IOWA STATE UNIVERSITY

Investment Policy

FUNDED RETIREMENT PLAN ACCUMULATION, LIQUIDATION AND INVESTMENT OPTIONS (ALIO) POLICY STATEMENT[1]

Adopted July 26, 2004

Revision A., April 3, 2007

Revision B., February 1, 2011

Revision C., April 2, 2013

[1] If any term or condition of this policy statement conflicts with any term or condition in the Iowa State University Defined Contribution Retirement Plan (the Plan), the terms and conditions of the Plan shall control.

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I. INTRODUCTION

Iowa State University sponsors a participant directed Defined Contribution (Money Purchase) Retirement Plan (the "Plan") that meets the requirements of Section 403(b) of the Internal Revenue Code of 1986, as amended through July 1, 2000, for the benefit of its employees[2]. Plan Contributions are invested in one or more of the funding vehicles available to the participant. The plan is sponsored to assist in meeting the human resource objectives of recruiting, retaining, and retiring faculty and staff and for the benefit of retired faculty and staff[3]. It is intended to provide eligible employees with the long-term accumulation of retirement savings through a combination of employee and Iowa State University contributions to individual participant accounts and the earnings thereon,[4] which are fully and immediately vested. Competitive contribution levels are especially important if Iowa State University wants to continue to attract and retain exceptional faculty and staff.[5] Additionally, the funded retirement plan contributions and ALIOs must be sufficient in magnitude and scope to meet the retirement objectives of faculty and staff so that retirement is not unreasonably delayed. Furthermore, because retirement income adequacy is subjective and the Plan's participants and beneficiaries have different investment objectives, time horizons and risk tolerances, participants and beneficiaries should be able to direct their account balances among a range of investment options to

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[2] The Iowa State Board of Education (Board of Regents) established a funded retirement plan for all full time staff members that were members of the academic staff and regular administrative officers as of 1944. The plan has been periodically amended to broaden eligibility, increase contributions, increase accumulation (investment) and liquidation options, provide for substitute retirement annuity contracts with vendors other than TIAA/CREF, and others when necessary.

[3] Regents' institutions have seen reductions in state appropriations, fluctuations in endowments and investment returns, escalating total compensation costs of faculty and staff, and regulatory interventions, all of which make recruiting, retaining and retiring employees more challenging.

[4] Eligible employees may also voluntarily participate in a supplemental tax sheltered annuity as allowed by the Internal Revenue Code under Section 403(B). Supplemental tax sheltered annuity participation is provided through pre-tax contributions, or after-tax contributions under the Roth 403(b) plan provisions. Guidelines for the establishment of supplemental tax sheltered annuities at Iowa State University are exhibited in Appendix A of this document.

[5] Retirement accumulations are a function of contributions, interest and time. If faculty and staff begin participating at an older age (age 33 rather than age 29), they either need to contribute more, earn a higher rate of interest (take more risk) or work to an older age (age 70 rather than age 65) to finance a similar size retirement accumulation.

construct diversified portfolios that reasonably span the risk/return spectrum. Consequently, Iowa State University intends to provide plan participants and beneficiaries with as much investment choice and plan flexibility as administratively feasible while recognizing that under the 403(b), Defined Contribution (Money Purchase) Retirement Plan, plan participants and beneficiaries alone bear the risk of investment results from the options and assets mixes that they select and liquidation choices they make.

II. ACCUMULATION, LIQUIDATION AND INVESTMENT OPTIONS POLICY STATEMENT

This policy statement is intended to assist the Senior Vice President of Business and Finance and the University Benefits Committee (UBC) by ensuring that they make funded retirement plan accumulation, liquidation and investment option-related decisions in a prudent manner[6]. This document outlines the underlying philosophies and processes for the selection, monitoring and evaluation of accumulation, liquidation and investment options and investment managers utilized by the Plan and that are made available for the benefit of plan participants. Specifically, this ALIO Policy Statement:

- Defines the Plan's accumulation, liquidation and investment option objectives.
- Defines the roles of those responsible for recommending the Plan's design options.
- Describes the criteria and procedures for selecting accumulation, liquidation and investment options and plan trustees.
- Establishes monitoring procedures.
- Describes the plan participant educational and communication process.

