Investment Policy & Guidelines Statement

Alabama Prepaid Affordable College Tuition (PACT) Trust Fund

November 2008

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Section 1. Authority and Purpose

The Alabama Prepaid Affordable College Tuition Program ("PACT") was established in Section 16-33C-6, Code of Alabama, as a college savings plan whereby purchasers enter into PACT contracts for the future payment of tuition and mandatory fees at eligible educational institutions.

The Board of Trustees ("Board"), created in Section 16-33C-4, Code of Alabama, is responsible for investing monies held in the PACT Trust Fund ("Fund"). The purpose of this Investment Policy and Guidelines Statement ("Statement") is to assist the Board in effectively establishing, monitoring, evaluating, and revising the investment program established for the Fund.

This Statement will be reviewed at least annually.

Section 2. Investment Responsibility

Section 16-33C-6 (d), Code of Alabama, states that "In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property of the PACT Trust Fund, the board and any person or investment manager to whom the board delegates any of its investment authority shall exercise the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to permanent disposition of funds, considering the probable income as well as the safety of their capital. When acting within this standard of care, no board member, or any person or investment manager to whom the board delegates any of its investment authority, shall be held personally liable for losses suffered by the PACT Program on investments made pursuant to this chapter."

Section 3. Fund Objectives

The objectives of the Fund have been established based upon current and projected financial requirements. The objectives are:

1. To attain a "real" rate of return (return above inflation) net of investment management fees equal to or exceeding 5%. For purposes of this statement, the real rate of return will be measured over five years and greater.
2. To attain a rate of return equal to or higher than the actuarially assumed rate of return of 8.02% annualy over a 5-year period.
3. To remain sufficiently liquid to meet PACT benefit payments timely.

Section 4. Total Fund Performance Objectives

(1) Time Horizon

The performance of the Investment program as a whole, each asset class and each investment manager relative to established benchmarks will be evaluated on a three to five year horizon.

(2) Objectives

Based on the asset liability analysis presented by the Investment Advisor, the Board has identified performance benchmarks for each investment option and the separate mandates within each asset class. The table below lists each asset class invested by PACT, the performance benchmark index, and Callan Style Group that represents the peer group upon which the asset class is measured. The Callan Style Group will be used during the period that Callan and Associates serves as Investment Advisor.

Asset Category	Market Index	Callan Style Group
Total Domestic Equity	Russell 3000 Index	Total Equity Database
Passive Large-Cap Equities	Russell 1000 Index	Large Cap Core Equity
Large Cap Value Equities	Russell 1000 Value Index	Large Cap Value
Large Cap Growth Equities	Russell 1000 Growth Index	Large Cap Growth
Small Cap Value Equity	Russell 2000 Value Index	Small Cap Value
Small Cap Growth Equity	Russell 2000 Growth Index	Small Cap Growth
Non-U.S Equity	MSCI World ex U.S. Index	Non-US equity
Fixed Income	LB Aggregate Bond Index	Core Plus Fixed Income
Real Estate	NCREIF Index	Core Real Estate database

The primary benchmark for evaluating the performance of the total Fund is a Target Index consisting of a market index for the asset class weighted in accordance with the allocation target. The Target Index is:

Russell 1000 Index	38%
Russell 2000 Index	9%
MSCI World Index ex-US	20%
LB Aggregate Bond Index	23%
NCREIF Index	10%

Over a three to five year period the Board expects the total Fund to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index.

Section 5. Roles and Responsibilities

(1) Board of Trustees

The Board of Trustees has the responsibility for establishing and maintaining an investment policy that guides the investment of the Fund. The Board has authority to contract for, and to engage the services of qualified persons and entities for administrative and technical assistance in carrying out the responsibilities of PACT. Qualified persons and entities engaged include an Investment Advisor, Investment Managers, Custodian, Transition Managers, and Actuary.

(2) Investment Advisor

The primary role of the Investment Advisor is to assist the Board in fulfilling its responsibilities by providing information, analysis, and recommendations, and by assisting the Board in developing and implementing a prudent process for monitoring and evaluating the investment program to ensure the success of the Fund.

