

INVESTMENT POLICY STATEMENT

PEPPERDINE UNIVERSITY RETIREMENT PLAN

Overview

This statement establishes the policies and objectives for the Pepperdine University Retirement Plan (the "Plan"). The oversight process followed for the Plan's frozen assets, currently administered and recordkept by TIAA-CREF and Prudential, is described in Appendix D.

This statement outlines and prescribes a prudent investment philosophy and sets out the investment management procedures that are designed to assist the Plan fiduciary, Pepperdine University (the "Sponsor") and the Retirement Plan Committee (the "Committee") appointed by the Sponsor in the discharge of the fiduciary duties imposed by them under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The assets of the Plan are held for the exclusive purpose of providing benefits to the Plan participants and their beneficiaries and defraying reasonable expenses of administering the Plan. The Plan is intended to operate in accordance with all applicable state and federal laws and regulations.

Pursuant to the election of the Sponsor, as Administrator of the Plan, assets of the Plan are subject to the investment direction of the participants or their beneficiaries. The Plan is intended to comply with the provisions of the Department of Labor regulations issued pursuant to Section 404(c) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") which provides a Sponsor and other Plan fiduciaries with relief from liability for the investment decisions made by participants.

This statement is not intended to and shall not be deemed to expand the fiduciary duties of the Sponsor or the Committee or to create duties that do not exist under ERISA.

Purpose

The purpose of this Investment Policy Statement ("IPS") is to establish a set of non-binding guidelines for the prudent investment decision-making process and to provide a basis for evaluating investment performance on a periodic basis by the Committee. These guidelines do not constitute a contract or a statement of mandatory requirements, but are only an explanation of the general principles and guidelines currently being applied for investment option selection and retention. Furthermore, these guidelines are not the only factors that may be considered.

The goal of the Plan is to provide a framework for participants to establish a savings and investment program for their retirement. While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide a broad range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance and retirement goals.

Roles and Responsibilities

The following parties associated with the Plan shall discharge their respective responsibilities in accordance with all applicable fiduciary standards of Section 404(a) of ERISA as follows: (1) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan; (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; (3) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of ERISA.

- A. Retirement Plan Committee: The members of the Committee have been appointed by the Sponsor to act as the "Investment Fiduciary." The Committee, as the primary Investment Fiduciary, is responsible for investment and management of Plan Assets, and the selection of services related to those functions. The Committee shall be responsible for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual investment option performance and does not guarantee positive investment results. The Committee will endeavor to ensure that participants are supplied with adequate education and communication in order to make informed investment decisions.
- B. Trustee: The Trustee of the Plan, is a nondiscretionary or "directed" Trustee and is charged with the responsibility of safekeeping the securities, collection and disbursement of the Plan assets, and periodic accounting statements.
- C. Record Keeper: The Record Keeper responsibilities include administrative functions such as: maintaining participant records, administering participant directions, reporting to the plan sponsor, reporting to participants, and allocating contributions, as more fully described in the Services Agreement with the Record Keeper. The Record Keeper has been delegated the responsibility of supplying participants with education and communication regarding the plan's investment options.
- D. Investment Consultant: The Investment Consultant is a fiduciary of the Plan charged with the responsibility of advising the Committee on investment policy, advising on the selection of investment managers, providing performance analysis and monitoring services. The Investment Consultant shall provide assistance to the Committee for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual investment option performance and does not guarantee investment results.

Investment Choices

The Committee will endeavor to offer one or more investment options for each of the following selected asset classes as set forth in Appendix A, unless under the circumstances it is determined not prudent to do so. These options shall be sufficient to provide participants and beneficiaries with a reasonable opportunity to:

- a) materially affect the potential return on amounts in their accounts with respect to which they are permitted to exercise control and the degree of risk to which such amounts are subject;

- b) choose from a minimum of three core investment options, (i) each of which is diversified; (ii) each of which has materially different risk and return characteristics; (iii) which in the aggregate enable participants and beneficiaries to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for participants and beneficiaries; and (iv) each of which when combined with investments in the other options tends to minimize through diversification the overall risk of a participant's or beneficiary's portfolio;
- c) diversify the investment of the accounts of participants and beneficiaries so as to minimize the risk of large losses, taking into account the nature of the Plan and the size of participants' or beneficiaries' accounts.

