VERMONT PENSION INVESTMENT COMMITTEE
INVESTMENT POLICY
AND
INVESTMENT MANAGER GUIDELINES

Adopted: 10/29/09
See next page for amendments

POLICY AMENDMENTS

Adopted: 10/29/09

Amended: 11/23/09 – pg 20: Core Plus, pg 29: Securities Lending, pg 43: update policy

Amended: 5/23/2010 – pg 46: add Appendix H language, pg 49: add Appendix I language, pg 53: amend Allocation Table

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Amended: 8/24/10 - pg 54: Appendix J, Asset Allocation Table

TABLE OF CONTENTS

I. PURPOSE

The purpose of this Investment Policy is to articulate the overall investment strategies and processes of the Vermont Pension Investment Committee ("VPIC"). The policy is intended to provide guidance to fiduciaries, including the VPIC, staff professionals, Investment Managers, custodians and investment consultants for managing the VPIC Portfolio (defined below).

II. MISSION STATEMENT AND LEGAL AUTHORITY

Mission Statement

The mission of the VPIC is to manage investments for the participating retirement plans with integrity, prudence, and skill to meet or exceed the financial objectives of the beneficiaries of the funds.

Legal Authority

The VPIC was established by Act of the Vermont Legislature (Acts of 2005, No. 215 (Adj. Sess., as amended by Acts of 2007, No. 100 (Adj. Sess.)) to combine the assets of the State Teachers' Retirement System of Vermont, the Vermont State Employees' Retirement System, and the Vermont Municipal Employees' Retirement System for the purpose of (i) investment in a manner that is more cost- and resource efficient; (ii) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems. Subsequent legislation (Acts of 2005, No. 50) authorized the VPIC to enter into agreements with municipalities administering their own retirement systems to invest retirement funds for those municipal plans (the three retirement systems, together with any other municipal system for which the VPIC invests shall be referred to herein as the "Retirement Systems", the assets of the Retirement Systems shall be referred to herein as the "VPIC Portfolio").

Standard of Care

The VPIC is required by law to strive to maximize the total return on investment, within acceptable levels of risk for public retirement systems, in accordance with the standards of care established by the prudent investor rule under 14A V.S.A. §902. Specifically, in making investments for the Retirement Systems the members of the VPIC shall exercise "reasonable care, skill, and caution" and "invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust."

The investment and management decisions of the VPIC with respect to individual assets must be evaluated not in isolation, but in the context of the VPIC Portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Portfolio. Among circumstances to be considered may be:

- General economic conditions;
- The possible effect of inflation or deflation;
- The role that each investment or course of action plays within the overall portfolio;
- The expected total return from income and the appreciation of capital; and
- Needs for liquidity, regularity of income, and preservation or appreciation of capital.

Investments of the VPIC Portfolio shall be made in full accordance with any and all applicable Vermont statutes, as well as any other applicable legislation or regulation, state, federal or otherwise.

III. ROLES AND RESPONSIBILITIES

<u>Vermont Pension Investment Committee</u>

The VPIC shall be responsible for the investment of the VPIC Portfolio in compliance with applicable Law and this Investment Policy.

Responsibilities of the VPIC include:

- Establishing controls and systems to ensure that the members of the VPIC comply with applicable laws and policies;
- Establishing asset allocation and investment policies for the VPIC Portfolio;
- Appointing and discharging Consultants, Managers and Actuaries, if applicable;
- Monitoring and reviewing investment performance and policy compliance; and
- Reviewing policies and procedures on a regular basis.

The VPIC makes policy decisions respecting:

- Market efficiency (active vs. passive investing)
- Portfolio diversification and diversification within asset classes
- Investment style
- Transparency, including transaction transparency
- Risk management

<u>Investment Staff</u>

In accordance with 3 VSA §522, the VPIC shall be attached to the Treasurer's Office for administrative support. The responsibilities of the Treasurer's Office shall include:

- Day-to-day administration of the investment operations of the VPIC in accordance with VPIC policies;
- Provide oversight to all investment activities, including portfolio accounting and cash allocation;
- Typically, the VPIC and staff do not directly manage any VPIC portfolios, however the VPIC, in its discretion may make direct investments; and
- Such other duties as the VPIC may approve and the Treasurer may direct.

In accordance with 3 VSA §523, the Attorney General shall serve as legal advisor to the VPIC.

Investment Consultants

Investment Consultants shall assist the VPIC and the Staff in managing the investment process, including performance review, asset allocation studies, asset liability studies, risk management, manager selection and monitoring, investment research and other matters of investment policy, procedures and implementation. Investment Consultants shall provide services as a fiduciary and in accordance with all applicable federal and state laws and regulations including, but not limited to, (i) applicable ethics requirements; (b) this Investment Policy; and (iii) with all applicable professional codes and/or regulations. The fiduciary relationship shall be documented in the contract with the VPIC. Investment Consultants shall provide independent and unbiased research, information to the VPIC and Staff. The VPIC shall determine the consultants' specific responsibilities, which shall be set forth in their respective contracts with the VPIC.

Investment Managers

The VPIC employs professional Investment Managers and gives them discretion, consistent with specified objectives and guidelines, to manage VPIC Portfolio. All external Investment Managers shall be retained pursuant to written contracts that delineate their respective responsibilities and performance expectations and include a formal set of investment guidelines and administrative requirements for management of each portfolio.

Communications

Investment Managers must promptly inform the VPIC and the Investment Consultant of all significant matters pertaining to the investment of the VPIC Portfolio, for example:

- Changes in investment strategy, portfolio structure and material market value changes of managed assets.

- Timely notice of significant events, ownership affiliations, organizational structure, financial condition, professional personnel staffing of the investment management organization.

- Any material changes in the liquidity of the securities they hold in the VPIC Portfolio.

In addition, Investment Managers shall supply a written (hard copy) and electronic version of quarterly summary of the following:

- Contract compliance.
- Brief review of investment process.
- Discussion of any changes to the investment process.
- Investment strategy used over the past year and underlying rationale.
- Evaluation of strategy's success/disappointments.
- Comment on the Manager's assessment of the current liquidity of the portfolio and the market(s) in which the portfolio is invested.

Additional Investment Manager reporting requirements are set forth below under Section VI "Policy Guidelines*."*

Custodian Bank

The VPIC shall retain one or more Custodian Bank or trust institution to hold the VPIC Portfolio. The Custodian Bank accounts for and assists in the settlement of all transactions executed by VPIC's Investment Managers and reports to the VPIC and to Staff on the holdings and transactions of the VPIC Portfolio. The Custodian Bank shall also monitor arbitration and class action litigation and file proper documentation on the VPIC's behalf when warranted and provide transition management services as contractually specified. In order to maximize investment return, no monies shall be allowed to remain uninvested. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly.

Other Vendors

From time-to-time the VPIC may elect to hire one or more vendors to perform services relating to proxy voting, risk management, policy compliance and such other services as the VPIC may, in its discretion, direct.

IV. RETURN AND RISK OBJECTIVES

The overall objective of the VPIC is to provide benefits to members of the Retirement Systems through a carefully planned and well-executed investment program.

Return Objectives

Actuarial Target Rate of Return

The VPIC has a return objective of meeting or exceeding the actuarial target rate of return measured by total return. Total return includes realized and unrealized gains, plus income less expenses. The target rate of each Retirement System is set at a joint meeting of the VPIC and Trustees of each Retirement System, and can be found at the Treasurer's website at http://www.vermonttreasurer.gov/pension-funds. A change to the actuarial rate of return shall be by joint resolution of the Trustees of the appropriate Retirement System and the VPIC. The investment program shall be structured to preserve and enhance principal over the long term, in both real and nominal terms. For this purpose, short-term fluctuations in values will be considered secondary to long-term investment results.

Investment Policy Benchmark

The investment policy benchmark is calculated by applying the investment performance of the asset class benchmarks to the VPIC's asset allocation targets. The investment policy benchmark permits the VPIC to compare actual performance to a passively managed proxy and to measure the contribution of active investment management and policy implementation.

Comparison Universes

The VPIC also compares its total Portfolio performance to appropriate public plan sponsor comparison universes. The total return goal for the Retirement Systems shall be to rank consistently in the top half of the ICC (Independent Consultants Cooperative) public fund universe. Returns for Investment Managers shall seek to exceed their respective benchmarks, as well as rank in the top half of the appropriate universe of Investment Managers adhering to the same investment style over the business cycle.

Risk Objectives

The VPIC Portfolio shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity, or geography.

Constraints

The VPIC Portfolio shall (i) maintain adequate liquidity to meet required benefit payments to the beneficiaries of the Retirement Systems; and (ii) be invested in a manner that is consistent with the long term time horizon of the Retirement Systems.

V. ASSET ALLOCATION

Asset Allocation

The VPIC recognizes that, over the long term, asset allocation is the single greatest contributor of return and risk to the VPIC Portfolio. Not less frequently than annually, the

VPIC will undertake a comprehensive review of its Asset Allocation and its asset allocation modeling and policy, including the current and projected assets of each of the Retirement Systems; long-term capital markets rate of return assumptions; and the VPIC's risk tolerances. The VPIC shall consider adjustments to the Asset Allocation as may be appropriate given the long term nature and objectives of the investments. The current asset allocation table may be seen in Appendix J.

Rebalancing

VPIC, or its designee, will review actual Manager asset balances for each Retirement System regularly to determine if the asset allocations are consistent with the policy ranges described herein. The Treasurer's Office shall implement such rebalancing. Investment Managers and the Custodian Bank will be directed to transfer funds to rebalance the assets under management as necessary.

The VPIC Portfolio will routinely be re-balanced on a semi-annual basis, at or about the latter half of March and September, each year. Notice of anticipated cash flow needs will be provided to the Investment Managers in accordance with the terms of the respective Manager contracts, and sooner if practical.

While using its discretion, and as part of the normal rebalancing process, the Treasurer's Office will consider the unique characteristics of each asset class, the degree of overweight/underweight, liquidity characteristics, current market conditions, transaction costs, and any other relevant considerations to ensure prudence and care.

VI. POLICY GUIDELINES

The VPIC manages certain portfolio risks by making policy decisions.

The VPIC has adopted the following guidelines for all investments. All Investment Managers are required to comply with these guidelines unless the VPIC has approved an exception and included the exception in the Investment Manager's contract.

Best Execution

Trades must be done on a "best-execution" basis.

Full Investment

The VPIC Portfolio is expected to be fully invested. No more than 10% of any Investment Manager's allocation may consist of cash, or cash equivalents. "Cash and Cash equivalents" may include bank accounts, imprest cash, short-term investments with an original maturity of 3-months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

VPIC Liability

While certain Investment Managers may use leverage in accordance with their respective contract terms, in no event shall the financial exposure of the VPIC in any one investment exceed 100% of such investment.

