TO: Alabama Pact Board of Directors
From: Barry Bryant, Dahab Associates
Subject: Recommended IPS Changes

To All:

We have made needed changes to a draft of the Investment Policy Statement (IPS), and now submit a redlined copy of this draft for your approval. The changes we made are relatively minor and may be summarized as follows:

1) Simplified benchmarks. We simplified the benchmarks used to judge the managers in the manner previously described to the Committee, eliminating the smaller component of the blended benchmark. In other respects we are using the same benchmarks that were used before.

2) Changed universes. We changed the universes used to rank the managers from Callan's internal universes to those used by our consultants' cooperative. The universes we are using are essentially a different version of the same universes being used by Callan.

We will explain the nature of both benchmark comparisons and universe rankings at the meeting.

3) Modified asset allocation language. We eliminated language requiring broad asset diversification in four places. This language was probably left over from the old portfolio, which included exposure to equity and other asset classes. The new IPS requires investment exclusively in fixed income. We changed the asset allocation language to reflect this exclusive focus on fixed income.

4) Specified the fiscal year period. The specification of the fiscal year period is extremely important because the target allocation resets at the beginning of each fiscal year.

We cleaned up the IPS to fully reflect portfolio changes that have already been made but did not change what we believe to be its true intention.

Sincerely,

Barry Bryant
Managing Director
Dahab Associates