ADP TotalSource® Retirement Savings Plan

# Investment Policy Statement

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Amended and Restated September 1, 2021

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# Part I. Investment Committee Authority

ADP TotalSource Group, Inc. (hereinafter referred to as the "Company") sponsors the ADP TotalSource Retirement Savings Plan (hereinafter referred to as "Plan") for the benefit of employees of Adopting Employers (as defined in the Plan). Pursuant to Section 5.1 of the Plan,the ADP TotalSource Retirement Savings Plan Committee (the "Committee") has been designated as the named fiduciary, within the meaning of Section 402(a) of ERISA, with respect to the management and investment of the assets of the Plan, with all powers necessary to carry out such duties.

# Part II. Committee Members

The Company has appointed the members of the Committee and reserves the right to replace any such member in its sole discretion.

# Part III. The Plan

The Plan is intended to provide participants with the long-term accumulation of retirement savings through a combination of employer only or employee and employer contributions to individual participant accounts and the earnings thereon.

The Plan is a qualified employee benefit plan intended to comply with all applicable federal laws and regulations, including the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is intended to comply with ERISA Section 404(c) and the necessary disclosures required by the regulations under ERISA Section 404.

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that reasonably span the risk/return spectrum. Participants and beneficiaries alone bear the risk of investment results from the options and asset mixes that they select.

# Part IV. The Purpose Of The Investment Policy Statement

This investment policy statement is intended to assist the Committee by assisting it in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options offered under the Plan. Specifically, this Investment Policy Statement:

- Defines the Plan's investment objectives.
- Defines the roles of those responsible for the Plan's investments.
- Describes the criteria and procedures for selecting investment options.
- Establishes investment procedures, measurement standards and monitoring procedures with respect to investment options.
- Describes ways to address investment options that fail to satisfy established objectives.
- Provides guidance as to how to obtain appropriate diversification within investment vehicles.
- Describes the Plan's approach to personal brokerage accounts.

The guidelines provided in this Investment Policy Statement do not constitute a contract. These guidelines are also not meant to be a statement of mandatory requirements. Rather, these guidelines are only an explanation of general principles and guidelines being currently applied for investment option selection, retention, and replacement. Furthermore, these guidelines are not the sole factors considered by the Committee in the process. This Investment Policy Statement is not intended, and shall not be deemed, to expand the fiduciary duties of the Committee, or its individual members, or to create duties that do not exist under ERISA.

This Investment Policy Statement will be reviewed at least annually, and, if appropriate, can be amended at any time by the Committee to reflect changes in the capital markets, Plan participant objectives, or other factors relevant to the Plan. Any changes made to this Investment Policy Statement will be effective prospectively.

# Part V. Investment Objectives

The Plan's investment options will be selected utilizing, but not limited to, the following goals:

- Allow participants to maximize return within reasonable and prudent levels of risk.
- Provide investment alternatives that could provide returns comparable to returns for investment options having similar investment objectives.
- Provide a diverse portfolio of investment options covering a broad range of asset classes and investment vehicles.
- Offer reasonable investment costs.

# Part VI. Roles And Responsibilities

Subject to the terms of the Plan document, those responsible for the management and administration of the Plan's investments may include, but are not limited to:

The "Company," which is responsible for selecting the trustee, and appointing the members of the Committee.

"Trustee," which is responsible for holding and investing Plan assets in accordance with the terms of the Trust Agreement.

"Committee," which is specifically responsible for:

- Establishing and maintaining the Investment Policy Statement.
- Selecting and monitoring an investment consultant and other investment related providers.
- Selecting investment options to be offered under the Plan.
- Periodically evaluating the investment options' investment performance and fees and making decisions concerning investment option changes.

# Part VII. Monitoring Of Plan Providers

The Plan's investment consultant and other investment related providers will be monitored on an ongoing basis (including the monitoring of Plan costs and expenses for such services), to further competitive total Plan costs and expenses.

