VERMONT PENSION INVESTMENT COMMISSION
INVESTMENT POLICY STATEMENT

Amended: January 24, 2023

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I. PURPOSE AND MISSION

This Investment Policy provides guidance to the Vermont Pension Investment Commission ("VPIC") regarding the investment of the assets of the State Teachers' Retirement System of Vermont ("VSTRS"), the Vermont State Employees' Retirement System ("VSERS"), and the Vermont Municipal Employees' Retirement System ("VMERS") and the municipalities of the State of Vermont, which enter into an agreement with VPIC for the investment of participating municipal plan assets. The purpose of pooling the assets is to (i) invest in a manner that is more cost- and resource-efficient; (ii) improve the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintain the actuarial, accounting, and asset allocation integrity of the Retirement Systems. This Policy is subject to regular review by VPIC.

The mission of 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 participating retirement systems. The Commission has the duty to set the following actuarial assumptions: the investment rate of return, the inflation rate, and the smoothing rate method used for the actuarial valuation of assets and returns.

VPIC will implement its purpose, mission, and duties through its annual portfolio asset allocation and investment strategy development process. This process is designed to ensure that VPIC investment portfolio reflects the characteristics of the pension liabilities, including plan funded status, plan cash flows, and the inherent mismatches between the investment assets and the plan liabilities. VPIC's asset allocation and strategy development process will attempt to strike a balance between the portfolio risks required to achieve the actuarial investment return assumption and the more conservative risk profile appropriate for an investment portfolio designed to make guaranteed pension payments.

II. COMPOSITION

VPIC is comprised of eight voting Commissioners, a Chair elected by the voting Commissioners, and four alternate Commissioners who vote if certain voting members are unavailable. The Chair may vote in the case of a tie. Among the voting Commissioners, one is appointed by each of the State Retirement Systems, one is the State Treasurer or designee, two are appointed by the Governor, and one each is appointed by the Vermont School Board Association and the Vermont League of Cities and Towns.

Except the ex-officio members of the Commission, all members and alternates serve staggered four-year terms. Members and Alternates are eligible for reappointment and shall not serve more than three terms.

III. INVESTMENT PERFORMANCE MEASUREMENT

The ultimate measure of VPIC's long-term success will be the portfolio's ability to provide promised benefits to pension beneficiaries. Progress toward the achievement of this objective will be measured by the following intermediate measures:

1. VPIC seeks a net investment return, over rolling 5-year periods, which meets or exceeds the actuarially-established rate of return.

2. VPIC seeks to meet or exceed, on a risk-adjusted basis, net of fees, and over a rolling 5-year period, an overall benchmark of 60% MSCI ACWI IMI and 40% Bloomberg Barclays Aggregate Bond Index.

3. VPIC seeks to generate a total net portfolio return, which exceeds the Allocation Index Return, as defined in Section VII.

IV. LEGAL AUTHORITY

<u>Legal Authority:</u>

VPIC was first established by the Vermont Legislature in 2005 to invest the funds of certain qualified (tax exempt) governmental plans within the meaning of the United States Internal Revenue Code. VPIC is governed by Title 3, chapter 17 (3 V.S.A. § 521 *et. seq.*), which was substantially amended by the Legislature through Act 75 of 2021, modifying VPIC's makeup and duties and making it a State Commission.

<u>Fiduciary Standards</u>

As trustees of the assets of the Retirement Systems, the Commissioners are fiduciaries that strive to maximize the total return on investment, within acceptable levels of risk and liquidity 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 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."

Investments of the VPIC portfolio shall be made in full accordance with all applicable Federal and Vermont statutes and regulations.

V. CORE PROCESSES AND GOALS

As fiduciaries of the investment portfolios of the statewide pension plans our goal is to maximize long-term investment returns within acceptable levels of risk and liquidity. VPIC strategically aligns the portfolios with the pension funds' demographic and financial characteristics and seeks the highest risk adjusted return. We engage best-in-class investment advisors to work with our professional staff to prudently oversee these important assets for the exclusive purpose of providing retirement benefits to Vermont State teachers, State employees, and municipal employees, at best cost to Vermont taxpayers. VPIC has embraced several overarching themes in managing the investments of the plans, as summarized below:

Simplify: Simplifying the construction of VPIC portfolios allows for stronger oversight by a lean investment team.

