

## 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, or who defaults into, 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 for employees who selected to participate, or who default into the plan, 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 and the Attorney General. 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 investment guidance 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 & CIO 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 & CIO

- A. The Executive Director & CIO 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 & CIO is responsible for developing specific investment objectives and policy guidelines for investment options for the Investment Plan. The Executive Director & CIO 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 & CIO is responsible for maintaining an appropriate compliance program that ensures :
  - Compliance with contractual and investment guidelines of each investment manager;
  - Compliance with contractual provisions agreed to with the Investment Plan administrator and the custodian, and all other service providers to the Plan, to facilitate compliance with all legal requirements pertaining to the administration of the Plan, and compliance with all applicable administrative rules, SBA policies, and procedures; and
  - Compliance with reporting and valuation requirements.

In addition, the Executive Director & CIO is also responsible for maintaining diversified investment options, and maximizing returns with respect to the performance benchmarks of investment options offered in the Investment Plan line up, consistent with appropriate defined contribution plan design. Each investment option will avoid excessive risk and have a prudent degree of diversification relative to its broad market performance benchmark. The Executive Director & CIO will develop policies and procedures to:

- Identify and monitor manager performance and key investment and operational risks within the manager's business structure.
- Maintain an appropriate compliance program that ensures compliance with contractual and investment guidelines of each manager in the plan.
- Maintain an appropriate and effective oversight function within the Office of Defined Contribution Programs to ensure effective operational and administrative oversight.
- Approve fund allocations and limits for each fund-of-fund or Retirement Date Fund under the Investment Plan.

The Executive Director & CIO will appoint a Chief of Defined Contribution Programs, to assist in the execution of the responsibilities enumerated in the preceding paragraphs. For day-to-day executive and administrative purposes, the Chief of Defined Contribution Programs will proactively work with the Executive Director & CIO and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief of Defined

Contribution Programs will provide reports to the Investment Advisory Council, and to the Audit Committee and Board as requested.

To ensure compliance with the enumerated functions outlined above, at the request of the Executive Director & CIO, the SBA Chief Risk & Compliance Officer will conduct compliance reviews of Office of Defined Contribution Programs to ensure compliance with this Investment Policy Statement and any SBA related policies and procedures in place for the Investment Plan and will provide a report that details any adverse compliance exceptions to the Executive Director & CIO.

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

- D. The Executive Director & CIO shall adopt policies and procedures designed to prevent excessive member trading between investment options from negatively impacting other members.
- E. The Executive Director & CIO 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 default into the plan or fail to make a selection of investment options shall be the FRS Retirement Target Date Fund (RDF) that matches the year closest to the year each individual member reaches normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statutes, 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 Retirement Fund.

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

- 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.

For members of the Investment Plan, the following items must be made available to members in sufficient time to allow them an opportunity to make informed decisions regarding the management of their individual retirement account under the Plan:

- 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 FRS members with impartial and balanced information about the Plan and investment choices. In addition, any 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- or no -cost investment guidance to members that is supplemental to educational services and that may be paid for by those receiving the guidance. Investment guidance shall consist of impartial and balanced recommendations about investment choices consistent with Rule 19-13.004, F.A.C. Investment guidance provided to a member should be individualized and provided on a regular basis. Members have the opportunity to choose from different levels of customized investment guidance services, as well as a variety of delivery methods and media.
- D. Investment guidance for Investment Plan members will provide optimized combinations of available Investment Plan investment options and any personally owned non-Investment Plan member directed tax-deferred or taxable accounts.

- E. Investment guidance for Pension Plan members will provide optimized combinations of any available Pension Plan benefit and any personally owned specific investment options across member directed tax-deferred or taxable accounts.
- F. 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 provider hired to do so by the Board.

