

**The Optional Retirement Plan of the
Commonwealth of Virginia
For Employees of Institutions of Higher Education**

Investment Policy Statement

April 10, 2008

VRS Defined Contribution Plans Investment Policy Statement

Approved by the Board of Trustees: April 10, 2008

1. Introduction

The Virginia Retirement System (VRS) sponsors several primary and supplemental defined contribution plans. The purposes of the plans are set forth in the Plan Documents and Master Trusts.

This Investment Policy Statement has been adopted by the VRS Board of Trustees (Board) to provide guidelines for the investment offerings provided to participants of the Deferred Compensation Plan of the Commonwealth of Virginia, the Optional Retirement Plan of the Commonwealth of Virginia for Employees of Institutions of Higher Education, the Virginia Cash Match Plan, the Optional Retirement Plan of the Commonwealth of Virginia for Political Appointees, the Optional Retirement Plan of the Commonwealth of Virginia for Public School Superintendents, and the Virginia Supplemental Retirement Plan.

2. Investment Objective

Each participant has his or her own risk tolerance, time horizon, and investment objectives. Participants are responsible for their own investment decisions.

To meet these varying needs, the objectives of the VRS defined contribution plans are to:

- Provide participants with an array of investment choices across a range of asset classes, risk levels, and investment strategies so they can construct and/or invest in portfolios that address their individual expected needs; and
- Provide investments that offer competitive risk adjusted returns at a reasonable cost.

Participants who are knowledgeable investors may desire additional investment alternatives other than those offered as part of the standard investment options. To meet this need the Board may make available a self-directed brokerage account (“SDBA”) to knowledgeable investors who are willing to accept all risks and costs related to participating in a SDBA.

The Board will contract with private corporations or institutions to provide investment products subject to the standards set forth in §51.1-124.30 of the Code of Virginia. Section 51.1-124.30.C. of the Code requires the Board to enter into such contracts using “the care, skill, prudence, and diligence under the circumstances prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.”

3. Decision Making

The Board is responsible for establishing guidelines with respect to the following:

1. Asset Classes
2. Strategies Within Asset Classes
3. Performance Benchmarks
4. Default Investment Options
5. Self-Directed Brokerage Options
6. Investment Advice

Appendix 1 lists the plans asset class/strategy offerings and performance benchmarks. Appendix 2 outlines default options and use of self-directed brokerage accounts.

Beyond these guidelines, the Board delegates to the Chief Investment Officer (CIO) all other decisions related to VRS defined contribution investments.

In carrying out its fiduciary duty to oversee the investments of the plans, the Board will consider advice and recommendations provided by Defined Contribution Plans Advisory Committee (DCPAC). The specific duties and responsibilities of the DCPAC are described in the DCPAC Charter.

4. Asset Allocation/Rebalancing

Asset allocation and rebalancing decisions are made by participants.

Note: Employees occasionally neglect to make an investment selection when completing a plan enrollment form and enrollment into the Deferred Compensation Plan is automatic for salaried state employees hired on or after January 1, 2008 (unless the participant elects to opt out of the plan). In these cases, contributions are invested in a default investment option until the participant elects otherwise.

Participants may direct future contributions and transfer existing account balances among the investment options offered under the plans. The Board and the investment managers may impose restrictions and/or fees that discourage investment trading behavior that could adversely impact the management of a fund or other participants and/or clients.

5. Performance Benchmarks

The Board will establish performance benchmark guidelines for each asset class, based on recommendations from the CIO.

6. Plan Level Oversight Policies

The Board delegates to the CIO the authority to establish and modify as necessary the policies for defined contribution investment programs. Policies may vary among the programs because of the different plan purposes and structures (i.e. unbundled versus bundled). Policies should include due diligence procedures for hiring, monitoring, and terminating investment managers. The CIO is responsible for ensuring that adequate due diligence is being performed in the evaluation of potential and existing investments, and that all investment activity will be legal and in compliance with appropriate regulatory bodies.

7. Investment Manager Selection and Termination

Unbundled plans: The CIO has full authority to hire and fire investment managers and negotiate or renegotiate fees at any time using reasonable processes. The CIO will report any hirings or terminations at the next Board meeting.

Bundled plans: The CIO has full authority to select and eliminate fund options using reasonable processes. The CIO will report any fund changes at the next Board meeting.

The CIO shall work with the VRS Director, the DCPAC, and the Optional Retirement Plan for Higher Education Advisory Committee relative to hiring and terminating plan provider companies for the Optional Retirement Plan for Higher Education.

8. Risk Management

Risk management is viewed from two perspectives; 1) the individual participant level and 2) the investment option level.

Individual Participant Level

The VRS sponsored defined contribution plans are self-directed investment plans. Because individual risk tolerances vary from person to person risk management is ultimately the responsibility of the participants.

Investment Option Level

Risk analysis is a multi-faceted process that is addressed using a variety of qualitative and quantitative approaches. Qualitative assessments are made through documented personal interactions with managers and will occur at least annually. From a quantitative perspective, risk is defined in terms of both volatility and tracking error. The CIO is responsible for obtaining and/or developing appropriate systems, models, tools, and reports necessary to monitor the risks of the funds and effectively communicate such risks on a regular basis to the Board.

