

**Tennessee State Employees Deferred Compensation
Plan and Trust
and the
State of Tennessee Deferred Compensation Plan II**

Investment Policy

Revised and Restated

NOTICE: This document does not outline the investment risks, fees, expenses, terms, conditions, restrictions and other important information for Deferred Compensation Program Participants. Participants should obtain such information from the Participant information available on the administrator's website, www.empower-retirement.com, or by contacting the administrator through email (tn401k457@gvrs.com) or by phone (800-922-7772)

Each Participant in the Deferred Compensation Program is responsible for his/her own investment decisions. A Participant should request and read the prospectus and additional information provided by the entity offering the investment option to which a Participant is considering allocating contributions. The prospectus and additional information outline the investment risks, fees, expenses, terms, conditions, restrictions and other important information necessary for a Participant to make an informed investment decision.

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I. Definitions

The following definitions are used hereafter with respect to this Investment Policy:

Consultant(s) – An entity or individual, duly selected and contractually bound, with substantial experience in providing investment advice on and/or consulting services in the evaluation and selection of investment options. Such Consultant(s) will be appropriately registered, or exempt from registration, under the applicable state and federal securities laws, rules and regulations.

Deferred Compensation Program – The State of Tennessee Deferred Compensation Plan II (also known as the 401(k) Plan) and the Tennessee State Employees Deferred Compensation Plan and Trust (also known as the 457 Plan).

Department of Treasury Staff – Each Department of Treasury employee involved in the administration or management of the Deferred Compensation Program. Department of Treasury Staff includes, but is not limited to, the State Treasurer, Chief Investment Officer and Director of Deferred Compensation.

Participant – An eligible employee of the State of Tennessee or any eligible employer participating in the Deferred Compensation Program.

T.C.A. – Tennessee Code Annotated.

Trustees – The trustees of the State of Tennessee Deferred Compensation Plan II (also known as the 401(k) Plan) and the Tennessee State Employees Deferred Compensation Plan and Trust (also known as the 457 Plan), who are the commissioner of finance and administration, the chair of the finance, ways and means committee of the senate, the chair of the finance, ways and means committee of the house of representatives, and the chair of the consolidated retirement board.

Underperforming Investment Option – An investment option that is rated “underperforming” based on a performance analysis conducted by Consultant(s) and/or Department of Treasury Staff.

Watch List – A list maintained by the Department of Treasury Staff in order to efficiently track any Underperforming Investment Option.

II. Overview and Authority

A. Introduction

Pursuant to and in accordance with T.C.A. §8-25-101, et seq., the Deferred Compensation Program was established for the purpose of providing eligible employees of the State of Tennessee (or any eligible employer) with a means to save monies on a tax-advantaged basis in order to assist such employees in achieving retirement goals.

B. Investment Authority

Day-to-day administration and operation of the Deferred Compensation Program is hereby delegated to the State Treasurer. Implementation of the Deferred Compensation Program Investment Policy established by the Trustees is hereby delegated to the State Treasurer, who

shall put such policy into effect. In implementing this Investment Policy and the day-to-day administration and operation of the Deferred Compensation Program, the State Treasurer hereby delegates certain responsibilities to the Department of Treasury Staff, including the Director of Deferred Compensation and Chief Investment Officer.

C. Fiduciary Standard

All assets of the Deferred Compensation Program shall be invested and managed solely in the interest of the Deferred Compensation Program's beneficiaries and in a manner consistent with T.C.A. §35-14-107, the prudent investor rule pursuant to T.C.A. §35-14-103 and the standard of care pursuant to T.C.A. §35-14-104. Furthermore, the delegation of investment and management functions shall be carried out in accordance with T.C.A. §35-14-111.

D. Scope

The Investment Policy is binding on all persons and entities with authority over the Deferred Compensation Program's assets, including, but not limited to, the Trustees, Department of Treasury Staff and any other person who or entity that may have a fiduciary relationship with the Deferred Compensation Program.

III. Objective

The purpose of this Investment Policy is to support the Deferred Compensation Program's primary purpose by:

- Outlining the distinct roles and responsibilities of the Trustees, Department of Treasury Staff and Consultant(s);
- Establishing investment criteria which the Trustees determine to be prudent and in the best interest of the beneficiaries, for the selection, ongoing evaluation, and, if necessary, termination, of investment options;
- Communicating the Investment Policy, as approved by the Trustees, to the Department of Treasury Staff, Consultant(s) and any other person who or entity that may have a fiduciary relationship with the Deferred Compensation Program; and
- Functioning as a supervisory tool, guiding the ongoing oversight of the investment options available under the Deferred Compensation Program.