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

- A. The Board will select 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 benefits, 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 segmented into tiers, with each designed to meet the varying needs of different members as shown in IPS-Table 1. The Investment Plan investment options are contained in IPS-Table 2. The default option for members that fail to make a selection of investment options shall be the Retirement Date Fund (RDF) that matches the year closest to the year each individual member reaches the normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statutes. The investment options can be constructed under a multiple manager framework of two or more investment managers, however, the number of investment options shall not exceed the “Maximum Number of Options” listed in IPS-Table 2 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 Categories**

Tier	Philosophy
Tier I- Asset Allocation-Target Date Funds	Allow members to choose a diversified investment portfolio that best fits their career time horizon until anticipated retirement date. TDFs seek growth of assets in earlier years of employment and gradually shift to income oriented options at retirement. Designed for members with little investment knowledge who want a professionally managed asset allocation with little input from the member. These options will be comprised of underlying investments in the Investment Plan’s Tier II and Tier III Core Options.
Tier II- Passively-Managed Core Options	Allow members who wish some control over major investment category shifts to create their own portfolios based on broad, low-cost index funds that best fit their time horizon, risk tolerance and investment goals.
Tier III- Actively –Managed Core Options	Allow members who wish more control over all key investment allocation decisions to create their own portfolios based on investment options from active managers who seek returns above a performance benchmark and that members believe best fit their time horizon, risk tolerance and investment goals.
Tier IV- Retirement Annuity Options	Allow members leaving FRS employment a means by which they can create an income stream of their accumulated assets that can last over their remaining lifetimes.
Tier V- Self Directed Brokerage Account	Allows members interested in investments outside of Tiers I, II and III the opportunity to invest in a broad array of mutual funds, stocks, US Treasuries and other investment alternatives based on their time horizon, risk tolerance, investment goals and/or preferences.

**IPS-Table 2: Authorized Investment Options Representative Performance Benchmarks, Retiree Annuities and Self Directed Brokerage Account**

Investment Option Categories	Maximum Number of Options	Representative Performance Benchmarks
<b>Tier I: Target Date Funds</b>		
A series of asset allocation funds structured in 5-year increments along a “glidepath” as demonstrated in IPS Chart 1 below.	10	Weighted Average of each Constituent Fund’s Benchmarks

<b>Tier II: Passively Managed Core Options</b>		
Enhanced U.S. Bond Index Fund	1	Bloomberg Barclays Aggregate Bond Index
Stock Market Index Fund	1	Russell 3000 Index
Foreign Stock Index Fund	1	MSCI All Country World Index ex U.S. IMI Index

<b>Tier III: Actively-Managed Core Options</b>		
Money Market Fund	1	iMoneyNet Money Funds Index(Net of Fees)
Inflation Sensitive Fund	1	Custom Multi-Asset Benchmark
Core Plus Bond Fund	1	Bloomberg Barclays Aggregate Bond Index
US Stock Fund	1	Russell 3000 Index
Foreign Stock Fund	1	MSCI All Country World Index ex US Index
Global Stock Fund	1	MSCI All Country World 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 & CIO
<b>Tier V: Self-Directed Brokerage Account</b>	Not Applicable	Not applicable

