

**METROMAX 457 PLAN**

**Statement of Investment Policy**



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## METROMAX 457 PLAN

### Statement of Investment Policy

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#### **Introduction**

The Metropolitan Government of Nashville and Davidson County Employee Benefit Board (the “Board”) hereby adopts this Statement of Investment Policy (Statement) for the MetroMax 457 Plan.

#### **Objectives of the Plan**

The Plan is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risk and rewards appropriate for these kinds of retirement savings programs. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Statement of Investment Policy serves the following purposes:

- To ensure that a broad range of investment options are offered to Plan participants;
- To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plan;
- To establish investment objectives and guidelines for each investment category offered within the Plan;
- To establish benchmarks and performance standards for each investment category and to evaluate each option’s performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various funds;
- To define the procedures for investment fund evaluation and formal fund review; and
- To set guidelines and procedures for withdrawal of an investment option which, in the Board's opinion, does not, or will not, fulfill the Plan’s objectives for which it was selected and replace the option with an appropriate substitute.

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**Selection of Investment Options**

The Plan has chosen to offer thirteen investment categories and a mutual fund window:

<b>Category</b>
Stable Value
Core Fixed Income
High Yield Fixed Income
Balanced
Large Cap Value Equity
Large Cap Blend Equity (active)
Large Cap Blend Equity (passive)
Large Cap Growth Equity
Mid Cap Value Equity
Mid Cap Growth Equity
Small Cap Blend Equity
International Equity
Global Equity
Lifecycle/Life Series

Each investment option offered under the Plan shall:

- Operate in full accordance with its current published prospectus or “fact sheet”;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Board determines an investment option no longer meets the performance criteria, it may replace that option with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein.

From time-to-time, the Board, in its discretion, may add investment options/categories to the current core options. At such time, the Statement of Investment Policy will be modified to include these additions.

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In regards to the ING Ultimate Account (mutual fund window), the Board will have no responsibility for selecting, monitoring, or evaluating the investment options available through the window. Participants will have sole discretion in regards to the investment options they select.

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#### **Investment Categories: Objectives, Guidelines & Performance Standards**

The Plan shall offer at least one investment option within each of the following investment categories:

##### **Stable Value**

###### **Objective**

The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. A fund in this category invests in fixed income instruments, including those of the US Government and its agencies, corporations, mortgage- and asset-backed securities, collateralized, emerging market, high yield, and preferred stock securities.

###### **Performance Standards**

- To provide a competitive rate of interest relative to the 91-day Treasury Bill plus 1.25%.
- This fund declares an annualized rate of interest at least monthly.

##### **Core Fixed Income**

###### **Objective**

The objective of this investment category is to invest in income-producing securities, including corporate and US Government bonds, preferred stocks, income-producing common stocks, convertibles, and foreign securities. Investment returns are expected to be derived primarily from current income.

###### **Performance Standards (Net of fees)**

- To exceed the return of the Lehman Brothers Government/Credit Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the fixed income fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Lehman Brothers Government/Credit Index and fixed income universe.

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**High Yield Fixed Income****Objective**

The objective of this investment category is to invest primarily in lower rated debt securities to generate higher levels of income. Investment returns are expected to be derived primarily from current income, with capital growth as a secondary consideration.

***Performance Standards/Benchmarks (Net of fees)***

- To exceed the return of the Merrill High Yield Bond Index over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the high-yield fixed income fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Merrill High-Yield Bond Index and the high-yield fixed income universe.

**Balanced****Objective**

The objective of this investment category is to invest in stocks, bonds and cash to provide capital appreciation and income with less volatility than an all-stock fund. Investment returns are expected to be derived from a combination of capital appreciation and dividend and interest income.

***Performance Standards (Net of Fees)***

- To exceed the return of a 60% S&P 500 Index and 40% Lehman Brothers Aggregate Bond Index composite, over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the balanced fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the composite index and the balanced fund universe.

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**Large Cap Value Equity****Objective**

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**Performance Standards (Net of Fees)**

- To exceed the return of the Russell 1000 Value Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap value equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 1000 Value Index and the large cap value equity fund universe.

