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I. Overview and Authority

A. Introduction

The Tennessee Promise Scholarship Endowment Fund (“TN Promise Fund” or “Trust”) was established by Chapter No. 900 of the Public Acts of 2014, approved May 12, 2014 for the purpose of funding the Tennessee Promise Scholarship Program, a scholarship program for Tennessee residents seeking an associate’s degree, certificate or diploma from an eligible postsecondary institution. The Trust consists of the Tennessee Promise Endowment Account and the Tennessee Promise Scholarship Special Reserve Account.

B. Authority

The investments by the Trust shall be governed by the investment policies and guidelines (“Investment Policy”) adopted by the trustees (“Board”). The State Treasurer, a constitutional officer, is the Board chair, administrator of the Trust and responsible for the investment and reinvestment of the Trust funds.

Implementation of the TN Promise Fund’s Investment Policy established by the Board is hereby delegated to the State Treasurer who shall put such policy into effect. In implementing this Investment Policy, the State Treasurer hereby delegates certain responsibilities, including the power to invest and reinvest the Trust’s assets within the criteria established within this Investment Policy, to the State of Tennessee, Treasury Department’s Chief Investment Officer (“CIO”) and Investment Division Staff. The State Treasurer shall retain oversight of the CIO and the Investment Division Staff in the performance of duties delegated under this policy.

C. Fiduciary Standard

All assets of the TN Promise Fund shall be invested and managed solely in the interest of the beneficiaries of the Tennessee Promise Scholarship Program in a manner that is consistent with 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 TN Promise Fund shall be invested subject to the criteria further established by the Board in the Trust’s Investment Policy, as may be amended from time to time, and in accordance with T.C.A. §49-4-708.

D. Compliance with the Law

The Board, Investment Division Staff and investment-related 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 TN Promise Fund is ultimately responsible for compliance with applicable laws, rules and regulations.
E. Scope

The Investment Policy is binding on all persons and entities with authority over the TN Promise Fund’s assets, including the Board, Investment Division Staff and investment-related service providers, as well as any other person who or entity that may have a fiduciary relationship with the Trust.

II. Objective

The purpose of this Investment Policy is to support the Trust’s primary objective by:

- Outlining the distinct roles and responsibilities of the Board, Investment Division Staff and investment-related service providers;
- Establishing formalized benchmarks to measure and evaluate the performance results of the Trust;
- Setting forth the additional investment criteria, which the Board judges to be prudent, in consideration of the purposes, terms, distribution requirements and other circumstances of the TN Promise Fund, and in the best interest of the beneficiaries;
- Communicating the Investment Policy, as approved by the Board, to the Investment Division Staff, investment-related service providers and any other person who or entity that may have a fiduciary relationship with the TN Promise Fund; and
- Functioning as a supervisory tool, guiding the ongoing oversight of the Trust.

III. Roles and Responsibilities

In addition to the responsibilities described below and throughout the Investment Policy, investment-related service providers, as well as any other person who or entity that may have a fiduciary relationship with the TN Promise Fund, 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) Operate with a duty of undivided loyalty;
2) Adopt an Investment Policy which establishes the additional investment criteria, which the Board judges to be prudent, in consideration of the purposes, terms, distribution requirements and other circumstances of the TN Promise Fund, and in the best interest of the beneficiaries;
3) Delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances;
4) Review and, if applicable, authorize the use of investment-related service providers or the processes employed by Investment Division Staff;
5) Evaluate the investment performance of the Trust, through reports supplied by the State Treasurer, Investment Division Staff and service providers; and
6) Monitor the Trust’s compliance with this Investment Policy and applicable federal and state laws, rules and regulations.

B. State Treasurer

1) Implement the Investment Policy, as approved by the Board;
2) Subject to retained oversight of the functions performed, delegate investment and management functions that a prudent trustee of comparable skills would properly delegate under the circumstances;
3) Review and, as applicable, authorize the use of investment-related service providers and the employment of Investment Division Staff;
4) Evaluate and, as applicable, approve the processes employed and procedures established by Investment Division Staff; and
5) With the advice of legal counsel, negotiate and execute all contracts, agreements and memorandums of understanding in accordance with applicable procurement policies and law.
6) Notify the Board of situations that merit its attention.

