COUNTY DEPARTMENT AGENDA REQUEST

Department:	Administration	Presenter(s):	County Administrator
Meeting Date:	Thursday, March 11, 2010	Type of Request:	New Business

Wording for the Agenda:

Approval of staff's recommendation to establish a Pension Committee for the quarterly review of fund performance for the County's Defined Contribution Plan, 401A and 457B Retirement Plans.

Background/History/Details:

The County changed the provider for the County's 401A and 457B Defined Contribution Plans from the Hartford, Inc. to Mass Mutual in July 2008. The Plan is administered by Morgan Stanley-Smith Barney. The firm has requested that the County establish a Pension Committee which can monitor the performance of funds being made available to employees in which to invest their employee contributions. Quarterly reports will be provided to the Committee by Morgan Stanley-Smith Barney which will provide a synopsis of individual fund performance against established benchmarks. This information is then utilized to determine if funds need to be added or removed from further investment or placed on a "watch list" to ensure optimum performance for plan participants. Historically, under previous plans no such committee existed.

What action are you seeking from the Board of Commissioners?

Approve the formation of a Pension Committee consisting of the following members: A member of the Board of Commissioners, the County Administrator, Human Resources Director, Water System Director, Public Safety Director, and the Sheriff.

If this item requires funding, please describe:

No funding is required.

Has this issue come before the Commissioners in the past?	No	If so, when?	
Do you need audio-visual for the presentation?	No	Back-up Material Submitted?	Yes

STAFF USE ONLY

Approved by Finance		Reviewed by Legal	
Approved by Purchasing		Approved by County Clerk	Yes
Administrator's Approval	Yes		

Staff Notes:

SAMPLE

INVESTMENT POLICY STATEMENT

FOR

Fayette County, GA 401(a) and 457 RETIREMENT SAVINGS PLANS

February 24, 2010

Plan Information

Plan Name:	Fayette County 401(a) and 457 Retirement Savings Plans
Type of Plan:	Defined Contribution / 401(a) Plan and 457 Deferred Compensation Plan
Plan Adoption Date:	7/1/2009
Plan Number:	60325-1 and 60325-2
Trust ID Number:	

Responsible Parties

The parties responsible for managing and operating the plan include but are not limited to:

Plan Sponsor:	Fayette County Board of Commissioners
Investment Provider:	MassMutual Financial Group
Trustees:	
Broker of Record/Advisor	James M. Fallon

Purpose of This Investment Policy Statement

The Investment Policy Statement establishes investment principles and framework for selecting, monitoring and evaluating investment options under the Plan and has been adopted by the Plan Sponsor.

Periodically we will review this Investment Policy Statement, and if appropriate, amend it to reflect changes in the market, plan participant objectives, or other factors relevant to the Plan.

The Investment Policy Statement defines the Plan's investment objectives as well as the roles of those responsible for the Plan's investments. It also establishes investment, measurement and monitoring procedures.

If this Investment Policy Statement conflicts with the Plan Document, the provisions of the Plan Document will prevail.

Plan Objectives and Purpose

The Fayette County Board of Commissioners sponsors the Fayette County 401(a) and 457 Retirement Savings Plan to provide employees with a vehicle for saving for their retirement. Plan participants direct their individual account balances among the investment options selected by the Plan Sponsor. The plan provides participants with the opportunity to make their own investment choices and permits them to make changes to their allocation instructions daily. The Plan Sponsor strives to provide a range of investment options that will enable all participants to invest in the way that they feel best suits their long-term investment objectives.

This plan is a qualified employee benefit plan intended to comply with all federal laws and regulations. The Plan's investment funds will be selected and monitored with the skill, care and diligence that a prudent individual acting in a like capacity would undertake. The Plan is intended to qualify under the qualified cash or deferred arrangement rules of Code Section 401(k). The Plan is a participant directed individual account plan that is intended to comply as a "404(c) Plan" within the meaning of the Department of Labor Regulations under ERISA Section 404(c) and as such, it provides individual accounts for Plan participants to select how these individual accounts shall be invested and therefore, the Plan Sponsor shall not be liable for any loss that results from a participant's exercise of control over the investment of his or her participant accounts.

