

COLLEGE SAVINGS TRUST FUND PROGRAM

EDUCATIONAL SERVICES PLAN ("BEST Prepaid Plan") INVESTMENT POLICY REVISED AND RESTATED

Revision History:

March 24, 2016 – Revised and Restated
July 20, 2012 – Revised and Restated

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I. Definitions

The following definitions are used hereafter with respect to this Investment Policy:

BEST Prepaid College Tuition Plan – *See Educational Services Plan.*

BEST Prepaid Plan – *See Educational Services Plan.*

Board of Trustees – The Board of Trustees of the College Savings Trust Fund Program, which is empowered under the Statute to carry out the purposes and objectives of the Program.

Cash Equivalents – Debt investments representing highly rated, highly liquid and readily marketable securities with a remaining term to maturity (at the time of purchase) of ninety days or less (≤ 90 days), including, but not limited to, commercial paper and discount notes. Debt securities issued by the United States, any agency of the United States federal government or any entity with the express or implied backing of the United States with a remaining term to maturity of three hundred ninety-seven days or less (≤ 397 days) may also be considered Cash Equivalents for purposes of this Investment Policy.

Chief Investment Officer (“CIO”) – The Department of Treasury employee responsible for the investment and oversight of the Total Assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Department of Treasury Staff – Each Department of Treasury employee involved in the administration or management of the Program. Department of Treasury Staff includes, but is not limited to, the State Treasurer, Chief Investment Officer and Program Director.

Educational Services Plan – A plan that permits individuals, associations, corporations, trusts or other organized entities to purchase a tuition unit or units under a tuition contract entered into between a purchaser and the Board of Trustees on behalf of a designated beneficiary that entitles the beneficiary to apply such units to the payment of that beneficiary's undergraduate, graduate and professional tuition, and other educational costs. Also known as the BEST Prepaid College Tuition Plan or BEST Prepaid Plan.

Equity(ies) – Investments representing an equity, ownership interest to include, but not limited to, publicly traded common and preferred stock, Initial Public Offerings (“IPOs”), bonds or any security convertible to stock, equity Exchange Traded Funds (“equity ETFs”), publicly traded Real Estate Investment Trusts (“REITs”) and equity Restricted Securities.

Fixed Income Security(ies) – Investments representing an instrument under which the issuer owes the holder (debt) to include, but not limited to, notes, bonds or other fixed income securities exceeding one year (> 1) in maturity, Mortgage-Backed Securities (“MBS”), Asset-Backed Securities (“ABS”), Collateralized Mortgage Obligations (“CMO”), Commercial Mortgage Backed Securities (“CMBS”), Medium Term Notes (“MTN”), municipal securities, corporate securities, bond Exchange Traded Funds (“bond ETFs”) and debt Restricted Securities.

Investment Staff – Each Department of Treasury, Investment Division employee involved in the investment management of the Total Assets.

Program – College Savings Trust Fund Program comprised of two types of qualified tuition plans: Educational Services Plan and the Educational Investment Plan.

Service Providers – Any external party who/that performs services or functions for or on behalf of the BEST Prepaid Plan, including, but not limited to, master custodian, investment managers, administrator, recordkeeper, etc.

Short-Term Security(ies) – Debt investments representing highly rated, highly liquid and readily marketable securities with a remaining term to maturity (at the time of purchase) of three hundred sixty days or less (≤ 360 days), including, but not limited to, commercial paper, discount notes and short-term United States agency debt.

T.C.A. – Tennessee Code Annotated.

Total Assets – The total assets or overall investment portfolio of the BEST Prepaid Plan.

II. Overview and Authority

A. Introduction

The Educational Services Plan (“BEST Prepaid Plan”) was created in 1995 to permit parents or other interested persons or entities to purchase tuition units on behalf of a designated beneficiary. Each tuition unit purchased under a prepaid tuition contract would/will entitle the designated beneficiary to an amount equal to one percent (1%) of the weighted average tuition at Tennessee’s four-year public colleges and universities during the academic term in which the tuition unit was/is used.

