

# **Alaska Railroad Corporation**

## **Investment Policy Statement**

**Represented and Non-Represented 401(k) Plans  
and  
457 Deferred Compensation Plan**

**Amended April 2015**

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## **1. Purpose**

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### **Policy**

This Statement of Investment Policy ("Investment Policy") is adopted by the Tax Deferred Savings and Pension Committee to establish policies for the management and investment of The Alaska Railroad Corporation (the "Corporation") 401(k) Tax Deferred Savings Plan for Represented Employees. It is also adopted by the Non Represented Tax Deferred Savings Committee for the Alaska Railroad Corporation 401(k) Tax Deferred Savings Plan for Non-Represented Employees and the 457 Deferred Compensation Plan. Collectively the two Committees are referred to as "Committees" and the three Plans are referred to as "Plan" or "Plans."

The purposes of this Investment Policy are to:

- Define investment objectives and establish guidelines for the investment options made available to Plan participants.
- Provide written documentation of the Committees' expectations regarding the Plans' investment options for all fiduciaries.
- Outline criteria and procedures for the ongoing operation and evaluation of the Plans' investment options.

This Investment Policy will be used as the basis for considering future investment options and future investment performance measurement and evaluation. It will be updated and revised by the Committees as appropriate to reflect the Plans' changing goals and objectives. It is adopted by the Committees pursuant to the terms of the Plans with the advice of investment and legal experts and is intended to be binding upon all persons with authority over Plan investments, including the Trustee, Investment Managers, and Investment Consultants. Any provision of this Investment Policy that is inconsistent with the Plan documents or the Plans' Trust Agreements shall be disregarded, and the remaining provisions of the Investment Policy shall be interpreted consistently with the Plan documents and Trust Agreements.

In general, the Committees intend this Investment Policy to be sufficiently flexible to accommodate current and future economic and market conditions and changes in applicable accounting, regulatory, and statutory requirements. The Committees reserve the right, however, to deviate from this Investment Policy as they deem appropriate, including on a case-by-case basis with respect to any Investment Manager appointed by the Committees.

### **Plans**

The Plans are part of the Corporation's retirement program, which seeks to assist employees and their beneficiaries in obtaining financial security primarily in retirement. The Corporation believes that achieving this objective is a shared responsibility of both the Corporation and its employees. The Plans are primarily intended to facilitate the accumulation of assets by participants on a tax deferred or Roth basis for retirement by permitting participants to defer a portion of their compensation in accordance with the

Internal Revenue Code, Alaska Statutes and other governing rules and regulations. Participant deferrals may be made on either a pre-tax basis or on a Roth after-tax basis.

The 401(k) Plans provide for loans and hardship withdrawals so that participants who may have financial emergencies or short term needs are still encouraged to save through the 401(k) Plans. Though the Plans are not governed by the Employee Retirement Income Security Act of 1974 (ERISA), they are intended to be maintained in compliance with Section 404(c) of ERISA and the regulations interpreting that Section (in general, Section 404(c) relieves fiduciaries from liability for the results of investment decisions made by Plan participants who have the ability to direct their Plan investments).

## **2. Investment Objectives and Standards**

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Plan participants will be solely responsible for the investment decisions and investment transactions that they make under these Plans and will bear their own risk. They also assume responsibility for electing the timing and form of distributions according to the terms of the Plans.

The primary investment objective of the Plans is to present participants with a range of investment options which give them an opportunity to increase the value of their investment assets in a manner consistent with varying levels of participant risk/reward tolerances and investment decision-making skills. While the Plans cannot meet all plan participant investment preferences and attitudes, the Plans attempt to provide investment options for participants at various levels of investment sophistication and with varying requirements for risk and return.

It is intended that, at minimum, Plan participants will be provided with the following opportunities:

- A. Investments that provide a reasonable opportunity:
  - To materially affect the participant's account's potential return and degree of risk.
  - To choose from at least three (3) investment options each of which is diversified and has materially different risk and return characteristics.
    - Which in aggregate enable the participant to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant.
    - Which when combined with the investments in the other investment options tends to minimize through diversification the overall risk of a participant's portfolio.
- B. To make and/or modify investment decisions at least quarterly.
- C. To receive or have access to the following information, as updated:
  - A description of the investment options available under the Plans including a general description of the investment objectives, risk and return characteristics, and type and diversification of assets comprising each alternative;
  - Identification of the designated investment providers, investment manager(s) and investment products;
  - A description of any transaction fees or expenses charged to the Plan participant's account, and information on costs and fees for an investment product that reduce Plan participant rates of return (expense ratios); and
  - Prospectuses, annual reports, and semi-annual reports on investment options, if available.

