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DATE: March 21, 2013

TO: SJVUAPCD Governing Board

FROM: Seyed Sadredin, Executive Director/APCO
Project Coordinator: Cindi Hamm

RE: **ITEM NUMBER 20: APPROVE CHANGE TO DEFERRED COMPENSATION PLAN INVESTMENT POLICY STATEMENT TO INCREASE THE DEFERRED COMPENSATION COMMITTEE MEMBERSHIP**

RECOMMENDATION:

Approve changing the District's Deferred Compensation Plan Investment Policy Statement to increase the Deferred Compensation Committee Membership to include two non-management members.

BACKGROUND:

The District established the San Joaquin Valley Unified Air Pollution Control District Deferred Compensation Plan (Plan) in March of 1992. The Plan was established as a qualified retirement plan in compliance with Section 457 of the Internal Revenue Code. Eligible employees can voluntarily save a portion of their salary, tax deferred, to enhance their retirement income.

The District has an Administrative Services Agreement with Massachusetts Mutual Life Insurance Company (MassMutual), formerly the Hartford Life Insurance Company, for holding and investing plan assets in accordance with the trust agreement and for maintaining and updating individual account balances as well as providing information regarding plan contributions, withdrawals and distributions.

The Employee Retirement Income Security Act of 1974 (ERISA) holds entities having authority or responsibility for a plan subject to certain fiduciary responsibilities which include: managing a plan solely in the best interests of participants; diversifying the plan's investments in order to help protect against large losses; avoiding conflicts of interest and ensuring the plan is administered consistent with ERISA.

The Districts Investment Policy Statement (Policy) assists the District in performing its fiduciary responsibilities. The Policy establishes the Deferred Compensation Committee and outlines the underlying framework and processes for selecting, monitoring and evaluating the investment options and investment managers utilized by the Plan. It also establishes criteria for evaluating the Plan Provider.

DISCUSSION:

The Policy directs that the Plan is overseen by the Deferred Compensation Committee that meets at least semi-annually and more often as necessary. The Deputy Air Pollution Control Officer or designee acts as Chair of the Committee and the Director of Administrative Services or designee acts as Secretary.

The objectives set out for the Deferred Compensation Committee include insuring that the Plan: provides a diverse range of investment options; obtains investment options at a reasonable cost and controls overall investment related service costs; establishes investment performance standards; establishes formal criteria to monitor and evaluate investment performance by; and establishes a process to review and modify the Investment Policy Statement.

The Committee currently consists of the following members:

1. Deputy Air Pollution Control Officer or his/her designee
2. Director of Personnel or his/her designee
3. Director of Administrative Services or his/her designee
4. District Counsel or his/her designee
5. Manager to be appointed by the Executive Director/APCO

To increase Committee diversification, the Committee recommends increasing its membership to include two non-management members to be appointed by the APCO.

FISCAL IMPACT:

There is no fiscal impact to this action.

Attachment: SJVAPCD Investment Policy Statement for 457 Deferred Compensation Plan (7 pages)

San Joaquin Valley Unified Air Pollution Control District
Meeting of the Governing Board
March 21, 2013

**APPROVE CHANGE TO DEFERRED COMPENSATION PLAN INVESTMENT
POLICY STATEMENT TO INCREASE THE DEFERRED COMPENSATION
COMMITTEE MEMBERSHIP**

Attachment:

**SJVAPCD Investment Policy Statement For 457 Deferred Compensation
Plan**

(7 PAGES)

San Joaquin Valley Air Pollution Control District Investment Policy Statement For 457 Deferred Compensation Plan

SECTION I.

INTRODUCTION

The San Joaquin Valley Air Pollution Control District (District) sponsors a 457(b) Deferred Compensation Plan (The Plan) for the exclusive benefit of its employees and their beneficiaries. Eligible employees are able to enroll in the Plan for the purpose of saving a portion of their salary, tax-deferred, to enhance their retirement income. The Plan complies with the Internal Revenue Code and other applicable laws and regulations. Participation in the Plan is voluntary.

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that reasonably span the risk/return spectrum. Participants and beneficiaries alone bear the risk of investment results from the investment options and asset mixes that they select.

The investment options or, "funds", available will be determined by the District's Deferred Compensation Committee and may be changed as a result of periodic reviews.

PURPOSE OF THE INVESTMENT POLICY STATEMENT

This Investment Policy Statement is intended to assist the District in satisfying its fiduciary responsibilities regarding the prudent selection of investment options available for the benefit of plan participants and their beneficiaries. It outlines the underlying framework and processes for selecting, monitoring and evaluating the investment options and investment managers utilized by the Plan.

PLAN OBJECTIVES

The Plan objectives are as follows:

- The Plan seeks to provide a diverse range of investment options recognizing the differing financial objectives, investment horizons, risk and return tolerance and diverse demographics of participants.

