

STATEMENT OF INVESTMENT POLICY

**THE GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF
THE U.S. VIRGIN ISLANDS**

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Individual manager guidelines are updated upon Board of Trustees Approval

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THE GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

- SECTION I - STATEMENT OF INVESTMENT POLICY

INTRODUCTION

The Employees' Retirement System of the Government of the Virgin Islands (the "GERS") was established and became operative on October 1, 1959 to provide for the present and future retirement, disability, and death and survivor benefit payments for all U.S. Virgin Islands government employees. All of the funds of the retirement system taken in the aggregate constitute a special trust subject to applicable local and federal laws.

The Board of Trustees (the "Board") is responsible for the operation of the retirement system and making effective the provisions of the Employees' Retirement Act. The Board shall be composed of seven members who shall be appointed by the Governor with the advice and consent of the Legislature. Two members shall be appointed from a group of at least six persons who are members of the Central Labor Council, active members of the Government Employees' Retirement System, and who have been recommended by the Executive Committee of the Central Labor Council. One such appointee shall be a resident of the District of St. Croix and one such appointee shall be a resident of the District of St. Thomas - St. John. Of the remaining five members, two shall be a retiree of the Government Employees' Retirement System of the Virgin Islands, elected through a process to be determined and conducted by the system, and at least one shall be an active member of the Government Employees' Retirement System; provided that two such appointees shall be residents of the District of St. Croix, two such appointees shall be residents of the island of St. Thomas and one shall be a resident of the island of St. John.

RESPONSIBILITY OF THE BOARD OF TRUSTEES OF THE GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

The Board is the trustee of the funds in the retirement system. The Board must use reasonable care, skill and caution in selecting investment professionals. The Board is required to contract for management services. The Board must exercise prudence in selecting investment managers, but the exercise of prudence does not relieve the Board of all responsibilities. The responsibilities of the Board relating to the investment management of Fund assets include:

1. Establishing written investment objectives and guidelines governing the investment of Fund assets.
2. Using reasonable care, skill and caution in selecting investment professionals.

3. Determining the Fund's liquidity requirements, investment horizon and risk tolerance and communicating these to the appropriate parties.

4. Evaluating the performance of Investment Manager(s) and other qualified investment professionals on a systematic and regularly scheduled basis based on Prudent Investor Rule: The Board and a person under contract to the Government Employees' Retirement System of the Virgin Islands who invests and manages trust assets owes a duty to comply with the prudent investor rule;

(a) Standard of Care; Portfolio Strategy; Risk and Return Objectives: The Board and a person under contract to the Government Employees' Retirement System of the Virgin Islands to invest and manage trust assets shall invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the Board and such person shall exercise reasonable care, skill and caution. Investment and management decisions respecting individual investment assets must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust. A reasonable effort shall be made to verify facts relevant to the investment and management of trust assets. Assets may be invested in any kind of property or type of investment consistent with the standards of this section. A Board member or a person under contract to the Government Employees' Retirement System of the Virgin Islands who invests and manages trust assets who has special skills or expertise or is named in reliance upon his or her representation that he or she has special skills or expertise has a duty to use those special skills or expertise;

(b) Diversification: The Board and person under contract to the Government Employees' Retirement System of the Virgin Islands to invest and manage trust assets shall diversify the investment of the trust unless the Board reasonably determines that because of the special circumstances, the purposes of the trust are better served without diversifying;

(c) Loyalty: The Board and a person under contract with the Government Employees' Retirement System of the Virgin Islands to invest and manage trust assets shall invest and manage the trust assets solely in the interests of the beneficiaries;

(d) Investment Costs: In investing and managing trust assets, the Board and a person under contract to the Government Employees' Retirement System of the Virgin Islands to invest and manage trust assets may only incur costs that are appropriate and reasonable in relation to the assets for the purposes of the trust and the skills of the trustee;

(d) Delegation: The Board has a duty to personally perform the responsibilities of trusteeship except as those responsibilities are by this section delegated to others or except as a prudent person might delegate those responsibilities to others. In deciding whether and to whom and in what manner to delegate fiduciary authority in the administration of the

trust and thereafter supervising agents, the Board is under a duty to the beneficiaries to exercise fiduciary discretion and to act as a prudent person would in similar circumstances. In performing a delegated function, a person under contract to the Government Employees' Retirement System of the Virgin Islands to invest or manage funds owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation. The Board shall not be liable to the beneficiaries or to the trust for the decisions or actions of a person to whom a function was delegated provided that the Board shall have used reasonable care, skill and caution in selecting the person; establishing the scope and terms of the delegation consistent with the purposes and terms of the trust; and periodically reviewing the person's actions in order to monitor performance in compliance with the terms of delegation;

(e) Reviewing Compliance: Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of the decision or action and not by hindsight.

