

Washington College Savings Program

INVESTMENT POLICY STATEMENT

*Adopted November 7, 2024
(Effective February 10, 2025)*

CONTENTS

PURPOSE..... 3

PLAN SUMMARY 3

RESPONSIBILITIES 4

INVESTMENT OPTIONS..... 6

SECURITIES GUIDELINES..... 7

SELECTION OF INVESTMENT MANAGERS..... 7

LONG-TERM MARKET PERFORMANCE OBJECTIVES..... 8

MONITORING OF INVESTMENT MANAGERS..... 8

REVIEW AND POLICY ADOPTION 9

APPENDIX A 11

APPENDIX B 14

PURPOSE

The purpose of this Investment Policy Statement (**IPS**) is to assist the Committee on Advanced Tuition Payment and College Savings (**Committee**) in effectively supervising, monitoring, and evaluating the investment options (**Investment Options**) of the Washington College Savings Program (**Plan**). Pursuant to RCW 28B.95.032, the Committee has the authority to oversee the investment of Plan assets. The Plan's investment program is described in the various sections of the IPS by:

- Stating in a written document the Committee's judgments, expectations, objectives, and guidelines in the investment of all Plan assets.
- Setting forth an investment structure for managing all Plan assets. This structure includes various asset classes and investment management styles. The Plan intends to provide an appropriate range of Investment Options that will span the risk/return spectrum.
- Establishing the criteria and procedures for selecting Investment Options and Investment Managers.
- Providing guidelines for each investment portfolio (**Portfolio**) that controls the level of overall risk (appropriate diversification) and liquidity assumed in that Portfolio so that all Plan assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Committee, Washington Student Achievement Council (WSAC), the Program Manager, the Investment Advisor, and the Investment Managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Managers on a regular basis.
- Complying with all fiduciary, prudence, and due diligence requirements and with all applicable laws, rules and regulations that may impact Plan assets, including ensuring Investment Options and Underlying Investments that are appropriate for individuals saving through Section 529 College Savings Plans.

This IPS has been arrived at following consideration by the Committee of the financial implications of a wide range of policies and describes the prudent investment process that the Committee deems appropriate.

PLAN SUMMARY

Background Information

The Washington College Savings Program is a qualified tuition program established under Section 529 of the Internal Revenue Code for the purpose of enhancing the accessibility and affordability of higher education. The Plan, which began operations in 2018, was made possible by legislation passed by the Washington State Legislature in 2016, which appointed the Committee as administrator of the Plan, supported by the staff of the Washington Student Achievement Council.

The Plan is designed to meet certain Internal Revenue Service requirements in order to offer participants favorable tax treatment. The existing Committee Bylaws governing the Plan are attached as Appendix A.

Participants are entitled to make periodic contributions to the Plan and to select the type of Investment Options for their account(s). The Plan's participants are expected to have different time horizons and risk tolerances for their account(s). To meet these varying investment needs, participants will be able to direct their account balances among a range of Investment Options to construct diversified portfolios that reasonably span the risk/return spectrum. Participants alone bear the risk of the investment results from the options and asset mixes that they select.

The objectives of the Plan have been established as follows:

- To maintain flexibility in meeting the future needs of the participants.
- To provide participants with investment choices that are diversified across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs, risk tolerance, investment time horizon, and age of usage of the Plan's participants.
- To control costs of administering the Plan and managing the investments.
- To undertake all transactions solely in the interest of the participants and beneficiaries.
- To comply with all fiduciary, prudence, and due diligence requirements and with all applicable laws, rules and regulations that may impact Plan assets.

The Committee reserves the right to modify the Plan's policies, procedures, and rules, in its sole discretion.

RESPONSIBILITIES

Responsibilities of the Committee

The Committee is responsible for the prudent administration of the Plan with specific responsibilities, which include design of the Plan investment platform; establishing investment policy objectives and guidelines; prudent selection of Investment Managers; and ongoing monitoring.

Delegation of Authority

The Committee has a fiduciary responsibility to provide the investment framework for and monitor the investment management of Plan assets. As such, the Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

Washington Student Achievement Council (WSAC). The Committee is supported by WSAC staff who conduct the day-to-day administration, including distribution and marketing of the Plan on the behalf of the Committee.

