

**Virginia College Savings Plan  
Statement of Investment Policy and  
Guidelines  
For**

**Virginia529 prePAID<sup>SM</sup>**

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# **I. PURPOSE & RESPONSIBILITIES**

## **PURPOSE**

The purpose of this Statement of Investment Policy and Guidelines (“Statement”) is to identify a set of investment objectives, guidelines and performance standards for the Virginia529 prePAID (“prePAID” or the “Program”). This Statement represents the formal investment policy document for prePAID and is to be communicated to the investment managers for their use in developing appropriate investment portfolios. This document will also be used by the Board of the Virginia College Savings Plan (“Board”) as the basis for future investment management decisions, measurement and evaluation of investment performance of prePAID.

This Statement will be reviewed at least annually by the Board to ensure that it is consistent with the investment needs of the Program.

## **RESPONSIBILITIES**

### **Board**

Pursuant to § 23-38.77 of the Code of Virginia (the “Code”), the Board shall administer the Virginia College Savings Plan (“VA529” or the “Plan”) and shall develop and implement programs for (i) the prepayment of undergraduate tuition, as defined in § 23-38.75 of the Code, at a fixed, guaranteed level for application at a two-year or four-year public institution of higher education in the Commonwealth and (ii) contributions to savings trust accounts established on behalf of a qualified beneficiary in order to apply distributions from the account toward qualified higher education expenses at eligible educational institutions, both as defined in § 529 of the Internal Revenue Code of 1986, as amended, or other applicable federal law. In addition, pursuant to § 23-38.77.1 of the Code, the Board shall have the power and duty to invest moneys in the Plan in any instruments, obligations, securities, or property deemed appropriate by the Board.

The Board is authorized to delegate certain responsibilities to qualified agents to assist them in properly meeting the overall Board responsibilities as outlined above. Specifically, the Board relies on the advice, guidance and actions of VA529 Management, the Investment Advisory Committee, a custodian, investment managers, an investment consultant, legal counsel and an actuary to perform various functions. The various roles and duties of each are further described below.

### **VA529 Management**

VA529 Management, comprised of the Chief Executive Officer (“CEO”) and such other senior officers as may be appointed by the CEO shall implement decisions approved by the Board and/or Investment Advisory Committee unless otherwise specifically provided by the Board or the Investment Advisory Committee. VA529 Management shall (i) oversee the development,

structure, evaluation and implementation of prePAID's strategic goals and objectives and (ii) with the assistance of the Investment Advisory Committee appointed by the Board, and by investment consultants, direct, manage and administer prePAID's assets and programs, and (iii) report periodically and as requested to the Board.

### **Investment Advisory Committee**

According to § 23-38.79:1 of the Code, the Board of VA529 shall appoint an Investment Advisory Committee ("Committee"), the purpose of which is to assist the Board in fulfilling its fiduciary duty as trustee of VA529's funds and to assist VA529 Management in directing, managing, and administering VA529's assets, and to provide the Board with sophisticated, objective and prudent investment advice on all matters related to the management of investments, within the parameters set by the Statement, as it may be amended from time to time. While this Statement refers to the responsibilities and duties of the Board, some of these responsibilities and duties may be delegated to the Committee via the Committee Charter<sup>1</sup>.

The Committee shall be comprised and administered in accordance with the Committee Charter, as it may be amended from time to time by the Board. The Committee shall review VA529's investments and is authorized to make decisions with regard to investment managers. The Committee is further authorized to take any additional action specifically authorized in other Board actions. Recommendations are not binding upon the Board.

The Committee shall report any action taken to the Board at the Board's next meeting.