# Part VIII. Selection Of Plan Investment Options

The selection of investment options offered under the Plan is among the Committee's most important responsibilities. Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.

### Investment Selection Guidelines

The Plan intends to provide an appropriate range of investment options that will span the risk/return spectrum. Further, the Plan's investment options will allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk.

Major asset classes and/or investment vehicles to be offered will include:

1. Stocks/Equities
2. Asset Allocation Solutions Bonds/Fixed Income
3. Cash/Money Market/Guaranteed

The Committee may also provide options across a broader range of categories.

Notwithstanding the foregoing, the following investments will be prohibited from the Plan due to their volatility and sophisticated nature. While it is possible that certain mutual funds or other investment options may include some of the investments shown below, they will not be the central objective of the overall investment offered under the Plan. The prohibited investment vehicles are as follows:

1. Futures
2. Options
3. Venture Capital

The Committee will evaluate and choose specific investment options using certain minimum criteria:

1. It should be managed by a bank, insurance company or investment management company or an investment adviser under the Registered Investment Advisers Act of 1940.
2. It should be operating in good standing with regulators and clients, should have no material pending or concluded legal actions that would impact the investment strategy or process.

3. It should provide detailed information on the history of the management firm, its investment philosophy and approach with respect to the specific investment option, and its principals, clients, locations, fee schedules, all relevant quantitative and qualitative information on the fund manager and specific investment option, and other relevant information.

In addition to the criteria set forth above, each investment option should also meet the following screens for selection:

1. Performance should be competitive with an appropriate, style-specific benchmark and the median return for an appropriate, style-specific peer group.
2. Specific risk and risk-adjusted return measures should fall within a reasonable range relative to appropriate, style-specific benchmarks and peer groups.
3. The investment option should exhibit attractive qualitative characteristics, including, but not limited to an acceptable length of time the investment option has been in existence and length of time it has been under the direction of the current manager(s) and whether or not there have been material changes in the manager's organization and personnel.
4. Fees should be competitive compared to similar investment options reasonably available to the Plan; part of this examination includes a review of the proper use of investment-generated fees (and related revenue) used to pay reasonable Plan expenses, which should also be reviewed on a periodic basis.
5. Demonstrated adherence to and consistency with the investment option's stated investment objective, without excess style drift over trailing performance periods.

Furthermore, investment options will be evaluated and selected in accordance with an investment option "score card" detailed in Part IX (Investment Monitoring and Reporting).

## A. Equity Pooled Investment Options

The following are preferred (but not mandatory) criteria for the selection and retention of any pooled equity investment vehicles:

1. The investment option, or the option's strategy, should have an investment track record of no less than three years. Exceptions will be made for passively managed index funds, a new share class or vehicle of the same investment strategy, or as otherwise appropriate and prudent.
2. The investment option's average annualized returns net of fund level expenses should be comparable to investment options with similar investment objectives for the 3- and 5-year periods.
3. The risk-adjusted performance measures of the investment option should be comparable or better than investment options with a similar investment objective.
4. The expense ratio[1] of the investment option (net of amounts used to pay reasonable Plan expenses) should be comparable to that of investment options with similar objectives and should be reviewed with other quantitative and qualitative data.
5. At any time, the Committee may deviate from this investment policy to the extent that the method of selection is appropriate and prudent.

## B. Fixed Income Pooled Investment Options

The following are preferred (but not mandatory) criteria for the selection and retention of any diversified fixed income investment options:

1. The investment option, or the option's strategy, should have an investment track record of no less than five years. Exceptions will be made where appropriate and prudent.
2. The investment option's average annualized returns net of fund level expenses should be comparable to investment options with similar investment objectives.
3. The expense ratio of the investment option (net of amounts used to pay reasonable Plan expenses) should be comparable to that of investment options with similar objectives and should be reviewed with other quantitative and qualitative data.
4. At any time, the Committee may deviate from this investment policy to the extent that the method of selection is appropriate and prudent.

