

**State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement**

March 2006

**State of Colorado
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TABLE OF CONTENTS

	<u>Page</u>
I) INTRODUCTION	
A) Purpose of Investment Policy Statement.....	1
B) Plan Objective.....	1
C) Investment Option Menu.....	1
II) STATEMENT OF RESPONSIBILITIES	
A) Committee.....	3
B) Investment Fund Managers.....	3
C) Plan Participants.....	4
D) Plan Administrator.....	4
E) Investment Consultant.....	5
F) Record Keeper.....	5
G) Trustee Custodian.....	5
III) COMMITTEE PROCESS	
A) Meeting Frequency.....	7
B) Investment Fund Selection.....	7
C) Investment Fund Performance Evaluation.....	7
D) Investment Fund Termination.....	7
E) Quorum and Manner of Acting.....	8
..	
IV) ASSET CLASSES.....	9
V) ERISA 404(c) STATEMENT.....	9
VI) ADOPTION & SIGNATURES.....	10
VII) APPENDICES	
A) Plan Investment Options and Benchmarks	
B) Stable Value Investment Description	

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

I) INTRODUCTION

A) Purpose of Investment Policy Statement. The purpose of this Investment Policy Statement is to record the investment objectives and investment policies for the State of Colorado 457 Deferred Compensation Plan (Plan). This Investment Policy Statement supersedes any other Investment policy or guidelines previously adopted by the Committee. It is intended to assist the 457 Deferred Compensation Plan Committee (the Committee) in meeting its fiduciary responsibility, effectively constructing, supervising, and evaluating the investment program established for the Plan by:

- 1) Making a clear distinction between the responsibilities of the Committee, the investment fund managers, the plan participants and beneficiaries, and other plan service providers,
- 2) Establishing a framework for the selection, monitoring, and evaluation of the Plan's investment fund managers, and
- 3) Establishing the Plan as an ERISA 404(c) Safe Harbor Plan.

Although the Employee's Retirement Income Security Act of 1974 (ERISA) does not apply to the Plan, the Committee intends to operate the plan 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 Plan.

This statement is an outline of the Committee's general investment policies and intended to supersede any earlier statement(s) of investment policies and objectives effective with the date this statement is executed. The Policy may be reviewed annually and revised anytime as necessary to ensure it adequately reflects changes related to the Plan.

The intent of this investment policy is to provide a meaningful framework for the investment selections of the Plan. The policies and practices outlined herein will not be overly restrictive given changing economic, business, and capital market conditions. The intent of these objectives is to be sufficiently specific to be meaningful, but flexible enough to be practical. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined herein.

B) Plan Objective. The plan was established to provide eligible employees an opportunity to save on a tax-deferred basis. The Plan is a tax-deferred defined contribution plan that provides for benefits based solely on the amount contributed to each participant's account plus or minus any income, expenses, and gains or losses.

The Plan Document and Summary Plan Description for the Plan are the governing plan documents and contain the specific plan provisions and requirements for determining eligibility to make and/or receive contributions under the plan.

C) Investment Option Menu

1) Purpose of Investment Options

- (a) Consistent with ERISA 404(c), investment options are selected to provide participants with an opportunity to diversify their accounts across a reasonable risk and reward spectrum.
- (b) Participants may select from any combination of investment options and may change the asset allocation of their investments pursuant to the Plan provisions.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

2) Construction of the Investment Option Menu

- (a) The number and types of investment options and the investment fund managers retained to manage the investment options are subject to change based upon the Committee's on-going review and evaluation of the investment menu offered to participants.
- (b) The Committee may add, replace, or remove investment options or funds at any time when it concludes such a change is in the best interests of plan participants and beneficiaries.
- (c) Investment options generally will not be added, if in the Committee's judgment, they are redundant or duplicative of existing options.
- (d) When selecting investment options the Committee will bear in mind the wide range of needs of the participants.
- (e) The investment options that are currently available in the Plan are described in the attached Appendix A.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

II) STATEMENT OF RESPONSIBILITIES

A) Committee. The Committee has the responsibility as the Named Fiduciary for Management of Plan Assets.

