



## **401(a) Defined Contribution Plan Investment Policy Statement**

Commonwealth of Pennsylvania  
State Employees' Retirement Board

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## 1. Introduction

The Commonwealth of Pennsylvania is the sponsor of the Defined Contribution Plan (“DC” or “401(a) Plan”) that was established for Commonwealth of Pennsylvania officers and employees through Act 5 on June 12, 2017. The Act of June 12, 2017, P.L. 11, No. 5 authorizes the State Employees’ Retirement Board (“Board”) to establish and administer the 401(a) Plan as an eligible defined contribution plan in accordance with the Internal Revenue Code (“IRC”) Section 401(a) of 1986, as amended. For purposes of this Defined Contribution Plan Policy (“Policy”), the term “Participants” means any participant, beneficiary or alternate payee who has an account in the 401(a) Plan.

The 401(a) Plan participants have an opportunity to exercise control over the assets in their individual 401(a) Plan accounts, and may choose, from a broad range of investment options, the manner in which the assets within their accounts are invested. Participants bear the risk of investment results due to their selection(s). Participants are responsible for investment fees of the 401(a) Plan.

## 2. Purpose of the Investment Policy Statement

The purpose of this Policy is to formalize the Board’s investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The Policy outlines the following components:

- Define the purpose of the 401(a) Plan;
- Define the roles of those responsible for managing the 401(a) Plan;
- Define investment options for the 401(a) Plan; and
- Establish investment funds performance standards and the objectives, standards and processes for monitoring and evaluating investment options.

## 3. Purpose and Objectives of the 401(a) Defined Contribution Plan

The purpose of the 401(a) Plan is to provide eligible employees (“employees”) with a source of retirement income from accumulated employee contributions, employer contributions, and investment returns. The objective of the 401(a) Plan is to allow employees to defer a portion of their salary into the 401(a) Plan, promote and maximize capital accumulation, and enable employees to meet their personal retirement investment goals. It is the Board’s intent to make available an array of low-cost investment options that satisfy the following criteria:

- Each investment option is diversified within itself;

- Each investment option has different risk and return and/or style characteristics; and
- Each investment option, in combination with the other available investment options, contributes to the diversification opportunities of a participant's 401(a) Plan account portfolio.

## 4. Roles & Responsibilities

The Board has delegated certain responsibilities related to the effective management of the 401(a) Plan. Various responsibilities are allocated among the Board, Agency Staff, Investment Managers, Investment Consultant, Custodian/Sub-custodian, and Third-Party Administrator, as defined below. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty. The responsibilities of the 401(a) Plan's service providers are governed by the applicable services agreements as well as this Investment Policy Statement.

### A. Board

The Board is the 401(a) Plan administrator, trustee, and the named fiduciary responsible for designating the investment options from which a Participant can build a diversified portfolio. The Board will act in the sole interest of participants and their beneficiaries for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying the reasonable expenses of administering the 401(a) Plan. Furthermore, the Board must comply with and fulfill all aspects of the established guidelines under the IRC and other governing rules and regulations that relate to the administration and investment of the assets under the 401(a) Plan. At all times any final decisions/actions with regard to the 401(a) Plan and the results of those actions is the sole province of the Board.

The Board performs the following in conjunction with 401(a) Plan and statutory provisions:

- Comply with all applicable rulings, regulations, and legislation;
- Act in accordance with the provisions of all legal documents governing the 401(a) Plan;
- Approve and maintain all legal documents governing the 401(a) Plan, including the Plan Document, Trust Declaration, and this Policy;
- Review and approve the 401(a) Plan structure and design;
- Review and approve both investment and manager fees;
- Review and approve the hiring and termination of contractors to assist in managing the 401(a) Plan based on recommendations from Agency Staff and, if applicable, the Investment Consultant;

- Review and approve investment options based on recommendations from Investment Office staff and the Investment Consultant;
- Review and approve hiring and termination of investment managers based on recommendations from Investment Staff and the Investment Consultant;
- Review the 401(a) Plan's audited financial statements;
- Review and evaluate the 401(a) Plan's investment performance and costs;
- Oversee and monitor Agency Staff responsible for the oversight and management of the 401(a) Plan; and
- Approve the engagement and termination of industry experts, including but not limited to, an independent Investment Consultant.