(f) The text and comments to the Uniform Prudent Investor Act promulgated by the National Conference of Commissioners on Uniform State Laws (1994) and the restatement of the Prudent Investor Rule (1992) are interpretive of the provisions of this paragraph.

(g) Nothing in this paragraph prevents the Board and the Government Employees' Retirement System of the Virgin Islands from requiring indemnification or insurance from a contractor, nor does anything in this paragraph preclude the Board and the Government Employees' Retirement System of the Virgin Islands from obtaining indemnification or insurance for their activities.

5. The Board and a person under contract to the GERS who invests and manages trust assets has a duty to comply with the prudent investor rule.

SCOPE OF THIS STATEMENT OF INVESTMENT POLICY

This Statement of Investment Policy reflects the investment policy, objectives, and constraints of the Government Employees' Retirement System of the Virgin Islands ("GERS").

PURPOSE OF THIS STATEMENT OF INVESTMENT POLICY

This Statement of Investment Policy is set forth by the Board of Trustees of the GERS in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish specific asset allocation and rebalancing procedures.
3. Establish a clear understanding for all parties of the investment goals and objectives of Fund assets.
4. Provide specific guidelines and define limitations for all Investment Managers regarding the investment of Fund assets.
5. Establish a basis for evaluating investment results.
6. Establish a framework for further review and revision of this policy.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

DUTIES OF FIDUCIARIES

Each member of the Board of Trustees of the GERS is a fiduciary. The investment managers are also fiduciaries.

The Board and a person under contract to the GERS to invest and manage trust assets shall invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the Board and such person shall exercise reasonable care, skill and caution. Investment and management decisions respecting individual investment assets must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust. A reasonable effort shall be made to verify facts relevant to the investment and management of trust assets. Assets may be invested in any kind of property or type of investment consistent with the standards set forth in the Employees' Retirement Act and the Board guidelines. A Board member or a person under contract to the GERS who invests and manages trust assets who has special skills or expertise or is named in reliance upon his or her representation that he or she has special skills or expertise has a duty to use those special skills or expertise. To fulfill such responsibilities, the Trustees are authorized and in the case of investment managers, required to retain professional experts including but not limited to:

Employees' Retirement System of the Government of the U.S. Virgin Islands

Investment Policy Statement

The Board of Trustees

1. **Staff:** The Staff, as designated by the Board is the agent of the Board. The Board does not delegate investment management responsibility through the use of its staff. Staff duties include:
 - A. Monitoring investment managers for adherence to policies and guidelines.
 - B. Evaluating and managing the relationships with the Consultant to ensure they are providing all necessary assistance to Staff and the Board as agreed to in service contracts.
 - C. Conducting manager search process, with necessary assistance from consultants as directed by Board.
 - D. Restructuring the portfolio following manager terminations with the assistance of Consultant(s) and Investment Manager(s)
 - E. Organizing and/or participating in any special research required to manage the Fund more effectively and in response to any questions raised by the Board.
 - F. Supporting the Board in the development and approval of the Investment Policy Statement, implementing the Policy Statement and reporting at least monthly on investment activity and matters of significance.
 - G. Ensuring the Investment Managers conform to the terms of their contracts and that performance monitoring systems are sufficient to provide the Board with timely, accurate and useful information.
 - H. Perform on-site due diligence visits with GERS investment managers every two years or as required by the Board in accordance with Board Rules and Regulations.
2. **Investment Consultant:** The Investment Consultant is an advisor to the Board retained to provide investment management advice and a fiduciary for the purposes of the duties assumed under the Consulting Services Agreement. The Investment Consultant will provide investment management advice concerning the investment management of fund assets. Specific responsibilities of the Investment Consultant include:
 - A. Assisting in the development and periodic review of investment policy.
 - B. Conducting Investment Manager searches as authorized by the Board.
 - C. Providing "due diligence" reports or research on each of the Fund's Investment Managers.

