

**Statement of  
Investment Policies  
and Objectives**

University of Rochester  
Retirement Plan

July 2018

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# Purpose

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The University of Rochester (the “University”) has established the University of Rochester Retirement Program (the “Plan”), a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code of 1986, as amended (the “Code”). The purpose of the Plan is to provide participants with a resource to meet their financial needs during retirement. The Plan is a participant directed individual account plan, and participants are responsible for their investment choices. This policy also applies to the University of Rochester Deferred Compensation 457(b) Plan.

Pursuant to the terms of the Plan, the Retirement Plan Committee (the "Committee") generally has the authority and responsibility to select and monitor the investments that are available under the Plan. The purpose of this Statement of Investment Policies and Objectives (the “Investment Policy”) is to set forth the guidelines and principles the Committee will consider in fulfilling this responsibility.

This Statement:

- Describes the investment philosophy for investments offered under the Plan;
- Describes certain responsibilities of the Committee and other parties under the Plan;
- Sets forth the current Plan investment structure and options; and
- Establishes the criteria for selecting and monitoring the investment options offered under the Plan.

The Committee believes the investment policies described in this Statement should be dynamic and reserves the right to amend the Policy at any time.

If any term or condition of this investment policy conflicts with any term or condition in the Plan, the terms and conditions of the Plan shall control.

# Philosophy

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## Objective

The objective of the Plan is to help eligible employees to accumulate savings for retirement by offering a flexible, lower cost and tax-effective way to set aside money for the future.

## Diversification/Number of Options

The Committee believes the Plan should provide sufficient investment options so that participants can create an investment program that is consistent with a variety of risk tolerances. The Plan is intended to comply with the requirements of Section 404(c) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Department of Labor regulations issued thereunder. These rules establish minimum standards regarding the number and type of options that should be offered in order to relieve fiduciaries of liability for participants’ investment decisions. Accordingly, the Plan will:

- Offer participants a broad range of investments, including at least three core options that are internally diversified, materially different in risk and return characteristics, and, in the aggregate, allow participants to tailor risk through diversification;
- Give participants the ability to transfer among the Plan’s core investment options with a frequency appropriate for each investment’s market volatility, and the ability to transfer among core investment options at least once in any three-month period (excepting annuity investments that may impose transfer restrictions in excess of three months); and
- Provide participants with certain information about the Plan, its investment options, and its operations, to assist participants in making their investment decisions.

# Delegation of Responsibilities

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## Committee Responsibilities

The Committee is generally responsible for selecting investments available to participants in the Plan. Neither the Committee nor any other Plan fiduciary shall be responsible for the investment decisions made by a participant or beneficiary. With respect to the Plan's investment options, the Committee's responsibilities include:

- Developing and monitoring this Investment Policy;
- Selecting and monitoring the investment options available under the Plan (including number and types);
- Engaging investment consultants, attorneys and other professionals to assist the Committee in carrying out its responsibilities under the Plan;
- Employing such agents and other assistance as it may deem appropriate in carrying out its responsibilities under the Plan; and
- Establishing such rules and procedures relating to the investment options as it deems appropriate.
- The Committee will pass through mutual fund or commingled fund proxies directly to the participants in the 403(b) Plan. However, for the University of Rochester Deferred Compensation 457(b) Plan, the Committee will vote mutual fund proxies in the best interest of the Plan's participants and beneficiaries to the extent that the Committee determines that such vote either alone or together with votes of other shareholders may be expected to impact the value of plan investments, taking into consideration any anticipated additional cost of voting shares. The Committee has the right to otherwise delegate proxy voting relating to holdings in the Plan as it sees fit.

Notwithstanding the forgoing, the Committee does not have the discretionary power, authority or responsibility to select or terminate certain investment options that are subject to contractual or other limitations that supersede the discretionary power of the Committee (e.g., the Committee does not have the power or authority to terminate certain insurance contracts/annuities offered through TIAA).

