INVESTMENT POLICY STATEMENT

City of Delray Beach

457(b) Deferred Compensation Plan and

401(a) Defined Contribution Plans

Part I. The Plan

The City of Delray Beach (the "Employer") sponsors the **City of Delray Beach 457(b**) **Deferred Compensation Plan and 401(a) Plans** ("Plans") for the benefit of its employees. The Plans are intended to provide eligible employees with long-term accumulation of retirement savings through contributions to the individual participant accounts within the Plans.

The City of Delray Beach 457(b) Plan is subject to the Internal Revenue Code of 1986, as amended, and/or the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

The City of Delray Beach 457(b) Plan intends to comply with ERISA Section 404(c) to give participants control over the investments in their accounts and to limit the liability of the Plan Fiduciary for the investment decisions made by participants. This Investment Policy Statement ("IPS") is intended to cover the selection and monitoring of a broad range of investment options in order for participants to diversify investments within an investment category. Although this IPS may address certain aspects of Internal Revenue Code Section 404(c), it does not address all of the conditions to be satisfied for compliance with such ERISA provision.

The Plans make available to participants a default investment for all contributions, and the 457(b) Plan intends to qualify such default investment as a qualified default investment alternative ("QDIA") under the regulations in order for the Plan Fiduciary to obtain safe harbor relief from fiduciary liability for investment outcomes of the default investment alternatives. There are various requirements under ERISA Section 404c-5 in order for an investment to qualify as a QDIA. This IPS covers only guidance for the prudent selection and monitoring of a QDIA, and does not address all of the conditions to be satisfied for compliance with 404c-5.

This IPS does not cover employer stock, illiquid assets held by the Plans, and/or self-directed brokerage accounts or similar arrangements that enable participants to select investments beyond those designated by the Plans.

The officers, individuals and/or investment committee named in or established under the Plan documents as having responsibility for the management of the Plans' investments are referred to in this IPS as the "Plan Fiduciary." The Plan Fiduciary may delegate to an "Investment Manager" under Section 3(38) of ERISA responsibility with respect to the management of the investments.

Part II. The Purpose of the Investment Policy Statement

The Plan Fiduciary has important responsibilities and is subject to fiduciary standards of conduct under ERISA. These responsibilities include:

- Acting solely in the interest of Plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
- Carrying out their duties prudently;
- Following the Plan documents;
- Diversifying Plan investments;
- Prudently selecting and monitoring service providers to the Plan, including any "investment managers"; and
- Paying only reasonable total Plan expenses.

This IPS is intended to assist the Plan Fiduciary in making decisions regarding the Plans' investments in a prudent manner.

Specifically, this IPS describes:

- The Plans' investment objectives;
- The roles of those responsible for the Plans' investments;
- The investment selection procedures and criteria for the Plans' investments; and
- A process for selecting and monitoring an Investment Manager responsible for selecting the Plans' investment options.

Part III. Investment Objectives

The Plans seek to make available investment options that:

- Provide reasonable returns compared to appropriate peer groups and indices;
- Provide a broad range of investments so that employees can diversify investments within an investment category;
- Provide a minimum of three different investment options with differing risk and return characteristics; and
- Provide a QDIA as defined under the Pension Protection Act of 2006 ("PPA") and ERISA Section 404c-5.

Part IV. Roles and Responsibilities with Respect to Plan Investments

The Plan Fiduciary is responsible for:

- Establishing and maintaining this IPS;
- Reviewing this IPS periodically and making such changes to this IPS as deemed appropriate from time to time;
- Establishing a process for selecting, hiring, and monitoring an Investment Manager responsible for selecting the Plans' investment options;
- Establishing the investment categories of investment options to be made available to participant, unless the Plan Fiduciary is delegating this to the Investment Manager; and
- Overseeing participant investment education and communication.

The Investment Manager is responsible for:

- Establishing processes for the selection, monitoring and evaluation of the investment options in the Plans, including processes for handling investment options that fail to satisfy established objectives;
- Assisting in the development and modification of this IPS with respect to such investment selection processes;
- Selecting the investment options to be made available to participants;
- Providing for appropriate diversification among investment options.
- Monitoring the performance of the investment options offered by the Plans;
- Implementing on a discretionary basis changes to the investment options in accordance with the processes, guidelines and objectives set out in this IPS; and
- Providing the Plan Fiduciary on a regular basis with reports reflecting the performance of the investment options and information about any changes made to the investment options available to participants.