- D. Monitoring the performance of the Investment Managers to provide the Board with the ability to determine progress toward the investment objectives.
 - E. Communicating advice on matters of policy, manager research, and manager performance to the Board.
 - F. Reviewing Fund investment history, historical capital markets' performance and the contents of this Statement of Investment Policy with all Trustees when necessary.
 - G. Providing topical research and education on investment subjects that are relevant to the Fund.
 - H. Providing asset/liability allocation review and specific recommendations as appropriate.
 - I. Communicating with all investment related professionals retained by the Fund as required or prudent.
 - J. Reviewing all contracts between the Fund and all investment managers and providing summary of suggested changes.
- 3. Investment Managers:** The Board must contract for investment management but exercise discretion in selection of investment managers. The Board may contract with Investment Managers based on an evaluation of their investment philosophy, performance and ability to complement existing portfolio styles. The Board delegates fiduciary responsibility to investment managers through investment manager agreements and Board guidelines. The Investment Manager acknowledges that it is a fiduciary of GERS with respect to the investment and management of the Assets. In performing its delegated functions, the Investment Manager owes a duty to the trust to exercise reasonable care to comply with the terms of the delegations as set forth in Title Three, Chapter 27, Section §717 of the Virgin Islands Code-and the Board guidelines.

Each specific manager must manage Fund assets according to their role as stated in the guidelines of this Investment Policy and contracted with the Board. No deviation from this discipline is authorized unless first discussed with the Board and its Investment Consultant and written approval issued. If GERS assets are invested in collective investment funds maintained by an Investment Manager, the plan and/or trust document with respect to such collective investment funds shall be part of the guidelines and controlling in the event of a conflict with any other provision of the guidelines.

This Statement of Investment Policy communicates policies regarding the current asset allocation strategies for the assets and the duties and obligations of Investment Managers. Each Investment Manager has full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints and philosophies as outlined in this Statement.

Each Investment Manager is required to manage assets as a prudent investor in accordance with Virgin Islands Code.

Specific responsibilities of the Investment Managers are specified in the Investment Management Agreement and Board guidelines and generally include:

- A. Exercise discretionary investment authority including decisions to buy, sell, or hold individual securities within the guidelines established in this Statement. An investment manager has a fiduciary duty under federal securities laws to allocate securities fairly among its various accounts. The GERS will be provided a copy of the investment manager's trade allocation policy and procedures and will be advised, in writing, of changes to the policy and the potential impacts on GERS' account.
- B. Communicate in a timely manner any significant changes regarding economic outlook, investment strategy, or any other factors which may have an impact upon the achievement of the Fund's investment objectives.
- C. Inform the Board regarding changes within the investment management organization within a timely manner (3 days): Examples include but are not limited to: changes in lead personnel assigned to manage the account and or other significant changes including ownership, ownership structure, investment philosophy.
- D. Inform GERS of any significant asset value lost within 30 days due to termination or withdrawal. Significant asset value is indicated by 15% of the institutional assets under management in the strategy or 10% of the institutional assets under management of the firm.
- E. Subject to such guidelines as the Board may from time to time establish, vote all proxies for securities held for the Fund so long as in the Manager's belief the result of the ballot would serve to increase the value of the investment or otherwise benefit the Fund. For additional details, refer to Section VIII, Proxy Voting Guidelines.
- F. Provide timely reporting of investment activities. Each Investment Manager shall provide reports to the Board as outlined in Section VII.
- G. Maintain records of security buy and sell transactions in accordance with the records retention schedules and practices of the Fund's custodian.

H. Meet with the Board on an as needed basis.

4. **Custodian:** The Custodian acts in a ministerial capacity, which means that the Custodian does not assume fiduciary responsibility except as specified in the Custodial Agreement.

In addition, the Custodian will conduct the following responsibilities:

- A. Perform regular accounting of all assets owned, purchased, or sold, as well as monitor the movement of assets into and out of the Fund accounts.
 - B. Provide assistance to the Fund to complete activities including, but not limited to, annual audits and transaction verifications.
 - C. If directed by the Board, manage a short-term income fund for investment of any cash not invested by managers.
 - D. The Custodian, if directed by the Board, will manage the securities lending program.
5. **Additional Professionals:** Additional Professionals, including but not limited to attorneys, actuaries and auditors may be retained by the Board as necessary to assist toward the prudent administration of the Fund.

- SECTION II - INVESTMENT GOALS AND OBJECTIVES

The overall investment goal is to provide participants with retirement, disability and death and survivor benefits. The purpose of the Fund establishing an investment policy is to obtain the highest return possible on Fund investments within corresponding acceptable levels of minimum investment risk and liquidity requirements in recognition of prudent person standards and compliance with applicable local, state, and federal laws governing the operation and activities of the Fund. In particular, the Fund is bound by the Virgin Islands Code.

FUNDING LEVELS AND LIQUIDITY REQUIREMENTS

The Board seeks to keep Plan benefits as well funded as possible at all times. Additionally, the Board wishes to remain as fully invested as possible at all times, while maintaining appropriate liquidity. Generally, the Fund will maintain enough liquidity to meet one month of payments and expenses.

