



MEMORANDUM

To: CA Secure Choice Board
From: Mika Malone, Paola Nealon,
Meketa Investment Group
Date: February 26, 2018
Re: Summary of Investment Policy Statement Structure

Background

On January 22, 2018 Meketa presented to the California Secure Choice Board an introduction to Investment Beliefs. The goal was to achieve consensus on the broad topics to be addressed within the Belief Statement.

On February 1, Meketa further refined the proposed investment belief statements and presented Phase II to the California Secure Choice Board. In addition, two new belief topics were presented, based on feedback and Board interest: Simplicity and Transparency. Meketa presented supporting educational materials/background on several of the Belief topics, in order to assist the Board in making educated statements regarding the program beliefs.

At the February 1, 2018 CA Secure Choice Board meeting, Board members approved the final set of Investment Beliefs (Table I). In addition, the Board reached consensus on the Investment Options to include within the RFP for Program Administrator and Investment Manager Services. Both items are subject to change at the Board's request, and will be reviewed on an ongoing basis. Importantly, the beliefs were critical inputs into laying the foundation for establishing and developing CalSaver's Investment Policy Statement (IPS). A draft IPS will be presented at the February 26 meeting.

While the majority of the IPS utilizes industry standard/best practice language, there are several areas which would benefit from Board review/discussion. Below we highlight Section IV: Roles and Responsibilities, where we believe the Board should discuss the responsibilities of the various parties involved; Meketa's recommendations are also included. We also highlight two of the Appendices, which were created based on feedback at the February 1 meeting.

Roles and Responsibilities	Meketa Recommendation
<p><u>Approving</u> the categories for Investment Options, based on recommendations from the Investment Consultant.</p>	<p>BOARD, WITH INVESTMENT CONSULTANT RECOMMENDATIONS</p>
<p><u>Selecting</u> the specific Underlying Manager and vehicle (Mutual Fund, CIT, ETF, Separate Account) to fill each of the Investment Option categories based on recommendations from the Investment Consultant in collaboration with Staff.</p>	<p>BOARD, WITH INVESTMENT CONSULTANT RECOMMENDATIONS</p>
<p><u>Receiving and reviewing</u> Investment Option performance and cash flow reports from the Program Administrator and or Underlying Managers and ensuring manager guidelines and policies are being met.</p>	<p>EXECUTIVE DIRECTOR / STAFF</p>
<p><u>Monitoring</u> Investment Options, Underlying Managers and Underlying Investments, and making recommendations to the Board for changes as needed.</p>	<p>INVESTMENT CONSULTANT</p>

Table I: Investment Beliefs

Investment Beliefs		
1	Transparency	It is essential to provide transparency across the Program, including investment and program related costs.
2	Simplicity	We believe in program simplicity across all facets of CalSavers; from access to plan structure, from education to investment offerings.
3	Impact of Savings	Providing a simple vehicle for saving and investing for retirement is critical to the future financial security of retirees.
4	Impact of Markets	Given the inherent risk in markets, providing security for participant assets in the early stages of investing is crucial. Over time, we believe in offering both low-risk investment options and higher risk investment options for retirement portfolios.
5	Investment Costs	Costs directly affect retirement outcomes, and keeping them low should be integral to our program structure.
6	Breadth of Participant Options	Simplicity is the key to success for the participants of a first time retirement vehicle, and the investment lineup should reflect that goal.
7	Active vs. Passive Investments	Passive investments should be the primary investment tool for our participants. As the program matures, there may be opportunities for actively managed funds to play a secondary role.
8	Plan Design	Plan design matters and will influence the success of the CalSavers participants' ability to grow their investments over time.
9	Financial Education	Participants need access to simple, relevant, financial and investment education.
10	ESG/Socially Responsible Investing	Socially and environmentally responsible investing is an issue important to some participants, and an investment option reflecting that belief should be offered.

Table II: Investment Options Established for RFP

Investment Option	Underlying Manager	Benchmark	Vehicle Used	Expected Risk
Capital Preservation Fund	TBD	U.S. Treasury 3-Month	TBD	Lower
Core Bond Fund	TBD	U.S. Barclays Aggregate	TBD	Lower
Global Equity Fund	TBD	MSCI ACWI Index	TBD	Higher
Target Based/Risk Based Fund	TBD	TBD based on Target Series	TBD	Risks vary by Fund

We look forward to presenting the Investment Policy Statement to the Board on February 26. If there are any questions prior to the meeting, please direct them to Staff, and we will be certain to address them at the Board meeting.

cc: Katie Selenski, Brian Gould

MLM/PMN/krm