

**Montana University System**  
**403(B) Plan**  
Investment Policy Statement

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**MONTANA UNIVERSITY SYSTEM 403(B) PLAN  
Investment Policy Statement**

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**MONTANA UNIVERSITY SYSTEM 403(B) PLAN  
INVESTMENT POLICY STATEMENT  
February 11, 2019**

**INTRODUCTION AND PURPOSE**

This Investment Policy Statement (“IPS” or “Policy”) provides the framework for the management of the investment of the Montana University System 403(b) Plan (“Plan”), a supplemental defined contribution retirement plan. The Plan is a qualified pension plan established for the exclusive benefit of participants and their beneficiaries. The Montana Board of Regents (“Board”), the Plan Sponsor, is a fiduciary of the Plan. Participants make individual investment decisions, subject to the investments offered under the Plan and, ultimately, bear the risks and rewards of the investment returns.

The Office of the Commissioner of Higher Education (“OCHE”) has engaged Meketa Investment Group as its Investment Consultant to assist it in meeting the Plan goals and developing and implementing this IPS. OCHE will discharge its responsibilities solely in the long-term interests of the Plan Participants and their beneficiaries. Any revisions to this IPS may be made only with the approval of OCHE.

The purpose of this IPS is to set forth the goals and objectives of the Plan and to provide guidance in selecting, supervising, monitoring, and evaluating the Investment Options for participants of the Plan. The Plan’s investment program is defined in the various sections of the IPS by:

- a. Stating in a written document expectations, objectives, and guidelines for the selection and retention of Investment Options for the Plan’s assets including defining the Plan objectives and linking those to the Plan investment structure;
- b. Documenting the identification and responsibilities of parties responsible for the oversight and management of Plan assets;
- c. Providing for a diversified menu of Investment Options that will allow the Plan to comply with current 403(b) regulations;
- d. Establishing formal criteria to monitor, evaluate, and compare on a regular basis the performance that each Investment Option achieves;
- e. Provide investment guidelines for a long-term retirement-savings vehicle which permits Plan Participants to invest employer and participant contributions on a tax-deferred basis;

- f. Describing ways to address investment options and investment funds that fail to satisfy performance standards; and
- g. Allow the Plan Sponsor to meet its fiduciary responsibilities, evaluate the progress of the Plan, and positively influence its direction.

In general, it is understood that this IPS is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Retirement Benefits Committee (“RBC”) will review this IPS at least annually and, if appropriate, make recommendations to amend to reflect changes or revisions as needed.

## **SECTION 1 STATEMENT OF OBJECTIVES**

The Plan is open to all Montana University System employees (§19-21-201(1), §19-21-201(2), and §19-21-213, MCA). The objective of the Plan’s Policy is to make available a broad range of diversified investment options that have varying degrees of risk and return. The selection is intended to make possible for the individual Plan Participant to achieve a balanced portfolio consistent with the principles of modern portfolio theory. The investment objectives for the Plan have been established in conjunction with a comprehensive review of current Investment Options.

- 1.1 Return Requirement. The Plan will offer a wide spectrum of investment alternatives to provide options allowing Plan Participants to influence their total rate of return. Plan Participants may design an investment allocation from those alternatives that best meet their individual needs. The Plan, RBC, and Investment Consultant(s) will monitor options to ensure the Plan Participants are meeting their long-term objectives from a return standpoint, relative to other, similar options available.
- 1.2 Risk Tolerance. Individual participants vary in their level of risk tolerance. Because participants direct their own investment, the Plan will offer a wide spectrum of investment alternatives with varying levels of risk and return.
- 1.3 Glide Path. The Plan will offer target date funds whose asset allocation over time is designed to become more conservative as the fund approaches the designated target retirement date.

## SECTION 2 ROLES AND RESPONSIBILITIES

Several entities are responsible for various aspects of the management and administration of the Plan's investments. The entities and their responsibilities include, but are not limited to:

- 2.1 The Board. Participants direct their own investment options under the Plans. The Board acts in the sole interest of the Plan participants, for the exclusive purpose of providing benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the Plan. The safeguards to which a prudent investor would adhere must be observed.