## C. Default Investment

The Committee will evaluate and choose an investment or an investment vehicle or vehicles to serve as the default investment for the Plan. The default investment will be the designated investment for amounts contributed to the Plan by participants and/or the employer for which the Plan has no active participant direction on file. The Plan may have a separate default vehicle for assets received pursuant to a plan merger for which a mapping into one of the Plan's investment vehicles is determined by the Committee not to be appropriate.

Asset allocation investments and/or accounts (risk-based or target date-based) should be considered as the Plan's default investment strategy due to the inherent benefits these options provide to participants, including the diversification of assets across multiple asset classes.

[1] Expense ratio refers to the total annual investment management expenses of the fund manager represented as a percentage of total assets under management.

The default investment will be selected to comply with the requirements of ERISA section 404(c)(5) and the regulations promulgated thereunder as a qualified default investment alternative ("QDIA").

In the event the Committee selects a target date asset allocation solution, a critical component is the respective glide path which should be reviewed to make sure it is appropriate and prudent as a default, and further that it continues to be appropriate and prudent, for the Plan and Plan's participants. The following criteria should be considered in the selection, and ongoing monitoring, of a target date asset allocation solution:

- Plan objectives, including, but not limited to: potentially impactful additional Plan design elements (i.e., automatic features, level of matching contributions, profit sharing contributions, etc.) that may be adopted by adopting employers, whether the Plan's objectives in offering the suite have changed, whether proprietary, custom, or nonproprietary solutions best meet the objectives of a prudent number of eligible employees and whether the glide path, equity landing point, and age 65 equity exposure, most closely meets the objectives of a prudent number of eligible employees
- Plan demographic information, including, but not limited to: participant deferral rates, account balances and their general degree of investment knowledge (level of investment sophistication), whether a single or multiple glide path approach would be most prudent for the demographics of the eligible employee population; and
- Participant behavior information, including, but not limited to; the level of participant involvement in the plan before and after retirement and how participants behave with investment and market risk within the plan.

Other considerations may include:

- Whether the Plan's objectives in offering the existing suite have changed;
- Whether there have been significant changes in the suite's investment strategy or management team;
- Whether the fees and expenses of the suite are reasonable given the investment management (including glide path construction, rebalancing, etc.) involved;
- Additional information such as number, and construct, of asset classes used to promote diversification and growth potential within each investment; and/or
- The management style of the underlying investments be it passive, active, or a coresatellite approach.

The Committee retains the responsibility to score and monitor the default investment, based on the advice of the Plan's investment consultant, and will do so in accordance with the guidelines contained herein.

# PART IX. Investment Monitoring and Reporting

The ongoing monitoring of investment options should be a regular and disciplined process. It is the mechanism for revisiting the investment option selection process and confirming that the criteria originally satisfied remain so and that an investment option continues to be a prudent offering. While frequent change is neither expected nor desirable, the process of monitoring an investment option's characteristics and performance relative to specified guidelines is an ongoing process.

Monitoring should occur on a regular basis and generally utilize the same criteria that were the basis of the investment selection decision, or other criteria as deemed prudent by the Committee (upon advice of the Plan's investment consultant). It will include a formal review at least annually. If overall satisfaction with the investment option is acceptable, no further action is required. If areas of dissatisfaction exist, the Committee should take steps to address the deficiency. If over a reasonable period the investment option does not resolve the issue, removal of the investment option may result.

For each investment option, an investment option (fund) "score card" will be maintained and documented by the Plan's investment consultant (see addendum) in order to substantiate acceptable levels of Investment option performance and appropriate style characteristics. Based upon objective criteria, derived from Modern Portfolio Theory concepts, each investment option will receive a score reflecting its overall performance.