All investment choices will be publicly available mutual funds, collective investment trusts, separate accounts or similar vehicles. All investments being offered will fluctuate in value with market conditions and, when redeemed, may be worth more or less than the amount originally invested. Each of the chosen investment options is designed to follow a specific stated investment objective as outlined in Appendix A.

In addition, Strategic Asset Allocation Models entitled PortfolioXpress, offered by Diversified Investment Advisors, and comprised of two or more asset classes, are offered in the Plan. The Models, which take time horizon into consideration, are populated using the investment options available in the Plan, and are automatically rebalanced on a quarterly basis. The Models were initially selected by the Committee to provide pre-made, diversified asset allocation options for the Plan participants. All asset classes available in the plan's fund lineup are utilized for the Models, with the exception of the target date funds. Funds selected for each asset class are those that meet the same qualitative and quantitative criteria as set forth in this Investment Policy Statement. Diversified Investment Advisors will notify the Committee when any changes are made to the methodology or construction of the Models. In addition, the Committee will periodically review the methodology and construction of the PortfolioXpress Models, assess appropriateness, and determine whether the Models continue to be suitable for the Plan participants.

The Plan offers a self-directed brokerage (SDB) option to plan participants. Unlike the designated core investment options outlined in Appendix A, the Committee will not select or limit the investment alternatives within the brokerage account. While the Committee is not required to prudently select or monitor the non-designated investment alternatives within the SDB, the Committee retains the responsibility to prudently select and monitor how the account is functioning. In addition, the Committee will periodically evaluate the appropriateness of offering this option to the participant population pursuant to the criteria for SDB oversight and operational evaluation outlined in Appendix C.

The default fund(s) for the Plan shall be a qualified default investment alternative, as defined in the regulations referred to in Section 404(c)(5)(A) of ERISA, which fund(s) shall be chosen for the Plan by the Committee. The current default investment option is the T. Rowe Price Retirement Date Fund chosen based on the defaulted participant's age. The Committee intends to satisfy the requirements of ERISA Section 404(c)(5) including the requirements of the regulations under Title 29 of the *Code of Federal Regulations* Section 2550.404c-5 in order to qualify for the relief from fiduciary liability provided under that ERISA Section 404(c)(5).

Performance Measurement Standards

The Committee shall evaluate all Plan investments against appropriate peer groups and index benchmarks the performance measurement standards outlined in Appendix B. The Committee intends to use independent discretion and judgment in determining whether any investments are prudent and suitable for the Plan and its participants and beneficiaries, and while the evaluation criteria outlined in Appendix B is intended for guidance, it is not determinative.

Each Plan investment option will be reviewed periodically using the following quantitative and qualitative criteria:

Quantitative Criteria

Quantitative factors used in monitoring the Plan's investment options may include, but are not limited to the following:

- Absolute and relative returns
- Risk-adjusted efficiency ratios
- Style consistency
- Expenses

Each investment option shall be evaluated and compared to a widely accepted industry benchmark and a relevant peer group. Any investment option that is passively managed shall be evaluated and compared to their respective benchmark for tracking error and expenses. Any investment option lacking a 3 year performance record will not be evaluated.

Qualitative Criteria

In addition to the above quantitative criteria, qualitative factors may be monitored to determine the potential exposure to risk that may make an investment option unsuitable as a retirement plan investment option.

The Committee shall have the authority to establish, modify, amend or adjust acceptable performance measurement standards by which each investment option is to be evaluated.