Part V. Selection of an Investment Advisor as "Investment Manager"

If the Plan Fiduciary determines to engage an "Investment Manager" as defined under section 3(38) of ERISA to make the investment decisions regarding the investment options, the Plan Fiduciary is responsible for prudently selecting and monitoring the Investment Manager. In hiring an Investment Manager, the Plan Fiduciary shall consider, among other information or factors:

- The services that the Investment Manager will provide to the Plans;
- The compensation the Investment Manager will receive for such services;
- Information about the firm itself, including its financial condition, its fiduciary liability insurance coverage, and experience with retirement plans of similar size and complexity;
- Information about the extent of the services, including the types and frequency of reports to be provided, attendance at meetings, and communications to participants;
- Information about the quality of the Investment Manager's services, including the identity, experience, and qualifications of the professionals who will be handling the Plans' engagement, any recent litigation or enforcement action that has been taken against the firm, and the firm's experience or performance record; and
- Information about the Investment Manager's investment philosophy, including how the Plans' investment options would be selected.

The Plans shall maintain appropriate records of decisions relating to the choice and ongoing monitoring of the Investment Manager.

Part VI. Monitoring of Investment Manager

The Plan Fiduciary shall at least annually review the level and quality of the services of the Investment Manager. In order to prudently monitor the Investment Manager, the Plan Fiduciary shall consider such factors as:

- The performance of investment options under the Plans;
- Any notices received from the Investment Manager about possible changes to the compensation or services and the other information that the Investment Manager provided when hired (or when the contract or arrangement was renewed);
- The reasonableness of the fees received by the Investment Manager for its services; and
- The manner in which the Investment Manager has performed its services to the Plans.

VII. Selection of Investments

The Investment Manager is responsible for the selection of the investment options to be made available to participants. This Part discusses the considerations and guidelines for fulfilling that fiduciary duty.

Selection of Investment Categories

The Plans intend to provide an appropriate range of investment categories that will reasonably span the risk-and-return spectrum, that satisfies the "broad range" criteria of the regulations under ERISA section 404(c), and that is consistent with the investment needs of the participants. These investment categories, and the options chosen to fill those categories, should allow participants to construct portfolios consistent with their individual circumstances, for example, their goals, time horizons and tolerances for risk.

To accomplish this goal, the Plan Fiduciary will select from among the investment categories listed on Appendix A to this IPS, unless delegated to the Investment Manager. The Plans are not required to and do not intend to have all options listed in Appendix A available at any given time. However, where appropriate, the Plan Fiduciary may include additional investment categories, unless this responsibility has been delegated to the Investment Manager.

Selection of Investment Options

After determining the investment categories to be used, the Investment Manager is responsible for selecting specific investment options for each of those categories.

As the Investment Manager engages in the process of selecting the investment options, the Investment Manager may consider information from many sources, including information that may be provided by Plans' recordkeeper or other retirement plan investment provider.

Appendix B (entitled "Investment Review Scorecard Process") is a current description of the methodology and Appendix C (entitled "Investment Selection and Monitoring Process) is a current description of the process used when selecting and monitoring investments for the Plans.

The Plan Fiduciary and the Investment Manager have reviewed the scoring or rating system methodology and have determined that it is appropriate for the Plans and their participants.

After selecting the investment categories and in choosing the investment options that meet the selection criteria set forth in this IPS (or in selecting a class of shares of any such investment option) to fill such categories, the Investment Manager shall take into account the potential revenue that, as a result of the investment of Plans' assets in such investment option or a particular class of shares of such option, may be payable to or for the benefit of the Plans to defray the reasonable expenses of the Plans, if the Plan Fiduciary has provided written direction to the Investment Manager to do so.

Special Considerations for Selection of Target Date Funds: In addition to the methodology described in the attached Appendix titled "Investment Selection and Monitoring", the following additional factors may be considered for this unique investment category when selecting and monitoring a target date retirement fund as an investment option in the Plans.

