



INVESTMENT POLICY STATEMENT

Kern County Deferred Compensation Plan

Plans I and II

Revised and approved by the Deferred Compensation Advisory Committee
on October 22, 2009 effective November 1, 2009

PURPOSE:

This Investment Policy Statement (“Policy Statement”) sets forth the goals and objectives of the investment options available under the Kern County Defined Contribution Plan (“the Plan”). The purpose of this Policy Statement is to guide the Administrator (Kern County Treasurer-Tax Collector) and Advisory Committee (Kern County Auditor-Controller-Clerk, Administrative Officer, and Treasurer-Tax Collector, or their designees i.e.; the “Committee”) in effectively supervising, monitoring and managing the investment options available under the Plan. This Policy Statement is designed to allow for sufficient flexibility in the management oversight process, while also setting forth reasonable parameters to promote the exercise of reasonable prudence and care with respect to the investment options available under the Plan. This Policy Statement provides a framework for the selection of investment options, a procedure for the ongoing evaluation of the investment options available under the Plan, and guidelines for terminating and replacing any available investment option(s). These guidelines, recommended by the Administrator and approved by the Committee will be revised and modified as appropriate on a periodic basis to reflect such factors as changes in the investment environment, manager performance, participant objectives and the Committee’s expectations.

BACKGROUND:

The Kern County Deferred Compensation Plan I and Plan II are eligible State deferred compensation plans within the meaning of Internal Revenue Code Section 457(b) and California Government Code Section 53213, et seq. The Plan is intended to provide eligible employees a means to save monies on a tax-advantaged basis in order to assist the employee in reaching his/her retirement goals. Participation in Plan I is voluntary and Plan II is mandatory.

Plan I allows each eligible employee to direct how contributions made to his or her Plan account are invested among a diverse menu of investment options selected by the Committee. The Committee shall choose which investment options shall be available under the Plan and shall monitor the investment options’ compliance with this Policy Statement.

Plan II investment option is limited to the Kern Stable Value Fund because it is designated as a social security substitute mandated for temporary, seasonal, and part-time employees.

The Administrator and Advisory Committee do not provide investment advice to any participant or assist any participant in deciding how to allocate contributions to the participants’ plan accounts. No fiduciary shall be responsible for any financial loss that may be incurred by any participant as a result of the participant’s investment direction or as a result of any action taken in accordance with the participant’s investment direction.

Plan I Structure 457(b)

The Plan I structure permits the County's Eligible Employees to defer portions of their Compensation until death, Severance from Employment, or other qualifying events provided herein in accordance with §53213 through §53214, inclusive, of the California Government Code. The Plan constitutes an "eligible State deferred compensation plan" within the meaning of Internal Revenue Code §457(b) and Government Code §53213, et seq. The complete plan document is at <http://www.kcttc.co.kern.ca.us/kcdcp.cfm>.

Plan II Structure 457(b)

The Plan II structure establishes and operates a "retirement system" satisfying the requirements of §3121(b)(7)(F) of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), §31.3121(b)(7)-2 of the Income Tax Regulations promulgated there under, and corresponding provisions of the Social Security Act. This shall be accomplished by the use of a deferred compensation plan eligible under §457(b) of the Code and Government Code §53213, et seq. The complete plan document is at <http://www.kcttc.co.kern.ca.us/kcdcp.cfm>.

INVESTMENT OPTION SELECTION:

The Committee recognizes that there is investment risk inherent in all investment options. Furthermore, the Committee recognizes that individual participants each have their own level of risk tolerance. The Committee shall, therefore, select a broad array of investment options providing different levels of risk and historical return. To this end, the Committee shall select investment options based upon the following criteria:

1. Selected investment options shall represent the major asset classes. When appropriate, both active and passive management styles will be utilized. For purposes of this Policy Statement, the following major asset classes will be used, at a minimum, as defined by Morningstar® (an independent fund evaluation company):
 - a. International: Foreign Stock;
 - b. U.S. Small-Cap Equity;
 - c. U.S. Mid-Cap Equity;
 - d. U.S. Large-Cap Equity;
 - e. Bond;
 - f. Balanced/Asset allocation funds; and
 - g. Money Market/Stable Value
2. From funds in the domestic equity asset classes identified above in 1(b), 1(c) and 1(d), the Committee will attempt to choose investment options with contrasting stock selection styles. The Committee will attempt to choose investment options that tend to purchase both "value" stocks (stocks that are purchased because the fund manager believes the stock is under valued or stocks that provide income streams in the form of dividends) and "growth" stocks (stocks of companies who have shown accelerated earnings).

