

**AMENDMENT 2
OF CONTRACT 48445**

This Amendment is made and entered by and between the State of Tennessee, Treasury Department, hereinafter referred to as the "State" and Verus Advisory, Inc., hereinafter referred to as the "Contractor." For good and valuable consideration, the sufficiency of which is hereby acknowledged, it is mutually understood and agreed by and between said, undersigned contracting parties that the subject contract is hereby amended as follows:

1. Contract Section A.4 is deleted in its entirety and replaced with the following:
 - A.4. Performance Measurement and Portfolio Analytics. The Contractor shall provide monthly and quarterly performance measurement reports on the investment performance of the Programs, except for the SPIF, in the manner and within the time frames described in the Contractor's Proposal. The reports shall identify whether the Programs' investment portfolios are within the authorized asset ranges, whether performance is consistent with the investment objectives and policies of the Programs, and whether the investment managers are performing consistently within applicable standards. The reports shall also include the following analysis and shall contain such other information as is agreed upon by both parties from time to time:
 - (i) Measurement of rates of return earned on the various segments of the Programs' portfolios in accordance with the methodology recommended by the CFAI; and
 - (ii) Comparison of the respective Program's investment performance against other tax-free funds. The Contractor shall further provide a separate comparison of each Program against public management funds and a separate comparison against funds having the same investment characteristics as the Program being evaluated.

At the State's request, the Contractor shall perform the services set forth in this Section A.4 for any additional investment programs that may be administered by the State.

2. The following is added as Contract Section A.23:
 - A.23. Investment Vehicles' Performance Review for 403(b) Plans.
 - a. Quarterly Performance Evaluation. On a quarterly basis, commencing with the quarter ended September 2019 or such later quarter as the State may direct, the Contractor shall evaluate for the preceding quarterly period the performance of the investment products offered to participants in the University of Tennessee 403(b) Retirement Plan and the Tennessee Board of Regents 403(b) Retirement Plan, hereinafter collectively referred to as "the 403(b) Plans", excluding the Ameriprise product, with an emphasis on the underperforming investment products. The Contractor shall reduce its evaluation findings into a written performance evaluation report and provide the report to the State by no later than forty-five (45) calendar days after the end of the respective quarter.
 - b. Analysis of Additional Investment Vehicles. At the State's request, the Contractor shall provide a written analysis of any additional investment vehicles the State is considering for the 403(b) Plans. The analysis shall entail the objective evaluation of the investment vehicles using risk-adjusted returns, total returns, expenses, style consistency and manager tenure.
 - c. Meetings. The Contractor shall be available at least twice a year to meet with appropriate State personnel, committees and trustees at the State's facilities in Nashville to explain the above reports and analysis.
 - d. Disclosures of Indirect and Direct Interests. The Contractor shall promptly advise the State of any direct or indirect interest it may have in any investment product the State may offer to participants in the 403(b) Plans. "Direct interest" means any contract with the Contractor itself or with any business in which the Contractor is the sole

proprietor, a partner, or the entity having the controlling interest, i.e., largest number of outstanding shares owned by any single individual or corporation. "Indirect interest" means any contract in which the Contractor is interested but not directly so.

3. The following is added as Contract Section A.24:

A.24. Performance Review of Other Post-Employment Benefits Investment Trusts.

- a. Quarterly Performance Evaluation. On a quarterly basis, commencing with the quarter ended September 2019 or such later quarter as the State may direct, the Contractor shall evaluate for the preceding quarterly period the investment performance of the Other Post-Employment Benefits Investment Trusts created pursuant to Tennessee Code Annotated, Section 8-27-802 (OPEB Trusts). The Contractor shall reduce its evaluation findings into a written performance evaluation report and provide the report to the State by no later than forty-five (45) calendar days after the end of the respective quarter. The report shall identify whether the OPEB Trusts' investment portfolios are within the authorized asset ranges, whether performance is consistent with the investment objectives and policies of the OPEB Trusts, and whether the investment managers are performing consistently within applicable standards, all as set forth in the OPEB Trusts' investment policy, which is attached hereto as Contract Attachment C. The State may, at its sole discretion, revise Contract Attachment C from time to time by providing the Contractor a written copy of the revisions. The report shall also include the measurement of rates of return earned on the various segments of the OPEB Trusts' portfolios in accordance with the methodology recommended by the CFAI and shall contain such other information as is agreed upon by both parties from time to time.
- b. Meetings. The Contractor shall be available at least twice a year to meet with appropriate State personnel, committees and trustees at the State's facilities in Nashville to explain the above reports and analysis.
- c. Disclosures of Indirect and Direct Interests. The Contractor shall promptly advise the State of any direct or indirect interest it may have in any product the OPEB Trusts may invest in pursuant to this Contract. "Direct interest" means any contract with the Contractor itself or with any business in which the Contractor is the sole proprietor, a partner, or the entity having the controlling interest, i.e., largest number of outstanding shares owned by any single individual or corporation. "Indirect interest" means any contract in which the Contractor is interested but not directly so.

