Investment Policy & Guidelines Statement

Alabama Prepaid Affordable College Tuition (PACT) Trust Fund

August 2012

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Section 1. Authority and Purpose

The Alabama Prepaid Affordable College Tuition Program ("PACT") was established in Section 16-33C-6, Code of Alabama, as a college savings plan whereby purchasers enter into PACT contracts for the future payment of tuition and mandatory fees at eligible educational institutions.

The Board of Trustees ("Board"), created in Section 16-33C-4, Code of Alabama, is responsible for investing monies held in the PACT Trust Fund ("Fund"). The purpose of this Investment Policy and Guidelines Statement ("Statement") is to assist the Board in effectively establishing, monitoring, evaluating, and revising the investment program established for the Fund.

This Statement will be reviewed at least annually.

Section 2. Investment Responsibility

Section 16-33C-6 (d), Code of Alabama, states that "In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property of the PACT Trust Fund, the board and any person or investment manager to whom the board delegates any of its investment authority shall exercise the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to permanent disposition of funds, considering the probable income as well as the safety of their capital. When acting within this standard of care, no board member, or any person or investment manager to whom the board delegates any of its investment authority, shall be held personally liable for losses suffered by the PACT Program on investments made pursuant to this chapter."

Section 3. Fund Objectives

The objectives of the Fund have been established based upon current and projected financial requirements. The objectives are:

1. To preserve capital by minimizing the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return.

2. To remain sufficiently liquid to meet PACT benefit payments timely.

Section 4. Total Fund Performance Objectives

(1) Time Horizon

The performance of the Investment program as a whole, each asset class and each investment manager relative to established benchmarks will be evaluated on a three to five year horizon.

(2) Objectives

Based on the asset liability analysis presented by the Investment Advisor, the Board has identified performance benchmarks for each investment option and the separate mandates within each asset class. The table below lists each asset class invested by PACT, the performance

benchmark index, and Universe Rank that represents the peer group upon which the asset class is measured. The following Universe Ranks will be used during the period that Dahab and Associates serves as Investment Advisor.

Asset Category	Market Index	Dahab Cooperative Style Group
Short Duration Fixed Income	Barclays 1-3 Year Government/Credit Index	Short-Term Fixed Income Universe
Intermediate Duration Fixed Income	Barclays Intermediate Government/Credit Index	Intermediate Fixed Income Universe
Cash & Equivalents	3-Month T-Bills	Cash Database

The primary benchmark for evaluating the performance of the total Fund is a Target Index consisting of a market index for the asset class weighted in accordance with the allocation target. The Target Index as of the fiscal year ending September 2012 is comprised of the following indices:

Barclays 1-3 Year Government/Credit	25%
Barclays Intermediate Government/Credit	75%

The Target Index will change at the beginning of each fiscal year in the manner described in Section 6.

Over a three to five year period the Board expects the total Fund to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index.

Section 5. Roles and Responsibilities

(1) Board of Trustees

The Board of Trustees has the responsibility for establishing and maintaining an investment policy that guides the investment of the Fund. The Board has authority to contract for, and to engage the services of qualified persons and entities for administrative and technical assistance in carrying out the responsibilities of PACT. Qualified persons and entities engaged include an Investment Advisor, Investment Managers, Custodian, Transition Managers, and Actuary.

(2) Investment Advisor

The primary role of the Investment Advisor is to assist the Board in fulfilling its responsibilities by providing information, analysis, and recommendations, and by assisting the Board in

developing and implementing a prudent process for monitoring and evaluating the investment program to ensure the success of the Fund.

(3) Custodian

The custodian has three primary responsibilities, namely: (1) safekeeping of assets – custody, valuation and accounting & reporting of assets owned by the Fund; (2) trade processing – track and reconcile assets that are acquired and disposed; and, (3) asset servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues.

(4) Investment Managers

The investment managers manage fund assets in accordance with the guidelines and objectives contained in this Statement, manager specific guidelines, and contract, and consistent with each investment manager's stated investment philosophy and style as presented by the investment manager representatives to the Board.

Section 6. Asset Allocation

The overall Fund portfolio design and asset allocation have been structured to provide the most appropriate structure and asset allocation from a risk and return perspective to meet the Fund objectives. The Fund shall consider first and foremost issues of liquidity, and shall be managed to meet anticipated withdrawals, with security of principal an additional primary objective and investment return a secondary consideration. It is anticipated that any residual equity investment will be liquidated in the near term, and that for the remaining life of the fund, the portfolio shall remain solely in fixed income securities of intermediate and short duration.

The Board hereby establishes the following asset allocation targets as presented in the following table. These targets are to be adjusted annually on the first day of the Fiscal Year which runs from Oct. 1 to Sept. 30. The board has one quarter before and after the first day of the fiscal year to bring the asset allocation into compliance. Portions of the portfolio not invested in the short and intermediate term portfolios, including residual balances in equity funds and the illiquid bond portfolios, may be ignored for this purpose.

