TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION ENDOWMENT

TAXABLE ENDOWMENT FUND INVESTMENT GUIDELINES
Statement of Investment Policies and Goals

Adopted By the Treasury Board
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DEFINITIONS

Throughout this Statement of Investment Policy and Goals, the following definitions will apply:

“Commission” means the Tobacco Indemnification and Community Revitalization Commission created pursuant to §3.2-3101 of the Code of Virginia.

“Commission Allocation” means 50% of the annual amount received under the Master Settlement Agreement by the Commonwealth of Virginia, or that would have been received but for a sale of such allocation pursuant to an agreement, between the commencing and ending dates specified in the agreement.

“Corpus” of the Endowment means at the time of determination, the sum of the proceeds from the sale of all or any portion of the Commission Allocation, any gifts, grants and contributions that have been credited to such Endowment, and any income not appropriated and withdrawn from the Endowment prior to June 30 of each year, less withdrawals from the Corpus. Determinations by the Treasury Board, or the State Treasurer on behalf of the Treasury Board, as to the amount of Income or the amount of Corpus shall be conclusive.

“Endowment” means the Tobacco Indemnification and Community Revitalization Endowment Established pursuant to §3.2-3104 of the Code of Virginia, and comprised of a tax-exempt endowment established with proceeds of the 2005 Bonds (as herein defined), and the Taxable Endowment (as herein defined).

“Expenses” means the expenses of making and disposing of investments, such as brokerage commissions, legal expenses related to a particular transaction, investment advisory and management fees and expenses, transfer taxes, custody fees and other customary transactional expenses.

“Fund” means the Tobacco Indemnification and Community Revitalization Fund established pursuant to §3.2-3106 of the Code of Virginia.

“Income” refers to, at the time of determination, the lesser of the available cash in, or the realized investment income for the applicable period of, the Endowment. Determinations by the Treasury Board or the State Treasurer on behalf of the Treasury Board, as to the amount of Income shall be conclusive.

“Master Custodian” refers to the bank contracted by the State Treasury to provide traditional custody and related services. Section 2.2-1807 of the Code of Virginia charges the State Treasurer with the custody of all investments and invested funds of the Commonwealth or in possession of the Commonwealth in a fiduciary capacity and with the keeping of the accounts of such investments.

“Series 2007BCD Yield” means 5.354832%.

“Taxable Endowment” means that portion of the Series 2007 Bonds issued on a taxable basis and placed in the Taxable Endowment for the benefit of the Commission.

"Yield-Restricted Funds" means any of the $141,140,438.08 portion of the Taxable Endowment and the earnings thereon that may be invested only at a yield not in excess of the Series 2007BCD Yield.

HISTORY

The Master Settlement Agreement ("MSA") was entered into on November 23, 1998, among the attorneys general of 46 states (including Virginia), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands and the four largest United States tobacco manufacturers. Under the MSA, the Commonwealth is entitled to annual payments which are distributed through the National Escrow Agreement, entered into on December 23, 1998, among the Settling States, the Original Participating Manufacturers and the MSA Escrow Agent.

Pursuant to authorization granted by Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia, 2002 General Session (the "Tobacco Settlement Financing Corporation Act" or the "Act"), the Commonwealth was authorized to sell up to 50% of amounts received under the MSA and allocate the proceeds to the Tobacco Indemnification and Community Revitalization Endowment ("Endowment"). The Endowment is used by the Tobacco Indemnification and Community Revitalization Commission ("Commission") to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from the loss of tobacco production opportunities associated with a decline in quotas, and to provide grants and other funds to aid in the revitalization of tobacco dependent communities.

On May 16, 2005 at the request of the Commission, the Tobacco Settlement Financing Corporation (the "Corporation") issued its $448,260,000 Tobacco Settlement Asset-Backed Bonds, Series 2005 (the "2005 Bonds") to purchase from the Commonwealth 25% of the amount to be received by the Commonwealth under the MSA (or that would have been received but for the sale of such right, title and interest), from May 15, 2005, through May 14, 2104. Net proceeds of the tax-exempt issue were placed in the Endowment for use by the Commission in accordance with § 3.2-3100 et seq. *Code of Virginia*.

