Investment Policy Statement

The City of Knoxville 457 Plan

Approved on

___ Reviewed January 2013

___ Reviewed January 2014

By Investment Committee

This investment policy statement should be reviewed and updated at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.

EXECUTIVE SUMMARY

Type of Plan:	Defined Contribution Plan
Plan Sponsor	The City of Knoxville
Name of Plan	The City of Knoxville Deferred Compensation Plan
Investment Structure	Participant Directed
Current Assets	$29,892,723
Frequency to Change Investment Options	Daily
Plan Oversight	The City of Knoxville Deferred Compensation Investment Committee

THIS PLAN IS A GOVERNMENTAL PLAN AND IS NOT SUBJECT TO THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 (ERISA)

This structure is a participant directed individual account fund that, although this plan is NOT subject to ERISA, is intended to comply as a "404(c) Plan" within the meaning of the Department of Labor Regulations under ERISA Section 404(c) and as such, it provides individual accounts for Plan participants to select how these individual account shall be invested and therefore, no fiduciary shall be liable for any loss that results from a participant's exercise of control over the investment of his or her participant accounts. This structure provides a range of investment options that will enable participants to invest according to varying risk tolerance, savings time horizon, and other financial goals.

Investment Menu: Although not subject to ERISA, the Investment Committee recognizes the importance of selecting and monitoring the investment funds. The Plan's investment funds will be selected and monitored with the skill, care and diligence that a prudent individual acting in a like capacity would undertake and in accordance with all other aspects of applicable law. The Plan is intended to qualify under the qualified cash or deferred arrangement rules of Code Section 457. The Plan may invest in investment vehicles such as mutual funds, collective trust arrangements, guaranteed investment contracts (GIC's), and separate account money managers.

Investment Options:

Money Market/Stable Value	Mid-Cap Value	Small-Cap Growth
Intermediate Bond	Mid-Cap Blend	International Equity
Large-Cap Value	Mid-Cap Growth	Target Date Funds
Large-Cap Blend	Small-Cap Value	Guaranteed Income Funds
Large-Cap Growth	Small-Cap Blend	

BACKGROUND

The Plan is a defined contribution plan. The purpose of the Plan is to encourage employees to build long-term careers with The City of Knoxville by providing employees with a convenient way to save on a regular and long-term basis for retirement.

The Plan currently covers 1,290 active employees. Plan size is currently $29,892,723, and annual contributions should approximate $500,000 per year.

Employee contributions are made through payroll deductions each payroll period and remitted to the trustee for investment into the employee designated investment options.

PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist The City of Knoxville Deferred Compensation Plan Investment Committee (Investment Committee) in effectively supervising, monitoring and evaluating the investments of the City's Retirement Plan (Plan) assets. The Committee has the authority to oversee the investments of the Plan's assets. The Committee will discharge its responsibilities under the Plan solely in the interests of Plan participants and their beneficiaries. This statement is set forth by the Investment Committee of the Plan in order to:

1. State in a written document the Investment Committee's attitudes, expectations, objectives and guidelines for the investment of all Plan assets.
2. Set forth an investment structure for managing all Plan assets.
3. Encourage effective communications between the Committee, the investment consultant (Consultant), money managers, and/or custodian.
4. Establish the number and characteristics of offered investment options. Provide return and risk characteristics for each asset class represented by various investment options.
5. Establish procedures for selecting, monitoring, evaluating, and, if appropriate, replacing investment options.
6. Establish the relevant investment horizon for which Fund assets will be managed.

This IPS has been formulated, based upon consideration by the Investment Committee of the financial implications of a wide range of policies, and describes the prudent investment process the Investment Committee deems appropriate.

DUTIES AND RESPONSIBILITIES

Delegation of Authority

Members of the Investment Committee are fiduciaries, as described by applicable law, and are responsible for directing and monitoring the investment management of Plan assets. As such, the Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Consultant. The investment consultant may assist the Committee in: Establishing investment policy, objectives, and guidelines; selecting investment options and managers; reviewing such options and managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The investment consultant is a limited fiduciary – limited to the selection and monitoring of the investment options.