### **Custodian**

The Plan shall contract on behalf of the Board with a third party custodian which shall have a level of experience and expertise in providing custodial services to plans and funds similar to those of prePAID. The custodian shall act as a fiduciary in the administration of the prePAID accounts utilizing appropriate internal controls to insure the safety of the assets from such things as fraud, collusion, loss, diversion, etc. While the specific duties and responsibilities of the Plan's custodian are contained in the contractual agreement between the custodian and Plan, the custodian, in general, has the following responsibilities:

- to handle all income, cash transactions, interest received, and other necessary activities;
- hold all securities on behalf of prePAID and only deliver securities upon proper instruction from those authorized to provide such instruction or direction;
- perform, participate in and exercise such rights, privileges, duties and responsibilities possessed by any other owner or holder of bonds or other evidence of indebtedness and

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<sup>1</sup> The Committee Charter of the Virginia College Savings Plan Investment Advisory Committee was revised by the Board on December 14, 2011.

common and preferred stock, except for the voting of proxies, unless specifically authorized;

- safekeep all assets including securities, cash and cash equivalents;
- receive instructions from investment managers to purchase and sell various securities and ensure that transactions are settled according to established settlement procedures; and
- provide monthly transaction accounting on security holdings with reports provided to the appropriate VA529 Management in a timely manner.

### **Actuary for prePAID**

As provided in § 23-38.80 and 23-38.85 of the Code, VA529 is to annually determine whether there are sufficient funds to maintain the actuarial soundness of the Program. To assist in this determination, the Board shall hire an actuary for the Program. While the specific duties and responsibilities of the Plan's actuary are contained in the contractual agreement between the actuary and Plan, the actuary, in general, has the following responsibilities:

- prepare, on a frequency determined by the Board, a comprehensive evaluation of prePAID's funded status and attest to the appropriateness of prePAID's assumptions and policies; and
- conduct special experience and actuarial studies as required by the Board.

### **Investment Consultant**

While the specific duties and responsibilities of the Plan's investment consultant are contained in the contractual agreement between the investment consultant and Plan, the consultant, in general, has the following responsibilities and will assist the Board and Committee with the following functions:

- provide evaluation of the investment results achieved by the designated investment managers in light of the investment guidelines and performance standards contained in this Statement;
- make recommendations to the Board of appropriate actions to be considered which, in the consultant's opinion, will enhance the probability of achieving overall investment program objectives. Such recommendations may include, but are not limited to:
  - use of alternate asset strategies or asset classes;
  - changes in overall investment policy;
  - changes in designated investment managers;

- provide assistance to the Board and/or Committee in screening and selecting investment managers, as appropriate; and
- at a minimum, meet with the Committee and Board every quarter.

### **Legal Counsel**

The VA529 General Counsel shall advise and represent the Board in all matters requiring legal insight and advice. VA529 Management, in consultation with the General Counsel, shall utilize the services of outside counsel and/or the Office of the Attorney General as such services may be required from time to time.

### **Investment Managers**

While the specific duties and responsibilities of the Plan's investment managers are contained in each contractual agreement between the designated investment manager and the Plan, investment managers, in general, have the following responsibilities:

- maintain registration as an investment advisor under the Investment Advisers Act of 1940, or be authorized and regulated by another appropriate authority;
- adhere to the policy guidelines contained in this Statement, unless granted an exception in writing;
- invest only in those asset classes, and adhere to the ranges for allocation among those classes, that the Board has stated to be appropriate for that manager's portfolio;
- exercise complete investment discretion within the boundaries of the restrictions outlined in this Statement or in any written exceptions to this Statement;
- strictly comply with all of the provisions of appropriate law as they pertain to the firm's dealings, functions and responsibilities as fiduciaries;
- prudently liquidate assets in the portfolio which cease to be in compliance with this Statement of Investment Policy or any written exceptions to this Statement. If in the manager's judgment, it is in the Program(s) best interest to not liquidate such an asset promptly, the manager will advise VA529 Management of the circumstances and make a recommendation regarding the liquidation of that asset;
- diversify the portfolio unless, under the circumstances, it is clearly prudent to not so diversify;
- ensure that brokers will be selected only on a competitive, best execution basis;

- invest the assets of the Program with care, skill, prudence and diligence under circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims;
- provide VA529 Management with a monthly accounting of assets;
- issue a quarterly report to the Committee and/or their designees which includes the following information:
  - the market value of account assets as of the last business day of each quarter;
  - the portion of account assets allocated to each investment asset class as of the last business day of each quarter;
  - time-weighted rates of return measured net of investment management fees and all expenses or gross of fees (as appropriate) for the current quarter, year-to-date and historical time periods;
  - average account characteristics and number of holdings as of the last business day of each quarter; and
  - expenses;
- acknowledge in writing the recognition and acceptance of full responsibility as a fiduciary, and the firm's intention to comply with this Statement as it currently exists or as is modified by joint agreement in the future.

