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## I. Investment Policy Statement Introduction

### A. Investment Policy Statement Purpose

The Plan Sponsor offers a Deferred Compensation Plan (the “Plan”) for the benefit of its employees. The Plan Sponsor may appoint an Investment Advisor to oversee the investments of the Plan. If an Investment Advisor is not appointed to serve as the Plan Fiduciary or Co-Fiduciary, the Plan Sponsor will be solely responsible for fiduciary oversight of the Plan investments.

An Investment Policy Statement (the “Policy”) is a written document designed to provide a decision-making framework for the Plan Sponsor to manage their fiduciary obligations to Plan Participants (“Participants”). The Policy establishes the investment structure for the Plan.

This Policy explains how the Plan Sponsor and Investment Advisor will share the obligation to:

- Prudently select investment alternatives;
- Periodically monitor and evaluate those alternatives; and
- Based on such periodic evaluations, determine whether the alternatives will continue to be made available to the participants.

These guidelines do not constitute a contract or a statement of mandatory requirements but are instead an explanation of the general principles established for the selection and retention of the investment alternatives. These guidelines will be reviewed informally at appropriate intervals and on a formal basis as circumstances warrant. The investment options, along with their benchmarks, descriptions and performance evaluation measures, may be changed from time to time.

### B. Investment Objectives of the Plan

The Plan’s investment objectives are:

- Make available a range of asset classes sufficient for Participants to design their own investment portfolios with diversification and an appropriate risk/return spectrum
- Provide competitive returns when compared to returns for similar investment options
- Maintain appropriate asset administrative and management costs

### C. Roles and Responsibilities

**Plan Sponsor.** The Plan Sponsor is the sponsor of the Plan and serves as an investment Fiduciary. The Plan Sponsor may appoint an Investment Advisor to share fiduciary responsibility and assist in investment recommendations, however the Plan Sponsor retains final decision-making authority for all investments in the Plan.

**Investment Advisor.** The Investment Advisor may be appointed by the Plan Sponsor to serve as an investment co-fiduciary for the plan investments. The Investment Advisor is responsible for monitoring plan investments, reporting of investment information to the Plan Sponsor, and making recommendations as to the selection, retention, or removal of any investment options.

**Participants.** Participants are eligible employees of the Plan Sponsor who participate in the Plan. Participants are permitted to direct the investment of assets in their Plan accounts by selecting among the investment options of the Plan consistent with their own return objectives and risk tolerance.

**Recordkeeper.** The Plan Sponsor may appoint a Recordkeeper, which provides non-discretionary administrative services related to maintenance of Participant accounts, including an accounting of the activity directed by Participants between and among the various designated investment options. The Recordkeeper may provide education and marketing services to the Plan and to Plan Participants.

**Product Provider.** The Plan Sponsor may select an investment company or other financial services company (e.g. broker dealer, life insurance company, trust company or affiliates of the same) to provide a product or platform for making available the designated investment options to Participants. The Product Provider may provide education and marketing services to the Plan and to Plan Participants. The Product Provider's duties may include: (i) periodic review of different asset class options offered in the Plan for diversification of risk/return purposes; (ii) monitoring the performance of the designated investment options periodically; (iii) providing investment option monitoring information to the Plan Sponsor; and (iv) identifying the investment options that do not perform to the level established by this Policy and removal of those investment options. Each Plan Sponsor is ultimately responsible for selecting and monitoring its own investment options consistent with its plan documents and investment guidelines.

## II. Investment Criteria and Monitoring

### A. Investment Options / Manager Selection

The Plan Sponsor will select the Plan's designated investment options. The Plan Fiduciaries will engage in a process to prudently select, monitor and, where appropriate, remove investment options. The Investment Advisor will engage in a prudent process to research investment options and make recommendations to the Plan Sponsor to add the designated investment options of the plan. The investment options will be selected from among a universe of investment alternatives such that there is reasonable assurance that an adequate number of funds have been reviewed and, therefore, that the investment options are representative of competitive investment alternatives available to the Plan. The Plan Sponsor will strive to provide investment options from a spectrum of asset classes to allow for Participant diversification.

