

**THE MILWAUKEE COUNTY DEFERRED COMPENSATION PLAN**  
**STATEMENT OF INVESTMENT POLICY**  
(Revised February 8, 2010)

**I. INTRODUCTION**

The purpose of the Milwaukee County Employees 457 Deferred Compensation Program (Plan) is to allow employees to receive federal and state income tax benefits while accumulating additional savings for retirement through payroll reduction. Deferred Compensation is a voluntary, supplemental long-term retirement program for public employees authorized by federal law and created by the County Board of Supervisors in 1984. The program was implemented by Milwaukee County to attract and retain personnel by permitting them to defer payment of a portion of their current compensation until death, disability, retirement, or their termination of employment. The Plan's assets are to be held in a trust so that all Plan assets are segregated from the County's general assets and are not subject to the claims of the County's creditors.

In line with the established purpose, the Milwaukee County Deferred Compensation Committee (the Committee) will make available to the Plan Participants a broad range of investment options, covering most major market segments. Further, since the focus of the Plan is long-term in nature, the options made available are intended to support the potential for long-term growth. Participants have the flexibility, at their discretion and within a range of available options, to design an investment savings program specific to their own risk/reward profiles and their personal retirement strategies.

The Committee has adopted this Statement of Investment Policy as a guiding document pertaining to investment matters with respect to the Plan. The Committee will strive to make investment decisions with respect to the Plan consistent with this Statement of Investment Policy.

It is the intention of the Committee that the assets of the Plan shall be maintained in compliance with all applicable laws and industry standards governing the operation of the Plan. Practices in this regard include, but are not limited to, the following:

- Plan investment options shall be selected and monitored with the care, skill, and diligence that would be applied by a prudent expert, acting in a like capacity and knowledgeable in the investment of retirement funds.

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- All transactions undertaken on behalf of the Plan shall be for the sole interest of participants and beneficiaries.
- The Committee, in consultation with the retained advisors and consultants will select and retain investment options after satisfactory review of such factors as the investment experience of the underlying manager, the suitability of the investment approach, the investment record, and the other components as listed in this Investment Policy Statement.
- Participants will be provided the opportunity to obtain sufficient information to make informed decisions with regard to the investment alternatives available under the Plan.

### II. PURPOSE OF THE INVESTMENT POLICY STATEMENT

The purpose of this Statement of Investment Policy is to record the investment goals and objectives that have been established for the Plan. This document also outlines various operational guidelines intended to assist the Committee in efficiently and effectively monitoring the investment options available under the Plan.

Specifically, this document:

- Outlines responsibilities related to investment matters involving the Plan
- Establishes the investment objectives for the Plan
- Defines the investment options to be offered by the Plan
- Establishes criteria for the ongoing review and evaluation of each investment option

This document will be reviewed annually by the Committee and the Plan's advisors. Any changes the consultants recommend will be discussed with the Committee for final approval. The Committee will formally revise this document to reflect all policy modifications.

### III. OBJECTIVES

The Plan's investment options will be selected so as to:

- Provide those participants who elect it, a targeted retirement date investment designed to provide varying degrees of long term appreciation and capital preservation through a mix of equity and fixed-income exposure based on the participant's age and target retirement date.
- Provide those participants who wish to construct their own asset allocation portfolios with a diverse set of investment options in various asset classes so as to encourage and facilitate participant diversification while also offering a program that is understandable to participants.
- Provide investment options that offer long term competitive rate of return compared to similar investment options on an absolute and risk-adjusted basis
- Control administrative and management costs.

### IV. Roles and Responsibilities

#### Plan Sponsors Responsibilities

The Plan Sponsor (Milwaukee County) will be responsible for:

- Establishing the Plan, determining the terms and design features of the Plan, and terminating the Plan (if deemed appropriate)
- Forwarding employee contributions that are withheld from payroll to the trust supporting the Plan
- Such other responsibilities as may be specified in the Plan or that derive from applicable laws and regulations

#### Select Committee on Deferred Compensation

The primary responsibilities of the Committee will include:

- Reviewing general adherence to this Investment Policy Statement and reviewing it annually
- Periodically reviewing and evaluating the investment options/managers available under the Plan
- Selecting, monitoring, and changing the investment options in the Plan
- Modifying the investment structure of the Plan as warranted
- Monitoring fees and costs related to the Plan to ensure they remain appropriate
- Recommending a Third Party Administrator contract to the Milwaukee County Board
- Selecting and evaluating the investment consultant and any other outside service provider
- Meeting approximately four times a year to discuss issues related to the Plan
- Avoiding conflicts of interest and maintaining high ethical standards

#### Participant Responsibilities

The Plan is a "participant-directed account plan" and it shall be the responsibility of each individual participant to choose investment options that are suitable to his/her life situation.

