Fairfax County Public Schools
457(b) Plan

Investment Policy Statement

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I. OVERVIEW AND PURPOSE

Fairfax County Public Schools ("FCPS") sponsors a 457(b) Plan to provide eligible employees, as defined in the Plan, with the opportunity to save for retirement on a tax-deferred basis. The Plan is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risk and rewards appropriate for these kinds of retirement savings programs. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select. The Plan is qualified under section 457(b) of the Internal Revenue Code.

The Economic Growth and Tax Relief Reconciliation Act of 2001 expanded the before-tax savings opportunities for employees of entities like FCPS. To capitalize on this opportunity, FCPS solicited bids for an Internal Revenue Code Section 457(b) Deferred Compensation Plan vendor. The Selection Advisory Committee, assisted by consultants, selected one vendor. The Fairfax County Public Schools 457(b) Plan (the "Plan") was effective September 1, 2004, and commenced accepting before-tax contributions from benefit-eligible employees in October. The 457(b) Plan was designed to be both a complement and an alternative savings vehicle to the 403(b) program. The 457(b) Plan was established with six investment options reflecting the intent to provide less complexity in the number of choices. Fund options may be added or subtracted from time to time in order to meet overall objectives. Currently there are eight options, including a stable value option and six mutual funds, as well as a lifecycle fund series, representing a wide spectrum of core investment choices and offering participants different levels of risk and return. The objective is to sponsor a plan that is relatively simple to understand, cost effective for the participants, offers core investment options and has minimal administrative involvement.

The Plan will provide a broad range of investment choices to reflect the different risk tolerances common among participants in retirement savings plans. The Plan is intended to provide the participants of the Plan the opportunity to save for retirement on a tax deferred basis and participants will be given the flexibility to alter their investment choices and the direction of existing and future contributions. Participants alone bear the risk of investment results from the options and asset mixes that they select. The philosophy of the Plan shall be a primary consideration in the Fairfax County Public Schools' 457(b) Plan Investment Committee's (the "Committee") decision making process. The Committee does not provide investment advice to participants or assist participants in selecting the funds in which to invest. Fiduciaries are not responsible for losses of participants resulting from the participant's investment selection, or from any action taken in accordance with the participant's investment direction.

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

- The investment options offered to participants will be selected with care, skill, and diligence that would be applied by a prudent professional investor acting in a like capacity and knowledgeable in the investment of retirement funds.

- All investment committee-directed transactions undertaken on behalf of the Plan shall be for the exclusive purposes of providing benefits to the Plan participants and beneficiaries and defraying reasonable expenses of administering the Plan.

- The Committee relies on staff to provide participants with the opportunity to obtain sufficient information to make informed decisions with regard to investment alternatives available under the Plan.

This Investment Policy Statement ("Policy") defines the Plan's investment objectives and establishes policies and procedures so that these policies and procedures can be implemented and followed in a prudent manner. This Policy is intended to:

- Provide a mechanism to establish and review the Plan's investment objectives;

- Identify those individuals/functions with responsibility for selecting and reviewing the Plan's investments;

- Designate the investment options available to participants, beneficiaries and alternate payees with a clear understanding of the role each investment option performs;

- Identify the criteria that may be considered when selecting the investment funds options and evaluating the continued appropriateness of each investment option; and

- Provide a single document outlining the investment and monitoring responsibilities of the Committee.

II. ROLES AND RESPONSIBILITIES

The following are the key responsibilities:

- The **Committee** will select investment options based upon the criteria and objectives set forth in this Policy. The Committee, in consultation with its independent investment consultant, is responsible for the selection and monitoring of the investment options of the Plan. The Committee may use the services of an investment consultant to assist in carrying out its responsibilities.

- **Staff** will select professional service providers and establish effective communication and review procedures among the external service providers. Monitoring the costs of administering the plan, including the record keeper will be the responsibility of the staff.

- The **investment consultant** will advise the Committee on the oversight of the Plan's assets. This includes but is not limited to, recommending appropriate strategic policy and implementation structure, conducting manager due-diligence and assisting with manager searches and selection. The investment consultant will also aid the Committee in adhering to the guidelines of the Policy and making recommendations regarding changes should they need to be made.

- **Participants** are responsible for determining their contribution rate and allocating their assets among the investment fund options offered in the Plan.

- The **investment fund managers** have the responsibility for managing the underlying assets by making reasonable investment decisions consistent with the stated approach in the fund prospectus.

- The **service provider(s)** is responsible for the safekeeping of securities, settlement of trades, collection of income, reimbursement of revenue sharing to offset administrative costs, and administrative reporting to the Plan. The **record keeper** is responsible for providing information regarding the investment funds to Plan participants.

III. INVESTMENT OBJECTIVES

Considering the varied attitudes, goals, expectations, investment time horizons, and risk tolerance levels of the Plan's participants, the Plan will offer a diversified array of investment options that allow participants to build portfolios consistent with their needs and objectives. The Committee may select from a broad range of mutual funds, commingled funds, separate accounts, or other investment options to pursue this investment objective.