The Board has delegated its authority to the Commissioner of Higher Education (the "Commissioner") to administer the Plan.

- 2.2 The Commissioner. The Commissioner relies on OCHE Benefits Staff ("Staff"), the Inter-Unit Benefits Committee ("IUBC"), the Retirement Benefits Committee ("RBC"), the Investment Consultant, and the recordkeeper to assist in the administration of the Plan.

- 2.3 IUBC. The IUBC, created by Administrative Order of the Commissioner, has as its stated purpose, "allowing members of the University System Employee Benefits Plan a reasonable opportunity to participate in the development of policy prior to a final decision by the Commissioners on matters affecting the Plan. The IUBC shall report all of its findings and recommendations to the Commissioner". The IUBC has, by charter, the express ability to establish advisory committees to assist in performance of its duties in matters affecting the Plan. The RBC will inform the IUBC regarding Plan recommendations to the Commissioner.

- 2.4 RBC. The Board, with the assistance of the RBC, selects the array of investment options available for participant investment with oversight of those investment options. The RBC oversees selection and has ongoing due diligence tasks with investment providers and other features of the Plan. The RBC reviews, on an annual basis, the acceptability of the universe of investment options made available within the Plan's chosen administrative environment. The RBC advises the Commissioner and updates the IUBC on the administration of the Plan, including an annual review of investment options.

In addition, the RBC will establish and maintain the Investment Policy in accordance with the Plan Document, IRS guidelines and/or industry best practices.

- 2.5 Staff. Staff is responsible for the day-to-day operations and implementing the policies and initiatives established by the Board and/or RBC. The Staff has responsibility to:

1. Implement all decisions necessary and appropriate to carry out the Board's and/or RBC's direction on the Plan's policies, investment structure and/or strategy changes.
2. Report on all decisions and the progress of implementation of those decisions to the Board and/or RBC.

2.6 Investment Consultant. The Investment Consultant advises and reports to the RBC and Staff on the investment Structure and Investment Options provided to Plan Participants.

1. Specifically, the Investment Consultant periodically advises the RBC in conjunction with the Staff on the following:
  - (a) the performance of Investment Managers and the individual Investment Options selected for Plan Participants including the objectives of the Investment Option, comparative performance against applicable benchmarks and other investments, and the competitiveness of their fees as compared to comparable investment strategies;
  - (b) evaluation of the investment structure and asset allocation portfolios including the Plan's existing Investment Options from which Plan Participants may choose in order to optimize, on a risk-adjusted basis, the potential returns available to Plan Participants;
  - (c) the market for Investment Options appropriate for higher education 403(b) plans;
  - (d) selection of any new or replacement Investment Manager or Investment Option;
  - (e) whether investment objectives and guidelines remain appropriate and effective for the Plan;
  - (f) the Plan's compliance with this Policy and industry best practices.
2. In rendering advice and other services to the Plan, the Investment Consultant shall:
  - (a) act in a fiduciary capacity to the Plan with respect to those services for which it exercises discretion and with respect to investment advice that is fiduciary in nature; and
  - (b) exercise skill superior to that of an ordinary person.

- 2.7 Investment Managers. An Investment Manager provides one or more Investment Options to Plan Participants in accordance with its contractual agreement and the requirements of the recordkeeper. In rendering services to the Plan, an Investment Manager shall:
1. serve as a fiduciary to the Plan as required by law;
  2. manage its Investment Options according to the requirements of applicable securities laws, the terms and conditions of its contracts, the relevant prospectuses, and other offering materials;
  3. report investment performance and fees as directed by the Investment Consultant, the RBC and Staff; and
  4. promptly notify the Investment Consultant and the Staff in writing of any changes in an Investment Option, an Investment Manager's strategy, operation, organization, or personnel that may materially or adversely impact the performance of an Investment Option provided by the Investment Manager for the Plan.
- 2.8 Recordkeeper. The responsibilities of the recordkeeper are described in the Plan Document and its contract with Montana University System and principally involves record keeping, enrollment, education services, and other administrative duties for the Plan as required by section 403(b) of the Code and applicable regulations.

