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## Investment Policy Statement Defined Contribution Retirement Plans

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**University of Maine System**  
**Investment Policy Statement**  
**Defined Contribution Retirement Plans**  
As Updated at the December 8, 2016, Investment Committee  
Meeting

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## **-1- Statement of Purpose**

The primary purpose of the University of Maine System Defined Contribution Retirement Plans (the “Plans”) is to provide a retirement benefit for Plan participants and their beneficiaries by offering the opportunity for long-term capital accumulation.

The Plans are structured to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow for the construction of a portfolio intended to match most participants’ unique retirement investment objectives.

Assets within the Plans may consist of contributions made by both participants and by the University of Maine System (the “University”). The contributions of the University are vested following the schedule outlined in the Plan Document. All assets are subject to the investment direction of eligible participants or their beneficiaries.

## **-2- Policy Goals & Objectives**

The Investment Policy Statement (IPS) is designed to provide meaningful direction in the management of Plan investment options to the Board of Trustees, University System Administration, and the designated Investment Consultant, all who serve as Investment Fiduciaries to the Plans. The IPS is a guideline for the Investment Fiduciaries in fulfilling their responsibilities to exercise considered judgment in acting solely in the long-term interest of Plan participants and their beneficiaries. There may be specific circumstances that the Investment Fiduciaries determine warrant a departure from the guidelines contained herein. In general the IPS:

- Establishes the roles and responsibilities of the Plans’ Investment Fiduciaries;
- Identifies appropriate investment asset classes for inclusion in the Plans’ menu of investment options;
- Establishes a prudent process for selecting appropriate investment options to be made available for participant direction;
- Designates an investment option to which all assets will be directed by the Plan Sponsor in the absence of a positive election by a participant or beneficiary, which will serve as the Plans’ Default Investment Alternatives;
- Establishes a prudent process by which selected investment options generally will be monitored for compliance with this IPS;
- Develops model methods for adding new investment options and for replacing existing investment options that do not comply with the terms of the IPS.

### **-3- Roles & Responsibilities – Investment Fiduciaries**

#### The University System Administration and Board of Trustees Investment Committee:

Although it is intended that participants will direct their own investment options under the Plans, the University working through the Board of Trustees Investment Committee selects the array of investment options available for participant investment and provides on-going oversight of those investment options. In addition, with respect to a Self-Directed Brokerage Account (SDBA) option, the Committee will oversee selection and ongoing due diligence of the provider and features of the SDBA.

Board of Trustee Bylaw Section 3.1 identifies the Investment Committee as a Standing Committee of the Board and a separate document, called Investment Committee Duties and Responsibilities, further defines the Committee's responsibilities.

The Committee normally will review, at least on an annual basis, the acceptability of the universe of investment options made available within the Plans' chosen administrative environment. The Committee will review the Plans' investment options following the regimen outlined later in this IPS.

The Committee intends to discharge its fiduciary responsibilities with respect to the Plans with the assistance of an independent Investment Consultant.

#### Plan Investment Consultant:

Responsibilities of the Investment Consultant include:

- Educating the Committee on issues concerning the selection of investment options for the Plans;
- Assisting in the analysis and selection of investment options to be made available for participant investment;
- Assisting the Committee with the on-going review of the investment universe made available within the Plans' chosen administrative environment;
- Assisting the Committee with the review of the performance of the selected investment options, on at least an annual, but more often a quarterly basis, in comparison to their stated objectives and their relative performance and pricing as compared to their peers and designated benchmarks;
- Assisting the Committee in the selection of additional or replacement investment options to be made available for participant investment;
- Bringing information to the Committee, on an ad hoc basis as appropriate, that the Consultant feels may alter the Committee's assessment of a given investment option, asset class or strategy.
- Assisting the Committee with due diligence regarding the SDBA option including but not limited to consideration of the provider's experience and reputation, reasonableness of fees and trading expenses, the ability of the provider to distribute related funds

prospectuses and other related investment materials, and the appropriateness of related transaction and other disclosure notifications.