Reduce fees: Outperforming passive benchmarks consistently is difficult. Because most passive indices are investable at a very low fee, the bar is high for active managers and their higher fees.

Underwrite everything: Understanding each investment manager's strategy, holdings, and role in the portfolio is essential for a prudent level of oversight by Staff and VPIC.

Illiquidity premium increases returns: Illiquid assets (i.e., private equity, private credit, and non-core real estate) have a proven ability to outperform their public market equivalent benchmarks over various market cycles.

Liquidity needs must be fully understood and assured: While illiquid assets tend to generate higher returns than their liquid counterparts, building a prudently diversified portfolio is not simply adding higher-returning assets and removing lower-returning assets. Because illiquid assets cannot be readily monetized to pay retirement benefits, their use is limited by the need for liquidity. Having a full understanding of current liquidity needs and a source for liquidity, especially during economic downturns, is essential to avoid the need to sell discounted assets.

Net returns must justify all investment manager fees: While we can and do invest in fully liquid stock and bond index funds for a very low fee, we also utilize active managers we believe have any ability to consistently add value in excess of their fees. To that end, we analyze all investment managers' performance net of all fees, and we have a formalized process in the event managers fall short of expectations.

VI. VPIC GOVERNANCE

VPIC maintains a governance framework that ensures that all of its fiduciary and legal responsibilities are addressed on an ongoing basis. VPIC focuses its time on its core responsibilities: asset allocation, risk management, governance, actuarial assumptions, and member education. All other VPIC responsibilities are largely delegated: to investment managers, proxy voting and corporate governance vendor, master custodian, investment consultant(s), Staff, and legal counsel. VPIC has operating policies in place to manage these delegated responsibilities, and VPIC receives reports and responds to recommendations from Staff and consultant(s).

Investment Governance Overview

<table>
<tr><th>Entity</th><th>Policy and Implementation Responsibilities</th><th>Oversight responsibilities</th></tr>
<tr><td>VPIC</td><td>Approves:
• Policies and procedures, including standards of conduct
• Investment policy, including asset allocations and risk tolerances
• Custodian, investment manager, consultant and other service provider appointments
• Smoothing methodology
• Investment rate of return
• Inflation rate
• Annual Budget

Provides:
• Review of CIO and Chair job performance
• Asset/Liability Study for each Plan
• Asset Allocation study for each Plan
• Annual performance report to the House and Senate Committees on Government Operations</td><td>Reviews:
• Effectiveness and continued appropriateness of investment policies, including asset allocations
• Total returns relative to objectives
• Asset class and manager performance</td></tr>
<tr><td>Staff</td><td>• Manages daily operations of VPIC
• Develops and monitors the VPIC budget

Recommends:
• Long term investment policy, investment objectives and strategy, credit quality appropriate indexes and rebalancing policies
• Custodian, investment manager, consultant, and other service provider appointments.</td><td>Reviews:
• Investment Consultant asset liability study and annual report on expected rate of return based on capital models, benefit payments and cash flows, and other reports and recommendations
• Internal control
• Investment manager contractually required reporting
• Proposed policies and procedures</td></tr>
<tr><td>Investment Consultant</td><td>Delivers:
• Monthly & Quarterly Investment Performance Reports
• Asset Allocation Study, Asset Liability Study and Annual Report

Recommends:
• Appropriate modifications to investment policies, including asset allocations
• Managers for selection by VPIC</td><td>Reviews:
• Investment manager performance and operational controls</td></tr>
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VII. ASSET LIABILITY STUDY

At least every three (3) years VPIC shall direct the Investment Consultant to prepare an Asset Liability Study based on the most recent actuarial valuations of each Plan. In doing so, the Commission shall study the assets and liabilities of each Plan over a 20-year period. The Study shall:

(1) project the expected path of the key indicators of each Plan's financial health based on all current actuarial and investment assumptions; current contribution and benefit policies, including the Plans' mark-to-market funded ratio; actuarially required contributions by source; payout ratio; and related liquidity obligations; and

(2) project the effect on each Plan's financial health resulting from:

(A) possible material deviations from Plan assumptions in investment assumptions, including returns versus those expected and embedded in the actuary's estimate of actuarially required contributions and any material changes in capital markets volatility; and

(B) possible material deviations from key plan actuarial assumptions, including retiree longevity, potential benefit increases, and inflation.