### **SECTION 3 INVESTMENT ALTERNATIVES**

The appropriate investment strategy for any individual participant to accumulate retirement savings or achieve other savings objectives is a function of multiple personal factors, including age, income, time horizon, risk tolerance, return and accumulation objectives, and other assets outside of the Plan. In order to allow participants to establish savings and investment strategies which meet their individual needs, the Plan provides an array of investment options in which participants may invest. The Plan will maintain a variety of wide-ranging Investment Options with varying levels of risk and return to ensure sufficient choices are available to best meet each participants' personal needs, including fixed income and equity options.

- 3.1 Investment Spectrum Guidelines. The asset classes listed below are possible classes to include in the Plan's investment line-up. There is not a requirement that each class be represented as long as the Investment Consultant(s) and the RBC determine that

it is both prudent and appropriate to exclude a particular class. Investments may be active or passively managed.

1. *Balanced*. Combined equity and bond investments (often offered through Target Date Fund vehicles).
2. *U.S. Bonds/fixed income*. A government and/or corporate bond fund, active or passive management.
3. *Cash Equivalents*.
4. *Domestic High Yield Fixed Income*.
5. *Domestic Equities*.
6. *Global Equities*.
7. *International Equities*.
8. *International Fixed Income*.
9. *Stable Value Funds*.
10. *Target Date Funds*.
11. *Real Asset Funds*.
12. *Existing Legacy Vendor Annuity Contracts*. No new contracts initiated, or contributions made, after February 1, 2018.

Each Investment Option category within the Plan's investment structure is intended to fill a primary savings and investment role consistent with the Plan objective and address the risks that participants face. Participants bear the full risk of investment results from the option(s) and asset mix they select. The Plan may also change the categories of investment alternatives to meet participants' changing needs or changes in the investment industry.

3.2 Adherence to Prospectus. It is expected that each Investment Option will be managed in accordance with its prospectus or other disclosure document.

3.3 Investment Selection Guidelines. In order to provide participants with investment options that offer the best prospects to meet each individual's financial goals, the

following minimum qualifications and selection criteria for potential investment options have been outlined. These criteria may change at any time and should be considered merely as guidelines for the Plan's selection of investment options. The criteria for selecting and evaluating the investment alternatives include:

1. A strong and stable investment team
2. A repeatable and understandable investment process
3. Consistent and defensible return history
4. Provides non-redundant investment alternative for participants
5. Absence of litigation that may have a material effect on future investment performance

Returns will be evaluated over a full market cycle, and it is the intention of the Plan, in consultation with the RBC and Investment Consultant(s) to evaluate managers in terms of their future return potential and not solely their historical track record.

- 3.4 Evaluation and Monitoring of Investment Alternatives. The performance of all Plan Investment Options will be evaluated on at least an annual basis. The evaluation must be conducted by an appropriate third-party provider (the Investment Consultant(s)). Each Investment Option will be compared to its peer and the appropriate benchmark based on quantitative and qualitative standards. An additional level of scrutiny and review will be triggered when organizational or performance concerns arise. Such review by Staff, the Investment Consultant(s), and the RBC may result in a recommendation to either retain, replace, or eliminate the investment option.

The RBC will report the evaluation results and recommendations to the Commissioner and provide updates to the IUBC. As designated by the Board, the Commissioner, on behalf of the Board, will make the final determination as to the action taken regarding the fund's utilization within the Plan. Additionally, the RBC will state the rationale for their recommendations, expectations for future actions, and intended timelines.

Each investment option's performance shall be evaluated based on quantitative and qualitative standards as outlined below.