Standard of Care

Each Investment Manager shall discharge its duties solely in the interests of the VPIC, and with the care, skill, prudence and diligence 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 like aims. The VPIC acknowledges that, to the extent an Investment Manager has a fiduciary obligation to other investors in a commingled fund vehicle; certain rights of the VPIC may not exceed those of co-investors.

Account Structure

Assets may be held in commingled funds and/or privately managed separate accounts. Exposure through commingled funds shall be evaluated on a case specific basis through analysis of the fund's "offering document" and the instruments establishing the fund.

Upon review by the Staff [and Investment Consultant], and approval by the Board, the "offering document" or other applicable fund documents become the specific investment guidelines for that allocation.

Conflict of Interest

The use of brokers in which the Investment Manager has a financial interest shall be prohibited, except that VPIC index, money market and transition management accounts managed by divisions or wholly-owned subsidiaries of the VPIC's Custodian Bank may use the Custodian Bank's broker-dealer division or wholly-owned subsidiary, subject to obtaining best execution.

Tobacco

Investment Managers investing VPIC assets in privately managed separate accounts are prohibited from purchasing the securities of companies whose primary source of revenue stems from the production and sale of tobacco products.

Proxies

All proxies shall be voted in accordance with applicable State law, as more specifically described below, and in accordance with the VPIC Proxy Voting Guidelines, attached hereto as Appendix B.

Burma (Myanmar)

Pursuant to Section 3(a) of Public Act No. 13 of the Vermont General Assembly (1999 Sess.), Managers holding voting shares in companies doing business with the government of Burma shall vote in favor of —shareholder resolutions filed by shareholders when those resolutions raise concerns about doing business in Burma, including requests: (1) to report on company activities in Burma; (2) to report on the full costs of doing business in Burma; (3) to address human rights or drug trafficking conditions in Burma; or (4) to establish human rights guidelines.

MacBride (Northern Ireland)

Pursuant to Act No. 50 of the Vermont General Assembly (1989 Sess.), Managers shall provide the VPIC with a list of the corporations that directly, or through a subsidiary, do business in Northern Ireland and in whose stock the VPIC has invested and shall advise the VPIC whether each corporation has achieved the goals known as the MacBride principles. Managers holding shares in said corporations shall at every reasonable opportunity support shareholder resolutions designed to encourage United States corporations doing business in Northern Ireland in which the VPIC Portfolio is invested to adopt and implement the MacBride principles.

Investments in Terrorist or Genocide Linked Countries

Investments shall be restricted or prohibited in certain countries engaged in the sponsorship of terrorism or genocide or in companies which support a government or government-associated group or entity engaged in terrorist or genocidal activities, in accordance with the VPIC Policy on Investments in Terrorist or Genocide-Linked Countries, attached hereto as Appendix G.

VII. PERFORMANCE BENCHMARKS

Total Portfolio Return

The Total Portfolio Return shall be compared against the ICC (Independent Consultants Cooperative) public fund universe. The Total Portfolio Return shall seek to meet or exceed the Policy Index return and the Allocation Index Return, which are each described below.

Policy Index Return

The Policy Index Return shall measure the success of the Portfolio's target allocation. It shall be calculated by using index rates of return for each asset class invested in by the VPIC Portfolio multiplied by the percent targeted to each asset class.

Allocation Index Return

The Allocation Index Return shall measure the success of the VPIC Portfolio's current allocation. It shall be calculated by using index rates of return for each asset class invested in by the VPIC Portfolio multiplied by the actual percent allocated to each asset class. The difference between the Allocation Index Return and the Policy Index Return measures the effects of deviating from the target allocation. If the Allocation Index Return is greater than the Policy Index Return, then deviating from the target allocation has added value. If the Allocation Index Return is less than the Policy Index Return, then active management has not added value.

The difference between the Allocation Index Return and the Total Portfolio Return measures the effect of active management. If the Total Portfolio Return is greater than the Allocation Index Return, then active management has in aggregate added value. If the Total Portfolio Return equals or is less than the Allocation Index Return then active management has not added value.

Manager Benchmarks

The Investment Managers shall be compared to a combination of passively managed index returns matching the Managers' specific investment styles, as well as the median Manager in their appropriate peer group universe.

The long term performance benchmark for each asset class is shown in Attachment K. Performance in each asset class should meet or exceed the benchmark measure.

Manager Probation

Investment Managers may be placed on a watch list in response to the VPIC's concerns about the Manager's recent or long-term investment results, failure of the Investment Manager to comply with any of these Investment Guidelines, significant changes in the Investment Manager's firm, changes in the Investment Manager's investment strategy, anticipated changes in the VPIC's Portfolio structure, or any other reasons which the VPIC deems appropriate.

Attainment of investment objectives does not guarantee continued employment by the VPIC nor does failure to achieve these guidelines ensure dismissal. Investment Managers serve at the discretion of the VPIC.

VIII. REPORTING REQUIREMENTS

Portfolio Holdings

The following quarterly reporting requirements shall apply to all Managers:

- Present book value and current market value for all securities or real estate investments held.
- List individual securities by:
    - Appropriate sectors for domestic equities
    - Country and by industry within country for international equities
    - Sector for domestic fixed income

Real estate Managers shall list property type and geographic region for real estate holdings.

Performance

The following quarterly reporting requirements shall apply to all Managers:

- Provide total portfolio and asset class returns for last quarter, year-to-date, last year, three years and five years, and since inception versus designated benchmarks. All performance data shall be in compliance with GIPS Standards.

- Discuss performance relative to benchmarks.

- Provide portfolio characteristics relative to benchmark.

- When scheduled to make a presentation before the VPIC, Managers will comply with the following minimum content/format:
    - Names of presenters (on cover)
    - Account asset growth in dollar terms – contributions and withdrawal
    - Staff/organizational chart: list names of key individuals
    - Sector allocation/country: % exposure vs. target index
    - Performance
        - Quarter
        - Year to date
        - 1,3,5 year (average annualized)
        - Since inception
    - What helped and what hurt: sector or security selection attribution
    - Outlook for future: (i.e. overweight sectors, industries, economic trends, etc.)
    - Portfolio holdings to include CUSIP or other security identification, name par amount, market value, and for debt securities, also coupon and maturity date.

Derivatives

The following quarterly reporting requirements shall apply to all separately managed portfolios:

- A list of all derivative positions as of quarter-end.
- An assessment of how the derivative positions affect the risk exposures of the total portfolio.
- An explanation of any significant pricing discrepancies between the Manager and custodian bank.
- An explanation of any non-compliance.

Commingled funds shall provide the VPIC with a quarterly list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

Commissions/Trading Report

Each Manager shall provide an annual commission report to be delivered to the VPIC and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31]. The report shall cover all trades executed during the prior calendar year. Each annual commission report should include the following:

Broker Selection

Discussion of the firm's policy for selecting brokers, reviewing brokers, and negotiating brokerage commissions. This should include a list of all broker-dealers used by the firm.

Commission Expense

Provide a review of the portfolio's actual commission expenses over the prior year. At minimum, this should be broken down by broker and include a distinction between commissions (including spreads) on listed versus unlisted securities, average commission per share, total shares traded, total commission expense, and total trading volume.

Transaction Cost Analysis

If the firm has a system for monitoring total transaction costs, commissions plus market impact, a copy of this analysis should be provided. If no such system is being used, the commission report should include complete explanation of how the firm monitors selected brokers for best execution.

Soft Dollar Activity

Each Manager shall complete an annual soft dollar report to be delivered to the VPIC and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31]. The report shall include the following:

- A discussion of the firm's soft dollar policy, including how the Investment Manager ensures its clients of full disclosure, record keeping, and consistency of soft dollar information.

- A discussion on how the Investment Manager determines that a service can be paid with soft dollars. 100% of the soft dollars used shall be used for the benefit of the investment decision-making process.

- A discussion of the procedures in place to assure that any research and/or services purchased by the firm with soft dollars are used for the benefit of the Retirement Systems.

- A listing of all soft dollar brokers and their payout ratios.

- A report identifying any goods and services, including proprietary research purchased by the Manager with soft dollars over the past year. This should include soft dollars generated by agency and principal transactions. This report should provide, at a minimum, the cost and description of the goods and services purchased.

- Verification that the VPIC's percentage of commissions paid to soft dollar brokers is less than or equal to the Portfolio's percentage of the total of similarly managed assets of the Investment Manager.

<u>Business Conduct/Ethics Report</u>

Managers shall annually report to the VPIC, standing policies with respect to ethics and professional practice, within forty five (45) days of the end of the of each calendar year [December 31].

Managers shall annually report to the VPIC compliance with the CFA Institute's Code of Ethics and Standards of Ethical Conduct (Code and Standards). Managers shall disclose if they are made aware of any Chartered Financial Analyst (CFA) charter holders employed by their firm that have been publicly censured by CFA Institute.

Managers shall disclose all pertinent information regarding any and all regulatory findings and/or litigation in which their firms are involved.

Managers, consultants, custodians and any other vendors addressed in the Investment Policy guidelines shall report annually to the VPIC on their compliance with Regulation 2001—01, Standards of Conduct, attached hereto as Appendix E. Such report shall detail all contact with VPIC members and staff, and shall include any and all gifts and gratuities, even those less than $10.

<u>Insurance Certificates</u>

Investment Managers must provide certificates of insurance to show that the contractually required minimum coverages are in effect. It is the responsibility of the

Investment Manager to maintain current certificates of insurance on file with the state through the term of its contract with the State.

IX. RISK MANAGEMENT

Investment Manager Monitoring

The VPIC manages other risks by requiring Investment Managers to comply with Investment Guidelines and by monitoring their compliance.

By monitoring the VPIC Investment Managers, the VPIC and the staff of the Treasurer's Office regularly verify whether the Manager is meeting the VPIC objectives and other requirements. The process should disclose whether there has been any deviation from the investment philosophy and process, the personnel responsible for management of the product are still in place, the organization continues to be stable, performance meets expectations and the Manager strictly adheres to its investment guidelines.

The monitoring process shall address:

- Compliance with reporting and valuation requirements;
- Compliance with contractual investment guidelines;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance.

In-house meetings with Investment Managers, for the purpose of reviewing performance, will be conducted by the VPIC, in cooperation with the Investment Consultant and staff of the Treasurer's Office. In-person interviews with Investment Managers will be held as the VPIC deems necessary.

The VPIC shall monitor and evaluate Manager performance using the Investment Consultant's Quarterly Investment Performance and Portfolio Analysis and other analyses as needed. The Investment Consultant shall advise the VPIC of other matters as appropriate.