IV. Roles and Responsibilities

In addition to the responsibilities described below and throughout the Investment Policy, the Consultant(s), as well as any other person who or entity that may have a fiduciary relationship with the Deferred Compensation Program, may have additional duties and responsibilities outlined within federal and state laws, rules and regulations; executed contracts or agreements; or as dictated by standard business or industry practices.

A. Trustees

- 1) Adopt an Investment Policy that establishes the investment criteria, which the Trustees determine to be prudent;
- 2) Delegate investment and management functions that a prudent trustee of comparable skills would properly delegate under the circumstances;

- 3) Evaluate the investment performance of the investment options, through reports supplied by the State Treasurer, Department of Treasury Staff, Consultant(s), and/or other service providers; and
- 4) Periodically review the actions taken by delegates in order to monitor performance and compliance with the terms of the delegation.

B. State Treasurer

- 1) Implement the Investment Policy, as approved by the Trustees;
- 2) Delegate investment and management functions that a prudent trustee of comparable skills would properly delegate under the circumstances;
- 3) Approve a prudent menu of investment options through the evaluation of the investments and recommendations made by the Chief Investment Officer and Department of Treasury Staff;
- 4) Review and, as applicable, authorize the use of Consultant(s), service providers and the employment of Department of Treasury Staff;
- 5) Evaluate and, as applicable, approve the processes employed and procedures established by Department of Treasury Staff;
- 6) With the advice and counsel, as applicable, of legal counsel, negotiate and execute all contracts, agreements, forms and memoranda of understanding deemed necessary or desirable for the efficient administration of the Deferred Compensation Program's assets;
- 7) Monitor the investment performance of the investment options; and
- 8) Take actions that are deemed essential to protect the assets of the Deferred Compensation Program with any emergency actions being promptly reported to the Trustees.

C. Chief Investment Officer

- 1) Assume executive responsibility and authority, as delegated by the State Treasurer, and undertake the necessary authority to effectively manage and supervise, as applicable;
- 2) Delegate investment and management functions to Department of Treasury Staff that a prudent trustee of comparable skills would properly delegate under the circumstances;
- 3) Create a prudent menu of investment options through the evaluation of the investment options and recommendations made by Department of Treasury Staff, Consultant(s) and/or service provider(s);
- 4) Report to and consult with the State Treasurer and/or his designee on administrative, organizational and investment activities;
- 5) Collaborate, as applicable, with the Department of Treasury Staff, Consultant(s) and service providers on development and implementation of appropriate strategies, policies, and procedures;
- 6) Prepare and submit reports, as required, to document activities; and
- 7) Notify the State Treasurer of situations that merit the Trustees' attention.

D. Director of Deferred Compensation

- 1) Assume executive responsibility and authority, as delegated by the State Treasurer, and undertake the necessary authority to effectively manage and

- supervise the day-to-day operations of the Deferred Compensation Program, as applicable;
- 2) Delegate functions to Department of Treasury Staff that a prudent trustee of comparable skills would properly delegate under the circumstances;
 - 3) Report to and consult with the State Treasurer and/or his designee on administrative, organizational and management activities;
 - 4) Collaborate, as applicable, with the Department of Treasury Staff, Consultant(s) and service providers on development and implementation of appropriate strategies, policies, and procedures;
 - 5) Prepare and submit reports, as required, to document activities; and
 - 6) Notify the State Treasurer of situations that merit the Trustees' attention.

E. Department of Treasury Staff

- 1) Utilize special skills and expertise in an effort to accomplish the delegated or assigned task;
- 2) Evaluate the investment performance of the investment options, through reports supplied by the Consultant(s) and/or other service providers;
- 3) Assist the State Treasurer, or his designee, Chief Investment Officer and Director of Deferred Compensation with respect to any matters related to the Deferred Compensation Program;
- 4) Prepare and submit reports, as required, to document activities; and
- 5) Notify the State Treasurer of situations that merit his attention.

F. Consultant(s)

- 1) Act as an advisor to the Department of Treasury Staff in the analysis and selection of investment options;
- 2) Source and evaluate prospective investment options on an as-needed or as-requested basis;
- 3) Prepare and submit relevant, reliable and timely investment and performance reports and objective advice as required or as needed by the Trustees, State Treasurer, Chief Investment Officer or Department of Treasury Staff; and
- 4) Support the Trustees, State Treasurer, Chief Investment Officer, Director of Deferred Compensation, or Department of Treasury Staff with respect to any matters related to the Deferred Compensation Program.