Within the categories listed below, the types of investment options may include actively managed or passively managed funds, low to high risk options, and specialized styles of investment management. In this regard, the Plan may be composed of at least one investment option/feature from, but not limited to, the following categories:

- Money Market/Stable Value Funds;
- Diversified Bond Funds;
- Balanced/Lifecycle Funds;
- U.S. Stock Funds;
- Non-U.S./Global Stock Funds, and
- Inflation Sensitive Funds.

IV. INVESTMENT GUIDELINES

The Committee acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term periods. Accordingly, the Committee views the interim fluctuations with an appropriate perspective.

The Committee reserves the right to close, add, or change investment options at any time at its discretion. On a periodic basis, but not less than annually, the Committee will evaluate the Plan's investment options' performance on a net-of fee basis relative to (1) the return of an appropriate market index(es) and (2) the returns of a universe of comparable funds, where applicable, over a full market cycle (typically three to five years) or such other period determined by the Committee.

Benchmarking

The Committee recommends that it is in the best interest of the Plan's participants that performance objectives will be based upon the appropriate market index and the relevant peer group for each investment manager/option (see Appendix). In the case of pre-mixed investment options, performance objectives will be based upon a custom benchmark composed of the weighted market indices.

V. CRITERIA FOR SELECTION AND EVALUATION OF INVESTMENT FUNDS

Pre-Selection

The selection of investment options for the Plan will be performed in a manner consistent with generally accepted standards of fiduciary responsibility. The Plan's investment options will be selected and monitored with the skill, care and diligence of a prudent person acting in such capacity and in accordance with applicable laws. All determinations undertaken on behalf of the Plan will be for the sole benefit of the participants and beneficiaries in the Plan.

Criteria will be established for each fund manager search undertaken by the Plan, and will be tailored to the specific needs of such a search. At a basic level, each fund manager hired by the Plan should exhibit skill. Skill is challenging to define within a quantitative framework, but from a qualitative standpoint includes, among other things, uniqueness in the strategy or the ability of the investment manager, its process or philosophy, and its ability to analyze and process information. The Committee and the investment consultant should identify the skill factor associated with the fund being considered for addition to the Plan, and should have conviction that the specific skill attributes will provide the manager with the ability to outperform its benchmark over the long term.

Products selected shall have a reasonable fee level within their peer universe. Past performance should be analyzed relative to the risk undertaken and should be geared at evaluating the manager's potential to add value on a risk-adjusted basis, net of all fees. Investment management should be a focus of the organization and should be evidenced by the allocation of resources towards the area. The organizational structure should ensure that the manager's interests are aligned closely with investors. The firm and its people should be reputable, and firms with outstanding litigation should be subject to more thorough due-diligence if being considered.

In general, the due diligence process for an investment manager's selection shall include, but not be limited to:

- **Regulatory oversight:** Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment advisor.

- **Minimum track record:** The product's inception date should be at least three years; a shorter track record may be used when the investment professionals of a new organization have a well established and recognized track record at a previous organization.

- **Assets under management:** The product should have a sufficient and appropriate asset base.

- **Performance relative to assumed risk:** Competitive returns of investment options are compared to appropriate benchmark data at an acceptable level of volatility

- **Holdings consistent with style:** History of reasonable adherence to investment objectives.

- **Stability of organization:** Established investment firm (experience and reputation of reliability).

- **Performance relative to benchmark and peer group:** The product's performance should be evaluated against the benchmark and peer group returns; past performance should not, however, be the primary basis for selecting investment managers.

Post-Selection Review of Investment Managers

The Committee, with the aid of the investment consultant, will monitor the performance of each manager on a regular basis, while retaining a long-term focus. The focus of the ongoing evaluation shall include:

- Adherence to investment philosophy and objectives;

- Assets under management (track substantial changes in total assets);

- Performance relative to benchmarks and peer groups;

- Consistency of holdings with style; and

- Stability of the organization and personnel turnover.

Fee Structure

The impact of fees on the long-term performance of the funding options within the Plan shall be an important consideration. In addition to reviewing the performance of the Plans investment managers/options, the Committee, with the aid of the investment consultant, will periodically review all costs associated with the management of the investment program, including, but not limited to:

- Expense ratios of each investment option against the appropriate peer group;

- Sales loads including front-end or back-end sales charges; and

- 12b-1 fees.

Terminations

The Committee retains the discretion to terminate an investment manager for any reason. The investment consultant may make recommendations to the Committee with respect to the removal/replacement of funds. Grounds for investment manager termination may include, but are not limited to:

- Failure to comply with stated guidelines;

- Significant deviation from the manager's stated investment philosophy and/or process;
- Loss of key personnel;
- Evidence of illegal or unethical behavior by the investment management firm;
- Loss of confidence by the Committee and/or investment consultant in the investment manager; or
- Failure to achieve performance objectives specified in the manager's guidelines over reasonable measurement periods.