3. The Committee shall select investment options based upon administrative, pricing and other mutually agreeable criteria in cooperation with the Plan's recordkeeper.
4. The expense ratio of the investment options must be competitive with other investment options with similar objectives as measured by the applicable Morningstar® Category average.
5. Wherever practicable, the Committee will choose investment options that are offered by companies that have a reputation as being among the industry's leaders.
6. Wherever practicable, the selected investment options shall have at least three years of investment history. Furthermore, the Committee will attempt to choose investment options where the investment manager exhibits style (i.e. growth, or value, large cap or small cap) consistency over at least a three-year period of time. Lastly, wherever practicable, the specific fund manager shall have managed the fund for at least two years.
7. The Committee may offer a Self-Directed Brokerage Account (SDBA). A self-directed brokerage account allows individual participants to select from numerous mutual funds and other types of securities, such as stock and bonds, for an additional fee. Investments through a SDBA are limited to 30% of the individual participant's total account balance. Additional terms and conditions may apply.

In accordance with the above criteria, the Committee shall choose investment options that have consistently outperformed their peer groups on both a total return and risk-adjusted basis.

INVESTMENT OPTION PERFORMANCE STANDARDS:

The Committee shall review each of the selected investment options at least annually to evaluate the investment option's performance. The Committee may utilize a consultant and/or recordkeeper to assist in the evaluation process. The investment option review shall be objective, fair and shall incorporate statistical analysis provided by an independent third party. The Committee shall utilize the following performance benchmarks:

1. **Actively Managed Funds:** Each Fund shall be benchmarked against its respective peer group as determined by the Morningstar® Category. The Morningstar® Category identifies funds based on their actual investment styles as measured by the underlying portfolio holdings over the trailing 36-month period.
 - **Return Composite:** The Return Composite measures the fund's performance relative to its peer group on a net-of-fee basis. It is calculated by taking the equally weighted average of the 3, 5 and 10 year return percentiles.
 - **Sharpe Composite:** The Sharpe Composite measures the fund's risk-adjusted performance relative to its peer group. It is calculated by taking the equally weighted average of the 3 and 5 year Sharpe percentiles.
 - **Overall Composite:** The average of the **Return Composite** and the **Sharpe Composite** determines the Overall Composite where an Overall Composite above the 50.0% percentile is considered above benchmark.

- **Morningstar® Ratings:** The Morningstar® Rating is a quantitative measure of risk-adjusted returns. This rating shows how well a fund has balanced risk and return relative to other funds in the same **Morningstar® Category**. The Morningstar® Rating is calculated over a 3, 5 and 10 year time period on a 1 through 5 scale. A 3, 4 or 5 rating is considered “Above benchmark”, while a 1 or 2 rating is considered “Below Benchmark.”
- **Overall Rating:** The below matrix combines the **Overall Composite** with the **Morningstar® Rating** to determine if a fund is Above Benchmark, Neutral or Below Benchmark for the most recent quarter-end time period.

Overall Composite		Morningstar® Rating	Overall Rating
>= 50.0%	AND	3, 4 or 5	Above Benchmark
>= 50.0%	OR	3, 4 or 5	Neutral Rating
< 50.0%	AND	1 or 2	Below Benchmark

- **Long-Term Rolling Analysis**

To assess the long-term consistency of fund performance, the previous 12 quarters are examined based on the accumulated Overall Ratings:

Consecutive Quarters Below Benchmark		Quarters Below out of trailing 12	Long-Term Rolling Analysis
< 4 Quarters	AND	< 7	Pass
>= 4 Quarters	OR	>= 7 Quarters	Fail
Overall Rating: ≤ 25.0%			Fail

2. **Passively Managed Variable Funds (Index Funds):** The Index Fund will track its respective index within a 25 basis point range, gross-of-fees, as measured on an annual basis. This tracking-error range shall be adjusted upward for International and Extended US Market Index funds.
3. **Kern Stable Value Fund:** The Kern Stable Value Fund guidelines relating to types of investments, short-term investments, duration of investments, credit quality, diversification, reporting, trading authority, and a provision for changes in investment guidelines are detailed in Attachment “A”.

