

Virginia Pooled OPEB Trust Fund
Summary of Investment Policy & Guidelines
April 2008
Revised September 2011

This policy statement contains the objectives and policies that have been established by the Board of Trustees (“Trustees”) to govern the investment management of the Virginia Pooled OPEB Trust Fund (“Fund”). The purpose of this statement is to foster a clear understanding of these objectives and policies, outline the responsibilities of investment managers, and establish the review and control procedures to be used in monitoring implementation of the investment policy and guidelines and evaluating performance.

I. General

The Trustees will establish investment objectives, risk tolerance and asset allocation policies for the Fund in light of the purposes of the Fund, market and economic conditions, and generally prevailing prudent investment practices. The Trustees will monitor the Fund to ensure adherence to the Investment Policy & Guidelines. In addition, the Trustees will review, monitor, and evaluate the performance of the Fund and its investment advisors in light of available investment opportunities, market conditions, and publicly available indices for the generally accepted evaluation and measurement of such performance.

II. Investment Responsibilities

Board of Trustees

The Board of Trustees has the responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will monitor and evaluate the investment managers, bank custodian, and other parties, to monitor whether operations conform to the guidelines and actual results meet objectives. If necessary, the Board is responsible for making changes to achieve this.

Managing Director & Staff

The Managing Director & Staff shall:

- Plan, direct, coordinate and execute administrative and investment functions in conformity with the policies and directives of the Board;
- Employ professional and clerical staff as necessary;
- Coordinate a plan of continuing education for members of the Board of Trustees, to include external training opportunities consistent with the direction of the Board;

- Perform ongoing due diligence in coordination with the Investment Consultant, which shall include regular monitoring of the reports of Investment Managers, direct communications with Investment Managers as issues arise, and advising the Board of key developments and performance issues to supplement the quarterly reports of the Investment Consultant;
- Collaborate with the Investment Consultant on new manager searches, including reviewing and targeting prospective candidates for consideration by the Board of Trustees;
- Report to the Board on all operations under the Managing Director's control and supervision;
- Manage the administrative expense of the Board;
- Undertake all other activities necessary to implement the powers and duties set forth in the statutes.

Investment Managers

The investment managers will construct and manage investment portfolios. They will select specific securities, buy and sell such securities, and modify the asset mix within the guidelines. The investment manager will have full discretion in the management of assets in the portfolio subject to the overall investment guidelines set by the Board. They will serve as fiduciaries of the Plan's assets and will abide by the duties, responsibilities and guidelines detailed in any specific investment manager agreement. The investment managers shall meet as required with the Board of Trustees and provide reports relative to the status of the portfolio managed.

Bank Custodian

The bank custodian(s) accepts possession of securities for safekeeping; collects and disburses income, collects principal of sold, matured or called items and provides periodic accounting statements. In addition, the custodian will be utilized to accept and hold cash prior to allocating it to the investment manager, and should invest such cash in liquid, interest-bearing instruments. The custodian shall meet as required with the Board and provide reports relative to the status of the Trust. The custodian shall, in a timely fashion, forward and transmit to the Investment Manager all proxies related to equity securities held in an account and will abide by duties, responsibilities and guidelines detailed in any specific custodial agreement.

Investment Consultant

The investment consultant will assist the Board in developing the investment policy guidelines, including asset class choices, asset allocation targets and risk diversification. In addition, the investment consultant shall provide the Board with objective information on a broad spectrum of investment related topics and help construct a portfolio management team of superior investment managers. The consultant will be responsible for monitoring the performance of the Investment Managers and provide regular quarterly reports to the Board, which will aid them in carrying out the intent of this Statement. The investment consultant shall evaluate and make recommendations to the Board as needed and will abide by the duties, responsibilities and guidelines detailed in any specific investment consulting agreement.

III. Investment Objectives/Risk Tolerance

The investment objective of the Fund is to maximize total long-term rate of return with reasonable risk by seeking capital appreciation and, secondarily, principal protection.

Portfolio I will be structured to achieve a compound annualized total expected rate of return over a market cycle, including current income and capital appreciation, of 7.5%. Portfolio II will be structured to achieve an expected rate of return of 6.5%. The investment performance of the total Funds will be reviewed quarterly and compared on a rolling three year basis and over other relevant time periods to the following: (a) a composite benchmark comprised of each asset classes' market index benchmarks, weighted by the Fund's long-term policy allocations, and (b) a peer group of other similar size fund sponsors.

The performance of each investment manager will be reviewed quarterly and compared on a rolling three year basis and over other relevant time periods to each individual manager's agreed upon style specific benchmarks and peer group universes as specified in the Appendix. Active managers are expected to lead their respective benchmarks and perform consistently above median, net of fees, annually over a three-year rolling period.

