



**JOINT MEETING OF THE  
FINANCE AND FACILITIES COMMITTEE AND  
HUMAN RESOURCES COMMITTEE**

**MARCH 16, 2011  
11:00 a.m.**

**BOARD ROOM  
WELLS FARGO PLACE  
30 7TH STREET EAST  
SAINT PAUL, MN**

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**Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.**

Committee Chairs Dan McElroy and Clarence Hightower will call the meeting to order.

**(1) Retirement Program Contract (pp 1–50)**

**Finance and Facilities Committee Members**

Dan McElroy, Chair  
Michael Vekich, Vice Chair  
Duane Benson  
Cheryl Dickson  
Christopher Frederick  
Clarence Hightower  
Phil Krinkie  
James Van Houten

**Human Resources Committee**

Clarence Hightower, Chair  
Thomas Renier, Vice Chair  
Cheryl Dickson  
Dan McElroy  
David Paskach  
Christine Rice  
Scott Thiss

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committees:** Finance and Facilities/  
Human Resources

**Date of Meeting:** March 15, 2011

**Agenda Item:** Retirement Program Contract

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:**

Board Policy 5.14, Procurement and Contracts, requires that contracts, including amendments, with values greater than \$3,000,000 must be approved in advance by the Board of Trustees.

**Scheduled Presenter(s):** Gary Janikowski, System Director

**Outline of Key Points/Policy Issues:**

Based on the detailed analysis of the submitted proposals by Aon Hewitt and input received from the DCR Advisory Committee, it is recommended that TIAA-CREF continue to serve as the single record-keeper for the system's retirement plans for the upcoming contract period, July 1, 2011 through June 30, 2016. The fees are paid by the participants through their fund selection decisions. It is estimated that TIAA-CREF will receive approximately \$5.6 million in cumulative revenue due to proprietary fund fees, revenue sharing arrangements with non-proprietary funds, and administrative fees during the five-year period of the contract, from July 1, 2011 through June 30, 2016.

**Background Information:**

The System sponsors two defined contribution retirement programs: the Defined Contribution Retirement (DCR) plan and the Tax-Sheltered Annuity (TSA) retirement plan ("the Plans"). The contract for record-keeping services for the current Plans will expire on June 30, 2011. The Plans are reviewed every five years in order to maintain efficiency and administer programs that are responsive to changes in the marketplace as well as to participant retirement needs and goals. The DCR Advisory Committee, comprised of representatives from each of the unclassified bargaining units/personnel plans, advises the System on the plan design, administration, and fund selection for the Plans.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>ACTION ITEM</b>
<b>Retirement Program Contract</b>

**BACKGROUND**

As provided by state law, Minnesota Statutes §136F.45 and 136F.47, the System sponsors two defined contribution retirement programs: the Defined Contribution Retirement (DCR) plan and the Tax-Sheltered Annuity (TSA) retirement plan (“the Plans”). The contract for record-keeping services for the current Plans will expire on June 30, 2011. The Plans were recently reviewed with the assistance of the firm of Aon Hewitt Consultants, a national retirement administration consulting company. The review resulted in the recommendation of several changes in Plan design and fund offerings. The recommended changes were incorporated into an RFP for recordkeeping and periodic investment performance reporting in accordance with the System’s Investment guidelines.

Seven firms responded to the RFP and three were evaluated and interviewed. The firm of TIAA-CREF is recommended to continue to serve as the record-keeper for the Plans. Both Plans will include fund offerings with a selection of low-cost, “best in class” annuities and mutual funds, a series of Target date funds, which are designed to provide a single diversified portfolio with a targeted retirement date in mind, and a mutual fund brokerage account window. It is further recommended that the contract for the new recordkeeper services run for a five (5) year period, beginning on July 1, 2011 and ending on June 30, 2016.

**I. Background on the Plans**

The Minnesota State Colleges and Universities System sponsors the Defined Contribution Retirement (DCR) program for unclassified faculty and certain staff and the Tax-Sheltered Annuity (TSA) program for all employees. The DCR program includes both the Individual Retirement Account Plan (IRAP) as well as the Supplemental Retirement Program (SRP). The program has \$1.04 billion in assets and serves approximately 16,000 unduplicated participants.

The IRAP program serves as the main mandatory retirement program for many faculty and unclassified staff. The balance of the System’s employees participate in the state administered Minnesota State Retirement program which is a Defined Benefit program. (See Attachment E for the full program description.)

The IRAP program was first implemented in the late 1980s after a legislative initiative sponsored by the faculty unions. Faculty expressed an interest in having access to a portable retirement program that was compatible with retirement funds at other institutions of higher

education. Until that time, the only retirement plan available to faculty was the Minnesota Teachers Retirement Association (TRA) program, a defined benefit plan which requires a three (3)-year vesting period in order to qualify for benefits.

Eligible faculty are automatically enrolled in IRAP as their primary retirement plan; they have up to one year after initial eligibility to move to the State Teachers Retirement Association (TRA) program, which is a traditional defined benefit pension plan. Approximately 10-12% of faculty makes the election to TRA annually. (See pages 2 and 3 of the Mandatory and Voluntary Retirement Plans brochure, Attachment E, for a comparison of the differences between defined contribution programs, such as IRAP, and defined benefit programs, such as TRA). Employees in IRAP contribute 4.5% of payroll and the System provides a 6% matching contribution. The IRAP program has approximately \$544 million in assets, with a total of 13,600 active and inactive participants.

The SRP has been in existence since the late 1960s and is also a mandatory plan for all unclassified employees (whether in IRAP or TRA) who have at least two years of full-time service. SRP contribution rates differ based on bargaining unit/personnel plan (see Attachment A). The SRP program has \$496 million in assets, with a total of 10,778 active and inactive participants.

The TSA program is a voluntary program for all System employees; this program does not include a System matching contribution. Participants can contribute up to \$16,500 (\$22,000 if age 50 or over) per year in 2011. There are approximately \$223 million in assets in the TSA program with approximately 4,000 participants.

Since the Plans are defined contribution retirement programs and not traditional pension plans, there are no unfunded liabilities to the System for these programs. It is the responsibility of participants to evaluate and select their investment choices in these plans.

A summary of the asset allocation for these retirement programs, as of December 31, 2010, can be found in Attachment B.

## **II. Review Process.**

The Plans are reviewed every five years in order to maintain efficiency and administer programs that are responsive to changes in the marketplace as well as to participant retirement needs and goals. The DCR Advisory Committee, comprised of representatives from each of the unclassified bargaining units/personnel plans, advises the System on the plan design, administration, and fund selection for the Plans.

The System contracted with Aon Hewitt to serve as consultants on this project. The consultants met with the DCR Advisory Committee and the Vice Chancellor – Chief Financial Officer and Vice Chancellor for Human Resources prior to recommending a series of “best in class” investment options and drafting a Request for Proposal (RFP) for record-keeper.

Based on those meetings, it was recommended that the investment funds in the program include a five (5)-tier series of “best in class” fund offerings<sup>1</sup>:

- Tier I: Target Date Retirement funds (one fund, with 10 “glide paths” that automatically re-balance the portfolio based on the age of the participant)
- Tier II: Passively Managed Index Mutual funds (8 funds)
- Tier III: Actively Managed Mutual funds (8 funds)
- Tier IV: TIAA-CREF Annuity Products (5 funds)
- Tier V: Mutual Fund Window (this option would allow a participant to invest in over 3,000 other mutual fund choices for a small initial fee)

The funds, once placed in the program, are reviewed quarterly for continued acceptable performance. The System’s investment guidelines provide the principles for watch listing fund performance and replacing funds as necessary and can be found in Attachment D.