## **B. Agency Staff**

The Board has delegated certain functions to the Executive Director's Office, Office of Member and Participant Services, Communications and Policy Office, Office of Financial Management, Investment Office, and Chief Counsel's Office, as well as to various contractors who provide professional services to the Board.

### **Executive Director's Office**

The Executive Director's Office provides strategic leadership and administrative oversight for the 401(a) and directly serves the Board, including facilitating communications, and managing meetings and documentation. The Executive Director's Office is expressly charged with statutorily prescribed duties, including review and analysis of legislation, maintaining files and records, and responding to information inquiries and requests from press, commonwealth officials, state employees and the general public, among others.

### **Communications and Policy Office**

The Communications and Policy Office works with the General Assembly and Administration officials on policy-related matters, tracks legislation, administers the agency's right-to-know program, serves as liaison to the media, prepares a wide range of publications and informational materials in print and electronic format, manages the agency's website and social media accounts, and provides an array of communications support to the agency.

### **Office of Administration**

The Office of Administration is responsible for overseeing all administrative support functions for the agency, which includes contracting, purchasing, leasing, facilities management, safety and security, continuity of operations, printing, mailing, fleet management, records retention, information technology,

telecommunications, human resources, strategic planning and project management, Board education, and Board governance.

### **Office of Member and Participant Services**

The Office of Member and Participant Services is responsible for administering the agency's deferred compensation plan. This office is responsible for and leads the relationship with the Third-Party Administrator (recordkeeper), participant communication efforts and interpretation of 401(a) Plan provisions (e.g. emergency withdrawals).

### **Office of Financial Management**

The Office of Financial Management maintains accounting controls, financial operations, and financial reporting for all Board funds. It administers all financial transactions including member and participant benefit payments; member, participant, and employer contributions; investment purchases, sales, and other activity; payment of 401(a) plan approved fees and operational expenses; and oversees the budgeting and expense monitoring for all funds. It ensures the proper and efficient administration of the 401(a) Plan through the appropriate accounting controls and that the financial statements for the plan are presented in accordance with generally accepted accounting principles. Additionally, it processes and reconciles daily investment activity with the Third-Party Administrator and Custodian/Sub-custodian.

### **Investment Office**

The Investment Office works closely with the Board to oversee the investment options offered in the 401(a) Plan. The Office establishes and implements investment policies, monitors fund cash flow, investment managers, fund risks, and performance, and researches and recommends new investment options that could be included in the plan. To ensure that the investment goals and objectives of the 401(a) Plan are being fulfilled, the Investment Office staff also reviews and analyzes the philosophies, policies, and strategies employed by the investment managers, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons. The Office also maintains deep and current expertise related to the analysis of capital and global markets. The Investment Office is also responsible for updating and maintaining this Policy and coordinating the hiring of an external investment consultant to assist in investment matters of the 401(a) Plan, subject to the Board's approval. The Chief Investment Officer reports administratively to the Executive Director and functionally to the Board.

### **Chief Counsel's Office**

The Chief Counsel's Office serves as the agency's independent, in-house counsel to the Board and the agency for benefits, investments, corporate governance, compliance, and administrative matters. The Office is responsible

for drafting and interpreting legislation, rendering legal advisory memoranda, interpreting the Right-to-Know Law, drafting and approving contracts, and representing the 401(a) Plan and the Board in legal proceedings. The Chief Counsel's Office ensures the lawful administration of the 401(a) Plan. The Chief Counsel's staff is responsible for negotiating all underlying contracts within the 401(a) Plan as well as confirming the legalities of plan designs and implementations within the 401(a) Plan. The Chief Counsel's staff is responsible for answering any legal questions that arise from the Agency Staff, including the Investment Office staff, as well as reviewing the actions and recommendations of the investment managers and the Investment Consultant. The Chief Counsel's staff will consult with the Board at the Board's request.

