INVESTMENT POLICY STATEMENT

Massachusetts 403(b) Supplemental Retirement Plan
I. Statement of Purpose

The purpose of this Investment Policy Statement is to identify objectives which will guide *The Massachusetts Department of Higher Education Retirement Plan Investment Committee* (the “Committee”) in making recommendations to the Commissioner of Higher Education (the “Commissioner”) on the selection of investment options in the Massachusetts 403(b) Supplemental Retirement Plan (the “Plan”) and in monitoring those investment options.

The Investment Policy Statement is intended to incorporate sufficient flexibility so as to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements. The Committee’s primary objective is to provide participants with a diverse set of investment options which encompass a variety of risk/return characteristics among which participants in the Plan can reasonably and adequately diversify their portfolios.

This Investment Policy Statement has been adopted by the Massachusetts Board of Higher Education as of DATE.

II. Fiduciary Standard

The Committee shall perform its duties in accordance with the standards of M.G.L. Chapter 32, Section 23(3).

The Committee shall have complete discretion to interpret this Investment Policy Statement and shall advise and report to the Commissioner, as appropriate.

III. Investment Options

A. Selection

In recommending investment options for the Plan to the Commissioner, the Committee will select investment alternatives that are diversified, have materially different risk and return characteristics, and that in the aggregate allow participants to direct their investments to a diversified portfolio that has risk and return characteristics that are appropriate for each of them as individuals. The Committee shall take into account some or all of the following criteria, as the Committee deems appropriate:

- the option’s record of returns to shareholders;
- performance as compared to an appropriate benchmark and/or an appropriate peer group(s);
- risk measures versus those of the benchmark and/or peer group;
- risk-adjusted return measures as compared to those of the benchmark and/or peer group;
- organizational structure and stability of fund management personnel;
• manager tenure;

• the fees and expenses assessed by the investment option, as well as the impact of offering the investment option on the overall fees and expenses associated with managing the Plans; and

• qualitative characteristics, including, but not limited to, management strategy, turnover, and recent portfolio activity in view of relevant market conditions.

B. Monitoring of Investment Options

The Committee shall monitor the investment options at least quarterly, as set forth in the Committee’s Charter. As part of its monitoring process, the Committee may consider the following:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Measure</th>
<th>Goal(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>3-, 5-, &amp; 10-year record</td>
<td>reasonable vs. peer group</td>
</tr>
<tr>
<td></td>
<td>3-, 5-, &amp; 10-year record</td>
<td>reasonable vs. appropriate benchmark</td>
</tr>
<tr>
<td>Risk</td>
<td>3-year standard deviation</td>
<td>reasonable vs. peer group and/or appropriate benchmark</td>
</tr>
<tr>
<td>Risk-adjusted performance</td>
<td>3-year Sharpe ratio</td>
<td>reasonable vs. peer group and/or appropriate benchmark</td>
</tr>
<tr>
<td>Expense ratios</td>
<td>Total expenses</td>
<td>Consistent with peer group median</td>
</tr>
<tr>
<td>Investment objective/style</td>
<td>Style purity</td>
<td>Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared</td>
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</tbody>
</table>

The Committee may, from time to time as warranted, modify these criteria and goals, or may consider other criteria and goals, with the approval of the Commissioner.

Investment options that do not meet the Committee’s expectations may be subject to additional scrutiny for a period of time that the Committee deems appropriate for each situation. Investment options that consistently do not meet the Committee’s expectations may become candidates for removal. Before deciding to recommend the removal an investment option, however, and in light of its fiduciary responsibilities, the Committee may consider the following:

• the investment option’s long-term investment performance on a rolling basis;

• recent changes, such as investment option restructurings or management changes designed to correct deficiencies;

• the appropriateness and/or relevance of an investment option’s stated peer group;

• the investment option’s adherence to a stated investment style, whether or not that investment style has been in or out of favor as determined by the Committee;
• unusual market circumstances or volatility;
• constraints on investment methodology prescribed by the option’s prospectus, and
  the degree to which the investment option has reduced or controlled risk;

The Committee may recommend the removal an investment option if, in the opinion of the
Committee, the investment option no longer meets the Committee’s expectation of the option,
without regard to whether the investment had previously been subject to additional scrutiny.