4. The following is added as Contract Section C.3.b(6):

(6) The Contractor shall be compensated for the services described in Section A.23 as follows:

- (A) For services rendered with respect to the investment products offered to participants in the University of Tennessee 403(b) Retirement Plan:
 - i. \$17,500 for services rendered for any calendar quarter in which the number of such investment products equaled more than 200, but less than 287;
 - ii. \$12,500 for services rendered for any calendar quarter in which the number of such investment products equaled more than 150, but less than 201;
 - iii. \$10,000 for services rendered for any calendar quarter in which the number of such investment products equaled 150 or less.
- (B) For the services rendered with respect to the investment products offered to participants in the Tennessee Board of Regents 403(b) Retirement Plan, \$7,500 per calendar quarter provided the number of such investment products equals 100 or less.

5. The following is added as Contract Section C.3.b(7):

(7) For services rendered as described in Section A.24, the Contractor shall be compensated \$1,875 per calendar quarter.

6. The following is added as Contract Section D.32:

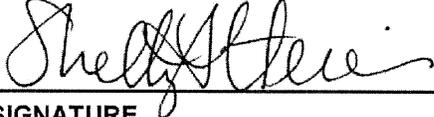
D.32. Iran Divestment Act. The requirements of Tenn. Code Ann. § 12-12-101, *et seq.*, addressing contracting with persons as defined at Tenn. Code Ann. §12-12-103(5) that engage in investment activities in Iran, shall be a material provision of this Contract. The Contractor certifies, under penalty of perjury, that to the best of its knowledge and belief that it is not on the list created pursuant to Tenn. Code Ann. § 12-12-106.

Required Approvals. The State is not bound by this Amendment until it is signed by the contract parties and approved by appropriate officials in accordance with applicable Tennessee laws and regulations (depending upon the specifics of this contract, said officials may include, but are not limited to, the Commissioner of Finance and Administration, the Commissioner of Human Resources, and the Comptroller of the Treasury).

Amendment Effective Date. The revisions set forth herein shall be effective September 6, 2019. All other terms and conditions of this Contract not expressly amended herein shall remain in full force and effect.

IN WITNESS WHEREOF,

VERUS ADVISORY, INC.:

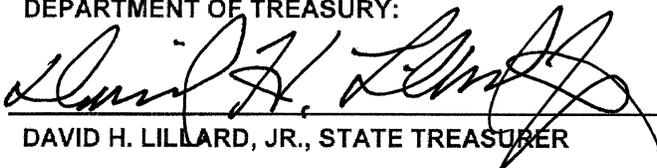


SIGNATURE

7/24/19
DATE

SHELLY J. HEIER, PRESIDENT
PRINTED NAME AND TITLE OF SIGNATORY (above)

DEPARTMENT OF TREASURY:



DAVID H. LILLARD, JR., STATE TREASURER

July 24, 2019
DATE

CONTRACT ATTACHMENT C

**THE STATE OF TENNESSEE
POST-RETIREMENT BENEFITS TRUST FUND**

INVESTMENT POLICY

Effective: November 2, 2018

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Investment Policy Original Adopted: November 2, 2018

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I. Overview and Authority

A. Introduction

The State of Tennessee Post-Employment Benefits Trust Fund ("Trust Fund") was established to receive contributions for the purpose of providing certain post-employment benefits other than pension and to make distributions from the Trust Fund for certain post-employment benefits other than pension in accordance with the State of Tennessee Post-Employment Benefits Trust Declaration.