- The Plan will obtain investment options at a reasonable cost and control overall investment related service costs.
- The Plan will establish investment objectives and standards for the investment options offered to assure that the assets are managed in accordance with the Investment Policy Statement.
- The Plan will establish formal criteria to monitor and evaluate the performance results achieved by investment managers and address investment managers that fail to satisfy established objectives.
- The Plan will provide a formal process for reviewing and modifying the Investment Policy Statement.
- The Plan shall meet the fiduciary responsibility of the deferred compensation program.

This Investment Policy Statement will be reviewed at least every two years, and, if appropriate, can be amended to reflect changes in the capital markets, regulations affecting plan design, plan participant objectives, or other factors relevant to the Plan.

DEFERRED COMPENSATION COMMITTEE

The District's Deferred Compensation Plan is overseen by the Deferred Compensation Committee. The Committee consists of the following ~~seven~~^{five} members:

1. Deputy Air Pollution Control Officer or his/her designee
2. Director of Personnel or his/her designee
3. Director of Administrative Services or his/her designee
4. District Counsel or his/her designee
- ~~5.~~ 6. Non-management employee appointed by the APCO
- ~~7.~~ 7. Non-management employee appointed by the APCO

The Deferred Compensation Committee will meet at least bi-annually. Additional meetings may be necessary to ensure appropriate management of plan assets and compliance with Plan guidelines. The Deputy Air Pollution Control Officer, or designee, will act as Chair of the committee and the Director of Administrative Services, or designee, will be the Secretary.

ROLES AND RESPONSIBILITIES

Those responsible for the management and administration of the Plan's investments include, but are not limited to:

- The District, which as the Plan Sponsor, is responsible for selecting the Plan Provider(s); hiring any investment advisory consultants; and appointing members of the Deferred Compensation Committee.

- The Plan's Provider, which is responsible for holding and investing plan assets in accordance with the terms of the Trust Agreement and for maintaining and updating individual account balances as well as providing information regarding plan contributions, withdrawals and distributions.
- The investment managers, which are responsible for making reasonable investment decisions consistent with the stated objectives and in accordance with the guidelines outlined in their respective Prospectus or Trust Agreement, and reporting investment results on a regular basis.
- The Deferred Compensation Committee, which is responsible for:
 - Establishing and maintaining the Investment Policy Statement.
 - Selecting sufficient investment alternatives with an array of risk/return profiles.
 - Periodically evaluating the Plan's investment performance and recommending investment option changes.
 - Ensuring compliance with Plan provisions and applicable laws.
 - Providing Plan participant investment education and communication.
 - Periodically evaluating the Plan Provider(s).
- Participants who are responsible for:
 - Deciding whether to participate in the Plan by electing to defer compensation.
 - Determining how much of their compensation to defer under the Plan each Plan year, subject to allowable limits.
 - Selecting where to invest personal deferrals.

SECTION II.

INVESTMENT OBJECTIVES

The Plan's investment options will be selected to:

- Maximize return within reasonable and prudent levels of risk.
- Provide returns comparable to returns for similar investment options.
- Provide exposure to a range of investment opportunities in various asset classes.
- Control administrative and management costs – including fees and expenses.
- Conform investment options to all applicable plan and investment requirements.

SELECTION OF INVESTMENT FUNDS

The Plan intends to provide an appropriate range of investment options that will span the risk/return spectrum. Further, the Plan's investment options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk.

Major asset classes offered will include, but are not limited to:

1. Equity (incorporating Large, Mid and Small Cap):
 - a. Index
 - b. Growth
 - c. Value
 - d. Blend
 - e. International/Global
 - f. Specialty
2. Asset Allocation/Balanced
3. Bond
4. Stable Value/Money Market

The following criteria will be used to determine the suitability of an investment option:

Performance Criteria

1. Investment option returns will be evaluated over a full market cycle, generally five to ten years in order to review a particular fund fully developed in terms of risk, return, and overall portfolio characteristics.
2. Shorter and longer-term performance information will also be evaluated in extenuating circumstances such as manager changes and to take into account the length of any extraordinary economic conditions.
3. Returns should meet or exceed those of the appropriate benchmark indices for the objective and style of the investment fund
4. Other investment performance measures will be reviewed to determine the suitability of an investment option. For example, the standard deviation, a statistical measurement of the spread of a fund's return over a specified period, may be used to compare the volatility of an investment option against a similar investment objective and style fund.
5. Investment options may also be evaluated on other criteria including, but not limited to, Morningstar fund ratings and performance relative to relevant economic indicators.