Program Manager. The Program Manager's responsibilities under this IPS are as follows:

- Manage the day-to-day operations of the Plan, except with respect to the distribution of the Plan.
- Produce a daily performance report for the Plan to be publicly shared on the plan website on a daily basis.
- Produce (or direct the Investment Advisor to produce) a quarterly performance report for the Plan, which shall at least include the following:
 - economic and market outlook;

- performance by each Portfolio net of fees and gross of fees;
- comparison of each Portfolio's performance to its relative benchmark, including any proposed changes to benchmarks for the following quarter and justifications for such changes; and
- review and provide an opinion on the Investment Advisor's investment recommendation(s).
- At the direction of the Committee and WSAC, and the Investment Advisor, carry out the objectives of this IPS by investing, reinvesting, managing, contracting, selling or exchanging investment money in the Plan.

Recordkeeper. The Recordkeeper calculates individual participant balances and processes participant contributions and disbursements. The Recordkeeper continually reconciles participant balances with trust account balances to maintain alignment. The Recordkeeper also produces management reports that ensure the overall compliance of the Plan with federal and state regulatory requirements.

Investment Advisor. The Investment Advisor, after consultation with and approval by the Committee and WSAC, shall develop and provide recommendations for the Investment Options offered by the Plan and the specific securities or products (**Underlying Investments**) that comprise the Investment Options. The Investment Advisor can recommend actively and passively managed mutual funds, exchange-traded funds (ETFs) and other investment types, including separate accounts and funding agreements, as Underlying Investments. The Underlying Investments selected by the Committee must adhere to the terms and conditions set forth in the funds' prospectus, trust document or other applicable governing document. The Investment Advisor shall:

- Produce quarterly investment advisory reports and an annual letter.
- Monitor and recommend rebalancing of the Year of Enrollment Portfolios and other Portfolios in accordance with allocation guidelines set forth in the Program Management Agreement between WSAC and the Program Manager (**Management Agreement**) and/or any subcontractors.
- Review and provide recommendation(s) on Underlying Investments and Portfolios of the trust as required under the Management Agreement and/or any subcontracts, taking into considering the appropriateness of the Underlying Investments and Portfolios for investors saving through Section 529 Plans.
- Communicate regularly with issuers of the Underlying Investments.
- Perform due diligence and monitor Underlying Investments.
- Make recommendations with respect to Portfolio and Investment Manager retention or termination.

Investment Managers. The Investment Managers may offer mutual funds, exchange-traded funds (ETFs) and other investment types, including separate accounts and funding agreements as Underlying Investments.

Custodian. The Program Manager may have an agreement with a Custodian through which the Custodian provides custody and cash management services to the Plan, including trust portfolio custody, check processing, and deposit accounts.

Investment Consultant. The Committee may engage an Investment Consultant to assist the Committee in establishing the objectives, and guidelines of the IPS; selecting the Investment Advisor; reviewing the Investment Options and Underlying Investments over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

Additional specialists. Specialists such as attorneys, consultants, auditors, actuaries, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Plan assets prudently.

Responsibilities of the Participants

Participants are responsible for choosing an appropriate investment program. The Committee will not provide individual investment counseling or advice to participants. Participants choosing to invest in the Year of Enrollment Investment Option must determine that the Portfolios' shift in asset allocation strategies are appropriate for their risk tolerances, time horizons and return expectations. Participants choosing to invest in the Static Portfolios are responsible for utilizing the basic principles of strategic asset allocation to select a combination of Investment Options based on the participant's unique time horizon, risk tolerance, return expectation, and asset class preferences.

INVESTMENT OPTIONS

In order to provide appropriate investment alternatives and diversification for the participants, various Investment Options shall be available that provide a range of risk and return characteristics. The Investment Options will be made available through two different portfolio types, a Year of Enrollment Investment Option, and Static Portfolios. More specific information on these types and options are contained in the Plan's Program Details Booklet as may be amended or supplemented.