On May 3, 2007, again at the request of the Commission, the Corporation issued its $1,149,273,282.50 Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "2007 Bonds"). Net proceeds of the 2007 Bonds were used to (i) advance refund the outstanding Series 2005 Bonds and (ii) to pay the purchase price of an additional 25% of all amounts received by the Commonwealth under the MSA from April 27, 2007, through May 14, 2104 for deposit to the Endowment. The 2007 Bonds have stated maturities of 2046 and 2047, but depending on MSA receipts, may be paid off as early as 2032. In order to provide flexibility as to the use of the Endowment, the Commission requested the portion of the 2007 Bonds used to purchase the additional 25% of the MSA be issued on a taxable basis. Consequently, while the Endowment established by the Series 2005 Bonds must be invested and expended as permitted under the federal tax code for tax-exempt bonds, the Endowment established with the proceeds of the 2007 Bonds (the "2007 Endowment") may be invested and expended without the same restrictions.

OVERVIEW

The Investment of the Endowment shall be under the management and control of the Treasury Board of the Commonwealth of Virginia. The Endowment shall receive any proceeds from any sale of all or any portion of the Commission Allocation, and any gifts, grants and contributions that are specifically designated for inclusion in such Endowment. No part of the Endowment, neither Corpus nor Income, or interest thereon, shall revert to the general fund of the State Treasury.

This document sets forth the responsibilities of the Treasury Board and its investment managers relating to the implementation of the investment policy, asset strategy, evaluation and review of investment performance and progress toward attaining goals.

Treasury Board Responsibilities

1. The Treasury Board shall serve as trustee of the Endowment and the Corpus and Income of the Endowment shall be withdrawn and credited to the Fund by order of the Treasury Board.

2. The Treasury Board shall have full power to invest and reinvest funds credited to the Endowment in accordance with the provisions of the Uniform Management of Institutional Funds Act (§ 55-268.11 et seq.) and, in addition, as otherwise provided by law.

3. The Treasury Board may borrow money in such amounts as may be necessary whenever in its judgment it would be more advantageous to borrow money than to sell securities held for the Fund. Any debt so incurred may be evidenced by notes duly authorized by resolution of the Treasury Board, such notes to be retired no later than the end of the biennium in which such debt is incurred.

4. The Treasury Board may commingle, for purposes of investment, the Corpus of the Endowment provided that it shall appropriately account for the investments credited to the Endowment.

5. The Treasury Board may hire independent investment advisors and managers as it deems appropriate to assist with investing the Endowment. Expenses shall be payable out of the available cash in the Endowment or the realized investment income for the applicable period.

6. The Treasury Board, in accordance with §2.2-2416 (9) and as formally approved by the Treasury Board on March 20, 2024, delegates to the State Treasurer responsibility for executing its responsibilities for the Tobacco Indemnification and Community Revitalization (TICR) Taxable Endowment as described in these guidelines.

Endowment Objectives

Investments should be made in a manner which will balance the highest investment return consistent with sufficient security to assure Treasury meets the annual cash flow demands of the Endowment and conforming to all statutes and regulatory requirements governing the investment of the Fund. Determinations by the Treasury Board, or the State Treasurer on behalf of the Treasury Board, as to the amount of Income or the amount of the Corpus shall be conclusive. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The Income of the Endowment shall be paid out at least annually to the Fund. In addition, up to 10% of the Corpus of the Endowment shall be paid to the Fund annually upon request by two-thirds vote and resolution of the Commission to the Treasury Board; provided, however, that upon three-fourths vote of the Commission, up to 15% of the Corpus of the Endowment shall be so paid.