C. Chief Investment Officer

1) Assume executive responsibility and authority, as delegated by the State Treasurer, for the ongoing evaluation and management of the Trust, ensuring compliance with the Investment Policy, as approved by the Board, and such other guidelines, policies, procedures, internal controls, laws, rules and regulations that may apply;
2) Undertake the necessary authority to effectively manage and supervise the Investment Division Staff;
3) Delegate investment and management functions that a prudent trustee of comparable skills would properly delegate under the circumstances;
4) Report to and, as necessary or upon request, consult with the State Treasurer and Assistant Treasurer of Investments on administrative, organizational and investment activities;
5) Collaborate with Investment Division Staff and, as applicable, investment-related service providers on development and implementation of appropriate investment strategies;
6) Prepare and submit reports, as required, to document investment activities;
7) Take prudent actions that are deemed essential to protect the principal of the TN Promise Fund with any emergency actions, including, but not limited to aggressive rebalancing, being promptly reported to the Treasurer and the Board; and
8) Notify the State Treasurer of situations that merit his attention.
D. Investment Division Staff

1) Assume fiduciary responsibility and authority, as delegated by the State Treasurer and CIO, for the Investment Division Staff member’s role in the ongoing evaluation and management of the TN Promise Fund’s assets;
2) Use his/her/their individual special skills and expertise in an effort to accomplish the primary objective of the Trust, as stated in the Investment Policy, as approved by the Board;
3) Ensure compliance with the Investment Policy, as approved by the Board, and such other guidelines, policies, procedures, internal controls, laws, rules and regulations that may apply;
4) Assist the State Treasurer, Assistant Treasurer of Investments and Deferred Compensation and/or CIO with respect to any matters related to the TN Promise Fund’s assets;
5) Prepare and submit reports, as required, to document investment activities; and
6) Notify the State Treasurer of situations that merit his attention.

IV. Governing Principles

The Board has adopted a set of governing principles for the oversight of the TN Promise Fund’s assets. Those principles are as follows:

A. Primary Investment Objective and Risk Tolerance

The primary investment objective of the Trust is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient income generation to pay beneficiaries and the expenses of the Tennessee Promise Scholarship Program.

Given TN Promise Fund’s investment objective and moderate risk tolerance, a passive management style may be implemented as a cost-effective measure to diversify the Trust’s portfolio and mitigate unreasonable investment risks.

B. Asset Allocation and Benchmarks

Based on input from the CIO and Investment Division Staff, the Board has established the following strategic asset allocation targets and ranges:

<table>
<thead>
<tr>
<th>Asset Classes</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>35%</td>
<td>0% - 50%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>65%</td>
<td>0% - 100%</td>
</tr>
<tr>
<td>Cash, Cash Equivalents and Short-Term Securities</td>
<td>≤ 1%</td>
<td>0% - 25%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
Furthermore, based on input from the CIO and Investment Division Staff, the Board has determined that investment performance for the TN Promise Fund portfolios will be compared with the following respective benchmark indices:

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Benchmark Index</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities:</strong></td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Domestic</td>
<td>S&amp;P 1500</td>
<td>18%</td>
</tr>
<tr>
<td>Canadian</td>
<td>S&amp;P / TSX 60 Index</td>
<td>2%</td>
</tr>
<tr>
<td>International Developed Markets</td>
<td>MSCI EAFE Investable Market Index (IMI)</td>
<td>9%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>MSCI Emerging Markets Index**</td>
<td>3%</td>
</tr>
<tr>
<td>Publicly Traded Real Estate Investment Trusts (“REITs”)</td>
<td>MSCI US REIT Index</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Fixed Income:</strong></td>
<td></td>
<td>65%</td>
</tr>
<tr>
<td>Investment Grade</td>
<td>FTSE US Large Pension Fund Baseline Bond Index</td>
<td>49%</td>
</tr>
<tr>
<td>Non-Investment Grade</td>
<td>Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Index</td>
<td>5%</td>
</tr>
<tr>
<td>Inflation Protected</td>
<td>Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Cash, Cash Equivalents and Short-Term Securities</strong></td>
<td>91-Day U.S. Treasury Bills</td>
<td>≤ 1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

