

Date: October 4, 2013

For ACTION 10/24/13

For INFORMATION 10/10/13

Board Agenda: Yes X  
No \_\_\_\_\_

**FROM:** Stacey B. Johnson, Chief Financial Officer

**THROUGH:** Margaret May Walsh, Ed.D., Acting Superintendent of Schools

**TO:** The Honorable Karen Graf, Chair, and Members of the Alexandria City School Board

**TOPIC:** **ACPS Supplemental Retirement Plan: Service Agreement, Investment Policy, Plan Assets Reallocation, and Risk Tolerance Assessment**

**BACKGROUND:** ACPS employees participate in a supplemental pension plan funded and managed through Principal Financial Group. This plan is a defined-benefit plan which means retirees receive guaranteed payouts determined by a formula using factors such as salary and duration of employment despite the level of employee contributions made into the plan. Employees are required to participate and currently contribute 1.25% of salary into the plan. Plan performance and portfolio asset allocations are currently monitored by ACPS management with investment advice provided by both Principal Financial and Dahab Associates.

As of June 30, 2013, the plan was valued at \$108.0 million. The most recent valuation report, dated September 1, 2012, projected the value of future benefits at \$111.4 million and earned benefits at \$76.9 million. As such, the plan is in a solid funded position for both accrued and projected benefits.

**DISCUSSION:**

Although this plan has performed extremely well over the past few years and is in a good funded position, current economic conditions are impacting the performance of fixed income securities which will likely continue into the near future. The total portfolio is currently spread among three major asset classes: 59.5% in fixed income securities, 38.6% in equities, and 1.9% in real assets. It is recommended, through the advice of Dahab Associates, that approximately 10% of the plan assets be moved from fixed income to real assets. For the quarter ending June 30, the account recorded \$1.1 million in net investment losses as a result of poor performing fixed income securities.

With these recommended changes, the new asset allocation will be approximately 50% in fixed income, 40.0% in equities, and 10.0% in real assets. Principal Financial Group requires a risk tolerance assessment (Attachment 2) be completed in order to execute a change in asset allocation. The attached questionnaire has been completed by ACPS' financial advisor and requires School Board approval to be submitted to The Principal Financial Group.

Also attached to this memo are a draft investment policy statement (Attachment 1) and the latest, unexecuted service and expense agreement (Attachment 3). Previously, investment decisions were recommended and executed by management as ACPS does not have a formal investment policy to govern the administration and investment decisions for this plan. The proposed investment policy statement establishes these plan administration guidelines as well as general investment goals and objectives of the School Board. The policy statement also describes asset allocation, risk tolerance, and the strategies employed to meet these objectives so that funds are available to meet contractual obligations.

Principal Financial Group has requested execution of their new service and expense agreement which outlines the current solutions offered to ACPS. This agreement was rewritten and updated about three years ago; however ACPS is currently operating under the old agreement (Attachment 4). Legal review and School Board approval is required prior to execution of this agreement. A copy of the version sent to ACPS in 2010 is attached for your information, but no action is requested at this time. We are waiting for an updated agreement form from Principal.

**RECOMMENDATION:** Adopt the attached Investment Policy Statement; approve the submission of the attached Risk Tolerance Assessment to Principal Financial Group; and authorize the reallocation of the supplemental plan investment portfolio to shift 10% of plan assets from fixed income securities to real assets.

**IMPACT:** Reallocates the ACPS Supplemental Retirement plan assets to: 50% in fixed income, 40% in equities, and 10% in real assets and establishes an Investment Policy Statement for Alexandria City Public Schools.

**CONTACT PERSON:** Stacey Johnson, Chief Financial Officer, 703-824-6644

**ATTACHMENTS:**

1. Draft Investment Policy Statement (IPS)
2. Completed Risk Tolerance Assessment
3. New Service and Expense Agreement
4. Old Service and Expense Agreement

**INVESTMENT POLICY STATEMENT  
ALEXANDRIA CITY PUBLIC SCHOOLS  
SCHOOL BOARD SUPPLEMENTAL RETIREMENT PLAN**

**Established: TBD**

DRAFT

## **PART I**

### **A. PURPOSE OF THIS STATEMENT**

The School Board of the City of Alexandria (the "Board") hereby establishes the following policy for administering the investment program of Alexandria City School Board Retirement Plan (the "Plan"). Statutory authority for the establishment and investment program of this Plan is provided by the Code of Virginia §51.1-800 through §51.1-803. This Investment Policy Statement ("IPS") applies only to beneficiaries covered under the Plan, and may be amended by the Board at any time, but should be reviewed annually.

The objective of the Plan is to maintain actuarial soundness so that funds will be available to meet contractual benefit obligations. This IPS sets forth the investment objectives and guidelines to help ensure that the Plan is managed in a manner consistent with the Plan document and applicable statutory requirements.

Part 1 of this IPS outlines the roles and authority of persons or entities managing the Plan as well as inherent investment characteristics. It is anticipated that this part will be modified infrequently. Part 2 of this IPS outlines the accepted risk tolerance levels, target asset allocation and the managers chosen to handle each allocation. It is anticipated that this part will be modified more frequently as funding needs and investment performance dictate.

Should separate policies apply for separate managers that differ from those outlined in this IPS, they may be attached as addenda.

### **B. FIDUCIARY STANDARDS**

In striving to attain the objectives set forth below, the Plan will be managed in a manner consistent with fiduciary standards, namely:

1. All transactions shall be in the sole interest of the participants and their beneficiaries, and
2. All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in an expert like capacity and familiar with such matters would use in conduct of an enterprise of like character and with the same aims, and
3. All entities dealing with the plan are required to disclose conflicts of interest as soon as they become apparent, in writing to the Board or as part of a public meeting when the problem becomes apparent.

The Board must strive to maintain both the reality and the public perception that its decisions are made solely for the benefit of plan members. All entities dealing with the Plan must conduct themselves in a manner worthy of the public trust, keeping in mind that the Plan is subject to public review and evaluation.

Members of the Board and those delegated with investment authority under this Policy, when acting in accordance with the written procedures in this Policy, shall be relieved of personal responsibility and liability in the management of the portfolio.

## C. ROLES AND RESPONSIBILITIES

### 1. School Board

The Plan shall be the ultimate responsibility of the Alexandria City School Board who has sole authority for all investment and policy decisions with the following major tasks

- To adopt a realistic actuarial rate of return for the Plan and, based on that and other factors, to approve annually the level of contributions needed to keep the Plan financially sound;
- To construct a portfolio that will have the potential of earning the actuarial rate of return with a high probability of success, and with as little volatility as possible;
- To respond to changing economic environments through reviews and updates of the portfolio of assets while maintaining compliance to the risk tolerance level and asset allocation targets outlined in this policy and required by the Code of Virginia §51.1-803;
- To approve policies and decisions impacting the Plan's investments, benefits, administration, and existence;
- To perform all of these duties effectively and prudently, in full compliance with any applicable laws and regulations as presently stated or as they may be amended in the future.

The School Board may rely on the recommendations of the Board Budget and Audit Committee, Superintendent, or Chief Financial Officer in order to make any necessary investment or policy decisions for the Plan.

### 2. Legal Counsel

The School Board or Superintendent shall obtain legal counsel to advise and represent the School Board in all matters requiring legal insight and advice. The legal counsel selected may, but does not have to, be the same as that serving the Board.

### 3. Investment Officer

In performing its duties as outlined in this policy, the School Board shall rely on a Plan Investment Officer ("PIO") to make investment or policy decisions. The PIO shall be the Superintendent or Chief Financial Officer of the school division unless the School Board decides to hire an outside PIO. The PIO and his/her staff are charged with the following responsibilities:

- Implementing the investment decisions and policies as approved by the School Board;
- Briefing the School Board as appropriate on relevant investment activities;
- Ensuring there is sufficient cash to meet cash flow requirements;
- Serving as liaison between the School Board and outside parties;
- Maintaining the target asset allocation and selecting managers who will invest assets in each of the asset classes specified in the asset allocation;
- Assisting in the selection, monitoring and evaluation of the managers and the consultant;

The Chief Financial Officer, in his/her capacity as PIO, is empowered to execute and implement decisions made by the School Board but not to make investment or policy decisions on his/her own.

#### 4. Investment Advisor

The School Board or Plan Investment Officer (“PIO”) may engage a third-party investment advisor. The investment advisor will give an independent perspective on the Plan, help select record keepers and investment managers, review the asset allocation, and provide investment performance measurements and results. The investment advisor may be called upon to provide this perspective to the PIO or directly to the School Board.

The investment advisor is expected to meet with the School Board and/or PIO as needed but no less than quarterly. The investment advisor will acknowledge in writing that it is a fiduciary of the plan relative to the services that it provides.

#### 5. Actuary

The School Board shall select an actuary to perform a valuation of the plan as often as needed but no less than every two years.

The Actuary will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

#### 6. Custodian

The School Board shall select a Custodian to hold all cash and securities or evidence thereof. The Custodian will be responsible for maintaining records, providing fund accounting on a trade date basis, performance reporting, and other services as defined in its contract.

The Custodian may not engage in financial transactions related to the Plan that are based on written or oral instructions from any person other than the School Board or the Plan Investment Officer acting on behalf of the School Board.

The Custodian will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

#### 7. Investment Managers

The School Board shall select investment managers to buy and sell securities according to guidelines established for their particular asset class.

Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to the services they provide.

#### 8. Third Party Administrator

The PIO may engage a Third Party Administrator (TPA) to calculate and distribute benefit payments and serve as record keeper.

#### 9. Bundled Provider

The School Board or Plan Investment Officer may select a single entity to perform a combination of the services outlined above. If that selection is made, the requirements under the different sections will apply to that portion of the Bundled Provider’s work.

## **D. Investment Characteristics**

The purpose of the investment program is to earn the actuarial rate of return with as little risk as possible. In constructing a portfolio to accomplish this purpose, the School Board and Plan Investment Officer should consider the following characteristics:

### **1. Liquidity**

The plan needs sufficient liquidity to meet its cash flow needs. Individual investments may have limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

### **2. Diversification**

Assets should be diversified among asset categories, sectors and geographic areas to minimize volatility.

### **3. Time Horizon**

The time horizon of the Plans is perpetual. In projecting returns for the Plan, the PIO may consider information from recent history (20 years), long-term history (70 years), a combination of the two, or projected returns. The PIO must judge that the data gives the best estimate for future returns by applying evidence from the past to current circumstances.

### **4. Risk Tolerance**

The primary investment emphasis of the Plans is to meet the actuarial rate of return. However, a secondary goal is to preserve capital and achieve consistency of results. The Board should strive to attain these secondary goals while still meeting the actuarial rate of return.

The Board recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of the Board, or the Board's designated PIO, to manage the tradeoff between risk and return given the projected needs of the Plan, always attempting to minimize risk of the overall portfolio for any given level of return.

### **5. Asset Allocation**

The PIO shall conduct an asset allocation study once every five years or whenever circumstances dictate. The results from that study shall be used to create an asset allocation which shall be attached as Part II of this IPS.

The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the plan and disbursements made from the plan in the form of benefits and expenses.

### **6. Rebalancing**

Once policy targets and ranges for asset allocation are set in the asset allocation study, the PIO should periodically rebalance assets in an effort to keep the asset allocation as close to the policy target as possible while at the same time minimizing transactions costs.

The PIO may rebalance whenever he/she feels it necessary. Rebalancing is required only if the allocation is outside target ranges specified Part II, and then only on a quarterly basis at the time of the quarterly performance review.

## 7. Investment Alternatives

Investment alternatives are divided into four broad categories: fixed income, equity, real assets, and diversified.

Fixed income investments shall be used primarily to provide stability of principal. Domestic equity and international equity may be added to enhance return. Real assets add to diversity and protect against inflation. Diversified managers (including tactical asset allocation and hedge funds) should raise the overall portfolio return and reduce volatility.

It is not required for the PIO to use all four asset classes.

## 8. Performance Standards

Each manager hired will be assigned a benchmark. Managers are expected to exceed their benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style over a market cycle. Guidelines for each of the four asset classes will be specified unless commingled funds are utilized, in which case the policies of the funds take precedence. Currently all investment strategies used are offered through a Bundled Provider as commingled funds.

## E. Selection of Investment Options

The PIO must select investment managers to fulfill the mandates in the asset allocation. The following criteria provide guidance in selecting managers.

The PIO shall utilize appropriate investment options for implementing the asset allocation strategy based on the evaluation of qualitative and quantitative factors. The selection process will focus on the following five key aspects of an investment management firm and investment option:

In performing the functions below, the PIO may rely on the advice of an investment advisor or a bundled provider in performing these functions. The PIO should look for the following: evaluate:

- 1. Organization**, an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff;
- 2. Investment philosophy**, a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls;
- 3. Adequate resources**, current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems;



**4. Performance**, historical returns and risks relative to passive indexes, and peer groups over market cycles;

**5. Diversification benefit**, correlation of different assets in the context of the total portfolio;

**6. Investment management fees**, the proposed fee structure relative to the industry and other competing candidates to ensure fees are appropriate.

These factors are chosen to help ensure that investment option selections are made with a prudent degree of care, and that excessive risk is avoided. The PIO may also include other factors that they believe are appropriate to a specific investment option selection exercise.

## **F. Monitoring of Investment Options**

The objective of the investment option monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall dictate the timing and manner of response.

The PIO shall evaluate the investment options quarterly, in addition to using any other factors he/she believes are appropriate. These factors are intended to ensure that decisions to retain investment options are made with a prudent degree of care, and that excessive risk is minimized. Among the events that the PIO will examine closely in its review of the investment options are:

1. Poor performance relative to passive indexes and/or peer groups over longer time periods (e.g. three and five years), or ranking in a peer universe below the top half;
2. A change in the manager of an investment option, or departure of one or more key investment professionals;
3. Involvement of the manager of an investment option or key investment professionals in material litigation or fraud;
4. Material "style drift" of the investment option – that is, change in investment strategy of the investment option inconsistent with the investment strategy at the time the option is selected;
5. A change in the ownership, control, or resources of the investment management organization

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the PIO must decide whether to retain or replace the manager.

## Part II

The following section outlines investment decisions under which the School Board Supplemental Retirement Plan is currently operating. It is anticipated that the details outlined in Part 1 will result in modification of these decisions on a routine basis.

### A. OVERVIEW

The Alexandria City School Board (“ACSB”) has a long-standing relationship with the Principal Financial Group. As a Bundled Provider, described under Section C.8. of Part I of this IPS, Principal provides services outlined under Sections C.5. - C.8. including actuary, custodian, investment managers and third party administrator.