- The investment objective and strategy of the fund as stated in the funds' prospectus. Preference will be given to a fund that is designed so that a fund's mix of investments (e.g. among stocks, bonds and cash investments) automatically change in a way intended to become more conservative as an investor approaches the target date. The fund should shift over time from a mix with more stock investments in the beginning to a mix weighted more toward bonds as the target date approaches.
- The "glide path" for the funds, and the basic assumptions underpinning its construction. These assumptions include determining the use of "through" and/or "to" glide paths. For example, some target dates may not reach their most conservative mix until 20 or 30 years after the target date. Others may reach the most conservative investment mix at or soon after the target date.
- The experience and quality of the management team responsible for the overall fund.
- The overall product cost including the fees charged by the underlying funds and any "wrap" fees charged by the overall manager of the fund.

Special Considerations for Selection of a QDIA: The default investment may be one of the following three types of alternatives that are diversified to minimize the risk of large losses and provide long-term growth.

- A product with an investment mix that changes asset allocation and risk based on the employee's age, projected retirement date, or life expectancy (for example, a lifecycle fund);
- A product with an investment mix that takes into account a group of employees as a whole (for example, a balanced fund); and
- An investment management service that spreads contributions among plan options to provide an asset mix that takes into account the individual's age, projected retirement date, or life expectancy (for example, a professionally managed account).

A list of the current investment options and their benchmark indices will be maintained separately and updated from time to time.

The Plan Fiduciary and the Investment Manager shall maintain written records of decisions relating to the choice and ongoing monitoring of investment options under the Plans. Such records may be in the form of minutes taken of meetings that note such things, for example, as time and place, attendees, matters discussed, and decisions reached. The written records may include documents or materials used by the Investment Manager in its decision-making process.

Part VIII. Investment Monitoring by Investment Manager

The Investment Manager will regularly monitor the Plans' investment options and investment categories for compliance with the Plans' investment objectives and to assess whether a particular investment option continues to be appropriate for the Plans.

While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is an ongoing process. Recognizing that short-term fluctuations may cause variations in performance, when monitoring investments under the Plans, the Investment Manager will evaluate investment performance from a long-term perspective.

Monitoring occurs on a regular basis and utilizes the same criteria that were the basis of the investment selection decision. It is contemplated, but not mandated, that the Investment Manager will conduct a formal review at least quarterly unless otherwise directed by the Plan Fiduciary. Further, the Investment Manager seeks to consider any unusual, notable or extraordinary events on a current basis.

Attached is an Appendix (entitled "Investment Selection and Monitoring Process"), which is a current description of the process that may be used by the Investment Manager for reviewing whether an investment option has underperformed and an explanation of the process, which the Investment Manager may follow. The Investment Manager and Plan Fiduciary have reviewed that process and have determined that it is suitable and appropriate for the Plans. Therefore, the Investment Manager and Plan Fiduciary have adopted this process, methodology and scoring system described in Appendices B and C for purposes of monitoring the investment options.

Part IX. Investment Option Termination

The Investment Manager may give consideration to terminating an investment option if:

The option significantly underperforms without a justifiable rationale;

- The option fails to achieve performance and risk objectives;
- The option fails to maintain a consistent investment style;
- The option has been on the "Watch List" for four consecutive quarters; and
- The option(s) will be mapped to a QDIA due to a plan re-enrollment.

There are no hard and fast rules for an investment option termination. The ultimate decision to retain or terminate an investment option cannot be made by a formula. However, the Investment Manager may consider the investment option's anticipated ability to perform in the future when determining whether to retain an investment option.

In addition to those above, other factors may include manager turnover, legal or regulatory proceedings, or material change to investment processes. Of course, the Investment Manager also may remove any investment option at any time and for whatever reason they deem appropriate, including a determination that the investment is no longer suitable for the Participants.

For an investment option to be terminated, one of the following approaches may be taken:

- Remove and replace (map assets) to an alternative investment option.
- Freeze the investment option, but add a competing investment option for new contributions.
- Remove the investment option and do not provide a replacement investment option.

Replacement of a terminated option would follow the criteria outlined in Part VII, Selection of Investments.

The guidelines in this IPS, and in this Part IX, are to assist, but not bind, the Investment Manager. In that regard, the Investment Manager should exercise discretion and consider judgment in the termination and replacement process. It is the intention of the Plan Fiduciary and the Investment Manager to maintain written records of decisions relating to the decision of retaining or terminating an investment option.

Part X. Coordination with the Plans' Documents

If any term or condition of this IPS conflicts with the Plans, the terms and conditions of the Plans shall control.

The Plan Fiduciary has reviewed the IPS and agrees that the IPS accurately reflects the intent of the Plan Fiduciary with regard to the range of investments, objectives and criteria for selection, and evaluation of investment options within the Plans.