**To facilitate proper evaluation of the Emerging Market Equity Portfolio, the benchmark index returns will be adjusted to exclude countries based on the country screening methodology developed by Investment Division Staff and approved by the CIO and State Treasurer.**

**C. Percentage Limitations**

In determining compliance with the percentage limitations stated within this Investment Policy, the assets of the Trust will be valued at their market value. Accordingly, an investment may be made on any given day; provided that such investment does not cause any applicable limitation prescribed in this Investment Policy to be exceeded on such day.

**D. Co-Invest with Other Funds**

The Board hereby empowers the State Treasurer and Investment Division Staff to invest, reinvest and co-invest TN Promise Fund’s assets with other funds held by the State Treasurer. The Trust’s funds shall be accounted for in one or more separate accounts.
V. Custodian and Service Providers

The TN Promise Fund’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.

If determined to be in the best interest of the Trust, the State Treasurer is authorized to contract for investment-related service providers for the TN Promise Fund.

VI. Investment Criteria

A. General

The Board hereby authorizes the State Treasurer and Investment Division Staff to invest and reinvest the TN Promise Fund’s assets in the same securities or investments in which the Tennessee Consolidated Retirement System is permitted to invest. Unless otherwise stated within this Investment Policy, the TN Promise Fund’s assets shall be invested and reinvested subject to all the terms, conditions, limitations and restrictions imposed upon the Tennessee Consolidated Retirement System in the making and disposing of its investments.

B. Non-Investment Grade Fixed Income Securities

The TN Promise Fund’s assets may be invested in non-investment grade, fixed income securities, including, but not limited to high yield bonds.

VII. Trust Principal

Tennessee Code Annotated Section 49-4-708(d)(8), provides that the principal of the Trust shall not be expended for any purpose. For the avoidance of doubt, the Trust’s principal is $361,381,325.27 and, thus, during any time period in which the aggregate market value of Trust assets is less than that principal amount, only the interest and dividends actually received by the Trust shall be used for program purposes if deemed prudent by the Board.

VIII. Investment Monitoring and Reporting

The Chief Investment Officer and Investment Staff will collaborate with the Department of Treasury compliance staff to ensure efficient and effective development and administration of a compliance program that is reasonably designed to prevent, detect and, if necessary, remedy violations of the laws, rules, regulations and policies applicable to the Department of Treasury Investment Division’s investment and securities activities. The State Treasurer shall provide a quarterly investment summary report and an annual report to the Board.
IX. Administrative Fee

The State Treasurer may charge an investment-related administrative fee to the TN Promise Fund at the same rate (basis point) as is charged to the Chairs of Excellence Fund. Such fee may be deducted from the Tennessee Promise Endowment Account.

X. Policy Interpretation

The Board hereby authorizes the State Treasurer to take, for and on behalf of the Trust, all actions necessary to comply with applicable federal and state securities laws, rules and regulations. In cases of uncertainty, the State Treasurer is authorized to provide written interpretive guidance and approve in writing, from time to time, variances from the requirements contained within the Investment Policy in furtherance of compliance or as deemed in the best interest of the Trust’s beneficiaries, 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 at its next meeting.

XI. Policy Adoption

The Board of Trustees for the Tennessee Promise Scholarship Endowment Fund adopted this Investment Policy at its meeting held on August 7, 2018.

David H. Lillard, Jr., Chairman
Board of Trustees
Tennessee Promise Scholarship Endowment Fund

Approved for signature by [Signature] 8/17/18