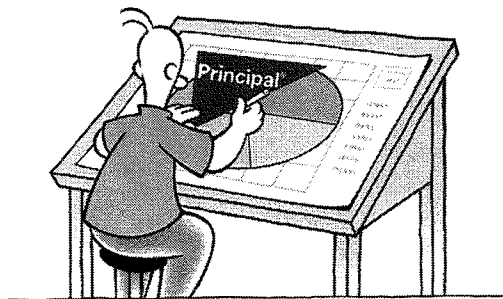
As an insurance company, Principal is also providing guaranteed benefits to plan participants as they retire. To ensure there are sufficient assets in the plan, Principal calculates a Benefits Index which represents current claims on assets as a percentage of available assets, adjusted for the volatility of the asset allocation. Based on Principal’s assertions, that Index must always be below 100%. If it reaches 100%, Principal asserts the right to force the Alexandria City School Board to put more money into the plan, or allow Principal to annuitize all participants then in pay status.

Based on the level of the Benefits Index as of March 2013, the ACPS needs assets totaling \$92 million in the plan. The plan as of that date had \$110 million of assets. The Benefits Index currently requires the ACSB to maintain an asset allocation with a large portion of assets in fixed income instruments. Because of its critical role, the Benefits Index is specified in the IPS.

### B. BENEFITS INDEX as of March, 2013 84%

### C. ASSET ALLOCATION

ASSET CLASS	TARGET	RANGE	INDEX
Domestic Equity	30.6%	25%-40%	S&P 1500
International Equity	8.4%	5%-10%	MSCI EAFE
Real Assets	1.0%	5%-15%	NCREIF ODCE
Fixed Income	60.0%	45%-65%	BC Aggregate
<b>TOTAL</b>	<b>100.0%</b>		



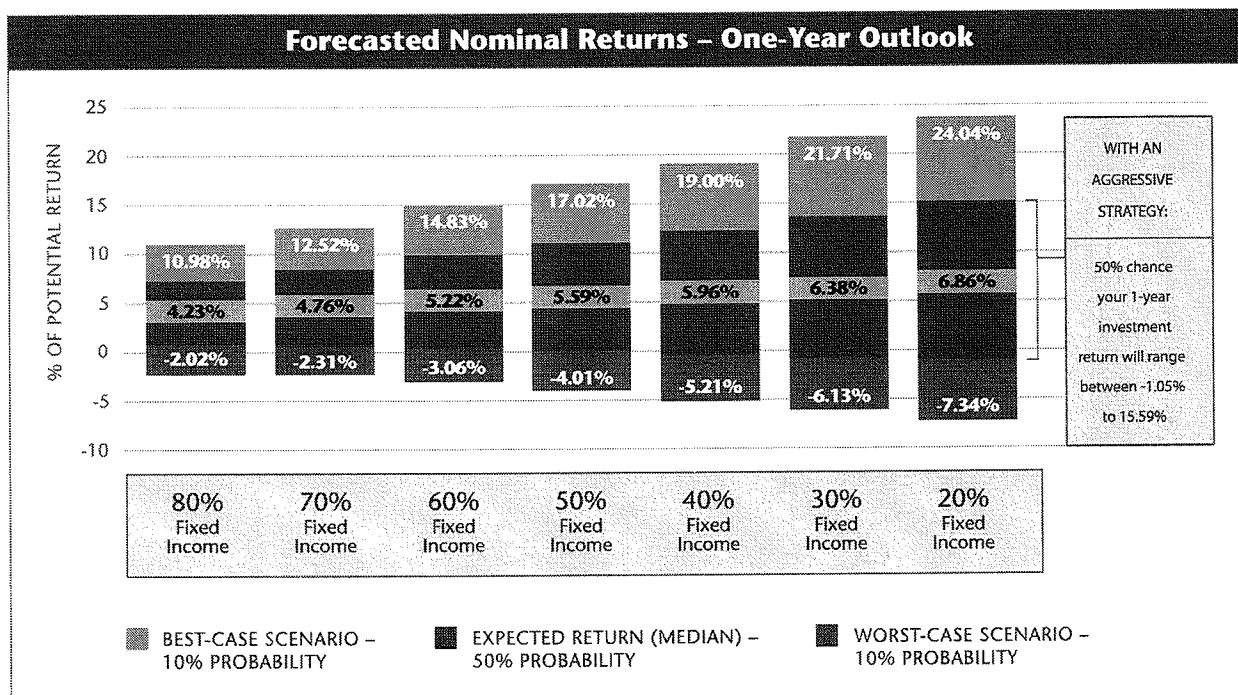
## Assess Your Retirement Plan Goals

Investment returns play an integral role in determining whether your retirement plan achieves its long-term goals and objectives. Generally, as a plan sponsor, if you expect higher returns and the corresponding reduction in long-term costs for your retirement plan, you must take on a higher level of risk within your investment mix. If you do increase risk, you're also more likely to see sharper and more sudden ups and downs in your investment returns.

You must decide how comfortable you are taking on greater risk. If you're willing to take on more risk, how much more are you willing to take? In general, both risk and potential return grow as the equity (e.g., stocks) share of the portfolio grows and the proportion of fixed income (e.g., bonds) investments shrinks.

The following graph, used in conjunction with the questions on pages two and three, may help you gauge your plan's risk tolerance. Principal Financial Advisors, Inc. uses historical performance information, along with forward-looking capital market assumptions (using data from industry experts such as Wilshire Consulting), to construct our investment strategies.

The dynamic forecasting capabilities of our asset class modeling provide a broad range of potential investment returns for each of our investment strategies. Our ability to demonstrate the range of possible outcomes for a variety of strategies enables you to better understand the risk and reward potential for each investment strategy shown.



The asset allocation of these investment strategies may change over time and there is no guarantee that future risk/return performance will be consistent, especially over shorter time periods. No portfolio has zero risk, and none guarantees any specific reward. Please see important disclosure information on page 4.

### Risk Tolerance Questions

1. How would you respond to the following statement? *Protecting retirement plan assets from loss and achieving lower returns is more important than growing retirement plan assets by earning high returns.*

- Strongly agree
- Agree
- Risk and return are equally important
- Disagree
- Strongly disagree

2. Which of the following statements best describes your organization's investment philosophy with regard to retirement plan assets?

- We feel most comfortable with investment options that earn consistent, but potentially lower, returns year to year. We prefer to take as little risk as possible.
- We are willing to withstand some ups and downs in the value of the retirement plan's portfolio, but prefer to be invested in a portfolio that reduces the chance of large losses.
- We want high investment option returns and are willing to accept moderate levels of risk and the potential for occasional short-term losses.
- We want high investment option returns and are willing to accept a higher degree of risk over a longer period of time. This may result in more frequent swings in the value of the retirement plan's portfolio.

3. How much the value of a portfolio rises and falls is called volatility. Which of the following describes how your organization feels about the amount of volatility the retirement plan is willing to accept?

- Little — We would rather have small returns than risk losing retirement plan assets.
- Some — We would like to earn higher returns over time and accept an occasional large downturn in the value of the retirement plan's portfolio.
- Considerable — Our main goal is to earn high returns over time, and we can accept periods of large losses to do so.

4. How do you feel about the effective interest rate used to value your retirement plan's liabilities and the impact it has on your retirement plan's funded status?

- We would like investment earnings to keep up with the effective interest rate, but don't want to take chances losing retirement plan assets.
- While accepting a low level of risk, our main goal is to earn slightly more than the effective interest rate.
- Our main goal is to increase the value of the retirement plan's assets at a pace moderately greater than the effective interest rate. Therefore, we are willing to accept short-term losses associated with more moderate investment options.
- We want retirement plan assets to earn significantly more than the effective interest rate over the long run even though there's a greater risk the investment options may lose value in the short-to-intermediate term.

### Risk Tolerance Questions

5. The table below shows how much the value of \$1,000,000 in retirement plan assets may go up or down in value over one year. Which portfolio would make you feel the most comfortable?

	Possible One-year Return*	Possible One-year Loss*
Portfolio A	Gain of \$107,000 (10.7% of the value)	Loss of \$23,000 (2.3% of the value)
Portfolio B	Gain of \$144,000 (14.4% of the value)	Loss of \$32,000 (3.2% of the value)
Portfolio C	Gain of \$186,000 (18.6% of the value)	Loss of \$53,000 (5.3% of the value)
Portfolio D	Gain of \$237,000 (23.7% of the value)	Loss of \$74,000 (7.4% of the value)

\*This table shows the possible range of one-year returns on a best-case and worst-case scenario using assumptions provided by Wilshire Consulting. Best-case and worst-case scenarios are represented by a 10% probability.

- Portfolio A
- Portfolio B
- Portfolio C
- Portfolio D

6. How would you respond to the following statement? *If there is potential for higher returns, we are comfortable with a portfolio that may experience large declines in value even if the large declines are experienced at an unexpected time and can materially affect our annual required deposit amount.*

- Strongly disagree
- Disagree
- Agree
- Strongly agree

7. Sometimes investment losses are long term and sometimes they are short lived. How might your organization respond when the retirement plan experiences investment losses?

- We would evaluate moving the retirement plan's assets to a more conservative investment strategy if they suffered substantial declines over a six-month time period.
- Although declines in retirement plan assets make us uncomfortable, we would wait more than a year before evaluating the investment strategy.
- Even if the value of the retirement plan assets went down over a period of several years, we would continue to follow our long-term investment strategy.

8. If your retirement plan's funded percentage decreased due to investment losses, which percentage decrease indicated below would your retirement plan be able to tolerate?

- 5%
- 7%
- 9%
- 11%
- 13%

**Other**

Are there any other factors we need to consider in setting the asset allocation strategy for your retirement plan?

Our plan is fully funded based on traditional actuarial measures. We can afford to take some incremental risk. In addition bonds, the ~~ad~~ traditional safety net of a portfolio, may not act as such in a rising rate environment. We would like to shorten duration and decrease our exposure to bonds.

**Action Steps**

Thank you for completing this questionnaire. We look forward to using it to serve you more effectively. To complete this process please:

- 1. Sign and date the questionnaire:
- 2. Make copies for your retirement plan records.

Name Chief Financial Officer

Title Alexandria City Public Schools

Company June 4, 2013

Date

- 3. Mail the completed, original questionnaire to us at the following location:

Principal Financial Advisors, Inc.  
711 High Street  
Des Moines, IA 50392-3480

**Forecasted Nominal Returns – One-Year Outlook Chart**

This chart shows the potential range of one-year returns for a variety of asset allocation strategies by illustrating returns for each strategy on a probable, best-case and worst-case scenario. Best-case and worst-case scenarios are represented by 10% probabilities.

Using the assumed rate of return, standard deviations and correlation factors provided by Wilshire Consulting, the range of possible outcomes was plotted for each asset allocation portfolio to create a probability chart.

To begin determining the statistical probability of how a given portfolio of asset classes might perform the software runs a series of 1,000 scenarios. The assumed rate of return, standard deviations and correlation factors of each asset class are used to generate the range of possible outcomes. Results are plotted to show the value of the indicated measure at the indicated levels of probability.

The future cannot be forecast with any certainty as the financial goals and objectives of a retirement plan and various laws and market conditions will likely change over time. As a result, the actual results your plan experiences may vary from the hypothetical illustrations contained in this analysis. All investment options involve risk and may potentially lose value, including initial investment. Investment options that may offer potentially higher rates of return are associated with higher levels of risk, while lower-risk investment options generally offer lower potential returns. The higher the risk level of the portfolio, the higher the volatility that can be expected from month to month regarding the value of the investment options.

**IMPORTANT:** The projections or other information generated by Wilshire Consulting regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. The results shown may vary over time. Other asset classes not considered might have characteristics similar or superior to those included in this analysis.



WE'LL GIVE YOU AN EDGE®

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

Principal Financial Advisors, Inc. is a registered investment adviser and member company of the Principal Financial Group®.

Insurance products and plan administrative services, and separate accounts which are available through a group annuity contract, are provided by Principal Life Insurance Company, a member of the Principal Financial Group® (The Principal®), Des Moines, IA 50392.

This document is intended solely for information and education.



### Service and Expense Agreement

This Agreement is made by and between the Plan Representative which signed this page (“you”, “your”) and the member company of the Principal Financial Group® which also signed this page (“we”, “us”, “our”). You and we are the “Parties” to this Agreement. Each of the Parties may be referred to separately as a “Party”.

This Agreement consists of this page, the following pages, and the attachments. These are all incorporated in, and made a part of, this Agreement for all purposes. By signing this page, the Parties agree to all the terms of this Agreement and to be bound by any and all parts of it as if the Parties had signed at the end.

Each of the Parties represents and warrants that it has the authority to enter into this Agreement and will be bound by it. Each individual signing this Agreement represents and warrants that she or he has, by themselves or together with any other persons signing this Agreement for the same Party, the authority to sign this Agreement and make it binding on the Parties.

This Agreement sets out the understanding of the Parties on the matters covered in the Agreement. It supersedes and cancels any and all prior agreements, understandings, or representations between the Parties, whether written or oral, relating to these matters. The Parties understand, however, that there may be some aspects of the relationship between the Parties that are incompletely or imperfectly described in this Agreement. To the extent that it helps fill in those gaps or interpret this Agreement, the course of dealing between the Parties, including the practices and procedures arising in that course of dealing, will be considered a part of this Agreement and enforceable as if included in it. This use of the course of dealing will not amend this Agreement in any way.

Paragraphs following underlined headings marked with asterisks will survive the termination of this Agreement.


We cannot and do not give legal, tax, or accounting advice. Nothing set forth in this Agreement or in any part of the optional services or related documents that we provide, or any communication with you or any Plan Entity may be taken or relied on as legal, tax, or accounting advice. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

Effective Date of this Agreement: January 1, 2010

**CITY OF ALEXANDRIA PUBLIC SCHOOLS**  
**(Plan Representative)**

**Principal Life Insurance Company**  
**(Member Company of the Principal**  
**Financial Group)**

By: \_\_\_\_\_

  
By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: Chairman, President and Chief Executive Officer

Date: \_\_\_\_\_

State: VA

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## ARTICLE I GLOSSARY

Capitalized terms used in this Agreement will have the meanings set out in this “Glossary” unless a different meaning is plainly required by context. Some attachments may modify Glossary terms for the purposes of those attachments.

“**Account**” means, with respect to a defined contribution Plan to which we have agreed to provide Services, an individual account established for a Participant. “Account” means, with respect to a defined benefit Plan, the portion of the assets of a defined benefit Plan with respect to which we agree to provide Services.

“**Default Option**” means the Plan-level Default Option or the Participant-level Default Option.

If a Default Option selected by you with regard to a Plan is not available, or becomes unavailable, to that Plan, then the selected Default Option will be the money market option available to the Plan or, if there is no money market option or if the money market option is not available to new deposits, the investment option with the lowest three year standard deviation available to the plan, as provided to us by Morningstar, or another such service if Morningstar discontinues publication of such data.