This Policy Statement will be periodically reviewed by the University Benefits Committee, and, if appropriate, recommendations will be made to the Senior Vice President of Business and Finance to amend the statement to reflect changes required by law and in plan design options, the capital markets, plan participant

[6] Consultation with the Board of Regents, State of Iowa, and in some instances formal approval by the Board is required to make modifications to the Plan document.

objectives, or other factors relevant to the Plan. The Senior Vice President of Business and Finance will, when necessary, review proposed changes with the Board Office staff and with the other Regents' universities and obtain formal approval if necessary.

III. ACCUMULATION, LIQUIDATION AND INVESTMENT OBJECTIVES

The Plan's accumulation, liquidation and investment options will be selected to:

- Establish a balance between plan options and administrative cost, while ensuring that the plan:
  - Allows participants to meet their individual retirement accumulation and liquidation objectives.
  - Meets the needs of a mobile and changing university workforce in a highly competitive market.
  - Allows participants the opportunity to diversify accumulation, liquidation and investment risks.
  - Provides the opportunity to maximize investment return consistent with reasonable and prudent levels of risk.
  - Provides for the default contribution election investment in the event a participant does not make an active investment election.[7]
  - Provides investment returns comparable to returns for similar investment options.
  - Provide exposure to a wide range of investment opportunities in various asset classes.
- Provide options for participant salary deferrals for supplemental tax sheltered annuities on either pre-tax or post-tax basis.[8]

IV. ROLES AND RESPONSIBILITIES

The University Benefits Committee advises the University through the Senior Vice President for Business and Finance regarding all matters related to the employee benefit programs at Iowa State University. It receives employee input and feedback. It makes recommendations regarding benefit programs that meet the needs of the University staff to be competitive with peer institutions. It makes

[7] Current default investment election is the Lifecycle fund.
[8] After-tax salary deferrals under Roth 403(b) provisions are available only with Supplemental Group Retirement Account (SGRA) contracts.

recommendations regarding benefits policy, the design of benefit programs, selection of providers, and monitors provider and plan performance. The UBC's role and responsibility with regard to the Funded Retirement Plan Accumulation, Liquidation and Investment Options Policy Statement are as follows:

- Establish and maintain the Policy Statement.
- Evaluate and recommend changes to accumulation, liquidation and investment options as new choices are made available.
- Periodically require that the Plan's trustees benchmark and report on overall plan and asset class performance and plan cost on a normative and historical basis.
- Periodically require that retirement carriers document their financial solvency as evidenced by providing a solvency rating by two or more of the major rating agencies.
- Require that retirement carriers report annually on plan performance and fee structures (asset management and other)
- Ensure that plan participant accumulation, liquidation and investment education and communication are made available by retirement carriers in conjunction with Iowa State University retirement benefits office.

Prudent Person Rule

The UBC will act with the skill, diligence, and care that a prudent person acting in a like capacity and who is familiar with such matters would undertake in accordance with all applicable laws and regulations. The UBC will provide an evaluation of the merits of specific investments based on prevailing circumstances, and the intended role of the investment within the context of the aggregate investment offerings.

Social Responsibility

Management of the Plan shall be consistent with the Vision, Mission, and Values of Iowa State University.

V. SELECTION OF ACCUMULATION, LIQUIDATION AND INVESTMENT OPTIONS AND RETIREMENT CARRIERS

The selection of retirement plan options offered under Iowa State University's funded retirement plan is among the University Benefits Committee's most important responsibilities. Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.

5.1. Retirement Carrier Selection

While TIAA/CREF is the University's primary retirement carrier, guidelines have been established to allow the participation of other retirement carriers if substitution is requested, the established guidelines have been met (see Appendix A), a review has been conducted by the UBC, and recommendation and approval has been made by the Senior Vice President for Business and Finance.

5.2 Accumulation, Liquidation and Investment Option Selection

The UBC intends to provide an appropriate range of accumulation, liquidation and investment options that will meet individual needs as they change in concert with labor force and retirement dynamics. The overriding interest of the UBC is to ensure that faculty and staff are allowed to diversify their retirement accumulation, liquidation and investment portfolios according to their individual needs. Further, the Plan investment options should span the risk/return spectrum and allow Plan participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk.