Investment Option Removal Procedure

The Committee shall maintain a "Watch List" for investment options that are not meeting certain objectives. An investment option will be placed on the "Watch List" when the Committee determines that the option selected for the Plan fails to meet the criteria set forth in the performance measurement standards for a period of time to be determined by the Committee, but no less than two consecutive quarters.

Final selection, replacement and/or removal of an investment option from the line-up shall be completed only after conducting a thorough review of the identified investment option. In the event of a fund replacement, the PortfolioXpress Asset Allocation Models will be changed accordingly.

If the Committee decides that an investment option should be eliminated and replaced with an appropriate alternative option, the following principles are among those that may be applied:

- The costs and fees of replacing an investment option should be identified and evaluated.
- Deleting an investment option or replacing it will not involve a prohibited transaction (e.g., there will be no conflicts of interest).

Should an investment option replacement or elimination be necessary, the Committee intends to satisfy the requirements for a qualified change as defined in ERISA Section 404(c)(4) by mapping the assets from the option replaced or eliminated to an alternative with reasonably similar characteristics, when available, and by mapping only the accounts of those participants who do not provide instructions contrary to the mapping instructions before the effective date.

Should there be a blackout period, as defined in ERISA Section 101(i)(7)(A), resulting from the replacement or elimination of an option, a provider (vendor) change, or for any other reason, the Committee intends to satisfy the requirements for authorizing and implementing such blackout period in order to qualify for the relief from fiduciary liability provided under ERISA Section 404(c)(1)(B).

Committee Review of Investment Performance Reports

Upon receipt of the Report by the Committee, copies will be provided to each of the Committee members to review and comment. While it is anticipated that the Committee will meet on a regular basis to discuss the Report, the Committee members may alternatively confer through individual conversations, conference calls, and other forums.

Plan Administrative Fees

Costs of recordkeeping Plan investments and (where applicable) the proper use of 12b-1 fees (and related revenue) to offset Plan recordkeeping costs, will be reviewed on a periodic basis.

Monitoring of Participant Investment Behavior

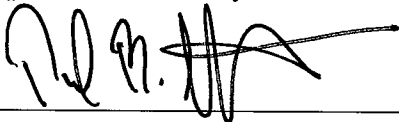
The Committee will analyze the use of the investment options by the Participants at least annually. Based on their findings, the Committee will determine what, if any, changes to the Plan's services are appropriate.

Review and Revisions

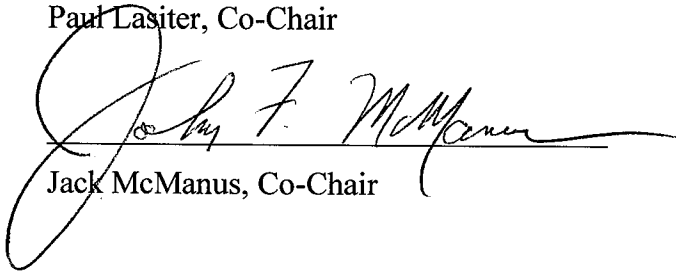
Because of the dynamic nature of the economic environment, developments in financial theories and advances in technology, and changes in applicable laws and regulations, these guidelines, as well as the investment options will be examined both formally and informally on a periodic basis. As such, the Committee reserves the right to amend the IPS at any time it deems necessary, or to comply with changes in federal law. It is also anticipated that the investment options, their benchmarks and descriptions (see Appendix A), may be changed from time to time.

ADOPTION

This Investment Policy Statement is adopted on 6/5/2009 by the Retirement Plan Committee of the Pepperdine University Retirement Plan, whose Chair signatures appear below:

A handwritten signature in black ink, appearing to read "Paul M. Lasiter", written over a horizontal line.

Paul Lasiter, Co-Chair

A handwritten signature in black ink, appearing to read "Jack F. McManus", written over a horizontal line.