“**Deposits**” means contributions to a Plan or transfers of Plan assets that are forwarded to the Funding Agent as described in this Agreement. Deposits must be by electronic transfer of immediately available funds.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

“**Fee**” means any amount due and payable to us under this Agreement.

“**Funding Agent**” means the trustee or other entity that (i) can receive and hold assets of a Plan and (ii) has been retained to do so with regard to the Plan. The Funding Agent either holds, or has made arrangements with others to hold, Investment Options on behalf of the Plan. The Funding Agent may be either Delaware Charter Guarantee & Trust Company, a Delaware corporation conducting business under the trade name of Principal Trust Company, or another entity, which we agree to treat as Funding Agent under this Agreement.

“**Governmental Action**” means any Federal or State law, regulation, notice or any other ruling to which we, the Plan, the Plan Sponsor, or you become subject to that impacts this Agreement in any way.

“**IRC**” means the Internal Revenue Code of 1986, as amended.

“**Investment Option**” means (i) any financial instrument which may legally be used to fund a Plan and (ii) with respect to which we agree to provide Services. Nothing in this Agreement will be taken as amending, modifying, or waiving any terms and conditions of any Investment Option.

“**Major Business Change**” reflects the fact that we have made various Service and Fee commitments in this Agreement based on a variety of facts and circumstances concerning each Plan and, to the extent that these facts and circumstances change with regard to a Plan, we may not be able to provide Services to that Plan for the Fees under the new facts and circumstances. As a result, we retain the right to change our Fees and Services, as described in Article VIII Fees with respect to a Plan in the event of:

- a change in the structure or operations of that Plan or an entity either that sponsors that Plan or employs Participants, if we determine the change would have a material impact on the structure, nature, or operations of that Plan, including changes to cash flow or Investment Options, or a change to investment operations, or
- our discovery of meaningful differences with regard to
  - data related to a Plan that was provided to us prior to the end of the transition period and data that we receive following the end of the transition period or
  - the amount of assets we expected to be transferred into Investment Options with regard to a Plan before the end of the transition period and the amount of that Plan’s assets actually transferred into Investment Options at the end of the transition period.

For the purposes of this Agreement, the transition period with regard to a Plan ends on the later of:

- our receipt of all data that we need to begin to perform Services without need for additional data or
- your giving us Notice that there are no more Plan assets to be transferred into Investment Options.

Major Business Changes may include; a change of Plan type or Plan or annuity contract termination or spin-off; a Plan merger/spin-off; a greater than 25% change in the value of the Plan assets or the number of Participants; a change in compensation paid by us to financial professionals; and the addition or removal of any Investment Option.

**“Notice”, “Notify”, and “Notification”** means a communication between the Parties or between us and the sponsor of a Plan, if the sponsor is not a Party. Notice may also be from a Participant to us as allowed by you and the Plan Document. A communication intended to be a Notice may be written communication, facsimile transmission, telephone call, or electronic transmission in any form, and to any address, e-mail address, or fax or telephone number that the Parties agree to in advance. A message that we make available to you on the Principal Sponsor Service Center<sup>SM</sup> site and Principal Message Center<sup>SM</sup> will constitute a Notice to you. A communication to us that is intended to be a Notice to us must be sufficiently clear and complete so that we can use it without requesting further data or instruction in order to be a Notice. Notice given by us will be sufficient in whatever form that we provide it. We may not, and are forbidden to, take any action based on any form of communication other than either a Notice or a form of legal compulsion, including a subpoena.

The Parties may agree to security procedures for Notices and will treat such procedures as strictly confidential, making them known only to such of their respective employees that need to know. If we have not given you Notice as to the form in which a communication intended to be a Notice to us should be made, then that communication must be in writing or e-mail to qualify as a Notice.

**“Participant”** means a person who is, or may become by the operation of a Plan, entitled to benefits under that Plan.

**“Participant-level Information”** means specific and confidential information relating to individual Participants and their beneficiaries, including personal investment account balances, dates of birth, dates of employment, social security numbers, name of beneficiary, Participant compensation amounts, job titles, and identification of Participants who have met the IRS deferral limit.

**“Plan”** means the:

1. RETIREMENT PLAN FOR EMPLOYEES OF THE SCHOOL  
BOARD OF THE CITY OF ALEXANDRIA, VIRGINIA (435557)

To the extent that more than one is named, the term “Plans” will refer to any two or more of the Plans.

**“Plan-level Default Option”** means the and Principal Money Market Separate Account for Plan 435557 in situations where (i) we have not received Notice containing instructions regarding which Account(s) amounts are to be allocated and (ii) we are not able to determine what amounts are to be allocated to what Account.

**“Plan-level Information”** means general information relating to a Plan as opposed to a specific Participant, including the aggregate value of that Plan’s Investment Options, employer data, provisions of Plan Documents, and other materials and records not consisting of Participant-level Information.

**“Plan Document”** means the document(s) under which a Plan is established and maintained.

**“Plan Entity”** means a Plan, any trust, contract, or custodial arrangement funding the Plan (or the trustee of custodian in connection with those arrangements). The term can apply to any one of the listed terms singly or in any combination.

**“Successor”** means, with regard to any Plan, any trustee, custodian, or insurance company (other than us, an affiliated company, or any entity retained by the Funding Agent in furtherance of its services) to whom a Transfer is made as part of the termination of our providing Services with regard to the Transferred amounts and who may lawfully receive such Transfer.

**“Services”** means the services specifically set out and described in this Agreement. Some Services may require additional documentation.

**“State”** means the state in which this Agreement is signed by the Plan Representative.

**“Transfer”** means a transfer of, or the act of transferring, cash as described in “Transfers” under “General Provisions”.

## **ARTICLE II GENERAL SERVICES & ATTACHMENTS**

The Services you select for each Plan are described in this Agreement.

The attachments that are a part of this Agreement at the time the Agreement is signed by both Parties may be severed from, and cease to be a part of, this Agreement if either:

- the Parties agree, in a signed writing, to terminate the attachment with regard to one or more Plans or
- one Party gives the other 30 days advance Notice specifying the attachment and the Plan to which the attachment relates, that is to be terminated and the other Party does not give Notice objecting to the termination within that 30 day period.

In the event that an attachment is terminated, we will be entitled to all Fees associated with the Services described in such attachment for the entire period up to and including the date on which the attachment terminates. Effective upon the termination of an attachment, all references in this Agreement to the attachment, the Services described in the attachment, and Fees related to those Services, will be deemed deleted from the Agreement as if done so by written agreement of the Parties, as described in the amendment section of Article III of this Agreement.

Attachments can be added to this Agreement and, once added, will become a binding part of this Agreement by either:

- the Parties agreeing, in a signed writing, to add the attachment with regard to one or more Plans or
- one Party giving the other 30 days advance Notice, specifying the attachment and the Plan to which the attachment relates, that is to be added to this Agreement (the Notice must include a complete copy of the attachment) and the receiving Party not objecting to the addition within that 30 day period.

## ARTICLE III GENERAL PROVISIONS

Making Deposits. You will arrange for Deposits to be made. We will not do so. We have no obligation to collect any Deposits. We will not be required to inquire about the payment or amount of any Deposit.

Treatment of Deposits. All directions regarding the allocation and investment of Deposits that we receive in a Notice will be forwarded to the Funding Agent. If we receive incomplete Notice regarding the allocation or investment of all or any part of a Deposit, we will direct the Funding Agent to invest the portion of the Deposit for which we have no allocation directions in the appropriate Default Option. We have no obligation to, and will not, give you or any Participant a specific Notification of any such actions taken due to the incomplete nature of the Notice. The next periodic report of Investment Options or Account balances, where appropriate, will serve as Notice of amounts received since the last periodic report. The Plan sponsor has access to information via the Principal Sponsor Service Center to identify contributions directed to the Participant or Plan-level Default Option.

Transfers. If we receive Notice directing the liquidation of any Investment Option and the Transfer of the proceeds to a Successor or another Investment Option, we will forward that direction to the Funding Agent. If on any day we receive more than one direction to liquidate an Investment Option and Transfer the proceeds with regard to a Plan or, where applicable, a Participant, we will only forward the last such direction that we receive. All prior directions that we have received on that day relating to that Plan or Participant will be considered as superseded and canceled, even if they relate to different Investment Options.

We have standard procedures for processing Notices giving investment instructions. Generally, all such Notices that we receive prior to 3:00 p.m. Central Time (or the close of relevant markets, if earlier) on a business day will be processed at the close of that business day, as long as they are accurate and complete. If the Notice is received later, the instructions will be processed on the next business day.

\*Effect of Transfer. We will provide a final accounting with regard to Transfers. This will show the Transfer and the effect of the Transfer. We will not be responsible for providing any Services with regard to amounts Transferred to a Successor. The final accounting will be provided in a reasonable time period after the Transfer occurs.

Services. We will provide Services in a timely manner at all times this Agreement is in force. This is subject to your fulfilling the role required of you with respect to each of those Services, our receipt of Notice containing timely and correct data, and our receiving timely payment of Fees. If you propose timing for a Service other than our standard timing, you must give us at least 60 days prior Notice. We may, but are not obligated to, accept your proposed timing. If we do so, we will Notify you of our acceptance.

\*Records/Reports. We will keep accurate, detailed records and make reports to the Plan or Participants and others as you direct in a Notice. Ninety days after we furnish those reports, we will be released and discharged from all liability concerning our performance with regard to this Agreement, as reflected by the reports. This will not apply to any performance as to which written objections have been filed with us within the 90-day period. The Parties agree to provide to each other, on a timely basis, such reports and records as the other may reasonably require in the performance of their respective obligations under this Agreement. This includes the orderly termination of this Agreement.

\*Other Fees. Our Fees may include supplemental amounts charged by us, in our sole discretion, if any part of a Service must be redone or revised because of any incomplete or incorrect information provided to us by you or by a Participant. Any of the amounts described in this Section will be treated as Fees and paid as described above. We will pay from the Accounts, in the manner you direct in a Notice, other charges, or expenses that the Plan can pay under the Plan Document and applicable law.

From time to time, inadvertent administrative errors may occur in processing transactions so that our standard procedures are not followed. If we are responsible for the error, we are committed to restoring to the Plan or Participant the value that would have applied if the error had not occurred, and we will reimburse the Plan or Participant, as applicable, for any loss caused by our errors. In exchange for our commitment to correct losses resulting from errors, and other Services to the Plan, we will be entitled to retain amounts remaining after errors are corrected (“gains”) as part of our compensation for Services.

Our service guarantee goal is to provide you with outstanding service. We are so sure we can provide it promptly and accurately that we guarantee it. If you are unhappy with a specific Service we provided, just tell us. We promise to fix the problem to your satisfaction. If we are unable to do so, we will waive the Fee for that Service, provided a Fee is due from you, or we will provide a comparably valued additional Service to you for no additional Fee. This guarantee will not, however, apply to situations where the problem resulted from our receipt of late, incomplete, or inaccurate information.

**\*Status.** Nothing in this Agreement, nor in the provision of Services, makes us a party to, or a fiduciary or administrator regarding, the Plan or any Plan Entity.

**\*Limitation on Our Duties.** We will not be under any duty while performing any part of this Agreement greater than a duty of ordinary care, or:

- to take any action with regard to any Plan Entity, unless we specifically agree in writing to do so,
- to inquire into the correctness, completeness or any other respect of any Notice, communication, or other matter regarding any Plan Entity,
- to enforce any provision of a Plan or any trust or other arrangement funding that Plan,
- to inquire about the status or performance of a Plan, any Plan Entity, or any Successor, with regard to that Plan,
- to perform Services with respect to any amounts that are not Deposits or their proceeds.

Our duties and performance under this Agreement do not give us knowledge of any underlying fault or problem with regard to the Plan or any Plan Entity.

**\*Limitation on Our Liability.** Our performance under this Agreement is heavily dependent on information provided to us by Notice. We will not be responsible for any improper performance of, or failure to perform, a Service due, in whole or in part, to receipt of no, or incomplete or incorrect, data needed to perform that Service.

We rely on you or your designee, or a Participant, to give us the information that we need to provide the Services. Your cooperation is necessary to our acting timely and accurately. We will not be obligated to perform any Service if we do not receive the timely, accurate, and complete information we need to perform that Service.

We will not be liable with regard to any performance, failure to perform, or partial performance of, a Service when we are acting based on late, incomplete, or inaccurate information. We will Notify you of our need for information via the Principal Sponsor Service Center<sup>SM</sup> site and Principal Message Center<sup>SM</sup>.

We are only obligated to provide Services and nothing more. While we may, from time to time, agree to perform other or different actions or services with regard to the Plan or other Plans, we are under no obligation to do so. No such obligation is implied in this Agreement or by our performance, nor may any be inferred.

Please note that not all Services will be available to all Plans. Our provision of a Service with regard to a Plan does not imply any obligation on our part to provide that, or a similar, Service to any other Plan, nor may any such obligation be inferred.

**\*Right to Rely.** We may rely conclusively on any Notice we receive. We will not have any liability for any losses that may arise from the acts, omissions, delays, or inaction of any other person not affiliated with us.

**Compulsory Distributions.** We will not be under any duty to make a compulsory distribution from the Plan without Notice from you. If with regard to any compulsory or partial compulsory distribution from a Plan (including a minimum required distribution) we do not receive Notice specifying the Investment Options to be liquidated or any other instructions necessary for such distribution to be made, we will, and you authorize us to, direct the Plan Funding Agent to liquidate Investment Options pro rata (to the extent) possible, in the relevant Account and invest the proceeds in shares of a money market mutual fund. If we receive no Notice providing information that we may reasonably require in order to distribute the proceeds of such liquidation to the affected Participant(s), we will use our best efforts to pay the proceeds directly to the affected Participants and will be recompensed by you for any additional costs or expenses incurred in doing so.

**Duration of Agreement.** This Agreement will remain in effect indefinitely. It will be fully binding on the Parties. It will also extend to their respective successors and assigns. This Agreement, may, however, be terminated, in whole or with regard to one or more of the Plans, by the Parties on at least 60 days prior written Notice to the other.

If the Funding Agent is an affiliate of ours, termination of a Plan's relationship with the Funding Agent will also constitute Notice to us of termination of this Agreement with regard to that Plan. (The period between the Notice of, and the date for, termination of this Agreement will be referred to as the "termination period" below.)

Effect of Termination. During the termination period, we will with regard to a terminating Plan:

- accept Notices regarding Transfers to the Successor, except for the last five days of the termination period,
- accept Deposits and Notices regarding the allocation of Deposits, except for the last 10 days of the termination period,
- accept Notices regarding Transfers between Investment Options, except for the last 10 days of the termination period, and
- cease to accept Notices regarding Transfers between Investment Options if, at the time such Notice is furnished, operational, timing, legal, or documentary restrictions regarding the Investment Options would make liquidation of such Investment Options impossible or impracticable.

We will direct the Funding Agent to liquidate or transfer in-kind (if available) all remaining Investment Options and convey such to the Successor at the end of the termination period.

