IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY

Retirement Plans Investment Policy

Adopted July 26, 2004

Revision A., April 3, 2007

Revision B., February 1, 2011

Revision C., April 2, 2013

Revision D., March 3, 2015

Revision E., February 7, 2017

Revision F., February 2, 2021

If any term or condition of this policy statement conflicts with any term or condition in the Iowa State University Defined Contribution Retirement Plan (the Plan), the terms and conditions of the Plan shall control.

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I. INTRODUCTION

Iowa State University sponsors a participant directed Defined Contribution (Money Purchase) Retirement Plan (the "Plan") that meets the requirements of Section 403(b) of the Internal Revenue Code of 1986, for the benefit of its employees. The purpose of this statement is to establish the investment policy for the management of the assets in the Program.

Plan contributions are invested in one or more of the investment vehicles available to the participant. The plan is sponsored to assist in meeting the human resource objectives of recruiting, retaining, and retiring faculty and staff. It is intended to provide eligible employees with the long-term accumulation of retirement savings through a combination of employee and Iowa State University contributions to individual participant accounts and the earnings thereon. Employee contributions are fully and immediately vested, while institutional contributions are subject to a 3-year cliff vesting provision.

Eligible employees may also voluntarily participate in a supplemental tax sheltered annuity as allowed by the Internal Revenue Code under Section 403(b). Supplemental tax sheltered annuity participation is provided through pre-tax contributions, or after-tax contributions under the Roth 403(b) plan provision. Additionally, eligible employees may also voluntarily and concurrently participate in a 457(b) plan, which also allows for both pre-tax contributions or after-tax Roth contributions.

Management of the Plan shall be consistent with the Vision, Mission, and Values of Iowa State University.

II. RETIREMENT PLAN INVESTMENT POLICY STATEMENT

This policy statement is intended to assist the Senior Vice President for Operations & Finance (Plan Trustee) represented by Retirement Plans Investment Committee (RPIC), which is comprised of the Office of Payroll, Benefits and Tax staff, University Human Resources staff, and the University Benefits Committee Chairperson in making funded retirement plan investment option-related recommendations in a prudent manner. This document outlines the underlying philosophies and processes for the selection, monitoring and evaluation of investment options and investment managers utilized by the Plan and that are made available to plan participants. Specifically, this Retirement Plans Investment Policy Statement:

- Defines the Plan's investment option objectives.
- Defines the roles of those responsible for recommending the Plan's design options.
- Describes the criteria and procedures for selecting investment options and investment providers.
- Establishes monitoring procedures of active investment providers and the fund managers.
- Describes the plan participant educational and communication process.

This Policy Statement will be periodically reviewed by the RPIC. RPIC recommendations will be made to the UBC and forwarded to the Plan Trustee to amend the statement to reflect changes required by law and in plan design options, the capital markets, plan participants objectives, or other factors relevant to the plan. Plan Trustee will, when appropriate, review proposed changes with the Board of Regents and with the other Regents' universities and obtain formal approval if necessary.

III. ROLES AND RESPONSIBILITIES

University Benefits Committee
The UBC advises the University through the Senior Vice President for Operations & Finance regarding all matters related to the employee benefit programs at Iowa State University. It receives employee input and feedback to ensure that benefit programs meet the needs of the University faculty and staff and are competitive with peer institutions. It makes recommendations regarding benefits policy, the design of benefits programs, selection of providers, and monitors providers and plan performance.

Retirement Plans Investment Committee
The RPIC's role and responsibility with regard to the Retirement Plan's Investment Policy Statement are as follows:

- Maintain the Retirement Plan Investment Policy.
- Conduct proper due diligence in the selection of the investment providers retained to manage the investment portfolios.
- Annually require that the investment providers benchmark and report on overall plan and asset class performance, plan cost on a normative and historical basis and document provider financial solvency as evidenced by providing a solvency rating by two or more of the major rating agencies.
- Monitor and evaluate the performance results achieved by the fund managers.
- Evaluate and recommend changes to investment alternatives as new choices are made available.
- Ensure that retirement investment and planning educational communications are made available by the investment providers in conjunction with Iowa State University Human Resources.
- The RPIC will act with the skill, diligence, and care that a prudent person acting in a like capacity and who is familiar with such matters would undertake in accordance with all applicable laws and regulations.