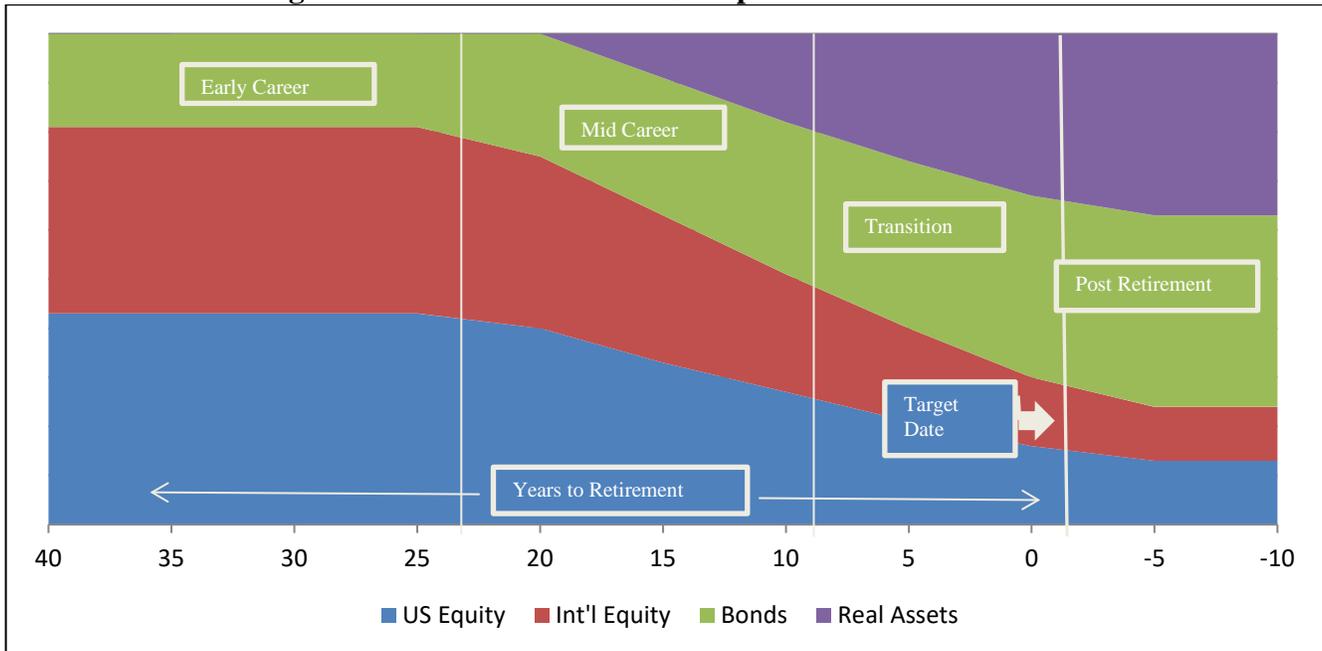
- B. Investment options and investment products (i.e., that support Investment Funds that are composed of an aggregate of one or more investment products) may be provided by investment managers or bundled providers. Pursuant to Section 121.4501(9)(a), Florida Statutes, the Board shall select one or more 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 2, 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. Retirement Date Funds are only available as a weighted average of Tier II and III options. The Board shall establish procedures for initiating rebalancings per approved investment guidelines.
- E. With IAC review and input, the Executive Director & CIO shall periodically recommend changes to the authorized investment option categories in IPS-Tables 1 and 2, 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 & CIO 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 Retirement Date Funds are diversified portfolios designed to provide members with professionally managed investment vehicles that can grow assets over their career. The funds seek favorable long-term returns through investments in the Tier II and III Options according to the “glide path” allocation levels identified in IPS-Chart 1. Asset allocations will generally be held within a Current Operating Range (COR) of plus or minus 2% of their respective allocation target, but short-term deviations may occur. Optimized asset allocations for the Retirement Date Funds shall be established using methodology consistent with the guidance rendered by the Investment Plan’s investment consultant.

**IPS-Chart 1: Target Date Investment Funds Glidepath**



2) 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.

3) 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.

4) The U.S. 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.

5) 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.

6) The Inflation Sensitive Fund seeks long-term real returns to preserve the future purchasing power of accumulated member benefits. The fund will be actively managed and will primarily invest in a diversified array of assets that may act as a hedge against inflationary pressures including, but not limited to, U.S. Treasury's inflation-indexed securities, commodities, real estate investment trusts, commercial real estate and other securities. The fund's sensitivity to interest rate changes and inflation will closely approximate that of the performance benchmark.

7) The Global Stock fund seeks capital appreciation and current income. The fund may be passively or actively managed and will primarily invest in equities contained in the benchmark, including equities domiciled in the United States, other developed and emerging economies although other securities which fit the funds' objectives may be selectively used to generate excess returns.

8) 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 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(8)(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(8)(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.

9) The annuity option offered in Tier IV must be provided by a provider with high independent ratings for financial strength and stability. Tier IV options may include immediate annuities with combinations of some of the following features:

- a) Single 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 & CIO 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 & CIO 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 & CIO deems appropriate. The mapping factors that will be 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 the Investment Plan from the Pension Plan 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 & CIO 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 & CIO 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 & CIO 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 & CIO 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 & CIO 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 & CIO 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.
- G. The Executive Director & CIO 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.
- H. The Executive Director & CIO 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.
- I. The Executive Director & CIO 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.
- J. The Executive Director & CIO 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.
- K. The Executive Director & CIO 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.

- L. The Executive Director & CIO 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 & CIO 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 July 1, 2020.