### **Chief Compliance Officer**

The Chief Compliance Officer reports functionally to the Audit, Risk, and Compliance Committee and administratively to the Chief Counsel. The Chief Compliance Officer is responsible for, among other duties, ensuring that the Board is complying with applicable laws, Board bylaws, ethics requirements, and policies and procedures applicable to Board members, including those contained in the *SERS Board Governance Policy Manual*, as well as monitoring the compliance activities of the Investment Office, with tasks including:

- Identifying potential areas of compliance vulnerability and risk;
- Assisting with the development, and implementation of risk management, and mitigation for resolution of problematic issues; and
- Providing guidance on how to avoid or address similar situations in the future.

### **Internal Audit Office**

The Internal Audit Office tests business processes and internal controls to confirm that they are adequate and operating properly to ensure vigilant stewardship of agency funds. It performs onsite audits of investment consultants and managers. The Office also coordinates independent, external audits of the trust on an annual basis, and performs special projects at the direction of the Board and Audit Committee. The Office is an independent appraisal unit with a reporting relationship to the Board and the Audit Committee. The Internal Audit Office is independent of the agency's operational activity and is responsible for providing objective audit and review services for the entire agency, including the Investment Office. The Internal Audit Office's services emphasize the promotion of adequate and effective internal controls.

The Internal Audit Office also facilitates the annual independent audit performed by independent certified public accountants. The independent CPAs

examine the books and records of the 401(a) Plan and certify that the financial statements are free from material error.

### **C. Investment Managers**

Each investment manager will have discretion over the management of a specific mandate as designated by the Board. The specific terms of each investment management agreement (including but not limited to mutual fund, separate account, commingled investment fund and commingled investment trust) will include an Investment Strategy Statement, which establishes and governs the investment guidelines and responsibilities of the investment manager. Each investment manager must select investments with the same care, skill, prudence and due diligence 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. Investment Consultant**

The Board shall retain an independent investment consultant to advise the Board, Defined Contribution Committee, and Investment Office. While the investment consultant will act in a non-discretionary capacity, the investment consultant is to be considered a fiduciary, as defined in section 3(21) of ERISA.

The investment consultant will provide investment advice and recommendations concerning the 401(a) Plan structure, administration and investment management of the 401(a) Plan assets consistent with the investment objectives, policies, guidelines and constraints as established in this Policy. Specific responsibilities of the investment consultant will be established and maintained under an investment consulting agreement, and generally will include reviewing policies, investment options, investment manager due diligence, benchmarks, ongoing due diligence, and evaluating the costs of the 401(a) Plan.

### **E. Custodian and Sub-custodian**

The Custodian and Sub-custodian are expected to fulfill all the regular fiduciary duties of a custodian, pursuant to the terms of the applicable trust and custodial agreements and as required by other pertinent state and federal laws.

In general, these duties include the following:

- Receive contributions and deferrals from the State and pay all benefits, as directed by the Board or its designee(s);



- Protect trust assets, ensure timely settlement of security transactions, credit all income and principal realizable by investment assets of the trust in a timely and accurate fashion, sweep excess cash from custodied investment manager accounts into a suitable cash management vehicle each day, and calculate the net asset value for unitized accounts or report stated net asset values for non-unitized accounts in a timely and accurate fashion;
- Report periodically to the Board or its agents and designees on all monies received or paid on behalf of the Trust and on all securities under the custody contract including all unsettled securities transactions;
- Deliver Trust assets to a successor custodian or as otherwise directed with proper instructions within a reasonable time period of termination;
- Promptly distribute all proxy materials or other corporate actions received by the Board/Custodian;
- Coordinate asset transfers as requested by the Board or its designee(s); and
- Provide fund accounting for investment options. Services include, but are not limited to, calculating or reporting net asset value (NAV) and posting and settling securities trades.

