

Attachment D

Investment Policy Statement

State of Connecticut College Savings Plan

CONTENTS

- I.** Purpose
- II.** Distinction of Responsibilities
- III.** Investment Objectives or Program Structure
- IV.** Implementation Guidelines
- V.** Review and Amendment of Investment Policy

I. Authority and Purpose

In accordance with Section 529 of the Internal Revenue Code of 1986, as amended, and the Connecticut authorizing statute approved by the Connecticut General Assembly in Public Act No. 97-3, the State of Connecticut offers the Connecticut Higher Education Trust (“CHET” or “Trust”). The Trust is a qualified savings plan established for the purpose of enhancing accessibility to and affordability of higher education. The Trust is a qualified state tuition program pursuant to Section 529 of the Internal Revenue Code. More specifically, CHET is designed to meet certain Internal Revenue Service requirements in order to offer participants favorable tax treatment.

Public Act No. 96-3 designates the State Treasurer (“Treasurer”) as the Trustee of CHET. The program began operating on January 1, 1998. While the Trust is considered an instrumentality of the State, the assets of the Trust do not constitute property of the State and the Trust is not construed to be a department, institution or agency of the State. CHET is available to help families save and invest for higher education expenses, and is privately managed by professional money managers under the supervision of the State Treasurer.

The purpose of the Investment Policy Statement is to assist the Treasurer in supervising, monitoring and evaluating the investment options in the investment program both direct and broker sold.

The Plan’s investment program is set up to meet the needs of its participants and beneficiaries who are expected to have different time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to direct their account balances into age-based portfolios or static portfolios. These investment options are professionally constructed, diversified portfolios that reasonably span the risk/return spectrum. Participants and beneficiaries alone bear the risk of the investment results from the options and asset mixes they select.

The primary goal of CHET is to help meet higher educational financial needs of its participants while delivering an investment program that has investment alternatives that help participants form the most efficient portfolio at the lowest possible cost.

The objectives of CHET are:

- Maintain flexibility in meeting the future needs of the participants and beneficiaries and keeping pace with tuition inflation
- Maximize total return potential within reasonable and prudent levels of risk by providing investment options which cover a broad range of risk and return characteristics
- Keep costs of administering the plan and managing the investments as low as possible
- Undertake all transactions solely in the interest of the participants and beneficiaries

II. Distinction of Responsibilities

Delegation of Authority

The Treasurer is the CHET trustee and acts prudently in the monitoring and investment management of CHET assets. The Treasurer is authorized to delegate certain responsibilities to qualified agents to assist in properly meeting the overall needs the Plan.

Responsibility of Participants

Participants are responsible for choosing an appropriate investment program. CHET provides education and communication to participants but does not provide individual counseling. Participants choosing to invest in the age-based program must determine that the portfolios' shifts in asset allocation strategies are appropriate for their risk tolerances, time horizons and return expectations.

Responsibility of the Investment Consultant

The primary duties of the Investment Consultant are contained in the contractual agreement between the Consultant and the Treasurer. The Consultant, in general, will act as an advisor to the Treasurer and staff. The Consultant will offer investment guidance keeping with the investment objectives established in this policy. The consultant will also:

- Offer strategic planning and advice
- Make recommendations on asset allocation and glide paths for the Age-based options
- Construct and evaluate the investment options
- Conduct due diligence on the underlying funds of the Investment Managers and monitor their performance on an ongoing basis
- Monitor and evaluate the manager fee per fund and per investment option and identify potential lower cost options
- Share timely reporting and interpret reporting
- Share the latest research related to 529 plans

Responsibility of the Investment Managers and Administrative Providers

The primary duties of the Investment Managers are contained in the contractual agreements between the Investment Managers, Administrative Providers and the Treasurer. The Investment Managers, in general, will have the following responsibilities:

- Invest the assets with care, skill, prudence and diligence
- Invest only in those asset classes, in allocation ranges for those asset classes, that the Treasurer has stated to be appropriate for that Investment Manager's portfolio
- Adhere to the policy guidelines contained in this Statement
- Provide timely reporting