While the Committee is responsible for determining whether to offer a participant-directed mutual fund brokerage option under the Plan and for selecting and monitoring any provider of brokerage services offered under the Plan, the Committee is not responsible for the selection and monitoring of the actual mutual funds that are offered through the participant-directed mutual fund brokerage account, or a participant's or beneficiary's purchase of mutual funds through the brokerage account.

## **Investment Consultant Responsibilities**

The Investment Consultant shall assist the Committee in fulfilling its fiduciary responsibilities under the Plan. Specifically, the Investment Consultant's duties shall include:

- Providing the Committee information and advice about available investment options and assisting the Committee in the selection and review of the investment fund options offered by the Plan;
- Assisting the Committee in the development and review of the Investment Policy;
- Periodically providing the Committee with information and advice about the investment performance, risk and fees of investment options offered by the Plan, information that might affect future performance or suitability of the investment options currently offered to continue to be offered as investment options of the Plan, and the availability of more suitable alternatives;
- Keeping the Committee informed of developments and changes affecting investments offered by defined contribution retirement plans; and
- Assisting the Committee with its evaluation of the performance of the recordkeeper.

In its role, the investment consultant is expected to provide the following services:

- Produce periodic written investment performance, risk and fee evaluation reports of investment options offered by the Plan;
- Meet with the Committee to review investment performance, risk and fee results and the investment programs' offerings as a whole;
- Provide materials related to fund structure, policies and objectives, and other topics of relevance to the retirement plan investment program including developments in retirement plan administration and in the responsibilities of retirement plan fiduciaries;
- Recommend changes to the investment options offered under the Plan if the Investment Consultant believes such changes are warranted;
- Address topics of interest related to the retirement plan investment program; and
- Participating, as necessary, in various projects as requested by the Committee.

The Investment Consultant will act as a Plan fiduciary and will serve as an advisor to the Committee. The Committee is responsible for making the final decision on the investments that are made available to Plan participants.

## **Recordkeeper Responsibilities**

The recordkeeper(s) of the Plan will be responsible for:

- Maintaining and updating individual account balances, including information regarding plan contributions, withdrawals, and distributions and otherwise acting on the directions of the Committee or its authorized delegates;
- Providing participants account access through the Internet, interactive voice response, presentations to large groups of participants, one on one meetings with participants on campus and a call center;
- Producing quarterly participant statements;
- Conducting compliance testing (if applicable);
- Providing education and consulting services including, but not necessarily limited to, pre-retirement education, investment newsletter, financial planning program, and new employee orientation;
- Providing regular reports to the plan administrator; and
- Participating, as necessary, in various projects as requested by the Committee.

## **Participant Responsibilities**

The Plan's participants have different investment objectives, time horizons, and risk tolerances. To meet these varying investment needs, participants will be able to direct their account balances among a range of investment options that vary in risk and return. Participants solely bear the investment risk and their accounts reflect the gains or losses that result from their chosen investment options.

Participants of the Plan are responsible for:

- Educating themselves regarding the various aspects of saving and investing;
- Making voluntary contributions to the Plan within the limits allowed by the law that are sufficient to provide for adequate retirement assets; and
- Selecting and monitoring their investments choice or accepting the Plan's default investment choices.

# Investment Structure and Investment Option Selection

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While offering a variety of fund options is important, efforts will be made to keep the total number of investment options to a level the Committee believes balances the benefits of broad diversification with the disadvantages of too much choice.

## Investment Structure

The federal tax rules permit the Plan to offer only mutual funds and annuities. The Committee has decided that the Plan's investment structure may include the following components:

*Tier I: Target Retirement Funds* — a series of multi-asset class investment funds where the allocation among investments of various risk levels changes based on a participant's age and expected retirement date. The Committee has designated the Target Retirement Funds to be the Plan's qualified default investment alternative.