A risk/reward structure is basic to investments. Generally, those vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long-range asset accumulation can be lessened through diversification among asset categories or classes. To provide participants the opportunity to select risk/reward strategies and to allow for the diversification of their Plan accounts, the Plans will offer a number of investment options in a variety of asset categories. These categories will have varying return and volatility characteristics and it

is the responsibility of each participant to evaluate the investment options and to select an appropriate mix.

In addition to providing a range of investment options, the Plans seek to provide investment options that are competitive in terms of performance relative to appropriate investment performance and risk benchmarks. The performance and risk relationships of the Plans' investment options will be reviewed by the Committees no less frequently than quarterly.

Investment options should generally be given a full market cycle to achieve stated objectives (market cycles normally occur over 3-5 year time periods). Investment options are expected to meet (in the case of passively managed/indexed options) or exceed their pre-determined benchmark index net of fees. Where peer groups are definable, actively managed investment options are expected to perform within the upper half of a sample of same style peers net of fees.

In addition to net investment performance, the investment options' risk characteristics will also be reviewed. The risk associated with an investment option generally should be similar to the same-style peer group. Risk-based or target retirement date asset allocation funds are a unique subset of the Plans' range of available investment options. They are designed to invest in other funds based either on the option's fixed risk profile or its variable risk profile as it shifts asset allocation over time to become more conservative. Therefore, the current and prospective composition (or asset allocation) of the Plans' asset allocation funds shall be considered when evaluating them relative to the benchmark and peer group constituents.

### 3. Investment Options

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Investment options offered by the Plans will be categorized or grouped by similarities in investment objectives, style, and risk. The Plans will assist participants in meeting their long-term investment objectives by providing investment options within the following permitted investment categories which shall comprise the core investment choices:

- Stable Value
- Intermediate Term Bond
- Global Bond
- U.S. Large-Cap Equity
- U.S. Mid-Cap Equity
- U.S. Small-Cap Equity
- International Equity
- Target Retirement Date funds

Investment options and categories may be added or deleted as the Committees deem necessary. At least one investment option will be made available in each of the above categories. Specific investment options made available to participants may be either passively or actively managed.

Following are descriptions of each category of investment option. The table following each category description contains benchmark indexes and peer groups appropriate for investment options within the category. Benchmarks and universes are further described in Appendix B, as amended from time to time.

#### **STABLE VALUE**

**Objective and Description:** Provide high relative current income and a high degree of investment safety without fluctuation of principal. Investment returns are derived primarily from interest income, with the possibility of some capital appreciation (or depreciation) of the underlying investment instruments. Generally, this option will be invested in guaranteed investment contracts (GICs) and/or "synthetic" portfolios, each comprised of investments generally maturing in one (1) to seven (7) years, and which provide for a reasonable degree of liquidity. The duration of the stable value portfolio will generally be between two (2) to four (4) years.

#### **Benchmarks and Peer Groups:**

<b>Asset Class</b>	<b>Benchmark Index</b>	<b>Universe</b>
Stable Value	US Treasury 5 Year Constant Maturity Note	US Stable Value

#### **INTERMEDIATE TERM BOND**

**Objective and Description:** Provide capital appreciation and income through a diversified fixed income portfolio. The expected duration for the portfolio will average five (5) years, with durations of three (3) to seven (7) years possible at times. Average credit quality will be investment grade. The fixed income portfolio will normally be comprised of money market instruments and U.S. Government and Agency bonds, mortgage and asset-backed securities, and corporate bonds (including convertibles).

Foreign holdings may be included, as well as corporate securities of less than investment grade.

