CONTRA COSTA COUNTY DEFERRED COMPENSATION PLAN

Statement of Overall Investment Objectives and Policy

July 2020

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Statement of Investment Policy

Introduction

This Statement of Investment Policy for the County's Deferred Compensation Plan (Plan), which is hereby authorized and adopted by the County Administrator as provided for herein, shall guide the County's Deferred Compensation Plan Committee (Committee).

Objectives of the Plan's Investment Program

The Deferred Compensation Plan is intended to satisfy the requirements of an eligible deferred compensation plan under IRC section 457(b) for the purpose of enabling employees to enter into agreements with the employer to defer a portion of their compensation on a tax advantaged basis and receive benefits at termination of employment, retirement, death or upon a showing of financial hardship due to unforeseeable emergencies.

The investment options offered by the Plan cover a broad range of investment options appropriate for these types of retirement savings programs. Participants bear the risks and reap the rewards of the investment options they select.

This Statement of Investment Policy (Statement) serves the following purposes:

- To ensure that a broad range of investment options are offered to the Plan's participants and provides the necessary options for the managed account program to properly implement its methodology;
- To establish an investment program that will allow the Plan's participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plan's investment program;
- To establish investment objectives and guidelines for each investment category offered within the Plan's investment program;
- To establish performance standards for each investment and to evaluate each option's performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the Plan's various investment options;
- To define the procedures for the selection, evaluation and formal review of investment options; and
- To set guidelines and procedures for the freezing or withdrawal of an investment option, which in the Committee's opinion does not or will not, fulfill the investment objectives for which it was selected and, if necessary, replace the investment option with an appropriate substitute.

Roles and Responsibilities

County Administrator

- To adopt and amend, as necessary, this Statement as the Plan Administrator.

Committee

- To understand the objectives of the Plan and ensure all recommendations comply with Plan provisions;
- To make decisions in the best interests of participants and their beneficiaries;
- To select and monitor investment options in accordance with the Plan' objectives;
- With the assistance of the Investment Consultant, to select and monitor investment options in accordance with the Plan's objectives;
- To ensure that a broad range of investment options is offered to the Plan's participants;
- To annually review this Statement and recommend to the County Administrator any changes necessary to maintain the Statement;
- To review investment and recordkeeping fees for reasonableness; and
- Attend scheduled meetings and training sessions.

Investment Consultant

- To assist the Committee in the execution of the above objectives;
- To monitor investment options for compliance with guidelines and performance objectives;
- To assist in the replacement of investment options in compliance with this Statement;
- To assist in the review of investment and recordkeeping fees and make the necessary recommendations; and
- To perform its fiduciary duties in compliance with the appropriate rules and regulations of a prudent investor and conform to all applicable laws governing the investment of retirement funds.

Reporting and Monitoring Procedures

The Committee will meet with the Investment Consultant to review the investment performance of the Plan's investment options periodically, including review of the following:

- Current trends and developments in the capital markets and investment management community (market review);
- The current level of diversification provided by the investment categories and options offered by the Plan (review of the correlation between investment categories and options);
- Changes in the investment management staff related to each investment option (organizational review);

- The continued consistency between the stated investment guidelines of each investment option and Plan policies (review of the guidelines of each investment option);
- The compliance of each investment option with stated investment guidelines (review of the holdings and characteristics of each investment option), including style drift analysis;
- The compliance of each investment option's risk and return characteristics with the expectations stated herein (performance review); and
- The ongoing reasonableness of investment and recordkeeping fees.

Fees & Expense Standards

Investment options - The Committee will review the fee structure of the investment managers and the investment options at least annually. Expenses for each of the investment options should be appropriate and competitive versus asset class peers. Where several share classes of an investment fund are available, the Committee will seek to offer the most cost-effective class available to the Plan.

Recordkeeping - The Committee will review the recordkeeper's required revenue, any additional Plan level fees and participant level fees (e.g. self-directed brokerage, loans, etc.) periodically but no less than bi-annually. Fees and expenses for the recordkeeping and administrative services and participant fees should be reasonable and appropriate for the market at that time. Should the current fees be out-of-line with the market, the Committee will work with the Investment Consultant to bring the fees in line.

All associated fees should be disclosed to eligible County employees upon enrollment into the Plan and at least annually thereafter.

Investment Education

The Committee will make sure the Plan's participants are provided with general financial and investment information to educate and assist participants in making their allocation decisions and facilitate the achievement of savings and retirement goals. Such participant assistance may, but need not, include offering participants the option to enroll in eligible investment advice arrangements. Additionally, the Committee will ensure participants are provided with account statements, generally quarterly, and fee disclosure information consistent with that required under ERISA and industry best practice.