#### **-4- Plan Investment Asset Classes**

The Plans' investment menu is structured in accordance with contemporary investment theory, which holds that the asset allocation decision among a broad range of investment alternatives is the most critical determinant of a portfolio's long-term success or failure. The Committee's goal is to offer a core set of diversified investment options that represent a broad range of different asset classes with different risk and return characteristics.

The Plans' investment options may include, but are not limited to, funds from the following broad asset classes: Capital Preservation; Fixed Income; Asset Allocation, including Balanced, Target Risk, Life Cycle and/or Target Date; Domestic Equity; International Equity and Specialty. These asset classes are described in more detail in Appendices A and C of this IPS.

#### **-5- Investment Selection**

The Committee has structured the Plans to offer participants and their beneficiaries a core set of reasonably priced investment options with different risk and return characteristics. Selection of these investment options is done in the context of the Plans' administrative environment (e.g., Non-ERISA, 403(b), 457(b), 401(a)) which can impact the number, type and cost of investment options available to the Plans. The Committee may also consider the method and payment of Plan expenses which can be altered by investment related decisions.

Regarding the asset classes represented within the Plans, the following screening criteria are among those applied to the available actively managed funds:

- Fees – All investment options must charge “reasonable” fees to investors. The expense ratio for a given investment should generally fall below the average expense ratio for the peer group. Exceptions may be made for investment options that the Committee feels may produce performance that would justify higher than average fees.
- Style Consistency – Since each investment option is chosen to fulfill a specific part of the Plans' overall investment menu, investment options should have demonstrated a consistency in investment style and performance. Some variation can be allowed when an investment option's given style moves in and out of favor or when an investment option's successful investments outgrow their initial investment classification.
- Volatility and Diversification – Unless chosen to deliver investment performance that is characteristic of a specific industry or sector of the investment spectrum, investment options generally will be broadly diversified portfolios and will avoid unreasonable overweighting in a given investment, industry or sector. Volatility, as measured by Standard Deviation of returns, should be within reasonable ranges for the given peer group. Other risk measures, including Sharpe ratio, information ratio and beta, may be used as well.

- Performance – With few exceptions, all actively managed investment options should rank in the top 50% of their given peer group for the 3 or 5 year annualized period at the time of their selection. While past performance is not indicative of future returns, peer-relative performance offers the Committee perspective on how the investment option has performed over a reasonably demonstrative period of time relative to other choices. In addition to performance, the Committee will consider other variables including but not limited to fees, investment style purity and risk management practices in order to develop a holistic view about a strategy and its appropriateness within the Plans. Passively managed index funds do not need to meet the same ranking criteria, rather such measures as tracking error to the stated benchmark are more important measures of performance.
- Management & Organization – Manager tenure and industry experience are values to be emphasized, as is the strength and expertise of an investment option’s sponsoring organization. Sponsoring organizations are generally expected to adhere to accepted standards of ethical practice and to comply with all appropriate securities regulations. When necessary, preference will be given to investment management organizations with a proven commitment to the interests of long-term shareholders.
- Additional Factors – In addition to the above factors, the Committee will consider other factors, which may be less tangible, including fund specific situations and anomalies in the capital markets or in the Plans’ unique situation.

After inclusion in the Plans each investment option is expected to maintain a high level of acceptability as described in the Investment Evaluation section of the IPS.

## **-6- Investment Evaluation**

With the assistance of the Investment Consultant, the Committee will monitor the investment options made available within the Plans to ensure they remain compliant with the criteria used to initially select them for inclusion in the Plans under this IPS or such other or additional criteria as appropriate. As part of that process, the Consultant will rank investment options relative to their peers using a comprehensive proprietary Scoring System (see Appendices B, C, & D.)

The following criteria provide an outline for the evaluation process:

- On a periodic basis (e.g., quarterly), the Plans’ Investment Consultant will provide the Committee with a comprehensive report of each investment option’s relevant performance and relative rankings against appropriate indexes and within appropriate peer groups. The Investment Consultant will review the report with the Committee at least annually, but generally on a quarterly basis.
- The Investment Consultant will also communicate with the Committee on an ad hoc basis, as appropriate, concerning any material changes affecting any of the selected investment options. Material changes may include management changes, changes to the

investment option's pricing structure or significant changes in the investment option's fundamental policies and procedures.

