

## **FLORIDA RETIREMENT SYSTEM**

### **Investment Plan Investment Policy Statement**

#### **I. PURPOSE**

The Florida Retirement System Investment Plan Investment Policy Statement (IPS) serves as the primary statement of Trustee policy regarding their statutory responsibilities and authority to establish and operate an optional defined contribution retirement program for members of the Florida Retirement System. The IPS shall serve as a guiding document pertaining to investment matters with respect to the Investment Plan. The Trustees will strive to make investment decisions consistent with this IPS. Section 121.4501(14), Florida Statutes, directs the Trustees of the State Board of Administration to approve the IPS. The IPS will be reviewed annually and will be revised or supplemented as policies are changed or developed.

#### **II. DEFINITIONS**

- A. **Member** – An employee who enrolls in the Florida Retirement System Investment Plan , a member-directed 401(a) program, in lieu of participation in the defined benefit program of the Florida Retirement System, a terminated Deferred Retirement Option Program (DROP) member as described in section 121.4501(21), Florida Statutes, or an alternate payee of a member or employee.
- B. **Investment Product** – The result of a process that forms portfolios from securities and financial instruments in order to produce investment returns.
- C. **Investment Manager** – A private sector company that provides one or more investment products.
- D. **Investment Funds** – One of the investment options that may be chosen by participants. A Fund may be an aggregate of one or more investment products.
- E. **Bundled Provider** - A private sector company that offers investment products, combined with recordkeeping and trading services, which are designed to meet individualized needs and requirements of plan participants, so as to afford value to participants not available through individual investment product.
- F. **Passively Managed Option** – An investment management strategy that intends to produce the same level and pattern of financial returns generated by a market benchmark index.
- G. **Actively Managed Option** – An investment management strategy that relies on security return predictions in an effort to out-perform the financial returns generated by a market benchmark index.
- H. **Performance Benchmark** – A market benchmark index that serves as the performance measurement criterion for investment options.

- I. **Investment Plan Administrator or Recordkeeper** – A private sector company that provides administrative services, including individual and collective recordkeeping and accounting, IRC limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions.
- J. **Self-Directed Brokerage Account** – An alternative method for Investment Plan members to select various investments options otherwise not available in the Investment Plan.
- K. **Self-Direct Brokerage Account Provider** – A private sector company that provides access to a Self-Directed Brokerage Account to members of the FRS Investment Plan.

### **III. OVERVIEW OF THE INVESTMENT PLAN AND STATE BOARD OF ADMINISTRATION**

- A. The Investment Plan is a member-directed 401(a) program selected by employees in lieu of participation in the defined benefit program of the Florida Retirement System. Investment Plan benefits accrue in individual accounts that are member-directed, portable and funded by employee and employer contributions and earnings. In accordance with Section 121.4501(15)(b), Florida Statutes, members and beneficiaries bear the investment risks and reap the rewards that result when they exercise control over investments in their accounts. Fluctuations in investment returns directly affect members' benefits.
- B. The State Board of Administration (Board), Division of Retirement and affected employers administer the Investment Plan. The Board designs educational services to assist employers, eligible employees, members and beneficiaries. The State Legislature has the responsibility for setting contribution levels and providing statutory guidance for the administration of the Investment Plan.

### **IV. THE BOARD**

- A. The Board consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Board shall establish an optional defined contribution retirement program for members of the Florida Retirement System and make a broad range of investment options, covering most major market segments, available to members. The Board makes the final determination as to whether any investment manager or product, third-party administrator, education vendor or advice vendor shall be approved for the Plan.
- B. The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Section 121.4501(15)(a), Florida Statutes.
- C. The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the Investment Plan. The Board appoints a nine-member Investment Advisory Council (IAC). The IAC reviews the IPS and any proposed changes

prior to its presentation to the Board of Trustees. The Council presents the results of its review to the Board of Trustees prior to the Trustees' final approval of the statement or any changes.

