
MAY 15, 2023

**AGENDA ITEM 4
ACTION ITEM**

CALIFORNIA ABLE ACT BOARD

Resolution No. 2023-04: Approval of Amendment to the California ABLE Program Trust Statement of Investment Policy

Background

The California ABLE Act Board (the “Board”) staff and its investment consultant, Meketa Investment Group, have developed and reviewed the Boards Statement of Investment Policy (the “Investment Policy”). The Investment Policy outlines:

- the purpose of the California ABLE Program (Program);
- the purpose of the Investment Policy Statement;
- program objectives;
- responsibilities of the Board, the program manager, and the investment consultant;
- program policies including investment objectives, permitted investments, and benchmarks; and
- adherence to monitoring policies, procedures and criteria in the Program Funding Monitoring Procedures and Criteria

The Investment Policy Statement defines the Program’s investment objectives and establishes policies and procedures so that investment objectives can be met in a prudent manner.

Recommendation

Adopt Resolution No. 2023-04 approving the California ABLE Act Board’s Statement of Investment Policy for the California ABLE Program.

Presenter

Dante Allen, Executive Director, California ABLE Act Board

Attachments

- Attachment #1 – CalABLE Act Program Trust Statement of Investment Policy
- Attachment #2 – CalABLE Monitoring Procedures and Criteria
- Attachment #3 – Resolution No. 2023-04

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Attachment #1
CalABLE Act Program Trust
Statement of Investment Policy

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California ABLE Program Trust Statement of Investment Policy

(May 15, 2023)

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 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.

ADDENDUM 1

While the investment parameters for all of the Investment Portfolios offered in the Program are approved by the Board, Account Owners bear the risk of investment results derived from the selected Investment Portfolio specifically and the Program generally. The appropriate Investment Portfolio (or Portfolios) for each Account Owner is (are) a function of multiple factors, including age (of Beneficiary), income, length of time before money is used, and tolerance for investment risk. A list of Funds used in each Portfolio and their respective benchmarks and asset classes may be found in Addendum 2.

Growth Portfolio

This Investment Portfolio seeks to provide a high long-term total return, by investing in Underlying Funds that are equity index funds. It is expected that this portfolio exhibits a high degree of volatility due to its all-equity exposure to domestic and foreign equities. Due to the corresponding high degree of risk, this Investment Portfolio may be appropriate for investors if they already have substantial savings in less volatile investments (e.g., cash and fixed-income investments), and if they have a long investment horizon and can tolerate a high level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds
Growth Portfolio	65%	35%

Moderate Growth Portfolio

This Investment Portfolio seeks to provide a high long-term total return, mainly from capital appreciation, by investing in Underlying Funds that are primarily equity index funds with a modest allocation to fixed income funds. The modest allocation to fixed income securities should dampen volatility relative to an all-equity portfolio. The fund will still exhibit substantial volatility due to the high exposure to domestic and foreign equities. Due to the corresponding high degree of risk, this Investment Portfolio may be appropriate for investors if they already have substantial savings in less volatile investments (e.g., cash and fixed-income investments), and if they have a long investment horizon and they can tolerate a high level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Moderate Growth Portfolio	52%	28%	20%

Conservative Growth Portfolio

The Conservative Growth Portfolio seeks moderate growth by investing in a combination of equity and fixed income Underlying Funds. The Portfolio seeks a balanced asset allocation with a modestly larger allocation to equity funds than to fixed income funds. The fund should exhibit less volatility than the Moderate Growth Portfolio but likely with a corresponding lower return over longer time periods. This Investment Portfolio may be appropriate for investors if they have a medium-to-long investment horizon and can tolerate a moderate level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Conservative Growth Portfolio	39%	21%	40%

Balanced Portfolio

The Balanced Portfolio seeks moderate growth by investing in a combination of equity and fixed income Underlying Funds. The Portfolio seeks a balanced asset allocation and invests in equal parts for fixed income securities and equities. The fund should exhibit similar risk/return characteristics as the Conservative Growth Portfolio but at a slightly lower level of both risk and return. This Investment Portfolio may be appropriate for investors if they have a medium to long investment horizon and can tolerate a moderate level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Balanced Portfolio	33%	17%	50%

Income and Growth Portfolio

The Income and Growth Portfolio seeks to provide a moderate rate of return by investing in a combination of equity and fixed income Underlying Funds. The Portfolio seeks a balanced asset allocation with a slightly larger portion of its assets invested in fixed income securities than equity securities. The fund should exhibit similar risk/return characteristics as the Balanced Portfolio but at a slightly lower level of both risk and return. This Investment Portfolio may be appropriate for investors if they have a medium to long investment horizon and can tolerate a moderate level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Income and Growth Portfolio	26%	14%	60%

Conservative Portfolio

The Conservative Portfolio seeks to provide a reasonable rate of return while focusing on the preservation of capital by investing the majority of the assets in fixed income Underlying Funds with a modest allocation to equity funds. The modest allocation to equity securities should, over time, generate a higher total return relative to an all-fixed income portfolio. This Investment Portfolio may be appropriate for investors if they have a short-to-medium investment horizon and can tolerate a low-to-moderate level of risk (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Conservative Portfolio	13%	7%	80%

Income Portfolio

The Income Portfolio seeks to provide a relatively low rate of return with an emphasis on capital preservation. The Portfolio invests the majority of its assets in fixed income securities, with the rest invested in money market funds. The fund should exhibit relatively stable risk/return characteristics over time. However, the fund does not guarantee price stability and can decline in value in adverse market environments including a rising interest rate environment. This Investment Portfolio may be appropriate for investors if they have a relatively short investment horizon and have a low risk tolerance (see table below).