Once the Plan fund platform was established, Aon Hewitt conducted a nation-wide search for a record-keeper for these funds. Three vendors were invited to make presentations to the DCR Advisory Committee and to System management with regard to their record-keeping capabilities. Vendors were rated on the following factors:

- Strong investment platform
- Flexibility to allow open architecture and customized asset line-up
- Ability to successfully implement the program by July 1, 2011
- Ability to provide participants with effective education and communication
- Overall quality of Plan participant experience
- Ability to provide online plan sponsor access to information
- Overall quality of Plan sponsor experience
- Consistently high quality delivery of client service and support
- Ability to send and receive contribution and related information electronically
- Service team stability
- Contract and performance guarantees
- Control/security mechanisms
- Technology capabilities and commitment (e.g., Internet, IVR, advice)
- Coordination with prior record-keepers, to the extent required by the IRS
- Alignment with the System’s culture, vision and values

Additionally, each proposal was reviewed to ensure that the potential record-keeper met certain basic due diligence standards, including SAS 70, disaster recovery plan, frequent System back-ups, more than one processing site, and security breach indemnification.

Aon Hewitt Consultants have also been selected to conduct a formal quarterly review of all the investment funds in the Plans during the course of the contract. In accordance with the System’s Investment Guidelines, the investment analysis will provide all necessary fund

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<sup>1</sup> A complete list of the specific fund offerings can be found in Attachment C.

information related to the performance of each investment option to its appropriate benchmarks, peer indices, and style conformance. These quarterly reviews will be used to determine whether funds will be retained or replaced during the contract period.

### **III. Recommendation**

Based on the detailed analysis of the submitted proposals by Aon Hewitt and input received from the DCR Advisory committee, it is recommended that TIAA-CREF continue to serve as the single record-keeper for the Plans for the upcoming contract period, July 1, 2011 through June 30, 2016. It is estimated that TIAA-CREF will receive approximately \$5.6 million in cumulative revenue due to proprietary fund fees, revenue sharing arrangements with non-proprietary funds, and administrative fees during the five-year period of the contract, from July 1, 2011 through June 30, 2016. The fees are paid by the participants through their fund selection decisions.

Participants in the Plans currently pay for administration of the program through an annual fee of \$20 per participant. Of that amount, TIAA-CREF retains \$15 per participant, and the System receives \$5 per participant. Under the new structure, TIAA-CREF has lowered its fee to \$9 per participant; the System will maintain its \$5 annual assessment. Thus, participants will now be paying an annual total fee of \$14 per participant instead of \$20 per participant.

### **Next Steps**

Based upon the Board's approval of the recommended changes, staff will begin the preparatory work for these changes as soon as practicable. Employees will see stepped up written and electronic communications, along with campus meetings later in the spring. Fund choices will be transitioned in late spring for new money contributions and staff and vendor resources will assist employees in any changes desired. The staff's intention is to accomplish the change by fall 2011. The timing of the transition is in part dependent upon the state's impending accounting system change.

**RECOMMENDED COMMITTEE ACTION:** The Human Resources and Finance and Facilities Committees recommend that the Board of Trustees adopt the following motion:

The Board of Trustees authorizes the chancellor or his designee to negotiate and execute a contract consistent with the terms described herein.

**RECOMMENDED BOARD OF TRUSTEES MOTION:** The Board of Trustees authorizes the chancellor or his designee to negotiate and execute a contract consistent with the terms described herein.

*Date presented to the Board of Trustees: March 16, 2011*

Supplemental Retirement Plan (SRP) Annual Deduction Rates  
FY 2011

Bargaining Unit/ Personnel Plan:	Maximum Employee Contribution:	Matching Employer Contribution:	Total:
Commissioners Plan	\$1,700	\$1,700	\$3,400
IFO	\$2,250	\$2,250	\$4,500
MAPE (Unclassified)	\$1,700	\$1,700	\$3,400
MMA (Unclassified)	\$1,700	\$1,700	\$3,400
MnSCU Administrators	\$2,700	\$2,700	\$5,400
MSCF	\$2,500	\$2,500	\$5,000
MSUAASF	\$2,200	\$2,200	\$4,400

Asset Allocation Summary

Attachment B

Asset Allocation Summary  
As of December 31, 2010

Fund	IRAP		SRP		TSA		All Plans	
	Assets	% of Total	Assets	% of Total	Assets	% of Total	Assets	% of Total
TIAA Traditional	\$ 77,475,341	14.3%	\$ 46,400,944	9.3%	\$ 59,322,498	26.6%	\$ 183,198,782	14.5%
CREF Money Market	\$ 12,793,349	2.4%	\$ 12,909,161	2.6%	\$ 4,443,247	2.0%	\$ 30,145,758	2.4%
Vanguard Prime Money Market	\$ 9,346,997	1.7%	\$ 14,258,270	2.9%	\$ 2,507,389	1.1%	\$ 26,112,656	2.1%
CREF Inflation-Linked Bond	\$ 9,322,201	1.7%	\$ 8,624,142	1.7%	\$ 6,233,208	2.8%	\$ 24,179,551	1.9%
CREF Bond Market	\$ 11,736,582	2.2%	\$ 9,546,645	1.9%	\$ 7,631,501	3.4%	\$ 28,914,728	2.3%
Vanguard Total Bond Market Index Instl	\$ 6,976,997	1.3%	\$ 9,058,928	1.8%	\$ 2,438,675	1.1%	\$ 18,474,500	1.5%
Western Asset Core Bond Plus	\$ 4,909,877	0.9%	\$ 4,201,602	0.8%	\$ 3,112,018	1.4%	\$ 12,223,497	1.0%
CREF Social Choice	\$ 47,948,286	8.8%	\$ 34,413,475	6.9%	\$ 12,490,864	5.6%	\$ 94,852,425	7.5%
Dodge & Cox Balanced	\$ 8,585,168	1.6%	\$ 9,681,150	2.0%	\$ 4,516,173	2.0%	\$ 22,782,492	1.8%
Vanguard Balanced Index	\$ 129,255,945	23.8%	\$ 165,175,752	33.3%	\$ 4,287,600	1.9%	\$ 298,719,298	23.7%
CREF Equity Index	\$ 16,466,838	3.0%	\$ 13,586,276	2.7%	\$ 18,513,921	8.3%	\$ 48,567,035	3.8%
CREF Stock	\$ 71,015,434	13.1%	\$ 37,195,936	7.5%	\$ 32,585,668	14.6%	\$ 140,797,039	11.2%
Vanguard Instl Index Plus	\$ 20,526,671	3.8%	\$ 23,354,679	4.7%	\$ 6,641,045	3.0%	\$ 50,522,395	4.0%
Legg Mason Value	\$ 11,139,378	2.1%	\$ 20,388,233	4.1%	\$ 1,527,433	0.7%	\$ 33,065,045	2.6%
CREF Growth	\$ 20,239,657	3.7%	\$ 16,084,565	3.2%	\$ 15,764,905	7.1%	\$ 52,089,127	4.1%
Vanguard Mid Capitalization Index Signal	\$ 5,913,005	1.1%	\$ 4,593,184	0.9%	\$ 2,552,604	1.1%	\$ 13,048,793	1.0%
Vanguard Strategic Equity Fund	\$ 2,056,375	0.4%	\$ 1,337,284	0.3%	\$ 638,384	0.3%	\$ 4,034,643	0.3%
Vanguard Small Cap Index Signal	\$ 4,406,948	0.8%	\$ 3,565,385	0.7%	\$ 2,151,330	1.0%	\$ 10,123,663	0.8%
Royce Pennsylvania Mutual	\$ 15,716,364	2.9%	\$ 14,312,677	2.9%	\$ 4,801,757	2.2%	\$ 34,830,798	2.8%
T.Rowe Price International Growth	\$ 5,878,943	1.1%	\$ 4,052,879	0.8%	\$ 3,877,964	1.7%	\$ 13,809,786	1.1%
Vanguard Developed Markets Index Instl	\$ 16,549,171	3.0%	\$ 17,953,670	3.6%	\$ 3,253,434	1.5%	\$ 37,756,275	3.0%
CREF Global Equities	\$ 17,401,180	3.2%	\$ 11,780,121	2.4%	\$ 11,787,722	5.3%	\$ 40,969,022	3.2%
CREF Lifecycle Rtmnt Income	\$ 36,962	0.0%	\$ 209,435	0.0%	\$ 65,699	0.0%	\$ 312,096	0.0%
CREF Lifecycle Rtmnt 2010	\$ 253,120	0.0%	\$ 477,955	0.1%	\$ 186,820	0.1%	\$ 917,896	0.1%
CREF Lifecycle Rtmnt 2015	\$ 608,441	0.1%	\$ 866,639	0.2%	\$ 260,265	0.1%	\$ 1,735,344	0.1%
CREF Lifecycle Rtmnt 2020	\$ 848,155	0.2%	\$ 995,969	0.2%	\$ 594,040	0.3%	\$ 2,438,164	0.2%
CREF Lifecycle Rtmnt 2025	\$ 1,425,841	0.3%	\$ 872,906	0.2%	\$ 164,633	0.1%	\$ 2,463,381	0.2%
CREF Lifecycle Rtmnt 2030	\$ 1,380,635	0.3%	\$ 1,099,236	0.2%	\$ 283,139	0.1%	\$ 2,763,010	0.2%
CREF Lifecycle Rtmnt 2035	\$ 874,966	0.2%	\$ 941,942	0.2%	\$ 119,502	0.1%	\$ 1,936,410	0.2%
CREF Lifecycle Rtmnt 2040	\$ 1,238,237	0.2%	\$ 867,509	0.2%	\$ 86,421	0.0%	\$ 2,192,167	0.2%
CREF Lifecycle Rtmnt 2045	\$ 979,786	0.2%	\$ 451,597	0.1%	\$ 49,573	0.0%	\$ 1,480,957	0.1%
CREF Lifecycle Rtmnt 2050	\$ 337,399	0.1%	\$ 56,637	0.0%	\$ 27,874	0.0%	\$ 421,910	0.0%
TIAA Real Estate	\$ 9,621,457	1.8%	\$ 6,976,379	1.4%	\$ 9,710,791	4.4%	\$ 26,308,627	2.1%
<b>Total</b>	<b>\$ 543,267,608</b>	<b>100.0%</b>	<b>\$ 496,291,163</b>	<b>100.0%</b>	<b>\$ 222,628,499</b>	<b>100.0%</b>	<b>\$ 1,262,187,270</b>	<b>100.0%</b>