#### Trustee Responsibilities

The Trustee(s) of the Plan will be responsible for:

- Holding and investing Plan assets in accordance with the terms of the Trust Agreement.

### **Third Party Administrator Responsibilities**

The Third Party Administrator's precise responsibilities will be determined in accordance with the contract between the Third Party Administrator and the Milwaukee County. In general, the Third Party Administrator of the Plan will be responsible for:

- Maintaining and updating individual account balances, including information regarding plan contributions, withdrawals, and distributions and otherwise acting on the directions of the Committee or its authorized delegates
- Providing participant account access through the internet, interactive voice response, and call center
- Producing quarterly participant statements
- Conducting compliance and non-discrimination testing
- Providing education and consulting services including, but not necessarily limited to, pre-retirement education, newsletter, financial planning information, and enrollment services
- Participating, as necessary, in various projects as requested by the Committee

### **Investment Consultant Responsibilities**

The investment consultant's precise responsibilities will be determined in accordance with the contract entered into between the investment consultant and the Milwaukee County. Generally speaking, they will include (but not necessarily be limited to):

- Providing a comprehensive quarterly review of each of the Plan's investment options and presenting the review at Committee meetings
- Advising the Committee of the continued appropriateness of each investment option
- Providing recommendations on the selection of or change in investment options
- Advising the Committee of any recommended modifications to the investment structure of the Plan
- Advising the Committee as to the appropriate performance benchmarks for the investment options
- Providing updates on topical issues or events that relate to best practices and new products and services available
- Reviewing the Investment Policy Statement on an annual basis and providing advice to the Committee on specific areas for change

## **V. INVESTMENT OPTIONS**

The Committee believes that the Plan should provide participants the opportunity to exercise control over the assets in their accounts by offering a broad range of investment alternatives so that participants can construct an investment program appropriate for their respective risk tolerances. The investment options offered should also permit the participant the opportunity to diversify his/her account so as to minimize the

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risk of large losses. Participants should have access to meaningful information about the Plan and fund categories so they can make informed investment choices. The Committee will continue to re-evaluate the investment option structure to focus on diversification, low cost, and simplicity while minimizing possible duplication.

In that regard, the Plan shall be comprised of at least one investment option in each of the following categories:

- Target Date Retirement Funds
- Money Market/Stable Value
- Broad Market Bond Fund
- Broad Market Bond Index Fund
- Large Cap U.S. Stock Index Fund
- Broad Market U.S. Stock Index Fund
- Large Cap Value Fund
- Large Cap Growth Fund
- Mid Cap U.S. Stock Index Fund
- Mid Cap Growth Fund
- Small Cap U.S. Stock Index Fund
- Small Cap Value Fund
- Small Cap Growth Fund
- Non-U.S. Stock Index Fund
- Non-U.S. Stock Fund

Within these categories, the types of options may include low- to high-risk options and specialized styles of investment management. The rationale supporting this set of choices is that the structure allows participants to construct investment programs ranging from conservative to aggressive. As part of the overall Plan design, the Committee does not believe individual sector funds are necessary for participants to construct a diversified portfolio that reasonably spans the risk/return spectrum.

The current investment option structure is described in the Appendix of this document. The Committee is authorized to make changes to the structure - including the elimination, replacement, and/or addition of new investment options - as it deems necessary or advisable to maintain the best interests of the Plan and its participants.

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### VI. MONITORING

The Select Committee will review the investment options of the plan on a quarterly basis. The purpose of the review is to determine whether each fund has adequately met its investment objectives. Each investment option shall be reviewed for:

- Investment performance compared to reasonable benchmarks on a net-of-fee basis, and ranked in a suitable universe (if available). The period for the assessment of Plan performance relative to the objectives will be over intermediate and full market cycle periods. The intermediate-term performance reviewed will include trends over quarterly periods, as well as trailing one-, three-, and five-year periods. A full market cycle has historically been 5 to 7 years.
- Material changes in investment diversification and style-consistency.
- Material changes in the fund management and ownership including, but not limited to, changes in managers, analysts, assets under management, and expenses.