We will provide to you a final report with regard to all Accounts as of the end of the termination period. We will not be obligated to make any further reports regarding the Plan or any portion of the Plan, except as described under “Records / Reports” above and “Cooperation” below.

The actions required to terminate this Agreement are to be completed as soon as possible after Notice of termination of the Agreement.

Final Termination. This Agreement will terminate at the end of the termination period, except that paragraphs following underlined headings marked with asterisks will survive the termination of this Agreement.

Assignment - Assets. We understand that none of the Investment Options are to be subject to any kind of anticipation, alienation, sale, transfer, assignment, pledge, charge, or encumbrance except as may be provided for in the Plan document or applicable law. We will act accordingly in providing the Services. Neither this nor anything in this Agreement may be interpreted as impairing our ability to collect Fees.

Assignment - Rights. Neither this Agreement, nor any right, title, interest or performance with regard to this Agreement may be alienated, assigned, anticipated, in any manner, without the express written agreement of both Parties. Notwithstanding the non-assignability of the above, we may retain one or more affiliated companies to perform services, but we will retain responsibility for performance of those services.

Amendment. No variations, modifications, or amendments of this Agreement, or any term or condition, will be binding on either Party, unless made by:

- written agreement executed by both Parties, effective as agreed on,
- Notice from you to us of a change in the name of the Plan,
- 30-day advance Notice to you of changes required by law, or
- modification of financial professional or broker dealer access via the Principal Sponsor Service Center<sup>SM</sup>, or
- Notification to you:
  - regarding changes to this Agreement required by a Major Business Change, effective upon the sending of the Notification,
  - of changes to Fees, including increasing any Fee from zero, effective 60 calendar days after the giving of the Notification, subject to any Fee guarantees set out in this Agreement,
  - describing the changes made under “Enforceability and Severability” below and our “core Services”, effective as set out in the Notification,
  - accepting a proposed timing for a Service effective as set out in the Notification,
  - regarding changes to this Agreement required by a Governmental Action, effective on the sending of the Notification,
  - or
  - regarding changes reflected in a revised Fee proposal, or
  - as specifically stated elsewhere in this Agreement.

This Agreement may be amended in accordance with this section at any time and without the approval of, or communication to, any entity other than a Party.

\*Cooperation. The Parties agree to cooperate and act in good faith in all actions regarding this Agreement and the provision of Services. This requirement of cooperation in the event of the termination of this Agreement will include the continued provision of information and reports between the Parties that are reasonably needed to affect the transfer of data and Investment Options necessary to terminate this Agreement with regard to any Plan and allow the Successor to perform its duties.

Waiver. No failure or delay to exercise, nor any single or partial exercise of, any right, power, or privilege given or arising under this Agreement will operate as a waiver of future rights to exercise any such right, power, or privilege.

\*Construction. This Agreement will be construed in accordance with the laws of the State. This Agreement will be construed according to the fair intent of the language as a whole and not for or against any Party. To the extent it is necessary to obtain this treatment under the laws of the State, the Parties agree to treat this Agreement as if it were jointly drafted by the Parties. The term “including” (in its various forms) will be construed as providing examples only and as being without limitation. Nothing in this Agreement will be taken as amending, modifying, or waiving any terms and conditions of any other agreement.

Counterparts. This Agreement may be signed in any number of counterparts, each of which will be considered an original, but all of those counterparts will together constitute only one Agreement.

Enforceability and Severability. The determination that any provision of this Agreement is not enforceable in a particular jurisdiction will not affect the validity or enforceability of the remaining provisions generally, or in any other jurisdiction or as to any other entities not involved in that judgment. Such unenforceable provisions will be stricken or deemed modified in accordance with such determination and this Agreement, as so modified, will continue to be in force and effect.

\*Taxes. Income taxes, taxes of any other kind, or fines or penalties may be directly or indirectly levied or assessed on, or with regard to, any Investment Option or any Plan Entity. These amounts are to be satisfied from the affected Accounts, to the extent allowed by law. Any such amounts will be treated as Fees and either be deducted or billed as if they were Fees.

We will not have any responsibility to any Plan Entity for the tax treatment of the Plan, any Participant, or any Transfer.

\*Force Majeure. We will incur no liability to you or any Plan Entity and will not be responsible for delivery or non-delivery or error in transmission of reports or Notices that is caused by a third party. We will also not be responsible for any delay in performance, or non-performance, of any obligation hereunder and for any loss to the extent that such delay in performance or non-performance or such loss is due to forces beyond our reasonable control including delays, errors, or interruptions caused by third parties, any industrial, judicial, governmental, civil or military action, acts of terrorism, insurrection, or revolution, nuclear fusion, nuclear fission or radiation, failure or fluctuation in electrical power, heat, light, air conditioning, or telecommunications equipment, or acts of God.

Fiduciary Statement. We, as an investment manager, are a fiduciary with regard to the selection, monitoring, and retention of the portfolio managers for our separate accounts. We are also a fiduciary with regard to the selection and monitoring of our Sub-Advised Funds and the Principal Trust Target Date Collective Investment Funds as appropriate investment options to be offered to retirement plans. ERISA imposes on the plan administrator ongoing accountability for the selection and monitoring of those to whom specific fiduciary responsibilities have been delegated or on whom the plan administrator is depending for help in meeting its own fiduciary obligations.

We will hold harmless and indemnify the appropriate named fiduciary of a Plan from claims by a Participant sustained through judgment by a court of competent jurisdiction on grounds of our negligence in the selection, monitoring, and retention of the portfolio managers for our separate accounts, or in the selection and monitoring of the appropriateness of the Sub-Advised Funds, or the Principal Trust Target Date Collective Investment Funds for retirement plans.

Implementation. The fiduciary obligation described in the immediately preceding paragraph arises independently of this Agreement. It does not affect or relate to this Agreement. It does not affect or relate to any duties, performance of the obligations of ours under this Agreement, in any way. The indemnity is effective only if we receive timely Notice of a claim with regard to which indemnity is sought and your cooperation in responding to such claim. For the purposes of this and the preceding paragraph, “plan administrator” means the entity charged with the administration of a plan, as defined in ERISA §3(16).

## ARTICLE IV DISPUTE RESOLUTION

\*General. In the event that there is any dispute between the Parties regarding:

- this Agreement;
- any Services;
- any rights, duties, or obligations explicitly or implicitly granted or arising under this Agreement;
- any transaction made under this Agreement; or
- any construction or application of this Agreement,

the Parties will try in good faith to first resolve all such disputes as described below.

The Parties agree that all discussions and communications during the dispute resolution process will be, and will remain, confidential to the fullest extent allowed by applicable law. The Parties agree to treat all such discussions and communications as compromise and settlement negotiations for the purposes of any rules of evidence.

\*Negotiation. If the Parties cannot resolve a dispute in the ordinary course of business, the Party claiming a dispute against the other shall give the other Notice of that dispute in writing, stating the nature of the dispute and the relevant facts, including documentation, and referring to this article. The other Party will then have 15 calendar days to make a complete, written response in a Notice to the other. The Parties will meet to discuss the dispute. If practicable and mutually desirable, the Parties will meet in person. If the dispute remains unresolved for any reason after 60 calendar days following the mailing of the response, the Parties will then proceed to mediation.

\*Mediation. The Parties will, as soon as commercially reasonable after the 60 calendar day period referred to under negotiation, above, initiate the mediation process and endeavor in good faith to settle their dispute by mediation. Unless the Parties agree to the contrary, the mediation will conform to the then current Mediation Rules for Commercial Financial Disputes of the American Arbitration Association or such similar organization as the Parties may agree. If the Parties cannot agree on a neutral mediator, one will be appointed by the American Arbitration Association in accordance with its mediation rules. Mediation will occur within 60 days of the initiation of the mediation process. The Parties will share equally in the Fees and expenses of the mediator and the cost of the facilities used for the mediation, but will otherwise bear their respective costs incurred in connection with the mediation. The mediation shall be non-binding. If the dispute remains unresolved for any reason after the completion of the mediation process, the Parties will then proceed to arbitration.

\*Arbitration. If a dispute is to be resolved by arbitration, the arbitration proceeding will take place in the capital city of the State, unless the Parties agree to the contrary. The arbitration will be governed by the Federal Arbitration Act.

There will be three arbitrators, each of which will be selected, and the arbitration conducted, in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), except that the provisions of this Agreement will control over the AAA rules where the Agreement and the Rules differ or the Rules are silent.

The arbitrators must be attorneys (current members of the bar of the State or retired from active practice within the past 5 years) who are familiar with, and have practiced in, the areas of law relevant to the arbitration.

The Parties will share equally in the Fees and expenses of the arbitrators and the cost of the facilities used for the arbitration hearing. Each Party will bear all other costs and expenses that it incurs in connection with the arbitration.

Depositions will not be allowed, but information may be exchanged by other means.

The Parties agree to use their best efforts to ensure that the arbitrators are selected promptly and that the arbitration hearing is conducted no later than 3 months after the arbitrators are selected.

The arbitrators must decide the dispute in accordance with the substantive law which would govern the dispute had it been litigated in court. This requirement does not, however, mean that the award is reviewable by a court for errors of law or fact.

Following the arbitration hearing, the arbitrators will issue an award and a separate written decision that summarizes the reasoning behind the award and the legal basis for the award. The arbitrators may not award punitive damages and may not require one Party to pay another Party's costs, Fees, attorneys' Fees, or expenses. The award of the arbitrators will be binding on each Party. Judgment upon the award may be entered in any federal district court.



\*Preliminary Injunctive Relief. The dispute resolution procedures set forth above will be the sole and exclusive procedures for the resolution by the Parties of any disputes which arise out of or are related to this Agreement, except that a Party may seek preliminary or temporary injunctive relief from a court if, in the Party's sole judgment, such action is necessary to avoid irreparable harm or to preserve the status quo. If a Party seeks judicial injunctive relief as described in this paragraph, the Parties will continue to participate in good faith in the dispute resolution procedures described above. The Parties agree that no court which a Party petitions to grant the type of preliminary injunctive relief described in this paragraph may award damages or resolve the dispute. Venue for any judicial proceeding for preliminary or temporary injunctive relief will be in capital city of the State, unless the Parties agree to the contrary. Any objections or defenses based on lack of personal jurisdiction or venue are hereby expressly waived for the purposes of the injunctive relief described in this paragraph.

## ARTICLE V CORE SERVICES

This article is designed to allow you to engage us to provide core Plan administrative Services with your choice of certain features and automated services. Optional Services and On-demand Services may be elected by you to meet specific needs, and are listed in Article VI Optional Services and Article VII On-demand Services. For services other than those described in this article, additional Fees may apply. This article is not designed to replace or modify any other article or any part of the Agreement, except as may be expressly set out below.

### **Your Roles and Responsibilities**

Understanding your role as representative is essential to a successful Plan. Your responsibilities in that role generally include:

- sending data to us in a timely manner. Timely receipt of information ensures appropriate deadlines are met.
- reviewing, signing, and filing forms with the Internal Revenue Services, Department of Labor, or any other governmental entity as required by law. While we complete required forms, you retain responsibility for filing.
- retaining fiduciary responsibility. We provide Services. However, by law, you retain fiduciary responsibility for the Plan.
- supporting initiatives to educate Participants about the Plan.
- maintaining a Plan that complies with all applicable Federal and State laws. We provide Services. However, you retain responsibility for Plan compliance.

We reserve the right at any time to update, change or cease providing a Service provided for in this article. Such change would be applied to all Plans receiving this Service. We will give you Notice of the updates, changes or cessation by posting a Notice on the Principal Sponsor Service Center<sup>SM</sup>. This Notice will become part of this Agreement.

### **Plan Sponsor Services**

#### **General Services**

##### **Relationship Manager**

This is your contact person to meet with you to review Plan operations, identify efficiencies and to discuss strategic Plan activities. This person coordinates all other resources available.

##### ***Benefit Edge*<sup>®</sup> newsletter**

Our newsletter gives you information about our products and services, legislation, our investment platform and services, and other topics potentially affecting retirement Plans.

##### **Client Service Associate / Manager**

This is your contact who will answer your questions and provide assistance for your day-to-day Plan activities and compliance matters.

##### **Communication and education plans**

We identify education and communication strategies that help you meet your Plan objectives and Participant retirement needs. We will present the proposed objectives and strategies to you along with a timeline and suggest target dates of communication.

##### **Contribution allocation assistance—defined contribution Plans**

We process up to three profit sharing, year end match, forfeiture or minimum contribution requirement or a combination of all, calculations per year based on Plan information.

##### **Daily account valuation**

We provide updated Account values and investment information daily for investments that have a daily valuation and as frequently as valued for investments not valued daily.

##### **Direct rollovers – defined contribution Plans**

We will process direct rollovers into the Plan, if the Plan document allows.

##### ***Directions Guidebook* Plan operation guide**

This guide provides online information about our Services and your responsibilities. Use the guide to help with the day-to-day Plan activities.

### **Electronic data reporting**

We require data to be submitted to us electronically through the Principal Sponsor Service Center<sup>SM</sup> for all Plans.

### **Electronic Funds Transfer (EFT)**

We require EFT transfers of defined contribution Plan contributions and assets by our pulling the funds from your bank to us.

### **Eligibility determination—defined contribution Plans**

For Plans meeting the criteria for using this Service, we will identify employees eligible to participate in the Plan based on the data you provide and then communicate with them via postcards how to enroll in the retirement plan. You will receive electronic reports to keep you informed of eligible employees.

#### **Alternative Election:**

Do not perform eligibility determination for Plan(s):

### **Eligibility determination—defined benefit Plans**

Based on Plan information we receive in a Notice, we identify eligible employees based on the data you supply and then communicate with them that they are now an eligible Participant in the defined benefit Plan.

#### **Alternative Election:**

Do not perform eligibility determination for Plan(s):

### **Fiduciary handbook and annual fiduciary checklist**

This package offers information on the role of an ERISA fiduciary, such as making investment selections, Participant education, and ERISA compliance requirements.

### **Plan transition**

We provide assistance in transferring a Plan from the current service provider to us, including a conversion timeline, investment and education strategy, data gathering and plan review, and assistance with required notification letters to the prior provider.

### **The Principal Due Diligence Program<sup>SM</sup>**

This is our program for evaluating investment managers for Sub-Advised Investment Options.

### **Principal eFinancial Professional Website—access to Plan and Participant-level information**

We provide Plan-level information to your financial professional(s) and broker dealer. Such information is provided to the financial professional(s) through the Principal eFinancial Professional website. In addition, unless you direct us not to do so, we provide your financial professional(s) and broker dealer access to timely Participant-level information regarding your plan for purposes of enhancing the quality and scope of Plan options and services provided to Participants. If a Participant consents to the discussion of other products with the financial professional or broker dealer or both, you also consent to those discussions. If you do not wish to grant such access, please check the applicable box below.