The BEST Prepaid Plan was established to be self-supporting; however, fluctuating financial market conditions and a continued increase in educational expenses and tuition costs has placed tremendous financial pressure on the BEST Prepaid Plan. As a result, on November 22, 2010 the Board of Trustees elected to cease selling new tuition units in the BEST Prepaid Plan, and on August 20, 2015 the Board of Trustees elected to terminate the BEST Prepaid Plan and the tuition contracts, in accordance with T.C.A. §49-7-824, effective November 30, 2015, because the BEST Prepaid Plan is financially unfeasible and is not beneficial to the citizens of the State of Tennessee or to the State itself. Although the BEST Prepaid Plan has been terminated, certain tuition contracts specified in T.C.A. §49-7-824 may remain in effect.

B. Authority

The investments by the BEST Prepaid Plan shall be governed by the investment policies and guidelines (“Investment Policy”) adopted by the Board of Trustees. Implementation of the BEST Prepaid Plan’s Investment Policy established by the Board of Trustees is hereby delegated to the State Treasurer who shall put such policy into effect. In addition, the day-to-day operations and responsibilities of the Program are hereby delegated to the State Treasurer. The State Treasurer, a constitutional officer, is the custodian of the funds of the Program.

In implementing this Investment Policy and carrying out the day-to-day operations and responsibilities of the Program, the State Treasurer has the authority to delegate certain responsibilities to the Chief Investment Officer, Investment Staff, Program Director and Department of Treasury Staff. In implementing this Investment Policy, the State Treasurer

hereby delegates certain responsibilities to the Chief Investment Officer and Investment Staff, including the power to invest and reinvest the Total Assets in accordance with the criteria established by this Investment Policy.

C. Fiduciary Standard

All assets of the BEST PrepaidPlan shall be invested and managed solely in the interest of the participants of the BEST PrepaidPlan in a manner that is consistent with the duty of loyalty found in T.C.A. §35-14-107, the prudent investor rule pursuant to T.C.A. §35-14-103, the standard of care pursuant to T.C.A. §35-14-104 and the exercise of reasonable care in delegation of investment and management functions pursuant to T.C.A. §35-14-111. Notwithstanding the foregoing, the assets of the BEST PrepaidPlan shall be invested subject to the criteria further established by the Board of Trustees in the BEST Prepaid

Plan's Investment Policy, as may be amended from time to time, and in accordance with T.C.A. §49-7-805(1) and §49-7-814.

D. Scope

The Investment Policy is binding on all persons and entities with authority over the Total Assets, including the Board of Trustees, Investment Division Staff and Service Providers, as well as any other person who or entity that may have a fiduciary relationship with the BEST Prepaid Plan.

III. Objective

The purpose of this Investment Policy is to support the BEST Prepaid Plan's primary objective by:

- Outlining the distinct roles and responsibilities of the Board of Trustees, Department of Treasury Staff (including Investment Division Staff) and Service Providers;
- Establishing formalized benchmarks to measure and evaluate the performance results of the Total Assets;
- Setting forth the additional investment criteria, which the Board of Trustees judges to be prudent, in consideration of the purposes, terms, distribution requirements and other circumstances of the BEST PrepaidPlan and in the best interest of the participants;
- Communicating the Investment Policy to the Department of Treasury Staff (including Investment Division Staff), Service Providers and any other person who or entity that may have a fiduciary relationship with the BEST PrepaidPlan; and
- Functioning as a supervisory tool, guiding the ongoing oversight of the Total Assets.

IV. Roles and Responsibilities

In addition to the responsibilities described below and throughout the Investment Policy, Service Providers, as well as any other person who or entity that may have a fiduciary relationship with the BEST Prepaid Plan, may have additional duties and responsibilities outlined within federal and state laws, rules and regulations, executed contracts or agreements, or as dictated by standard business or industry practices.

A. Board of Trustees

- 1) Adopt an Investment Policy which establishes the additional investment criteria, which the Board of Trustees judges to be prudent, in consideration of the purposes, terms, distribution requirements and other circumstances of the BEST Prepaid Plan and in the best interest of the participants;
- 2) Delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances;
- 3) Review and, if applicable, authorize the use of Service Providers or the processes employed by Department of Treasury Staff;
- 4) Evaluate the investment performance of the Total Assets, through reports supplied by the State Treasurer, Chief Investment Officer, Investment Staff and Service Providers; and
- 5) Periodically review the actions taken by delegates in order to monitor performance and compliance with the terms of the delegation.

