

# **California ABLE Program Trust**

## **Statement of Investment Policy**

(November 20, 2017)

### **PROGRAM PURPOSE**

In accordance with Section 529A of the Internal Revenue Code of 1986, as amended, the California ABLE Program Trust (the “Trust”) offers a qualified ABLE program (the “Program” or “CalABLE”) to people with disabilities nationwide. The purpose of the Program is to encourage and assist individuals and families in saving private funds for the purpose of supporting individuals with disabilities to maintain health, independence, and quality of life; and to provide a tax-advantaged way to save for disability-related expenses of beneficiaries with disabilities that will supplement, but not supplant, benefits provided through private insurance, Title XVI (Supplemental Security Income) and Title XIX (Medicaid) of the Social Security Act, the beneficiary's employment, and other sources.

### **PURPOSE OF THIS STATEMENT**

This Investment Policy Statement (“Policy”) defines the Program’s investment objectives and establishes policies and procedures so that investment objectives can be met in a prudent manner. This Policy is intended to:

- Articulate objectives of the Program and its investment portfolio
- Identify roles of specific entities having a fiduciary responsibility to the Program
- Define policies regarding permitted investments, benchmarks, and asset allocation strategies
- Describe current investment options available to holders of individual savings accounts (“Accounts”) established as part of the Program

### **PROGRAM OBJECTIVES**

The primary goal of the Program is to provide eligible participants with investment options (“Investment Portfolios”) for investment of Accounts in the Trust that

- Meet the various saving needs of eligible participants who are Program account owners and beneficiaries,
- Encompass a range of risk and return opportunities,
- Allow for a rate of return commensurate with an appropriate level of risk to meet the investment goals of each Portfolio,
- Establish objectives for structuring investment options offered in the Program; and
- Formulate policies for selecting appropriate investment managers and the use of specific investment vehicles (“Underlying Investments”) in the Portfolios within the framework of the structure as stated in this Policy.

## **RESPONSIBILITIES**

### *California ABLE Act Board*

The California Achieving a Better Life Experience (ABLE) Act Board (the “CalABLE Act Board” or the “Board”) will conduct its responsibilities as a trustee and fiduciary of the Program. The Board may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances.

Under this Policy, the Board will generally be responsible for the following:

- Developing a sound and consistent Policy
- Reviewing and refining the Policy as needed
- Employing qualified investment managers, custodians, and investment advisors
- Reviewing and approving investment proposals by the Program Manager(s), including an annual review of the Program’s investment lineup
- Approving procedures for monitoring investment performance criteria and other investment related contractual obligations of the Program Manager and other vendors
- Monitoring adherence to policies, procedures, and criteria as set forth in this document and in Program Fund Monitoring Procedures and Criteria.

### *Program Manager(s)*

The Board has determined that it is necessary and reasonable to retain a program manager that provides professional investment management to invest the assets of the Program (the “Program Manager”). Under this Policy, the Program Manager(s) and its (their) affiliates and subcontractors will generally be responsible for the following:

- Overseeing Investment Portfolios and their Underlying Investments such that performance is consistent with performance criteria as shown in the Investment Performance Criteria Schedules of the Monitoring Procedures and Criteria
- Reviewing, analyzing, and making recommendations regarding the Program’s investment options
- Implementing the Program’s investment policies
- Providing monthly and quarterly reports as contractually obligated or directed by Law, the Board, or the Executive Director

### *Investment Consultant(s)*

The Board has determined that it is necessary and reasonable to retain a professional investment consultant to advise the Board with regard to the investments of the Trust (the “Investment Consultant”). Under this Policy, the Investment Consultant(s) will generally be responsible for the following:

- Providing general and/or specific investment advice to the Board and its staff
- Making recommendations on investment policies, objectives, and strategies
- Monitoring Program Managers and their investment performance in accordance with the Investment Performance Criteria Schedules of the Monitoring Procedures and Criteria
- Maintaining the list of investments on “Watch” status and provide updated reports to the Board
- Reviewing and providing recommendations regarding any investment-related items being presented to the Board by the Program Manager

## **PROGRAM POLICIES**

The CalABLE Act Board will pursue the following policies to allow the Program to meet Program Objectives.