#### **Alternative Election:**

Do not grant financial professional(s) access to Participant-level information.

Do not grant broker dealer access to Participant-level information.

Future access for your financial professional(s) can be modified via the Manage Security tab on the Principal Sponsor Service Center<sup>SM</sup>. Future access for your broker dealer can be modified by Notice from you.

### **Principal Sponsor Service Center<sup>SM</sup>**

This website, found at [principal.com](http://principal.com), helps you fulfill your duties regarding the Plan. You have the ability to send contributions and loan payment data, view or add Participants, access Participants' statements, receive Notice and other messages from us through the Principal Message Center<sup>SM</sup>, review consolidated information on any Plan, and receive investment information.

### **Recordkeeping**

We maintain Plan contribution, investment, location, and Participant information. Where applicable, we maintain historical Participant information including compensation and service history. Defined benefit Plan recordkeeping also includes Services to help you comply with Pension Protection Act for an additional Fee:

- Benefit limitation monitoring and calculation of benefit limitations
- Calculation of benefit accruals resulting from Plan accrual restrictions and recovery, if applicable

**Additional recordkeeping election:**

**Participant Required Contributions – defined benefit Plans**

Individual records of Participants' contributions are maintained for defined benefit required employee contributions.

**Sample investment policy statements**

At your request, we will provide a sample investment policy statement. This document helps you establish and identify your investment guidelines and objectives that you will then apply within a Plan's investment program.

**Sub-Advised investment reports**

We furnish reports including the Principal Due Diligence Program quarterly review on Sub-Advised Investment Options and investment bulletins.

**Distribution Services**

**Benefit event process**

We process distribution requests upon the Participant's retirement or other termination or death, or disability after we receive electronic notice from you. This process includes reporting tax information to the Internal Revenue Service.

**Death claims**

We provide you with the benefit consent and/or notices, as your state requires.

**Loan service—defined contribution Plans**

See Loan Payout Service attachment.

**Qualified Domestic Relations Order (QDRO)**

We help with the review of court documents, maintain separate retirement benefit records for alternate payees and process distributions. You are responsible for determining the qualified status of the Domestic Relations Order.

**Required minimum distributions**

We monitor and process required minimum distributions for Participants age 70½ or older, subject to your direction.

**Retiree annuity payments—defined benefit Plans**

See Benefit Payment Service for Defined Benefit Retired Participants attachment.

**Withdrawal distributions**

We process hardship distributions and in-service withdrawals, including reporting tax information to the Internal Revenue Service. For hardship withdrawals, you evaluate and approve the hardship. For hardship withdrawals, we monitor the stop/start of elective deferrals once the hardship is taken.

**Report Services**

**Confirmation reports**

We provide online itemized reports confirming transaction activity.

**Noncontributing employee statements – defined contribution Plans**

Noncontributing employee statements explain how contributing to a Plan can help the employee save for the future and are provided to you for distribution to the employee. These reports are provided annually upon your request.

**Online reporting**

We provide various standard reports that may be viewed on the Principal Sponsor Service Center<sup>SM</sup>.

**Plan sponsor reports**

Quarterly defined contribution Plan reports provide a summary of the current Account values by investment option and contribution type. Annual defined benefit Plan reports provide information about each Participant's benefit accrual.

**Retirement Plan & Investment Review (RPIR)**

A consolidated report of information about a Plan for the last three years. Information includes Plan participation demographics, voice-response system usage and Participant investment preferences.

## **Employer Securities Services – defined contribution Plans**

### **Automated security trading**

Same day recordkeeping of publically traded company stock. Two trades per day are standard.

#### **Alternative Election:**

- Trade one time per day
- Trade three times per day
- Trade four times per day

### **Dividend recordkeeping**

We recordkeep stock and cash dividends.

### **Investment direction restrictions**

We restrict the percentage of contributions that may be allocated to company stock based on your direction.

### **Participant in-kind distributions**

We process in-kind electronic re-registration of shares.

### **Insider trading restrictions**

We will assist you in monitoring Participants subject to Section 16, Rule 144 or other restrictive rules impacting executive officers or other insiders. You must provide us with a list of Participants subject to trading restrictions.

### **Share accounting of employer securities**

We provide share accounting, maintaining whole and fractional shares.

## **Government Compliance and Filing**

### **Audit package**

This report includes information we reasonably expect your auditor to require to conduct a limited scope audit for plans with 100 or more Participants. An additional Fee may apply for auditor requests which exceed limited scope audit requirements.

### **Compliance data collection package**

This information gathering package, provided on the Principal Sponsor Service Center<sup>SM</sup>, (when applicable) explains and organizes the data we need to collect from you to help the Plan satisfy applicable compliance testing requirements.

### **Compliance testing** — (to the extent applicable to each Plan by law):

- **IRC §415 limits**
- **IRC §410(b) ratio percentage test**
- **Top-Heavy testing**
- **ADP/ACP**--We provide up to two ADP/ACP tests per year (typically mid-year and year-end). Tests include calculating and processing refunds upon request. Testing frequency can be increased for an additional Fee.
- **IRC §402(g) limits** – We will monitor elective deferral limits throughout the year and Notify you when a Participant appears to have exceeded the limit.

### **Compliance update newsletter**

This monthly newsletter consolidates legislative and regulatory news electronically on the Principal Sponsor Service Center<sup>SM</sup>.

### **ERISA §404(c) – defined contribution Plans**

We provide a variety of Investment Options that help a Plan comply with government regulations that may reduce your fiduciary liability.

### **Form 5500 series annual filings**

We prepare Form 5500 Filings for you to review and submit electronically to the DOL.

### **Government relations**

We have full-time staff in Washington, D.C., dedicated to providing employee benefits education to and discussing employee benefit issues with members of Congress.

**Pension Benefit Guarantee Corporation (PBGC) annual Form 1 filing – defined benefit Plans only**

Pay annual PBGC premiums directly from the Account.

**Plan qualification forms**

We provide forms for submitting the Plan to the IRS for qualification (if applicable).

**SAS 70 report**

We provide you and your auditor access to the report from our independent auditor about our internal practices and procedures.

**Consulting Services**

We provide core plan design consulting services for you at no additional Fees. These Services include:

- General research and technical assistance to respond to most plan design, compliance, and operational issues by Notice from you
- A basic merger and acquisition guide to provide guidance on a broad range of merger, acquisition and spin-off activities by Notice from you
- Comparison of Plan features to industry data, as part of your Retirement Program and Investment Reviews (RPIR)
- General defined contribution plan illustrations and projections by Notice from you
- Templates for annual Participant notices required by plan design by Notice from you
- A compliance guide for a plan administrator's responsibilities and deadlines

We also provide a comprehensive set of Consulting Services for you at an additional Fee. Fee-based Consulting Services are covered in Article VII On-demand Services.

**Actuarial Consulting Services – defined benefit Plans**

**Defined benefit actuarial consulting Services** are available upon election. An enrolled actuary and other actuarial professionals assist you with services elected below:

- Actuarial Valuation Report and FAS 35 information
- Form 5500 Schedule SB/MB for ERISA complying Plans
- Adjusted Funding Target Attainment Percentage (AFTAP) certification for ERISA complying Plans
- Annual funding notice for ERISA complying Plans
- PBGC variable rate premiums for Plans subject to Pension Benefit Guaranty Corporation filings
- Annual consultation with Enrolled Actuary

Other defined benefit actuarial Services may be elected in Article VI – Optional Services or available upon request based on provisions outlined in Article VII – On-demand Services.

**Alternative Election:**

Do not provide actuarial consulting Services.

**Participant Services**

**Beneficiary designation**

We provide sample beneficiary language and beneficiary designation forms and recordkeep your Participants' beneficiary designations.

**Beneficiary notices**

If a Plan allows for annuities, to comply with Qualified Preretirement Survivor Annuity requirements we will provide you a list of Participants approaching age 35 and sample notice that they need to designate or confirm their beneficiary designation.

**My Principal<sup>®</sup> Edge Milestones – defined contribution Plans**

A strategy, which provides personalized communication materials from us. This program provides Participants with a timeline and strategy that helps them determine financial goals and offers an action plan to help accomplish those goals. Personalized communication is provided to Participants via multiple methods of transmission.

### Participant call center

Participants and retirees can call toll-free to discuss their benefit options, get answers to their Plan-related questions, change address, request direct deposit, etc.

### Participant communication and education services

We provide Participants access to educational meetings, seminars and materials, calculators, and tools, e.g., Principal Edge Milestones designed to help Participants with retirement planning. Examples include enrollment kits, payroll stuffers, posters, and videos to help create interest in the Plan and retirement savings. An additional Fee may apply for scheduled meetings or seminars that cancel or postpone within two weeks of the meeting or seminar date, or for meetings with less than twenty employees in attendance.

### Participant statements

We provide quarterly defined contribution Participant statements and annual defined benefit Participant statements as directed by you for each Participant with an account balance greater than zero. Defined contribution statements are mailed to Participant homes unless you direct otherwise. Defined benefit statements are mailed to you in bulk unless you notify us otherwise.

#### Mailing Election:

Defined Contribution Plans	Defined Benefit Plans	
<input type="checkbox"/>		We will mail statements to you in bulk for Plan(s):
<input type="checkbox"/>	<input type="checkbox"/>	We will mail statements to you in separate envelopes for Plan(s):
	<input checked="" type="checkbox"/>	We will mail statements to Participant homes for Plan(s): 435557

Alternative defined contribution Participant statement election:

- We provide semi-annual Participant statements (defined contribution Plans only).  
 We provide annual Participant statements (defined contribution Plans only).

### Spanish communication services

We provide defined contribution Plan enrollment and education materials, an Interactive Voice Response System (TeleTouch®), and defined contribution Participant Statements for your Spanish-speaking employees.

### Participant website

Found at principal.com, this website provides Participants:

- information about their Plan benefit options
- information about Plan-related questions
- ability to request investment transaction and salary deferral changes
- access to view daily Account and investment information, statements, transaction confirmations, etc.
- defined benefit Participants the ability to view historical data and retirement calculators.

### Personal Retirement Account (PRA)– defined contribution Plans

Inactive Participants with a vested Account balance in excess of the small amounts force out limit may maintain their retirement funds under the existing Plan.

### Payment of “small amount” benefits

We will automatically pay small lump sum amounts based on Plan provisions.

#### Alternative Election:

- Your signature is required before we pay any benefit for Plan(s):

### Plan Ahead. Get Ahead<sup>®</sup>. Participant magazine

This life-stage focused magazine is made available to Participants. It features tips and articles related to planning and saving for retirement.

### Pre/post retirement certificates

We provide confirmation of employee benefits and documentation of Participant data (a certificate of Plan entry and a certificate for any annuity purchased) if required by your state.

### **Principal Enrollment Suite<sup>SM</sup> – defined contribution Plans**

Services designed to encourage participation and increase salary deferrals. Available options include:

- **Smart Start** — A pre-determined salary deferral percent option chosen by the Plan sponsor and offered to the Participant.

**Alternative Election:**

Do not provide SmartStart for Plan(s):

- **Principal Step Ahead Retirement Option<sup>SM</sup>** — The elective deferral contributions of Participants are automatically increased by a given percentage, or a specific dollar amount, each year as of a date specified by the employer in the Participant election.

**Alternative Election:**

Do not provide Principal Step Ahead Retirement Option for Plan(s):

- **Flexible enrollment options** — Participants can enroll through three easy options: online, through TeleTouch, and with the Easy Enrollment Form.
- **Salary deferral service** – We can take the entire enrollment process a step further by eliminating the need for paper enrollment forms. Your employees can use the Participant website or TeleTouch to enroll.

**Alternative Election:**

Do not provide salary deferral service for Plan(s):

- **“Do-It-For-Me” Options** — Options are available for Participants who prefer to have assistance with asset allocation from investment professionals. To simplify Participants’ asset allocation decisions, several investment fund series (which are professionally managed) are available including both target retirement date and risk tolerance options.

### **Principal Retirement Income Edge Program – defined contribution Plans**

A program providing education, guidance, and tools to Participants nearing retirement, and those individuals covered by the Plan who are in retirement. This program works alongside personal or plan advisors (if applicable) in assisting Participants and Retirees in converting their savings into an income stream for retirement. The program provides tools to: develop a personalized income plan; monitoring capabilities throughout retirement; access to specialized financial planning professionals; and a broad set of product solutions and educational materials.

### **Retirement benefit calculations and quotes – defined benefit Plans**

Retirement calculations may be modeled via the Participant website or requested by calling the Principal call center. An additional Fee may apply for benefit quotes due to plan shutdown or location closure.

### **Retirement benefit limitation monitoring – defined benefit Plans**

We will monitor benefit payment limitations for each defined benefit Plan that we recordkeep as required by law. We also provide you with a sample notice which must be provided by you to Participants as required by law.

### **TeleTouch<sup>®</sup> interactive voice-response system**

Participants can call our toll-free TeleTouch system for daily Account information about the defined contribution Plan.

### **Total Retirement Statement**

Provide an annual Participant statement summarizing the benefits under the Plans. The statement may also include any non-qualified Plan, not covered in this Agreement, for which we act as recordkeeper.

### **Total Retirement View**

An online view of retirement plan benefit projections and estimated replacement ratios taking into account Plans recordkept by us and estimated Social Security benefits.



## ARTICLE VI OPTIONAL SERVICES

This article is designed to allow you to engage us to provide reoccurring Services that are not described in any other current article or attachment to the Agreement. This article is not designed to replace or modify any other article or any part of the Agreement, except as may be expressly set out below.

These optional Services are reoccurring in nature and are in addition to the Services listed as core Services. Additional elections may need to be made and additional Fees may apply.

We reserve the right at any time to update, change or cease providing a Service provided for in this article. Such change would be applied to all Plans receiving this Service. We will give you Notice of the updates, changes or cessation by posting a Notice on the Principal Sponsor Service Center<sup>SM</sup>. This Notice will become part of this Agreement.

Check boxes below indicate a Service elected by you. The Optional Service Fees table will specify Plan(s) for which a specific Service is elected.

### Plan Sponsor Services

#### General Services

**Direct rollover authorization Service – defined contribution Plans**

You can direct us to accept rollover contributions for deposit to the Plan subject to a completed Rollover Declaration Form without further authorization from you. See Rollover Authorization Service Attachment.

**Location recordkeeping**

We will provide Services and reporting separately for more than one employer location and work with separate contacts at each location if you desire.

**Alternative Election: – defined contribution Plans**

In addition to the location recordkeeping optional service, we will apply plan expenses by location and track forfeitures by location.

**Mailing of enrollment and communication materials**

We will mail enrollment and communication materials to Participant home addresses as you direct in a Notice. See Participant Mailing attachment for additional information.

