

# **INVESTMENT POLICY STATEMENT**

**For**

**City of Santa Clara  
457 Deferred Compensation Plan**

Approved February 2025

## **TABLE OF CONTENTS**

<b>BASIC INFORMATION</b>	<b>2</b>
Purpose of this Policy	2
Policy Objectives	3
<b>RESPONSIBILITIES</b>	<b>3</b>
Delegation of Authority by the Committee	4
Responsibility of Participants	5
<b>INVESTMENT POLICIES AND GUIDELINES</b>	<b>5</b>
Core Investment Options	5
Selection of Options/Funds	10
Risk Tolerances	10
Performance Expectations	11
Watch List and Fund Termination	11
Qualitative Factors	11
Quantitative Factors	12
Performance Objectives and Review	12
Monitoring Conflicts of Interest and Costs	13
<b>ADOPTION OF THE INVESTMENT POLICY</b>	<b>14</b>

## BASIC INFORMATION OF THE PLAN

This investment policy applies on February 13, 2025 to the City of Santa Clara Deferred Compensation Plan ("Plan") that was adopted on January 21, 1975 by the City of Santa Clara, acting by and through its Deferred Compensation Committee ("Committee"). The Plan is a voluntary, salary deferral retirement plan qualified under Internal Revenue Code Section 457 as amended available to eligible City of Santa Clara employees who are interested in saving for retirement on a tax-deferred basis. The Plan's main purpose is to provide a vehicle for and to encourage additional retirement savings to supplement the retirement benefits provided by the City to its employees.

### General Compliance

The Plan is designed in accordance with the requirements of Section 457 of the Internal Revenue Code of 1986, as amended. Though the Employee Retirement Income Security Act (ERISA) does not apply directly to the Plan, the Committee nevertheless intends to structure the Plan to contain certain features of a "404(c) Plan" within the meaning of the Department of Labor regulations under Section 404(c) of ERISA. The Plan participants will be solely responsible for the investment decisions and investment transactions that they make under these Plan as well as for electing the timing and form of distributions according to the terms of the Plan.

In keeping with the statutory framework of the Department of Labor regulations under ERISA Section 404(c), the Committee aims, within its available resources, to provide Plan participants with the following opportunities to:

1. Choose from a minimum of three diverse investment categories, each with materially different risk and return characteristics. At least one of the categories will provide for a high degree of safety and capital preservation;
2. Make investment decisions at least quarterly; and
3. Receive or have access to the following information, as updated and as made available by the Recordkeeper:
  - A description of the investment options available under the Plan including a general description of the investment objectives, risk and return characteristics, and type and diversification of assets comprising each alternative;
  - Identification of the designated investment providers and investment options;
  - A description and detailed listing of any transaction fees or expenses charged to the participant's account and information on costs and fees for an investment option that reduce the rate of return to participants (expense ratios); and

- Prospectuses, annual reports, and semi-annual reports on each investment option, if available.

The purpose of this Investment Policy Statement (IPS) is to establish prudent guidelines for the Committee to select, monitor and evaluate the investment options in the Plan. The IPS defines responsibilities of various parties with respect to the investment program for the Plan and provides a sufficiently specific, reasonably flexible framework for the management of investment options for the Plan participants.

### *Policy Objectives*

The overall objective of this policy is to establish an investment environment that meets a diverse set of financial needs of the Plan's participants.

Within this overall objective, the Committee has identified the following additional objectives:

1. To maintain efficient plan operation with competitive cost structures of investment options.
2. To provide an appropriate range of investment options recognizing the different financial objectives, risk and return tolerance and diverse demographics of participants. At least one of the options will provide for a high degree of safety and capital preservation.
3. To provide opportunities to supplement participants' future retirement needs.
4. To enable participants to exercise investment control.

Although the investment policies reflect current and foreseeable economic and market conditions, as well as any applicable accounting and statutory requirements, it is intended that the IPS be annually reviewed and updated as necessary and made available to participants upon request.

