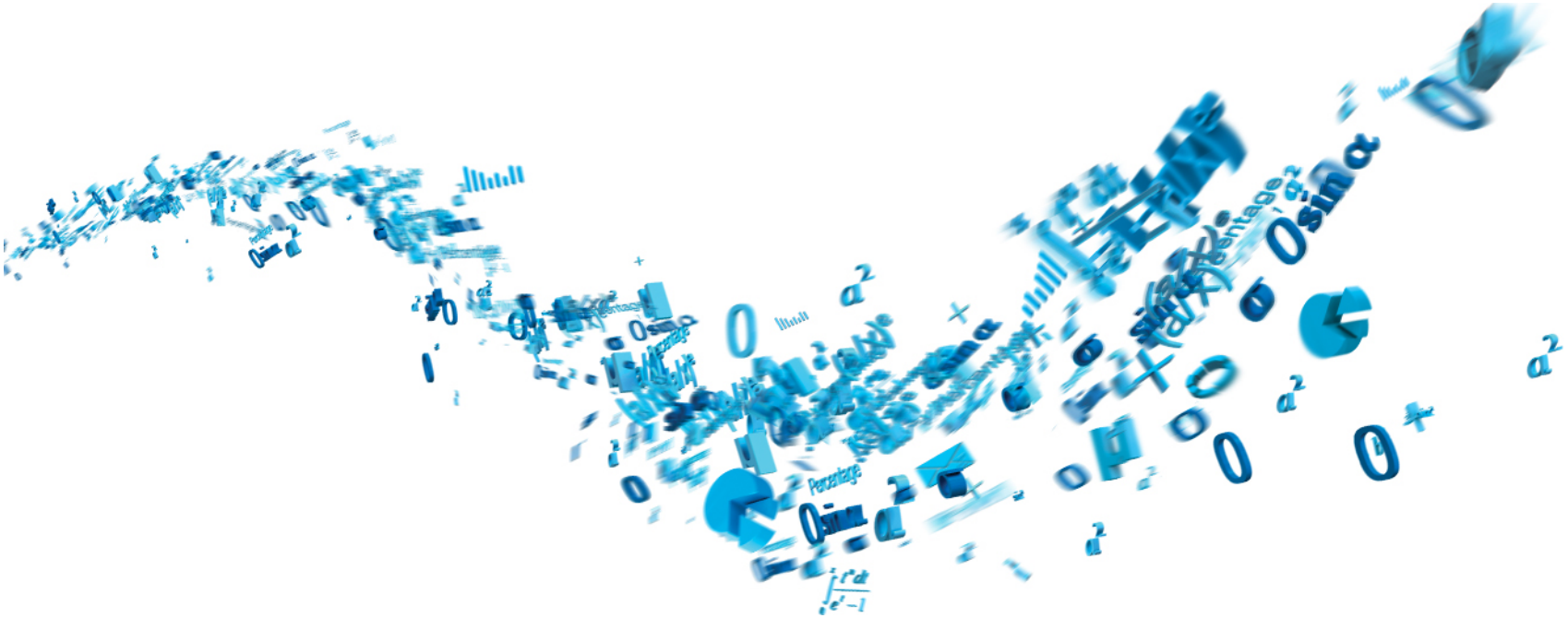

Nevada System of Higher Education

Third Quarter 2017 Discussion Guide

December 1, 2017

Aon Hewitt
Retirement and Investment

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Discussion Topics

Section 1	Capital Markets Review
Section 2	Performance Review
Section 3	Noteworthy Items
Section 4	Vanguard Flash Report
Section 5	William Blair Flash Reports
Section 6	DFA Flash Report
Section 7	2017 Tax Reform Discussion
Section 8	Legal and Compliance Update

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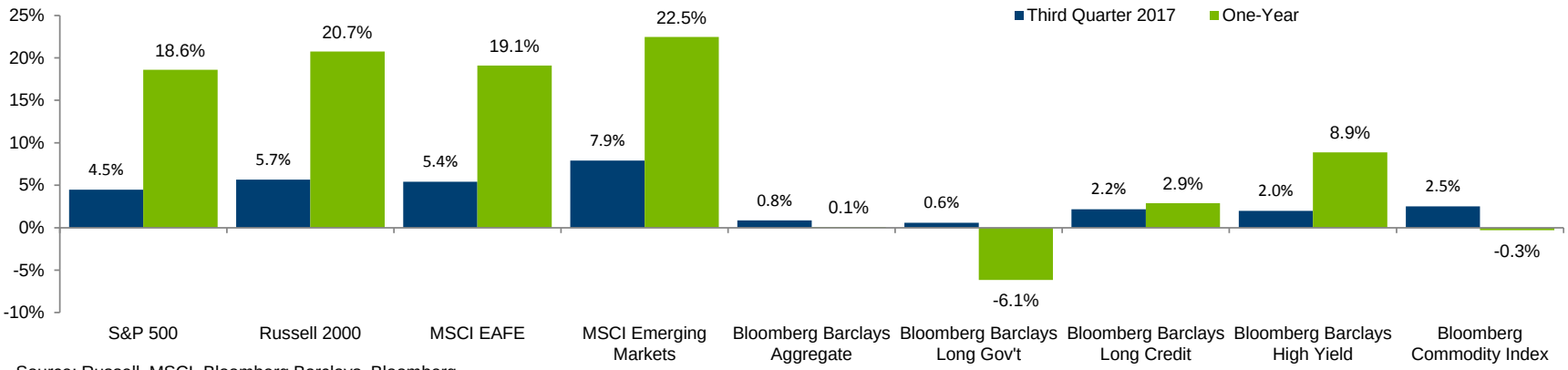
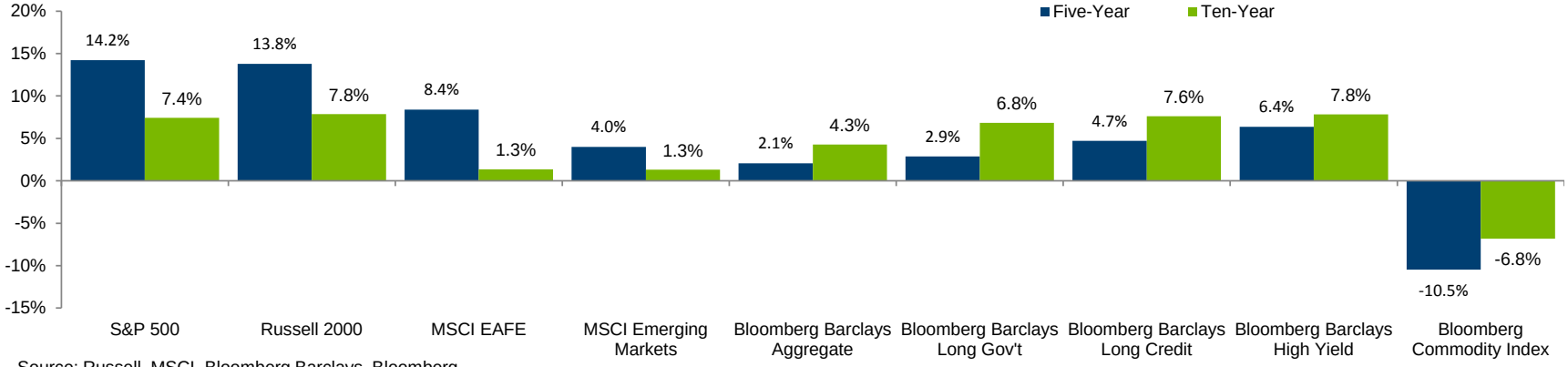
Market Highlights

SHORT TERM RETURNS
AS OF 09/30/2017



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

LONG TERM ANNUALIZED RETURNS
AS OF 09/30/2017



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Market Highlights

Returns of the Major Capital Markets						
						Period Ending 09/30/2017
	Third Quarter	Year-to-Date	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	5.32%	17.24%	18.73%	7.72%	10.42%	4.18%
MSCI All Country World	5.18%	17.25%	18.65%	7.43%	10.20%	3.88%
Dow Jones U.S. Total Stock Market	4.57%	13.95%	18.66%	10.69%	14.15%	7.64%
Russell 3000	4.57%	13.91%	18.71%	10.74%	14.23%	7.57%
S&P 500	4.48%	14.24%	18.61%	10.81%	14.22%	7.44%
Russell 2000	5.67%	10.94%	20.74%	12.18%	13.79%	7.85%
MSCI All Country World ex-U.S. IMI	6.27%	21.47%	19.55%	5.16%	7.32%	1.59%
MSCI All Country World ex-U.S.	6.16%	21.13%	19.61%	4.70%	6.97%	1.28%
MSCI EAFE	5.41%	19.96%	19.10%	5.04%	8.38%	1.34%
MSCI EAFE (Local Currency)	3.36%	11.16%	19.02%	7.87%	12.26%	2.62%
MSCI Emerging Markets	7.89%	27.78%	22.46%	4.90%	3.99%	1.32%
Fixed Income						
Bloomberg Barclays Global Aggregate	1.76%	6.25%	-1.26%	1.30%	0.48%	3.31%
Bloomberg Barclays Aggregate	0.85%	3.14%	0.07%	2.71%	2.06%	4.28%
Bloomberg Barclays Long Gov't	0.59%	6.06%	-6.15%	4.84%	2.87%	6.83%
Bloomberg Barclays Long Credit	2.17%	8.75%	2.88%	5.98%	4.71%	7.62%
Bloomberg Barclays Long Gov't/Credit	1.53%	7.65%	-0.79%	5.45%	3.94%	7.36%
Bloomberg Barclays US TIPS	0.86%	1.72%	-0.72%	1.62%	0.02%	3.90%
Bloomberg Barclays High Yield	1.98%	7.00%	8.88%	5.83%	6.37%	7.84%
Citi Group Non-U.S. WGBI	2.57%	8.63%	-3.14%	0.47%	-1.07%	2.67%
JP Morgan EMBI Global (Emerging Markets)	2.38%	8.73%	4.15%	6.05%	4.32%	7.28%
Commodities						
Bloomberg Commodity Index	2.52%	-2.87%	-0.29%	-10.41%	-10.47%	-6.83%
Goldman Sachs Commodity Index	7.22%	-3.76%	1.79%	-19.56%	-14.38%	-10.02%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	2.06%	5.70%	6.95%	3.34%	4.67%	3.06%
HFRI Fund of Funds[2]	2.24%	5.52%	6.43%	2.21%	3.84%	1.07%
Real Estate						
NAREIT U.S. Equity REITS	0.94%	3.67%	0.67%	9.86%	9.69%	5.83%
NCREIF NFI - ODCE[3]	1.86%	5.43%	7.66%	10.85%	11.59%	5.03%
Private Equity						
Burgiss Private iQ Global Private Equity[4]	NA	NA	12.92%	9.63%	11.68%	8.98%
Infrastructure						
FTSE Global Core Infrastructure Index	2.20%	11.92%	8.76%	3.27%	6.97%	3.66%

MSCI Indices show net returns.
All other indices show total returns.

[1] Periods are annualized.

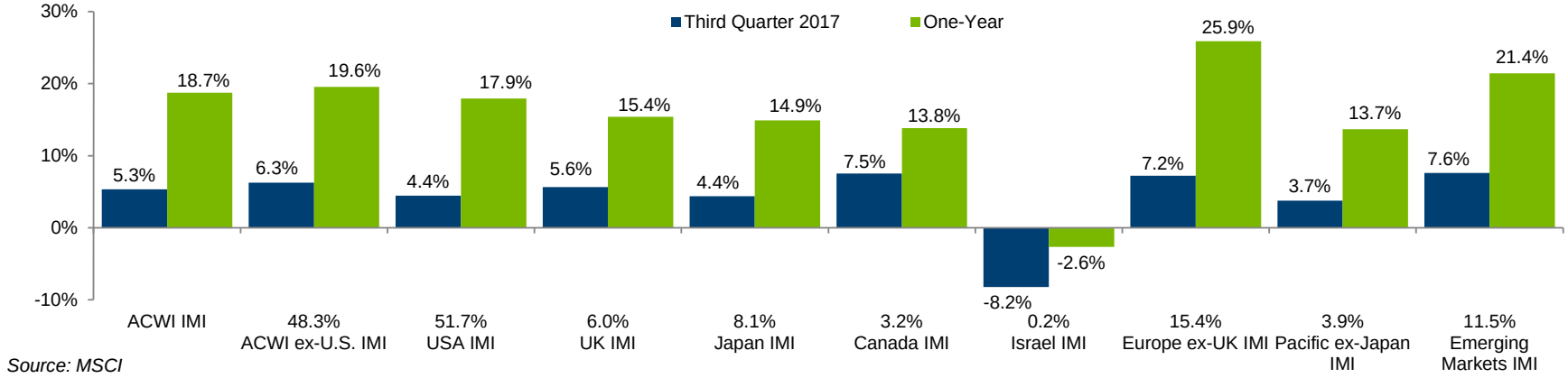
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Third quarter results are preliminary.

[4] Source: Burgiss Private iQ. Benchmark is as of 03/31/2017.

Global Equity Markets

GLOBAL MSCI IMI INDEX RETURNS
AS OF 09/30/2017

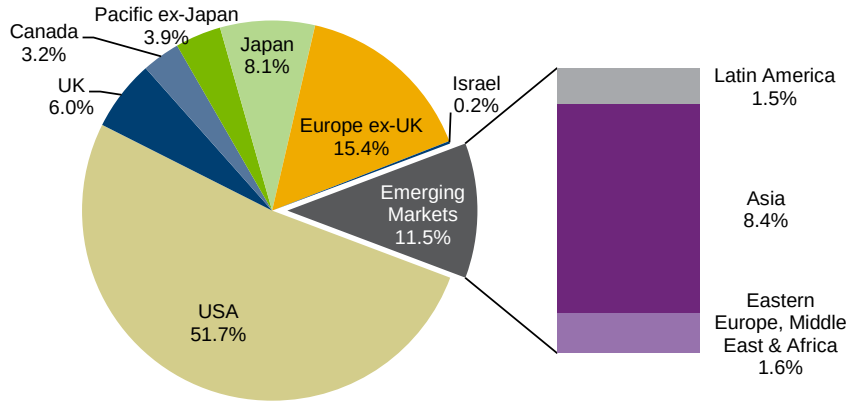


Source: MSCI

- Evidence of improving global growth and low inflation continued to sustain the global equity market rally over the last quarter. Moreover, markets were broadly undisturbed by heightened tensions between the U.S. and North Korea. Global equity markets returned 5.3% in Q3 2017 in U.S. dollar terms. The broad weakening of the U.S. dollar (1.7% in trade-weighted terms) led to a lower return of 4.5% in local currency terms.
- With the exception of Israel which moved sharply lower over the quarter, all regions shown above generated positive returns.
- Emerging markets (EM) were once again the strongest performers, returning 7.6% during the third quarter of 2017.

Global Equity Markets

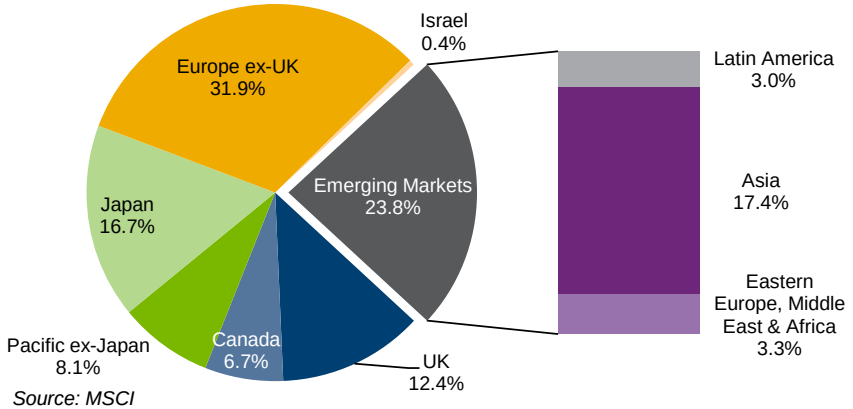
MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2017



Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global and international equity markets as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2017



Source: MSCI

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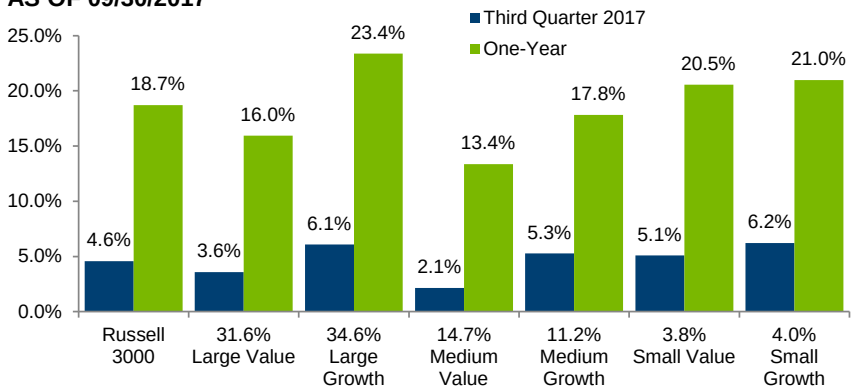
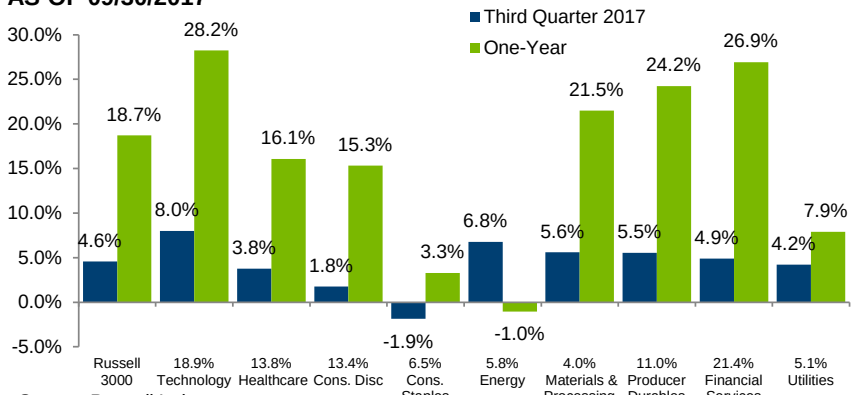
U.S. Equity Markets

RUSSELL STYLE RETURNS AS OF 09/30/2017



Source: Russell Indexes

RUSSELL GICS SECTOR RETURNS AS OF 09/30/2017



Source: Russell Indexes

- The Russell 3000 Index returned 4.6% during the third quarter and 18.7% over the trailing one-year period.
- During the third quarter, the technology sector continued to be the strongest performer, posting returns of 8.0%. The consumer staples sector was the weakest performer and the only sector which posted negative returns in Q3 2017 by falling 1.9%.
- Performance was positive across the market capitalization spectrum during the quarter. Renewed expectations for U.S. tax reform, announced late in the quarter, provided a boost for small cap stocks which outperformed their large cap peers. Despite their recent outperformance, small cap stocks still lagged large cap stocks since the start of the year. In general, growth stocks outperformed value stocks.

