

**Virginia College Savings Plan  
Statement of Investment Policy and  
Guidelines  
For**

**Virginia529 ABLEnow<sup>SM</sup>**

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# **I. PURPOSE & RESPONSIBILITIES**

## **PURPOSE**

The purpose of this Statement of Investment Policy and Guidelines (“Statement”) is to identify a set of investment objectives, guidelines and performance standards for Virginia529 ABLEnow (“ABLEnow”). This Statement represents the formal investment policy document for ABLEnow and is to be communicated to the investment managers for their use in developing an appropriate investment portfolio. This document will also be used by the Board as the basis for future investment management decisions, measurement, and evaluation of investment performance of ABLEnow.

This Statement will be reviewed at least annually by the Board to ensure that it is consistent with the investment needs of ABLEnow.

## **RESPONSIBILITIES**

### **Board**

Pursuant to § 23.1-704 of the Code of Virginia (“Code”), the Board shall administer the Virginia College Savings Plan (“VA529” or the “Plan”) and shall develop and implement a program for contributions to ABLE savings trust accounts established pursuant to this chapter on behalf of a qualified beneficiary in order to apply distributions from the account toward qualified disability expenses for an eligible individual, as both such terms are defined in § 529A of the Internal Revenue Code of 1986, as amended, or other applicable federal law. In addition, pursuant to § 23.1-704 of the Code, the Board shall invest moneys in the Plan in any instruments, obligations, securities, or property deemed appropriate by the Board.

The Board is authorized to delegate certain responsibilities to qualified agents to assist them in properly meeting the overall Board responsibilities as outlined above. Specifically, the Board relies on the advice, guidance and actions of VA529 Management, the Investment Advisory Committee, third party administrator, investment managers, an investment consultant and legal counsel to perform various functions. The various roles and duties of each are further described below.

### **VA529 Management**

VA529 Management, comprised of the Chief Executive Officer (“CEO”) and such other senior officers as may be appointed by the CEO, shall implement decisions approved by the Board and/or Investment Advisory Committee unless otherwise specifically provided by the Board or the Investment Advisory Committee. VA529 Management shall (i) appoint a third party administrator (ii) oversee the development, structure, evaluation and implementation of ABLEnow’s strategic goals and objectives and (iii) with the assistance of the Investment Advisory Committee appointed

by the Board, and by investment consultants, direct and manage ABLEnow's assets and programs, and (iv) report periodically and as requested to the Board.

### **Investment Advisory Committee**

According to § 23.1-702 of the Code, the Board of VA529 shall appoint an Investment Advisory Committee ("Committee"), the purpose of which is to assist the Board in fulfilling its fiduciary duty as trustee of VA529's funds and to assist VA529 Management in directing, managing, and administering VA529's assets, and to provide the Board with sophisticated, objective and prudent investment advice and direction on all matters related to the management of investments, within the parameters set by the Statement, as it may be amended from time to time. While this Statement refers to the responsibilities and duties of the Board, some of these responsibilities and duties may be delegated to the Committee via the Committee Charter<sup>1</sup>.

The Committee shall be comprised and administered in accordance with the Committee Charter, as it may be amended from time to time by the Board. The Committee shall review VA529's investments and is authorized to make decisions with regard to investment managers. The Committee is further authorized to take any additional action specifically authorized in other Board actions. Recommendations are not binding upon the Board.

The Committee shall report any action taken to the Board at the Board's next meeting.

### **Third Party Administrator**

The Plan shall contract on behalf of the Board with a third party administrator which shall have a level of experience and expertise in providing services as required to administer ABLEnow. The administrator shall act as a fiduciary in the administration of the ABLEnow accounts utilizing appropriate internal controls to insure the safety of the assets from such things as fraud, collusion, loss, diversion, etc. While the specific duties and responsibilities of the Plan's administrator are contained in the contractual agreement between the administrator and the Plan, the administrator, in general, has the following responsibilities:

- to handle all income, cash transactions, interest received, and other necessary activities;
- hold or contract with a custodian to hold all securities on behalf of ABLEnow and only transact with regard to ABLEnow investment options upon proper instruction from those authorized to provide such instruction or direction;

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<sup>1</sup> The Committee Charter of the Virginia College Savings Plan Investment Advisory Committee was revised by the Board on December 8, 2016.