## **F. Third-Party Administrator**

The Third-Party Administrator is expected to fulfill all of the contracted responsibilities including, but not limited to, maintaining individual participant investment account records and providing Participants with sufficient information to manage their investments. The Third-Party Administrator is also expected to comply with the reporting requirements of the Plan Document, the requirements established and maintained under the Third-Party Administrator contract and all pertinent federal, state and local rules and regulations. Services may also include, but are not limited to, providing:

- Enrollment services in the 401(a) Plan for employees;
- Educational materials and programs explaining investment options in the 401(a) Plan;
- Advice tools and products;
- Tools to facilitate the effective exchanges and transfers to, from, and among investment options offered within the 401(a) Plan;
- Periodic individual statements and distributions;
- Distributions and the preparation of periodic reports to participants, alternative payee, and beneficiaries;
- Master recordkeeping responsibilities;
- Maintenance of accounts and other records;
- Reports in support of compliance and regulatory obligations;

- An effective and automated interface with the Custodian/Sub-custodian to initiate net trades on investment options and rebalancing transactions as directed; and
- Reports and information reconciliations to the Board or its designees, and the Custodian/Sub-custodian.

## 5. Investment Options

It is the Board's intent to offer a broad range of investment options with materially different risk and return characteristics to allow Participants, by choosing among such investment options, the opportunity to diversify their balances and construct portfolios consistent with their unique circumstances, goals, time horizons, and tolerance for risk. It is the objective of the Board to offer investment options at a reasonable cost in terms of management, custody, other costs and have investment characteristics that can be successfully communicated to participants. Further, it is the intent of the Board to designate names for the investment options that are easily understood by participants.

To comply with this Policy, the 401(a) Plan is required to offer a minimum of ten investment options that are professionally managed by at least three investment managers. The Board will offer three tiers of investment options to meet various participant investment objectives. Described below are the various types of investment options.

The Board selects available investment options and investment managers and adds or removes such options or investment managers at any time in its discretion.

### A. Tier I – Target Date Fund Investment Options

Target date funds provide a series of asset allocation funds that allow participants to choose a single fund that is based on their expected target retirement date. Each target date fund includes a professionally managed portfolio of underlying investments that may include fixed income, equity and alternative asset classes. The investment manager adjusts and rebalances the allocation of assets over time to reduce the expected risk as each fund progresses toward its target date.

The Board recognizes that some Participants may fail to make investment choices for their Plan account. Therefore, the Board believes it is appropriate to designate a target date fund based on the participant's age as the default investment option for any Participant who fails to make an investment choice for his or her contributions.

## **B. Tier II – Asset Class Investment Options**

The Board offers investment options within each of the following broad asset classes:

- Capital Preservation;
- Fixed Income;
- Broad U.S. Equity; and
- Broad International Equity.

The Board may also establish additional asset classes and investment options at its own discretion to serve the needs of the Participants.

## **C. Tier III – Self-Directed Brokerage Option**

The self-directed brokerage option provides access to a brokerage window for participants who seek greater investment flexibility. Participants investing in this option do so at their own risk. The Board is not responsible for the monitoring or evaluation of any self-directed brokerage account investments.

The Board selects available investment options and investment managers and adds or removes such options or investment managers at any time in its discretion. The screening process for the initial selection of any investment option or manager will consider attributes relevant to the specific asset class and search objective, as developed by the Board with the assistance of the Investment Office staff and in consultation with its external investment consultant, where applicable.

# **6. Objectives, Standards and Processes for Evaluating and Monitoring Investment Options and Investment Managers**

## **A. Investment Manager Evaluations and Selection**

Pursuant to its duties as defined in section “4. Roles & Responsibilities,” the Investment Office staff shall, as directed by the Board and in consultation with the Investment Consultant, search for and hire investment managers to carry out investment mandates. The screening process for the initial selection of any investment option or manager will consider attributes relevant to the specific search objective in question. Investment Staff and the Investment Consultant will consider, but will not be limited to reviewing the manager’s strategy, quality and experience of professional staff, ownership structure, investor level breakdown, assets under management by firm and product, fees and a comparison of performance history among peers and against appropriate benchmarks. Based on this analysis, Investment Staff and the Investment

Consultant will determine which investment managers would be suitable candidates for further review.