Date adopted: ________________

Adopted by Plan Fiduciary:

Print Name:__________________________Sign Name:__________________________

Print Name:__________________________Sign Name:__________________________

Print Name:__________________________Sign Name:__________________________

APPENDIX A
Investment Categories

Large Cap Value
Large Cap Value portfolios invest primarily in large market capitalization U.S. companies that have relatively low prices given higher anticipated valuations or are growing more slowly than other Large Cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Large Cap Blend (Core)
Large Cap Blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

Large Cap Growth
Large Cap Growth portfolios invest primarily in large market capitalization U.S. companies whose earnings are projected to grow faster than other Large Cap companies. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Mid Cap Value
Some Mid Cap Value portfolios focus on medium-size companies while others land here because they own a mix of small-, mid-, and Large Cap stocks. In general, they look for U.S. stocks that have relatively low prices given higher anticipated valuations or are growing more slowly than the market. The U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Mid Cap Blend (Core)
The typical Mid Cap Blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the road profile. Most shy away from high-priced growth stocks, but aren't so price-conscious that they land in value territory. The U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Mid Cap Growth
Some Mid Cap Value portfolios invest in stocks of all sizes, thus leading to a Mid Cap profile, but others focus on midsize companies. Mid Cap Growth portfolios target U.S. firms that are projected to grow faster than other Mid Cap companies, therefore commanding relatively higher prices. The U.S. Mid Cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20%

of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small Cap Value

Small Cap Value portfolios invest in small market capitalization U.S. companies with valuations and growth rates below other Small Cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Small Cap Blend (Core)

Small Cap Blend portfolios favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks while others employ a discipline that leads to holdings with valuations and growth rates close to the Small Cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Small Cap Growth

Small Cap Growth portfolios focus on faster-growing companies whose shares are at the lower end of the market capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Conservative Allocation

Conservative allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold smaller positions in stocks than moderate allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash.

Moderate Allocation

Moderate allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash.

Aggressive Allocation

Aggressive allocation portfolios seek to provide capital appreciation by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger position in stocks than conservative allocation portfolios. These portfolios typically have 75% to 95% of assets in equities and the remainder in fixed income and cash.

World Allocation

World allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least

10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Large Foreign Value
Large Foreign portfolios invest in a variety of large international companies. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). These portfolios typically will have less than 20% of assets invested in U.S. stocks. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Large Foreign Growth
Large Foreign portfolios invest in a variety of large international companies. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). These portfolios typically will have less than 20% of assets invested in U.S. stocks. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Large Foreign Blend
Large Foreign portfolios invest in a variety of large international companies. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). This style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Mid Cap Foreign
Mid Cap Foreign portfolios invest in international mid-sized companies.The Foreign Mid Cap range for market capitalization typically falls between $2 billion-$10 billion. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Small Foreign
Small Foreign portfolios invest in international companies that have smaller market capitalizations. These portfolios primarily invest in stocks that fall in the bottom 30% of each economically integrated market (such as Europe or Asia ex-Japan). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Large Cap Value Global Stock
World stock portfolios have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20%-60% of assets in U.S. stocks. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Large Cap Growth Global Stock

World stock portfolios have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20%-60% of assets in U.S. stocks. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Large Cap Blend Global Stock

World stock portfolios have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20%-60% of assets in U.S. stocks. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

Diversified Emerging Markets

Diversified emerging markets portfolios tend to divide their assets among 20 or more nations, although they tend to focus on the emerging markets of Asia and Latin America rather than on those of the Middle East, Africa, or Europe. These portfolios invest at least 70% of total assets in equities and invest at least 50% of stock in emerging markets.

Real Estate

The funds in this category provide access to the physical commercial real estate markets through investments in public real estate securities. Over time, real estate provides diversification benefits, inflation protection, income, and growth opportunities.

Ultra Short-Term Bond

Short-term bond portfolios invest primarily in corporate, mortgage-backed, and other U.S. fixed-income issues and have durations of less than one year (or, if duration is unavailable, average effective maturities of less than one year). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

Short-Term Bond

Short-term bond portfolios invest primarily in corporate, mortgage-backed, and other U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

Short-Term Government Bond

Short-term bond portfolios invest primarily U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations

Intermediate-Term Bond

Intermediate-term bond portfolios invest primarily in corporate, mortgage-backed, and other U.S. fixed-income issues and have durations of 3.5 to six years (or, if duration is unavailable, average effective maturities of four to 10 years). These portfolios are less sensitive to interest rates, and therefore less volatile, than portfolios that have longer durations.

