

VRS Investment Policy Statement for the Optional Retirement Plan for Employees of Institutions of Higher Education

Approved by the Board of Trustees: February 16, 2012

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 Optional Retirement Plan of the Commonwealth of Virginia for Employees of Institutions of Higher Education (ORPHE). The purpose of the plan is set forth in the Plan Document and Master Trust, which are accessible on the VRS website at www.varetire.org. The plan operates under a bundled plan structure. Bundled plans use the same company for investments, recordkeeping, enrollment and marketing services. In addition to their proprietary investment options, a bundled plan provider's investment platform may include investment options from other investment firms as determined by the provider. A separate investment policy statement covers the unbundled defined contribution plans.

Investment Objectives

In a defined contribution (DC) investment program, each participant has his or her own risk tolerance, time horizon, and investment objectives. Participants are responsible for their own investment decisions. To help meet these varying needs, the VRS ORPHE seeks 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 needs, and do so using investment vehicles and structures that provide competitive risk-adjusted returns at a reasonable cost within a bundled plan construct.

The Board recognizes that DC plan participants have varying levels of investment knowledge and/or interest in actively managing their investments, and therefore may desire investment alternatives in addition to those offered as part of the core investment lineup. To meet this need, a self-directed brokerage account (SDBA) is made available to self-designated knowledgeable investors who are willing to accept all risks, costs, and operational rules and procedures related to participating in a SDBA.

Decision Making

The Board is responsible for the following:

- Selection of the plan default investment option(s). (Appendix 1)
- Within the fund lineup, the asset classes and strategies utilized. (Appendix 2)
- Whether to offer a Self-Directed Brokerage Account (SDBA). (Appendix 3)
- Whether individual investment advice will be provided and the terms on which it will be available to participants.

Beyond these guidelines, the Board delegates to the Chief Investment Officer (CIO) all other investment decisions related to the ORPHE. The CIO or a designee will report regularly to the Defined Contribution Plans Advisory Committee (DCPAC) and Board on the status and investment results of the ORPHE investment program. Included in such reporting will be performance benchmarks selected by the CIO to appropriately measure or compare the risk and investment objectives of the various investment options.

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

Plan Level Policies

The CIO shall select or eliminate fund options using reasonable processes. The CIO shall work with the VRS Director and the DCPAC relative to hiring and terminating plan provider companies. The CIO shall also develop procedures for appropriate mapping of plan assets and/or funds as situations arise. Mapping means the transfer of assets from a discontinued investment option or terminated provider to another investment option or provider under the ORPHE.

Trading Restrictions and Redemption Fees

The Board and the plan provider companies may impose restrictions and/or fees that discourage investment trading that could have an adverse impact on the management of a fund, other participants, or clients of the provider companies.

Default Investment Options
As of February 16, 2012
Appendix 1

TIAA-CREF Program: Vanguard Balanced Index Fund

Fidelity Program: Fidelity Freedom Funds

Asset Classes: Investment Options
As of February 16, 2012
Appendix 2

Investment options shall represent the broad asset classes, available in the capital markets to the extent it is practical and when prudent, certain sub-asset classes within the bundled plan provider companies. From time to time additional asset classes may be added, or existing asset classes may be deleted in order to maintain an array of investment options that address participants' changing needs or changes in the investment industry.

The Board notes that due to the nature of the bundled plan structure of the ORPHE, investment decisions are limited to investment options that are, or can be made, available on provider company investment platforms. It is possible that bundled plan constraints may limit the scope of investment options available to participants, limit access to more attractive options within the asset classes and limit the extent to which negotiations can be made relative to investment management and investment related fees.

The Board delegates to the CIO decisions as to 1) whether a fund investment option shall utilize a passive or active investment strategy or a combination of both; 2) whether a fund should exhibit a growth, value, blended style, or targeted volatility orientation; 3) whether a fund should have a single investment manager or use multiple investment managers or firms and; 4) whether a fund invests in a single asset class or more than one asset class.

The following asset class categories are considered for possible inclusion in the plan:

Capital Preservation

- Money Market
- Stable Value
- Fixed Annuity

Fixed Income

- Investment grade (short-term, intermediate, long-term)
- Inflation-Protected
- High-Yield
- International

U.S. Equity

- Large Cap Equity
- Small/Mid Cap Equity

Non-U.S. Equity

- International Developed
- Emerging Markets

Real Estate (public & private)

Asset Allocation

- Target Date
- Risk Based

The Board expects asset allocation funds to be diversified portfolios. These portfolios may include exposure to various sub-segments of the broad asset classes as well as to alternative asset classes as determined by the provider company using reasonable

optimization techniques to measure the risk/reward trade off. Asset classes used within asset allocation funds may include but are not limited to: large cap domestic equity, small/mid cap domestic equity, international equity, emerging markets, domestic fixed income core, high-yield, inflation-protected securities, international fixed income, commodities, real estate and cash. An asset allocation fund is not required to include each of these asset classes and may include other asset classes. Glide paths for target date funds shall be based on sound investment theory and investment methodology as well as reasonable capital market assumptions. A glide path represents the changes made to the asset allocation mix over time as the target date approaches. There is a higher equity allocation in the longer dated funds because of the long-term investment time horizon. Over time, the equity allocation decreases as the investment time horizon decreases.

Self-Directed Brokerage Account
As of February 16, 2012
Appendix 3

A Self-Directed Brokerage Account (SDBA) is made available through the plan's bundled provider companies and is not contracted for separately. The bundled plan provider companies may change their SDBA provider from time to time.

The SDBA is available for self-designated knowledgeable investors who acknowledge and understand the SDBA's operational rules and procedures as well as the risks and costs associated with the investments allowed in the SDBA. Subject to limitations imposed by the SDBA provider, allowable investments include mutual funds, exchange traded funds (ETFs) and individual securities. Participants must complete the SDBA Participant Release Form prior to investing the SDBA.