CalSavers Program

D R A F T

Investment Policy Statement

Presented

February 26, 2018

I. The CalSavers Program

The CalSavers Program (the "Program") is a retirement savings plan that enables participation through employee payroll contributions into an individual retirement account ("IRA") overseen by the California Secure Choice Retirement Savings Investment Board. The Program, created through State legislation SB 1234 in 2016, will operate at all times under the legal and statutory requirements of the State of California, as defined in Government Code Section 100000(b).

The Program will enable participants to direct plan account balances among one or more Investment Options so as to achieve desired account balance diversification.

II. Purpose of Investment Policy Statement

This Investment Policy Statement ("IPS") is intended to enable the Board to make Program investment decisions according to an established process that reflects the Board's set of Investment Beliefs (found in Appendix I).

This document outlines the underlying philosophies and processes for the selection, monitoring, and evaluation of the investment options offered to participants (the "Investment Options") and selected investment managers fulfilling those options (the "Underlying Managers").

Specifically, this Investment Policy Statement:

- Defines the Program's investment objectives.
- Defines the roles and responsibilities of various parties.
- Describes the types of Investment Options offered and the criteria applied for selecting these Investment Options and the Underlying Managers.
- Establishes investment procedures, performance measurement standards and monitoring procedures of the Investment Options offered.

This IPS will be reviewed at least annually, and will be amended as needed to reflect plan growth, plan design changes, or other factors deemed to be material by the Board.

III. Investment Options

The Board intends to offer a limited number of Investment Options at launch, in keeping with its belief that simplicity is the key to the Program. Not all the following Investment Options may be offered at all times within the Program, and each may be subject to specific investment criteria or restrictions established by the Board. The Program may offer additional or different Investment Options in the future, at the discretion of the Board. A full list of the specific Investment Options, including the Underlying Manager and vehicle (e.g., mutual fund, ETF, commingled fund, separate account, CIT, referred to as the "Underlying Investment") utilized to fulfill each Option, and the benchmarks for each Option, can be found in Appendix II.

Potential Investment Options include:

- **Capital Preservation Fund,** with the primary objective of seeking investment safety and liquidity.
- **Core Bond Fund,** with the primary objectives of safety and achieving income, while allowing for appreciation over time.
- **Global Equity Fund,** with the primary objective of providing an investment option exposure to the equity markets, composed of stocks in the U.S. and abroad.
- **Risk-Based or Age-Based Suite of Funds,** with the primary objective of constructing a diversified portfolio of stocks and bonds that either more closely resembles a participant's risk profile or the participant's retirementtime frame.
- **Environmental, Social, and Governance (ESG) Fund,** with the primary focus on social and environmental responsibility, for participants who wish to express their investment and personal views through such a vehicle.

IV. Roles and Responsibilities

The Board shall be responsible for:

- Establishing and maintaining the IPS.
- Selecting and monitoring, based on the evaluation committee recommendation, the Program Administrator/Program Manager.
- Approving the categories for Investment Options, based on recommendations from the Investment Consultant in collaboration with Staff.
- Selecting 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.

- Receiving quarterly reviews evaluating the Program's Investment Option and Underlying Manager performance, as presented by the Investment Consultant.
- Overseeing outside advisors and vendors, as appropriate, including, but not limited to, the Program Manager, Investment Consultant and Underlying Managers.
- Receiving and reviewing Investment Option performance and cash flow reports from the Program Administrator and or Investment Managers, and ensuring manager guidelines and policies are being met.
- Ensuring that Policies and Procedures related to the Program are updated, as needed.

The Investment Consultant shall be responsible for:

- Providing the fully outlined Scope of Work as laid out in the contract, including, but not limited to;
- Developing the Investment Policy Statement (IPS) and Investment Beliefs, for Board and Staff approval.
- Monitoring Investment Options, Underlying Managers and Underlying Investments, and making recommendations to the Board for changes as needed.
- Providing performance reporting, on at least a quarterly basis, for all Investment Options.
- Providing investment education to the Board as needed.

The Program Administrator/Manager shall be responsible for:

- Creating the ability for the change of Investment Optionsas well as the underlying managers and underlying investments within theProgram, at the Board's direction.
- Providing online and telephone account access and support to Program participants.
- Providing account balance and investment performance reporting for Program participants.
- Providing financial and investment related educational materials for participants.

V. Investment Options

An Investment Option may be added or removed from the Program lineup, based on the perceived needs and utilization of the Program participants. Other factors, including industry best practices and new or evolving research may influence the investment options chosen for the lineup. The intent of the Board is to select Investment Options which will be retained in the Program lineup for the long term, making changes only when necessary for the effectiveness of CalSavers.

All Investment Options, Underlying Investments, Underlying Managers, and their respective benchmarks can be found in Appendix II.

VI. Selection of Underlying Managers

The Program will offer Investment Options for participants to diversify their IRA account balances.