2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Plan's investment objectives.

3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movements of assets into and out of the Plan accounts.

4. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Plan assets prudently.

The Investment Committee will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Investment managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Plan as deemed appropriate and necessary.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Committee of the Plan

The Investment Committee is charged with the responsibility for the management of the assets of the Plan. The Committee shall discharge its duties solely in the interest of the Plan, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent man, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Investment Committee relating to the investment management of Plan assets include:

1. Prepare and maintain this investment policy statement. Establishing investment objectives, policies and guidelines.

2. Provide sufficient asset classes with different and distinct risk/return profiles so each participant can prudently diversify his/her account.

3. Prudently select investment options. Developing and enacting proper control procedures. For example, replacing an investment manager due to a fundamental change in investment management process, or failure to comply with established guidelines

4. Control and account for all investment, record keeping and administrative expenses associated with the Plan.

5. Monitor and supervise all professional experts, service vendors and investment options. Prudently and diligently selecting and monitoring qualified investment professionals, including investment manager(s), an investment consultant, and a custodian.

6. Avoid prohibited transactions and conflicts of interest.

Responsibility of the Investment Consultant

The Investment Committee may retain an objective, third-party Consultant to assist the Committee in managing the overall investment process. The Consultant will be responsible for guiding the Investment Committee through a disciplined and rigorous investment process to enable the Investment Committee to meet the fiduciary responsibilities outlined above.

The investment consultant’s role is that of a non-discretionary advisor to the Investment Committee of the Plan. Investment advice concerning the investment management of Plan assets will be offered by the investment consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include:

1. Assisting in the development and periodic review of investment policy.

2. Conducting investment manager searches when requested by the Investment Committee.

3. Providing "due diligence," or research, on the investment manager(s).

4. Monitoring the performance of the investment manager(s) to provide the Investment Committee with the ability to determine the progress toward the investment objectives.

5. Communicating matters of policy, manager research, and manager performance to the Investment Committee.

6. Reviewing Plan investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Investment Committee.

Responsibility of the Investment Managers

As distinguished from the Investment Committee and Consultant, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.

2. Reporting, on a timely basis, quarterly investment performance results.

3. Communicating any major changes to economic outlook, investment strategy, or any other factors which effect implementation of investment process, or the investment objective progress of the Plan's investment management.

4. Informing the Investment Committee and Consultant regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Effect all transactions for the Plan subject "to best price and execution." If a manager utilizes brokerage from the Plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Investment Committee.

6. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims and all applicable laws, rules, and regulations.

7. If managing a separate account (as opposed to a mutual fund or a commingled account), acknowledge co-fiduciary responsibility by signing and returning a copy of this IPS.

STATEMENT OF OBJECTIVES

This IPS has been arrived at upon consideration by the Investment Committee by a wide range of policies, and describes the prudent investment process the Investment Committee deems appropriate. This prudent investment process includes offering various asset classes and investment management styles that, in total, are expected to offer participants a sufficient level of overall diversification and total investment return over the long-term.

The objectives of the Participant Directed Fund are to:

1. Have the ability to pay all benefit and expense obligations when due.

2. Control costs of administering the plan and managing the investments.

3. Provide prudent investment vehicles with reasonable fees in an effort to maximize risk adjusted returns.

4. Provide participants at least three investment options that each has a different risk/return profile.

5. Provide participants with sufficient information so the participant can make an informed decision about his or her selection of investment option(s); and

6. Permit participants to change investment options on a daily basis. Because each plan participant shall make investment contribution and allocation decisions, the Committee shall refrain from giving what could be construed as investment advice.

ASSET CLASS GUIDELINES

The Investment Committee believes long-term investment performance, in large part, is primarily a function of asset class mix. History shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (five years or greater).

As a result, the following asset classes and sub-asset classes were selected in order to provide a diversified asset allocation.

