INVESTMENT POLICY STATEMENT

For

Rhode Island 401(a) Plan

Prepared: October 2017
Restated: October 2019
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TABLE OF CONTENTS

	Page
Purpose	1
Plan Summary	2
Statement of Objectives	3
Responsibilities	4
Guidelines and Investment Policy	6
Securities Guidelines	7
Selection of Investment Managers	8
Control Procedures	9
Monitoring of Investment Managers	11
IPS Review and Evaluation	13
Signatures	14
Appendix A	

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist the Rhode Island State Investment Commission ("SIC") in effectively supervising, monitoring and evaluating the investment options of the Rhode Island 401(a) Defined Contribution Plan ("the Plan"). The SIC has the authority to oversee the investment of the Plan assets. The Plan's investment program is defined in the various sections of the IPS by:

- Stating in a written document the SIC's objectives and guidelines in the investment of all of the Plan assets.
- Setting forth an investment structure for managing all of the Plan assets. This structure includes various asset classes and investment management styles. The Plan intends to provide an appropriate range of investment options that will span the risk/return spectrum.
- Establishing the criteria and procedures for selecting investment options and Investment Managers.
- Providing guidelines for each investment option that controls the level of overall risk (appropriate diversification) and liquidity assumed in that portfolio so that all the Plan assets are managed in accordance with stated objectives.
- Encouraging effective communications between the SIC, Investment Managers and Participants.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Managers on a regular basis.
- Monitoring compliance with all fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules, and regulations.

This IPS has been prepared after consideration by the SIC of the financial implications of a wide range of policies, and describes the prudent investment process that the SIC deems appropriate. This IPS is intended to be dynamic in nature and will be periodically reviewed. This IPS will remain in effect until modified or overridden by the SIC.

PLAN SUMMARY

The 401(a) Plan was created through the Rhode Island Retirement Security Act of 2011 and is governed by Chapter 36-10.3 of the Rhode Island General Laws. The Plan includes State workers, public school teachers and MERS members, along with police and fire personnel who do not pay into Social Security, subject to certain eligibility requirements as set forth in R.I.G.L. 36-10.3-1 et seq. The Plan has actively contributing Participants with annual mandatory contributions as well as active members whose assets remain in the Plan but who are no longer contributing

Further information regarding the 401(a) Plan can be found in Appendix A.

STATEMENT OF OBJECTIVES

The objectives of the Plan have been established in conjunction with a comprehensive review of the current position. The objectives of the Plan are to:

- Provide the Plan Participants with investment choices that are diversified across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs and risk tolerance of the Participants in constructing portfolios to meet their particular financial goals.
- Provide Participants with investment options that have competitive records of performance.
- Provide diversification of asset classes and management styles.
- Provide clear choices to Participants.
- Make the Plan available to all eligible Participants in the Plan.
- Provide a variety of investment options in order to promote the desirability of the Plan among current and potential Participants, and to continue to provide a competitive total retirement program.
- Maintain flexibility in meeting the future needs of the Participants.
- Control costs of administering the Plan and managing the investments.

RESPONSIBILITIES

Responsibility of the SIC

The State Investment Commission (SIC), chaired by the General Treasurer, is a Rhode Island governmental commission that has oversight responsibility for the investment of the public funds, as well as assets in the Plan.

Delegation of Authority

The SIC members are fiduciaries of the Plan and are responsible for providing the investment framework and monitoring the investment management of the Plan assets. As such, the SIC is authorized to delegate certain responsibilities to professional experts in various fields. These may include, but are not limited to:

1. *Investment Manager*. The Investment Manager has discretion to purchase, sell, or hold the specific securities or products that will be used to meet the Plan's investment objectives. Investment Managers include separate accounts, mutual funds and commingled investment vehicles, and as otherwise provided through any contractual agreement between the parties.

2. *Recordkeeper.* The Recordkeeper will calculate individual Participant balances and process Participant contributions, disbursements, etc. The Recordkeeper will continually reconcile Participant balances with trust account balances to maintain alignment, and as otherwise provided through any contractual agreement between the parties.