**Benchmarks and Peer Groups:**

Asset Class	Benchmark Index	Universe
Intermediate Term Bond	Barclays US Aggregate Bond	US OE Intermediate Term Bond

**GLOBAL BOND**

**Objective and Description:** Provide total return through both capital appreciation and income stemming from investments in fixed income instruments from issuers located around the world. The fund is expected to invest primarily in bonds issued by corporations, governments, and other such borrowers. The fund's investment manager retains the latitude to invest in duration, credit quality, geographic regions and currencies as it sees fit.

**Benchmarks and Peer Groups:**

Asset Class	Benchmark Index	Universe
Global Bond	Barclays Global Aggregate Bond Index	US OE World Bond

**U.S. LARGE-CAP EQUITY**

**Objective and Description:** Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization greater than \$10 billion. Equities of foreign companies may also be included, but would generally not exceed 20% of the portfolio.

**Benchmarks and Peer Groups:**

Asset Class	Benchmark Index	Universe
Large Cap Value	Russell 1000 Value	US OE Large Value
Large Cap Blend	S&P 500	US OE Large Blend
Large Cap Growth	Russell 1000 Growth	US OE Large Growth

**U.S. MID-CAP EQUITY**

**Objective and Description:** Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization between \$2 billion and \$10 billion. Equities of foreign companies may also be included, but would generally not exceed 20% of the portfolio.

**Benchmarks and Peer Groups:**

Asset Class	Benchmark Index	Universe
Mid Cap Value	Russell Mid Cap Value	US OE Mid Value
Mid Cap Blend	Russell Mid Cap or Custom Blended Index	US OE Mid Blend
Mid Cap Growth	Russell Mid Growth	US OE Mid Growth



### U.S. SMALL-CAP EQUITY

**Objective and Description:** Provide long-term capital appreciation through a diversified common stock portfolio with an average market capitalization between \$500 million and \$2 billion. Equities of foreign companies may also be included, but would generally not exceed 20% of the portfolio.

#### Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Universe
Small Cap Value	Russell 2000 Value	US OE Small Value
Small Cap Blend	Russell 2000	US OE Small Blend
Small Cap Growth	Russell 2000 Growth	US OE Small Growth

### INTERNATIONAL EQUITY

**Objective and Description:** Provide long-term capital appreciation through a diversified portfolio of international equities. Equities of emerging countries may be used at the discretion of the manager, but would generally not exceed 30% of the portfolio.

#### Benchmarks and Peer Groups:

Asset Class	Benchmark	Universe
Foreign Large Value	MSCI ACWI ex USA Value	US OE Foreign Large Value
Foreign Large Blend	MSCI ACWI ex USA or Custom Blended Index	US OE Foreign Large Blend
Foreign Large Growth	MSCI ACWI ex USA Growth	US OE Foreign Large Growth

### TARGET RETIREMENT DATE FUNDS

**Objective and Description:** These portfolios are funds of funds designed to be a complete investment portfolio for participants who chose to leave the asset allocation and implementation decisions to investment professionals. Their investment objective is to provide different levels of income and capital appreciation dependent upon an individual participant's risk tolerance and income needs. Target retirement date portfolios are designed to change their risk profile as the participant reaches his or her target retirement date. Portfolios will be well diversified across multiple asset classes generally including both fixed income and equity securities.

#### Benchmarks and Peer Groups:

Asset Class	Benchmark	Universe
Target Retirement Date	Custom Based on Target Retirement Date	US OE Target Date

### 3.1 Investment Manager Selection Guidelines

The term "Investment Manager," as used herein, generally means any bank, insurance company or registered investment advisor that has the power to manage, acquire, or

dispose of any assets of the Plans, but also generally means any commingled fund, or mutual fund selected as an investment option under the Plans. Mutual funds must be registered under the Investment Company Act of 1940. The Plans' assets are currently invested exclusively in mutual funds and commingled funds as shown in Appendix A, which may be revised from time to time. To the extent that Plan assets are invested in commingled funds or mutual funds, such commingled funds or mutual funds will be held to the same performance standards as Investment Managers, but will not be subject to the responsibilities listed for Investment Managers in section 5.3 of the Investment Policy. The prospectus, offering memorandum, investment guidelines or similar document of the mutual fund or commingled fund shall govern the Plans' assets invested in the commingled fund or mutual fund. Investment Managers may employ the use of futures contracts and options and other derivative investments as provided in such governing documents.