Jack McManus, Co-Chair

APPENDIX A

Following is a list of the asset classes, investment options, and indices that are currently represented in the Plan:

<u>Money Market</u> Vanguard Prime Money Market Federated U.S. Treasury Cash Reserves	<u>Index</u> 3 Month T-Bill and Money Market Category Peer Group
<u>Stable Value</u> Guaranteed Pooled Fund	<u>Index</u> Stable Value Category Peer Group
<u>Inflation-Protected Bond</u> Vanguard Inflation Protected Securities	<u>Index</u> Barclays U.S. Treasury TIPS Index and Inflation Protected Bond Category Peer Group
<u>Intermediate Government Bond</u> Vanguard Intermediate Term Treasury Vanguard Total Bond Market Index	<u>Index</u> Barclays Intermediate Government Bond Index and Intermediate Government Bond Category Peer Group
<u>Intermediate Bond</u> PIMCO Total Return Admin	<u>Index</u> Barclays Aggregate Bond Index and Intermediate Term Bond Category Peer Group
<u>High-Yield Bond</u> MainStay High Yield Bond I	<u>Index</u> Merrill Lynch High Yield Index and High Yield Bond Category Peer Group
<u>Large Cap Value</u> Eaton Vance Large Cap Value A	<u>Index</u> Russell 1000 Value Index and Large Cap Value Category Peer Group
<u>Large Cap Blend</u> Davis NY Venture Y TIAA-CREF Instl Growth and Income Instl Fidelity Spartan U.S. Equity Index	<u>Index</u> Standard & Poor's 500 Index and Large Cap Blend Category Peer Group
<u>Large Cap Growth</u> Fidelity Contrafund Vanguard PRIMECAP Admiral	<u>Index</u> Russell 1000 Growth Index and Large Cap Growth Category Peer Group
<u>Mid Cap Value</u> Janus Mid Cap Value Inv TIAA-CREF Instl Mid Cap Value Instl	<u>Index</u> Russell Mid Cap Value Index and Mid Cap Value Category Peer Group
<u>Mid Cap Blend</u> Vanguard Mid Cap Index	<u>Index</u> Russell Mid Cap Index and Mid Cap Blend Category Peer Group
<u>Mid Cap Growth</u> Munder Mid-Cap Core Growth A	<u>Index</u> Russell Mid Cap Growth Index and Mid Cap Growth Category Peer Group
<u>Small Cap Value</u> Allianz NFJ Small Cap Value Instl Lord Abbett Small Cap Value A	<u>Index</u> Russell 2000 Value Index and Small Cap Value Category Peer Group
<u>Small Cap Blend</u>	<u>Index</u>

Vanguard Small Cap Index	Russell 2000 Index and Small Cap Blend Category Peer Group
<u>Small Cap Growth</u> Royce Value Plus Instl	<u>Index</u> Russell 2000 Growth Index and Small Cap Growth Category Peer Group
<u>Global</u> American Funds New Perspective R4 Mutual Discovery Z	<u>Index</u> MSCI World Index and World Stock Category Peer Group
<u>Foreign Large Equity</u> American Funds EuroPacific Growth R4 Fidelity Spartan International Index	<u>Index</u> MSCI EAFE Index and Foreign Large Cap Equity Category Peer Group
<u>Foreign Small / Mid Equity</u> BlackRock International Opportunities A	<u>Index</u> MSCI EAFE Index and Foreign Small / Mid Cap Equity Category Peer Group
<u>Emerging Markets</u> DFA Emerging Markets Value I	<u>Index</u> MSCI EMF and Diversified Emerging Markets Category Peer Group
<u>Specialty - Real Estate</u> AIM Real Estate Instl	<u>Index</u> Specialty - Real Estate Category Peer Group
<u>LifeCycle Funds</u> T. Rowe Price Retirement Income T. Rowe Price Retirement 2005 T. Rowe Price Retirement 2010 T. Rowe Price Retirement 2015 T. Rowe Price Retirement 2020 T. Rowe Price Retirement 2025 T. Rowe Price Retirement 2030 T. Rowe Price Retirement 2035 T. Rowe Price Retirement 2040 T. Rowe Price Retirement 2045 T. Rowe Price Retirement 2050 T. Rowe Price Retirement 2055	<u>Index</u> Custom Benchmark