The Committee will use the following framework in its quarterly monitoring efforts:

Factor	Rationale	Measurement
1. Short Term Performance Concerns	Short term performance should never be the sole factor in a manager's assessment; however, short-term performance concerns should be monitored and understood.	Has the fund underperformed in three of the last four quarters?
2. Longer-Term Performance Concerns	Since past performance is not indicative of future performance, performance records must be considered carefully. Longer term underperformance, and poor results compared to peers, may indicate that more competitive offerings are available.	Has the fund underperformed or falls below the median fund in an appropriate peer group over the trailing 5 year period?
3. Investment Strategy Concerns	An investment option in a savings plan often serves a unique role; significant divergence from the strategy could indicate the fund is no longer appropriate for the Plan.	Has the fund diverged from its strategy?
4. Portfolio Management Concerns	The portfolio manager (or managers) responsible for the buy and sell decisions of the fund has a key role. Adverse changes could present performance challenges going forward.	Have there been adverse changes to the fund's management?

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Factor	Rationale	Measurement
5. Organizational Concerns	A stable and strong organization is preferred. Adverse changes to the organization could negatively impact the fund's strategy, focus, resources, or management team.	Have there been adverse changes to the organization?

The monitoring system will have a "generally indicated status" based on the number of affirmative answers to the above questions.

- **Green-Level Status.** No concerns; or only one affirmative response to the stated measurement.
- **Yellow-Level Status.** An investment fund receives a Yellow designation with two or three affirmative responses.
- **Red-Level Status.** An investment fund goes receives a Red designation when it has been on the Yellow status for more than two consecutive quarters or when there are four or more affirmative responses.

If a manager is placed on the Red Level Status, a formal manager review will be conducted by the investment consultant. The concerns regarding the fund will be analyzed and a recommendation will be made to the Committee on whether the fund should be retained or terminated. If the fund is retained, and remains on red-status, it will be re-reviewed every six months.

In the event of a major change in the firm's ownership, performance, or staffing, the Committee may immediately terminate a manager without placing a fund on a specific "status." The Committee has the right to take action on any fund regardless of its status in the monitoring system.

In addition to quarterly monitoring of the performance of the Plan's investment options against the criteria set forth above, the Select Committee will periodically conduct an in-depth review of the investment option structure. This evaluation will be used to determine the continued suitability of the Funds based on a variety of criteria, including overall performance, investment style and philosophy, size, manager turnover, etc. In addition to reviewing the performance of the Plan's investment managers/options, the Committee will periodically review all costs associated with the management of the Plan's investment program, including:

- Expense ratios of each investment option against the appropriate peer group
- Costs to administer the Plan, including recordkeeping, account settlement (participant balance with that of investment), allocation of assets and earnings, and (when applicable) the proper use of revenue sharing to offset these fees

### VII. Adding New Funds

Criteria will be established for each manager search undertaken by the Committee, assisted by the investment consultant. In general, eligible managers will possess attributes including, but not limited to, the following:

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- The firm must be experienced in managing investments for institutional clients in the asset class/product category/investment style specified
- The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively
- The firm must demonstrate adherence to the investment mandate sought by the Committee, and adherence to the firm's stated investment discipline
- The performance of the strategy must be acceptable from a qualitative and quantitative standpoint
- The firm's fees should be competitive with industry standards for the product category

The Committee retains the authority to modify or change the search criteria at any time.

### VIII. FUND MAPPING

When the Committee decides to terminate an investment option in the Plan, participants will be granted an opportunity to direct their assets to other investment options offered in the Plan prior to the investment option termination. Assets that are not directed by participants will be transferred or "mapped" to the Plan's investment option(s) that the Committee, with advice from the investment consultant, deems appropriate.

The mapping factors that the Committee will consider include, but are not limited to, the following:

1. **Alignment of investment fund type**, such as:
  - Asset class (e.g., U.S. stock, non-U.S. stock, fixed income)
  - Capitalization (e.g., large, mid, small)
  - Style (e.g., value, growth)
  - Maturity (short, intermediate, long-term)
2. **Similar investment strategy**, such as:
  - Broad market vs. focused market
  - Active vs. passive management
  - Equity income, growth & income, aggressive growth, etc.
  - Diversified vs. concentrated
  - Core vs. core-plus
3. **Age-based that corresponds to the appropriate time period**

### IX. POLICIES AND CONSTRAINTS

The Select Committee intends to use the following investment policies and constraints as a framework for excessive trading procedures and for selecting and/or guiding the stable value and money market fund investment managers of the Plan. Policies and constraints for the other funds offered in the Plan will be detailed in that fund's prospectus. The most recent fund prospectus can be obtained from the Third Party Administrator or directly from the investment manager.