**Large Cap Blend Equity (active)****Objective**

The objective of this investment category is to invest primarily in common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market or having above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**Performance Standards (Net of Fees)**

- To exceed the return of the S&P 500 Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap blend equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the S&P 500 Index and the large cap blend equity fund universe.

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**Large Cap Blend Equity (passive)****Objective**

The objective of this investment category is to track the performance of the Standard & Poor's 500 Index by investing in common stock of the large capitalization domestic companies comprising the Index. The S&P 500 Index is an equity composite of the 500 largest companies in the United States based on market capitalization. The fund manager targets to match the index rather than attempt to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**Performance Standards (Net of Fees)**

- To approximate the performance of the S&P 500 Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap blend equity fund universe over a full market cycle.

**Large Cap Growth Equity****Objective**

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

**Performance Standards (Net of Fees)**

- To exceed the return of the Russell 1000 Growth Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap growth equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 1000 Growth Index and the large cap growth equity fund universe.

**Mid Cap Value Equity****Objective**

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The objective of this investment category is to invest in the common stocks of medium capitalization domestic companies considered by the fund manager to be undervalued relative to the market or with above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**Performance Standards (Net of Fees)**

- To exceed the return of the Russell MidCap Value Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the mid cap value equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell MidCap Value Index and the mid cap value equity fund universe.

**Mid Cap Growth Equity****Objective**

The objective of this investment category is to invest in the common stocks of medium capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

**Performance Standards (Net of Fees)**

- To exceed the return of the Russell MidCap Growth Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the mid cap growth equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell MidCap Growth Index and the mid cap growth equity fund universe.

**Small Cap Blend Equity****Objective**

The objective of this investment category is to invest primarily in the common stocks of small

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capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation or to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser extent, capital appreciation.

***Performance Standards (Net of Fees)***

- To exceed the return of the Russell 2000 Index over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the small cap blend equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 2000 Index and the small cap blend equity fund universe.

**International Equity****Objective**

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

***Performance Standards (Net of fees)***

- To exceed the return of the MSCI EAFE Index (net of dividends) or the MSCI All-Country World Index ex. U.S. over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the international equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI EAFE Index (net of dividends) or the MSCI All-Country World Index ex. U.S. and the international equity fund universe.

**Global Equity****Objective**

The objective of this investment category is to invest primarily in the common stock of companies located within and outside the United States. Investment returns are expected to be derived primarily

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from capital appreciation.

***Performance Standards (Net of fees)***

- To exceed the return of the MSCI World Index (net dividends) over a full market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the global equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI World Index (net) and the global equity fund universe.

**Lifecycle Funds****Objective**

The objective of this investment is to invest in a diversified portfolio of holdings that are systematically rebalanced during the various market cycles or stages of an investor's lifetime. These Lifecycle funds establish a targeted "maturity date" and will automatically reallocate the investments over time from a more aggressive to a more conservative allocation. Therefore, lifecycle funds fall within all three risk categories: conservative, moderate and aggressive. The funds are designed for the participant to select the fund that has its "maturity date" set similarly to his or her own investment horizon, often the participant's retirement age. The underlying mutual fund investments that comprise each Lifecycle fund will consist of the core investment options that are offered in the Plan based upon asset allocation modules provided by Morningstar.

***Performance Standards***

- To closely replicate the return of a composite index (net of expenses) over a full market cycle, or generally a period of 3 to 5 years.
- Each Lifecycle fund is to be benchmarked based on its prorate share of its appropriate broad market index over the full market cycle.

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#### Reporting and Monitoring Procedures

The Board will review the Plan quarterly, including review of the following:

- Current trends and developments in the capital markets and investment management community (market review);
- The current level of diversification provided by the investment categories and options offered by the Plan under ING's core investment fund line-up (review of the correlation between investment categories and options);
- Changes in the investment management staff related to each investment option (organizational review);
- The continued consistency between the stated investment guidelines of each investment option and Plan policies (review of the guidelines of each investment option);
- The compliance of each investment option with stated investment guidelines (review of the holdings and characteristics of each investment option), including style drift analysis;
- The compliance of each investment option's risk and return characteristics with the expectations stated herein (performance review).
- The frozen investment options available to participants with assets invested with Hartford Life and Nationwide Retirement Solutions will be benchmarked against appropriate indices.