The Senior Vice President for Operations & Finance must approve recommendations for changes to the Retirement Plan Investment Policy, fund manager, investment providers or other matters related to the "Plan" prior to implementation.

Fund Manager
In general, the primary responsibility of the fund manager is to invest assets in accordance with the investment objectives of the fund, the requirements of federal and state law, and in accordance with their own judgments concerning relative investment values. Accordingly, the fund managers are responsible for determining the prices at which securities are bought and sold. The fund managers are responsible for developing the investment objectives and strategies for each fund and the implementation thereof.

The specific duties and responsibilities of each fund manager or its representative are as follows:

- To manage the fund's assets in accordance with the objectives contained within their published guidelines.
- To exercise full investment discretion concerning buying, managing, and selling assets held in the fund's portfolio.

- To vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each fund manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
- To provide the investment provider with regular investment reports as outlined in this Investment Policy.
- To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations.

Investment Provider
In general, the primary responsibility of the active investment provider is to propose and manage an investment portfolio in accordance with this Investment Policy and maintain individual accounts for participants.

Specific duties and responsibilities of each active investment provider include:

- Establishing and maintaining an investment portfolio that contains at least one fund in each of the general investment categories defined in this Policy. The investment provider shall present funds to the Plan for approval before they are incorporated into the offered portfolio.
- Daily recordkeeping of the Program as it relates to their Program participants.
- Communication to participants, including asset allocation and risk assessment tools, as well as general information about each investment offering.
- Serving as a custodian for participant transactions.
- Serving as an intermediary between the fund managers and the Plan.

IV. RETIREMENT PLAN INVESTMENT OBJECTIVES

This Plan is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Because retirement income adequacy is subjective and the Plan's participants and beneficiaries each have different investment objectives, time horizons and risk tolerances, participants and beneficiaries should be able to direct their account balances among a range of investment options to create diversified portfolios that reasonably span the risk/reward spectrum. Iowa State University intends to provide plan participants and beneficiaries with investment choice and plan flexibility while being sensitive to administrative costs and recognizing that under the Plan, plan participants and beneficiaries alone bear the risk of investment results from the options and asset mixes that they select, as well as the retirement withdrawal choices they make.

The Program's objectives in providing multiple investment fund options are:

- To provide participants with investment fund options that are diversified across a range of risk levels, asset classes, and investment strategies to accommodate the participants' varying levels of risk tolerance and financial goals;
- To provide a variety of investment opportunities to promote participation in the Program;
- To provide for the default election investment option (currently, an age appropriate Lifecycle fund) in the event a participant does not make an active investment election.

- To meet the needs of a mobile and changing university workforce in a highly competitive market.
- To provide options for participant salary deferrals for supplemental tax sheltered annuities on either pre-tax or post-tax basis.
- To provide a benefit which, in the context of the other compensation and benefits offered by the State and participating employers, competes to attract and retain employees.

V. SELECTION OF RETIREMENT PLAN INVESTMENT OPTIONS

The selection of retirement plan investment options offered under Iowa State University's funded retirement plan is among the RPIC's most important responsibilities. Set forth below are the considerations and guidelines employed in fulfilling this responsibility.

Investment Alternatives

While it is the responsibility of each participant to determine the appropriate asset mix according to his or her individual investment time horizon, tolerance for volatility, investment preferences, etc. it is the intent of the Plan to provide a range of distinct choices which allow participants to select risk and return strategies that meet their objectives.

The RPIC will solicit information and evaluate options when presented by approved retirement carriers to make informed recommendations to the Plan Trustee. Requests for new funds will be reviewed by the RPIC for appropriateness prior to a recommendation. New funds will require a minimum of three (3) years of historical performance before consideration by the RPIC, unless directed to undertake a review by the Plan Trustee. If an existing investment fund is discontinued, closed, or negatively impacted by an extraordinary event, the RPIC will make a recommendation to the UBC on a suitable alternative fund for transfer of employee monies as necessary.

Major asset classes that could be offered are defined in Appendix A. Please note that if a participant wants more information about asset classes or funds offered they can visit the ISU Benefits website at https://www.hr.iastate.edu/benefits/retirement-plans.