The University Benefits Committee will solicit information and evaluate options when presented by approved retirement carriers to make informed recommendations to the Senior Vice President for Business and Finance. Requests for new funds will be reviewed by the UBC for appropriateness prior to recommendation. New funds will require a minimum of one (1) year of historical performance before consideration by the UBC.[9] In the event an existing investment fund is discontinued or closed, the UBC will make a recommendation on a suitable alternative fund for transfer of employee monies as needed.

Major asset classes that should be offered are included in Appendix B.

VI. MONITORING AND REPORTING

The University Benefits Committee is responsible for on-going monitoring of retirement carrier performance. This important function must be a regular and disciplined process. It is the mechanism for revisiting the selection process and confirming that the criteria originally satisfied remain so and that the accumulation, liquidation and investment options continue to be valid offerings. While frequent change is neither expected nor desirable, the process of monitoring Trustee performance relative to specified guidelines must be periodically undertaken.

Retirement carriers should:

- Achieve performance and risk objectives,
- Comply with investment and other guidelines,
- Comply with reporting requirements,
- Maintain a stable organization and with low turnover of key relevant professionals, and
- Meet no less than annually with Iowa State University designated representatives to review the retirement plans and investment performance.

Additionally, unusual, notable or extraordinary events should be communicated by the retirement carrier immediately to the Senior Vice President of Business and Finance. Examples of such events include key personnel or investment team departure, violation of investment guidelines, material litigation against the firm,

[9] The UBC may evaluate funds for consideration under special circumstances when directed by the Senior Vice President for Business and Finance.

or material changes in firm structure, or announcements thereof. If areas of dissatisfaction exist, the retirement carrier must outline steps to remedy the deficiency, develop a timeline for implementation and periodically report on implementation progress until completion. If over a reasonable period the retirement carrier is unable to resolve the issue(s), contract termination may result.

VII. PARTICIPANT EDUCATION AND COMMUNICATION

Iowa State University benefits staff and retirement carriers will communicate to employees on a periodic basis. Communications should emphasize that faculty and staff are responsible for their own accumulation selections, control their own investments and make their own liquidation decisions. The Iowa State University Human Resource Services Benefits Office will provide assistance and information to help plan participants make their own decisions, but decision making in a Defined Contribution (money purchase) Pension Plan is the responsibility of the plan participant. Additionally, educational materials and retirement carrier presentations and counseling will be provided with the goal of allowing employees to make informed decisions.

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APPENDIX A

GUIDELINES FOR THE ESTABLISHMENT OF SUPPLEMENTAL TAX SHELTERED ANNUITIES (403[B]) AT IOWA STATE UNIVERSITY

<u>General Rules</u>

1. Plans and/or changes to plans are subject to review and recommendation by the University Benefits Committee and approval by the Senior Vice President for Business and Finance.

2. These are supplemental programs and do not replace the basic retirement policy of Iowa State University.

3. The company must be authorized to do business in the State of Iowa.

4. A program must be qualified as an annuity program under Section 403(B) of the Internal Revenue Code of 1954 and the amendments thereto. Section 403(B)(7) “Custodial” plans are not allowed within the Iowa State University tax sheltered annuity program.

5. The employee’s rights under such annuity contracts shall be non-forfeitable except for the failure to pay premiums.

6. The program must be compliant with Iowa State University’s non-discrimination and affirmative action policy, which states “Iowa State University does not discriminate on the basis of race, color, age, religion, national origin, sexual orientation, sex, marital status, disability, or status as a U.S. Vietnam Era Veteran”. All employees eligible to participate in the Iowa State University annuity programs must be eligible to participate with the company’s programs.

7. Whenever an existing tax sheltered annuity contract is to be replaced by a new contract, the agent or representative of the company shall submit a letter of intent to the company being replaced and the insurance commissioner of the State of Iowa and to his own company at least thirty days prior to any action, by registered mail. The letter of intent shall contain the policy number and description of the replacement contract.

8. The company must agree to conform to existing Iowa State University payroll deduction procedures, including providing information in a form that is satisfactory to the University and meets our normal payroll cut off dates, etc.

9. The company must agree to comply with established University policies regarding the solicitation and conduct of their activities on the Iowa State University campus and carry those out in a professional manner.

10. The University neither promotes, endorses nor advertises any of these programs and is only acknowledging compliance with the above basic legal requirements. However, the University has indicated that it will sell at cost, appropriate address mailing information which is consistent with our policies regarding the distribution of this information to any organization.