**Mailing of annual Participant notices**

We will mail annual notice communication to Participant home addresses as you direct in a Notice. See Participant Mailing attachment for additional information.

#### Distribution Services

**Enhanced QDRO Service**

We will review and process QDRO requests as described in Enhanced Qualified Domestic Relations Order attachment.

**Hardship withdrawal Service—defined contribution Plans**

See Hardship Withdrawal attachment.

#### Employer Securities Services

**Unitized company stock accounting**

Employer securities are recordkept in units made up of employer securities shares and cash.

## **Government Compliance and Filing**

- Additional ADP/ACP testing**  
We can provide more than two tests per year.  
Additional test dates are .
- Special compliance testing**  
We perform special testing to comply with IRC Sections 401(a)(4), 410(b) and 414(s) if a Plan design does not meet the safe harbor requirements of these code sections.

## **Plan Document Services**

We offer two basic levels of plan document drafting Services. You are under no obligation to use either Service. Plan document Services include:

- Prototype Plan documents**  
We provide an IRS-approved prototype plan document and, when applicable, trust documents, and separate joinder agreements for you to select the specific plan design variables for a Plan. You will need to sign the joinder agreement in a timely manner but do not need to file the Principal prototype plan with the IRS. This Service includes one Plan restatement or amendment each year for each Plan. A Fee applies to additional restatements or amendments. We will conduct key provision plan reviews of the Principal-sponsored prototype plan as needed at no additional charge.

Periodically, we may be required by law to update the prototype plan document and/or joinder agreement. We will give you Notice of any such update.

- Custom Plan documents**  
For an additional Fee, we provide a sample individually-designed plan document for review with legal and/or tax counsel. The custom plan document will need to be signed in a timely manner, and if applicable, filed by you with the IRS. This Service includes Sample individually designed plan documents, including Plan restatements and amendments. We will conduct key provision plan reviews of the Principal drafted custom plan as needed at no additional charge.

Periodically, we may be required by law to update the sample individually-designed plan document. If you are utilizing the sample individual design plan document, we will provide sample amendment or restatement wording.

- Summary Plan Description (SPD)**  
We can provide summary plan descriptions for Principal prototype plans on the Participant website at no charge. Printing SPDs for Principal prototype plans, drafting and printing SPDs for Principal drafted and non-Principal drafted custom plans, or customizing outside of standard SPD format, is available for an additional Fee.

### **Optional Elections (select each that apply):**

- Print paper SPD
- Draft custom SPD
- Print SPD from a draft provided by you. You agree to hold us harmless and indemnify us with regard to any cost to us resulting from a complaint or dispute for the content of this document.

## **Actuarial Consulting Services – defined benefit Plans**

**Defined benefit actuarial consulting Services** are available upon election. An enrolled actuary and other actuarial professionals assist you with Services elected below, subject to your approval of our Fees for those Services:

- Accounting Disclosure Report (ADR)
- Annual consultation with Enrolled Actuary
- Asset Liability Modeling (report is typically provided once every three years)
- Client interaction with web based actuarial data
- SEC Disclosure
- GASB Report Service (governmental plans only)
- Funded Status Report (multi-employer Plans only)

Fees for optional actuarial Services are determined at the point Services are requested by you. You must provide us Notice of acceptance of the Fee. Other defined benefit actuarial Services may be available upon request based on provisions outlined in Article VII – On-demand Services.

## **Participant Services**

- Principal Managed Account Program<sup>SM</sup>**  
We provide access to third-party, professional investment advice and ongoing management of retirement plan funds.
- Principal RetireSecure<sup>SM</sup>**  
One-on-one retirement planning assistance provided at the worksite.
- Recordkeeping of Self Directed Brokerage Accounts – defined contribution Plans**  
We provide access to publically traded investment options including stock, bonds and mutual funds.

## ARTICLE VII ON-DEMAND SERVICES

This article is designed to allow you to engage us to provide various on-demand Services that are not described in any other current article or attachment to the Agreement. The article is solely for the provision of unique Services or Services that are not provided on a repeating basis. This article is not designed to replace or modify any other article or any part of the Agreement, except as may be expressly set out below.

If we have another article, attachment, or Notice that has not yet been made a part of this Agreement that covers a Service you require, such other article, attachment, or Notice will be considered a part of this Agreement and we will perform the requested Service under that article, attachment or Notice.

Fees for on-demand Services will be determined at the time of your request for Service. Fees will be collected as you direct us in a Notice. If such direction is not provided, Fees will be collected as outlined in Article VIII Fees, after the service is performed. We will only deduct or net amounts to the extent we may do so under the Plan Document and applicable law. Amounts that (i) would be considered to be “settlor” expenses under applicable law, including Department of Labor Advisory Opinion 2001-01A and the associated hypothetical examples, or (ii) the Plan Document does not allow to be paid from the Plan, will be billed directly to you.

We may agree to perform a Service under this article in the following manner:

- You give us Notice of the requested Service and the parameters with regard to that Service.
- You will provide such further information as we request with regard to that requested Service.
- If we agree to provide requested Service, we will Notify you of our agreement and disclose our Fee for performing the Service.
- You may give us Notice accepting the terms and provisions of our Notification at any time.
- If we do not receive a Notice from you rejecting any of the provisions of our Notification within 10 days of our sending you the Notification, we will proceed to perform the requested Service described in our Notification to you.

Examples of On-demand Services include:

### **Consulting Services**

- Benefit design and modeling Services
- Plan related merger and acquisition Services
- Replacement ratio and needs analysis
- Plan illustrations and projections with detailed analysis
- Plan benchmarking information
- Customized communication Services
- Plan reviews not provided as part of core Services including:
  - Comprehensive review of outside written plans
  - Comprehensive review of Principal-drafted custom plans

### **Actuarial Consulting Services-defined benefit plans**

- Actuarial cost estimates
- Asset Liability Modeling
- Amendment funding tests
- Discount rate modeling
- Sensitivity analysis
- PBGC Form 4010
- Withdrawal liability calculations and funding improvement plan for multi-employer plans
- Merger and spin-off calculations
- Plan termination estimates & studies
- Plan termination assistance, including calculation of values, preparation of government filings and distribution of Accounts
- Projections of plan expense and cash funding

**Administrative Services**

- Customization of sample notices
- Correction to Participant accounts due to inaccurate data
- Customized ad hoc reports
- Customization of distribution forms
- Contribution allocation assistance beyond three calculations per year, or for special allocations such as comparability allocations and corrective allocations
- Translation services
- One-time Participant mailings

**Government Compliance and Filing**

- Re-run ADP/ACP tests due to incorrect Plan sponsor data
- Additional IRS Form 5500 series annual reports for information not recordkept by us, including
  - Inclusion of information on loans and assets not recordkept by us
  - Schedule A, H, or I for life insurance policies held within the plan but not recordkept by Principal
  - Schedule G for large plan filings
- Additional audit assistance and additional audit packages

**Additional Education Services**

- Additional education meetings or webinars
- Custom education materials

We may perform certain Services that could be optional Services with regard to other plans not covered under this Agreement. We are not obligated to provide such Services to you under this article or otherwise. No obligation to provide such Services, or Services other than those to which we agree, is implied, nor may such an obligation be inferred.

## ARTICLE VIII FEES

### Fee Payments

The following methods are available as options for you to choose and direct to us, how Fees will be collected:

- **Billed** – Fees are paid directly in response to our quarterly billing to you, with the exception of defined benefit actuarial Optional Services and On-demand Services which will be billed at the time the Service is completed. Defined contribution Plans require Electronic Funds Transfer (EFT) payment.
- **Netted** – Fees are asset-based and are netted monthly from the rate of investment return for all Investment Options, lowering the investment return.
- **Deducted** – Fees are deducted monthly from Accounts and, if appropriate to a Plan, reflected on Participant statements.
- **Combination** – Fees are paid by a combination of the above options. A portion of Fees may be billed, netted, or deducted and the remaining portion may be billed, netted, or deducted as determined by you, as reported to us in a Notice.
- **No Additional Fees** – Fees not otherwise explicitly stated in this Agreement are paid from the investment management Fee and are deducted from Accounts.

\*Obligation to Pay Fees. We are entitled to our Fees. Fees will be in the amount and collected as described in this article. You represent that the method of Fee payment you elect is permitted under the respective Plan Documents and applicable law.

Method for Fee Payment. Fees will be paid in one or more of the following manners:

- We will send a bill for our Fees via a Notice. The billed Fees are due within 30 days of billing. If any Fee billed is not paid within 30 days of the billing for any reason, the amount of those unpaid Fees will be treated as deducted Fees and will be deducted accordingly.
- Defined contribution plan deducted Fees will be deducted pro-rata from the Accounts. The deduction within the Accounts will be made pro rata by Investment Option. Defined benefit plan deducted Fees will be deducted according to the group annuity contract provisions. We are specifically authorized and directed by you to collect Fees in this manner, unless you direct us, and we agree, to use another method to deduct Fees.
- Fees that cannot be deducted from the Accounts under either the Plan Document or applicable law may only be billed. This includes Fees incurred in connection with what are considered to be settlor functions. If forfeitures are available to offset against Fees under a Plan, the forfeitures with respect to that Plan will be used to offset Fees with regard to that Plan before any other means of payment or collection are used.

Sales Compensation. Fees include any sales commissions or other compensation payable to a duly licensed individual who may legally receive them, including an insurance agent, registered investment adviser, or other person as designated by you in the Acknowledgement of Compensation and Contract Information, the Principal Financial Group® Disclosure Statement, or similar disclosure, with regard to the sale of any Investment Option. We are authorized and directed by you to pay that compensation. In the event of some change in circumstances under which payments can no longer be made to the licensed individual, you agree to duly appoint another. We will assist you in this process.

Other Compensation. We may earn compensation in the form of short-term interest (“float”) on certain items in connection with the Plan. When we receive plan funds without investment instructions, or past the point in a day when funds can be invested, those funds are held in a custodial bank account with like funds from other plans for which we provide services. The funds are transferred from the bank and invested as assets of the Plan as soon as administratively possible and, where necessary, following the receipt of proper directions from the Plan Administrator.

Also, between the time that we issue a check for a plan distribution or other payment requested by an appropriate Plan fiduciary and the time the check is cashed, the funds to cover the check are also held in a custodial bank. The funds to cover the check are transferred from the Plan on the same day the check is dated and generally mailed. The funds will be disbursed by the custodial bank when the check is cashed.

In both situations, the amounts held by the bank earn interest or Fee credits, generally at the Federal funds rate, which the bank may pay or credit to us. Any such interest or Fee credit amounts will not be allocated among plans for which we provide Services and are additional Fees to us. Based on current knowledge, we believe these Fees, generally referred to as “float”, are comparable to other service providers in the industry.

“Float” is not directly credited to Plans for which we provide Services. Deposits and Transfers are normally allocated and invested the same day, however, there are certain situations, such as those described above, in which the allocation and investment of Deposits and Transfers may be delayed, in which case we will make such allocation and investment as soon as practicable. Distribution checks are normally mailed the day they are issued. The timing of when checks are cashed is outside our control.

### **Fees for Core Services**

Specific Fees for each Plan. The following describe Fees and payment to us with regard to each Plan. With Notice from you, we will change the method of collecting Fees as directed in your Notice. We require two business days Notice to implement a collection method change.

With regard to Plan 435557:

- Fee proposal dated 12/28/2009 is incorporated into this Agreement. Subsequent Fee proposals provided by Notice to you will constitute an Amendment to this Agreement and will supersede previous Fee proposals.
- Unless elected otherwise below, Fees will be collected under the Billed collection method, where Fees are paid directly each quarter by Electronic Funds Transfer (EFT) in response to our billing you. Billed Fees for On-demand Services may be billed to you after the service is completed.

**Alternative Election (choose one):**

- Netted – Fees are asset-based and are netted monthly from the rate of investment return for all Investment Options, lowering the investment return.
- Deducted – Fees are deducted monthly from Accounts and, if appropriate to a Plan, reflected on Participant statements.
- Combination – Fees are paid by a combination of the above options. A portion of Fees may be billed, netted, or deducted and the remaining portion may be billed, netted, or deducted as determined by you.
- Currently there are no billed, deducted, or netted charges for Plan expenses unless otherwise noted in the Optional Service Fees table. Fees not otherwise explicitly stated in this Agreement are paid from the investment management fee and are deducted from Accounts.

If future changes in Fees with regard to a Plan, including those on account of a Major Business Change, result in an increase of Fees for that Plan, the additional Fees will be billed directly to you each quarter or collected by us in one of the manners described above in this article with regard to that Plan or as you and we otherwise agree. This payment method will apply until you provide us with Notice of a different election. Any new election will go into effect with the next billing cycle occurring after our receipt of your Notice.

- Forfeitures will be used to offset Plan expenses if allowed by the Plan document—defined contribution Plan only.

### Fees for Optional Services

The Fee amount and collection method listed in the Fee proposal will control in the event of a conflict with the following chart. Unless otherwise noted in the collection method column, Fees will be collected according to the election in this Article.

#### Plan Sponsor Optional Services

Service	Fee	Plans	Collection Method
<b>General Services</b>			
Direct rollover authorization	Standard annual Fee: \$0	N/A	N/A
Location recordkeeping	Standard annual Fee: \$600 per location \$1250 per location if tracking forfeitures by location	N/A	N/A
Mailing of enrollment and communication materials to Participant homes	Standard Fee: \$3.50 per enrollment kit mailed	N/A	N/A
Mailing of annual Participant notices to Participant homes	Standard Fee per mailing: 2-5 pages: \$175 + \$0.60 per Participant 6-13 pages: \$175 + \$1.20 per Participant 14-49 pages: \$175 + \$2.50 per Participant 50+ pages: custom priced  Additional \$200 if color logo	435557	Fee is charged at time of Service
<b>Distribution Services</b>			
Enhanced QDRO	Standard Fee: § Establishment: - \$500.00 start-up Fee § DRO review: - \$220.00 per hour per DRO review request	N/A	N/A
Hardship withdrawal	Standard Fee: \$35 per withdrawal requested	N/A	N/A
<b>Employer Securities Services</b>			
Unitized company stock accounting	Standard annual Fee: \$3,650	N/A	N/A
<b>Government Compliance and Filing</b>			
Additional ADP/ACP testing	Standard Fee: \$150 per hour	N/A	N/A
Special compliance testing	Standard Fee: \$250 per hour (with dollar minimums below based on Participant count)  Number of Participants 1-50 -- \$750 51-100 -- \$1,000 101-250 -- \$1,250 251-500 -- \$1,750 501-1,000 -- \$2,500 1,001+ -- \$3,250	N/A	N/A
<b>Plan Document Services</b>			
Plan Documents - Prototype Prototype Restatement Prototype Amendment	Standard Fee: \$350 per restatement or amendment (first amendment each year at no additional Fee)	N/A	N/A
Plan Documents - Custom Custom Restatement Custom Amendment	Standard Fee: \$1000 per restatement \$500 per amendment	435557	Settlor Service to be billed at time of Service.