## **V. THE EXECUTIVE DIRECTOR**

- A. The Executive Director is responsible for managing and directing administrative, personnel, budgeting and investment-related functions, including the hiring and termination of investment managers, bundled providers and products.
- B. The Executive Director is responsible for developing specific investment objectives and policy guidelines for investment options. The Executive Director is responsible for developing policies and procedures for selecting, evaluating, and monitoring the performance of investment managers and products to which employees may direct retirement contributions under the Investment Plan, and providing the Board with monthly and quarterly reports of investment activities.
- C. The Executive Director is responsible for maintaining diversified investment options, and maximizing returns with respect to the performance benchmarks of individual investment options, consistent with appropriate risk constraints. Each investment option will avoid excessive risk and have a prudent degree of diversification relative to its broad market performance benchmark. The Executive Director will develop policies and procedures to:
  - Identify, monitor and control/mitigate key investment and operational risks.
  - Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
  - Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
  - Approve risk allocations and limits.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will cause a regular review, documentation and formal escalation of compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

- D. The Executive Director shall adopt policies and procedures designed to prevent excessive member trading between investment options from negatively impacting other members.
- E. The Executive Director is responsible for periodically reviewing this IPS and recommending changes to the Board of Trustees when appropriate.

## **VI. INVESTMENT OBJECTIVES**

- A. The Investment Plan shall seek to achieve the following long-term objectives:
  - 1) Offer a diversified mix of low-cost investment options that span the risk-return spectrum and give members the opportunity to accumulate retirement benefits.
  - 2) Offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees that seek to achieve or exceed the returns on comparable market benchmark indices.
  - 3) Offer members meaningful, independent control over the assets in their account with the opportunity to:
    - a) Obtain sufficient information about the plan and investment alternatives to make informed investment decisions;
    - b) Direct contributions and account balances between approved investment options with a frequency that is appropriate in light of the market volatility of the investment options;
    - c) Direct contributions and account balances between approved investment options without the limitation of fees or charges; and
    - d) Remove accrued benefits from the plan without undue delay or penalties, subject to the contract and all applicable laws governing the operation of the Plan.

## **VII. MEMBER CONTROL AND PLAN FIDUCIARY LIABILITY**

- A. This IPS is structured to be consistent with the Legislature's intent to assign liability for members' investment losses to members and provide a safe harbor for Plan fiduciaries.
- B. In Sections 121.4501(8)(b)2. and 121.4501(15)(b), Florida law incorporates the federal law concept of participant control, established by regulations of the U.S. Department of Labor under section 404(c) of the Employee Retirement Income Security Act of 1974. The Investment Plan shall incorporate these concepts by providing Plan participants the opportunity to give investment instructions and obtain sufficient information to make informed investment decisions. The Investment Plan shall, in accordance with the 404(c) regulations and Florida law, provide members an opportunity to choose from a broad range of investment alternatives.
- C. If a member or beneficiary of the Investment Plan exercises control over the assets in his or her account, pursuant to section 404(c) regulations and all applicable laws governing the operation of

the Plan, no Plan fiduciary shall be liable for any loss to a member's or beneficiary's account which results from such member's or beneficiary's exercise of control.

- D. The default option for FRS Investment Plan members that fail to make a selection of investment options shall be the Moderate Balanced Fund, which otherwise meets the requirements of a qualified default investment alternative pursuant to regulations issued by the U.S. Department of Labor. The default option for FRS Pension Plan DROP participants who rollover funds from their DROP account to the Investment Plan as permitted by section 121.4501(21), Florida Statutes, and fail to make a selection of investment options shall be the FRS Select Money Market Fund.