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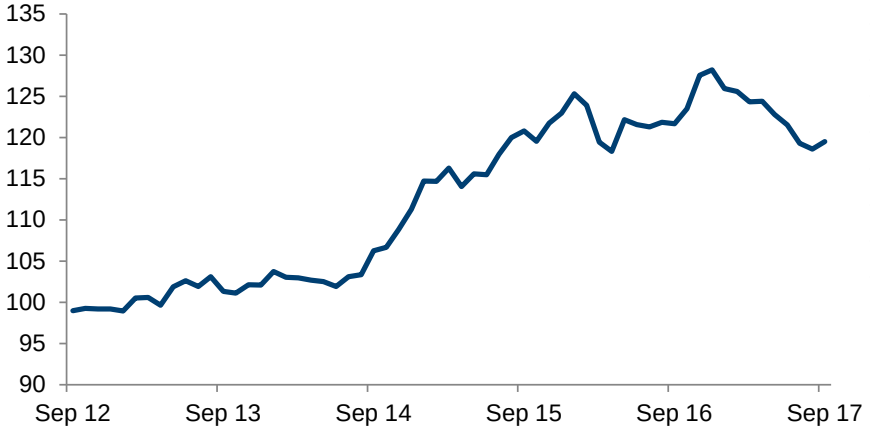
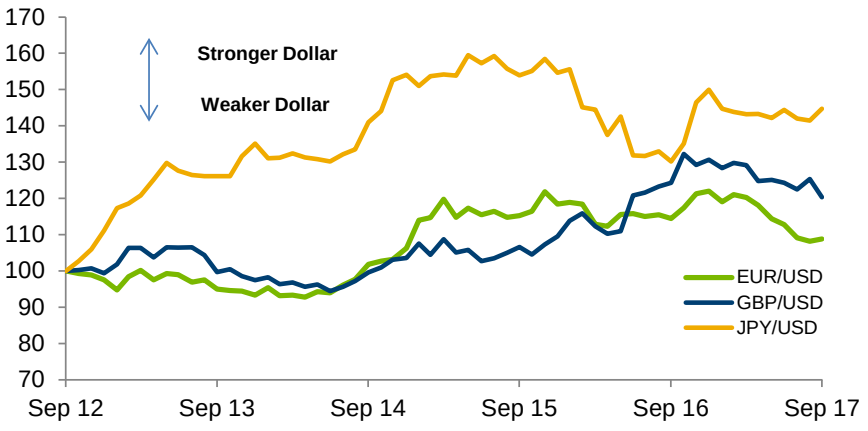
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 09/30/2012

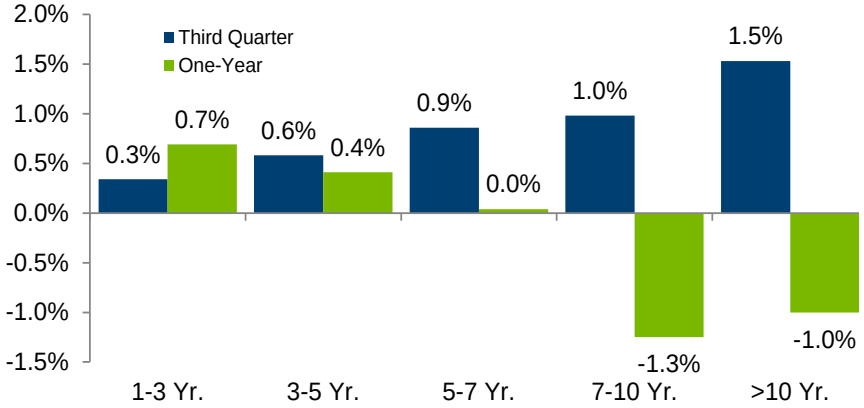


Source: DataStream

- The U.S. dollar weakened by 1.7% on a trade-weighted basis during the quarter. Market expectations of a rate hike were lowered after a flurry of disappointing inflation releases, although the U.S. Federal Reserve (Fed) continued to believe that the factors suppressing inflation are transitory.
- With the exception of the Japanese yen, the U.S. dollar depreciated against all the major currencies. Bank of England officials indicated UK monetary policy struck a more hawkish tone in September which sent sterling 3.2% higher against the U.S. dollar. Despite a brief period of safe-haven flow activity amid escalating geopolitical tensions in the Korean peninsula, the yen fell by 0.2% against the U.S. dollar. Resilient economic data emanating from the Eurozone supported the euro's 3.5% appreciation against the 'greenback.'

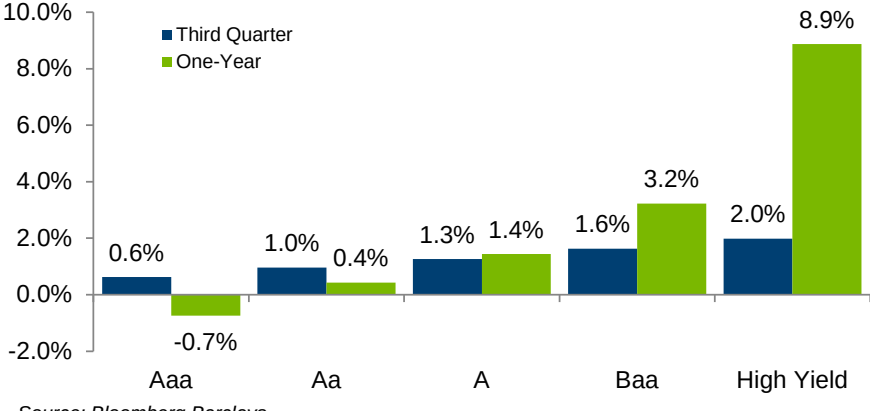
U.S. Fixed Income Markets

BLOOMBERG BARCLAYS U.S. AGGREGATE RETURNS BY MATURITY AS OF 9/30/2017



Source: Bloomberg Barclays

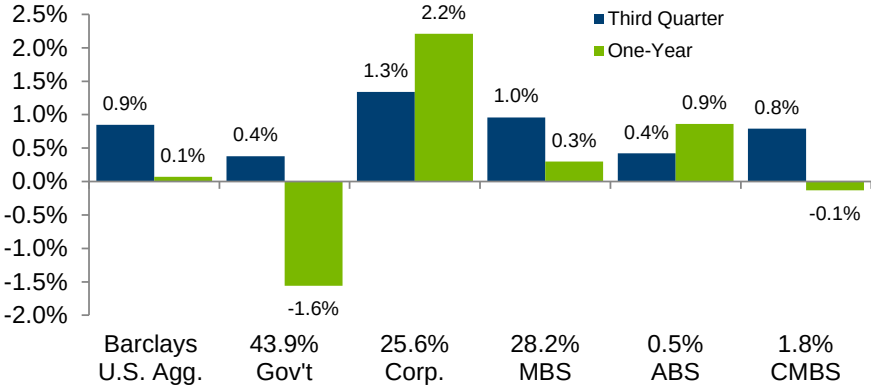
BLOOMBERG BARCLAYS U.S. AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 9/30/2017



Source: Bloomberg Barclays

- The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.9% during the third quarter. Corporate bonds posted the highest return at 1.3%.
- High yield bonds outperformed their investment grade peers, returning nearly 2.0% over the quarter.
- Long duration bonds outperformed intermediate and short duration bonds through the quarter.

BLOOMBERG BARCLAYS U.S. AGGREGATE RETURNS BY SECTOR AS OF 9/30/2017



Source: Bloomberg Barclays

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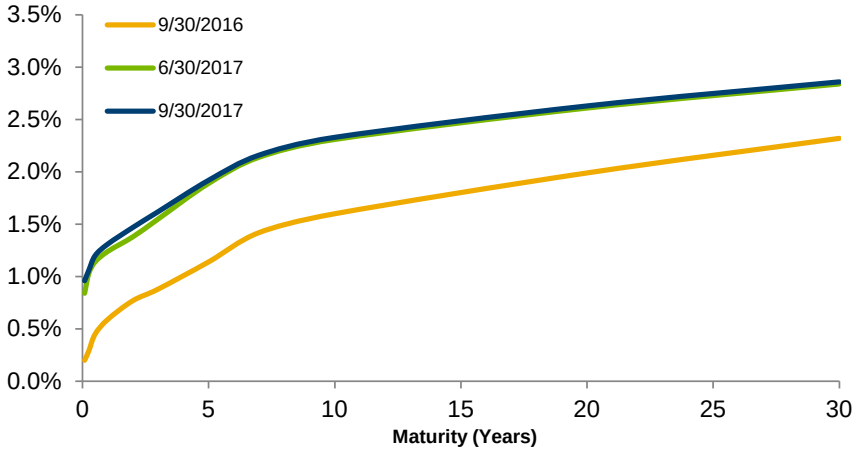
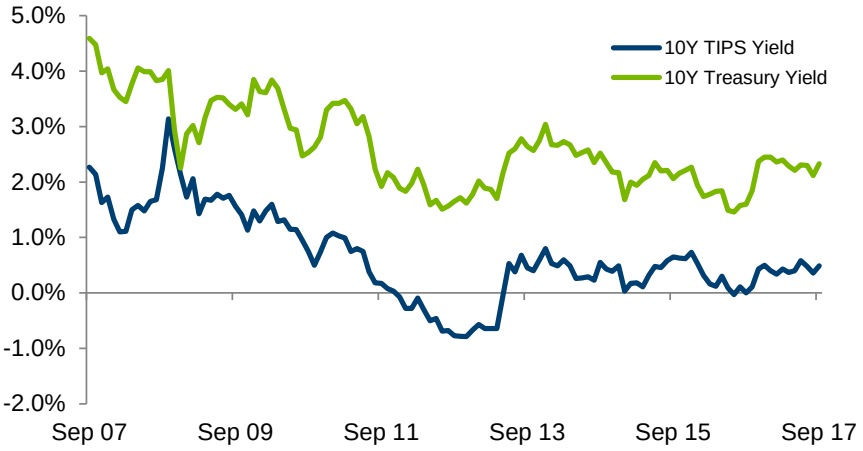
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS



Source: U.S. Department of Treasury

- The U.S. Treasury yield curve marginally flattened during the quarter, as yields of short maturity bonds inched higher while longer maturity bonds were relatively unchanged.
- The 10-year U.S. Treasury yield ended the quarter at 2.3%, 2 basis points (bps) higher than at the start of the quarter. This was largely driven by higher breakeven inflation which moved 11 bps higher and offset the fall in real yields.
- The 10-year TIPS yield fell by 9 bps over the quarter and ended the period at 0.5%.

Credit Spreads

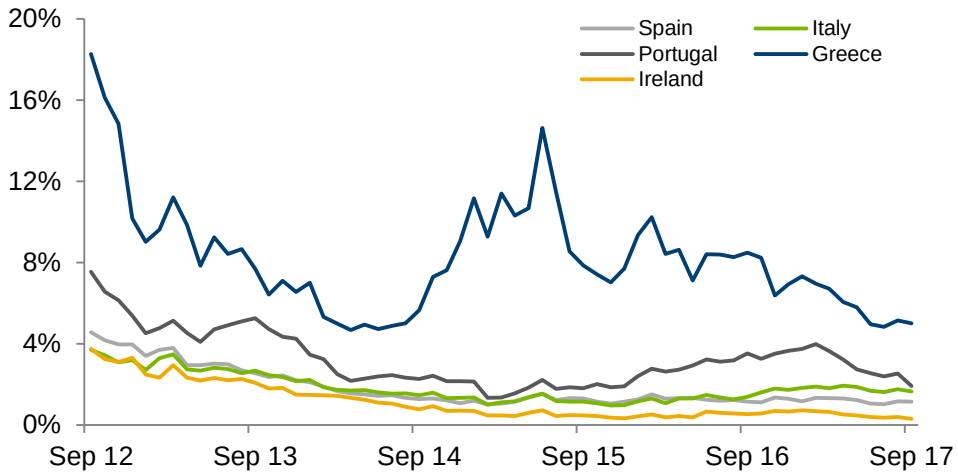
Spread (bps)	30/09/2017	30/06/2017	30/09/2016	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	38	43	47	-5	-9
Long Govt	2	2	3	0	-1
Long Credit	149	157	195	-8	-46
Long Govt/Credit	90	94	118	-4	-28
MBS	22	32	14	-10	8
CMBS	71	74	84	-3	-13
ABS	44	46	55	-2	-11
Corporate	101	109	138	-8	-37
High Yield	347	364	480	-17	-133
Global Emerging Markets	235	255	299	-20	-64

Source: Bloomberg Barclays

- An improved risk appetite and a benign global credit backdrop saw spreads over U.S. Treasuries fall across all areas of the credit market. However, movement in U.S investment grade credit spreads were more muted.
- Global emerging market bond spreads fell by the most during the quarter, narrowing by 20 bps. They were closely followed by high yield bonds, their fellow outperformers in the credit universe this year, which fell by 17 bps.

European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS
(10-YEAR SPREADS OVER GERMAN BUNDS)

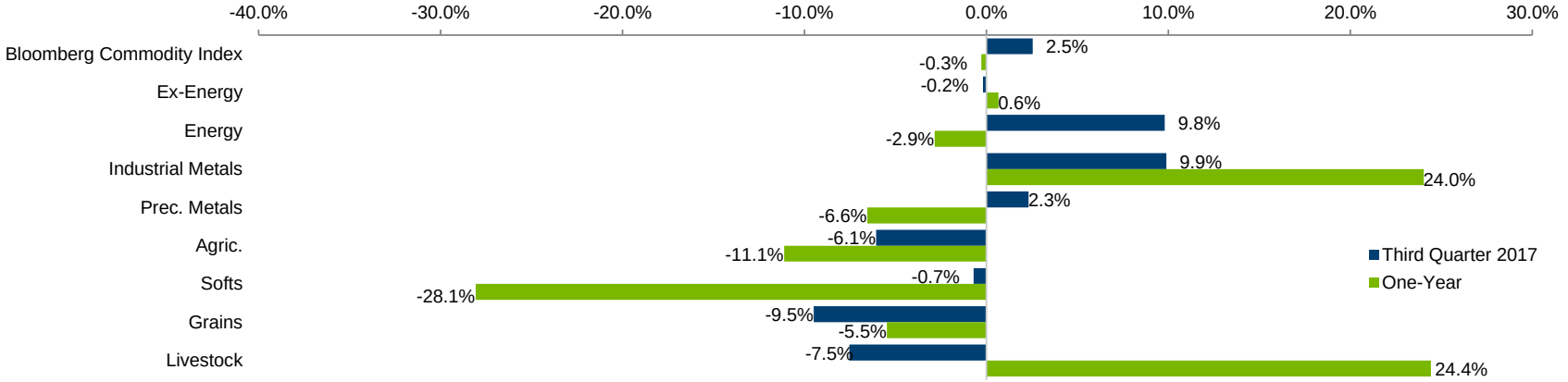


Source: DataStream

- In the Eurozone, bond spreads were mixed across peripheral region.
- Spain's government bond yields rose by 8 bps with the majority of the increase coming towards the end of the quarter as political instability due to Catalonian Independence referendum grew.
- Meanwhile, Portuguese government bond yields fell sharply after the rating agency Standard & Poor's raised the nation's credit rating to investment grade from junk status, resulting in the yield on 10 year Portuguese government debt ending 64 bps lower over Q3 2017.
- Meanwhile, the spread between Greek bonds and German Bunds moved 24 bps higher over the same period.

Commodities

COMMODITY RETURNS
AS OF 09/30/2017



Source: Bloomberg

- A strong upturn in commodity prices during the quarter saw the Bloomberg Commodity Index return 2.5%, driven mainly by a rise in crude oil prices.
- Over the quarter, the best performing sector was industrial metals with a return of 9.9%, closely followed by energy (9.8%). Grains was the worst performing sector over the quarter with a return of -9.5%.

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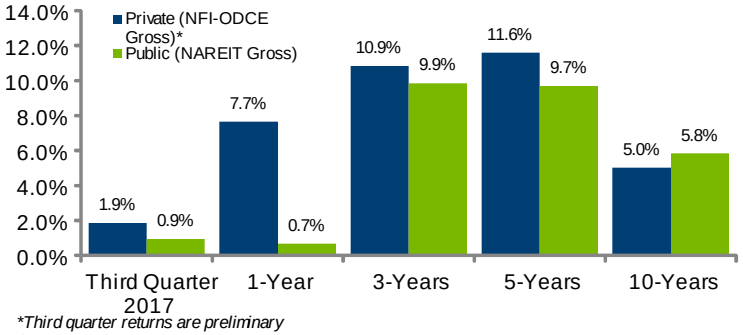
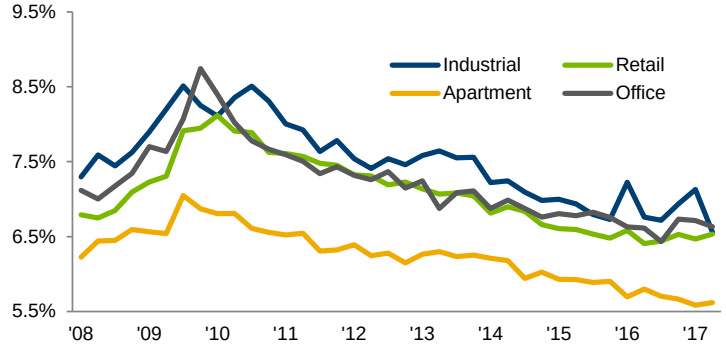
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS AS OF 09/30/2017



Third quarter returns are preliminary
Sources: NCREIF, NAREIT

CAP RATES BY PROPERTY TYPE



Sources: RCA, AHIC 6/30/2017

- The U.S. REIT market (FTSE NAREIT Equity REITs Index) was slightly positive (0.9%) during the quarter.
- During the quarter, strong share price gains were seen in the Industrial, Data Center, Net Lease, and Storage sectors, with weakness in the Health Care and Mall sectors. Values for high quality assets have remained relatively stable; however there is a wide disparity in relative valuations within the property sectors, with the overall U.S. REITs market ending the quarter trading at an approximate 2.0% premium.
- Despite the significant destructive impact of Hurricanes Harvey (Houston) and Irma (Florida) the negative financial impact to the REITs is expected to be minimal. Overall U.S. public REIT exposure is only approximately 3.0% to Houston, 5.0% to Florida and <0.5% to Puerto Rico.

Sources: NCREIF, RCA, CBRE-EA, Aon Hewitt
*Indicates preliminary NFI-ODCE data gross of fees

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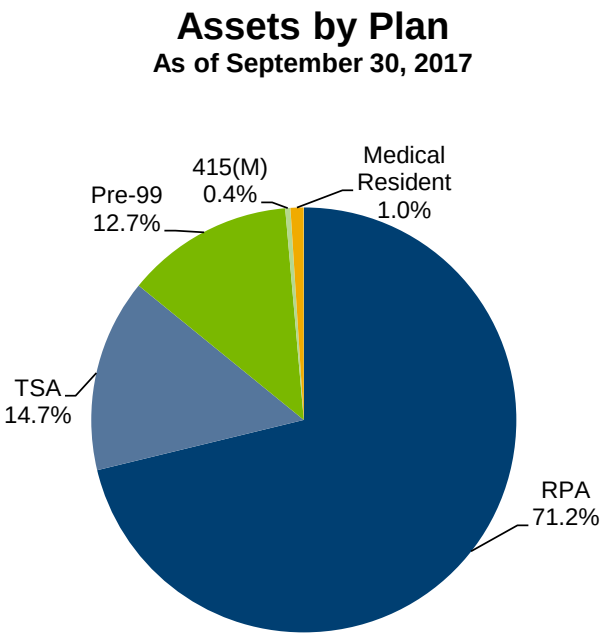
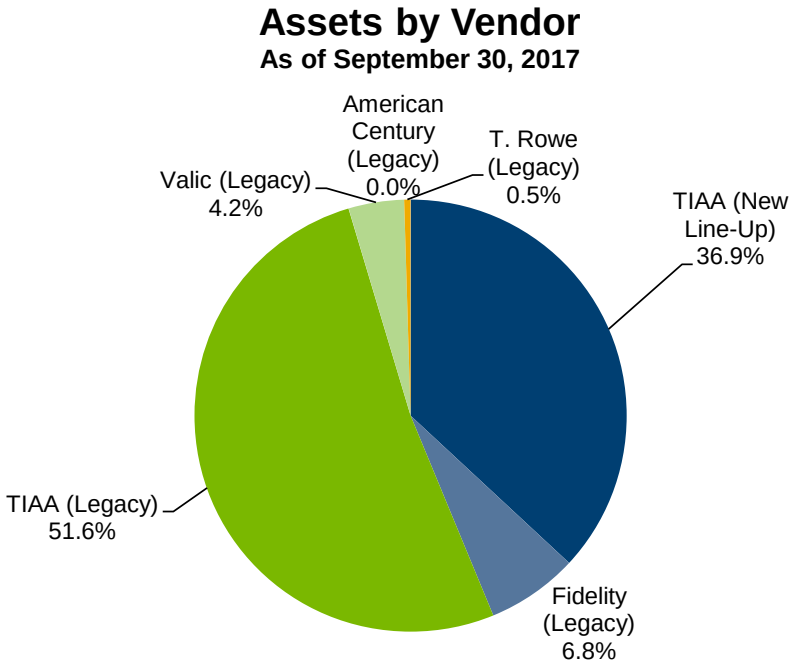
Asset Allocation





As of 9/30/2017

Plan	RPA		TSA		Pre-99		415(M)		Medical Resident		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
TIAA (New Line-Up)	$ 864,440,075	40.8%	$ 192,981,282	44.2%	$ 13,349,068	3.5%	$ 9,029,128	77.0%	$ 19,587,193	65.1%	$ 1,099,386,745	36.9%
Fidelity (Legacy)	$ 158,439,962	7.5%	$ 36,701,325	8.4%	$ 6,279,297	1.7%	$ 1,141,462	9.7%	$ 911,591	3.0%	$ 203,473,637	6.8%
TIAA (Legacy)	$ 1,006,155,298	47.5%	$ 177,172,861	40.5%	$ 352,352,580	93.0%	$ 1,503,784	12.8%	$ 197,331	0.7%	$ 1,537,381,854	51.6%
Valic (Legacy)	$ 84,281,284	4.0%	$ 29,892,699	6.8%	$ -	0.0%	$ 47,017	0.4%	$ 9,390,681	31.2%	$ 123,611,681	4.1%
T. Rowe (Legacy)	$ 7,026,119	0.3%	$ 250,577	0.1%	$ 6,588,864	1.7%	$ -	0.0%	$ -	0.0%	$ 13,865,560	0.5%
American Century (Legacy)	$ -	0.0%	$ -	0.0%	$ 267,663	0.1%	$ -	0.0%	$ -	0.0%	$ 267,663	0.0%
Total	**$ 2,120,342,737**	**100.0%**	**$ 436,998,744**	**100.0%**	**$ 378,837,471**	**100.0%**	**$ 11,721,391**	**100.0%**	**$ 30,086,797**	**100.0%**	**$ 2,977,987,139**	**100.0%**
Other Assets*											$ 1,235,427	0.0%
Grand Total	**$ 2,120,342,737**	**71.2%**	**$ 436,998,744**	**14.7%**	**$ 378,837,471**	**12.7%**	**$ 11,721,391**	**0.4%**	**$ 30,086,797**	**1.0%**	**$ 2,979,222,566**	**100.0%**

*Other Assets includes Loans and TIAA-CREF Money Market.

