

PERSI Choice 401(k) Plan Investment Policy

I. Plan Objective

The Public Employee Retirement System of Idaho (PERSI) sponsors the PERSI Choice Plan (the "Choice Plan" or "Plan") for the benefit of its members. The Plan is a self-directed defined contribution (DC) plan consisting of a gain-sharing component under section 414(k) of the Internal Revenue Code, and a 401(k) plan designed to receive voluntary employee contributions, rollovers, and employer contributions.

The Plan provisions are outlined in Idaho Code § 59-1308, PERSI Rules and the Plan Document for the 401(k) plan. The Plan is specifically designed in connection with the primary retirement benefit provided to qualified employees of public employers in Idaho by the PERSI Base Plan, a defined benefit (DB) plan (the "Base Plan"). The Choice Plan is a portable, member directed defined contribution plan that is funded by tax-deferred contributions from employees and employers and from gain sharing allocations. It is intended as a long-term investment vehicle, not a platform for speculative investment activities, such as day-trading or market timing.

The Plan is a qualified employee benefit plan intended to comply with all applicable federal laws and regulations, including the Internal Revenue Code. The Plan's participants have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants will be able to direct their account balances among a range of investment options to construct diversified portfolios that reasonably cover each major asset class. Participants alone bear the risk of investment results from the options and assets mixes that they select.

11. Roles and Responsibilities

The Board created pursuant to Idaho Code section 59-1304 of the Idaho Code to manage the Public Employee Retirement System of Idaho (the "Board") administers the Plan.

The Board has statutory authority to manage the Choice Plan, and to determine, consistent with the terms of the Plan and laws applicable to the Plan, all questions relating to (a) the eligibility of individuals to participate in the Plan, (b) the amount of benefits to which any member or beneficiary may become entitled, and (c) any situation not specifically covered by the provisions of the Plan. The Board has the power and duty to:

1. Appoint, evaluate, and replace the Custodian who maintains non-discretionary custody of Plan assets.
2. Select, evaluate, and replace investment products in which Plan assets may be invested.
3. Establish policies for investment education and communications programs intended for member use.
4. Direct the investment of Plan assets in lieu of member direction when required to facilitate the operation of the Plan.
5. Select, evaluate, replace or terminate independent consultants, investment managers, service providers and other vendors of the Plan.

III. Fund-selection Criteria

The Plan will offer investments that provide members with a diversified choice of options representing major financial asset classes with a focus on core funds that tend to be style neutral, and a choice of management styles, as well as provide liquidity sufficient for member-directed withdrawals.

The PERSI Board has adopted a range of investment options that cover the major, generally accepted asset classes including both actively and passively managed investments.

PERSI, recognizing that the retirement savings needs are long-term and that investment competence must be measured over a complete market cycle, does not expect to be reactive to short-term manager performance.

When it is determined that a fund needs to be replaced or added, the Board will direct whether the managers will be selected by an external investment consultant or through an in-house search process conducted by PERSI's Chief Investment Officer and an Investment Team consisting of PERSI's Chief Investment Officer, Investment Officer, Executive Director, and DC Plan Specialist. In the case of an in-house search process, the Investment Team will provide a recommendation to the Board supported by the rationale for the recommendation and the quantitative and qualitative criteria, including, but not limited to, fund performance compared to benchmark, style consistency, investment staff stability, management fees and relevant portfolio data.

IV. Risk/Return

Participants are responsible for directing his/her own contributions to any or all investment choices offered thereby determining the amount of risk he or she assumes. Risk can be defined as the volatility of returns (standard or semi standard deviation) or the probability of not achieving a desired investment outcome. While PERSI can monitor the level of risk involved in a given fund by measuring its standard deviation, it cannot guarantee that any participant will achieve a certain investment outcome. PERSI maintains a fiduciary responsibility to offer investment funds of differing asset classes across the risk spectrum to help facilitate diversification of a participant's portfolio.

V. Default Plan Option

The current default option is the PERSI Total Return Fund ("TRF") which co-invests the DC Choice Plan assets along with the DB Base Plan assets.

Upon enrolling in the Plan, all new participants' investments are defaulted 100% to the PERSI TRF option. This means that all future (not yet received) contributions will be invested in the TRF option unless the member takes action to transfer funds or changes investment allocations. When rolling money into the Plan, participants may allocate among funds by completing the appropriate section of the Rollover Form; otherwise their money defaults to the TRF option.