### **VIII. MEMBER EDUCATION AND INVESTMENT ADVICE**

- A. The education component of the Investment Plan shall be designed by the Board to assist employers, eligible employees, members, and beneficiaries in order to maintain compliance with section 404(c) regulations and to assist employees in their choice of defined benefit or defined contribution retirement programs. Educational services include, but are not limited to, disseminating educational materials; providing retirement planning education; explaining the differences between the defined benefit retirement plan and the defined contribution retirement plan; and offering financial planning guidance on matters such as investment diversification, investment risks, investment costs, and asset allocation. The following items must be made available to members in sufficient time to allow them an opportunity to make informed decisions:
- A description of all investment funds offered as an investment option under the Investment Plan including: general investment objectives, risk and return characteristics, and type and diversification of assets, but excluding any investment instruments made available through a self-directed brokerage account.
  - An explanation of how to give investment instructions and any limits or restrictions on giving instructions.
  - A description of any transaction fees or expenses that are charged to the member's account in connection with purchases or sales of an investment fund.
  - Investment summary fund profiles as defined at Sections 121.4501(15)(c), excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
  - Descriptions of the annual operating expenses for each investment alternative, such as investment management fees, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
  - The value of shares of all investment funds and a quarterly member statement that accounts for contributions, investment earnings, fees, penalties, or other deductions, excluding the prospectus or other information for the underlying investment

instruments available through the self-directed brokerage account provided by the Plan.

- Information concerning the past investment performance of each investment fund, net of expenses, and relative to appropriate market indices, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.

- B. Consistent with Sections 121.4501(8)(b)1. and 121.4501(10)(b), Florida Statutes, the education component shall provide system members with impartial and balanced information about the Plan and investment choices. In addition, the approved education organization shall not be an approved investment provider or be affiliated with an approved investment provider. Educational materials shall be prepared under the assumption that the employee is an unsophisticated investor and all educational materials, including those distributed by bundled providers, shall be approved by the Board prior to dissemination. Members shall have the opportunity to choose from different levels of education services, as well as a variety of delivery methods and media. All educational services offered by investment product providers shall be provided on a fee-for-service basis.
- C. The Board shall contract for the provision of low-cost investment advice to members that is supplemental to educational services and that is paid for by those receiving the advice. Investment advice shall consist of impartial and balanced recommendations about investment choices consistent with Rule 19-13.004, FAC. Members shall have the opportunity to choose from different levels of customized investment advisory services, as well as a variety of delivery methods and media.
- D. Bundled provider(s) selected to provide investment products for Investment Plan members shall not provide any member education services aimed at influencing the choice between the defined benefit and defined contribution plans of the Florida Retirement System. This education program will only be provided by the neutral education vendor hired to do so by the Board.

## **IX. ROLES OF THE INVESTMENT PLAN ADMINISTRATOR AND BUNDLED PROVIDERS**

- A. The Board selects a single private party to serve as the administrator for the Investment Plan. The Board makes the final determination as to whether any administrator shall be approved for the Plan. Administrative services such as individual and collective recordkeeping and accounting, IRC limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions shall be provided by the single administrator selected by the Board. The SBA retains the right to delineate through the contract the specific administrative services to be provided by the Bundled Provider. The SBA also retains the right, consistent with Section 121.4501(8)(a)1., Florida Statutes, to enter into a contract with the Division of Retirement for certain administrative services.
- B. Bundled provider(s) selected to provide investment products to members will provide administrative services that are uniquely relevant to the bundled provider mandate. The SBA shall

specify the administrative services to be provided by the single administrator and the bundled provider in the solicitation documents and contracts for services.

**X. INVESTMENT OPTIONS AND PERFORMANCE BENCHMARKS**

A. The authorized categories of Investment Plan investment options are contained in IPS-Table 1. The default option for members that fail to make a selection of investment options shall be the Moderate Balanced Fund. The number of investment options shall not exceed the “Maximum Number of Options” listed in IPS-Table 1 for each category, except to the extent that:

- 1) Multiple investment options within the same category are simultaneously offered to facilitate a transitional mapping of contributions and account balances from a terminating option;
- 2) An investment option is temporarily closed to new contributions and account balance transfers.