In determining whether to add or remove investment options, the Plan Sponsor and Investment Advisor shall take into account factors such as, but not limited to, the growth of the Plan and the overall design of the investment fund options, Participant investment needs, general defined contribution plan and investment industry trends, investment performance, administrative feasibility, diversification and the costs associated with the decision.

Appropriate selection criteria shall be used in the process of selecting and removing investment options/managers. The criteria include, but are not limited to:

- Impact on asset class diversification

- Prudent management by experienced portfolio managers and a demonstrated adherence to stated investment/prospectus guidelines and objectives
- A clear definition of management, philosophy and strategy
- Investment managers with demonstrated financial stability and stability of investment management personnel
- Potential for appreciation in value or earnings (on a net basis) that is in line with the option's risk profile
- Total expense levels that are reasonable and competitive
- In the case of actively managed investment options, a consistent record of competitive performance relative to appropriate peer group and relevant published market indices and, as appropriate, custom benchmarks
- In the case of passively managed options, a record of closely tracking the performance of the relevant market index, and competitive expense levels
- Current market trends, product enhancements or improvements

### **B. Monitoring of Investment Options and Removal Criteria**

The Investment Advisor will review the achievement of investment objectives of each of the investment options. The review will focus on the continuing feasibility of each investment option's ability to achieve the objectives. It is not expected that the investment objectives will change frequently; short-term changes in the financial markets generally should not require changes to an investment option's objective.

The Investment Advisor will review the investment performance of each investment option and the strategies in place to meet the investment objectives in this Policy. These strategies will address, but will not be limited to, issues such as investment style, acceptable asset classes, and performance benchmarks. Results of the Investment Advisor's review will be reported to the Plan Sponsor.

The Investment Advisor may place investment options on a "Watch List" if they do not meet their investment objectives or due to an extraordinary event. Investments that qualify for the "Watch List" will be reported to the Plan Sponsor. Criteria that may lead to a fund being placed on Watch List include, but are not limited to:

- An investment management firm has committed a breach of its mandate or directive, has experienced the loss of key personnel, or for any reason has lost the confidence of the Investment Advisor or Plan Sponsor.
- Low Participant utilization
- Increase in expense ratio

- Poor performance history relative to appropriate peer group and/or relevant published market indices or, as appropriate, custom benchmarks
- Fund mergers
- A change in the management approach or objective of the investment option
- Deviations from strategy mandate

The Investment Advisor will periodically review the performance of the investment options on the Fund Watch List. Findings of this review will be reported to the Plan Sponsor. Funds on Watch List may qualify for restriction, removal, or replacement:

- **Restrict:** The Plan Sponsor may restrict contributions to investment options that do meet the criteria outlined in this Policy and direct future contributions to a different investment option.
- **Replace:** The Plan Sponsor may replace an investment option that is removed with another investment option that meets the investment selection criteria outlined in this Policy.
- **Add:** The Plan Sponsor may add additional investment options to the Plan's investment menu that meet the criteria outlined in this Policy.

Certain funds may require immediate action. Any fund may be removed, replaced, or restricted immediately at the discretion of the Plan Sponsor due to a significant qualitative change or extraordinary event. Examples include but are not limited to: change in a portfolio manager, change in Morningstar category, increase in expenses, or materially negative asset flows, etc.

### III. Miscellaneous Provisions

#### A. Plan Sponsor Discretion

The Plan Sponsor has the sole and absolute discretion to interpret, implement and amend this Policy, including any decisions to select, remove and replace investment options within the Plan that may or may not reflect the Investment Advisor's recommendations.

#### B. Proxy Voting

The Plan Sponsor will determine the proper voting of proxy proposals related to the investment options.

While the Plan Sponsor is responsible for deciding on how to vote the shares held in the investment options, it may delegate the ministerial tasks of implementing its voting directions and submitting the votes.