Investment Option Selection

The following outlines the selection criteria to be used, if the need arises, to replace an existing investment option, or if a new option is to be added to the Plan. The selection process, led by the Investment Consultant, will involve a fully documented, disciplined approach that includes both a quantitative and qualitative evaluation of potential investment options. To be eligible for the initial screen, an investment option should meet the following minimum criteria:

- Have at least one share class of the investment with a minimum track record of three years
- Be open to new investors
- Have no load (front end or deferred sales charges) or be willing to waive the load and be willing to negotiate rebates on fee structure
- Have characteristics of the appropriate investment category

The primary evaluation criteria to be used in the selection of investment options, which satisfy the above:

- Stable organization
- Stable and experienced team including tenure at the organization and on the investment option of the portfolio manager(s)
- Consistent implementation of investment objectives and portfolio strategy
- Style consistency; portfolio composition and characteristics have regularly placed it in the asset class being sought
- One, three, five and 10 year rates of return (net of operating expenses and annualized for time periods longer than one year)
- Risk measures including annualized standard deviation, tracking error and Sharpe Ratio
- Risk/return ratio and upside/downside capture ratio (at least two periods longer than three years)
- Fund expenses are reasonable relative to peers

Investment Option Evaluation

The Committee, at its discretion, may conduct an informal review and evaluation of an investment option at any time. The Committee may place an investment option under formal review (Watch List), terminate an investment option, or "freeze" an investment option to new contributions for any of the following reasons:

1. Relative Underperformance (active investments): The investment option's returns over a three <u>and</u> five-year period trail the relevant index on an annualized basis.

2. Deviation from Investment Style: The investment option will be considered to have deviated from its style or capitalization profile if it differs from the investment option's stated objective.

3. Organizational Changes or Issues: The investment option undergoes organizational changes including, but not limited to, departure of key personnel *i.e.* portfolio manager, analyst, trader, *etc.*, or the firm has had state or federal regulatory action taken against it as a result of securities fraud.

4. Significant Loss of Assets and/or Clients: The investment option suffers a large loss of clients and/or assets relative to the investment option's peers, industry and market conditions.

5. Poor Risk Adjusted Performance: Three and five year risk adjusted returns, *i.e*., Sharpe Ratios, Downside Capture, etc. are lower than those of the corresponding benchmark.

6. Poor Three and Five Year Peer Rankings: The investment option's three <u>and</u> five-year peer rankings as measured by the Morningstar Category Rank fall in the third <u>or</u> fourth quartiles.

7. The investment option has violated an SEC rule or regulation;

8. Fees: The Committee determines that the fees and any other compensation charged by the investment option are no longer reasonable under the circumstances;

9. For any reason, the Committee is uncertain about whether the investment option continues to meet the Plan's needs.

Formal Investment Option Review (Watch List)

Upon receiving notification from the Investment Consultant that an investment option has been placed under formal review, the Committee, with assistance from the Investment Consultant, shall conduct an evaluation of the investment option, including at a minimum its investment professionals, operations and performance. During the review, the Committee may: 1) suspend contributions to the investment option from existing participants and/or 2) close the investment option to new enrollees. Upon completion of the evaluation, the Committee will determine whether to continue the investment option under formal review (Watch List) status, remove the investment option from formal review or terminate the investment option.

The Investment Consultant will notify the Committee that an investment option should be placed under formal review, and the Committee will vote on whether to place the option on "watch." In addition to placing an investment option on "watch," the Committee, with input from the Investment Consultant, will vote on whether to suspend contributions, close the option to new enrollees or do nothing while the formal review is in place.

- If a conclusion is reached that the investment option may be able to meet its performance criteria and investment constraints in the future, then no action will be taken. However, the Committee will revisit issues at its next meeting.
- If a conclusion is reached that the investment option may not continue to meet its performance criteria and investment constraints in the future, the investment option will be terminated.

If an investment option is on the Watch List for six (6) consecutive quarters, it should be re-evaluated by the Committee for continued inclusion on the Watch List and investment line-up.