### RESPONSIBILITIES

The Plan is administered by the Committee. Members of the Committee are appointed by the City Manager or by Memoranda of Understanding. The Committee has the authority to select and monitor the investment options of the Plan. The Committee is responsible for the prudent administration of this Investment Policy with specific responsibilities that include: design of the Plan's investment options; establishment of investment policy objectives and guidelines; selection of fund managers; and ongoing monitoring. The Committee may contract with a consultant to assist in these responsibilities.

The Committee or its assignee makes no representations, promises, or warranties about the performance of the Plan or the Plan's investments. Additionally, the Committee or its assignee makes no representations, promises or warranties regarding the suitability of Plan participation for any participant's individual investment or retirement needs.

Committee members will be required to complete Form 700 Conflict of Interest statement.

### *Delegation of Responsibility by the Committee*

Each member of the Committee is a fiduciary. The Committee is responsible for providing the investment framework and monitoring the investment management of the Plan. As such, the Committee is authorized to delegate certain responsibilities to professional experts in various fields. These may include, but shall not be limited to:

1. Investment Management Consultant (Consultant). A Consultant may be retained to assist the Committee in: establishing investment policy, objectives, and guidelines; measuring and evaluating investment performance; and other tasks as deemed appropriate. Such Consultant must be registered with either state or federal securities regulators pursuant to the Investment Advisors Act of 1940 and have proven experience of managing deferred compensation plans of similar size. The Committee, with the assistance of the consultant, shall monitor and review the degree to which each investment option achieves the objectives for which it was selected. The Consultant is a co-fiduciary of the Plan. Services of the Consultant will be set forth in one or more separate agreements.
2. Plan Recordkeeper. The Recordkeeper will track individual participant balances and process participant contributions, disbursements, and transfers. The Recordkeeper will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plan, collect dividends and interest payments, effect receipt and delivery following purchases and sales, and redeem maturing securities. The Recordkeeper will reconcile participant balances with trust account balances to maintain alignment. The Recordkeeper may perform testing and produce management reports that ensure Plan compliance with all laws and regulations. The Recordkeeper may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan's accounts. The Recordkeeper will also furnish participants with necessary investment information such as fact sheets, prospectus and such.
3. Additional specialists such as attorneys, auditors, actuaries, and others may be contracted by the Committee to assist in meeting its responsibilities and obligations to administer plan assets prudently.

4. An Investment sub-committee or other sub-committees may be appointed within the Committee (in accordance with the Plan Document) to assist the Committee in meeting its responsibilities and obligations to administer Plan assets prudently.

If such experts are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be reasonable, and may be borne by the Plan as deemed appropriate and necessary.

### *Responsibility of Participants*

Participants in the Plan are solely responsible for their own investment decisions and bear the risks and assume responsibility for the results of the investment options that they select. Each participant is encouraged to acquire adequate knowledge in selecting an appropriate investment portfolio from the Plan's investment options that suits his or her unique financial parameters such as time horizon, risk tolerance, return expectation, and asset class preferences.

## INVESTMENT POLICIES AND GUIDELINES

It is the policy of the Plan to foster an investment environment that encourages and facilitates participant efforts to supplement other sources of retirement income. The Plan will be structured to provide Plan participants with an array of investment options with an objective of selecting appropriate investment mix. The Committee will review the Policy at least annually to ensure compliance with prevailing federal and state laws and make changes as necessary.

### *Core Investment Categories*

The Plan's objective is to provide alternatives within each of the core investment categories whenever possible to allow reasonable portfolio diversification and individual selection. Investment options offered by the Plan will be categorized by similarities in investment objectives, style and risk. All funds within the selected categories must have readily ascertainable market values and marketable. Funds with deferred sales charges and/or market value adjustments will not be permitted (general account investments however may entail market value adjustments). The Plan will assist participants in meeting their long-term investment objectives by providing investment options within the following permitted investment categories:

- Domestic Large Cap Value
- Domestic Large Cap Blend
- Domestic Large Cap Growth
- Domestic Mid Cap Value
- Domestic Mid Cap Blend
- Domestic Mid Cap Growth

- Domestic Small Cap Value
- Domestic Small Cap Blend
- Domestic Small Cap Growth
- Target Date Options
- International Value
- International Blend
- International Growth
- Capital Preservation
- Total Return Bond
- High Yield Bond
- Self-Directed Brokerage

