

Vermont State Retirement Systems
VPIC Investment Managers
Statement of Investment Policy Guidelines
Section B - Investment Manager Guidelines



History

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The following pages detail the specific investment guidelines that relate to each of the managers retained by the Vermont Pension Investment Committee. Each manager shall be governed by Section A of this Policy Statement, in addition to the manager-specific guidelines listed herein. Any exemptions granted in this document (Section B) shall supercede the guidelines described in Section A.

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Manager Name

Pacific Investment Management - StocksPLUS

Asset Class

U.S. Large Cap Core Equity

Long-term Benchmark

S&P 500 Index

Style Benchmark

S&P 500 Index

Peer Group Universe

U.S. Large Cap Core Universe

Philosophy

PIMCO's investment philosophy for StocksPLUS is based on the principal that stock index futures and swaps, when used as a non-leveraged vehicle for obtaining long-term equity exposure, offer an attractive means for enhancing equity market returns. The StocksPLUS fixed income investment philosophy benefits from the longer time horizon of PIMCO's investors relative to that of typical money market investors. This long time horizon allows PIMCO to seek out attractive yields relative to money market financing rates on a portion of the high quality fixed income securities they use to back the futures contracts.

Exemptions from General Guidelines:

PIMCO will have full discretion to invest in equity, fixed income and related securities. Quality and concentration limits will be applied at purchase.

Portfolio duration will not exceed 1 year under normal market circumstances; minimum credit quality =A-, minimum issue quality = B-, minimum CP credit quality =A2/P2

Should an issue be downgraded below these minimums, PIMCO will Offer corrective recommendation.

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PIMCO will apply quality ratings using the higher of Moody's, S&P or Fitch. If an issue is not rated by one of these rating agencies, then PIMCO will determine a rating.

Purchases and sales may be permitted for regular and forward settlement to include hedging, spread, and income generating strategies and may include short/uncovered sales.

PIMCO will invest primarily in Stock Index Instruments but may at its discretion invest in individual equities, equity and index futures and options and warrants. A broad array of public and private fixed income asset classes and instruments will back the investment in Stock Indices, to include but not limited to:

- US and Foreign Money Market Instruments, Government And Agency securities, Supranational Obligations, Securitized issues (MBS/ABS/CMOs, etc.), Municipal and Corporate securities, Yankee and Euro bonds of fixed, Variable and floating rate:
- Private placements if eligible for resale under Rule 144A Only, Preferred stock, Mortgage Derivatives, Convertible Securities, Non-levered structured notes, Currencies, Interest Rate (pay/receive fixed rate) and Credit Default Swaps (buy/sell protection);
- PIMCO Private Sector Funds

PIMCO will not invest directly in the following:

Commodities

- Companies whose primary source of revenue is tobacco

Concentration limits are as follows:

- Issuer: excluding Sovereign Debt, Agencies of the G-7 and and Supranational issuers maximum of 10%
- Issue: 5%
- Below BBB-: 20%
- Below B-: 5%
- Private Placements under Rule 144a: 10%
- Foreign Currency Exposure: 30%

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PIMCO will seek to maintain the total contract value of its Stock Index Instruments between 98-102% of the total market value of the portfolio backing the Stock Index instruments.

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Manager Name

T Rowe Price - SRS

Asset Class

U.S. Large Cap Core Equity

Long-term Benchmark

S&P 500 Index

Style Benchmark

S&P 500 Index

Peer Group Universe

U.S. Large Cap Core Equity Managers

Philosophy

T. Rowe Price's US Structured Research Strategy is a stock-based strategy that seeks to provide long-term returns and capture the style of the S&P 500 Stock Index by combining analyst-driven research and security selection with the benefits of disciplined portfolio construction. This portfolio uses bottom-up, fundamental research and stock selection.

Exemptions from General Guidelines:

T Rowe Price is permitted to hold up to 15% in cash.

T Rowe is permitted to invest up to 10% in Canada

T Rowe is permitted to hold individual security positions +/- 100 basis points of the weight in the S&P 500 Index. If a stock weight in the S&P 500 Index is larger than 3%, then the allowable band is +/- 150 basis points.