It is the intent of the Committee to fulfill their fiduciary responsibilities with respect to the plan, solely in the interest of the participants and beneficiaries. The fiduciaries are to perform their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

In fulfilling their fiduciary duty, the Committee shall be responsible for:

- 1) Selecting the investment design features of the Plan. This includes establishing
 - (a) the investment policy and objectives,
 - (b) the number and types of investment alternatives available to Plan participants, and
 - (c) participant investment procedures.
- 2) Appointing, monitoring and evaluating all investment fund managers in accordance with guidelines and benchmarks established within this document.
- 3) Monitoring plan costs which are charged to plan assets and or paid by plan participants, including but not limited to investment management fees, custodial fees and fees paid to other plan service providers from plan assets.
- 4) Providing general investment information to plan participants regarding the procedures for making investment choices under the plan and general investment information regarding each of the investment options offered under the plan consistent with the requirements of ERISA 404(c).

B) Investment Fund Managers

At present, the plan primarily utilizes mutual funds as plan investment vehicles. The Committee may utilize separately managed accounts, commingled pooled funds, mutual funds, variable annuity contracts and any other funding vehicles as it deems appropriate for use by the plan and is consistent with governing law and regulations. These various funding vehicles and approaches are collectively and interchangeably referred to as Investment Funds, Investment Managers, Investment Fund Managers, Funds or Registered Investment Advisors within this policy.

- 1) **General Responsibilities.** All registered investment advisors managing assets of the Plan shall maintain the assets of the Plan in compliance with all applicable laws and regulations. Responsibilities include, but are not limited to, the following:
 - (a) Plan assets shall be invested with the care, skill, prudence, and diligence that would be applied by a prudent professional investor, acting in like capacity and knowledgeable in the investment of retirement funds.
 - (b) All transactions undertaken on behalf of the Plan shall be for the sole interest of plan participants and beneficiaries.
 - (c) With respect to the use of mutual funds, the Committee expects assets of such funds to be invested in accordance with the applicable prospectus.
 - (d) In general, the primary responsibility of each fund is to invest assets in accordance with the mandate they have received from the committee and/or their own prospectus or purchase agreement and declaration of trust.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

- (e) All mutual funds shall be registered Investment Companies as defined under the Investment Company Act of 1940 (Act). The Investment Companies need not be classified as “diversified” Investment Companies as defined in the Act. Funds also may be offered through a variable annuity contract.
- 2) Information Provided to the Committee.** The Committee may from time to time request the Investment Fund Manager(s) or their representatives to meet with them to discuss the following topics, including but not limited to:
- (a) The manager's views concerning the economy and the securities markets, with focus on the likely impact of the fund's strategies on portfolio performance.
 - (b) The effects of any changes to the investment fund's organization, investment philosophy, financial condition, or professional staff.
- 3) Specific Duties.** The specific duties and responsibilities of each investment fund are as follows:
- (a) Managing the Plan's assets under their supervision in accordance with their mandates or those contained within their published guidelines or prospectus.
 - (b) Exercising full investment discretion in regards to buying, managing and selling assets held in the portfolio.
 - (c) Promptly voting all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each investment fund shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
- C) Plan Participants.** The Committee recognizes the retirement plan is a significant source of retirement income for plan participants and their beneficiaries. Investment, contribution, and allocation decisions shall be made solely by each plan participant subject to certain procedural and administrative guidelines and default investment procedures for automatically enrolled or other participants that do not make an investment election. The Committee shall make available investment option performance results and other educational information relating to investment concepts and the investment options. The Committee has made available to participants, online investment advisory services. The provision of this information and service does not constitute investment advice. It is solely the responsibility of each plan participant to direct the investments in their account. Participants are responsible for the following:
- 1) Determining their contribution deferral rate.
 - 2) Selecting their investment options for both existing balances and new contributions going forward.
 - 3) Monitoring their asset allocation strategy and making adjustments as personal situations change.
 - 4) Electing the timing and form of distributions according to the terms of the plan.
- D) Plan Administrator.** The Committee is also the Plan Administrator under the plan. The Plan Administrator's duties include:
- 1) Administering and interpreting the provisions of the plan,
 - 2) Providing plan participants with a Summary Plan Description,
 - 3) Providing plan participants with an annual statement of account,
 - 4) Compliance with all laws and regulations governing the plan.
 - 5) The Committee may delegate various functions or tasks to individual employees or other service providers.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

E) Investment Consultant. The primary responsibility of the Investment Consultant is to inform and advise the Committee on various investment related issues with respect to the oversight and potential enhancements of the Plan. Such services include:

- 1) Assisting the Committee with determining an appropriate process for constructing the structure of the investment menu.
- 2) Providing timely and accurate semi-annual reports evaluating return, risk and characteristics (where available) of each of the funds compared to appropriate indexes and/or peer group universes.
- 3) Apprising the Committee of changes with regard to their funds in an appropriate time frame given the significance of the information.
- 4) Conducting a fund review at the request of the Committee when, for example, noteworthy changes or significant under-performance occurs.
- 5) Assisting the Committee in the search and replacement of existing funds when a review so merits this change.