Year	Intermediate Duration Fixed Income	Short Duration Fixed Income
Oct 1 2011	75%	25%
Oct 1 2012	50%	50%
Oct 1 2013	25%	75%
Oct 1 2014	0%	100%
Oct 1 2015	0%	100%

Rebalancing ranges:
Intermediate Duration Fixed Income +/-5%
Short Duration Fixed Income +/-5%
Fixed Income +/-5%

Adherence to the asset allocation is monitored quarterly. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the Statement range. Rebalancing the Fund to comply with Statement ranges will be recommended by the Investment Advisor. The rebalancing will be handled in the most prudent manner.

Section 7. Eligible Investments

Unless restricted elsewhere in the guidelines, eligible investments shall consist of all types of securities contained in the following indices: Barclays Intermediate Government/Corporate Index, Barclays US Mortgage Backed Securities Index, and Barclays 1-3 Year Government/Credit Index. Futures and options are allowed provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.

Section 8. Prohibited Investments

The following categories of securities are prohibited, unless specifically provided in the individual manager's guidelines:

1. Commodities or Commodity Contracts;
2. Short Sales, Margin Transactions, or any leveraged investment;
3. Natural resource properties, such as oil, gas and timber;
4. Private Equity, including, but not restricted to, venture capital or buyout funds;
5. Securities of the investment manager or any affiliated organization.

The Board, at any time, may prohibit certain investments due to concerns relating to social responsibility issues.

Section 9. Cash and Equivalents

Investment managers are expected to invest primarily in the asset class in accordance with the guidelines provided in this Statement. However, investment in cash and cash equivalents up to 5% of the market value of the manager's portfolio is allowed.

To the extent that the portfolio holds cash, the cash is allowed to be invested in: the commingled short-term investment fund managed by the custodian consistent with OCC Reg 9 and/or SEC Rule 2a-7, securities issued by the U.S. Government and its agencies, certificates of deposit, repurchase agreements, and commercial paper rated A-1 by Standard & Poor's and P-1 by Moody's (or equivalent).

Section 10. Commingled/Mutual Fund Investment Products

In the case of a commingled account or mutual fund account, the Fund waives strict adherence to the investment guidelines provided in this Statement. Notwithstanding these guidelines, a commingled or mutual fund's investment objectives, policies and restrictions, as set forth in its

current prospectus, with amendments, shall govern the investment of the Fund's assets in the commingled or mutual fund account.

The Board requires advance disclosure and production of all procedural information, forms and standard agreements of commingled and mutual fund products. It is the Investment Managers' responsibility to fully inform the Board during the interview process of the risk, benefits, investment stability, underlying asset classes, and similar issues of investing in a commingled product.

Section 11. Investment Managers

(1) Evaluation

Quarterly, the Investment Advisor will present an evaluation of the performance of each investment manager. The evaluation will include, but not be limited to, return analysis, asset allocation, portfolio characteristics, sector weights, risk analysis, and organizational issues.

(2) Guidelines

Each investment manager will be provided a copy of this Statement. Each investment manager is required to comply with the guidelines and policy statements included in this document.

Each manager's portfolio should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Upon hiring of an investment manager, the manager will be provided guidelines specific to the investment of assets entrusted to him, to include the benchmark index, rate of return objectives, risk and risk adjusted return expectations, and approved exceptions to the general asset class guidelines included in this Statement. Where the manager specific guidelines differ from the general guidelines included in this Statement, the manager shall be bound by the manager specific guidelines. The Investment Advisor will provide the manager specific guidelines. Manager specific guidelines are included in the Appendix of this Statement.

(3) Performance.

Investment managers are expected to achieve annualized total returns, net of fees that exceed their designated performance benchmark.

(4) Selection.

The Board will utilize a process for investment manager selection that embodies the principals of procedural due diligence. Accordingly, when selecting investment managers, the Board will employ a competitive search process, assisted by the Investment Advisor, that includes the following steps or such other steps as the Board determines in the situation:

- Formulation of specific manager search criteria that establishes the qualifications for the manager's role in the strategic plan.
- Formulation of qualifying minimum requirements that each investment manager must meet.
- Identification of qualified candidates from Board members, State Purchasing vendor listings, the manager search database maintained by the Fund's investment advisor, and other sources.

- Due diligence conducted on each candidate that will include performance screening, qualitative screening and/or onsite visits.
- Selection and interview of finalist candidates based on final results of the due diligence process.
- Evaluation of any potential conflicts of interest.