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T Rowe is permitted to hold up to 10% of the account in stocks not contained in the S&P 500 Index at the time of purchase.

Small deviations from the constraints listed regarding security, industry and sector weightings are allowed if in the judgment of the manager these deviations do not contribute significantly to overall account risk.

T Rowe is permitted to vary the industry weights +/- 100 basis points of the same industry weights in the S&P 500 Index.

T Rowe Price is permitted to vary the sector weights +/- 150 basis points of the same sectors weights of the S&P 500 Index.

Investments in cash equivalents includes Custodian STIF.

IPOs are permitted

No single holding shall account for more than 5% of the outstanding common stock of any one corporation.

Additionally, no single holding across all of T. Rowe's actively managed portfolios shall account for more than 15% of the outstanding common stock of any one corporation. If such single holding across all of T. Rowe's actively managed portfolios exceeds the 15% limit, the manager shall liquidate the security position in the account as soon as practicable, taking into consideration the best interests of the account.

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Manager Name

State Street Global Advisors – S&P 500 Equal Weighted Index

Asset Class

U.S. Large Cap Core Equity

Long-term Benchmark

S&P 500 Equal Weighted Index

Style Benchmark

S&P 500 Equal Weighted Index

Peer Group Universe

U.S. Large Cap Core Equity Managers

Philosophy

This product seeks to replicate the S&P 500 equal weighted index without tobacco securities.

Exemptions from General Guidelines:

Tobacco - free

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Manager Name

Mondrian Investment Partners Limited

Asset Class

Established International Equity

Long-term Benchmark

MSCI EAFE Index

Style Benchmark

MSCI EAFE Value Index

Peer Group Universe

Established International Equity Managers

Philosophy

Mondrian is an active value-oriented defensive manager. In the management of international/global equity assets, they invest in securities where rigorous dividend discount analysis identifies value in terms of the long term flow of income. Dividend yield and future real growth play a central role in the decision making process and over time the dividend component is expected to be a meaningful portion of the expected total return.

Exemptions from General Guidelines:

Mondrian is permitted to invest in Canada (up to 10%)

Mondrian is permitted to invest up to 15% in emerging markets.

Mondrian may invest up to 15% in 144A securities.

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Manager Name

Acadian Asset Management

Asset Class

Established International Equity

Long-term Benchmark

MSCI EAFE Index

Style Benchmark

MSCI EAFE Value Index

Peer Group Universe

Established International Equity Managers

Philosophy

Acadian believes that investment success comes from objectivity, diversification and risk control. Acadian's quantitative process relies on multi-factor analysis in order to evaluate a broad universe of stocks using many different types of information.

Exemptions from General Guidelines:

May invest up to 20 % in emerging markets.

May invest up to 10% in Canada.

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Manager Name

Wellington Management

Asset Class

Small Cap Value

Long-term Benchmark

Russell 2000 Index

Style Benchmark

Russell 2000 Value Index

Peer Group Universe

Small Cap Value Managers

Philosophy

The investment objective is to seek long-term total returns in excess of the Russell 2000 Value Index by investing in conservatively valued securities of high quality, small cap companies. Wellington employ's a bottom-up stock selection process that utilizes Wellington Management's proprietary fundamental research to identify undervalued situations that have the potential for significant longer term rewards.

Exemptions from General Guidelines:

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Manager Name

State Street Global Advisors – Russell 2000 Growth Index Fund

Asset Class

Small Cap Growth

Long-term Benchmark

Russell 2000 Index

Style Benchmark

Russell 2000 Growth Index

Peer Group Universe

Small Cap Growth Managers

Philosophy

Seeks to replicate the small cap growth Index.

Exemptions from General Guidelines:

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Manager Name

State Street Global Advisors – Russell 2500 Index Fund

Asset Class

U.S. Mid Cap Core Equity

Long-term Benchmark

Russell 2500 Index

Style Benchmark

Russell 2500 Index

Peer Group Universe

U.S. Mid Cap Core Equity Managers

Philosophy

Seeks to replicate the mid cap core equity index.