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.

Empower Results®

Tier I(a) Watch List

Tier I (a)

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016
Vanguard Target Retirement Income Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050 Trust II	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055 Trust II	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2060 Trust II*	Yes	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

Notes on Table: Changes in Watch List designations from the previous quarter are highlighted in red.

Yellow-Level Watch List. An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.

Orange-Level Watch List. An investment fund goes on the Watch List with an orange designation when it has been on the yellow watch list for two consecutive quarters or when three of the above occur.

Red-Level Watch List. An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier I Watch List

Tier I

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016
Vanguard Target Retirement Income - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040 - Instl.	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2060 - Instl.*	Yes	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

Notes on Table: Changes in Watch List designations from the previous quarter are highlighted in red.

Yellow-Level Watch List. An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.

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Red-Level Watch List. An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier II Watch List

Tier II

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016
Vanguard Total Bond Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total Stock Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Institutional Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Extended Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total International Stock Index	No	No	No	No	No (Buy)	No				
Vanguard Developed Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Emerging Markets Stock Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Federal Money Market Fund	No	No	No	No	No (Buy)	No				
TIAA Traditional - RC	No	No	No	No	No (Buy)	No				
TIAA Traditional - RCP	No	No	No	No	No (Buy)	No				
PIMCO Total Return Fund	No	No	No	No	No (Buy)	No				
DFA Inflation-Protected Securities	Yes	No	No	No	No (Buy)	No				
American Century High Income*	No	No	No	No	No (Buy)	No				
T. Rowe Price Instl. Large Cap Growth Fund	No	No	No	No	No (Buy)	No				
Diamond Hill Large Cap	No	No	No	No	No (Buy)	No				
William Blair Small/Mid Cap Growth Fund	No	No	No	No	No (Buy)	No				
DFA U.S. Targeted Value	No	No	No	No	No (Buy)	No				
Dodge & Cox Global Stock Fund	No	No	No	No	No (Buy)	No				
Harding Loevner International Equity Instl.	No	No	No	No	No (Buy)	No				
MFS International Value Fund	No	No	No	No	No (Buy)	No				
Laudus Mondrian Emerging Markets Instl.	Yes	Yes	No	No	No (Buy)	No				
Cohen & Steers Instl Realty Shares	No	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.1% for domestic equities and fixed income or 0.3% for non-U.S. equities constitutes underperformance for the Plan's index funds.

Notes on Table: Changes in Watch List designations from the previous quarter are highlighted in red.

Yellow-Level Watch List. An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.

Orange-Level Watch List. An investment fund goes on the Watch List with an orange designation when it has been on the yellow watch list for two consecutive quarters or when three of the above occur.

Red-Level Watch List. An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier I(a) Performance Summary

As of 9/30/2017

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Total Plan	**2,979,222,565**	**100.0**								**03/01/2014**
Tier I (a)	**466,638,668**	**15.7**								**03/01/2014**
Vanguard Target Retirement Income Trust II	12,566,556	0.4	2.0 (75)	6.4 (72)	5.3 (91)	4.3 (67)	4.7 (85)		5.0 (85)	03/01/2008
Vanguard Target Income Composite Index			*2.0 (74)*	*6.4 (72)*	*5.4 (87)*	*4.5 (65)*	*4.9 (84)*		*5.1 (84)*	
Vanguard Target Retirement 2015 Trust II	29,205,777	1.0	2.6 (59)	8.6 (59)	8.0 (69)	5.4 (48)	7.0 (32)		5.8	03/01/2008
Vanguard Target 2015 Composite Index			*2.7 (56)*	*8.5 (66)*	*8.2 (68)*	*5.5 (33)*	*7.1 (24)*		*5.8*	
Vanguard Target Retirement 2020 Trust II	51,209,791	1.7	3.1 (35)	10.4 (30)	10.2 (33)	6.3 (13)	8.1 (10)		6.2 (3)	03/01/2008
Vanguard Target 2020 Composite Index			*3.2 (28)*	*10.3 (33)*	*10.3 (31)*	*6.4 (9)*	*8.3 (7)*		*6.3 (1)*	
Vanguard Target Retirement 2025 Trust II	55,123,386	1.9	3.5 (39)	11.7 (37)	11.8 (37)	6.8 (15)	8.9 (13)		6.4 (8)	03/01/2008
Vanguard Target 2025 Composite Index			*3.6 (32)*	*11.6 (39)*	*12.0 (33)*	*6.9 (8)*	*9.1 (12)*		*6.5 (4)*	
Vanguard Target Retirement 2030 Trust II	64,139,147	2.2	3.9 (49)	12.8 (46)	13.3 (44)	7.3 (32)	9.7 (17)		6.6 (14)	03/01/2008
Vanguard Target 2030 Composite Index			*3.9 (42)*	*12.7 (51)*	*13.4 (43)*	*7.4 (24)*	*9.8 (13)*		*6.7 (12)*	
Vanguard Target Retirement 2035 Trust II	77,575,616	2.6	4.2 (47)	13.9 (48)	14.8 (47)	7.7 (39)	10.4 (21)		6.9 (8)	03/01/2008
Vanguard Target 2035 Composite Index			*4.2 (42)*	*13.8 (57)*	*14.9 (40)*	*7.8 (34)*	*10.5 (11)*		*7.0 (6)*	
Vanguard Target Retirement 2040 Trust II	77,424,529	2.6	4.6 (32)	15.0 (36)	16.3 (38)	8.1 (33)	10.9 (15)		7.2 (12)	03/01/2008
Vanguard Target 2040 Composite Index			*4.6 (28)*	*14.9 (41)*	*16.4 (37)*	*8.2 (29)*	*11.0 (8)*		*7.3 (10)*	
Vanguard Target Retirement 2045 Trust II	58,894,575	2.0	4.7 (37)	15.5 (41)	16.9 (35)	8.2 (32)	11.0 (17)		7.2 (8)	03/01/2008
Vanguard Target 2045 Composite Index			*4.7 (34)*	*15.3 (48)*	*17.0 (31)*	*8.4 (18)*	*11.2 (9)*		*7.3 (4)*	
Vanguard Target Retirement 2050 Trust II	29,824,809	1.0	4.7 (43)	15.4 (42)	16.9 (52)	8.2 (37)	11.0 (17)		7.2 (6)	03/01/2008
Vanguard Target 2050 Composite Index			*4.7 (37)*	*15.3 (48)*	*17.0 (49)*	*8.4 (20)*	*11.2 (13)*		*7.3 (3)*	
Vanguard Target Retirement 2055 Trust II	8,061,945	0.3	4.7 (54)	15.5 (54)	16.9 (59)	8.2 (55)	10.9 (25)		11.9	09/01/2010
Vanguard Target 2055 Composite Index			*4.7 (52)*	*15.3 (64)*	*17.0 (54)*	*8.4 (28)*	*11.2 (17)*		*12.1*	
Vanguard Target Retirement 2060 Trust II	2,612,536	0.1	4.7 (55)	15.5 (54)	16.9 (65)	8.2 (55)	10.9 (26)		10.3 (20)	04/01/2012
Vanguard Target 2060 Composite Index			*4.7 (52)*	*15.3 (64)*	*17.0 (54)*	*8.4 (28)*	*11.2 (17)*		*10.5 (18)*	

Tier I Performance Summary

As of 9/30/2017

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier I	**71,043,047**	**2.4**								**02/01/2014**
Vanguard Target Retirement Income - Instl.	4,204,735	0.1	2.0 (76)	6.4 (73)	5.3 (92)	4.3 (67)	4.7 (86)	4.9	5.3	11/01/2003
Vanguard Target Income Composite Index			*2.0 (74)*	*6.4 (72)*	*5.4 (87)*	*4.5 (65)*	*4.9 (84)*	*4.9*	*5.4*	
Vanguard Target Retirement 2015 - Instl.	9,355,225	0.3	2.6 (57)	8.5 (66)	8.0 (69)	5.4 (55)	6.9 (38)	4.9	6.2	11/01/2003
Vanguard Target 2015 Composite Index			*2.7 (56)*	*8.5 (66)*	*8.2 (68)*	*5.5 (33)*	*7.1 (24)*	*4.9*	*6.3*	
Vanguard Target Retirement 2020 - Instl.	9,764,090	0.3	3.2 (34)	10.4 (31)	10.2 (34)	6.3 (14)	8.1 (12)	5.2 (1)	6.3 (1)	07/01/2006
Vanguard Target 2020 Composite Index			*3.2 (28)*	*10.3 (33)*	*10.3 (31)*	*6.4 (9)*	*8.3 (7)*	*5.3 (1)*	*6.4 (1)*	
Vanguard Target Retirement 2025 - Instl.	8,439,790	0.3	3.6 (37)	11.7 (37)	11.9 (36)	6.8 (19)	8.9 (14)	5.2 (1)	6.8	11/01/2003
Vanguard Target 2025 Composite Index			*3.6 (32)*	*11.6 (39)*	*12.0 (33)*	*6.9 (8)*	*9.1 (12)*	*5.4 (1)*	*6.9*	
Vanguard Target Retirement 2030 - Instl.	8,062,152	0.3	3.9 (51)	12.8 (48)	13.3 (45)	7.2 (34)	9.6 (20)	5.3 (15)	6.6 (22)	07/01/2006
Vanguard Target 2030 Composite Index			*3.9 (42)*	*12.7 (51)*	*13.4 (43)*	*7.4 (24)*	*9.8 (13)*	*5.4 (8)*	*6.7 (1)*	
Vanguard Target Retirement 2035 - Instl.	6,856,667	0.2	4.2 (46)	13.9 (48)	14.9 (45)	7.6 (40)	10.3 (22)	5.5 (11)	7.4	11/01/2003
Vanguard Target 2035 Composite Index			*4.2 (42)*	*13.8 (57)*	*14.9 (40)*	*7.8 (34)*	*10.5 (11)*	*5.6 (1)*	*7.6*	
Vanguard Target Retirement 2040 - Instl.	6,796,241	0.2	4.5 (42)	15.0 (37)	16.3 (38)	8.0 (34)	10.8 (18)	5.7 (14)	7.0 (12)	07/01/2006
Vanguard Target 2040 Composite Index			*4.6 (28)*	*14.9 (41)*	*16.4 (37)*	*8.2 (29)*	*11.0 (8)*	*5.9 (6)*	*7.2 (3)*	
Vanguard Target Retirement 2045 - Instl.	7,710,272	0.3	4.7 (36)	15.4 (43)	16.9 (35)	8.2 (38)	10.9 (19)	5.8	7.9	11/01/2003
Vanguard Target 2045 Composite Index			*4.7 (34)*	*15.3 (48)*	*17.0 (31)*	*8.4 (18)*	*11.2 (9)*	*5.9*	*8.0*	
Vanguard Target Retirement 2050 - Instl.	8,003,746	0.3	4.7 (44)	15.5 (42)	16.9 (50)	8.2 (43)	10.9 (18)	5.8 (8)	7.1	07/01/2006
Vanguard Target 2050 Composite Index			*4.7 (37)*	*15.3 (48)*	*17.0 (49)*	*8.4 (20)*	*11.2 (13)*	*5.9 (1)*	*7.2*	
Vanguard Target Retirement 2055 - Instl.	1,473,655	0.0	4.7 (52)	15.5 (53)	16.9 (57)	8.1 (58)	10.9 (27)		11.9	09/01/2010
Vanguard Target 2055 Composite Index			*4.7 (52)*	*15.3 (64)*	*17.0 (54)*	*8.4 (28)*	*11.2 (17)*		*12.1*	
Vanguard Target Retirement 2060 - Instl.	376,474	0.0	4.7 (55)	15.5 (54)	16.9 (59)	8.1 (59)	10.9 (27)		11.1 (25)	02/01/2012
Vanguard Target 2060 Composite Index			*4.7 (52)*	*15.3 (64)*	*17.0 (54)*	*8.4 (28)*	*11.2 (17)*		*11.3 (19)*	

* The investor class shares through June 30, 2016; the institutional class shares thereafter.

Tier II Performance Summary

As of 9/30/2017

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier II	**555,229,710**	**18.6**								**03/01/2014**
Vanguard Total Bond Market Index Fund	24,604,357	0.8	0.7 (80)	3.1 (62)	-0.1 (82)	2.6 (52)	2.0 (66)	4.2 (58)	5.2 (30)	10/01/1995
Performance Benchmark			*0.8 (49)*	*3.2 (58)*	*0.1 (69)*	*2.7 (43)*	*2.1 (54)*	*4.3 (51)*	*5.3 (24)*	
Vanguard Total Stock Market Index Fund	36,486,265	1.2	4.5 (51)	13.9 (55)	18.6 (50)	10.7 (34)	14.2 (33)	7.7 (31)	7.3 (27)	08/01/1997
Performance Benchmark			*4.5 (51)*	*14.0 (55)*	*18.6 (50)*	*10.7 (34)*	*14.2 (32)*	*7.7 (32)*	*7.3 (30)*	
Vanguard Institutional Index Fund	82,066,641	2.8	4.5 (54)	14.2 (51)	18.6 (50)	10.8 (33)	14.2 (32)	7.4 (38)	9.8 (35)	08/01/1990
S&P 500 Index			*4.5 (54)*	*14.2 (51)*	*18.6 (50)*	*10.8 (33)*	*14.2 (32)*	*7.4 (38)*	*9.8 (36)*	
Vanguard Extended Market Index Fund - Instl.	36,303,773	1.2	5.0 (40)	12.7 (92)	19.0 (44)	10.5 (31)	14.2 (28)	8.3 (25)	8.5 (52)	08/01/1997
Performance Benchmark			*5.0 (40)*	*12.7 (92)*	*18.9 (46)*	*10.3 (34)*	*14.1 (29)*	*8.2 (30)*		
Vanguard Total International Stock Index	7,186,421	0.2	6.0 (36)	21.6 (36)	19.3 (38)	5.3 (36)	7.5 (55)		5.8 (71)	12/01/2010
Performance Benchmark			*6.0 (33)*	*20.9 (43)*	*19.4 (37)*	*5.3 (39)*	*7.5 (56)*		*5.8 (72)*	
Vanguard Developed Market Index Fund	19,318,380	0.6	5.6 (44)	21.1 (42)	19.3 (38)	5.9 (26)	8.9 (12)		7.0 (31)	02/01/2010
Performance Benchmark			*5.7 (40)*	*20.6 (49)*	*19.7 (31)*	*5.9 (25)*	*8.9 (13)*		*6.9 (32)*	
Vanguard Emerging Markets Stock Index Fund - Instl.	18,922,824	0.6	7.8 (45)	23.7 (64)	18.9 (63)	4.1 (58)	3.6 (62)	1.0 (55)	7.8 (69)	07/01/2000
Performance Benchmark			*7.7 (47)*	*23.2 (67)*	*19.5 (61)*	*4.0 (59)*	*3.7 (62)*	*1.2 (55)*	*7.7 (70)*	
Vanguard Federal Money Market Fund	15,814,321	0.5	0.2 (23)	0.5 (24)	0.6 (23)	0.3 (23)	0.2 (23)	0.5 (24)	3.0 (23)	11/01/1989
Citigroup 3 Month T-Bill			*0.3 (19)*	*0.6 (21)*	*0.6 (21)*	*0.3 (26)*	*0.2 (19)*	*0.4 (55)*	*2.9 (44)*	
TIAA Traditional - RC	67,726,732	2.3	1.0 (1)	3.1 (1)	4.2 (1)	4.3 (1)	4.3 (1)	4.4 (1)	4.5 (1)	08/01/2005
Hueler Stable Value Index			*0.5 (1)*	*1.4 (4)*	*1.9 (1)*	*1.8 (11)*	*1.8 (16)*	*2.5 (33)*	*2.9 (28)*	
TIAA Traditional - RCP	52,801,078	1.8	0.8 (1)	2.5 (1)	3.4 (1)	3.5 (1)	3.5 (1)	3.7 (1)	3.8 (1)	06/01/2006
Hueler Stable Value Index			*0.5 (1)*	*1.4 (4)*	*1.9 (1)*	*1.8 (11)*	*1.8 (16)*	*2.5 (33)*	*2.8 (28)*	
PIMCO Total Return Fund	14,698,685	0.5	1.5 (1)	5.0 (2)	2.4 (4)	3.2 (11)	2.4 (32)	5.6 (1)	7.4	06/01/1987
Blmbg. Barc. U.S. Aggregate			*0.8 (46)*	*3.1 (63)*	*0.1 (68)*	*2.7 (43)*	*2.1 (55)*	*4.3 (53)*	*6.4*	
DFA Inflation-Protected Securities Portfolio	9,646,865	0.3	0.9 (47)	2.0 (33)	-1.0 (83)	1.7 (15)	-0.1 (44)	4.1 (12)	4.2 (15)	10/01/2006
Blmbg. Barc. Global Inflation-Linked: U.S. TIPS			*0.9 (44)*	*1.7 (43)*	*-0.7 (66)*	*1.6 (17)*	*0.0 (24)*	*3.9 (28)*	*4.0 (25)*	
American Century High Income	12,506,051	0.4	2.0 (37)	6.2 (54)	8.7 (33)	5.1 (32)			6.6 (6)	01/01/2013
BofAML US High Yield Master II Constrained			*2.0 (36)*	*7.0 (22)*	*9.1 (26)*	*5.9 (13)*			*6.0 (15)*	
T. Rowe Price Instl. Large Cap Growth Fund	17,016,563	0.6	7.4 (11)	28.5 (7)	30.7 (1)	15.0 (4)	17.8 (3)	10.4 (5)	10.0 (4)	11/01/2001
Russell 1000 Growth Index			*5.9 (38)*	*20.7 (60)*	*21.9 (31)*	*12.7 (26)*	*15.3 (27)*	*9.1 (24)*	*7.9 (40)*	