- The Committee normally will meet with the Investment Consultant, at least annually, to evaluate each investment option as well as the overall status of the Plans' Investment Policy Statement.
- If the Investment Consultant's proprietary Scoring System indicates that a given investment option may no longer meet the appropriate and reasonable standards required to remain included in the Plans' menu, the Consultant will make appropriate recommendations to the Committee.

#### **-7- Replacement of Selected Investment Options**

Since the intentions of the Plans are to provide opportunities for long-term asset accumulation for participants and beneficiaries, it is not expected that either the investment universe or specific investment options will change frequently.

It is possible that changes may become desirable or necessary, however, based on the following factors:

- The addition of a new asset class or investment product or alternative is desired. Such an addition will be subject to selection regimen similar to that outlined earlier in the IPS.
- The elimination of a given asset class from the Plans' menu.
- The desire to replace one of the Plans' investment options with another investment option that the Committee thinks will more successfully deliver the desired asset class characteristics. Reasons may include, for example, the availability of options that were not initially open for Committee consideration or a change in the performance or fee structure of a competing option. It may also be true that a given investment option is no longer available through the Plans' chosen administrative environment. Investment options can be removed or changed after a thorough comparative review using the regimen outlined earlier in the IPS.
- The need to replace or eliminate one of the Plans' investment options after noncompliance with this IPS has been established or appears likely.

#### **-8- Self-Directed Brokerage Account**

In addition to the selected investment options in the Plans' core menu, the Self-Directed Brokerage Account (SDBA) allows participants an opportunity to allocate money to an expanded range of investment choices. With this option, participants choose to open a separate brokerage account to obtain a specific product not offered by the Plan. Participants may choose from thousands of mutual funds from the brokerage platform.



The Investment Committee, assisted by the Investment Consultant, will oversee the prudent selection and ongoing due diligence of the SDBA provider and related features. In fulfilling that responsibility, the Committee will, among other things, determine that any costs for the SDBA are reasonable and that the accounts themselves are operated according to appropriate securities regulation and under retirement guidelines. However, **the University will not monitor or evaluate the investment options available through the SDBA.** The University will work with the SDBA provider to ensure participants are made aware that, when selecting the SDBA option, the investment alternatives available through the SDBA have not been subjected to any selection process and are not monitored by the University or its Board of Trustees.

#### **-9- Conclusion**

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the Plans. Changing market conditions, economic trends or business needs may necessitate modification of this Investment Policy Statement. Until such modification this document will provide the investment objectives and guidelines for the Plans' assets, subject to the caveats stated herein. The University of Maine System Board of Trustees' Investment Committee will periodically review and approve updates to this IPS as appropriate.

## Appendix A –Asset Class Overview

Broad Asset Class	Description
Fixed Income	These investments generally invest the bulk of their assets in the fixed income, or “bond” markets. Investments in this category vary both in terms of the duration of their primary holdings (short term, intermediate term or long term) and in the quality of the issuers of their holdings (government to corporate issuers of varying quality).
Asset Allocation	These investments, like balanced funds, attempt to provide participants with broadly diversified collections of stocks, bonds and money market securities. Each manager specifies either a strategy (e.g. “aggressive”, “moderate” or “conservative”) or a target date (e.g. 2030, 2040, 2050, etc.) that drives the proportionate, or strategic, allocation it follows. Each manager will have its own restrictions, disclosed in its prospectus, which will govern the ranges it may allocate to any given investment or asset class.
Domestic Equity	<p>These investments generally invest the bulk of their assets in ownership (“equity”) securities, or stocks of companies whose headquarters and/or primary business is in the United States. Investments in this category vary both in their objectives (e.g. current income versus long term capital appreciation) and in the types of equity securities they specialize in. Some investments in this category focus on small capitalization or medium capitalization companies versus large capitalization companies. Some funds tend to look for companies whose earnings, or perceived value, are growing at faster rates than other companies (e.g. “growth”) while others focus their investments on companies who for various reasons may be selling for less than the manager believes is its real worth (e.g. “value”).</p> <p>Historically, investments focused on smaller and medium capitalization securities have thrived at different times and in different proportions to investments focused on large capitalization securities. Growth investments have also tended to excel at different times and in different proportion to value investments.</p>
International Equity	<p>These investments generally invest the bulk of their assets in ownership (“equity”) securities, or stocks of companies whose headquarters and/or primary business is outside of the United States. Investments in this category also include regionally focused managers that specialize in a particular part of the world, global managers that can invest in both U.S. and international markets, and emerging market managers that concentrate their investments in markets that are less mature than the world’s developed markets and so may provide opportunities for rapid growth. It is also generally true that higher growth opportunities are tempered significantly by higher risk for loss of capital, at least over shorter terms.</p> <p>Historically international markets have moved in very different cycles than their domestic counterparts.</p>
Specialty	These investments generally invest the bulk of their assets in ownership (“equity”) securities, or stocks of companies in a particular market segment. Historically investments focused on specialty securities have offered a significantly high risk for loss of capital, at least over shorter terms.