VIII. ASSET ALLOCATION

Target Allocations

VPIC recognizes that, over the long term, asset allocation is the single greatest contributor of return and risk to VPIC portfolio. On an annual basis, VPIC will undertake a comprehensive review of its Target Allocation policy through modeling, including the current and projected assets and cash flows of each of the Retirement Systems; long-term capital markets and actuarial rate of return assumptions; VPIC's risk tolerances; and VPIC Mission.

The current asset allocation table may be seen on the VPIC website. It reflects VPIC's consideration of expected returns, volatility and correlation among the asset classes in which it invests, as well as considerations of inflation and economic conditions. Allocation of investments among the asset classes identified in the asset allocation table shall be executed with the aim of achieving the risk, return, and liquidity objectives for that asset class at the greatest net risk-adjusted return for VPIC portfolio.

Rebalancing

The purpose of rebalancing is to maintain the risk/reward relationship implied by VPIC-approved long-term asset allocation targets. The Staff shall implement rebalancing as set forth below and Investment Managers and the Custodian Bank will be directed to transfer funds to rebalance the assets under management as necessary.

Actions to initiate the rebalancing of VPIC portfolio will be taken on a semi-annual basis, during the latter half of March and September, each year using data at months-end for February and August, respectively. Asset class or manager deviations from the target policy of greater than twenty percent (20%) will be candidates for rebalancing.

Managers on VPIC Watch List may not be eligible for contributions during rebalance periods. Notice of anticipated cash flow needs will be provided to the Investment Managers in accordance with the terms of the respective Investment Manager contracts.

While using its discretion, and as part of the normal rebalancing process, the Staff 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.

Asset Class Characteristics

VPICVPIC makes allocation decisions based on three primary objectives within the portfolio: Growth, Downturn Hedging, and Inflation Hedging. The characteristics of these three general categories, and the specific type of investments within each general asset class are discussed in greater detail below. VPIC asset classes are defined by differences in their expected response to economic conditions, such as economic growth and price inflation. VPIC uses the asset classes in such a way as to maximize the total return on investment, within acceptable levels of risk for public retirement systems, subject to fundamental diversification and liquidity constraints.

Growth

Within the asset allocation, growth assets diversify and increase the return potential of the portfolio. Given the long time horizon a public pension fund is invested, it is prudent to allocate a portion of the portfolio to growth assets to fund future benefit payments while maintaining a healthy liquidity profile. Historically, public equity securities have outperformed downturn hedging investment vehicles and inflation hedging investment vehicles. Other growth assets include private markets (non-core real estate, private equity, and private credit) that offer an illiquidity premium given their illiquid structure, and risk seeking fixed income (e.g., high yield and emerging market debt).

Downturn Hedging

The purpose of a downturn hedging allocation is to protect the portfolio during periods of a market dislocation to provide adequate liquidity for retirement system liabilities without realizing losses in higher risk seeking assets found in the growth bucket. Core Fixed Income and Short-Term Quality Credit are investable securities for this allocation objective. The Core Fixed Income allocation is comprised primarily of domestic nominal bonds that are anticipated to outperform within a falling growth environment. A Short-Term Quality Credit allocation is envisioned to be a floating rate or low duration exposure that protects in a rising rate environment. Both provide liquidity in a market dislocation. US Long Treasuries, which typically exhibit a low correlation to growth assets, perform well in a market downturn to offset losses; however, the longer duration makes the asset class more sensitive to rising rates.