- Money Market/Stable Value
- Intermediate Bond
- Large-Cap Value
- Large-Cap Blend
- Large-Cap Growth
- Mid-Cap Value
- Mid-Cap Blend
- Mid-Cap Growth
- Small-Cap Value
- Small-Cap Blend
- Small-Cap Growth
- International Equity
- Emerging Markets Equity
- Target-Date Funds
- Real Estate
- Guaranteed Income Fund

The Investment Committee has considered the following asset classes for inclusion in the asset mix, but has decided to exclude these asset classes at the present time:

- Global Fixed Income
- Short Duration Fixed Income

INVESTMENT MANAGER SELECTION

The Investment Committee' selection of investment manager(s) must be based on prudent due diligence procedures. The Investment Committee will apply the following due diligence criteria in selecting each money manager or mutual fund.

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

2. *Correlation to style or peer group:* The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.

3. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.

4. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.

5. *Minimum track record:* The product's inception date should be greater than three years.

6. *Assets under management:* The product should have at least $75 million under management.

7. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.

8. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.

9. *Stability of the organization:* There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.

CONTROL PROCEDURES

Investment Manager Performance Review and Evaluation

Performance reports generated by the investment adviser shall be compiled at least quarterly and communicated to the Committee for review. The investment performance will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.
4. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The Investment Committee has determined it is in the best interest of the Plan's participants that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the Russell 1000 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

Asset Class	Benchmark Index	Lipper Peer Group
Large Cap Value	Russell 1000 Value	Large Cap Growth
Large Cap Blend	S&P 500	Large Cap Blend
Large Cap Growth	Russell 1000 Growth	Large Cap Growth
Mid Cap Value	Russell Mid Cap Value	Mid Cap Value
Mid Cap Blend	Russell Mid Cap	Mid Cap Blend
Mid Cap Growth	Russell Mid Cap Growth	Mid Cap Growth
Small Cap Value	Russell 2000 Value	Small Cap Value
Small Cap Blend	Russell 2000	Small Cap Blend
Small Cap Growth	Russell 2000 Growth	Small Cap Growth
International	MSCI EAFE	International
Diversified Emerging Markets	MSCI Emerging Markets	Emerging Markets
Total Return Bond	Barclays Aggregate Bond	Intermediate Bond
Real Estate Equity	FTSE NAREIT Equity-REITS	Real Estate

A manager may be placed on Watch and a thorough review and analysis of the investment manager may be conducted, when:

1. A manager performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. A manager's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product's assets.
5. There is an indication the manager is deviating from his/her stated style and/or strategy.
6. There is an increase in the product's fees and expenses.
7. Any extraordinary event occurs that may interfere with the manager's ability to fulfill their role in the future.

A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis of their underperformance.

2. An analysis of recent transactions, holdings and portfolio characteristics to determine the cause for underperformance or to check for a change in style.

3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is the Investment Committee's confidence in the manager's ability to perform in the future that ultimately determines the retention of a manager.

Measuring Costs

The Investment Committee will review at least annually all costs associated with the management of the Plan's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.

2. Whether the manager is demonstrating attention to "best execution" in trading securities.

3. Administrative Fees: Costs to administer the Plan, including record keeping, account settlement (participant balance with that of fund), and allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

PARTICIPANT INVESTMENT EDUCATION

In developing a continual participant investment education program, the Investment Committee will select funds and provide supporting material with consideration for the following:

- The number of funds offered should be limited to promote participant understanding without sacrificing the objectives set forth in this policy.
- The Plan Provider should provide general information relating to the economy and capital markets as part of the investment education program.
- Participants should be encouraged to select an appropriate asset allocation (based on their risk tolerance, their time until retirement and other factors relating to their personal financial status) and avoid attempts to time the market.

The Plan Provider should educate participants on the relative risk and return of investing in different asset classes and how diversified investing can reduce the risk of investing.

INVESTMENT POLICY REVIEW

The Committee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. 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.

This statement of investment policy is adopted on (date) by the Retirement Planning Committee of the Plan whose signatures appear below.

Committee

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Prepared: **Approved:**

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Consultant **Title:**________________________

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Date **Date**