If an investment option fails to meet the criteria standards, as determined by its score, it may be placed on a "watch list." If the investment maintains a watch list score for four consecutive quarters, or five out of eight quarters, the investment may be considered for further action (see Part X below) by the Committee. In the event an investment option receives a score which is below that of "watch list" status, or experiences extraordinary circumstances which may render it inappropriate to maintain, it may be considered for action at the earliest practicable date.)

Furthermore, throughout the seven quarters subsequent to initially being placed on the watch list, the investment option may be considered for action if it fails to achieve the criteria standards in at least four of the next seven quarters. If the investment option meets criteria standards for four consecutive quarters, it may be removed from the watch list.

Cash, or principal preservation, alternatives should be reviewed with a primary focus on the investment's ability to preserve capital and minimize risk. Criteria reviewed should include, but not be limited to, credit quality, diversification, and stability of insurance provider, if applicable.

Asset Allocation investments should be scored and monitored in the same manner as all other investments, using the previously described guidelines in Part IX. Because many of these investments contain separate underlying investment funds, it may also be appropriate to score and monitor those, as available and applicable. Unlike other investments which are monitored and scored individually, target-date investments, though potentially scored individually, should be evaluated as a group. Due to the unique importance of these investment options for participants in the Plan, investments, or suites of investments (as may be applicable), or managed accounts failing to achieve criteria standards should be carefully reviewed before removal from the Plan (in the absence of a reasonable alternative).

In the event asset allocation investments have too brief a time history to be scored, the investment or suite should be evaluated both qualitatively and quantitatively on the underlying investments that may have a longer time history available, using a proxy, or a qualitative framework for all other instances. Investments where no score is applied due to specialty focus, short time history or other unique circumstances should be reviewed using a proxy, where applicable and prudent, or a qualitative framework for all other instances.

# PART X. Committee Action

An investment option may be removed when the Committee has lost confidence in the option's ability to:

1. Achieve performance, style, allocation and/or risk objectives,
2. Comply with investment guidelines,
3. Comply with reporting requirements, or
4. Maintain acceptable qualitative standards (e.g., stable organization, compliance guidelines, and retention of key relevant investment professionals).

If the investment option has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Failure to remedy the circumstances of unsatisfactory performance or standards by the investment option, within a reasonable time, shall be grounds for possible removal. The Committee may also remove an investment option for any reason it deems necessary and prudent. Any decision by the Committee to eliminate an investment option from the Plan's lineup shall be made on an individual basis and with the advice of the Plan's investment consultant, and will be made based on all known facts and circumstances, including, but not limited to:

1. The objective analysis (described above)
2. Administrative impact on the Plan
3. Timing
4. Participant communication issues
5. The availability of other (potential replacement) investment options
6. Underwriting and plan provider limitations
7. Financial considerations (hard and soft dollar fees)
8. Professional or client turnover
9. A material change in the investment process
10. Other relevant factors

Considerable judgment will be exercised in the investment option decision-making process. The Committee may administer the following approaches with an investment option that fails to consistently meet criteria of this Investment Policy Statement:

1. Remove and replace (and map assets) with a reasonably similar alternative investment option.
2. Freeze the assets invested in the investment option and direct new assets to a reasonably similar replacement investment option.
3. Phase out the investment option over a specific time period.
4. Remove the investment option and do not provide a replacement investment option and default assets into the Plan's QDIA.

Replacement of a removed investment option would follow the criteria outlined in Part VIII, Selection of Plan Investments.

# Part XI. Investment Consultant

The Committee has retained an investment consultant to assist in the performance of its responsibilities. The role of the investment consultant is to provide the Committee with information relating to Plan investment alternatives (or proposed investment options), as well as to provide ongoing performance measurement and investment monitoring services of the Plan's investment options and overall menu. The services include, among other things, periodic investment recommendations and recommendations with respect to adding, supplementing, or removing investment options. The investment consultant is expected to submit quarterly performance and evaluation reports detailing, among other things, the investment results of the investment options, the overall status of the menu of investment options, and any other information relevant to the Committee's responsibilities under the Plan. The investment consultant shall also assist the Committee in selecting and monitoring one or more QDIAs that meet the requirements of ERISA and the regulations promulgated thereunder. The investment consultant is also expected to review this Policy periodically and promptly inform the Committee in the event that the investment consultant believes that it should be modified.

