



State of Florida
Employees Deferred Compensation Plan
Investment Policy for Product Selection and Retention

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Investment Options Guidelines and Retention Policy

I. Purpose

The purpose of this document is to (1) establish the standards for the State of Florida Employees Deferred Compensation Plan (DCP) (may be referred to as State of Florida's 457(b) Plan), (2) adopt criteria for the selection and retention of the Plan's investment options, and (3) provide a method for the quarterly evaluation and monitoring of the investment options.

II. Policy

Pursuant to section 112.215, Florida Statutes, the Chief Financial Officer (CFO) has responsibility to oversee the DCP. It is the policy of the CFO to act in the best interests of participants in overseeing the DCP, so that: (1) participants are provided a reasonable variety of investment options with varying degrees of risk and return; (2) the investment options available to participants have been selected by the CFO based on investment analysis firm (IAF) metrics and quantitative and qualitative factors with the goal to outperform its respective peer group; (3) participants have access to information regarding the available investment options; and (4) that program administrative costs are kept to a minimum.

III. Definitions

Chief Financial Officer (CFO) – means the same as section 17.001, Florida Statutes.

Deferred Compensation Program (DCP) – The State of Florida Employees Deferred Compensation Plan created pursuant to section 112.215 Florida Statutes and chapter 69C-6, *Florida Administrative Code*.

Guarantee of Principal and Interest Fund – a fixed income product offered by each investment provider.

Peer group – refers to companies or investments that are compared against each other based on similar or shared qualitative and quantitative factors. Characteristics may include, but are not limited to, peers in the same sector, peers that are competitors, or peers that are similar in size.

Investment Product – a financial investment offered by the DCP to a participant, except for a Guarantee of Principal and Interest Fund. Investment Products are compiled from securities and financial instruments in order to produce investment returns in the form of income or capital appreciation.

Investment Provider – A private sector company that contracts with the CFO, who enrolls qualified employees and offers investment products, investment education, and markets the DCP to participants.

Investment analysis firm (IAF) – an entity contracted by the CFO to provide investment analysis, fund ratings, and other professional and investment services for the DCP.

IAF metrics – investment product data and analysis published by the IAF that identifies various quantitative performance measures in comparison to its investment product peer group.

Mutual Fund – an investment product offered by the DCP to a participant that is a professionally managed collective investment product that pools money from many investors to buy stocks, bonds, short-term money market instruments and other securities.

Participant – A qualified employee that completes enrollment documents in the State of Florida Deferred Compensation Program and agrees to all terms and conditions that apply.

Passively Managed Product (Index Fund) – an investment product offered by the DCP that is an investment strategy that produces the same level and pattern of financial returns generated by a market benchmark index.

Quantitative and qualitative factors – information involving hard data and subjective characteristics and opinions, including:

- a. Costs – determined by measuring the average of investment objective in the peer group;
- b. Liquidity;
- c. Transaction limitation;
- d. Diversification;
- e. History – how long the investment product has been in existence;
- f. Management tenure or departure;
- g. Reputation and regulatory record of an investment management firm;
- h. Level of assets under management;
- i. Absolute returns;
- j. Adherence to investment style;
- k. Merger of fund companies;
- l. Sharpe ratio;
- m. Performance of the fund relative to market indexes in proportion to the allocation of the fund to the indexed markets; and
- n. IAF metrics.

Target Date Fund - an investment product offered by the DCP that resets the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame that is appropriate for a particular investor. A target-date fund is similar to a life-cycle fund except a target-date fund is structured to address some date in the future, such as retirement.

IV. Selection and Retention of Investment Products

The CFO must approve, in writing, any change to an investment product prior to the change becoming effective.

A. Approval of New Investment Products

Approval of new Investment Products do not apply to a Self-Directed Brokerage Account.

Approval of a new Investment Product must be documented and completed prior to offering a new investment product.

The CFO regularly requests and receives proposed Investment Products from investment providers. A proposed Investment Product must be unique to the DCP and not already offered by an investment provider within the DCP.

When the CFO receives a proposed Investment Product from an Investment Provider, the CFO will conduct an evaluation using IAF metrics, and perform an independent compliance evaluations to ensure the Investment Products are in accordance with this policy. A minimum of the prior 3-years of IAF metrics is required for a fund evaluation. However, the CFO will use the prior 5-years of IAF metrics when available.

Initiation of a civil or criminal proceeding by any governmental entity that names a proposed investment product alleging violations of state or federal securities laws or regulations constitutes sufficient grounds to deny a proposed investment product.

Approval or denial of a proposed investment product is made solely by the CFO based on the best interests of participants.

Note: For approval, a Mutual Fund must have a manager tenure that is equal to or greater than 3-years. However, an Index Fund is not required to have a minimum manager tenure for approval.

Note: When analyzing funds for possible addition to or termination from the DCP, Target Date Funds and Profile Funds shall be treated as one fund. If the group average fee of the Target Date Fund increases more than 6.4%, the investment manager will be contacted by the CFO and a decrease in status and termination of fund may occur.