POLICY GUIDELINES

Taxable Endowment Structure

The Taxable Endowment (excluding the Yield Restricted Funds) will be managed by investment advisors that specialize in the investment management of taxable securities. The objectives of the Taxable Endowment are to (i) be fully invested at all times in taxable securities and (ii) generate a net of fee investment return, over the long-term, higher than the return of the appropriate benchmark. To generate higher investment returns, it is recognized that additional interest rate risk, within prudent constraints, must be assumed in the management of the Taxable Endowment. To further control these risks, and to provide for sufficient management flexibility, the Taxable Endowment may be structured into Short or Intermediate Duration Taxable Portfolios based upon an assessment of market conditions, Endowment time horizon, based upon an assessment of market conditions, Endowment time horizon, or other risk factors as deemed appropriate. Additionally, a taxable money market fund may be used to cover short-term disbursements. Amounts held to the credit of the money market fund will be under the control of or managed by Treasury. **In seeking higher investment returns, the portfolio managers of the Taxable Endowment will be cognizant of the Treasury Board's objectives of safety of principal and liquidity.**

Yield Restricted Funds of the Taxable Endowment will utilize the Local Government Investment Pool "LGIP" and will be monitored by Treasury Investment Staff. Yield Restricted Funds will be disbursed first in the payment of requisitions from the Taxable Endowment. The Corporation has directed, and the State Treasurer and the Treasury Board have agreed, to invest the Yield Restricted Funds and the earnings thereon in taxable investments at a yield not in excess of the Series 2007BCD Yield. The Yield Restricted Funds are not required to be invested in tax-exempt investments. In the event the yield on the LGIP exceeds the yield on the Series 2007BCD, Treasury Investment Staff will determine what action, if any, is necessary.

Asset Mix Policy

The allocation guidelines for the Taxable Endowment are: (excludes Yield Restricted Funds)

	Target	Minimum	Maximum
Taxable Money Market Fund Allocation	as needed	0%	25%
Short & Intermediate Duration Taxable Portfolio	100%	0%	100%

The intent of the Asset Mix Policy is to increase the overall average maturity of the Taxable Endowment to enhance the returns over the long-term. Deviations from the allocation targets for the Taxable Endowment, and from the guidelines for the Taxable Endowment listed below, may be made by the Treasury Investment Staff, when liquidity needs warrant, or when the Treasury Investment Staff determines that the aggregate deviation does not constitute a material departure from the spirit of the target allocation and the intent of the Treasury Board. The Treasury Investment Staff shall review the target allocations and guidelines at least annually. If desired, the Short Duration and Intermediate Duration Taxable Portfolios may be consolidated and managed under a single investment manager mandate with underlying allocations that correspond to target.

Investment Guidelines and Restrictions

<u>Authorized Investments for the Taxable Endowment</u>

All investments must be denominated in U.S. Dollars.

The State Treasurer is empowered by statute to invest in the following types of securities:

1. Obligations issued or guaranteed by the U.S. Government, an Agency thereof, or U.S. Government sponsored corporation. These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and in the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness.

2. Negotiable certificates of deposit and negotiable bank notes of domestic banks and domestic offices of foreign banks.

3. Corporate bonds and notes, including index eligible Yankee securities.

4. Municipal securities.

5. Asset-backed securities and mortgage backed securities including Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs). This includes all private label mortgage related securities.

6. U.S. Dollar denominated obligations of sovereign governments.

7. The LGIP.

8. Obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development "IBRD" (World Bank).

9. Any of the aforementioned that are issued under SEC Rule 144A exemption.

Credit Quality

The State Treasurer will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase.

1. Negotiable certificates of deposit and negotiable bank notes. Negotiable certificates of deposit and negotiable bank notes of domestic banks and domestic offices of foreign banks must be rated at least P-1 by Moody's Investors Service, A-1 by Standard and Poor's, or F-1 by Fitch for maturities of one year or less. They must be rated at least A3/A-/A- or equivalent by Moody's Investors Service, Standard and Poor's, or Fitch for maturities exceeding one year.

2. Corporate Notes and Bonds, including index eligible Yankee securities. Securities must be rated at least A3/A- or equivalent by two nationally recognized rating agencies, one of which must be either Moody's Investors Service, Standard & Poor's, or Fitch.

3. Municipal securities. Taxable and tax-exempt municipal securities must be rated at least A3/A- or equivalent, by two nationally recognized rating agencies, one of which must be either Moody's Investors Service, Standard & Poor's, or Fitch.

