



# INVESTMENT POLICY STATEMENT

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**City of Staunton, Virginia - City of  
Staunton, Virginia 457(b) Plan and  
Staunton City Schools 403(b) Plan.**

February, 2020



## CONTENTS

|                                                        |   |
|--------------------------------------------------------|---|
| -1- Statement of Purpose .....                         | 2 |
| -2- Policy Goals & Objectives .....                    | 2 |
| -3- Roles & Responsibilities .....                     | 3 |
| The Company or Plan Committee as Fiduciary:.....       | 3 |
| Investment Consultant/Advisor: .....                   | 4 |
| -4- Plan Investment Asset Classes.....                 | 4 |
| -5- Investment Selection .....                         | 5 |
| -6- Investment Evaluation .....                        | 6 |
| -7- Replacement of Selected Investment Options .....   | 7 |
| -8- Conclusion .....                                   | 8 |
| Qualified Default Investment Alternative Addendum..... | 9 |

## -1- STATEMENT OF PURPOSE

The primary purpose of the City of Staunton, Virginia 457(b) Plan and Staunton City Schools 403(b) Plans (the “Plans”) are to provide a retirement benefit for Plan participants and their beneficiaries by offering the opportunity for long-term capital accumulation.

The Plans are structured to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plans may consist of contributions made by both participants and by the City of Staunton, Virginia (the “Company”). All assets are subject to the investment direction of eligible participants or their beneficiaries.

This Investment Policy Statement (“IPS”) does not impose on the fiduciaries any duties not imposed by the Employee Retirement Income Security Act of 1974 (“ERISA”) in the absence of this IPS.

## -2- POLICY GOALS & OBJECTIVES

The IPS is designed to provide meaningful direction for the fiduciaries of the Company and the designated Investment Consultant/Advisor in the management of Plan investment options. The policies within the IPS are not binding but serve as guidelines for the Fiduciary in fulfilling their responsibility to exercise considered judgment in acting solely in the long-term interest of Plan participants and their beneficiaries. The IPS is designed to serve as a general guideline. There may be specific circumstances that the Fiduciary determines warrant a departure from the guidelines contained herein. The IPS is drafted consistent with ERISA and is intended to help the Fiduciary comply with ERISA Section 404(c) and subsequent Regulations adopted by the Department of Labor. In general the IPS:

- Establishes the roles and responsibilities of the Plans’ Fiduciary and the Investment Consultant/Advisor hired to assist in the fulfillment of the Fiduciary’s duties;
- Identifies appropriate investment asset classes for inclusion in the Plans’ menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;

- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary, which will either serve as the Plans' default or Qualified Default Investment Alternative within the meaning of ERISA 404(c)(5);
- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS; and
- Develops methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### -3- ROLES & RESPONSIBILITIES

#### THE COMPANY OR PLAN COMMITTEE AS FIDUCIARY:

Although it is intended that participants will direct the investment of their accounts under the Plans, the Company, as Fiduciary, will select the array of investment options to be made available for participant investment, and then provide on-going oversight of those investment options.

The Company has chosen to appoint a Plan Investment Committee (the "Committee") to assist in the fulfillment of its fiduciary responsibilities. (In contemplation of the continued appointment of a Committee, the words "Committee" and "Fiduciary" are used interchangeably in this IPS.) The Committee will be formed and governed either by a separate document, or according to the Company's governance structure. If the Company disbands the Committee, the Company shall have the ability to exercise all authority granted to the Committee.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plans' chosen administrative environment, e.g. the Plans' recordkeeper and trustee / custodian. The Committee will review the Plans' investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plans with the assistance of an independent Investment Consultant/Advisor. The Investment Consultant/Advisor shall acknowledge that it is acting as a fiduciary as defined by §3(21)(A)(ii) of ERISA with respect to the selection of investment options available to the Plans.

## INVESTMENT CONSULTANT/ADVISOR:

Responsibilities of the Investment Consultant/Advisor include:

- Educating the Committee on issues concerning the selection of investment options for the Plans;
- Assisting in the analysis and initial selection of investment options to be made available for participant investment;
- Assisting the Committee with the on-going review of the investment universe made available within the Plans' chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Providing specific investment advice to the Committee with respect to the Plans on a regular basis, pursuant to a mutual understanding with the Committee that the advice will serve as a primary basis for the Committee's investment decisions, and that the advice will be individualized based on the needs of the Plans. Such advice may relate to the advisability of investing in, purchasing, holding, and selling securities or other property;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Consultant feels may alter the Committee's assessment of a given investment option, asset class or strategy.

## -4- PLAN INVESTMENT ASSET CLASSES

The Plans' investment menu is structured in accordance with modern portfolio theory, which holds that the asset allocation decisions among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plans' investment menu may include, but are not limited to, options from the following broad asset classes: Capital Preservation, Fixed Income, Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date, Domestic Equity, International Equity and Specialty. These asset classes are described in more detail in CAPTRUST's Investment Policy Monitoring Methodology document.