### Funds Offerings in the New Program

Tier	Asset Class	Fund
Tier I	Target Date	Vanguard Target Retirement Income
		Vanguard Target Retirement 2010
		Vanguard Target Retirement 2015
		Vanguard Target Retirement 2020
		Vanguard Target Retirement 2025
		Vanguard Target Retirement 2030
		Vanguard Target Retirement 2035
		Vanguard Target Retirement 2040
		Vanguard Target Retirement 2045
		Vanguard Target Retirement 2050
		Vanguard Target Retirement 2055
Tier II (Index)	Fixed Income Index	Vanguard Total Bond Market
	Balanced Index	Vanguard Balanced Index
	Large Index	Vanguard Institutional Index Plus
	Mid-Small Index	Vanguard Extended Market Index
	International index	Vanguard FTSE all-World ex US Index
Tier III (Active)	Money Market	Vanguard Prime Money Market
	Stable Value	Wells Fargo Stable Return Fund
	Fixed Income	PIMCO Total Return
	Large Value	T. Rowe Price Large Cap Value
	Large Growth	T. Rowe Price Large Cap Growth
	Small Growth	Lord Abbett Developing Growth I
	Small Value	DFA U.S. Targeted Value I
	International	American Funds EuroPacific Growth
Tier IV (Annuities)	Stable Value	TIAA Traditional
	Money Market	CREF Money Market
	Balanced	CREF Social Choice
	Large Blend	CREF Stock
	Real Estate	TIAA Real Estate
Tier V	Mutual Fund Window	Mutual Fund Window



**Minnesota**  
STATE COLLEGES  
& UNIVERSITIES

**DEFINED CONTRIBUTION RETIREMENT PLAN AND  
TAX-SHELTERED ANNUITY PROGRAM**

**Statement of Investment Guidelines**

## TABLE OF CONTENTS

	<b>Page</b>
INTRODUCTION AND OBJECTIVES OF THE PLAN .....	1
SELECTION OF INVESTMENT OPTIONS .....	5
INVESTMENT CATEGORIES/OBJECTIVES .....	7
REPORTING AND MONITORING PROCEDURES.....	16
RESPONSIBILITIES OF COMMITTEE/PARTICIPANTS .....	19
ADMINISTRATIVE POLICIES .....	20
EXCESSIVE TRADING POLICY .....	24
EXHIBIT A – LIST OF OPTIONS.....	26

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

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### **Introduction**

The Minnesota State Colleges and Universities Defined Contribution Retirement Plan and Tax-Sheltered Annuity Program through its Investment Committee (the “Committee”) - to be referred to hereafter hereby adopts this Statement of Investment Guidelines (Statement – to be referred to hereafter) for the Minnesota State Colleges and Universities Defined Contribution Retirement Plan and Tax-Sheltered Annuity Program.

A formal review process will be established to monitor the performance of the investment options and to ensure that the funds are performing to their benchmarks and peer groups. The review will be based upon calendar quarter ending data.

The investment performance reports will provide all necessary fund information related to the performance of each investment option to its appropriate benchmarks, peer indices and style conformance. The investment performance reports will be a tool for assisting the Committee in making informed decisions related to either the retention or replacement of any investment option in the plan.

Nothing in this document precludes MnSCU from taking whatever action is necessary to safeguard the best interest of the Plan participants. If a conflict arises between the Plan document and the Investment Guidelines, the Plan document will supersede all matters herein.

### **Objectives of the Plan**

The overall objective of the MnSCU 403b Plan is to enable eligible employees to save for retirement by providing a tax-deferred savings plan suitable to participants’ retirement planning needs, The array offered needs to include enough funds from distinct asset classes in order to accommodate a broad range of individual investment goals. At the same time, the fund array should be structured so as not to cause confusion to participants or plan administrator. The fund array is intended to provide Plan participants with a range of investment options that have incremental and identifiable steps up the risk and return spectrum.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Responsibilities of the Investment Committee**

The members of the Investment Committee are:

Vice Chancellor for Human Resources

Vice Chancellor if Finance/Chief Financial Officer

The responsibilities of the Investment Committee include the following:

1. The Committee will select benchmarks goals for each investment fund.
2. If the investment goals are not met, the Committee will monitor the investment style, objective and performance of that fund to determine if other action is warranted.
3. To establish retirement program principles and administer the program accordingly.

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

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This Statement of Investment Guidelines serves the following purposes:

- To ensure that an appropriate range of investment options are offered to Plan participants. To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances.
- To define the investment categories offered by the Plan.
- To establish investment objectives and guidelines for each investment category offered within the Plan.
- To establish benchmarks and performance standards for each investment category and to evaluate each option's performance against appropriate benchmarks and standards.
- To establish a procedure for reporting and monitoring of the various investment options.
- To define the procedures for investment option evaluation and formal investment option review.
- To ensure that the investment management fees are in line with peer groups and monitor fund class share eligibility for lower investment management fees.
- To set guidelines and procedures for either adding or replacing an investment option which, in the Committee's opinion, does not, or will not, fulfill the Plan's objectives or performance for which it was selected and replace the option with an appropriate substitute. Funds will not be automatically replaced or substituted with replacement options; the review process will determine strength and weakness of each option and provide necessary data and information to determine if funds are to be placed on formal watchlist.
- The investment guidelines statement along with performance monitoring process will assist the Committee in the evaluation assessment.
- The plan service provider is prohibited from adding new or additional funds to the investment offerings. New or replacement options will be evaluated and a formal mutual fund search process

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

would be conducted to ensure that top performing and quality investment products are offered to the plan participants.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

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**Selection of Investment Options**

The Plan has chosen to offer investment options in the following investment categories:

<b>Category</b>
Stable Value Fund
Money Market
Inflation Linked Bond
Core Bond
Balanced
Large Cap Blend Equity (passive)
Large Cap Blend Equity (active)
Large Cap Growth Equity
Mid Cap Blend Equity (passive)
Mid Cap Blend Equity (active)
Small Cap Blend Equity (passive)
Small Cap Blend Equity (active)
International Equity
Global Equity
Real Estate

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**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

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Each investment option offered under the Plan shall:

- Operate in full accordance with its current published prospectus or “fact sheet”.
- Maintain asset management fees that are reasonable and consistent with the industry.
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Committee determines an investment option no longer meets the performance criteria, it may replace that option with a suitable alternative pursuant to the investment option evaluation procedure outlined herein.