#### Investment Fund Evaluation

The Board, in its discretion, may conduct informal review and evaluation of an investment fund at any time.

The Board may place a fund under formal fund review, terminate a fund, or "freeze" a fund to new contributions for any of the following reasons:

1. The fund has not met the performance standards under the Plan for the fund's investment category;
2. The fund has changed investment manager, or such change appears imminent;

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3. The fund has had a significant change in ownership or control;
4. The fund has changed investment focus or has experienced style drift, departing from the investment objectives or parameters in its prospectus or “fact sheet”;
5. The fund has violated a SEC rule or regulation;

### Formal Fund Review

When a fund has been placed under formal review, the Board shall conduct a detailed evaluation of the fund, its operations, and its performance. During the review, the Board: 1) may suspend contributions to the fund from existing participants and 2) may close the fund to new enrollers. Upon completion of the evaluation, the Board may continue the fund under formal review status, remove the fund from formal review, or terminate the fund.

- If a positive conclusion is reached concerning the Manager’s continued ability to meet their performance criteria and investment constraints in the future, then no action will be taken. However, the Board will revisit the performance issues within three months.
- If a positive conclusion is not reached concerning the Manager’s continued ability to meet performance criteria and investment constraints in the future then the fund will be frozen and will trigger the termination of the fund.

### Termination of Fund

When the Board terminates a fund:

1. The Board will seek a new fund appropriate for the given asset class.
2. The Board must promptly notify the Plan provider that the fund is being terminated and direct Plan provider to freeze the fund, thereby new plan participants will not be able to select the fund and existing plan participants will not be able to add money to the fund as of the effective date. The effective date is defined as the date the Plan provider freezes the fund (also known as the termination date).

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3. The Board must promptly notify Plan participants who are currently investing in the fund that the Board is terminating the fund as an investment option as of the effective date, a designated future date and that:
  - a. As of the effective date, new investment monies must be redirected to another fund option under the Plan prior to the termination date of the fund;
  - b. Participants having assets in the frozen fund may leave them in the fund until the “sunset” date usually a date up to nine months after the effective date.
4. Assets not transferred by participants from the frozen fund to an alternate investment fund by the “sunset” date will be automatically transferred to a replacement fund or a designated default fund option.

\* \* \* \* \*

This Statement of Investment Policy is adopted by the Metropolitan Government of Nashville and Davidson County Employee Benefit Board on

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**Signature/Title**

6206376v1/04629.003

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**Date**

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## Exhibit A Selected Investment Options

### Description of Funds

#### **ING Fixed Account 457/401**

The objective is to provide stability of principal by investing in a range of fixed income securities through the general account of ING Life Insurance & Annuity Company. Securities include US government/agency, corporate, private placement, mortgage- and asset-backed, collateralized, emerging market, high yield, and preferred stocks.

#### **PIMCO Total Return Institutional Fund**

The objective is to seek total return, consistent with preservation of capital. The Fund invests at least 65% of assets in debt securities, including US government, corporate and mortgage-related securities. Up to 20% of assets may be invested in securities denominated in foreign currencies. Fund duration, a measure of sensitivity to interest rate movements, generally ranges from three to six years.

#### **American Funds American High Yield Income Trust R4 Fund**

The objective of this Fund is to seek provide a high level of current income, with capital appreciation as a secondary goal. At least 65% of the portfolio will be invested in high-yield, high-risk bonds and other similar securities, including preferred stocks. Up to 25% of assets may be invested in common stocks or equity-related securities.

#### **PAX World Balanced Fund**

The objective is to seek income and capital preservation. The Fund normally invests 60% of assets in common and preferred stocks and convertible securities, with the remainder invested in bonds and debentures. Focus is placed on companies producing goods and services that improve quality of life.

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#### **Allianz NFJ Dividend Value I Fund**

The objective of this Fund is to seek current income as a primary objective; long-term growth of capital as a secondary objective. The Fund invests in stocks that provide income through dividends. Stocks that pay dividends can be less volatile than stocks that don't because investors are more inclined to hold onto income-paying stocks through down markets.

#### **Vanguard Institutional Index Fund**

The objective is to track the performance of the S&P 500 Index.. The Fund seeks to track the investment performance of the S&P 500 Index, and unmanaged benchmark representing U.S. large-capitalization stocks. Using full replication, the portfolio holds all stocks in the same capitalization weighting as the Index.

