

# **California ABLE Program Trust Monitoring Procedures and Criteria**

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**California ABLE Program Trust  
Monitoring Procedures and Criteria**

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## I. BACKGROUND

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In accordance with Section 529A of the Internal Revenue Code of 1986, as amended, the California ABLE Program Trust (the “Trust”) offers the California ABLE Program (the “Program” or “CalABLE”), a qualified ABLE program, 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.

As the administrator of the Trust, the California ABLE Act Board (the “Board”) directs investment and has a fiduciary responsibility for the assets invested by CalABLE Participants. The Board's fiduciary duties require that it:

- set appropriate investment policies and procedures,
- monitor investment performance and investment related qualitative factors, such as changes in the Program Manager's investment strategy or key investment personnel, and
- take corrective actions, if necessary.

Specifically, these monitoring procedures enable the Board to monitor performance and help it achieve consistent investment success for CalABLE Participants. In addition, it provides the Board with a road map for action if it is not satisfied with specific aspects of a fund's activities and/or investment performance.

### California ABLE Program Investment Structure

CalABLE offers a program sold directly to qualified individuals and their families. ~~Participants in the Program choose from passive investment portfolios and active investment portfolios.~~

The portfolios in the Program were designed to give participants a selection of investment choices based on their return needs and risk tolerance. Investment portfolios are comprised of one or more federally registered mutual funds with the exception of the FDIC Insured Deposit Portfolio. All of the portfolios, their investment objectives, their mutual fund make up, and a list of mutual funds and their corresponding benchmarks, are outlined in the CalABLE Statement of Investment Policy separate document.

## II. MONITORING PROCEDURES

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The Program's monitoring procedures are designed to provide qualitative and quantitative information to the Board on investment performance to aid it in making the best decisions on behalf of Program participants. Specifically, the procedures outline what will be monitored, how it will be monitored, and when it will be monitored; what is acceptable and unacceptable performance; and how underperformance may be addressed.

There are two major groups of monitoring activities: Ongoing Monitoring and Periodic Monitoring.

### Ongoing Monitoring Activities

Ongoing monitoring activities include measurement and assessment of investment performance and related investment activities. ~~The differences in the structures for individual fund portfolios and multi-fund portfolios require different monitoring procedures as outlined below. Both Program Manager and Both the Program Manager and the~~ independent Investment Consultant will provide monitoring reports.

## **Portfolio Construction**

### ~~▪ Individual Fund Portfolios Investment Performance~~

~~Performance of each individual fund portfolio (each portfolio is made up of a single fund) is monitored relative to its benchmarks for a specific time period. Monitoring criteria can be found in Section V., the Investment Performance Criteria Schedules.~~

### ▪ Multi-Fund Portfolios (Target-Date, Target-Risk, etc.) Investment Performance

Performance monitoring of portfolios in the Program containing multiple funds will occur at the underlying fund level. Each underlying fund will have its performance compared to its primary prospectus benchmark. Specific monitoring criteria for each underlying fund can be found in Section V., the Investment Performance Criteria Schedules.

## **Quarterly Investment Performance Review by Program Manager**

As part of the ongoing reporting process, the Program Manager will report calendar quarter and trailing annualized performance of the funds to CalABLE Act Board staff (Staff) and the Investment Consultant on a quarterly basis. The Program Manager will also provide to the Staff quarterly performance reports for each portfolio used by the Trust and each fund against its respective benchmark. In addition, the Program Manager is responsible for providing: i) an explanation of investment activities that caused under- or outperformance each quarter, ii) any major changes in investment related to personnel, organization and/or investment approach/strategy, and iii) any other reporting as required by law.

## **Quarterly Investment Performance Evaluation by Independent Investment Consultant**

Using monthly data provided by Morningstar, the Investment Consultant will provide a quarterly report for the Board comparing each underlying fund with its respective benchmark according to the investment performance criteria found in the Section V., the Investment Performance Criteria Schedules.<sup>1</sup> The quarterly monitoring report compares each underlying fund to a benchmark (see CalABLE Statement of Investment Policy for funds and their benchmarks). Performance for each underlying fund is then categorized as Positive, Acceptable, Caution, or Watch using the criteria listed in the Investment Status Schedule.