(3) Custodian

The custodian has three primary responsibilities, namely: (1) safekeeping of assets – custody, valuation and accounting & reporting of assets owned by the Fund; (2) trade processing – track and reconcile assets that are acquired and disposed; and, (3) asset servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues.

(4) Investment Managers

The investment managers manage fund assets in accordance with the guidelines and objectives contained in this Statement, manager specific guidelines, and contract, and consistent with each investment manager's stated investment philosophy and style as presented by the investment manager representatives to the Board.

Section 6. Asset Allocation

The overall Fund portfolio design and asset allocation have been structured to provide the most appropriate structure and asset allocation from a risk and return perspective to meet the Fund objectives. The Fund shall be diversified both by asset class and within asset classes, by economic sector and industry. The purpose of diversification is to reduce specific risk associated with any single security or class of securities. Asset allocation in conjunction with a formal asset liability review will be performed every 3-5 years.

The market value of investments in the approved asset classes shall generally remain within the following ranges:

Asset Class	% Allocated	Range
Domestic Large/Mid Cap Stocks	38%	+/-5%
Domestic Small Cap Stocks	9%	+/-3%
International Equity	20%	+/-5%
Domestic Bonds and Cash*	23%	+/-5%
Real Estate **	10%	+/-3%

Adherence to the asset allocation is monitored quarterly. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the Statement range. Rebalancing the Fund to comply with Statement ranges will be recommended by the Investment Advisor. The rebalancing will be handled in the most prudent manner.

* The overall Fund does not have a strategic allocation to cash but individual managers will hold varying amounts of cash within their respective portfolios as part of the normal course of managing their portion of the Fund.

** The move into the real estate class will be completed in a gradual manner with approximately half of the assets allocated in 2009, and the remaining assets allocated in 2010.

Section 7. Eligible Investments

Unless restricted elsewhere in the guidelines, eligible investments shall consist of all types of securities contained in the following indices: Lehman Brothers Aggregate Bond Index, Merrill Lynch High Yield Cash Pay Index, Wilshire 5000 Index,, MSCI All-Country World Index, MSCI World Index Small Cap, and MSCI Emerging Markets Free Index.

Futures and options are allowed provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.

Section 8. Prohibited Investments

The following categories of securities are prohibited, unless specifically provided in the individual manager's guidelines:

1. Commodities or Commodity Contracts;
2. Short Sales, Margin Transactions, or any leveraged investment;
3. Natural resource properties, such as oil, gas and timber;
4. Private Equity, including, but not restricted to, venture capital or buyout funds;
5. Securities of the investment manager or any affiliated organization.

The Board, at any time, may prohibit certain investments due to concerns relating to social responsibility issues.

Section 9. Cash and Equivalents

Investment managers are expected to invest primarily in the asset class in accordance with the guidelines provided in this Statement. However, investment in cash and cash equivalents up to 5% of the market value of the manager's portfolio is allowed.

To the extent the portfolio holds cash, the cash will be invested in the short-term investment fund managed by the PACT Custodian, and selected by PACT, consistent with OCC Reg 9 and/or SEC Rule 2a-7.

Section 10. Commingled/Mutual Fund Investment Products

In the case of a commingled account or mutual fund account, the Fund waives strict adherence to the investment guidelines provided in this Statement. Notwithstanding these guidelines, a commingled or mutual fund's investment objectives, policies and restrictions, as set forth in its current prospectus, with amendments, shall govern the investment of the Fund's assets in the commingled or mutual fund account.

The Board requires advance disclosure and production of all procedural information, forms and standard agreements of commingled and mutual fund products. It is the Investment Managers' responsibility to fully inform the Board during the interview process of the risk, benefits, investment stability, underlying asset classes, and similar issues of investing in a commingled product.