9. Authority to Execute Contracts

Contracts are executed by those persons appointed by the Board as outlined in the current Board Signature Resolution.

10. Best Execution

Generally, all investment transactions executed on behalf of the plans will be made on the basis of best execution. VRS defines best execution as the process and price that results in the best overall performance impact, as judged by the portfolio manager, taking into account current market conditions. VRS will generally discourage the use of soft dollar arrangements, and where such arrangements are utilized, staff will review this usage for reasonableness.

11. Use of Consultants / Service Providers

The CIO has authority to hire consultants, research providers, and other investment related service providers.

12. Reporting

The CIO is responsible for reporting on a timely basis the significant activity and results of the plans. Such reports will include regular performance reports and commentary and updates as needed in each Board meeting. The CIO will respond in a timely manner to requests for information from the Board.

13. Code of Ethics

The investment staff will conduct its affairs in a manner that reflects the highest standards of ethical conduct. The staff is expected to comply with CFA Institute Code of Ethics and Standards of Professional Conduct, a copy of which is attached as Appendix 3.

Asset Classes and Performance Benchmarks

As of December 31, 2007

Appendix 1

Asset Class (Strategies)	Performance Benchmark
Unbundled Plans (i.e. 457 Plan)	
Short-Term/Cash	91-Day Treasury Bill Average
Fixed Income	
Stable Value	Stable Value Custom
Intermediate Core	Lehman Aggregate Index
Inflation-Protected	Lehman U.S. Treasury Inflation Notes Index
High-Yield	High-Yield Custom
U.S. Equity	
Total Market	Russell 3000 Index
Large Core	S&P 500 Index
Large Value	Russell 1000 Value Index
Large Growth	Russell 1000 Growth Index
Small/Mid Core	Russell Small Cap Completeness Index
Non-U.S. Equity	
Large Core	MSCI EAFE Index
Global Equity	MSCI World Index
Real Estate (public)	Dow Jones Wilshire REIT Index
Asset Allocation (multi- asset classes*)	Asset Allocation Custom
Bundled Fidelity ORPHE	
Short-Term/Cash	Lehman Brothers 3-Month Treasury Bill
Fixed Income	
Stable Value	3-Year CMT Yield
Intermediate Core	Lehman Aggregate Index
Inflation-Protected	Lehman U.S. Treasury Inflation Notes Index
High-Yield	Merrill Lynch High Yield Master II Index (constrained)
U.S. Equity	
Large Core	S&P 500 Index
Small Cap Core	Russell 2000 Index
Small/Mid Core	Dow Jones Wilshire 4500 Completion Index
Non-U.S. Equity	
Large Core	MSCI World ex-U.S. Index
Global Equity	MSCI World Index
Real Estate (public)	Dow Jones Wilshire Real Estate Securities Index
Asset Allocation	Asset Allocation Custom
Bundled TIAA-CREF ORPHE	
Short-Term/Cash	Lehman Brothers 3-Month Treasury Bill
Fixed Annuity	Merryl Lynch 7-10 Year AAA Index
Fixed Income	
Intermediate Core	Lehman Aggregate Index
Inflation-Protected	Lehman U.S. Treasury Inflation Notes Index
U.S. Equity	
Total Market	Russell 3000 Index
Non-U.S. Equity	
Large Core	MSCI EAFE Index
Small/Mid Core	S&P Citigroup Extended EPAC Index
Global Equity	MSCI World Index; Global Custom
Real Estate (public & private)	Real Estate Custom
Asset Allocation	Asset Allocation Custom

* Asset Classes may include: Cash, Fixed Income, Credit, Convertibles, U.S. Equity, Non-U.S. Equity, Real Estate (public & private), Private Equity; and Hedge Funds

Default Options and Self-Directed Brokerage Accounts
As of December 31, 2007
Appendix 2

Default Investment Options

Unbundled Plans¹: Balanced Growth Fund

Bundled Plan²:

Fidelity Program: Fidelity Freedom Funds

TIAA-CREF Program: Vanguard Asset Allocation Fund

Self-Directed Brokerage Accounts (SDBA)

Unbundled Plans¹: A SDBA is available to participants through the plans' record keeper. The record keeper may outsource this service to another firm. Only publicly traded mutual funds are available through the SDBA.

Bundled Plan²: A SDBA option is not available under this plan.

¹ Optional Retirement Plan of the Commonwealth of Virginia for Political Appointees, the Optional Retirement Plan of the Commonwealth of Virginia for Public School Superintendents, the Deferred Compensation Plan of the Commonwealth of Virginia, the Virginia Cash Match Plan, and the Virginia Supplemental Retirement Plan.

² Optional Retirement Plan of the Commonwealth of Virginia for Employees of Institutions of Higher Education



Code of Ethics and Standards of Professional Conduct

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards) are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by setting high standards of education, integrity, and professional excellence. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® (CFA®) designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, candidacy in the CFA Program, and the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including Chartered Financial Analyst® [CFA®] charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
 - a. Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
 - b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
 - c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client.
2. Disclosure is required by law.
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTION

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients.

Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Members and Candidates in the CFA Program. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.

B. Reference to CFA Institute, the CFA designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.