Roles and Responsibilities

The responsibilities of the *Plan Sponsor* include:

- Selecting the Trustee
- Hiring the Investment Provider and/or Recordkeeper
- Appointing the member(s) of the Investment Committee

The responsibilities of the *Plan's Trustee(s)* include:

- Investing plan assets in accordance with the Terms of the Trust Agreement as directed by the Plan Sponsor

The responsibilities of the *Investment Provider* include:

- Providing financial information on a regular basis as determined by the Plan
- Making reasonable investment decisions consistent with the stated approach
- Providing information to assist the Plan Sponsor

The responsibilities of the *Investment Committee (the Plan Sponsor)* include:

- Developing a sound and consistent investment policy
- Selecting a suitable investment provider
- Selecting diversified investment options with varying objectives and risk/return characteristics
- Monitoring and evaluating performance results and recommending investment option changes
- Providing employees with investment education to help them be informed investors

The responsibilities of the *Recordkeeper* include:

- Maintaining and updating individual account balances
- Updating plan contributions as well as withdrawals and distributions

Selecting and Monitoring the Investment Options

The Fayette County 401(a) and 457 Retirement Savings Plans recognize different investors have different investment objectives. The Plans strive to provide participants with an appropriate range of investment options to meet the various risk profiles of its participants.

Investment Selection

The Plan intends to provide an appropriate range of investment options that will span the risk/return spectrum and allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. In order to offer a broad range of investment alternatives so that each participant has a reasonable opportunity to:

- Materially affect both the potential return and degree of risk relating to his or her accounts
- Choose from diversified investment alternatives
- Diversify his or her investment to minimize the risk of large losses

The Plan will offer a selection of open-ended registered investment companies (i.e. mutual funds) or similar investment vehicles, each of which consists of internally diversified portfolios within their asset classes.

In the process of selecting the funds to be used as the Plan's investment alternatives, the Investment Fiduciary will first select the asset classes and investment styles intended to satisfy the broad range requirement. At a minimum, the Plan's investment alternatives should provide participants the opportunity to invest in vehicles designed to maintain a stable principal value (i.e. cash equivalents), vehicles designed to primarily target domestic bonds, vehicles designed to primarily target domestic equities, and vehicles designed to primarily target international equities.

Major asset classes to be offered will include:

- Short-term/Stable Value
- Fixed Income
- Large Cap Value
- Large Cap Core
- Large Cap Growth
- Mid Cap Growth
- Mid Cap Core
- Mid Cap Value
- Small Cap Growth
- Small Cap Core
- Small Cap Value
- International/Global
- Specialty

Because the Plan Sponsor recognizes some plan participants desire assistance in making investment decisions, the Plan also offers asset allocation/balanced strategies. These options offer a simple means to implement an asset allocation policy by having investment professionals implement and monitor the asset mix. A participant only chooses one balanced/asset allocation option to implement a chosen investment strategy.

Investment Monitoring and Reporting

The ongoing monitoring of each investment option must be a regular and disciplined process. Monitoring will occur on a regular basis. Adherence to the specific investment objectives and criteria contained herein will be evaluated over a full market cycle, which historically has been five to seven years. The Plan Sponsor may, from time to time as warranted, modify these objectives and criteria according to the Plan Sponsor's discretion in consultation with its financial advisors as it deems appropriate. Generally, the Plan Sponsor realizes investment managers should be given a full market cycle to achieve stated objectives; therefore, greater weight will be given to market cycle performance than performance in any given year. However, the Plan Sponsor recognizes that economic, political, social or other changes could occur requiring action sooner than a full market cycle. Investment options that consistently underperform in terms of risk and return will be carefully reviewed to determine if any action is warranted.

When selecting investment options, each investment manager must meet certain minimum criteria:

1. They must be a bank, insurance company or investment management company, or an investment advisor under the Registered Investment Advisors Act of 1940.
2. They must be operating in good standing with regulators and clients, with no material pending or concluded legal actions.
3. They must provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.

The Plan Sponsor will review the investment objectives and risk characteristics, historical performance, and expenses related to each available Plan investment option and choose a specific option based on these procedures and objectives. The Plan Sponsor recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investment vehicles. While high levels of risk are to be avoided, the assumption of risk is warranted and encouraged to allow the Plan Sponsor the opportunity to achieve satisfactory long-term results consistent with these procedures and objectives.