#### **Davis NY Venture Fund R**

The investment seeks long-term growth of capital. The fund invests the majority of the assets in equity securities issued by large companies with market capitalizations of at least \$10 billion. It has the flexibility to invest a limited portion of assets in companies of any size, to invest in companies whose shares may be subject to controversy, to invest in foreign securities, and to invest in non-equity securities. The fund is nondiversified.

#### **Janus Adviser Forty Fund**

The objective is to seek long-term growth of capital. The Fund invests in common stocks of companies of any size, as well as preferred stocks, warrants, convertibles, debt, and index/structured securities. Up to 25% of assets may be invested in mortgage-and asset-backed securities and step-coupon securities.

#### **Vanguard PRIMECAP Adm Fund**

The objective is to seek long-term capital growth by investing in stocks with above-average earnings growth potential that is not reflected in their current market prices. The Fund's portfolio consists predominately of large and mid cap stocks. If attractively priced stocks cannot be found, the Fund's cash levels will increase.

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#### **Pioneer Mid Cap Value Y Fund**

The objective is to seek long-term total return. The Fund invests primarily in a diversified portfolio of equity securities of mid-sized companies that offer the growth potential of small companies, yet the relative stability of larger ones.

#### **Munder Mid Cap Growth Y Fund**

The objective is to provide long-term capital appreciation. The Fund pursues its goal by investing, under normal circumstances, at least 80% of its assets in the equity securities of mid-capitalization companies. The Fund's investment style, which focused on both growth prospects and valuation, is known as GARP (Growth at a Reasonable Price). This blended process seeks to perform better than either a pure growth or pure value approach over a complete market cycle.

#### **ING Small Company A Fund**

The objective is to seek growth of capital. The Fund normally invests at least 65% of assets in common stocks of companies with market capitalization of \$1 billion or less. The Fund may also invest in convertibles, derivatives and up to 25% of assets in foreign securities.

#### **Julius Baer International II Fund**

The investment seeks long term growth of capital. The fund invests 80% of assets in international equities. It may at times invest all of assets in fewer than five countries. The fund may at times invest at least 65% of total assets in no fewer than three different countries outside the U.S. It invests up to 35% of total assets in emerging-market securities.

#### **American Funds Capital World G/I R4 Fund**

The investment seeks long-term capital growth and current income. The fund invests, on a global basis, in common stocks that are denominated in U.S. dollars or other currencies. It may also hold cash or money market instruments

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#### **ING Solution Income I Portfolio**

The objective is to provide a combination of total return and stability of principal consistent with its asset allocation targeted to retirement. The Portfolio invests in a combination of underlying funds, which are active and passive U.S. stock, international stock, U.S. bond and other fixed-income investments using asset allocation strategies designed for investors expecting to retire soon or are already retirement.

#### **ING Solution 2015 I Portfolio**

The objective is to provide total return consistent with an asset allocation targeted at retirement in approximately 2015. The Portfolio invests in a combination of underlying funds, which are active and passive U.S. stock, international stock, U.S. bond and other fixed-income investments using asset allocation strategies designed for investors expecting to retire around the year 2015.

#### **ING Solution 2025 I Portfolio**

The objective is to provide total return consistent with an asset allocation targeted at retirement in approximately 2025. The Portfolio invests in a combination of underlying funds, which are active and passive U.S. stock, international stock, U.S. bond and other fixed-income investments using asset allocation strategies designed for investors expecting to retire around the year 2025.

#### **ING Solution 2035 I Portfolio**

The objective is to provide total return consistent with an asset allocation targeted at retirement in approximately 2035. The Portfolio invests in a combination of underlying funds, which are active and passive U.S. stock, international stock, U.S. bond and other fixed-income investments using asset allocation strategies designed for investors expecting to retire around the year 2035.

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**ING Solution 2045 I Portfolio**

The objective is to provide total return consistent with an asset allocation targeted at retirement in approximately 2045. The Portfolio invests in a combination of underlying funds, which are active and passive U.S. stock, international stock, U.S. bond and other fixed-income investments using asset allocation strategies designed for investors expecting to retire around the year 2045.