3. *Trustee.* The Trustee will hold the assets of the Plan in trust. The Trustee will administer the Plan in accordance with the documents and instruments governing the Plan for the exclusive benefit of the Participants and their beneficiaries.

4. *Bundled Provider.* The Bundled Provider may provide a variety of services including offering multiple investment products, recordkeeping services, and education services, which are designed to meet individualized needs and requirements of Participants, and as otherwise provided through a contractual agreement between the parties.

5. *Investment Advisor ("Advisor").* The Advisor may assist the SIC in: establishing investment policy objectives and guidelines; selecting Investment Managers; reviewing such Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate, and as otherwise provided through a contractual agreement between the parties.

6. Additional specialists such as attorneys, auditors, and others may be employed by the SIC to assist in meeting its responsibilities and obligations to administer the Plan assets prudently.

RESPONSIBILITIES

Responsibility of Participants

Each Participant is responsible for selecting an investment portfolio from among the available investment options that is consistent with his or her particular investment goals and risk tolerance. However, in the absence of an investment election made by the Participant in the Plan, a default investment option has been established by the SIC. See Appendix A for further details.

Investment Option Structure

The SIC seeks to provide Participants with an array of investment choices so they have the ability to construct portfolios which could represent a variety of levels of risk and return regardless of time horizon. The SIC, in seeking to achieve diversity in the investment options offered, established certain criteria to determine the material difference between and among potential investment options with exposure to the various asset classes. These criteria are:

- A distinct definable market and the availability of a widely used and understood benchmark;
- A distinct risk and return profile as exhibited by historical return analysis; and
- Use of a distinct management style that is definable in terms of the investment strategies/methodologies utilized (e.g., passive versus active management, style investing such as growth versus value).

The SIC reserves the right to add or replace asset classes and investment options based upon market conditions, Participant response or other factors.

Three Asset Categories

The SIC has chosen to adopt a structure that provides:

Target Date Options: offer a diversified and professionally managed option designed around a specific time horizon.

Core Investment Options: include the basic building blocks (broad asset classes) Participants need to create a diversified portfolio.

Additional Options: allow Participants to invest in options beyond the selected Core Investment Options.

See Appendix A for details.

SECURITIES GUIDELINES

The guidelines set forth in the prospectus, investment management agreement or trust document shall govern all investment options. Separate accounts, funding agreements and as otherwise provided through any contractual agreement between the parties, shall be negotiated and agreed upon in writing, on a case-by-case basis.

SELECTION OF INVESTMENT MANAGERS

The SIC will select appropriate Investment Managers to manage the Plan assets. The SIC's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting Investment Managers, the following minimum criteria should be considered:

1. The organizational structure of the Investment Manager (with the SIC seeking banks, insurance companies, investment management companies, or investment advisers as defined by the Investment Advisers Act of 1940).

2. Historical quarterly performance numbers calculated on a time-weighted basis will be utilized for performance screening.

3. Performance evaluation reports that illustrate the risk/return profile of the Investment Manager relative to other investment managers of like investment style, as appropriate.

4. Detailed information on the history of the firm and key personnel (including any material litigation and fraud, key clients, costs, and support personnel).

5. The Investment Manager's investment strategy shall be described, and its adherence to the strategy over time shall be documented. The portfolio's characteristics should be consistent with the investment philosophy for which it was hired:

    - Equity managers: capitalization, style

    - Fixed income managers: duration, credit quality

6. Fees should be competitive compared to similar investment options.

7. The Investment Manager shall be evaluated in comparison with an appropriate index and/or peer group, as provided in the Appendix A.

8. A clearly definable market and the availability of widely used benchmarks.

9. A clearly defined risk and return profile as exhibited by historical return analysis.

10. Use of an investment strategy that is definable in terms of the investment strategies/methodologies utilized (e.g., passive versus active management).

