



## **Operating Policy and Procedure**

### **OP 18.006 Investment Policy Statement**

**DATE:** November 15, 2023

**PURPOSE** The purpose of this Operating Policy/Procedure (OP) is to ensure that the applicable fiduciary investment and monitoring responsibilities of the Retirement Plans are met.

**REVIEW:** This OP will be reviewed annually by the Retirement Plan Oversight Cabinet co-chairs, with revisions forwarded to the Board of Trustees through the President's Council by the Office of the President.

### **POLICY/PROCEDURE**

#### **1. General Policy**

The College President, as Plan sponsor representative, appoints the Kellogg Community College's Retirement Plan Oversight Cabinet (the "Cabinet") and delegates authority to the Cabinet to choose and monitor Plan funding options, Investment Advisor(s), and Custodian(s) within the scope of the College's Purchasing Policy. It is the intent of the Cabinet to provide a range of funding options under the Plans that will enable participants to invest according to varying risk tolerances, savings time horizons, and other financial goals. The funding options offered under the Plans shall be administered solely in the interests of the Plan participants and their beneficiaries.

This Investment Policy Statement (IPS) is designed to further the purposes of the Plans and their funding policies. This IPS defines the Plans' investment objectives and establishes policies and procedures for the Plans and is intended to assist the Cabinet in effectively structuring an appropriate investment menu. This includes establishing a prudent process for selecting, monitoring, and, as necessary, replacing funding options. The IPS takes into account factors such as the Plans' funding and liquidity needs as well as issues of prudence, diversification, and other applicable fiduciary requirements. More specifically, the IPS is intended to:

- Provide a mechanism to establish and review the Plan's investment objectives;
- Identify those individuals/functions within the College with responsibility for selecting and reviewing the Plans' investments;
- Provide participants with a range of diversified funding options along the risk-return spectrum to assist participants in their retirement investment decision-making;
- Describe the criteria and procedures the Plans will use in selecting funding options and evaluating the funding options' continued appropriateness;
- Define the procedure for the ongoing monitoring of funding options; and
- Provide a document to ensure that the applicable fiduciary investment and monitoring responsibilities of the Plans are met.

The assets of the Plans should at all times be managed in compliance with applicable law (including the applicable provisions of the Code and Act 314). This IPS shall be reviewed on an ongoing basis and at least annually by the Cabinet to ensure that it continues to reflect the Plans' objectives and meet the needs of the Plans' participants. Changes to the IPS are expected to be infrequent, reflecting long-term considerations, rather than short-term changes in the financial markets. The criteria used to evaluate the IPS shall include consideration of (1) changes in the capital markets, (2) Plan participant objectives, (3) demographics of the Plans and workforce, (4) legislative and regulatory changes, and (5) or other factors determined by the Cabinet to be relevant to the Plans.

The College will encourage participants to take an active role in their retirement by providing education and information to make informed decisions about their participation and funding option selections. The Plan's funding options will be selected to:

- Provide returns comparable to the appropriate benchmark for the asset categories;
- Provide opportunities to diversify across the risk-return spectrum with a range of
- Investment choices within varied asset classes; and
- Control administrative, management, and participant costs.

## 2. Definitions

- a. *College*: Kellogg Community College
- b. *Plan(s)*: 401(a), 403(b), 457(b) and 415(m) are defined contribution plans providing participant directed individual accounts. The Plans are employee benefit plans intended to comply with all applicable federal and Michigan state laws, including the Code and Act 314.
- c. *Code*: Internal Revenue Code of 1986, as amended
- d. *Act 314*: Michigan Public Employee Retirement System Investment Act (Act 314 of 1965, MCL Section 38.1132 et seq.)
- e. *Cabinet*: Retirement Plan Oversight Cabinet
- f. *Fiduciary responsibilities*:
  - acting solely in the interest of the participants and their beneficiaries;
  - acting for the exclusive purpose of providing benefits to workers participating in the plan and their beneficiaries, and defraying reasonable expenses of the plan;
  - carrying out duties with the care, skill, prudence, and diligence of a prudent person familiar with the matters;
  - following the plan documents; and
  - diversifying plan investments.
- g. *Investment Advisor/Plan Consultant*: Serves as an objective, third-party professional retained to assist the College and Cabinet in managing the overall investment and management process.
- h. *Custodian*: Entity that holds each Plan's assets and is responsible for their safekeeping.