Portfolios shall be measured over various and appropriate time periods. The VPIC may consider multiple factors influencing Investment Manager performance and attempt to discern style differences from Manager over/underperformance.

The VPIC will review actual investment results achieved by each Investment Manager to determine whether the Investment Managers performed satisfactorily when compared with the objectives set and in relation to other similarly managed funds.

The Investment Consultant will present a comprehensive investment performance review for all Investment Managers, as well as for the Retirement Systems as a whole, to the VPIC on a quarterly basis, in writing and in person.

The Investment Consultant will also conduct periodic site visits to the Investment Manager's premises to confirm that the infrastructure is in place to support the investment process.

The VPIC may appoint other vendors to assist in the ongoing evaluation process. The consultant(s) selected by the VPIC is expected to be familiar with the investment practices of similar retirement plans and will be responsible for suggesting appropriate changes in the Portfolio's investment program over time.

Portfolio-Level Risk Control Procedures and Documentation Requirements

Counterparty Credit Risk

Investment Managers are required to measure and monitor exposure to counterparty credit risk.

Ongoing Monitoring of Risk Exposures

The duration and other risk exposure limits specified in the Investment Managers' contracts are expected to be satisfied on an ongoing basis. Thus, Investment Managers must monitor changing risk exposures. Investment Managers investing in CMOs should pay particular attention to the changing duration of their CMOs, and should anticipate potential changes in duration at the time CMOs are purchased. This is to ensure that interest rate and prepayment rate changes do not inadvertently move the portfolio out of compliance.

Valuation of Holdings

The Investment Managers and Custodian Bank shall provide the VPIC with their pricing policies including a list of sources used. The VPIC should be notified of any exceptions to these policies. For derivative securities, the Custodian Bank is required to obtain two independent prices, or to notify the VPIC that two independent prices are not available. Investment Managers are required to reconcile the valuations of all derivatives positions on a monthly basis with the Custodian Bank and not less than quarterly.

Portfolio Monitoring

The Staff, with the assistance of one or more authorized vendors, shall monitor the performance of the outside service providers. Service provider reporting shall be reviewed for such risk factors as:

- Common Manager and portfolio performance drivers and themes;
- Holding/industry concentrations across Managers, including index funds;

- Interest rate sensitivity and credit exposure of bond portfolios;
- Appropriate use of derivatives and leverage;
- Counterparty exposures and concentrations;
- Short positions;
- Portfolio liquidity/cash flow;
- Securities lending; and
- Regulatory and accounting changes affecting pension plans.

The VPIC shall develop a policy for the systematic review of Investment Manager and custodian reporting.

X. INVESTMENT SERVICES SELECTION PROCESS

Each investment services provider will function under a formal contract that delineates its responsibilities, performance expectations, administrative requirements and compensation. Where appropriate, each Investment Manager's contract will include a benchmark.

The VPIC investment services selection process is open, competitive, and objective and designed to insure that the VPIC has access to a broad array of the highest quality service providers that have the experience and capabilities to provide investment services to the VPIC.

The VPIC may direct the Investment Consultant or Treasurer's Office Staff to conduct RFIs, RFQs, RFPs and data-bases searches, with qualifications determined by the VPIC, considering advice from the Investment Consultant, at the time of authorization.

The Investment Consultant may be directed to coordinate and summarize the findings of a search. The VPIC shall be responsible for reviewing the qualified vendor responses in consultation with the Investment Consultant and Treasurer's office staff as appropriate.

Interviewing finalists and Manager selection will be conducted by the VPIC along with approving contracting criteria.

RFI, RFQ and/or RFP materials shall be available to all VPIC members upon request.

XI. ACTIVE MANAGER GUIDELINES – PUBLICLY TRADED SECURITIES

These guidelines are in addition to the Investment Manager Guidelines and the Reporting Requirements (Section XII).

For purposes of these Guidelines, “Federal Agencies" means both (1) bonds issued or guaranteed by U.S. federal government agencies such as the Government National Mortgage Association (Ginnie Mae) and (2) bonds issued by government-sponsored enterprises (GSEs) which are not backed by the full faith and credit of the U.S. government, such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage (Freddie Mac).

Domestic Equity Managers (Lg, Mid, Sm)

These guidelines apply to actively managed domestic equity portfolios, including large, mid and small cap.

- Domestic equity Managers shall invest in publicly traded common stocks in the United States.

- At the time of purchase no single holding shall exceed 6% of the portfolio at the time of purchase.

- No single holding in the portfolio shall exceed 6% of the outstanding common stock of any one corporation. Additionally, no single holding across all VPIC portfolios actively managed by a single Manager shall exceed 10% of the outstanding common stock of any one corporation.

- The purchase of publicly traded stocks, convertibles or ADRs (American Depository Receipts) in foreign companies are permitted but no more than 10% of the portfolio shall be invested in this category of securities.
- Convertible bonds, warrants and rights may be purchased as equity substitutes so long as they meet the equity guidelines listed above.

- Convertible preferred stocks are tax-advantaged issues, and typically would not be held in a VPIC portfolio; however, if pricing is favorable, they may be held subject to the restrictions listed above.

- 144A Privates (non-registered equity issued by corporations) are limited to 10% of the portfolio.

International Equity Manager Guidelines

These guidelines apply to actively managed international equity portfolios:
- International equity Managers shall invest in common or preferred stocks publicly traded on an international exchange. ADRs and GDRs are also permitted, if the underlying instrument is permitted. Convertible securities, warrants and rights resulting from a corporate action are also permitted.

- Managers may invest in U.S. securities provided that the investment is consistent with the portfolio's investment objectives and does not exceed 10% of the portfolio. ADRs and GDRs do not count towards this 10% limitation.

- The number of issues held and their geographic or industry distribution is within the discretion of the Manager; however, equity holdings in any one company (including common stock and convertible securities) may not exceed 5% of the portfolio. Additionally, all securities of the companies in question are included in the exposure calculation if held in the Manager's portfolio.

- Managers with established international equity mandates may invest up to 10% of the portfolio in emerging (non-established) markets.

- Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the VPIC's custodian.

- Managers may purchase or sell currency on a spot basis to accommodate securities settlements.

- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions.

- Managers with emerging markets equity mandates are expected to invest in the emerging markets, subject to the guidelines listed above.

- 144A Privates (non-registered equity issued by corporations) are limited to 10% of the book value of the portfolio.

<u>Domestic Fixed Income Managers</u>

These guidelines apply to actively managed domestic fixed income portfolios:

- Domestic fixed income Managers shall invest in U.S. Government and Federal Agencies, domestic corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and other domestically issued fixed income instruments.

- No more than 5% of the market value of the portfolio may be invested in the debt securities of any one issuer. This limitation does not apply to obligations of U.S. Government and Federal Agencies.

- The minimum quality rating of any fixed income issue purchased or held in the portfolio shall be Baa (or the equivalent and all gradations), as rated by Moody‘s Investors Service (Moody’s), Standard & Poor’s or Fitch Ratings (Fitch), and the overall weighted average quality of the portfolio shall be Aa (or the equivalent and all gradations) or better.

- In the event of split rating, the highest rating shall apply. If a Manager owns a bond that is downgraded below Baa (or the equivalent), the Manager must notify the VPIC immediately. The Manager will inform the VPIC how the portfolio will be brought back into compliance within 90 days or may request permission from the VPIC to hold the bond for a longer period of time.

- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the Manager subject to the guidelines herein. Active bond management is encouraged, as deemed appropriate by the investment Managers.

- The average duration (interest rate sensitivity) of the portfolio shall not differ from the passive benchmark‘s duration by more than 25 percent.

- Any mortgage-backed securities (MBS) shall be subject to the following constraints:

    - Federal Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation.

    - Fixed rate PAC I (Planned Amortization Class), PAC II and Sequential Collateralized Mortgage Obligations can be held without limitation.

    - The VPIC recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The Manager should calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio‘s compliance with these Guidelines.

- 144A Privates (non-registered debt issued by corporations) rated Baa (or the equivalent) or better by Moody‘s, Standard & Poor‘s, or Fitch and non-convertible preferred stock are limited to 10% of the portfolio.

Core Plus Fixed Income Managers

These guidelines apply to actively managed core plus fixed income portfolios:

- Core Plus fixed income Managers shall invest in U.S. Government and Federal Agencies, domestic corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and other domestically issued fixed income instruments.

- Core Plus fixed income Managers may also invest in U.S. dollar denominated debt of non-US issuers including: corporate, sovereign, supranationals; foreign agency and foreign local government entities (including Emerging Market Debt).

- Core Plus fixed income Managers may also invest a maximum of 15% of the portfolio in non-US dollar denominated bonds. However, including aggregate currency exposure, no more than 5% of the portfolio may be invested in non-US currencies (unhedged).

- No more than 5% of the market value of the portfolio may be invested in the debt securities of any one issuer. This limitation does not apply to obligations of U.S. Government and Federal Agencies.

- The Manager may buy or sell derivative instruments (such as futures, options, and swaps) as a substitute for a purchase or sale of a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. In no event may derivative securities be used to leverage the portfolio. Investments in derivative instruments shall comply with the Financial Guidelines for Derivatives set forth in Appendix A.

- At least eighty percent of the portfolio shall be invested in debt securities with a minimum credit rating of BBB- and Baa3 (or the equivalent) as rated by Moody‘s Investors Service (Moody’s), Standard & Poor‘s Ratings Group (Standard & Poor’s) or Fitch Ratings (Fitch) at the time of purchase (i.e., shall be rated “investment grade”), and further, the average rating of this percentage of the portfolio, by market value, shall be no less than A- and A3 (or the equivalent).

- Up to twenty percent of the portfolio may be invested in securities with a quality rating of below investment grade (BB to CCC (or the equivalent)) or may be unrated, if deemed to be of suitable quality for the portfolio.

- In the event of split rating, the highest rating shall apply. If a Manager owns a bond that is downgraded below CCC (or the equivalent), the Manager must notify the VPIC immediately. The Manager will inform the VPIC how the portfolio will be brought back into compliance within 90 days or may request permission from the VPIC to hold the bond for a longer period of time.

- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the Manager subject to the guidelines herein. Active bond management is encouraged, as deemed appropriate by the Investment Managers.

- The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark‘s duration by more than 40 percent.

- Up to ten percent of the portfolio may be invested in Collateralized Mortgage Obligations (CMOs), however Z tranches and similar mortgage derivatives are prohibited.

- 144A Privates (non-registered debt issued by corporations) rated Baa (or the equivalent) or better by Moody's, Standard & Poor's, or Fitch and non-convertible preferred stock are limited to 15% of the portfolio.

High Yield Fixed Income

These guidelines apply to domestic high yield fixed income portfolios.