### **Investment Objectives**

The primary goal of the Program is to provide eligible participants with a range of investment options suitable for the various savings needs and risk tolerances of eligible participants. The investment options made available to participants shall be selected and managed in accordance with fiduciary standards of care. As such, the Program taken as a whole shall seek to achieve the following objectives and considerations:

1. Meet the various savings needs of eligible participants;
2. Offer investment options which, first and foremost, are consistent with the objectives of the Program, and within that constraint, encompass a range of expected risk and return opportunities, to allow for an expected rate of return commensurate with an expected level of risk to meet the investment goals of eligible participants;
3. Offer a range of investment options that take into consideration risk tolerances, investment objectives, the age of the account owner, liquidity needs, etc.;
4. Strive to include "low-cost" funds within the Program, and in general, assess the relative operating costs of a fund against the relative benefit of utilizing that specific fund in the Program;
5. Offer investments that each exhibit a clear purpose and objective and a clear definition of success in determining whether the portfolio fulfills that purpose and meets that objective;
6. Offer investments that each have a clear investment strategy that includes a reasonable set of assumptions about expected risks and expected returns;
7. Recognize that investment theory is often at odds with behavioral tendencies, necessitating the adoption of a disciplined investment system and specific investment goals;
8. Offer investments that have sufficient track records by which investment merit can be analyzed prior to inclusion in the Program;
9. Achieve a straightforward and meaningful philosophy that guides the investment management firm and its investment process;
10. Follow the investment manager's investment process, which should be a reflection of its philosophy and should be consistent over time;
11. Offer investment vehicles that are consistent with the purpose of ABLE accounts; and
12. Strive to provide low cost investment options with terms and choices that are easily communicated to, and understood by, eligible participants (or, where applicable, their authorized legal representatives).

### **Permitted Investments**

There are no statutory restrictions on the types of investments that can be made by the Trust. The money in the Trust is not California state money and, therefore, not subject to the statutory and constitutional restrictions that apply to state funds. Thus, the universe of possible investment options for the Trust includes: equities (both domestic and foreign); real estate; fixed income investments (of any maturity or credit quality); commodities; FDIC-insured bank products; and any other investment vehicle utilized in the marketplace. Since all mutual fund assets are subject to the provisions of the Investment Company Act of 1940 (the "1940 Act"), the Program's assets (excluding FDIC-insured bank products) must be managed in a manner consistent with the 1940 Act. The Board has further limited investments in the Underlying Investments of the Program to the following broad asset categories (collectively known as "Permitted Investments"):

- Domestic equities and international equities
- Fixed Income investments of varying maturities and credit quality
- Real estate commingled funds that invest in publicly traded real estate securities
- Money market instruments, cash, and money market mutual funds that are registered in the U.S. and denominated in U.S. dollars
- Investments in mutual funds, registered in the United States and denominated in U.S. dollars, with existing data in one or more nationally recognized mutual fund monitoring services, such as Morningstar and Lipper, so that comparative peer group data is available for the Board's ongoing review
- FDIC-insured bank products

When evaluating current and potential funds and proxy voting proposals, the Board cares greatly about geopolitical and social issues as they relate to investment options offered to Program participants. The following is a partial, though not exhaustive list of such issues:

- Respect for human rights
- Respect for civil liberties
- Respect for political rights
- Discrimination based on race, sex, disability, language or social status
- Worker rights
- Environmental
- War, conflicts, and acts of terrorism

While funds will not be selected, rejected, or divested from based solely on the basis of the aforementioned factors, the Board will give serious consideration to such issues when reviewing and approving investments for the Program.

#### Benchmarks

The Board shall evaluate investment performance relative to an assigned benchmark. The Program Manager shall at all times seek to provide performance consistent with performance criteria as shown in the Investment Performance Criteria Schedules of the Monitoring Procedures and Criteria. When evaluating investment performance, a benchmark will be used to provide relative results with the following stipulations:

- Evaluations shall be against an industry standard benchmark.
- Program Investment Portfolios are to be displayed against an appropriate benchmark or policy benchmark as outlined in the Program Fund Monitoring Procedures and Criteria.
- All Underlying Investments and Investment Portfolios shall be considered against their respective benchmarks over an identical time period.

#### Banking Option

The Program has included the option for participants for a short-term investment vehicle in the form of a Demand Deposit or Savings Account (the "Banking Option"). The Banking Option will be an FDIC-insured bank account whose primary objective is the preservation and safety of the principal and the provision of a stable and low-risk rate of return. This Option allows the eligible participants the ability to execute recurring transactions with greater ease.