- safekeep or contract for the safekeeping all ABLEnow assets including securities, cash and cash equivalents; and
- provide monthly transaction accounting on security holdings with reports provided to the appropriate VA529 Management in a timely manner.
- provide VA529 Management with a monthly accounting of assets;
- issue a quarterly report to the Board and/or their designees which includes the following information:
  - the market value of account assets as of the last business day of each quarter;
  - the portion of account assets allocated to each investment asset class as of the last business day of each quarter;
  - time-weighted rates of return measured net of investment management fees and all expenses or gross of fees (as appropriate) for the current quarter, year-to-date and historical time periods;
  - average account characteristics and number of holdings as of the last business day of each quarter; and expenses.

### **Investment Consultant**

While the specific duties and responsibilities of the Plan’s investment consultant are contained in the contractual agreement between the investment consultant and the Plan, the consultant, in general, has the following responsibilities and will assist the Board and Committee with the following functions:

- provide evaluation of the investment results achieved by the designated investment managers in light of the investment guidelines and performance standards contained in this Statement;
- make recommendations to the Board of appropriate actions to be considered which, in the consultant's opinion, will enhance the probability of achieving overall investment program objectives. Such recommendations may include, but are not limited to:
  - use of alternate asset strategies or asset classes;
  - changes in overall investment policy;
  - changes in designated investment managers;
- provide assistance to the Board and/or Committee in screening and selecting investment managers, as appropriate; and
- at a minimum, meet with the Committee and Board every quarter.

## **Legal Counsel**

The VA529 General Counsel shall advise and represent the Board in all matters requiring legal insight and advice. VA529 Management, in consultation with the General Counsel, shall utilize the services of outside counsel and/or the Office of the Attorney General as such services may be required from time to time.

## **Investment Managers**

While the specific duties and responsibilities of the Plan's investment managers are contained in each contractual agreement between the designated investment manager and the third party administrator, investment managers, in general, have the following responsibilities:

- maintain registration as an investment advisor under the Investment Advisers Act of 1940, or be authorized and regulated by another appropriate authority;
- adhere to the policy guidelines contained in this Statement, unless granted an exception in writing;
- invest only in those asset classes, and adhere to the ranges for allocation among those classes, that the Board has stated to be appropriate for that manager's portfolio;
- exercise complete investment discretion within the boundaries of the restrictions outlined in this Statement or in any written exceptions to this Statement;
- strictly comply with all of the provisions of appropriate law as they pertain to the firm's dealings, functions and responsibilities as fiduciaries;
- prudently liquidate assets in the portfolio which cease to be in compliance with this Statement or any written exceptions to this Statement. If in the manager's judgment, it is in ABLEnow's best interest to not liquidate such an asset promptly, the manager will advise VA529 management of the circumstances and make a recommendation regarding the liquidation of that asset;
- diversify the portfolio unless, under the circumstances, it is clearly prudent to not so diversify;
- ensure that brokers will be selected only on a competitive, best execution basis;
- invest the assets with care, skill, prudence and diligence under circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims;

- acknowledge in writing the recognition and acceptance of full responsibility as a fiduciary, and the firm's intention to comply with this Statement as it currently exists or as is modified by joint agreement in the future.

## **II. ALLOWABLE INVESTMENTS**

## **ALLOWABLE INVESTMENTS**

Pursuant to § [23.1-706](#) of the Code, as amended, the Board is authorized to acquire and retain every kind of property and any kind of investment, and to retain property properly acquired, without time limitation and without regard to its suitability for original purpose, specifically including but not limited to:

- Debentures and other corporate obligations of foreign or domestic corporations;
- Common or preferred stocks traded on foreign or domestic stock exchanges;
- Not less than all of the stock or 100 percent ownership of a corporation or other entity organized by the Board under the laws of the Commonwealth for the purpose of acquiring and retaining real property that the Board is authorized to acquire and retain;
- Unregistered securities, often referred to as letter stock or private placements, including limited partnerships and 144A securities;
- Securities of any open-end or closed-end management type investment company or investment trust registered under the federal Investment Company Act of 1940, as amended, including such investment companies or investment trusts which, in turn, invest in the securities of such investment companies or investment trusts. Also permitted are pooled investments, including collective trusts and similar commingled fund vehicles, which may be used as an alternative to a mutual fund investment;
- Bonds, notes or other obligations of the Commonwealth or its agencies and instrumentalities.