VI. MONITORING AND REPORTING

The RPIC is responsible for on-going monitoring of retirement carrier performance and investment performance. This important function must be a regular and disciplined process. It is the mechanism for revisiting the selection process and confirming that the criteria originally satisfied remain so and that the retirement plan's investment options continue to be valid offerings. While frequent change is neither expected nor desirable, the process of monitoring performance relative to specified guidelines must be periodically undertaken.

Retirement carriers should:

- Achieve performance and risk objectives,
- Comply with investment and other guidelines,
- Comply with reporting requirements,
- Maintain a stable organization and with low turnover of key relevant professionals, and
- Meet no less than annually with Iowa State University designated representatives and provide quarterly reviews of the retirement plans and investment performance.

Additionally, unusual, notable or extraordinary events should be communicated by the retirement carrier immediately to the RPIC. Examples of such events include key personnel or investment team departure, violation of investment guidelines, material litigation against the firm, or material changes in firm structure, or announcements thereof. If areas of dissatisfaction exist, the retirement carrier must outline steps to remedy the deficiency, develop a timeline for implementation and periodically report on implementation progress until completion. If over a reasonable period the retirement carrier is unable to resolve the issue(s), contract termination may result.

VII. PARTICIPANT EDUCATION AND COMMUNICATION

Iowa State University benefits staff and retirement carriers will communicate to plan participants on a periodic basis. Communications should emphasize that plan participants are responsible for their own investment selections and that they make their own retirement planning decisions. The Iowa State University Human Resource Office will provide assistance and information to help participants make informed decisions, while recognizing that decision making in a self-directed Defined Contribution (Money Purchase) Pension Plan is the responsibility of the plan participant.

When changes are made to the University's self-directed Defined Contribution Pension Plan, Iowa State University benefits staff and retirement carriers will develop a communication strategy to provide plan participants timely notification of the changes. Educational materials and retirement carrier presentations and counseling will also be provided to help employees to make informed choices.

APPENDIX A

DEFINITIONS OF ASSET CLASSES

Guaranteed asset class: Unlike other asset classes – such as equities, fixed- income and cash – the guaranteed asset class presents virtually no downside risk to the investor. An individual's principal is protected from loss. This gives individuals a "safe haven" for some of their retirement dollars. It also offers a place for those who are nearing retirement to shift some of their savings to protect what they've accumulated. Investments are made primarily in long-term bonds, commercial mortgages, and real estate.

Money market asset class: The money market asset class represents a relatively low risk investment, offering the long-term investor a "parking place" during volatile markets. It invests in highly liquid investments such as short-term debt instruments and government securities. Risk averse investors may want to allocate some portion of their savings to a money market account for stability as they near retirement.

Historically, returns money market investments have been lower than those of stocks and bonds, and, despite their safety, money market funds are not federally guaranteed against loss.

Fixed-income asset class: Fixed-income investments are securities, such as bonds, that pay set rates of interest. Their values fall when interest rates rise (and vice versa). Bonds can be used to balance risk, and because their values fluctuate less than those of stocks, historically they have been a good source of investment income. However, over time fixed-income investments have provided lower long-term returns than stocks. They can lose value if interest rates rise and rising inflation can erode the value of their interest payments.

Real estate asset class: The real estate asset class includes investments in commercial and residential properties that can appreciate in value and generate rental income, or in Real Estate Investment Trusts (REITs), which emphasize investment in companies that engage in the real estate industry. Real estate is an excellent diversification tool for a retirement portfolio, because historically real estate returns have shown little correlation with stock and bond returns. Real estate also serves as a hedge against inflation and can provide long-term growth potential. However, real estate is subject to risks not associated with many other investments, including fluctuations in property values, higher expenses, and lower income than expected and/or environmental liabilities. In addition, the investment's holdings may be difficult to sell, and occupancy rates and operating costs can vary.

Equities asset class: This asset class includes shares of stock in public companies that offer potential earnings in the form of rising share values and dividends. Including the equities asset class in a retirement portfolio is important because historically equities have provided higher long-term returns than other asset classes such as fixed-income or money market. However, values do fluctuate more than those of bonds or money market securities and recent times have shown that there can be substantial short-term loss.

Equity classes are often compared using Morningstar Style Boxes which help investors identify classes based on valuation (growth, value or blend) and market capitalization.