### A. Excessive Trading Procedures

Many fund companies have implemented trading restrictions in order to prevent market timing and excessive trading by participants that could be detrimental to long-term shareholders. The Plan's third party administrator will provide participant trading activity to the fund companies in the Plan, as required. If a fund company determines the trading activity constitutes "prohibited trading", as defined by that fund's prospectus, the third party administrator will contact the individual in writing to request that the individual stop prohibited trading immediately (unless the applicable fund requires that restrictions be implemented immediately without warning, in which case the default trading restriction will be implemented immediately and written notice of the same will be provided to the individual and plan, if applicable).

A subsequent report of the individual's trading activity will then be provided to the fund company. If, based on the second report, the fund company determines that the individual has not ceased prohibited trading, and upon the request of the fund company, the third party administrator will inform the individual in writing that they will be prevented from making transfers to the restricted fund(s) via any method (including the web, voice response unit, call center, facsimile or paper forms) for as long as the applicable fund determines. Restricted individuals are permitted to make transfers from the restricted fund(s) to other available investment options.

### B. Stable Value Fund

The Fund will be invested in either an insurance company separate account fixed annuity or a similarly-oriented mutual fund, or both. The insurance company underwriting the separate account should be rated A+ (superior) by AM. Best Co., AM (Aaa) (highest quality) by Standard & Poor's, Duff & Phelps, or Moody's, and should have no rating below AA- (Aa3) (high quality) from any of the latter three rating services. The account will carry Plan and participant balances at book value and pay Plan benefits at book value. The Fund is expected to pursue fixed income opportunities presented by changes in interest rates, credit ratings, and sector premiums. The manager should invest in domestic debt securities, including corporate and government bonds and mortgages. The weighted average credit rating of the portfolio should be A+ (medium investment grade) or higher and no investments should be made in securities rated below investment grade (BBB-). The effective duration of the portfolio should be maintained between 2 and 5 years.

### C. Savings Account

The fund will be a benefit responsive bank deposit which is insured for up to \$100,000 per participant account by the FDIC. The bank issuing the product must be "well capitalized" as defined by the FDIC. The interest rate paid by the Fund will be indexed to a publicly available benchmark, and the rate crediting formula must be fully disclosed.

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### INVESTMENT MANAGER STRUCTURE AND GUIDELINES FOR THE MILWAUKEE COUNTY DEFERRED COMPENSATION PLAN (Revised February 8, 2010)

This listing of investment structure and guidelines extend the "Statement of Investment Policy for the Milwaukee County Deferred Compensation Plan Updated February 8, 2010." The current plan structure includes three "tiers" of investment options: target date retirement funds, index options, and actively managed options.

#### Current Plan Structure

Option Type	Fund Name	Performance Benchmark	Performance Objective
<u>Target Date Retirement Fund Options</u>			
Target Date Retirement Funds	Vanguard Target Date Retirement Funds	Custom Benchmarks	Approximate its benchmark
<u>Index Options</u>			
Broad Market Bond Index Fund	Vanguard Total Bond Index Fund	Barclays Capital Aggregate Bond Index	Approximate its benchmark
Large Cap U.S. Stock Index Fund	Vanguard Institutional Index Fund	S&P 500 Index	Approximate its benchmark
Board Market U.S. Stock Index Fund	Vanguard Total Stock Market Index Fund	MSCI U.S. Broad Market Index	Approximate its benchmark
Mid Cap U.S. Stock Index Fund	Vanguard Mid Cap Index Fund	MSCI U.S. Mid Cap 450 Index	Approximate its benchmark
Small Cap U.S. Stock Index Fund	Vanguard Small Cap Index Fund	MSCI U.S. 1750 Small Cap Index	Approximate its benchmark
Non-U.S. Equity Index Fund	Vanguard FTSE All-World Ex-U.S. Index Fund	FTSE All-World Ex-U.S. Index	Approximate its benchmark
<u>Actively Managed Options</u>			
Savings Account	North Shore Savings Fund	iMoney Net Money Fund Average	Outperform its benchmark
Low Risk Fixed Income	Great West Stable Value Fund	EnnisKnupp GIC Index	Outperform its benchmark
Broad Market Bond Fund	PIMCO Total Return Fund	Barclays Capital Aggregate Bond Index	Outperform its benchmark
Large Cap Value Equity Fund	American Funds Washington Mutual Investors Fund	Russell 1000 Value Index	Outperform its benchmark
Large Cap Growth Equity Fund	American Funds Growth Fund of America	Russell 1000 Growth Index	Outperform its benchmark

