

INVESTMENT POLICY STATEMENT

University of Kentucky

Approved on September 15, 2021

By Retirement Plan Oversight Committee

Clients are advised to have legal counsel review their IPS before it is approved.

General

The University of Kentucky (“University”) offers its employees self-directed defined contribution plans to assist them in planning for their financial needs in retirement.

The following defined contribution plans (collectively, the “Plans”) will be governed by this Retirement Plan Investment Policy Statement.

- UK 403(b) Mandatory Plan
- UK 403(b) Voluntary Plan
- UK 457(b) Plan
- UK Supplemental 403(b) Plan
- UK 401(a) Plan
- UK 415(m) Plan
- UK 457(f) Plan

Statement of Purpose

The purpose of this Investment Policy Statement (“Policy”) is to outline objectives that will guide the Retirement Committee (“Committee”) in its selection and monitoring of the investment options in the Plans. The 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 state or federal regulatory requirements.

A primary objective of the Committee is to provide participants with a diverse set of investment options that encompass a variety of risk/return characteristics.

The Policy only applies to the following investment options in the Plans:

- Target Date Funds (“Tier I”)
- Core Investment Line Up (“Tier II”)

The Policy does *not* apply to the self-directed brokerage option available to participants in any of the University of Kentucky Retirement Plans. These funds are *not* monitored by the Committee.

Plan Objectives

Generally, the objective of the Policy is to provide employees of the University who participate in the applicable Plans with a variety of retirement investment vehicles from which to choose. The assets of the Plans are for the exclusive benefit of the participants.

Consistent with the Policy’s general objective, the following objectives are:

- 1) To offer a broad range of reasonably priced investment options with materially different risk and return preferences to allow participants to choose and manage a portfolio based on their specific risk/return characteristics and tolerances as well as financial objectives; and,

- 2) To comply with all applicable federal and state regulatory rules and laws.

Committee Responsibilities

The Committee shall discharge its duties solely in the interest of the participants and their beneficiaries, with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Committee meetings may be conducted in person, by telephone, or by such other means as may be deemed reasonable and appropriate. The Committee shall have complete discretion to interpret this Investment Policy and shall report to the plan sponsor or its designee as it deems appropriate.

Use of Consultants/Service Providers

The Committee may, in its sole discretion, retain the services of outside consultants and other professionals. The functions of these professionals may include, but are not limited to, the following:

- 1) To render their recommendations and insights on plan investments as well as the policies regarding investment option selection and monitoring;
- 2) To provide reviews of the competitiveness of the Plans' investment options;
- 3) To provide reviews of the Plans' utilization and asset allocation;
- 4) To provide guidance on changes to applicable federal laws and regulations as well as share industry best practices; and
- 5) To establish effective communication procedures between the Investment Funds/Managers, the Investment Consultant, and the Recordkeeper(s)/Custodian(s).

Eligible Investments

Investment options will consist of mutual funds, collective trust funds, or separate accounts where allowable by law whose eligible investments, investment guidelines, and investment philosophies are governed by a prospectus or similar regulatory disclosure document. Individual securities or offerings (other than collective trusts or mutual funds) will not be made available under the Plans..

To achieve the objectives of the Policy, at all times at least one investment option shall be offered under the Plans in at least each of the following asset classes:

- 1) Cash/Cash Equivalents;

- 2) Domestic Fixed Income;
- 3) Domestic Equity; and
- 4) International Equity

In addition to the asset classes above, the Committee finds it appropriate that the Plans also offer an investment with a predetermined, pre-mixed diversified asset allocation that would satisfy best practices, the Department of Labor's guidance, as well as any applicable sections of the the Internal Revenue Code regarding the selection and monitoring of the Qualified Default Investment Alternative ("QDIA").

Qualified Default Investment Alternative

The Committee recognizes that some participants may fail to make investment choices for their account. Therefore, the Committee believes it is appropriate to designate a default option, which qualifies as a QDIA.