## **FDIC Insured Deposit Portfolio**

The Investment Consultant will provide a quarterly monitoring summary of the FDIC Insured Deposit Account. Monitoring of this investment will include verification of the providing bank's good standing (i.e. bank stability), as well as verification of the FDIC-insured status.

## **Periodic Monitoring Activities**

As part of its ongoing fiduciary responsibilities, Staff and the Investment Consultant should regularly (annually or more often if needed) review several qualitative aspects of the Program Manager's practices. Key factors may include, but are not limited to a review of:

- Fund investment guidelines to ensure they are consistent with the Program's mandate for the fund.
- Fund investment strategy and style, especially the buy/sell disciplines.
- Portfolio activity, specifically the turnover rate and portfolio concentration.
- Risk profile relative to the fund's benchmark.
- Organizational structure.
- Stability of fund personnel and organization.
- Contractual obligations to the Program, if any.
- Multi-fund portfolios against an appropriate custom asset-weighted benchmark.

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<sup>1</sup> Performance numbers are net of underlying mutual fund fees (not net of the Program's Administrative Fee ~~or Program Manager Fee~~).

- Efficacy of active versus passive management.

### III. INVESTMENT STATUS

The quarterly investment reports provided by the Investment Consultant will rate all underlying funds as Positive, Acceptable, Caution or Watch (see Investment Status Schedule). These ratings will serve to summarize performance for each fund.

#### Investment Status Schedule

Performance Category	Active Funds	Passive Funds
Positive	<ul style="list-style-type: none"> <li>▪ Performance exceeds the benchmark</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tracking error is within the allowable range (short, medium and long-term periods)</li> </ul>
Acceptable	<ul style="list-style-type: none"> <li>▪ Performance meets or trails the benchmark but is within the allowable range</li> </ul>	
Caution	<ul style="list-style-type: none"> <li>▪ Performance is below allowable range but either:               <ul style="list-style-type: none"> <li>i) for less than six consecutive months, or</li> <li>ii) the Board has not taken (or decided not to take) a formal action to place the underlying fund on Watch even though performance has been below allowable range for six months or longer.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Tracking error falls outside of the allowable range but either               <ul style="list-style-type: none"> <li>i) for less than six consecutive months, or</li> <li>ii) the Board has not voted to place the underlying fund on Watch</li> </ul> </li> </ul>
Watch	<ul style="list-style-type: none"> <li>▪ Performance is below allowable range for more than six consecutive months and the Board has formally voted to place the underlying fund on Watch.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tracking error falls outside of the allowable range for more than six consecutive months and the Board has formally voted to place the underlying fund on Watch.</li> </ul>

*Note: This chart addresses investment performance only. It is conceivable that the Investment Consultant, Staff and the Board may need to take into consideration qualitative factors (either positive or negative) when determining the status of a fund. Monitoring criteria and ranges shall be reviewed on an ad hoc basis to confirm their appropriateness based on prevailing market dynamics and conditions.*

*\*Ranges are shown in the Investment Performance Criteria Schedules*

If an underlying fund meets the criteria in the Investment Status Schedule for Caution, the Board may choose to place the underlying fund on Watch if performance does not improve. At a subsequent Board meeting, the Investment Consultant and Staff will apprise the Board as to whether quantitative (see Section V., the Investment Performance Criteria Schedules) and/or qualitative conditions (as determined by the Investment Consultant which may include changes in investment strategy, changes in key personnel, changes in risk/capital market exposure or other risks identified by the Investment Consultant) warrant further action. If conditions are not improving, the Investment Consultant will provide a memo explaining the causes of underperformance and will make a recommendation whether or not to put the underlying fund on Watch.

## Watch Status

Once the Board receives the report and recommendation, it may decide to take no action or it may vote to place the underlying fund on Watch. In making this decision, the Board may use quantitative or qualitative information or a combination of both. Once on Watch, the underlying fund will receive heightened monitoring. Specifically, the Program Manager will provide a quarterly report explaining causes of underperformance or improvement. Additionally, the Investment Consultant and Staff will monitor the underlying fund carefully and provide additional reports as necessary. This heightened level of monitoring continues quarter-by-quarter until the Board releases the underlying fund from Watch or takes other corrective actions.