## -5- INVESTMENT SELECTION

As mentioned, the Committee has structured the Plans to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plans' administrative environment which may impact the number, type and cost of investment options available to the Plans. The Committee may also consider the method and payment of Plan expenses, which may be altered by investment-related decisions.

Once the Committee has selected the range of asset classes to be represented within the Plans, the following screening criteria will be among those applied to the available actively managed options:

**FEES** – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.

**STYLE CONSISTENCY** – Since each investment option is chosen to fulfill a specific part of the Plan's overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation may be allowed when an investment option's given style moves in and out of favor, or when an investment option's successful investments outgrow their initial investment classification.

**VOLATILITY AND DIVERSIFICATION** – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures and ratios, including Sharpe ratio, information ratio and beta, may be used as well.

**PERFORMANCE** – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee should consider other variables including (but not limited to) fees, investment style purity, and risk management practices, in order to develop a holistic view about a strategy and its appropriateness within the Plans. Passively managed options do not need to meet the same ranking criteria; rather, measures such as tracking error to the stated benchmark are more important measures of performance for these options.

**MANAGEMENT & ORGANIZATION** – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option’s sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term investors.

**ADDITIONAL FACTORS** – In addition to the above outlined factors, the Committee will also consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plans’ unique situation.

After inclusion in the Plans each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of this IPS.

## **-6- INVESTMENT EVALUATION**

With the assistance of the Investment Consultant/Advisor, the Committee will monitor the investment options made available within the Plans to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plans under this IPS or such other or additional criteria as appropriate. In making investment decisions, the Committee will follow the Department of Labor’s “prudence regulation” (DOL Reg. § 2550.404a-1). As part of that process, the Committee may consider the ranking of investment options relative to their peers using a comprehensive Scoring System proprietary to the Investment Consultant/Advisor. (See CAPTRUST’s Investment Policy Monitoring Methodology document.)

The following criteria provide an outline for the evaluation process:

- On a quarterly basis, the Plans’ Investment Consultant/Advisor will provide the Committee with a comprehensive report of each investment option’s relevant performance and relative rankings against appropriate indexes, and within appropriate peer groups. The Investment Consultant/Advisor will review the report with the Committee at least annually, or more often as necessary and appropriate.
- The Investment Consultant/Advisor will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the investment option’s pricing structure or significant changes in the investment option’s fundamental policies and procedures that the Investment Consultant/Advisor feels warrant Committee review.

- The Committee normally will meet with the Investment Consultant/Advisor, at least annually, to evaluate each investment option as well as the overall status of the Plans' IPS, if necessary.
- If the Investment Consultant/Advisor's proprietary Scoring System indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plans' menu, the Committee will take appropriate steps.

## **-7- REPLACEMENT OF SELECTED INVESTMENT OPTIONS**

Since the intentions of the Plans are to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment asset classes or specific investment options will be changed or deleted frequently.

It is possible that changes may become desirable or necessary, however, based upon factors such as:

- The addition of a new asset class or investment alternative that was not a part of the Plans' initial menu. Such an addition will be subject to a similar selection regimen to that outlined earlier in the IPS;
- The elimination of a given asset class from the Plans' menu; and
- The desire to replace one of the Plans' investment options with another investment option that the Committee feels will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration, or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plans' chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS; and
- The need to replace or eliminate one of the Plans' investment options after noncompliance with this IPS has been established, or appears likely.

## -8- CONCLUSION

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plans. Changing market conditions, economic trends or business needs may necessitate modification of this IPS. Until such modification, this document will provide the investment objectives and guidelines for the Plans' assets, subject to the caveats stated herein. This IPS may be modified by written approval of a majority of the Committee members or, if no such Committee exists, by the Plan Sponsor.

**Approved by City of Staunton, Virginia, and adopted on this \_\_\_\_\_ day of \_\_\_\_\_, 2020.**

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**Witnessed by CAPTRUST Financial Advisors & adopted on this \_\_\_\_\_ day of \_\_\_\_\_, 2020.**

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## QUALIFIED DEFAULT INVESTMENT ALTERNATIVE ADDENDUM

Qualified Default Investment Alternatives (QDIAs) are specific investment vehicles that are used when a Plan participant or beneficiary fails to make affirmative investment elections. The Committee understands that there are specific notice and disclosure requirements that the Department of Labor asserts they must provide to participants and beneficiaries to use a QDIA properly. After reviewing the demographics of the Plans, the Committee has decided to use a suite of target date funds to function as the Plan's QDIA.

In addition, the Plan may elect to use a short-term money market option which is allowed to hold a participant's funds for no longer than 120 days, before transferring those funds automatically to the designated QDIA which has been elected.

Certain investment vehicles can provide QDIA protections for grandfathered sums. This plan does not use grandfathered QDIA's.