### **Exceptions Allowed**

On a case by case basis, the Board may grant the investment manager an exception to the foregoing requirements where such exceptions are deemed appropriate and prudent. Exceptions applicable to each individual investment manager may be included in the manager's investment management agreement with the Plan or in a letter to the manager signed by the CEO of the Plan.

## **II. ASSET ALLOCATION & REBALANCING**

## **INVESTMENT OBJECTIVES**

The Virginia529 prePAID offers contracts to eligible individuals, the benefits from which cover future in-state undergraduate tuition and mandatory fees for the normal full-time course load at Virginia public colleges and universities. prePAID benefits may also be applied toward the cost of tuition and fees at Virginia private colleges as well as at eligible educational institutions nationwide, and in certain cases, at schools around the world. Given this mission, the primary investment objectives are outlined below.

- prePAID’s investment portfolio shall be allocated and managed with the objective of attaining an investment return which equals or exceeds the actuarial return assumptions, throughout the majority of economic cycles, taking into consideration cash flow demands and investment risks.
- prePAID’s investment portfolio shall be invested and managed to provide sufficient liquidity to meet all reasonably anticipated operational requirements.
- prePAID’s investment portfolio shall be invested prudently in order to endeavor to meet or exceed the assumed targeted rate of return as determined by the Board.

## **ASSET ALLOCATION & REBALANCING**

The target asset allocation should reflect a proper balance between prePAID’s needs for liquidity and return on assets, combined with an appropriate level of risk. The target asset mix, along with the acceptable minimum and maximum ranges, is outlined in Appendix A.

The target asset allocation should not be regarded as a rigid set of rules regarding asset allocation. The Board will review the allocation periodically and make adjustments as may be appropriate in light of changing market conditions.

Liquidity is required only to meet defined payout needs, unless the investment managers are otherwise advised by VA529 Management.

The Board is charged with the responsibility of monitoring the overall allocation within the parameters described above. It is understood that the maximum and minimum ranges are guidelines and that deviations may occur from time to time as a result of market impact or from short-term decisions implemented by either the Board or, with prior approval, by the investment managers. Rebalancing will occur as needed according to the VA529 Rebalancing Policy. VA529 staff certifies and reports to management on a monthly basis whether portfolio components are properly balanced according to asset allocation parameters.

# **III. ALLOWABLE INVESTMENTS**

## **ALLOWABLE INVESTMENTS**

Pursuant to § 23-38.80(B) of the Code, as amended, the Board is authorized to acquire and retain every kind of property and every kind of investment, and to retain property properly acquired, without time limitation and without regard to its suitability for original purpose, specifically including but not limited to:

- Debentures and other corporate obligations of foreign or domestic corporations;
- Common or preferred stocks traded on foreign or domestic stock exchanges;
- Not less than all of the stock or 100 percent ownership of a corporation or other entity organized by the Board under the laws of the Commonwealth for the purpose of acquiring and retaining real property that the Board is authorized to acquire and retain;
- Unregistered securities, often referred to as letter stock or private placements, including limited partnerships and 144A securities;
- Securities of any open-end or closed-end management type investment company or investment trust registered under the federal Investment Company Act of 1940, as amended, including such investment companies or investment trusts which, in turn, invest in the securities of such investment companies or investment trusts. Also permitted are pooled investments, including collective trusts and similar commingled fund vehicles, which may be used as an alternative to a mutual fund investment; and
- Bonds, notes or other obligations of the Commonwealth or its agencies and instrumentalities.

### **General Portfolio Diversification**

All individually managed portfolios and funds must maintain sufficient diversification among security issuers and market sectors such that the performance of one security or sector will not have an excessive impact on the entire portfolio. Investment mandates will be considered individually as well as collectively to ensure that investment styles, philosophies and investment approaches are complementary.

### **General Restrictions/Guidelines**

The Board requires that all investment managers comply with the following limitations and restrictions on their investment activities and holdings:

- Unless granted permission by the Board in writing, investment managers shall not engage in short sales or margin purchases and all accounts shall be free of leverage.
- Unless granted permission by the Board in writing, commodities or commodity contracts are not allowed.