Generally, once an underlying fund is placed on Watch, it should be able to exhibit improvement within a time frame of 12 to 18 months. However, extenuating circumstances may require the Board to take action sooner (or later) than 12 to 18 months. Regardless, an underlying fund will remain on Watch until the Board votes to release it or take further action.

## Improvement Occurs – Release from Watch

If an underlying fund shows indications of improvement in one or more of the factors that caused it to be placed on Watch, it may be released from Watch. Examples of improvements warranting a change in status are:

- Improved investment performance.
- Investment style and/or risk characteristics return to, and remain at, levels originally agreed upon.
- Other factors such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc. are met/satisfied.

The Investment Consultant and Staff will provide regular reports to the Board on any underlying fund on Watch. These reports will highlight the original reasons for placing the underlying fund on Watch and discuss how these issues have been addressed. If improvement occurs in an appropriate amount of time (generally 12 to 18 months) the Investment Consultant may make a recommendation to the Board to release the underlying fund from Watch, and the Board may vote to approve this recommendation or not.

## FDIC Insured Deposit Portfolio and Funding Agreement

Applying an investment status to the FDIC Insured Deposit Portfolio and the Funding Agreement is based on different criteria than those applied to underlying funds. Given that the monitoring of the FDIC Insured Deposit Portfolio and Funding Agreement is based on non-performance related issues, different criteria must apply to measure improvement during Watch. If Caution or Watch applies, the Investment Consultant will provide regular updates to the Staff until such time that improvement is noted (typically a 12 to 18 month period) in the characteristics that caused the FDIC Insured Deposit Portfolio or Funding Agreement to be placed on Caution or Watch.

## IV. CORRECTIVE MEASURES

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### Improvement Does Not Occur – Corrective Measures

If an underlying fund is not released from Watch within an appropriate period (generally 12 to 18 months), corrective action may be necessary.

#### ***Individual Fund and Multi-Fund Portfolios***

If the quantitative and/or qualitative performance of ~~an individual~~ the underlying fund ~~or multi-fund portfolio~~ does not improve, the Investment Consultant will conduct an analysis and provide the Board with options and a recommendation for action. Options include:

- Allowing the underlying fund more time,
- Closing it to new investments, or
- Replacing it (replacement specifics are outlined below).

### ***FDIC Insured Deposit Portfolio and Funding Agreement***

If no improvement is seen in the characteristics of the FDIC Insured Deposit Portfolio or Funding Agreement related to those characteristics that caused Caution or Watch status, the Investment Consultant may recommend that the Board replace the FDIC Insured Deposit Portfolio or Funding Agreement with other options.

### **Fund Replacement**

The Board may replace funds on Watch as part of its fiduciary responsibility to monitor and take corrective action if required. The Investment Consultant will provide a memo on whether fund replacement should be considered and if so which funds may be suitable replacements. The “Standard Timeframe” below shall be followed for funds currently on Watch, except when immediate action is necessary as provided under “Expedited Timeframe” below.

#### ***Standard Timeframe - Funds Currently on Watch***

If fund replacement is necessary for funds currently on Watch, the Board may consider having:

- the Program Manager subcontract with an affiliated or non-affiliated entity to provide fund management services, subject to Board approval; or
- the issuance of a Request For Proposals for fund management services by a third-party provider not affiliated with the Program Manager.

The Program Manager will work collaboratively with the Investment Consultant to provide the Board with one or more recommended replacement funds. The Investment Consultant will also provide the Board with a memo expressing its opinion of the Program Manager’s recommendation.

All of the above actions require Board approval.

Any new investments shall be closely monitored for an appropriate period of time as determined by the Investment Consultant.

#### ***Expedited Timeframe - Funds Currently on Watch Requiring Immediate Action***

In the event of unusual or precarious market movements or unforeseen circumstances (such as wholesale change in fund management, rapid deterioration in performance or portfolio composition, material unforeseen factors, etc.) where immediate fund replacement or corrective action may be necessary, as determined by the Investment Consultant, the Board may replace a fund or take corrective action. To expedite the process, the Board should look to maintain the desired capital market exposure through a competitively priced index fund. Subsequent to the removal and replacement by a suitable low-cost index fund the Program Manager will follow the manager search process outlined in the Standard Timeframe.