(5) Watch List.
A number of factors contribute to a manager's over and under performance. A Watch List will be utilized to identify managers whose performance and/or organizational changes are cause for concern. The Investment Advisor will review this list quarterly with the Board. Managers placed on the Watch List will be closely scrutinized and monitored by the Investment Advisor. Organizational issues that have been resolved in a satisfactory manner and improved performance relative to an index and or peers will be used as an indicator to remove a given manager from the Watch List.

Typical causes to place a manager on the Watch List may include, but is not limited to:

1. Performance below the median (50th percentile) of the peer group over two or more consecutive annual periods;
2. Performance below the bottom quartile (75th percentile) of the peer group over an annual period;
3. Major organizational changes, including change in professionals, significant account losses, change in ownership, regulatory issues, or evidence of wrongdoing.

(6) Proxies.
Investment managers will review each proxy ballot and vote it in a manner that preserves and enhances shareholder value. Each manager shall keep accurate written records of all proxy votes and, on request, provide a detailed report to the Board.

Section 12. Investment Criteria and Guidelines – Fixed Income

Per Investment Manager Portfolio

A. General Fixed Income

(1) Issuer Limitations:

(a) No more than 5% of the total market value of the portfolio can be invested in the debt obligations of any one issuer (does not apply to US Government and Agency securities).

(b) Holdings of any individual issue must be 5% or less of the outstanding value of the total issue.

(2) The average duration of the portfolio must be maintained within a range of +/- 20% of the benchmark index duration.

(3) Turnover of securities should not exceed 200% in any rolling 12-month period. Fixed income managers shall be excluded from this restriction for the first six months of their retention.

B. Short Duration Fixed Income

(1) At the time of purchase, all securities purchased must be classified as investment grade by two of the three major rating services. For this purpose, the rating must be at least Baa3 by Moody's, BBB- by Standard and Poors, and BBB- by Fitch. If only one rating exists, this one rating will determine investment grade status.

(2) Securities downgraded below investment grade after purchase should be sold within six months of the downgrade.

(3) The weighted average credit quality of the portfolio will not fall below A or equivalent. If split rated, the higher rating of S&P, Fitch or Moody's shall apply.

(4) Agency Residential and Commercial Mortgage Backed Securities, Non-Agency Commercial Mortgage Backed Securities and Agency CMOs cannot comprise more than 20% of the portfolio combined.

(5) ABS securities are limited to 10% of the portfolio

(7) CMBS securities are limited to 10% of the portfolio.

(8) Rule 144A securities are limited to 10% of the portfolio.

(9) Investments in Collateralized Bond Obligations (CBOs), or similar pools of commercial loans are prohibited.

(10) Investments in Interest-Only (IO) and Principal-Only (PO) CMOs are not allowed.

(11) Investments in Non-US Dollar Denominated Securities are not permitted.

(12) The maximum allowable maturity of any bullet security is 63 months. However, for securities with puts, sinking funds or regular amortization/paydowns, the weighted average life will be used, and restricted to 3 years.

C. Intermediate Duration Fixed Income

(1) At the time of purchase, all securities purchased must be classified as investment grade by two of the three major rating services. For this purpose, the rating must be at least Baa3 by Moody's, BBB- by Standard and Poors, and BBB- by Fitch. If only one rating exists, this one rating will determine investment grade status.

(2) Securities downgraded below investment grade after purchase should be sold within six months of the downgrade.

(3) The weighted average credit quality of the portfolio will not fall below A or equivalent. If split rated, the higher rating of S&P, Fitch or Moody's shall apply.

(4) Agency Residential and Commercial Mortgage Backed Securities, Non-Agency Commercial Mortgage Backed Securities and Agency CMOs cannot comprise more than 20% of the portfolio combined.

(5) ABS securities are limited to 10% of the portfolio

(7) CMBS securities are limited to 10% of the portfolio.

(8) Rule 144A securities are limited to 10% of the portfolio.

(9) Investments in Collateralized Bond Obligations (CBOs),or similar pools of commercial loans are prohibited.

(10) Investments in Interest-Only (IO) and Principal-Only (PO) CMOs are not allowed.

(11) Investments in Non-US Dollar Denominated Securities are not permitted.

(12) The maximum allowable maturity of any bullet security is 10 years. However, for securities with puts, sinking funds or regular amortization/paydowns, the weighted average life will be used, and restricted to 7 years.

Section 13. Transition Managers

Transition management is a cost effective and efficient portfolio restructuring of institutional assets from single or multiple investment managers/asset classes to a new investment allocation over a short-term investment horizon. During the transition process, the transition manager is looked upon as a discretionary caretaker of the portfolio(s) to be liquidated and as the conduit for the funding of the target portfolio(s). The transition manager seeks to minimize tracking error and to maintain asset class exposure. The preservation of capital will be taken into consideration through the transition manager's expert use of all sources of liquidity.

