are higher than the Morningstar average for the fund's category or higher than current products in the Deferred Compensation Program.

Note: New products may be approved using only 3-year data if 5-year data is unavailable. However, 5-year data will be utilized in the existing fund analysis when available.

Note: Index funds are not required to have the 3-years of manager tenure needed for fund approval. These funds track an index and the manager strategies do not change drastically from year-to-year.

J. TABLE B
Quantitative Factors
Investment Product Monitoring, Observation, Termination Review Status, and Termination Criteria for Existing Products

Product Monitoring Criteria Characteristic	Observation Status	Termination Review Status	Termination
Morningstar percentile ranking over 5-year rolling average	Morningstar 5-year percentile ranking within category greater than 50th percentile at quarter end AND	In observation status for four consecutive quarters	At least two consecutive quarters in termination review status AND
Morningstar overall rating	Morningstar overall rating less than 3 stars;		Morningstar 1-year percentile ranking within category greater than 50th percentile at quarter end
Morningstar percentile ranking over 1-year rolling average			
Fund management fees listed on Morningstar and given by the Investment Providers	OR Morningstar 5-year percentile ranking within category greater than 75th percentile at quarter end		

Note: Index funds are not ranked against active funds, and new index products must demonstrate a tracking error to a prescribed benchmark of 50 basis points or lower over the most recent year, using monthly data. For existing products, probation occurs when a tracking error falls between 50 and 100 basis points and termination occurs for a tracking error greater than 100 basis points for four consecutive quarters. For measurement purposes only, the monthly prorated mutual fund expense ratio is added back to the total monthly returns.

Note: All funds are measured without loads.

Note: It will be possible for an Investment Product to move from a termination review status or observation status to regular status when the product meets total return requirements by being in the top half of peers over the most recent three year rolling annualized time period available as defined by Morningstar's Percentile Ranking within category and have a three year Morningstar overall rating of 3 or more stars.

Note: Existing funds with less than 5-years of history will be analyzed using 3-year data. 5-year data will be utilized when available.

Note: When analyzing funds for possible addition to the Deferred Comp Program, Target Date Funds shall be treated as one fund by averaging its performance, manager tenure, etc. If the group average fee of the Target Date fund increases more than 50 basis points (.50%) above the level of the prior year or which then exceeds the industry average for comparable products, the Investment Provider’s manager will be contacted by the Plan Services Provider who shall make inquiry as to the reason for the increase, include the findings and recommendations in its annual report to the County. Excessive fee increases, as determined by the Plan Services Provider, may result in a decrease in status and termination.

Note: If mutual fund management fees increase more than the Plan Services Provider determines are reasonable on a quarter over quarter basis, the fund’s investment manager will be contacted by the Plan Services Provider and may result in a decrease in status and termination of the fund, all of which shall also be included in the annual report to the County.

Note: Different share classes in the same fund would be considered the same fund, and cannot be used by multiple providers.

Note: Vanguard index funds, if offered in the DCP, may change share classes without giving Employee Participants notice more frequently than the next regularly scheduled quarterly report to them; however, notice of such events shall be included in the next such quarterly report and in the annual report to the County. The County views this as a share class change within the same fund and not a replacement.

K. AUTHORITY. Section 112.215, Florida Statutes (2012)
Ordinance No. 2012-14, Seminole County Code
Resolution 2013-R-270 adopted December 10, 2013