ASSET ALLOCATION CONSIDERATIONS

The Board implements an asset allocation policy that is predicated on a number of factors, including:

1. A projection of actuarial assets, liabilities, and benefit payments and the cost of contributions;
2. Historical and expected long-term capital market risk and return behavior;
3. An assessment of future economic conditions, including inflation and interest rate levels; and
4. The current and projected funding status

The asset allocation policy provides for diversification of assets in an effort to maximize the Fund's investment return consistent with market conditions. Asset allocation modeling identifies asset classes that the Board will utilize and the percentage that each asset class represents of the total Fund. Due to fluctuations in market values, positioning within a specific range is acceptable and constitutes compliance with the policy. It is anticipated that periodic revisions to the policy may occur and implementing such changes may require an extended period of time.

The Board's asset allocation policy is summarized on the following page. The Board, Staff and external consultants will monitor and assess the actual asset allocation versus the policy and will evaluate any deviation deemed significant.

The Board will implement the asset allocation policy through the use of external investment managers. Assets will be invested subject to guidelines incorporated into individual investment management agreements (see SECTION VI - SPECIFIC OBJECTIVES AND GUIDELINES FOR MANAGED PORTFOLIOS).

TARGET ALLOCATIONS

The Board has determined that the following asset allocation policy is currently appropriate for the Fund. This asset allocation policy will be reviewed periodically and may be modified, if appropriate, in light of changes in the structure or goals of the Fund. The following asset allocations are meant to apply to the actual realized asset class allocations as opposed to the allocations among manager types.

| <i>Asset Allocation*</i> | <i>Lower Limit</i> | <i>Target</i> | <i>Upper Limit</i> |
|----------------------------|--------------------|---------------|--------------------|
| Domestic Equity | 35% | 45% | 55% |
| International Core | 5% | 10% | 15% |
| Domestic Fixed Income | 20% | 30% | 40% |
| International Fixed Income | 5% | 10% | 15% |
| Alternatives | 0% | 5% | 10% |

REBALANCING PROCEDURES

The Fund routinely needs cash for payroll or other expenses, has cash flows to and from alternative investments, or has other cash needs as approved by the Board, required by a court order or required by a governmental body. Cash needs and investment experience may take the Fund outside of the established asset allocation range, requiring rebalancing activity.

In order to maintain the established target asset allocation, the Fund will implement a systematic rebalancing procedure. As determined necessary given significant cash flows or market movements, the Fund will develop and execute a rebalancing plan. To limit the amount of required liquidations and associated transaction costs, the Fund will look to rebalance concurrently with liquidity requirements of the Fund. Staff, in consultation with the consultant, will retain discretion regarding rebalancing issues.

Based on the established ranges set forth above, Staff will determine what, if any, rebalancing activity is required. If Staff deems rebalancing to be necessary, they will provide the consultant with written recommendations from which Staff and consultant will develop a mutually agreed upon rebalancing plan. Staff will be responsible for executing all rebalancing activity.

TRANSITION MANAGER PROCEDURES

The Fund at times may need to utilize the assistance of a transition manager. The Staff working with a consultant will develop a transition manager panel, with final approval from the Board. Transition managers may be used, but not limited to, the following:

- Rebalancing between asset classes to achieve the asset allocation target policy objectives
- Terminating and funding new asset managers

If Staff and the investment consultant deems hiring a transition manager to be necessary, they will work to develop a mutually agreed upon transition plan. Staff will retain discretion regarding transition issues and will be responsible for executing all transition manager activity. Staff will be responsible for providing an update to the Board on all transition issues.

- SECTION III - **GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS**

Each Investment Manager within the Fund will be chosen for a specific discipline and will be required to adhere to these general investment guidelines.

1. **Risk Aversion:** Investment Managers are to make reasonable efforts to control risk and will be evaluated regularly to ensure that the return of the portfolio under management is commensurate with the level of risk that is assumed within any given discipline.
2. **Fully Invested:** The Board has adopted a long term Asset Allocation Policy and grants Investment Managers discretion over assets within the portfolios they manage. The Board has set specific guidelines concerning the allowable levels of cash that may be maintained in each actively managed portfolio (Section VI). The Board will closely monitor the use of cash by any manager. If a manager believes that a change in its specific guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Board.
3. **Investment Discipline Objectives:** Each separately managed portfolio will have specific guidelines and objectives established by the Board. Investment Managers are expected to adhere to the investment discipline for which they were hired. Managers will be evaluated for adherence to their stated investment discipline.