<b>Target Date Portfolio - Retirement Income</b>	
Provide different levels of income and capital growth dependent upon an individual participant's specific risk tolerance and income needs. The portfolio will be well diversified including U.S. fixed income securities as well as U.S. and international equities. Stocks generally will comprise not more than 30% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the fund.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Group:</b>	US Retirement Income

<b>Target Date Portfolio –2025, 2030</b>	
Provide different levels of income and capital growth dependent upon an individual participant's specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. fixed income securities, and U.S. and international equities. Stocks generally will comprise 45%-65% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the fund.	
<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2025, US Target Date 2030

**Target Date Portfolio – 2035, 2040, 2045, 2050, 2055, 2060, 2065, 2070**

Provide different levels of income and capital growth dependent upon an individual participant's specific target retirement or withdrawal date. Portfolios provide different allocations to stocks and bonds dependent upon the target retirement or withdrawal date that is selected. The portfolio will be well diversified including U.S. fixed income securities, and U.S. and international equities. Stocks generally will comprise 65%-95% of the total portfolio. The percentage of international equities generally will not exceed 50% of the equity portion of the fund.

<b>Benchmark Index:</b>	Custom Blended Index
<b>Peer Groups:</b>	US Target Date 2035, US Target Date 2040, US Target Date 2045, US Target Date 2050, US Target Date 2055, US Target Date 2060, US Target Date 2065+

**Capital Preservation/Stable Value**

Provide high current income relative to cash investments and a high degree of investment safety without fluctuation of principal. Investment returns are derived primarily from interest income. A Fixed or General Account option, which is a fixed rate contract that is backed by an insurance company's balance sheet, is to be of mid-investment-grade rating or higher, and backed by a diversified pool of underlying investments. A stable value option will be invested in guaranteed investment contracts (GICs), "synthetic" portfolios, money market instruments, and others, each mainly comprised of investments of short- to intermediate maturity, and which provide for an adequate degree of liquidity. The weighted-average maturity is expected to remain between two and five years at most times. The overall weighted credit-quality rating of the option shall be the equivalent of mid-investment-grade rating or higher. The rating must be obtained from at least one credit rating agency such as Moody, S&P or Duff & Phelps. If the option's weighted rating declines below this level, the option will be evaluated for corrective action.

<b>Benchmark Indexes:</b>	5 Year Constant Maturity (CM) US Treasury, 90-Day US Treasury Bill
<b>Peer Group:</b>	Not Applicable



<b>Total Return Bond</b>	
<p>Provide capital appreciation and income through a diversified fixed income portfolio. The portfolio's duration is expected to be comparable to that of its Benchmark Index, with some bandwidth allowed for the manager to exercise strategic deviation from the Benchmark. Average credit quality is expected to be investment grade. The fixed income portfolio will normally be primarily comprised of investments including money market instruments, U.S. Government and Agency bonds, mortgage-backed securities, corporate bonds, and others. The manager will be given discretion to hold securities that are not contained within the Benchmark Index, which may include Foreign Bonds, High Yield Bonds, Convertibles, Treasury Inflation Protected Securities, derivatives, and others. The portfolio's aggregated composition and risk and return characteristics however are expected to be reflective of its asset class.</p>	
<b>Benchmark Index:</b>	Bloomberg US Aggregate Bond Index
<b>Peer Group:</b>	US Intermediate-Term Core Bond
<b>High Yield Bond</b>	
<p>Provide high current income and capital appreciation through a diversified, actively-managed portfolio of non-investment grade high yield securities. The manager will be given discretion to hold securities that are not contained within the Benchmark Index, which may include Foreign Bonds, Investment Grade Bonds, Convertibles, derivatives, and others. The portfolio's aggregated composition and risk and return characteristics however are expected to be reflective of its asset class.</p>	
<b>Benchmark Index:</b>	Bloomberg US Corporate High Yield Index
<b>Peer Group:</b>	US High Yield
<b>U.S. Large Company Equity</b>	
<p>Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Large Cap by an industry standard data provider (primarily Morningstar). Stocks of foreign companies that are traded in the U.S. may also be included, but are expected to constitute a minority portion of the portfolio.</p>	
<b>Benchmark Indexes:</b>	S&P 500 Index, Russell 1000 Growth Index, Russell 1000 Value Index
<b>Peer Groups:</b>	US Large Blend, US Large Growth, US Large Value

