

**GOVERNMENT OF THE VIRGIN ISLANDS
EMPLOYEES' RETIREMENT SYSTEM
ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM**

I. PURPOSE

This document sets forth the Statement of Investment Policy (“the Policy”) for the Virgin Islands Government Employees Retirement System (“GERS”) Alternative Investment Policy (“AIP”), and is to be a guide for the actions of Trustees, Administrator and staff, Investment Committee Consultants, and investment opportunities. Use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks as well as returns associated with investing in this segment of the market.

II. PERFORMANCE OBJECTIVES

Alternative Investments are private market (that is, non-publicly traded) investments in domestic and international venture capital and special equity. AIP is designed to enhance the total Fund performance by generating a long-term rate of return greater than the assumed Actuarial rate of 8.0%.

AIP also seeks to provide the GERS investment portfolio added diversification.

GERS expects to complement its ongoing investment in publicly traded investment securities and achieve further investment portfolio diversification by investing at different times, in different types of Alternative Investments, in different partnerships, with managers representing various investment styles, concentrating on a variety of industries and locations and through Direct Investments in the growth and expansion of the Virgin Islands economy.

The Program shall be managed to accomplish the following:

- Enhance the System's long-term total risk-adjusted return;
- Hedge against long-term liabilities;
- Provide diversification to the GERS overall investment portfolio; and
- Consider solely the interests of the GERS participants and their beneficiaries.

III. RESPONSIBILITIES AND DELEGATION

A. The **Investment Committee (IC)** shall, at least once a month, hold committee meetings to screen, evaluate and recommend investment proposals submitted to the (IC) by the Administrator.

B. The **Administrator or his designee** shall have the following duties:

- Make recommendations to the Investment Committee concerning AIP Strategy, develop and present an annual report to the Investment Committee and recommend Policy changes as appropriate;
- Screen, evaluate and recommend investment proposals to the Investment Committee that meet the AIP guidelines;
- Recommend to the IC and the Board of Trustees engagement of Consultants as needed to review proposals and execute the intent of this Policy;
- Manage, direct, supervise and delegate the work of Consultants as appropriate, which may include overseeing due diligence activity;

- Monitor and report on Alternative Investment portfolio performance as well as on the performance of individual investment to the Investment Committee;
- Report any deviations from the Policy to the Investment Committee;
- Market the Program.

C. INVESTMENT GUIDELINES

The Administrator shall screen all investment proposals to ensure compliance with minimum requirements before submittal to the Investment Committee for review.

D. All Investment Proposals shall be submitted with the following information:

- Name of owner, partnership, corporation
- Resume of owner/ officers
- Three (3) year projected cash flow
- Project cost, sources and uses
- Articles of Incorporation; By Laws, Articles of Organization for LLC
- Partnership Agreements; Operating Agreements, etc.
- Amount of Investment being requested
- Collateral to be used
- Three (3) year Audited Financial Statement (Income Statement and Balance Sheet)
- Business Plan
- Business History
- Business License
- Bank Account Information

E. Consultants shall serve as an extension of Staff and may include management consultants, accountants, industry specialists, outside experts, traditional pension fund consultants, investment bankers, or industry experts. The Administrator or his designee shall direct and manage the activities of the Consultants who shall be retained to provide the following services:

- Identify and or review investment opportunities;
- Perform the required due diligence assessment of investment opportunities;
- Screen, evaluate and recommend investment proposals to the Investment Committee;
- Monitor, evaluate, and report on the Alternative Investment portfolio performance as well as the performance of individual investments to the Administrator and the Investment Committee;
- Make recommendations to the Administrator and Investment Committee on specific investments.
- Make recommendation to the Administrator or Investment Committee on changes to the Alternative Investment portfolio to ensure compliance of the Alternative Investment portfolio with the fiduciary responsibilities of the GERS and the overall investment objectives and policies of the GERS investment portfolio.