#### C. Participant Education and Communication

On a regular cadence, Participants will be provided access to investment performance information for each investment option. Other information may be included which will help the Participants make informed decisions regarding their investments.

#### **D. Investment of Accounts without Participation Direction**

If a Participant fails to provide the Plans with an investment direction and the Plan Sponsor does not receive further direction, the Plan Sponsor will direct the investment of the Participant's account, until such time as the Participant provides his or her first affirmative direction. In making these decisions, the Plan Sponsor is not responsible for inquiring into the specific goals or needs of a Participant.

#### **E. Coordination with Plan Documents**

If any term or condition of this Policy conflicts with any term or condition of the Plan Documents, the terms of the Plan Documents take precedent.

#### **F. Harmful Trading Practices**

In order to protect Participant assets, the Plan, the Record Keeper for the Plan, or the investment option providers may, from time to time, adopt policies to prevent harmful trading practices including market timing. In such instances, the Plan will make best efforts to notify Participants in advance of the change or as soon as administratively practicable after the change.

#### **G. Self-Direction Brokerage Option (SDBO) and Managed Account Solutions (MAS)**

The Plan Sponsor may elect to provide Participants additional investment flexibility by offering a self-directed brokerage option or managed account solution to Participants. Assets in either the SDBO or MAS are invested at the Participant's discretion and are not subject to this Policy.

#### **H. Investment Policy Review**

This policy will be reviewed on a periodic basis by the Plan Sponsor and the Investment Advisor and may be modified to reflect such factors as changes in the investing environment, changes in the regulations governing defined contribution plans and/or changes in Participant objectives.

This Policy is adopted and approved by the Plan Fiduciary this 1<sup>st</sup> day of May, 2023.

Plan: Snohomish County

By: Snohomish County Deferred Compensation Committee May 1, 2023

Name:

Title:

## Appendix

### A. Investment Structure and Management Process

The Investment Selection process is designed to accomplish two goals:

- To allow participants with reasonable investment knowledge, time, and interest to construct their own participant-specific efficient portfolios as well as modify this portfolio over time as circumstances change;
- To allow participants with less investment knowledge, time, or interest to choose a pre-developed portfolio that meets their specific circumstances.

The plan should offer at a minimum Designated Investment Options in the following asset classes:

- Large capitalization domestic equities
- Mid capitalization domestic equities
- Small capitalization domestic equities
- International equities
- Fixed income securities
- Cash, Cash Equivalents, and or Stable Value Fund
- Diversified portfolios that consider either risk, retirement, or other participant factors

Designated Investment Option structures may include mutual funds, variable annuity sub-accounts, fixed annuities, comingled separate accounts, stable value funds, collective investment trusts, guaranteed income products and other similar investment structures.

### B. Designated Investment Option Selection

The Investment Advisor will review alternatives for Designated Investment Options for asset classes within the Plan and make appropriate recommendations to the Plan Sponsor. Designated Investment Options will be evaluated on a number of quantitative categories including, but not limited to:

- **Performance** – Investment performance should be in the top half of the applicable universe of investment options within the Morningstar peer group over trailing 3- and 5-year time horizons.
- **Risk Profile** – The risk profile and risk/return profile should be consistent with the category. A bias should exist against highly volatile investments within a category without appropriate reasoning.
- **Expenses** – The expenses of the Designated Investment Options should normally be ranked in the top half of the applicable universe of investment options within the Morningstar peer group.
- **Manager Tenure** – A minimum 2-year manager tenure of the investment individual or team should exist such that a reasonable expectation can be established of the manager's ability to choose investments for the Designated Investment Option.
- **Style Consistency** – The fund should exhibit consistency within the fund's stated investment objective through the lens of maintaining its Morningstar category.

- **Other Quantitative Metrics** – Other quantitative metrics such as relative alpha, holdings concentration, fund size and turnover may be considered.

The Investment Advisor may choose to additionally consider qualitative metrics such as Investment Process, Firm Reputation, Performance Attribution and Investment Process when selecting Designated Investment Options to the extent that information is available or may be obtained.