V. Governing Principles

A. Primary Investment Philosophy

In the Deferred Compensation Program, each Participant may have a different risk tolerance, investment horizon, retirement savings goals and overall investment objectives. As such, Deferred Compensation Program Participants are responsible for their own investment decisions. To accommodate varying investment objectives, risk tolerances and time horizons, the Trustees seek to provide Participants with a prudent menu of investment options that is diversified across a range of asset classes, risk levels and investment strategies and reasonable in cost when compared with other investment options with similar objectives.

B. Authorized Asset Classes and Investment Strategies

Subject to the approval of the State Treasurer and, as applicable, the terms, conditions, limitations and restrictions imposed by this Investment Policy, the Trustees authorize investment options in each of the following major asset classes and investment strategies:

- Equity (Large-, Mid-, or Small-Cap)
 - Growth
 - Blend
 - Value
 - Specialty (e.g. sector, international, etc.)
- Fixed Income
 - Investment Grade (Short-, Intermediate-, or Long-Term)
 - Inflation-Protected
 - Specialty (e.g. high-yield, international, etc.)
- Balanced/Asset Allocation (asset allocation remains relatively static)
- Age-Based/Lifecycle (assets reallocated, over time, based on a specific date, commonly referred to as glide path)
- Stable Value/ Fixed Account (or similar option that provides a guaranteed minimum rate of return or interest)

The Trustees acknowledge that the use of all of the above-referenced major asset classes and investment strategies may not be required in order to develop a prudent menu of investment options.

C. Authorized Investment Vehicles

Subject to the approval of the State Treasurer and, as applicable, the terms, conditions, limitations and restrictions imposed by this Investment Policy, the Trustees authorize the following investment vehicles: commingled funds, mutual funds, fixed accounts and self-directed brokerage accounts.

D. Benchmarks

Each investment option will be evaluated against its designated benchmark, index or respective peer group, as outlined in Appendix A. The appropriateness of each investment option's designated benchmark, index or respective peer group should be periodically evaluated by the Department of Treasury Staff and may be amended, subject to the approval of the State Treasurer.

E. Revenue Sharing, Distribution and Service Fees

To offset the costs of administration, the Deferred Compensation Program may receive payments known as offsets or administrative fee reimbursements from certain mutual fund or investment companies. Any offsets received shall be a) used to reduce the overall expenses of the Deferred Compensation Program or b) directly reimbursed or applied to the applicable Participant's account.

VI. Consultant(s) and Service Providers

The Trustees delegate to the State Treasurer the authority to contract for services and/or providers as determined to be in the best interest of the Deferred Compensation Program and its Participants, including, but not limited to, investment management services, personal services, professional services and consultant services, investment advisory services, administrative and recordkeeping services. The State Treasurer is also authorized to consult with professionals, as necessary, about the administration of the Deferred Compensation Program. The Trustees delegate to the State Treasurer the responsibility to determine the procurement method for such services, providers and professionals, including, but not limited to, the general and technical qualifications. The State Treasurer shall also determine the duties and responsibilities of the providers and professionals with such duties and responsibilities enumerated in a contractual agreement.

VII. Selection Criteria for Investment Options

The Trustees recognize that various factors are taken into consideration when evaluating investment performance and the menu of investment options. The Trustees rely on the State Treasurer, Department of Treasury Staff and, if applicable, the Consultant(s) to use reasonable judgment in proactively and objectively evaluating each investment option.

A. Mutual Funds or Commingled Funds

Mutual funds must be publicly listed and may be either actively or passively managed. At the time of selection, a mutual fund must have:

- At least three (3) years of investment and operational history;
- Outperformed its respective benchmark, net of fees, over at least two of the most recent 1-, 3-, or 5-year periods; and
- An expense ratio competitive with other investment options with similar objectives.

Commingled funds established pursuant to T.C.A. §8-25-105 may also be offered to Deferred Compensation Program Participants. Such commingled funds will be subject to the same monitoring criteria as other investment options. *See Monitoring and Reporting and Underperforming Investment Options for further information.*

B. Fixed Account

A fixed account will generally guarantee a minimum rate of return or interest. Fixed accounts available through either a fixed or variable annuity contract must have:

- At least five (5) years of investment and operational history;
- An issuer, long-term rating of (or equivalent to) A+ or better as determined by a credit rating agency that is registered with the Securities and Exchange Commission (“SEC”) as a Nationally Recognized Statistical Rating Organization (“NRSRO”); and
- An expense ratio competitive with other investment options with similar objectives.