# Part XII. Participant Communication

The Plan will communicate to participants that they may direct their accounts among investment options offered under the Plan and permit investment changes pursuant to the guidelines set forth in ERISA Section 404(c) as amended from time to time.

# Part XIII. Coordination With The Plan Document

Notwithstanding the foregoing, if any term or condition of this Investment Policy Statement conflicts with any term or condition in the Plan, the terms and conditions of the Plan shall control.

# Part XIV. Erisa 404(C)

**The Plan is intended to comply with ERISA Section 404(c) and the regulations thereunder, thereby relieving the Plan fiduciaries from liability for investment performance that is the direct result of investment decisions made by Plan participants. The intention to comply with ERISA Section 404(c), and the regulations promulgated thereunder, will be communicated to employees in writing, with a notice that will be included in the employee enrollment kits that will be distributed to every eligible employee.**

# Part XV. Further Guidelines

Self-Directed Brokerage Account (SDBA). In an effort to provide increased investment flexibility, a self-directed brokerage option is offered under the Plan. The Plan's self-directed brokerage option allows participants to invest in any publicly traded securities, including stocks, bonds and mutual funds, with the following exceptions: short sales, options, futures, limited partnerships, currency trading, employer securities (including securities of ADP) and trading on margin. In developing and maintaining the Plan's self-directed brokerage option, the Committee will evaluate the self-directed option provider for reasonable cost, competitive service capability and participant satisfaction. There will be aperiodic review to confirm competitiveness.

The initial minimum amount to establish a SDBA is $5,000 and may not exceed 50% of a participant's total Plan account balance.

Subsequent transfers into a SDBA must be in a minimum amount of $1,000 and may not exceed an amount that would cause the value of the SDBA to exceed 50% of a participant's total Plan account balance as immediately after the transfer.

The participant is responsible for completing transfers from their account at Voya Financial™ to the SDBA – this is not an automated process.

The Committee will not review the underlying investments in each participant's SDBA.

**Advice.** As with any designation of a service provider to the Plan, the designation of a company or individual to make available investment advice to Plan participants and beneficiaries is an exercise of discretionary authority and control with respect to management of the Plan. Therefore, the Committee will act prudently and solely in the interest of the Plan participants and beneficiaries both in making such designation(s) and in continuing such designation(s).

# Addendum To Part IX: Investment Monitoring and Reporting

## Scorecard System Methodology™

The Scorecard System Methodology incorporates both quantitative and qualitative factors in evaluating fund managers and their investment strategies. The Scorecard System is built around pass/fail criteria, on a scale of 0 to 10 (with 10 being the best) and has the ability to measure Active, Passive and Asset Allocation investing strategies. Active and Asset Allocation strategies are evaluated over a five-year time period, and Passive strategies are evaluated over a three year time period.

Eighty percent of the fund's score is quantitative (made up of eight unique factors), incorporating modern portfolio theory statistics, quadratic optimization analysis, and peer group rankings (among a few of the quantitative factors). The other twenty percent of the score is qualitative, taking into account things such as manager tenure, the fund's expense ratio relative to the average fund expense ratio in that asset class category, and the fund's strength of statistics (statistical significance). Other criteria that may be considered in the qualitative score includes the viability of the firm managing the assets, management or personnel issues at the firm, and/or whether there has been a change in direction of the fund's stated investment strategy. The following pages detail the specific factors for each type of investing strategies.