IV. INVESTMENT PARAMETERS

A. Allocation

The Investment Committee, Administrator and Consultants shall review GERS Alternative Investment Portfolio periodically to ensure that the legislative allocation, pursuant to 3 VIC § 717 or any future amendments to the Act, is maintained. Alternative investment portfolio shall mean the total assets of the system as reported on the most recent audited certified financial statements.

B. General Approach

The Administrator and staff shall manage the Program consistent with industry-accepted criteria relative to partnership and direct investments. Investment opportunities will be classified as Partnership Investments when decision-making and management discretion is granted to outside managers. Investment opportunities shall be classified as Direct Investments if the System retains discretion and manages the investment either internally or through its Consultants.

C. Annual Plan Review (Annual Report)

The Investment Committee, Administrator and Consultants shall review the AIP annually. The Administrator, in conjunction with the Consultants, shall develop an annual report and present it to the Investment Committee. The annual report shall consider market conditions, industry performance, the investment performance of individual investments and the investment performance of the Alternative Investment Portfolio. The annual report shall detail investment objectives, priorities, costs, resource requirements, and other relevant considerations. The annual report shall also report on AIP marketing approaches employed and marketing plans for the coming year. AIP objectives and guidelines shall also be reviewed and recommendations designed to improve the performance of the Alternative Investment portfolio shall be included in the annual report.

D. Portfolio Investments

The Program shall utilize two types of investments: Partnership Investments and Direct Investments.

1. **Partnership Investment** is defined as investments made together with an existing general partner or ongoing enterprises. The System may invest in the same security or a different security than the general partner or may take an equity position in an ongoing enterprise. These investments may be in a particular investment or a fund that makes multiple investments. Partnership Investment may be made within or outside of the Territory of the U.S. Virgin Islands.

Partnership Investments shall be continually refined to obtain the most effective mix. These investments shall be continually assessed for effectiveness in the following areas:

- Consistency with the investment objectives of the Alternative Investment Policy;
- Pace and timing of investment commitments, funding and return of capital;
- Diversity of sectors (industry, geographical, investment style, and others as appropriate);
- Performance according to stated objectives specific to the investment; and
- Performance relative to the monitoring benchmark and to the long-term performance objectives, as appropriate.

2. **Direct Investments** is defined as attractive risk-adjusted return investment opportunities within the U.S. Virgin Islands economy. In making these investments GERS seeks to support increasing Virgin Islands prosperity by investing within its community- influencing job creation and or retention, wage prosperity and economic expansion.

E. Transaction Processes

The Program shall process all investment transactions efficiently. To accomplish this, the Administrator or his designee shall serve as the "point of contact" regarding all Investments. The objective is to process all proposals efficiently and effectively and provide timely responses.

F. Quality Control Processes

The alternative investment program shall employ a quality control process, which includes both the Administrator or his designee and Consultants monitoring Program efficiency, tracking investment performance, and controlling risk.

1. Process Monitoring – The Administrator or Consultant shall monitor transaction processing to insure timely decision-making and an effective process.
2. Monitoring Portfolio Performance – Actual returns are compared to benchmark as appropriate, and to the expected return for the investment.
3. Risk Control – Program standards are maintained by:
 - Assessing the level of diversification in the portfolio on a continuous basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate;
 - Performing, tracking and or monitoring due diligence activity and ensuring that due diligence and monitoring activities are consistent with policies and procedures;
 - Identifying problems early and expeditiously taking corrective action.

G. Specific Risk Parameters

The Administrator and/or Consultants will consider the following realities and employ industry-accepted practices to mitigate risk:

- Alternative investments often employ leverage (borrowing), which may lead to a greater volatility in returns and exposure to loss or gains.
- Certain alternative investments entail above average operating and business risk. Efforts must be taken to constrain and, where possible, reduce the exposure of the investment to this risk exposure. Examples of such risk include, but are not limited to, risks associated with developing new products, establishing new markets, and having untested and incomplete management teams.
- Alternative investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited; and, often, there is no current income. The overall AIP must consider this exposure in light of the requirements and investment return and liquidity of the larger GERS investment portfolio.
- The System shall negotiate and structure specific fundamental rights and protections, which include mechanisms for taking remedial action. These basic protections

- include advisory committee Board participation and specific termination provisions in partnership transactions and anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.
- Partnership and Direct Investments shall be evaluated to determine if there exists an appropriate employable valuation discipline. The Administrator and or Consultants shall recommend this discipline to the Investment Committee as part of its review and consideration of an investment opportunity.