The Committee reserves the right to add or replace Investment Options, the Portfolios included in the Investment Options, and the Underlying Investments and related asset classes based upon market conditions, Program Manager input, Investment Advisor input, investment consultant input, participant response, or other factors. A description and explanation of each Investment Option, Portfolio, Underlying Investment, current asset class, and investment style is provided in the Plan's Program Details Booklet as may be amended or supplemented.

Year of Enrollment Investment Option

The Year of Enrollment Investment Option offers participants pre-diversified Portfolios that become more conservative as the Beneficiary approaches college age.

The Portfolios represent a weighted allocation among a pre-determined number and type of investment strategies. The Investment Advisor, with the oversight of the Program Manager and WSAC and approval of the Committee, reviews these strategic allocations periodically and makes recommendations for adjustments when deemed appropriate.

Glide Paths and Rebalancing. A "glide path" describes how the asset allocation of the Year of Enrollment Portfolios evolves over time. The Plan utilizes a progressive glide path approach in which the asset allocation of the participant's Portfolio automatically shifts from capital

accumulation in the earlier years to capital preservation in the near-college and college years. The glide path generally adjusts this allocation on a quarterly basis.

An essential component of the asset allocation process is rebalancing. Rebalancing is a process that realigns a Portfolio back to its strategic targets as market fluctuations change the initial allocations over time. The Investment Advisor, in collaboration with the Program Manager, monitors the underlying asset allocation of the Year of Enrollment Portfolios on a quarterly basis. The Committee has also given the Program Manager discretion to rebalance the Year of Enrollment Portfolios on an as-needed basis to help ensure Portfolios remain within strategic targets by acceptable percentages.

Static Portfolios

The Static Portfolios offer stand-alone options which allow participants the ability to allocate their account assets into one or more of the Investment Options. The goal in offering these Portfolios is to provide participants with the ability to construct diversified Portfolios by asset class and investment style that match their risk tolerances, asset class preferences, time horizons and expected returns. Once a participant's Portfolio is selected for a particular contribution, the Internal Revenue Code dictates the rules through which a participant can move money or transfer from one Portfolio to another. Static Portfolios may include multi-fund, blended portfolios, and single-fund portfolios.

SECURITIES GUIDELINES

The guidelines set forth in the investment vehicle's prospectus, trust document, or funding agreement, as applicable, shall govern all Underlying Investments.

SELECTION OF INVESTMENT MANAGERS

The Committee, with the assistance and upon the recommendations of WSAC, the Program Manager, and the Investment Advisor, will select Investment Managers to manage the Plan assets. The Committee's intent is to follow a process of appropriate due diligence. Accordingly, when selecting Investment Managers, the following criteria will be considered:

- Investment Managers will be banks, insurance companies, investment management companies, or investment advisers as defined by the Investment Advisers Act of 1940.
- Historical quarterly performance numbers will be calculated on a time-weighted basis for performance screening.
- Performance evaluation reports will illustrate the risk/return profile of the Investment Manager relative to other Investment Managers of like investment style where appropriate.
- Detailed information on the history of the firm and key personnel (including any material litigation and fraud), key clients, costs, and support personnel must be analyzed.
- The investment strategy that will be followed must be described and documented that the strategy has been successfully adhered to over time.
- Fees should be competitive compared to similar investments.
- Investment Managers will be compared against a comparable peer group for selection, where appropriate.

LONG-TERM MARKET PERFORMANCE OBJECTIVES

The Committee and the Investment Advisor will agree upon the inception date and benchmarks for measurement of performance in advance. The passively managed Investment Managers/mutual funds are expected to produce total returns that match their benchmark (minus identified mutual fund expenses). The performance objectives are to be used as a basis for reviewing and monitoring a particular Investment Manager, not as an absolute measure that requires manager/fund termination if they are not achieved. In the event that the asset allocation of an Investment Option is modified and approved by the Committee, the composite benchmark will be adjusted accordingly.

Each Underlying Investment will comply with its prospectus in instances when the Underlying Investment is a mutual fund. Style-specific indices, as well as style-specific manager/fund universes may also be used to assist in evaluating the performance of the Investment Manager/mutual fund.