VI. Investment Options

The investment options currently approved by the Board are as follows:

Balanced

- **PERSI Total Return Fund (TRF)**

This is the default option. The fund invests the assets with the DB Base Plan. It is a diversified fund that generally invests 35-55% in US and global equities, 12-30% in international equities, and roughly 25-30% in fixed income securities. It includes primarily publicly traded stocks and bonds with significant private holdings in real estate, private equity, and commercial mortgages.

- **Calvert Balanced Fund**

This is a diversified fund which represents a socially responsible, Sudan-free balanced option for Plan participants. Calvert defines "SRI" as Sustainable and Responsible Investing, although it is often used as an abbreviation for Socially Responsible Investing. This fund seeks to achieve a competitive total return through an actively managed portfolio of approximately 60% stocks and 40% in bonds and other fixed income instruments, which offer income and capital growth opportunity and satisfy the investment and social criteria.

Capital Preservation

- **PERSI Short-Term Investment Portfolio (SIIP)**

This is an actively managed fund which seeks to provide fixed income returns consistent with prevailing, short-term U.S. interest rates while focusing on capital preservation and liquidity. Both the yield and principal value may fluctuate.

Bond

- **U.S. Bond Market Index Fund**

This is an index fund which seeks to replicate the performance and characteristics of the Barclays U.S. Aggregate Index, a broad fixed-income index covering the U.S. investment grade bond market.

- **U.S. Treasury Inflation-Protected Securities (TIPS) Index Fund**

This is an index fund which seeks to replicate the performance and characteristics of the Barclays U.S.TIPS Index.

- **Dodge and Cox Income Fund**

This is an actively managed fixed income fund which seeks a high and stable rate of current income, consistent with long-term preservation of capital. A secondary objective is to take advantage of opportunities to realize capital appreciation.

Equity

- **U.S. Broad Market Equity Index Fund**

This is a broad market index fund which seeks to replicate the performance and characteristics of the Russell 3000 Index providing long-term capital growth from exposure to stocks that represent the U.S. equity market.

Large Cap

••• U.S. Large Cap Equity Index Fund

This option seeks to replicate the performance and characteristics of the Standard & Poor's 500 Index. The fund should provide long-term capital growth by investing in the stocks that are weighted toward the largest domestic companies. The fund should hold each stock in proportion to its weight in the index.

••• Vanguard Growth & Income Fund, Admiral Shares

This is an actively managed, large-capitalization core fund which seeks long-term growth of capital and income from dividends. The fund invests in a diversified group of stocks and seeks to provide higher returns than the Standard & Poor's 500 Index while having similar risk characteristics.

Small/Mid Cap

••• U.S. Small/Mid Cap Equity Index Fund

This fund seeks to replicate the performance of a small/mid-capitalization US equity index.

Small Cap

••• T. Rowe Price Small Cap Stock Fund

This is an actively managed, small capitalization core fund which seeks to achieve investment returns that are consistently superior to the Russell 2000 Small Cap Index.

International Equity

••• International Equity Index Fund

This is an international equity index fund which seeks to replicate the performance and characteristics of the MSCI EAFE (Free) Index. The fund should provide long-term capital growth by investing in international stocks. The fund should invest in developed markets and hold each stock in proportion to its weight in the index.

••• Emerging Markets Equity Index Fund

This is an international equity index fund which seeks to replicate the performance and characteristics of the MSCI EMF Index.

••• Brandes International Equity Fund

This is an actively managed, large capitalization, international equity fund which seeks long-term capital appreciation by investing principally in common and preferred stocks of foreign companies in developed markets and securities that are convertible into such common stocks. The fund typically invests 80% of assets in equities of issuers located in no less than three foreign, developed market countries; up to 20% in securities of companies located in emerging market countries; and up to 10% in small capitalization companies.

Specialty

••• U. S. REIT Index Fund

This is a passive index fund designed to track the performance of the Dow Jones U. S. Select REIT Index.

VII. Trading Practices:

The PERSI Choice Plan is intended to provide eligible members with the long-term accumulation of retirement savings through tax deferred contributions to individual member accounts and the earnings thereon. As such, the plan is not designed as a vehicle for excessive trading or market timing. Frequent trades or market timing in the PERSI Choice 401(k) Plan have the potential to disrupt management of the fund and increase its expenses.