H. Types of Investments

The program shall consider only appropriate investment opportunity with the potential for returns superior to traditional investment opportunities.

Investment can be in any industry or geography and may include:

- a. Privity Equity Venture
- b. Capital Mezzanine Acquisition
- c. Buyout Restructuring Subordinated
- d. Real Estate
- e. Hedge Funds
- f. Special Situations
- g. Venture Capital

V. REPORTING

A. The Administrator and/or Consultants shall require periodic reports, which are appropriate for the specific transaction, from investment partners to facilitate monitoring.

B. The Administrator and/or Consultants shall monitor Partnership and Direct Investments and the Alternative Investment Portfolio as a whole. Monitoring shall include the recommendation of diversification across alternative investment types and programs.

C. Performance

1. Partnership Investments

The System shall assess the performance of partnerships relative to the following areas:

- (a) Objectives established by the partnership or the principals managing the investment (actual financial performance as compared to original plan)
- (b) Risk undertaken
- (c) Performance of other similar investments
- (d) The monitoring benchmark for partnerships or the performance objective, with appropriate interpretation.

2. Direct Investments

The System shall assess the performance of Direct Investments relative to the following areas:

- (a) Actual financial performance of a company compared to the business plan and strategy

(b) Risk undertaken

(c) The performance of the company against its pro forma operating results, its industry and the GERS portfolio performance.

D. Frequency of Reports

Quarterly and annual reports shall be provided to the Investment Committee. These reports shall include, but shall not be limited to, review of investments and their performance.

VI. MINIMUM REQUIREMENTS AND CRITERIA

A. Minimum Requirements/Investment Styles of Principals

1. The principals associated with any investment shall demonstrate relevant experience in or directly applicable to the market in which they propose to work. In those cases where direct prior involvement is not demonstrable, the business plan must evidence the addition of such experience and capability to the management team.
2. The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.
3. The principals shall demonstrate the requisite skills and experience necessary to successfully execute the proposed strategy, including evidence of their ability to work successfully together.
4. The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.

B. Evaluation Criteria

In evaluating each proposal, the Administrator and or consultant shall give primary emphasis to the quality and experience of the general partners in a partnership investment as appropriate. Additional factors may include:

- Fit with the Program Strategy, Annual Plan, and within the overall Alternative Investment portfolio.
- A unique strategy that is not competitive with existing investments.
- Integrity of the general partner, its employees, and other investors.
- Quality of overall partnership governance, management of the partnership, including controls and reporting systems.
- Specific investment objectives.
- Relationship and standing within the industry and/or community
- Relationship with limited partners
- Nature of value added involvement
- Potentials for co-investments
- Creativity of the general partners
- Past financial performance
- Reasonable ratio of investees to general partners

- Reasonable ratio of committed capital to general partners
- Appropriateness of terms and conditions and alignment of interests with limited partners
- Relative financial capacity and involvement
- The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors
- The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.
- The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.

C. Due Diligence

Where applicable, due diligence review by the Administrator and/or Consultant shall include the following:

- Discussions with principals of the proposed investment.
- Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, private placement memorandums and operative investment agreements.
- Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.
- Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure.
- Review and analysis of the fit within the AIP Program, including fit with the Strategy, Annual Plan, other constraints and guidelines, and compliance with applicable investment policies.
- Review of news articles, principals, prior investments, and concepts.
- Background and reference check of principals.
- Review and analysis of track record including performance of prior and current investments.
- Consideration of relative size of the proposed investment.
- Investigation of special terms and side letter agreements with past or present investors.
- Any analysis of the competition between a given proposal and an existing preferential relationship or alternative asset, which may include, but is not limited to, a review of the following: the size of the industry, the segment of the industry, and the deal flow for both the preferential relationship and the proposed investment.
- Review of any lawsuits or litigation involving the general partner, its principals, employees and prior funds.
- Consideration of all appropriate legal, regulatory and tax constraints, which impact the investment.