Specific investment goals and constraints for each Investment Manager shall be incorporated as part of this Statement in Section VI: SPECIFIC OBJECTIVES FOR INDIVIDUALLY MANAGED PORTFOLIOS. Each manager shall receive a written statement outlining specific goals and constraints as approved by the Government Employees' Retirement System of the Virgin Islands.

The goal of each Investment Manager, over the investment horizon, shall be to:

- A. Exceed the market index, or blended market index, selected and agreed upon by the Board that most closely corresponds to its style of investment management.
- B. Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified.

The Investment Managers are charged with the responsibility of maintaining their portfolios in compliance with the investment guidelines. The Investment Manager is expected to identify policy items that may have an adverse impact on performance and to initiate discussion with the Staff regarding possible modification of such policies. Under no circumstances shall an Investment Manager take an action that causes the portfolio to be in conflict with the guidelines without prior written consent of the Board. If there is a deviation from the

guidelines because of an Investment Manager's action, the manager will be reviewed by the Board at the next meeting following notification of the deviation. If there is a deviation from the guidelines because of a change in the market value of an Investment Manager's portfolio or a particular holding, or a change in quality rating of a particular holding, the Investment Manager shall take action that is prudent and appropriate to the intended purpose of the portfolio. If for any reason a portfolio deviates from the guidelines, the Investment Manager is responsible for reporting the deviation from the guidelines to the Board and its Investment Consultant in writing within 3 business days of when the deviation occurred. The Investment Manager is required to give this notice even if they have taken immediate action to correct the deviation. The Investment Manager will explain the deviation from the guidelines and suggest appropriate action. Within 30 days after receiving notification of a deviation from the investment policy guidelines, the Board will respond to the manager's recommendation and will direct appropriate action. Depending upon the circumstances, the consequences of deviating from the investment policy guidelines could range from an Investment Manager merely explaining what caused the deviation to occur, to the manager's termination.

4. **Commingled Funds:** In circumstances where the Fund is invested in a commingled vehicle, the Investment Manager will be held to the investment performance standards and guidelines set forth in the goals and guidelines of the commingled vehicle. For voting of proxies, commingled fund managers will use their master trust agreement proxy voting policy standards, however, reporting of proxy voting activity will be in accordance with GERS' policy. Brokerage decisions, including commission recapture, will be made according to the master trust document of the commingled investment vehicle.
5. **Brokerage and Execution of Transactions:** Investment Managers with authority over fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution and to work in the best interest of the Fund.

Additionally, the Fund may utilize commissions generated on securities to obtain performance evaluation and other investment related services and benefits for the Fund.

(Please see Section IX: POLICY AND GUIDELINES FOR BROKERAGE SERVICES)

- SECTION IV - SELECTION AND REVIEW OF INVESTMENT MANAGERS

The Board must use reasonable care, skill and caution in selecting the investment managers, establishing the scope and terms of the obligations of fiduciary responsibility and periodically reviewing the Investment Manager's actions in order to monitor performance in conjunction with the terms of the delegation. The Investment Manager has a duty to the Board to exercise reasonable care to comply with the terms of the delegations. All Investment Managers must:

1. Provide the Board with a written agreement to invest within the guidelines established in the Investment Policy Statement.
2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be a registered investment advisor or a "bank" exempt from registration under the Investment Advisers Act of 1940, and be recognized as demonstrating experience over a number of years in the management of institutional, tax-exempt assets within a defined investment capacity.
4. Adhere to investment style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, conducting research, constructing buy, sell, and hold lists and purchasing and selling securities.
5. Offer services in exchange for fees that are competitive with industry standards for the product category.
6. Execute all transactions for the benefit of the Fund with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Fund. For additional details, refer to Section IX: POLICY AND GUIDELINES FOR BROKERAGE SERVICES.
7. Reconcile monthly accounting, transaction, and asset summary with custodian valuations, report separately on gains and losses on sales, and communicate and resolve any significant discrepancies. The month-end custodian valuations will be used to calculate rates of return for performance-reporting purposes and manager fee calculations.
8. Maintain frequent and open communication with the Board and Staff on all significant matters, including but not limited to changes in the Investment Manager's outlook, strategy, and portfolio structure, changes in ownership, structure, any changes involving key decision makers and significant client losses.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant and Custodian shall be compiled quarterly and communicated to the Board for review. The investment return of total portfolios, as well as asset class components, will be measured against performance benchmarks, appropriate for each portfolio, as adopted by the Board. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this Statement. The Board reserves the right to terminate a manager at its discretion for any reason including, but not limited to, the following:

1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant changes to the investment management organization, including but not limited to loss of key personnel.
4. Evidence of illegal or unethical behavior by the investment management firm.
5. Lack of willingness to cooperate with reasonable requests by the Board and/or Staff for information, meetings, or other material related to its portfolios.
6. Loss of confidence by the Board in the Investment Manager.
7. A change in the Fund's asset allocation program that necessitates a shift of assets to another sector or asset class.