- Derivative securities are prohibited except where specifically permitted in the investment manager agreement, subscription agreement, or prospectus. Specific asset classes may be permitted to make use of derivatives consistent with the overall investment guidelines and objectives of that asset class.
- Investments in commercial paper or other similar securities intended as cash equivalents shall be made only if such paper is rated at least A1/P1 and has a maturity of less than one year or a commingled money market fund offered by the custodian bank is used which meets these standards.
- The individual managers are expected to be fully invested at all times, with cash accounting for no more than 10% of the portfolio's market value.

### **Individual Portfolio Guidelines - Equity**

- Securities of any one issuer are limited to 5% (at market) of the individual portfolio.
- Portfolios should be diversified by sector, with sector allocations limited to a maximum of 200% of the weight of the sector in the benchmark (see Appendix for the benchmark assigned to each asset class), or 25%, whichever is greater, with the exception of sectors whose benchmark allocation is less than 5%, where the maximum allocation shall be 15%.
- U.S. equity portfolios cannot hold non-dollar denominated securities.
- No quantitative guidelines are given as to industry diversification. However, the investment manager is expected to develop and apply prudent standards.

### **Individual Portfolio Guidelines – Fixed Income**

- While no specific ranges are required, it is expected that the average duration of the portfolio will be within +/- 20% of its designated benchmark (see Appendix B for the benchmark assigned to each asset class).
- For the Core Fixed Income portfolios, the average quality of the total account should be A-rated or higher. Only investment grade securities, as defined as BBB-rated or higher by Standard & Poor's, or the equivalent rating by Moody's or Fitch may be purchased, unless the Board grants specific exceptions in writing. For bonds with split ratings, the higher rating will apply. In cases where securities were purchased and were subsequently downgraded, the manager will immediately notify VA529 Management and outline the course of action anticipated for the security.
- Core Plus Fixed Income portfolios can hold non-investment grade securities and have an overall average quality rating of BBB or higher.
- Securities of any one issuer, with the exception of the U.S. Government and its agencies and instrumentalities, are limited to 5% (at market) of the individual portfolio.
- U.S. fixed income portfolios cannot hold non-dollar denominated securities.

### **Individual Portfolio Guidelines – Fixed Income, Stable Value**

- While no specific ranges are required, it is expected that the average duration of the account will be between two and four years.

- The average quality of the total account should be AA- or higher. Only investment grade securities defined as BBB-rated or higher by Standard & Poor's or the equivalent rating by Moody's or Fitch, may be purchased, unless the Board grants specific exceptions in writing. For bonds with split ratings, the higher rating will apply. In cases where securities were purchased and were subsequently downgraded, the manager will immediately notify VA529 Management and outline the course of action anticipated for the security.
- Securities of any one issuer, with the exception of the U.S. Government and its agencies and instrumentalities, are limited to 5% (at market) of the individual portfolio.
- Stable Value portfolios cannot hold non-dollar denominated securities.

### **Exceptions Allowed**

On a case by case basis, the Board may grant the investment manager a special exception to the foregoing restrictions where such exceptions are deemed appropriate and prudent. Specific guidelines applicable to each individual investment manager will be recorded in the manager's investment management agreement with the Plan or in a letter to the manager signed by the CEO of the Plan.

### **Commingled Funds, Collective Trusts and Mutual Funds**

The guidelines in this Statement have been established to ensure that the investments of each investment manager are in keeping with the return and risk objectives of prePAID. However, in attempting to meet these objectives, it may be advantageous for a portion of portfolio assets to be placed in a pooled, commingled, collective trust, or mutual fund which may have specific restrictions, policies, or guidelines that conflict from time-to-time with those outlined in this Statement. To the extent that the Board has reviewed the investment guidelines of such funds, and determined their appropriateness to the investment objectives of the Program, the restrictions, policies and guidelines in the funds' prospectus or offering statement shall take precedence over those stated in this Statement.

# **IV. INVESTMENT MANAGER SELECTION, MONITORING AND TERMINATION**

## BACKGROUND

The Board reserves the right to add, delete or replace investment managers in order to meet performance guidelines outlined in this policy or other factors affecting the continuing viability of the portfolio. Either separately managed portfolios, commingled funds or mutual funds may be used in prePAID.