VII. DIRECT INVESTMENT GUIDELINES

A. Minimum Requirements

- Management skills and expertise where applicable. There shall be a competent and

- experienced team with the relevant skills to run and grow the business enterprise.
- The entity in which the investment is to be made shall be appropriately capitalized in the relevant circumstances.

B. Evaluation Criteria

Primary emphasis shall be on the following:

- The Integrity of the general partner, its employees, and other investors.
- The historical and prospective financial condition of the company or opportunity.
- The market position of the company or opportunity including its relative competitive position within the industry.
- The growth prospects of the company and its industry considering known existing and anticipated economic conditions.
- The underlying stability of the business opportunity.
- The quality and sustainability of earnings.
- The quality of the assets comprising the investment, such as manufacturing facilities, inventories, receivables, and other assets, including intangibles, essential to the company's operations.
- The appropriate capital structure of the proposed investment.
- The quality, stability and experience of the management team, if relevant, including the Board of Directors, and other investors, including the quality of the interaction between Management and the Board.
- The quality of financial and operating controls as well as the quality of reporting to management and investors.
- The quality of the corporate governance, which exists or will exist.
- The return potential of the investment considering its terms and conditions, investment risks and the relative return/risk profile of comparable investments.

At a minimum, additional factors shall include the following:

- The specific financial goals and objectives of the investment.
- The quality of job creation and or retention.
- The economic impact to the community and its contribution to long term economic growth.
- The strategy to be employed to achieve the aforementioned goals and objectives.
- The quality of the proposed management and companion investors.
- The quality of the strategic plan for creating and realizing value from the asset.
- The management capability of the controlling shareowner(s) and other institutional investors.
- The relationship among the management team, the Board of Directors, other investors and any controlling shareowners.
- The potential for follow-on investment.

C. Due Diligence

For Partnership Investments, the administrator and/or Consultant will rely heavily on the work of the general partner sponsoring the transactions, while conducting its own due diligence. Direct Investments will require more in-depth due diligence review because these investments may not come through a general partner.

Where applicable, due diligence review shall include the following:

- Review of whether the proposed investment falls within GERS laws, policies, strategies, constraints and guidelines, and if it complies with applicable investment policies.
- Review and analysis of all pertinent offering documents, including offering memorandums, research reports, annual and quarterly reports, 10K, 8K, 10Q SEC reports and proxy statements.
- Review and analysis of relevant research reports and news articles regarding the company, its management and its industry.
- Background checks of the senior management team and any controlling shareowners.
- Review of the company's historical financial operating results, the present financial condition of the company and an examination of auditor reports and possible interview of the auditor.
- Review and analyze the company's projected financial operations results with consideration given to the reasonableness of such projections and forecasts.
- Review and analyze any contingent liabilities, including potential liabilities related to anticipated legal action, environmental issues, under-funded pensions, taxes and insurance issues.
- Review and analyze the company's market position and its standing in its industry.
- Conduct relevant third party reference checks with key suppliers, customers and, when advisable, competitors.
- Review the company's instruments of indebtedness, corporate instruments, board minutes and any special agreements between the company and other major investors.
- Review the company's relationship with its employees, including labor contracts.
- Review and analyze all relevant regulations and regulatory reports, examinations and ratings regarding the company and its business sector.
- Perform on-site visits to the company's principal facilities and corporate headquarters.
- Interview board members, senior management and controlling shareowners.
- Review the ownership structure, all employee benefit plans and anti-takeover provisions.
- Review the environment and the competitiveness of the investment in that market environment.
- Consider all appropriate legal, regulatory and tax constraints which impact the investment.

VIII. Fees and Costs

Every proposal shall be assessed all costs and expenses incurred by GERS for due diligence, review and analysis of the proposal. The proponent will be provided with an estimate of the anticipated costs and expenses and shall be required to execute an agreement to pay all such costs and expenses in advance.