Termination of Investment Option

Once an investment option fails the formal review process described above, the Committee may do one or more of the following:

1. Promptly seek a new investment option appropriate for the given asset class.
2. Provide written advance notice to all of the Plan's participants (1) that the Committee plans to terminate the investment option as an investment option under the Plan; and (2) the proposed action to be taken by the Committee if the participant does not reinvest the funds.
3. With regard to the terminated investment option, the Committee may:
   a. Transfer, or "map," the monies in the terminated investment option to another investment option based on industry best practices (*i.e.*, like-to-like).
   b. Transfer, or "map," the monies in the terminated investment option to the Plan's default investment alternative ("DIA").
   c. Supplement the investment option with one or more other investment options for that category and phase out the investment option over a specific time-period; or
   d. Close the investment option to future contributions, but, give participants the option to keep or remove the monies in the closed investment option.

Default Investment Alternative (DIA)

The Committee has selected target date funds as the Plan's default option in the event a participant does not make an active investment election. Target date funds:

- Apply generally accepted investment theories;
- Are diversified so as to minimize the risk of large losses; and

- Are designed to provide varying degrees of long-term appreciation and capital preservation.

The funds approach their objectives through a mix of equity and fixed income exposures based on the participant's age and target retirement date with the aim of becoming more conservative as the participant approaches retirement. Asset allocation decisions for this type of investment fund product are not required to take into account risk tolerances, investments or other preferences of an individual participant. Depending upon the target retirement date of the Plan participant, the corresponding target date fund will serve as the participant's default option in the event the participant has had the opportunity to direct the investment of assets in his or her account but did not choose to do so. Target date funds allow participants to passively take advantage of the diversification and asset allocation strategies that are in line with their date of retirement.

Review of Plan Investment Options

At least annually, the Committee will review the level of diversification offered by the Plan's menu of investment options and investment categories. Based on the results of these reviews and the recommendations of the Plan's Investment Consultant, the Committee, at its discretion, may add, replace or terminate investment options and/or add or delete investment categories.

Changes to Investment Policy

From time-to-time, the County Administrator, in accordance with its discretion as prescribed by relevant Plan documents, may modify this Statement of Investment Policy. However, the Committee will review this Statement at least annually to confirm it still meets the needs of the investment program and participants.

This Statement of Investment Policy for the Contra Costa County Deferred Compensation Plan is authorized and approved by the County Administrator on this 9th day of July, 2020.

County Administrator

Appendix A

Selection of Investment Options

The Plan may offer investment options from each of the following investment categories:

Category
Stable Value/Capital Preservation
Domestic Fixed Income
International Fixed Income
Domestic Equity
International Equity
Target Date

Each investment option the Plan offers shall:

- Operate in full accordance with its current published prospectus or "fact sheet"; and
- Measure its performance results against the applicable performance standards described below.

If the Committee determines an investment option no longer meets its performance objective, it may replace that option with a suitable alternative pursuant to the investment option evaluation procedure outlined in the body of the Statement of Investment Policy.

From time to time, the Committee, in its discretion, may add or remove investment categories. At such time, this Appendix will be modified to reflect any necessary changes. The Committee may also add or remove investment options at its discretion.

By selecting a target date series, the Committee understands and acknowledges that options will be added and removed as time goes by according to the glide path and design of the selected series.

Performance Standards & Objectives

The Plan may offer at least one investment option within each of the following investment categories:

Performance Standards (Net of Fees)

Stable Value

- Provide a competitive rate of credited interest relative to the stable value market.
- This investment option declares an annualized rate of interest typically monthly, quarterly, semi-annually or annually.

Active Managers

- Exceed the return of the applicable benchmark over a market cycle; generally 3 to 5 years.
- Exceed the median return of the applicable universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the applicable benchmark and universe.

Passive Managers

- Meet the return (minus fees) of the applicable benchmark over a market cycle; generally 3 to 5 years.
- Meet the median return of the applicable universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be in line with that of the applicable benchmark.

Target Date Funds

- Exceed the return of the composite index over a market cycle; generally 3 to 5 years.
- The composite indices for all the lifecycle funds will consistently change allocation by gradually shifting their allocation towards more conservative securities as the lifecycle fund matures.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the composite index.

Objectives

Fixed Income / Capital Preservation

Fixed income may include stable value, money market, capital preservation, domestic fixed income and international fixed income.

Stable Value

The objective of this investment option is to provide principal preservation, benefit responsiveness, liquidity, and current income at levels that typically are higher than those provided by money market funds over an interest rate cycle. The book value accounting feature of most stable value fund investments is expected to produce relatively stable annual returns on fund assets with little to no fluctuation in account values.

Domestic Fixed Income

The objective of this investment category is to provide total return consistent with preservation of capital by investing in fixed income instruments, including corporate, government and mortgage-backed securities. Investment returns are expected to be derived primarily from current income.