Fixed accounts available through a bank depository account must provide participant-level FDIC protection.

C. Self-Directed Brokerage Account (“SDBA”)

The purpose of a Self-Directed Brokerage Account (“SDBA”) is to offer flexibility to Deferred Compensation Program Participants who wish to take an active role selecting investment instruments not available as a direct investment option in the Deferred Compensation Program. The Trustees, State Treasurer and Department of Treasury Staff have no responsibility to review or assess the self-directed brokerage account provider, brokerage window or the investment instruments available under a SDBA and have no responsibility to determine the appropriateness of a SDBA, or any investment instruments available within, for any Deferred Compensation Program Participant.

Department of Treasury Staff will establish procedures to ensure that a Deferred Compensation Program Participant electing the SDBA option:

- maintains a minimum balance, the greater of fifteen thousand dollars ($\geq \$15,000$) or fifty percent ($\geq 50\%$) of the Participant’s total Deferred Compensation Program account balance, in the direct investment options offered in the Deferred Compensation Program;
- makes a minimum initial transfer of at least five thousand dollars ($\geq \$5,000$) into the SDBA;
- makes subsequent transfer of at least one thousand dollars ($\geq \$1,000$) into the SDBA;
- does not purchase any direct investment option offered in the Deferred Compensation Program through the SDBA; and
- receives disclosures related to investment risks and the Participant’s responsibility to bear all applicable costs, fees, expenses and commissions.

The Department of Treasury Staff may develop additional policies, procedures, restrictions and criteria for participation in a SDBA or investment instruments offered through a SDBA. Such policies, procedures, restrictions and criteria will be made readily available to Deferred Compensation Program Participants and the self-directed brokerage account provider.

VIII. Monitoring and Reporting

A. Quarterly

After the end of each calendar quarter, or as deemed necessary by the Trustees, the State Treasurer, Department of Treasury Staff and/or selected service provider will provide a comprehensive performance report of each investment option.

Additionally, Department of Treasury Staff and/or selected service provider or Consultant(s) will complete a performance analysis for all of the investment options offered under the Deferred Compensation Program. Such performance analysis will include, but is not limited to, statistical measures of performance, risk, style consistency, and other criteria used to evaluate the relative success and stability of each investment option.

The performance reports and performance analysis will be reviewed and evaluated by the Department of Treasury Staff. During such evaluation, any investment option that has one or more of the following will be selected for further review by the Department of Treasury Staff and/or Consultant(s):

- performed below benchmark and below universe median performance for both the 3-, and 5-year periods,

- for passive index mutual funds or commingled funds, failed to track the stated index within a variance of fifteen (15) basis points (0.15%), gross of fees,
- for fixed accounts, received an issuer, long-term credit rating downgraded below A+ (or below its equivalent),
- significant changes in ownership, management, investment objective or investment style,
- substantial portfolio turnover,
- material violations of federal or state law, policies or procedures, or
- excessive reoccurring administrative or operational issues

See Underperforming Investment Options for further information.

B. Periodically

The Trustees, State Treasurer, or Department of Treasury Staff may conduct, or request to be conducted, at any time a review or evaluation of an investment option.

C. Annually

At least annually, the Department of Treasury Staff and/or selected service provider shall review the Investment Policy and overall investment performance (measured in 1-, 3-, and 5- cycles) of the investment options offered in the Deferred Compensation Program and provide any recommendations to the State Treasurer.

IX. Underperforming Investment Options

If an investment option has been selected for further review, Department of Treasury Staff and/or Consultant(s) will gather additional information related to the underperformance or events. Additionally, the applicable investment or insurance company may be informed and/or invited to meet with Department of Treasury Staff and explain the underperformance or events and any remedial efforts.

If, based on such review, the State Treasurer and Department of Treasury Staff determine that the underperformance or event is material then the investment option will be placed on the Watch List. The investment option will remain on the Watch List and re-evaluated during the next quarter's performance analysis.

An investment option will be added to, removed from, or remain on the Watch List, based on each quarter's performance analysis. Notwithstanding the authority provided for in Section X of this Investment Policy, an investment option that is on the Watch list for four or more (≥ 4) consecutive quarters or seven or more (≥ 7) total (non-sequential) quarters in a trailing twelve (12) quarter period may be, at the State Treasurer's discretion:

- closed to new contributions;
- phased out of the menu of available investment options; and/or
- terminated and the assets transferred to a new or existing investment option.

The Trustees and State Treasurer reserve the right to change, eliminate, or restrict any investment option and such actions do not require Participant consent. When feasible and appropriate, reasonable notice will be provided to Participants regarding any material changes to the menu of available investment options.