The Committee recognizes an investment's performance can move in cycles over time and investment option performance will not always be superior. As such, the Committee will generally monitor selected investment option performance on a periodic basis, but not less frequently than annually. The Committee will give fund managers sufficient time to remedy any underperformance before the investment option is deleted from the available investment option array available under the Plan.

While the primary analysis of the investment option will be quantitative, the Committee reserves the right to make decisions regarding the investment option based upon other criteria that it believes will be in the best interest of the Plan and the participants.

Within the guidelines set forth above, the Committee will evaluate investment options with the assistance of the consultant or recordkeeper. Investment options that do not perform at or above their respective benchmark will be subject to the Plans' policies regarding underperforming investment options.

UNDERPERFORMING INVESTMENT OPTIONS:

The Committee may take the following steps in the event that an investment option is rated "Below Benchmark" for the current quarter or that "Fail" the Long-Term Rating criterion:

1. If the Committee determines that an investment option is rated Below Benchmark for the current quarter, then the investment option shall be placed on a "watch list." While an investment option is on "watch," no action will be taken to terminate and replace the investment option. The fund manager will be informed, and additional information will be gathered as to why the investment option is under performing. The Committee may invite the fund manager to meet and explain the investment option's performance.
2. Should an investment option that was on the "watch list" subsequently exceed its benchmarks, it will be taken off the "watch list" and the investment option will again be in "good standing." If the investment option's performance continues "Below Benchmark" for four consecutive quarters or seven out of the trailing twelve or receives an Overall Rating of 25% or less, then the investment option has "Failed" the Long-Term Rating. The Committee may notify participants of the failure and the investment option that failed its benchmarks may be closed to new contributions. Additionally, the Committee may choose to select a new investment option in the same asset class. The Committee, in its discretion, may also choose to terminate the investment option that failed its benchmarks and transfer its assets or designate an existing or new investment option to receive the assets from the investment option that failed its benchmarks. To the extent practical, these investment option deletions will only occur once per calendar year.

OTHER CONSIDERATIONS:

The Committee, in its discretion, may conduct informal reviews and evaluations of an investment option at any time. The Committee may place an investment option under formal review, or immediately terminate an investment option for any reason, including, but not limited to, the following:

1. The investment option has changed managers, or such a change appears imminent;
2. The investment option has had a significant change in ownership or control;
3. The investment option has changed its investment mandate or has experienced style drift, departing from the investment objectives or parameters in its prospectus;

4. The investment option has experienced substantial portfolio turnover;
5. The investment option has experienced difficulty in transacting trades, fund transfers, or pricing;
6. The investment option has experienced other changes or problems in its procedures, operations, investing, reporting, or lack of employee participation, which in the Committee's view, has or could detract from the objectives of the Plan;
7. Any other circumstance regarding the investment option that the Committee determines is in conflict with this Policy Statement; or
8. Recognizing that retaining a fund or fund complex that has been involved in a scandal may be detrimental to the marketing of the Plan to participants this criteria allows the Committee to delete funds or entire fund complexes depending on their involvement in a scandal or regulatory violation. The Committee shall establish a rating for each mutual fund complex offered in the Plan to be called the Fund Complex Corporate Rating. Levels Red, Yellow and Green will be determined. These ratings will be incorporated in the Fund Performance Report. The Fund Complex Corporate Ratings will be determined periodically.

i. Red Fund Complex Corporate Rating –

A fund complex or any of its respective funds may be placed on the Red Fund Complex Corporate Rating and may be terminated or disqualified from participating in the discretionary products if that fund complex is determined to have committed the most severe breaches of their fiduciary duty.

ii. Yellow Fund Complex Corporate Rating –

A fund or fund complex will be put on the Yellow Fund Complex Corporate Rating watch list if the fund complex is determined to have committed significant breaches of their fiduciary duty.

iii. Green Fund Complex Corporate Rating –

A fund or fund complex that has not been implicated in any regulatory violations of infractions nor has admitted to committing such activities.