- The Manager will invest in domestic fixed income securities which may include: fixed rate corporate debt securities, zero coupon bonds, step-up bonds, deferred coupon bonds, callable bonds, medium term notes, marketable securities issued under Rule 144A and other domestically issued fixed income instruments deemed prudent by the Investment Manager.

- Non-rated issues may comprise up to 10% of the portfolio provided that the Manager determines that, if such an issue were rated, it would be allowed under these guidelines.

- No more than 10% of the portfolio may be invested in bonds issued by foreign entities.

- The Manager shall not invest in private placements, except for marketable securities issued under Rule 144A.

- The Manager shall not invest in the following: emerging market bonds, securities that are not denominated in U.S. dollars, equity shares (other than preferred stock or holdings received via an attachment to bond investments), warrants (other than preferred stock or holdings received via an attachment to bond investments), venture capital investments or in partnerships.

- The Manager shall invest primarily in high yield corporate securities, however, the Manager may invest up to 20% of the portfolio in investment grade securities if market conditions warrant; and provided further that the Manager may only invest up to 10% of the portfolio in investment grade marketable securities issued under Rule 144A and non-convertible preferred stock.

- The Manager may buy or sell derivative instruments (such as futures, options, and swaps) as a substitute for a purchase or sale of a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. Investments in derivative instruments shall comply with the Financial Guidelines for Derivatives attached hereto as Appendix A.

- The Manager may not sell securities short, buy securities on margin, borrow money or pledge assets, nor buy or sell commodities or currencies.

- No bonds may be purchased that have a credit rating less than "B3/B-/B- " (or the equivalent) at the time of purchase.

- In the event of split rating, the highest rating shall apply. If a Manager owns a bond that is downgraded below B3/B-/B- (or the equivalent), the Manager must notify the VPIC immediately. The Manager will inform the VPIC how the portfolio will be brought back into compliance within 90 days or may request permission from the VPIC to hold the bond for a longer period of time.

- The maximum industry weight of the portfolio shall not exceed 3 times the industry weight of the Merrill Lynch High Yield Master II index and the maximum position size for an issuer should not exceed 3% of the portfolio.

- The diversification of securities by maturity, quality, sector, coupon, and geography, except as constrained above, is the responsibility of the Manager.

- No more than 5% of the portfolio may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies.

- Any mortgage-backed securities (MBS) shall be subject to the following constraints:

    - Federal Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation.

    - Fixed rate PAC I (Planned Amortization Class), PAC II and Sequential Collateralized Mortgage Obligations can be held without limitation.

    - The VPIC recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The Manager should calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio‘s compliance with these guidelines.

Global Fixed Income Managers

These guidelines apply to global fixed income portfolios.

- Global fixed income Managers shall invest in U.S. and foreign government obligations, government agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and other domestically issued fixed income instruments.

- Domestic fixed income investments may include U.S. dollar denominated debt of non-US issuers including: corporate, sovereign, supranational, foreign agency and foreign local government entities (including Emerging Market Debt).

- Foreign investments may include emerging market debt.

- No more than 5% of the market value of the portfolio may be invested in the debt securities of any one issuer. This limitation does not apply to obligations of U.S. Government and Federal Agencies.

- The portfolio may hold no more than 30% of its assets, at market value in the debt securities of any single foreign government or non-U.S. government entity. No single non-government debt security shall constitute more than 5% of the global bond portfolio, at market value. Securities issued by AAA (or the equivalent) rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents.

- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the VPIC‘s custodian.

- The minimum quality rating of any fixed income issue purchased or held in a portfolio shall be Baa (or the equivalent and all gradations), as rated by Moody‘s, Standard & Poor’s or Fitch, and the overall weighted average quality of each fixed income portfolio shall be Aa (or the equivalent and all gradations) or better.

- In the event of split rating, the highest rating shall apply. If a Manager owns a bond that is downgraded below Baa (or the equivalent), the Manager must notify the VPIC immediately. The Manager will inform the VPIC how the portfolio will be brought back into compliance within 90 days or may request permission from the VPIC to hold the bond for a longer period of time.

- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. Opportunistic currency positioning may be used to hedge and cross hedge the portfolio‘s currency risk exposure or in the settlement of securities transactions. The Manager may vary the total portfolio‘s exposure to currency from fully unhedged to fully hedged.

- Managers may purchase or sell currency on a spot basis to accommodate securities settlements.

- Emerging Market Debt securities may be utilized as long as they comply with the overall Investment Manager Guidelines.

- The average duration (interest rate sensitivity) of a global fixed income portfolio shall not differ from the passive benchmark by more than 25 percent.

- Any mortgage-backed securities (MBS) are subject to the following constraints.

  - Federal Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation.

  - Fixed rate PAC I (Planned Amortization Class), PAC II and Sequential Collateralized Mortgage Obligations can be held without limitation.

  - The VPIC recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The Manager should calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with these guidelines.

- 144A Privates (non-registered debt issued by corporations) rated Baa (or the equivalent) or better by Moody's, Standard & Poor's, or Fitch and non-convertible preferred stock are limited to 10% of the portfolio.

Commodities Managers

The following classes of investments are permitted instruments within a Commodities portfolio:

- **Futures** - Commodity futures contracts which are Commodities and Futures Trading Commission (CFTC) approved are permitted.

- **Options** - Options on commodity futures or baskets of commodity futures are permitted.

- **Swaps** - Swaps which provide for the receipt of the rate of return of the permitted cash market, futures market, commodity index or sub-index instruments are permitted.

- **Structured Notes** - Structured notes linked to the return of single commodities or baskets and hybrid structures with other assets are permitted.

Listing Requirements

Derivatives, which are futures contracts, shall be CFTC approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC). If traded over-the-counter, the Investment Manager shall adhere to the following counter-party requirements.

Counter-Party Requirements

A. Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of “A3” as defined by Moody’s Investor Service, “A-” by Standard & Poor’s and “A-” by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A- is prohibited. The use of unrated counter-parties is prohibited.

B. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derivative exposure. An exception is allowed if the total commodity derivative exposure is less than $3 million.

C. Any entity acting as counterparty shall be regulated in either the United States or the United Kingdom.

Portable Alpha

Most portable alpha investment strategies are designed to provide excess returns (alpha) over the return of the underlying (beta) market exposure. Portable alpha strategies generally obtain market exposure using (i) derivative contracts like futures or swaps which do not require payment for the market exposure up front and/or (ii) leverage/borrowing arrangements.

When considering an Investment Manager that offers a portable alpha investment strategy, the VPIC shall consider whether the excess returns are coupled with an acceptable level of risk on a stand-alone basis and also within the context of the overall asset allocation or risk budget in a variety of market environments.

The Domestic Equity Portable Alpha program shall reside in the Large Cap Equity program and the Domestic Fixed Income Portable Alpha Program shall reside in the Fixed Income-US program.

A summary of the contractual investment guidelines for each of the VPIC’s Portable Alpha investments is attached hereto as Appendix H.

Real Estate

Real estate investments are traditional private market equity-oriented investments in real properties or publicly traded real estate securities. Real estate investments are included in the VPIC portfolio in order to add diversity and hedge against inflation risk. The Real Estate Investment Program utilizes discretionary commingled fund investment vehicles that are sponsored by real estate Investment Managers. Real estate investments may be allocated across the core, enhanced/value added and opportunistic categories.

Specific investment guidelines are determined by the approved vehicle and its legal requirements which must be reviewed and approved during a complete due diligence. At a minimum, each vehicle must provide quarterly reporting consistent with the requirements of the VPIC.

The VPIC expects to achieve adequate portfolio diversification by investing in different property types, in a variety of geographic locations or developmental phases, with different Managers.

Use of third party leverage may be appropriate for certain real estate investments.

In order to determine the net asset value of the VPIC Portfolio, Real Estate Managers shall value real estate assets not less frequently than quarterly. In valuing real estate assets, a Real Estate Manager shall rely on independent third party appraisals which will be completed annually, with not less than 25% of such assets appraised each quarter. Further, the Real Estate Manager shall perform internal valuations of each asset every quarter. Money market instruments and other interim investments shall be valued not less than quarterly at their current market price.

Emerging Market Debt (EMD)

An Investment Manager with an EMD mandate may buy and sell, but is not limited to, the securities represented in the J. P. Morgan Emerging Markets Bond Index Plus. The Manager also may buy and sell bonds issued by sovereign, quasi-sovereign agency, supranational, and subnational government issuers; mortgage-, commercial mortgage-, and asset-backed securities; corporate debt and loan participation securities; credit- and index linked securities; structured notes; as well as other debt securities, both fixed and floating-rate, including forward contracts on such securities. These debt obligations may be denominated in US dollars or other currencies.

The Investment Manager may invest in private placements, including bank loans, commingled vehicles and derivatives. Derivative instruments may include interest rate, credit, index, and currency futures; currency, interest rate, total rate of return, and credit default swaps; currency, bond, and swap options; deliverable and non-deliverable currency forward contracts; “to-be-announced” (TBA) securities; and other derivative instruments for risk management purposes and otherwise in pursuit of the investment objective.

EMD portfolios shall have a weighted average credit quality, including cash and cash equivalents, equal to or higher than B3 by Moody’s, B- by S&P, or B- by Fitch. There will be no limitations on the credit quality of individual securities or currencies in the portfolio. Credit ratings for issues will be the highest of Moody’s, S&P’s, or Fitch’s long-term ratings. If an issue is unrated, then an equivalent credit rating, as deemed by Wellington Management, may be used.

Treasury Inflation Protected Securities (TIPS)

An Investment Manager with a TIPS mandate shall invest and reinvest primarily in a portfolio of debt securities with the objective of closely approximating the total rate of return for all outstanding United States Treasury Inflation Protected Securities with a maturity of one year or greater, as defined by the Barclays Capital U.S. Treasury Inflation Protected Securities Index (formerly the Lehman Brothers Treasury Inflation Protected Securities Index).

Cash Equivalents

The VPIC may maintain a portfolio of short-term fixed-income securities designed to preserve capital, generate cash flow, provide liquidity and safety of principal from capital market and default risk.

Alternative Investment Strategies

The VPIC's objective in investing in Alternative Investment Strategies, which may include Global Asset Allocation, Private Equity and Hedge Funds, is to maximize returns in a variety of market environments. The VPIC recognizes that Alternative Investment Strategies differ from traditional, long-only funds in that they use a much wider range of investment techniques, such as leverage, short selling and derivatives to obtain their objectives. Such techniques may also involve exposure to commodities. A properly constructed portfolio of Alternative Investment Strategies should have a low correlation with other asset classes and thus help diversify the VPIC Portfolio. The guidelines listed below shall apply to all Alternative Investment Strategies, including Global Asset Allocation, Private Equity and Hedge Funds.