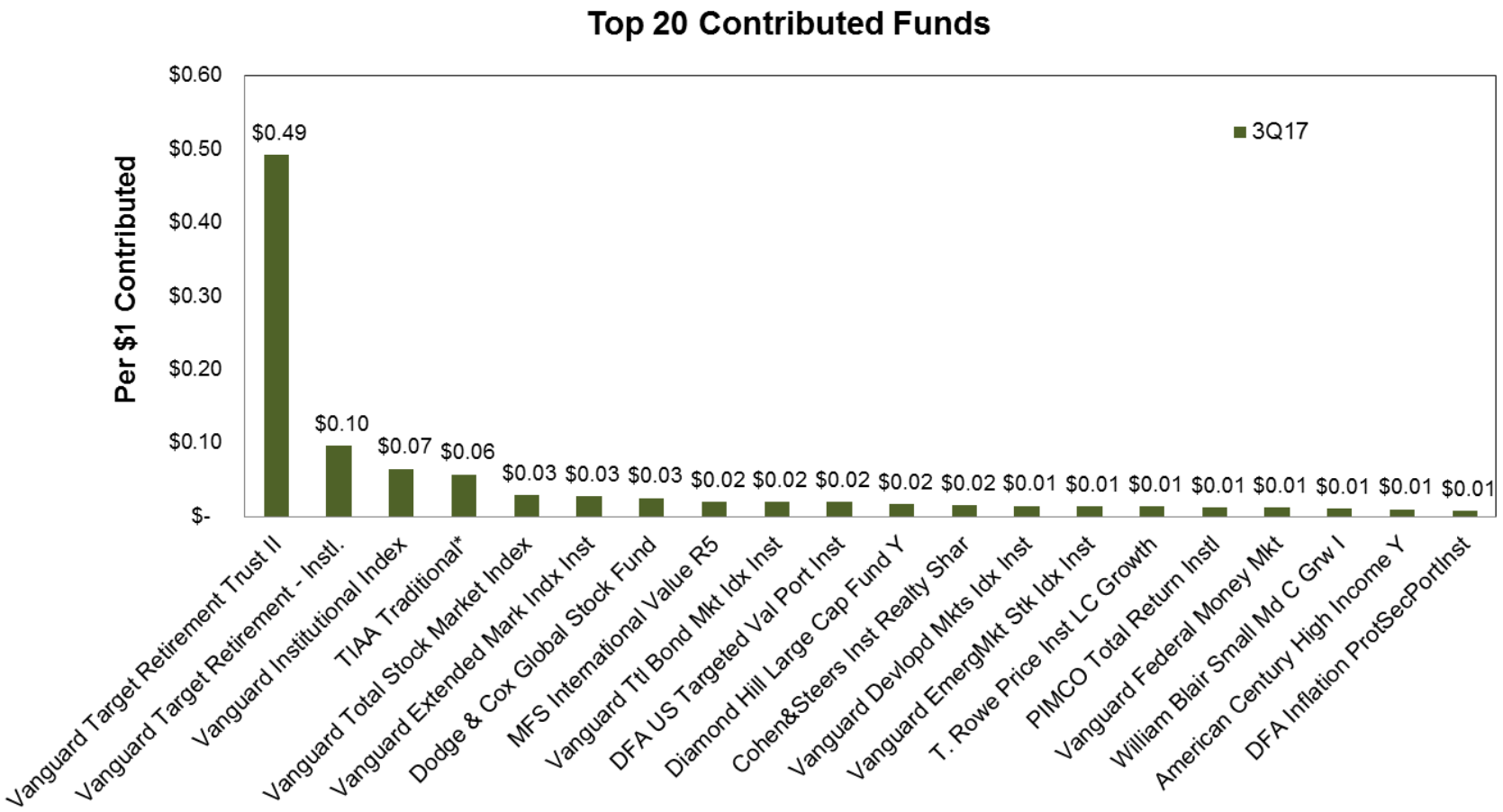
Tier II Performance Summary (cont'd)

As of 9/30/2017

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Diamond Hill Large Cap	19,074,311	0.6	3.9 (45)	13.9 (6)	20.7 (14)	11.1 (4)	14.8 (8)		14.9 (17)	01/01/2012
Russell 1000 Value Index			*3.1 (79)*	*7.9 (81)*	*15.1 (81)*	*8.5 (43)*	*13.2 (33)*		*14.3 (28)*	
William Blair Small/Mid Cap Growth Fund	12,497,546	0.4	5.1 (64)	22.1 (18)	25.3 (14)	14.2 (13)	16.1 (11)	9.7 (9)	10.8 (4)	01/01/2004
Russell 2500 Growth Index			*5.8 (44)*	*17.0 (50)*	*20.1 (53)*	*11.3 (50)*	*14.5 (24)*	*8.7 (28)*	*9.8 (26)*	
DFA U.S. Targeted Value	24,281,191	0.8	5.3 (19)	4.9 (59)	19.0 (39)	9.2 (49)	14.1 (26)	7.9 (47)	11.7 (8)	03/01/2000
Russell 2500 Value Index			*3.8 (62)*	*5.9 (35)*	*15.7 (74)*	*9.9 (36)*	*13.3 (37)*	*7.6 (51)*	*10.5 (25)*	
Dodge & Cox Global Stock Fund	32,324,886	1.1	5.9 (15)	17.5 (49)	25.8 (11)	7.7 (50)	13.5 (6)		6.2 (37)	05/01/2008
MSCI AC World Index (Net)			*5.2 (30)*	*17.3 (56)*	*18.6 (46)*	*7.4 (57)*	*10.2 (64)*		*4.8 (65)*	
Harding Loevner International Equity Instl.	8,489,467	0.3	6.0 (30)	24.3 (25)	18.7 (31)	8.3 (9)	9.0 (11)	4.8 (1)	6.5	06/01/1994
MSCI AC World ex USA Growth (Net)			*6.3 (22)*	*24.8 (22)*	*17.7 (43)*	*6.4 (27)*	*7.9 (44)*	*1.9 (59)*		
MFS International Value Fund	25,901,091	0.9	3.2 (96)	20.1 (72)	13.3 (96)	10.3 (1)	12.3 (1)	6.1 (3)	7.4 (1)	06/01/2006
MSCI AC World ex USA Value (Net)			*6.0 (39)*	*17.7 (87)*	*21.6 (22)*	*2.9 (98)*	*6.0 (98)*	*0.6 (82)*	*3.2 (69)*	
Laudus Mondrian Emerging Markets Instl.	1,341,084	0.0	3.9 (85)	20.1 (80)	13.9 (83)	0.1 (84)	-0.1 (91)		-0.1 (80)	05/01/2008
MSCI Emerging Markets Index (Net)			*7.9 (42)*	*27.8 (45)*	*22.5 (38)*	*4.9 (42)*	*4.0 (54)*		*1.4 (49)*	
Cohen and Steers Instl. Realty Shares	16,221,176	0.5	0.1 (85)	4.3 (32)	0.6 (44)	10.0 (19)	9.8 (14)	6.2 (22)	12.2 (8)	03/01/2000
FTSE NAREIT Equity REIT Index			*0.9 (38)*	*3.7 (41)*	*0.7 (43)*	*9.9 (25)*	*9.7 (18)*	*5.8 (34)*	*11.7 (39)*	
Tier III	**6,475,321**	**0.2**								**03/01/2014**
Mutual Fund Window	6,475,321	0.2								03/01/2014
Orphan Accounts	**1,878,600,394**	**63.1**								
Fidelity Orphan Accounts	203,473,637	6.8								
TIAA Orphan Accounts	1,537,381,854	51.6								
T. Rowe Price Orphan Accounts	13,865,560	0.5								
VALIC Orphan Accounts	123,611,681	4.1								
American Century Orphan Accounts	267,663	0.0								
Other Assets	**1,235,427**	**0.0**								**03/01/2014**
Loans	248,736	0.0								03/01/2014
Loans Deemed Distributed	327,273	0.0								03/01/2014
Plan Loan Default Fund	191,003	0.0								07/01/2014
TIAA Money Market-Instl.	468,414	0.0	0.2 (38)	0.5 (39)	0.6 (37)	0.3 (30)	0.2 (28)	0.6 (19)	1.9 (13)	08/01/1999
iMoneyNet Prime Institutional Average			*0.2 (20)*	*0.6 (19)*	*0.7 (19)*	*0.3 (21)*	*0.2 (18)*	*0.5 (21)*	*1.8 (29)*	

Top Contributed Funds

As of 9/30/2017



TIAA RC 74% / TIAA RCP 26% Contribution Split
Source: As reported by TIAA-CREF

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.

Empower Results®

Quarterly Participant Transfers

As of 9/30/2017

Investment	Transfers In	Transfers Out	Net Transfers	Ending Balance (9/30/2017)	Number of Participants
Vanguard Target Retirement Trust II Funds	$9,675,929	($13,276,303)	($3,600,374)	$466,638,668	3,969
Vanguard Target Retirement Mutual Funds	$2,845,457	($3,540,944)	($695,487)	$71,043,047	1,526
Vanguard Total Bond Market Index Inst	$814,206	($490,727)	$323,478	$24,604,357	935
Vanguard Total Stock Market Index Inst	$1,244,513	($1,109,660)	$134,853	$36,486,265	614
Vanguard Institutional Index Inst	$1,133,786	($4,555,120)	($3,421,334)	$82,066,641	1,561
Vanguard Extended Market Index Inst	$2,162,166	($659,586)	$1,502,580	$36,303,773	1,207
Vanguard Total International Stock Index Inst	$136,497	($152,674)	($16,177)	$7,186,421	175
Vanguard Developed Markets Index Ins	$262,582	($746,992)	($484,410)	$19,318,380	1,027
Vanguard Emerging Markets Stock Index Inst	$552,024	($466,540)	$85,484	$18,922,824	1,260
Vanguard Federal Money Market Inv	$3,194,628	($1,867,861)	$1,326,767	$15,814,321	203
TIAA Traditional	$2,991,229	($906,281)	$2,084,948	$120,527,810	1,732
PIMCO Total Return Instl	$492,218	($336,621)	$155,596	$14,698,685	717
DFA Inflation Protected Securities Portfolio Inst	$742,158	($272,378)	$469,779	$9,646,865	805
American Century High Income	$613,674	($245,831)	$367,843	$12,506,051	863
Neuberger High Income Bond	$0	($20,702)	($20,702)	$0	0
T. Rowe Price Inst LC Growth	$827,230	($1,621,880)	($794,651)	$17,016,563	392
Diamond Hill Large Cap Fund Y	$711,066	($660,459)	$50,607	$19,074,311	1,149
William Blair Small Md C Grw I	$628,053	($441,439)	$186,613	$12,497,546	724
DFA US Targeted Val Port Inst	$96,747	($1,335,404)	($1,238,656)	$24,281,191	1,111
Dodge & Cox Global Stock Fund	$3,561,856	($368,572)	$3,193,284	$32,324,886	1,029
Harding International Equit Inst	$320,185	($322,495)	($2,310)	$8,489,467	850
MFS International Value R6	$1,350,373	($526,939)	$823,434	$25,901,091	1,209
Laudus Mondrian Emerging Markets Ins	$55,115	($74,589)	($19,473)	$1,341,084	156
Cohen & Steers Inst Realty Shares	$230,839	($402,149)	($171,310)	$16,221,176	1,498
Mutual Fund Window	$174,222	($414,607)	($240,385)	$6,475,321	36
Total	**$34,816,753**	**($34,816,753)**	**$0**	**$1,099,386,745**	

Annual Investment Fee Transparency – As of September 30, 2017

Investment Option	Market Value	Mgmt. Fee (%)	Mgmt. Fee ($)	Revenue Sharing (%)*	Revenue Sharing ($)	Total Expense (%)**	Total Expense ($)
Vanguard Target Retirement Income Trust II	$12,566,556	0.08%	$10,053	0.00%	$0	0.08%	$10,053
Vanguard Target Retirement 2015 Trust II	$29,205,777	0.08%	$23,365	0.00%	$0	0.08%	$23,365
Vanguard Target Retirement 2020 Trust II	$51,209,791	0.08%	$40,968	0.00%	$0	0.08%	$40,968
Vanguard Target Retirement 2025 Trust II	$55,123,386	0.08%	$44,099	0.00%	$0	0.08%	$44,099
Vanguard Target Retirement 2030 Trust II	$64,139,147	0.08%	$51,311	0.00%	$0	0.08%	$51,311
Vanguard Target Retirement 2035 Trust II	$77,575,616	0.08%	$62,060	0.00%	$0	0.08%	$62,060
Vanguard Target Retirement 2040 Trust II	$77,424,529	0.08%	$61,940	0.00%	$0	0.08%	$61,940
Vanguard Target Retirement 2045 Trust II	$58,894,575	0.08%	$47,116	0.00%	$0	0.08%	$47,116
Vanguard Target Retirement 2050 Trust II	$29,824,809	0.08%	$23,860	0.00%	$0	0.08%	$23,860
Vanguard Target Retirement 2055 Trust II	$8,061,945	0.08%	$6,450	0.00%	$0	0.08%	$6,450
Vanguard Target Retirement 2060 Trust II	$2,612,536	0.08%	$2,090	0.00%	$0	0.08%	$2,090
Vanguard Target Retirement Income - Instl.	$4,204,735	0.09%	$3,784	0.00%	$0	0.09%	$3,784
Vanguard Target Retirement 2015 - Instl.	$9,355,225	0.09%	$8,420	0.00%	$0	0.09%	$8,420
Vanguard Target Retirement 2020 - Instl.	$9,764,090	0.09%	$8,788	0.00%	$0	0.09%	$8,788
Vanguard Target Retirement 2025 - Instl.	$8,439,790	0.09%	$7,596	0.00%	$0	0.09%	$7,596
Vanguard Target Retirement 2030 - Instl.	$8,062,152	0.09%	$7,256	0.00%	$0	0.09%	$7,256
Vanguard Target Retirement 2035 - Instl.	$6,856,667	0.09%	$6,171	0.00%	$0	0.09%	$6,171
Vanguard Target Retirement 2040 - Instl.	$6,796,241	0.09%	$6,117	0.00%	$0	0.09%	$6,117
Vanguard Target Retirement 2045 - Instl.	$7,710,272	0.09%	$6,939	0.00%	$0	0.09%	$6,939
Vanguard Target Retirement 2050 - Instl.	$8,003,746	0.09%	$7,203	0.00%	$0	0.09%	$7,203
Vanguard Target Retirement 2055 - Instl.	$1,473,655	0.09%	$1,326	0.00%	$0	0.09%	$1,326
Vanguard Target Retirement 2060 - Instl.	$376,474	0.09%	$339	0.00%	$0	0.09%	$339
Vanguard Total Bond Market Index Fund	$24,604,357	0.04%	$9,842	0.00%	$0	0.04%	$9,842
Vanguard Total Stock Market Index Fund	$36,486,265	0.04%	$12,770	0.00%	$0	0.04%	$12,770
Vanguard Institutional Index Fund	$82,066,641	0.04%	$32,827	0.00%	$0	0.04%	$32,827
Vanguard Extended Market Index Fund - Instl.	$36,303,773	0.06%	$21,782	0.00%	$0	0.06%	$21,782
Vanguard Total International Stock Index	$7,186,421	0.09%	$6,468	0.00%	$0	0.09%	$6,468
Vanguard Developed Market Index Fund	$19,318,380	0.06%	$11,591	0.00%	$0	0.06%	$11,591
Vanguard Emerging Markets Stock Index Fund - Instl.	$18,922,824	0.11%	$20,815	0.00%	$0	0.11%	$20,815
Vanguard Federal Money Market Fund	$15,814,321	0.11%	$17,396	0.00%	$0	0.11%	$17,396
TIAA Traditional - RC & RCP	$120,527,810	0.32%	$385,689	0.15%	$180,792	0.47%	$566,481
PIMCO Total Return Fund	$14,698,685	0.51%	$74,963	0.00%	$0	0.51%	$74,963
DFA Inflation-Protected Securities Portfolio	$9,646,865	0.12%	$11,576	0.00%	$0	0.12%	$11,576
American Century High Income	$12,506,051	0.58%	$72,535	0.00%	$0	0.58%	$72,535
T. Rowe Price Instl. Large Cap Growth Fund	$17,016,563	0.56%	$95,293	0.00%	$0	0.56%	$95,293
Diamond Hill Large Cap	$19,074,311	0.58%	$110,631	0.00%	$0	0.58%	$110,631
William Blair Small/Mid Cap Growth Fund	$12,497,546	0.95%	$118,727	0.15%	$18,746	1.10%	$137,473
DFA U.S. Targeted Value	$24,281,191	0.37%	$89,840	0.00%	$0	0.37%	$89,840
Dodge & Cox Global Stock Fund	$32,324,886	0.53%	$171,322	0.10%	$32,325	0.63%	$203,647
Harding Loevner International Equity Instl.	$8,489,467	0.68%	$57,728	0.15%	$12,734	0.83%	$70,463
MFS International Value Fund	$25,901,091	0.66%	$170,947	0.00%	$0	0.66%	$170,947
Laudus Mondrian Emerging Markets Instl.	$1,341,084	1.20%	$16,093	0.00%	$0	1.20%	$16,093
Cohen and Steers Instl. Realty Shares	$16,221,176	0.75%	$121,659	0.00%	$0	0.75%	$121,659
Mutual Fund Window	$6,475,321	0.00%	$0	0.00%	$0	0.00%	$0
Total	$1,099,386,745	0.19%	$2,067,744	0.02%	$244,597	0.21%	$2,312,341
Without Brokerage	$1,092,911,424	0.19%	$2,067,744	0.02%	$244,597	0.21%	$2,312,341

Morningstar Model Portfolios – RC Allocations

As of 9/30/2017

RC

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	6%	6%	4%	3%	-	-
DFA US Targeted Value I	-	-	-	-	-	-	3%
Diamond Hill Large Cap Y	-	3%	3%	6%	8%	6%	4%
Dodge & Cox Global Stock	4%	8%	18%	17%	16%	14%	29%
Harding Loevner International Eq Instl	-	-	-	3%	5%	4%	-
Laudus Mondrian Emerging Markets Instl	-	3%	-	-	-	-	3%
MFS International Value R6	3%	3%	7%	8%	11%	8%	10%
American Century High Income	10%	10%	6%	5%	4%	6%	-
PIMCO Total Return Instl	7%	4%	5%	5%	4%	-	-
T. Rowe Price Instl Large Cap Growth	-	-	3%	-	-	-	-
TIAA Traditional	40%	34%	30%	22%	15%	7%	-
Vanguard Developed Markets Idx Instl	-	-	-	-	-	7%	5%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	4%	7%	6%
Vanguard Extended Market Idx I	-	4%	7%	8%	11%	14%	20%
Vanguard Federal Money Market Inv	-	3%	-	-	-	-	-
Vanguard Institutional Index I	-	-	-	3%	8%	13%	7%
Vanguard Total Bond Market Index I	24%	14%	7%	3%	-	-	-
Vanguard Total Stock Market Idx I	-	8%	-	7%	3%	8%	9%
William Blair Small-Mid Cap Gr I	3%	-	5%	3%	5%	3%	-

RC Ex-TIAA

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	7%	6%	4%	3%	-	-
DFA US Targeted Value I	-	-	-	-	-	-	3%
Diamond Hill Large Cap Y	-	3%	3%	6%	9%	7%	4%
Dodge & Cox Global Stock	4%	8%	18%	18%	16%	18%	29%
Harding Loevner International Eq Instl	-	5%	-	-	5%	5%	-
Laudus Mondrian Emerging Markets Instl	-	-	-	-	-	-	3%
MFS International Value R6	3%	-	7%	7%	11%	8%	10%
Nomura High Yield I	9%	10%	5%	4%	3%	-	-
PIMCO Total Return Instl	4%	6%	5%	7%	5%	8%	-
T. Rowe Price Instl Large Cap Growth	-	-	3%	-	-	-	-
Vanguard Developed Markets Idx Instl	-	-	-	3%	-	6%	5%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	4%	6%	6%
Vanguard Extended Market Idx I	-	5%	7%	8%	11%	15%	20%
Vanguard Federal Money Market Inv	5%	3%	-	-	-	-	-
Vanguard Institutional Index I	-	-	-	3%	8%	9%	7%
Vanguard Total Bond Market Index I	63%	45%	38%	25%	15%	3%	-
Vanguard Total Stock Market Idx I	-	8%	-	5%	3%	9%	9%
William Blair Small-Mid Cap Gr I	3%	-	5%	4%	4%	3%	-

*Full allocation history can be found in the Appendix of AHIC's Quarterly Investment Review.