IV. Portfolio Structure

Asset Allocation

The Trustees are responsible for setting the Fund's long-term asset allocation, after taking into consideration expectations for asset class returns and volatility, risk tolerance and liquidity needs.

The Fund's assets will be separately managed by professional investment managers or invested in professionally managed investment vehicles. The Fund will be invested in a broadly diversified portfolio by asset class, style and capitalization, which will control volatility levels. Specific target neutral ranges are outlined in Appendix A.

The primary function of the fixed income allocation is to provide liquidity, income, stability, preservation of capital, and a partial hedge against periods of prolonged economic contraction/deflation.

The purpose of the allocation to equities is to provide a total return that will provide growth in principal to help preserve and enhance the value of the assets over the long-term. Equity investments, historically, have provided superior long-term returns and some protection from increases in the level of inflation.

The Trustees will monitor the asset allocation of the Fund on a quarterly basis to ensure that the portfolio remains within the range of targeted asset allocations. Consideration will be given annually or more often if deemed appropriate, to actively rebalance the portfolio. Rebalancing will be back to the neutral policy target unless otherwise directed by the Trustees.

General Fund Guidelines

- No more than 25% of the Fund at market value invested by each investment manager.
- No more than 20% of the Fund at market value invested in one general industry.
- No more than 5% of the Fund at market value invested in the securities of one company.
- There are no limits on the use of U.S. government, agency or guaranteed issues.
- The Fund holds the investment managers responsible for voting proxies.
- The Fund may specify use of specific brokerage firms subject to best execution and competitive commissions.
- Equity investment managers may use cash equivalents and high quality fixed income securities if they judge these to provide expected returns superior to common stock.

Equity

The domestic equities category shall include common and preferred stocks, American Depository Receipts “ADRs”, and issues convertible into common stock (such as warrants or rights). All holdings must be publicly traded on U.S. markets with no single issue exceeding 5% of each individual manager portfolio at market value.

The international equities category shall include American Depository Receipts “ADRs” in addition to the common stocks of other than U.S. companies (ordinary shares).

- All holdings must be publicly traded on national exchanges with no single issue exceeding 5% of each individual manager portfolio at market value.
- Forward purchases or sales of currencies, including cross currency hedges, are permitted to protect or enhance the U.S. dollar value of the account.
- The use of derivative instruments such as currency futures or options shall also be permitted upon completion of any necessary disclosure or other documentation.
- No speculative hedging will be permitted.

Fixed Income

The fixed income category shall include all U.S. dollar-denominated bonds having an investment grade rating at the time of purchase.

- No more than 20% of the investment manager’s portfolio at market value may be invested in below investment grade rated bonds. Permitted securities must be rated BB- or better and represent no more than 2% per issuer.
- At no time shall unrated bonds be purchased.
- At no time shall each individual manager portfolio hold more than 5% of its fixed-income investment in the securities of any one issuer. This limitation does not apply, however, to securities issued by the U.S. Treasury, Federal Agencies or U.S. Treasury guaranteed obligations.
- No more than 10% of the investment manager’s portfolio at market value may be invested in IOs, POs, inverse floaters or residual tranches of CMOs, including those in

closed-end bond funds. No one position in any of these securities should exceed 2% of the market value.

- No more than 10% of the investment manager's portfolio at market value invested in 144A securities.

The fixed income category may also include, to a limited extent, non-U.S. dollar denominated bonds of similar characteristics and the use of derivatives to hedge the related foreign currency exposure back to the U.S. dollar.

- No more than 20% of the investment manager's portfolio at market value shall be in total foreign securities, including a maximum of 5% at market value in issues other than Canadian, U.K., Japanese, Australian, Scandinavian or European monetary systems (EMS) bloc governments and their agencies and supra-national borrowers in local currency or ECU.
- Emerging markets debt denominated in US dollars is permissible within the 5% limit, with a maximum 2% position per issuer.
- The use of forwards, futures and options for interest rate and currency hedging is permitted but not for speculative purposes or to the extent that a leveraged position is established.

Structured Notes

- All notes must be guaranteed by the issuer to return 100% of principal.
- There can be no leveraging of principal.
- Minimum issuer credit rating must be AA/Aa or higher.
- The maximum final maturity for any issue must be two years or less.
- No commodity based notes are permitted (e.g. notes linked to oil, precious metals or commodity index prices and currency); all notes must be based on interest rates within developed markets.

Futures and Options

- Futures and options must be used for hedging purposes only.
- Naked option writing is not permitted.
- Long futures positions may be used in place of cash market securities (e.g. Treasury futures purchased in place of buying long Treasury bonds).