Investment Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters and other factors that may impact their ability to achieve the desired investment results.

- SECTION V - DEFINITIONS

1. **"The Fund"** shall mean the Government Employees' Retirement System of the Virgin Islands Fund.
2. **"The Board"** shall refer to the governing Board of Trustees established to administer the Fund as specified by applicable ordinance.
3. **"Fiduciary"** shall mean any entity or person who exercises any discretionary authority or discretionary control respecting management of the Fund or exercises any authority or control respecting management or disposition of the Fund's assets, or renders investment advice for a fee or other compensation, direct or indirect, with respect to monies or property of the Fund, or has any discretionary authority or responsibility in the administration of the Fund.
4. **"Investment Consultant"** shall mean any entity or person employed to provide advisory services, including advice on investment objective and/or asset allocation, manager search, and performance monitoring.
5. **"Investment Manager"** shall mean any individual, or group of individuals, employed to manage the investment of Fund assets.
6. **"Broker-Dealer"** shall mean any entity or person in the business of effecting securities transactions for its own account and/or of others and registered as such with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc.
7. **"Market Cycle"** shall be a time period that includes a significant market decline from peak to trough and a sustained market increase significantly above the previous peak. Within the stock and bond markets, a complete cycle usually has a span of 4 to 6 years but can be shorter or longer. Observing performance over a market cycle allows the Board to analyze the results without biasing the results in favor of managers that might outperform during certain sub-periods. If a market cycle should take place within a shorter time period, additional time may still be needed to assess the value added of the manager.

CONCLUSION

This Statement is a working document structured to accomplish long term and short term planning. Investment Managers and other fiduciaries are invited to contact the Fund or the Investment Consultant with any questions about the interpretation or application of any provisions. This Statement of Investment Policy will be reviewed annually. All changes will be communicated to all appropriate parties in writing.

Please address reports, correspondence and communications to:

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS
Bruce Thomas, Investment Officer
#3004 Orange Grove
Christiansted, St. Croix, VI 00820-4313
(340) 718-5480

Please address all manager fee bills to:

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS
Austin L. Nibbs, CPA, Administrator
3438 Kronprindsens Gade, 3rd Floor
St. Thomas, VI 00802
(340) 776-7703

- SECTION VI - SPECIFIC OBJECTIVES AND GUIDELINES FOR MANAGED PORTFOLIOS

INVESTMENT OBJECTIVES AND GUIDELINES

The Board expects to receive results from the Investment Managers that are consistent with the policies included herein. The following sections outline the specific objectives and guidelines established for each asset and management category. These objectives and guidelines will provide a basis for evaluating the effectiveness of each Investment Manager and the overall investment program over time.

BOARD RESTRICTIONS

- No transaction that is prohibited under the Uniform Prudent Investor Act promulgated by the National Conference of Commissioners on Uniform State Laws (1994) and the Virgin Islands Code Title Three – Chapter 27 – Section §717.
- No unauthorized investment under the Virgin Islands Statutes.
- Prohibited investments include mortgage interest only (IO), principal only (PO), inverse floaters or other CMO derivatives that have uncertain or volatile duration or price movement.
- No assets shall be invested in restricted (lettered) stock or in private placements. This restriction is not meant to preclude purchases of securities issued under SEC Rule 144a. Rule 144a allows trading among qualified institutional investors within a segment of the private placement market.

DERIVATIVES

Investment managers may use derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes subject to compliance with the following specific guidelines at all times. The ability to use derivatives is specified into the individual manager guidelines.

a) Futures

- Shall never be used for leverage purposes.
- The effective economic exposure to any asset class after allowing for the impact of short futures positions shall never be negative.

b) Options

- Call options may be purchased only as long as there is sufficient cash available to meet the exercise price or as part of a call spread.
- Put options may be purchased only to the extent that the corresponding physical asset is held in the portfolio or as part of a put spread.
- Writing of options is prohibited.

c) Reporting

- All derivative positions and transactions shall be separately and explicitly identified in the Investment Manager's reporting. Each time the Investment Manager undertakes a derivative transaction they shall highlight it in the first written report afterwards and explain the rationale for the transaction.

d) Over-the-counter derivatives not traded on a recognized exchange can only be used with prior specific written consent of the Board.

- Forward contracts may be used at the manager's discretion to hedge currency exposure.