All of the above actions require Board approval and the Board may delegate by formal action its authority to the Executive Director or the Chair of the Board, who may authorize a designee to act in his stead.

Any new investments shall be closely monitored for an appropriate period of time as determined by the Investment Consultant.

### **Overall Assessment of Program Manager’s Investment Services**

The Board may determine that the Program Manager’s overall investment services are unsatisfactory due to either quantitative reasons (sustained poor performance at the asset class and/or fund level) or qualitative reasons (See Definitions of Important Terms).

## V. INVESTMENT PERFORMANCE CRITERIA SCHEDULES

**Table 1a: Actively Managed Funds**  
(Based on net-of-fee asset class performance)

Asset Class	Short-Term (rolling 12-month periods)	Medium-term (rolling 36-month periods)	Long-term (> 60 months)
Domestic Equity	Fund return < bench return -3.5% for 6 consecutive months	Fund return < bench return -1.75% for 6 consecutive months	VRR< 0.97 for 6 consecutive months
International Equity	Fund return < bench return -4.5% for 6 consecutive months	Fund return < bench return -2.0% for 6 consecutive months	VRR< 0.97 for 6 consecutive months
Fixed Income	Fund return < bench return -1.0% for 6 consecutive months	Fund return < bench return -0.5% for 6 consecutive months	VRR< 0.98 for 6 consecutive months

~~1<sup>st</sup> 1-12 month performance criteria is not annualized; all other criteria is on an annualized basis.  
Annualized return is the average annual return of either the fund or its benchmark.~~

Annualized return is the average annual return of either the fund or its benchmark.

VRR – Value Relative Ratio – is calculated as: fund cumulative return / benchmark cumulative return.

<u>Fund</u>	<u>Asset Class</u>	<u>Benchmark</u>
<del>Dimensional Global Equity Portfolio</del>	<del>Global Equity</del>	<del>MSCI World NR</del>
<del>Dimensional US Large Company Portfolio</del>	<del>Domestic Equity</del>	<del>S&amp;P 500 TR</del>
<del>Dimensional US Core Equity 1 Portfolio</del>	<del>Domestic Equity</del>	<del>Russell 3000 TR</del>
<del>Dimensional Large Cap International Portfolio</del>	<del>International Equity</del>	<del>MSCI World ex USA NR</del>
<del>Dimensional International Core Equity Portfolio</del>	<del>International Equity</del>	<del>MSCI World ex USA NR</del>
<del>Dimensional Emerging Markets Core Equity Portfolio</del>	<del>International Equity</del>	<del>MSCI EM NR</del>
<del>Dimensional Short-Term Extended Quality Portfolio</del>	<del>Fixed Income</del>	<del>ICE BofAML 1-5yr US Corp/Govt</del>
<del>Dimensional Two-Year Global Fixed Income Portfolio</del>	<del>Fixed Income</del>	<del>Citi WGBI 1-2yr Hdg USD</del>
<del>Dimensional Inflation-Protected Securities Portfolio</del>	<del>Fixed Income</del>	<del>BBG Barclays US Treasury US TIPS TR</del>
<del>Dimensional LTIP Portfolio</del>	<del>Fixed Income</del>	<del>Citi US Infla-Linked Sec 20Y</del>

<u>Fund</u>	<u>Asset Class</u>	<u>Benchmark</u>
<u>TIAA-CREF Inflation-Linked Bond Fund</u>	<u>Fixed Income</u>	<u>Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) 1-10 Year Index</u>

**Table 1b: Passively Managed Funds**  
(Based on net-of-fee asset class performance)

Asset Class	Short-Term (rolling 12-month periods)	Medium-term (rolling 36-month periods)	Long-term (rolling 60-month periods)
Domestic Equity	Tracking Error > 0.30% for 6 consecutive months	Tracking Error > 0.25% for 6 consecutive months	Fd annlzd return < bench annlzd return -0.30% for 6 consecutive months
International Equity	Tracking Error > 0.75% for 6 consecutive months	Tracking Error > 0.70% for 6 consecutive months	Fd annlzd return < bench annlzd return -0.30% for 6 consecutive months
Fixed Income	Tracking Error > 0.40% for 6 consecutive months	Tracking Error > 0.55% for 6 consecutive months	Fd annlzd return < bench annlzd return -0.35% for 6 consecutive months