- i. *Qualified Default Investment Alternative (QDIA)*: This is a default funding option that contributions will be deposited into if the participant fails to make an affirmative investment selection.

### **3. Roles and Responsibilities of Parties Involved**

*Retirement Plan Oversight Cabinet*: The purpose of the Retirement Plan Oversight Cabinet (RPOC) is to fulfill Kellogg Community College's (College) fiduciary responsibility with respect to administration, oversight, and guidance of the College's retirement plans, excluding retirement plans administered by the State of Michigan. The Cabinet roles and responsibilities are further outlined in the Retirement Plan Oversight Cabinet charter approved by the KCC Board of Trustees in January 2021.

The Cabinet is generally responsible for the following:

- a. Establishing, maintaining, and periodically reviewing the IPS;
  1. Ensuring compliance with applicable state and federal laws that impact the Plans' investment process;
  2. Prudently selecting and diversifying investment options;
  3. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Plans and the funding options;
  4. Monitoring the performance of all service vendors and investment options and making changes as necessary; and
  5. Maintaining procedural decision-making processes that operate free from conflicts of interest, ensuring that fees paid to service providers and other expenses of the Plans are reasonable and decisions are made exclusively for the benefit of Plan participants.

The Cabinet shall discharge its responsibilities in accordance with all applicable fiduciary standards, including but not limited to (1) in the sole interest of the Plan participants and beneficiaries and (2) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims in compliance with applicable law.

- b. Investment Advisor/Plan Consultant

The College and the Cabinet may retain an investment advisor/plan consultant to serve as an objective, third-party professional retained to assist the College and the Cabinet in managing the overall investment and management process. The Cabinet may agree to delegate some or all of its fiduciary responsibilities to a qualified investment advisor/plan consultant. The process may include the following duties:

1. Assisting in the creation and implementation of this IPS;
2. Following the provisions of this IPS and applicable law related to the investment of Plan assets;
3. Proposing investment options according to established criteria in this IPS and applicable law;

4. Periodically reporting and reviewing funding options' performance against established peer groups and benchmarks; and
5. Proposing potential funding option changes to the Cabinet for discussion and approval.

c. Custodian

The College has retained a custodian to hold each Plan's assets. The custodian is responsible for the safekeeping of each Plan's assets. The specific duties and responsibilities of the custodian include:

1. Valuing the investment holdings;
2. Collecting all dividends and income owed to each Plan;
3. Settling all transactions (buy-sell orders);
4. Providing reports that detail transactions, cash flows, securities held and their current value, and changes to the value of each security and the overall Plans since the previous report; and
5. Maintaining separate accounts by legal registration.

#### **4. Investment Menu Design**

When evaluating providers to offer funds/accounts under the Plans, the Cabinet will choose investment options provided by a bank, insurance company, and mutual fund or investment management company.

In selecting the funding options, the Cabinet intends to offer an investment line-up that is understandable to participants and adequately diversified, covering a broad range of asset classes that reasonably span the risk and return spectrum. The range of asset classes is expected to give participants the opportunity to construct portfolios consistent with their individual circumstances, investment goals, time horizons, and risk profiles. While offering various funding options is important, efforts will be made to keep the total number to a prudent level that balances the benefits of broad diversification with the disadvantages of too many choices. At a minimum, the Plans shall offer enough funding options to well represent at least four major asset classes: Guaranteed or Stable Value, Cash or Cash Equivalents, Domestic and International Fixed Income, and Equities. Other alternative asset classes may also be included. However, the Plans should not provide so many options as to create excessive redundancy in funding options, generate increased fund monitoring and/or administrative costs, or cause undue complexity in plan design. There should be additional opportunities to diversify by style (growth and value), size (large capitalization and small capitalization), and region (U.S. and international) as permissible under applicable law.

