

# INVESTMENT POLICY STATEMENT

## City of Winston-Salem Defined Contribution Retirement Plans

- City of Winston 457 (b) Employee Deferred Compensation Plan
- City of Winston-Salem General and Fire Employees' 401 (a) Employer Defined Contribution Plan
- Winston-Salem Police Officers' Defined Contribution Retirement Plan for Employee Contributions 457 (b)
- Winston-Salem Police Officers' Defined Contribution Retirement Plan for Employer Contributions 401 (a)

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## **-1- Statement of Purpose**

The primary purpose of the City of Winston-Salem DC Retirement Plans (the “Plans”) is to provide a retirement benefit for participants and their beneficiaries by offering the opportunity for long-term capital accumulation.

The Plans are structured to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plans may consist of contributions made by both participants and by City of Winston-Salem (the “City”). All assets are subject to the investment direction of eligible participants or their beneficiaries.

Although the Employee Retirement Income Security Act of 1974 (“ERISA”) does not apply to the Plans, the Committee intends to operate the Plans generally in conformance with ERISA 404(c). Investment decisions made by the Committee will be made for the sole interest of the participants and beneficiaries of the Plans.

## **-2- Policy Goals & Objectives**

The Investment Policy Statement (IPS”) is designed to provide meaningful direction for the fiduciaries of the City and the designated Investment Consultant/Advisor in the management of the Plans’ investment options. The policies within the IPS are not binding, but serve as guidelines for the Fiduciary in fulfilling its responsibility to exercise considered judgment in acting solely in the long-term interest of the Plans’ participants and its beneficiaries. The IPS is designed to serve as a general guideline. There may be specific circumstances that the Fiduciary determines warrant a departure from the guidelines contained herein. In general the IPS:

- Establishes the roles and responsibilities of the Plans’ Fiduciary and the Investment Consultant/Advisor hired to assist in the fulfillment of the Fiduciary’s duties;
- Identifies appropriate investment asset classes for inclusion in the Plans’ menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;
- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary;

- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS; and
- Develops methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### **-3- Roles & Responsibilities**

#### **The City or Committee as Fiduciary:**

Although it is intended that participants will direct the investment of their accounts under the Plans, the City, as Fiduciary, will select the array of investment options to be made available for participant investment, and then provide on-going oversight of those investment options.

The City has chosen to appoint a Committee to assist in the fulfillment of its fiduciary responsibilities. (In contemplation of the continued appointment of a Committee, the words "Committee" and "Fiduciary" are used interchangeably in this IPS.) The Committee will be formed and governed either by a separate document, or according to the City's governance structure. If the City disbands the Committee, the City shall have the ability to exercise all authority granted to the Committee.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plans' chosen administrative environment, e.g. the Plans' record-keeper and trustee/custodian. The Committee will review the Plans' investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plans with the assistance of an independent Investment Consultant/Advisor. The Investment Consultant/Advisor shall acknowledge that it is acting as a fiduciary as defined by §3(21)(A)(ii) of ERISA with respect to the selection of investment options available to the Plans.

#### **Investment Consultant/Advisor:**

Responsibilities of the Investment Consultant/Advisor include:

- Educating the Committee on issues concerning the selection of investment options for the Plans;
- Assisting in the analysis and initial selection of investment options to be made available for participant investment;

- Assisting the Committee with the on-going review of the investment universe made available within the Plans' chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Providing specific investment advice to the Committee with respect to the Plans on a regular basis, pursuant to a mutual understanding with the Committee that the advice will serve as a primary basis for the Committee's investment decisions, and that the advice will be individualized based on the needs of the Plans. Such advice may relate to the advisability of investing in, purchasing, holding, and selling securities or other property;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Consultant feels may alter the Committee's assessment of a given investment option, asset class or strategy.

#### **-4- Investment Asset Classes**

The Plans' investment menu is structured in accordance with modern portfolio theory which holds that the asset allocation decisions among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plans' investment menu may include, but are not limited to, options from the following broad asset classes: Capital Preservation, Fixed Income, Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date, Domestic Equity, International Equity and Specialty.

