

**WEST VIRGINIA TEACHERS DEFINED CONTRIBUTION PLAN  
DRAFT  
INVESTMENT POLICY STATEMENT**

**INTRODUCTION**

This is the Investment Policy Statement (“Policy” or “Investment Policy”) of the West Virginia Consolidated Public Retirement Board (“Board”) for the West Virginia Teachers Defined Contribution Plan (“TDC Plan” or “Plan”), a 401(a) plan. This Investment Policy establishes the objectives, requirements, and guidelines for the efficient and reasonably flexible management of the TDC Plan, the Investment Categories and Options, the regular evaluation of Investment Options, and changing Investment Categories and Options.

**DEFINITIONS**

Board – The West Virginia Consolidated Public Retirement Board.

Beneficiary – The designated person or persons (or, if none, the Participant’s estate) entitled to receive benefits under the Plan after the death of the Participant, at which time the Beneficiary may be referred to as a Participant. A Beneficiary has no rights under the TDC Plan until the death of the Participant.

Investment Category – one or a group of Investment Options which are categorized based upon an investment style of the underlying portfolio holdings.

Investment Options – Individual funds or investments available to Participants to invest the assets in their account.

Market Cycle – Generally a period of three to five years, which includes both a rising and declining leg. A rising leg is defined as a period of at least two consecutive quarters of rising stock prices. A declining leg is defined as a period of at least two consecutive quarters of declining stock prices.

Morningstar – Investment research company that provides ratings and benchmarking universes used by the Plan.

Participant – Any eligible individual who is currently deferring compensation, or who has previously deferred compensation, under the Plan by salary reduction and who has not received a distribution of his or her entire benefit under the Plan. Upon the death of a Participant, the Beneficiary may be considered to be a Participant.

Plan or TDC Plan – The State of West Virginia Teachers’ Defined Contribution Plan pursuant to Section 401(a) of the Internal Revenue Code.

Investment Policy or Policy – This Investment Policy Statement.

Service Provider – The administrative service agent providing recordkeeping, education and investment services to the Plan.

**BACKGROUND**

The Board was created in 1990 and began operations in 1991 as the administrator of various West Virginia public employee retirement plans, including plans for educational employees, public employees, judges and public safety personnel, pursuant to West Virginia Code §5-10D-1 et seq. The Board is currently located at 4101 MacCorkle Avenue SE, Charleston, West Virginia 25304. The assets and administration of each retirement system remain separate and distinct.

The Board established the TDC Plan in accordance with West Virginia Code §18-7B-1 et seq., as an Internal Revenue Code §401(a) plan. Operations began on July 1, 1991 to replace the Teachers' Retirement System ("TRS") for persons newly hired by the fifty-five county boards of education and certain higher education employees.

Effective June 30, 2005, the TDC Plan was closed to new enrollment. Since the TDC Plan was established, legislation has allowed various windows for Participants who met certain criteria to transfer between the two retirement systems. The most recent and largest window allowed more than 15,000 members to transfer to TRS effective July 1, 2008, leaving approximately 5800 Participants and \$220 million in assets in the TDC Plan.

The TDC Plan allows each Participant to direct the investment of the combined employee and vested employer contributions on a tax-advantaged basis. Retirement benefits in the TDC Plan are based solely on the Participant's vested account balance, which is the accumulated employee contributions plus the vested employer contributions, if any, plus net earnings on those funds at the time of retirement or termination of employment.

The West Virginia Code requires employees covered by the TDC Plan to contribute 4.5% of their gross compensation and their employers to contribute 7.5% of covered member's gross compensation. Employer contributions for each employee become vested on a schedule. Beginning at six years of service, the employee becomes 1/3 vested, at 9 years of services the employee becomes 2/3 vested and at 12 years of service the employee becomes 100% vested. A Participant's service in the TDC Plan always counts towards vesting, even if withdrawn and not reinstated in accordance with TDC Plan provisions.

The fiscal year of the TDC Plan is July 1 through June 30. Deposits to each account are made two times each month. The TDC Plan does not permit loans and makes no provision for "hardship" withdrawals.