~~1<sup>st</sup> 1-12 month performance criteria is not annualized; all other criteria is on an annualized basis.~~  
~~Annualized return is the average annual return of either the fund or its benchmark.~~  
~~VRR—Value Relative Ratio—is calculated as: fund cumulative return / benchmark cumulative return.~~  
~~Annualized return is the average annual return of either the fund or its benchmark.~~  
~~Tracking Error is a measure of the volatility of the average annual difference between the manager's return and the benchmark's return~~

Fund	Asset Class	Benchmark
<del>Vanguard Total Stock Market</del> TIAA-CREF Equity Index Fund	Domestic Equity	<del>CRSP US Total Market</del> Russell 3000 Index
<del>Vanguard Total Intl Stock</del> TIAA-CREF International Equity Index Fund	International Equity	<del>FTSE Global All Cap</del> xUSMSCI EAFE NR Index
<del>Vanguard Total Bond Market</del> TIAA-CREF Emerging Markets Equity Index Fund	<del>Fixed Income</del> International Equity	<del>BBG Barclays US Aggregate Float Adj</del> MSCI Emerging Markets NR Index
<del>Vanguard Total International</del> TIAA-CREF	Fixed Income	<del>BBG Bloomberg</del> Barclays Global U.S. Aggregate

**Table 1c: FDIC Insured Deposit Portfolio**  
(Based on non-investment performance criteria)

Fund Name	FDIC-Insured Status	Stability
<del>FDIC Insured</del> TIAA Bank Deposit Savings Account	Bank continues with appropriate levels of insurance with the FDIC	No identifiable issues regarding changes in the bank's financial stability

**Monitors:**

Fund	Asset Class	Benchmark
<del>FDIC Insured</del> TIAA Bank Deposit Savings Account	Bank Deposit	Not applicable

**Table 1d: Funding Agreements**  
(Based on non-investment performance criteria)

<b>Fund Name</b>	<b>Financial Strength</b>	<b>Mortgage Portfolio</b>	<b>Bond Portfolio</b>	<b>Account Diversification</b>
T-C Life Funding Agreement	Moody's = Aaa Standard & Poor's = AAA A.M. Best=A+++ Fitch=AAA	100% in Good Standing	At least 90% Investment Grade	Portfolio is diversified across asset classes and types

**Monitor:** T-C Life Funding Agreements

## VI. DEFINITIONS OF IMPORTANT TERMS

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### A

**Active Management** – a money-management approach based on informed, independent investment judgment that seeks to add incremental value to that of a benchmark.

**American Depositary Receipt (ADR)** - A negotiable certificate issued by a U.S. bank representing a specific number of shares of a foreign stock traded on a U.S. stock exchange.

**Annualized Performance** – a measure that converts total cumulative performance into an annual average return. Industry practice is to compute the average annual return by compounding monthly return and then computing the geometric mean return.

**Asset Allocation** – the process of dividing investments among different kinds of assets, such as stocks, bonds, real estate, and cash, to optimize the risk/reward tradeoff based on an institution's specific situation and goals.