Selection of the Investment Options

In selecting investment options for the Plans, the Committee shall take into account criteria that it deems appropriate. Among the criteria that it may consider are the following:

- 1) The investment option's track record;
- 2) Performance as compared to an appropriate benchmark and/or an appropriate peer group(s);
- 3) Risk measures versus those of the appropriate benchmark and/or appropriate peer group;
- 4) Risk-adjusted return measures as compared to those of the appropriate benchmark and/or appropriate peer group;
- 5) Organizational structure and stability of fund personnel;
- 6) Manager tenure;
- 7) The expenses assessed by the investment option, as well as the impact of offering the investment option on the overall Plan economics; and
- 8) 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
Risk-adjusted performance	<ul style="list-style-type: none"> ▪ 3-year Sharpe ratio 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group
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, as part of its periodic review, modify or add to these criteria and goals. Investment options that do not meet the Committee’s expectations may be placed on “watch” or may become candidates for “replace.” Before deciding to remove or substitute an investment option, however, and in light of its fiduciary responsibilities, the Committee may consider the following:

- 1) The investment option’s long-term investment performance on a rolling basis;
- 2) Recent changes, such as investment option restructurings or management changes designed to correct deficiencies;
- 3) The appropriateness or relevance of an investment option’s stated peer group;
- 4) The investment option’s adherence to a stated investment style;
- 5) Unusual market circumstances or volatility;
- 6) Prospectus investment constraints;
- 7) The degree to which the investment option has reduced or controlled risk, which might constrain the investment option’s ability to outperform other options; and
- 8) Any other conditions the Committee considers relevant.

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 Plans or the 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.

Selection of Target Date Funds

Target date funds shall be selected for the Plans utilizing the following steps as general guidelines with the understanding that the target date fund family universe is very broad and each target date suite differs from the others. The Committee will use its best judgement to select an appropriate target date series for the Plans.

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

- 1) 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 savings “through” life expectancy with a more aggressive glide path after retirement;
- 2) 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, or asset allocation suites;
- 3) 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;
- 4) Inception of the target date fund should be at least three years, though funds with shorter track records may be considered;
- 5) A review of fund expenses as related to overall Plan economics; and
- 6) Performance comparison to an appropriate benchmark and category average.

Monitoring of Target Date Funds

The monitoring process may include, but is not limited to, the steps below.

- 1) Review of the glide path to ensure consistency with reason that funds were chosen;
- 2) Review performance relative to an appropriate benchmark and category average;
- 3) Review underlying holdings in comparison to an appropriate peer group or strategy;

- 4) Review qualitative assessment on management of the funds in an effort to evaluate consistency with overall strategy; and
- 5) Review of fund expenses.

Selection of Fixed Interest/Stable Value Options

In selecting any fixed interest/stable value option, the Committee may take into account certain criteria that may include, but are not limited to:

- 1) Financial strength ratings of the guarantor provided by the major ratings agencies;
- 2) Interest rate history and minimum guaranteed contract rate;
- 3) Contract liquidity provisions;
- 4) Current and historical market to book value ratio (stable value funds only); and
- 5) 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 in the Plans as frequently as circumstances warrant. As part of its monitoring process, the Committee may take into account certain criteria that may include, but are not limited to:

- 1) Financial strength ratings of the guarantor provided by the major ratings agencies;
- 2) Current interest rates; and
- 3) Current market to book value ratio (stable value funds only).

Summary Statement

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

Review/Changes to the Retirement Plan Investment Policy Statement

The Policy is the responsibility of the Committee and will be reviewed periodically. Any changes or amendments to the Policy may be made at any time.

Signatory

Pursuant to the authority granted by Administrative Regulation 3:1, Section XVI, this document was approved and implemented by the Executive Vice President for Finance and Administration (EVPFA) on _____, 2021.


EVPFA

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Date

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Reason:
Reviewed for
form & legality