Currently a quarterly administrative fee of \$15 is deducted from the employer portion of the account unless that account is exhausted. In such cases the fee will then be deducted from the employee portion of the account. The quarterly administrative fee and other revenues, including, without limitation, rebates, revenue sharing, 12b-1 fees and earnings, are used to pay the costs of the Service Provider and of the Board.

The Board and the staff do not provide investment advice to any Participant, nor do they assist any Participant in determining asset allocations. However, the Board acknowledges its responsibility as a fiduciary to provide and operate the TDC Plan for the sole and exclusive benefit of the Participants and their Beneficiaries.

## **OBJECTIVES**

The objectives of this Investment Policy are to:

1. Aid the Board in meeting its fiduciary responsibility to ensure the TDC Plan is operated for the sole and exclusive benefit of the Participants and their Beneficiaries.
2. Ensure each Participant has a reasonable opportunity to exercise independent control over the assets in his/her account using an asset allocation with the aggregate risk and return characteristics within the range reasonably appropriate for the Participant.
3. Define the Investment Categories to be offered, including their objectives and performance benchmarks.
4. Offer a broad range of no load, diversified Investment Options with performance that meets or exceeds the established performance benchmarks of their Investment Categories and with materially different risk and return characteristics.
5. Define procedures for evaluating and reviewing the Investment Categories and Investment Options, including their addition, deletion and replacement, as well as ensuring their compliance with this Investment Policy.
6. Establish procedures for collection of fees and revenues.

## **RESPONSIBILITIES OF THE BOARD AND THE SERVICE PROVIDER**

### Responsibilities of the Board

The Board shall:

1. comply with all applicable laws, rules and regulations, including, without limitation, the Uniform Prudent Investor Act, as set forth in West Virginia Code §44-6C-1 et seq., and, in doing so, may rely on outside experts, such as consultants, actuaries, accountants, and attorneys,
2. review all Plan communications prior to dissemination,
3. make the Plan's reports and this Investment Policy available on the Plan's website and in writing upon request of a Participant,
4. review and approve all agreements and any amendments to the agreements with the Service Provider,
5. quarterly review the performance of the Service Provider and the Investment Options,
6. at least annually, review this Investment Policy and amend it as it considers appropriate, and
7. at least annually, perform an in depth review of all of the services provided to the TDC Plan, as to performance and quality of services and as to adherence to the contract with the Board and this Investment Policy, and determine if any change is warranted.

### Responsibilities of the Service Provider

The Service Provider is a Plan fiduciary in regard to the investment of Plan assets and shall:

1. act with the care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of a plan of similar characteristics and objectives,
2. comply with all applicable laws, rules and regulations, including, without limitation, the Uniform Prudent Investor Act, as set forth in West Virginia Code §44-6C-1 et seq.,

3. comply with this Policy, any applicable agreement or other document establishing its responsibilities,
4. maintain individual Participant account records and provide all TPA Services for the TDC Plan,
5. provide information to Participants, including, without limitation:
  - written communications approved by the Board,
  - educational materials and training sufficient to enable Participants to manage their investments, and
  - daily valuations of all Investment Options and Participant accounts via the telephone or internet,
6. report the following events to the Board immediately or as soon as it becomes aware of them:
  - Investment Option manager changes,
  - any other regulatory and/or issues affecting the Plan or the Service Provider, and
  - any other significant occurrence that impacts the Plan or the Service Provider,
7. provide timely and accurate statements and reports that meet Generally Accepted Accounting Principles, which price securities at market value and report dividend and capital gains distributions consistently and currently, as follows:

#### Participant Statements and Confirmations

Service Provider shall provide Participant Statements and Confirmations, as follows:

- confirmations of each transaction mailed directly to each Participant's home address or made available through the Plan's secure website, at the discretion of the Participant, within three (3) business days following the transaction,
- quarterly statements mailed directly to each Participant's home address or made available through the Plan's secure website, at the discretion of the Participant, no later than fifteen (15) days after the end of each calendar quarter, which shall include, at a minimum:
  - market value of each Investment Option owned by the Participant, including shares and net asset values, and the total market value, net of all fees,
  - account transactions,
  - performance of the Participant's account, net of all fees, including annual rate of return for the account,
- annual statements mailed directly to each Participant's home address or made available through the Plan's secure website, at the discretion of the Participant, no later than thirty (30) days after the end of the calendar year, which shall include, at a minimum:
  - market value of each Investment Option owned by the Participant, including shares and net asset values, and the total market value, net of all fees,