MONITORING OF INVESTMENT MANAGERS

The Investment Advisor and/or Program Manager will monitor the Underlying Investments and Portfolios. The Program Manager will make recommendations on the Investment Advisor's proposals to add, remove, or change the Investment Options in the Plan. The Committee, in consultation with WSAC, will take appropriate action following such recommendations in accordance with the provisions of the Management Agreement. Appendix B outlines the Investment Advisor's monitoring procedures.

The Investment Advisor shall collect performance data for all Portfolios in accordance with the Management Agreement and/or any subcontracts, including quarterly and trailing annualized performance. Based on this information, the Program Manager and/or Investment Advisor shall prepare the quarterly performance report.

The Investment Advisor and the Program Manager shall meet at least quarterly with the Committee to report performance data for the Investment Options and the Underlying Investments.

REVIEW AND POLICY ADOPTION

The Committee has worked with the Program Manager and Investment Advisor to develop this Investment Policy Statement. The Committee will review this Investment Policy Statement from time to time, but no less than every three years. Changes can be made at any time to this Investment Policy to the extent such changes would be in the best interest of the Plan's account owners and beneficiaries. However, changes are expected to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. Any modifications to this Investment Policy will be communicated to interested parties, including the Program Manager and the Investment Advisor.

The Committee has adopted this Policy as of November 7, 2024.

By: Michael Meotti
Title: WSAC Executive Director and Chair,
Committee on Advanced Tuition Payment and
College Savings

The Committee has reviewed this Policy on _____, 202_.

By:
Title: Chair, Committee on Advanced Tuition
Payment and College Savings

Program Manager’s Acknowledgments:

We have received, reviewed, and understand the Plan’s Investment Policy Statement.

By: Christopher Lynch
Title: President

TIAA-CREF Tuition Financing, Inc.
Firm Name

Date

Investment Advisor’s Acknowledgments:

We have received, reviewed, and understand the Plan’s Investment Policy.

By: Jeremy Thiessen
Title: Senior Director

TIAA-CREF Tuition Financing, Inc.
Firm Name

Date

APPENDIX A

BYLAWS OF THE COMMITTEE ON ADVANCED TUITION PAYMENT AND COLLEGE SAVINGS *Adopted November 6, 2018*

ORGANIZATION AND DUTIES

- (1) The Advanced College Tuition Payment Program (known as the 'Guaranteed Education Tuition' or 'GET' program) and the Washington College Savings Program (known as the 'DreamAhead College Investment Plan' or 'DreamAhead'), collectively known as the 'Programs,' are established in Chapter 28B.95 RCW. The Programs are governed by the Committee on Advanced Tuition Payment and College Savings. The Committee is composed of the Executive Director of the Washington Student Achievement Council (WSAC), the Director of the Office of Financial Management and the State Treasurer (or their designees), and two citizen members. The Governor shall appoint the citizen members, with one representing program participants and one representing private business with marketing, public relations, or financial expertise, per RCW 28B.95.020 (5). The Committee shall exercise all the powers and perform all the duties with respect to the operation of the Programs as prescribed by Chapter 28B.95 RCW.
- (2) The administrative office is located at 917 Lakeridge Way SW, Olympia, WA 98502. The office hours are 8:00 a.m. to 5:00 p.m, Monday through Friday, except state holidays. Information about the Programs are available at the following address: P.O. Box 43450, Olympia, WA 98504; or by contacting GET at 800.955.2318 or DreamAhead at 844.529.5845; or by visiting www.wastate529.wa.gov.
- (3) The Executive Director of WSAC shall chair the Committee. The Director of College Savings Plans (Program Director) shall serve as the secretary for the Committee.
- (4) A quorum to conduct the business of the Committee consists of at least three members.
- (5) The Committee shall meet quarterly and shall conduct and announce meetings in accordance with the Open Public Meetings Act (Chapter 42.30 RCW). Additional meetings may be scheduled as needed. The annual meeting schedule shall be published in the Washington State Register, maintained by the Office of the Code Reviser. A special meeting may be called by the chair of the Committee or by a majority of the members and announced in accordance with RCW 42.30.080.
- (6) All regular and special meetings of the Committee shall be held in Olympia, Washington unless scheduled elsewhere, and are open to the general public, except for lawful executive sessions, as defined in RCW 42.30.110. No official business may be conducted by the Committee except during a regular or special meeting.
- (7) The Committee may conduct an executive session called by the chairperson or by a majority of the members. No official actions shall be taken at executive sessions without formal action at a regular or special meeting of the Committee. Executive sessions shall deal only

with matters authorized by RCW 42.30.110. The Committee will conduct all official business at formal public meetings in accordance with state law.