Inflation Hedging

When US inflation rises unexpectedly the purchasing power of the USD decreases, resulting in loss of value. Several asset classes have exhibited a positive correlation historically to inflation, which protects the portfolio during periods of increased unexpected inflation. Infrastructure, Core Real Estate, and Farmland protect during periods of high growth and high inflation, as they generally do well when GDP is accelerating, and their income component protects return during periods of growth deceleration. Treasury Inflation-Protected Securities ("TIPS") hedge the portfolio during periods of high inflation and low growth by adjusting the principal value of the bond by an inflation factor semi-annually. During periods of rising rates, typically in growth markets, TIPS will underperform. Both types of inflation hedges are advantageous for a diversified portfolio to protect against unexpected inflation.

Asset Class Benchmarks

VPIC selects benchmarks that reflect the investment objective for each allocation and use them to assess performance. VPIC shall consider the benchmark recommendations of the Investment Consultant and Staff; however, each benchmark must be definable in advance, representative of the specific asset class and the desired exposure within that asset class and readily measured with widely available historical data. VPIC shall require the Investment Consultant to prepare monthly performance comparisons to reflect the performance of each investment type's benchmark and performance of the portion of VPIC portfolio allocated to the investment type. To the extent that multiple managers are used for an investment type, the appropriate benchmark for the manager shall be reported as well. Each benchmark, to the extent available for a specific VPIC account, shall be incorporated in each investment management agreement as the basis for evaluation of performance.

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 VPIC portfolio multiplied by the percent targeted to each asset class.

Allocation Index Return

The Allocation Index Return shall measure the success of VPIC portfolio's current allocation. It shall be calculated by using index rates of return for each asset class invested in by 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 deviation has not added value.

The effectiveness of active management can be measured using the difference between the Allocation Index Return and the actual portfolio return. 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.

The long-term performance benchmark for each investment type is shown in the table below:

Manager Benchmarks

Investment Type	Benchmark
Global Equity	MSCI ACWI IMI
U.S. Large Cap Core Equity	S & P 500 (Cap Wtd)
Small/Mid Cap Core Equity	Russell 2500
International Equity	ACWI ex US
Emerging Market Equity	MSCI EM
Core Fixed Income Income	Bloomberg Barclays US Aggregate Bond
Global Fixed Income	Citi WGBI
Emerging Market Debt	JP Morgan EMBI Global
TIPS	Bloomberg Barclays US TIPS
Core Real Estate	NCREIF ODCE
Non-Core Real Estate	NCREIF ODCE + 2%
Hedge Fund of Funds	HFRI Fund of Funds
Commodities	Bloomberg Commodity Index
Private Infrastructure/Land	NCREIF Farmland
Private Equity	Cambridge Private Equity
Private Debt	CS Leveraged Loan + 2% (Spliced)
Cash Equivalents	ICE BofAML 3 Mo US T-Bill
High-Yield Fixed Income	Bloomberg Barclays High Yield
Infrastructure	CPI + 3%

Asset Management Implementation

In all cases, the investment function will be outsourced to managers that have the experience and resources to do thorough risk and securities analysis. Assets may be held in privately managed separate accounts and/or commingled funds, including membership in limited liability companies, limited partnerships, acquisition of shares in collective investment funds and other fund structures. 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.

In all cases, VPIC, in consultation with the Investment Consultant and Staff, shall review and approve the specific investment guidelines for that VPIC account prior to contract execution.

Each investment manager will function under a formal agreement that delineates its responsibilities, performance expectations, administrative requirements, investment guidelines and management fee.

Investment Services Provider Selection Process

VPIC services selection process shall be designed to ensure that VPIC has access to a broad array of the highest quality service providers that have the experience and capabilities to provide the services to VPIC.

Investment Managers

Subject to its responsibilities under 3 V.S.A. § 523, VPIC has established a manager selection and hiring process. Upon VPIC initiating a manager search or allocating dollars to an asset class, Staff, in collaboration with the Investment Consultant, will take the following steps where appropriate:

1. Determine which strategies are an appropriate fit for the portfolio.

2. Perform due diligence and eliminate strategies where significant concerns are present or does not offer the most compelling opportunity in analysis of the VPIC portfolio as a whole.