Exemptions from General Guidelines:

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Manager Name

Logan Circle Partners

Asset Class

Core Plus Fixed Income

Long-term Benchmark

Lehman Brothers Aggregate Bond Index

Style Benchmark

None

Peer Group Universe

Core Fixed Income Managers

Philosophy

The firm believes that the fixed income markets are efficient with respect to interest-rate risk, but that bond markets regularly mis-price securities that are exposed to credit, prepayment, and liquidity risks. LCP further believes that focusing on security and sector selection within a duration-neutral portfolio is the most effective strategy to exploit these inefficiencies. Proprietary, bottom-up, fundamental research coupled with nimble trading is the best technique to identify the relative value of the individual securities and market sectors.

Exemptions from General Guidelines:

May vary the average duration (interest rate sensitivity) of its fixed income portfolio in a range of +/- 2 years around the index duration (40% proposed versus 25% guidelines).

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Manager Name
Post Advisory Group

Asset Class
High Yield Fixed Income

Long-term Benchmark
Lehman Brothers U.S. High Yield Index

Style Benchmark
None

Peer Group Universe
Domestic High Yield Managers

Philosophy
Post believes that superior performance is achieved through the consistent identification of three specific attributes: (1) Value identification; (2) Downside protection; and (3) Portfolio diversification. Any security that meets Post's investment philosophy's criteria is susceptible to be included in Post's opportunity set.

Exemptions from General Guidelines:
A maximum of 10% of the portfolio may be invested in bonds with a credit rating below B-. No bonds may be purchased that have a credit rating less than CCC-.

May invest up to 20% of the portfolio in any one industry.

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Manager Name

Mondrian Investment Partners

Asset Class

Global Fixed Income

Long-term Benchmark

Citigroup World Government Bond Index

Style Benchmark

None

Peer Group Universe

Global Fixed Income Managers

Philosophy

Mondrian's global fixed income investment philosophy is value-oriented and defensive. They invest in global fixed income assets that offer a high Prospective Real Yield (PRY), calculated as the 10-year government bond yield for each market minus Mondrian's inflation forecast for that country.

Exemptions from General Guidelines:

May increase the ratio for larger markets (i.e. Euro and Japan) from 120% to 200%.

May invest up to 15% in Rule 144A securities.

The portfolio shall have an average weighted rating of A or better by the NRSRO (Nationally Recognized Statistical Rating Organization).

Mondrian is permitted to hold up to 15% in emerging market debt (time of purchase). Holdings of individual emerging market countries shall not be greater than 5% of the portfolio at the time of purchase.

Portfolio duration shall be limited to a range of 1 – 10 years

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Manager Name

Brandywine Asset Management

Asset Class

Global Fixed Income

Long-term Benchmark

Citigroup World Government Bond Index

Style Benchmark

None

Peer Group Universe

Global Fixed Income Managers

Philosophy

Brandywine is a value-driven, active, strategic approach. The strategy allows for a 0-15% allocation to emerging markets and for a 0-15% allocation to high yield debt. They believe their approach is ideally suited to the asset class, as each country, and sector exhibit unique valuation parameters. They believe that a client's portfolio should be invested in markets with above-average value. Value is defined as a combination of above-average real interest rates and an under-valued currency. Brandywine typically concentrates investments where existing economic and market conditions can enable that value to be realized in an intermediate time frame.

Exemptions from General Guidelines:

The portfolio shall have an average weighted rating of A or better by the NRSRO (Nationally Recognized Statistical Rating Organization).

Brandywine is permitted to hedge all, some or none of the portfolio's currency exposure. They are permitted to cross hedge currency positions,

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but may not be net short any currency, or long more than 100% of the portfolio.

Brandywine is permitted to hold up to 15% in emerging market debt (time of purchase). Holdings of individual emerging market countries shall not be greater than 5% of the portfolio at the time of purchase.