*Tier II: Core Funds* — a limited number of investment funds that are pre-selected for distinct asset class risk and return characteristics. The funds can include both actively managed and passively managed ("index") investment funds.

*Tier III: Annuity Account* — one fixed annuity account that allow participants to purchase fixed units of retirement income during the course of their working careers.

*Tier IV: Mutual Fund Window* — a self-directed brokerage service provides participants access to numerous actively and passively managed mutual funds that are available on the brokerage provider platform. The Committee does not monitor the investment funds available through the self-directed brokerage service or "window".

The Committee reviews the Plan's investment structure bi-annually to determine the appropriate number and types of tiers and investment options. The review will consider the potential for participants to implement a range of investment strategies that may be appropriate for differing investment time horizons, objectives, and risk preferences. As part of its review, the Committee considers the investment and administrative fees associated with the Plan's investment structure. The Committee is authorized to make changes to the structure as it deems necessary or advisable to maintain the interests of the Plan and its participants. The Plan's current investment options, and the respective performance benchmarks, are listed in Addendum A: Investment Options and Benchmarks.

## **Investment Option Selection**

The Committee will follow the following Guidelines when selecting investment options to offer in the Plan:

The investment manager should articulate the investment strategy that will be followed by the mutual fund, annuity or target date fund. This criterion shall not preclude, however, selection of a new fund without a historical track record so long as the investment strategy is well articulated.

- The fund/option should be able to provide historical (for 10 years or over the fund's life, if shorter) quarterly performance numbers calculated on a time-weighted basis and reported net of all fees.
- The fund/option should provide volatility measurements so that an appropriate risk/return profile can be prepared.
- The fund/option should be able to provide information on its history, key personnel, fee schedules and expenses, and current investment exposure.
- The fund/option should have reasonable fees.

The above requirements and the following provisions of this Policy do not apply to mutual funds available through the brokerage window or annuities offered under the Plan that predate the adoption of this Policy and are frozen to new contributions. The Committee shall not have any responsibilities for the selection and monitoring of such investments. However, the Committee must thoughtfully consider the nature and quality of the window available.

# Investment Performance Objectives

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To facilitate ongoing review and evaluation of the Plan, the Committee has established performance benchmarks. The Committee intends to review the performance of the investment options relative to benchmarks at least annually. The benchmarks may be changed if conditions warrant. The investment performance benchmarks for the current fund line-up are listed in Addendum A: Investment Options and Benchmarks.

## **Capital Preservation Funds:**

The primary objective of a capital preservation fund (i.e., money market, stable value) is to preserve capital while producing returns consistent with this objective.

## **Passively Managed Funds (Index Funds):**

The primary objective of passively managed funds is to produce annualized returns within  $\pm 20$  basis points of its benchmark index for domestic funds and  $\pm 30$  basis points for international index funds.

## **Actively Managed Funds:**

The primary objective of actively managed funds is to exceed the results of a representative broad market index, while maintaining an appropriate level of volatility. The investment return of the funds will be evaluated against a universe of similar managers for similar asset classes. Performance will be evaluated with a perspective toward a three- to five-year period on an after fee basis.

## Evaluation and Review

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The Committee intends to review actual investment results achieved by its investment funds to determine whether:

- The investment fund adhered to its stated investment style and market capitalization classifications;
- The investment fund performed in a manner consistent with its stated investment approach; and
- The investment fund performed satisfactorily when compared with stated objectives (relative to indices and where applicable, peer groups).

Among the events the Committee will examine in its review are:

- Performance below that of objectives over the majority of rolling three-year periods measured; longer period performance will be taken into account as appropriate.
- Performance substantially below that of objectives over a shorter period of time (e.g., one year);
- Significant changes in the portfolio composition that would constitute a change in investment objective;
- The departure of one or more key investment professionals;
- Violation of an investment guideline;
- A change in ownership or control of the investment management organization;
- An expense ratio that becomes unreasonable.