APPENDIX B
(Amended 12/31/2009)

Investment Option Evaluation Methodology

Quantitative Criteria

1. Average trailing returns (3, 5 and 10 year) – Total returns are evaluated over different periods of time to analyze performance over various business cycles. .
2. Average rolling returns (3, 5, and 10 year) – Returns shall be evaluated over rolling 1 year periods to determine how consistently the fund manager performed against his peers in a variety of market cycles.
3. Average Sharpe Ratio (3, 5 and 10 year) – Sharpe Ratio shall be evaluated to determine the funds overall efficiency. The Sharpe Ratio is calculated by dividing the annualized return in excess of the risk free Treasury Bill by the standard deviation for that same time frame.
4. Average Up Capture Ratio (3, 5 and 10 year) – The percentage of an index return captured during up market cycles, referred to as Up Capture Ratio, shall be evaluated.
5. Average Down Capture Ratio (3, 5 and 10 year) – The percentage of an index return captured during down market cycles, referred to as Down Capture Ratio, shall be evaluated.
6. Style Consistency to the benchmark – The use of equally-weighted criteria ensures that the funds selected for the plan continue to operate and perform as expected within their appropriate asset class.

Equity funds: Average R² (3, 5 and 10 year), current style dispersion and 3 year average style consistency

Bond funds: Average R² (3, 5 and 10 year) and current average credit quality

7. Expense Ratio – The current expense ratio shall be compared as a percentage to the appropriate category average.

A fund's overall score from the above listed criteria is ranked against its respective category peer group as an initial indication as to whether a fund is outperforming, performing or underperforming. If a fund's score ranks in the top quartile (0 - 25%) it receives an "Outperform", if the score ranks in the 2nd quartile (26 - 50%) it receives a "Perform" and if the score ranks in the bottom half of the peer group it receives an "Underperform" (51 - 100%).

Qualitative Criteria

In addition to the above quantitative criteria, many additional qualitative factors will be monitored to determine the potential exposure to risk that may make a fund unsuitable as a retirement plan investment option. The additional factors to be monitored include, but are not limited to, the following:

- Change in fund philosophy
- Change in fund manager
- Individual holding concentrations
- Economic sector concentrations
- Performance volatility as measured by standard deviation
- Portfolio turnover
- Manager tenure
- Asset base
- Average market capitalization

Target Date Funds Evaluation Methodology

Target Date Funds will be evaluated as a group using quantitative criteria for the individual funds along with qualitative criteria associated with the investment management company. Each fund's performance will be compared against its corresponding Morningstar Category peer group.

Quantitative Criteria

Performance and Expenses – Individual fund performance will be evaluated on a relative basis against its corresponding category peer group and expenses will be compared against a custom benchmark comprised of institutional and retirement share classes in each target date.

Qualitative Criteria

Culture – Cultural aspects of the company offering the Target Date Funds to be examined will include structure of the glide path, investment methodology, diversification of underlying assets, net assets, number of target dates available, and experience in operating target date funds. Other qualitative factors may be included in the process.

APPENDIX C

The appropriateness of offering the self-directed brokerage option will be evaluated on a periodic basis, according to the following four criteria:

1. Investment Sophistication of the Workforce
2. Scope and Effectiveness of investment education programs
3. Whether investment advice is made available to participants
4. Communications informing participants of the risk, as well as providing information reasonably required to make informed investment decisions

In addition, the operations of the self-directed brokerage (SDB) will be evaluated on an annual basis, with success measured as the fulfillment of the following factors:

1. Restrictions on the size of the participant account required in order to establish a brokerage account are not so excessive as to discriminate in favor of highly-compensated employees, as provided under Code section 401(a)(4).
2. The cost of establishment and maintenance of the participant account is reasonable, and does not discriminate in favor of highly-compensated employees, as provided under Code section 401(a)(4).
3. The brokerage window observes ERISA's restrictions on investments.
4. Participant directions are being carried out on a timely basis.