Intermediate-Term Government Bond

Intermediate-term bond portfolios invest primarily in U.S. fixed-income issues and have durations of 3.5 to six years (or, if duration is unavailable, average effective maturities of four to 10 years). These portfolios are less sensitive to interest rates, and therefore less volatile, than portfolios that have longer durations.

Long-Term Bond
Long-term bond portfolios invest primarily in corporate, mortgage backed, and other U.S. fixed-income issues and have durations of more than six years (or, if duration is unavailable, average effective maturities greater than 10 years). Due to their long durations, these portfolios are exposed to greater interest rate risk.

Long-Term Government Bond
Long-term bond portfolios invest primarily in U.S. fixed-income issues and have durations of more than six years (or, if duration is unavailable, average effective maturities greater than 10 years). Due to their long durations, these portfolios are exposed to greater interest rate risk.

Bank Loan
Bank-loan portfolios primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London interbank offered rate, or LIBOR.

Mortgage-Backed Securities
Mortgage-backed securities are bonds backed by either residential or commercial mortgages. The Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) are government-sponsored enterprises (GSE) that issue these debt obligations. Securities issued by these entities are not guaranteed by the full faith and credit of the U.S. government. Government National Mortgage Association (GNMA) securities, which also issue MBS, are guaranteed by the full faith and credit of the U.S. government. MBS are issued through these agencies to finance housing market growth and facilitate liquidity in home mortgages.

Intermediate/Long High Yield Bond
High-yield bond portfolios concentrate on lower-quality bonds, which are riskier than those issued by high quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Intermediate/Long Foreign Bond
Foreign bond portfolios typically invest 40% or more of their assets in foreign bonds. Some world bond portfolios follow a conservative approach, favoring high-quality bonds from developed markets. Others are more adventurous, and own some lower-quality bonds from developed or emerging markets. Some portfolios invest exclusively outside the U.S., while others regularly invest in both U.S. and non-U.S. bonds.

Eclectic Fixed Income
Eclectic Fixed Income (Multi-Sector Bond) bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond

assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Inflation Protected Bonds
Inflation-protected bond portfolios invest primarily in debt securities that adjust their principal values in line with the rate of inflation. These bonds can be issued by any organization, but the U.S. Treasury is currently the largest issuer for these types of securities.

Emerging Market Bonds
Emerging Market Bond portfolios invest primarily in external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets. Emerging Market Debt is primarily issued by sovereign issuers and tends to have a lower credit rating than other sovereign debt because of the increased economic and political risk.

Target Date
A diversified fund designed to simplify the asset allocation process for defined contribution plan participants over time. The date in each fund's name represents the approximate retirement year. As a fund's target retirement year approaches, the allocation to underlying assets shifts to a more conservative mix of asset classes.

Stable Value
A Stable Value fund is an investment choice that provides a fixed income alternative to money market funds and bond mutual funds. Stable Value Funds seek safety and principle stability primarily through investing synthetic Guaranteed Investment Contracts (GICs), fixed-income funds, or capital-preservation funds.

Money Market
A money market fund is an open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends.

APPENDIX B
Investment Review Scorecard Process

Scorecard System Methodology™

The **Scorecard System Methodology** incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The **Scorecard System** is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best) and has the ability to measure active, passive and asset allocation investing strategies. Active and asset allocation strategies are evaluated over a five-year time period, and passive strategies are evaluated over a three-year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other 20 percent of the score is qualitative, considering 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. The following pages detail the specific factors for each type of investing strategies.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior and overall appropriateness of a fund for inclusion into a plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with our sample Investment Policy Statement, in order to help identify what strategies need to be discussed as a "watch-list" or removal candidate; what strategies continue to meet some minimum standards and continue to be appropriate; and/or identify new top-ranked strategies for inclusion into a plan.