- performance of the Participant’s account, net of all fees including annual rate of return for the account, and
- any tax reports and information required,

**Plan Reports**

Service Provider shall provide reports to the Board, as follows:

- quarterly reports mailed to the Board no later than the last day of the month following the end of each calendar quarter, which will include, at a minimum:
  - economic and market conditions,
  - current trends and developments in the capital markets,
  - current Investment Categories and Options offered under the Plan,
  - any changes in the investment management staff or ownership related to each Investment Option or any regulatory issues raised,
  - any style drift or other issues with Investment Options,
  - compliance of each Investment Option to this Investment Policy,
  - report from any due diligence reviews performed by the Service Provider or its subcontractor on any Investment Option manager during the quarter,
  - performance of each Investment Option, net of all fees, compared to the assigned benchmark and Morningstar peer group for the quarter and rolling one-, three- and five-year periods,
  - Sharpe ratio and expense ratio of each Investment Option,
  - Morningstar ratings for each Investment Option,
  - total Plan assets by Investment Option,
  - number of Participants,
  - fees received, by source, and deposited to the Board account,
  - educational training provided, by type and location,
  - website usage and updates, and
  - any other information requested by the Board,
- Annual reports mailed to the Board no later than the last day of the month following the end of the calendar year, which shall include, at a minimum:
  - discussion of Service Provider and Field Representative performance,
  - composite Plan level information relative to the market value of each of the Plan’s Investment Options,
  - performance versus assigned benchmark for the most recent quarter and for the one, three, and five-year periods,
  - disclosure of any pending investigations or actions pertaining to the Investment Option manager’s and/or Service Provider’s operations, and
  - any suggestions for Plan improvement,

8. investment advisory services to Participants through an investment advisor registered with U.S. Securities and Exchange Commission.

**INVESTMENT CATEGORIES AND INVESTMENT OPTIONS**

**Investment Categories**

The TDC Plan shall offer Investment Options in these Investment Categories:

<b>ASSET CLASS</b>	<b>INDEX</b>	<b>PEER GROUP</b>
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Stable Value	Hueler Stable Value Pooled Fund Index	Money Market Taxable
Money Market	Barclays Capital Aggregate Bond Index	Money Market Taxable
Core Fixed Income (Bond)	Barclays Capital Aggregate Bond Index	Intermediate Term Bond
Balanced	60% S&P 500 Index and 40% Barclays Capital Aggregate Bond Index	Balanced
Large Cap Value	Russell 1000 Value Index	Large Value
Large Cap Blend	S&P 500 Index	Large Blend
Large Cap Growth	Russell 3000 Growth Index	Large Growth
Mid Cap Value	Russell Mid Cap Value Index	Mid Value
Mid Cap Blend	Russell Mid Cap Value Index	Mid Blend
Mid Cap Growth	Russell Mid Cap Growth Index	Mid Growth
Small Cap Value	Russell 2000 Value Index	Small Value
Small Cap Blend	Russell 2000 Index	Small Blend
Small Cap Growth	Russell 2000 Growth index	Small Growth
International Equity	MSCI EAFE Index (net of dividends)	International Equity
Global Equity	MSCI World Index (net of dividends)	International Equity
Life Cycle / Target Date	Based on asset allocation	Based on asset allocation
Self Directed / Brokerage Account	Based on the investment	Based on asset allocation

Assets in a stable value/money market/TIPS fund shall be held in a separate account insulated from claims arising out of any other business connected with the Service Provider and available solely for the benefit of Participants. This Investment Option shall be the Default Investment Option.