## SELECTION – GENERAL CRITERIA

When selecting investment managers for prePAID, the following six broad categories should be considered:

- Economies of Scale
- Diversification
- Transparency
- Organizational Strength
- Performance Consistency
- Risk/ Reward

The following *basic* selection criteria are to be used when selecting a new investment manager to be added to prePAID or when selecting a replacement manager for an existing asset class. These criteria have been classified according to the categories listed above.

### Economies of Scale

- Have at least \$500 million in assets under management.
- Have a reasonable expense ratio or fees compared to other vehicles within an appropriate peer group.

### Diversification

- No more than 10% of the portfolio may be invested in any one company valued at market. Likewise, appropriate risk controls should be outlined in each investment manager agreement with respect to sector and industry weightings relative to an appropriate benchmark.

### Transparency

- Employ an investment process that is well defined.
- Invest in securities consistent with the investment manager's strategy<sup>2</sup>.
- Agree to meet all other requirements set forth in this Statement. However, all mutual funds, collective trusts, and similar commingled fund vehicles included in prePAID will also be subject to the investment guidelines as set forth in their prospectuses, or applicable offering documents.

### Organizational Strength

- Be managed and supported by qualified personnel and appropriate resources.

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<sup>2</sup> For instance, large cap growth vehicles should primarily focus on large cap stocks with growth-oriented characteristics.

### Performance Consistency

- Have a minimum of 3 years of verifiable investment performance information<sup>3</sup>.
- Have competitive returns versus an appropriate benchmark and peer group.

### Risk/ Reward

- Have acceptable volatility relative to an appropriate benchmark. Greater volatility than the benchmark should be commensurate with a higher return.

## **INVESTMENT MANAGER SEARCHES – COMMITMENT TO DIVERSITY**

The Board is committed to seeking diversity in the ownership, management, and staffing of firms with which the Plan does business, including investment managers. Accordingly, whenever a manager search is directed by the Plan, the Plan's investment consultant will include in its research report information on the ownership structure of each firm and publicly available data on ownership by women and minorities. In addition, if managers are interviewed by the Committee, the Plan's investment consultant will request that each candidate include in their respective presentation a discussion of the candidate's overall commitment to diversity and a review of the distribution in each level of the organization by gender and ethnicity in order to obtain information on the firm's diversity. Other information may be provided at the candidate's discretion to demonstrate their firm's commitment. Such information shall be considered in evaluating potential investment managers, with the primary criteria remaining those outlined under General Criteria above, in accordance with the fiduciary obligations of the Board.

## **PERFORMANCE MONITORING**

The Board shall periodically, but not less than quarterly, evaluate investment managers. Each actively managed investment option will be measured against its benchmark and peer group for the measurement periods outlined below. The ability to meet the benchmark comparison on a net of fees basis will be a primary measure of performance. In addition to monitoring performance, consideration will be given to risk adjusted metrics.

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<sup>3</sup> Vehicles with less than 3 years of history may be tactical or opportunities investments where strategies often close quickly due to liquidity constraints.

<i>Measurement Period</i>	<i>Benchmark Comparison</i>	<i>Peer Group Comparison</i>
Multiple rolling 3-year periods	<ul style="list-style-type: none"> <li>The total rate of return should exceed the return of the benchmark over most rolling periods.<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>The total rate of return should exceed the median return of the fund's peer group over most rolling periods<sup>4</sup>.</li> </ul>

For the managers that do not have a 3-year track record with prePAID, the manager's separate account composite or mutual fund performance will be used for evaluation. The manager may also be placed on watch within a lesser period if the strategy deviates from the universe and benchmark dramatically and in a manner that would not have been expected given the tracking error expectations of the strategy.

If the investment manager utilizes a passively managed strategy, the portfolio will be monitored on its ability to successfully track the risk and return characteristics of the stated benchmark. Peer group comparisons will not be required for passive strategies.

In addition to monitoring investment performance results, the Board may periodically evaluate the investment managers on the basis of the following factors to ascertain whether they should continue to be utilized in Program:

- the stability and depth of the investment professionals responsible for the management of this strategy;
- the suitability of its investment approach for prePAID;
- its management fees; and
- any other measures the Board deems useful and relevant.