<b>Summary Plan Description</b>	<b>Custom-priced</b>	435557	Settler service to be billed at time of Service
Participant Statements— defined benefit Plans	Standard Fee: Annual statements mailed to plan sponsor at no additional Fee  \$175 + \$.60 Participant statement mailed to home addresses	N/A	N/A
<b>Actuarial Optional Services</b>			
Asset Liability Modeling (report is typically provided once every three years)	Custom priced \$0.00	435557	N/A
<b>GASB Report Service</b> (governmental plans only)	Custom priced	435557	Fee is charged at time of Service. Settlor Services, as applicable, to be billed

**Participant Optional Services**

<b>Service</b>	<b>Fee</b>	<b>Plans</b>	<b>Collection Method</b>
Principal Managed Account Program	Standard Fee: Annual Managed Account Tiered Scale:  Up to \$50,000 = 50 bps Next \$25,000 = 40 bps Next \$25,000 = 30 bps All additional assets = 20 bps	N/A	N/A
Recordkeeping of Self Directed Brokerage accounts	Standard Fee: \$1,000 plan sponsor Fee, \$75 per Participant, plus trading Fees	N/A	N/A

### Defined Benefit Retiree Annuity Payment Attachment

This attachment is designed to allow you to engage us to provide that which is not described in any other current attachment to the Agreement. This attachment is not designed to replace or modify any other attachment or any part of the Agreement, except as may be expressly set out below.

Services outlined in this attachment apply to the following Plan(s): 435557

Alter- native	Description	Term	
1	Benefit Index	<p>Monthly benefits are paid to the Participant directly from the group annuity contract <b>with our guarantee</b> of payment.</p> <p>If the value of the group annuity contract, as defined in the contract, equals the Benefit Index, payment for annuities will be debited from the contract.</p> <p>This option may impact future funding or funding status which could affect distributions to Highly Compensated Employees. Please discuss this option with your actuary before electing.</p>	<p>You may choose a different alternative at any time for Participants who aren't receiving benefits. Some restrictions may apply when changing alternatives for retired Participants, subject to the terms of the contract.</p> <p>You choose from three alternatives for paying monthly retirement benefits.</p> <p><input checked="" type="checkbox"/> Benefit Index  <input type="checkbox"/> Purchase Non-Participating Annuities  <input type="checkbox"/> Direct Payments</p> <p>If Direct Payments, make payments to:</p> <p style="padding-left: 20px;"><input type="checkbox"/> Participant  <input type="checkbox"/> Trustee (trusteed plans only)</p>
2	Purchase Non-Participating Annuities	<p>There is a one-time charge for the cost of the a Participant's annuity from the group annuity contract. The purchase price anticipates no future dividends or investment returns will be payable to the Plan. <b>We guarantee benefits</b> under this option, once the annuity is purchased.</p>	
3	Direct Payments	<p>Monthly benefits are paid directly from the group annuity retirement funds <b>without our guarantee</b> of payment.</p>	
<p>If payments are made directly to a Participant, we shall provide:</p> <ul style="list-style-type: none"> <li>• a certificate for each Participant receiving a benefit under either Alternative 1 or Alternative 2</li> <li>• recordkeeping of Participant benefits and beneficiaries</li> <li>• preparation and mailing of monthly pension payments</li> <li>• tax reporting on benefit payments for Participants receiving benefits</li> <li>• tax or other withholding.</li> </ul> <p>NOTE: These Services aren't provided if monthly payments are made to the trustee (trusteed plans only).</p>			

## Participant Mailing Attachment

This attachment is designed to allow you to engage us to provide a Service that is not described in any other current attachment to the Agreement. This attachment is not designed to replace or modify any other attachment or any part of the Agreement, except as may be expressly set out below.

Services outlined in this attachment apply to the following Plan(s): 435557

Upon receipt of Notice from you and acceptance by us, we will provide additional Participant mailings in one of the listed Plans to home addresses (for example, Summary Annual Report (SAR), Automatic Enrollment Notice, Defined Benefit Annual Funding Notice, etc.). We will not accept any Notice under this attachment that in our opinion, is not in compliance with applicable law.

We agree to prepare a sample distribution list for your review and approval that sets the names and current addresses for those Participants who will receive the Participant Notice (or Participant mailing). In the event you wish to make any additions or revisions to the distribution list, you agree to submit such changes or revisions to us prior to the distribution. We will then modify the distribution list according to your changes or revisions and return it to you for your final review and approval

Upon receiving your final approval of both the Participant document and distribution list we agree to send the mailing to each Participant set forth in the approved distribution list at the address set forth therein.

## Alexandria School Board Fee Summary

### **Plan Fees**

#### **Annual\*\*\***

<i>Actuarial Valuation &amp; Plan Administrative Services:(Billed)</i>	\$76,554*
<i>Total Fees</i>	\$76,554

### **Plan Characteristics**

Current Assets: \$67,829,171

Annual Deposit: \$0

Active Participants: 1874

Terminated Vested Participants: 560

Retired Lives: 1025

This summary assumes the FPI 1999-R6 investment class is being used. Investment expense is collected from plan participant investments.

<b>Weighted Average Investment Expense</b>				
Investment Advisor	Investment Options	\$ Invested	% Invested	Total Inv. Expense - Net****
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6	\$888,562	1.31%	0.81%
Principal Global Investors	International Emerging Markets Separate Account-R6	\$583,331	0.86%	1.51%
Columbus Circle Investors	LargeCap Growth Separate Account-R6	\$3,866,263	5.70%	0.71%
Principal Real Estate Inv	U.S. Property Separate Account-R6	\$515,502	0.76%	1.15%
Principal Global Investors	Bond and Mortgage Separate Account-R6	\$7,094,932	10.46%	0.71%
Principal Global Investors	LargeCap S&P 500 Index Separate Account-R6	\$3,418,590	5.04%	0.31%
Fidelity (Pyramis Global Adv)	International I Separate Account-R6	\$1,824,605	2.69%	1.27%
Turner/Mellon/Jacobs Levy	MidCap Growth III Separate Account-R6	\$881,779	1.30%	1.15%
Principal Global Investors	International Growth Separate Account-R6	\$1,804,256	2.66%	1.18%
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account-R6	\$4,001,921	5.90%	0.88%
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6	\$2,699,601	3.98%	0.93%
Emerald / Essex	SmallCap Growth II Separate Account-R6	\$874,996	1.29%	1.17%
Principal Real Estate Inv	Real Estate Securities Separate Account-R6	\$725,772	1.07%	1.15%
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account-R6	\$834,299	1.23%	1.23%
UBS / TS&W	LargeCap Value I Separate Account-R6	\$5,012,576	7.39%	0.95%
JP Morgan/Neuberger Berman	High Yield I Separate Account-R6	\$834,299	1.23%	0.82%

## Alexandria School Board

### Weighted Average Investment Expense

Investment Advisor	Investment Options	\$ Invested	% Invested	Total Inv. Expense - Net****
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6	\$1,254,840	1.85%	0.58%
PIMCO	Core Plus Bond I Separate Account-R6	\$6,823,615	10.06%	0.81%
AXA Rosenberg/Causeway	International Value I Separate Account-R6	\$1,763,558	2.60%	1.26%
n/a	General Investment Account	\$22,125,870	32.62%	0.65%

### Weighted Average Investment Totals

Weighted Average Investment Expense (%)	0.79%
<b>* Annual Plan Fees (%)</b>	<b>0.12%</b>
Fee Summary (%)	0.91%
Weighted Average Investment Expense (\$)	\$537,176
<b>Annual Plan Fees (\$)</b>	<b>\$76,554</b>
Fee Summary (\$)	\$613,730

\* This fee includes the following services. Please note that portions of the cost for these services are paid through Investment Options.  
-The actuarial services for the annual valuation report valued at \$21,795

\*\*\* Annual Plan Fees are expenses (other than Total Investment Expense - Net) paid directly by the plan sponsor or deducted from participant accounts. The Annual Plan Fees (%) calculation assumes growth in plan assets.

\*\*\*\* Total Investment Expense - Net for a separate account equals the sum of these expenses: (a) the amount of money, expressed as a percentage, deducted for the costs of managing a separate account and where applicable, fees for plan administrative services and compensation (cash or otherwise) to your Financial Professional based on the block of business they have with us and such factors a total deposits and assets, plus (b) if the separate account invests in an underlying mutual fund, the total fund operating expenses of the underlying mutual fund, plus (c) if an underlying mutual fund invests in other mutual funds, the weighted-average management fee of those other mutual funds, as listed in the most recent prospectus. The actual Total Investment Expense-Net may change if an underlying mutual fund's allocation of assets to other mutual funds changes. The Total Investment Expense -Net for a mutual fund is calculated using the gross total investment expense less any fee waivers, reimbursements, caps, or reduction of expenses for fund level expenses, as well as any operating expenses. These are the expenses, as a percentage of net assets, actually borne by the fund, including interest expense.

## Alexandria School Board

### Disclosures:

- Fee Summary illustrated for an existing Principal customer, Contract number: 4-35557
- The proposal Principal Life Insurance Company, a member company of the Principal Financial Group® (The Principal®), is submitting for your consideration is based on information concerning your plan submitted to The Principal by your representative. The proposal reflects a specific rate level(s) that you and your representative decided upon. You should consider whether the rate level(s) illustrated is the most appropriate for you.
- This expense projection is valid for 120 days from the Print Date.
- Must be presented by an individual licensed in the State of Delivery listed below. Individual may also need to be a Registered Representative, if registered securities are involved.
- Billed expenses are collected quarterly.
- Deposit Year End Date: 12/31/2010
- The first Deposit Year begins on the stated effective date and ends on the Deposit Year End Date. Subsequent Deposit Years end on the 12-month anniversary of the Deposit Year End Date.
- State of Delivery: VIRGINIA
- Redemption fees and/or transfer restrictions apply to certain transactions.
- Core actuarial, investment, and plan administrative services are included in this quote.
- Plan may require additional compliance testing charges.
- Statements provided annually to plan sponsor in bulk.
- This document illustrates fees and is for illustrative purposes only and does not affect or alter any past, present or future agreement or understanding.
- Principal Life and its affiliates may earn compensation in the form of short term interest (“float”) on such things as uncashed distribution checks or amounts awaiting investment.

### Core Actuarial Valuation & Administrative Fees

- \* This expense illustration assumes Principal provides one Actuarial Valuation. Additional valuations can be provided at an additional charge.
- \* Actuarial Valuation fees are flat fees that are not prorated. The total fee will be divided proportionately and collected according to the months remaining in the first plan year with Principal Life.
- \* The fees in this proposal are based on our understanding of the plan at this time. We reserve the right to adjust these expenses if any assumptions are incorrect or should change upon a review of your plan documents, most recent actuarial valuation, or plan records. We expect that we will receive data in good-working order and all necessary documents and information in a timely manner.

### Optional Actuarial Services Fees

- \* We understand that participant data and plan documents may not be in good working order, and we can assist in helping you develop clean participant data and correct plan documents for a fee.

### Major Business Change

May include but is not limited to:

- \* Spin-off/Plan Mergers
- \* Greater than 25% change in value of the funds or number of participants
- \* Partial plan/contract termination
- \* Change in plan type
- \* Adding or removing investment options
- \* Change in Acknowledgement of Compensation or broker of record

## Alexandria School Board

### Disclosures (cont.):

**Index Investment Options** - Each index-based investment option is invested in the stocks of the index it tracks. Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. There is no assurance an index based investment option will match the performance of the index tracked.

**Small-Cap Investment Options** - These investment options are subject to more fluctuation in value than other investment options with stocks of larger, more stable companies.

**Money Market Investment Options** - These investment options are not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although the investment options seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the investment options.

**International Stock Investment Options** - These investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

**High Yield Bond Investment Options** - These investment options are subject to greater credit risk associated with high yield bonds.

**Government Bond Investment Options** - While the underlying securities of these investment options may be guaranteed by the U.S. government as to timely payment of principal and interest, these investment options are not guaranteed.

**Real Estate Investment Trust Investment Options** - These investment options are subject to some risks inherent in real state and Real Estate Investment Trusts, such as risk associated with general and local economic conditions.

**Specialty Investment Options** - Due to the sector focus of these investment options, they may experience greater volatility than funds with a broader investment strategy. These investment options are not intended to serve as a complete investment program by itself.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

## Alexandria School Board

### Fee Analysis

#### Plan Characteristics

Current Assets: \$67,829,171

Annual Deposit: \$0

Active Participant: 1874

Terminated Vested Participants: 560

Retired Lives: 1025

This summary assumes the FPI 1999-R6 investment class is being used. Investment expense is collected from plan participant investments.

#### FEE SUMMARY

Fees Paid For Investment and Service Package	In Dollars	\$613,730
	As a Percent of Plan Assets	0.91%

#### HOW FEES ARE COLLECTED

Fee Description	How Collected	Dollar Amount	Notes
Investment Advisor Fees (1)	From Investment Options	\$214,161	Details on next page
Service Provider Fees (2)	From Investment Options	\$323,015	Details on next page
Service Provider Fees	Annual Plan Fees(3)	\$76,554	
<b>TOTAL:</b>		<b>\$613,730</b>	

#### WHO RECEIVES THE FEES

The Principal	\$399,569	
Investment Advisor of your Investment Options	\$214,161	Details on next page
<b>TOTAL:</b>		<b>\$613,730</b>

(1) Investment Advisor Fees - Amounts collected and kept by the Investment Advisor (or its affiliated entities) for investment management and other costs and expenses (including profit). These amounts are paid to the investment advisor before published returns. The term Investment Advisor in the context of this material may be an actual investment advisor or sub-advisor, to a mutual fund, separate account, or collective investment trust; or an investment advisor or sub-advisor to an underlying mutual fund.

(2) Service Provider Fees - Amounts paid to Principal Life Insurance Company, Princor Financial Services Corporation (or our affiliates) by you, the plan, or the Investment Provider (or its affiliated entities) for your plan Service Package, including marketing compensation.

(3) We guarantee that we will not increase the Annual Plan Fees for providing this service package to your plan for three years, provided the plan does not experience a Major Business Change (as defined in the Service and Expense Agreement).



## Alexandria School Board Detail of Fees from Investment Options

The investment options you are considering have fees deducted prior to calculating the published investment return. In other words, fees are already reflected in the investment's share price and historical performance results. These amounts may be used to help cover the costs of providing professional investment management, the costs of marketing the investment option, and the costs of the plan's recordkeeping and service package.

The chart below details the fees deducted from each investment option.