Morningstar Model Portfolios – RC Performance

As of 9/30/2017

	Performance(%)					
	1 Quarter	Year To Date	1 Year	3 Years	Since Inception	Inception Date
RC						
Very Conservative RC	1.4	4.6	4.1	4.0	3.9	04/01/2014
Very Conservative RC Benchmark	1.3	4.4	4.1	3.9	3.8	
Conservative RC	2.2	6.8	7.9	5.1	5.0	04/01/2014
Conservative RC Benchmark	2.1	6.5	7.5	5.3	5.1	
Moderately Conservative RC	2.8	8.7	10.8	7.0	6.8	04/01/2014
Moderately Conservative RC Benchmark	2.7	8.7	9.9	6.4	6.1	
Moderate RC	3.4	10.8	12.2	7.3	6.9	04/01/2014
Moderate RC Benchmark	3.3	10.5	12.3	7.2	6.7	
Moderately Aggressive RC	3.9	12.5	14.4	7.8	7.3	04/01/2014
Moderately Aggressive RC Benchmark	3.9	12.2	14.3	7.8	7.3	
Aggressive RC	4.6	14.5	16.2	8.5	8.1	04/01/2014
Aggressive RC Benchmark	4.5	14.3	16.8	8.6	8.0	
Very Aggressive RC	5.1	16.3	18.9	8.9	8.5	04/01/2014
Very Aggressive RC Benchmark	5.1	16.1	18.9	9.1	8.3	
RC Ex-TIAA						
Very Conservative RC Ex-TIAA	1.3	4.4	2.2	3.3	3.3	04/01/2014
Very Conservative Benchmark RC Ex-TIAA	1.3	4.2	4.1	3.0	2.9	
Conservative RC Ex-TIAA	2.1	6.8	6.5	4.8	4.7	04/01/2014
Conservative Benchmark RC Ex-TIAA	2.1	5.7	5.6	3.5	3.3	
Moderately Conservative RC Ex-TIAA	2.7	8.6	9.3	6.6	6.3	04/01/2014
Moderately Conservative Benchmark RC Ex-TIAA	2.7	6.9	6.8	3.9	3.7	
Moderate RC Ex-TIAA	3.3	10.7	10.7	6.7	6.5	04/01/2014
Moderate Benchmark RC Ex-TIAA	3.3	8.1	8.0	4.3	4.0	
Moderately Aggressive RC Ex-TIAA	3.8	12.4	13.0	7.5	7.1	04/01/2014
Moderately Aggressive Benchmark RC Ex-TIAA	3.9	9.2	9.1	4.6	4.3	
Aggressive RC Ex-TIAA	4.5	14.5	15.9	8.2	7.8	04/01/2014
Aggressive Benchmark RC Ex-TIAA	4.6	10.5	10.4	5.0	4.6	
Very Aggressive RC Ex-TIAA	5.0	16.1	18.8	8.9	8.5	04/01/2014
Very Aggressive Benchmark RC Ex-TIAA	5.1	11.6	11.5	5.4	4.9	

Morningstar Model Portfolios – RC Benchmarks

As of 9/30/2017

RC Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. US Agg. Bond	29%	19%	13%	9%	6%	3%	-
Citi Treasury Bill 3 Mo.	3%	3%	-	-	-	-	-
MSCI EM GR	-	3%	4%	6%	8%	10%	12%
TIAA Traditional	40%	34%	30%	22%	15%	7%	-
Blmbg. Barc. US Corp HY	9%	8%	6%	5%	3%	3%	-
MSCI EAFE GR	4%	6%	11%	15%	18%	22%	25%
Russell 1000 Growth	-	4%	7%	9%	10%	12%	14%
Russell 1000 Value	3%	8%	8%	11%	14%	16%	17%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	7%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	4%	5%	6%	7%
Blmbg. Barc. Global Inflation-Linked US TIPS	9%	6%	6%	4%	3%	-	-

RC Ex-TIAA Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. US Agg. Bond	65%	51%	40%	31%	21%	10%	-
Citi Treasury Bill 3 Mo.	7%	4%	3%	-	-	-	-
MSCI EM GR	-	3%	4%	6%	8%	10%	12%
Blmbg. Barc. US Corp HY	9%	8%	6%	5%	3%	3%	-
MSCI EAFE GR	4%	6%	11%	15%	18%	22%	25%
Russell 1000 Growth	-	4%	7%	9%	10%	12%	14%
Russell 1000 Value	3%	8%	8%	11%	14%	16%	17%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	7%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	4%	5%	6%	7%
Blmbg. Barc. Global Inflation-Linked US TIPS	9%	7%	6%	4%	3%	-	-

*Full allocation history can be found in the Appendix of the Quarterly Investment Review.

Morningstar Model Portfolios – RCP Allocations

As of 9/30/2017

RCP

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	6%	6%	4%	3%	-	-
DFA US Targeted Value I	-	-	-	-	-	-	3%
Diamond Hill Large Cap Y	-	3%	3%	6%	8%	8%	4%
Dodge & Cox Global Stock	4%	8%	18%	17%	16%	18%	29%
Harding Loevner International Eq Instl	-	-	-	3%	5%	5%	-
Laudus Mondrian Emerging Markets Instl	-	3%	-	-	-	-	3%
MFS International Value R6	3%	3%	7%	8%	11%	8%	10%
American Century High Income	10%	10%	6%	5%	4%	-	-
PIMCO Total Return Instl	7%	4%	5%	5%	5%	6%	-
T. Rowe Price Instl Large Cap Growth	-	-	3%	-	-	-	-
TIAA Traditional	40%	32%	25%	16%	10%	5%	-
Vanguard Developed Markets Idx Instl	-	-	-	-	-	6%	5%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	4%	6%	6%
Vanguard Extended Market Idx I	-	4%	7%	8%	11%	15%	20%
Vanguard Federal Money Market Inv	-	3%	-	-	-	-	-
Vanguard Institutional Index I	-	-	-	3%	8%	9%	7%
Vanguard Total Bond Market Index I	24%	16%	12%	9%	4%	-	-
Vanguard Total Stock Market Idx I	-	8%	-	7%	4%	8%	9%
William Blair Small-Mid Cap Gr I	3%	-	5%	3%	4%	3%	-

RCP Ex-TIAA

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	7%	6%	4%	3%	-	-
DFA US Targeted Value I	-	-	-	-	-	-	3%
Diamond Hill Large Cap Y	-	3%	3%	6%	9%	7%	4%
Dodge & Cox Global Stock	4%	8%	18%	18%	16%	18%	29%
Harding Loevner International Eq Instl	-	5%	-	-	5%	5%	-
Laudus Mondrian Emerging Markets Instl	-	-	-	-	-	-	3%
MFS International Value R6	3%	-	7%	7%	11%	8%	10%
Nomura High Yield I	9%	10%	5%	4%	3%	-	-
PIMCO Total Return Instl	4%	6%	5%	7%	5%	8%	-
T. Rowe Price Instl Large Cap Growth	-	-	3%	-	-	-	-
Vanguard Developed Markets Idx Instl	-	-	-	3%	-	6%	5%
Vanguard Emerging Mkts Stock Idx I	-	-	-	3%	4%	6%	6%
Vanguard Extended Market Idx I	-	5%	7%	8%	11%	15%	20%
Vanguard Federal Money Market Inv	5%	3%	-	-	-	-	-
Vanguard Institutional Index I	-	-	-	3%	8%	9%	7%
Vanguard Total Bond Market Index I	63%	45%	38%	25%	15%	3%	-
Vanguard Total Stock Market Idx I	-	8%	-	5%	3%	9%	9%
William Blair Small-Mid Cap Gr I	3%	-	5%	4%	4%	3%	-

*Full allocation history can be found in the Appendix of AHIC's Quarterly Investment Review.

Morningstar Model Portfolios – RCP Performance

As of 9/30/2017

	Performance(%)					
	1 Quarter	Year To Date	1 Year	3 Years	Since Inception	Inception Date
RCP						
Very Conservative RCP	1.4	4.5	4.0	4.1	4.0	04/01/2014
Very Conservative RCP Benchmark	1.3	4.2	3.9	3.6	3.6	
Conservative RCP	2.2	6.9	7.3	5.4	5.2	04/01/2014
Conservative RCP Benchmark	2.1	6.4	7.2	5.0	4.8	
Moderately Conservative RCP	2.8	9.2	9.3	6.5	6.1	04/01/2014
Moderately Conservative RCP Benchmark	2.8	8.6	9.5	6.1	5.8	
Moderate RCP	3.4	11.3	11.5	7.3	6.7	04/01/2014
Moderate RCP Benchmark	3.4	10.5	12.0	7.0	6.5	
Moderately Aggressive RCP	3.9	13.1	13.5	8.0	7.3	04/01/2014
Moderately Aggressive RCP Benchmark	3.9	12.2	14.0	7.7	7.1	
Aggressive RCP	4.6	15.5	16.1	8.8	8.0	04/01/2014
Aggressive RCP Benchmark	4.6	14.4	16.8	8.6	8.0	
Very Aggressive RCP	5.1	17.4	18.1	9.5	8.6	04/01/2014
Very Aggressive RCP Benchmark	5.1	16.1	18.9	9.1	8.4	
RCP Ex-TIAA						
Very Conservative RCP Ex-TIAA	1.3	4.4	2.2	3.3	3.4	04/01/2014
Very Conservative Benchmark RCP Ex-TIAA	1.3	4.2	4.1	3.0	2.9	
Conservative RCP Ex-TIAA	2.1	6.8	6.5	4.8	4.7	04/01/2014
Conservative Benchmark RCP Ex-TIAA	2.1	5.7	5.6	3.5	3.3	
Moderately Conservative RCP Ex-TIAA	2.7	8.6	9.3	6.5	6.2	04/01/2014
Moderately Conservative Benchmark RCP Ex-TIAA	2.7	6.9	6.8	3.9	3.7	
Moderate RCP Ex-TIAA	3.3	10.7	10.7	6.6	6.3	04/01/2014
Moderate Benchmark RCP Ex-TIAA	3.3	8.1	8.0	4.3	4.0	
Moderately Aggressive RCP Ex-TIAA	3.8	12.4	13.0	7.4	7.0	04/01/2014
Moderately Aggressive Benchmark RCP Ex-TIAA	3.9	9.2	9.1	4.6	4.3	
Aggressive RCP Ex-TIAA	4.5	14.5	15.9	8.2	7.7	04/01/2014
Aggressive Benchmark RCP Ex-TIAA	4.6	10.5	10.4	5.0	4.6	
Very Aggressive RCP Ex-TIAA	5.0	16.1	18.8	9.0	8.6	04/01/2014
Very Aggressive Benchmark RCP Ex-TIAA	5.1	11.6	11.5	5.4	4.9	

Morningstar Model Portfolios – RCP Benchmarks

As of 9/30/2017

RCP Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. US Agg. Bond	29%	21%	18%	15%	11%	5%	-
Citi Treasury Bill 3 Mo.	3%	3%	-	-	-	-	-
MSCI EM GR	-	3%	4%	6%	8%	10%	12%
TIAA Traditional	40%	32%	25%	16%	10%	5%	-
Blmbg. Barc. US Corp HY	9%	8%	6%	5%	3%	3%	-
MSCI EAFE GR	4%	6%	11%	15%	18%	22%	25%
Russell 1000 Growth	-	4%	7%	9%	10%	12%	14%
Russell 1000 Value	3%	8%	8%	11%	14%	16%	17%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	7%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	4%	5%	6%	7%
Blmbg. Barc. Global Inflation-Linked US TIPS	9%	6%	6%	4%	3%	-	-

RCP Ex-TIAA Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. US Agg. Bond	65%	51%	40%	31%	21%	10%	-
Citi Treasury Bill 3 Mo.	7%	4%	3%	-	-	-	-
MSCI EM GR	-	3%	4%	6%	8%	10%	12%
Blmbg. Barc. US Corp HY	9%	8%	6%	5%	3%	3%	-
MSCI EAFE GR	4%	6%	11%	15%	18%	22%	25%
Russell 1000 Growth	-	4%	7%	9%	10%	12%	14%
Russell 1000 Value	3%	8%	8%	11%	14%	16%	17%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	7%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	4%	5%	6%	7%
Blmbg. Barc. Global Inflation-Linked US TIPS	9%	7%	6%	4%	3%	-	-

*Full allocation history can be found in the Appendix of the Quarterly Investment Review.

Morningstar Model Portfolios – Static Allocation Performance

As of 9/30/2017

	Performance(%)					
	1 Quarter	Year To Date	1 Year	3 Years	Since Inception	Inception Date
RC						
Very Conservative RC (Static)	1.3	4.6	4.2	4.1	4.0	04/01/2014
Very Conservative RC Benchmark (Static)	*1.2*	*4.0*	*4.1*	*3.8*	*3.8*	
Conservative RC (Static)	2.2	6.9	7.7	5.4	5.2	04/01/2014
Conservative RC Benchmark (Static)	*2.1*	*6.5*	*7.5*	*5.3*	*5.1*	
Moderately Conservative RC (Static)	2.6	8.5	10.2	6.4	6.3	04/01/2014
Moderately Conservative RC Benchmark (Static)	*2.5*	*8.2*	*9.4*	*6.2*	*5.9*	
Moderate RC (Static)	3.3	10.4	12.7	7.4	7.2	04/01/2014
Moderate RC Benchmark (Static)	*3.2*	*10.2*	*11.9*	*7.1*	*6.6*	
Moderately Aggressive RC (Static)	3.7	11.7	13.8	7.8	7.2	04/01/2014
Moderately Aggressive RC Benchmark (Static)	*3.9*	*12.2*	*14.3*	*7.8*	*7.3*	
Aggressive RC (Static)	4.4	14.6	18.3	9.1	8.8	04/01/2014
Aggressive RC Benchmark (Static)	*4.3*	*13.8*	*16.1*	*8.4*	*7.8*	
Very Aggressive RC (Static)	4.9	15.6	20.1	9.0	8.6	04/01/2014
Very Aggressive RC Benchmark (Static)	*4.8*	*15.5*	*18.3*	*8.9*	*8.2*	
RCP						
Very Conservative RCP (Static)	1.3	4.4	4.0	3.8	3.8	04/01/2014
Very Conservative RCP Benchmark (Static)	*1.2*	*3.9*	*3.9*	*3.5*	*3.5*	
Conservative RCP (Static)	2.2	6.7	7.4	5.1	5.0	04/01/2014
Conservative RCP Benchmark (Static)	*2.1*	*6.4*	*7.2*	*5.0*	*4.9*	
Moderately Conservative RCP (Static)	2.6	8.4	9.8	6.2	6.1	04/01/2014
Moderately Conservative RCP Benchmark (Static)	*2.5*	*8.1*	*9.0*	*5.9*	*5.7*	
Moderate RCP (Static)	3.3	10.3	12.4	7.2	7.0	04/01/2014
Moderate RCP Benchmark (Static)	*3.2*	*10.1*	*11.5*	*6.9*	*6.4*	
Moderately Aggressive RCP (Static)	3.7	11.9	14.9	8.0	7.8	04/01/2014
Moderately Aggressive RCP Benchmark (Static)	*3.7*	*11.6*	*13.6*	*7.6*	*7.1*	
Aggressive RCP (Static)	4.4	14.6	18.2	9.0	8.7	04/01/2014
Aggressive RCP Benchmark (Static)	*4.3*	*13.8*	*16.0*	*8.4*	*7.8*	
Very Aggressive RCP (Static)	4.9	15.6	20.1	9.0	8.6	04/01/2014
Very Aggressive RCP Benchmark (Static)	*4.8*	*15.5*	*18.3*	*8.9*	*8.2*	

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Discussion Topics

Section 1	Capital Markets Review
Section 2	Performance Review
Section 3	Noteworthy Items
Section 4	Vanguard Flash Report
Section 5	William Blair Flash Reports
Section 6	DFA Flash Report
Section 7	2017 Tax Reform Discussion
Section 8	Legal and Compliance Update

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.

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Vanguard Target Retirement Funds

- All of the Vanguard Target Retirement Funds produced gains during the third quarter
  - The longer-dated Funds, with their greater exposure to equity, posted the highest absolute returns
    - The Vanguard Total Stock Market Index Fund returned 4.5% while the Vanguard Total International Stock Index Fund returned 6.0%
  - The shorter-dated Funds, with their greater exposure to fixed income, posted the lowest absolute returns
    - The Vanguard Total Bond Market II Index returned 0.8% while its international counterpart, the Vanguard Total International Bond Index Fund, returned 0.7%
- For the twelve months ended September 30, 2017, the returns for all of the Institutional Target Retirement Funds were positive
  - Returns ranged from 16.9% for the 2060 Fund to 5.3% for the Income Fund
- The Funds' longer-term results continued to exhibit a modest level of tracking error due to the underlying component Fund's investment management fee and the impact of "fair value" pricing adjustments
  - The impact of "fair value" pricing was most visible in the longer-dated funds due to their sizeable allocation to the Vanguard Total International Stock Index Fund
- The Vanguard Target Retirement Funds remain "Buy" rated by our Global Investment Management Research Team

Vanguard Target Retirement Fund Update

- On November 16, 2017:
  1. The Vanguard Target Retirement Trust II series share class was replaced with the lower cost Trust I share class in the NSHE Defined Contribution Retirement Plan Alternative (RPA)
     - Save fees for participants who are currently invested in those funds
     - The investment philosophy, objectives, and overall portfolio management processes between the various share class options will remain unchanged
  2. The Vanguard Target Retirement 2065 Trust was added to the NSHE Defined Contribution Retirement Plan Alternative (RPA)
     - Aimed at investors who plan to retire and leave the workforce in or within a few years of 2065
  3. The Target Retirement 2065 Fund was added to the NSHE Medical Resident/Postdoctoral Scholar Plan, the NSHE Supplemental 403(b) Retirement Plan, and the NSHE 415(m) Excess Benefit Plan
     - Aimed at investors who plan to retire and leave the workforce in or within a few years of 2065

William Blair Small/Mid Cap Growth Fund

- The Fund's performance lagged the return of its benchmark, the Russell 2500 Growth Index, by 0.7 percentage points during the third quarter
- The Fund's underperformance was primarily attributable to:
  - Negative stock selection within the consumer discretionary and industrial sectors
  - Notable detractors included Tractor Supply, Michaels Companies, and Middleby Corporation
- Partially offsetting the period's negative relative results was positive stock selection within the health care and information technology sectors
- For the twelve months ended September 30, 2017, the Fund generated a return of 25.3% versus the benchmark's return of 20.1%
- Longer-term results remained favorable relative to the benchmark and peer group average
- On August 2, 2017, William Blair announced the soft close of the U.S. SMID Cap Growth strategy as it has approached $7 billion in assets
  - While liquidity has not compromised at current asset levels, the investment team would like to preserve the ability for current clients' assets to grow
- A Flash report detailing our observations is included in Section 5 of this presentation
- The strategy remains "Buy" rated by our Global Investment Management Research Team

William Blair & Company Flash Report

- On October 16, 2017, William Blair announced that Stephanie Braming had been appointed Head of Investment Management
  - Ms. Braming is replacing Michelle Seitz who accepted a position with another firm
- Ms. Braming has relinquished her portfolio manager responsibilities on both the International Growth and International Small Cap Growth strategies
  - Several other international equity portfolio managers have been partially reassigned to cover the gap
- AHIC's Global Investment Manager research team has spoken with management and is satisfied that the integrated process and shared analyst platform allow for seamless transition on each strategy
- As a result, we recommend the Committee take no action
- A Flash report detailing our observations is included in Section 5 of this presentation

Aon Hewitt
Retirement and Investment

October 2017

Flash Report

William Blair & Company, LLC
William Blair – Staff Changes

Recommendation

On 16 October 2017, William Blair & Company, LLC ("William Blair") announced that Stephanie Braming had been appointed Head of Investment Management. Ms. Braming has relinquished her portfolio manager responsibilities on both the International Growth and International Small Cap Growth strategies, both of which are Buy rated. In addition to being co-PM for the International Leaders and Global Leaders strategies, Ken McAtamney has replaced Ms. Braming on the International Growth strategy to work alongside longstanding PMs Simon Fennell and Jeff Urbina. Mr. Fennell, will continue to be co-PM for the International Leaders and International Growth strategies and also replaces Ms. Braming on the International Small Cap Growth strategy to work alongside current Co-PM Andy Flynn. These changes are effective immediately.