The VPIC recognizes that alternative investments are typically not publicly traded securities and consequently not regulated by federal and state regulatory authorities. The VPIC shall only invest in Alternative Investment Strategies when there is sufficient transparency and sufficient policy compliance reporting. The VPIC shall cause the necessary diligence to be done in order to evaluate and fully understand all aspects of an opportunity to invest in an Alternative Investment Strategy.

- All Alternative Investment Strategies shall have reasonable and well-defined policies for withdrawal of funds from their strategies.

- The funds must demonstrate that they have developed appropriate internal controls and reporting capabilities that are consistent with the expectations of public pension funds.

- All Managers are required to adhere to contractual agreements as approved by the VPIC. Specific guidelines are determined by the approved vehicle and its legal requirements which must be reviewed and approved during a complete due diligence. At a minimum, each vehicle must provide quarterly reporting consistent with the requirements of the VPIC.

- The VPIC's initial investment in a partnership/fund shall not exceed 10% of the committed capital of that partnership/fund.

A summary of the contractual investment guidelines for each of the VPIC's Alternative Investments is attached hereto as Appendix I.

Economically Targeted Investments

The VPIC has adopted a policy for investing in Economically Targeted Investments which is attached hereto as Appendix C.

Vermont Manager Program

The VPIC has adopted a policy which encourages the use of Vermont-based Investment Managers which is attached hereto as Appendix D.

Securities Lending

In order to increase investment income with minimal risk, the VPIC may authorize its custodian(s) to loan securities held by the custodian in accordance with these Guidelines.

Program Objectives

The VPIC seeks to add incremental returns to the VPIC Portfolio through conservative securities lending practices. Preservation of principal will be the primary goal. The securities lending process shall operate efficiently and not interfere with the normal management of the VPIC Portfolio. Any approved securities lending program shall seek to minimize risk in all aspects of the securities lending process including collateral investment risk, counterparty default and operational risk (for example, marked to market, liquidity, borrower limits).

Program Guidelines

- VPIC's expectation is that collateral will be held as cash and high credit quality, which provide liquidity and minimize the average duration.

- The custodian may loan securities held in the VPIC Portfolio, but only if, at the time the loan is executed at least one-hundred two percent (102%) (in the case of domestic securities loaned) and one-hundred –five percent (105%) (in the case of foreign securities loaned) of the full market value of the security loaned is collateralized by cash or a high credit quality portfolio of fixed income securities. If necessary, the borrower shall post additional collateral to insure that the excess margin is maintained.

- The collateral shall be marked to market no less frequently than daily.
- The average effective duration of any collateral pool shall not be greater than 120 days.
- In order to ensure the VPIC's ability to recall securities for sale, voting or acting on corporate actions without disrupting ordinary portfolio management, all securities lending agreements entered into by the custodian shall provide for the custodian's right to terminate a loan within the normal settlement period (not to exceed three days in the case of domestic securities and not to exceed five days in the case of foreign securities) for the security involved.
- Any approved securities lending program shall require the custodian to indemnify the VPIC in the event of default by a borrower.

XII. Contract Compliance

Each Investment Manager is expected to adhere to its respective contractual investment and reporting guidelines. Exemptions to this Investment Policy shall be reflected in the respective Investment Manager contracts. The VPIC has adopted a policy for Contract Compliance requests which is attached hereto as Appendix F.

APPENDIX A
FINANCIAL GUIDELINES FOR DERIVATIVES

Derivative instruments may be used for any of the purposes listed below. Derivative instruments are defined as any contract or investment vehicle whose performance, risk characteristics, or value is based on a specific asset, interest rate, or index value.

- To gain market exposure.

- To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international Managers may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less, and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within the Manager's portfolio. There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging Managers who will be guided by specific risk parameters in their contracts.

- To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the Investment Manager and other contract terms applicable to the Manager.

- To make portfolio adjustments that are consistent with other elements of the VPIC's investment policies and that do not systematically increase risk or expected volatility of the rate-of return of the total portfolio.

- For trading purposes which are intended to enhance investment returns. This purpose is subject to the requirement that it be consistent with other elements of the VPIC's investment policies and that it does not systematically increase the risk or expected volatility of the rate of return of the total portfolio.

All other uses of derivatives are prohibited unless specifically approved by the VPIC. Investment Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC Portfolio.

APPENDIX B
VPIC PROXY VOTING GUIDELINES

To view the Guidelines please visit:

http://www.vermonttreasurer.gov/pension-funds/proxy-voting

APPENDIX C
VPIC POLICY ON ECONOMICALLY TARGETED INVESTMENTS

Vermont Pension Investment Committee	Adopted: 8/15/2006
Policy & Procedures	Amended/Reaffirmed: 2/10/09
	Policy #: 2-006

TITLE: Economically Targeted Investment Program

VPIC will consider investment opportunities that support economic and community benefits within the State of Vermont, provided that such economically targeted investments (ETIs) are consistent with VPIC obligations to the members and beneficiaries of its participating retirement systems and with the standard of care established by the prudent investor rule under chapter 147 of Title 9 of Vermont law.

Economically targeted investments (ETIs) are investments in a variety of asset classes that generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable non-targeted investments while providing collateral economic benefits (benefits that enhance quality of life and promote economic development and activity) to the targeted area (Vermont). Accordingly, in cases where investment characteristics, including returns, risk, liquidity, and compliance with allocation policy are appropriate, VPIC will consider through periodic request for proposals, those ETI investments that have a substantial, direct and measurable benefit to economic or community development within the State of Vermont.

Such Economically Targeted Investments ("ETIs") must meet the following criteria:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any VPIC investment. When evaluating ETI opportunities, VPIC will discount projected returns for any subsidies, deferral of income, higher risk levels, and other concessions to reach a real rate of return for comparison with other ETI and non-ETI investment alternatives. Similarly, ETI benefits will not justify higher investment risk. However, where appropriate, the VPIC will consider third party guarantees, recourse, hedging, and other acceptable and customary risk management vehicles to reduce or eliminate risk in ETI investments.

2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Vermont economy and ensuring appropriate geographic diversification. Investments should maintain the overall portfolio's compliance with its asset allocation strategy. ETI benefits will not justify deviation from the Asset Allocation Plan adopted by the VPIC.

3. Investments should be placed with an experienced and capable Manager through an objective and transparent process. Investments should be managed by qualified discretionary Investment Managers. VPIC will not make any direct investments.

4. Investments should target a "capital gap" where there are likely to be underserved markets.

5. Investments must be tracked (both investment performance and collateral benefits) and managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by VPIC staff and consultants without inappropriate expenditure of time and resources. The performance of each investment shall be measured against an appropriate benchmark, to be identified initially in conjunction with the making of the investment and to be modified from time to time to provide a suitable measurement of performance relative to investments with similar levels of risk, liquidity, security and structure. The collateral economic benefits shall be quantified to the extent possible and measured alongside the anticipated goal of the investment.

Proposed investments will be evaluated according to the following factors:

The clarity of the proposed investment or program and its parameters and goals;

The extent to which the proposer demonstrates that the proposed investment or program will produce the anticipated risk -adjusted return and collateral benefits;

The quality, reputation and experience of the Investment Managers and their ability to implement a proposed program or investment;

The quality of controls and reporting systems (including audited financials, risk management systems and reports to investors);

The fit within the Plan VPIC portfolio; and

The appropriateness of terms and conditions.

APPENDIX D
VPIC POLICY ON VERMONT BASED INVESTMENT MANAGERS

Vermont Pension Investment Committee
Policy & Procedures

Adopted: **2/10/2009**

Policy #: 1-009

TITLE: Vermont Manager Program

VPIC will consider utilizing the services of Vermont based Investment Managers when such relationships support economic and employment benefits within the State of Vermont and are consistent with VPIC obligations to the members and beneficiaries of its participating retirement systems and with the standard of care established by the prudent investor rule under chapter 147 of Title 9 of Vermont law.

The **Vermont Manager Program may** involve the procurement of locally provided investment management services for any or all of the asset classes in order to generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable investments while providing economic benefits (benefits that enhance quality of life and promote economic benefits and, employment) to the targeted area (Vermont).

Such Vermont Managers must meet the following criteria:

1. A Manager must be registered as an Investment Adviser with the U.S. Securities and Exchange Commission or must operate within the Trust division of a Vermont or federally chartered bank.

2. A Manager must have investment operations located within Vermont which will manage the VPIC funds. Firms with only back office, brokerage, or marketing operations in Vermont will not be considered.

3. A Manager must have a minimum of $100 million in assets under management and must have been in continuous operation for at least five years.

4. VPIC funds must be directly invested by the Manager and may not be reallocated to another Investment Manager, mutual fund or other co-mingled investment vehicle without VPIC approval. VPIC funds placed with Vermont Managers may only be invested in publicly traded securities. Private Placements may only be permitted with specific VPIC approval

5. Prior to being considered, a Manager must undergo due diligence examination by VPIC's Investment Consultant. Managers must be willing to provide the VPIC's Investment Consultant data with respect to their firms, and on an ongoing

basis so the Manager can be evaluated using the same criteria used to evaluate all other VPIC Investment Managers.

6. The maximum investment by the VPIC to a qualified Vermont Manager shall not exceed more than 10% of the Vermont Manager's total assets under management.

7. Investments must target risk-adjusted, with returns equivalent to or higher than other available investments. The Vermont Manager fees must be found competitive to other Managers with similar actively managed accounts of equivalent size.

8. Investments shall be reviewed and monitored by the VPIC's Investment Consultant. The performance of each investment shall be measured against an appropriate benchmark to provide a suitable measurement of performance relative to investments with similar levels of risk, liquidity, security and structure, and measured alongside the anticipated goal of the investment.

9. VPIC's assets invested by a Vermont Manager shall be held by the VPIC's custodian.

Implementation

Investments shall only be placed with an experienced and capable Manager through an objective and transparent process. Vermont Managers will be prequalified for purposes of this policy and selected through a formal VPIC Manager search, when determined appropriate and authorized by the VPIC.

- From time-to-time, as the VPIC deems it necessary or appropriate, the VPIC shall conduct a request for information (RFI), seeking Vermont Manager interest and for the purpose of gathering data.
- The VPIC shall direct the Investment Consultant (IC) to conduct a database search and present the results to the VPIC for the purpose of pre-qualifying Managers.
- The VPIC and the IC will use the data gathered to assist the VPIC in Manager selections.