VI. REVIEW AND AMENDMENT OF THE POLICY

The Committee shall review this Policy at least annually to determine if it continues to reflect the Plan's objectives and meet the needs of the Plan's participants. Changes to this Policy are expected to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. However, the Committee retains authority to make interim changes to the Policy guidelines. The criteria used to evaluate this Policy may include, but not limited to, consideration of: (1) demographics of the workforce, (2) growth of the Plan, and (3) performance of existing investment options. The Committee will communicate any modification on a timely basis to the Plan's other fiduciaries and any other interested parties.

APPENDIX: CURRENT INVESTMENT OPTIONS

Investment Offering	Asset Class	Benchmark
Great West Portfolio Fund	Stable Value	50% Barclays Intermediate Aggregate Bond Index/50% 90-Day T-Bill
PIMCO Total Return Adm Fund	U.S. Fixed Income Core Plus	Barclays Aggregate Bond Index
iShares S&P 500 Index Fund	U.S. Large Cap Core (Passive) Equity	S&P 500 Index
Vanguard Mid-Cap Index Fund Instl	U.S. Mid Cap Core (Passive) Equity	CRSP U.S. Mid Cap Index
Baron Growth Instl Fund	U.S. Mid Cap Growth (Active) Equity	Russell Mid Cap Growth Index
Artisan International Inv Fund	Non-U.S. International (Active) Equity	MSCI EAFE Index (net)
T. Rowe Price Retirement Funds	Lifecycle	Varies
PIMCO Inflation Responsive Multi-Asset Fund	Inflation Sensitive Portfolios	CPI + 4%

Great-West Portfolio Fund
The Fund provides a guarantee of principal and a guaranteed quarterly interest rate. The entire general account assets of Great-West Life & Annuity Insurance Company back these guarantees. These Fund's assets are primarily invested in grade quality, fixed income bonds.

PIMCO Total Return Admin Fund (PTRAX)
The Fund's objective is to achieve a total return consistent with preservation of capital by investing at least 65% of assets in fixed income securities. Fixed income holdings include corporate debt, US government securities, mortgage-related securities, as well as up to 20% of fund assets in securities denominated in foreign currencies. Portfolio duration, a measure of price sensitivity to interest rate movements, generally ranges from three to six years.

iShares S&P 500 Index Fund (WFSPX)
The Fund seeks to provide investment results that correspond to the total return performance of publicly traded common stocks in the aggregate, as represented by S&P 500 index. The fund invests all of assets in a separate mutual fund, called a Master Portfolio. It seeks to replicate the total return performance of the S&P 500 index, which is composed of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The percentage of the fund's assets invested in a given stock is approximately the same as the percentage such stock represents in the S&P 500 index.

Vanguard Mid-Cap Index Fund Instl (VMCIX)
The fund seeks to track an index of medium-sized companies, whose stocks tend to be more volatile than those of larger companies. The Fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Index, a broadly diversified index of stocks of mid-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Baron Growth Fund Inst (BGRIX)
The Fund's objective is to seek capital appreciation. The Fund invests primarily in common stocks but may also invest in other equity securities such as convertible bonds and debentures, preferred stocks, warrants and convertible preferred stocks. It typically invests in small sized companies with market values under $2.5 billion. The fund tends to hold onto securities for a long time as they grow into mid cap companies.

Artisan International Inv Fund (ARTIX)
The Fund normally invests at least 65% of assets in equities of foreign issuers, ordinarily maintaining investments in at least three foreign countries. The Fund places equal emphasis on country selection and stock selection, avoiding markets it believes to be overvalued and focusing on companies that have dominant or increasing market share in strong industries. The Fund may invest in emerging markets. Not more than 5% of assets may be invested in convertible securities or debt rated below BBB.

T. Rowe Price Retirement Funds
The Funds seeks capital growth and income by investing in a combination of T. Rowe Price stock and bond funds that represent various asset classes and sectors. The Funds' allocation between the underlying funds will change over time in relation to its target retirement date. The target date assumes a retirement date of 65 and refers to the approximate year an investor in the Fund would plan to retire. The Funds' are designed for an investor who anticipates retiring at or about the target date and who plans to withdraw the value of the account in the Fund gradually over retirement. Over time, the allocation to the asset classes and underlying funds will change according to a predetermined "glide path" and will become more conservative, both prior to and after retirement, as time elapses.

PIMCO Inflation Responsive Multi-Asset Fund (PIRMX)
The Fund is designed to hedge global inflation risks while targeting enhanced return opportunities that inflation dynamics may present. A comprehensive real return asset allocation strategy, the fund seeks to achieve this objective by providing diversified exposure to a broad opportunity set of inflation factors or assets that will likely respond to different types of inflation, including Treasury Inflation-Protected Securities (TIPS), commodities, emerging market (EM) currencies, real estate investment trusts (REITs) and gold. Tail risk hedging strategies are also employed to limit the impact of periodic market stresses that may affect inflation-related assets.