### **Watch List Status & Termination**

If an investment manager fails to meet the minimum standards of investment performance outlined in this document, the Board may place the manager on a watch list for one year. The following are some examples of reasons for termination or placing an investment manager on the watch list:

- significant change in portfolio management, ownership or control;
- significant change in portfolio management style;
- substantive change in portfolio turnover; and
- continued performance shortfalls versus the peer group or benchmark.

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<sup>4</sup> Measured over the latest 12 quarters available for review.

Reasons for termination without a probationary period may include, but are not limited to:

- any violation of SEC, or other applicable authority, rules or regulations, as well as any other important and appropriate statutory regulatory requirements;
- operational difficulties concerning fund transfers or pricing;
- substantial and consistent deviation from the characteristics of its investment category; and
- failure to adhere to guidelines in this Statement or in the investment management agreement.

By the end of the watch list period, the Board will evaluate the investment manager and determine whether:

- the investment manager remains on the watch list for an additional specified period of time;
- the investment manager is removed from the watch list; or
- the investment manager is terminated.

## **VIII. SUPPLEMENTAL ITEMS**

## CASH/LIQUIDITY POLICY

The following procedures are hereby adopted and will remain in effect until such time as monthly cash flows of prePAID and/or contributions to prePAID support the ongoing benefit and expense payments required by the Program.

- The Cash/Liquidity Policy for prePAID shall be integrated with the management of prePAID's asset allocation rebalancing policy.
- Cash required for benefit payments and operating expenses shall be distributed from a cash account. The balance in that account will be monitored on a frequent basis and replenished as necessary, but no less often than quarterly.
- When it is determined that there is insufficient cash in the designated cash account to fund upcoming cash withdrawals, transfers will be made from one or more of the investment accounts into the cash account. The determination of which accounts will provide funds to the cash account will be made by VA529 Management in consultation with the investment consultant, with the following objectives:
  - rebalancing toward the target asset allocation; and
  - minimizing the transaction costs of providing cash.

## PROXY VOTING

Proxies will be voted for the exclusive benefit of the Plan.

### **Proposals Related to Funds and other Securities**

The Board may delegate the voting of proxies to others (e.g., the Investment Advisory Committee, appropriate VA529 Management, the investment managers or a qualified third party). In addition, the Board may require periodic reporting of the proxy voting activity by any person to whom such power has been delegated.

If a qualified third party is retained to manage the proxy voting activities for prePAID, a review of the guidelines used to vote proxies will be conducted annually by VA529 Management. In addition, the third party will provide reports every calendar quarter to appropriate VA529 Management as to the proxies voted.

## **SECURITIES LENDING**

Securities lending is not allowed in the separate accounts in prePAID, unless specifically approved by the Board. However, some of the investment vehicles, such as mutual funds, collective trusts, and similar commingled fund vehicles may engage in securities lending if so allowed by their prospectus or applicable offering document.

## **ACCEPTANCE AND ADOPTION**

The Board of Virginia College Savings Plan has approved and adopted this amended and restated Statement of Investment Policy and Guidelines as of December 9, 2015.

# **APPENDICES**

## APPENDIX A - TARGET ASSET ALLOCATION

The target asset mix, consistent with the achievement of the long-term objective of the Plan, is as follows:

	<u>Target</u>	<u>Allowable Range</u>
<b>Equities</b> Comprised of publicly traded U.S. and International Equity	<b>32.5%</b>	<b>25.0 - 40.0%</b>
<b>Alternatives</b> Comprised of asset classes or strategies such as Public or Private Real Estate, Private Partnerships or Hedge Funds	<b>15.0%</b>	<b>10.0 - 20.0%</b>
<b>Non-Core Fixed Income</b> Comprised of asset classes such as convertibles, high yield or emerging market debt	<b>27.5%</b>	<b>22.5 - 32.5%</b>
<b>Core Fixed Income</b> Comprised primarily of U.S. investment grade debt	<b>25.0%</b>	<b>20.0 - 30.0%</b>

Note: This allocation was approved by the Investment Advisory Committee and Board in 2009 and is reviewed annually in establishing the long-term investment return assumption for prePAID's annual actuarial valuation report.