Scorecard Point System	
Good:	**9-10 Points**
Acceptable:	**7-8 Points**
Watch:	**5-6 Points**
Poor:	**0-4 Points**

Scorecard System Methodology™

Asset Allocation Strategies

Asset allocation strategies are investment strategies that invest in a broad array of asset classes that may include U.S. equity, international equity, emerging markets, real estate, fixed income, high yield bonds and cash (to name a few asset classes). These strategies are typically structured in either a risk-based format (the strategies are managed to a level of risk, e.g., conservative or aggressive) or, in an age-based format (these strategies are managed to a retirement date or life expectancy date, typically growing more conservative as that date is approached). For this type of investment strategy, the Scorecard System is focused on how well these managers can add value from both asset allocation and manager selection. *Multisector Bond (MSB) asset class* follows the same evaluation criteria with some slightly different tolerance levels where noted. These managers are also evaluated on both their asset allocation and security selection.

Weightings	Asset Allocation Strategies	Maximum Points
Style Factors 30%	**Risk Level:** The fund's standard deviation is measured against the category it is being analyzed in. The fund passes if it falls within the range for that category.	1
	Style Diversity: Fund passes if it reflects appropriate style diversity (returns-based) among the four major asset classes (Cash, Fixed Income, U.S. & International Equity) for the given category. *MSB* funds pass if reflect some level of diversity among fixed income asset classes (Cash, U.S. Fixed Income, Non-U.S. Fixed Income and High Yield/Emerging Markets).	1
	R-Squared: Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 90 percent. This statistic measures whether the benchmark used in the analysis is appropriate.	1
Risk/Return Factors 30%	**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.	1
	Up/Down Capture Analysis: Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.	1
	Information Ratio: Measures a fund's relative risk and return. Fund passes if ratio is greater than 0. This statistic measures the value added above the benchmark, adjusted for risk.	1
Peer Group Rankings 20%	**Returns Peer Group Ranking:** Fund passes if its median rank is above the 50th percentile.	1
	Sharpe Ratio Peer Group Ranking: Fund passes if its median rank is above the 50th percentile. This ranking ranks risk-adjusted excess return.	1
Qualitative Factors 20%	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 nonquantitative factors, which may impact future performance.	2
	Total	**10**

Scorecard System Methodology™

Active Strategies

Active strategies are investment strategies where the fund manager is trying to add value and outperform the market averages (for that style of investing). Typically, these investment strategies have higher associated fees due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard System** is trying to identify those managers who can add value on a consistent basis within their own style of investing.

Weightings	Active Strategies	Maximum Points
Style Factors 30%	**Style Analysis:** Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the Plan.	1
	Style Drift: Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.	1
	R-Squared: Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80 percent. This statistic measures whether the benchmark used in the analysis is appropriate.	1
Risk/Return Factors 30%	**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.	1
	Up/Down Capture Analysis: Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets.	1
	Information Ratio: Measures a fund's relative risk and return. Fund passes if ratio is greater than 0. This statistic measures the value added above the benchmark, adjusted for risk.	1
Peer Group Rankings 20%	**Returns Peer Group Ranking:** Fund passes if its median rank is above the 50th percentile.	1
	Information Ratio Peer Group Ranking: Fund passes if its median rank is above the 50thpercentile. This ranking ranks risk-adjusted excess return.	1
Qualitative Factors 20%	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 nonquantitative factors, which may impact future performance.	2
	Total	10

Scorecard System Methodology™

Passive Strategies

Passive strategies are investment strategies where the fund manager is trying to track or replicate some area of the market. These types of strategies may be broad-based in nature (e.g., the fund manager is trying to track/replicate the entire U.S. equity market like the S&P 500) or may be more specific to a particular area of the market (e.g., the fund manager may be trying to track/replicate the technology sector). These investment strategies typically have lower fees than active investment strategies due to their passive nature of investing and are commonly referred to as index funds. For this type of investment strategy, the **Scorecard System** is focused on how well these managers track and/or replicate a particular area of the market with an emphasis on how they compare against their peers.

Weightings	Passive Strategies	Maximum Points
Style & Tracking Factors 40%	**Style Analysis:** Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the Plan.	1
	Style Drift: Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class.	1
	R-Squared: Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 95 percent. This statistic measures whether the benchmark used in the analysis is appropriate.	1
	Tracking Error: Measures the percentage of a fund's excess return volatility relative to the benchmark. Fund passes with a tracking error less than 4. This statistic measures how well the fund tracks the benchmark.	1
Peer Group Rankings 40%	**Tracking Error Peer Group Ranking:** Fund passes if its median rank is above the 75^{th} percentile.	1
	Expense Ratio Peer Group Ranking: Fund passes if its median rank is above the 75^{th} percentile.	1
	Returns Peer Group Ranking: Fund passes if its median rank is above the 75^{th} percentile.	1
	Sharpe Ratio Peer Group Ranking: Fund passes if its median rank is above the 75^{th} percentile.	1
Qualitative Factors 20%	Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to fund expenses and strength of statistics; however, other significant factors may be considered. It is important to take into account nonquantitative factors, which may impact future performance.	2
	Total	10