3. Determine best fit for the VPIC portfolio. Best fit may include more than one manager where it makes sense to split the mandate to optimize the allocation or in the unlikely event that more than one strategy offers a compelling opportunity for the Commission's consideration.

4. Return to a subsequent VPIC meeting to present the recommendation and detail the due diligence process to the Commission. If Staff and the Investment Consultant believe only one manager is the best fit for the allocation, the recommendation will so state. In other cases, Staff and the Investment Consultant may recommend VPIC interview more than one finalist if splitting a mandate is optimal or in the unlikely event that more than one strategy offers a compelling opportunity for the Commission's consideration.

5. The Commission may deliberate on and consider the recommendation by Staff and Investment Consultant. VPIC may choose to accept the recommendation, interview additional managers, widen the search, or consider other alternatives.

6. At the request of VPIC, Staff and the Investment Consultant will coordinate in-person interviews with managers selected for consideration for a subsequent meeting.

Other Investment Services

VPIC may direct the Investment Consultant and/or Staff to conduct RFIs, RFQs and RFPs, consistent with the State of Vermont Bulletin 3.5, for other investment service providers, such as custodians, investment consultants and proxy voting and corporate governance services.

The Investment Consultant may be directed to coordinate and summarize the findings of a search. Staff shall be responsible for reviewing the qualified vendor responses in consultation with the Investment Consultant and legal counsel as appropriate.

Service provider selection will be conducted by VPIC upon the recommendation of Staff, and the Investment Consultant and legal counsel as appropriate.

IX. POLICY CONSTRAINTS

When selecting Investment Managers, VPIC shall consider the following guidelines:

Investment Manager Qualifications

VPIC will strive to have all investment management agreements be with an investment adviser duly and properly registered under the Investment Advisers Act of 1940, a regulated bank, an insurance company or a mutual fund organization.

Full Investment

VPIC portfolio is expected to be fully invested. For separately managed accounts, 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.

Liquidity

Consistent with the need to maintain adequate liquidity to meet required benefit payments to the beneficiaries of the Retirement Systems, VPIC will review the liquidity needs of the portfolio on a periodic basis, as well as immediately prior to the execution of any contract with “lock-up” or similar provisions.

VPIC Liability

While certain Investment Managers may use leverage in accordance with their respective contract terms, in no event shall VPIC's exposure to loss in any one VPIC account exceed 100% of such account.

Professional Standards and Ethics

Each Investment Manager shall be required to demonstrate a commitment to professional standards and ethics by adhering to either the CFA Institute Asset Manager Code of Professional Conduct or a reasonably similar set of standards.

Environmental, Social and Governance Initiatives

VPIC does not make investments or divestment decisions for non-economic reasons. All opportunities to either make or divest from investments for the purpose of achieving certain environmental, social or governance (ESG) goals, are evaluated in accordance with the VPIC ESG Policy and the VPIC Carbon Disclosure & Mitigation Policy, which may be found on the VPIC website.

Special Issues Relating to Separately Managed Accounts

Best Execution

All investment management agreements shall require that trades must be done on a "best execution" basis.

Conflicts of Interest

The use of brokers in which an 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 VPIC's Custodian Bank or transition manager may use the Custodian Bank's or transition manager's broker-dealer division or wholly-owned subsidiary, subject to obtaining best execution.

Tobacco

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

Proxies

VPIC has adopted Domestic and International Proxy Voting Guidelines, which are available on the VPIC website. All proxies shall be voted in accordance with applicable State law and VPIC policy.

Burma (Myanmar)

In accordance with Section 3(a) of Act No. 13 of the Vermont General Assembly (1999 Sess.), VPIC 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)

In accordance with Act No. 50 of the Vermont General Assembly (1989 Sess.), Investment Managers shall provide VPIC with a list of corporations that directly, or through a subsidiary, do business in Northern Ireland and in whose stocks or obligations VPIC has invested and shall advise VPIC whether each corporation has achieved the goals known as the MacBride principles. At every reasonable opportunity VPIC shall 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 VPIC's Policy on Investments in Terrorist or Genocide-Linked Countries, as the same may be amended from time-to-time, which may be found on the VPIC website.

X. RISK MANAGEMENT

Operational Risk Management

Staff shall seek to minimize the operational risks associated with the custody and investment of assets. Staff will assess in an ongoing manner the performance of the Custodian and investment managers as it relates to timeliness and completeness of reporting, responsiveness to support requests, compliance with cash flow directives, etc. Any concerns regarding the safety of the assets at either the Custodian or in the care of an investment manager, as well as any concerns over operational controls will be brought to the attention of VPIC at the earliest opportunity.

Investment Manager Monitoring

VPIC, with support from the Investment Consultant and Staff, shall monitor and conduct on-going due diligence on each Investment Manager.

The Investment Manager Monitoring process is delegated to Staff and the Investment Consultant who are responsible for advising VPIC of (i) deviations from investment strategy and process, (ii) changes to key personnel, (iii) organizational stability and whether performance meets applicable benchmarks.

Investment Manager monitoring shall include, at a minimum:

- Periodic site visits to the Investment Manager's premises by the Investment Consultant and Staff to confirm that the infrastructure is in place to support the investment process;
- Review of Investment Manager reporting by Staff and the Investment Consultant;
- Quarterly presentation by the Investment Consultant of a comprehensive investment performance review for all Investment Managers, as well as for VPIC portfolio as a whole.

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

VPIC shall:

- Monitor and evaluate Investment Manager performance using the Investment Consultant's Quarterly Investment Performance and Portfolio Analysis and other analyses as needed. The Investment Consultant and Staff shall advise VPIC of other matters as appropriate;
- Review actual investment results achieved by each Investment Manager to determine whether the Investment Manager performed satisfactorily when compared with the objectives set and in relation to the benchmark;
- Conduct in-house meetings with Investment Managers, for the purpose of reviewing performance, in cooperation with the Investment Consultant and Staff. In-person interviews with Investment Managers will be held only as VPIC deems necessary.

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

VPIC may place an Investment Manager on VPIC watch list per the VPIC Watch List policy, as outlined and available on VPIC's website.

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

<u>Portfolio-Level Risk Control Procedures and Documentation Requirements</u>

Staff, in conjunction with the investment managers and the Investment Consultant, will periodically conduct portfolio-level risk analytics.

Contract Compliance

Each Investment Manager is expected to adhere to its respective contractual investment and reporting guidelines. However, an Investment Manager may from time-to-time request a waiver for temporary deviations from its contractual Investment Guidelines along with a plan for coming back into compliance within a period of time. For example, a request may be made as the result of a downgrade in credit rating, or overweighting relative to permitted tolerances.

Such requests shall be approved as follows:

1. The Chief Investment Officer ("CIO") shall be authorized to review and approve waiver requests and establish terms for remediation for amounts less than $5 million.

- The CIO shall consult with the Investment Consultant to determine appropriate action.
- The CIO shall notify VPIC of "**CIO approved waivers,**" and terms, in the CIO's report to the Commission at the next scheduled meeting.

2. The CIO shall discuss all waiver requests over $5 million and up to $10 million with VPIC Chair to reach consensus for action.

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

3. The CIO shall, upon consultation with the Chair, request full Commission action to consider waiver requests and remediation proposals for amounts over $10 million.

The market value of the securities at the time the waiver request is made shall constitute the waiver request amount.

XI. FEE ANALYSIS

Periodically, but not less than every three years, the Investment Consultant shall be required to perform a fee analysis for each of the Investment Managers and investment products.

XII. INVESTMENT POLICY REVIEW

VPIC shall direct Staff and its Investment Consultant to perform an annual review of this Investment Policy and, as needed, recommend appropriate modifications to VPIC. VPIC shall review this Investment Policy at least annually, and, taking into account recommendations of the Investment Consultant, Staff, and legal counsel, make modifications, which it, in its sole discretion, deems necessary.