The Administrative Providers, in general, will have the following responsibilities:

- Take all actions required to keep the Trust in compliance with Connecticut General Assembly in Public Act No. 97-3, to ensure that the Trust qualifies as a qualified state tuition program under Section 529, Internal Revenue Code of 1986, as amended, and to ensure that the Trust is exempt from registration under federal securities law
- Keep adequate, separate and safe records of each CHET account, and provide necessary reports to the Office of the State Treasurer
- Compile necessary information for statements to be provided to Participants

III. Investment Objectives & Program Structure

Investment Objectives

Considering the varied attitudes, goals, expectations, investment time horizons and risk tolerance levels of the CHET's participants, the Trust will offer a broad array of investment options. The Treasurer may select from a range of mutual funds, commingled funds, separate accounts, or other investment options to pursue this investment objective. The Treasurer will select and replace investment options as necessary in collaboration with the investment team.

Within the categories listed below, the types of investment options may include low to higher risk options, specialized styles of investment management, and active or passive management. In this regards, CHET may be composed of at least one investment option/ feature from, but not limited to, the following categories:

- Money market instruments, cash, and money market mutual funds that are registered in the U.S. and denominated in U.S. dollars
- U.S. government and government sponsored entity debt obligations
FDIC-insured bank products
- Medium and long-term debt obligations of domestic corporations
- Domestic equities and international equities
- Investments in US, Global and International rated mutual funds, which are registered in the United States and denominated in U.S. dollars
- Real estate commingled funds that invest in publicly traded real estate securities

Program Structure

CHET has the following three main structures:

1. **Age-based Portfolios.** The Age-based program shifts the account's asset allocation over time based upon the beneficiary's investment horizon, assuming that at age 18 the beneficiary is expected to enter college. Generally, these strategies are more aggressive (greater equity exposure) in the early years and become more conservative (allocate more heavily to fixed income securities and stable value funds) as the beneficiary nears college enrollment.

2. **Static Portfolios.** The CHET has a series of additional static portfolios that participants can choose to invest in as an alternative to the age-based portfolios. The static portfolios are built for an investor with a different risk tolerance than the age based portfolios. It is important that participants understand the risk associated with these portfolios before making any investment decisions.
3. **Individual Portfolios:** CHET offers an array of individual portfolios as alternatives to the Age-based and Static portfolios to facilitate asset allocation by investors who prefer to mix their own portfolios.

Participants choosing to allocate their assets to these Age-based, Static or Individual portfolios are responsible for using the basic principles of strategic asset allocation to select a combination of investment options based on their unique time horizon, risk tolerance, return expectations, and asset class preferences. Any changes to the structure of these portfolios will be disclosed to participants in a timely manner.

IV. Implementation Guidelines

The Treasurer reserves the right to close, add, or change investment options at any time. On a periodic basis, but not less than annually, the Treasurer will evaluate the investment options' performance on a net of fee basis relative to (1) the return of an appropriate market index and (2) the returns of a universe of comparable funds, where applicable over a full market cycle (typically three to five years) or such other period determined to be prudent.

Rebalancing Implementation. Execution of the rebalancing may be implemented through any combination of actions: a) purchase and sale of securities or b) allocation of contributions and/or disbursements. Portfolios will be liquidated (and funded) in a manner that allows for the orderly transition of asset allocation in the most efficient means possible.

Timing. Actual rebalancing may or may not occur on a regular basis, taking into account transaction costs, materiality, and other factors. The Treasurer will be charged with the responsibility of determining if a rebalancing is required, but may delegate this responsibility to staff or another qualified party.

V. Review and Amendment of Investment Policy

This Policy shall be reviewed annually by the Treasurer to determine that it continues to reflect the objectives of the Trust. While changes to the structure of the Trust and its investment options and are expected to be infrequent, appropriate actions will occur as market conditions or other events dictate. The Treasurer will communicate any modifications on an annual basis to the CHET Advisory Board.