If the Board and/or fund managers determine that excessive trading practices exist, which have the potential to adversely affect the costs or other participants' performance, PERSI and/or fund managers may/will implement trading restrictions on those funds affected. Restrictions will be made on a case-by-case basis and may be modified from time to time as conditions evolve based on available remedies.

VIII. Investment Monitoring and Reporting

PERSI evaluates investment managers on the basis of a number of quantitative and qualitative criteria, including, but not limited to the managers' expertise, fees and firm characteristics, and how the managers complement the relevant attributes of the other investment managers. PERSI prefers giving managers broader mandates rather than requiring the managers to conform to narrow mandates.

PERSI expects a manager to manage the portfolio in the expected manner and with the capabilities and personnel as when originally hired. Although short-term performance is tracked, it is only longer-term poor performance (rolling 3-5 year performance against both benchmarks and peers), or change in style or staffing, that triggers a formal review.

An independent external consultant will monitor investment performance activity. Performance will be reviewed through comprehensive analysis and reports presented to the Board on a quarterly basis. The investment managers and external consultants will be monitored and subject to formal review and/or replacement if PERSI believes it is to the overall benefit of its members.

The quarterly reports will include a comprehensive analysis containing, but not limited to, review and evaluation of investment funds, including: performance to benchmark; comparison to peer group of funds (where applicable), manager peer groups (where applicable), manager style analysis, risk vs. reward, and other relevant portfolio data (e.g. turnover rate).

PERSI may evaluate the performance of the investment vehicles more frequently than quarterly if it deems prudent to do so. PERSI's decision to retain or eliminate any investment vehicle offered under the Plan will be based on the criteria listed above and will also take into consideration the importance of providing consistent, long-term performance to participants. After reviewing the "fund performance report" PERSI may take the following measures:

1. Continue to offer the fund in the Plan.
2. Place the fund on "watch" status for more detailed analysis. A fund may remain on watch status as long as the Board/Investment Team deems it prudent.
3. Eliminate the fund, requiring participants to transfer their current balances to other investment alternatives.
4. Remove a fund from "watch" status based on improvement in the investment monitoring criteria outlined above.

These steps need not be taken in progressive order or within any particular time frame.

IX. Member Education and Communication

The PERSI education program is focused on increasing member knowledge of the PERSI Base and Choice Plans and to provide them with a strong foundation for personal financial and retirement planning. One component of this program involves encouraging members to participate in a retirement savings plan.

The Board wants to ensure that our members have the education and information necessary to make informed financial planning and investment decisions. Members should be comfortable with investment-related terminology and should understand the investment options available to them. The Board encourages a life-long, well thought-out, retirement savings and investment plan.

To ensure the best possible education program, Choice Plan education goals are to provide members with knowledge of:

- The PERSIDB Base Plan (retirement benefits, disability benefits, separation benefits, COLAs, the value of their benefits)
- The PERSI Choice Plan (gain sharing, investment options, voluntary contributions)
- Other DC plans available (457, 403(b), 401(a), IRA, etc.)
- Financial planning (terminology, strategies, budgeting, asset allocation, tax consequences)
- Social security
- Other income sources

The goal is for PERSI's members to understand how all of the retirement plans work together to provide a financially secure retirement without negatively affecting their current standard of living.

A variety of communication methods are used to accommodate different learning styles and help ensure repeated exposure to PERSI's messages. Methods of communication include:

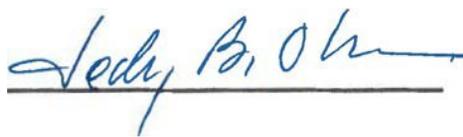
- Web-based information
- Printed materials
- Group workshops offered by PERSI education staff at various locations and times throughout the State. The PERSI workshops are offered as in-person presentations. A tiered workshop approach is also offered. A variety of different workshops intended to meet the needs of members with different levels of investment knowledge, investment time horizons, and risk tolerances at different career stages are also offered.

X. Coordination with the Plan Document

Notwithstanding the foregoing, if any term or condition of this investment policy conflicts with any term or condition in the Plan document, the terms and conditions of the Plan document shall control.

XI. Adoption:

The Board adopted this Investment Policy on the 21st day of July, 2015. Amendments to this policy statement are allowed, as needed, upon the approval of the Board.



JODY B. OLSON, CHAIRMAN