We spoke to team members at William Blair and we are satisfied that the integrated process and shared analyst platform allow for a seamless transition on each strategy. As a result, we believe that the strategies will continue to deliver a performance profile in line with its stated investment philosophy and process and we recommend existing clients take no action as a result of this news.

Background

- On 10 August 2017, William Blair announced Michelle Seitz, Head of Investment Management had accepted a position with another firm. With input from all 75 partners, the Executive Committee made the decision that Ms. Braming would be the best person to succeed Ms. Seitz, based on several factors including: experience, strategic vision, cultural fit, and a historical track record of both strong investment and business decisions.
- Ms. Braming joined William Blair in 2004 as an International and Global equity specialist and was instrumental in the enhancement of the firm's systematic research tools enabling William Blair to improve portfolio construction and portfolio design processes. Ms. Braming was also a portfolio manager for the Japan strategy from inception in 2013 to close in 2015. She was appointed Co-PM on the International Growth and International Small Cap Growth strategies in Q2 2015 and during the first half of 2014 respectively.
- Ken McAtamney joined William Blair in 2005 and served as Co-Director of Research as well as being a mid-large cap Industrials and Healthcare analyst. Mr. McAtamney has been working with Ms. Braming for a number of years and is very familiar with the portfolio. Mr. McAtamney has been Co-PM on the International Leaders and Global Leaders strategies since August 2012 and January 2008 respectively.
- Simon Fennell joined William Blair in 2011 as an analyst focusing on idea generation and strategy within the telecom, media, and technology sectors. Prior to this, he was Managing Director in the equities division at Goldman Sachs in London and Boston where he covered European and International stocks. Mr. Fennell has also worked closely with Ms. Braming for a number of years and is very familiar with the portfolio. Mr. Fennell has been a Co-PM on the International Growth and Leaders strategies since May 2013.

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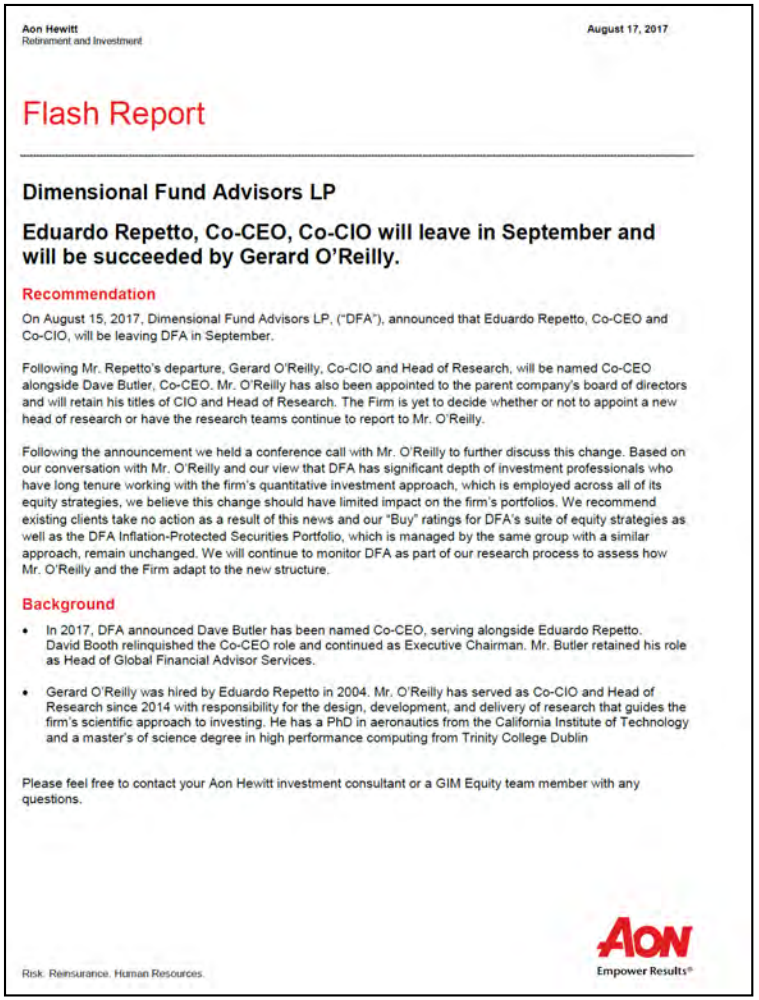
Dimensional Fund Advisors (DFA) Flash Report

- On August 15, 2017, Dimensional Fund Advisors announced that Eduardo Repetto, Co-CEO and Co-CIO, will be leaving the firm in September
- Following Mr. Repetto's departure, Gerard O'Reilly, Co-CIO and Head of Research, will be named Co-CEO alongside Dave Butler.
  - Mr. O'Reilly has also been appointed to the parent company's board of directors and will retain his titles of CIO and Head of Research.
- After careful review, our Global Investment Management Research Team believes this transition will have limited impact on the firm's portfolios
- We recommend the Committee take no action at this time
- A Flash report detailing our observations is included in Section 6 of this presentation



Aon Hewitt
Retirement and Investment

August 17, 2017

Flash Report

Dimensional Fund Advisors LP

Eduardo Repetto, Co-CEO, Co-CIO will leave in September and will be succeeded by Gerard O'Reilly.

Recommendation

On August 15, 2017, Dimensional Fund Advisors LP, ("DFA"), announced that Eduardo Repetto, Co-CEO and Co-CIO, will be leaving DFA in September.

Following Mr. Repetto's departure, Gerard O'Reilly, Co-CIO and Head of Research, will be named Co-CEO alongside Dave Butler, Co-CEO. Mr. O'Reilly has also been appointed to the parent company's board of directors and will retain his titles of CIO and Head of Research. The Firm is yet to decide whether or not to appoint a new head of research or have the research teams continue to report to Mr. O'Reilly.

Following the announcement we held a conference call with Mr. O'Reilly to further discuss this change. Based on our conversation with Mr. O'Reilly and our view that DFA has significant depth of investment professionals who have long tenure working with the firm's quantitative investment approach, which is employed across all of its equity strategies, we believe this change should have limited impact on the firm's portfolios. We recommend existing clients take no action as a result of this news and our "Buy" ratings for DFA's suite of equity strategies as well as the DFA Inflation-Protected Securities Portfolio, which is managed by the same group with a similar approach, remain unchanged. We will continue to monitor DFA as part of our research process to assess how Mr. O'Reilly and the Firm adapt to the new structure.

Background

- In 2017, DFA announced Dave Butler has been named Co-CEO, serving alongside Eduardo Repetto. David Booth relinquished the Co-CEO role and continued as Executive Chairman. Mr. Butler retained his role as Head of Global Financial Advisor Services.
- Gerard O'Reilly was hired by Eduardo Repetto in 2004. Mr. O'Reilly has served as Co-CIO and Head of Research since 2014 with responsibility for the design, development, and delivery of research that guides the firm's scientific approach to investing. He has a PhD in aeronautics from the California Institute of Technology and a master's of science degree in high performance computing from Trinity College Dublin

Please feel free to contact your Aon Hewitt investment consultant or a GIM Equity team member with any questions.

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Harding Loevner International Equity Instl.

- The Fund's performance lagged the return of its benchmark, the MSCI All Country World ex-U.S. Growth Index, by 0.3 percentage point during the third quarter
- The Fund's underperformance was primarily attributable to:
  - Negative stock selection within the consumer discretionary, materials, and energy sectors
  - An overweight allocation to the health care sector
  - Negative stock selection and an underweight allocation to Canada
- Partially offsetting the period's negative relative results was positive stock selection within the financial sectors combined with an overweight allocation to the information technologies sector
- For the twelve months ended September 30, 2017, the Fund generated a return of 18.7% versus the benchmark's return of 17.7%
- Longer-term results remained favorable relative to the benchmark and peer group average
- The strategy remains "Buy" rated by our Global Investment Management Research Team

MFS International Value Fund

- The Fund's performance lagged the return of its benchmark, the MSCI All Country ex-U.S. Value Index, by 2.8 percentage points during the third quarter
- The Fund's underperformance was primarily attributable to:
  - An overweight allocation to the consumer staples sector
  - An underweight allocation to the energy sector
  - Negative stock selection within the materials and special products & services sectors
- Partially offsetting the period's negative relative results was positive stock selection within the information technology and financials sector along with an underweight allocation to the health care sector
- For the twelve months ended September 30, 2017, the Fund generated a return of 13.3% versus the benchmark's return of 21.6%
- Longer-term results remained favorable relative to the benchmark and peer group average
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Laudus Mondrian Emerging Markets Instl.

- The Fund registered "Orange" on the Watch List during the third quarter
  - Due to the manager's historical underperformance relative to its benchmark over the trailing five-year period and in three of the four most recent trailing calendar quarters
- The Fund's performance lagged the return of its benchmark, the MSCI Emerging Markets Index, by 4.0 percentage points during the third quarter
- The Fund's underperformance was primarily attributable to:
  - Negative stock selection within China and Latin America
  - An underweight allocation to China, specifically Chinese internet companies
- Positive stock selection within India coupled with an overweight allocation to Brazil and a corresponding underweight to Korea helped to mitigate some of the period's relative underperformance
- For the twelve months ended September 30, 2017, the Fund generated a return of 13.9% versus the benchmark's return of 22.5%
- Longer-term results continued to underperform the benchmark and peer group average
- The strategy remains "Buy" rated by our Global Investment Management Research Team
- As an important part of the ongoing due diligence process, we have initiated a "competitive review" to compare the Fund's positioning, historical performance, fees, etc. to other viable candidates

Cohen & Steers Realty Shares

- The Fund's performance lagged the return of its benchmark, the FTSE NAREIT Equity REIT Index, by 0.8 percentage point during the third quarter
- The Fund's underperformance was primarily attributable to:
  - An overweight allocation to industrial REITs
  - An underweight in health care property landlords
- Partially offsetting the period's negative relative results was an underweight in retail REITs along with an overweight and positive security selection within data center REITs
- For the trailing one-year period, the Fund generated a return of 0.6% versus the benchmark's return of 0.7%
- Longer-term results remained favorable relative to the benchmark but significantly above the median return of peers
- The strategy remains "Buy" rated by our Global Investment Management Research Team

Discussion Topics

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Flash Report

Vanguard Funds – Proxy vote

Recommendation

Vanguard has communicated a proxy statement to clients in advance of a Special Shareholders Meeting scheduled for November 15, 2017. This proxy vote has proposals that may impact all U.S. domiciled Vanguard Funds. Our Global Investment Management (GIM) research team has reviewed the proposals being offered in the proxy vote and at this point we have no major concerns regarding the proposals put forward. Many of the proposals involve operational changes which will have a limited effect on the day-to-day management of the U.S. domiciled portfolios. We note that it has been eight years since Vanguard last conducted a proxy vote and Vanguard has initiated this vote largely as a housekeeping effort. Many of the proposals involve simply updating the language of the fund prospectuses in line with what is typical practice within the industry.

Background

Since Vanguard's last proxy vote in 2009, they have experienced some turnover on the board of directors which is typical. They have decided to hold a shareholders proxy vote in order to elect a board of trustees for each U.S. based Vanguard fund, and gain approval to increase operational flexibility and consistency for fund policies across all U.S. based Vanguard funds. The manager had filed a preliminary proxy statement with the SEC in July 2017, which was concluded without any incidents in August 2017. The shareholders' meeting is scheduled for November 15, 2017 and all shareholders in U.S. domiciled Vanguard Funds, as of August 16, 2017, are eligible to vote. They plan to discuss the manager's proposals at the Special Shareholders Meeting in the hopes of reaching quorum for the outstanding funds. Once a quorum is reached, they require 50.1% votes in favor of a proposal for the proposal to pass.

The Proposals:

Proposal 1: Election of a board of trustees for each fund
The proposal is meant to elect trustees for all U.S. based Vanguard funds. The Vanguard funds' board requires shareholder approval in order to appoint new trustees. This specific proposal involves the election of Vanguard's new President, Tim Buckley, and two other new nominees, Deanna Mulligan and Sarah Bloom Raskin. There are currently twelve nominees who are in the running for the Vanguard fund trustees, and if approved they will start serving effective January 1, 2018.

Proposal 2: Approval of a manager-of-managers arrangement with third-party investment advisors
The proposal allows all Vanguard managed index funds and a subset of Vanguard active funds the ability to enter into or amend investment advisory agreements with a third-party without requiring additional shareholder approval in the future. The intention behind this proposal is to provide clients with lower costs solutions by working with highly qualified advisors, while reducing the delays and significant costs associated with soliciting shareholder approval. The manager also finds this to be an effective measure in case there is a disaster or other unforeseen event that takes place at Vanguard. It is important to note that Vanguard already has several funds operating under this policy; however they do not have any plans to make changes to any fund advisory arrangement once the proposal is approved.

Proposal 3: Approval of a manager-of-managers arrangement with wholly owned subsidiaries of Vanguard
The proposal allows all Vanguard funds to enter into or significantly change investment advisory agreements with wholly owned Vanguard subsidiaries without acquiring additional shareholder approval in the future. The intention behind this proposal is to provide more flexibility in the process of selecting a subsidiary to help manage the fund while lowering costs by reducing the delays associated with soliciting shareholder approval. The manager also finds this to be an effective measure in case there is a disaster or other unforeseen events that take place at Vanguard. It is important to note that Vanguard does not have any plans to make changes to any fund advisory arrangement once the proposal is approved.

Proposal 4: Approval of an investment objective change for Vanguard REIT Index Fund
The proposal would allow Vanguard to change the benchmark for both the Vanguard REIT Index Fund and Vanguard REIT Index Portfolio of Vanguard Variable Insurance Fund from the MSCI US REIT Index, to the MSCI US Investable Market Real Estate 25/50 Index. The change will align the funds with the newly constituted GICS Real Estate sector and allow them to invest in a broader mandate that includes both real estate management and development companies. The objective is to allow investors to have exposure to the full breadth of the U.S. real estate market while increasing capacity for the strategies.

As of August 26,' 2017, Vanguard has reached quorum for the REITS index fund. They are still awaiting the shareholder's decision in regards to changing the index funds benchmark. One of the primary drivers behind this change was the re-classification of the GICS Sector in early 2017 as well as capacity concerns. The management team wants to avoid a situation where this fund represents 10% or more of every issuer in their existing, and somewhat constrained universe, Shareholder approval of their new index, MSCI U.S. Investable Market Real Estate 25/50 Index, will add approximately 26 new names to the portfolio, changing the overall capacity in the universe from $870 billion to $1.1 trillion. Their proposal will allow for a more diversified portfolio, as the fund will have exposure to real estate management and development companies which are currently unrepresented in the portfolio. During the six month transition to the new benchmark, the team will use a transition index. Using a transition index allows them to diminish transaction costs, as given the significant size of their assets a six month transition should give them to execute the new exposures without harming investors as they buy into names that fit the new broader investment universe.

Proposal 5: Approval to change the diversification status of the Vanguard REIT Index Fund to non-diversified for 1940 Act purposes
The proposal would allow Vanguard to change the diversification status of the fund to "non-diversified" in order to track its benchmark more closely. This change will align the fund with the other sector equity funds at Vanguard which are also labeled as "non-diversified." The Investment Company Act of 1940 governs mutual funds in the U.S. and this law requires that every fund label themselves as Diversified or Non-Diversified. The key difference between the labels is that a Diversified portfolio must have 75% or more of the portfolio in securities, no more than 5% of the portfolio invested in a single security, and contains no more than 10% of the outstanding shares for any single security. This switch to being labeled as Non-Diversified will allow the fund to replicate the index which may have names that exceed 5% of the benchmark.

Proposal 6: Adopt the Funds' Service Agreement for Vanguard Institutional Index Fund and Vanguard Institutional Total Stock Market Index Fund
The proposal allows Vanguard to approve a new investment advisory, administrative, and distribution arrangement for the Vanguard Institutional Index Fund and the Vanguard Total Stock Market Index Fund. The proposal intends to reduce the cost and provide broader access to investors.

Historically, Vanguard had offered both of these strategies as either Member Funds or Non-Member funds. Non-Member Funds were not bound by Fund Service Agreement ("FSA"), which made the strategy more expensive and created limitations for scalability. Both Member and Non-Member funds are managed similarly from a portfolio construction standpoint, therefore the board of directors believes that by adding them to FSA, they will be

able to reduce the cost of the institutional class shares. However, as part of the FSA the Non-Member Fund can now be subject to Capital Calls up to 0.40% of its net assets in Vanguard. The proposal will allow both the expense ratio and the minimum requirement of both funds to be reduced, allowing more shareholder access

If approved by shareholders, the Vanguard Institutional Index fund expense ratio will be reduced from 4 basis points to 3.5 basis points for their Institutional Share Class and the minimum initial investment will decrease from $200 million to $100 million for the Institutional Plus Share Class. The Vanguard Institutional Total Stock Market Index fund expense ratio will decrease from 4 basis points to 3.5 basis points for the Institutional share class, and the minimum initial investment will decline from $100 million to $5million for the Institutional Share Class. The Institutional Plus share class will remain static at 2 basis points but the minimum initial investment will drop from $200 million to $100 million

Proposal 7: Shareholder proposal on investing procedures related to genocide or crimes against humanity

While the prior proposals were initiated at the behest of Vanguard, this proposal was submitted by shareholders and Vanguard has agreed to bring the proposal to a vote. This proposal asks approximately 48 Vanguard funds to institute procedures to avoid holdings in companies that are believed to contribute to genocide or crimes against humanity. Vanguard suggests that shareholders vote against this proposal as they believe this change interferes with their fiduciary duty to manage the strategies in line with the existing investment objectives and strategies. Further, their funds are run in accordance with applicable U.S. laws, and they do not believe this divestment strategy would be effective in causing the social change sought by those who have proposed this change.

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Flash Report

William Blair & Company, LLC
William Blair – Staff Changes

Recommendation

On October 16, 2017, William Blair & Company, LLC ("William Blair") announced that Stephanie Braming had been appointed Head of Investment Management. Ms. Braming has relinquished her portfolio manager responsibilities on both the International Growth and International Small Cap Growth strategies, both of which are "Buy" rated. In addition to being co-PM for the International Leaders and Global Leaders strategies, Ken McAtamney has replaced Ms. Braming on the International Growth strategy to work alongside longstanding PMs Simon Fennell and Jeff Urbina. Mr. Fennell, will continue to be co-PM for the International Leaders and International Growth strategies and also replaces Ms. Braming on the International Small Cap Growth strategy to work alongside current Co-PM Andy Flynn. These changes are effective immediately.

We spoke to team members at William Blair and we are satisfied that the integrated process and shared analyst platform allow for a seamless transition on each strategy. As a result, we believe that the strategies will continue to deliver a performance profile in line with its stated investment philosophy and process and we recommend existing clients take no action as a result of this news.

Background

- On August 10, 2017, William Blair announced Michelle Seitz, Head of Investment Management, had accepted a position with another firm. With input from all 75 partners, the Executive Committee made the decision that Ms. Braming would be the best person to succeed Ms. Seitz, based on several factors including: experience, strategic vision, cultural fit, and a historical track record of both strong investment and business decisions.

- Ms. Braming joined William Blair in 2004 as an International and Global equity specialist and was instrumental in the enhancement of the firm's systematic research tools enabling William Blair to improve portfolio construction and portfolio design processes. Ms. Braming was also a portfolio manager for the Japan strategy from inception in 2013 to close in 2015. She was appointed Co-PM on the International Growth and International Small Cap Growth strategies in Q2 2015 and during the first half of 2014 respectively.

