Investment Policy & Guidelines Statement

Alabama Prepaid Affordable College Tuition (PACT) Trust Fund

Approved November 16, 2016

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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

1. Fund Objectives
The primary objectives of the Fund are (1) to maintain liquidity to meet anticipated withdrawals, and (2) to protect principal. Earning return is another objective, but tertiary to maintaining liquidity and protecting principal.

2. Asset Allocation
Based on these objectives, all assets in the fund excluding those in illiquid accounts should be invested in fixed income securities or mutual funds using the following benchmark and universe for comparison. Cash may be held to facilitate payments.

Asset Category	Market Index
Short Duration Fixed Income	Barclays 1-3 Year Government/Credit Index
Cash & Equivalents	3-Month T-Bills

Adherence to the asset allocation is monitored quarterly. Because all assets are in a single asset class, it is not anticipated that rebalancing will be necessary.

3. Manager Performance
Over a 1-3 year period the Board expects the manager to generate returns exceeding the market index net of fees, and to perform in the upper half of managers in the assigned style group.

Section 4. 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.

2. Custodian
The custodian responsibilities include: (1) safekeeping of assets – custody, valuation, accounting and reporting of assets owned by the Fund; (2) trade processing – track and reconcile assets that are acquired and disposed; (3) asset servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues; and, (4) asset accounting reporting.

The custodian will also provide quarterly performance reporting and market commentary.

3. Investment Managers
The investment managers manage fund assets in accordance with the guidelines and objectives contained in this Statement.

Section 5. 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.

Section 6. 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 7. 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, money market mutual funds or 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 8. 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 9. Investment Managers

1. Evaluation

Quarterly, each investment manager will provide an evaluation of their performance. 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.

3. Performance.

Investment managers are expected to achieve annualized total returns, net of fees that exceed their designated performance benchmark over a 1-3 year time period.

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 that includes the following steps or such other steps as the Board determines in the situation:

a. Formulation of specific manager search criteria that establishes the qualifications for the manager's role.
b. Formulation of qualifying minimum requirements that each investment manager must meet.
c. At a minimum, identification of qualified candidates from the State Purchasing vendor listing.
d. Due diligence conducted on each candidate that will include performance screening, qualitative screening and/or onsite visits.
e. Selection and interview of finalist candidates based on final results of the due diligence process.
f. 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. This list will be reviewed quarterly with the Board. Managers placed on the Watch List will be closely scrutinized and monitored. 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.

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 10. Investment Criteria and Guidelines – Fixed Income

Per Investment Manager Portfolio

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.

4. The benchmark for the Short Duration fixed income portfolio is the Barclay's 1-3 year Government/Credit Index.

5. Rate of Return Objectives:
   a. Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed should perform in the upper half of the universe of managers in a similar style.
   b. Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the benchmark net of fees.

6. Risk and Risk Adjusted Return Expectations:
   a. The duration of the portfolio will be constrained within 80% - 120% of the benchmark provided above. 100% of the assets held by the portfolio will be investment grade (*i.e.,* rated BBB- or A-2 or higher by standard & Poor's or rated Baa3 or Prime-2 or higher by Moody's).
   b. The portfolio is expected to have a Standard Deviation of returns and tracking error similar to the index.
   c. For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio similar to the index.

7. Exceptions to the Investment Manager Policies – None.

Section 11. Cash Contributions and Redemptions

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

Income earned and 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. 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 12. 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 Manager	Custodian
Asset Allocation Investment Policy	X		
Formation of Investment Policy	X		
Manager Guidelines	X	X	
Manager Selection	X		
Performance Evaluation	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

CERTIFICATE OF CHAIR

The undersigned hereby certifies that the foregoing PACT Investment Policy Statement and Guidelines was adopted by the Board on November 16, 2016 in a meeting duly noticed and convened.

Young Boozer, Chair

ACKNOWLEDGEMENT

By execution of this document the undersigned hereby acknowledges receipt of the November 2016 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.

Regions Bank
Firm Name

Lee Ann Heron
Signed

November 21, 2016
Date

Lee Ann Heron, Vice President
Printed Name, Position

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