The Investment Consultant's role is to provide information and advice to the committee. The Investment Consultant has no discretionary control or authority over the plan and its assets. However, in its role as an advisor to the Plan Committee the Investment Consultant acknowledges a limited fiduciary role with respect to the investment advice provided to the Committee.

The Committee shall retain the services of a qualified independent investment consultant. The Investment Consultant must be registered with either State or Federal securities regulators pursuant to the Investment Advisers Act of 1940. The Investment Consultant will provide a copy of the ADV Form Part II for the Investment Consultant and his or her company, to the Committee during the annual investment performance review, and will disclose whether the Investment Consultant has an ownership or other interest in any of the investment options being reviewed or recommended by the Investment Consultant. The Investment Consultant will immediately notify the Committee of any SEC or other regulatory investigations related to the type of services provided to the Committee or of any felony conviction.

F) Record Keeper. The Record Keeper has no discretionary authority over the plan and its assets and is not a fiduciary with respect to the plan or its assets. The Record Keeper is responsible for:

- 1) Maintaining the plan's participant account balances in an accurate and confidential manner.
- 2) Preparation of quarterly participant statements.
- 3) Completion of the annual compliance tests as included in their service agreement.
- 4) Accurate and timely plan data and reports to the Committee as included in their service agreement.
- 5) Providing participants with electronic access to account information and transactions as contracted by the Company.
- 6) Coordination of the provision of fund prospectuses to participants as requested.
- 7) Provision of various participant communication materials as described in the service agreement and / or requested by Committee.

G) Trustee/Custodian. The trustee/custodian is non-discretionary and takes direction from the Committee or its delegates. The trustee/custodian has fiduciary responsibility with respect to the plans assets under its control. The trustee/custodian is charged with the following responsibilities:

- 1) Safekeeping all securities,
- 2) Settling transactions,
- 3) Receiving contributions,
- 4) Allocating contributions among investment accounts as instructed,

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

- 5) Making participant distributions as instructed, and
- 6) Providing periodic account statements to the Committee and other service providers as requested by the Committee.
- 7) Promptly voting all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Keeping detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

III) COMMITTEE PROCESS

- A) Meeting Frequency.** The Committee shall meet at least semi-annually. These meetings will be held to review the performance of the investment funds. The committee will also review the investment policy and investment options offered in the plan on an annual basis.
- B) Investment Fund Selection.** Searches for investment funds should include candidates that have demonstrated success in similar assignments. In selecting an investment fund, a due-diligence process is followed, which analyzes the investment fund in terms of:
- 1) Investment performance track record and consistency of returns achieved with risks taken.
 - 2) Alignment of fund investment philosophy, process, and style with plan option objectives.
 - 3) Size and experience of professional staff.
 - 4) Tenure of investment management team.
 - 5) Competitiveness of Investment management fees.
 - 6) Compatibility with plan trading requirements.
 - 7) An assessment of the likelihood of future investment success relative to other opportunities
- C) Investment Fund Performance Evaluation.** The Committee or a delegated committee member or staff member will review the performance of investment funds *at least twice each year*, to determine if they are achieving the established objectives. Performance objectives will be established for each fund and/or asset class at the time the class is included. The performance review will include measuring the funds' investment performance to stated benchmarks and peer groups, as well as monitoring risk measures. The following general criteria will be evaluated:
- 1) **Quantitative Measures.**
 - (a) **Active Investment Strategies.** Funds employing active management are expected to rank above the 50th percentile of the appropriate peer group for the rolling three and five year time periods. It is also expected that the risk of each fund, as defined by standard deviation of returns, be commensurate with the appropriate market index and/or peer group. The benchmarks, peer groups and risk measures are outlined in Appendix A.
 - (b) **Passive Investment Strategies.** Passive Funds are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with marginal tracking error. Typically rolling three and five year periods will be evaluated. It is also expected that the risk of each fund, as defined by standard deviation of returns, be commensurate with the appropriate market index. The benchmarks and risk measures are outlined in Appendix A.
 - 2) **Qualitative Measures.** The funds will also be monitored on an ongoing basis for other material changes which the Committee may determine are of importance to the decision to retain an investment fund, such as personnel departures, organizational changes, or alterations in investment style, philosophy, or strategy, and adherence to stated guidelines.
 - 3) **Time Periods.** The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time-periods. Recognizing that short-term fluctuations may cause variations in a fund's performance, the Committee intends to employ investment funds with long-term investment strategies and will evaluate fund performance from a long-term perspective. Performance over market cycles of three to five years will be weighted more heavily than performance over shorter time periods such as one year or less.
- D) Investment Fund Termination.** All investment funds are expected to perform according to their prescribed objectives under this policy. The Committee recognizes the long-term nature of retirement plan investing

State of Colorado 457 Deferred Compensation Plan Investment Policy Statement

and the variability of market returns. Periodic underperformance in any of the criteria outlined in this policy will not necessitate the termination of a fund. Underperformance will provoke thoughtful consideration by the Committee of the factors causing underperformance and possible courses of action that the Committee may take.