## **B. Investment Performance Reviews**

Investment Office staff review investment options and investment manager performance, portfolio positioning and transactions at least annually. Investment Office staff use the Defined Contribution Plan Investment Manager Monitoring Policy, attached as **Exhibit II**, as may be applicable to the Investment Options, to apply consistent criteria in evaluating investment managers. The Board may change specific investment options or investment managers without amending this Policy.

## **C. Investment Manager and Investment Option Termination**

The Board recognizes that investment options or investment manager terminations have unique circumstances which may result in different action plans upon termination. Upon a decision to terminate an investment option or investment manager, the Board expects to review the circumstances with Investment Office staff and the Investment Consultant to deliberately decide on a prudent and reasonable process for termination and replacement of the terminated investment option and/or investment manager, and mapping of impacted assets. Investment Office staff will notify Agency Staff, including the Chief Counsel's Office staff to coordinate proper notice to the participants if an investment option is terminated.

## **D. Prohibited Transactions**

Investment managers are prohibited from entering into any transactions on behalf of the 401 (a) Plan that are not expressly authorized by this Policy or by specific investment manager guidelines, offering memorandum, or mutual fund prospectus. Investment managers must at all times follow all applicable laws and regulations. All managers and consultants shall disclose any and all economic positions that may conflict with this Policy or specific investment manager guidelines.

The use of derivatives is to facilitate risk management, and to manage the cost of investing in publicly traded stocks and bonds. Derivatives shall not be used to magnify exposure to investments beyond that which would be allowed by the portfolio's Investment Strategy Statement. Derivatives shall not be used to create exposures to securities, indices or other financial variables unless such exposures would be allowed by a portfolio's Investment Strategy Statement if created with non-derivatives securities.

## Exhibit I: 401(a) Plan Investment Options as of December 31, 2019

Investment Option	Benchmark	Fund #
<b>A. Tier I – Target Date Fund Investment Options</b>		
Target Date Fund Suite	Custom Index	1

Participants who do not make an investment selection will be assigned into a five-year group based on their birthdate. These groups are used to default participants into an age-appropriate target date fund vintage. The Board utilizes the following birthdate ranges and will work directly with the Third-Party Administrator to update periodically. The birthdate ranges are expected to change every time a fund merges into the Post Retirement Fund and a new fund is added. For defaulted participants that change birthdate groups when a new vintage becomes available, the participant's investment election and account balance will be transferred to the age-appropriate target date fund vintage. For example, the 2065 Retirement Date Fund currently covers birthdate ranges 1996 and after; however, when the 2070 Retirement Date Fund becomes available it will cover birthdate ranges 2001 and after.

2020 Birthdate Range	Fund Name
1996 and After	2065 Retirement Date Fund
1991 and 1995	2060 Retirement Date Fund
1986 to 1990	2055 Retirement Date Fund
1981 to 1985	2050 Retirement Date Fund
1976 to 1980	2045 Retirement Date Fund
1971 to 1975	2040 Retirement Date Fund
1966 to 1970	2035 Retirement Date Fund
1961 to 1965	2030 Retirement Date Fund
1956 to 1960	2025 Retirement Date Fund
1955 and Before	Post Retirement Fund