#### Investment Options

The Board shall select and monitor Investment Options for the Plan. Current Investment Options are listed on Attachment A to this Investment Policy. Investment Options shall:

1. have returns, net of all fees, in the top two quartiles of the Morningstar universe for that Investment Category over a three- to five-year Market Cycle,
2. have risk, as measured by the standard deviation of quarterly returns, consistent with the specified benchmark and Morningstar universe for that Investment Category,

3. have ratings of three stars or better by Morningstar (If the Investment Option is not rated by Morningstar, the retail version of the Investment Option must be rated three stars or better by Morningstar),
4. operate in full compliance with its published prospectus,
5. have fees that are reasonable and consistent with the industry, its peer group and other funds of the same Investment Category,
6. have no front or back load fees,
7. have at least three years of measurable operating history, and
8. allow Participants to move their assets daily, subject to the excessive trading policy of the Service Provider.

#### Self-Directed Brokerage Option

At the discretion of the Board, a Self-Directed Brokerage Option may be offered to Participants interested in a wider array of investments and willing to accept the additional risks associated with those investments. The Service Provider shall provide Participants with enrollment and educational materials to enable Participants to decide whether or not a Self-Directed Brokerage Option is a suitable investment.

Information provided shall include research and reports about the Plan's available investment options; tools to help Participants set retirement goals and establish an asset allocation strategy; specific, independent, objective and professional investment advice to help Participants create a diversified portfolio; and personalized Investment Option recommendations that factor in a Participant's unique financial situation and savings objectives.

The Board has no responsibility for selecting, monitoring or evaluating the investments available through the Self-Directed Brokerage Option. Participants will have sole discretion in regards to the investments they select using the Self-Directed Brokerage Option and are responsible for the on-going research, trading and risk management responsibilities associated with their specific investment choices.

The maximum allowed cumulative transfer to the Self-Directed Brokerage Option from a Participant's account is limited to 25% of a Participant's total account value in the Plan. Once a Participant's account balance reaches \$5,000, he/she can transfer \$1,000 to the Self-Directed Brokerage Option. Subsequent transfers must be in increments of \$1,000. The acceptable investments in the Self-Directed Brokerage Option will be limited to the mutual fund universe of investment products. The Service Provider is required to fully disclose all brokerage transaction and other applicable fees.

#### Investment Option Evaluation and Review

The Board shall evaluate the performance and compliance of each Investment Option quarterly. In its discretion, the Board may conduct, or caused to be conducted, a review of an Investment Option at any time. Reasons for an informal review may include one or more of the following:

- the Investment Option has not met the performance standards of the Investment Category it is in, under the Policy, over a three year period, or such other shorter

period as determined by the Board (i.e., fund as trailed its benchmark for more than five out of twelve quarters),

- the Investment Option has changed investment manager or other staff that will materially affect the investment Option, or such change appears imminent,
- the Investment Option has had a significant change in ownership or control,
- the Investment Option has changed investment focus or strategy or has experienced style drift, departing from the investment objectives or parameters in its prospectus or “fact sheet”,
- the Investment Option and/or its manager has violated or is believed to have violated any applicable law, rule or regulation,
- the Investment Option has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Board’s view, has or could detract from the objectives of the Plan,
- regulatory and legal compliance issues,
- duplication among Investment Options,
- turnover ratio,
- diversification,
- rating of two stars or less by Morningstar,
- excessive fee charges for the Investment Option, and/or
- any other circumstance the Board so determines,

Upon request by the Board for a review, the Service Provider shall investigate an Investment Option, provide an evaluation of its operations and performance, report to the Board as to why there is a problem, and provide any recommendations it may choose to offer.

The Board may suspend or prohibit contributions to the Investment Option or it may terminate the Investment Option. With regards to a suspended Investment Option, the Board may apply new contributions or “map” new contributions from the suspended Investment Option to another Investment Option in the same or similar Investment Category or return characteristics or to the Stable Value Option. Upon completion of the review, the Board may continue the Investment Option under formal review status, may continue with the suspension, remove the Investment Option from formal review (open the Investment Option to contributions), or terminate the Investment Option.