**IPS-Table 1: Authorized Investment Option Categories and Representative Performance Benchmarks and Retiree Annuities**

Investment Option Categories	Maximum Number of Options	Representative Performance Benchmarks
<b>Tier I: Core Investment Options</b>		
Money Market	1	Money Fund Report Institutional Average (Tax.)
Inflation-Protected Bond	1	Barclays Capital U.S. Treasury Inflation Note Index
U.S. Bond	2	Barclays Capital Aggregate Bond Index
U.S. Core Stock	2	Russell 3000 Index
U.S. Small/Mid Stock	2	Russell 2000 Index
Foreign Stock	2	MSCI World, excluding U.S., Index
<b>Tier II: Balanced Investment Options</b>		
Conservative Balanced Fund	1	Weighted-Average of Constituent Fund Benchmarks per Table 2
Moderate Balanced Fund	1	Weighted-Average of Constituent Fund Benchmarks per Table 2
Aggressive Balanced Fund	1	Weighted-Average of Constituent Fund Benchmarks per Table 2
<b>Tier III: Specialty Investment Options</b>		
U.S. Large Value Stock	1	Russell 1000 Value Index
U.S. Large Growth Stock	1	Russell 1000 Growth Index
U.S. Small/Mid Value Stock	1	Russell 2000 Value Index

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U.S. Small/Mid Growth Stock	1	Russell 2000 Growth Index
Global Stock	1	MSCI World Index
U.S. Short/Intermediate Bond	1	Barclays Capital Intermediate Aggregate Bond Index
High Yield Bond	1	Barclays Capital High Yield Index
<b>Tier IV: Retiree Annuity Options</b>		(Section 121.591(1)(c), Florida Statutes)
Immediate and Deferred Annuities	Not Applicable	Specified by the Executive Director
<b>Tier V: Self-Directed Brokerage Account</b>	Not Applicable	Not applicable

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- B. Investment options and investment products (i.e., that support Investment Funds that are composed of an aggregate of one or more investment products) may be provided by investment managers or bundled providers. Pursuant to Section 121.4501(9)(a), Florida Statutes, the Board shall select one or more providers who offer multiple investment products when such an approach is determined by the Board to afford value to members otherwise not available through individual investment products.
- C. Investment options may have performance benchmarks other than the “Representative Performance Benchmarks” listed in IPS-Table 1, but any alternative performance benchmark must be identified in the investment guidelines required under Section XI of this IPS and provide substantial coverage of the financial market segment defined by the corresponding Representative Performance Benchmark.
- D. Balanced funds are only available as a weighted average of Tier I and III options. The Board shall establish procedures for initiating rebalancings per approved investment guidelines.
- E. With IAC review and input, the Executive Director shall periodically recommend changes to the authorized investment option categories in IPS-Table 1, as modifications are appropriate. Any recommended modifications must be justified in terms of the incremental costs and benefits provided to members.

## **XI. GENERAL INVESTMENT OPTION GUIDELINES**

- A. The Executive Director is responsible for developing specific investment policies and guidelines for investment options, which reflect the goals and objectives of this IPS. In doing so, he is authorized to exercise and perform all duties set forth in Section 121.4501(9), Florida Statutes, except as limited by this IPS or Board Rules. General guidelines are as follows:
  - 1) The Money Market fund seeks high current income consistent with liquidity and capital preservation. The fund will be actively managed and will primarily invest in high quality,

liquid, short-term instruments to control credit risk and interest rate sensitivity. The fund's sensitivity to interest rate changes will approximate that of the performance benchmark.

- 2) The U.S. Bond funds seek high current income consistent with capital appreciation. The funds may be passively or actively managed and will primarily invest in securities contained in the benchmark, although other fixed income instruments which fit the funds' objectives may be selectively used to generate excess return, such as non-investment grade securities or securities issued by foreign entities. The funds' sensitivity to interest rate changes will closely approximate that of the performance benchmark.
- 3) The U.S. Large Stock funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark. Other securities which fit the funds' objectives may be selectively used to generate excess return. The funds' investment process will not have a persistent bias toward the selection of securities that are predominantly in the growth or value style categories.
- 4) The Foreign Stock funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark, although other securities which fit the funds' objectives may be selectively used to generate excess return, such as equity securities issued by corporations domiciled in emerging economies.
- 5) The Balanced Investment funds are diversified balanced portfolios designed to provide participants with pre-packaged asset allocation vehicles. The funds seek favorable long-term returns through investments in the Tier I and III Options according to the risk levels identified in IPS-Table 2. Asset allocations will generally be held within 5 percentage points of the optimal shares for their respective risk target, but short-term deviations may occur. Optimized asset allocations for the balanced funds shall be established using methodology consistent with the guidance rendered by the Investment Plan's education/advice vendor.