From time-to-time, the Committee, in its discretion, may add investment options/categories to the current core options. At such time, the Statement of Investment Guidelines will be modified to include these additions.

Benchmarks for measuring fund performance will be the benchmarks identified by Morningstar and fund fact sheets, and fund performance data furnished by TIAA-CREF on core propriety options.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

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**Investment Categories:**

**Objectives, Guidelines & Performance Standards**

The Program shall offer at least one investment option within each of the following investment categories: (as reference in Exhibit A)

**Stable Value Fund**

**Objective**

The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. A fund in this category invests in fixed income instruments including those of U. S. Government and its agencies, corporations, mortgage and asset-backed securities, collateralized emerging market, high-yield and preferred stock security, emerging market and high yield securities, if invested in, shall represent a small percentage of total assets, in-line with the objectives to preserve capital.

**Performance Standards**

- To provide a competitive rate of interest that exceeds the 91-day Treasury Bill plus 125 basis points.
- To provide a competitive rate of interest that exceeds the Hueler Stable Value Index

**Money Market**

**Objective**

The objective of this investment category is to seek high current income, maintaining liquidity and preserving capital.

**Performance Standards (Net of fees)**

- To exceed the return of the three-month U.S. Treasury Bill over a market cycle<sup>1</sup>, or generally a period of 3 to 5 years.

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<sup>1</sup> Market cycles include 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. Typically, market cycles are from 3 to 5 years in duration.

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

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- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the three-month U.S. Treasury Bill.

### **Inflation-Linked Bond**

#### **Objective**

The objective of this investment category is To seek a long-term rate of return that outpaces inflation, primarily through investment in inflation-indexed bonds – fixed income securities whose returns are designed to track a specified inflation index over the life of the bond.

#### ***Performance Standards (Net of fees)***

- To exceed the return of the Lehman Brothers U.S. TIPS Index over a market cycle<sup>2</sup>, or generally a period of 3 to 5 years.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Lehman Brothers U.S. TIPS Index.

### **Core Fixed Income**

#### **Objective**

The objective of this investment category is to seek current income, with a secondary objective of capital appreciation.

#### ***Performance Standards (Net of fees)***

- To exceed the return of the Lehman Aggregate Bond Index over a market cycle<sup>3</sup>, or generally a period of 3 to 5 years.
- To exceed the median return of the core fixed income fund universe over a market cycle.

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<sup>2</sup> Market cycles include 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. Typically, market cycles are from 3 to 5 years in duration.

<sup>3</sup> Market cycles include 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. Typically, market cycles are from 3 to 5 years in duration.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Lehman Aggregate Bond Index and the intermediate fixed income universe.

**Balanced**

**Objective**

The objective of this investment category is to invest in stocks, bonds and cash to provide capital appreciation and income with less volatility than an all-stock fund. Investment returns are expected to be derived from a combination of capital appreciation and dividend and interest income.

***Performance Standards (Net of Fees)***

- To exceed the return of a composite index over a market cycle, or generally a period of 3 to 5 years. The composite for fund will be 60% S&P 500 Index and 40% Lehman Aggregate Bond Index.
- To exceed the median return of the balanced fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the composite index and the balanced fund universe.

**Large Cap Blend Equity (passive)**

**Objective**

The objective of this investment category is to approximate the performance of the Standard & Poor's 500 Index by investing in common stock of the large capitalization domestic companies comprising the Index. The S&P 500 Index is an equity composite of the 500 largest companies in the United States based on market capitalization. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

***Performance Standards (Net of Fees)***

- To approximate the performance of the S&P 500 Index, less expenses, over a market cycle, or generally a period of 3 to 5 years.

**Large Cap Blend Equity (active)**

**Objective**

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market or to have above-average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation

***Performance Standards (Net of Fees)***

- To exceed the return of the S&P 500 Index over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap blend equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the S&P 500 Index and the large cap blend equity fund universe.

**Large Cap Growth Equity**

**Objective**

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

***Performance Standards (Net of Fees)***

- To exceed the return of the Russell 1000 Growth Index over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the large cap growth equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 1000 Growth Index and the large cap growth equity fund universe.

**Mid Cap Blend Equity (passive)**

**Objective**

The objective of this investment category is to track the performance of the Russell Midcap or S&P Midcap 400 Index by investing in common stock of the medium capitalization domestic companies comprising the Index. The Russell Midcap Index is an equity composite of the 800 smallest companies within the Russell 1000 Index and the S&P Midcap 400 Index is an equity composite of 400 small cap stocks and is maintained by the S&P Index Committee. The fund manager targets to match the index rather than attempt to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

***Performance Standards (Net of Fees)***

- To approximate the performance of the Russell Midcap or S&P Midcap 400 Index over a market cycle, or generally a period of 3 to 5 years.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Mid Cap Blend Equity (active)**

**Objective**

The objective of this investment category is to invest primarily in the common stocks of medium-sized companies considered by the fund manager to be undervalued relative to the market or to have above-average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

***Performance Standards (Net of Fees)***

- To exceed the return of the Russell Mid Cap Index over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the mid cap equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell Mid Cap Index and the mid cap equity fund universe.

**Small Cap Blend Equity (passive)**

**Objective**

The objective of this investment category is to track the performance of the Russell 2000 or S&P 600 Index by investing in common stock of the small capitalization domestic companies comprising the Index. The Russell 2000 Index is an equity composite of the 2000 smallest companies within the Russell 3000 Index and the S&P 600 Index is an equity composite of 600 small cap stocks and is maintained by the S&P Index Committee. The fund manager targets to match the index rather than attempt to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

***Performance Standards (Net of Fees)***

- To approximate the performance of the Russell 2000 or S&P 600 Index over a market cycle, or generally a period of 3 to 5 years.

**Small Cap Blend Equity (active)**

**Objective**

The objective of this investment category is to invest primarily in the common stocks of small capitalization domestic companies considered by the fund manager to be undervalued relative to the market (value) or to have above average potential for capital appreciation (growth). Investment returns are expected to be derived primarily from capital appreciation and, to a lesser extent, dividend income.

***Performance Standards (Net of Fees)***

- To exceed the return of the Russell 2000 Index over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the small cap equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the Russell 2000 Index and the small cap equity fund universe.

**International Equity**

**Objective**

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

***Performance Standards (Net of Fees)***

- To exceed the return of the MSCI EAFE Index (net dividends) over a full market cycle, or generally a period of 3 to 5 years.



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

- To exceed the median return of the international equity fund universe over a full market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI EAFE (net) and the international fund universe.

**Global Equity**

**Objective**

The objective of this investment category is to invest primarily in the common stock of companies located within and outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

***Performance Standards (Net of fees)***

- To exceed the return of the MSCI World Index (net of dividends) over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the global equity fund universe over a market cycle.
- Risk, as measured by the standard deviation of quarterly returns, shall be consistent with that of the MSCI World Index (net) and the global equity fund universe.

**Real Estate**

**Objective**

The objective of this investment category is to invest primarily through rental income and appreciation of real estate investments owned by the account. Investment returns are expected to be derived primarily from capital appreciation.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

***Performance Standards (Net of fees)***

- To exceed the return of the NCREIF National Index (net of dividends) over a market cycle, or generally a period of 3 to 5 years.
- To exceed the median return of the global equity fund universe over a market cycle.