- Ken McAtamney joined William Blair in 2005 and served as Co-Director of Research as well as being a mid-large cap Industrials and Healthcare analyst. Mr. McAtamney has been working with Ms. Braming for a number of years and is very familiar with the portfolio. Mr. McAtamney has been Co-PM on the International Leaders and Global Leaders strategies since August 2012 and January 2008 respectively.

- Simon Fennell joined William Blair in 2011 as an analyst focusing on idea generation and strategy within the telecom, media, and technology sectors. Prior to this, he was Managing Director in the equities division at Goldman Sachs in London and Boston where he covered European and International stocks. Mr. Fennell has also worked closely with Ms. Braming for a number of years and is very familiar with the portfolio. Mr. Fennell has been a Co-PM on the International Growth and Leaders strategies since May 2013.

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Flash Report

William Blair & Company LLC – SMID Cap Growth Strategy to Soft Close

Recommendation

The rating for the William Blair SMID Cap Growth strategy remains unchanged as a result of this announcement. However, we request that client teams continue to work directly with the GIM Equity Team in facilitating both separate account and mutual fund searches that profile this product. Furthermore, we request that hiring decisions are communicated to both the GIM Equity Team and William Blair in a timely manner.

Please contact a member of the GIM Equity Team if you have any questions.

Background

On August 2, 2017, William Blair & Company notified the GIM Equity Team of the imminent soft close of the US SMID Cap Growth strategy as it has approached $7 billion in assets. While it is believed liquidity is not compromised at current asset levels, the investment team would like to preserve the ability for current clients' assets to grow.

Separate account requests for proposals (RFPs) and searches will not be accepted beyond October 31, 2017. As such, the manager requests that any new searches are communicated by that date. Furthermore, hiring decisions must be communicated to the manager by March 31, 2018 in order to secure capacity. Please note that the mutual fund and SICAV vehicles for the strategy will remain open for new investment, though prospective clients need to notify the manager of their interest.

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Flash Report

Dimensional Fund Advisors LP

Eduardo Repetto, Co-CEO, Co-CIO will leave in September and will be succeeded by Gerard O'Reilly.

Recommendation

On August 15, 2017, Dimensional Fund Advisors LP, ("DFA"), announced that Eduardo Repetto, Co-CEO and Co-CIO, will be leaving DFA in September.

Following Mr. Repetto's departure, Gerard O'Reilly, Co-CIO and Head of Research, will be named Co-CEO alongside Dave Butler, Co-CEO. Mr. O'Reilly has also been appointed to the parent company's board of directors and will retain his titles of CIO and Head of Research. The Firm is yet to decide whether or not to appoint a new head of research or have the research teams continue to report to Mr. O'Reilly.

Following the announcement we held a conference call with Mr. O'Reilly to further discuss this change. Based on our conversation with Mr. O'Reilly and our view that DFA has significant depth of investment professionals who have long tenure working with the firm's quantitative investment approach, which is employed across all of its equity strategies, we believe this change should have limited impact on the firm's portfolios. We recommend existing clients take no action as a result of this news and our "Buy" ratings for DFA's suite of equity strategies as well as the DFA Inflation-Protected Securities Portfolio, which is managed by the same group with a similar approach, remain unchanged. We will continue to monitor DFA as part of our research process to assess how Mr. O'Reilly and the Firm adapt to the new structure.

Background

- In 2017, DFA announced Dave Butler has been named Co-CEO, serving alongside Eduardo Repetto. David Booth relinquished the Co-CEO role and continued as Executive Chairman. Mr. Butler retained his role as Head of Global Financial Advisor Services.

- Gerard O'Reilly was hired by Eduardo Repetto in 2004. Mr. O'Reilly has served as Co-CIO and Head of Research since 2014 with responsibility for the design, development, and delivery of research that guides the firm's scientific approach to investing. He has a PhD in aeronautics from the California Institute of Technology and a master's of science degree in high performance computing from Trinity College Dublin

Please feel free to contact your Aon Hewitt investment consultant or a GIM Equity team member with any questions.

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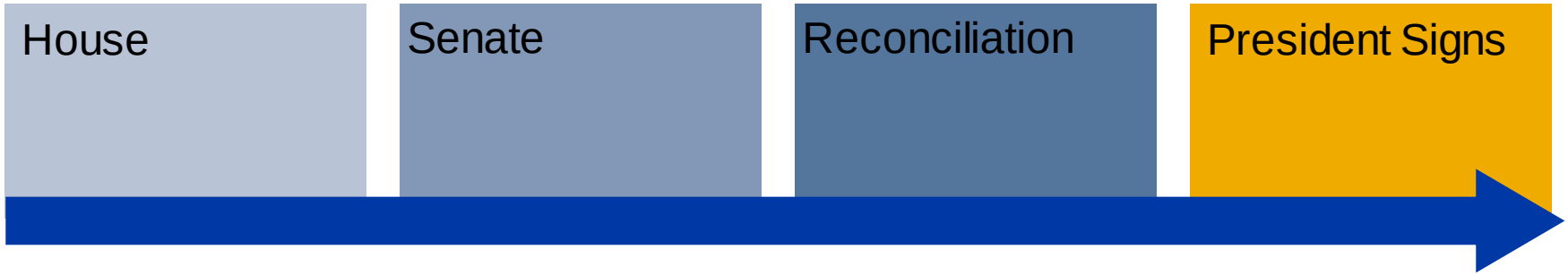
Tax Reform Process

Status as of November 16, 2017



- ✓ House Ways and Means Committee Chairman Brady (R-TX) introduced bill on November 2nd
- ✓ Passed W&M November 9th
- ✓ Mark-up, amend, House vote
- ✓ Passed November 16th

- ✓ Senate Finance Committee Chairman Hatch (R-UT) to introduce separate Senate draft on November 9th
- ✓ Revised draft November 14th
- ▪ Mark-up, amend, Senate vote week after Thanksgiving?

- ▪ Conference Committee could be convened to resolve differences or the House could just pass the Senate version

- ▪ Once House and Senate pass the same bill, will be sent to the President for signature
- ▪ Goal stated is to have the President's signature by the end of 2017

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Key Provisions of Tax Cuts and Jobs Act (TCJA)

Retirement and Executive Compensation Provisions as of November 17, 2017

Provision	House Bill	Senate Bill
20% corporate tax rate	Effective in 2018 • 2017 tax year Pension/OPEB contributions deducted at 35% rate	Effective in 2019 • 2018 tax year pension/OPEB contributions deducted at 35% rate
Limitation on deductibility of interest	Limits interest deduction to 30% of EBITDA (EBIT in Senate bill); existing debt not grandfathered • Reduces effectiveness of debt-financed funding, mostly for below investment grade cos.	
Deemed repatriation tax	14% on cash, 7% on other investments	10% on cash, 5% on other investments
Nonqualified deferred compensation	*Provision removed from House bill*	*Provision removed from bill approved by Senate Finance Committee*
Repeal of 162(m) deduction exemption	Performance-based and commission pay would count towards $1M deduction limit for CEO and CFO, and three other highest-paid executive officers • Once subject to the limit, the limit would be applied annually even past retirement.	
Limit on pay for executives of tax-exempt organizations	Excise tax payable by employer of 20% on compensation above $1M for five highest-paid employees in year, as well as individuals who were among the five highest paid employees in taxable years befinning after 2016	
Nondiscrimination relief for closed DB and DC plans	Broader, more complete, relief made permanent	Not included in Senate Finance Committee bill
DC plan limit changes	Not included in House bill	Aligns 403(b) and 457(b) limits with established limits under 401(k) plans; *Catch-up contribution elimination for high-wage employees removed*

Tax Cuts and Jobs Act – Retirement Plan Implications
November 2, 2017 House Version; As Amended November 9, 2017

Corporate Tax Rates

- Reduced from 35% to a flat 20%
- Deductibility of corporate interest payments (after netting out interest income) would be capped to no more than 30% of adjusted taxable income
- Accumulated earnings and profits in foreign subsidiaries that are held in cash would be subject to a one-time "deemed repatriation" tax of 14%, while the remaining earnings and profits would be taxed at a 7% rate

Individual Taxes

- Income tax rates are simplified (from seven rates) to four rates: 12%, 25%, 35%, and 39.6%
- No direct changes to 401(k) deferral limits
- Recharacterization between Roth and Traditional IRAs no longer allowed
- Hardship withdrawal and loan rules relaxed

Executive Comp

- The exceptions to the $1 million corporate deduction limitation for commissions and performance-based compensation paid to executives would be repealed for tax years beginning after 2017
- Tax-exempt organizations would be subject to a 20% excise tax on compensation (but excluding qualified plan benefits) in excess of $1 million paid to any of its five highest paid employees

Defined Benefit

- In-service distributions at age 59 ½ will be allowed (lowered from age 62) if plan provides
- Closed plan nondiscrimination testing relief is included and is also available to the DC replacement benefits provided to closed groups from frozen or reduced DB plans

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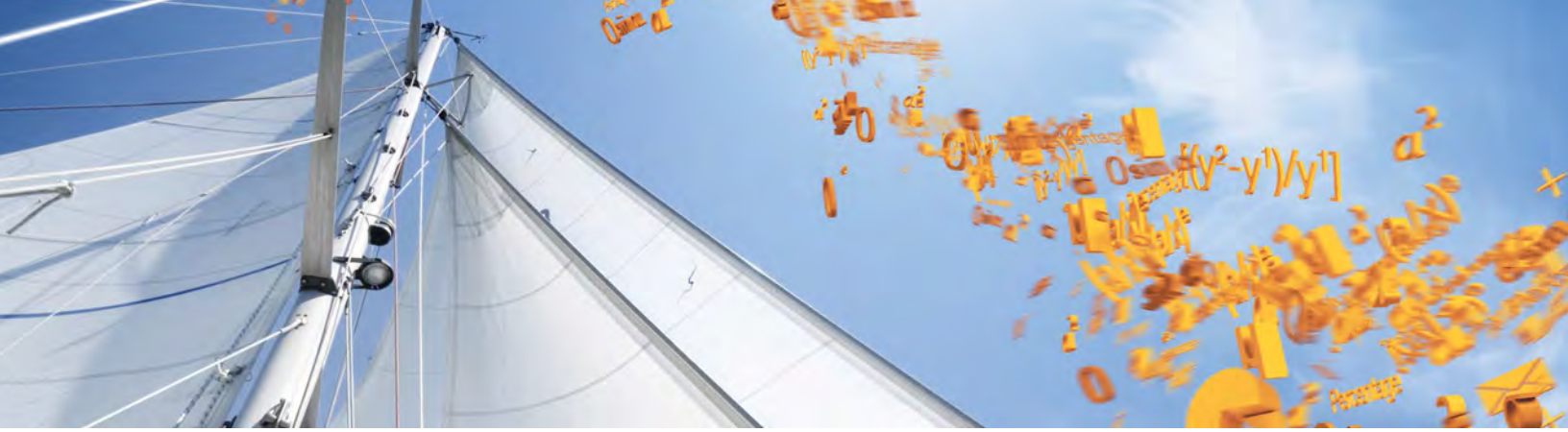

Quarterly Update

Fourth Quarter 2017

Aon Hewitt Retirement Legal Consulting & Compliance

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Notes From Your Editor

Welcome to the latest *Quarterly Update*. We begin with an article highlighting concerns about the security of retirement plan data following the recent Equifax data breach. Our legal consultants are partnering with Aon's data security team to review and test data security safeguards related to employee benefit plans.

Locating lost or missing participants and beneficiaries for payment of their retirement plan benefits has become a focal point for Department of Labor (DOL) audits. We cover the details of the DOL's initiative and considerations for plan sponsors.

Tax reform proposals have started many conversations about defined benefit plan funding and whether it makes sense to accelerate plan contributions or borrow money to fund retirement plan contributions. While it's uncertain what is going to happen, we encourage plan sponsors to consider taking action on this issue now.

The IRS has recently issued a lot of guidance of interest to qualified plan sponsors. This includes final mortality guidance, model plan language for plans that permit participants to elect to receive part of their benefit in a lump sum and part in an annuity, qualified plan limits for the 2018 plan year, and relaxed rules for funding of corrections of certain operational failures, In addition, we report on disaster relief after recent hurricanes and wild fires. Finally, in this issue we report on benchmarking fees for defined contribution plans against similar plans and on the status of several lawsuits regarding fees.

If you have any questions or need any assistance with the topics covered, please contact the author of the article or Tom Meagher, our practice leader.

Regards,

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Cybersecurity and the Role of Plan Fiduciaries

by Tom Meagher and Jennifer Ross Berrian

While plan fiduciaries have always had responsibility for protecting the data used to administer a retirement plan, the recent data breach involving Equifax has focused renewed attention on plan fiduciaries and the need to safeguard participant data.

Plan sponsors are continuously entering into relationships with vendors and other third parties that may involve employee data—pension plan data, defined contribution plan data, and/or health and welfare plan data. While health plans have long had definitive guidance regarding the obligation to protect individually identifiable health information under the Health Insurance Portability and Accountability Act (HIPAA), no explicit guidance addressed specifically to retirement plans has been issued. Nonetheless, the absence of definitive guidance does not relieve plan fiduciaries of their obligation to protect the participant data necessary for employer retirement plan administration.

From a fiduciary perspective, it is important that plan fiduciaries examine their plans' data security safeguards. At the risk of stating the obvious, it is not acceptable for plan fiduciaries to simply rely on statements made by their recordkeepers or third-party vendors (including payroll vendors) that participant data is secure. Rather, plan fiduciaries should be proactive in reviewing the data security safeguards in place (both within the plan sponsor organization and within third parties that have access to or control of the data).

This review should entail, among other things, conducting an assessment and gap analysis of existing safeguards, and the testing of such safeguards and related controls to ensure that they are operating appropriately. The outcome of this assessment should also entail a proactive plan for addressing any identified deficiencies in controls and a process for addressing any real or potential breaches involving participant data.

While a detailed discussion of data security safeguards is beyond the scope of this article, as part of a comprehensive risk management and assessment program, an effective assessment and gap analysis begins with an initial data protection assessment. This assessment should include confirmation of:

- Physical safeguards (physical methods, procedures, and policies intended to protect the maintained information from unauthorized access and natural and environmental hazards);
- Technical safeguards (the technology used to protect participant information maintained in electronic and other forms); and
- Administrative safeguards (actions, policies, and procedures used to manage the data security process).

Following the initial assessment, plan fiduciaries should be apprised of, among other things:

- The individuals or organizations who may have access to or control of participant data;
- How such data is stored, transmitted, and accessed; and
- What processes are in place to alert plan fiduciaries with respect to breaches (or potential breaches) of the data security systems.

While the scope of a data security assessment and gap analysis may be scaled to the particular plan, it is critical for plan fiduciaries to establish a written record of having examined their data security safeguards and having provided appropriate data security training to those who may have access to participant data. Plan fiduciaries should not rely solely upon the statements of their recordkeepers or other service providers that these actions have been taken.

Aon has a comprehensive data security team that can assist with the review and testing of data security safeguards that apply (or should apply) to employee benefit plans. We would be pleased to discuss how plan sponsors and fiduciaries should move forward to examine such safeguards in an effort to mitigate improper or unauthorized disclosures and ultimately establish a record of prudent plan administration.

Game Changer—Pension Funding and Tax Reform

by Kristen Cook and Alan Parikh

On the morning of November 2, 2017, the first draft of the "Tax Cuts and Jobs Act" (TCJA) was released by the House Ways and Means Committee. We expect that this bill will be debated intensely over the next several weeks or months, as it moves through the House, the Senate, and the reconciliation process. Key provisions could easily change from the existing draft.

While not definitive, this first draft of the TCJA puts some important parameters around what the Trump administration and congressional Republicans hope to achieve by overhauling the U.S. tax code and has important implications for corporate sponsors considering how to finance their pension deficits. Key aspects applicable to corporate defined benefit (DB) pension plans include reducing the corporate tax

rate from 35% to 20% and partially limiting the deductibility of net interest expense. If corporate pension plan sponsors think these provisions could survive largely intact through future legislative negotiations, now is a critical time to consider discretionary pension contributions and funding alternatives.

What might these changes imply for DB plan sponsors? The potential drop in the corporate income tax rate is a big deal, and DB plan sponsors that are in a taxpaying position in 2017 may wish to consider accelerated pension funding to pick up the potential additional 15% federal income tax deduction. As we expected, debt-financed pension contributions have surged in 2017, largely driven by rising Pension Benefit Guaranty Corporation (PBGC) premiums and sponsors taking advantage of low credit spreads to finance contributions. See our blog post from 2016 foretelling this trend **here**. To the extent tax reform reduces or eliminates the interest deduction, it would make debt financing less attractive.

Would limiting the federal income tax deduction for interest payments—when combined with a drop in the tax rate—make borrowing to fund less attractive? Over the near term, we think the answer for most sponsors is "no." In fact, our modeling finds that under some circumstances, taking advantage of the 35% deduction currently available could be financially attractive even if interest payments on debt used to finance that contribution are not deductible. Once the lower tax rate goes into effect, however, we expect that corporate pension contributions, regardless of how they are financed, will drop significantly.

Finally, we note that the TCJA includes a "deemed repatriation" tax of 12% on accumulated earnings and profits held by U.S. multinationals overseas in cash or cash equivalents, and a lower rate on earnings held in remaining assets. This potentially frees up billions of dollars for these multinationals to use to shore up their U.S. pension plans. But with the drop in the tax rate to 20%, there is a much smaller incentive to do so. Companies might consider a short-term borrow-to-fund strategy, accelerating deductions into 2017 in anticipation of repatriated cash arriving in 2018.

> "The potential drop in the corporate income tax rate is a big deal, and DB plan sponsors that are in a taxpaying position in 2017 may wish to consider accelerated funding (whether cash or debt financing) to pick up the potential additional 15% federal income tax deduction."

Sponsors in the middle of analyzing pension funding and investment strategies may want to consider more refined modeling to capture:

- Alternative corporate tax rates;
- Alternative tax treatments of interest payments; and
- Appropriate liability measures (PBGC, plan termination, or other) to fund against, bearing in mind future mortality improvements.

These topics can be complex, but there is a real opportunity for plan sponsors if action is taken during 2017. Plan sponsors should be working with their actuaries, investment consultants, and legal consultants to model scenarios and compare the return on investment of pension contributions to other opportunities.

IRS Provides Model Language for Partial Lump Sums

by Hitz Burton

On August 20, 2017, the Internal Revenue Service (IRS) issued Notice 2017-44, which provides model amendment language for defined benefit (DB) plans that permit participants to receive a portion of their accrued benefit as a lump sum and the remaining portion as an annuity. The IRS published final regulations in September 2016 and has now followed up with model language.

If a plan sponsor wishes to offer this opportunity, the language reflected in one of the two model amendments (or other compliant language) should be adopted. If a plan already offers this opportunity but the plan language is not compliant with the latest guidance, the plan sponsor should amend the plan before January 1, 2018, to receive relief from rules prohibiting amendments that reduce benefits that have already accrued.

Additionally, plan sponsors should confirm that split benefit calculations are performed in a manner that is compliant with the 2016 regulations and the terms of the plan. Please note that no plan amendment is required if the plan already includes compliant language.

Plan sponsors of DB plans offering partial lump-sum payments should ensure that the plan documents are timely updated to reflect regulatory requirements and should confirm that their plan documents and administrative procedures comply with these regulations. Aon Hewitt's Retirement Legal Consulting & Compliance consultants can help clients both with drafting required plan amendments and assessing whether plans are being administered in compliance with these new rules.

Increased DOL Audits Target Pension Plan Payment Procedures

by Monica Gajdel and Susan Motter

The Department of Labor (DOL) has increased its audit activity and is investigating pension plans to determine whether vested benefits are being paid in a timely way. In 2015, the DOL began a regional initiative to investigate a small selection of large pension plans in regard to unpaid benefits owed to terminated vested participants who were over normal retirement age. The DOL has now expanded its investigation nationwide to plans of all sizes.

Overview of the DOL Initiative

The current DOL investigations focus on retirement plan procedures in three key areas: (i) locating missing participants; (ii) informing terminated vested participants that a retirement benefit is payable; and (iii) starting benefit payments on time. The DOL is examining whether the procedures are sufficient and being followed in practice. In addition, the DOL is closely scrutinizing participant data for missing and incorrect data.

