

# INVESTMENT POLICY STATEMENT FOR:

## City of Madison 457 Deferred Compensation Plan

### I. GENERAL

#### Purpose and Overview

The City of Madison 457 Deferred Compensation Plan ("Plan") was established for the exclusive benefit of Plan Participants ("Participants") and their beneficiaries by the City of Madison ("Plan Sponsor"). The Plan is designed to offer eligible employees a convenient, tax-deferred and flexible method to save for their retirement. It is a plan with elective deferrals made by Participants as permitted under IRC 457.

The purpose of this Investment Policy Statement is to assist the Plan Sponsor in satisfying the fiduciary responsibilities involved in the selection of investment alternatives under a Participant directed plan. To do so the Plan Sponsor opts to be guided by the principles set forth within ERISA (Employees Retirement Income Security Act).

Pursuant to its authority under MGO 33.27, the Deferred Compensation Committee ("Committee") has approved the methodology used to select and review the Plan's investment alternatives. This methodology is detailed in this document. The Plan offers a number of investment alternatives that have been selected by the Committee. The Committee will conduct a periodic review of the performance of these investment alternatives to determine whether to modify the alternatives or to amend this Investment Policy Statement.

### II. STATEMENT OF OBJECTIVES

This Investment Policy Statement has been developed by the Committee on behalf of the Plan Sponsor and describes the prudent investment process that the City deems appropriate. The objectives are:

- To provide investment alternatives with various styles that, in total, are intended to offer Participants a sufficient level of diversification and the ability to vary individual exposure to risk and investment return opportunity. In pursuit of this objective, the Plan will provide Participants at least three investment alternatives that each have a different risk/return profile; provide Participants with sufficient information so that each Participant can make an informed decision about their selection of investment alternatives; and permit Participants to change investment alternatives on a daily basis.
- To follow the principles of the ERISA related to the prudence and due diligence procedures that experienced investment professionals would utilize. To comply with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Plan assets.
- To pay all benefits and expense obligations when due.
- To control and account for all costs of administering the plan and managing the investment alternatives.

### III. DUTIES AND RESPONSIBILITIES

#### Deferred Compensation Committee

The primary responsibilities of the Deferred Compensation Committee are to:

- Prepare and maintain an Investment Policy Statement.
- Provide sufficient investment alternatives with different and distinct risk/return profiles and styles so that each Participant can prudently diversify their account.
- Ensure the availability of investment education from service vendors.
- Prudently select investment alternatives among which Participants can choose.
- Control and account for all investment, record keeping and administrative expenses associated with the Plan.
- Monitor, add, and remove, as necessary, all investment alternatives.
- Avoid prohibited transactions and conflicts of interest.
- Refrain from giving what could be construed as investment advice.
- Monitor, evaluate, and recommend entering into or terminating contracts with service vendors.

#### Investment Managers

Investment managers are co-fiduciaries responsible for making investment decisions (security selection and price decisions) within the fund. The specific duties and responsibilities of each investment manager are to:

- Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Prospectus or Trust Agreement.
- Exercise full investment discretion with regards to buying, managing, and selling assets held in the portfolios.
- Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the fund. Each Investment Manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities in compliance with all applicable laws, rules and regulations.

#### Service Vendors

The Service Vendors, acting prudently, diligently, and reasonably, are responsible to:

- Work with the Committee to select and allocate asset categories.
- Identify specific investment alternatives within each category.
- Prepare investment analysis for the Committee and assist with monitoring investment alternatives.
- Monitor the performance of all selected investment alternatives.

- Recommend changes to investment alternatives.
- Review the suitability of the investment alternatives.
- Meet with the Committee on a regular basis, at least annually.
- Prepare and present requested reports.
- Make available prudent and adequate investment education materials to Participants.

## Participants

Participants are responsible to:

- Decide whether to participate in the Plan by electing to defer compensation accordingly.
- Determine how much of their compensation to defer under the Plan each Plan year, subject to the allowable limits.
- Select where their own deferrals should be invested.

Participants shall have full responsibility for individual choices among the Investment Alternatives offered by the Plan. The Plan Sponsor and the Committee shall have no responsibility for individual investment decisions made by Investment Managers selected in accord with this policy.

## IV. ASSET CLASS GUIDELINES

The Committee believes that Participants are best served by considering and making available diversified investment alternatives. This diversification is achieved by investing in different classes of assets. These classes are:

1. Money Market or Ultrashort Bond
2. Short, Intermediate and Long-Term Bond
3. Short, Intermediate and Long-Term Government
4. Small, Mid and Large Cap Value
5. Small, Mid and Large Cap Blend
6. Small, Mid and Large Cap Growth
7. Domestic Hybrid
8. Emerging Market, Foreign and World Stock or Bond
9. Real Estate

The Plan Sponsor may choose to include other Investment Alternatives in the Plan that do not meet the specified inclusion criteria set forth above, but that fall into the categories below:

- "Stable Value" investment(s): Investment accounts whose principal does not fluctuate.
- Sector or "specialty" fund(s) (e.g. socially conscious funds).
- "Lifestyle," "Target," or similar fund(s).
- Other Investment Alternatives that meet the Plan's Investment Alternative guidelines or are deemed prudent for inclusion in this Plan by the Plan Sponsor.

## V. INVESTMENT ALTERNATIVE SELECTION

The Committee may select investment alternatives following a due diligence review of such investment by the Committee. The Committee will use the following criteria in selecting each individual investment alternative as a guideline in reviewing whether a fund should be included in the Plan. However, failure to meet one or more of the guidelines will not automatically disqualify a fund from consideration.