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

---

### Reporting and Monitoring Procedures

The Committee will review the Plan quarterly. The quarterly review will include the following:

- Current trends and developments in the capital markets and investment management community (market review).
- The current level of diversification provided by the investment categories and options offered by the Plan under the investment fund line-up (review of the correlation between investment categories and options).
- Changes in the investment management staff related to each investment option (organizational review).
- The continued consistency between the stated investment guidelines of each investment option and Plan policies (review of the guidelines of each investment option).
- The compliance of each investment option with stated investment guidelines (review of the holdings and characteristics of each investment option), including style drift analysis.
- The compliance of each investment option's risk and return characteristics with the expectations stated herein (performance review).
- Monitor investment management fees to similar managed peer fund universe and eligibility for lower share class management fees.
- Formal review process and meetings will be scheduled to occur on a quarterly basis.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Investment Option Evaluation**

The Committee, in its discretion, may conduct informal review and evaluation of an investment option at any time.

The Committee may place an investment option under formal fund review, terminate an investment option, or “freeze” an investment option to new contributions for any of the following reasons:

1. The investment option has not met the performance standards under the Plan for the investment category.
2. The investment option has changed investment manager, or such change appears imminent.
3. The investment option has had a significant change in ownership or control.
4. The investment option has changed investment focus or has experienced style drift, departing from the investment objectives or parameters in its prospectus or “fact sheet”.
5. The investment option has violated a SEC rule or regulation.
6. The fund has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Committee’s view, has or could detract from the objectives of the Plan.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Formal Investment Option Review**

When an investment option has been placed under formal review, the Committee shall conduct a detailed evaluation of the investment option, its operations, and its performance. During the review, the Committee: 1) may suspend contributions to the investment option from existing participants and 2) may close the investment option to new enrollers. If the Committee suspends contributions to the investment option from existing participants; the plan's service provider(s) must promptly notify all Plan participants. With regards to the suspended fund, the Committee has the option to apply new contributions or "map" new contributions from the suspended fund to another fund of similar risk and return characteristics or to the stable value fund. Upon completion of the evaluation, the Committee may continue the investment option under formal review status (continue with the suspension of the fund), remove the investment option from formal review (open the fund to contributions), or terminate the investment option.

**Termination of Investment Option**

1. When the Committee terminates a fund or no longer allows new contributions into a fund, the Committee must promptly notify all Plan participants that the Committee has terminated the fund as an investment option or has opened the fund to new contributions under the Plan.
2. With regards to the terminated fund, the Committee has the option to:
  - a. Transfer, or "map", the monies in the terminated fund to another fund of similar risk and return characteristics. The terminated fund is then totally removed from the Plan.
  - b. Close the terminated fund to future contributions, however, give the participants the option to keep, or remove, the monies in the terminated fund.
  - c. It is the responsibility of the Plan's services providers to provide all related communication materials to all plan participants explaining any fund closures, additions or revisions to the investment line-up.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Responsibilities of the Committee**

The Committee oversees the Plan to ensure that these benefits are competitive while performing within certain standards and objectives. The Committee will meet to review the performance of the administrator, recordkeeper, custodian, investment fund(s) and communications of the Plan to its employees.

As fiduciary of the Plan, the Committee must meet a regular standard of conduct under ERISA. First, fiduciaries must discharge their duties for the “exclusive purpose” of providing participants and beneficiaries with benefits under the Plan. Fiduciaries must also act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of the enterprise of like character and with like aims. Note that the standard is one of the knowledgeable fiduciary, that is, one that is “familiar with such matters.” The objective good faith beliefs of Plan fiduciaries, including the Committee, are not enough. Rather, their conduct must be objectively prudent.

In order to make prudent decisions, the Committee must exercise due diligence and independent investigation before reaching a decision, and should document its decision making process in writing. In exercising due diligence, consulting with and relying on outside experts, such as investment consultants, accountants, and attorneys, is often required.

Furthermore, there are certain transactions, called “prohibited transactions,” which the Committee must avoid, which generally include transactions between the Plan and a “party in interest” to the Plan. For purposes of ERISA, a party in interest of the Plan generally includes any Plan fiduciary, service provider, and any employee organization whose members are covered by the Plan, any person who owns 50% or more by any of the above. In addition, employees, officers, directors or 10% or more shareholders, or 10% or more partner or joint venturer of any of the above individuals would fall into this category.

Generally, any transaction classified as a prohibited transaction is improper regardless of whether or not it is harmful to the Plan.

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

---

Finally, the Committee, as the Plan fiduciary, must act in accordance with the Plan documents and other instruments governing the Plan, including the summary Plan description, in administering the Plan.

### **Responsibilities of the Participants**

The participants in the Plan are responsible for making ALL investment decisions relating to their account balances. Information will be made available so participants may better understand their investment choices. It will be the participants' responsibility to examine this information and to seek out additional information if necessary.

### **Administrative Policies & Objectives**

The Plan will be administered and record-kept by TIAA-CREF, who will maintain participant records and historical data. As the role of the record keeper, they will be responsible for maintaining individual participant accounts and processing participant requests on a daily basis.

### **Plan Design and Administration**

The Plan is governed by the rules and requirements specified in the Plan Document. The Internal Revenue Service (IRS) has established rules that apply to contributions and their limitations.

# MINNESOTA STATE COLLEGES AND UNIVERSITIES DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY PROGRAM

## Statement of Investment Guidelines

---

### Standards of Performance

The service provider is required to satisfy minimum standards of performance with regard to their administrative services. These standards will include the timeliness of participant statements, accuracy of records being kept and maintenance of Plan and Trust documents.

- *Providing of Information* – The service providers are required to provide various information to Participants and Beneficiaries of the Plan.

On written request, the service providers will provide a participant or beneficiary with the following documents: a complete copy of the Plans' latest annual report, the Plan documents (and other documents under which the Plan was established or is operated).

- *Timeliness of Statements* – Quarterly statements will be mailed directly to each participant's home address no later than 15 days after the end of each calendar quarter. Confirmations of transactions will be mailed directly to the participant's home address immediately after each transaction occurs.

Quarterly Plan sponsor reports will be mailed to the Committee no later than 15 days after the end of each calendar quarter. Annual statements will be mailed to the Committee no later than 20 days after the calendar year-end. These Plan level statements will include composite Plan level information relative to the market value of each of the Plan's investment options.

- *Accuracy of Reported Information* – Information contained within employee and Plan sponsor statements is expected to meet any and all Financial Accounting Standards Board (FASB) requirements. The pricing of securities and reporting of all dividend and capital gains distributions is expected to be consistent and up-to-date. Errors in reported information should be researched and corrected by the third party administrator/recordkeeper immediately upon discovery.



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

- *Maintenance of Plan and Trust Documents* – As the Plan and Trust Documents are subject to various regulatory requirements, it will be the responsibility of the service provider to maintain and recommend changes to the Plan documents as needed. The Committee will review or retain legal counsel to approve such changes. It is expected that the language contained within these documents will represent current laws and regulations with regard to deferred compensation programs.
  
- *Compliance with Claims Appeals Procedures* – If a participant or beneficiary makes a claim for benefits and the claim is denied the Committee will follow the specific claim procedures contained in the Plan document for claim denials and appeals. If the claim is denied the denial will be in writing and specify the particular basis for the denial, including the Plan provisions upon which the denial is based. The denial will also provide a description of additional materials, if any, needed to perfect a claim, and will give information on how the claimant may appeal the decision. A notice of any claim denial will be provided within 90 days of receipt of the claim for benefits (except a 90-day extension may be required in special circumstances). Any denial that is appealed within the 60 day time period contained within the Plan will be subject to further review by the Committee, which shall render a final decision on the appeal within 60 days (except that special circumstances may justify an extension or another 60 days). In each case, where an extension is required for determining an initial claim or appeal, the participant must be notified of the extension in writing.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Communications and Education**

In order for participants to effectively exercise control over their assets, the service provider is required to make investment information available to the participants as is deemed necessary for participants to understand the investments and make informed investment decisions. It is expected that employee communications and education will be provided through the Plan's service provider. This material will meet the legal requirements of the Committee to provide participants with information. The Committee may make available additional information as needed.

The quality and impact of these materials will be periodically evaluated in order to assess the impact and success of the overall communications program.

**Review of Plan's Administration Performance**

The Committee will conduct periodic reviews of the service provider's administrative services to evaluate the performance as it relates to the above-described standards. Overall quality of services, as well as review of each service provided will be examined.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

---

**Excessive Trading Policy**

In the absence of industry standard excessive trading guidelines, as well as part of its fiduciary duty the Committee has adopted the excessive trading policy of each of its service provider. The policies are used to protect the interest of the Plan's long-term investors from potential adverse impact of excessive trading.