The Committee may place a fund on watch where the fund's performance will continue to undergo a greater level of review and analysis. A watch status may be initiated when an investment product trails its benchmark or peers for at least two quarters on a rolling three-year basis. The two quarters of underperformance may be consecutive or may be within a series of quarters that demonstrate a pattern of underperformance on a rolling three-year basis. The Committee may also initiate watch status when material changes occur in the management, methodology, or objectives of an investment product.

The watch status may include a number of actions based on recommendations of the Consultant. Quarterly data sheets of investment products will be prepared and delivered to the Committee by the Consultant.

If an investment product's three-year trailing performance does not return to above median compared to its benchmark or versus same style peers within two quarters of being placed on watch, the investment product may be considered for termination as soon as beneficial for the Plan based on a recommendation from the Consultant and/or based upon a vote by the Committee. In addition to under-performance, other reasons may be considered for termination of an investment product. The Committee will consider an appropriate course of action for transferring assets in the best interests of Plan participants upon termination of the investment product.

The Committee may decide to take action, including but not limited to the following:

- Remove the fund from watch,
- Extend the watch status,
- Terminate the fund.

Factors contributing to placing a fund on watch are:

- Performance below the median of its peer group over 3 and/or 5 year rolling periods,
- Significant change in the risk profile of the portfolio as measured by the standard deviation of returns,
- Significant increase in management fees or expense ratios,
- Turnover in the management team of the portfolio,
- Significant increases or decrease of assets under management,
- Deviation from style for which the fund was selected,
- Significant organizational change, changes in ownership, mergers, etc,
- Or other factors, which the Committee may determine, are important for consideration.

The Committee will endeavor to use its best judgment and information available to act in a prudent manner on behalf of the plan and its participants. **The Committee reserves the right to terminate any investment fund at any time for any reason when it determines such termination is in the best interests of the plan and its participants and beneficiaries.**

- E) **Quorum and Manner of Acting.** A quorum will be a majority of the members of the total Committee as provided for in the Committee's Governance Manual. A quorum must be present (in person, by telephone, by video, or other electronic access) for the Committee to take action. Decisions for any action taken by the Committee will be by majority vote of the members present at the meeting.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

IV) ASSET CLASSES

The Committee will consider the following asset classes for possible inclusion in the plan as investment choices to be made available to participants:

- **Domestic Equity Funds**
 - Capitalization - Large Cap, Mid Cap, Small Cap
 - Style – Growth, Value, or Blended styles
- **International Equity Funds**
 - Capitalization - Large Cap, Mid Cap, or Small Cap
 - Style – Growth, Value, or Blended styles
- **Bond Funds**
 - Investment Grade (Portfolio Weighted Average of A)
 - Portfolio Duration (Long-Term, Intermediate, or Short-Term)
 - Government, Corporate, or Blended
 - Domestic and/or International
- **Cash & Equivalents Funds**
 - Money Funds
 - Stable Value Funds (GIC/BIC/Synthetics)
- **Pre-Set Asset Allocation Funds**

The Committee may decide to offer pre-set asset allocation funds.. These preset asset allocation funds may be made up of funds currently offered individually as fund choices (see Appendix A).
- **Other Asset Classes.** The Committee may also consider other asset classes or strategies.
- **Self-Directed Brokerage Accounts.** The Committee may offer self-directed brokerage accounts.

V) ERISA 404(c) STATEMENT

- A) ERISA 404(c) Safe Harbor Compliance.** It is the Committee's intent that the Plan generally comply with ERISA 404(c) guidelines. However, the plan participants will be solely responsible for the investment decisions and investment transactions that they make under this plan.

**State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement**

VI) ADOPTION & SIGNATURES:

This Investment Policy Statement is adopted by the Committee and effective on this _____ day of _____, _____.