- Correlation to style or peer group: The product should be highly correlated to the asset class of the investment alternative. The monitoring criteria is that the fund's style consistency be "moderate or better" in its adherence to Morningstar's style classification.
- Performance relative to a peer group: The product's performance should be evaluated against its style group peers for 1, 3 and 5-year cumulative periods. The monitoring criteria is whether the fund ranks in the top 50% of its style group peers for each period.
- Track record: Whether the product has been in place for three years.
- Assets under management: Whether the product has at least \$200 million under management.
- Expense ratios/fees: This due diligence item measures the rank of the fund's operating expenses among its style group peers. The monitoring criteria is that the fund ranks in the lowest 55% among its style group peers.
- Stability of the organization: There should be no perceived organizational problems and the same portfolio management team should be in place for at least two years.

Again, these criteria are guidelines to help the Committee in deciding whether a fund should be offered as part of the Plan. The Committee understands that certain funds may be appropriate even if the fund fails to meet one or more of the above criteria. For instance, a target date fund, at its inception, may not have \$200 million in assets but may be offered as part of the Plan.

## VI. INVESTMENT ALTERNATIVE MONITORING AND REVIEW

The Committee recognizes that the returns of the securities markets fluctuate, and at times can be quite volatile, particularly for short periods. Therefore, the Committee intends to evaluate investment alternatives from a long-term perspective.

The Committee has determined that it is in the best interest of the Plan's Participants that periodic reviews of the investment alternatives occur. Preferably, these reviews should be held semi-annually, but must be done at least annually. The Service Vendor(s) may initiate a review as needed in addition to the periodic reviews of the investment alternatives.

These reviews will include the following:

- each alternative's performance based on the criteria outlined in the previous section;
- the fund manager's adherence to the plan's investment guidelines;
- material changes in the investment alternative's organization, investment policy and/or personnel; and
- any legal, SEC and/or other regulatory agency proceedings affecting the investment alternative.

The Committee expects that the Service Vendors will point out whether a particular fund fails to meet one of the criteria outlined above and make a recommendation as to the appropriate action to be taken regarding each fund. The Committee may not agree with such recommendation but will act independently regarding each fund. However, failure to meet one or more criteria will not necessarily result in adverse action towards the fund. Rather, the review of each investment alternative can have one of five possible outcomes:

1. Satisfactory-the investment alternative meets or exceeds substantially all of the criteria delineated above, or a satisfactory explanation is provided for any variance.
2. Under Scrutiny-the Committee has concerns about one or more of the criteria such that the committee will pay particular attention to the alternative at the next review(s). A fund may be Under Scrutiny for multiple meetings prior to additional formal action by the Committee.
3. Watchlist-the Committee's concerns are significant enough to prepare for action regarding the alternative at the next review. In most cases, placement on the Watchlist will require the Service Vendor to prepare alternative options for the fund for the next review meeting.
4. Suspension-the Committee will direct that no future investments be allowed by Plan Participants. Existing accounts may remain in the alternative for the time being.
5. Termination-the Committee directs that Participants no longer be allowed to invest in a given alternative and that all existing accounts be transferred to other alternatives.

(The Committee considers different factors in choosing between suspension and termination. For instance, a large number of Participants in a given alternative may make suspension a more practical choice. Also, if the Committee sees a lack of alternatives in the same investment class, suspension may allow the Service Vendor time to bring forward a suitable alternative before the committee moves forward with termination.)

At any review of a Service Vendor's investment alternatives, the Committee shall note in its minutes any alternatives that have been placed Under Scrutiny or put on the Watchlist. The reasons for either action should be noted.

When an investment alternative is suspended or terminated, the Committee will work with the service vendor to implement the respective action. As soon as the details of implementation have been decided, this information will be communicated to Participants. The Committee should be as specific as possible in communicating the reasons leading to the suspension/termination. The timing of this communication shall be as quick as practical.

## VII. MEASURING PLAN COSTS

The Committee will review at least annually all costs associated with the management of the Plan's investment program, including:

- Custody Fees: The holding of the assets, collection of the income and disbursement of payments.
- Administrative Fees: Costs to administer the Plan, including record keeping, account settlement (participant balance with that of fund), and allocation of assets and earnings, and (when applicable) the proper use of 12-b-1 fees to offset these fees.

This information, and the proper disclosure thereof, may be considered by the Committee in determining whether to renew the contract of the Service Vendor(s).

## VIII. PLAN PROVISIONS GOVERN

These procedures are not meant to interpret, extend or change the provisions of the Plan in any way. The provisions of the Plan may only be determined accurately by reading the actual [Plan document](#). If these procedures are inconsistent with the Plan, the Plan shall govern in every case.

IX. CHANGE IN LAW

If these procedures are inconsistent with a change in the law, regulations or rulings affecting retirement plans, the new law, regulations or rulings will control the operation of the Plan, and this Investment Policy Statement will be updated accordingly.

X. AMENDMENT

This Investment Policy Statement may be amended by the Committee from time-to-time if deemed advisable.

XI. ADOPTION OF THE INVESTMENT POLICY STATEMENT

The Committee adopts this Policy on behalf of the Plan Sponsor by formal action of the Committee as reflected in the minutes of this body.

Date adopted \_\_\_\_\_, 2023.