


Office of Employee Benefits	Investment Policy Statement University of Texas System Retirement Program	840
Administrative Manual	EFFECTIVE DATE: MARCH 1, 2010	
	REVISION DATE:	
	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

POLICY AND PROCEDURES MEMORANDUM

DATE: March 1, 2010

TO: System Administration Officials
Institutional Chief Business Officers
Institutional Chief Human Resources Officers

FROM: Office of Employee Benefits

SUBJECT: Investment Policy Statement

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 make available Investment Options and funds within Options that will allow the construction of retirement portfolios that will be diverse, of high quality and appropriate for a wide range of employee retirement needs, goals, and investment acumen.

5.1 Investment Options:

Tier 1: Asset Allocation or Lifecycle options

Mutual funds that are professionally managed and automatically rebalanced according to the investment objective. Lifecycle funds are rebalanced according to a target retirement date; asset allocation funds are rebalanced based on the stated fund risk and return parameters and objectives. These funds are designed for a Participant who wants a simple yet diversified approach to investing.

Tier 2: Core Investment Options

A limited menu of mutual funds selected from the major asset classes (e.g. stocks, bonds, and short-term investments). This tier is for a participant who is comfortable diversifying his or her own investments with or without the assistance of an investment or financial advisor and/or asset allocation tools.

Tier 3: Expanded Options

This tier offers an expanded menu of mutual fund options. This tier is for a participant who understands how to research, evaluate and monitor a wider variety of investments with different risk and return characteristics with or without the assistance of an investment or financial advisor and/or asset allocation tools.

Tier 4: Annuity Contract Options

This tier provides both fixed and variable annuity products. An annuity is a contract with an insurance company allowing a Participant to accumulate contributions in a separate account under which a variety of investment options including mutual funds, managed accounts and fixed credited interest accounts are offered. An annuity also provides a Participant the payout option to receive payments that are part of a regular series of income payments for a specified period or for life.

Self-Directed Brokerage Option

This option offers numerous additional mutual funds that are not available in the traditional tiers listed above. Individual Securities are also offered in the UTSaver Deferred Compensation Plan only. Some restrictions and additional fees apply when using this option. This tier is for a participant who understands how to research, evaluate and monitor a wide variety of investments with different risk and return characteristics with or without the assistance of an investment or financial advisor and/or asset allocation tools.

5.2 Asset Class

It is intended that broad asset classes will be represented within a mutual fund menu or a variable annuity fund menu including:

- Stable Value or Money Market
- Bond

- Large Cap Value
- Large Cap Blend
- Large Cap Growth
- Mid-Cap Value
- Mid-Cap Blend
- Mid-Cap Growth
- Small Cap Value
- Small Cap Blend
- Small Cap Growth
- International Stock
- International Bond
- Allocation
- Lifecycle
- Specialty

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 offering a variety of Investment Options within a mutual fund menu or within a variable annuity menu is important, efforts will be made to keep the total number to a prudent level that limits redundant options within an asset class unless the multiple options offer some type of meaningful investment diversification.

The Plan Sponsor will use the services of the Providers and an outside investment consultant to assist in the selection of the investments chosen for the Retirement Program while following the below quality control criteria.

- The fund must have at least three years of investment experience as of the proposed date of addition or otherwise can present other comparable indications of appropriate experience.
- The fund must have a return performance rank in the top first or second performance quartile of the asset class to which it is allocated as defined by Morningstar for either the five or the three year period as of the proposed date of addition.
- The fund must have a total expense ratio, (i.e. the total of fund management fees, 12b-1 fees and other expenses, less expense waivers) that is equal to or less than the asset category average as reported by Morningstar.
- 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