Section 11. Investment Managers

(1) Evaluation
Quarterly, the Investment Advisor will present an evaluation of the performance of each investment manager. The evaluation will include, but not be limited to, return analysis, asset allocation, portfolio characteristics, sector weights, risk analysis, and organizational issues.

(2) Guidelines
Each investment manager will be provided a copy of this Statement. Each investment manager is required to comply with the guidelines and policy statements included in this document.

Each manager's portfolio should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Upon hiring of an investment manager, the manager will be provided guidelines specific to the investment of assets entrusted to him, to include the benchmark index, rate of return objectives, risk and risk adjusted return expectations, diversification and style, and approved exceptions to the general asset class guidelines included in this Statement. Where the manager specific guidelines differ from the general guidelines included in this Statement, the manager shall be bound by the manager specific guidelines. The Investment Advisor will provide the manager specific guidelines. Manager specific guidelines are included in the Appendix of this Statement.

(3) Performance.
Investment managers are expected to achieve annualized total returns, net of fees that exceed their designated performance benchmark.

(4) Selection.
The Board will utilize a process for investment manager selection that embodies the principals of procedural due diligence. Accordingly, when selecting investment managers, the Board will employ a competitive search process, assisted by the Investment Advisor, that includes the following steps or such other steps as the Board determines in the situation:

- Formulation of specific manager search criteria that establishes the qualifications for the manager's role in the strategic plan.
- Formulation of qualifying minimum requirements that each investment manager must meet.
- Identification of qualified candidates from Board members, State Purchasing vendor listings, the manager search database maintained by the Fund's investment advisor, and other sources.
- Due diligence conducted on each candidate that will include performance screening, qualitative screening and/or onsite visits.
- Selection and interview of finalist candidates based on final results of the due diligence process.
- Evaluation of any potential conflicts of interest.

(5) Watch List.
A number of factors contribute to a manager's over and under performance. A Watch List will be utilized to identify managers whose performance and/or organizational changes are cause for concern. The Investment Advisor will review this list quarterly with the Board. Managers placed on the Watch List will be closely scrutinized and monitored by the Investment Advisor. Organizational issues that have been resolved in a satisfactory manner and improved performance relative to an index and or peers will be used as an indicator to remove a given manager from the Watch List.

Typical causes to place a manager on the Watch List may include, but is not limited to:

1. Performance below the median (50^{th} percentile) of the peer group over two or more consecutive annual periods;
2. Performance below the bottom quartile (75^{th} percentile) of the peer group over an annual period;
3. Major organizational changes, including change in professionals, significant account losses, change in ownership, regulatory issues, or evidence of wrongdoing.

(6) Proxies.
Investment managers will review each proxy ballot and vote it in a manner that preserves and enhances shareholder value. Each manager shall keep accurate written records of all proxy votes and, on request, provide a detailed report to the Board.

Section 12. Investment Criteria and Guidelines – Fixed Income

Per Investment Manager Portfolio

A. <u>General Fixed Income</u>

(1) Issuer Limitations:

(a) No more than 5% of the total market value of the portfolio can be invested in the debt obligations of any one issuer (does not apply to US Government and Agency securities).

(b) Holdings of any individual issue must be 5% or less of the outstanding value of the total issue.

(2) The average duration of the portfolio must be maintained at plus or minus one year of the benchmark index duration.

(3) Turnover of securities should not exceed 200% in any rolling 12-month period. Fixed income managers shall be excluded from this restriction for the first six months of their retention.

B. <u>Core Fixed Income</u>

(1) At the time of purchase, all securities purchased must be classified as investment grade by two of the three major rating services. For this purpose, the rating must be at least Baa3 by Moody's, BBB- by Standard and Poors, and BBB- by Fitch. If only one rating exists, this one rating will determine investment grade status.

(2) Securities downgraded below investment grade after purchase should be sold within six months of the downgrade.

(3) The weighted average credit quality of the portfolio will not fall below AA- or equivalent.

C. <u>Core Plus Fixed Income</u>

(1) Permitted investments include: "below investment grade" quality bonds, non-U.S. dollar denominated bonds, and emerging market debt. Investment in these securities is limited to 30% of the market value of the portfolio.