Combined, these factors are a way of measuring the relative performance, characteristics, behavior, and overall appropriateness of a fund for inclusion into a plan as an investment option. General fund guidelines are shown in the "Scorecard Point System" table below. The Scorecard Point System is meant to be used in conjunction with our sample Investment Policy Statement, in order to help identify what strategies need to be discussed as a "watch-list" or removal candidate; what strategies continue to meet some minimum standards and continue to be appropriate; and/or identify new top-ranked strategies for inclusion into a plan.

| Scorecard Point System | |
|---|---|
| Good | 9-10 Points |
| Acceptable | 7-8 Points |
| Watch | 5-6 Points |
| Poor | 0-4 Points |

## Asset Allocation Strategies

**Asset allocation strategies** are investment strategies that invest in a broad array of asset classes that may include U.S. equity, international equity, emerging markets, real estate, fixed income, high yield bonds and cash (to name a few asset classes). These strategies are typically structured in either a risk-based format (the strategies are managed to a level of risk, e.g., conservative or aggressive) or, in an age-based format (these strategies are managed to a retirement date or life expectancy date, typically growing more conservative as that date is approached). For this type of investment strategy, the **Scorecard System** is focused on how well these managers can add value from both asset allocation and manager selection.

*Multisector Bond (MSB) asset class* follows the same evaluation criteria with some slightly different tolerance levels where noted. These managers are also evaluated on both their asset allocation and security selection.

| Weightings | Asset Allocation Strategies | Maximum Points |
|---|---|---|
| Style Factors 30% | **Risk Level:** The fund's standard deviation is measured against the category it is being analyzed in. The fund passes if it falls within the range for that category. | 1 |
| | **Style Diversity:** Fund passes if it reflects appropriate style diversity (returns-based) among the four major asset classes (Cash, Fixed Income, U.S. & International Equity) for the given category. MSB funds pass if reflect some level of diversity among fixed income asset classes (Cash, U.S. Fixed Income, Non-U.S. Fixed Income and High Yield/Emerging Markets). | 1 |
| | **R-Squared:** Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 90%. This statistic measures whether the benchmark used in the analysis is appropriate. | 1 |
| Risk/Return Factors 30% | **Risk/Return:** Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired. | 1 |
| | **Up/Down Capture Analysis:** Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets. | 1 |
| | **Information Ratio:** Measures a fund's relative risk and return. Fund passes if ratio is greater than 0. This statistic measures the value added above the benchmark, adjusted for risk. | 1 |
| Peer Group Rankings 20% | **Returns Peer Group Ranking:** Fund passes if its median rank is above the 50$^{th}$ percentile. | 1 |
| | **Sharpe Ratio Peer Group Ranking:** Fund passes if its median rank is above the 50$^{th}$ percentile. This ranking ranks risk adjusted excess return. | 1 |
| Qualitative Factors 20% | Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative wfactors, which may impact future performance. | 2 |
| | **Total** | **10** |

## Active Strategies

**Active strategies** are investment strategies where the fund manager is trying to add value and out-perform the market averages (for that style of investing). Typically, these investment strategies have higher associated fees due to the active involvement in the portfolio management process by the fund manager(s). For this type of investment strategy, the **Scorecard System** is trying to identify those managers who can add value on a consistent basis within their own style of investing.

| Weightings | Asset Allocation Strategies | Maximum Points |
|---|---|---|
| Style Factors 30% | **Style Analysis:** Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflectsthe appropriate style characteristics. Style analysis helps ensure proper diversification in the Plan. | 1 |
| | **Style Drift:** Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class. | 1 |
| | **R-Squared:** Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 80%. This statistic measures whether the benchmark used in the analysis is appropriate. | 1 |
| Risk/Return Factors 30% | **Risk/Return:** Fund passes if its risk is less than the benchmark or its return is greater than the benchmark. Favorable risk/return characteristics are desired. | 1 |
| | **Up/Down Capture Analysis:** Measures the behavior of a fund in up and down markets. Fund passes with an up capture greater than its down capture. This analysis measures the relative value by the manager in up and down markets. | 1 |
| | **Information Ratio:** Measures a fund's relative risk and return. Fundpasses if ratio is greater than 0. This statistic measures the value added above the benchmark, adjusted for risk. | 1 |
| Peer Group Rankings 20% | **Returns Peer Group Ranking:** Fund passes if its median rank is above the 50th percentile. | 1 |
| | **Sharpe Ratio Peer Group Ranking:** Fund passes if its median rank is above the 50th percentile. This ranking ranks risk adjusted excess return. | 1 |
| Qualitative Factors 20% | Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to manager tenure, fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative wfactors, which may impact future performance. | 2 |
| | **Total** | **10** |