**IPS-Table 2: Target Risk Levels of Balanced Investment Funds**

	<b>Conservative Balanced Fund</b>	<b>Moderate Balanced Fund</b>	<b>Aggressive Balanced Fund</b>
All asset classes shall be included for optimization of each balanced fund to the risk levels indicated. Actual Tier I and III investment funds included in the balanced funds and their respective weightings shall be reported to the Trustees and communicated to members.	A risk level equivalent to that of an all bond portfolio	A risk level equivalent to that of the average U.S. investor	A risk level approximately mid-way between that of an all equity portfolio and the Moderate

Balanced  
Fund

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- 6) The Inflation-Protected Bond fund seeks long-term total returns that keep pace with inflation in order to protect the purchasing power of accumulated member benefits. The fund may be passively or actively managed and will primarily invest in the U.S. Treasury's inflation-indexed securities. The fund's sensitivity to interest rate changes will closely approximate that of the performance benchmark.
- 7) The High Yield Bond fund seeks high current income consistent with capital appreciation. The fund will be actively managed and will primarily invest in non-investment grade securities contained in the benchmark, although other fixed income instruments which fit the funds' objective may be selectively used to generate excess return, such as non-rated securities or securities issued by foreign entities. The fund's sensitivity to interest rate changes will closely approximate that of the performance benchmark.
- 8) The U.S. Large Value Stock fund seeks capital appreciation, and to a lesser degree, current income. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by lower price-to-book ratios and lower projected earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.
- 9) The U.S. Small/Mid Stock funds seek capital appreciation. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark, although other securities which fit the funds' objectives may be selectively used to generate excess return. The funds' investment process will not have a persistent bias toward the selection of securities that are predominantly in the growth or value style categories.
- 10) The U.S. Large Growth Stock fund seeks capital appreciation. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by higher price-to-book ratios and projected higher earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return..
- 11) The U.S. Small/Mid Value Stock fund seeks capital appreciation, and to a lesser degree, current income. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by lower price-to-book ratios and lower projected earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.
- 12) The U.S. Small/Mid Growth Stock fund seeks capital appreciation. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by higher price-to-book ratios and projected higher earnings growth

than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.

13) Each investment option must:

- (a) Have a prudent degree of diversification relative to its performance benchmark;
- (b) Be readily transferable from one Investment Plan account to another Investment Plan investment option or to a private-sector or public-sector defined contribution plan accounts and self-directed individual retirement accounts;
- (c) Allow transfers of members' balances into and out of the option at least daily, subject to the excessive trading policies of the providers and/or the SBA;
- (d) Have no surrender fees or deferred loads/charges;
- (e) Have no fees or charges for insurance features (e.g. mortality and expense risk charges);
- (f) To the extent allowed by law, notwithstanding failure to meet one or more of the IPS Section XI(13)(b),(c)-(f) requirements, an option may be authorized if: (i) it produces significant and demonstrable incremental retirement benefits relative to other comparable products in the market place and comparable Tier I, Tier II, or Tier III options; and (ii) the incremental benefits are sufficient to offset all associated fees, charges and the expected economic cost of the variance(s) with the IPS Section XI(13)(b),(c)-(f) requirements. Comparability shall be based on the option's underlying investments within the broad categories of Money Market, U.S Fixed Income, U.S. Equities and Foreign Equities.

14) The investment product supporting any annuity option offered in Tier IV must have a prudent degree of diversification relative to its performance benchmark and, where applicable, providers shall have high independent ratings for financial strength and stability. Tier IV options may include allocated or unallocated immediate annuities with combinations of some of the following features:

- (a) Single or flexible premium.
- (b) Life or fixed period payouts.
- (c) Single or joint life (survivors with an insurable interest).
- (d) Complete or partial survivor benefits.
- (e) Cash refund, installment refund or period certain features.
- (f) Variable or fixed payments, non-participating, or income payable features.
- (g) Deferred payments.