4. Asset-backed securities and mortgage related securities. Asset-backed securities, mortgage-backed securities including all private label mortgage related-securities, Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs) must be unconditionally guaranteed as to payment of principal and interest by the United States or any agency thereof or rated Aaa/AAA by two nationally recognized rating agencies, one of which must be either Moody's Investors Service, Standard & Poor's, or Fitch.

5. U.S. Dollar denominated obligations of sovereign governments. Sovereign debt must have received at least two of the following ratings: at least Aaa by Moody's Investor Service, AAA by Standard & Poor's, or AAA by Fitch.

The portfolio should maintain a weighted average portfolio rating of AA/Aa2 or better.

Downgraded Securities (Out-of-Compliance)

Should a security fail to meet the required credit quality limitations after purchase (i.e. credit downgrades), the manager shall notify the Treasury Investment Staff and the Investment Consultant in writing promptly after the security fails to meet the credit quality limitations. Such security must then be sold within 30 calendar days, unless retention of the security is approved in writing by the Treasury Investment staff.

If a manager is allowed to retain an out-of-compliance security, the manager shall submit a monthly write-up to the Treasury Investment Staff and the Investment Consultant. The write-up must include the manager's rationale (both qualitative and quantitative) on why they believe the security should continue to be considered for an exception.

Diversification

The State Treasurer will diversify investments by security type and by issuer and the following shall apply:

1. Each portfolio will be diversified with no more than 3% of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to securities of the U.S. Government, or Agency thereof, U.S. Government sponsored corporation securities, securities fully insured by the U.S. Government or securities fully guaranteed by the U.S. Government

2. The maximum percentage of each externally managed portfolio within the Taxable Endowment in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities	100%
Negotiable Certificates of Deposit and Negotiable Bank Notes	10%
Corporate Bonds and Notes, including index eligible Yankee securities	50%
Municipal Securities	10%
Asset-Backed Securities	
Short Duration Managers	20%
Intermediate Duration Managers	10%
Combined MBS, CMBS, CMO	
Short Duration Managers	
Total Mortgage-Backed Securities (MBS)	20%
Private Label Residential Mortgages	5%
Commercial Mortgage-Backed Securities (CMBS)	10%
Agency Collateralized Mortgage Obligations (CMOs)	10%
Intermediate Duration Managers	
Total Mortgage-Backed Securities (MBS)	50%
Private Label Residential Mortgages	5%
Commercial Mortgage-Backed Securities (CMBS)	10%
Agency Collateralized Mortgage Obligations (CMOs)	10%
Obligations of Sovereign Governments	10%
Money Market Funds (excluding transitional cash)	15%

3. All money market assets in the Taxable Endowment shall be invested in a high quality short-term investment fund designated by the Treasury Investment Staff.

Prohibited Investments or Actions

1. Any security not strictly authorized above must be approved in advance, in writing, by the Treasury Investment Staff.

2. Futures, options, options on futures, margin buying, leveraging, and commodities. Note: Forward trades are permitted as long as they are procured during normal "when issued" periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase.

3. Securities with the ability to defer interest and securities with the ability to convert to perpetual maturities.

4. Inverse floaters, IOs, POs, CDOs and Z-tranche securities.

Duration Limitations

To the extent necessary, the State Treasurer will attempt to match investments with anticipated cash requirements. Additional funds will be invested at maturities determined to be most beneficial to the portfolio. The following duration limitations shall apply:

1. The maximum duration for any single corporate security may not exceed 15 years. The maximum duration for any single asset-backed security, Private Label Residential Mortgage, Commercial Mortgage-Backed Securities CMBS and Private Label and Agency Collateralized Mortgage Obligations (CMOs) may not exceed five years. In the event the duration subsequently exceeds these limits, the external manager shall notify the Treasury Investment Staff who shall determine whether the security should be sold. The maximum maturity on any single sovereign government obligation, excluding the U.S., may not exceed five years at the time of settlement. The maximum maturity on any negotiable certificate of deposit and negotiable bank note may not exceed five years.