Brandywine is permitted to hold up to 15% in high yield (time of purchase). Holdings of individual high yield securities shall not be greater than 3% of the portfolio at the time of purchase. Credit quality is limited to BB and B. No CCC securities or below will be purchased.

Portfolio duration shall be limited to a range of 1 – 10 years.

The global bond portfolio may hold no more than 40% of its assets, at market value, in the debt of any single foreign government or non-US government entity with the exception of Japan or the US.

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Manager Name

UBS Realty – Trumbull Property Fund

Asset Class

Real Estate

Long-term Benchmark

NCREIF Index

Style Benchmark

None

Peer Group Universe

Real Estate Managers

Philosophy

The Fund aims to achieve these returns by upgrading the physical condition, occupancy and operating characteristics of the properties in which it invests, enhancing their income streams and market values. Fund activities will include the acquisition, physical improvement, market repositioning, active management and sale of well-located apartment, industrial, retail and office properties in major metropolitan markets across the continental United States.

Exemptions from General Guidelines:

None

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Manager Name

REIT Morgan Stanley PPR (Prime Property Fund)

Asset Class

Real Estate

Long-term Benchmark

NCREIF Index

Style Benchmark

None

Peer Group Universe

Real Estate Managers

Philosophy

Fund seeks to invest in properties that exhibit stable, predictable cash flows for the duration of the holding period. The focus of investments will be high quality office buildings, high demand multifamily properties, warehouse distribution and storage facilities, and top tier super regional malls. Top down research drives the investments strategy for the Fund, using overall market assessments to drive market and property type selection.

Exemptions from General Guidelines:

None

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Manager Name

Transwestern Investment Company – Aslan III

Asset Class

Real Estate

Long-term Benchmark

NCREIF Index

Style Benchmark

None

Peer Group Universe

Real Estate Managers

Philosophy

Transwestern's focus is on domestic, value-added real estate strategies. They mainly focus on equity investments in office, retail and industrial assets. The fund targets mid-cap investments with opportunities to add value through the following: lease-up; re-positioning / redevelopment; and recapitalizations.

Exemptions from General Guidelines:

None

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Manager Name

RREEF America III LLC

Asset Class

Real Estate

Long-term Benchmark

NCREIF Index

Style Benchmark

None

Peer Group Universe

Real Estate Managers

Philosophy

The Fund aims to achieve these returns by upgrading the physical condition, occupancy and operating characteristics of the properties in which it invests, enhancing their income streams and market values. Fund activities will include the acquisition, physical improvement, market repositioning, active management and sale of well-located apartment, industrial, retail and office properties in major metropolitan markets across the continental United States.

Exemptions from General Guidelines:

None

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Manager Name

Mellon Capital Management – Global Alpha I

Asset Class

Global Asset Allocation

Long-term Benchmark

60% MSCI World Index, Half-Hedged to the USD / 40% Citigroup WGBI
Half Hedged to the USD

Style Benchmark

None

Peer Group Universe

None

Philosophy

Mellon Capital's Global Alpha Strategy applies a systematic, quantitative approach designed to exploit relative mis-valuations across global capital markets, implementing long or short positions in individual country equity, bond, and currency markets. The strategy focuses exclusively on country, asset, and currency level allocation and does not make active decisions at the individual security or industry sector level.

Exemptions from General Guidelines:

May enter into long or short asset positions in any countries and/or asset classes in the MCSI World and Citigroup WGBI indices.

May invest in bank maintained collective funds that track specific indices. The strategy invests in these funds with the goal of achieving exposure to specific Indices. As such the strategy may be invested in prohibited

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securities as stated in Vermont State Retirement Systems' general guidelines.

May enter into long and/or short positions in currencies of the countries represented in the MCSI World and Citigroup WGBI Indices. The strategy is permitted to cross-hedge currency exposure and will actively manage its currency exposure. This active management may go beyond fully-hedged or unhedged currency exposure.

Will not actively enter into a leverage position. However, the Fund may inadvertently move into a leveraged position due to market movement.

May invest in OTC options in transparent markets to gain exposure to certain asset classes. Given the transparency of these markets one quote is solicited to trade into or out of this contract.