- (8) Formal meetings will be conducted in accordance with Robert's Rules of Order.
- (9) Proceedings shall be recorded by a method determined by the chair of the Committee. Formal written minutes shall be taken during the meeting. The Committee approves the previous meeting's minutes at each Committee meeting. The Committee will maintain full records of all proceedings by which it makes decisions and shall maintain the records for six years, in accordance with RCW 40.14.060.
- (10) Anyone other than a Committee member wishing an item placed on the agenda of the Committee meeting must submit a written request, and it must be received in the office of the secretary of the Committee (the Programs' office) no later than twelve o'clock noon five business days before the next scheduled Committee meeting. The Committee secretary will relay the request to the chair of the Committee. The chair of the Committee will determine whether the item is to be placed on the agenda. The chair or a designee will notify the individual initiating the request as to whether or not the item will be placed on the agenda.
- (11) Members of the Committee who are public employees serving as a member in that capacity shall serve without compensation. Citizen members will receive compensation in accordance with RCW 43.03.050. Travel and related expenses of all members shall be considered a regular expense of the Programs.
- (12) No member of the Committee is liable for the negligence, default or failure of any other person or member of the Committee to perform the duties of office and no member shall be considered or held to be an insurer of the funds or assets of the Programs (per RCW 28B.95.035).
- (13) The Committee may enter into contracts necessary to carry out its powers and duties (per RCW 28B.95.030 and RCW 28B.95.032).
- (14) WSAC shall employ a Program Director in consultation with the Committee. WSAC staff shall support the Committee and shall carry out administrative responsibilities otherwise not assigned to the Committee.
- (15) Annually, Program staff shall make available to the Committee a GET program valuation report. The information will be based on the preceding fiscal year's activity. The Program Director or designee will present the information at a Committee meeting.
- (16) Annually, Program staff shall make available to the Committee a DreamAhead report that includes information about the performance of and changes to the Program's investment options. The Program Director or designee will present the information at a Committee meeting.
- (17) The Committee shall review program policies on a regular basis, and approve updates to the Programs' Master Agreements and/or disclosure documents from time to time, as needed to remain in compliance with federal and state laws or if any Program policies change or new

policies are adopted. Program staff shall draft proposed changes for the Committee's consideration.

- (18) Annually, Program staff shall prepare administrative budgets for both Programs and present the budgets for the Committee's consideration and approval.
- (19) At each Committee meeting, Program staff will provide updated enrollment, contribution, and distribution statistics
- (20) The Program Director shall designate the rules coordinator for the Programs.
- (21) Each state agency member of the Committee may appoint a representative from his or her agency to work with the Program Director.
- (22) These bylaws may be amended at any regular or special meeting by a majority vote.

APPENDIX B

TIAA-CREF Tuition Financing, Inc. (Education Savings) acts in its capacity as an investment advisor to the Plan. The Education Savings Investment Team (Team) monitors the Plan's investment menu and follows a structured, detailed process when conducting research on existing and prospective managers. This process is the same across all investment menu options, with a few unique aspects to the TIAA-CREF Life Funding Agreement.

Quantitative Factors

The Team will examine various quantitative metrics to evaluate suitability for its investment programs, including:

- Assets Under Management (AUM) – The Team will identify managers that meet a reasonable threshold of AUM. The reasonable threshold will fluctuate based on asset class and other situational factors such as concentration and capacity concerns. A fund meeting a reasonable threshold for AUM mitigates risk management and liquidity concerns.
- Fees – The annual fee (expense ratio) that managers charge should generally fall in the bottom half of the respective investment universe.
- Risk Statistics –
 - Beta – A measure of market volatility. The Team believes beta should be within expectations that are based on portfolio composition, appropriate peer group, and manager investment philosophy.
 - Tracking Error – A measure of deviation between a portfolio and its benchmark. The Team believes tracking error should be within expectations that are based on portfolio composition, appropriate peer group, and manager investment philosophy.
 - Standard Deviation – An absolute measure of deviation from the mean. The Team believes standard deviation should be within expectations that are based on portfolio composition, appropriate peer group, and manager investment philosophy.
- Factor Exposure – The Team will use third-party tools (i.e., Morningstar Direct, Bloomberg PORT, Aladdin) to examine underlying factor exposure within an investment portfolio to understand drivers of performance.
- Risk-Adjusted Performance – The Team will review various risk-adjusted performance metrics to assess returns over a multi-year time horizon.
 - Alpha – A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta.
 - Sharpe Ratio – A measure of reward per unit of risk (standard deviation).
 - Information Ratio – A measure of active return per unit of active risk.
- Absolute Return Figures – The Team will assess multiple historical performance metrics, including, but not limited to:
 - Multi-year Returns – Absolute returns over 1-year, 3-year, 5-year, and 10-year time periods.
 - Up Capture – A measure of a manager's performance in markets with returns at or above 0% relative to the benchmark. It is calculated by taking the portfolio's upside capture return and dividing it by the benchmark's upside capture return.
 - Down Capture – A measure of a manager's performance in markets with returns at or below 0% relative to the benchmark. It is calculated by taking the portfolio's

downside capture return and dividing it by the benchmark's downside capture return.

- Max Drawdown – A measure of a portfolio's maximum loss in a peak-to-trough decline before a new peak is attained. Often quoted as the percentage between the peak and the trough. It is an indicator of downside risk over a specified time period.
- Relative Peer Performance and Percentile Rankings – The Team will assess a manager's performance relative to its appropriate peer group over multiple time periods. Analysis includes examining rolling 3-year performance over the previous decade (if applicable) and percentile rankings within the respective Morningstar Investment Universe.

Qualitative Factors

The Team evaluates managers by examining a variety of qualitative metrics, including, but not limited to:

- Firm Structure and Stability – The Team will examine the structure of the investment firm and assess a variety of factors, including: ownership structure, AUM levels over multiple time periods, board composition (if applicable), operational capabilities, turnover, etc.
- Investment Team and Depth of Experience – The Team will assess the composition of the investment team managing the portfolio and examine the tenure of portfolio managers and analysts, depth of investment resources, distribution of investment responsibilities, retention structure, succession planning, and recent turnover within the investment team and relevant investment departments.
- Track Record – The Team will examine the historical performance record for the current investment team managing the portfolio and assess the drivers of performance during the appropriate time periods.
- Investment Philosophy – The Team will evaluate the underlying investment philosophy and principles that are the foundation for the portfolio. Items that are assessed include the types of inefficiencies that are being exploited, categorization of investment style (i.e., Deep Value, Growth at a Reasonable Price [GARP]), and the evolution of investment philosophy over the history of the strategy.
- Investment Process – The Team will examine the structure and mechanics of the investment process that leads to construction of the end portfolio. Items assessed include idea generation, research process and sources, modeling responsibilities, portfolio construction responsibilities, repeatability of investment process and consistency of application.
- Risk Management – The Team will evaluate the personnel responsible for risk oversight as well as the tools used to conduct risk management at both the firm and portfolio level. The Team will also evaluate the structure of the risk management team and analyze their level of independence relative to the investment teams they oversee.

Monitoring Current Managers

Reporting

The Team receives and reviews performance reports and commentary from managers used in the Plan. Additionally, the Team generates multiple investment reports for each manager. The reports provide a uniform structure for analysis and consist of investment charts and tables that examine multiple aspects, including, but not limited to:

- Investment Firm Updates
- Investment Team Updates
- Investment Philosophy Updates
- Portfolio Valuations (i.e., Price-to-Earnings [P/E], Price-to-Book [P/B])
- Portfolio Fundamentals (i.e., Return-on-Equity [ROE], Net Margin)
- Factor Analysis
- Performance Attribution

Due Diligence Meetings

The Team conducts due diligence meetings, either virtual or in-person, with underlying managers throughout the calendar year and may increase the frequency of the meetings on an as-needed basis.