Upon audit, plan sponsors should anticipate being asked to provide census data; actuarial reports; participant forms and notices; and information about service providers, fees, and board or committee members. The plan's procedures for determining participant counts for IRS Form 5500, making plan distributions, and locating missing participants may also be requested.

Early DOL Findings

The DOL's posture appears to be increasing in aggressiveness with respect to unpaid pension plan benefits and missing participants who are due benefits. In some cases, the DOL requires the application of DOL Field Assistance Bulletin 2014-01 (related to missing participants in terminated defined contribution plans) more broadly to defined benefit plans. Among the criteria described in the bulletin are the use of free internet searches and social media to find participants who are deemed "missing."

The following additional findings have come out of the recent audits.

- The use of a private locator firm alone is not enough if the plan has no internal procedures for locating participants.
- Plan sponsors should use alternative methods to find participants, such as listing the names of missing participants in employee newsletters or questioning other coworkers and former employees.
- Some participant communications cannot be easily understood by the average participant.
- Some plan sponsors are missing important data such as dates of birth, hire, termination, or death.

Internal IRS Guidance

The IRS appears to have also increased its interest in benefit payment issues and missing participants. On October 19, 2017, the IRS issued internal guidance to assist its agents in the examinations of retirement plans related to the application of the required minimum distribution (RMD) rules. Specifically, the guidance directs its agents not to challenge a plan for an RMD violation if the plan has undertaken certain missing participant search procedures.

Under the guidance, if a retirement plan has completed all of the following search procedures, the examining agent will not challenge the plan for a failure to timely make RMDs to participants deemed missing.

- Searched alternative contact information in plan, plan sponsor, and publicly-available records.
- Sent certified mail to the payee's last known mailing address and attempted contact through other means (including email addresses and telephone numbers).
- Used a commercial locator service, a credit reporting agency, or a proprietary internet search tool for locating payees.

Although this guidance is intended for internal IRS use, it is a helpful indication of the missing participant search methods that may satisfy IRS scrutiny under audit.

Considerations

Plan sponsors should ensure they have robust processes in place to commence benefits to eligible participants and locate participants who are unresponsive. Those processes should be documented and followed to demonstrate compliance with the Code's tax qualification rules and ERISA's fiduciary obligations.

While the DOL and IRS have suggested that plan sponsors should use publicly-available records or directories, free internet searches and social media, plan sponsors should balance the risks of using these unverified approaches. Providing pension information to the wrong person may result in fraud. Plan sponsors should also be cautious in questioning other former employees and sharing confidential information.

Aon Hewitt's Retirement Legal Consulting & Compliance consultants are here to work with plan sponsors in reviewing and revising their plan procedures to ensure their plans make timely plan distributions and promptly locate missing participants. In addition, our actuaries and other consultants can help plan sponsors evaluate participant data and procedures for missing participants.

Long-Awaited Mortality Guidance Published by the IRS

by Grant Martin

The Internal Revenue Service (IRS) released its final mortality regulations on October 3, 2017, generally effective starting with the 2018 plan year. The regulations update certain prescribed mortality assumptions to reflect increases in U.S. life expectancies that have occurred since the prior assumptions were developed. The final regulations, and accompanying guidance in Notice 2017-60 and Revenue Procedure 2017-55, address:

- Benefit calculations using the minimum lump-sum conversion basis under Internal Revenue Code (Code) Section 417(e);
- Funding calculations, such as required cash contributions, Pension Benefit Guaranty Corporation variable-rate premiums, and the determination of whether additional reporting is required under Section 4010 of the Employee Retirement Income Security Act of 1974; and
- Plan-specific adjustments to mortality tables for funding purposes.

Benefit calculations. The new mortality assumptions will apply starting with the 2018 plan year. The new tables increase lump-sum factors by around 3% to 5% compared to the prior basis; this results in an increase in the cost of lump sums for traditional pension plans and can reduce the cost of annuities for certain hybrid plans (e.g., cash balance and pension equity plans).

The guidance is timely, as plan sponsors that use an early "lookback" month under Code Section 417(e) had been waiting for the guidance to prepare January 2018 commencement kits. Now that the applicable mortality table for 2018 is known, these plan sponsors can calculate actual benefit amounts rather than providing estimates.

Funding calculations. The new prescribed mortality tables will increase typical plan liabilities by around 3% to 5%, although hybrid plans and those planning to use custom tables may see a smaller impact.

The new mortality tables will generally apply for plan years beginning in 2018. However, the final regulations include a provision for plan sponsors to defer adoption of the new funding tables to 2019 if the plan sponsor determines that the use of the new tables would be "administratively impracticable" or "result in an adverse business impact that is greater than de minimis." No regulatory guidance was provided on how to make these determinations.

Plan-specific adjustments. The new regulations provide additional flexibility for plan sponsors to voluntarily reflect their own experience in funding mortality assumptions. This provides a potential opportunity to reduce reported liabilities and associated plan costs with a return on investment that could be many times the cost of the necessary experience study.

For calendar-year plans, the deadlines to apply to the IRS for approval of plan-specific mortality assumptions are February 28, 2018 for the 2018 plan year and June 1, 2018 for the 2019 plan year. A mortality study can take a few months or more (depending on the level of data scrubbing required), creating urgency for eligible plans to act now to realize savings. Plan sponsors should consult with their actuaries and investment consultants to understand the impact of final regulations on their pension plans and whether a mortality study may be warranted.

Considerations in Using General Fee Benchmarking Data

by Bridget Steinhart and Eric Brager

An interest in managing cost-effective defined contribution plans—and mitigating the potential of a Department of Labor (DOL) audit or participant litigation—leads many plan fiduciaries to wisely ask whether they are paying appropriate investment and recordkeeping fees for their 401(k) plans. Should plan fiduciaries rely on general survey data to benchmark whether plan fees are reasonable? In our view, no. While broad views of trends in fees may be instructive, managing plan investment and recordkeeping fees requires benchmarking against data involving comparable asset sizes, asset classes, and required services.

To illustrate, Bloomberg recently published an article entitled, "How Does Your 401(k) Compare?" (August 23, 2017), which addresses the latest annual defined contribution survey from NEPC, an independent advisory firm. The survey included 123 large defined contribution plans with an average of $1.15 billion in total assets and approximately 12,000 participants. The survey indicated that from 2013 to 2017, median investment fees dropped from 0.52% to 0.41%. Does this mean that 0.41% is the target goal? No; this particular survey does not address whether the respondents' holdings are invested in passively or actively managed funds, or if there are special investments

that might incur higher fees. In this case, benchmarking fund fees individually against peer fund medians on a current basis is a much more prudent course of action for plan fiduciaries.

In addressing defined contribution plan recordkeeping fees, NEPC's survey shows that the median per-head fee dropped to $59 in 2017 from $103 in 2010. While the downward administrative fee trend is encouraging, a key consideration in addressing administrative fees includes the number of plan participants—a significant factor in the administrative costs assumed by the recordkeeper. If all else is equal, for the recordkeeper to cover its fixed costs on a per-participant basis, a plan with 500 lives will be more expensive to administer than a plan with 5,000 lives. Considering the complexity of plan administration, two plans with the same number of participants will likely pay very different fees if one is a traditional 401(k) plan with a standard match and the other uses complex formulas and grandfathered provisions from previous plan mergers or to reflect collective bargaining negotiations.

Finally, different levels of service needed by plan sponsors can mean significant differences in plan cost. These recordkeeper services may include, for example, communicating with participants in multiple languages, providing live employee meetings, or having a single sign-on for the client's intranet.

Despite the trends, the most judicious approach for plan fiduciaries to take is benchmarking plan administrative fees and investment fees (separately) against similar cohorts. Aon Hewitt Investment Consulting's Defined Contribution Plan Consulting Practice can assist plan sponsors and fiduciaries in addressing their plans' fee structures, benchmarking fee levels, and assisting in fee (and service) negotiations. In addition, Aon's investment advisory teams—as fiduciaries to the plan with respect to the investment advice delivered—can address fund structures, holdings, and fund expenses to best position plan sponsors and fiduciaries to mitigate the risk of adverse DOL audit findings or the threat of participant litigation.

2018 Limits for Benefit Plans

by Necia Crlenjak and Linda M. Lee

Employee benefit plans are subject to many dollar limits established annually by the Internal Revenue Service (IRS). There are limits on the amount of contributions that may be made to defined contribution plans, on the annual amount that can be paid from defined benefit plans, on the amount of compensation that can be used when calculating benefits, and many more. The limits are updated based upon price and wage inflation and changes in the law. As a result, the administration of qualified retirement plans must be adapted annually to accommodate the applicable limits under the Internal Revenue Code (Code).

Highlights of Changes

- The employee contribution limit to 401(k) and 403(b) plans increased from $18,000 to $18,500.
- The annual addition limit for defined contribution plans under Code Section 415 increased from $54,000 to $55,000.
- The annual benefit limit for defined benefit plans under Code Section 415 increased from $215,000 to $220,000.
- The qualified plan annual compensation limit under Code Section 401(a)(17) increased from $270,000 to $275,000.

Unchanged Limitations

- The limit on catch-up contributions in 401(k) and 403(b) plans for employees age 50 or older remained at $6,000.
- The pay threshold for highly compensated employees under Code section 414(q) remained at $120,000.

Each year, Aon Hewitt publishes a report that summarizes the new limits and includes additional helpful tax information. Our clients have found this summary to be an extremely useful and easy-to-use reference document. A copy of the 2018 benefit limits summary (including prior limits for years 2015–2017) can be downloaded **here**. Please contact your Aon Retirement consultant if you have any questions regarding the limitations for 2018.

Plan Sponsors May Use Forfeitures for Plan Corrections

by Dan Schwallie

Prior to the release of proposed regulations in January 2017, defined contribution plan forfeitures could not be used as qualified nonelective contributions (QNECs) for the purpose of making corrective contributions under the Employee Plans Compliance Resolution System (EPCRS). This was because prior regulations required that the funds be nonforfeitable (fully vested) when originally contributed to the plan, rather than when allocated to participant accounts.

Under the proposed regulations, employer contributions can qualify as QNECs if they are nonforfeitable at the time they are allocated to participants' accounts, and need not have been nonforfeitable when originally contributed to the plan. (As noted in the Second Quarter 2017 issue of the *Aon Hewitt Retirement Legal Consulting & Compliance Quarterly Update*, the proposed regulations also permit use of forfeitures to fund ADP/ACP safe harbor plan contributions.) The regulations are proposed to apply to plan years beginning on or after the date the regulations are made final, but may be relied upon before then.

Many 401(k) and 403(b) plans contain language consistent with the prior regulations that would prohibit the use of forfeitures to fund QNECs. In particular, many pre-approved plans were amended to expressly incorporate such prohibition on the use of forfeitures. Aon Hewitt's Retirement Legal Consulting & Compliance consultants can help plan sponsors review their plan documents and evaluate the advantages of amending the plan documents to permit maximum flexibility in the use of forfeitures.

The Calm After the Storms—IRS, DOL, and PBGC Relief

by Linda M. Lee

Following the aftermath of three major hurricanes and devastating wildfires in Northern California, several programs were announced by the Internal Revenue Service (IRS), the Department of Labor (DOL), and the Pension Benefit Guaranty Corporation (PBGC) to provide regulatory relief to plan sponsors, employers, and individuals in certain affected areas. The different types of relief and guidance that have been issued include:

- Liberalized rules for qualified plan hardship withdrawals and loans;
- Compliance guidance for employee benefit plans whose administrative processes and procedures have been disrupted;
- Leave-based donation programs for employees who wish to voluntarily waive the use of their paid time off in exchange for employer cash contributions to certain charitable organizations that provide relief to victims;
- Relief for taxpayers in Puerto Rico;
- Waivers of certain PBGC penalties; and
- Form 5500 filing extensions.

Although these programs have been put in place to help mitigate the effects of the above-mentioned natural catastrophes, the agencies involved have not standardized their responses to disasters, and it cannot be assumed that a program granted in response to one disaster applies to any of the others.

If a plan sponsor has been impacted by one of these events or has employees or plan participants who have been adversely affected, contact any of the colleagues in Aon's Retirement Legal Consulting & Compliance group to learn more about what types of relief are available and what steps are required to utilize the assistance provided.

Quarterly Roundup of Other New Developments

by Jan Raines and Bridget Steinhart

University Wins Complete Dismissal of Fee Suit

In the midst of many similar suits alleging fiduciary breaches by private university fiduciary committees, the University of Pennsylvania (Penn) won a complete dismissal of all of claims brought against Penn and its Vice President of Human Resources.

The plaintiffs alleged that fiduciary duties regarding Penn's 403(b) plan were breached by the plan sponsor contracting with TIAA-CREF to retain two specific funds in the fund lineup; charging excessive fees by allowing the companies providing the investments to also serve as recordkeepers; charging excessive fees because they were calculated based upon plan assets rather than per participant; including some retail funds instead of institutional funds; providing too many investment options (alleging the lineup to be "confusing"); and choosing a high percentage of funds (60%) that underperformed their benchmarks.

Judge Gene E.K. Pratter dismissed all claims. Some of the highlights from the ruling include the following.

- Referencing *Renfro v. Unisys Corp.,* a 401(k) fee case heard in the U.S. Court of Appeals for the Third Circuit that directed district courts to look at a plan's offerings on the whole rather than singling out one fund—the judge noted that plaintiffs can't just show "sub-optimality" of a fund but must prove "systemic mismanagement."
- Considering Penn's diverse population of over 21,000 employees in addressing the number of funds (ranging from 76 to 118) that were described as a "dizzying array" by plaintiffs, the judge noted that "a duty to offer choice is more pronounced in plans as large as Penn's." The funds were offered in four tiers, which the judge commented were addressed in descriptive guidance to assist participants.
- Indicating that locking in some mandated funds with TIAA, one of the plan's recordkeepers, is not an uncommon practice to secure lower fees or better terms. She also quashed the complaint that Penn engaged in a prohibited transaction by allowing TIAA and Vanguard to "bundle services," and thus charge higher recordkeeping fees, by likening the process to bundling internet and cable to landline services, as the overall value can outweigh the cost of an unnecessary service.
- Addressing the claim that asset-based participant fees for recordkeeping should have been assessed as per-participant fees, by writing that, "The plan administrators are fiduciaries to every plan member, whether she invests $10 or $10 million. It is not up to courts to second-guess how fiduciaries allocate that cost, only that the fiduciary 'discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries' as a whole."

While this decision isn't binding on other lawsuits and is on appeal, it does suggest that some courts may be willing to side with universities on these issues.

Judge Refuses to Dismiss Fee Lawsuit

A recent case entitled *Morin v. Essentia Health* presents a slightly different scenario than other contemporary recordkeeping fee cases. Essentia Health (Essentia) offers both a 401(k) plan and a 403(b) plan to its employees. From 2009 to 2011, the two plans were administered by separate recordkeepers. As with many other recordkeeping fee cases, the plaintiffs argue that the recordkeeper fees were too high and were not fully disclosed to participants. The claim further alleges that since fees for a plan are driven by assets and the number of participants in a plan, had the plans been combined "administratively" the fees would have been lower due to the combined participant count and assets.

While it appears as if the plaintiffs have ignored the differences between 401(k) and 403(b) plans in asserting that they should have been combined for recordkeeping purposes, the district court judge denied the defendants' motion to dismiss the claims. This denial does not give any insight into the judge's opinion on whether the claims will be successful, just that he's allowing the plaintiffs to move forward.

It is important to note that ERISA indicates that plan assets can be used only to pay permissible and reasonable fees and expenses for that particular plan, assuming the plan document permits it. Fiduciaries should be mindful that an "equal" fee for multiple plans with the same recordkeeper may or may not be appropriate. They also should question (and benchmark) those types of arrangements to ensure that one plan's fees are not subsidizing another plan's, and that fees are reasonable for the services being provided for each plan.

Small Defined Contribution Plan Is Target of Fee Lawsuit

In a change from the strategy of most other recordkeeping fee lawsuits against plan fiduciaries, *Goetz v. Voya Financial, Inc.* targets the recordkeeper—Voya Financial (Voya)—for charging excessive fees to a small plan, the Cornerstone Pediatric Profit Sharing Plan (Cornerstone Plan), which had only 21 participants and approximately $2.8 million in assets.

The claim alleges that Voya hid its fees by adding asset-based fees to the plan investment funds' operating expenses and charged fees based on assets, rather than the number of participants. Referencing a survey published by NEPC, an independent investment consulting firm, the plaintiff compared the fees charged in the Cornerstone Plan ($1,466 per participant) to the median fee of $64 per participant reported by the NEPC survey, which generally surveys much larger plans.

While lawsuits involving small plans have been relatively uncommon, this lawsuit attempts to claim that per-participant administrative fees for small plans should be consistent with those of large plans. It is hard to believe that an administrative fee of $64 per participant (which would have amounted to total plan recordkeeper fees of $1,344 for an entire plan year) would cover the costs of the recordkeeper. If such was the result, sponsors of small plans would have a very difficult time procuring recordkeeper services for their plans. A decision in favor of the plaintiff would have a strong negative impact on the viability of small retirement plans and would likely preclude most recordkeepers from offering services to small employer plans.

This case is only in the pleading stages; we will have to wait for the merits to be addressed in future proceedings. A ruling on this question may help to clarify how to determine whether fees are reasonable for small plans.

> "It is important to note that ERISA indicates that plan assets can be used only to pay permissible and reasonable fees and expenses for that particular plan, assuming the plan document permits it. Fiduciaries should be mindful that an 'equal' fee for multiple plans with the same recordkeeper may or may not be appropriate."

Recognizing (and Solving) Common Loan Errors
While participant loan programs are a fairly typical defined contribution plan offering, they are not without complexity. Changes in a participant's pay frequency (e.g., biweekly to semi-monthly), changes in payroll systems or plan recordkeepers, and poor communication between multiple recordkeepers for a given plan can all give rise to loan errors.

The more common errors occurring in recordkeeping and payroll functions can include general purpose loans with a final repayment date later than five years after the loan's issuance, loans for active participants in default at the expiration of the cure period, and confusion in handling repayment periods for participants on military leave and other leaves of absence.

Corrections generally include collecting accrued interest on defaulted loans and reamortizing the loans (if permitted). It is important to recognize the potential for an adverse taxable event for the impacted participant, regardless of how the error occurred, and to take action to mitigate such a result to the extent possible.

Further Delay for Portions of the DOL Fiduciary Regulations
As reported previously, portions of the Department of Labor's (DOL's) fiduciary rule took effect on June 9, 2017, with the remainder scheduled to take effect on January 1, 2018. However, the DOL has proposed that the January 1, 2018 effective date for the portions of the regulation that have yet to take effect be pushed out to July 1, 2019. Changes to these parts of the rules could still be made. We will continue to monitor the developments associated with these rules and keep plan sponsors updated.

Disability Claims Procedure Changes may be Delayed
New regulations related to the ERISA claims procedures for disability claims (including claims for benefits triggered by disability under certain retirement plans) were scheduled to take effect January 1 for claims made on and after January 1, 2018. These rules impact plan sponsors that do not outsource (to a third party) the determination of whether a participant satisfies the requirements to be considered disabled.

On October 12, 2017, the DOL proposed a rule to delay for 90 days—through April 1, 2018—the applicability of the final rule amending the disability claims procedure requirements applicable to ERISA-covered employee benefit plans. The delay is intended to permit additional comments regarding the rule and possible alternatives that may be less likely to increase disability benefit plan costs or the prospect for litigation. If the disability claim procedure regulations are finalized in their current form, they would apply to claims for disability benefits filed after April 1, 2018.

Aon Hewitt's Retirement Legal Consulting & Compliance consultants will continue to monitor developments in the coming months to confirm how best to proceed.

Recent Publications

Retirement Plan Record Retention Review
By Dan Schwallie
Journal of Pension Planning & Compliance 43 (Winter 2018)

Employers sometimes ask how long they should retain retirement plan records. This article reviews relevant rules under the Internal Revenue Code and the Employee Retirement Income Security Act (ERISA) and related guidance, as well as related court decisions.

Click here to read the article.

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