<b>B. Tier 2 – Asset Class Investment Options</b>		
<b>1. Stock Funds</b>		
U.S. All Company Stock Index Fund	Dow Jones U.S. Total Stock Market Index	2
U.S. Large Company Stock Index Fund	S&P 500 Index	3
U.S. Small/Mid Company Stock Index Fund	Dow Jones U.S. Completion Total Stock Market Index	4
Global Non-U.S. Stock Index Fund	MSCI All Country World ex U.S. Index	5
<b>2. Fixed Income Funds</b>		
U.S. Treasury Inflation Protected Securities Fund	Bloomberg U.S. TIPS Index	6
U.S. Bond Index Fund	Bloomberg U.S. Aggregate Bond Index	7
<b>3. Capital Preservation Funds</b>		
Short-Term Bond Index Fund	Bloomberg U.S. Gov/Credit 1-3 Years Index	8
Short-Term Investment Fund ( <i>money market fund</i> )	BofA Merrill Lynch 3 Month T-Bill Index	9

<b>C. Tier III – Self-Directed Brokerage Option</b>		
Schwab Personal Choice Retirement Account	N/A	10

<b>Additional Features</b>
Managed Accounts
Out-of-Plan Annuity

## **Exhibit II: 401 (a) Defined Contribution Plan Investment Manager Monitoring Policy**

### **401 (a) Defined Contribution Plan Investment Manager Monitoring Policy**

The State Employees' Retirement Board ("Board") employs external investment managers to manage the 401(a) Defined Contribution Plan ("401(a) Plan") assets. The 401(a) Defined Contribution Plan Statement of Investment Policy charges the Investment Office with responsibility for coordinating all investment activities and investment matters for the 401(a) Plan, including the continual review and analysis of investment managers. It also allows for the use of external investment consultants to provide various investment-related services, including assistance with the analysis of investment managers.

The purpose of this Policy is to provide the Board with an enhanced communication tool to keep the Board and the Defined Contribution Committee informed of investment managers that warrant additional monitoring by the Investment Office and external consultant.

A Defined Contribution Plan Investment Manager Evaluation List ("Evaluation List") was developed to clearly communicate which investment managers have been identified as experiencing quantitative or qualitative pattern changes worthy of greater review by the Investment Office and its external investment consultant. Although a quantitative analysis is clearly important, it is not a best practice to rely exclusively on such data when evaluating investment managers due to the imperfect nature of many indices used as portfolio benchmarks. In addition, the placement of an investment manager on the Evaluation List does not automatically serve as evidence of a problem with the investment manager. This can only be determined after the Investment Office and external investment consultant conduct a further review.

#### **A. Investment Manager Monitoring Guidelines and Evaluation List**

The Investment Manager Monitoring Guidelines formalize the identification and application of qualitative and quantitative criteria employed by the agency with respect to the monitoring of current investment managers in the Defined Contribution compensation plan. The Investment Manager Monitoring Guidelines:

1. Establish clear expectations between the Board, Defined Contribution Committee, Investment Office, external investment consultants, and investment managers,
2. Enhance communication among the Board, Defined Contribution Committee, Investment Office, external investment consultants,
3. Encourage the use of prudently applied criteria to evaluate investment managers,
4. foster a long-term approach toward performance evaluation of investment managers,
5. Focus the resources of the Investment Office and external investment consultants on those investment managers most likely to require additional attention,



6. Avoid costly turnover in investment manager relationships driven by a period of short-term poor performance, and
7. Improve the probability that agency will identify problematic relationships which otherwise might produce unsatisfactory investment returns.

The Board endeavors not to make adverse retention decisions about investment managers based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles. All of the criteria identified in the Investment Manager Monitoring Guidelines are intended to provide a normal, minimum standard for retaining investment Managers.

However, the Board may terminate any current investment manager for any reason in accordance with the provisions of investment management agreements between the agency and the external investment managers. These Investment Manager Monitoring Guidelines do not limit the agency's ability to take such action.

## **B. Criteria for Active and Passive Management**

### **Addition to the Evaluation List**

The Investment Office, in consultation with its external investment consultant, will place an investment manager on the Evaluation List for any of the following reasons:

#### **Quantitative Factors**

The active investment manager's rolling, three-year return falls below the rolling, three-year benchmark return for four (4) consecutive quarters. This is a net-of-fee comparison.