<b>U.S. Mid-Size Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Mid Cap by an industry standard data provider (primarily Morningstar). Stocks of foreign companies may also be included, but are expected to constitute a minority portion of the portfolio.	
<b>Benchmark Indexes:</b>	Russell US MC Index, Russell MC Growth Index, Russell MC Value Index
<b>Peer Groups:</b>	US Mid Blend, US Mid Growth, US Mid Value

<b>U.S. Small Company Equity</b>	
Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Small Cap by an industry standard data provider (primarily Morningstar). Stocks of foreign companies may also be included, but are expected to constitute a minority portion of the portfolio.	
<b>Benchmark Indexes:</b>	Russell 2000 Index, Custom Blended Small Cap Growth Index, Russell 2000 Value Index
<b>Peer Groups:</b>	US Small Blend, US Small Growth, US Small Value

<b>International Equity</b>	
Provide long-term capital appreciation through a diversified portfolio of international equities. Stocks of emerging countries may be used at the discretion of the manager, but are expected to constitute a minority portion of the portfolio at most times. However, the Plan Administrator may add an investment option dedicated to emerging markets if they feel doing so is in the best interest of participants.	
<b>Benchmark Indexes:</b>	MSCI ACWI ex-US IMI (net), MSCI AC World ex-USA Growth (net), MSCI AC World ex-USA Value (net)
<b>Peer Groups:</b>	US Foreign Blend, US Foreign Growth, US Foreign Value

### **Self-Directed Brokerage (SDB)**

For Plan participants who consider themselves to be knowledgeable about investment principles, the Plan may offer a brokerage account option. Such option may be provided through one or more broker-dealers, as defined and regulated by the National Association of Securities Dealers, Securities Exchange Committee or State Securities Departments. Assets held in an SDB will be maintained in the name of the Plan Trustee or custodian for the benefit of the participant who established the account. Permissible investments for an SDB may include registered mutual funds and other securities permitted under State law. Futures and options are not permitted. It is the SDB account holder's responsibility to adhere to these and any other restrictions placed on him or her by the Committee, broker-dealer or regulatory body. It is also the account holder's responsibility not to engage in transactions prohibited by statute or any regulatory entity. Investment options available through the SDB may contain additional risks and are not monitored by the Committee. The Committee may further restrict permissible investments available in the SDB. Each SDB account holder will be responsible for his or her own commissions, fees or loads applicable to individual securities or mutual fund transactions for the account.

<b>Benchmark Index:</b>	Not Applicable
<b>Peer Group:</b>	Not Applicable

At least one investment option shall be available within each investment category. The Committee may add, delete or replace a particular style or options based on selection and performance criteria. The Committee will monitor each fund's performance, risk measures, management style, investment objectives and investment expenses at least annually. The following tables provide the description, peer group, and performance index for the Core Investment Categories.

### **Selection of Options/Funds**

All prospective options and funds must meet the following criteria before being considered by the Committee:

- The fund should have a minimum history of 5 years, and
- The fund should perform, net of fees, within the upper half of its peer group in the preceding 5 years or outperform an applicable market index.

### **Risk Tolerances**

To achieve long-term investment objectives, some risk must be assumed. Because the degree of risk tolerance varies among participants, the Committee has made a conscious decision to have a broad array of investment choices that provide different

levels of risk and return. Plan participants are free to choose from various options to reflect the degree of their risk tolerance. To safeguard and preserve the assets of participants, the Plan will try to avoid funds that are highly speculative and risky.

### *Performance Expectations*

Investment options should generally be given a full market cycle (normally over 5-year time periods) to achieve stated objectives. Over time, active investment options are expected to perform, net of fees, above the median of the category of portfolios of similar style or a performance benchmark of the same investment style. Index funds are expected to track their stated benchmark with minor tracking error. The Committee will consider the effect of extenuating circumstances such as manager changes in performance evaluation.

### *Watch List and Fund Termination*

Generally, all investment options are expected to remain true to their stated investment objectives and perform as well as or better than their prescribed performance benchmarks, net of fees.