The Committees review the investment strategy of each Investment Manager considered for investment of Plan assets. The Investment Manager's performance will be evaluated on a long-term basis, in light of the investment environment and investment style of each Investment Manager.

The due diligence process to be followed in selecting an Investment Manager should include, but not be limited to, an analysis of the following factors:

- 1) Length of investment performance track record and consistency of returns achieved with risks taken;
- 2) Relative investment performance as compared to predetermined benchmarks and/or universes;
- 3) Alignment of investment philosophy, process and style with Plan objectives;
- 4) Size and experience of professional staff;
- 5) Tenure of investment management team;
- 6) Competitiveness of investment management fees;
- 7) Any pending regulatory investigations, censures, or material legal proceedings.
- 8) In the case of Target Date funds, the current and prospective composition (or asset allocation) of the Target Date funds' and their corresponding risk and return implications, shall be considered when evaluating them.

### **3.2 Mutual Fund and Commingled Fund Proxy Voting**

The Committees or their delegate are responsible for exercising proxy voting rights arising from Plan assets, in a prudent manner and in the best interests of the participants and beneficiaries of the Plan. The Committees reserve the right to decline to vote on a proxy.

## 4. Standards of Performance

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### 4.1 Performance Standards

Performance objectives may be established for each Investment Manager included in the Plans. Any performance review will include measuring the Managers' investment performance relative to stated benchmarks and universes, as well as an assessment of risk taken under the Managers' stated objectives. The Committees shall review the performance of the Investment Managers quarterly to determine if they are meeting the established objectives. The following general criteria will be used to evaluate Managers:

- 1) Quantitative Measures
  - a) Active Investment Strategies: Managers employing active management are expected to outperform their stated asset class or style benchmark net of all management fees on a trailing five year time period; and to rank superior to the 50<sup>th</sup> percentile of the appropriate universe for the same trailing five year time period. It is also expected that the risk of each Manager, as defined by the standard deviation of returns, will be commensurate with the prescribed strategy relative to the appropriate market index.
  - b) Passive Investment Strategies: Passive Managers are expected to track the performance of the index strategy that the Manager is designed to replicate, less management fees, with marginal tracking error. It is also expected that the risk of each passive Manager, defined as the annualized standard deviation of returns, be commensurate with the corresponding replicated market index.
    - c) Certain passive investment options operate in a marketplace that includes foreign markets whose exchanges close prior to that of the United States. In these instances, some fund managers may engage in a method of "Fair Value Pricing," whereby the managers adjust the pricing of securities in the Fund to reflect any information that has become available after the close of the applicable foreign exchange market. Discrepancies in performance between the applicable investment option and its performance benchmark that are due to "Fair Value Pricing" will be taken into consideration in evaluating performance of the affected investment options and generally will not be counted as underperformance.
- 2) Qualitative Measures: The Managers will also be monitored on an ongoing basis for material changes such as personnel departures, organizational changes, alterations in investment style, philosophy, or strategy, as well as for adherence to stated guidelines.
- 3) Time Periods: Investment Managers should generally be given a full market cycle to achieve stated objectives. Recognizing that short-term fluctuations may cause variations in a Manager's relative performance, the Committees may place more emphasis on performance over market cycles, generally of three to five years.

- 4) Risk Assessment: In addition to net investment performance, the Committees will also review the Investment Managers' risk characteristics in relation to that performance. Risk may be measured in various ways including, but not limited to:
- Standard deviation
  - Up market and down market performance
  - Other statistical measures

#### **4.2 Watch Status and Termination**

All Investment Managers are expected to perform according to their prescribed objectives under this policy and to perform as well as, or better than, their prescribed benchmarks or universes. A list of the Plans' specific Investment Managers, along with their respective benchmark index and universe, is provided in Appendix A. The Committees recognize the long-term nature of retirement plan investing and the variability of market returns. Periodic underperformance in any of the criteria outlined in this Investment Policy will not necessitate any particular action or the termination of a Manager. Underperformance will generally provoke additional consideration by the Committees of the factors causing underperformance and possible courses of action.

The Committees may place an Investment Manager on watch status where the Investment Manager's performance, operations and/or governance will continue to undergo a greater level of review and analysis.