Participants are provided with information reasonably required to enable them to make informed investment decisions.

APPENDIX D

On February 1, 2009, Plan assets in individual annuity accounts at TIAA-CREF and Prudential were frozen to new contributions. The Committee acknowledges their fiduciary responsibility to continue to provide education to participants and monitor the assets in these accounts. However, given their status as individual annuity contracts, the Committee recognizes its restricted control in regards to the ability to move assets, should an investment option replacement or elimination be necessary.

The Committee's intent is to monitor the fixed and variable annuity accounts in the TIAA-CREF and Prudential plans according to the Evaluation Methodology outlined in Appendix B. Should an investment option fail to meet the Committee's standards and is deemed no longer prudent to offer in the Plan, the Committee will:

- send a written communication to the appropriate vendor (TIAA-CREF or Prudential), outlining the Committee's review of the investment option and its failure to meet the Committee's standards; and
- endeavor to replace or eliminate the option, recognizing that there may be limitations according to the individual contracts held at TIAA-CREF and Prudential

Following is a list of the asset classes, investment options, and indices that are currently represented in the TIAA – CREF Plan:

<u><i>Money Market</i></u> CREF Money Market	<u><i>Index</i></u> 3 Month T-Bill and Money Market Category Peer Group
<u><i>Stable Value</i></u> TIAA Traditional Annuity	<u><i>Index</i></u> Stable Value Category Peer Group
<u><i>Inflation-Protected Bond</i></u> CREF Inflation Linked Bond	<u><i>Index</i></u> Barclays U.S. Treasury TIPS Index and Inflation Protected Bond Category Peer Group
<u><i>Intermediate Bond</i></u> CREF Bond Market	<u><i>Index</i></u> Barclays Aggregate Bond Index and Intermediate Term Bond Category Peer Group
<u><i>Balanced (Hybrid)</i></u> CREF Social Choice	<u><i>Index</i></u> 40% Barclays Aggregate Bond Index/60% S&P 500 Index and Moderate Allocation Category Peer Group
<u><i>Large Cap Blend</i></u> CREF Stock CREF Equity Index	<u><i>Index</i></u> Standard & Poor's 500 Index and Large Cap Blend Category Peer Group Russell 3000 Index and Large Cap Blend Category Peer Group
<u><i>Large Cap Growth</i></u> CREF Growth	<u><i>Index</i></u> Russell 1000 Growth Index and Large Cap Growth Category Peer Group

<u>Global</u> CREF Global Equities	<u>Index</u> MSCI World Index and World Stock Category Peer Group
<u>Specialty - Real Estate</u> TIAA Real Estate	<u>Index</u> Wilshire REIT Index and Specialty - Real Estate Category Peer Group

Following is a list of the asset classes, investment options, and indices that are currently represented in the Prudential Plan:

<u>Money Market</u> Medley Money Market	<u>Index</u> 3 Month T-Bill and Money Market Category Peer Group
<u>Stable Value</u> Prudential Guaranteed Interest Account	<u>Index</u> Stable Value Category Peer Group
<u>Intermediate Government Bond</u> Medley Government Income	<u>Index</u> Barclays Intermediate Government Bond Index and Intermediate Government Bond Category Peer Group
<u>Intermediate Bond</u> Medley Diversified Bond	<u>Index</u> Barclays Aggregate Bond Index and Intermediate Term Bond Category Peer Group
<u>Conservative Allocation</u> Medley Conservative Balanced Medley Flexible Managed	<u>Index</u> Conservative Allocation Category Peer Group
<u>Large Cap Blend</u> Medley Stock Index	<u>Index</u> Standard & Poor's 500 Index and Large Cap Blend Category Peer Group
<u>Large Cap Growth</u> Medley Capital Growth Medley Equity	<u>Index</u> Russell 1000 Growth Index and Large Cap Growth Category Peer Group
<u>Global</u> Medley Global	<u>Index</u> MSCI World Index and World Stock Category Peer Group