International Fixed Income

The objective of this investment category is to provide total return by investing in fixed income instruments located outside the United States including sovereign debt of developed and emerging markets and investment grade and high yield corporate bonds. Investment returns are expected to be derived from appreciation, currency and current income.

Asset Allocation

Asset allocation investment options may include balanced, risk based, lifecycle or managed account investment options.

Lifecycle Funds

The objective of this investment category is to invest in a diversified portfolio (stocks and bonds) of holdings that are systematically rebalanced during the various market cycles or stages of an investor's lifetime. Target date funds establish a targeted "maturity date" and will automatically reallocate the investments over time to a more conservative allocation. Target date funds are designed for the participant to select the fund that has its "maturity date" set similarly to his or her own investment horizon (*e.g.*, the participant's retirement age). The underlying investments that comprise each target date fund will be selected by the investment manager. The dynamic asset allocation applied to each target date fund option will be determined and rebalanced, accordingly, by the investment manager.

By selecting a target date series, the Committee understands and acknowledges that options will be added and removed as time goes by according to the glide path and design of the selected series.

Equity

Equity investments may include growth, core or value as defined below:

- Value Equity: Companies considered by the investment manager to be undervalued relative to the market.
- Growth Equity: Companies considered by the investment manager to have above average potential for capital appreciation.
- Core Equity: Portfolio would hold some companies with value characteristics and some with growth characteristics but the investment manager would balance the combination of the two.

Domestic Equity

The objective of this investment category is to invest primarily in the common stock of domestic companies with investment returns expected to be derived from capital appreciation and/or dividend income. This category may invest in the common stock of large, mid and small-capitalization companies.

International Equity

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States with investment returns expected to be derived from capital appreciation and dividend income. This category may invest in the common stock of large, mid and small-capitalization companies. The common stock may also be in either developed or emerging markets.

Appendix B

Investment Definitions

Active Portfolio – A portfolio that incorporates a specific style of management or analysis that can produce returns to beat the market. This approach seeks to take advantage of inefficiencies in the market and is typically accompanied by higher-than-average investment management fees.

Alpha – The excess return of a portfolio generally attributable to active manager skill. It is the extra risk-adjusted return over the benchmark. This risk-adjusted factor takes into account both the performance of the benchmark and the volatility of the portfolio. Positive alpha indicates that a manager has produced returns above expectations at that risk level. Negative alpha indicates that a manager has produced negative relative returns at that risk level. When selecting between active investment managers, a higher alpha is generally preferred. In contrast, a pure passive strategy would have an alpha of 0.

Annualize – To express a rate of return for a period greater than one year or less than one year in terms of twelve months.

Asset Allocation – Apportioning of investment funds among categories of assets, such as cash-equivalents, stocks, fixed income investments, and such tangible assets as real estate, precious metals, and collectibles. Also applies to sub-categories such as government, municipal, and corporate bonds, and industry groupings of common stocks. Asset allocation affects both risk and return and is a central concept in personal financial planning and investment management.

Balanced Funds – Investment funds with portfolio holdings diversified over a wide list of common stocks, bonds and/or preferred issues.

Benchmark - A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

Beta – A measure of the magnitude of fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so the price of a security with a beta of 1.20 would rise or fall by 12% when the overall market rose or fell by 10%.

Bond – An interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified series of interest, or coupon, payments at designated intervals and pay back the principal in full at maturity.

Cash Equivalents – Instruments or investments of such high liquidity and safety they are virtually as liquid as cash. Examples are a money market fund and a treasury bill. The Financial Accounting Standards Board (FASB) defines cash equivalents for financial reporting purposes as any highly liquid security with a known market value and maturity, when acquired, of less than three months.

Derivative (Instruments) – A contract whose value is based on the performance of an underlying financial asset, index, or other investment. For example, an ordinary option is a derivative because its value changes in relation to the performance of an underlying stock. The use of S&P futures to “equitize cash,” and of Treasury Futures to control the duration of the fixed income funds by the managers is acceptable under this policy. The utilization of these instruments in intended to control the costs and/or improve the performance of the funds.

Diversification – Minimizing of non-systematic portfolio risk by investing assets in several securities and investment categories with low correlation between each other.