B. State Treasurer

- 1) Implement the Investment Policy, as approved by the Board of Trustees;
- 2) Operate with a duty of undivided loyalty, investing and managing the Total Assets solely in the interest of the participants;
- 3) Delegate investment, management and administrative functions that a prudent trustee of comparable skills would properly delegate under the circumstances;
- 4) Review and, as applicable, authorize the use of Service Providers and the employment of Department of Treasury Staff;
- 5) Evaluate and, as applicable, approve the processes employed and procedures established by Department of Treasury Staff
- 6) Evaluate the investment performance of the Total Assets through reports supplied by the Chief Investment Officer, Investment Staff and Service Providers;
- 7) With the advice and counsel, as applicable, of legal counsel, negotiate and execute all contracts, agreements, forms and memoranda of understanding deemed necessary or desirable for the efficient administration of the Total Assets;
- 8) Monitor the Total Assets' compliance with this Investment Policy and applicable federal and state laws, rules and regulations; and
- 9) Take actions that are deemed essential to protect the assets of the BEST Prepaid Plan with any emergency actions being promptly reported to the Board of Trustees.

A. Chief Investment Officer

- 1) Assume executive responsibility and authority, as delegated by the State Treasurer, for the ongoing evaluation and management of the Total Assets, ensuring compliance with the Investment Policy and such other policies, procedures, internal controls, laws, rules and regulations that may apply;
- 2) Operate with a duty of undivided loyalty, investing and managing the Total Assets solely in the interest of the participants;
- 3) Undertake the necessary authority to effectively manage and supervise the Investment Staff;
- 4) Delegate investment and management functions to Investment Staff that a prudent trustee of comparable skills would properly delegate under the circumstances;
- 5) Review and, as applicable, recommend the use of investment-related Service Providers and the employment of Investment Staff;
- 6) Report to and consult with the State Treasurer and/or his designee on administrative, organizational and investment activities;
- 7) Collaborate, as applicable, with the Department of Treasury Staff and investment-related Service Providers on development and implementation of appropriate strategies, policies, and procedures;
- 8) Prepare and submit reports, as required, to document investment activities; and
- 9) Notify the State Treasurer of situations that merit the Board of Trustees' attention.

B. Program Director

- 1) Assume executive responsibility and authority, as delegated by the State Treasurer, and undertake the necessary authority to effectively manage and supervise the day-to-day operations of the BEST Prepaid Plan, as applicable;
- 2) Delegate functions to Department of Treasury Staff that a prudent trustee of comparable skills would properly delegate under the circumstances;
- 3) Report to and consult with the State Treasurer and/or his designee on administrative, organizational and management activities;
- 4) Collaborate, as applicable, with the Department of Treasury Staff and Service Providers on development and implementation of appropriate strategies, policies, and procedures;
- 5) Prepare and submit reports, as required, to document activities; and
- 6) Notify the State Treasurer of situations that merit the Board of Trustees' attention.

C. Investment Staff

- 1) Assume fiduciary responsibility and authority, as delegated by the State Treasurer and Chief Investment Officer, for the Investment Staff member's role in the ongoing evaluation and management of the Total Assets;
- 2) Utilize special skills and expertise in an effort to accomplish the primary objective of the Total Assets, as stated in the Investment Policy;
- 3) Operate with a duty of undivided loyalty, investing and managing the Total Assets solely in the interest of the beneficiaries;

- 4) Source and evaluate prospective investments on an as-needed basis;
- 5) Ensure compliance with the Investment Policy and such other policies, procedures, internal controls, laws, rules and regulations that may apply;
- 6) Assist the State Treasurer, or his designee, Chief Investment Officer and Program Director with respect to any matters related to the Total Assets;
- 7) Prepare and submit reports, as required, to document investment activities; and
- 8) Notify the State Treasurer of situations that merit his attention.