**Asset Class** – a type of investment, such as stocks, bonds, real estate, or cash, specifically:

- **Domestic Equity** - Ownership interests in U.S.-based corporations in the form of common stock or preferred stock. Domestic equity may include some limited exposure to real estate (REITs) and international stocks (ADRs) as listed on major U.S. stock market exchanges.
- **International Equity** - Ownership interests in non U.S.-based corporations in the form of common stock or preferred stock. International equity may include some limited exposure to global stocks (those involving more than one country, including the U.S.), emerging markets stocks, or other investment offerings as listed on major non-U.S. stock market exchanges.
- **Fixed Income** - Medium and long-term debt obligations of government, government sponsored entities, corporations, and/or other assets that pay a fixed dollar amount. Fixed income may include some limited exposure to structured and synthetic investments such as options and swaps.
- ~~**High Yield** - A fixed income instrument that pays (yields) a higher rate of income (interest) than otherwise equivalent debt due to an increase in risk (such as a higher level of credit/default risk on a corporate bond). Generally, high yield bonds are considered to be those rated 'BB' or lower by one or more of the major rating agencies. High yield investments also include Leveraged Loans which pay a floating rate of interest and are senior to bonds in the capital structure.~~
- ~~**Short Term** - A fixed income instrument that will expire within a relatively short time frame (often considered to be one year or less). Short Term bonds are highly conservative investments that can be liquidated quickly.~~

## **B**

~~**Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged)**— provides a broad-based measure of the global, investment-grade, fixed-rate debt markets. The index includes government, government agency, corporate, and securitized non-U.S. investment-grade fixed income investments, all issued in currencies other than the U.S. dollar and with maturities of more than one year.~~

~~**Bloomberg Barclay's Intermediate Government/Credit Index**— a market value-weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and ten years.~~

**Bloomberg Barclay's U.S. Aggregate Bond Index** – an unmanaged index generally representative of the U.S. investment grade fixed income universe. The index includes treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S.

~~**Bloomberg Barclay's U.S. TIPS Index**— an unmanaged index generally representative of the U.S. inflation-indexed fixed-income universe.~~

**Bloomberg Barclay's U.S. TIPS 1-10 Year Index** – an unmanaged index consisting of U.S. Treasury inflation-indexed bonds with maturities between 1 and 10 years.

~~**Bloomberg Barclay's U.S. Treasuries 5-10 Year Index**— an unmanaged index consisting of U.S. Treasury bonds with maturities between 5 and 10 years.~~

**Benchmark** – a standard used for comparison. For example, the S&P 500 is a widely used benchmark thought to be representative of the domestic stock market as a whole.

**Benchmark Annualized Return** – the conversion of a benchmark's (e.g. S&P 500) cumulative gain or loss activity into an average annual return.

In the case of a contract, an agreement with the contracting entity can include agreements with a third-party to provide services. All of the terms under the signed contract typically apply to all the services provided by the multiple parties or service provider.

~~**BofAML US HY C Pay BB-B Index**— is an unmanaged~~

~~index comprised of publicly placed, non-convertible, coupon-bearing domestic debt. Issues in the index are less than investment grade as rated by Standard & Poor's Ratings Group or Moody's Investors Service, Inc., and must not be in default. The index focused on higher-rated high yield securities. The index is limited to constituents possessing either a BB or B rating.~~

**Buy/Sell Disciplines** – describes under what conditions, and how frequently, a security is to be bought and sold.

## C

~~**Citi WGBI 1-2yr Hdg USD**—an unmanaged index of fixed-rate, local currency, investment grade sovereign bonds with maturities between 1 and 2 years.~~

~~**Citi US Infla-Linked Sec 20Y**—an unmanaged index generally representative of long-term U.S. inflation-indexed fixed-income securities.~~

**Composite** – a combination or group of select securities.

~~**CRSP US Total Market Index**—measures the performance of nearly 4,000 constituents across mega, large, small and micro capitalizations, representing nearly 100% of the U.S. investable equity market.~~

## D

**Diversified Approach** – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction.

**Domestic Equity** – see Asset class for description.

~~**Dow Jones Wilshire 5000 Index**—a market capitalization-weighted index composed of approximately 5,000 publicly-traded companies that is designed to track performance of the U.S. stock markets.~~

## E

**Execution Costs** – the costs associated with completing a buy or sell of an asset or investment.

**Externally Managed Mutual Funds** – a portfolio of investments managed by a third party, outside of the Trust, for a stated fee.