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<b>Option Type</b>	<b>Fund Name</b>	<b>Performance Benchmark</b>	<b>Performance Objective</b>
Mid Cap Growth Equity Fund	J.P. Morgan Capital Growth Fund	Russell MidCap Growth Index	Outperform its benchmark
Small Cap Value Equity Fund	Heartland Value	Russell 2000 Value Index	Outperform its benchmark
Small Cap Growth Equity Fund	Lord Abbett Developing Growth	Russell 2000 Growth Index	Outperform its benchmark
Non-U.S. Equity Fund	American Funds EuroPacific Growth Fund	MSCI All Country World Ex-U.S. Index	Outperform its benchmark

### **Guidelines**

1. Plan assets will be invested in the Plan options listed above as directed by Plan participants.
2. Options shall be diversified in a manner that is at the discretion of the portfolio manager. The investment restrictions and guidelines of each mutual fund are outlined in the most recent fund prospectus, available from Great West or directly from the investment manager. The investment restrictions for the Stable Value and Savings Account are included as part of this document.
3. To facilitate ongoing review and evaluation of the investment options under the Plan, the Committee has selected performance benchmarks for each investment option. Performance for each investment option will be evaluated over a rolling three- to five-year period on a net-of-fee basis.

**SAVINGS FUND INVESTMENT MANAGER GUIDELINES  
NORTH SHORE SAVINGS FUND**

(Adopted March 16, 1999 and Revised February 8, 2010)

These investment guidelines extend the Milwaukee County Deferred Compensation Plan Statement of Investment Policy Revised February 8, 2010.

The investment portfolio managed by North Shore Savings (the manager) on behalf of the Milwaukee County Deferred Compensation Plan (the Plan) shall be subject to the restrictions and guidelines set forth in this document

**Investment Guidelines ~ Savings Fund Investments**

The savings fund investments shall be invested in the North Shore Savings Fund, such that the portfolio's main objective is to preserve principal and supply current income while providing for a high level of liquidity. This objective is fulfilled through an account which provides FDIC insurance for up to \$100,000 per participant. The fund is expected to provide a yield which is competitive with medium-term (two to four year) certificates of deposit

**Liquidity**

The savings fund will maintain appropriate liquidity for participant withdrawals.

**Investment Objectives and Performance Evaluation**

The investment objective of this portfolio is to achieve a rate of return consistent with the investment guidelines stated above. Over reasonable measurement periods, the rate of total return (net of investment management fees) should approximate or exceed the return of the iMoneyNet Money Fund Average.

**STABLE VALUE MANAGER GUIDELINES  
GREAT-WEST STABLE VALUE FUND  
(Adopted March 16, 1999)**

These investment guidelines extend the Milwaukee County Deferred Compensation Plan Statement of Investment Policy revised February 8, 2010.

The investment portfolio managed by Great-West (the manager) on behalf of the Milwaukee County Deferred Compensation Plan (the Plan) shall be subject to the restrictions and guidelines set forth in this document.

**Investment Guidelines -- Stable Value Investments**

The objective of the Great-West Stable Value Fund is to provide a stable rate of return through current income while preserving capital. The Fund invests in fixed income securities of high quality or issued by the U.S. government and its agencies. The Fund will be invested in either an insurance company separate account fixed annuity or a similarly oriented mutual fund, or both. The insurance company underwriting the separate account should be rated A+ (superior) by: AM. Best Co., AAA (Aaa) (highest quality) by Standard & Poor's, Duff & Phelps, or Moody's, and should have no rating below M- (Aa3) (high quality) from any of the latter three rating services. The account will carry Plan and participant balances at book value and pay Plan benefits at book value.

The Fund is expected to pursue fixed income opportunities presented by changes in interest rates, credit ratings, and sector premiums. The manager should invest in domestic debt securities, including corporate and government bonds and mortgages. The weighted average credit rating of the portfolio should be A+ (medium investment grade) or higher and no investments should be made in securities rated below investment grade (BBB-). The effective duration of the portfolio should be maintained between 2 and 5 years.

**Diversification**

The Select Committee expects the Great-West Stable Value Fund to be well diversified in order to minimize the impact of large losses in individual securities on the total portfolio.

**Liquidity**

A Plan representative will inform the manager of the need to withdraw assets periodically, if necessary.

**Investment Objectives and Performance Evaluation**

The investment objective of this portfolio is to achieve a rate of return consistent with the investment guidelines stated above. Over reasonable measurement periods, the rate of total return (net of investment management fees) should approximate or exceed the return of the EnnisKnupp GIC Index, the average of the 1-,2-,3-,4- and 5-year GICs as surveyed by T. Rowe Price.