Factors contributing to placing an Investment Manager on watch status for performance related reasons are:

- Performance below the median of its universe over a trailing five year period; and
- Performance below the prescribed benchmark index over a trailing five year period.

Factors contributing to placing an Investment Manager on watch status for non-performance related reasons are significant changes in the following characteristics:

- Risk profile of the portfolio
- Increases in management fees or expense ratios
- Turnover in the portfolio management team of the portfolio
- Increases or decreases of assets under management
- Deviation from style for which the Manager was selected
- Organizational change, such as changes in ownership, mergers, etc.

The Committees will use their discretion, in consultation with the Investment Consultant, in removing Investment Managers from a watch status. A Manager may remain on watch status until the Committees decide to take further action. Committee actions include, but are not limited to, the following:

- Removing the Manager from watch status
- Continuing the Manager in watch status
- Terminating the Manager and reallocating fund assets to a replacement Manager.

The Committees will endeavor to use their best judgment and information available to act in a prudent manner. The Committees reserve the right to replace or terminate any Investment Manager at any time, for any reason, when they determine such termination is in the best interest of the Plans, participants and beneficiaries.

## **5. Parties Responsible for Management & Administration of Plan Investments**

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Several entities are responsible for various aspects of the management and administration of the Plans' investments. While the Plans are not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), those entities that have discretionary authority with respect to the Plans' investments, or render investment advice to the Plans for a fee, are fiduciaries to the Plans, and are expected to perform their duties in accordance with the provisions of ERISA Section 404(a)(1). Those entities and their responsibilities include, but are not limited to:

### **5.1 Committees**

The Committees are responsible for the management of Plan assets. Specifically those responsibilities include:

- Complying with applicable federal and Alaska state laws, regulations, and rulings.
- Maintaining and communicating to all appropriate parties objectives and guidelines relating to the investment of Plan assets.
- Analyzing the effect of capital markets and Investment Manager organizations on Plan assets.
- Selecting and monitoring the performance of qualified professionals, including Investment Managers, Trustees, Investment Consultants and Recordkeepers, to assist in the implementation of this Investment Policy.
- Establishing investment goals, objectives, and performance standards for each Investment Manager consistent with the terms of the Plans.
- Reviewing and evaluating the results of the Investment Managers against the established standards of performance on a quarterly basis.
- Providing proxy voting direction to the Investment Manager and/or Trustee.
- Delegating investment and administrative duties to others, as appropriate, using reasonable care.
- Evaluating annually this Investment Policy with input from the Investment Consultant, and making any changes to the Investment Policy as the Committees determine are appropriate.
- Evaluating annually Investment Manager compensation (including direct and indirect compensation) and comparing it to an appropriate universe supplied by the Investment Consultant.
- Periodically evaluating the cost of plan administrative services including recordkeeping and custody fees using comparative data provided by the Consultant
- Taking whatever corrective action the Committees deem prudent and appropriate if objectives are not met or if Investment Policy guidelines are not followed.

### **5.2 Trustee**

The Trustee for the Plans is responsible for:

- Fulfilling the duties of a trustee as required by applicable state and federal laws and the Trust Agreement.
- Receiving contributions and paying withdrawals from the Plans, pursuant to proper instructions.

- Safekeeping of assets, timely settlement of securities transactions, timely crediting of all income and principal realizable by the Plans.
- Delivering Plan assets to a successor trustee or as otherwise directed in proper instructions, within a reasonable period of time after termination.
- Distributing promptly to the Committees or their designee all proxy materials or other corporate actions received by the Trustee relating to the Plan's investments.

### **5.3 Investment Managers**

The Investment Managers are given full discretionary authority to accomplish the investment objectives of the Plans, subject to the guidelines set forth in this Investment Policy. The Investment Managers are responsible for the following:

- Acknowledging in writing that he, she or it is a fiduciary with respect to the Plans.
- Determining and implementing investment strategy in accordance with the style for which they were hired.
- Implementing security selection and timing decisions.
- Providing reports and data as requested by the Committees, Investment Consultant, or Trustee.
- Reporting immediately, in writing, to the Committees and Investment Consultant any and all changes in the firm's ownership, investment personnel (including, but not limited to senior management and portfolio Managers) and investment style and/or approach.
- Reporting the performance of Plan assets under management, after the close of each quarter, in a form acceptable to the Committees, Trustee, and the Investment Consultant.