## F

**Fiduciary Responsibility** – a legal authority and ethical duty to make decisions regarding financial matters on behalf of another party

**Fixed Income** – see Asset class for description.

~~**FTSE NAREIT All-Equity REITs Index**—is a free float adjusted market capitalization-weighted index that includes all tax-qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.~~

~~**FTSE Global All-Cap xUS Index**—is a free float adjusted market capitalization-weighted index that comprises large, mid and small cap stocks globally excluding the US. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization.~~

**Fund (or Mutual Fund)** – an investment portfolio that is managed by an external professional investment management firm. A mutual fund is typically highly diversified (after taking into account the investment firm's unique philosophy and approach) and includes investments on behalf of many share or unit holders. Mutual funds are "regulated investment companies" registered with the Securities and Exchange Commission.

**Fund Annualized return** – the conversion of a fund's cumulative gain or loss activity into an average annual return.

**Fund Review** – a review of a mutual fund's performance describing how the fund may be failing to meet specific criteria. This document is typically produced when a fund is placed on watch status.

## H

~~**High Yield**—see Asset class for description.~~

## I

~~**ICE BofAML 1-5yr US Corp/Govt TR**—an unmanaged index that includes publicly issued U.S. Treasury debt, U.S. government agency debt, taxable debt issued by U.S. states and territories and their political subdivisions, debt issued by U.S. and non-U.S. corporations, non-U.S. government debt and supranational debt.~~

**Investment Approach/Strategy** – the method employed by the mutual fund to achieve its stated added value quantitative.

**Investment Guidelines** – a list of requirements and criteria agreed upon by the fund and its client to achieve the portfolio's investment quantitatives. Such guidelines can include items such as (i) the types of asset to be employed, (ii) the maximum amount of exposure to any one security, (iii) maximum or minimum percentages of each type of asset, etc.

**Investment Manager or Investment Management Firm**—an organization responsible for investing assets on behalf of clients.

**Investment Options**—see Section I., Background for description.

**Investment Performance**—the gain or loss of a mutual fund, typically described in percentage terms.

**Investment Performance Criteria** – pre-determined expectations set for the fund, which are used to evaluate whether the fund is meeting its investment performance quantitative.

**Investment Risk** – the volatility of an investment's performance, with emphasis on the measurable possibility of an investment losing, or not gaining value.

**Investment Style** – a philosophy or approach of investing typically held by a broad group of investors (i.e., growth investors, value investors, etc.).

**International Equity** – see Asset class for description

## M

**Management Fees** – the fee charged by a fund's investment advisor for managing the fund.

~~**Merrill Lynch U.S. High Yield Master II Index**—an unmanaged index comprised of publicly placed, non-convertible, coupon-bearing domestic debt. Issues in the index are less than investment grade as rated by Standard & Poor's Ratings Group or Moody's Investors Service, Inc., and must not be in default. Issues have a term to maturity of at least one year.~~

**MSCI All-Country World (ACWI) xUSEAFE Index** – an equity performance measurement by Morgan Stanley Capital International of developed markets

(Europe, Australia, Far East) ~~and emerging markets excluding the U.S.~~

**MSCI Emerging Markets (EM) Index** – is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

~~**MSCI USA IMI ESG Index**—formerly the FTSE KLD US All-Cap Sustainability Index. This benchmark, developed by Morgan Stanley Capital International (MSCI), holds companies with the highest environmental, social and governance (ESG) criteria in each sector of the U.S. equity market.~~

~~**MSCI World Index**—is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI World benchmark does not offer exposure to emerging markets.~~

~~**MSCI World Index ex USA**—captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries--excluding the United States. With 1,021 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.~~

**Multi-fund Options** – investment options comprised of more than one individual fund.

## O

**Ongoing Monitoring** – continual (quarterly) evaluation of the qualitative and investment performance aspects of a funds' management and practices to determine their ability to continue to add value and meet pre-established criteria.

**Options**—a privilege sold by one party to another that offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

**Organizational Structure** – a description of a fund's business-related characteristics such as personnel and team structure as well as its decision-making hierarchy.

**Outperformance** – when the result of activities of an investment over a given period of time exceeds expectations (i.e. the result of a growth-oriented fund is better than an assigned benchmark such as the Russell 3000 Growth Index).

## P

**Participants** – individuals electing to take part in the Trust's investment program by contributing assets to the investment options provided by the Trust.

**Passive Management** – a money-management approach that seeks to match the return and risk characteristics of a market or benchmark.