B. Termination of Investment Products

Termination does not apply to a Self-Directed Brokerage Account.

An investment product may only be terminated by the CFO. However, an investment provider may cease offering an investment product, which will also result in removal of the investment product from the DCP.

The CFO conducts a quarterly evaluation of each investment product. Termination of an investment product must occur under the following circumstances:

Observation Status	Termination Review Status	Termination
If after a quarterly review, the CFO determines the investment product does not meet the best interests of the participants using	If an investment product is in Observation Status for five (5) consecutive quarters, and the CFO determines the investment	If an investment product is in Termination Review Status for two consecutive quarters AND the CFO determines

<p>the five-year IAF metrics, it will be placed in observation status.</p>	<p>product continues to not meet the best interests of the participants using the five-year IAF metrics, it will be placed in termination review status.</p>	<p>that the investment product does not meet the best interest of the participants based on one-year IAF metrics, the investment product will be terminated from the DCP and no longer offered to participants.</p>
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Additionally, Initiation of a civil or criminal proceeding by any governmental entity alleging violations of state or federal securities laws or regulations constitute sufficient grounds to terminate an investment product.

Note: Index Funds are not ranked against active funds, and new index products must demonstrate a tracking error to a prescribed benchmark of 50 basis points or lower over the most recent one year rolling average, using monthly data. For existing products, probation occurs when a tracking error falls between 50 and 100 basis points and termination occurs for a tracking error greater than 100 basis points for four consecutive quarters. For measurement purposes only, the monthly prorated Mutual Fund expense ratio is added back to the total monthly returns.

Note: All funds are measured without loads.

Note: Existing funds with less than five years of history will be analyzed using three-year data. Five-year data will be utilized when available.

Note: When analyzing funds for possible addition to or termination from the DCP, Target Date Funds and Profile Funds shall be treated as one fund by averaging its quantitative and qualitative factors. If the group average fee of the Target Date Fund increases more than 6.4%, the investment manager will be contacted by the CFO and a decrease in status and termination of fund may occur.

Note: If Mutual Fund management fees increase more than 4.3% quarter over quarter, the investment manager will be contacted by the CFO and a decrease in status and termination of fund may occur.

Note: Different share classes in the same fund would be considered the same fund and cannot be used by multiple investment providers.

Note: Index funds may change share classes without giving participants the 60-day notification period.

Once the CFO decides to terminate an investment product, each participant invested in the investment product being terminated will be notified by letter via their address on record by the investment provider. Such notification will request the participant remove

all funds from the investment product being terminated within 30 days and the process should the participant fail to remove all funds as requested. After the 30-day period but before 60 days after the CFO's decision to terminate the investment product, any remaining participant funds within the terminating investment product will be mapped by the investment provider based on the CFO's instruction to another investment product that is most similar to the investment product being terminated based on the available investment products.

V. Guarantee of Principal and Interest Fund

The CFO directly negotiates and contracts with each investment provider, based on crediting rate terms, to offer a Guarantee of Principal and Interest Fund to participants.

VI. Limitations

With the exception of redemption fees or restrictions imposed with the approval of the CFO for excessive trades or inappropriate market timing, investment products offered through the DCP shall not have restrictions, penalties, market value adjustments or surrender charges relating to exchanges or withdrawals and must offer full liquidity to participants. Commissions shall only be allowed for stock and exchange traded fund transactions through a Self-Directed Brokerage Account.

VII. Self-Directed Brokerage Account (SDBA)

The CFO offers participants the opportunity to invest in individual stocks, additional mutual funds, exchange traded funds (ETFs), options, and other investment alternatives through a SDBA. The sole purpose of this alternative is to enhance the DCP by providing additional investment choices so as to accommodate the participant's desire for greater investment flexibility.

In offering the SDBA, the CFO and the SDBA Company will notify participants that the investment alternatives available through the SDBA have not been subjected to any selection process, are not monitored, require investment expertise to prudently manage, and have risk of substantial loss.

A. Selection of Stock Brokerage Firm

The CFO will select an on-line brokerage firm to provide the SDBA for electing participants. In making that decision, the CFO will consider the following factors: (1) the expense structure of the brokerage accounts, (2) the administrative needs of the Plan, including record keeping and adherence to the DCP rules, and (3) best interests of the participants as defined in section III of this document.

B. Monitoring of Brokerage Accounts

The CFO will monitor the SDBA for proper operation including accounting for transactions and record keeping. However, while the brokerage accounts are available investment alternatives, these investment alternatives within the SDBA are not designated by the DCP and, therefore, are not selected or monitored by the DCP. Instead, the SDBA is intended to provide the electing participants with a broad selection of investment alternatives.

VIII. Investment Advisory Services

The CFO offers participants the opportunity to enroll in managed account products. Managed accounts are personalized investment portfolios that are tailored by an investment company to meet the specific needs of the participant. These services are aimed at providing participants the necessary guidance to invest in funds that will aid them in reaching their retirement goals. Services range from financial advice concerning a participant's account with no active trading of funds by the advisor, to an advisor actively managing a participant's account. These services will be offered to all participants in the DCP for a fee set by the provider.