### C. Risk Based Asset Allocation Funds

Risk based asset allocation funds may be offered, and are designed to be comprised of underlying equity, fixed income and other investment options that are professionally allocated and designed to meet a stated risk profile for an investor. The risk profiles for the investment options should be varied and distinct as measured by differences in the asset allocation of the funds and by the expected or actual standard deviation of investment returns for the funds.

Recognizing that Morningstar may not offer specific peer group comparisons for risk-based funds and that they may be grouped within categories with varying equity proportions, direct peer group comparison may not be the most appropriate comparison of performance.

The Plan Sponsor should consider the following in selecting and evaluating of risk-based investment options:

- **Structure** – The funds should be structured to provide both diversification to the investor and to meet the relative risk variability as stated by the fund.
- **Performance** – Investment performance should be in the top half of the applicable universe of investment options within the Morningstar peer group over trailing 3- and 5-year time horizons.
- **Risk Profile** – The risk profile and risk/return profile should be consistent with the category. A bias should exist against highly volatile investments within a category without appropriate reasoning.
- **Expenses** – The expenses of the Designated Investment Options should normally be ranked in the top half of the applicable universe of investment options within the Morningstar peer group.
- **Manager Tenure** – A minimum 2-year manager tenure of the investment individual or team should exist such that a reasonable expectation can be established of the manager's ability to choose investments for the Designated Investment Option.
- **Variability between funds** – The Plan Fiduciary should ensure sufficient variability between the risk levels of the funds.

### D. Target Date Investment Options

A target date suite of funds may be offered and consists of professionally allocated investment options where the risk profile of a fund changes over the life of the fund. The fund will have a more aggressive risk profile initially and will gradually get more conservative as the fund approaches the stated target date.

The Plan Sponsor should consider the following when selecting and evaluating Target date investment options:



- **Glide Path** – The glide path determines how the ratio of equity, fixed income and cash allocations change over time. The glide path of the target date suite of funds should be sufficient to ensure a moderate level of risk for participants over time.
- **Termination** – The glide path of the fund should be evaluated as to whether allocation will continue to be modified *through* the targeted date of the fund or terminating *at* the targeted date of the fund.
- **Fund Construction** – The investment options comprising the fund should be sufficient to ensure proper diversification for investors.
- **Performance** – Investment performance should be in the top half of the applicable universe of investment options within the Morningstar peer group over trailing 3- and 5-year time horizons.
- **Risk Profile** – The risk profile and risk/return profile should be consistent with the category. A bias should exist against highly volatile investments within a category without appropriate reasoning.
- **Manager Tenure** – A minimum 2-year manager tenure of the investment individual or team should exist such that a reasonable expectation can be established of the manager's ability to choose investments for the Designated Investment Option.
- **Expenses** – The expenses of the Designated Investment Options should normally be ranked in the top half of the applicable universe of investment options within the Morningstar peer group.

#### E. Designated Investment Option Monitoring and Removal

The Investment Advisor will periodically and formally monitor, review, document, and discuss the investment characteristics of all investment options offered within the plan with the goal of understanding the suitability of the investment option for continued inclusion within the plan.

Designated Investment Options that exhibit quantitative or qualitative concerns will be reported to the Plan Sponsor, with an appropriate course of action or level of monitoring consequently determined by the Plan Sponsor. Designated Investment Options that do not meet the criteria above may be placed on "Watch" status.

Any fund on the Watch List will be considered "Qualified for Removal" if it meets both of the following criteria:

- 4 out of the last 4 quarters on the Watch List **or** 6 out of the last 8 quarters on the Watch List

#### **AND**

- Bottom half 1-year category ranking

Qualifying for removal does not require action. It identifies to the Plan Sponsor that the investment has been on the Watch List for a significant period of time and that the investment's removal should be considered. Further, the Plan Sponsor may remove or replace an investment that does not qualify for removal if they believe the option to no longer be suitable. They may also add a suitable investment at any time. If an investment is removed, participant assets will be moved into another suitable option as designated by the Plan Sponsor following the guidelines within the Investment Policy Statement.