1. Qualitative Monitoring. Qualitative standards that will be used in the evaluation of each investment option include the following:
  - (a) Adherence to stated investment style and philosophy
  - (b) Ownership stability and alignment of interests with investors

- (c) Retention and attraction of key investment professionals associated with the management of the investment option
  - (d) Absence of litigation that may have a material effect on future investment performance
  - (e) Disclosure of relevant information that may have an adverse impact on performance
2. Quantitative Monitoring. Performance results will be measured by:
- (a) Total time-weighted rates of return net of investment management fees and all fund expenses; however, they will be gross of Plan expenses (i.e. explicit costs paid for administration or other Plan costs) and
  - (b) Against a respective market index and peer group median over rolling three- and five-year periods. Volatility will be measured by the standard deviation of quarterly returns and should be reasonably comparable to each fund's respective market index and the respective peer group averages. Funds with greater volatility than their indices should earn higher returns than those indices.

3.5 Closure of an Investment Option. The Plan will provide advance notification of no less than 30 days to participants invested in a terminated Investment Option to transfer their fund balance to another Investment Option. If a participant fails to transfer a fund balance in the time provided, the Plan will transfer the fund balance from the terminated Investment Option to the new Investment Option selected by the Plan to replace the terminated Investment Option. If a terminated Investment Option is not replaced, the Plan may transfer the fund balance into an existing Investment Option with similar objectives and strategies or to the default target date fund.

#### **SECTION 4 PLAN PARTICIPANTS**

The Plan is an optional, participant-directed defined contribution plan. Participants in the Plan bear responsibility for developing and monitoring a strategy for the investment of their account.

- Participants are responsible for allocating account balances and future deferrals to the available investment options, based on individual circumstances, goals and objectives, and risk tolerance.

- Participants are responsible for rebalancing account balances to the participant's desired allocation due to market movement and account activity.
- Participants are responsible for reallocating account balances and the direction of future contributions as personal circumstances and goals and objectives change.

## **SECTION 5 MANAGEMENT AND ADMINISTRATION OF THE PLAN'S INVESTMENTS**

The Plan will act in the sole interest of the Plan participants and beneficiaries, for the exclusive purpose of providing benefits to participants and beneficiaries and of defraying the reasonable expenses of administering the Plan. The safeguards to which a prudent investor would adhere must be observed. Furthermore, the Plan must comply with state and federal law, the Internal Revenue Code, and other governing rules and regulations that relate to the administration and investment of the Plan assets.

## **SECTION 6 CONSTRAINTS**

The appropriate investment strategy for any individual participant to accumulate retirement savings or achieve other savings objectives is a function of multiple personal factors. In order to allow participants to establish savings and investment strategies which meet their individual needs the Plan provides an array of investment options with varying levels of risk and return in which participants may invest. When selecting investment options for the Plan, the following constraints are considered:

- 6.1 Liquidity Needs. Participants may, on a daily basis, move their assets from one investment alternative to another, subject only to the limitations of Investment Options within the Plan that provide sufficient liquidity to accommodate participant-driven transfers and withdrawals.
- 6.2 Time Horizon. Time horizons vary for individual participants. Because participants direct their own investments, there is no time horizon expressed for the Total Plan. Investment choices will be offered that provide participants with a wide variety of time horizons, with the goal of providing favorable long-term returns to meet their retirement needs.
- 6.3 Tax Considerations. The Plan is exempt from federal and state income taxes. Participants' contributions to the Plan are not taxed. The appreciation of participants' assets in the plan is not taxed. Therefore, tax-advantaged investments are not offered by the Plan.

6.4 Legal Considerations. The Plan is governed by applicable federal and state statutes and regulations including Section 403(b) of the Internal Revenue Code of 1986, as amended; Title 19, Chapter 21 of the Montana Code Annotated, and Section 803.2 of the Board of Regents Policy and Procedures Manual. The MUS 403(b) Plan Document provides additional legal information.