<b>Broad Asset Class</b>	<b>Asset Class or Strategy</b>	<b>Benchmark Index</b>	<b>Peer Morningstar Category*</b>
Fixed Income	Fixed Income	BarCap Aggregate Bond Index	Intermediate Term Bond
Asset Allocation	Allocation	S&P 500 / BarCap Agg Blend	Appropriate Morningstar Allocation Peer Group
Asset Allocation	Target Date Funds	Vintage Year Appropriate Morningstar Index	Vintage Year Appropriate Morningstar Institutional Category
Domestic Equity	Large Cap U.S. Equity	Russell 1000 Value S&P 500 Russell 1000 Russell 1000 Growth	Large Company Value Large Company Blend Large Company Blend Large Company Growth
Domestic Equity	Mid Cap U.S. Equity	Russell Mid Cap Value Russell Mid Cap Russell Mid Cap Growth	Medium Company Value Medium Company Blend Medium Company Growth
Domestic Equity	Small Cap U.S. Equity	Russell 2000 Value Russell 2000 Russell 2000 Growth	Small Company Value Small Company Blend Small Company Growth
International Equity	International Equity	MSCI EAFE or MSCI ACWI ex US or MSCI Emerging Markets	Foreign Large Value Foreign Large Blend Foreign Large Growth Emerging Markets
Specialty	Specialty	Applicable Index	Applicable Peer Group

\*At the Investment Consultant's discretion, Morningstar categories used for scoring purposes may be supplemented by non-mutual fund investments (e.g. collective trusts) and/or contain funds that are not currently categorized by Morningstar as such (e.g. scoring a fund that Morningstar categorizes as mid cap blend, as a mid cap value fund in order to match the utilization of the fund by the plan sponsor).

## Appendix B – Investment Evaluation/Scoring System

The **actively managed** investment options will be evaluated relative to their peers using a comprehensive scoring system proprietary to the Investment Consultant. The scoring system is designed to provide a baseline for measurement and discussion with the Committee. **The scoring system is not intended to trigger an automatic and mandated fiduciary outcome or decision for a given score.** It is intended to serve as a tool to help the Plan Sponsor make sound fiduciary decisions. Thus, the comments that follow should be considered in the context that the Scoring System is one tool, not a system that supplants the fiduciary’s role in prudently evaluating investment options.

In order to remain in good standing under the scoring system, each plan investment option should accumulate point totals within the acceptable ranges described below. The scoring system measures 8 quantitative areas and 2 qualitative ones. Quantitative scores for mutual fund investment options are calculated at the strategy level using the cheapest share class available.

Quantitative Scoring Areas	Weight	Min Score	Max Score	Description
Risk Adjusted Performance (3 Yr)	10%	4 Pt	10 Pt	Risk-Adjusted Performance measures the level of return that an investment option would generate given a level of risk equivalent to the benchmark index.
Risk Adjusted Performance (5 Yr)	10%	1 Pt	10 Pt	
Performance vs. Peer Group (3 Yr)	10%	4 Pt	10 Pt	Performance vs. Relevant Peer Group measures the percentile rank of an investment option’s returns relative to other available options in that category.
Performance vs. Peer Group (5 Yr)	10%	1 Pt	10 Pt	
Style Attribution (3 Year)	7%	3 Pt	7 Pt	Style Attribution indicates the level of style purity of an investment option relative to the benchmark index.
Style Attribution (5 Year)	8%	1 Pt	8 Pt	
Consistency (3 Year)	7%	3 Pt	7 Pt	Consistency indicates the consistent relative value add of the manager as compared to other available options in that category.
Consistency (5 Year)	8%	1Pt	8 Pt	

Qualitative Scoring Areas	Weight	Min Score	Max Score	Description
Management Team	25%	1 Pt	25 Pt	Management Team measures the consistency and quality of an investment option’s management group.
Investment Family Items	5%	1 Pt	5 Pt	Investment Family Items measures the stewardship of the investment option’s parent company.

<b>Total</b>	<b>100%</b>	<b>20 Pts</b>	<b>100 Pts</b>	<b>Overall Investment Score</b>
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### **Point System:**

Points are awarded in each of the categories of the scoring system according to the following methodologies. In the categories of Risk Adjusted Performance, Performance vs. Relevant Peer Group, Consistency and Style Attribution, points are awarded according to where an investment option ranks on a percentile basis relative to the rest of the peer universe. The table below illustrates this methodology:

<b>% Rank</b>	<b>Top 25%</b>	<b>26- 50%</b>	<b>51- 75%</b>	<b>76- 100%</b>
3 Year Risk-Adjusted Performance	10	9	7	4
5 Year Risk-Adjusted Performance	10	8	5	1
3 Year Peer-Relative	10	9	7	4
5 Year Peer-Relative	10	8	5	1
3 Year Consistency	7	6	5	3
5 Year Consistency	8	6	4	1
3 Year Style	7	6	5	3
5 Year Style	8	6	4	1

Points in the qualitative areas of Management Team and Investment Family Items are awarded on the basis of merit and focus primarily on management team stability, consistency of investment philosophy, firm stewardship, and corporate governance.

If at any time the Committee concludes that an investment option is not meeting the desired objectives or guidelines, the investment option will be considered for termination. In order to remain in good standing an option should total 80 points or greater under the Scoring System. Options that total 70 to and including 79 points will be marked for closer ongoing review by the Plan Committee. Options that score below 70 points will be considered for termination.

<b>Scoring System</b>	<b>Min Score</b>	<b>Max Score</b>
Good Standing	80 Pts	100 Pts
Marked for Review	70 Pts	79 Pts
Considered for Termination	20 Pts	69 Pts

For asset classes where the Investment Consultant believes a peer-relative score is not meaningful, either due to the size or makeup of the asset class, the Investment Consultant may score funds using an alternative quantitative and qualitative framework.

The **passively managed** investment options will be evaluated relative to an applicable benchmark, using a comprehensive scoring system proprietary to the Investment Consultant. The rating methodology evaluates both quantitative and qualitative factors for passively managed investment options and culminates each quarter in one of the following ratings:

<b>Score</b>	<b>Definition</b>
Green	Good Standing
Yellow	Marked for Review
Red	Considered for Termination

When a passively managed option is scored below green the Investment Consultant will clearly articulate to the Committee, at an appropriate time, the reasons for the scoring.

Depending on the type of passively managed option being evaluated, multiple criteria, both quantitative and qualitative, may be used in establishing a rating. Such criteria may include, but are not limited to:

#### Quantitative

- Tracking error
- Fees
- Peer relative performance

#### Qualitative

- Fair value pricing methodology
- Securities lending practices
- Replication and Management Strategy
- Management firm experience and stability

## Appendix C – Capital Preservation

### Asset Class Overview

Broad Asset Class	Description
Capital Preservation	<p>These are usually a) Money Market funds, b) Stable Value funds, or c) Insurance Company Guaranteed Funds.</p> <p><u>Money Market</u>            Money Market funds (Treasury / Government / Prime) are mutual funds whose primary objective is safety of principal. Money Markets invest in high quality, short-term securities in an attempt to mitigate interest rate and credit risk. “Short-term” reflects the requirement that a Money Market fund must receive its full principal and interest within 397 days while average maturity may not exceed 90 days. Money Market funds are generally structured to maintain a \$1.00/share Net Asset Value (NAV).</p> <p><u>Stable Value</u>            A Stable Value fund is a type of separately managed account or commingled trust investing in high quality, short to intermediate-term fixed income securities presenting minimal interest rate and credit risk. Unique accounting features allow for loss amortization over a period of time, allowing management to invest in longer-term fixed income assets while mitigating risk. Stable Value funds are generally structured to maintain a \$1.00/share NAV.</p> <p><u>Guaranteed Funds</u>            A Guaranteed Fund’s primary objective is to provide stable returns while featuring a full principal and interest guarantee. This category represents a type of insurance separate trust, insurance separate account or insurance general account product investing in high quality, intermediate-term securities while offering investors a “guaranteed” rate of return based on the insurance provider’s claims paying ability. Returns are based on a crediting rate formula which resets periodically with limited transparency.</p>

Broad Asset Class	Asset Class or Strategy	Benchmark Index	Peer Morningstar Category
Capital Preservation	Money Market	90 Day U.S. Treasury Bill	N/A
Capital Preservation	Stable Value	Hueler Analytics Stable Value Index	N/A
Capital Preservation	Guaranteed Funds	90 Day U.S. Treasury Bill	N/A

### Investment Evaluation/Scoring System

The Capital Preservation options will be evaluated using a comprehensive scoring methodology proprietary to the Investment Consultant. The scoring methodology evaluates both quantitative and qualitative factors for the Capital Preservation options and culminates each quarter in one of the following ratings:

Score	Definition
Green	Good Standing
Yellow	Marked for Review
Red	Considered for Termination

When a Capital Preservation option is scored below green the Investment Consultant will clearly articulate to the Committee, at an appropriate time, the reasons for the scoring.

Depending on the type of Capital Preservation option being evaluated, multiple criteria, both quantitative and qualitative, may be used in establishing a rating. Such criteria may include, but are not limited to:

#### Quantitative

- Crediting Rate/Yield
- Market to Book Ratio
- Average Credit Quality of Portfolio
- Wrap provider/insurer diversification
- Average duration of securities in the portfolio
- Sector allocations

#### Qualitative

- Management team composition and tenure
- Management firm experience and stability



## Appendix D – Target Date Scoring

The scoring for target date investments, most commonly in mutual fund or collective investment trust form, differs from CAPTRUST’s scoring of core asset classes. While the principles behind target date evaluation mirror those of the scoring system for traditional options, target date investments are much more complex due to the shifting nature of portfolios through time and therefore require a more complex scoring framework. Each target date manager will receive an overall numerical score as well as a corresponding recommendation for that score. Our qualitative assessment will determine an investment to be ‘In Good Standing,’ ‘Marked for Review’ or ‘Considered for Termination.’ The Consultant believes that both qualitative and quantitative variables are essential to evaluate target date investments, consistent with our traditional asset class scoring system.

This section discusses the 6 major target date assessment categories and describes our methodology for each.

### **Performance (20 Points Total)**

Performance is broken into two categories: risk-adjusted and peer-relative. Both categories are evaluated on a three and five-year basis. Morningstar divides target date investments by vintage year into three institutional categories: Conservative, Moderate and Aggressive.

These categories define peer groups by vintage year, taking into account variations across glidepaths and comparing each vintage year with a relevant peer group. Morningstar reevaluates the Conservative, Moderate and Aggressive categories on a periodic basis to account for investment changes, and categories will be adjusted to be consistent with Morningstar’s methodology. The Investment Consultant has determined that Morningstar’s methodology is appropriate and will continue to monitor its methodology to ensure that it remains appropriate.