#### **5. Asset Class Guidelines**

The Plans shall provide each participant with the ability to diversify among an array of asset classes in order to construct individual portfolios consistent with their desired level of risk over their respective time horizons. For example, to the extent consistent with applicable law, the Cabinet may consider broadly defined asset categories such as:

- Cash or Equivalents

- Guaranteed or Stable Value
- Lifecycle/Target-Dates Funds
- Balanced/Allocation Target-Risk Funds
- Bonds
- Fixed Income (domestic or international) (Government, Government/ Credit, High Yield, Short/Intermediate/Long Term)
- Equities (domestic or international) (All Cap, Large/Mid/Small Caps, in Value/Core/Growth Styles)
- U.S./Global Socially Responsible Equities
- U.S./Global REIT
- U.S./Global Direct Real Estate

## **6. Qualified Default Investment Alternative (QDIA)**

Although the Cabinet intends that participants will direct the investment of their assets held in the Plans, there may be circumstances under which participants do not provide direction regarding the investment of their individual accounts. In such instances, participant accounts will be invested in the Plan's established default funding option.

More specifically, the Cabinet shall establish a default funding option to allocate contributions to the Plans when a participant fails to make an affirmative investment selection. In selecting a default funding option, and although the Plans are not subject to ERISA, the Cabinet intends that such selection will comply with the best practices found in 29 C.F.R. §2550.404c-5 with respect to QDIAs. Such default funding option shall also comply with the applicable requirements of Act 314.

Currently, the Lifecycle and Targeted Retirement Date funds, which provide participants with age-appropriate asset allocation, are designated as the default funding option in the Plans. These funds may be "index" or "active" investment options. The Cabinet may update the default funding options from time to time. Each default funding option shall be reviewed on a periodic basis to ensure it continues to be an appropriate default option.

## **7. Investment Managers and Investment Options Selection Process**

When evaluating providers to offer funds/accounts under the Plans, the Cabinet will choose investment options provided by a bank, insurance company, and mutual fund or investment management company.

The selection of funding options for the Plans will be performed in a manner consistent with generally accepted standards of fiduciary responsibility and applicable law. The Plans' funding options will be selected and monitored with the skill, care, and diligence of a prudent person in such capacity in accordance with the applicable provisions of state and federal law. All determinations undertaken on behalf of the Plans will be for the sole benefit of the participants and beneficiaries of the Plans.

The Cabinet acknowledges that returns on funding options fluctuate, particularly over short time periods. Recognizing that short-term fluctuations may not be indicative of long-term trends, the Cabinet intends to evaluate investment performance from a long-term perspective. The Cabinet

considers a number of qualitative and quantitative factors when selecting and monitoring any funding option. The Cabinet will focus its evaluation on long-term issues related to the management of the funding options, both qualitative and quantitative. No single factor will determine whether a funding option should be added, retained, or eliminated; however, certain factors may carry more weight in the Cabinet's final analysis.

- (a) Qualitative factors may include fundamental changes in a fund manager's investment philosophy, organizational structure (e.g., manager tenure), and financial condition (including any significant changes in total assets under management).
- (b) Quantitative factors may include adherence to funding objectives, performance, and expenses, as detailed below. With regard to performance evaluation, the Cabinet will continually monitor the funds' benchmarks to ensure that they are the most appropriate for comparison purposes.

Outlined below are examples of factors that the Cabinet may use to select and monitor the Plans' funding options:

- *Diversification.* Participants should have the ability to construct a diversified portfolio with the Plans' investment offerings;
- *Cost.* The investment costs for the services provided shall be reasonable and evaluated. This may include expense ratios, revenue-sharing agreements, and portfolio turnover. The impact of fees on the long-term performance of the funding options shall be an important consideration. Overall expenses can significantly detract from long-term performance. All fee information should be adequately disclosed to participants.
- *Performance.* Performance should be evaluated: (1) over time periods (e.g., one, three, five, and ten years); (2) against style-specific benchmarks, peer groups, and broad market index; and (3) on account of the type of return provided (e.g., rolling or average annual).
- *Adherence to objectives.* Equity investments should consider median market capitalization, price-to-earnings ratio, price-to-book ratio, holdings/sector weightings, portfolio concentration, and country allocation. Bond and money market investments should consider average maturity, average quality, and average duration.