**Periodic Monitoring** – regular (annually, semi-annually) evaluation of the qualitative aspects of a fund's management and practices to determine if they meet pre-established criteria.

**Portfolios** – a stand alone (individual) investment or a collection of multiple investments. In most cases, these investments are mutual funds but may be separate accounts, such as the Social Choice portfolio. One or more portfolios may also represent an asset class. The term 'Portfolio' is also used to describe various participant options.

**Program Manager Fee** – the fee charged by the program administrator.

## Q

**Qualitative Considerations** – factors taken into account when assessing the Program Manager's overall performance in providing investment management services.

**Quantitative Considerations** – factors taken into account when assessing the Program Manager's overall investment performance.

**Quarterly** – a three-month period within one year (typically ending on 3/31, 6/30, 9/30, 12/31).

**Quarterly Performance** – the result of investment activities within a three-month period.

## R

**Rolling Periods** – specific time periods that are selected to include a finite amount of days, months, quarters, or years in which as the next unit (i.e. day) is entered, the earliest one from the past set is dropped retaining the finite number.

~~**Russell 1000 Index**—measures the performance of the 1,000 largest companies in the Russell 3000 Index.~~

~~**Russell 2000 Index**—measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.~~

**Russell 3000 Index** – measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which as of June 2011 reconstitution represented approximately 98% of the investable U.S. equity market.

~~**Russell 3000 Growth Index**—measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.~~

~~**Russell 3000 Value Index**—measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.~~

~~**Russell Mid Cap Index**—measures the performance of the smallest 800 companies in the Russell 1000 Index.~~

~~**Russell Mid Value Index**—measures the performance of those Russell Mid Cap companies with lower price-to-book ratios and lower forecasted growth rates.~~

## S

**S&P 500 Index** – a performance measurement of the stocks of 500 high quality companies as judged by the Standard & Poor's corporation. This index is widely used and thought to be representative of the entire U.S. stock market.

~~**S&P/LSTA Performing Loan Index**—an index designed to reflect the largest loan facilities in the leveraged loan market. It mirrors the market-value-weighted performance of the 100 largest institutional~~

~~leveraged loans based upon actual market weightings, spreads and interest payments.~~

~~**S&P Mid Cap 400 Index**—a market capitalization-weighted index composed of 400 stocks, including reinvestment of dividends that is generally considered representative of mid-sized U.S. companies.~~

~~**Short term**—see Asset class for description.~~

**Stand Alone Fund** – an individual mutual fund that represents an entire offering as part of the program’s investment options.

**Status Report** – a quarterly evaluation of a fund’s performance while designated as being on Watch. This report reviews the reason for the fund being on Watch, for how long, and if the fund is addressing the issues pertaining to Watch.

~~**Structured Security**—a debt security with one or more special features, such as making payments based on an underlying index.~~

**Style** – a behavior of portfolio returns caused by an investment manager’s investment philosophy and portfolio construction processes.

~~**Synthetic Security**—a security that is artificially created involving two or more instruments that has the same risk-reward profile as a strategy involving only one instrument.~~

~~**Swaps**—the exchange of one security for another to change the maturity (bonds), quality of issues (stocks or bonds), or because investment quantitatives have changed.~~

## T

~~**Three-Month T-Bill**—the 3-month T-Bill is an index that is typically constructed using a single issue U.S. Treasury purchased at the beginning of the month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond, 3 months from the rebalancing date.~~

**Tracking Error** – the amount by which the performance of the portfolio typically differs (either plus or minus) from that of the benchmark.

## U

**Underlying Funds** – a set (two or more) of mutual funds that together comprise an offering as part of the program’s investment options.

**Underperformance** – when the result of activities of an investment over a given period of time falls short of expectations (e.g. the result of a typical equity portfolio is lower than an assigned benchmark).

## V

**Value Relative Ratio** – a measure of a mutual fund’s effectiveness by comparing a fund’s return data to the specified benchmark. Calculated as “Fund Cumulative Return/Benchmark Cumulative Return.”

## W

**Watch** – a condition assigned to a fund indicating that the fund’s investment performance or other qualitative factors do not meet pre-determined criteria. This status allows time for the fund to take corrective action before being terminated.