APPENDIX E
CODE OF ETHICS POLICY

Regulation 2001-01: Standards of Conduct

State Teachers' Retirement System of Vermont
Vermont State Retirement System
Vermont Municipal Employees' Retirement System

§1. STATEMENT OF PURPOSE

A. The Boards of Trustees of the State Teachers' Retirement System of Vermont, the Vermont State Retirement System, and the Vermont Municipal Employees' Retirement System are entrusted with the investment of public pension funds of the retirement Systems and are obligated to safeguard the funds for the benefit of members and beneficiaries. The Trustees are obligated to administer the Systems efficiently and effectively in the interests of the plans' members and beneficiaries so as to avoid waste, mismanagement, abuse, and misuse of influence. The Trustees of these public pension Systems have a duty to administer and provide benefits in a responsible manner without causing an undue burden on their members or Vermont taxpayers.

B. Trustees and employees of the Boards must maintain high ethical and moral standards both professionally and personally in order to maintain and promote public confidence in the integrity of the decisions of the Boards of Trustees relating to administration of the plans and investment of the Systems' assets. The ability to carry out these responsibilities may be impaired whenever a real or apparent conflict of interest exists between the private interest of a Trustee or Board employee and his or her official responsibilities.

C. In recognition and consideration of their responsibilities and obligations as Trustees and to further the goal of protection of the Systems' members, beneficiaries, Trustees and employees from the damage that could result from real or apparent conflicts of interest, the following Standards of Conduct are hereby adopted to assist and guide Trustees and Board employees in the exercise of professional and moral judgment.

D. This regulation is intended to implement the standards of conduct provisions of 3 V.S.A. §472(d); 16 V.S.A. §1943(d); and 24 V.S.A. §5063(e).

§2. AUTHORITY

This regulation is adopted pursuant to 3 V.S.A. §471(d) and §472(d); 16 V.S.A. §1942(f) and §1943(d); and 24 V.S.A. §5062(d).

§3. APPLICABILITY

A. These standards of conduct shall apply to the Trustees of the State Teachers' Retirement System of Vermont, the Vermont State Retirement System, and the Vermont Municipal Employees' Retirement System.

B. These standards shall apply to employees of the Boards of Trustees.

C. These Standards of Conduct are intended to supplement, and not to replace, other state and federal laws. Where this code is less restrictive than another law, executive order, or regulation that applies to the conduct and activities of Trustees and employees of the Boards, such other stricter terms shall apply. Where this code is more restrictive than any other applicable law, executive order or regulation, the stricter standards of this code shall apply.

§4. DEFINITIONS

For the purposes of these standards of conduct, the following words have the following meanings:

A. “Benefit” means any gain, favor, profit, reward, value, accommodation or other advantage, including a benefit to any other person in whose welfare the beneficiary is interested.

B. "Conflict of Interest" means any personal or financial interest of a Trustee, or such an interest, known to the Trustee, of a member of his or her immediate family, household member, or business associate in the outcome of any particular matter pending before the Board. A conflict of interest includes, but is not limited to, those defined in subsection 5.

C. “Employee of the Boards" means a person employed by a Board or Boards of Trustees. Employees of the Vermont State Treasurer's Office shall not be considered employees of the Boards.

D. “Gift” means any form of compensation or anything of value, tangible or intangible, and includes, but is not limited to, meals, alcoholic beverages, travel fare, room and board, gratuities, entertainment, cash, goods or services.

E. "Interest" means any personal or financial interest except an interest that is incidental to the person’s membership in the System or participation in a plan administered by the System that is no greater than that of other persons generally affected by the outcome of the matter.

F. "Potential Vendor" means any Vendor that has bid on a System contract and any Vendor that is in the business of providing goods or services of the type routinely purchased by the System, whether or not it has bid on a System contract, including but not limited to administrative, investment, financial, banking, and consulting services.

G. "Systems" means the State Teachers' Retirement System of Vermont, the Vermont State Retirement System, and the Vermont Municipal Employees' Retirement System.

H. “Trustee” means any person who serves as a Trustee or any person who serves as the designee of an ex-officio Trustee or as an alternate to a Trustee of any of the Systems.

I. “Vendor” means a natural person, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, a limited liability company, or a limited liability partnership that performs services for the Systems for direct or indirect compensation. The term includes affiliated entities and trade organizations.

§5. PROHIBITED CONDUCT: CONFLICTS OF INTEREST

The following conduct by a Trustee or an employee of the Boards creates either an actual or potential conflict of interest or the appearance of a conflict of interest and is prohibited:

A. Solicitation or acceptance of a gift or benefit from any Vendor or potential Vendor except in accordance with Section 9(A).

B. Solicitation or acceptance of a gift or benefit from any person or entity with a personal or financial interest in the outcome of a particular matter pending before the Board.

C. The purchase, sale, exchange, or lease of property to or from the System which he or she serves.

D. Acting upon or providing to any person any information relating to the investment of the System's assets prior to that information becoming public record.

E. Acceptance of a fee, gift or other benefit for providing information relating to the System and its assets, obtained as a Trustee or employee of the Boards, whether insider or otherwise, to any other person.

F. Participation in any breach of fiduciary duty by another person subject to this code, participation in concealing such breach, or knowingly or negligently permitting such breach to occur.

G. Participation in a violation of these Standards of Conduct by another person subject to this code, participation in concealing such violation, or knowingly or negligently permitting such violation to occur.

H. Acceptance of money, gifts or benefits in connection with any campaign for public office from any Vendor or potential Vendor of the System which the Trustee or employee serves.

I. Any direct interest in the gains or profits of any investment made by the Board.

J. Direct or indirect use of the gains or profits of any investments made by the Board, for himself or as an agent, for any purpose except to make current and necessary payments as are authorized by the Board.

K. Becoming an endorser or surety, or in any manner an obligor, for money loaned to or borrowed from the Board.

§6. Disclosure

A. A Trustee shall disclose to the Board for the System which he or she serves all actual or potential conflicts of interest and appearances of a conflict of interest as soon as such actual or potential conflict or appearance of a conflict becomes known.

B. Employees of a Board shall disclose all actual and potential conflicts of interest and appearances of a conflict of interest to the Board as soon as such actual or potential conflict or appearance of a conflict becomes known.

§7. Recusal

No Trustee shall knowingly participate in a decision or action by the Board in which he or she has an actual or potential conflict of interest.

§8. Travel, Conferences and Meetings

The reasonable and necessary expenses of travel, lodging, meals, and incidentals for a Trustee or employee of a Board traveling on behalf of a Board, or in his or her capacity as a Trustee or employee, or because of his or her position as a Trustee or employee, shall be paid by the System if approved prior to the travel by the Board which the Trustee or employee serves. The agenda, written materials pertaining to the event, when available, an estimate of the cost of the trip and the names of all sponsors of the event to be attended shall be provided to the Board at the time approval is requested. If approval is granted, the Trustee or employee shall report to the Board, at the next scheduled meeting that he or she attends, on the content of the event and whether a Vendor or potential Vendor attempted to pay any expenses of the Trustee or employee or sponsored any function or event in which the Trustee or employee participated.

B. All expenses related to the travel of a spouse, family or household member, or other invitee of a Trustee, shall be paid by the Trustee or invitee.

C. Nothing in this policy is intended to limit or restrict travel to, and attendance at, an event by a Trustee or employee when attendance is in a capacity other than as a Trustee or employee and is related to his or her employment, position, membership or affiliation with another organization or entity. When traveling in a capacity other than as Trustee, a Trustee or employee shall not solicit or receive any gift including meals, alcoholic beverages, travel fare, room and board, or any other thing of value from a Vendor or potential Vendor of services to the System except in accordance with Section 9(A).

§9. Gifts and Gratuities

A. All Trustees and Employees of the Boards shall refuse to accept any gift that is received from or offered by a Vendor or potential Vendor except for the following:

1. Items or products of de minimis value of $10.00 or less;

2. Items or products donated by a Vendor or potential Vendor and awarded at a conference attended by a Trustee as long as they are offered to participants on a random basis through a drawing, raffle or game of chance and have a value of $100.00 or less. Any item accepted under this provision with a value of greater than $25.00 shall be reported by the Trustee pursuant to section 9(B).

3. Food or refreshment offered during a conference that appears on the conference agenda, is an integral part of the conference agenda and is offered to all in attendance at the conference and taken in a group setting.

B. A Trustee or Employee of the Boards who receives any item or product from a Vendor or potential Vendor of more than de minimis value shall report the following to the State Treasurer's Office: a description of the product, the date of receipt, the identity of the sender or donor, the item's approximate value, and the disposition of the item by the Trustee or employee. If the item is not perishable, the item shall be promptly returned to the sender. All perishable items shall be donated to a suitable charity or placed in a publicly accessible area for general enjoyment.

C. The State Treasurer's Office shall record the information specified in section 9(B) for public inspection.

§10. INITIATION OR CONTINUATION OF CONTRACTUAL RELATIONSHIP

A. From the time a Board of Trustees has decided to obtain bids or proposals for goods or services, or from the time a Board has under consideration the decision to renew an existing contract, and until a final contract is approved:

1. No Trustee shall have any direct or indirect communication about the bid or proposal with any Vendor or potential Vendor seeking such new or continued contractual relationship with the System except at an open meeting of the Board or an authorized subcommittee of the Board.

2. An Employee of the Board shall limit his or her direct or indirect communication about the bid or proposal with any Vendor or potential Vendor during this time period to that necessary for administration of existing contracts or in connection with administration of the bid or proposal process. All communications shall be documented by the Employee and maintained as a record of the Office of the State Treasurer.

3. A Trustee who receives any direct or indirect communication outside of a meeting of the Board or an authorized subcommittee of the Board with any Vendor or potential Vendor seeking a new or continued contractual relationship with the System shall notify the Board of the communication prior to the Board's final approval of a contract.

B. A Board of Trustees shall require that all Vendors or potential Vendors seeking a new or continued contractual relationship with the System give written disclosure to the Board of all communications or contacts with any Trustees or Employee in the preceding year and any expenditures relating to those communications or contacts. Disclosure will be required before final interviews by the Board or, if there are no final interviews, before approval of a final contract.

C. A Board of Trustees may disqualify a Vendor or potential Vendor from ongoing business or potential business for any communication contrary to the provisions of this section, for attempting to pay any expenses of a Trustee or employee contrary to section 8(A), or for any other conduct having the potential to create a conflict of interest or to cause a breach of fiduciary duty.

D. This regulation shall be included as an attachment to all requests for proposals, bidding documents and contracts of the Boards. The Boards shall require all consultants who conduct manager searches or other vendor searches on behalf of the Boards to provide a copy of this policy to all vendors or potential vendors during the search process.

§11. Sanctions

A. A Board of Trustees may take such actions it deems appropriate if a Trustee of the Board fails to comply with the provisions of this rule including, but not limited to:

1. A recommendation that a Trustee refrain from participation and voting in a matter or matters pending before the Board.

2. A recommendation that a Trustee repay or return any gift or benefit received by a Trustee from a Vendor or potential Vendor.