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Fixed Income Funds	Short Term/Cash Equivalent
Income Portfolio	80%	20%

ADDENDUM 2

The Portfolios shall contain the Funds, listed with their benchmarks, by asset class below.

Underlying Mutual Funds

Benchmark

Domestic Equity

- Fidelity Total Market Index Fund
- Schwab Total Stock Market Index Fund

Dow Jones U.S. Total Stock Market Index
Dow Jones U.S. Total Stock Market Index

International Equity

- Fidelity International Index Fund
- Fidelity Emerging Markets Index Fund

MSCI EAFE Index
MSCI Emerging Markets Index

Fixed Income

- Fidelity US Bond Index Fund
- Schwab U.S. Aggregate Bond Index Fund
- Fidelity Long-Term Treasury Bond Index Fund
- Schwab Treasury Inflation Protected Securities Index Fund
- Vanguard Emerging Markets Bond Fund
- Vanguard High Yield Corporate Fund

Bloomberg U.S. Aggregate Bond Index
Bloomberg U.S. Aggregate Bond Index
Bloomberg U.S. Long Treasury Bond Index
Bloomberg U.S. Treasury Inflation-Linked Bond Index
JP Morgan EMBI Global Diversified Index
Bloomberg U.S. Corporate High Yield Bond Index

Cash (non-mutual fund)

- Vanguard Cash Reserves Federal Money Market Fund

Attachment #2
CalABLE Monitoring
Procedures and Criteria

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

May 15, 2023

California ABLE Program Trust
Monitoring Procedures and Criteria

Table of Contents

I. Background	3
<i>California ABLE Program Investment Structure</i>	<i>3</i>
II. Monitoring Procedures	3
<i>Ongoing Monitoring Activities</i>	<i>3</i>
<i>Periodic Monitoring Activities</i>	<i>4</i>
III. Investment Status.....	5
<i>Investment Status Schedule</i>	<i>5</i>
<i>Watch Status</i>	<i>6</i>
<i>Improvement Occurs - Release from Watch</i>	<i>6</i>
<i>FDIC Insured Deposit Portfolio.....</i>	<i>6</i>
IV. Corrective Measures.....	6
<i>Improvement Does Not Occur – Corrective Measures.....</i>	<i>6</i>
<i>Fund Replacement</i>	<i>7</i>
<i>Overall Assessment of Program Manager’s Investment Services</i>	<i>7</i>
V. Investment Performance Criteria Schedules.....	8
VI. Definitions of Important Terms.....	10

I. BACKGROUND

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

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. Both the Program Manager and the independent Investment Consultant will provide monitoring reports.

Portfolio Construction

- **Multi-Fund Portfolios (Target-Risk) 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.¹ 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.
- Efficacy of active versus passive management.

¹ Performance numbers are net of underlying mutual fund fees (not net of the Program's Administrative Fee)

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"> ▪ Performance exceeds the benchmark 	<ul style="list-style-type: none"> ▪ Tracking error is within the allowable range (short, medium and long-term periods)
Acceptable	<ul style="list-style-type: none"> ▪ Performance meets or trails the benchmark but is within the allowable range 	
Caution	<ul style="list-style-type: none"> ▪ Performance is below allowable range but either: <ul style="list-style-type: none"> i) for less than six consecutive months, or 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. 	<ul style="list-style-type: none"> ▪ Tracking error falls outside of the allowable range but either <ul style="list-style-type: none"> i) for less than six consecutive months, or ii) the Board has not elected to place the underlying fund on Watch
Watch	<ul style="list-style-type: none"> ▪ Performance is below allowable range for more than six consecutive months and the Board has formally voted to place the underlying fund on Watch. 	<ul style="list-style-type: none"> ▪ 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.

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. At subsequent Board meetings, 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 take further action.

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, expected levels.
- 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

Applying an investment status to the FDIC Insured Deposit Portfolio is based on different criteria than those applied to underlying funds. Given that the monitoring of the FDIC Insured Deposit Portfolio 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 to be placed on Caution or Watch.

IV. CORRECTIVE MEASURES

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.