TIAA-CREF and mutual fund companies will work together to identify any participants who are exceeding mutual fund prospectus guidelines and after the issuance of formal written communications, will subject the accounts to these individuals to proposed restrictions.

The service provider will send an announcement to all participants regarding the excessive trading policy of the Plan along with information on how to obtain mutual fund prospectus rules.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

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This Statement of Investment Guidelines is adopted by the Minnesota State Colleges and Universities  
Defined Contribution Retirement Plan and Tax-Sheltered Annuity Program Investment Committee

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Signature/Title

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Date

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**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**Exhibit A      Selected Investment Options**

The following core investment options are available to Plan participants:

Asset Class	TIAA-CREF
Stable Value Fund	TIAA Traditional Account
Money Market	CREF Money Market Account Vanguard Prime Money Market Fund
Inflation-Linked Bond	CREF Inflation-Linked Bond Account
Core Fixed Bond	CREF Bond Market Account Vanguard Total Bond Market Index Fund Western Asset Core Plus Bond Portfolio
Balanced	CREF Social Choice Account Dodge & Cox Balanced Fund Vanguard Balanced Index Fund
Large Cap Blend Equity (passive)	CREF Equity Index Account Vanguard Institutional Index Fund
Large Cap Blend Equity (active)	Legg Mason Value Fund
Large Cap Growth Equity	CREF Growth Account
Mid Cap Blend Equity (passive)	Vanguard Mid Capitalization Index Fund
Mid Cap Blend Equity (active)	Vanguard Strategic Equity Fund
Small Cap Blend Equity (passive)	Vanguard Small Capitalization Index Fund
Small Cap Blend Equity (active)	Pennsylvania Mutual Fund
International Equity	T. Rowe Price International Growth & Income Fund Vanguard Developed Markets Fund
Global Equity	CREF Global Equities Account
Real Estate	CREF Real Estate Account

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>TIAA Traditional Account</b>	To seek stability of principal and consistency of returns.	The TIAA Traditional Annuity, a guaranteed annuity account, guarantees principal and a contractually specified interest rate. It also offers the opportunity for higher returns through additional amounts, which may be declared on a year-by-year basis by the TIAA Board of Trustees.
<b>CREF Money Market Account</b>	To seek high current income consistent with maintaining liquidity and preserving capital.	The account will invest at least 95% of its assets in money market instruments that at the time of purchase are “first tier” – that is, rated within the highest category by at least two nationally recognized statistical rating organizations (NRSROs) or rated within the highest category by one NRSRO if it is the only NRSRO to have issued a rating for the security, or unrated securities of comparable quality.
<b>Vanguard Prime Money Market Fund</b>	To seek to provide current income while maintaining liquidity and a stable share price of \$1.	The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, banker’s acceptances, commercial paper, and other money market securities. The Fund invests more than 25% of its assets in securities issued by companies in the financial services industry. The Fund maintains a dollar-weighted average maturity of 90 days or less.
<b>CREF Inflation-Linked Bond Account</b>	To seek a long-term rate of return that outpaces inflation, primarily through investment in inflation-indexed bonds – fixed income securities whose returns are designed to track a specified inflation index over the life of the bond.	The account invests at least 80% of its assets in U.S. Treasury Inflation-Indexed Securities (TIIS). The account may also invest in other inflation-indexed bonds issued or guaranteed by the U.S. government or its agencies and by corporations and other U.S.-domiciled issuers, as well as by foreign governments; and money market instruments or other short-term securities.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>CREF Bond Market Account</b>	To seek a favorable long-term rate of return, primarily through high current income consistent with preserving capital.	Normally, the account invests at least 80% of its assets in a broad range of debt securities. The majority of the account's assets are invested in U.S. Treasury and Agency securities, corporate bonds and mortgage-backed or other asset-backed securities. The account's holdings are mainly investment-grade securities rated in the top four credit categories by Moodys Investors Service or Standard & Poor's, or that the managers determine are of comparable quality.
<b>Vanguard Total Bond Market Index Fund</b>	To seek to track the performance of a broad, market-weighted bond index.	The Fund employs a "passive management"-or indexing-investment approach designed to track the performance of the Lehman Brothers Aggregate Bond Index. The Fund invests by sampling the Index, meaning that it holds a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. All of the Fund's investments will be selected through the sampling process, and at least 80% of its assets will be invested in bonds held in the Index.
<b>Western Asset Core Plus Bond Portfolio</b>	To seek to maximize total return consistent with prudent investment management and liquidity needs, by investing to obtain an average duration of generally 2.5 to 7 years.	The portfolio invests in a portfolio of fixed income securities of various maturities and, under normal market conditions, will invest at least 80% of its net assets in debt and fixed income securities. To achieve its objectives, the portfolio may invest in a variety of securities and instruments, including – U.S. Government obligations, corporate obligations and inflation-indexed securities. The portfolio may also invest up to 25% of its total assets in the securities of non-U.S. issuers.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>CREF Social Choice Account</b>	To seek a favorable long-term rate of return that reflects the investment performance of the financial markets while giving special consideration to certain social criteria.	The account invests in a diversified set of stocks and other equity securities, bonds and other fixed-income securities, as well as money market instruments and other short-term debt instruments. The account is balanced, with assets divided between stocks and other equity securities (about 60%) and bonds and other fixed-income securities, including money market instruments (about 40%).
<b>Dodge &amp; Cox Balanced Fund</b>	To seek regular income, conservation of principal and an opportunity for long-term growth or principal and income.	The Fund invests in a diversified portfolio of common stocks, preferred stocks and fixed-income securities. While the mix of equity and fixed-income securities will vary depending on investment manager's outlook on the markets, no more than 75% of total assets will be invested in common stocks, preferred stocks and that portion of the value of convertible securities attributable to the conversion right.
<b>Vanguard Balanced Index Fund</b>	To seek to track the investment performance of a benchmark index that measures the investment return of the overall U.S. stock market with 60% of its assets. With 40% of its assets, the Fund seeks to track the investment performance of a broad, market-weighted bond index.	The Fund employs a "passive management" – or indexing – investment approach designed to track the performance of two benchmark indexes. The Fund invests by sampling its target indexes, meaning that it holds a range of securities that, in the aggregate, approximate the full indexes in terms of key characteristics. The Fund typically holds the largest 1,200 to 1,300 stocks in the MSCI U.S. Broad Market Index and a representative sample of the remainder of the Index.
<b>CREF Equity Index Account</b>	To seek a favorable long-term rate of return from a diversified portfolio selected to track the overall market for common stocks publicly traded in the U.S., as represented by a broad stock market index.	The account is designed to track the U.S. stock market as a whole and invests in stocks in the Russell 3000 Index. Although the account invests in stocks in the Russell 3000 Index, it may not invest in all 3,000 stocks in the Index. The account may also invest in securities and other instruments such as futures, whose return depends on stock market prices.