TRANSITION MANAGER

Permission is granted to transition managers to use futures on financial contracts, forward currency contracts, and Exchange Traded Funds in the management of portfolio transitions and in the management of portfolio rebalancing activity, according to the above-referenced Derivatives Guidelines. The use of these instruments by transition managers for these purposes will typically begin and end in short periods of time.

TOTAL FUND

OBJECTIVES AND GUIDELINES

Investment Objectives

| <u>Performance Standard</u> | | |
|--|---|--|
| <u>Time Horizon</u> | <u>Universe</u> | <u>Index</u> |
| Less than one market cycle (rolling 3-year periods). | Rank in upper 50% of a Peer Group ¹ | |
| One market cycle (rolling 5-year periods). | Rank in upper 40% of a Peer Group. ¹ | Exceed the return on a benchmark Index by 1%. ² Have volatility of +/- 2% tracking error to the benchmark Index. ² |

Investment Guidelines

- The investment guidelines governing each asset class/manager will together constitute the Total Fund guidelines along with any additional established guidelines.
- The reserves of the System in excess of the cash requirements for current operations shall be invested and reinvested in the types of securities and investments and under the conditions and limitations outlined.
- The aggregate amount to be invested in common and preferred stocks shall be limited to 60 percent of the market value of the total investments of the Fund on the date the investment is made.
- The aggregate amount to be invested in common and preferred stocks shall be limited to 20 percent of the book value of the total investments of the Fund on the date the investment is made.
- Investment of stock of any single corporation should not exceed 1 percent of the market value of the total investment of the Fund on the date of purchase.
- Investment in foreign stocks shall be limited to 10 percent of the market value of the total investment of the Fund
- Bonds or other obligations which are payable from revenue or earnings specifically pledged therefore of a public utility which is municipally owned either directly or indirectly through any civil division, authority or public instrumentality of the municipality, provided: (a) the municipality has at least 30,000 inhabitants; (b) the utility has been in operation for at least 10

years prior to the date of investment; (c) bonds or other obligations of such utility have not been in default for any period longer than 30 days; (d) rates for service are fixed and maintained and collected at all times so as to produce sufficient revenue or earnings to pay all operating and maintenance charges and both the principal and interest on such bonds or obligations; (e) the total investment in this type of security shall not at any time exceed 10 percent of the total investment of the Fund.

- Bond or any other evidences of indebtedness issued or guaranteed by any domestic railroad corporation, or in equipment trust certificates, provided that these securities and investments bear a rating of “BBB” or better by any two nationally known security concerns. Not more than 2 percent of total investments in the Fund shall consist of any one issue of these bonds.
- Bonds or other evidences of indebtedness of any domestic public utility corporation, provided that these securities and investments bear a rating of “BBB” or better by any two nationally known security rating concerns. Not more than 2 percent of total investments in the Fund shall consist of any one issue of these bonds.
- Bonds or other evidences of indebtedness of any domestic industrial corporation, provided that these securities and investments bear a rating of “BBB” or better by any two nationally known security rating concerns. Not more than 2 percent of total investments in the Fund shall consist of any one issue of these bonds.
- Bonds or other obligations of the Commonwealth of Puerto Rico or of the Territories of the United States, provided that the investment in any one issue of bonds of these communities shall not exceed 10 percent thereof, and that the total investment in all securities and investments of any one of such communities shall be limited to 2 percent of the total investment account of the Fund.
- Bonds or other indebtedness issued by foreign governments or foreign corporations provided that (a) these securities bear a rating of “BBB” or better by any two internationally known securities rating concerns, and (b) not more than 2 percent of total investments in the Fund shall consist of any one issue of these bonds.
- The aggregate amount to be invested in foreign bonds shall be limited to 10 percent of the market value of the total investments of the Fund on the date the investment is made.
- The Board is responsible for the overall asset allocation of the Fund. Each manager will be responsible for adhering to the guidelines for its portion of Fund assets only.

¹ As measured by a universe of similarly managed funds.

² As measured by a composite index designed to track the target asset allocation.

PRIVATE EQUITY

A separate Alternative Investment Statement of Investment Policy, which includes provisions for investing in Private Equity, has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

REAL ESTATE

A separate Alternative Investment Statement of Investment Policy, which includes provisions for investing in Real Estate, has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

LIFE SETTLEMENTS

A separate Alternative Investment Statement of Investment Policy, which includes provisions for investing in Life Settlements, has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

GERS LOCAL ALTERNATIVES

A separate Alternative Investment Statement of Investment Policy, which includes provisions for investing in Other Situations, has been adopted by the Board. This policy is an extension of the Statement of Investment policy and will be reviewed annually.