Duration – Measure of the price change of a bond to a change in its yield to maturity. It summarizes, in a single number, the characteristics that cause bond prices to change in response to a change in interest rates. The price of a bond with duration of three years will rise by approximately 3% for each 1% decrease in its yield to maturity. That price will decrease 3% for each 1% increase in the bond's yield. Price changes for two different bonds can be compared using duration. A bond with duration of six years will exhibit twice the percentage price change of a bond with a three year duration. The actual calculation of a bond's duration is somewhat complicated, but the idea behind the calculation is straightforward. The first step is to measure the time interval until receipt for each cash flow (coupon and principal payments) from a bond. The second step is to compute a weighted average of these time intervals. Each time interval is measured by the present value of that cash flow. This weighted average is the duration of the bond measured in years.

Equity – Ownership interest possessed by shareholders in a corporation – stock as opposed to bonds.

Fiduciary – A person, company, or association holding assets in trust for a beneficiary. The fiduciary is charged with the responsibility of investing the money wisely for the beneficiary's benefit. It is illegal for a fiduciary to invest or misappropriate the money for their personal gain.

Fixed Income Investment – Security that pays a fixed rate of return. This usually refers to government, corporate, or municipal bonds, which pay a fixed rate of interest until the bonds mature, and to preferred stock, paying a fixed dividend. Such investments are advantageous in a time of low inflation but do not protect holders against erosion of buying power in a time of rising inflation, since the bondholder or preferred shareholder gets the same amount of interest or dividends, even though consumer goods cost more.

Growth Stock – Stock of a company that is growing earnings and/or revenue faster than its industry or the overall market and is expected to continue to show high levels of profit growth and P/E multiples. Such a company usually pays little or no dividends, preferring to use the income to finance further expansion. Generally, these stocks are contrasted with value stocks that trade a lower P/E multiples.

Index – A statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond, and some commodities markets, in terms of market prices and weighting of companies in the index. Well known examples are the Consumer Price Index and the S&P 500.

Index Fund – A fund (or account) comprised of securities the characteristics of which will produce a return that will replicate (or substantially replicate) a designated securities index.

International Equity – Portfolios in which managers are expected to invest primarily in non-dollar denominated equities. These portfolios have the same restrictions, with respect to investment, that the domestic managed equity portfolios do. The manager may be restricted to non-dollar investments, or the manager may be permitted to pursue a true "global" strategy by investing a portion of the fund in the U.S. markets.

Investment Policy Statement – The statement of policy is the communication of a risk policy to the fund's investment manager(s). An investment policy prescribes acceptable courses of action; a policy can be acted upon and implemented. An investment objective (such as a performance standard) is a desired result. A manager cannot implement an objective; the manager can only pursue a course of action, consistent with investment policy, which the manager believes offers a reasonable likelihood of realizing the objective. Therefore, in drafting instruction for an investment manager, primary emphasis should be on stating the investment policy clearly.

Large Cap – "Large Cap" refers to stock with a large capitalization, which is calculated by multiplying the number of outstanding shares times the price of the shares. Large cap stocks typically have at least $10 billion in outstanding market value.

Leverage – The act of investing assets in such a way that any resulting gains or losses to the investment will be a potentially large multiple of the original investment. For example, leveraging $1 million in an investment could result in a loss of $10 million just as easily as it could result in a gain of $10 million.

Managed Accounts – Provided by an investment management service that acts as a fiduciary and allocates the assets within each participant's individual account, using investment alternatives available under the Plan. The asset allocation mix incorporates each participant's specific characteristics (e.g. age, salary, gender, outside assets, risk tolerance, etc.), if available, and provides a mix of equity and fixed income exposure based on the participant's characteristics. Such portfolios change their asset allocations and associated risk levels over time as the individual gets closer to retirement and/or individual circumstances change.

Market Cycle – The financial markets are inherently cyclical and each "market cycle" has defined parts or stages. A full market cycle can be defined as a peak-to-peak period that contains four (4) phases: accumulation (market has bottomed and investors start to re-enter), mark-up (market is generally moving upward), distribution (market has advanced and investors reassess prices) and decline (market sentiment is negative with investors generally selling).

Market Capitalization – The value of a corporation as determined by the market price of its issued and outstanding common stock, calculated by multiplying the number of outstanding shares by the current market price of a share. Market capitalization may also refer to the total current value of the holdings of a mutual fund.

Mid Cap – "Mid Cap" refers to stock with a middle-capitalization, which is calculated by multiplying the number of outstanding shares times the price of the shares. Mid cap stocks typically have a market capitalization between $2 and $10 billion.

Mutual Fund – A fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, futures, currencies, or money market securities. Mutual funds offer investors the advantages of diversification and professional management. Shares are redeemable on demand at net asset value by shareholders, who share equally in the gains and losses generated by the fund.