In selecting the Underlying Managers to fulfill the Investment Options provided by the Program, the following characteristics shall be examined by the Investment Consultant, and utilized to recommend the Underlying Managers to Staff and the Board:

- Investment approach (active vs. passive, fundamental vs. quantitative).
- Investment process and personnel, focusing on stability and capability of the team.
- Fees, including "revenue sharing."
- Risk-adjusted returns over various time periods.
- Style consistency throughout market cycles.
- General suitability for individual investors, and specific suitability for the CalSavers Program.

VII. Underlying Manager Monitoring/Termination

An Underlying Manager will be evaluated for their ability to meet the following objectives, and may be terminated/replaced when the Board, under the recommendation from the investment consultant, has determined that the Manager is no longer able to:

- Achieve performance and risk objectives (generally meeting index returns minus fees for passive strategies or exceeding benchmark returns for active strategies) over a full market cycle of 3-5 years,
- Consistently apply their stated investment process,
- Comply with investment guidelines,
- Provide participants with suitable diversification,

- Comply with reporting requirements, or Maintain a stable organization and retain key relevant investment professionals.

Board may add, remove or replace the Underlying Managers and/or vehicles being offered within an Investment Option at its discretion, and for reasons not included in this document.

A terminated Underlying Manager shall be replaced according to one of the following approaches:

- Combine existing funds with another Underlying Manager strategy available in the Program by the mapping or transfer of assets.
- Replace with a new Underlying Manager by the mapping or transfer of assets.

Replacement of a terminated Underlying Manager will follow the criteria outlined in Part VI, Selection of Underlying Managers.

VIII. Monitoring Costs

Monitoring of investment related costs shall occur on a regular basis by the Staff and Investment Consultant, and shall focus on the investment management costs borne by participants, as well as the administrative and program-related costs that impact the overall Program.

IX. Participant Education and Communication

The Program will regularly communicate to participants their responsibility for investment decisions, permit changes among Investment Options and Underlying Managers with reasonable frequency, and provide educational materials that will enable participants to make informed financial and investment related decisions.

X. Coordination with the CalSavers Program Plan Document

Notwithstanding the foregoing, if any term or condition of this IPS conflicts with any term or condition in the CalSavers Plan Document or legislation, the terms and conditions of the Plan Document or applicable law shall control.

APPENDIX 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 Participants 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 Investments:** Socially and environmentally responsible investing is an issue important to some participants, and an investment option reflecting that belief should be offered.

Appendix II

Investment Options and Benchmarks

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

APPENDIX III

GLOSSARY

Glossary of Terms:

Active Investing: An investing strategy that attempts to outperform the market, with portfolio managers buying only those stocks represented within a specified index, that the portfolio manager believes are superior and could outperform.

Alpha: Alpha is an estimate of the contribution to investment performance attributable to the manager's selection of securities. It is calculated by subtracting the manager's return from the benchmark return.

Annual Return: The total return of a security over a specified period, expressed as an annual rate of interest.

Annualized: A figure (as in a percentage) calculated by a formula to find the "average" performance per year for a period greater than one year.

Assets Under Management (AUM): Measures the total market value of all the financial assets which a financial institution such as a mutual fund, manages on behalf of its clients and themselves.

Basis Points (bps): One one-hundredth of one percent. One hundred basis points equal one percent.

Bear Market: A market characterized by a trend of falling prices.

Benchmark: A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Beta: A measure of the volatility of a stock relative to the overall market. A beta of less than one indicates lower risk than the market; a beta of more than one indicates higher risk than the market.

Bull Market: A market characterized by a trend of rising prices.

Collective Investment Trust (CIT): Also known as a collective investment fund (CIF), are similar to mutual funds in that they pool investor money, but they are only available to qualified retirement plans. They are sponsored by a bank or trust company, and are regulated by the Office of the Comptroller of the Currency rather than the Securities and Exchange Commission, which oversee mutual funds. CITs are gaining traction among retirement plans, particularly because of lower costs.

Commingled fund: A **fund** consisting of assets from several accounts that are blended together. Investors in **commingled fund** investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management.

Common Stock: Ordinary capital stock (representing ownership) in a company. Common stock does not enjoy the special privileges of preferred stock, but has voting rights.

Coupon Income (Average Coupon): The annual coupon payments of a bond divided by the par value.

Current Yield: The annual coupon payments of a bond divided by the market price.

Dividend: A cash or other distribution to preferred or common stockholders.

Equity: Ownership or proprietary rights and interests in a company. Synonymous with common stock.

ESG (Environmental, Social and Governance): A generic term used in capital markets and used by investors to evaluate corporate behavior and to determine the future financial performance of companies.

Exchange-Traded Funds (ETF): A marketable security that tracks an index, commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. ETFs typically have higher daily liquidity and lower fees than mutual fund shares, making them an attractive alternative for individual investors. Because it trades like a stock, an ETF does not have its net asset value (NAV) calculated once at the end of every day like a mutual fund does.