### **Commingled Funds, Collective Trusts and Mutual Funds**

The guidelines in this Statement have been established to ensure that the investments of each investment manager are in keeping with the return and risk objectives of ABLEnow. However, in attempting to meet these objectives, it may be advantageous for a portion of portfolio assets to be placed in a pooled, commingled, collective trust, or mutual fund which may have specific restrictions, policies, or guidelines that conflict from time-to-time with those outlined in this Statement. To the extent that the Board has reviewed the investment guidelines of such funds, and determined their appropriateness to ABLEnow's investment objectives, the restrictions, policies and guidelines in the funds' prospectus or offering statement shall take precedence over those stated in this Statement.

# **III. ABLEnow PROGRAM STRUCTURE**

## INVESTMENT OPTION STRUCTURE

The Virginia529 ABLEnow offers individual tax-advantaged Internal Revenue Code Section 529A disability savings accounts with a variety of investment options from which a participant may choose. The Board determines the investment options to be offered in ABLEnow. The risk of investment losses in ABLEnow accounts rests with the participant. The primary investment objectives of ABLEnow are to offer a set of investment options that:

- allow ABLEnow participants to build portfolios consistent with their desired investment risk and return;
- provide a risk profile consistent with its position in the overall structure; and
- are managed so as to implement the desired risk profile and other investment characteristics.

In seeking to achieve diversity among the investment options offered, VA529 has established certain criteria to determine the material differences in investment options. The following technical factors should be used to classify and differentiate potential investment options:

- A distinct definable market and the availability of a widely used and understood benchmark;
- A distinct risk and return profile as exhibited by historical return analysis; and
- Use of a distinct management style that is definable in terms of the investment strategies/methodologies utilized (e.g., passive versus active management, growth vs. value).

### ABLEnow Investment Options

- **Static passively-managed balanced portfolios** are comprised of balanced portfolios where the target asset allocation remains fixed.
- **Money market portfolio** that invests primarily in high-quality, short-term money market instruments. The money market portfolio shall also serve as the default investment option for ABLEnow account owners who do not select an investment option.

## STATIC PASSIVELY-MANAGED BALANCED PORTFOLIOS

These balanced portfolios will be constructed based on the risk orientation of the individual investor rather than the investor's time horizon.

At a minimum, the following risk-based portfolios will be offered:

- Aggressive Growth (equity allocation greater than 70%)
- Moderate Growth (equity allocation between 40% and 70%)
- Conservative Income (equity allocation less than 40%)

Currently, the following investment strategies are used in these portfolios.

- Aggressive Growth - mutual fund seeking long-term capital appreciation through a fund of funds structure with a balanced allocation of 80% stocks and 20% bonds. Fund is 100% indexed.
- Moderate Growth - mutual fund seeking capital appreciation and a reasonable level of current income through a fund of funds structure with a balanced allocation of 60% stocks and 40% bonds. Fund is 100% indexed.
- Conservative Income - mutual fund seeking current income through a fund of funds structure with a balanced allocation: 20% stocks, 60% bonds, and 20% short-term reserves. Fund is 100% indexed.

## **MONEY MARKET PORTFOLIO**

The money market portfolio seeks to provide current income and preserve the principal investment by maintaining a share price of \$1. The portfolio invests in short-term money market instruments, which may include short-term securities issued by the U.S. government and its agencies and instrumentalities.

# **IV. INVESTMENT MANAGER SELECTION, MONITORING AND TERMINATION**

## BACKGROUND

The Board reserves the right to add, delete or replace investment managers based upon inability to meet performance guidelines outlined in this policy or other factors affecting the continuing viability of the portfolio. Either separately managed portfolios, commingled funds or mutual funds may be used in ABLEnow.

## SELECTION – GENERAL CRITERIA

When selecting funds for ABLEnow, the following six broad categories should be considered:

- Economies of Scale
- Diversification
- Transparency
- Organizational Strength
- Performance Consistency
- Risk/ Reward

The following *basic* selection criteria are to be used when selecting a new investment manager to be added to ABLEnow or when selecting a replacement manager for an existing asset class. These criteria have been classified according to the categories listed above.