Manager Research Methodology

Beyond the Scorecard

The **Scorecard System™** uses an institutional approach which is comprehensive, independent, and utilizes a process and methodology that strives to create successful outcomes for plan sponsors and participants. The **Scorecard** helps direct the additional research the Investment team conducts with fund managers throughout the year. Three of the primary factors that go into the fund manager research are people, process and philosophy.

PEOPLE	PROCESS	PHILOSOPHY
Key Factors: • Fund manager and team experience • Deep institutional expertise • Organizational structure • Ability to drive the process and performance	Key Factors: • Clearly defined • Consistent application • Sound and established • Clearly communicated • Successfully executed process	Key Factors: • Research and ideas must be coherent and persuasive • Strong rationale • Logical and compelling • Focus on identifying skillful managers

Scorecard System Disclosures

Investment objectives and strategies vary among fund and may not be similar for funds included in the same asset class.

All definitions are typical category representations. The specific share classes or accounts identified above may not be available or chosen by the Plan. Share class and account availability is unique to the client's specific circumstances. There may be multiple share classes or accounts available to the client from which to choose. All recommendations are subject to vendor/provider approval before implementation into the Plan. The performance data quoted may not reflect the deduction of additional fees, if applicable. If reflected, additional fees would reduce the performance quoted.

Performance data is subject to change without prior notice.

Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.

The information used in the analysis has been taken from sources deemed to be reliable, including, third-party providers such as *Markov Processes International, Morningstar,* firms who manage the investments, and/or the retirement plan providers who offer the funds.

Every reasonable effort has been made to ensure completeness and accuracy; however, the final accuracy of the numbers and information is the responsibility of the investment manager(s) of each fund and/or the retirement plan providers offering these funds. Discrepancies between the figures reported in this analysis, and those reported by the actual investment managers and/or retirement plan providers, may be caused by a variety of factors, including: Inaccurate reporting by the manager/provider; Changes in reporting by the manager/provider from the time this report was prepared to a subsequent retro-active audit and corrected reporting; Differences in fees and share-classes impacting net investment return; and, Scriveners error by your advisor in preparing this report.

The enclosed Investment Due Diligence report, including the **Scorecard System**, is intended for plan sponsor and/or institutional use only. The materials are not intended for participant use.

The purpose of this report is to assist fiduciaries in selecting and monitoring investment options. A fund's score is meant to be used by the Plan sponsor and/or fiduciaries as a tool for selecting the most appropriate fund.

Fund scores will change as the performance of the funds change and as certain factors measured in the qualitative category change (e.g., manager tenure). Fund scores are not expected to change dramatically from each measured period, however, there is no guarantee this will be the case. Scores will change depending on the changes in the underlying pre-specified Scorecard™ factors.

Neither past performance nor statistics calculated using past performance are guarantees of a fund's future performance. Likewise, a fund's score using the **Scorecard System™** does not guarantee the future performance or style consistency of a fund.

This report was prepared with the belief that this information is relevant to the Plan sponsor as the Plan sponsor makes investment selections.

Fund selection is at the discretion of the investment fiduciaries, which are either the Plan sponsor or the Committee appointed to perform that function.

Cash Equivalents (e.g., money market fund) and some specialty funds are not scored by the **Scorecard System**.

The enclosed Investment Due Diligence report and Scorecard™ is not an offer to sell mutual funds. An offer to sell may be made only after the client has received and read the appropriate prospectus.

For the most current month-end performance, please contact your advisor.

The Strategy Review notes section is for informational purposes only. The views expressed here are those of your advisor and do not constitute an offer to sell an investment. An offer to sell may be made only after the client has received and read the appropriate prospectus.

Carefully consider the investment objectives, risk factors and charges and expenses of the investment company before investing. This and other information can be found in the fund's prospectus, which may be obtained by contacting your Investment Advisor/Consultant or Vendor/Provider. Read the prospectus carefully before investing.

For a copy of the most recent prospectus, please contact your Investment Advisor/Consultant or Vendor/Provider.

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