INDEX DEFINITIONS:

- ◆ Three-Month Treasury Bill. Three-month T-bills are government backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.
- ◆ Category: Money Market. This benchmark measures the average performance of funds that seek income by diversifying their assets among short-term debt instruments that mature in less than one year and are very liquid. Treasury Bills make up the bulk of money market instruments.
- ◆ Category: Stable Value. This benchmark measures the average performance of stable value funds maintaining book value accounting on a pool of fixed income securities. Funds in this category purchase wrap contracts in order to avoid the negative impact of selling fixed-income securities at a discount in order to meet redemptions. Stable value funds typically have an average duration of three years and an average credit quality of AA or better.
- ◆ Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index. Rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36.0% market value weight in the index, but is not eligible for other nominal treasury or aggregate indices. In order to prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted CPI for All Urban Consumers.
- ◆ Category: Inflation Protected Bond: Inflation-protected bond portfolios primarily invest in fixed-income securities that increase coupon and/or principal payments at the rate of inflation. These bonds can be issued by any organization, but the U.S. Treasury is currently the largest issuer of these types of securities. Most of these portfolios buy bonds with intermediate- to long-term maturities
- ◆ Barclays Intermediate Government Bond Index. Composed of those indexes found in the Barclays Government Index which have a maturity of one to three years. The returns for the index are total returns, which include reinvestment of dividends.
- ◆ Category Intermediate Government. This category is comprised of portfolios that have at least 90% of their bond holdings in bonds backed by the US government or by government-linked agencies. This backing minimizes the credit risk of these portfolios, as the US government is unlikely to default on its debt. These portfolios have durations between 3.5 and six years (or, if duration is unavailable, average maturities between four and 10 years). Consequently, the groups performance, and its level of volatility, tends to fall between that of the short government and long government bond categories.
- ◆ Barclays Aggregate Index. Composed of the Barclays Government/Corporate Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which include reinvestment of dividends.
- ◆ Category: Intermediate-Term Bond. This benchmark measures the average performance of funds that invest primarily in corporate and other investment-grade US fixed-income issues

and have durations of 3.5 to 6 years (or, if duration is unavailable, average effective maturities of 4 to 10 years).

- ♦ *Merrill Lynch High Yield Index.* The Merrill Lynch High-Yield Index measures performance of a broad-based group of non-investment grade US domestic market issues rated below investment grade but not in default
- ♦ *Category: Conservative Allocation.* This benchmark seeks to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold smaller positions in stocks than moderate-allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash.
- ♦ *Russell 1000 Value Index.* Market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable US equity market.
- ♦ *Category: Large Cap Value.* This benchmark measures the average performance of funds that invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. Value is defined based on low valuations and slow growth.
- ♦ *Standard & Poor's 500 Index.* The S&P 500 Index consists of 500 widely held common stocks, consisting of four broad sectors (industrials, utilities, financial, and transportation). It is a market-value weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. This index, calculated by Standard & Poor's, is a total return index with dividends reinvested.
- ♦ *Category: Large Cap Blend.* This benchmark measures the average performance of funds that are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries.
- ♦ *Russell 1000 Growth Index.* Market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable U.S. equity market.
- ♦ *Category: Large Cap Growth.* This benchmark measures the average performance of funds that invest in big US companies that are projected to grow faster than other large cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth and high valuations. Most of these portfolios focus on companies in rapidly expanding industries.
- ♦ *Russell Mid Cap Value Index.* Market-weighted total return index that measures the performance of companies within the Russell Mid Cap Index having lower price-to-book

ratios and lower forecasted growth values. The Russell Mid Cap Index includes firms 201 through 1000, based on market capitalizations, from the Russell 3000 Index. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.