## APPENDIX B – ASSET CLASSES, BENCHMARKS & PEER GROUPS

The table below outlines the applicable benchmarks and peer groups for each asset class and style represented in the prePAID portfolio.

<b>Asset Class</b>	<b>Asset Group</b>	<b>Benchmark</b>	<b>Peer Group</b>
U.S. Large Cap Passive Equity	Public Equity	<i>S&amp;P 500</i>	NA
U.S. Small/Mid Cap Growth Equity	Public Equity	<i>Russell 2500 Growth</i>	Small/Mid Cap Equity
U.S. Small Cap Value Equity	Public Equity	<i>Russell 2000 Value</i>	Small Cap Value Equity
U.S. Small/Mid Cap Value Equity	Public Equity	<i>Russell 2500 Value</i>	Small/Mid Cap Value Equity
International Equity	Public Equity	<i>MSCI EAFE</i>	International Equity Mutual Fund
Emerging Markets Equity	Public Equity	<i>MSCI Emerging Markets</i>	Emerging Markets Mutual Fund
Private Real Estate	Alternatives	<i>NCREIF (various)</i>	Private Real Estate
Market Neutral Hedge Fund of Funds	Alternatives	<i>3-Month T-Bills + 350 bps</i>	Market Neutral Hedge Funds
Private Partnerships	Alternatives	<i>Russell 3000 + 300 bps</i>	NA
Global Macro	Alternatives	<i>3-Month T-Bills + 400 bps</i>	Global Macro Funds
U.S. High Yield Fixed income	Non-Core Fixed Income	<i>Barclays Capital High Yield</i>	U.S. High Yield Fixed Income
Convertibles	Non-Core Fixed Income	<i>BofA Merrill Lynch Global 300 Convertibles</i>	Convertibles
Emerging Markets Debt	Non-Core Fixed Income	<i>JP Morgan EMBI (various)</i>	Emerging Market Debt
U.S. Core Fixed Income Passive	Core Fixed Income	<i>Barclays Capital Aggregate</i>	NA
Bank/Leveraged Loans	Core Fixed Income	<i>Credit Suisse Leveraged Loan Index</i>	Fixed / Bank /Leveraged Loans
Mortgage Backed Securities	Core Fixed Income	<i>Barclay Capital MBS Index</i>	U.S. Fixed / Mortgage-Backed
Intermediate Term Fixed Income	Core Fixed Income	<i>Barclays US Credit Corporate 5-10 Year</i>	U.S. Fixed / Intermediate
U.S. Treasury Inflation Adjusted Fixed Income	Core Fixed Income	<i>Barclays Capital U.S. TIPS</i>	NA
Stable Value	Core Fixed Income	<i>3-Month T-Bills + 100 bps</i>	Stable Value
Money Market Fund	Core Fixed Income	<i>Citigroup 3-Month T-Bill</i>	NA

## APPENDIX C - TOTAL FUND BENCHMARK COMPOSITION

The table below outlines the composition of the blended benchmark used for the prePAID total fund.

<b>Total Fund Benchmark</b>			
	<b><u>Target</u></b>	<b><u>Benchmark Component</u></b>	<b><u>Asset Class</u></b>
Equities	32.5%	MSCI All Country World Index	Public Equity
Alternatives	15.0%	3-Month T-Bills + 350 bps	Market Neutral Hedge Fund of Funds
		NCREIF ODCE (1Q in Arrears)	Private Real Estate
		3 Month T-Bills + 400 bps	Global Macro Hedge Funds
		Russell 3000 + 300 bps	Private Partnerships
Non-Core Fixed Income	27.5%	BofA ML Global 300 Convertibles	Global Convertibles
		Barclays Capital High Yield	U.S. High Yield Fixed Income
		JPMorgan EMBI	Emerging Markets Debt
Core Fixed Income	25.0%	Barclays Capital Aggregate	U.S. Core Fixed Income Passive
		Barclays Capital U.S. TIPS	U.S. Treasury Inflation Adjusted Fixed Income
		3 Month T-Bills + 100 bps	Stable Value

*Actual allocation is reviewed monthly and component weightings are adjusted as needed.*