For the Target Retirement Funds, the Committee will periodically consider the appropriateness of the asset allocation “glide path”. The asset classes employed and their weighting will be evaluated to ensure they are consistent with the investment objectives of the applicable retirement date.

In addition to the criteria described above, the financial stability of the Plan’s annuity provider(s) will be periodically evaluated from the available public information. The review may consider factors such as the following:

- Creditworthiness as determined by third-party credit rating organizations;
- Solvency as represented by financial, or capital-adequacy ratios; and
- Any legal and/or regulatory agency proceedings affecting the Investment fund or the annuity provider.

Taking into account this periodic evaluation and review and such other factors the Committee deems appropriate, the Committee has the right, in its sole discretion, to add or terminate an investment option at any time and for any reason. In the event the Committee decides to terminate an investment option, its alternatives include, without limitation, the following:

- Removing the investment option, replacing the investment option with a new alternative investment option and moving assets formerly invested in the terminated investment option to the new alternative investment option.
- Removing the investment option and moving assets formerly invested in the terminated investment option to an existing similar investment option or the Plan's default investment option.
- Freezing the assets that are invested in an investment option and directing new assets to a replacement investment option.
- Phasing out the investment option over a specific time period.

# Addendum A: Investment Options and Benchmarks

Investment Option	Ticker	Active/ Passive	Market Index Benchmark	Peer Group
<b>Tier 1: Target Date Funds Series</b>				
Vanguard Institutional Target Retirement Series	Various	P	Custom	N/A
<b>Tier 2: Core Funds - Passively Managed</b>				
Vanguard Total Bond Market Index Instl	VBPIX	P	Custom	Fixed Income Mutual Funds
Vanguard Institutional Index	VINIX	P	S&P 500 Index	S&P 500 Index Mutual Funds
Vanguard Total Stock Market Index Instl	VITIX	P	Custom	All Cap Equity Mutual Funds
Vanguard Extended Market Index Instl	VIEIX	P	Custom	SMID Cap Equity Mutual Funds
Vanguard Total International Stock Index Instl	VTSNX	P	Custom	International Equity Mutual Funds
Vanguard Total World Stock Index Instl	VTWIX	P	FTSE Global All-Cap Index MSCI ACWI Index (USD)	Global Equity Mutual Funds
<b>Tier 2: Core Funds - Actively Managed</b>				
Vanguard Federal Money Market Fund	VMFXX	A	US Gov't Money Market Funds	Money Market Mutual Funds
PIMCO Total Return Fund Institutional	PTTRX	A	Barclays Aggregate Bond Index	Fixed Income Mutual Funds
GMO Benchmark Free Allocation R6	GBMRX	A	CPI + 3.0%	Global Flexible Portfolio Mutual Funds
T. Rowe Price Inst Large Cap Growth Fund	TRLGX	A	Russell 1000 Growth Index	Large Cap Growth Mutual Funds
T. Rowe Price Inst Large Cap Value Fund	TILCX	A	Russell 1000 Value Index	Large Cap Value Mutual Funds
Neuberger Berman Socially Responsive Fund Instl	NBSLX	A	S&P 500 Index	Large Cap Core Mutual Funds
Lord Abbett Developing Growth Fund Class I	LADYX	A	Russell 2000 Growth Index	Small Cap Growth Funds
DFA U.S. Targeted Value Portfolio Instl	DFFVX	A	Russell 2000 Value Index	Small Cap Value Funds
Dodge & Cox International Fund	DODFX	A	MSCI EAFE Index	International Large Cap Equity Mutual Funds
Dreyfus Global Stock Fund Class I	DGLRX	A	MSCI World Index	Global Equity Mutual Funds
<b>Tier 3: Annuities</b>				
TIAA Traditional	N/A	A	5-Year Constant Maturity Treasuries	Stable Value Funds
<b>Tier 4: Self-Directed Brokerage Account</b>			Custom	N/A