- SECTION VII -

REQUIRED REPORTING OF ACTIVELY MANAGED INVESTMENT PORTFOLIOS

The Board has determined that each Investment Manager given discretionary authority over a portion of the Fund's assets shall provide the following required reports to the Fund at the time periods indicated.

15 copies of these reports shall be compiled and distributed to Staff.

ON A MONTHLY BASIS:

1. **TRANSACTION STATEMENT:** A complete list of all transactions.
2. **ASSET LISTING:** A complete list of all portfolio holdings, including securities' names, amount owned, cost and market valuations and percentage of total portfolio.
3. **A STATEMENT OF INVESTMENT PERFORMANCE:** Expressed in percentage increase/decrease for the following periods: Month, Year to Date, One Year, Three Year, Five Year and Since Inception. Comparative statistics for the specific Benchmarks should also be included.

ON A QUARTERLY BASIS:

In addition to the above reports, the following will be completed:

1. **A LETTER OF TRANSMITTAL:** Addressed to the Investment Officer of the Fund with copies to the Administrator and Trustees that includes a narrative about the account performance and all related factors for the quarter.
2. **A STATEMENT OF EXPECTATIONS:** Regarding both near and long-term expectations for the account.
3. **RECONCILIATION:** At market value, between the managers' records and those provided by the Fund's Custodian. Differences in cash due to unsettled trades should be so noted as well as any differences in carrying value of securities. The Custodian's final pricing will be used to calculate returns and to calculate manager fees.

ON AN ANNUAL BASIS:

1. Complete an Annual Compliance Certificate that the GERS or the consultant provides

In addition, the Manager will meet with the representatives of the Board as often as deemed necessary by the Board. In the interim, the Manager will keep Staff, the Board, and the Investment Consultant apprised of any relevant information regarding its organization, personnel and/or investment strategy. The manager will notify Staff or the Chairman of the Board within 3 days of any change in the lead personnel assigned to manage the account.

- SECTION VIII - PROXY VOTING GUIDELINES

The Board of Trustees of the GERS has delegated the responsibility for voting proxies to their investment managers. Each investment manager has the responsibility for voting proxies in the best interests of plan participants.

The Board will monitor the proxy voting of its investment managers. By June 30 of each year, each investment manager will supply to the Board and its Investment Consultant an acknowledgement that it is responsible for voting proxies in the best interests of plan participants, a copy of the investment manager's proxy voting procedures and guidelines and a list of how the investment manager voted on all proxy issues during the 12 months preceding the report.

- SECTION IX - POLICY AND GUIDELINES FOR BROKERAGE SERVICES

This policy statement is intended to serve as a guide for investment managers engaged on behalf of the Government Employees' Retirement System of the Virgin Islands (the "System") in the course of investing the retirement funds of the System. Each Investment Manager engaged by the System is responsible to exercise its responsibility prudently and solely in the interests of the participants and beneficiaries of the System. This document outlines the policies and procedures to be considered by investment managers in fulfilling this obligation.

1. General Policies and Principles: The Board requires that these principles guide all transactions:
 - a) Each manager is charged with the responsibility for all aspects of the investment process with respect to assets entrusted to it and consistent with the specific terms of this engagement by the System.
 - b) Each manager is expected to act prudently with respect to decisions to buy or sell securities as well as with respect to the decision who will execute the transaction.
 - c) Each manager shall secure best execution for each transaction it enters on behalf of the System. This requires that each manager execute securities transactions for the System in such a manner that the System's total cost or proceeds in each transaction is the most favorable under the circumstances. Each manager shall consider the full range and quality of a broker's services in placing brokerage, including, but not limited to, the value of research provided as well as execution capability, commission rate, financial responsibility and responsiveness to the manager.
 - d) The lowest commission paid in connection with a trade is not determinative of whether the transaction represents the best qualitative execution of the trade.

2. Trading Policies and Guidelines: Consistent with its fiduciary and best execution responsibilities described above, each manager, excluding the collective or commingled fund managers, should use its best efforts to minimize total commission dollars generated by buy and sell transactions of exchange traded or electronically traded securities in accordance with the following action and policy of the Board:
 - a) The System desires to minimize total transaction costs (commission plus net price) through the use of electronic trading services.
3. The Board may utilize the services of a transaction cost provider to monitor the individual manager transactions.

**- SECTION X -
APPROVED SECURITIES LENDING PROGRAMS**

The Board has authorized the execution of a Securities Lending Program which will be performed by the Fund's custodian or qualified third party securities lending agent(s). The program is monitored and reviewed by the Staff and was established by a written agreement authorized by the Board. The Securities Lending Program is detailed in the contract with the Fund's custodian, presently State Street Bank and Trust Company.