2. The target duration (years) for the Taxable Endowment is as follows: (Excludes Yield Restricted Funds)

	Target Duration
Short & Intermediate Duration Taxable Portfolio	Benchmark

3. Portfolio durations are designed to target the respective benchmark duration with a +-10% deviation. The Asset Mix Policy and the target duration guidelines shall be reviewed at least annually by the Treasury Investment Staff, and if appropriate, amended at such times, as the Treasury Board shall determine.

   For purposes of this section, duration shall be defined as the industry standard modified duration as calculated by Bloomberg or other well established models available. In addition, for purposes of asset-backed securities and mortgage-backed securities, the prepayment assumptions to be used in the modified duration calculation will be the Bloomberg median prepayment assumptions or other well established models available. In the absence of a median prepayment assumption available in Bloomberg, the assumption to be used shall be that which provides the greatest principal protection to the portfolio.

Taxable Endowment Benchmarks (excludes Yield Restricted Funds)

Taxable Endowment (Short & Intermediate Duration Portfolio):	25% Bloomberg U.S. Government/Credit 1-3 Year A+ Index, 63.8% Bloomberg Intermediate A+ U.S. Government/Credit Index, 11.2% Bloomberg U.S. MBS Fixed Rate Index.

If desired, the Short Duration and Intermediate Duration Taxable Portfolios may be consolidated and managed under a single investment manager mandate and compared against a blended benchmark.

All Endowment benchmarks will be reviewed annually, and adjusted based upon changes in the Endowment's Structure and/or changes in its objectives.

STANDARDS OF INVESTMENT PERFORMANCE

Performance results for the Taxable Endowment, and for each component, shall be time-weighted and measured net of investment management fees.

STANDARDS OF INVESTMENT PERFORMANCE

Taxable Endowment	Exceed the Taxable Endowment benchmark
	Underperformance should not exceed 50 basis points per annum over a rolling 4 quarter period.
Short & Intermediate Duration Taxable Portfolio Managers	Exceed the Short & Intermediate Duration Taxable Portfolio benchmark
	Underperformance should not exceed 50 basis points per annum over a rolling 4 quarter period.

REPORTING REQUIREMENTS

Treasury Responsibilities

The State Treasurer is charged with the responsibility of reporting to the Treasury Board on a quarterly basis. These reports will include investment performance information, security holdings by manager, and security market values by manager. The State Treasurer has contracted with the Master Custodian to run compliance reports on the external investment portfolios. These compliance reports are comprised of various screens or tests of both individual security and total portfolio guidelines. Any significant or continuing problems will be reported to the Treasury Board. Additional information will be provided if deemed appropriate or if requested. This Statement of Investment Policy & Goals shall be reviewed at least annually by the Treasury Investment Staff and, if appropriate, amended at such times, as the Treasury Board shall determine.

Investment Consultant Responsibilities

The investment consultant shall:

1. Prepare a quarterly performance evaluation that details the performance, asset allocation and compliance with these guidelines for each manager and the combined Taxable Endowment.

2. Make reports to the Treasury Board as requested.

Investment Manager Responsibilities

Each investment manager shall:

1. Within 30 days of each month-end, reconcile all transactions, market values, security holdings, and cash flows with the Endowment's Master Custodian and provide a written report to the Custodian, with a copy to the Treasury Staff and Investment Consultant of all areas of discrepancy or disagreement with the Master Custodian.

2. Report monthly performance against the benchmarks established for the account by the fifth business day of the following month to Treasury Staff, Investment Consultant and Master Custodian.

3. Provide a monthly report that lists each out-of-compliance security, if any, and detailed rationale for continuing to hold and the targeted outcome.

4. Provide quantitative quarterly performance attribution relative to the appropriate benchmark. Provide quarterly reports concerning investment strategy, including quantitative performance attribution based on interest rate risk, sector allocation and security selection. Provide an economic and investment outlook by the end of the following month.

5. Provide a quarterly accounting of any professional staff turnover that would impact this relationship. Any material event that has an impact on the ownership of the investment organization or the management of this account must be reported

immediately to Treasury Investment Staff and the Investment Consultant

6. Attend meetings as requested with the Treasury Staff and the Investment Consultant to review the performance of the portfolio, current economic and market conditions, economic and market outlook, and the investment policies and goals of the Endowment.