B. The long-term performance of each actively managed investment option is expected to exceed the returns on their performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns on the performance benchmark, net of all fees and charges. Investment managers are authorized to prudently use options, futures, notional principal contracts or securities lending arrangements, in

accordance with the fiduciary standards of care, as contained in Section 121.4501(15)(a), Florida Statutes, investment guidelines and related policies.

## **XII. INVESTMENT MANAGER SELECTION AND MONITORING GUIDELINES**

- A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of investment managers, bundled providers and products, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9)(c), Florida Statutes.

When the Executive Director decides to terminate an investment fund in the Investment Plan, members will be granted an opportunity to direct their assets to other Investment Plan investment fund options prior to the investment fund termination. Assets that are not directed by members will be transferred or “mapped” to the investment fund(s) that the Executive Director deems appropriate. The mapping factors that the Executive Director will consider include, but are not limited to, alignment of investment fund type (e.g., asset class, capitalization and style) and investment strategy (e.g., objectives, market focus, and implementation tactics).

- B. In the selection of investment managers, investment products or bundled providers, consideration shall be given to their effectiveness in minimizing the direct and indirect costs of transferring the total present value of accumulated benefit obligations for existing employees that choose membership in Investment Plan from the defined benefit trust to the Investment Plan trust.
- C. In the selection and monitoring of products from bundled providers, each proposed product will be evaluated on a stand-alone basis, pursuant to the requirement in Section 121.4501(9)(c)9., Florida Statutes. The cost-effectiveness of the levels of non-investment services supporting the products will also be evaluated relative to their benefits.
- D. In the selection, retention and termination of bundled providers and their proposed products and services, value, as that term is used in Section 121.4501(9)(a), Florida Statutes, shall be evaluated based on the value added to the process of accumulating retirement benefits for members. This evaluation shall consider the following factors in arriving at any staff recommendation:
- 1) Additional products or services that are not otherwise available to the members within the Plan;
  - 2) The type and quality of investment products offered;
  - 3) The type and quality of non-investment services offered; and
  - 4) Other significant elements that provide value to members, consistent with the mandates of Section 121.4501, Florida Statutes.
- E. On at least an annual basis, a review will be conducted of the performance of each approved investment manager and product and related organizational factors to ensure continued compliance with established selection, performance and termination criteria, Board policy and procedures and all contractual provisions. The performance and termination criteria for each provider and investment product will be reflected in each employment contract.

- F. In addition to reviewing the performance of the Investment Plan's investment managers/options, the Executive Director will periodically review all costs associated with the management of the Investment Plan's investment options, including:
- 1) Expense ratios of each investment option against the appropriate peer group; and
  - 2) Costs to administer the Plan, including recordkeeping, account settlement (participant balance with that of investment), allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

**XIII. SELF-DIRECTED BROKERAGE ACCOUNT (SDBA) PROVIDER SELECTION AND MONITORING GUIDELINES**

- A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of a SDBA Provider and shall manage the contractual relationship in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9)(c), Florida Statutes.
- B. The SDBA shall be offered as a service to Investment Plan members to enable members to select investments otherwise not offered in the Plan.
- C. In selecting the SDBA Provider, the Executive Director shall consider the following:
- 1) Financial strength and stability as evidenced by the highest ratings assigned by nationally recognized rating services when comparing proposed providers that are so rated.
  - 2) Reasonableness of fees compared to other providers taking into consideration the quantity and quality of services being offered.
  - 3) Compliance with the Internal Revenue Code and all applicable federal and state securities laws.
  - 4) The methods available to members to interact with the provider; the means by which members may access account information, direct investment of funds, transfer funds, and to receive funds prospectuses and related investment materials as mandated by state and federal regulations.
  - 5) Ability to provide prompt, efficient and accurate responses to participant directions, as well as providing confirmations and quarterly account statements in a timely fashion.
  - 6) Process by which assets are invested, as well as any waiting periods when the monies are transferred.
  - 7) Organizational factors, including, but not limited to, financial solvency, organizational depth, and experience in providing self-directed brokerage account services to public defined contribution plans.