3. A recommendation that a Trustee refrain from particular actions that the Board determines constitute an actual or potential conflict and are detrimental to public confidence in the system's integrity.

B. A Board of Trustees may take appropriate disciplinary action, up to and including dismissal, if an Employee of the Board fails to comply with the provisions of this rule.

Effective Date: July 18, 2001

APPENDIX F
CONTRACT COMPLIANCE - DOWNGRADES OF FIXED INCOME SECURITIES

Vermont Pension Investment Committee	Adopted: 5/26/09
Policy & Procedures	Amended: 10/29/2009
	Amended: 11/23/09
	Policy # 2-009

TITLE: Contract Compliance - Downgrades of Fixed Income Securities

VPIC Managers of separately managed Fixed Income, Core Plus Fixed Income, High Yield Fixed Income and Global Fixed Income Accounts are required to notify the VPIC of certain individual debt security downgrades and, in accordance with the terms of each respective contract, inform the VPIC how the Portfolio will be brought back into compliance within 90 days. The Director of Investment and Debt Management (Director), shall advise the VPIC of all such downgrades and remediation proposals at the next scheduled meeting. Alternatively, the Manager may request permission from the VPIC to hold such security for a longer period of time.

Such requests shall be approved as follows:

1. The Director shall be authorized to review and approve such a request, and establish terms for remediation for amounts less than $1 million.

- The Director shall consult with the Investment Consultant to determine appropriate action.
- The Director shall notify the VPIC of "**Director approved terms**," in his report to the VPIC at the next scheduled meeting.

2. The Director shall discuss all requests over $1 million and up to $3 million with the VPIC Chair to reach consensus for action.

- The Director and Chair shall consult with the Investment Consultant to determine appropriate action.
- The Director shall notify the VPIC of approved **"Consensus terms**," in his report to the VPIC at the next scheduled meeting.

3. The Director shall, upon consultation with the Chair, request full VPIC action to discuss/approve all such requests for amounts over $3 million.

The market value of the securities at the time the request is made shall constitute the request amount for purposes of this policy.

APPENDIX G
VPIC POLICY ON INVESTMENTS IN TERRORIST OR GENOCIDE-LINKED COUNTRIES

Vermont Pension Investment Committee
Policy & Procedures

Adopted: 11/29/06
Amended/Re-adopted: 11/25/2008

Policy #3-006

TITLE: **VPIC Policy on Investments in Terrorist or Genocide Linked Countries**

Subject to the requirement that investments shall be made in accordance with the standard of care established by the prudent investor rule under 9 V.S.A. Chapter 147, the Vermont Pension Investment Committee ("VPIC") has established the following policy:

1) No investments are permitted in government bonds, notes, or bills of nations identified as State Sponsors of Terrorism by the U.S. State Department ("State Sponsors of Terrorism" listed at www.state.gov/s/ct/c14151.htm).

2) No investments are permitted in companies whose business activities contribute to terrorism or genocide, or that pose a national security risk, as identified by the U.S. State Department, Treasury, or any other authorized agency of the U.S. Government, recognized and accepted by the VPIC.

3) The VPIC seeks to avoid investments in companies operating contrary to the sanctions outlined by the U.S. Treasury Department of Foreign Asset Control listed at http://treas.gov/offices/enforcement/ofac/programs/).

4) The VPIC seeks to avoid investments in companies which provide military equipment, arms or military supplies to any government or government associated group or entity in a country engaged in the sponsorship of terrorism or genocide as identified by the U.S. State Department, or contrary to the sanctions listed by the U.S. Treasury Department Office of Foreign Asset Control.

5) The VPIC seeks to avoid investments in companies operating in a country engaged in the sponsorship of terrorism or genocide as identified by the U.S. State Department or included on the listing of sanctioned countries by the U.S. Treasury Department Office of foreign Asset Control, when such companies have been documented by reputable sources to support a government or government associated group or entity engaged in terrorist or genocidal activities, and which companies consistently refuse engagement with investors or humanitarian organizations about steps the company could take to play a positive role in the country.

6) This policy does not require exit from an index or commingled investment vehicle. However, reasonable efforts will be made to find a comparable product that will be compliant with this policy and managers will be encouraged to consider developing products that would be compliant.

Procedures:

A) A letter will be sent annually to all investment managers stating VPIC's Policy on Investments in Terrorist or Genocide Linked Countries. Investment managers will be asked to report on their perspectives about the risk that terrorism and genocide places on our portfolio and what efforts the manager is undertaking to screen for possible terrorist or genocidal connections with securities held on behalf of the VPIC.

B) Quarterly, investment managers shall report to VPIC staff on any securities in VPIC's portfolio which could reasonably be construed to be in conflict with this policy. VPIC staff will prepare a report, including any conflicting information, for the VPIC to consider at its next meeting. The VPIC may make a consideration whether the security should be held or should be sold.

C) VPIC proxies will generally be voted in support of shareholder resolutions supporting transparency about company activities in countries engaged in the sponsorship of terrorism or genocide, as identified by the U.S. State Department, Treasury Department, or any other authorized agency of the U.S. Government, as well as requests for companies to play a role of constructive engagement in those countries.

D) This policy will remain in effect unless amended or abolished by the VPIC.

APPENDIX H
CONTRACT SUMMARIES OF PORTABLE ALPHA INVESTMENTS

DOMESTIC EQUITY

Pacific Investment Management Company LLC Stocks Plus Fund

- Full discretion to invest in equity and fixed income instruments, including options, futures, options of futures and swaps. PIMCO's stated strategy is to invest in S&P 500 Index derivatives backed by a short duration portfolio of fixed income instruments.
- Quality and concentration limits (set forth below) will be applied at purchase.
- Portfolio duration will not exceed 1 year under normal market circumstances.
- Credit quality = B to Aaa; maximum 10% of total assets below Baa.

Domestic and International Equities: Stock Index Instruments, but may at its discretion invest in individual equities, exchange traded funds based on the S&P 500, equity and index futures and options and warrants; preferred stock; limited to 10%.
Emerging Market Securities: Limited to 10%.
Non-U.S. Dollar Denominated Securities: Limited to 30%
Domestic and International Fixed Income Instruments:

- securities issued or guaranteed by the U.S. Government, its agencies or government-sponsored enterprises;("U.S. Government Securities");
- corporate debt securities of U.S. and non-U.S. issuers, including convertible securities and corporate commercial paper;
- mortgage-backed and other asset-backed securities;
- inflation-indexed bonds issued both by governments and corporations;
- structured notes, including hybrid or "indexed" securities and event-linked bonds;
- loan participations and assignments;
- delayed funding loans and revolving credit facilities;
- bank certificates of deposit, fixed time deposits and bankers' acceptances;
- repurchase agreements on Fixed Income Instruments and reverse repurchase agreements on fixed income instruments;
- debt securities issued by states or local governments and their agencies, authorities and other government sponsored enterprises;
- obligations of non-U.S. governments or their subdivisions, agencies and government-sponsored enterprises; and
- obligations of international agencies or supranational entities.

High Yield Debt: Limited to 10% rated B or higher or, if unrated, determined by PIMCO to be of comparable quality.
***TIPS*:** Nothing to prohibit.
***Real Estate*:** Nothing to prohibit.
Commodities: Nothing to prohibit.
Derivatives: Includes, but may not be limited to, equity and index futures and options and warrants; mortgage- or asset backed derivatives, convertible securities, non-levered

structured notes, currencies, interest rate (pay/receive fixed rate) and credit default swaps (buy/sell protection).
Currencies: In normal markets, the Fund will limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20%.
Securities lending: Nothing to prohibit.
Other misc: The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis and may engage in short sales.

DOMESTIC FIXED INCOME

Oppenheimer - OPCAP Structured Alpha – US Core Fixed Income LLC

The Company shall not be prohibited from purchasing any other instrument, security or commodity reasonably required to effect its investment program.

Domestic and International Equities: Rights and options, including “put” and “call” options or any combination thereof, on US equity indices, US equity index futures
Emerging Market Equities: Nothing to prohibit.
Domestic and International Debt: Authorized to invest, on margin, or otherwise, in fixed income and related securities which include, without limitation, US government (including government sponsored entities) and corporate debt securities, mortgage-backed and other asset-backed securities, US dollar fixed income securities of non-US issuers, cash instruments, exchange traded funds, swaps (including variance swaps), money market instruments, repurchase agreements
High Yield Debt: Nothing to prohibit.
Emerging Market Debt: Nothing to prohibit.
***TIPS*:** Nothing to prohibit.
***Real Estate*:** Nothing to prohibit.
Commodities: Nothing to prohibit.
Derivatives: Rights and options, including “put” and “call” options or any combination thereof, on US equity indices, US equity index futures, volatility indexes, volatility futures, and exchange traded funds.
Currencies: Nothing to prohibit.
Securities lending: Authority to lend, either with or without security, any investment assets.

Wellington Management Company, LLP DAS Plus Beta Portfolio

- The DAS Plus Portfolio may buy and sell short: listed or unlisted equity and fixed income securities issued by entities around the world, as well as derivative instruments.
- The DAS Plus Portfolio may also be invested in commingled pool vehicles offered by an affiliate of Wellington, as deemed by Wellington to be consistent with the investment discipline.

- The investment universe is not constrained by market capitalization, geography, industry, number of companies or asset class.
- Tracking risk is not specifically targeted.

Domestic and International Equities: Equity securities which may include, but not be limited to, common and preferred stock, convertible bonds, real estate securities, rights, warrants, ADRs, ETFs and similar liquid equity equivalents. Equity securities may be denominated in US dollars or other currencies. The DAS Plus Portfolio may invest in unregistered private placements.
Emerging Market Equities: The investment universe is not constrained by market capitalization, geography, industry, number of companies or asset class.
Domestic and International Debt: Fixed income securities which may include, but not be limited to, government and agency, sovereign and supranational, mortgage-backed, corporate and asset-backed securities, credit-linked notes, structured notes, bank loans, trade finance loans, cash equivalents and other fixed income securities. They may be denominated in US dollars or other currencies and may include non-investment grade and emerging market debt issues.
High Yield Debt: Fixed income securities may include non-investment grade debt issues.
Emerging Market Debt: Fixed income securities may include emerging market debt issues.
TIPS**:** The investment universe is not constrained by market capitalization, geography, industry, number of companies or asset class.
Real Estate**:** Equity securities which may include, but not be limited to, real estate securities.
Commodities: Derivatives related to equities or fixed income securities which may include, but not be limited to, commodity and commodity-index derivatives.
Derivatives: Derivatives related to equities or fixed income securities which may include, but not be limited to, over-the-counter and exchange-traded equity-index, interest rate, credit, fixed income index, commodity, and commodity-index derivatives, currency futures, options, options on futures, forward contracts, structured notes, swaps, swaptions, and other derivatives related to countries, sectors, industries, broad market indexes, currencies, and other groups of securities or individual securities. The Portfolio may also buy and sell short derivative instruments associated with other asset classes.
Currencies: Derivatives related to equities or fixed income securities which may include, but not be limited to currency futures and other derivatives related to currencies.
Securities lending: Trustee authorized to lend securities to brokers or dealers and to secure the same in any manner and to invest any cash collateral obtained in connection therewith.
Other misc.: The portfolio may invest in market access products. The investment universe is not constrained by market capitalization, geography, industry, number of companies or asset class.