## 8. Monitoring

Monitoring the Plans' funding options is an ongoing and disciplined process. It is the mechanism for measuring ongoing compliance by each funding option against the evaluation criteria specified in this IPS. While frequent change in funding options is neither expected nor desirable, monitoring the investment performance of the investments in the Plans relative to the guidelines set forth in this IPS is an ongoing activity. The Cabinet will periodically add, remove, or change investment managers or funding options as may be appropriate.

Each funding option may be reviewed pursuant to the following evaluation criteria:

- Adherence to the original investment/account selection requirements, including long-term performance measures;
- Any material changes to the option's organization, process, portfolio manager, or team;
- Any material litigation or regulatory action against the firm that may impact future performance or the reputation of the provider; and

- Fund/account utilization by Plan participants.

## **9. “Watch List” Procedure**

The decision to retain or terminate an investment option cannot be made strictly by a formula. Also, extraordinary events do occur, which may interfere with the investment option's ability to prudently manage investment assets. It is the Cabinet's confidence in the investment option's ability to perform in the future that ultimately determines if an investment option will be retained.

A funding option may be placed on a watch list for more thorough and/or ongoing reviewing and analysis as determined in the Cabinet's discretion.

The investment may be placed on the “Watch List” for a period of 12 months; however, the Cabinet retains the discretion to extend or reduce the time period that an investment option is on watch, and the Cabinet will review and evaluate the appropriateness of the offering for the Plan. Final selection, replacement, and/or removal of a funding option shall be completed only after conducting a thorough review of the identified funding option, and the decision will be implemented by the Cabinet.

## **10. Annuity Pay-Out Options**

The Cabinet may choose annuity pay-out contracts that provide for periodic payments that are guaranteed to continue as long as the participant or beneficiary lives. In choosing such options, the Cabinet shall:

- Engage in an objective, thorough, and analytical search for the purpose of identifying and selecting providers from which to purchase annuities;
- Appropriately consider the cost (including fees, surrender charges, and commissions) of the annuity contract in relation to the benefits and administrative services to be provided under the contract;
- Appropriately conclude that, at the time of selection, the annuity provider is financially able to make all future payments under the annuity contract and that the cost of the annuity contract is reasonable in relation to the benefits and services provided under the contract;
- Choose from annuity contract providers with and maintain a rating that conveys significant financial strength as determined by nationally recognized statistical rating agencies such as A.M. Best, Standard & Poor's, Moody's, and Fitch.

## **11. Education**

A significant responsibility of the College is to ensure that adequate participant education and communication are provided. The Plans will provide participants with access to current investment information along with educational materials and/or programs designed to compare funding options by risk and return characteristics in order to ensure that participants are able to make informed investment decisions. Plan participant education can be achieved through various channels, including printed materials, websites, group meetings, and individual counseling.

## **12. Advice**

The College may consider providing participant investment advice from an investment advice provider to assist participants in saving for retirement, which advice shall be available to all plan

participants. Such advice will be assessed based on the provider's qualifications, quality and scope of services offered, and the reasonableness of the fees charged for the service. This process shall avoid self-dealing, conflicts of interest, or other improper influences and should include a periodic review of the investment advisors' qualifications, including quality and scope of services and reasonableness of fees.

### **13. Violations of Policy**

Violations of this policy by an employee will be subject to the provisions of the OP12.001 Employee Standards of Conduct. Violations by consultants, advisors, and service providers may lead to contract termination and as required, legal action.

### **14. Persons/Departments Affected**

a. All employees, not including student employees.

### **15. Forms**

a. [Investment Fund Lineup.pdf](#)

### **16. Related Information**

a. <https://www.irs.gov/retirement-plans/retirement-plan-fiduciary-responsibilities>

**17. Right to Change Policy.** The College reserves the right to interpret, change, modify, amend, or rescind this policy, in whole or in part, at any time.

Any change to this OP should be communicated in writing and on a timely basis to the Plans' fiduciaries and any other interested parties. If any term or condition of this OP conflicts with any trust and/or Plan document, the Plan and/or trust document shall control, as long as such term or condition is consistent with the applicable law. Additionally, this OP` is intended to comply with all applicable legal requirements related to the investment of retirement plan assets. To the extent this OP conflicts with any applicable legal provisions, the applicable legal provision shall control.

**18. Approval Date:** November 15, 2023

**19. Past Revisions:** Not applicable.