The Investment Managers selected to invest Plan assets are listed in Appendix A, as amended from time to time.

### **5.4 Investment Consultant**

The Investment Consultant is responsible for:

- Measuring and reporting quarterly performance of the Plans' assets.
- Providing to the Committees quarterly performance reports, detailing the overall economic environment, performance of each Investment Manager, asset class benchmark and universe, including relevant performance standards and assessment of compliance with Investment Policy guidelines.
- Monitoring compliance with the Investment Policy.
- Providing to the Committees on an annual basis, or more frequently if needed, an assessment of and recommendations for any changes needed to the Investment Policy.
- Providing the Committees with cost comparison data to assess the reasonableness of investment management and plan administration fees.
- Assisting the Committees in establishing and maintaining an appropriate Investment Policy, including making recommendations on changes to benchmarks or universes used to measure and monitor Investment Manager performance.
- Proactively suggesting improvements to the Plans' investment program.

- Promptly informing the Committees of any material changes in the Investment Managers' organization, key personnel, investment style or strategy, investment process or other changes pertinent to retention of the Investment Managers.
- Notifying Investment Managers who are placed on a watch status, or removed from watch status.
- Providing investment expertise and analyses as needed by the Committees.
- Keeping the Committees informed of current investment trends and issues and material changes in the regulatory environment.
- Performing other projects as requested by the Committees.

## **5.5 Recordkeeper**

The Recordkeeper is responsible for:

- Maintaining the Plans' participant account balances in an accurate and confidential manner;
- Preparing quarterly participant statements;
- Completing any compliance tests as included in its service agreement;
- Providing accurate and timely Plan data and reports to the Committees;
- Providing participants with electronic access to account information and transactions;
- Coordinating distribution of fund prospectuses or other offering documents to participants as requested; and
- Providing various participant communication materials as described in the service agreement and/or as requested by the Committees

## **5.6 Meetings**

Representatives of the Investment Managers may be invited to meet from time to time with the Committees to review the investment performance of their fund and other investment-related issues. The Committees understand that mutual fund Investment Managers and commingled fund Investment Managers may not provide representatives to meet with the Committees on a regular basis. The Investment Consultant will provide the Committees with information regarding the performance of mutual funds and commingled funds and other investment-related issues in the quarterly report.

The Investment Consultant will meet with the Committees at least semi-annually to review the Plans' performance. The Committees may request additional meetings.



**6. Adoption and Acceptance**

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The Alaska Railroad Corporation Tax Deferred Savings and Pension Committee adopted and accepted the Investment Policy as amended April 2015:

**Signatures**

**Dated**

Susan Lundermark

4/30/15

[Signature]

4/30/15

Pamela Barbeau

4/30/2015

Stu M. Cain

6-15-15

[Signature]

6-15-15

The Alaska Railroad Corporation Non Represented Tax Deferred Savings Committee adopted and accepted the Investment Policy as amended April 2015:

**Signatures**

**Dated**

Susan Lundermark

4/30/15

[Signature]

4/30/15

Pamela Barbeau

4/30/2015

Stu M. Cain

6-15-15

[Signature]

6-15-15

## Appendix A – Investment Managers

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### Investment Managers and Universe Designations:

<b>Product Name Vehicle Type</b>	<b>Universe</b>
Vanguard Windsor II Investor Mutual Fund	U.S. Large Cap Value Equity
MFS Growth R5 Mutual Fund	U. S. Large Cap Growth Equity
Vanguard 500 Index Investor Mutual Fund	U.S. Large Cap Blend Equity
JP Morgan Mid Cap Value Mutual Fund	U.S. Mid Cap Value Equity
Vanguard Mid-Cap Growth Fund Mutual Fund	U.S. Mid Cap Growth Equity
Vanguard Extended Market Index Admiral Mutual Fund	U.S Mid Cap Blend Equity
Victory Integrity Small Cap Value R6 Mutual Fund	U.S. Small Cap Value Equity
Loomis Sayles Small Cap Growth Inst. Mutual Fund	U.S. Small Cap Growth Equity
American Funds EuroPacific Growth R5 Mutual Fund	Foreign Large Growth Equity
Vanguard Total International Stock Index Admiral Mutual Fund	Foreign Large Blend Equity
Vanguard Retirement Savings Trust Collective Investment Trust	Stable Value
Templeton Global Bond Fund Advisor Mutual Fund	World Bond
Vanguard Total Bond Market Index Admiral Mutual Fund	Intermediate Term Bond
Vanguard Target Retirement (Income, 2010 - 2060) Mutual Funds	Target Date Retirement Income through 2051+