Multi-Fund Portfolios

If the quantitative and/or qualitative performance of the underlying fund 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

If no improvement is seen in the characteristics of the FDIC Insured Deposit Portfolio related to those characteristics that caused Caution or Watch status, the Investment Consultant may recommend that the Board replace the FDIC Insured Deposit Portfolio 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. 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)
Emerging Market Bond	Fund return < bench return -6.5% for 6 consecutive months	Fund return < bench return -3.25% for 6 consecutive months	VRR < 0.96 for 6 consecutive months
High Yield	Fund return < bench return -6.5% for 6 consecutive months	Fund return < bench return -3.25% for 6 consecutive months	VRR < 0.96 for 6 consecutive months

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>
Vanguard Emerging Markets Bond Fund	Fixed Income	JP Morgan EMBI Global Diversified Index
Vanguard High-Yield Corporate Fund	Fixed Income	Bloomberg U.S. Corporate High Yield Bond Index

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

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

<u>Fund</u>	<u>Asset Class</u>	<u>Benchmark</u>
Fidelity Total Market Index Fund	Domestic Equity	Dow Jones U.S. Total Stock Market Index
Schwab Total Stock Market Index Fund	Domestic Equity	Dow Jones U.S. Total Stock Market Index
Fidelity International Index Fund	International Equity	MSCI EAFE Index
Fidelity Emerging Markets Index Fund	International Equity	MSCI Emerging Markets Index
Fidelity U.S. Bond Index Fund	Fixed Income	Bloomberg U.S. Aggregate Bond Index
Schwab U.S. Aggregate Bond Index Fund	Fixed Income	Bloomberg U.S. Aggregate Bond Index
Fidelity Long-Term Treasury Bond Index Fund	Fixed Income	Bloomberg U.S. Long Treasury Bond Index
Schwab Treasury Inflation Protected Securities Index Fund	Fixed Income	Bloomberg U.S. Treasury Inflation-Linked Bond Index

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

Fund Name	FDIC-Insured Status	Stability
BNY Mellon Bank Savings Account	Bank continues with appropriate levels of insurance with the FDIC	No identifiable issues regarding changes in the bank's financial stability

Monitors:

<u>Fund</u>	<u>Asset Class</u>	<u>Benchmark</u>
BNY Mellon Bank Savings Account	Bank Deposit	Not applicable

VI. DEFINITIONS OF IMPORTANT TERMS

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.

B

Bloomberg 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 U.S. Corporate High Yield Bond Index – an unmanaged index designed to capture publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

Bloomberg U.S. 5-10 Year Treasury Bond Index – an unmanaged index consisting of U.S. Treasury bonds with maturities between 5 and 10 years.

Bloomberg 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 U.S. Treasury Inflation-Linked Bond Index – measures the performance of the U.S. Treasury Inflation Protected Securities (TIPS) market

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.

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

C

Composite – a combination or group of select securities.

D

Dow Jones U.S. Total Stock Market Index – An index that is intended to capture the total U.S. stock market, representing the top 95% of the U.S. stock market based on market capitalization.

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.

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.

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

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 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

J

JP Morgan EMBI Global Diversified Index – unmanaged, market-cap weighted index tracking the traded market for U.S.-dollar-denominated debt instruments issued by sovereign and quasi-sovereign entities from countries categorized as emerging markets countries.

M

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

MSCI EAFE Index – an equity performance measurement by Morgan Stanley Capital International of developed markets (Europe, Australia, Far East)

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.

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 fund's management and practices to determine their ability to continue to add value and meet pre-established criteria.

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 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.

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.

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.

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

T

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.

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Attachment #3
Resolution No. 2023-04

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RESOLUTION NO. 2023-04

RESOLUTION OF THE CALIFORNIA ABLE ACT BOARD RELATING TO THE APPROVAL OF AMENDMENT TO THE STATEMENT OF INVESTMENT POLICY FOR THE CALIFORNIA ABLE PROGRAM

WHEREAS, the California ABLE Act Board (the “Board”), pursuant to section 4877 of the Welfare and Institutions Code, is charged with the administration of the California ABLE Program Trust (the “Program”); and

WHEREAS, section 4878(d) of the Welfare and Institutions Code provides that the Board shall annually prepare and adopt a written statement of investment policy; and

WHEREAS, section 4878(d) of the Welfare and Institutions Code also provides that the Board shall consider the statement of investment policy and any changes in the investment policy at a public hearing; and

WHEREAS, at its November 2017 meeting, the Board adopted the California ABLE Program Trust Statement of Investment Policy (the “Investment Policy”) to define the Program’s investment objectives and establish policies and procedures to meet investment objectives in a prudent manner; and

WHEREAS, at its February 2023 meeting, the Board adopted Resolution No. 2023-01 to enter into Agreement No. ABLE 01-23 for program management with Vestwell State Savings, LLC, for a five-year term; and

WHEREAS, the Board’s staff and 529A investment consultant (the “Consultant”) have reviewed the Investment Policy and are recommending revisions that include the addition of addendums that outline the Program’s portfolios and funds in accordance with Agreement No. ABLE 01-23;

NOW, THEREFORE, BE IT RESOLVED that the Board hereby approves the changes to the Investment Policy as recommended by the Board’s staff and the Consultant and as shown in the revised Investment Policy attached to this action item.

BE IT FURTHER RESOLVED that this Resolution shall take effect immediately following the Program Administrator Conversion from TIAA-CREF to Vestwell State Savings, LLC.

Attest: _____
Dante Allen, Executive Director

Date of Adoption: _____