(2) Issuer Limitations: Obligations of national governments other than the U.S. are limited to 10% per issuer.

Section 13. Investment Criteria and Guidelines – Domestic Equity

Per Investment Manager Portfolio

(1) Shares must represent readily marketable securities of corporations actively traded on major U.S. exchanges.

(2) Portfolio Limitations:

a. Investment in any one issuer can not exceed 5% of assets in the portfolio at time of purchase. No more than 10% of the market value of the portfolio may be held in any one issuer at any time.

b. Investments in any one industry, as defined by either S&P or Russell Indices, can not exceed 30% of the market value of assets in the portfolio.

c. No more than 10% of the portfolio can be invested in private placements or other securities that are not publicly traded in U.S. or abroad (including securities offered pursuant to Rule 144A with sufficient liquidity to generate adequate pricing).

(3) Issuer Limitations - No more than 5% of the outstanding shares of any one company may be held.

(4) Security Type Limitations - Foreign securities, including foreign stock listed on U.S. exchanges and ADR's, are limited to 15% of the portfolio at market.

Section 14. Investment Criteria and Guidelines – International Equity

Per Investment Manager Portfolio

(1) Equity holdings shall be restricted to readily marketable securities of corporations that are domiciled in countries outside the U.S. or generate 75% or more of their revenue outside the U.S. The securities shall be actively traded on major exchanges in these countries or in the U.S.

(2) Portfolio Limitations:

a. Exposure to Emerging Markets securities is limited to 20% of the market value of the portfolio;

b. Investments in any one issuer can not exceed 5% of assets in the portfolio at time of purchase. No more than 10% of the market value of the portfolio may be held in any one issuer.

c. Investment in any one industry, as defined by Morgan Stanley Capital International, can not exceed 30% of the market value of assets in the portfolio.

(3) Issuer Limitations: No more than 5% of the outstanding shares of any one company may be held.

(4) Derivatives, such as currency forwards, swaps, futures, and options, may be used to hedge foreign currency exposure for defensive purposes only. The underlying value of the derivatives contract shall not exceed the net asset value at market.

Section 15. Securities Lending

Securities lending is permitted as an opportunity to earn additional income. The policies and guidelines governing securities lending shall be with the master custodian, unless contracted otherwise.

The objective of securities lending is to earn income through a conservatively operated and well-controlled program. There is no absolute return expectation; rather, income is expected commensurate with the market demand for the securities made available by the Fund and the return earned on the investment of cash collateral.

The results of the securities lending program are reported to the Board quarterly, and a formal presentation will be provided by the custodian on a regular basis.

Section 16. Transition Managers

Transition management is a cost effective and efficient portfolio restructuring of institutional assets from single or multiple investment managers/asset classes to a new investment allocation over a short-term investment horizon. During the transition process, the transition manager is looked upon as a discretionary caretaker of the portfolio(s) to be liquidated and as the conduit for the funding of the target portfolio(s). The transition manager seeks to minimize tracking error and to maintain asset class exposure. The preservation of capital will be taken into consideration through the transition manager's expert use of all sources of liquidity.

The Board will maintain an approved list of transition managers. As needed, these managers will be contacted and asked to provide a bid to conduct the transitional services. Following the transition, the transition manager selected will provide a full report of the outcome and results of the transition.

Section 17. Brokerage Direction

The Board may direct its investment managers to cooperate in the recapture of certain trading commissions.

Section 18. Cash Contributions and Redemptions

(1) Cash In-Flows:
Enrollment. PACT enrollment is open from October through December annually with the first contract payment due in February. Contracts may be paid in lump sum or in monthly

installments. Currently, all payments received are utilized by PACT for tuition payments and administrative expenses.

Income Earned. Investment income earned, net, is distributed to PACT each month and is not available for reinvestment by the managers. The custodian transfers income from each manager's account to PACT when it becomes available.

Gains. Typically, gains on investments are reinvested.