April, 2015

## **Appendix B – Definitions of Benchmarks and Universes**

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### **Benchmark Definitions**

#### **US Treasury Five (5) Year Constant Maturity Note**

The five (5) year constant maturity treasury index represents a return based on the yield of the five (5) year Treasury note. The annual yield of the five (5) year Treasury note in a given month is converted into a monthly return to reflect what a buy-and-hold investor would achieve in a given month. This return is calculated and reset on a monthly basis to reflect shifts in yields.

#### **Barclays US Aggregate Bond Index**

The Barclays US Aggregate Bond Index covers the U.S. dollar-denominated investment-grade, fixed-rate bond market including government and corporate bonds, agency mortgage pass-through securities, asset-backed issues, and ERISA-qualified CMBS.

#### **Barclays Global Aggregate Bond Index**

The Barclays Global Aggregate Bond Index covers the global investment-grade, fixed-rate bond universe. The Index is primarily comprised of U.S. bond markets, Pan-European bond markets, and Asia-Pacific bond markets, and is intended to represent the performance of the Global Bond universe.

#### **MSCI All-Country World ex-USA Growth Index**

The MSCI All-Country World ex-USA Growth Index is an international equity index which seeks to represent the free-float, market capitalization weighted performance of developed and emerging markets outside of the United States exhibiting a growth investment style. Companies that are judged to exhibit a growth style may tend to have relatively high long-term growth of earnings and sales, as well as high expected future growth rates and other such metrics. The Index reflects the combined stock market performance of multiple underlying geographic, monetary, political, and economic zones throughout the world, apart from the United States. The composition of the Index may be expected to change over time along with factors such as stock market and currency valuations, development of and access to financial markets among the underlying countries, and others.

#### **MSCI All-Country World ex-USA Value Index**

The MSCI All-Country World ex-USA Value Index is an international equity index which seeks to represent the free-float, market capitalization weighted performance of developed and emerging markets outside of the United States exhibiting a value investment style. Companies that are judged to exhibit a value style may tend to have relatively low price-to-book valuations, high dividend yields, low price-to-earnings ratios, and other such metrics. The Index reflects the combined stock market performance of multiple underlying geographic, monetary, political, and economic zones throughout the world, apart from the United States. The composition of the Index may be expected to change over time along with factors such as stock market and currency valuations, development of and access to financial markets among the underlying countries, and others.

### **MSCI All-Country World ex-USA Index**

The MSCI All-Country World ex-USA Index is an international equity index which seeks to represent the free-float, market capitalization weighted performance of developed and emerging markets outside of the United States. The Index reflects the combined stock market performance of multiple underlying geographic, monetary, political, and economic zones throughout the world, apart from the United States. The composition of the Index may be expected to change over time along with factors such as stock market and currency valuations, development of and access to financial markets among the underlying countries, and others.

### **Russell 2000 Growth Index**

The Russell 2000 Growth Index is designed to be a proxy for US small cap stocks exhibiting an orientation towards a growth investment style. Stocks within this index will generally be among the 1,000-3,000 smallest publically traded US companies. Stocks within this range are categorized as growth based on characteristics such as relatively high expected growth in earnings, historical sales growth, and other valuations.

### **Russell 2000 Value Index**

The Russell 2000 Value Index is designed to be a proxy for US small cap stocks exhibiting an orientation towards a value investment style. Stocks within this index will generally be among the 1,000-3,000 smallest publicly traded US companies. Stocks within this range are categorized as value based on characteristics such as relatively low expected growth in earnings, historical sales growth, and other valuations.

### **Russell 2000 Index**

The Russell 2000 Index is designed to be a proxy for US small cap stocks. Stocks within this index will generally be among the 1,000-3,000 smallest publically traded US companies.