#### **-5- Investment Selection**

As mentioned, the Committee has structured the Plans to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plans' administrative environment which may impact the number, type and cost of investment options available to the Plans. The Committee may also

consider the method and payment of the Plans' expenses, which may be altered by investment-related decisions.

Once the Committee has selected the range of asset classes to be represented within the Plans, the following screening criteria will be among those applied to the available actively managed options:

**Fees** – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.

**Style Consistency** – Since each investment option is chosen to fulfill a specific part of the Plans' overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation may be allowed when an investment option's given style moves in and out of favor, or when an investment option's successful investments outgrow their initial investment classification.

**Volatility and Diversification** – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures and ratios, including Sharpe ratio, information ratio and beta, may be used as well.

**Performance** – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee should consider other variables including (but not limited to) fees, investment style purity, and risk management practices, in order to develop a holistic view about a strategy and its appropriateness within the Plans. Passively managed options do not need to meet the same ranking criteria; rather, measures such as tracking error to the stated benchmark are more important measures of performance for these options.

**Management & Organization** – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option's sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term investors.

**Additional Factors** – In addition to the above outlined factors, the Committee will also consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plans' unique situation.

After inclusion in the Plans each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of this IPS.

## **-6- Investment Evaluation**

With the assistance of the Investment Consultant/Advisor, the Committee will monitor the investment options made available within the Plans to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plans under this IPS or such other or additional criteria as appropriate. In making investment decisions, the Committee intends to generally follow the Department of Labor's "prudence regulation" (DOL Reg. § 2550.404a-1). As part of that process, the Committee may consider the ranking of investment options relative to their peers using a comprehensive Scoring System as recommended by the Investment Consultant/Advisor.

The following criteria provide an outline for the evaluation process:

- On a quarterly basis, the Plans' Investment Consultant/Advisor will provide the Committee with a comprehensive report of each investment option's relevant performance and relative rankings against appropriate indexes, and within appropriate peer groups. The Investment Consultant/Advisor will review the report with the Committee at least annually, or more often as necessary and appropriate.
- The Investment Consultant/Advisor will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the investment option's pricing structure or significant changes in the investment option's fundamental policies and procedures that the Investment Consultant/Advisor feels warrant Committee review.
- The Committee normally will meet with the Investment Consultant/Advisor, at least annually, to evaluate each investment option as well as the overall status of the Plans' IPS, if necessary.
- If the Investment Consultant/Advisor's scoring system indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plans' menu, the Committee will take appropriate steps.

## **-7- Replacement of Selected Investment Options**

Since the intention of the Plans are to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment asset classes or specific investment options will be changed or deleted frequently.

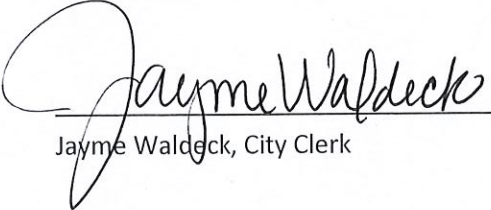
It is possible that changes may become desirable or necessary, however, based upon factors such as:

- The addition of a new asset class or investment alternative that was not a part of the Plans' initial menu. Such an addition will be subject to a similar selection regimen to that outlined earlier in the IPS;
- The elimination of a given asset class from the Plans' menu; and
- The desire to replace one of the Plans' investment options with another investment option that the Committee feels will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration, or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plans' chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS; and
- The need to replace or eliminate one of the Plans' investment options after noncompliance with this IPS has been established, or appears likely.

#### **-8- Conclusion**

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plans. Changing market conditions, economic trends or business needs may necessitate modification of this IPS. Until such modification, this document will provide the investment objectives and guidelines for the Plans' assets, subject to the caveats stated herein. This IPS may be modified by written approval of a majority of the Committee members or, if no such Committee exists, by the Plan Sponsor.

Approved by the City of Winston-Salem , and adopted on this 18 day of September,  
2023.

  
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Jayme Waldeck, City Clerk