Cash equivalents (maturity of one year or less)

- No more than 5% of the portfolio at market value in one issue, no more than 10% in one issuer.
- Certificates of deposit and bankers acceptances with major money center banks that are members of the Federal Reserve System and insured by FDIC.
- Repurchase agreements with major money center banks and broker/dealers that are members of the Federal Reserve System, must be collateralized to at least 102%

- Commercial paper rated A-1 by Standard & Poor's and/or P-1 by Moody's.
- Money market funds or similar investment vehicles in existence for at least 3 years with restricted investments in short-term instruments rated A-1 by Standard & Poor's and P-1 by Moody's if outside of Trustee's STIF.

Absolute restrictions on Investment Managers

The following strategies/instruments may not be used: short sales; options (puts, calls, or straddles); unbundled stock units; margin purchases or other use of lending or borrowing money; letter stock; private or direct placements; commodities; venture capital; private equity; management buyout; short-term securities of the custodian bank, investment managers or affiliated companies; securities lending; purchase or other direct interest in gas, oil, or other mineral exploration or development programs.

Absolute restrictions and portfolio guidelines apply to all investment managers unless separate provisions are made through written agreement.

Assets invested in commingled funds, mutual funds, and fund of funds cannot be bound by these guidelines, however, the funds will be evaluated and selected within the context of the objectives and will generally be aligned with the spirit of this document.

V. Manager Selection and Termination

The Trustees will select investment managers based on:

- Organizational structure
- Personal qualifications
- Investment philosophy and process
- Research resources
- Risk controls
- Performance record
- Client Servicing

The Trustees may terminate investment managers due to:

- Change in investment style or style drift
- Departure of key personnel
- Operational issues
- Underperformance vs. objectives
- Guideline violations
- Other criteria deemed appropriate

VI. Monitoring

The Fund will be monitored on a continual basis for consistency in investment philosophy, return relative to objectives, and investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed by the Trustees on a regular basis, but results will be evaluated over longer time periods. The Trustees will regularly review each manager in order to confirm that the factors underlying the performance expectations remain in place.

The Trustees will meet a minimum of four (4) times a year to review quarterly performance and asset allocation. The investment policy will be reviewed and updated at least annually.

VII. Communications

The Trustees require a continual awareness of the Fund's activity and position, both on an absolute and relative basis. To accomplish this, the following should be provided to the Trustees or representative thereof:

Monthly: Summary transaction registers and asset valuations provided by the custodian(s).

Quarterly: Summary transaction registers and asset valuations provided by the custodian. Written report in sufficient detail and commentary so that the Trustees are apprised of Fund status and any changes in philosophy or investment strategy and current market conditions.

Annually: Contact with each investment manager to discuss performance results, economic outlook, investment strategy, organizational changes and other pertinent matters.

Ongoing: Investment managers are expected to notify the Trustees immediately (within 48 hours) of any organizational changes (mergers/acquisitions, senior professional departures, etc.), modifications to investment philosophy or investment structure or other pertinent information regarding the management of the Fund. The Managing Director and Staff are designated to receive Trustee notifications and to disseminate critical information to the Trustees upon receipt. In addition, the Managing Director and Staff will, on an ongoing basis, provide regular monitoring of the reports of Investment Managers and communicate directly with the Investment Consultant and Investment Managers as issues arise in order to advise the Board in a timely manner of key developments and performance issues.

VACo-VML Pooled OPEB Trust
Appendix A
 Asset Allocation Policy
 Portfolio I

Approved September 23, 2011

	<u>Target Percentages of Total Assets</u>	<u>Allocation Range *</u>	<u>Benchmark</u>
Total Equity	47%	37%-57%	
Large Cap Equity	22%	17-28%	S&P 500
<i>Growth</i>	7%	3-13%	<i>Russell 1000 Growth</i>
<i>Value</i>	7%	3-13%	<i>Russell 1000 Value</i>
<i>Core</i>	8%	3-13%	<i>S&P 500</i>
Small Cap Equity	10%	5-15%	Russell 2000
International Developed Equity	10%	5-15%	MSCI EAFE
Emerging Market Equity	5%	0-10%	MSCI Emerging Market
Total Fixed Income	33%	23-43%	
Core	12%	7-17%	Barclays Capital U.S. Aggregate
Core Plus	21%	16-26%	Barclays Capital U.S. Aggregate
Total Real Assets	10%	5-15%	
Real Estate	7%	2-12%	NFI ODCE
Commodities	3%	0-6%	DJ UBS Commodity Index
Diversified Hedge Funds	10%	5-15%	HFRI FOF Diversified
Cash	0%	0-10%	ML 90-Day T-Bill

* Allocation ranges approved 12/2/2011.