(2) Cash Out-Flows:
Benefit Payments. Assets may be required to be liquidated to pay the PACT benefits of tuition and qualified fee payments. If necessary, these liquidations would normally occur January and September. Managers will be provided as much advance notice as possible.

(3) Asset Re-allocation:
Changes in asset allocation and/or manager funding occurs from time to time. Managers will be notified with as much advance notice as possible.

Section 19. Policy Exceptions

Each investment manager is required to comply with the objectives and guidelines set forth in this Statement. The Board requires that any exceptions taken to this Statement be submitted in writing pending approval by the Board. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investment manager being liable for any corresponding loss to the Fund's investment funds.

APPENDIX A – Delegation of Responsibilities

The following chart displays the involvement of each entity as the decision making process of the Program expressed as a presentation of control is:

	Board	Investment Advisor	Investment Manager	Custodian
Asset Allocation Investment Policy	X	X		
Formation of Investment Policy	X	X		
Manager Guidelines	X	X	X	
Manager Selection	X	X		
Performance Evaluation	X	X		
Compliance with Manager Guidelines			X	
Execution of Trades			X	X
Collection of Dividends & Interest			X	X
Cash Sweeps			X	X
Recapture Programs	X		X	X
Securities Lending	X			X
Proxy Voting			X	X
Trading Verification			X	X

APPENDIX B – Manager Specific Guidelines

Rhumbline Russell 1000 Index

Rate of Return Objectives

- Rhumbline will be expected to provide returns that approximate the results of the Russell 1000 Index.

Risk and Risk Adjusted Return Expectations

- The Fund will be expected to have a tracking error relative to the Russell 1000 Index of less than 1%.

- The portfolio is expected to have returns similar to the Russell 1000 Index.

Diversification and Style

- The portfolio is expected to hold all the securities in the Russell 1000 Index.

Exceptions to Domestic Equity Investment Manager Guidelines

None

CSMcKee - Large Cap Value Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by CSMcKee should outperform Callan's Large Cap Value Style Group and the Russell 1000 Value Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Russell 1000 Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Russell 1000 Value Index) higher than the median large cap value manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median large cap value manager tracked by Callan.

Diversification and Style

- The portfolio will hold only large capitalization securities.

- Typically the portfolio will hold securities of between 45 and 60 different issuers.

- Over time, the portfolio's characteristics should be within a reasonable range of other large cap value managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Exceptions to Domestic Equity Investment Manager Guidelines

- None

IINTECH - Large Cap Growth Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by INTECH should outperform Callan's Large Cap Growth Style Group and the Russell 1000 Growth Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Russell 1000 Growth Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Russell 1000 Growth Index) higher than the median large cap growth manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median large cap growth manager tracked by Callan.

Diversification and Style

- The portfolio will hold only large capitalization securities.

- Typically the portfolio will hold 50-90% of the stocks in the benchmark universe.

- Over time, the portfolio's characteristics should be within a reasonable range of other large cap growth managers tracked by Callan. Those characteristics should translate to a combined "z-score" greater than zero (0).

Exceptions to Domestic Equity Investment Manager Guidelines

- INTECH does not need to abide by the sector constraints outlined in the domestic equity manager guidelines section. INTECH's constraint is on the security level and they can hold up to 2.5% of the relative weight of the security in the benchmark.

Earnest Partners - Small Cap Value Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Earnest Partners should outperform Callan's Small Cap Value Style Group and the Russell 2000 Value Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio will be expected to outperform the Russell 2000 Index.

Risk and Risk Adjusted Return Expectations

- The portfolio will have a Standard Deviation and tracking error (relative to the Russell 2000 Value Index) significantly higher than the median small cap value manager in the Callan Style Group.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median small cap value manager tracked by Callan.

Diversification and Style

- The portfolio's emphasis will be on securities of issuers with capitalization of between $100 million and $3 billion.

- Typically the portfolio will hold securities from approximately 60 different issuers.