### Economies of Scale

- Have at least \$500 million in assets under management.
- Have a reasonable expense ratio or fees compared to other vehicles within an appropriate peer group

### Diversification

- No more than 10% of the portfolio may be invested in any one company valued at market. Likewise, appropriate risk controls may be outlined in each investment manager agreement with respect to sector and industry weightings relative to an appropriate benchmark.

### Transparency

- Employ an investment process that is well defined.
- Invest in securities consistent with the vehicle's strategy<sup>2</sup>.
- Agree to meet all other requirements set forth in this Statement. However, all mutual funds, collective trusts, and similar commingled fund vehicles included in ABLEnow will also be subject to the investment guidelines as set forth in their prospectuses, or applicable offering documents.

### Organizational Strength

- Be supported by qualified personnel and appropriate resources.

### Performance Consistency

- Have a minimum of 3 years of verifiable investment performance information<sup>3</sup>.
- Have competitive returns versus an appropriate benchmark index and peer group.

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<sup>2</sup> For instance, large cap growth vehicles should primarily focus on large cap stocks with growth-oriented characteristics.

<sup>3</sup> Vehicles with less than 3 years of history may be tactical or opportunities investments where strategies often close quickly due to liquidity constraints.

### Risk/ Reward

- Have acceptable volatility relative to an appropriate benchmark index. Greater volatility than the benchmark should be commensurate with a higher return.

## **COMMITMENT TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK**

### **Sustainable Investment**

Environmental, social and governance (ESG) issues may pose risks and opportunities for portfolios, portfolio companies and real assets and impact investment risks and returns. In addition, some participants may also have strong views on aligning their investments with their personal values and seek to explicitly utilize ESG criteria when making investment decisions. The Investment Advisory Committee may consider ESG issues when selecting certain Investment Options.

### **Investment Options**

Investment Options that explicitly utilize ESG criteria to make investment decisions may be selected for ABLEnow if they meet the Committee's selection criteria.

Options that explicitly utilize ESG criteria should be evaluated according to the appropriate benchmark and universe for the asset class as stipulated in Appendix A. Participants should be given the opportunity to invest in options which provide a diversified investment portfolio within the structure and objectives of ABLEnow.

### **Assessing the ESG Credentials of Investment Managers**

Where appropriate based on the investment option, investment managers should integrate ESG factors as part of their investment analysis and decision-making process. An assessment of how managers are integrating ESG issues over time and compared to peers can be done in a number of ways, including:

- Assessing an Investment Manager's level of ESG integration into its investment processes
- Assessing the ESG quality of an Investment Manager's portfolio holdings

Such assessments may be relevant to both manager selection and monitoring processes and may be performed by the consultant.

## **INVESTMENT MANAGER SEARCHES – COMMITMENT TO DIVERSITY**

The Board is committed to seeking diversity in the ownership, management, and staffing of firms with which the Plan does business, including investment managers. Accordingly, whenever a

manager search is directed by the Plan, the Plan’s investment consultant will include in its research report information on the ownership structure of each firm and publicly available data on ownership by women and minorities. In addition, if managers are interviewed by the Committee, the Plan’s investment consultant will request that each candidate include in their respective presentation a discussion of the candidate’s overall commitment to diversity and a review of the distribution in each level of the organization by gender and ethnicity in order to obtain information on the firm’s diversity. Other information may be provided at the candidate’s discretion to demonstrate their firm’s commitment. Such information shall be considered in evaluating potential investment managers, with the primary criteria remaining those outlined under General Criteria above, in accordance with the fiduciary obligations of the Board.

