

INVESTMENT POLICY STATEMENT

University of Central Arkansas

Working Draft Approved on February 26, 2019

By Retirement Committee

Statement of Purpose

The purpose of this Investment Policy Statement is to outline objectives which will guide the Retirement Committee of the University of Central Arkansas (“Committee”) in its selection and monitoring of the investment options in the University of Central Arkansas 403(b) Plan, the University of Central Arkansas Salary Deferral Only 403(b) Plan, and the University of Central Arkansas 457(b) Deferred Compensation Plan (collectively, the “Plan”). The Investment Policy is intended to incorporate sufficient flexibility so as to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements.

A primary objective of the Committee is to provide participants with a core set of reasonably priced investment options with different risk and return characteristics, which, when combined, will allow the participants to construct a diverse portfolio intended to match the participants unique retirement investment objectives.

The Investment Policy Statement (“IPS”) serves as guidelines 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 determines 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 selections;
- Establishes a prudent process for selecting appropriate investment selections to be made available for participant direction;
- Designates an investment selection to which all assets will be directed in the absence of a positive election by a participant or beneficiary, which will serve as the Plans’ Default Investment Alternative;
- Establishes a prudent process by which selected investment selections 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.

Use of Consultants/Service Providers

Although it is intended that participants will direct their own investment selections under the Plan, the Committee is charged with the selection of the array of investment options to be made available for participant investment and then provide on-going oversight of those investment options.

The Committee will review such investment options on a periodic basis following the regimen outlined later in this IPS.

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

Investment Consultant:

Responsibilities of the Plan 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.
- Informing the Committee about any relevant legislation that affects the Plan's investments or the Committee's responsibilities.
- Informing the Committee about industry trends that the Plan Investment Consultant deems relevant.

Selection of the Investment Options

In selecting investment options for the Plan(s), the Committee shall take into account some or all of the following criteria, as the Committee deems appropriate:

- the option's track record;
- performance as compared to an appropriate benchmark and/or an appropriate peer group(s);
- risk measures versus those of the benchmark and/or peer group;
- risk-adjusted return measures as compared to those of the benchmark and/or peer group;
- organizational structure and stability of fund personnel;
- manager tenure;
- the fees and expenses assessed by the investment option, as well as the impact of offering the investment option on the overall fees and expenses associated with managing the Plans; and

- qualitative characteristics, including, but not limited to, management strategy, turnover, and recent portfolio activity in view of current market conditions.

Monitoring of Investment Options

The Committee shall monitor the investment options as circumstances warrant. As part of its monitoring process, the Committee may consider the following:

| Criteria | Measure | Goal(s) |
|----------------------------|--|--|
| Performance | <ul style="list-style-type: none"> ▪ 3-, 5-, & 10-year record ▪ 3-, 5-, & 10-year record | <ul style="list-style-type: none"> ▪ reasonable vs. peer group ▪ reasonable vs. appropriate benchmark |
| Risk | <ul style="list-style-type: none"> ▪ 3-year standard deviation | <ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark |
| Risk-adjusted performance | <ul style="list-style-type: none"> ▪ 3-year Sharpe ratio | <ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark |
| Expense ratios | <ul style="list-style-type: none"> ▪ Total expenses | <ul style="list-style-type: none"> ▪ Consistent with peer group median |
| Investment objective/style | <ul style="list-style-type: none"> ▪ Style purity | <ul style="list-style-type: none"> ▪ Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared |

The Committee may, from time to time as warranted, modify these criteria and goals, or may consider other criteria and goals, all within the Committee’s sole discretion as it deems appropriate.

Investment options that do not meet the Committee’s expectations may be placed on “watch.” Investment options that consistently do not meet the Committee’s expectations may become candidates for replacement. Before deciding to remove or substitute an investment option, however, and in light of its fiduciary responsibilities, the Committee may consider the following:

- the investment selection’s long-term investment performance on a rolling basis;
- recent changes, such as investment option restructurings or management changes designed to correct deficiencies;
- the appropriateness or relevance of an investment selection’s stated peer group, since funds may be misclassified or poorly classified;
- the investment option’s adherence to a stated investment style, whether or not that investment style has been in or out of favor;
- unusual market circumstances or volatility;
- prospectus investment constraints, such as socially responsible mandates; and
- the degree to which the investment option has reduced or controlled risk, which might constrain the investment option’s ability to outperform other options.

The Committee is authorized in its sole discretion to remove an investment option if, in the opinion of the Committee, the investment option is no longer suited for the Plan or the Plan participants, without regard to whether the investment had previously been placed on “watch.”

Selection and Monitoring of the Default Investment Options

The Committee is authorized to designate the Plans’ default investment options (*i.e.*, the options into which contributions will be directed on behalf of participants who fail to make affirmative investment elections). In so doing, the Committee will apply the general selection and monitoring principles described in this Investment Policy. In general, the Committee’s selection and monitoring of default investment selections shall be similar to the United States Department of Labor’s standards for the selection and monitoring of “qualified default investment alternatives.” At least annually, with the advice and recommendation of the Consultant, the Committee shall review the type of investment selections to be used as the default investment selections.

Selection of Target Date Funds

Target date funds shall be selected for the plan utilizing the following steps as general guidelines with the understanding that the target date is very broad and each target date suite of funds differs from the others. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.

The selection process may include, but is not limited to, the steps below:

- The Committee decides what the primary objectives are in relation to risk management - whether or not minimizing risk on a static scale at retirement is desired (*i.e.*, managing the glide path “to” retirement) versus maximizing to maximize savings “through” life expectancy with a more aggressive glide path after retirement;
- Consider participant demographics in order to help define overall risk tolerance. Factors that may be considered are average age of population, overall investment knowledge, and current plan usage of target date, hybrid funds;
- Determine diversification of asset classes. The Committee may consider a broad range of assets classes and whether or not the target date chosen should include various types of assets classes that would normally not be considered under a core line up. These asset classes typically have lower correlations to the core line up and may include, but not be limited to, the following: real estate, commodities, high yield debt, emerging market equity and debt, inflation hedging, and long/short equity strategies;
- Inception of the target date fund should be at least three years though can consider less;
- A review of expense fees in comparison to averages and as related to overall plan cost; and

- Performance comparison to a custom style benchmark in addition to category averages.

Monitoring of Target Date Funds

The monitoring process may include, but is not limited to, the steps below. Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.

- Review of the glide path to ensure consistency with reason that funds were chosen;
- Review performance relative to custom style benchmark in addition to category averages;
- Review underlying holdings in comparison to relative Morningstar peer groups or applicable strategy; and
- Review qualitative assessment on management of the funds in an effort to demonstrate consistency with overall strategy.

Selection of Fixed Interest/Stable Value Options

In selecting any fixed interest/stable value option, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion (should the Committee choose to offer such an option):

- financial strength ratings of the guarantor provided by the major ratings agencies;
- interest rate history and minimum guaranteed contract rate;
- contract liquidity provisions;
- current and historical market to book value ratio (stable value funds only); and
- comparison between fixed interest accounts (*i.e.*, those backed by general assets) and stable value accounts (*i.e.*, those backed by separate account).

Monitoring of Fixed Interest/Stable Value Option

The Committee shall monitor any fixed interest/stable value option as frequently as circumstances warrant. As part of its monitoring process, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion:

- financial strength ratings of the guarantor provided by the major ratings agencies;
- current interest rates; and

- current market to book value ratio (stable value funds only).

The Committee may take into consideration other criteria in its discretion in the selection and monitoring of fixed interest/stable value options

Summary Statement

This Investment Policy Statement shall guide the Committee and shall remain in effect until amended by the Committee. Nothing contained in this Investment Policy Statement shall provide to any participant or beneficiary the right to enforce the terms of this Investment Policy Statement, and the Committee shall have full and complete discretion as to how it selects and monitors the investment options offered under the Plans and the application of this Investment Policy Statement to any specific situation.

Adopted by the Committee this 26 day of February, 2019, as evidenced by the signature of the Committee Chair below.



Committee Chair

GRAHAM GILLIS

Committee Chair Name