- Over time the portfolio's characteristics should be consistent with other small cap managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Exceptions to Domestic Equity Investment Manager Guidelines)

- None

Turner Investment Partners - Small Cap Growth Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Turner should outperform Callan's Small Cap Growth Style Group and the Russell 2000 Growth Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Russell 2000 Growth Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Russell 2000 Growth Index) similar to the median small cap growth manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median small cap growth manager tracked by Callan.

Diversification and Style

- The portfolio's emphasis will be on securities of issuers with capitalization of between $100 million and $3 billion.

- Typically the portfolio will hold securities of between 110 and 130 different issuers.

- Over time the portfolio's characteristics should be consistent with other small cap managers tracked by Callan. Those characteristics should translate to a combined "z-score" greater than zero (0).

Exceptions to Domestic Equity Investment Guidelines

- None

Acadian Asset Management - International Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Acadian Asset Management should outperform Callan's Non-U.S. Equity Style Group.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the MSCI ACWI ex U.S. Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the MSCI ACWI ex US Index) higher than the median international equity manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median international equity manager tracked by Callan.

Diversification and Style

- The portfolio will purchase securities across the capitalization range.

- Typically the portfolio will hold securities of between 130 and 220 different issuers.

- Over time the portfolio's characteristics should be consistent with other value oriented international managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Exceptions to International Equity Manager Guidelines

- The investable universe for Acadian is the MSCI EAFE IMI Index

Principal - International Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Principal should outperform Callan's Non-U.S. Equity Style Group.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the MSCI ACWI ex U.S. Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the MSCI ACWI ex US Index) higher than the median international equity manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median international equity manager tracked by Callan.

Diversification and Style

- The portfolio will purchase primarily large capitalization securities, defined as securities of an issuer with a market Cap of at least $3 billion at time of purchase.

- Typically the portfolio will hold securities of over 400 different issuers.

- Over time the portfolio's characteristics should be consistent with other core oriented international managers tracked by Callan. Those characteristics should translate to a combined "z-score" around zero (0).

Exceptions to International Equity Manager Guidelines

- None

Western Asset Management - Core Plus Fixed Income

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Western Asset should outperform Callan's Core Plus Fixed Income Style Group.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Lehman Brothers Aggregate Bond Index.

Risk and Risk Adjusted Return Expectations

- The duration of the portfolio will be constrained within +/- 1 year of the benchmark provided above. At least 70 percent of the assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Lehman Brothers Aggregate Bond Index) similar to the median core plus fixed income manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median core plus fixed income manager tracked by Callan.

Diversification and Style

- The portfolio at all times will be diversified among the major market sectors, subject to the following limitations:

– Up to 30 percent of the portfolio may be invested in "below investment grade" quality bonds, non-US dollar denominated bonds, and emerging market debt.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- Western Asset may hold up to 30% of Mortgage TBAs in the portfolio

Passive Fixed Income Manager

Rate of Return Objectives

- To provide returns that approximate the results of the Lehman Brothers Aggregate Index.

Risk and Risk Adjusted Return Expectations

- The portfolio will be expected to have a tracking error of less than +/- 1% relative to the Lehman Brothers Aggregate Index

- The portfolio is expected to have returns similar to the Lehman Brothers Aggregate Index.

Diversification and Style

- The portfolio is expected to hold a stratified sample of the securities in the Lehman Brothers Aggregate Index and to have sector exposure similar to the index.

Exceptions to Core Fixed Income Investment Manager Guidelines

- None

CERTFICATE OF CHAIRMAN

The undersigned hereby certifies that the foregoing PACT Investment Policy Statement and Guidelines was adopted by the Board on November 19, 2008, in a meeting duly noticed and convened.

Kay Ivey, Chairman

ACKNOWLEDGEMENT

By execution of this document the undersigned hereby acknowledges receipt of the November 2008 Alabama Prepaid Affordable College Tuition Trust Fund's Investment Policy and Guidelines Statement. The undersigned has read this document and will abide by its terms in the fulfillment of the contractual responsibilities to the PACT.

Firm Name

Signed

Date

Printed Name, Position

Telephone Number