Investment Advisor	Investment Option	Expected Amounts	As a Percentage				As a Dollar Amount			
			Fees Retained by Investment Provider	Fees Paid to Service Provider(s) (1)	Total Investment Expense - Net	Expected Investment Provider Fees	Expected Service Provider Fees	Total Fees From Investment Product		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6	\$888,562	0.39%	0.42%	0.81%	\$3,465	\$3,732	\$7,197		
Principal Global Investors	International Emerging Markets Separate Account-R6	\$583,331	0.69%	0.82%	1.51%	\$4,025	\$4,783	\$8,808		
Columbus Circle Investors	LargeCap Growth Separate Account-R6	\$3,866,263	0.29%	0.42%	0.71%	\$11,212	\$16,238	\$27,450		
Principal Real Estate Inv	U.S. Property Separate Account-R6	\$515,502	0.75%	0.40%	1.15%	\$3,866	\$2,062	\$5,928		
Principal Global Investors	Bond and Mortgage Separate Account-R6	\$7,094,932	0.26%	0.45%	0.71%	\$18,802	\$31,572	\$50,374		
Principal Global Investors	LargeCap S&P 500 Index Separate Account-R6	\$3,418,590	0.05%	0.26%	0.31%	\$1,880	\$8,717	\$10,598		
Fidelity (Pyramis Global Adv)	International I Separate Account-R6	\$1,824,605	0.73%	0.54%	1.27%	\$13,320	\$9,853	\$23,172		
Turner/Mellon/Jacobs Levy	MidCap Growth III Separate Account-R6	\$881,779	0.72%	0.43%	1.15%	\$6,349	\$3,792	\$10,140		
Principal Global Investors	International Growth Separate Account-R6	\$1,804,256	0.75%	0.43%	1.18%	\$13,532	\$7,758	\$21,290		
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account-R6	\$4,001,921	0.49%	0.39%	0.88%	\$19,609	\$15,607	\$35,217		
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6	\$2,699,601	0.60%	0.33%	0.93%	\$16,198	\$8,909	\$25,106		
Emerald / Essex	SmallCap Growth II Separate Account-R6	\$874,996	0.80%	0.37%	1.17%	\$7,000	\$3,237	\$10,237		
Principal Real Estate Inv	Real Estate Securities Separate Account-R6	\$725,772	0.76%	0.39%	1.15%	\$5,516	\$2,831	\$8,346		
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account-R6	\$834,299	0.79%	0.44%	1.23%	\$6,591	\$3,671	\$10,262		
UBS / TS&W	LargeCap Value I Separate Account-R6	\$5,012,576	0.57%	0.38%	0.95%	\$28,822	\$18,797	\$47,619		
JP Morgan/Neuberger Berman	High Yield I Separate Account-R6	\$834,299	0.49%	0.33%	0.82%	\$4,088	\$2,753	\$6,841		
BlackRock Financial Mgmt, Inc.	Inflation Protection Separate Account-R6	\$1,254,840	0.28%	0.30%	0.58%	\$3,576	\$3,702	\$7,278		
PIMCO	Core Plus Bond I Separate Account-R6	\$6,823,615	0.49%	0.32%	0.81%	\$33,436	\$21,836	\$55,271		
AXA Rosenberg/Causeway	International Value I Separate Account-R6	\$1,763,558	0.73%	0.53%	1.26%	\$12,874	\$9,347	\$22,221		
n/a	General Investment Account	\$22,125,870	0.00%	0.65%	0.65%	\$0	\$143,818	\$143,818		
<b>TOTAL FEES PAID THROUGH INVESTMENT OPTIONS (2):</b>		<b>\$67,829,171</b>				<b>\$214,161</b>	<b>\$323,015</b>	<b>\$537,176</b>		



## Alexandria School Board

- (1) These are amounts received by The Principal and taken into consideration in setting the price for the investment and service package. These fees apply to the investment option before published returns. Affiliated members of the Principal Financial Group may also receive fees as the Investment Provider or the Investment Advisor for certain investment options. These fees are included in the above numbers. When affiliated members of the Principal are both Investment Provider and Service Provider amounts in these columns are allocated based on our internal allocation assumptions.
  - (2) Total fees paid through investment options include fees collected to provide services and investment options to the retirement plan. It is an estimate based on the expected amount for each investment option as shown in the table above. Actual fees will be dependent on investment and services chosen by the plan or plan participants and the value of plan funds.
- Total Investment Expense - Net is the gross total investment expense less any fee waivers, reimbursements, caps, or reduction of expenses for fund level expenses, as well as any operating expenses. The expenses, as a percentage of net assets, actually borne by the fund, including interest expense .



## Flexible Pension Investment (FPI) Service Agreement

### In This Agreement

- *You and your* means Contractholder.
  - *We, us or our* means Principal Life Insurance Company, a member of the Principal Financial Group.
- 

### Standard Services

#### The Contract Administration Fee Provides:

- Representatives to help explain the plan to employees.
- Quarterly reports of fund values under the contract as well as interest, deposits, and withdrawals.
- A Schedule A to attach to your annual government report.
- The forms you (or your counsel) need to submit to the IRS requesting approval as a qualified plan (if applicable).
- Help with changes in legislation that affect your plan.
- Administration manual and forms needed to ease administration of your plan.

#### The Standard Recordkeeping Fee Provides:

- Individual records of Members including any Member contributions.
  - Annual listing of benefits for each Member.
  - Annual Member statement for distribution to each Member.
  - Record of Member beneficiary designations (if needed).
  - Calculation of benefits at retirement, termination, death, or disability.
  - Furnishing available Member data for federal reporting and disclosure requirements.
- 

### Optional Services

#### The Documentation Fee Provides:

- Sample plan documents for review by you and your counsel.
- Drafting text and printing standard booklets (summary plan descriptions).

#### Actuarial Service

The Contractholder can request us to provide the actuarial services required by the Employee Retirement Income Security Act (ERISA) of 1974 for this plan. Our enrolled actuary:

- Will direct these services
  - Make any certifications required by ERISA or subsequent laws or regulations
-

## FPI Service Agreement (continued)

**Optional  
Services  
(continued)**

**The Actuarial Service Fee Provides:**

- Preparation of actuarial valuation (funding) information.
- Actuarial advice and comment as requested. Additional actuarial reports, up to two per plan year, are available for contemplated plan design changes.
- Certifications required by ERISA.
- Financial Accounting Standards Board Statement No. 35 and No. 36 information.

**The FAS Report Fee Provides:**

- Information required by the Financial Accounting Standards Board Statement No. 87 and No. 88.

**Benefit Payments to Retired Members**

You may choose from four alternatives for paying monthly retirement benefits:

Alternative	Description	Terms
1	Benefit Index	Monthly benefits are paid to the Member directly from plan funds <b>with our guarantee</b> of payment.  If plan funds equal the Benefit Index, annuities will be purchased under Alternative 4.
2	Purchase Participating Annuities	There is a one-time charge against plan funds for the cost of the retired Member's annuity. The purchase price anticipates future dividends payable to the plan. <b>We guarantee benefits</b> under this option.
3	Direct Payment	Monthly benefits are paid directly from plan funds <b>without our guarantee</b> of payment.  Payments can be made either to the Member or the trustee (trusteed plans only).
4	Purchase Non-Participating Annuities	There is a one-time charge against plan funds for the cost of the retired Member's annuity. The purchase price anticipates no future dividends will be payable to the plan. <b>We guarantee benefits</b> under this option.



## FPI Service Agreement (continued)

### Schedule of Fees for FPI Contracts (continued)

#### Actuarial Service Fee

Number of Members in Valuation	Annual Fee
9 & under	\$935
10 - 19	\$990
20 - 49	\$1,155
50 - 99	\$9.90/Member + \$670
100 - 299	\$8.80/Member + \$780
300 - 499	\$7.70/Member + \$1,110
500 - 999	\$6.60/Member + \$1,660
1,000 - 2,499	\$4.40/Member + \$3,860
2,500 - 4,999	\$15,400
5,000 & over	\$17,600

If separate actuarial valuations are prepared for affiliated firms, associated firms, or subdivisions, a separate actuarial service fee (and FAS report fee, if applicable) will be made for each based on the number of lives in the valuation.

We will also charge a valuation fee at plan termination.

These fees are charged in the quarter in which the service is provided.

#### FAS Report Fee

If we are asked to provide reports to meet the requirements of the Financial Accounting Standards Board, an additional fee of 60% of the Actuarial Service Fee will apply.

This fee must be paid separately.

## **FPI Service Agreement (continued)**

### **Schedule of Fees for FPI Contracts (continued)**

#### **Nonstandard Actuarial Service Fee**

An additional fee *MAY* be charged for the following services:

- Those requested by you that are in addition to our standard services
- Actuarial Reports in excess of two per plan year for contemplated plan design changes

You will be notified in writing of the charges before we do any work.

#### **Monthly Benefit Payment Fee**

If monthly payments are paid directly from the fund to a Member under Alternative 1 or 3, a fee of \$4.00 per Member per quarter applies. This fee:

- Doesn't apply if payments are made directly to the trustee (trusteed plans only)
- Is doubled if a portion of the monthly income is from a variable annuity

If you have purchased annuities for retired Members under Alternative 2 or 4, *there are no additional fees.*

#### **Miscellaneous Fees**

By mutual consent, we may provide additional services not covered by this service agreement. Additional fees may apply.

These services and associated fees will be subject to a Supplemental Service Agreement under this contract.

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## FPI Service Agreement (continued)

### Schedule of Fees for FPI Contract (continued)

#### Standard Recordkeeping Fee

Number of Non-Retired Members	Quarterly Fee*
9 & under	\$4.05/Member + \$202.50
10 - 19	\$3.25/Member + \$210.50
20 - 49	\$2.43/Member + \$227.00
50 - 99	\$1.90/Member + \$253.25
100 - 299	\$1.63/Member + \$280.75
300 - 499	\$1.48/Member + \$325.75
500 - 999	\$1.35/Member + \$388.25
1,000 - 2,499	\$1.23/Member + \$513.25
2,500 & over	\$0.80/Member + \$1,575.75

\*If we are asked to keep records of Members' contribution accounts, these fees will be doubled. Annual benefit plan reports for each Member are normally included for the above charge unless special material is requested.

The Standard Recordkeeping Fee is reduced by 10% if Member data is reported in our standard format by magnetic tape, diskette or modem.

#### Non-Standard Recordkeeping Fee

If we provide separate reports or services for two or more accounting units or locations, an additional charge of \$150 per quarter applies for each additional location in excess of one.

## FPI Service Agreement (continued)

**Schedule of Fees  
 for FPI Contracts  
 (continued)**

**Documentation Fee**

Documents	New Case/ Restatement	Amend- ment	Draft Booklets	Print Booklets
Principal Life Prototype	\$125	\$0	\$0	\$0
Principal Life Sample Custom- Written Plan	700	300	400	100 *
Non-Principal Life Plan	N/A	N/A	800	100 *

\*We provide standard booklets for 1 1/2 times the number of active Members with a maximum of 250 for custom/outside plans. Additional booklets are available for \$0.75 per booklet.

The fee for printing booklets from a customer-provided draft is \$300.

Requests to draft or print non-standard booklets (for prototype or sample custom plans) result in an additional fee. We will inform you of any additional fee before providing the service.

This fee is charged in the quarter in which the service is provided.



**FPI Service Agreement**

Contract No. 4- 35557

In this agreement:

- *You* and *your* means Contractholder.
- *We*, *us* or *our* means Principal Life Insurance Company, a member of the Principal Financial Group.

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The **Application Fee** of \$825 is **NONREFUNDABLE** and is:

separate from contributions (must be attached).  
 deducted from plan contributions.

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The **Contract Administration Fee, Transfer Fee** (if applicable), **Recordkeeping Fee(s), Compensation to Agent, Broker, or Consultant, Actuarial Service Fee** (if applicable) and **Documentation Fee** (if applicable) will be:

Paid by you as billed.       Deducted from contract funds.

**Services to be Provided:** (select all that will apply)

<input checked="" type="checkbox"/> Recordkeeping Services	<input checked="" type="checkbox"/> FAS Reports (paid by you as billed)
<input checked="" type="checkbox"/> Actuarial Services (we must provide Recordkeeping Services)	<input checked="" type="checkbox"/> Document

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**Benefit Payment Election for Retired Members:**

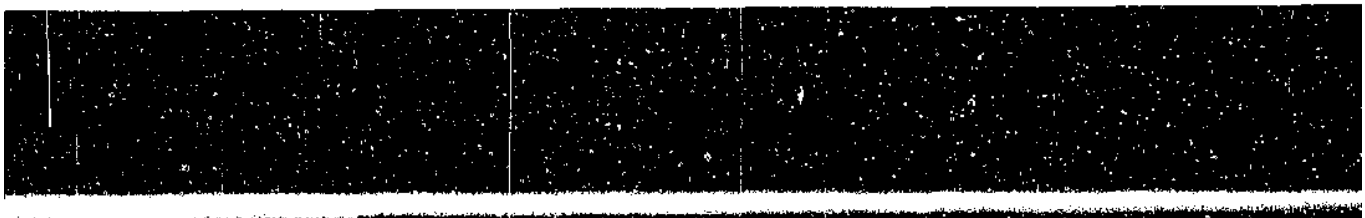
- Alternative 1**—Benefit Index Alternative
- Alternative 2**—Purchase Alternative (Participating)
- Alternative 3**—Direct Payment Alternative

Make payments to:       Member.  
    Trustee.

- Alternative 4**—Purchase Alternative (Non-Participating)

**Note:** Benefit Index and Direct Payment Alternative monthly benefit payment fees will be billed or deducted from contract funds according to your selection for Contract Administration Fee.

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Services not included in this agreement may be provided upon mutual agreement between us and you. The services provided and the associated fees (except Agent Compensation) can be modified or withdrawn upon 60-days written notice from us to you.

Effective Date of Agreement: 12 / 01 / 98.

We must have received the agreement in our home office. We will notify you within 60 days after receipt if it isn't acceptable.

Completion of this agreement replaces all prior agreements you may have with us for this contract.

This agreement terminates the earlier of the date:

- We accept a revised agreement in our home office, or
- No accounts are held under the contract.

**PRINCIPAL LIFE INSURANCE COMPANY**

By: J. Bruce Sewell Title: President

**CONTRACTHOLDER:**

**EMPLOYER\*:**

<p>Legal name: (Pick one)</p> <p><input type="checkbox"/> Trustees of _____ (Plan name)</p> <p><input checked="" type="checkbox"/> <u>ALEXANDRIA SCHOOL BOARD</u> (employer name if nontrusteed Plan)</p> <p>By: <u>[Signature]</u></p> <p>Title: <input type="checkbox"/> Trustee <input checked="" type="checkbox"/> _____ (nontrusteed Plans)</p> <p>Date Signed: <u>11-19-98</u></p>	<p>Legal name: _____</p> <p>By: _____</p> <p>Title: _____</p> <p>Date Signed: _____</p> <p>*Complete only if different from Contractholder.</p>
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