The Board will maintain an approved list of transition managers. As needed, these managers will be contacted and asked to provide a bid to conduct the transitional services. Following the transition, the transition manager selected will provide a full report of the outcome and results of the transition.

Section 14. Cash Contributions and Redemptions

(1) Cash In-Flows:
Enrollment. PACT enrollment is closed. All contract payments received are utilized by PACT for tuition payments and administrative expenses.

Income Earned. Investment income earned, net, is distributed to PACT each month and is not available for reinvestment by the managers. The custodian transfers income from each manager's account to PACT when it becomes available.

Gains. Typically, gains on investments are reinvested.

(2) Cash Out-Flows:
Benefit Payments. Assets may be required to be liquidated to pay the PACT benefits of tuition and qualified fee payments. If necessary, these liquidations would normally occur January and September. Managers will be provided as much advance notice as possible.

(3) Asset Re-allocation:
Changes in asset allocation and/or manager funding occurs from time to time. Managers will be notified with as much advance notice as possible.

Section 15. Policy Exceptions

Each investment manager is required to comply with the objectives and guidelines set forth in this Statement. The Board requires that any exceptions taken to this Statement be submitted in writing pending approval by the Board. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investment manager being liable for any corresponding loss to the Fund's investments

APPENDIX A – Delegation of Responsibilities

The following chart displays the involvement of each entity as the decision making process of the Program expressed as a presentation of control is:

	Board	Investment Advisor	Investment Manager	Custodian
Asset Allocation Investment Policy	X	X		
Formation of Investment Policy	X	X		
Manager Guidelines	X	X	X	
Manager Selection	X	X		
Performance Evaluation	X	X		
Compliance with Manager Guidelines			X	
Execution of Trades			X	X
Collection of Dividends & Interest			X	X
Cash Sweeps			X	X
Proxy Voting			X	X
Trading Verification			X	X

APPENDIX B – Manager Specific Guidelines

Mackay Shields Management – Short Duration Fixed Income

Benchmark

The benchmark for the Short Duration fixed income portfolio is the Barclay's 1 – 3 Year Government/Credit Index

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Mackay Shields should perform in the upper half of the universe of managers in a similar style.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the benchmark.

Risk and Risk Adjusted Return Expectations

- The duration of the portfolio will be constrained within 80% - 120% of the benchmark provided above. 100 percent of the assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Index) similar to the median short duration fixed income manager tracked by Dahab.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median short duration fixed income manager tracked by Dahab.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- None

Longfellow – Short Duration Fixed Income

Benchmark

The benchmark for the Short Duration fixed income portfolio is the Barclay's 1 – 3 Year Government/Credit Index

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Longfellow should rank in the upper half of managers in a similar style.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the benchmark.

Risk and Risk Adjusted Return Expectations

- The duration of the portfolio will be constrained within 80% - 120% of the benchmark provided above. 100 percent of the assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Index) similar to the median short duration fixed income manager tracked by Dahab.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median short duration fixed income manager tracked by Dahab.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- None

Mackay Shields Management – Intermediate Duration Fixed Income

Benchmark

The benchmark for the Intermediate Duration fixed income portfolio is 100% Barclays Intermediate Government/Credit Index

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Mackay Shields should perform in the upper half of a universe of managers in a similar style.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the custom benchmark.

Risk and Risk Adjusted Return Expectations

- The duration of the portfolio will be constrained within 80% - 120% of the benchmark provided above. 100 percent of the assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Custom Index) similar to the median intermediate duration fixed income manager tracked by Dahab.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median intermediate duration fixed income manager tracked by Dahab.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- None

Longfellow – Intermediate Duration Fixed Income

Benchmark

The benchmark for the Intermediate Duration fixed income portfolio is a mix of 100% Barclays Intermediate Government/Credit Index.

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Longfellow should perform in the upper half of managers in a similar style.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the custom benchmark.

Risk and Risk Adjusted Return Expectations

- The duration of the portfolio will be constrained within 80% - 120% of the benchmark provided above. 100 percent of the assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the custom index) similar to the median intermediate duration fixed income manager tracked by Dahab.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median intermediate duration fixed income manager tracked by Dahab.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- None

CERTFICATE OF CHAIR

The undersigned hereby certifies that the foregoing PACT Investment Policy Statement and Guidelines was adopted by the Board on August 22, 2012, in a meeting duly noticed and convened.

Young Boozer, Chair

ACKNOWLEDGEMENT

By execution of this document the undersigned hereby acknowledges receipt of the August 2012 Alabama Prepaid Affordable College Tuition Trust Fund's Investment Policy and Guidelines Statement. The undersigned has read this document and will abide by its terms in the fulfillment of the contractual responsibilities to the PACT.

_____
Firm Name

_____
Signed

_____
Date

_____
Printed Name, Position

_____
Telephone Number