For supported asset classes, an investment manager (fund) "report card" will be maintained and documented (see addendum) in order to substantiate acceptable levels of manager performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each fund will receive a score reflecting its overall performance.

If a fund fails to meet the criteria standards, as determined by its score, it will be placed on a "Watchlist." (In the event a fund receives a score which is below that of "Watchlist" status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for removal at the earliest feasible date.) If this fund continues to remain on "Watchlist" for the following three quarters, the fund will be considered for possible removal.

Investment Option Termination

Generally, all investment options are expected to:

- Perform as well as or better than their prescribed performance standards and risk objectives
- Maintain a consistent investment style

Any recommendation to terminate an investment option will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include investment option manager turnover, or material change to investment processes. Considerable judgment will be exercised in the termination decision process. In any case, the Plan Sponsor shall have full discretion and reserves the right to offer or terminate an investment option at any time, for any reason. Once the decision to terminate an investment option is made, asset transfer and liquidation should be handled to the best advantage of the Plan by removing and replacing with an alternative manager and moving existing assets directly to the alternative manager.

Administrative Review Procedures

The Plan Sponsor is accountable for monitoring and evaluating the investment options chosen for the plan. All chosen investment options will be reviewed periodically for acceptability, under the guidelines outlined above.

Communication Policies

At enrollment and on an ongoing basis, the record-keeper provides participant communication materials that include sufficient information for participants to make informed decisions regarding their individual asset allocations and retirement planning needs.

ADDENDUM: INVESTMENT MONITORING AND REPORTING

Methodology:
Morgan Stanley Smith Barney Report Card Point System

When investing in actively managed non-index mutual funds, investors make two critical assumptions: 1) that skillful managers exist, and 2) that they have the ability to recognize them. The MSSB Report Card System attempts to identify skillful active managers by evaluating mutual fund managers on both quantitative and qualitative factors.

The scores, based on pass/fail criteria, range from 0 to 10 (with 10 being the best).
Eighty percent of a fund's score is quantitative, based on modern portfolio theory statistics and peer group rankings. The quantitative aspect consists of eight factors which are evaluated over a five year rolling return period. The remaining 20% of the score is qualitative, reflecting such measures as manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy.

Considered together, these factors allow us to measure the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a plan as an investment option in accordance with the plan's Investment Policy Statement.

Quantitative Factors (1-8):
Evaluation Criteria
Style Factors – 30%

1) Style Analysis: Returns-based analysis to determine the style characteristics of a fund over a period of time. A fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the plan.
2) Style Drift: Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. A fund passes if it exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.
3) R-Squared: Measures the % of a fund's returns that are explained by the benchmark.
A fund passes with an R2 > 80%. This statistic measures whether the benchmark used in the analysis is appropriate.

Risk/Return Factors – 30%

4) Risk/Return: Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired.
5) Up/Down Capture Analysis: Measures the behavior of a fund in up and down markets. Fund passes with an up capture > its down capture. This analysis measures the relative value by the manager in up and down markets.
6) Information Ratio: Measures a funds relative risk and return. Fund passes if ratio is greater than 0. This statistic measures the value added above the benchmark, adjusted for risk.

Peer Group Rankings – 20%

7) Returns Peer Group Ranking: Fund passes if its median rank is above the 50th percentile.
8) Information Ratio Peer Group Ranking: Fund passes if its median rank is above the 50th percentile. This ranking ranks risk adjusted excess return.

Qualitative Factors – 20%

9-10) Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors, which may impact future performance.

The MSSB Report Card analysis helps identify both managers who have skillfully performed in the top half of their specific sectors and also to identify those that have been rather less successful. The Report Card provides guidelines to assess the funds.

We typically rank funds according to the following scale:

9-10 - Excellent
7-8 – Good
5-6 – Marginal
0-4 – Poor

These reports provide us with actionable measures. A fund scoring 6 or higher is considered acceptable. A report of below 6 raises quality concerns and we believe that the manager would warrant further scrutiny. A report of 6 or lower puts a fund on the Watchlist. If no improvement or extenuating circumstances present themselves over subsequent quarters, a recommendation to remove the particular fund and replace it with a better alternative may be made for the pension board's approval.