APPENDIX I
CONTRACT SUMMARIES OF ALTERNATIVE INVESTMENTS

AQR Global Risk Premium Offshore Fund Ltd.

- The GAA Offshore Funds invest globally in instruments providing exposure to a broad range of securities, currencies, commodities and related products and financial indices.

***Domestic and International Equities**:* Global developed stocks and small cap stocks
Emerging Market Equities: Emerging market stocks
Domestic and International Debt: Developed bonds, U.S. mortgages
High Yield Debt: U.S. high yield and credit
Emerging Market Debt: Emerging bonds
TIPS**:** Global inflation protected bonds
Real Estate**:** No
Commodities: Commodity futures and swaps
Derivatives: Global swap spreads; the foreign currency exposure utilized in these strategies will be hedged. The instruments expected to be utilized for this purpose include stock index futures and swaps, bond futures, interest rate swaps, TIPS, currency forwards, credit derivatives, commodity futures and swaps, mortgage TBAs and cash equities.
Currencies: Developed and emerging currencies
Securities lending: Nothing to prohibit
Other misc.:

- A portion of the assets of the GRP Offshore Fund may be held in cash or cash equivalents in order to vary the volatility level at which its investment activities are conducted. The GRP Offshore Fund has an estimated annual volatility target of 10-20%.
- Traditional leverage that includes outright borrowing may also be used.
- The GRP Offshore Fund is denominated in U.S. dollars.

Mellon Capital Management Corporation Global Alpha Portfolio

EB Daily Valued Global Alpha Fund I

- The Fund's assets may be allocated from 0% to 100% in each asset class (equities, fixed income and cash).
- The assets of the Fund may be invested in securities and a combination of other collective funds.

Domestic and International Equities: Equity exposure may also be obtained through direct purchases of foreign and domestic stocks, Global Depository receipts and American Depository Receipts.
Emerging Market Equities: Nothing to prohibit.

Domestic and International Debt: Fixed income exposure may be obtained through direct purchases of dollar and non-dollar denominated bonds.
High Yield Debt: Nothing to prohibit.
Emerging Market Debt: Nothing to prohibit.
TIPS**:** Nothing to prohibit.
Real Estate**:** No.
Commodities: No.
Derivatives: Long and short positions in foreign and domestic financial futures, options on financial futures, exchange-traded options, over-the-counter options and over-the-counter foreign currency forward contracts may be used to reallocate the portfolio asset mix, to hedge, to obtain exposure, to facilitate trading, to provide liquidity for cash flows, to manage interest rate risk, to seek higher investment returns or for other purposes. .
Currencies: Currency cross-hedging is allowed in the Fund
Securities lending: The Trustee may, in its sole discretion, lend any, or all, of the securities held in the Fund. Cash collateral shall be invested in the EB MCM Securities Lending Temporary Investment Fund.
Other misc.: Cash investments positions may be comprised of other collective funds and short-to-medium-term debt of investment grade that may include, without limitation, Treasury bills and notes, corporate obligations, commercial paper, obligations of government sponsored enterprises and structured collateralized instruments, including, without limitation, asset-backed and mortgage-backed securities.

PIMCO All-Asset Fund

- The Fund invests its assets in shares of the Underlying PIMCO funds and does not invest directly in stocks or bonds of other issuers.
- The Fund’s assets are not allocated according to a predetermined blend of shares of the Underlying Funds.
- The Fund may invest in any or all of the Underlying Funds, but will not normally invest in every Underlying Fund at any particular time.
- The Fund’s investment in a particular Underlying Fund normally will not exceed 50% of its total assets.

Domestic and International Equities: Convertible Fund; Income Fund
Emerging Market Equities: Developing Local Markets Fund;
Domestic and International Debt*:* Floating Income Fund; Foreign Bond Fund (Unhedged); GNMA Fund; Long-Term U.S. Government Fund; Low Duration Fund Short-Term Fund; Total Return Mortgage Fund
High Yield Debt: High Yield Fund
Emerging Market Debt: Emerging Local Bond Fund; Emerging Markets Bond Fund
TIPS**:** May be included in “Real Return” strategies.
Real Estate**:** Real Estate Real Return Strategy Fund
Commodities: Commodity Real Return Strategy Fund;
Derivatives**:** Will be included in various strategies.

Currencies: Will be included in various strategies.
Securities lending: Each separate fund is authorized to engage in engage in securities lending.
Other misc.: Diversified Income Fund; Fundamental IndexPLUS™ Fund; Fundamental IndexPLUS™ TR Fund; International StocksPLUS® TR Strategy Fund (Unhedged); International StocksPLUS® TR Strategy Fund (U.S. Dollar-Hedged); Real Return Fund; Real Return Asset Fund; Small Cap StocksPLUS® TR Strategy Fund; StocksPLUS® Fund; StocksPLUS® Total Return Fund; Total Return Fund;

- Though it is anticipated that the Fund will not currently invest in the European StocksPLUS® TR Strategy, Far East (ex-Japan) StocksPLUS® TR Strategy, Japanese StocksPLUS® TR Strategy and StocksPLUS® TR Short Strategy Funds, the Fund may invest in these Underlying Funds in the future, without shareholder approval, at the discretion of PIMCO.
- The Fund's combined investments in the Fundamental IndexPLUS™, Fundamental IndexPLUS™ TR, International StocksPLUS® TR Strategy (Unhedged), International StocksPLUS® TR Strategy (U.S. Dollar-Hedged), Small Cap StocksPLUS® TR, StocksPLUS®, StocksPLUS® Long Duration and StocksPLUS® Total Return Funds normally will not exceed 50% of total assets.
- The Fund's combined investments in the Commodity Real Return Strategy, Real Return, Real Return Asset and Real Estate Real Return Strategy Funds normally will not exceed 75% of its total assets.
- In addition to investing in the Underlying Funds, at the discretion of PIMCO and without shareholder approval, the Fund may invest in additional PIMCO Funds created in the future.

Wellington Management Company, LLP Opportunistic Investment Portfolio

- Multiple specific investment strategies managed by Wellington or its affiliates, and accessed primarily through a combination of sub-portfolios and commingled vehicles.
- Securities and instruments, and may take both long and short positions in all permissible investments described below.
- No short positions in equity securities of individual companies.
- The Portfolio will typically be invested primarily in equity and fixed income securities, but there are no minimum or maximum limits on investments in any asset class.
- Tracking risk of the Portfolio is not specifically targeted.

Domestic and International Equities: Listed and unlisted equity and equity related securities, including, but not limited to, common stock, preferred stock, depositary receipts (including ADRs and GDRs), index-related securities (including Exchange Traded Funds), convertible bonds, preferred stock, convertible preferred stock, rights, warrants, and similar liquid equity equivalents. The Portfolio will have no geographic restrictions. The Portfolio may invest globally and in securities denominated in the US dollar and in currencies other than the US dollar. The Portfolio may invest in private placements and other restricted securities deemed appropriate by the portfolio Manager. Private placements include, but are not limited to, securities issued pursuant to Regulation D under the Securities Act of 1933.

Emerging Market Equities: The investment selection universe is unconstrained.

Domestic and International Debt: Fixed-income securities and cash and cash equivalents, including but not limited to, government, agency, supranational, mortgage-backed, corporate, asset-backed, bank loans, cash equivalents, and other fixed-income securities, as well as derivatives related to interest rates and fixed-income securities. These debt obligations may include non-investment grade and emerging market debt issues.

High Yield Debt: Fixed-income securities may include non-investment grade debt issues.

Emerging Market Debt: Fixed-income securities may include emerging market debt issues.

TIPS**:** The investment selection universe is unconstrained.

Real Estate**:** Real estate investment structures (including REITs).

Commodities: Derivatives may be used to obtain long or short exposure to a particular commodity or index.

Derivatives: Derivatives may be used to obtain long or short exposure to a particular security, asset class, region, industry, currency, commodity, or index, or to other securities, groups of securities, or events. The Portfolio may invest directly in over-the-counter and exchange-traded derivatives, including but not limited to futures, forward contracts, swaps, options, options on futures, swaptions, structured notes, and market access products.

Currencies: Derivatives may be used to obtain long or short exposure to a particular currency or index. The Portfolio may invest in currencies other than the US dollar. The currency exposure of the Portfolio normally will be unhedged. At times, full or partial currency hedging or active management of currency may be employed to protect or enhance returns.

Securities lending: Trustee authorized to lend securities to brokers or dealers and to secure the same in any manner and to invest any cash collateral obtained in connection therewith.

Other misc.: The investment selection universe is unconstrained.

APPENDIX J
ASSET ALLOCATION TABLE

ADOPTED AUGUST 24, 2010

Based on market value, the following are the targets for the VPIC Portfolio:

Asset Class	Target
Cash	**0%**
Large Cap Equity	12.0%
Small/Mid Cap equity	6.0%
Established International Equity	12.0%
Emerging Market Equity	6.0%
Total Equity	**36.0%**
Bonds	18.0%
Global Bonds	8.0%
High-Yield Bonds	5.0%
Emerging Market Debt	3.0%
TIPS	3.0%
Total Fixed Income	**37.0%**
Real Estate	5.0%
Hedge Funds	5.0%
Private Equity	0.0%
Commodities	2.0%
Total Alternatives	**12.0%**
Risk Parity	5.0%
Global Asset Allocation	10.0%
Total Multi-Strategy	**15.0%**

APPENDIX K
MANAGER BENCHMARKS

AS OF November 1, 2009

Asset Class	Benchmark
U.S. Large Cap Core Equity	S & P 500 S & P 500 equal weight
Mid Cap Core equity	Russell 2500
Small Cap	Russell 2000
Established International Equity	MSCI EAFE
Emerging Market Equity	MSCI EM
Core Bonds	Barclays Aggregate
High-Yield Bonds	Barclays High Yield
Global Bonds	CWGBI
Emerging Market Debt	JP Morgan EMBI +
TIPS	Barclay's TIPS
Real Estate	NCREIF Index
Global Asset Allocation	60% MCSIW 40% CWGBI CPI +5%
Risk Parity	60% MCSIW 40% CWGBI
Commodities	Dow Jones/UBS