### **Russell Midcap Growth Index**

The Russell Midcap Growth Index is designed to be a proxy for US mid cap stocks exhibiting an orientation towards a growth investment style. Stocks within this index will generally be among the 201-1,000 largest US companies. Stocks within this range are categorized as growth based on characteristics such as relatively high expected growth in earnings, historical sales growth, and other valuations.

### **Russell Midcap Value Index**

The Russell Midcap Value Index is designed to be a proxy for US mid cap stocks exhibiting an orientation towards a value investment style. Stocks within this index will generally be among the 201-1,000 largest US companies. Stocks within this range are categorized as value based on characteristics such as relatively low expected growth in earnings, historical sales growth, and other valuations.

### **Russell Midcap Index**

The Russell Midcap Index is designed to be a proxy for US mid cap stocks. Stocks within this index will generally be among the 201-1,000 largest US companies.

### **Russell 1000 Growth Index**

The Russell 1000 Growth Index is designed to be a proxy for US large cap stocks exhibiting a growth investment style. Stocks within this index will generally be among the 1,000 largest publically traded US companies. Stocks will be judged to exhibit a growth style based on having relatively high price-to-book ratios, high expected future growth rates, and other such metrics.

### **Russell 1000 Value Index**

The Russell 1000 Value Index is designed to be a proxy for US large cap stocks exhibiting a value investment style. Stocks within this index will generally be among the 1,000 largest publically traded US companies. Stocks will be judged to exhibit a value style based on having relatively low price-to-book ratios, low expected future growth rates, and other such metrics.

### **Standard and Poor's (S&P) 500 Index**

The Standard and Poor's 500 (S&P 500) index is designed to be a large capitalization proxy of the U.S. equity market. The Index is designed to contain the market-capitalization weighted, free-float adjusted 500 leading (typically largest) stocks within the U.S. equity market. Given its size, the S&P 500 Index also may serve as a reasonable proxy for the U.S. equity market in its entirety.

## **UNIVERSE DESCRIPTIONS**

Morningstar gathers performance data on funds managed by a large number of Investment Managers in distinct market capitalization and investment styles.

**U.S. Large Cap Blend Equity** – Universe of domestic equity strategies managed by Investment Managers in the large cap blend style.

**U.S. Large Cap Value Equity** – Universe of domestic equity strategies managed by Investment Managers in the large cap value style.

**U.S. Large Cap Growth Equity** – Universe of domestic equity strategies managed by Investment Managers in the large cap growth style.

**U.S. Mid Cap Blend Equity** – Universe of domestic equity strategies managed by Investment Managers in the mid cap blend style.

**U.S. Mid Cap Value Equity** – Universe of domestic equity strategies managed by Investment Managers in the mid cap value style.

**U.S. Mid Cap Growth Equity** – Universe of domestic equity strategies managed by Investment Managers in the mid cap growth style.

**U.S. Small Cap Blend Equity** – Universe of domestic equity strategies managed by Investment Managers in the small cap blend style.

**U.S. Small Cap Value Equity** – Universe of domestic equity strategies managed by Investment Managers in the small cap value style.

**U.S. Small Cap Growth Equity** – Universe of domestic equity strategies managed by Investment Managers in the small cap growth style.

**Foreign Large Blend Equity** – Universe of international equity strategies managed by Investment Managers in the foreign stock blend style.

**Foreign Large Value Equity** – Universe of international equity strategies managed by Investment Managers in the foreign stock value style.

**Foreign Large Growth Equity** – Universe of international equity strategies managed by Investment Managers in the foreign stock growth style.

**Intermediate Term Bond** – Universe of intermediate duration fixed income strategies managed by Investment Managers in the total return, core or absolute return styles.

**World Bond** – Universe of fixed income strategies managed by Investment Managers in the global bond style.

**Stable Value** – Universe of investment strategies consisting of fixed income securities wrapped by contracts issued by insurance companies or banks that guarantee book value withdrawal of assets.

**Target Date Asset Allocation** – Universes of target date strategies managed by Investment Managers in the target date style. There will be multiple universes within the target date category, each universe (e.g. Target Date 2030) being representative of a specific expected retirement or target date.

April, 2015