On Behalf of the Committee by:

Name, Title

**State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement**

VII) APPENDICES

Appendix A. Description of Plan Investment Options and Benchmarks

Asset Class	Performance Benchmarks
Stable Value / Money Market Fund	Four-year Treasury rate + 0.50%
Intermediate Term Bond	LB Aggregate Index & Intermediate Bond Funds Median
Large Cap Value	Russell 1000 Value Index & Large Cap Value Funds Median
Large Cap Core/Blend Index	S&P 500 Index & Large Cap Core/Blend Funds Median
Large Cap Growth	Russell 1000 Growth Index & Large Cap Growth Funds Median
Mid Cap Value	Russell Mid Cap Value Index & Mid Cap Value Funds Median
Mid Cap Core/Blend	Russell Mid Cap Index & Mid Cap Core/Blend Funds Median
Mid Cap Growth	Russell Mid Cap Growth Index & Mid Cap Growth Funds Median
Small Cap Value	Russell 2000 Value Index & Small Cap Value Funds Median
Small Cap Core/Blend	Russell 2000 Index & Small Cap Core/Blend Funds Median
Small Cap Growth	Russell 2000 Growth Index & Small Cap Growth Funds Median
Foreign Large Value	MSCI ACWI ex US Value Index & Foreign Large Cap Value Funds Median
Foreign Large Growth	MSCI ACWI ex US Growth Index & Foreign Large Cap Growth Funds Median

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

Appendix B. Stable Value Fund Description

Investment Objectives

Within the parameters as stated below, the objectives of the fund are to:

1. Earn a high level of return consistent with the other objectives of the fund
2. Provide sufficient liquidity to pay plan benefits
3. Provide stable and predictable returns

Benchmark Index

The Participant Credited interest rate will be compared to the 4 year Treasury Rate plus 0.50% on a rolling 12-quarter basis.

Types of Investments

Subject to the Quality and Diversification Guidelines, Contractor may invest the assets of the Stable Asset Fund in any or all of the following:

- A. United States Treasury Securities including Treasury Bills, Notes, Bonds, and Strips
- B. United States Agency Securities
- C. Mortgage-backed securities issued by GNMA, FNMA, or FHLMC
- D. Collateralized mortgage obligations (CMO's) secured by GNMA, FNMA, or FHLMC securities
- E. Instruments of Commercial Banks domiciled in the United States
- F. Commercial Paper rated A1/P1, as rated by S&P and Moody's. The Commercial Paper portion of the portfolio will be managed in compliance with SEC rule 2A7.
- G. Corporate bonds rated A or better as rated by S&P and Moody's at the time of purchase
- H. Asset backed securities

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

Short-Term Investment

All money received by Contractor for deposit to the State of Colorado Stable Asset Fund will be invested the same day it is received. Whenever possible these monies will be invested in the type of investments indicated above. However, if the monies are received at a time of the day, which makes this impractical, then the monies will be invested in an interest bearing account at a commercial bank. The following business day the money will then be invested according to the above guidelines.

Prohibited Investments

IOs POS, residuals, inverse floater, and other like mortgage instruments are not permitted. In all situations, any interest earned on money received for deposit into the separate account will be credited to the separate account and not to the Contractor.

Quality & Diversification Guidelines

- A. All assets must be invested in AAA securities, except Corporate Bonds may have an average quality rating of A, Commercial banks domiciled in the United States, or A1/P1 rated commercial paper.
- B. No more than 30% of the portfolio may be invested in CMO's.
- C. No more than 15% of the portfolio invested in one corporate issuer.

Duration of Investments

The portfolio's average duration will be between two to five years.

Reporting

- A. On a quarterly basis, the manager will provide a statement to the Committee showing the market value of each security, the sector diversification within the portfolio, and the duration, quality and yield of the portfolio. The manager will also report on any loans made by the General Account to the Stable Asset Fund.
- B. On a quarterly basis, the manager will provide to the Committee a book value statement showing the book value of the total portfolio and describing the methodology and assumptions used to reset the crediting rate of the Stable Asset Fund.

State of Colorado
457 Deferred Compensation Plan
Investment Policy Statement

- C. On an annual basis, a senior representative of Contractor will be expected to meet with the Committee and provide verbal and written review of his/her investment decisions, and the rationale associated with those decisions for the previous 12-month's activity.

Trading Authority

Within the Investment Guidelines as stated in this Exhibit, Contractor has the authority to buy and sell any securities in this separate account that it judges to be in the best long-term interest of the separate account and the participants that utilize that account.

Changes to Investment Guidelines

The Committee may modify the guidelines (including duration) for investment of assets of the fund at any time providing that these modifications will not affect the funds ability to provide benefits a book value.