X. Other Considerations

The Trustees, State Treasurer, Department of Treasury Staff, Consultant(s) and service providers are required to comply with all applicable federal and state laws, rules and regulations. The Investment Policy may reference or restate applicable laws, rules and regulations, or portions thereof, for convenience; however, in the event of any conflict between the law and this Investment Policy, the law prevails. Each fiduciary to the Deferred Compensation Program is ultimately responsible for compliance with applicable laws, rules and regulations.

The Trustees hereby authorize the State Treasurer to take, for and on behalf of the Deferred Compensation Program, all actions necessary to comply with applicable federal and state securities laws, rules and regulations. In implementing such, the State Treasurer may delegate certain responsibilities to the Department of Treasury staff or service providers.

In cases of uncertainty, the State Treasurer is authorized to provide interpretive guidance and approve, from time to time, variances from the requirements contained within the Investment Policy, including immediate termination of an investment option or options, in furtherance of compliance or as deemed in the best interest of the Deferred Compensation Program's Participants, consistent with both fiduciary standards and the scope of the Investment Policy. Such interpretive guidance or variance shall be reported to the Trustees at their next meeting.

XI. Approval and Adoption

This revised and restated Investment Policy was adopted on 21st day of September, 2016 by the trustees of the State of Tennessee Deferred Compensation Plan II and the Tennessee State Employees Deferred Compensation Plan and Trust.

CHAIR
TENNESSEE CONSOLIDATED
RETIREMENT SYSTEM BOARD

David H. Lillard, Jr. 8/24/16
Trustee Date

COMMISSIONER
DEPARTMENT OF FINANCE AND
ADMINISTRATION

Larry Martin 9/26/16
Trustee Date

CHAIR
HOUSE FINANCE WAYS AND
MEANS COMMITTEE

Charles Sargent 8/31/16
Trustee Date

CHAIR
SENATE FINANCE WAYS AND MEANS
COMMITTEE

Randy McNally 08/17/2016
Trustee Date

Appendix A – Deferred Compensation Program Investment Options and Designated Benchmarks as of May 23, 2019

Available Investment Option	Current IPS Benchmark
Alianz NFJ Large Cap Institutional (VILVX)	Russell 1000 Value
Brown Capital Management Small Company Inv (BCSIX)	Russell 2000 Growth
Columbia Select Mid Cap Value Instl (NAMAX)	Russell Mid-Cap Value
DFA International Value Fund I (DFIVX)	MSCI ACWI ex US Value
Fidelity Contrafund (FCNTX)	Russell 1000 Growth
Fidelity International Discovery (FIGRX)	MSCI ACWI ex US Growth
Fidelity OTC (FOCPX)	Russell 1000 Growth
Fidelity Puritan (FPURX)	60% S&P 500 / 40% Barclay's Aggregate Bond
Invesco Small Cap Value Y (VSMIX)	Russell 2000 Value
Janus Henderson Enterprise N (JDMNX)	Russell Mid-Cap Growth Index
Tennessee Treasury Managed Fund	60% S&P 500 / 40% Barclay's Aggregate Bond
Vanguard Institutional Index I (VINIX)	S&P 500 Index
Vanguard Instl Target Retirement Income Instl (VITRX)	S&P Target Date Retirement Income
Vanguard Instl Target Retirement 2015 Instl (VITVX)	S&P Target Date 2015
Vanguard Instl Target Retirement 2020 Instl (VITWX)	S&P Target Date 2020
Vanguard Instl Target Retirement 2025 Instl (VRIVX)	S&P Target Date 2025
Vanguard Instl Target Retirement 2030 Instl (VTTWX)	S&P Target Date 2030
Vanguard Target Instl Retirement 2035 Instl (VITFX)	S&P Target Date 2035
Vanguard Instl Target Retirement 2040 Instl (VIRSX)	S&P Target Date 2040
Vanguard Instl Target Retirement 2045 Instl (VITLX)	S&P Target Date 2045
Vanguard Instl Target Retirement 2050 Instl (VTRLX)	S&P Target Date 2050
Vanguard Instl Target Retirement 2055 Instl (VIVLX)	S&P Target Date 2055
Vanguard Instl Target Retirement 2060 Instl (VILVX)	S&P Target Date 2055+
Vanguard Total Bond Market Index I (VBTIX)	Bar Cap US Aggregate Bond Index
Voya Fixed Account	
Western Asset Core Plus Bond IS (WAPSX)	Bar Cap US Aggregate Bond Index