#### **Termination of Investment Option/Suspension of Contributions**

When the Board suspends contributions or terminates an Investment Option, it shall promptly notify the Service Provider, and the Service Provider shall promptly notify Participants that the Board is suspending contributions or terminating an Investment Option. The notice shall provide that:

1. new investment moneys will be redirected to another Investment Option prior to the contribution-suspension date or the termination date of the Investment Option being suspended or terminated,
2. all assets in any terminated Investment Option must be transferred to another Option prior to the termination date of the Investment Option, and/or



3. contributions or assets not transferred by Participants to other Investment Options by the contribution-suspension date or the Investment Option termination date will be automatically transferred to a replacement or a designated default Investment Option.

#### Changing Investment Options

From time to time, the Board, in its discretion, may add, subtract or change Investment Options or Categories, and modify this Policy to include the changes. The Service Provider is prohibited from making any change in an Investment Option without the express written consent of the Board.

If the Board determines an Investment Option no longer meets its performance criteria or for any other reason, the Board, in its discretion, may replace an Investment Option should be replaced. In selecting an Investment Option, the Board shall consider the factors specified in this Investment Policy or such other matters as it considers appropriate.

Unless circumstances so require, Investment Option changes will occur only one per year.

## Attachment A

### INVESTMENT OPTIONS

The current Investment Options are available to Participants:

<b>FUND</b>	<b>CATEGORY</b>	<b>BENCHMARK</b>
VALIC Fixed Annuity Option (4.5% minimum guaranteed annual rate)	Stable Value	Hueler Stable Value Pooled fund Index
Vanguard Money Market Prime Portfolio (VGMMP)	Money Market	Barclays Capital Aggregate Bond Index
Franklin Income Fund (FKINX)	Conservative Allocation	60% S&P 500 index and 40% Barclays Capital Aggregate Bond Index
Black Rock Large Cap Value A (MDLVX)	Large Cap Value	Russell 1000 Value Index
Columbia Small Cap Core Fund – Z (SMCEX)	Small Cap Blend	Russell 2000 Index
American Funds Euro Pacific A (AFEPG)	International	MSCI EAFE Index (net of dividends)
American Funds Bond Fund A (AFBND)	Core Fixed Income	Barclays Capital Aggregate Bond Index
American Funds Growth Fund A (AFGRTH)	Large Cap Blend	S&P 500 Index
Federated Max Cap Institutional (FISPX)	Large Cap Blend	S&P 500 index
Rainer Small/Mid Cap Equity Fund (RIMSX)	Small Cap Blend Mid Cap Blend	Russell 2500 Index
Conservative Asset Allocation	Life Cycle/Target Date	60% S&P 500 Index and 40% Barclays Capital Aggregate Bond Index
Moderate Asset Allocation	Life Cycle/Target Date	80% S&P 500 Index and 20% Barclays Capital Aggregate Bond Index
Aggressive Asset Allocation	Life Cycle/Target Date	80% S&P 500 Index and 20% Barclays Capital Aggregate Bond Index

## Composition of Current TDC Plan Profile Funds

<u>Conservative Profile Fund:</u>		
Bond	American Funds - Bond Fund A	55%
Money Market	Vanguard Prime Money Market	15%
International	American Funds - Euro Pacific A	10%
Large Cap	Blackrock Large Cap A	10%
Mid Cap	Ranier Small/Mid Cap Equity-Portfolio	5%
Small Cap	Columbia Funds Small Cap Fund – Z	5%
		100%

<u>Moderate Profile Fund:</u>		
Bond	American Funds - Bond Fund A	35%
International	American Funds - Euro Pacific A	20%
Large Cap	Blackrock Large Cap A	15%
Mid Cap	Ranier Small/Mid Cap Equity-Portfolio	15%
Small Cap	Columbia Funds Small Cap Fund – Z	10%
Money Market	Vanguard Prime Money Market	5%
		100%

<u>Aggressive Profile Fund:</u>		
International	American Funds - Euro Pacific A	30%
Large Cap	American Funds Growth Fund – A	20%
Mid Cap	Ranier Small/Mid Cap Equity-Portfolio	20%
Small Cap	Columbia Funds Small Cap Fund – Z	20%
Bond	American Funds - Bond Fund A	10%
		100%

Dated: 03.15.10