## PERFORMANCE MONITORING

The Board shall periodically, but not less than quarterly, evaluate investment managers. Each actively-managed investment option will be measured against its benchmark and peer group for the measurement periods outlined below. The ability to meet the benchmark comparison on a net of fees basis will be a primary measure of performance. In addition to monitoring performance, consideration will be given to risk adjusted metrics.

| <i>Measurement Period</i>       | <i>Benchmark Comparison</i>   | <i>Peer Group Comparison</i>   |
|---------------------------------|---|--|
| Multiple rolling 3-year periods | <ul style="list-style-type: none"> <li>The total rate of return should exceed the return of the benchmark index over most rolling periods.<sup>4</sup></li> </ul> | <ul style="list-style-type: none"> <li>The total rate of return should exceed the median return of the fund’s peer group over most rolling periods.<sup>4</sup></li> </ul> |

For the managers that do not have a 3-year track record with ABLEnow, the manager’s separate account composite or mutual fund performance will be used for evaluation. The manager may also be placed on watch within a lesser period if the strategy deviates from the universe and benchmark dramatically and in a manner that would not have been expected given the tracking error expectations of the strategy.

If the investment manager utilizes a passively-managed strategy, the portfolio will be monitored on its ability to successfully track the risk and return characteristics of the stated benchmark. Peer group performance will not be required for passive strategies.

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<sup>4</sup> Measured over the latest 12 quarters available for review.

In addition to monitoring investment performance results, the Board may periodically evaluate the investment managers on the basis of the following factors to ascertain whether they should continue to be utilized in ABLEnow:

- the stability and depth of the investment professionals responsible for the management of this strategy;
- the suitability of its investment approach for ABLEnow;
- its management fees; and
- any other measures the Board deems useful and relevant.

### **Watch List Status & Termination**

If an investment manager fails to meet the minimum standards of investment performance outlined in this document, the Board has the discretion to place the manager on a ‘watch list’ for up to one year. The following are some examples of reasons for termination or placing an investment manager on the watch list:

- significant change in portfolio management, ownership or control;
- significant change in portfolio management style;
- substantive change in portfolio turnover; and
- continued performance shortfalls versus the peer group or benchmark.

Reasons for termination without a probationary period may include, but are not limited to:

- any violation of SEC, or other applicable authority, rules or regulations, as well as any other important and appropriate statutory regulatory requirements;
- operational difficulties concerning fund transfers or pricing;
- substantial and consistent deviation from the characteristics of its investment category; and
- failure to adhere to guidelines in this Statement or in the investment management agreement.

By the end of the watch list period, the Board will evaluate the investment manager and determine whether:

- the investment manager remains on the watch list for an additional specified period of time;
- the investment manager is removed from the watch list; or
- the investment manager is terminated.

# V. SUPPLEMENTAL ITEMS

## **PROXY VOTING**

Proxies will be voted for the benefit of the Plan and in accordance with the ESG Framework.

### **Proposals Related to Funds and other Securities**

The Board may delegate the voting of proxies to others (e.g., the Investment Advisory Committee, appropriate VA529 Management, the investment managers or a qualified third party). In addition, the Board may require periodic reporting of the proxy voting activity by any person to whom such power has been delegated.

If a qualified third party is retained to manage the proxy voting activities for VA529, a review of the guidelines used to vote proxies will be conducted annually by VA529 Management. In addition, the third party will provide reports every calendar quarter to appropriate VA529 Management as to the proxies voted.

## **ACCEPTANCE AND ADOPTION**

The Board of the Virginia College Savings Plan has approved and adopted this restated Statement of Investment Policy and Guidelines as of August 27, 2020.

## APPENDIX A: BENCHMARKS

The table below outlines the target benchmarks for the ABLEnow portfolios.

| <u>Manager/Portfolio</u>      | <u>Category</u>  | <u>Benchmark</u>   |
|-------------------------------|------------------|--|
| Conservative Income Portfolio | Static, Balanced | 56% Bloomberg Barclays U.S. Aggregate Float Adjusted Index / 24% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index / 12% CRSP US Total Market Index / 8% FTSE Global All Cap ex US Index  |
| Moderate Growth Portfolio     | Static, Balanced | 36% CRSP US Total Market Index / 28% Bloomberg Barclays U.S. Aggregate Float Adjusted Index / 24% FTSE Global All Cap ex US Index / 12% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index |
| Aggressive Growth Portfolio   | Static, Balanced | 48% CRSP US Total Market Index / 32% FTSE Global All Cap ex US Index / 14% Bloomberg Barclays U.S. Aggregate Float Adjusted Index / 6% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index  |
| Money Market Portfolio        | Static, Balanced | Citigroup 3-Month Treasury Bill Index  |