11. The University Human Resource Services Benefits Office will assume responsibility for determining the amount of tax sheltered annuity available for its employees and reserves the right to make all final approvals on payroll deductions. All correspondence provided by the University Benefits Office regarding the calculation of such limits will be provided directly to the employee. Correspondence provided to the company or company's approved representative will require prior written approval by the employee.

12. Each participating company shall supply the University Benefits Office with sample copies of various products sold to University employees, promotional materials, etc.

Specific Approval and Payroll Requirements

1. Deductions will be taken monthly in accordance with current University practice.

2. Participating companies must accept Electronic Funds Transfer (EFT) or Automated Clearing House (ACH) as the method of transferring funds. All EFT or ACH transfers will be initiated by the Iowa State University.

3. Participating companies must utilize an Internet Web based system or file transfer protocol (ftp) for transmitting monthly remittance data, which includes name, social security number and contribution amount. The company must provide the University with a written guarantee that adequate system safe guards have been put in place to protect the confidentiality of the participant data.

4. Participating companies will provide the University Benefits Office with:

   Pre-Approval:

   A. The company name and address.

   B. The appropriate banking information for the funds transfer, such as; bank name, bank routing number, account number, account name, and any notations that are to be included with the transfer.

   C. The name, title, phone number and address of company officials to contact in the event that problems or questions arise.

   D. The name, title, phone number and address of the sales force who will be contacting university employees.

   E. Sample copies of the appropriate transfer agreements, etc.

5. Upon enrollment in the program, the company shall supply both the employee and the University Benefits Office with a copy of the signed plan enrollment form (employee and plan representative's signatures.) The employee will complete the necessary salary reduction form with the University Benefits Office.

6. The company must provide the University and its participating employees a representative that either maintains an office within the general Ames geographic location or makes themselves available at periodic intervals within the Ames area. (Must maintain reasonable accessibility).

APPENDIX B

DEFINITIONS OF ASSET CLASSES

Guaranteed asset class: Unlike other asset classes – such as equities, fixed-income and cash – the guaranteed asset class presents virtually no downside risk to the investor. An individual's principal is protected from loss. This gives individuals a "safe haven" for some of their retirement dollars. It also offers a place for those who are nearing retirement to shift some of their savings in order to protect what they've accumulated. Investments are made primarily in long-term bonds, commercial mortgages, and real estate.

Money market asset class: The money market asset class represents a relatively low risk, stable investment, offering the long-term investor a "parking place" during volatile markets. It invests in highly liquid investments such as short-term debt instruments and government securities. Risk averse investors may want to allocate some portion of their savings to a money market account for stability as they near retirement. Historically, returns money market investments have been lower than those of stocks and bonds, and, despite their safety, money market funds are not federally guaranteed against loss.

Fixed-income asset class: Fixed-income investments are securities, such as bonds, that pay set rates of interest. Their values fall when interest rates rise (and vice versa). Bonds can be used to balance risk, and because their values fluctuate less than those of stocks, historically they have been a good source of investment income. However, over time fixed-income investments have provided lower long-term returns than stocks. They can lose value if interest rates rise and rising inflation can erode the value of their interest payments.

Real estate asset class: The real estate asset class includes investments in commercial and residential properties that can appreciate in value and generate rental income, or in Real Estate Investment Trusts (REITs), which emphasize investment in companies that engage in the real estate industry. Real estate is an excellent diversification tool for a retirement portfolio, because historically real estate returns have shown little correlation with stock and bond returns. Real estate also serves as a hedge against inflation and can provide long-term growth potential. However, real estate is subject to risks not associated with many other investments, including fluctuations in property values, higher expenses or lower income than expected, and environmental liabilities. In addition, the investment's holdings may be difficult to sell, and occupancy rates and operating costs can vary.

Equities asset class: This asset class includes shares of stock in public companies that offer potential earnings in the form of rising share values and dividends. Including the equities asset class in a retirement portfolio is important because historically equities have provided higher long-term returns than other asset classes such as fixed-income or money market. However, values do fluctuate more than those of bonds or money market securities and recent times have shown that there can be substantial short-term loss.

Equity classes are often compared using Morningstar Style Boxes which help investors identify classes based on valuation (growth, value or blend) and market capitalization.