V. Governing Principles, Investment Criteria and Risk Management

Given that the BEST Prepaid Plan has terminated effective November 30, 2015, the primary investment objective is to protect principal and generate income sufficient to fulfill the BEST Prepaid Plan's obligations. Therefore, the Board of Trustees expects the State Treasurer, Chief Investment Officer and Investment Staff to appropriately manage the Total Assets based upon market conditions, outgoing cash flows and projected obligations.

As such, and to provide the State Treasurer and Investment Division Staff the autonomy to make appropriate tactical shifts in asset allocations, the Board of Trustees authorizes the State Treasurer, Chief Investment Officer and Investment Staff to invest and reinvest the Total Assets in any instrument, obligation, security or property that constitutes legal investments for assets of the Tennessee Consolidated Retirement System. Furthermore, the Board of Trustees hereby authorizes the State Treasurer and Investment Division Staff to invest and reinvest the Total Assets in shares of publicly listed investment companies, including Unit Investment Trusts ("UITs"), Exchange Traded Funds ("ETFs") and open- and close-end mutual funds. Investment companies shall be classified by and subject to the asset allocation range of the underlying asset class type. Asset allocation targets and appropriate benchmarks will be established by the Chief Investment Officer and Investment Staff and approved in writing by the State Treasurer.

The Board of Trustees empowers the State Treasurer and Investment Division Staff to invest, reinvest and co-invest BEST Prepaid Plan's assets with other funds held by the State Treasurer. The BEST Prepaid Plan's funds shall be accounted for in one or more separate accounts.

VI. Service Providers

The BEST Prepaid Plan's assets shall be held in a separate account at the same master custodian financial institution that is utilized by the Tennessee Consolidated Retirement System.

The Board of Trustees hereby delegates to the State Treasurer the authority to contract for Service Providers as determined to be in the best interest of the BEST Prepaid Plan and its participants, including, but not limited to, investment management services, personal services, professional services and consultant services, investment advisory services, administrative and recordkeeping services. The State Treasurer is also authorized to consult with professionals, as necessary, about the administration of the BEST Prepaid Plan. The Board of Trustees delegates to the State Treasurer the responsibility to determine the procurement method for such services, providers and professionals, including, but not limited to, the general and technical qualifications. The State Treasurer shall also determine the duties and responsibilities of the providers and professionals with such duties and responsibilities enumerated in a contractual agreement.

VII. Investment Monitoring and Reporting

The State Treasurer, Chief Investment Officer and Investment Staff, along with the assistance of other Treasury Department Staff, will establish written policies and procedures, including, but not limited to, guidelines and internal controls, which are an integral component of implementing this Investment Policy.

The State Treasurer shall provide an annual report to the Board of Trustees. The State Treasurer, Chief Investment Officer, Investment Staff and/or Service Providers will provide other reports as requested or as needed by the Board of Trustees or State Treasurer.

VIII. Other Considerations

The Board of Trustees, State Treasurer, Department of Treasury Staff, and Service Providers are required to comply with all applicable federal and state laws, rules and regulations. The Investment Policy may reference or restate applicable laws, rules and regulations, or portions thereof, for convenience; however, in the event of any conflict between the law and this Investment Policy, the law prevails. Each fiduciary to the BEST Prepaid Plan is ultimately responsible for compliance with applicable laws, rules and regulations.

The Board of Trustees hereby authorizes the State Treasurer to take, for and on behalf of the BEST Prepaid Plan, all actions necessary to comply with applicable federal and state securities laws, rules and regulations. In implementing such, the State Treasurer may delegate certain responsibilities to the Department of Treasury staff or Service Providers.

In cases of uncertainty, the State Treasurer is authorized to provide interpretive guidance and approve, from time to time, variances from the requirements contained within the Investment Policy in furtherance of compliance or as he deems in the best interest of the BEST Prepaid Plan's participants, consistent with both fiduciary standards and the scope of the Investment Policy. Such interpretive guidance or variance shall be reported in writing to the Board of Trustees at its next meeting.

IX. Approval and Adoption

The Board of Trustees of Trustees of the College Savings Trust Fund Program, hereby approved and adopted this revised and restated Investment Policy of the Educational Services Plan ("BEST Prepaid Plan") at its meeting on the 18th day of July, 2017.



DAVID H. LILLARD, JR., CHAIRMAN
BOARD OF TRUSTEES
College Savings Trust Fund Program