CHANGES TO POLICY STATEMENT:

This Policy Statement has been formulated by the Committee based on consideration of a wide range of policies, and describes the prudent investment process that the Committee deems most appropriate for the Plan. The Committee shall review this Policy Statement at least annually. The Committee may amend this Policy Statement as it deems advisable from time to time. This Policy Statement was adopted by the Committee on October 22, 2009, supercedes any previously negotiated Investment Policy Statements, and shall remain in force until amended or revoked.

ATTACHMENT “A” Fund Guidelines

Kern Stable Value Fund

Investment Objectives

Within the parameters as stated below, the objectives in order of importance of the fund are:

1. Stability and predictability of return
2. Provide sufficient liquidity to pay plan benefits
3. Earn a higher level of return than treasury bonds

Types of Investments

Great-West Retirement Services may invest the assets of the Kern Stable Value Fund in any or all of the following:

- A. United States Treasury Securities including Treasury Bills, Notes, Bonds, and Strips.
- B. United States Agency securities.
- C. Mortgage-backed securities issued by GNMA, FNMA, or FHLMC.
- D. Collateralized mortgage obligations (CMO's) secured by GNMA, FNMA, or FHLMC.
- E. Instruments of Commercial Banks domiciled in the United States.
- F. Investment grade corporate bonds (including debt obligations of commercial banks) rated AA- or better at the time of purchase.
- G. Asset backed securities rated AAA at the time of purchase.
- H. Non-United States agency mortgage back securities rated AAA at the time of purchase.

Short-Term Investments

All money received by Great-West Retirement Services for deposit to the Kern County Kern Stable Value Fund will be invested the same day it is received. Whenever possible these monies will be invested in the type of investments indicated above. However, if the monies are received at a time of the day that makes this impractical, then the monies will be invested in an interest-bearing account at a commercial bank. The following business day the money will be invested according to the above investment guidelines.

In all situations, any interest earned on the money received for deposit into the Kern County Kern Stable Value Fund will be credited to this Separate Account and not to Great-West Retirement Services.

Duration of Investments

The duration of the portfolio will be less than seven years.

Credit Quality

All securities shall be rated by at least two of the following rating services (S&P, Fitch, and Moody's). If an issue has a split rating, the lower rating will apply.

The Treasurer & Tax Collector of Kern County will be notified within 7 days if a security is downgraded and not compliant with this policy. The non-compliant security shall be evaluated on a case-by-case basis to determine whether the security shall be sold or held. The investment manager will provide Kern County with a written recommendation within 14 days of downgrade. The investment manager will continue to monitor and provide credit updates no less than monthly until the security is upgraded or sold.

Diversification

The aggregate value (at cost) of the assets attributed to F, G, and H of "investment types" (above) shall not constitute more than 30% of the value of the portfolio. In addition, the allocation of assets in "investment types" F, G, and H shall be limited as follows:

- a) No individual security shall constitute more than 5% (at cost) of the value of the portfolio.
- b) No single issuer shall constitute more than 10% (at cost) of the value of the portfolio.
- c) No single industry group shall constitute more than 20% (at cost) of the value of the portfolio.

Reporting

Great-West Retirement Services will provide Kern County with a quarterly report that will include information on all transactions completed in the quarter, book, par and market value of the fund, the total value of the fund, and the projected yield of the fund. In addition, a statement of compliance with the investment policy will be included as part of the quarterly reporting package. Any issues not in compliance with this policy will be identified in the quarterly report along with an explanation as to why the investment manager recommends the security be retained in the portfolio.

Trading Authority

Within the Investment Guidelines as stated in this document, Great-West Retirement Services has the authority to buy and sell any securities in this separate account that it judges to be in the best long-term interest of the Kern Stable Value Fund and the participants that utilize the account.

Changes to Investment Guidelines

Kern County may modify the guidelines (including duration) for investment of assets of the fund at any time providing that these modifications will not affect the fund's ability to provide benefits at book value. Great-West Retirement Services may modify the guidelines if another fixed fund option is added to the Plan (including a money market fund).

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