CONTROL PROCEDURES

Disclosure to Participants

The Plan chooses to adhere to the following guidelines:

- the Plan will offer at least three broad-range, diversified investment options each with materially different risk and return characteristics;
- Participants will be allowed to transfer among the investment options as often as appropriate unless specific frequent trading guidelines are present. Currently the Plan offers daily transfers on market transfer days;
- sufficient information will be available to Participants so they can make informed investment decisions.

In order to ensure that Participants have sufficient information to make informed investment decisions, the following disclosures will be made to all Participants:

- a description of investment options, including their investment objectives, risk and return characteristics, and the type and diversification of assets comprising the portfolios of the designated investment options;
- identification of any designated Investment Managers;
- an explanation of when and how Participants may give investment instructions, including any restrictions on transfers;
- a description of any transaction fees and expenses which affect a Participant's account balance in connection with purchases or sales of interests in investment options;
- a copy of the most recent prospectus provided to the Plan will be available to the Participant immediately following the Participant's initial investment in an investment subject to the Securities Act of 1933; and,
- any materials provided to the Plan relating to the exercise of voting, tender or similar rights which are incidental to the holding in the Participant's account of an ownership interest in the investment option, to the extent such rights are passed through to Participants under the terms of the Plan. A description of or reference to Plan provisions relating to the exercise of voting, tender or similar rights will also be provided to Participants.

Additional disclosures that will be provided, upon request, are:

- a description of the annual operating expenses of each investment vehicle including the investment management and other fees;

- copies of the most recent prospectuses, financial statements and reports, and any other materials relating to investment vehicles available under the Plan to the extent such information is provided to the Plan, will be provided upon request to Participants;
- a list of assets included in each investment option and the value of each asset;
- information concerning the value of shares or units in investment options;
- performance data for each investment vehicle, net of expenses, presented over reasonable periods of time, calculated in a reasonable and consistent manner;
- the values of shares or units of investment funds held in a Participant's account balance as of the last valuation date (but not less frequently than quarterly).

The SIC will not provide individual retirement or investment counseling to Participants. This IPS will be made available to eligible Participants upon request. Every effort will be made to ensure all Participants, regardless of whether or not they are current employees, receive all correspondence regarding the Plan's developments and changes. The SIC may delete and/or replace a particular style of investment management, if they deem appropriate. In addition, the SIC may add a particular style of investment management, if deemed appropriate.

Monitoring Service Contracts and Costs

The SIC will periodically review the service contracts and costs associated with the Plan.

MONITORING OF INVESTMENT MANAGERS

The SIC is aware that the ongoing review and analysis of Investment Managers is just as important as the due diligence implemented during the Investment Manager selection process. The SIC may rely on Treasury Staff and the Consultant, if applicable, to monitor Investment Managers on an ongoing basis. Monitoring these Investment Managers is a three-step process, outlined below:

Step 1 – On-Going Monitoring

Treasury Staff, in conjunction with the Consultant, will perform a constant and on-going analysis of all Investment Managers. In addition to reviewing quarterly investment performance, Treasury Staff will continually evaluate:

- Investment Manager's adherence to the IPS guidelines
- Material changes in the Investment Manager's organization, investment philosophy and/or personnel
- Volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix A)
- Comparisons of the Investment Manager's results to appropriate indices and peer groups (as listed in Appendix A)

If appropriate market indices and/or peer groups are not available, Treasury Staff will evaluate factors such as the Investment Manager's adherence to stated risk and return objectives and the Investment Manager's portfolio exposures in relation to the market environment and stated philosophy and process.

