

Southern Methodist University
Retirement Plans Policy Statement

Dated May 1, 2012

(Restated from April 2, 2007)

Table of Contents

I.	Background	3
II.	Statement of Purpose	3
III.	Council Composition and Responsibilities	3
IV.	404(c) Compliance Guidelines	4
V.	Selection of the Investment Options	4
VI.	Monitoring of Investment Options	6
VII.	Summary Statement	7

I. Background

The Southern Methodist University Retirement Plan ("the Plan") is a defined contribution 403(b) retirement savings plan maintained by Southern Methodist University ("Plan Sponsor") for eligible employees in accordance with the terms, conditions, and provisions of the Plan, as set forth in the plan documents. The Plan is administered by Southern Methodist University which receives informal advice and guidance from the Retirement Plans Advisory Council ("Council"). The University Retirement Plan also includes a 457(b) plan for highly compensated employees.

The Plan and the benefits provided thereunder are funded by employee salary deferral and/or after-tax Roth contributions and employer contributions provided in accordance with specific Plan provisions. The primary purpose of the Plan is to provide retirement benefits to participants and their beneficiaries (referred to hereafter as "participants"), with the Plan assets held for long-term investing for retirement with a focus on minimizing the risk of large losses.

Notwithstanding any provision of this Policy Statement, if any term or condition of this Policy conflicts with the Employee Retirement Income Security Act of 1974 as amended ("ERISA") or any term or condition in the Plan, ERISA and the terms and conditions of the Plan shall control.

This Policy Statement shall be reviewed at least annually and, if appropriate, can be amended to reflect changes in the capital markets, the Policy Statement's participant objectives, plan demographics, legislative and regulatory changes, or other factors relevant to the Policy Statement.

II. Statement of Purpose

The primary purpose of this Policy Statement is to:

- Outline the composition and responsibilities of the Council;
- Establish the parameters of the Plan Sponsor's determination that the Plan should be maintained as a "404(c) Plan;" and
- Establish criteria for evaluating, selecting, and monitoring (i) core investment options made available for participant investment, and (ii) the Plan's third party record-keepers, administrators and investment vendors;

III. Council Composition and Responsibilities

The Department of Human Resources recommends Council members to the Vice President of Business and Finance/CFO. After consultation with the Provost and President, as necessary, The Vice President of Business and Finance appoints the Council members. The Council is generally composed of six to eight members equally represented by faculty and staff. Terms of office are generally three years but may be extended depending on turnover.

The CFO, University Treasurer, and staff of the Human Resources Department serve in an ex-officio capacity.

The Council is charged with providing advice and guidance to the Administration through the Vice President for Business and Finance/CFO. The Council's role is purely advisory. It has no discretionary authority or control over Plan management or assets or Plan administration, and thus it is not intended that Council members are fiduciaries.

Members of the Council shall exercise the utmost good faith in all transactions touching upon their duties to Southern Methodist University and its property. In their dealings with and on behalf of the institution, they shall be held to a strict rule of honest and fair dealing between themselves and the University. Any potential conflicts of interest should be reported consistent with the University Conflict of Interest Policy. Council members shall not use their positions, or knowledge gained therefrom, in such a way that a material conflict would arise between the interest of the University and that of the individual, and any actual or threatened violation of this prohibition should be promptly disclosed.

The specific responsibilities of the Council include the following:

- Recommend reasonable and consistent investment objectives, policies and procedures which will govern the direction of investments by participants in the Plan.
- Recommend the selection, and assist in the subsequent monitoring, of qualified investment professionals to advise and assist in determining and monitoring investment options, including, as applicable, investment managers, annuity providers, record-keepers, investment advisors or consultants, as determined necessary or advisable from time to time.
- Recommend asset classes, investment options, and default funds to be made available from time to time for participant direction of investments.
- Participate in regularly evaluating the performance and cost of any investment option selected for offering to participants.
- Review and recommend communication strategies to educate employees about their retirement planning.
- Recommend changes to the design of the Retirement Plan.

The Council shall meet at least semi-annually. Meetings or communications can occur more frequently if significant concerns arise about investment strategy or performance, or if key changes occur in investment advisory personnel or organizational structure.

IV. 404(c) Compliance Guidelines

The Plan Sponsor has determined that the Plan will be an individual account plan where participants exercise control over the assets in their accounts established under the Plan within the meaning of the Department of Labor Regulations under ERISA Section 404(c). Plan participants shall select how individual accounts are invested and in accordance with

ERISA Section 404(c), no participant will be deemed to be a fiduciary by reason of his or her exercise of control, and no person who is otherwise a fiduciary shall be liable for any loss (or by reason of any breach) which results from such participant's exercise of control over the investment of his or her account. The Council shall assist in monitoring the Plan's compliance with ERISA Section 404(c), including the participant disclosure obligations thereunder.