Review Schedule

The Team has a formal meeting to review investment managers on a monthly basis, while ad-hoc meetings may also be held as needed. The agenda for the monthly meeting includes a presentation by the coverage analyst on the relevant funds and is followed by discussion amongst the Team. The presentation will review any recent developments within the portfolio's investment team, recent performance, changes in portfolio characteristics and any other notable data (i.e., fund flows). A review of the Watch List is conducted during the first month of each quarter.

Watch List Procedures

Watch List Criteria

The Team has a set of criteria to determine if a manager should be placed on the Watch List. Having a pre-determined set of criteria allows the Team to systematically identify managers that have levels of underperformance that go beyond acceptable levels. When using actively managed underlying funds (those that attempt to generate performance above its benchmark) it is understood that performance may, at times, be below the benchmark. To avoid overcorrecting, a consistent set of criteria is used to determine when cases of underperformance necessitate additional scrutiny. These criteria are not meant to automatically replace funds after a period of underperformance, but rather to identify when additional research may be needed. When a manager produces underperformance relative to its benchmark that is below Minimal Acceptable Returns (MAR) simultaneously over 1-year, 3-year and 5-year periods, the manager will quantitatively qualify for the Watch List and be formally reviewed by the Team. The thresholds for quantitatively triggering the Watch List criteria on a 1-year, 3-year and 5-year basis are shown in the table below. Note that the figures reflect relative underperformance (i.e., a domestic equity manager would need to underperform its benchmark by 3.5% over 1 year, 1.75% over 3 years, and 1.5% over 5 years to trigger the criteria):

Asset Class	1 Year	3 Year	5 Year
Domestic Equity	-3.50%	-1.75%	-1.50%
International Equity	-4.50%	-2.00%	-1.50%
Fixed Income	-1.00%	-0.50%	0%

Watch List Factors

The Team will consider a variety of quantitative and qualitative factors prior to placing a manager on the Watch List. Below are examples of both quantitative and qualitative factors. Note that concerns about any of the factors below may be considered sufficient rationale to place a manager on the Watch List.

Quantitative Factors

- Manager's AUM falls below a reasonable threshold that is based on the asset class
- Material outflows and drawdowns
- Material inflows and capacity concerns
- Material and sustained unexpected underperformance relative to the appropriate peer group over multiple time horizons (1-year, 3-year, 5-year)
- Material deviations from historical portfolio composition
- Significant increases/decreases in portfolio volatility
- Portfolio style drift that is outside of reasonable expectations

Qualitative Factors

- Material changes to the investment firm (i.e., merger/acquisition)
- Changes to incentive/retention structure for investment professionals
- Regulatory action/pending litigation
- Material changes to the investment team
- Material changes to the investment process of the portfolio

Monitoring of Watch List

The Team formally discusses managers currently on the Watch List and managers qualifying for Watch during the first month of each quarter. The standard period of time that a manager remains on the Watch List is 18-24 months.

Termination of Manager

The Team will closely monitor a manager that is on the Watch List and present related updates to the Committee for discussion and their review. The Team will subsequently recommend the termination of an existing manager to the Committee in the event the manager has not mitigated the issue(s) that led to being placed on the watch list. Further, the Team will not include the manager in any future recommendations prior to the resolution of the existing issue(s).

TIAA-CREF Life Funding Agreement (FA)

The Team monitors the FA uniquely as it is a Guaranteed Insurance Backed Portfolio. The Team completes its analysis of the FA on the same schedule it does for any of the investments included in the Plan. The key elements we look for in this product are the following:

- Highly rated by the four key rating agencies
- Diversified bond portfolio backing the guarantees
- Sufficient Risk Based Capital
- A review of the actual crediting rate versus the 5-year CMT less 125 basis points

Like other investments in the Plan, the Team monitors the vehicle's long-term investment return adjusted for risk. Additionally, we look to assure that the mechanisms that determine the yield are consistent with industry standard for Stable Value vehicles. From time to time, we gather comparisons of similar vehicles used in the 529 College Savings Industry to determine if the yield remains competitive both short-term and long-term.