## Passive Strategies

**Passive strategies** are investment strategies where the fund manager is trying to track or replicate some area of the market. These types of strategies may be broad-based in nature (e.g., the fund manager is trying to track/replicate the entire U.S. equity market like the S&P 500) or may be more specific to a particular area of the market (e.g., the fund manager may be trying to track/replicate the technology sector). These investment strategies typically have lower fees than active investment strategies due to their passive nature of investing and are commonly referred to as index funds. For this type of investment strategy, the **Scorecard System** is focused on how well these managers track and/or replicate a particular area of the market with an emphasis on how they compare against their peers.

| Weightings | Asset Allocation Strategies | Maximum Points |
|---|---|---|
| Style & Tracking Factors 40% | **Style Analysis:** Returns-based analysis to determine the style characteristics of a fund over a period of time. Fund passes if it reflects the appropriate style characteristics. Style analysis helps ensure proper diversification in the Plan. | 1 |
| | **Style Drift:** Returns-based analysis to determine the behavior of the fund/manager over multiple (rolling) time periods. Fund passes if the fund exhibits a consistent style pattern. Style consistency is desired so that funds can be effectively monitored within their designated asset class. | 1 |
| | **R-Squared:** Measures the percentage of a fund's returns that are explained by the benchmark. Fund passes with an R-squared greater than 95%. This statistic measures whether the benchmark used in the analysis is appropriate. | 1 |
| | **Tracking Error:** Measures the percentage of a fund's excess return volatility relative to the benchmark. Fund passes with a tracking error less than 4. This statistic measures how well the fund tracks the benchmark. | 1 |
| Peer Group Rankings 40% | **Tracking Error Peer Group Ranking:** Fund passes if its median rank is above the 75$^{th}$ percentile. | 1 |
| | **Expense Ratio Peer Group Ranking:** Fund passes if its median rank is above the 75$^{th}$ percentile. | 1 |
| | **Returns Peer Group Ranking:** Fund passes if its median rank is above the 75$^{th}$ percentile. | 1 |
| | **Sharpe Ratio Peer Group Ranking:** Fund passes if its median rank is above the 75$^{th}$ percentile. | 1 |
| Qualitative Factors 20% | Two points may be awarded based on qualitative characteristics of the fund. Primary considerations are given to fund expenses and strength of statistics, however, other significant factors may be considered. It is important to take into account non-quantitative factors, which may impact future performance. | 2 |
| | Total | 10 |

# Manager Research Methodology

## Beyond the Scorecard

The **Scorecard System™** uses an institutional approach which is comprehensive, independent, and utilizes a process and methodology that creates successful outcomes for plan sponsors and participants. The **Scorecard** helps direct the additional research the Investment Team conducts with fund managers throughout the year. Three of the primary factors that go into the fund manager research are people, process and philosophy.

### People

**Key Factors:**

- Fund manager and team experience
- Deep institutional expertise
- Organizational structure
- Ability to drive the process and performance

### Process

**Key Factors:**

- Clearly defined
- Consistent application
- Sound and established
- Clearly communicated
- Successfully executed process

### Philosophy

**Key Factors:**

- Research and ideas must be coherent and persuasive
- Strong rationale
- Logical and compelling
- Focus on identifying skillful managers

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