- 8) The self-directed brokerage account available under the most beneficial terms available to any customer.
  - 9) The provider will agree not to sell or distribute member lists generated through services rendered to the investment plan.
  - 10) The provider, as well as any of its related entities, may not offer any proprietary products as investment alternatives in the self-directed brokerage account.
- D. The Executive Director shall regularly monitor the selected provider to ascertain whether there is continued compliance with established selection criteria, board policy and procedures, state and federal regulations, and any contractual provisions.
- E. The Executive Director shall ensure that the SDBA Provider will include access to investment instruments offered through the self-directed brokerage account by providing connectivity with the following:
- 1) Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange.
  - 2) Exchange Traded Funds (except for leveraged Exchange Traded Funds).
  - 3) Mutual Funds not offered in the investment plan.
- F. The Executive Director shall ensure that the self-directed brokerage account accessibility does not include the following as investment alternatives:
- 1) Illiquid investments;
  - 2) Over the Counter Bulletin Board (OTCBB) securities;
  - 3) Pink Sheet® (PS) securities;
  - 4) Leveraged Exchange Traded Funds;
  - 5) Direct Ownership of Foreign Securities;
  - 6) Derivatives, including, but not limited to futures and options contracts on securities, market indexes, and commodities;
  - 7) Buying/Trading on Margin;
  - 8) Limited Partnership Interests;
  - 9) Investment Plan products;

- 10) Any investment that would jeopardize the investment plan's tax qualified status.
- F. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that an Investment Plan member may participate in the self-directed brokerage account, if the member:
- 1) Maintains a minimum balance of \$5,000 in the products offered under the investment plan;
  - 2) Makes a minimum initial transfer of funds into the self-directed brokerage account of \$1,000;
  - 3) Makes subsequent transfers of funds into the self-directed brokerage account in amounts of \$1,000 or greater;
  - 4) Pays all trading fees, commissions, administrative fees and any other expenses associated with participating in the self-directed brokerage account;
  - 5) Does not violate any trading restrictions established by the provider, the investment plan, or state or federal law.
- G. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that employer contributions and employee contributions shall be initially deposited into member's Investment Plan account and will then be made available for transfer to the member's SDBA.
- H. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator that distributions will not be processed directly from member's assets in the SDBA. Assets must first be transferred to Investment Plan products. A member can request a distribution from the Investment Plan once the transfer of the assets from the SDBA to the member's Investment Plan account and all Investment Plan distribution requirements are met.
- I. The Executive Director shall ensure that any member participating in the SDBA will be provided, at minimum, a quarterly statement that meets Financial Industry Regulatory Authority (FINRA) requirements which details member investments in the SDBA. The statement shall include, but is not limited to, member specific accounting of the investment instruments selected by a member, the net gains and losses, and buy/sell transactions. Additionally, a confirmation of trade statement will be sent for each transaction and all fees, charges, penalties and deductions associated with each transaction are netted in the trade and reflected in the transaction confirmation.
- J. The Executive Director shall develop appropriate communications to members participating in the SDBA that will notify members that the Board is not responsible for managing the SDBA beyond administrative requirements as established between the Board and SDBA Provider. As such, investment alternatives available through the SDBA have not been subjected to any

selection process, are not monitored by the Board, require investment expertise to prudently buy, manage and/or dispose of, and have a risk of substantial loss. The communication shall also notify members that they are responsible for any and all administrative, investment, and trading fees associated with participating in the SDBA.

- K. The Executive Director shall ensure that the provider will deliver a prospectus or other information for the underlying investments available through the self-directed brokerage account as provided in Section 121.4501(15)(c)(1) and (2) and in compliance with Federal laws.

#### **XIV. REPORTING**

- A. The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the Investment Plan by the Board's independent performance evaluation consultant.
- B. The following formal periodic reports to the Board shall be the responsibility of the Executive Director: an annual investment report, an annual financial report and a monthly performance report.

#### **XV. IMPLEMENTATION SCHEDULE**

This IPS is effective upon approval of the Board.