Quartile – Grouping of statistics in four equal sections. Performance measurement results are commonly grouped into "quartiles," i.e., first quartile would include those funds ranking from one to 25 in a sample of 100 funds.

Passive Portfolio – A portfolio that mirrors a market index.

Rate of Return - The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost.

Retirement Income Option with Guaranteed Minimum Withdrawal Benefit – An investment option that provides guaranteed payments through a group annuity contract. A participant purchases through regular contributions and taxes are deferred until withdrawals begin. The benefit base is typically reset annually based on the higher of market value or income base. The investment does not have to be annuitized to begin withdrawals

Rolling Three Year Returns – This policy emphasizes the importance of three-year returns, especially in comparison with benchmarks. Concentrating only on three-year performance can produce an overemphasis on what are in fact rather short term returns measured at a particular moment in time ("end point sensitivity"). Viewing performance graphically over several three-year rolling time frames – e.g. June 30 and December 31st of 1998, 1999, 2000 & 2001 helps put the most recent period in better perspective. If, for example, a fund has underperformed its benchmark over the most recent three-year period but has excelled over every other three-year period it may be an indication that the manager should be given more time before he or she is fired; if there are several periods of underperformance it may be an indication that it's time to "freeze" the fund.

Safe Harbor – Safe harbor procedures are widely used by federal regulators to help clarify the implementation of a particular regulation-and reassure those who are subject to it that if they follow prescribed procedures they will not run afoul of the regulations. Simply stated, if firms, financial advisors and other investment decision-makers can demonstrate they have followed fiduciary procedures prescribed by regulators, they will be insulated from liability associated with those procedures. Safe harbor procedures all share two characteristics: 1) they are voluntary, and 2) the responsibility to demonstrate compliance with prescribed procedures and industry best practices rests with the party seeking relief.

Sector – A particular group of stocks, usually found in one industry or a combination of industries, such as airline or railroad stocks.

Small Cap – "Small Cap" refers to stock with a small-capitalization, which is calculated by multiplying the number of outstanding shares times the price of the shares. Small cap stocks typically have a market capitalization between $300 million and $2 billion.

SMID Cap – "SMID Cap" refers to stocks with both small and mid-capitalizations, which are calculated by multiplying the number of outstanding shares times the price of the shares. Market capitalization typically ranges from $300 million to $10 billion.

Stable Value – An investment vehicle found in company retirement plans. Stable value funds are comprised of mostly "synthetic GICs" (known also as wrapped bonds) because of their inherent stability. These bonds can be short or intermediate term with longer maturities than other choices such as money market funds. They are paired (or wrapped) with insurance contracts to guarantee a specific minimum return. In times of economic recession, stable value funds can prove to be a most valuable investment to have. While many other investments' returns are much lower in hard times, stable value funds remain just that, stable. The owner of the investment will continue to receive the agreed-upon interest rate as well as the full principal regardless of the state of the economy. Generally speaking, funds and pooled investments tend to be less risky as the investment is not reliant on one specific company, stock, etc.

Standard Deviation – A statistical measure of relative dispersion as compared to the expected (average) return. Calculating the standard deviation is a method of quantifying the total risk of a portfolio, or the given benchmark. In general terms, the standard deviation of a portfolio will help to define a range of expected returns. In percentage terms, one standard deviation will encompass 68% of the expected returns, two standard deviations will encompass 95% of the expected returns and three standard deviations will encompass 99% of the expected returns. For example, if a portfolio has an expected return of 5% and a standard deviation of 2.5%, 68% of the time the portfolio expected return should be between 2.5 to 7.5%, 95% of the time between 0.0 to 10.0% and 99% of the time between 2.5 to 12.5%.

Universe – There are composites of all funds within the Morningstar or other database that share a common investment style. A fund will often define itself to investors as limiting itself to a particular universe of securities, allowing investors to know in advance which kinds of securities that fund will buy and hold.

Value Stock – A stock that is considered a good investment at a desirable price, based on fundamental analysis, such as its Price-to Book and Price-to-Earnings Ratios, among other criteria. Generally, these stocks are contrasted with growth stocks that trade at higher P/E multiples.

Volatility – That part of total variability due to sensitivity to changes in the market. It is systematic and unavoidable risk. It is measured by the beta coefficient. Efficient portfolios have no additional risk, and volatility is the only source of variability in rates of returns.

Yield – The current yield of a security is the current indicated annual dividend rate divided by current price.