The strategy actively manages its duration exposure. As such, the average duration of the strategy may differ from the passive benchmark's duration by more than 25%.

The global bond portfolio of the strategy may hold more than 30% of its assets, at market value, or 120% of each country's benchmark weight.

The strategy will hold more than 10% of cash or cash equivalents, but this cash will be used to underlie derivative contracts.

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 from time-to-time.

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Manager Name

Pacific Investment Management – All Asset Fund

Asset Class

Domestic Fixed Income

Long-term Benchmark

CPI +5%

Style Benchmark

None

Peer Group Universe

None

Philosophy

The All Asset strategy seeks to achieve its long-term risk and return objectives by utilizing a broad and diversified range of markets as the opportunity set for tactical asset allocation. Portfolios can invest in almost any PIMCO fund in order to gain concurrent exposure to a variety of strategies.

Exemptions from General Guidelines:

Holdings report will be provided 60 days following each quarter end.

A list of derivative positions and assessment of the effect on the risk exposure of the portfolio will be provided for any derivative exposure that may exist outside of the sub-funds that comprise the All Asset Fund of Fund strategy.

The guidelines specific to this manager will include those under Global Asset Allocation in Section A.

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Manager Name

Aberdeen Asset Management

Asset Class

Emerging Markets Equity

Long-term Benchmark

MSCI EM

Style Benchmark

MSCI EM

Peer Group Universe

Total Emerging Market Equity Universe

Philosophy

Aberdeen believes that some markets are inefficient and superior long-term returns are achieved by identifying high quality stocks, buying them at reasonable/cheap prices, and ultimately investing in those securities for the long-term.

Exemptions from General Guidelines:

Aberdeen will be allowed to use financial leverage for logistical purposes such as, covering trades between countries that have different settlement dates, but shall not use financial leverage as an investment strategy of any sort.

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Manager Name

Wellington Investment Management – Opportunistic Investment

Asset Class

Global Asset Allocation

Long-term Benchmark

60% MSCI AC World / 40% LB Aggregate

Style Benchmark

None

Peer Group Universe

None

Philosophy

The Opportunistic Investment approach provides exposure to a variety of investment approaches that focus on non-core areas, such as non-US small cap, emerging markets equity, and sector funds. Non-core areas are inherently interesting as they are typically less efficient sectors of the market where active managers have a history of strong value added.

Exemptions from General Guidelines:

Wellington OIF is a commingled fund and is covered under the “Guidelines for Use of Pooled Funds” in the General Guidelines and as such is exempt from the General Guidelines.

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Manager Name

Oppenheimer Capital – Structured Alpha

Asset Class

Domestic Fixed Income

Long-term Benchmark

LB Aggregate

Style Benchmark

None

Peer Group Universe

None

Philosophy

Structured Alpha - Absolute Yield is an absolute-return strategy which, using Oppenheimer Capital's proprietary approach to investing in equity index options, seeks to achieve a consistent return stream that has low correlation with the movement of equity or fixed income markets, passive equity or active equity underlying portfolios in pursuit of absolute-return, alpha-enhancement and beta-reduction objectives.

Exemptions from General Guidelines:

OpCap is a commingled fund and is covered under the “Guidelines for Use of Pooled Funds” in the General Guidelines and as such is exempt from the General Guidelines.

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Manager Name

Wellington Capital Management - DAS

Asset Class

Domestic Fixed Income

Long-term Benchmark

LB Aggregate

Style Benchmark

None

Peer Group Universe

None

Philosophy

The DAS Portfolio aims to provide consistent returns by investing in diverse, market-neutral alpha sources that have low or negative correlations with each other. The mix of alpha sources is rebalanced periodically, and the target mix may change over time. The DAS Portfolio can be combined with desired market (beta) exposure through the use of derivative instruments.

Exemptions from General Guidelines:

Wellington DAS is a commingled fund and is covered under the "Guidelines for Use of Pooled Funds" in the General Guidelines and as such is exempt from the General Guidelines.