Administration Performance Criteria

1. Investment fund managers should have sufficient years of experience and significant assets under management.
2. All fees, commissions, and charges must be disclosed to the Deferred Compensation Committee and all participants.
3. Expense ratios will compare favorably to funds with similar objectives and styles.
4. The investment options will provide for daily valuation and trading.
5. The investment fund provider must be able to provide communication and reporting services as needed to monitor performance criteria.

SECTION III.

INVESTMENT MONITORING AND REPORTING

The Deferred Compensation Committee will provide, at least annually, a review to assess the continuing compliance of all of the Plan's investment options. The Deferred Compensation Committee may perform more frequent monitoring as necessary.

Annual reviews will be used to determine:

1. Whether performance remains within the standards established.
2. Whether the manager's investment style has remained consistent.
3. What changes in benchmarks and objectives have been made and the impact of these changes on future results and performance monitoring criteria.
4. Changes in the regulatory requirements that may necessitate changes in the monitoring criteria.

If an investment fund fails to meet the minimum standards of investment performance outlined, the Deferred Compensation Committee may take the following steps:

1. A fund that significantly underperforms may be placed under "Watch" for a one-year period. Factors that may cause a fund to be placed under Watch include:
 - a. Performance below the average of the peer group for a five-year period.
 - b. Performance below the average of the peer group for a ten-year period.
 - c. Performance below the appropriate benchmarks for a five-year period.
 - d. Performance below the appropriate benchmarks for a ten-year period.
 - e. Morningstar rating of 2 or below.
 - f. Extenuating circumstances (i.e., change in investment manager, change of sub-advisor, SEC violations, etc.).
2. The Deferred Compensation Committee will evaluate the standing of funds placed on Watch at least annually. Investment funds that do not show significant improvement in performance at the end of the one-year period will be considered for termination and replacement.

SECTION IV.

TERMINATION

Failure of a fund to improve unsatisfactory performance within a reasonable period will be grounds for termination. The Deferred Compensation Committee will ordinarily terminate an investment option if it fails to meet performance expectations after one-year under Watch status unless other extenuating circumstances are present.

Any recommendation to terminate an investment manager will be treated on an individual basis, and will include qualitative as well as quantitative data. In addition to those factors above, other factors may include professional or client turnover, or material change to investment processes. Considerable judgment can be exercised in the termination decision process.

1. After a fund is removed from the available investment options and is designated a *closed* or *frozen fund*, the participant will be able to move those balances to any other investment option available in the Plan.
2. The Deferred Compensation Committee will communicate to participants, funds placed on Watch and any funds designated as *closed* or *frozen*.
3. Continuing contributions allocated to a closed or frozen fund will be automatically allocated to the lowest cost fund in the same asset class within available investment options after the conversion or effective date of the designation until the participant contacts the Plan Provider to direct contributions otherwise. No new contributions or transfers will be accepted into a *closed* or *frozen fund* after the conversion or effective date. A replacement fund may be selected. In the event the provider does not offer another investment in the same asset class, the dropped fund will be transferred to the stable value fund (General Account with Hartford) of that provider.
4. The Deferred Compensation Committee will amend the Trust Agreement with Plan Provider each time any fund is added or removed from the list of investment options.

SECTION V.

PARTICIPANT EDUCATION AND COMMUNICATION

The Plan will provide for regular communication of investment and Plan information in addition to necessary updates to inform participants of changes to the Plan. Communication will be made through flyers and bulletins distributed internally or mailed to each participant's home. Additionally, information may be distributed in the form of electronic mail messages or through postings on the District's Intranet site.

The Plan Provider will provide prospectuses and annual reports for each of the investment options. This information will be provided to Participants when they enroll in an option for the first time, when there is a revision of the document and whenever a participant requests such documents. The Plan Provider will also provide participants with information on returns and risk information for one, three, five and ten-year periods.

Additional Plan information prepared by the Plan Provider may be distributed through electronic or postal mailings to participants directly from the Plan Provider or included with quarterly statements. The District and Deferred Compensation Committee will not provide investment advice to any participant or assist any participant in deciding how to

allocate contributions to the participants' Plan accounts. Only general investment and retirement saving education will be provided to assist participants in the selection and monitoring of their investment options.

The District and Deferred Compensation Committee shall not be responsible for any financial loss that may be incurred by any participant as a result of the participant's investment direction.

SECTION VI.

COORDINATION WITH THE PLAN DOCUMENT

This policy is not meant to interpret, extend or change the provisions of the Plan in any way. The provisions of the Plan may only be determined accurately by reading the actual Plan document. If any term or condition of this Investment Policy Statement conflicts with any term or condition in the Plan, the terms and conditions of the Plan shall control.

SECTION VII.

CHANGE IN LAW

If these procedures are inconsistent with a change in the law, regulations or rulings affecting retirement plans; the new law, regulations or rulings will control the operation of the plan.