Growth stocks are shares in firms with rising current or projected earnings. They can offer greater appreciation potential than other stocks, but are also subject to greater volatility. *Value stocks* are shares whose prices seem low relative to their companies' perceived worth. They can provide relatively greater price stability but also may produce relatively lower growth. *Blended stocks* are funds containing a mixture of growth and value stocks.

Small caps, mid caps and *large caps* are evaluated based on a firm's market value, or capitalization. The top 5% of the 5,000 largest stocks are classified as large cap, the next 15% are considered medium cap, and the remaining 80% are considered small cap. Smaller companies sometimes grow faster than larger or medium size companies, but their share prices may be more volatile, and they are less able to pay dividends than large companies.

International equities are issued by companies based outside the U.S. They can provide higher earnings in nations whose markets are grower faster than the U.S. and can lower overall portfolio risk if overseas and domestic markets perform differently. However, they are subject to economic, market and political risks and to changes in currency exchange rates.

SELECTING WITHIN THE EQUITIES CLASS

When selecting funds within the equities asset class, the PLAN will consider:

Domestic vs. international exposure – Some accounts invest solely in U.S. stocks while others either dedicate a portion of their portfolios to foreign companies, or invest exclusively in foreign stocks. Historically, foreign markets can perform independently of U.S. markets, so investment in foreign stocks can help employees further diversify an equities portfolio.

Indexing (passive) or active management style – With an active approach, analysts seek out specific stocks they feel are good investments to meet the goals of the portfolio. Alternatively, the fund can use an indexed approach -- by simply finding an index for funds similar to it and then trying to match the performance of that index by buying all or many of the securities it holds. With an indexed strategy, the risk of underperforming the market may be minimized, although there will be less potential for outperforming the market. With an active strategy, there may be more potential for out- performing the market, but there could also be more downside risk**.**

Capitalization – The size of the companies whose stocks are held in the investment portfolio has a bearing on the amount of risk being assumed. Stocks of large companies tend to represent less risk than those of medium and small companies. How well a company is capitalized ties in to the associated level of risk that an investor will need to evaluate in making the decision of whether to invest.

Blended funds vs. Specific funds – Within an account's underlying portfolio, there may an emphasis on either growth stocks or value stocks, or a combination of both. Although historically both growth and value stocks go through positive and negative cycles, over the long run they tend to offer similar investment experience. Growth stocks are priced high in relation to their earnings because these companies are considered to have above-average potential to appreciate over time. Value stocks are considered to be "bargains" – companies that have temporarily fallen out of favor but that are poised to rebound positively over time. Blend funds include stocks that represent both growth and value orientation. Offering blended funds in the retirement plan gives employees a way to participate in both growth and value simultaneously.

Benchmarks – Different funds use different benchmarks. Two common benchmarks for equities are the indices of the Frank Russell Company and the S & P 500. The Russell indices are broadly based. For example, the Russell 3000® includes the 3,000 largest publicly traded U.S. companies, covering approximately 98% of the market as a whole. The S & P 500, a better-known index, is more narrowly focused. It tracks the largest 500 stocks, covering 75% of the market. Employees who are interested in pursuing a primarily indexed investment strategy may want to be able to choose among funds that track various benchmarks.

Socially responsible funds – Some investors feel strongly about being able to allocate their money to funds that emphasize social responsibility. Socially responsible funds can be balanced – mixing stocks, bonds and money market instruments – or focus solely on a single asset class like equities.

Natural Resource Funds – A fund that invests in securities related to natural resources sectors including energy, metals, materials, agriculture as well as companies in associated sectors like mining equipment, oil services, agricultural chemicals, etc. Natural resources are defined as raw materials before and after processing, but before brand value addition, for example crude oil, natural gas, minerals, steel, agricultural products and chemicals but not branded food or fabricated items.

Balanced or lifestyle funds – These types of funds generally invest in a mix of stocks, bonds and money market instruments and provide investors with a way to achieve asset class diversification within a single account. Another alternative to providing a balanced or lifestyle fund is to ensure that employees can elect an automatic rebalancing service that will reposition their portfolio's assets back to original targets.

Lifecycle funds – These types of funds generally target a specific retirement date, adjusting the asset class mix to become more conservative as the retirement date approaches. Lifecycle funds are the current default investments for participants who do not make an active investment election.