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>CREF Stock Account</b>	To seek a favorable long-term rate of return through capital appreciation and investment income by investing primarily in a broadly diversified portfolio of common stocks.	Normally, the account will invest at least 80% of its assets in a broadly diversified portfolio of common stocks. It uses a combination of three different investment strategies to manager the account – active management, enhanced indexing and pure indexing. Over time, the account intends to transition weightings of its holdings to be approximately 75% domestic equities and 25% international equities, with approximately 3% of the account comprised of emerging market investments.
<b>Vanguard Institutional Index Fund</b>	To seek to track the performance of a benchmark index that measures the investment return of large-capitalization stocks.	The Fund employs a “passive management” – or indexing approach designed to track the performance of the Standard & Poor’s 500 Index, a widely recognized benchmark of U.S. stock market performance that is dominated by the stocks of large U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weightings in the Index.
<b>Legg Mason Value Fund</b>	To seek long-term growth of capital.	The Fund invests primarily in equity securities that, in the adviser’s opinion, offer the potential for capital growth. The Fund generally invests in companies with market capitalizations greater than \$5 billion, but may invest in companies of any size. The Fund may also invest in debt securities. T may invest up to 25% of its total assets in long-term debt securities. Up to 10% of its total assets may be invested in debt securities rated below investment grade, commonly known as “junk bonds”.
<b>CREF Growth Account</b>	To seek favorable long-term rate of return, mainly through capital appreciation, primarily from a diversified portfolio of common stocks that present the opportunity for exceptional growth.	Normally, the account will invest at least 80% of its assets in common stocks and other equity securities. The account invests primarily invests in large, well-known, established companies, particularly when the managers believe they have new or innovative products, services, or processes that enhance future earnings prospects. Depending on investment opportunities, the account may invest up to 20% of its assets in foreign securities.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>Vanguard Mid Capitalization Index Fund</b>	To seek to track the performance of a benchmark index that measures the investment return of mid-capitalization stocks.	The Fund employs a “passive management” – or indexing – investment approach designed to track the performance of the MSCI U.S. Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the Index.
<b>Vanguard Strategic Equity Fund</b>	To seek to provide long-term capital appreciation.	The Fund invests in small- and mid-capitalization domestic stocks based on the advisor’s assessment of the relative return potential of the securities. The advisor selects securities that it believes offer a good balance between reasonable valuations and attractive growth prospects relative to their peers, by using proprietary software programs that allow comparisons among thousands of securities at a time. The Fund reserves the right to invest up to 25% of its assets in foreign securities.
<b>Vanguard Small Cap Index Fund</b>	To seek to track the performance of a benchmark index that measures the investment return of small-capitalization stocks.	The Fund employs a “passive management” – or indexing – investment approach designed to track the performance of the MSCI U.S. Small Cap 1750 Index, a broadly diversified index of stocks of smaller U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the Index.
<b>Pennsylvania Mutual Fund</b>	To seek long-term growth of capital.	The investment manager invests the Fund’s assets primarily in a broadly diversified portfolio of equity securities issued by both small- and micro-cap companies that it believes are trading significantly below its estimate of their current worth, basing this assessment chiefly on balance sheet quality and cash flow levels. Normally, the Fund will invest at least 65% of its net assets in the equity securities of such small- and micro-cap companies.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
DEFINED CONTRIBUTION RETIREMENT PLAN AND TAX-SHELTERED ANNUITY  
PROGRAM**

Statement of Investment Guidelines

**FUND DESCRIPTIONS**

Fund (share class)	Objective	Description
<b>T. Rowe Price International Growth &amp; Income Fund</b>	To seek long-term growth of capital and reasonable income through investments primarily in the common stocks of well-established, dividend paying non-U.S. companies.	The investment managers expects to invest substantially all of the Fund's assets outside the U.S. and to diversify broadly, primarily among the world's developed countries. The Fund will invest primarily (at least 65% of total assets) in the stocks of large, dividend-paying, well-established companies that have favorable prospects for capital appreciation, as determined by investment manager. Investments in emerging markets will be modest and limited to more mature developing countries.
<b>Vanguard Developed Markets Fund</b>	To seek to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in the major markets of Europe and the Pacific region.	The Fund employs a "passive management" – or indexing – investment approach designed to track the performance of the MSCI EAFE Index, by investing in Vanguard European Stock Index Fund Institutional Shares and Vanguard Pacific Stock Index Fund Institutional Shares. The MSCI EAFE Index includes approximately 1,140 common stocks of companies located in Europe, Australia, Asia and the Far East.
<b>CREF Global Equities Account</b>	To seek a favorable long-term rate of return through capital appreciation and income from a broadly diversified portfolio that consists primarily of foreign and domestic common stocks.	Normally, the account invests at least 80% of its assets in equity securities of foreign and domestic companies. Typically, at least 40% of the account is invested in foreign securities and at least 25% in domestic securities, as the managers deem appropriate. The remain 35% is distributed between foreign and domestic securities. The account can invest in companies of any size, including small companies.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
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**FUND DESCRIPTIONS**

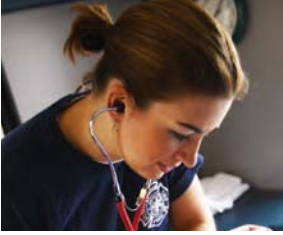
Fund (share class)	Objective	Description
<b>CREF Real Estate Account</b>	To seek favorable long-term returns primarily through rental income and appreciation of real estate investments owned by the account.	The account seeks to invest between 70% and 95% of its assets directly in real estate or real estate-related securities. The account purchase direct ownership interests of income-producing real estate, such as office, industrial, retail, and multi-family residential properties. The account may also hold other real estate or real estate-related investments through joint ventures, real estate partnerships or real estate investment trusts (REITs), and in conventional mortgage loans, participating mortgage loans, common or preferred stock of companies that primarily own or manage real estate, and mortgage backed securities. The account can also make foreign investments, which are expected to be no more than 25% of the account's portfolio.



Minnesota  
STATE COLLEGES  
& UNIVERSITIES

# Mandatory and Voluntary Retirement Plans





## Greetings



### To Employees of the Minnesota State Colleges and Universities:

As employees of the Minnesota State Colleges and Universities system, you are a respected and important resource. You provide our 390,000 students each year with outstanding academic preparation and career education, student support, financial services, and technology and facilities support and management.



This booklet gives you an overview of the retirement benefits for which you are eligible. We are committed to providing benefits to help employees build an income for their future retirement years. Whether you are a new employee or a current member of the staff, we encourage you to review the full array of benefits and to become actively involved in planning for your future retirement income.



The system offers a mix of mandatory and voluntary retirement plans. All mandatory contributions are invested on a pretax basis. The chart on Page 5 gives an overview, including employee eligibility and employer matching contributions in these plans, with additional information on the following pages. All employees may participate in the voluntary plans.

On behalf of the Office of the Chancellor, we want you to know how highly we value your public service, particularly in the fast-paced and continually changing educational environment in which we work. We are proud of your achievements in delivering high-quality, innovative public higher education for the citizens of Minnesota.

James H. McCormick  
Chancellor

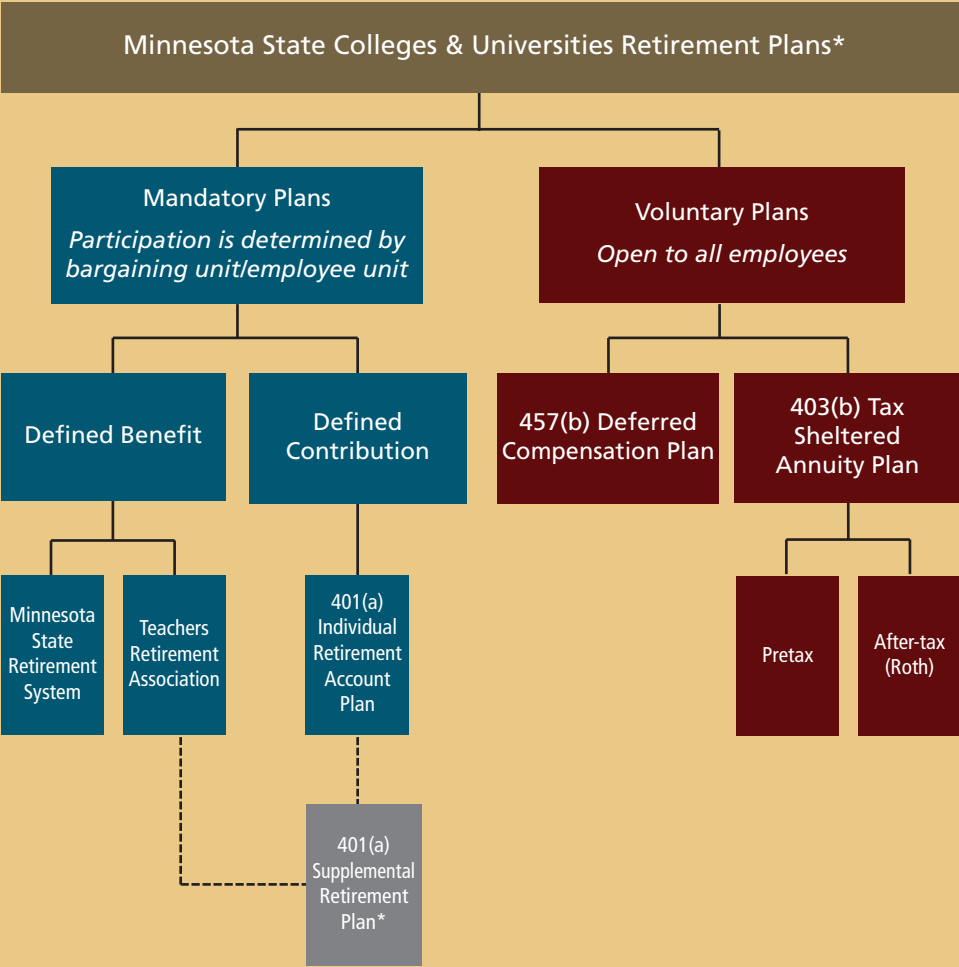
Loretta M. Lamb  
Vice Chancellor of Human Resources