Step 2 – Formal Watchlist

If Treasury Staff determines that any of the above factors, or any other development regarding the Investment Manager's performance or organization, warrants a more thorough examination, the Treasury Staff may place the Investment Manager on a formal "watchlist." Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

  Extraordinary events that may lead to an Investment Manager termination include such things as:
  - Change in ownership (e.g., key people "cash out")
  - Change in professionals
  - Changes to an Investment Manager's philosophy or the process it uses to implement the agreed upon strategy
  - Material litigation or fraud involving the Investment Manager
  - Client-servicing problems
  - Significant account losses or significant account growth

- Change in cost
- Change in financial condition
- Extreme performance volatility

- Long-Term Performance in Relation to Appropriate Market Index, Market Environment or Stated Goals and Objectives

  Long-term performance standards measure an Investment Manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style Group," Market Environment or Stated Goals and Objectives

  Shorter-term performance standards incorporate a time period of at least three years. Each Investment Manager is expected to consistently perform in the 50th percentile or better versus an appropriate peer group of Investment Managers with similar investment styles. Additionally, each Investment Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. If appropriate peer groups are not available, the Investment Manager's adherence to stated risk and return objectives and the Investment Manager's portfolio exposures in relation to the market environment and stated philosophy and process will be evaluated. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

Step 3 – Replace or Retain

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist status.

As a result of the examination of an Investment Manager on the watchlist, a recommendation to either **replace** or **retain** the Investment Manager will be made. The recommendation will weigh performance relative to peers, outlook for future returns, changes in the Investment Manager's staff and/or strategy, and other considerations.

It is at the SIC's discretion to take corrective action by replacing an Investment Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Investment Manager. The aforementioned events, or any other events of concern identified by the SIC, may prompt the immediate removal of an Investment Manager without it being watchlisted.

IPS REVIEW AND EVALUATION

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. The SIC will periodically review the IPS to determine whether any changes are appropriate. Based on the SIC's IPS review, the SIC may revise the IPS and/or Plan to meet current needs. Additionally, the SIC shall consult with the recordkeeper to obtain input prior to amending the IPS.

SIGNATURES

Prepared:
Capital Cities, L.L.C.

Date: 11/1/2019

Consultant

Accepted:
Rhode Island State Investment Commission

Date: 11/1/2019

Seth M. Magaziner, General Treasurer, Chair

APPENDIX A: TIAA 401(a) PLAN

Key Information:

Name of Plan: Employees' Retirement System of Rhode Island 401(a) Defined Contribution Plan

Plan Sponsor/Employer: State of Rhode Island

Plan Trustee/Bundled Provider: TIAA

Rhode Island State Investment Commission, per R.I.G.L. § 35-10-1(a):

- Rhode Island General Treasurer, or Designee, Chair
- An active or retired Public Employee in the Retirement System or Teacher, State or Municipal Union Official
- Director of Administration or Designee
- Three Public Treasurer Appointees
- Three Public Governor Appointees
- Executive Director of the Employees' Retirement System (Non-voting)

Type of Plan: 401(a)

Current Assets (as of March 31, 2020): $986,981,683

Participant Directed Investment Options: Yes

Frequency to Change Investment Options: Daily on Market Trade Days

APPENDIX A: TIAA 401(a) PLAN

Selected Investment Options, Indices and Peer Groups:

Asset Category	Index	Peer Group Universe
Domestic Equity		
SSGA 500 Index	S&P 500 Index	Core Equity
Vanguard FTSE Social Index	FTSE4Good US Select Index	Large Cap Broad
SSGA U.S. Small/Mid Cap Index	Russell Sm Cp Completeness Idx	Small/Mid Cap Core
International Equity		
SSGA Global All Cap Eq ex-US Idx	MSCI ACWI ex-US IMI Index	International Core Equity
Target Date		
Vanguard Tgt Retire 2065 Tr Plus	Vanguard Tgt 2065 Comp Idx*	Target Date 2055+
Vanguard Tgt Retire 2060 Tr Plus	Vanguard Tgt 2060 Comp Idx*	Target Date 2055+
Vanguard Tgt Retire 2055 Tr Plus	Vanguard Tgt 2055 Comp Idx*	Target Date 2055+
Vanguard Tgt Retire 2050 Tr Plus	Vanguard Tgt 2050 Comp Idx*	Target Date 2050
Vanguard Tgt Retire 2045 Tr Plus	Vanguard Tgt 2045 Comp Idx*	Target Date 2045
Vanguard Tgt Retire 2040 Tr Plus	Vanguard Tgt 2040 Comp Idx*	Target Date 2040
Vanguard Tgt Retire 2035 Tr Plus	Vanguard Tgt 2035 Comp Idx*	Target Date 2035
Vanguard Tgt Retire 2030 Tr Plus	Vanguard Tgt 2030 Comp Idx*	Target Date 2030
Vanguard Tgt Retire 2025 Tr Plus	Vanguard Tgt 2025 Comp Idx*	Target Date 2025
Vanguard Tgt Retire 2020 Tr Plus	Vanguard Tgt 2020 Comp Idx*	Target Date 2020
Vanguard Tgt Retire 2015 Tr Plus	Vanguard Tgt 2015 Comp Idx*	Target Date 2015
Vanguard Tgt Retire Income Tr Plus	Vanguard Tgt Inc Comp Idx*	Target Date Today
Fixed Income		
SSGA U.S. Bond Index	BBBC US Aggregate Index	Core Bond
PIMCO Real Return	BBBC US TIPS Index	Treasury Infl Prot Bd
Capital Preservation		
TIAA Stable Value	Citigroup 3-Month Treasury Bill	Stable Value

* Derived by applying the Fund's target asset allocation to each underlying Fund's benchmark.

401(a) Default Option

The discretionary assets of Participants who do not make an active selection among the available investment options will be placed in the Plan's Default Option. The SIC has determined that the Plan's Target Date Funds best suit the needs of Plan Participants. Defaulted assets will be placed into the age-appropriate Vanguard Target Retirement Trust.

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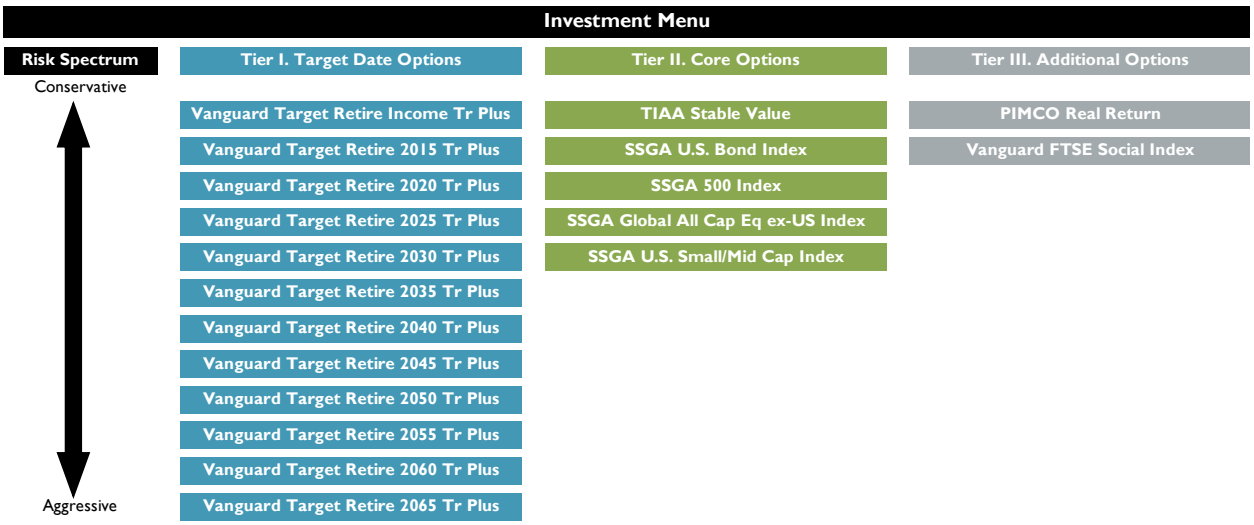
Current Investment Menu: