


Office of Employee Benefits	<b>Investment Policy Statement University of Texas System Retirement Program</b>	<b>840</b>
Administrative Manual	EFFECTIVE DATE: MARCH 1, 2010	
	REVISION DATE: DECEMBER 31, 2011	
	PURPOSE: To establish the investment structure and document the guiding principles for the selection, ongoing monitoring, and replacement of Investment Options.	
	SCOPE: Employees of The University of Texas System	
	STATUTORY AND ADMINISTRATIVE REFERENCES: Internal Revenue Code of 1986, Section 403(b); Internal Revenue Code of 1986, Section 457 (b); <i>Texas Government Code</i> , Subchapter D, Chapter 609 <i>Texas Administrative Code</i> , Chapter 25	

## THE UNIVERSITY OF TEXAS SYSTEM

### *Office of Employee Benefits*

#### **1. PURPOSE**

The purpose of the Investment Policy Statement (IPS) is to establish the investment structure and document the guiding principles for the selection, ongoing monitoring, and replacement of Investment Options.

It is intended that the IPS be reviewed, at least annually, and updated as necessary and made available to Participants upon request.

## 2. RETIREMENT PROGRAM INFORMATION

The University of Texas System Retirement Program (Retirement Program) is comprised of the following plans:

- Mandatory 403(b) Optional Retirement Program (available to eligible employees only)
- University of Texas System Governmental Retirement Arrangement (available to eligible employees only)
- Voluntary UTSAver 403(b) Tax Sheltered Annuity (available to all employees)
- Voluntary UTSAver 457(b) Deferred Compensation Plan (available to all employees)

The Retirement Program is intended to provide Participants the opportunity to generate the long-term accumulation of retirement savings through contributions to the individual accounts and the earnings thereon.

## 3. DEFINITION OF KEY TERMS

**Participant** means an employee of The University of Texas System, which includes its component institutions, who is eligible for and has chosen to participate in the Retirement Program.

**Plan Sponsor** means The University of Texas System.

**Retirement Provider** means a company selected by the Plan Sponsor to provide Investment Options and services to the Retirement Program Participants.

**Investment Option** means one of the actual investment choices offered by a Retirement Provider which is available to a Participant for investment. Investment Options may consist of (a) a traditional annuity contract with fixed interest crediting to an account balance (b) variable account annuity contract with multiple subaccount funds from which to choose investment selections and (c) direct investments as allowed like mutual funds, stocks, bonds, cash equivalents etc.

## 4. RESPONSIBILITIES

### 4.1 Plan Sponsor Responsibilities:

- Retirement Program structure
- Retirement Provider selection
- Administration of the Retirement Program
- Monitoring of Retirement Providers and Retirement Program

- Monitoring of Investments Options in conjunction with the Retirement Providers and the investment consultant; including designating default investment options when appropriate.

#### **4.2 Retirement Provider Responsibilities**

- Offer Investment Options and funds within such option that reflect broad diversification opportunities
- Limit redundant fund options within an asset class
- Monitor and report on fund performance and overall participant activity to the Plan Sponsor at least annually in a format or template approved by the Plan Sponsor
- Identify funds that do not meet the investment criteria and provide recommendations for appropriate action at least quarterly
- Report to the Participants on a periodic basis the return performance and other data pertaining to its Investment Options in conjunction with the Plan Sponsor
- Communicate at least annually to Participants invested in a default investment option, explaining that other investment options are available

#### **4.3 Participant Responsibilities**

Each participant has the following responsibilities:

- Determine the amount of compensation to contribute to the voluntary plans
- Select investment choices based upon their own individual needs, goals, time horizon, and risk tolerances
- Monitor the investment selections by reviewing the quarterly participant statements
- Schedule periodic reviews with the retirement Provider(s).

### **5. OBJECTIVE AND DESIGN**

The objective of the Plan Sponsor is to have each Provider offer investment options that will allow the construction of retirement portfolios suitable for a wide range of employee retirement needs, goals, and investment acumen. The investment options offered by a Provider shall be part of a Mutual Fund, Annuity Contract, and/or Self-Directed Brokerage Platform

#### **5.1 Investment Platform:**

- a) Mutual Fund Investments Platform – This is a platform consisting of a specific listing of mutual funds assembled by the Provider. Participants may build retirement portfolios using one or more of the mutual funds made available by this platform.

- b) Annuity Contract Investments Platform – This is a platform consisting of both fixed annuity investments and a specific listing of variable annuity subaccount fund investments, assembled by, and provided through an annuity contract (or contracts) issued by the Provider. Participants may build retirement portfolios using the fixed annuity benefits and/or using one or more of the variable annuity subaccount funds offered by the annuity contract.
- c) Self-Directed Brokerage Investments Platform – This is a platform whereby numerous mutual funds and individual securities are available for Participant investment. It is expected that the vast majority of Participants will be well served using only the Mutual Fund Investments and/or the Annuity Contract Investments Platforms to build their retirement portfolio. For those Participants needing or desiring an expanded investment array to build their retirement portfolio, the Self-Directed Brokerage Investment Platform is available. Additional conditions, requirements and fees apply to this investment platform.

## **5.2 Asset Class**

It is intended that appropriate broad asset classes (suitable for retirement portfolio construction and diversification) will be represented by the mutual fund options and the variable annuity subaccount fund options available under the Mutual Fund Investments and the Annuity Contract Investments Platforms.

## **5.3 Default Investment Option**

The default investment option is used when an employee selects a Provider(s) but does not select a fund(s) to invest the contributions. The default investment option may vary depending upon the Provider(s) selected and the retirement plan selected.

## **5.4 Investment Menu Options**

While providing both a high quality and variety of investment options within and among asset classes is important, it is also important to keep the absolute number of funds offered (whether by mutual fund platform or variable annuity contract platform) at a manageable level. Accordingly, the Plan Sponsor will use the services of the Providers and of an outside investment consultant to assist in the selection of the specific investment funds that are made available through the Mutual Fund and Annuity Contract Platforms. The following quality control criteria shall also be applied to any fund:

- a) The fund must have at least three years of investment experience as of the proposed date of addition or otherwise be able to demonstrate appropriate experience.

- b) The fund must have a return performance ranked in the first or second performance quartile within the asset class to which it is assigned, as defined by Morningstar, for either the five or three year period as of the proposed date of addition
- c) The fund must have a total expense ratio (i.e. the total of all fund management fees, 12b-1 fees, annuity contract M&E fees and other fees, less expense waivers) that is equal to or less than its asset category average, as reported by Morningstar.
- d) Using the Morningstar asset class information for fund expenses and performance results, funds shall also be assigned to either mutual fund or variable annuity subaccount data for peer groupings, as appropriate. (i.e., mutual funds will be compared to other mutual funds and variable annuity subaccounts will be compared to other variable annuity subaccounts)
- e) The fund must not have a life insurance feature.

## **6. INVESTMENT MONITORING**

Each specific option available within a given mutual fund or variable annuity subaccount fund menu shall be offered based upon its overall value within its asset class category. While frequent change in specific options is neither expected nor desirable, monitoring the investment performance is a fluid process as it is expected that investment options will be deleted and added from time to time as part of an ongoing evaluation process.

The value of an offered investment option will be based upon the following:

- Return performance rank shall be consistent with the criteria in the investment selection
- Total expense ratio shall be consistent with the criteria in the investment selection
- Risk characteristics
- Longevity, stability and experience of fund managers or other key professional staff
- Record of regulatory compliance
- Consistency of style within asset class
- Any other appropriate consideration

If a Provider determines that a fund does not meet the monitoring criteria, it will be placed on a watch list. Fund(s) placed on the watch list must be reviewed by the Provider every 90 days and recommendations made to the Plan Sponsor regarding appropriate action whether deletion, replacement or continued watch list monitoring.

The Providers will strive to use consistent return, benchmark, risk and style measurement metrics (Sharpe Ratio, upside/down side market capture ratio, standard deviation) in providing their recommendations to the Plan Sponsor.

Final decisions as to deletions and additions will be made by the Plan Sponsor. Decisions cannot be made by formula and will be based on the judgment of the Plan Sponsor after

weighing appropriate qualitative and quantitative factors and considering the input from Retirement Providers and the investment consultant.

## **7. SELF-DIRECTED BROKERAGE ACCOUNTS**

The option of using Self-Directed Brokerage Accounts (SDBA) is available within the Retirement Program. However, the investment options offered through the SDBA are not subject to the investment selection or monitoring standards set forth in this IPS.

Each Participant who elects to use a SDBA will sign an agreement with the selected Provider that certifies the Participant understands that the investment decisions within the SDBA are solely the Participant's responsibility.

## **8. EDUCATION**

Regular investment education is critical and is provided to Participants in the following ways:

- Onsite meetings at the local institutions with Provider representatives
- Education from the Providers directly to the Participants invested with their company
- Electronic newsletters distributed by the Plan Sponsor
- Plan Sponsor website
- Online Fund Performance Summary
- Online enrollment