- ◆ Category: Mid Cap Value. This benchmark measures the average performance of funds that focus on medium-size companies. They look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion - \$8 billion and represents 20% of the total capitalization of the U.S. equity market.
- ◆ Russell Mid Cap Index. The Russell Mid Cap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately \$4.0 billion; the Geometric Average Market Capitalization was approximately \$2.9 billion. The largest Sponsor in the index had an approximate market capitalization of \$12 billion.
- ◆ Category: Mid Cap Blend. The typical mid-cap blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks, but aren't so price-conscious that they land in value territory. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.
- ◆ Russell Mid Cap Growth Index. Market-weighted total return index that measures the performance of companies within the Russell Mid Cap Index having higher price-to-book ratios and higher forecasted growth values. The Russell Mid Cap Index includes firms 201 through 1000, based on market capitalizations, from the Russell 3000 Index. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ◆ Category: Mid Cap Growth. This benchmark measures the average performance of funds that focus on medium-size companies. They look for U.S. stocks that are projected to grow faster than other mid-cap stocks, therefore commanding higher prices. The US mid-cap range for market capitalization typically falls between \$1 billion - \$8 billion and represents 20% of the total capitalization of the U.S. equity market.
- ◆ Russell 2000 Value Index. Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ◆ Category: Small Cap Value. This benchmark measures the average performance of funds that invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.

- ♦ *Russell 2000 Index.* Market-weighted total return index that measures the performance of the smallest 2000 companies in the Russell 3000 index, which represents approximately 7% of the Russell 3000 total market capitalization.
- ♦ *Category: Small Cap Blend.* This benchmark measures the average performance of funds that favor U.S. firms at the smaller end of the market-capitalization range. Some of the funds measured aim to own an array of value and growth stocks, while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.
- ♦ *Russell 2000 Growth Index.* Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ♦ *Category: Small Cap Growth.* This benchmark measures the average performance of funds that focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.
- ♦ *MSCI World Index.* A capitalization-weighted index of stocks from Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Columbia, Denmark, Finland, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, USA, and Venezuela. Includes all 23 MSCI developed market countries. Indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies.
- ♦ *Category: World Stock.* This category is comprised of portfolios that have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20% - 60% of assets in U.S. stocks.
- ♦ *MSCI EAFE Index.* This index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world. The returns published for the index are total returns, which include reinvestment of dividends.
- ♦ *Category: Foreign Large Cap Equity.* This benchmark measures the average performance of funds that invest in a variety of international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70%

of each economically integrated market (such as Europe and Asia ex-Japan). The category is weighted as follows:

- 60% Blend: The blend style is assigned to portfolios where neither growth nor value characteristics predominate.
- 20% Value: Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
- 20% Growth: Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).
- ◆ Category: Foreign Small / Mid Cap Equity. This benchmark measures the average performance of funds that invest in a variety of international stocks and limit U.S. exposure. Most of these portfolios invest in stocks with market caps in the bottom 30% of the applicable economically integrated market (such as Europe or Asia ex-Japan). The benchmark is weighted 52% growth funds and 48% value funds.
- ◆ MSCI Emerging Markets Index. This index is a free-float adjusted market capitalization weighted index measuring the equity performance of 23 different emerging markets. As of January 2009, the index consisted of the following country indices Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
- ◆ Category: Diversified Emerging Markets. This benchmark measures the performance of funds that seek capital appreciation by investing in equities issued in emerging markets. To be included, the portfolios must be diversified and not concentrated in any one region.
- ◆ Category: Specialty Real Estate. This category is comprised of offerings that seek capital appreciation from real-estate-related equity securities as their primary objective.