The active investment manager's rolling, three-year return ranks below the median of the external investment consultant's peer group for four (4) consecutive quarters (excludes investment managers with no relative peer group). This is a gross-of-fee comparison or a net-of-fee comparison, depending on which is appropriate based on the investment vehicle. The comparison assumes that a reasonable and similar peer group exists for evaluating each investment option.

The passive investment manager's rolling three-year return is not in line with the rolling, three-year benchmark return. The Investment Office, in consultation with its external investment consultant, will determine what variance from the benchmark is deemed acceptable, given the passive strategy. This is a gross-of-fee comparison.

The active or passive investment manager's return significantly deviates from its expected return established in its investment strategy statements (investment guidelines) with the agency. This is a net-of-fee comparison.

### **Qualitative Factors**

A significant and potentially adverse event related to any of the following qualitative issues or events, among others, will be considered:

- Violation of investment guidelines
- Deviation from stated investment style and/or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest
- Chronic violations of the SERS Defined Contribution Plan Statement of Investment Policy
- Any other issue or situation of which the Investment Office, the external investment consultant, and/or Board members become aware that is deemed material.

### **Removal from the Evaluation List**

An investment manager may be removed from the Investment Manager Evaluation List when the Investment Office, in consultation with its external investment consultant, determines that the investment manager has satisfactorily met the quantitative or qualitative criteria for removal from the Evaluation List.

Generally for active investment managers, two consecutive quarters of rolling, three-year performance above the benchmark and a ranking above the median of the external investment consultant's peer group (assuming that a reasonable and similar peer group exists for evaluating each investment option) following placement on the Evaluation List will be required for an investment manager's removal from the Evaluation List for performance reasons.

For index fund investment managers, one period of rolling, three-year performance in line with the benchmark following placement on the Evaluation

List will be required for an investment manager's removal from the Evaluation List for performance reasons.

The Investment Office, in consultation with its external investment consultant, will typically make a decision to recommend retention or termination twelve (12) months following placing an investment manager on the Evaluation List. At the point of decision, the Investment Office, in consultation with its external investment consultant, may recommend renewing inclusion on the Evaluation List for an additional period of time subject to supporting due diligence.

### **C. Application of Criteria**

1. The Investment Manager Evaluation List is a confidential internal document and will only be used for internal purposes.
2. The Investment Office, in consultation with external investment consultants, will provide the SERS Defined Contribution Committee, with a current Investment Manager Evaluation List at the same SERS Defined Contribution Committee, meeting when the Callan quarterly performance is provided to the SERS Defined Contribution Committee. The Evaluation List will include all investment managers which have been added or removed and summary of the reasons for the addition or removal.
3. The Investment Manager Evaluation List will be provided to the Defined Contribution Committee, in executive session.
4. When an investment manager is placed on the Investment Manager Evaluation List, the Investment Office and external investment consultants will conduct a further review of the investment manager to assess whether or not genuine issues of concern actually exist.
5. If genuine issues of concern are identified, the Investment Office and external investment consultants will assess the cause, magnitude, and likely duration of the issues.
6. If the analysis from the Investment Office, in consultation with its external investment consultants, reveals that the issues are not of concern, the investment manager will be removed from the Investment Manager Evaluation List.
7. If the investment manager resolves the issues of concern to the satisfaction of the Investment Office, in consultation with its external investment consultants, the investment manager will be removed from the Investment Manager Evaluation List.
8. If the Investment Office, in consultation with its external investment consultant, determines that the issues of concern have persisted without satisfactory resolution or are unlikely to be resolved within 12 months, then a recommendation on whether to retain the investment manager will be provided to the Defined Contribution Committee.
9. In emergency situations, the Chief Investment Officer, in consultation with the Investment Committee Chair and Board Chair, may make investment decisions (*i.e.* halt trading or terminate an investment manager). Emergency situations

are defined as those that are unforeseeable and in the absence of action, the Fund may be adversely impacted. In the event such action is taken, the Investment Committee will be notified as soon as practical, but no later than the next scheduled meeting.