**Minnesota**  
STATE COLLEGES  
& UNIVERSITIES

# Retirement Plan Diagram

Our goal is to provide the tools for all employees to learn more about the features, rules and investments in the mandatory and voluntary plans. Additional information is available at [www.hr.mnscu.edu/employees/retirement](http://www.hr.mnscu.edu/employees/retirement). Links to the investment options, plan comparisons and enrollment materials are provided on the Web site.



\* See chart on Page 5 and plan descriptions for eligibility requirements for all retirement plans.

## The System's Mandatory Retirement Plans

### Defined Contribution Plan

In a Defined Contribution Plan, the amount of your benefit is based on the dollar amount in your account at retirement. Your account, which includes your contributions, employer contributions and investment earnings, is yours beginning on the date of your first contribution. You make all the investment decisions, and you can change the investment funds as often as allowed by the fund managers. The Minnesota State Colleges and Universities System Investment Committee has selected funds ranging from conservative to aggressive investment styles. Employee and employer contribution rates for the Defined Contribution Plan are established by state statute. The entire account balance is portable as you change employment or retire. You can transfer the total balance to another qualified plan (with approval) or to your personal IRA upon termination of employment. There are no tax consequences for this type of transfer.

### The Defined Contribution Plan has two components:

**Individual Retirement Account Plan** is the mandatory retirement plan for faculty, system administrators and unclassified members of MAPE and MMA. An employee becomes eligible to contribute to the plan if he or she works 25 percent or more of a full-time position. Once an employee meets the eligibility requirement, enrollment in the Individual Retirement Account Plan is automatic.

**Supplemental Retirement Plan** is the mandatory plan for all faculty and unclassified employees with two years of full-time service. Employee contribution limits are established by language in applicable bargaining agreements and personnel plans. The employer contribution is equal to the employee contribution amount.





## The System's Mandatory Retirement Plans (Continued)

### Defined Benefit Plans

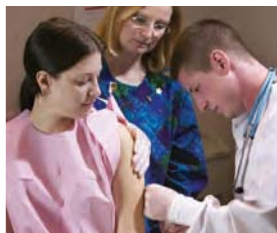
Defined Benefit Plans are sometimes called pension plans. This type of plan provides a retirement benefit based on a formula that takes into account your years of service, your highest average salary earned during any five consecutive years of service and your age at retirement. If you have service with other Minnesota state retirement plans, you may apply for a combined service annuity with each plan at retirement. As with the Defined Contribution Retirement Plan, the employee and employer contribution rates to the various defined benefit plans are established by state statute. The State Board of Investment invests all the contributions to the Defined Benefit Plans.

### The system has two Defined Benefit Plans:

**Minnesota State Retirement System** is the plan for members of AFSCME, Classified MAPE and MMA, MNA, MGEC, Managerial and Commissioner's plans.

**Teachers Retirement Association** is an option for faculty and unclassified MMA and MAPE members who wish to participate in a Defined Benefit Plan in lieu of the Individual Retirement Account Plan. Eligible employees have one year from the date they become eligible to participate in a retirement plan to make an irrevocable election to participate in the Teachers Retirement Association, rather than the Individual Retirement Account Plan. Participation in the Teachers Retirement Association is effective from the date of election. Any contributions made to the Individual Retirement Account Plan prior to the election remain in that plan until the employee retires or terminates service with the system.

As of July 1, 2009, faculty who initially attain tenure or unlimited status will have another opportunity to elect TRA within one (1) year of attaining such status. Further information about this election will be mailed to eligible faculty by TRA.



## The System's Voluntary Retirement Plans

The Minnesota State Colleges and Universities system provides two voluntary retirement plans. As a state employee in an educational institution, you may participate in the Tax Sheltered Annuity Plan, 403(b), and the Minnesota State Deferred Compensation Plan, 457(b). For maximum flexibility, the Tax-Sheltered Annuity Plan, 403(b), has both pretax and after-tax Roth options.

No matter which mandatory retirement plan you have, or even if you do not have one, you are eligible for these voluntary retirement plans.

### These plans offer:

#### Lower taxes through payroll contributions

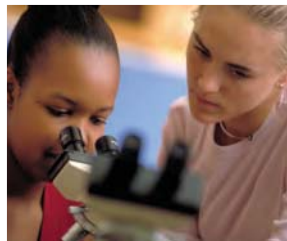
These plans are an easy, automatic way to save for retirement through payroll deduction. They allow you to set aside a portion of your income on a tax-deferred basis. That means less of your salary is subject to current income taxes, and your savings accumulate tax deferred until you begin distribution at retirement. These plans are voluntary, and you may enroll at any time.

#### Control of your savings account and investment options

You decide how much you will save out of each paycheck – subject to Internal Revenue Service limitations. You select your own investments. You can change your contribution amount or transfer your investments within the plans at anytime. It is your money. You control it. For maximum flexibility, the Tax-Sheltered Annuity Plan, 403(b), has both pretax and after-tax Roth options.

#### Professional investment management

You have professional investment managers working on your behalf. The plans offer the flexibility to invest in a wide variety of investment options. Vendors are selected through a competitive bid process. The System Investment Committee regularly reviews the funds in the 403(b) Plan. The Minnesota State Retirement System administers the 457(b). The State Board of Investment and its staff regularly review all investment options in the 457(b) with the exception of the self-directed brokerage account.



	Mandatory Retirement Plans				Voluntary Retirement Plans	
Plan	Minnesota State Retirement System	Teachers Retirement Association	401(a) Individual Retirement Account Plan	401(a) Supplemental Retirement Plan	457(b) Deferred Compensation Plan	403(b) Tax Sheltered Annuity Plan
Plan Type	Defined Benefit	Defined Benefit Eligible employees must elect to participate	Defined Contribution Eligible employees automatically participate	Defined Contribution	Defined Contribution	Defined Contribution (Pretax and after-tax Roth options)
Employees Eligible	AFSCME MAPE-Classified MMA-Classified Managerial Plan Commissioner's Plan MGEC MNA	MSCF IFO MSUAASF Unclassified: MAPE MMA	System Administrators MSCF IFO MSUAASF Unclassified: MAPE MMA	Unclassified Employees with 2 or more years of full-time service	All employees	All employees
Contribution Amount	Effective 7/1/2009 Employee = 4.75% Employer = 4.75%  Effective 7/1/2010 Employee = 5% Employer = 5%	Employee = 5.5%  Employer = 5.5%	Employee = 4.5%  Employer = 6%	Employee Contribution = 5% on gross compensation over \$6,000 limited to maximum set by bargaining unit/personnel plan  Employer's Contribution = 100% of employee contribution	100% of taxable income not to exceed \$16,500 in 2009, and \$22,000 for age 50 and older in 2009	100% of taxable income not to exceed \$16,500 in 2009, and \$22,000 for age 50 and older in 2009
Eligible for voluntary state-matching contribution	N/A	N/A	N/A	N/A	AFSCME MAPE MMA Managerial Plan Commissioner's Plan MGEC MNA	N/A