

# California ABLE Program Trust Statement of Investment Policy

(January 9, 2018)

## 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 individuals with investment options ("Investment Portfolios") for investment of Accounts in the Trust that:

- Meet the various saving needs of eligible individuals 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 individuals with a range of investment options suitable for the various savings needs and risk tolerances of eligible individuals. 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 individuals;
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 individuals;
3. Offer a range of investment options that take into consideration risk tolerances, investment objectives, the age of the account owner, liquidity needs, etc.;
4. Strive to include "low-cost" funds within the Program, and in general, assess the relative operating costs of a fund against the relative benefit of utilizing that specific fund in the Program;
5. Offer investments that each exhibit a clear purpose and objective and a clear definition of success in determining whether the portfolio fulfills that purpose and meets that objective;
6. Offer investments that each have a clear investment strategy that includes a reasonable set of assumptions about expected risks and expected returns;
7. Recognize that investment theory is often at odds with behavioral tendencies, necessitating the adoption of a disciplined investment system and specific investment goals;
8. Offer investments that have sufficient track records by which investment merit can be analyzed prior to inclusion in the Program;
9. Achieve a straightforward and meaningful philosophy that guides the investment management firm and its investment process;
10. Follow the investment manager's investment process, which should be a reflection of its philosophy and should be consistent over time;
11. Offer investment vehicles that are consistent with the purpose of ABLE accounts; and
12. Strive to provide low cost investment options with terms and choices that are easily communicated to, and understood by, eligible individuals (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 individuals 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. Investment portfolios for the Program are presented below by investment management style (active then passive). A list of Funds used in each Portfolio and their respective benchmarks and asset classes may be found in Addendum 2.

### ACTIVE PORTFOLIOS

Active portfolios are comprised of underlying investments, which are managed using active decision-making processes. These active decisions are intended to provide long-term performance beyond that of a benchmark or index. Actively-managed mutual funds have more relative risk due to different exposures relative to the benchmark.

#### **Active Target Date Portfolios**

The Active Target Date Portfolios seeks to match the investment objective and level of risk to the investment horizon by taking into account the number of years before the Beneficiary intends to use the money. Allocations to the Active Target Date Portfolios will be placed in one of nine Target Date Funds, each of which has a different investment objective and investment strategy. The Target Date Funds for Beneficiaries with long time horizons seek a favorable long-term return by investing in Underlying Funds that invest primarily in equity securities, which have a higher level of risk, but greater potential for returns than more conservative investments. Target Date Funds with shorter time horizons allocate less to Underlying Funds that invest in equity securities and allocate more heavily to Underlying Funds that invest in fixed income securities.

The Active Target Date Portfolios invest in Underlying Funds that are actively-managed. An actively-managed fund is different from an index fund in that an actively-managed fund is not managed to track its benchmark index, but rather, managed pursuant to the investment style and strategy of its investment adviser. This means that the performance of an actively-managed fund can vary greatly from that of its benchmark index – in either a positive or negative direction. Because of the active management style, actively-managed funds tend to have higher expenses than index funds. See table below for mutual fund allocations by asset class.

ACTIVELY MANAGED MUTUAL FUND ASSET ALLOCATION PERCENTAGES –  
BY ASSET CLASS  
(Approximate Target Asset Allocation as of December 2017\*)

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income
Dimensional 2020 Target Date Fund	19%	12%	69%
Dimensional 2025 Target Date Fund	28%	17%	56%
Dimensional 2030 Target Date Fund	36%	22%	42%
Dimensional 2035 Target Date Fund	44%	27%	29%
Dimensional 2040 Target Date Fund	52%	32%	16%
Dimensional 2045 Target Date Fund	58%	35%	7%
Dimensional 2050 Target Date Fund	58%	35%	7%
Dimensional 2055 Target Date Fund	58%	35%	7%
Dimensional 2060 Target Date Fund	58%	35%	7%

\* Target asset allocation will change over time.

**Active Target Risk Portfolios**

Active Diversified Equity Portfolio

This Investment Portfolio seeks to provide a favorable long-term total return by investing primarily in actively-managed equity Underlying Funds. Because of the high exposure to domestic and foreign equities, and 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), if they have a long investment horizon and they can tolerate a high level of risk. See table below for mutual fund allocations by asset class.

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds
Dimensional Global Equity	70%	30%

Active Moderate Portfolio

This Investment Portfolio seeks moderate growth by investing in a combination of actively-managed equity and fixed income Underlying Funds. 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 for mutual fund allocations by asset class.

MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Dimensional 60/40 Fund	42%	18%	40%

### Active Conservative Portfolio

This Investment Portfolio seeks to provide preservation of capital along with a modest rate of return. This Investment Portfolio may be appropriate for investors if they have a short to medium investment horizon and can tolerate a conservative to moderate level of risk. See table below for fund allocations by asset class.

#### MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Dimensional 25/75 Fund	18%	7%	75%

### **PASSIVE PORTFOLIOS**

Passive portfolios are comprised of underlying mutual funds, which are managed using passive decision-making processes that are generally less expensive than active management. Decisions are intended to provide long-term performance similar to that of a benchmark or index. Passively-managed mutual funds often have low relative risk due to highly similar exposures relative to the benchmark. On an absolute basis, however, passive (or index) mutual funds can have more or less risk than actively managed mutual funds.

### Passive Target Risk Portfolios

#### Passive Growth Portfolio

This Investment Portfolio seeks to provide a favorable long-term total return, mainly from capital appreciation, by investing in Underlying Funds that are primarily equity index funds. The Portfolio seeks to invest a relatively small percentage of assets to Underlying Funds that invest primarily in fixed income securities. Because of the high exposure to domestic and foreign equities, and 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), 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
Vanguard LifeStrategy Growth Fund	48%	32%	20%

### Passive Moderate Growth Portfolio

This Investment Portfolio seeks moderate growth by investing primarily in a combination of equity and fixed-income Underlying Funds. The Portfolio seeks a balanced asset allocation and invests a larger portion of its assets in Underlying Funds that invest primarily in fixed income securities than does the Active Growth Portfolio. 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
Vanguard LifeStrategy Moderate Growth Fund	36%	24%	40%

### Passive Conservative Growth Portfolio

This Investment Portfolio seeks to provide preservation of capital along with a moderate rate of return. The Portfolio seeks a balanced asset allocation and invests a larger portion of its assets in Underlying Funds that invest primarily in fixed income securities than does the Active Moderate Growth Portfolio. This Investment Portfolio may be appropriate for investors if they have a short to medium investment horizon and can tolerate a conservative to moderate level of risk.

#### MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Vanguard LifeStrategy Conservative Growth Fund	24%	16%	60%

### Passive Income Portfolio

This Investment Portfolio seeks to provide preservation of capital along with a modest rate of return. The Portfolio seeks a balanced asset allocation and invests a larger portion of its assets in Underlying Funds that invest primarily in fixed-income securities than does the Active Conservative Growth Portfolio. This Investment Portfolio may be appropriate for investors if they have a short to medium investment horizon and can tolerate a conservative level of risk.

#### MUTUAL FUND ASSET ALLOCATION PERCENTAGES – BY ASSET CLASS

Portfolio	Domestic Equity Funds	International Equity Funds	Fixed Income Funds
Vanguard LifeStrategy Income Fund	12%	8%	80%



## ADDENDUM 2

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

### Active Target Date and Target Risk Portfolios

### Benchmark

#### *Domestic Equity*

- Dimensional US Large Company Portfolio
- Dimensional US Core Equity 1 Portfolio

S&P 500 TR  
Russell 3000 TR

#### *International Equity*

- Dimensional Large Cap International Portfolio
- Dimensional International Core Equity Portfolio
- Dimensional Emerging Markets Core Equity Portfolio

MSCI World ex US  
MSCI World ex US  
MSCI Emerging Markets

#### *Fixed Income*

- Dimensional Short-Term Extended Quality Portfolio
- Dimensional Two-Year Global Fixed Income Portfolio
- Dimensional Inflation-Protected Securities Portfolio
- Dimensional LTIP Portfolio

ICE BofAML 1-5yr US Corp/Govt  
Citi WGBI 1-2yr Hdg USD  
Bbg Barc US Treasury US TIPS TR  
Citi US Infla-Linked Sec 20Y

### Active Diversified Equity Portfolio

### Benchmark

#### *Global Equity*

- Dimensional Global Equity Portfolio

MSCI World NR

### Passive Target Risk Portfolios

### Benchmark

#### *Domestic Equity*

- Vanguard Total Stock Market Index Fund

CRSP US Total Market Index

#### *International Equity*

- Vanguard Total International Stock Index Fund

FTSE Global All Cap xUS Index

#### *Fixed Income*

- Vanguard Total Bond Market II Index
- Vanguard Total International Bond Fund

BC US Aggregate Float Adj Index  
BC Global Aggregate ex USD Float  
Adj RIC Capped Index Hedged