Growth stocks are shares in firms with rising current or projected earnings. They can offer greater appreciation potential than other stocks, but are also subject to greater volatility. *Value stocks* are shares whose prices seem low relative to their companies' perceived worth. They can provide relatively greater price stability but also may produce relatively lower growth. *Blended stocks* are funds containing a mixture of growth and value stocks.

Small caps, mid caps and *large caps* are evaluated based on a firm's market value, or capitalization. The top 5% of the 5,000 largest stocks are classified as large cap, the next 15% are considered medium cap, and the remaining 80% are considered small cap. Smaller companies sometimes grow faster than larger or medium size companies, but their share prices may be more volatile, and they are less able to pay dividends than large companies.

International equities are issued by companies based outside the U.S. They can provide higher earnings in nations whose markets are grower faster than the U.S. and can lower overall portfolio risk if overseas and domestic markets perform differently. However, they are subject to economic, market and political risks and to changes in currency exchange rates.

Selecting Within the Equities Class

When selecting funds within the equities asset class, the PLAN will consider:

- **Domestic vs. international exposure** – Some accounts invest solely in U.S. stocks while others either dedicate a portion of their portfolios to foreign companies, or invest exclusively in foreign stocks. Historically, foreign markets can perform independently of U.S. markets, so investment in foreign stocks can help employees further diversify an equities portfolio.

- **Indexing (passive) or active management style** – With an active approach, analysts seek out specific stocks they feel are good investments to meet the goals of the portfolio. Alternatively, the fund can use an indexed approach -- by simply finding an index for funds similar to itself and then trying to match the performance of that index by buying all or many of the securities it holds. With an indexed strategy, the risk of underperforming the market may be minimized, although there will be less potential for outperforming the market. With an active strategy, there may be more potential for out-performing the market, but there could also be more downside risk**.**

- **Capitalization** – The size of the companies whose stocks are held in the investment portfolio has a bearing on the amount of risk being assumed. Stocks of large companies tend to represent less risk than those of medium and small companies. How well a company is capitalized ties in to the associated level of risk that an investor will need to evaluate in making the decision of whether to invest.

- **Blended funds vs. specific funds** -- Within an account's underlying portfolio, there may an emphasis on either growth stocks or value stocks, or a combination of both. Although historically both growth and value stocks go through positive and negative cycles, over the long run they tend to offer similar investment experience. Growth stocks are priced high in relation to their earnings because these companies are considered to have above-average potential to appreciate over time. Value stocks are considered to be "bargains" – companies that have temporarily fallen out of favor but that are poised to rebound positively over time. Blend funds include stocks that represent both growth and value orientation. Offering blended funds in the retirement plan gives employees a way to participate in both growth and value simultaneously.

- **Benchmarks** -- Different funds use different benchmarks. Two common benchmarks for equities are the indices of the Frank Russell

Company and the S & P 500. The Russell indices are broadly based. For example, the Russell 3000® includes the 3,000 largest publicly traded U.S. companies, covering approximately 98% of the market as a whole. The S & P 500, a better-known index, is more narrowly focused. It tracks the largest 500 stocks, covering 75% of the market. Employees who are interested in pursuing a primarily indexed investment strategy may want to be able to choose among funds that track various benchmarks.

- **Socially responsible funds** -- Some investors feel strongly about being able to allocate their money to funds that emphasize social responsibility. Socially responsible funds can be balanced – mixing stocks, bonds and money market instruments – or focus solely on equities.

- **Natural Resource Funds --** A fund that invests in securities related to natural resources sectors including energy, metals, materials, agriculture as well as companies in associated sectors like mining equipment, oil services, agricultural chemicals, etc. Natural resources are defined as raw materials before and after processing, but before brand value addition, for example crude oil, natural gas, minerals, steel, agricultural products and chemicals but not branded food or fabricated items.

- **Balanced or lifestyle funds** – These types of funds generally invest in a mix of stocks, bonds and money market instruments and provide investors with a way to achieve asset class diversification within a single account. Another alternative to providing a balanced or lifestyle fund is to ensure that employees can elect an automatic rebalancing service that will reposition their portfolio's assets back to original targets.

- **Lifecycle funds** – These types of funds generally target a specific retirement date, adjusting the asset class mix to become more conservative as the retirement date approaches. Lifecycle funds are the current default investments for participants who do not make an active investment election.