IV. Selection and Monitoring of the Default Investment Options

In recommending the selection of the Plan’s default investment option(s) (i.e., the options into
which contributions will be directed on behalf of participants who fail to make affirmative
investment elections) and in monitoring said options, the Committee will apply the general
selection and monitoring principles described in this Investment Policy Statement. In addition, the
Committee’s recommendations and monitoring of default investment options shall be substantially
consistent with the United States Department of Labor’s standards for the selection and monitoring
of “qualified default investment alternatives.”

V. Target Date Funds and Asset Allocation Suites

A. Selection

In recommending the selection of target date funds and asset allocation suites to the
Commissioner, the Committee shall consider the following steps as general guidelines:

• Determine the primary objective in relation to risk management. The Committee should
  prioritize either minimizing risk just before retirement or maximizing return.
• Consider participant demographics in order to help define overall risk tolerance. Factors
  that may be considered are average age of population, average age at which population
  retires, overall investment knowledge, current plan usage of target date, hybrid funds, or
  asset allocation suites, and participant behavior at retirement;
• Review asset class diversification. The Committee may consider a broad range of asset
classes and whether or not the target date or asset allocation suite chosen should include
additional asset classes beyond those available in the investment array. These may
include, but are not limited to, the following: real estate, commodities, high yield debt,
emerging market equity and debt, inflation hedging, and long/short equity strategies;
• Inception of the target date fund and asset allocation suites should be at least three years
  though exceptions can be made as the Committee deems appropriate;
• Expense fees in comparison to averages and as related to overall plan cost; and
• Performance comparison relative to other target date funds and asset allocation suites with
  similar objectives.
B. Monitoring of Target Date Funds

The monitoring process may include, but is not limited to, the steps below.

- Review for any significant changes (investment strategy, underlying assumptions or management changes) in the target date offering;
- Review the glide path to ensure the strategy chosen remains appropriate for such investment options and that the manager is adhering to the investment process and performance objective;
- Review performance relative to custom benchmark, category averages, and other benchmarks;
- Review the underlying holdings of the target date offering; and
- Review qualitative factors (key personnel making asset allocation and investment decisions, manager’s available resources and parent organization.)

C. Monitoring of Asset Allocation Suites

The monitoring process may include, but is not limited to, the steps below.

- Review for any significant changes (investment strategy, underlying assumptions or management changes) in the asset allocation mix;
- Review of the asset allocation mix to ensure the strategy chosen remains aligned with the Committee’s expectations;
- Review fund strategy to ensure that the manager is adhering to the investment process and performance objectives;
- Review performance relative to category averages and other benchmarks, and where applicable and appropriate, other options with similar objectives and investment strategies;
- Review the underlying holdings that make up the asset allocation mix.

VI. Fixed Interest/Stable Value Options

A. Selection

In recommending the selection of any fixed interest/stable value option to the Commissioner, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate:

- financial strength ratings of the guarantor provided by the major ratings agencies;
- interest rate history and minimum guaranteed contract rate;
- contract liquidity provisions;
- current and historical market to book value ratio (stable value funds only); and
- comparison between fixed interest accounts (*i.e.*, those backed by general assets) and stable value accounts (*i.e.*, those backed by separate account).

**B. Monitoring**

The Committee shall monitor any fixed interest/stable value option as frequently as circumstances warrant. As part of its monitoring process, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate:

- financial strength ratings of the guarantor provided by the major ratings agencies;
- current interest rates; and
- current market to book value ratio (stable value funds only).

**VII. Brokerage Account**

This Policy does not apply to investments purchased at the direction of a participant through an individual brokerage account provided by service providers within the Plan.

**VIII. Summary Statement**

This Investment Policy Statement shall guide the Committee and shall remain in effect until either amended or terminated by the Massachusetts Board of Higher Education. Nothing contained in this Investment Policy Statement shall provide to any participant or beneficiary the right to enforce the terms of this Investment Policy Statement. The Commissioner shall have full and complete discretion over the selection, monitoring, and retention of investment options offered under the Plan and the application of this Investment Policy Statement to any specific situation.