CITY OF SANTA CLARA

REVIEW OF FOREIGN SECURITIES IN THE SELF-DIRECTED BROKERAGE ACCOUNT

457(b) DEFERRED COMPENSATION PLAN

SUMMARY

The Committee recently approved the addition of options within the self-directed brokerage account (SDBA) and has requested a brief document considering the pros and cons of allowing the use of foreign securities in order to support informed decision making. This document explores the potential advantages and disadvantages of adding these securities to the SDBA, along with another consideration of participant education.

FOREIGN SECURITIES

Foreign securities are accessible to participants in several ways; American Depositary Receipts (ADRs) or through direct investment. ADRs are a simplified route for US investors to hold foreign securities as they trade on US stock exchanges, like the NYSE or NASDAQ. Crucially, ADRs are denominated in US dollars, trade during US market hours, and pay any dividends in US dollars. Direct investment involves participants purchasing individual stocks or bonds through the SDBA provider on foreign stock exchanges. By allowing participants to access domestic equity markets, they currently have access to ADRs. The below table outlines the pros and cons specifically in relation to allowing participants access to direct investing.

Description	Pro (+) or Con (-)	Primary Advantage/Disadvantage for Participants
Diversification	+	Reduces portfolio dependance on the US economy alone; provides access to different industries/sectors; potentially lowers overall portfolio volatility due to imperfect correlation with US assets.
Access to Global Growth	+	Opportunity to invest in economies potentially growing faster than the US; broadens the investment universe beyond US-only companies.
Potential Currency Benefit	+	Possibility of enhanced returns if the US dollar weakens relative to the foreign currency of the investment.
Currency Risk	-	Fluctuations in exchange rates negatively impacting the USD value of investments and returns. Complexity in understanding and predicting currency movements.
Political/Economic	-	Instability, policy changes, nationalization, capital controls, economic downturns, or sovereign debt in the host country harming investment value. Higher risk in emerging markets.
Regulatory/Legal	-	Differing accounting/disclosure standards hindering analysis. Unexpected regulatory changes. Difficulty in seeking legal remedies against foreign entities.
Market/Liquidity	-	Lower trading volumes making it difficult to buy or sell without impacting price. Different market operating hours and procedures adding complexity.

PARTICIPANT EDUCATION

If the committee approves foreign securities, a robust and targeted educational program is essential. Participants would need clear, accessible information covering: the nature of foreign securities; a detailed explanation of specific risks (regulatory, liquidity, etc.); examples of how exchange rates can impact returns, reinforcement of key investment principles like diversification, asset allocation, and understanding one's own risk tolerance. As part of their fiduciary duty, the Committee should also consider the overall financial literacy, investment experience, and retirement planning needs of the participant base when weighing whether to add foreign securities to the SDBA.

CONCLUSION

The decision to permit foreign securities within the SDBA involves a careful trade-off. It pits the desire to offer maximum investment flexibility and cater to potentially sophisticated participants against the introduction of unique risks and heightened participants education needs. A prudent decision requires careful consideration of the participant population's needs and capabilities along with the tangible benefits when compared to existing options.

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Performance data quoted is historical. Past performance does not guarantee future results. Current performance may be higher or lower than the performance quoted. You can obtain performance data current to the most recent month-end for each fund by visiting the fund company website. The investment return and principal value of an investment will fluctuate such that an investor's shares, when redeemed, may be worth more or less than their original cost. Total returns include reinvestment of dividends and capital gains and are net of all fund fees and expenses.

Performance figures are based on Net Asset Value (NAV) within a qualified retirement plan. If an individual were to purchase shares outside of a qualified plan, they would likely be subject to all, or a portion of, any applicable sales charges. These charges would lower the performance indicated above.

The returns on a portfolio consisting primarily of Environmental, Social and Governance ("ESG") aware investments may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. Diversification does not guarantee a profit or protect against loss in a declining financial market.

Each fund's performance may, from time to time, have been affected significantly by material market and economic conditions, including interest rates, market trends, and general business and economic cycles, which may or may not be repeated in the future. Also, keep in mind that any double-digit returns are highly unusual and cannot be sustained. Such returns are primarily achieved during favorable market conditions.

Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment. The indices selected by Hyas Group to measure performance are representative of broad asset classes. Hyas Group retains the right to change representative indices at any time. Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment a client selects. Past performance does not guarantee future results.

The "Investment Policy Statement Compliance Report" indicates funds that are on the Plan's Watch List, as based on investment monitoring criteria which is provided to Hyas Group by the plan sponsor. The plan sponsor should inform its Hyas Group Consultant of any changes to the plan's investment policy.

Fund data provided by Morningstar.

Peer Groups. Peer Groups are a collection of similar investment strategies that essentially group investment products that share the same investment approach. Peer Groups are used for comparison purposes to compare and illustrate a clients investment portfolio versus its peer across various quantitative metrics like performance and risk. Peer Group comparison is conceptually another form of benchmark comparison whereby the actual investment can be ranked versus its peer across various quantitative metrics.

Peer Group Ranking Methodology. A percentile rank denotes the value of a product in which a certain percent of observations falls within a peer group. The range of percentile rankings is between 1 and 100, where 1 represents a high statistical value and 100 represents a low statistical value. The 30th percentile, for example, is the value in which 30% of the highest observations may be found, the 65th percentile is the value in which 65% of the highest observations may be found, and so on.

Percentile rankings are calculated based on a normalized distribution ranging from 1 to 100 for all products in each peer group, where a ranking of 1 denotes a high statistical value and a ranking of 100 denotes a low statistical value. It is important to note that the same ranking methodology applies to all statistics, implying that a ranking of 1 will always mean highest value across all statistics.

For example, consider a risk/return assessment using standard deviation as a measure of risk. A percentile ranking equal to 1 for return denotes highest return, whereas a percentile ranking of 1 for standard deviation denotes highest risk among peers.

In addition, values may be used to demonstrate quartile rankings. For example, the third quartile is also known as the 75th percentile, and the median is the 50th percentile.