V. Selection of Investment Options

Recommending which asset classes and investment options may be offered is an important role of the Council. Each of the investment options included within the Policy Statement shall consist of either annuity contracts or mutual funds, as required by Code Section 403(b)(1) and (7), and shall be considered within the context of, among other relevant factors, the following:

- **Diversification**
Each investment option shall be diversified with respect to its investment objectives.
- **Scope of Investment Options**
The overall number of investment options offered shall be kept to a prudent number of choices, consistent with overall plan objectives.
- **Established Performance History**
Each investment option shall be managed by an investment manager with a sufficient record in the particular investment strategy reflected by that option.
- **Performance**
The performance of each investment option shall be competitive as measured against appropriate benchmarks and/or peer groups.
- **Risk**
Each investment option shall maintain a competitive record with respect to specific risk metrics and risk-adjusted returns as measured against appropriate benchmarks and/or peer groups.
- **Expenses**
The impact of fees on the returns of each investment option within the Retirement Plans shall be an important consideration. Total net fees shall be competitive as compared to the appropriate peer groups.
- **Consistency of Investment Objective**
Investment options shall have a record for investment style and risk consistency.

Core Options

The core investment options available to participants in the Plan will be selected in a prudent manner for the exclusive purpose of providing benefits to such participants and their beneficiaries and defraying reasonable Plan expenses. Core investment options should also:

- Be invested in compliance with ERISA and regulations issued thereunder;
- In aggregate, provide a sufficient variety of options to permit participants to diversify their accounts in accordance with ERISA Section 404(c);

- Be generally representative of the investment objectives they were designed to achieve;
- Maintain sufficient liquidity in order to meet the cash requirements of the Plan, including paying the reasonable and necessary expenses of administering the Plan, and to meet participant liquidity requirements to the extent permitted under the Plan, such as loans, hardships and other in-service withdrawals, and retirement distributions and transfers;
- In general, remain competitive with an identified, appropriate benchmark index (or blended benchmark indices) for a similar style universe for purposes of both risk and return;
- Have objectives which are suitable for a qualified retirement plan; and
- Maintain a competitive and fair fee structure.

Non-Core Options

In addition to the core fund options, the Council may recommend other options to enable participants to further diversify or customize their portfolio. Such options would include a Personal Choice Retirement Account (PCRA) that gives participants the opportunity to invest in funds and securities of their own choosing. As such, investments made through PCRA fall outside the scope of this Policy Statement.

Default Option

The default option will be utilized in situations where a participant does not make an active investment selection and is automatically enrolled in the Plan. The default option shall qualify as a Qualified Default Investment Alternative under ERISA. On an annual basis, the Council shall review the default option to ensure it continues to be an appropriate default option.

VI. Monitoring of Investment Options

The Council shall review the Core Investment Options at least semi-annually or as circumstances warrant. As part of its monitoring process, the Council shall consider the following:

	Measure *	Expectation
Performance	3 and 5 Year Return	Reasonable vs. Universe Median
Risk	3 and 5 Year Standard Deviation	Reasonable vs. Universe Median
Expenses	Expense Ratio	Reasonable vs. Universe Median
Risk-adjusted Return	Overall Morningstar Star Rating	3 or more Stars
	3 and 5 Year Information Ratio	Reasonable vs. Universe Median
Consistency	3 and 5 Year Correlation	Reasonable vs. Universe Median
	3 and 5 Year Batting Average	
Market Capture	3 and 5 Year Up and Down Market Capture Ratios	Reasonable vs. Universe Median

***Investment Definitions**

Risk Measure:

Standard Deviation: A measure of dispersion around the mean or average return. The higher the standard deviation, the greater the dispersion of returns and the higher the risk (volatility) associated with the investment.

Risk-Adjusted Return Measure:

Information Ratio: The excess return of the portfolio relative to an appropriate benchmark divided by the standard deviation of the excess return. It is a measure of the relative rate of return per one relative unit of risk.

Consistency Measures:

Correlation: A statistical measure of how two securities move in relation to each other. The correlation coefficient will vary from -1.0 to 1.0. -1.0 indicates perfect negative correlation, and 1.0 indicates perfect positive correlation

Batting Average: A measure in percentage terms of how often the product achieved a higher rate of return than its benchmark.

Market Capture Measures:

Up Market Capture: Up market by definition is positive benchmark return and up market capture represents the ratio in % terms of the average portfolios return over the benchmark during the up market period. The higher the value of the up market capture the better the products performance.

Down Market Capture: Down market by definition is negative benchmark return and down market capture represents the ratio in % terms of the average portfolios return over the benchmark during the down market period. The lower the value of the down market capture the better the products performance.

Reasonability is generally met when a fund ranks above the median of its Morningstar peer group. The Council may also compare fund criteria to benchmark measures.

The Council may, from time to time as warranted, recommend modification of these objectives and criteria, or may consider other objectives and criteria, all according to the Council's discretion after consultation with such financial advisors as it deems appropriate

Investment vehicles that consistently fail to meet the Council's expectations may become candidates for replacement. While no single shortfall is necessarily cause for immediate action, the Council may determine to place a fund "on watch" for unsatisfactory results.

The Council will recommend the removal or replacement of an investment fund if, in the opinion of the Council, the investment option does not, or is not expected to, meet the specified criteria or is no longer suited to the Plan and its participants.

VII. Summary Statement

This Policy Statement shall guide the Council and shall remain in effect until amended by the Council in accordance with the terms set forth herein. This Policy Statement is only a guideline and nothing contained herein shall give any right to any participant or beneficiary to enforce the terms of this Statement, and the Plan Sponsor shall have full and complete discretion regarding the Investment Options offered within the Plan and the application of this Policy Statement to any specific situation.

Adopted by the Council this 1st day of May, 2012, as evidenced by the signature of the chairperson below.

Bill Detweiler
Chairperson