Each target date investment option’s vintage year is compared against its designated Morningstar Institutional peer group; then each vintage year’s peer-relative score is aggregated to arrive at a total score and each target date family’s relative score is ranked based on percentiles. This process is followed for three year peer-relative performance, five year peer-relative performance, three year risk-adjusted performance and five year risk-adjusted performance, providing us with four separate performance measures. The points are allocated based on the following system:

#### 3 and 5-Year Risk-Adjusted and 3 and 5-Year Peer-Relative Scores

% Rank	Top 10%	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
Points	5	5	4	4	3	3	2	2	1	1

Once the points are allocated between the four groups, those scores are aggregated to arrive at a total performance score, and that score is **adjusted** based on the following system to recognize that not all of the target date investment options that exist in the Morningstar categories are covered, and an equitable result based on our sample size is desired. Therefore, an adjustment for

the smaller sample size in this major assessment category, and in each of the following 5 major categories, is made by normalizing the scores based on the maximum score obtained in the coverage universe to yield a true peer comparison. This is important given how small differentials can be across peers.

Those adjustments are:

Raw Score (out of 20)	19-20	18	17	16	15	14	13 and below
Adjusted Score	20	19	18	17	16	15	13

For the performance category, this process yields a total performance score by target date family, using the lowest cost share class available to represent each vintage year.

**Glidepath Risk: Weightings of Equities and “Other” Asset Classes (10 points)**

Target date investment options have varied assumptions across considerations such as savings rates, retirement date, longevity and other factors surrounding retirement. While each family’s assumptions may be justified, evaluating central tendencies through “the wisdom of the crowd” is a worthwhile way to measure two key risks inherent in target date investment options: shortfall risk (not having enough money to retire) and market risk (having too much exposure to risky asset classes subject to greater loss potential). In essence, evaluating dispersion from mean is a way to evaluate how much market or shortfall risk a target date investment option takes relative to all other options. This dispersion is measured based on the following methodology:

Glidepath Risk: Percentage of Equity and “Other” Asset Class scores

% Rank	Top 20%	21-39%	40-60%	61-79%	80-100%
Points	6	8	10	8	6

**Glidepath Risk: Regression to Global Equity Index (10 Points)**

Target date investment options have demonstrated periods of equity-like risk despite broad diversification claims. Understanding beta, or the slope of the line of best fit in an ordinary least squares regression, helps analyze co-movement between variables. In this case, an assessment is made to determine how a target date investment option’s return series moves relative to a broad index of global equities, represented by 75% S&P 500 and 25% MSCI All-Country World Index ex-USA indices. Both three and five-year betas are determined and averaged, and points are allocated based on the following system.

Glidepath: Regression to Global Equity Index Scores

3 and 5 Year Beta	Beta > .89	$.70 \leq \text{Beta} \leq .89$	Beta < .70
Points	6	8	10

As seen above, this system rewards target date investment options with lower betas based on the view that investors can replicate equity beta elsewhere in their retirement Plans or broad portfolio. Target date options should add value without relying on market beta.

### **Portfolio Construction (15 Points)**

Establishing solid portfolio management discipline and practices are important in improving the odds of target date investment success. This is a qualitative assessment, and points are allocated based on the following variables. These variables are determined based on conversations with managers, reviewing prospectuses/marketing materials and other supporting documentation regarding target date investment methodology:

- Asset class granularity
- Tactical flexibility
- Asset allocation methodology
- Rebalancing methodology
- Investor assumptions used

### **Underlying Investment Vehicles (15 Points)**

Implementation is also critical to the target date success. This category is evaluated through qualitative means, such as:

- Quality of underlying managers
- Manager due diligence and security selection process
- Use and appropriateness of active and passive management if applicable
- Transparency
- Security overlap potential

### **Target Date Investment Management (25 Points) and Firm (5 points)**

This measure is consistent with the traditional scoring system for other investment options.

Points in the qualitative areas of Target Date Investment Management and Firm are awarded on the basis of merit and focus primarily on management team stability, consistency of investment philosophy, firm stewardship, and corporate governance.

## **Appendix E – Default Investment Option**

Default Investment Options are specific investments vehicles that are used when a plan participant or beneficiary fails to make affirmative investment elections. The Committee has decided to appoint a default option for use in situations where a participant may fail to provide investment direction. The default investment option will be a suite of target date funds.