A fund may be placed on watch when it fails to meet the criteria under "Performance Expectations" for two consecutive quarters.

The following are qualitative factors that may be considered in determining whether a manager should be placed on the "Watch List" or terminated.

### *Qualitative Factors*

<b>Factor</b>	<b>Evaluation Technique</b>	<b>Action Steps</b>
Deviation from stated investment style and philosophy	Style analysis-returns based style analysis and portfolio analysis	Place on Watch List. Monitor for ongoing appropriateness with policy. Terminate if no longer consistent with plan objectives.
Changes in ownership	Evaluate any pending changes in ownership and impact on product	Place on Watch List. Determine if change may detrimentally affect asset performance. If so, terminate.
Turnover of key personnel	Evaluate personnel change	Place on Watch List. Consider termination for key personnel turnover on the account.
Litigation or Regulatory Investigation	Evaluate	Place on Watch List. Evaluate nature, seriousness and likely impact of charges on the investment process and

		performance. Take appropriate action.
--	--	---------------------------------------

### *Quantitative Factors*

<b>Performance Test</b>	<b>Benchmark</b>	<b>Fail Criteria</b>	<b>Action Steps*</b>
Risk adjusted returns over 5 years	Sharpe Ratio relative to peer group	Below median	Place on Watch List or possibly terminate if under performance is not explained by strategy or sub-style. Review detailed quarterly quantitative analysis until termination or removal from Watch List.
Peer group comparison	Performance relative to peer group	Below median: Consecutive two quarters, or four quarters in a rolling three-year period	Place on Watch List or possibly terminate if under performance is not explained by strategy or sub-style. Review detailed quarterly quantitative analysis until termination or removal from Watch List.
Consistency of returns	Rolling 3 year returns relative to peer group  Annual returns relative to peer group for past three full calendar years	More than 50% of periods below median	Place on Watch List or possibly terminate if under performance is not explained by strategy or sub-style. Review detailed quarterly quantitative analysis until termination or removal from Watch List.

*\*To be considered if a fund is already in violation of the criteria under "Performance Expectations".*

### *Performance Objectives and Review*

Investment performance will be reviewed quarterly or, at a minimum, semi-annually, to determine the continued feasibility of achieving the investment objectives and the continued appropriateness of the IPS for achieving those objectives.

At the Committee's periodic meetings, the Committee will consider:

- Material changes in the manager's organization, investment philosophy and/or personnel;
- A fund manager's consistency with his/her investment style as expressed in the IPS;
- Comparisons of the manager's results to appropriate indices, as established in this document;
- The risk associated with each manager's portfolio, as measured by the variability of quarterly returns (standard deviation) and systematic risk (beta), compared with the benchmark index;
- The manager's performance relative to his/her peers; and the manager's risk-adjusted performance (as measured by the Sharpe ratio) or significant events listed below may warrant immediate review or at the next periodic meeting. These include, but are not necessarily limited to, the following events:
  - Change of fund ownership
  - Change of fund manager
  - Change of investment philosophy/style
  - Change in expense ratio and return
  - Probable and significant negative market value change

The performance of the Plan's investment options will be monitored on an ongoing basis. The Committee will exercise its prerogative to take corrective action by replacing a manager at the appropriate time.

### *Monitoring Conflicts of Interest and Costs*

The Committee will review the service contracts and costs associated with the Plan on an annual basis. Areas to be reviewed include:

- Asset Management: The active management of the fund.
- Custody: The holding of the assets, collection of the income and disbursement of payments.
- Administrative Functions: Administration of the Plan, including recordkeeping, account settlement (participant balance with that of fund), and allocation of assets and earnings.

ADOPTION OF INVESTMENT POLICY FOR THE 457 DEFERRED COMPENSATION PLAN

This policy is hereby adopted by action of the Committee at its public meeting in February 2025.

***City of Santa Clara***  
***457 Deferred Compensation Plan***

Attest:

\_\_\_\_\_  
Plan Administrator

\_\_\_\_\_  
Date

\_\_\_\_\_  
Deferred Compensation Committee Chair

\_\_\_\_\_  
Date