Glidepath: Refers to a formula that defines the asset allocation mix of a target date fund, based on the number of years to the target date. The glide path creates an asset allocation that typically becomes more conservative (i.e. includes more fixed-income assets and fewer equities) the closer a fund gets to the target date.

Gross of Fees Performance: Performance presented before fees are taken into account, thereby overstating the actual, final performance return. See also “net of fees performance”.

Index: A statistical yardstick composed of a basket of securities with a set of characteristics. An example of this would include the "S&P 500" which is an index of 500 stocks.

Interest-Rate Risk: When interest rates rise, the market value of fixed-income securities (such as bonds) declines. Similarly, when interest rates decline, the market value of fixed-income securities increases.

Market Capitalization: The market value of all outstanding shares of common stock of a company. Derived by multiplying the number of shares outstanding at month- end by the month-end closing price of the security.

Maturity: The date on which a loan, bond, mortgage or other debt security becomes due and is to be paid off.

Modern Portfolio Theory: The theoretical framework for designing investment portfolios based upon the risk and reward characteristics of the entire portfolio. The major tenet of the theory holds that reward is directly related to risk, which can be divided into two basic parts: 1) systematic risk (portfolios' behavior as a function of the market's behavior), and 2) unsystematic risk (portfolios' behavior attributable to selection of individual securities). Because un-systematic risk can be largely eliminated through diversification, the portfolio will be subject principally to systematic risk.

MSCI ACWI (All Country World Index): A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

Mutual Fund: An investment vehicle that is offered by an Underlying Manager, which brings together money from many different groups (individuals, institutions, or others) and invests in stocks, bonds, or other assets. Strikes a NAV (Net Asset Value) daily, and is SEC registered.

Net Asset Value (NAV): NAV is a fund's price per share, or per each dollar invested. NAV per share is computed once a day based on the closing market prices of the securities and is calculated by dividing the total value of the Fund's portfolio, less any liabilities, by the number of fund shares outstanding.

Net of Fee Performance: Return of the investment after all fees, expenses and taxes.

Passive Investing: An investing strategy that tracks a market-weighted index or portfolio. The most popular method is to mimic the performance of a specified index by buying an "index fund".

Price/Earnings Ratio: A popular measure of relative stock value and investor expectations of future earnings growth. Calculated by dividing the current month end stock price by the latest 12-months reported earnings per share.

Recession: A decline in total physical output that lasts six consecutive months or more. A growth recession is marked by a six- month or longer slowdown (but no decline) in the growth rate.

Return Correlation: The relationship between the returns on investments. A negative return correlation between two investments means that most of the time when investment A has a positive return, investment B will have a negative return.

Risk-vs.-Return: Risk measures the probability of financial loss. Investors often compare risk, as measured by standard deviation of returns, to historical or expected return when making investment decisions. Typically, investors demand higher returns for investments they consider more risky.

Russell 3000 Index: The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Separate Account: Also known as individually managed accounts, these are reserved for investors whose portfolios are large enough to warrant a separate account with a specific investment mandate. Two primary advantages to a separate account structure are 1) withdrawals from other investors do not negatively impact performance as all transactions are a result of selling the investor's own securities and 2) improved transparency and easier performance reporting as the entire account belongs to the investor and there is no need to divide securities or their associated returns on a proportionate basis.

Standard Deviation: Statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. In portfolio theory, the past performance of securities is used to determine the range of possible future performances and a probability is attached to each performance. The standard deviation of performance can then be calculated for each security and for the portfolio as a whole. The greater the degree of dispersion, the greater the risk.

Target Date Funds: Single diversified, multi-asset class strategy utilizing a "glidepath" that systematically reallocates assets to become more conservative over time based upon a participants targeted retirement date.

Target Risk Funds: Suite of diversified, static multi-asset class strategies with varying objectives providing participants investment options based upon stated risk tolerance, time horizon, circumstance, and investment objectives.

Total Return: The aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period.

Treasury Bill: A non-interest bearing obligation, fully guaranteed by the U.S. Government, payable to the bearer. Bills are sold on a discount basis so that the income is the difference between the purchase price and the face value.

Treasury Bond: A coupon security of the U.S. Treasury which may be issued with any maturity but generally carries a maturity of more than 10 years.

White-label Funds: Branded Investment Options that have no reference to a fund company/investment manager. Instead, they are branded by their asset class or objective. They can be constructed as either a single investment strategy, or as a portfolio of multiple underlying investment vehicles structured to the fund's objectives. They can also contain a mix of passive and actively managed strategies. For example, "CalSavers Global Bond Fund" might include a mix of different managers selected by the Board.

Yield: The rate of annual income return on an investment expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price of the security.

Yield Curve: A graphic depiction of interest rates across all maturities, 0-30 years. The shape of the curve is largely influenced by the Federal Reserve Policy.