B. Authority

The investments of the Trust Fund shall be governed by the investment policies ("Investment Policy") adopted by the Trustees. The State Treasurer, a constitutional officer, is responsible for the investment and reinvestment of the Trust Fund's assets.

Implementation of the Investment Policy established by the Trustees 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 Fund'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 Trust Fund shall be invested and managed solely in the interest of the beneficiaries of the State of Tennessee Post-Retirement Benefits Trust 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 Trust Fund shall be invested subject to the criteria further established by the Trustees in the Investment Policy, as may be amended from time to time.

D. Compliance with the Law

The Trustees, 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, the following items shall govern in order of precedence as listed: i) laws, rules and regulations, ii) Investment Policy, and iv) other policies

or procedures. Each fiduciary to the Trust 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 Trust Fund's assets, including the Trustees, 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 Fund.

II. Objective

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

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

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 Trust 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. Trustees

- 1) Operate with a duty of undivided loyalty;
- 2) Adopt an Investment Policy which establishes the additional investment criteria, which the Trustees judges to be prudent, in consideration of the purposes, terms, distribution requirements and other circumstances of the Trust 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 Fund, through reports supplied by the State Treasurer, Investment Division Staff and service providers; and
- 6) Monitor the Trust Fund'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 Trustees;
- 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 Trustees of situations that merit their 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 Fund, ensuring compliance with the Investment Policy, as approved by the Trustees, and such other policies, procedures, 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 and Deferred Compensation 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 Trust Fund with any emergency actions being promptly reported to the State Treasurer; 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 Trust Fund's assets;
- 2) Use his/her/their individual special skills and expertise in an effort to accomplish the primary objective of the Trust Fund, as stated in the Investment Policy, as approved by the Trustees;
- 3) Ensure compliance with the Investment Policy, as approved by the Trustees, and such other policies, procedures, 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 Trust 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 Trustees have adopted a set of governing principles for the oversight of the Trust Fund's assets. Those principles are as follows:

A. Primary Investment Objective and Risk Tolerance

The primary investment objective of the Trust Fund is to establish a stable, diversified investment portfolio that, in the long-term, will meet or exceed the assumed actuarial rate of return in order to provide sufficient liquidity to pay beneficiaries' post-employment benefits in a timely manner.

B. Asset Allocation Ranges, Targets and Benchmarks

Based on input from the CIO and Investment Division Staff, the Trustees hereby establish the following strategic asset allocation ranges:

<u>Asset Classes</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	25%	80%
Fixed Income and Short-Term Securities	20%	50%
Real Estate	0%	20%
Private Equity - Strategic Lending	0%	20%
Cash and Cash Equivalents	0%	25%

Furthermore, based on input from the CIO and Investment Division Staff, the Trustees have established the following strategic asset allocation targets and determined that investment performance for the Trust Fund portfolios will be compared with the following respective benchmark indices:

<u>Portfolio</u>	<u>Benchmark Index</u>	<u>Target</u>
Equities:		53%
Domestic	S&P 1500	33%
Canadian	S&P / TSX 60 Index	2%
International Developed Markets	MSCI EAFE Investable Market Index (IMI)	14%
Emerging Markets	MSCI Emerging Markets Index**	4%
Fixed Income and Short-Term Securities	FTSE U.S. Large Pension Fund Baseline Bond Index	25%
Publicly Traded Real Estate Investment Trusts ("REITs")	MSCI US REIT Index	10%
Private Equity - Strategic Lending	Custom Index: 50% Barclay's High Yield 2% Issuer Capped Index + 50% Credit Suisse Leveraged Loan Index	7%
Cash and Cash Equivalents	91-Day U.S. Treasury Bills	≤ 5%
TOTAL		100%

**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 Fund will be valued at fair 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. Coinvestment and Transfer of Assets

The Trustees hereby empower the State Treasurer and Investment Division Staff to invest, reinvest and co-invest Trust Fund's assets with other funds held by the State Treasurer.

In the State Treasurer's sole discretion, the Trust Fund's assets may be transferred to the Group Trust. In this event, the Trust Fund's assets will be marked at fair market value in accordance with the Department of Treasury's valuation policy and the net fair market value of the Trust Fund's assets will be exchanged for units of interest in the Group Trust at current net asset value.

V. Investment Criteria

A. General

The Trustees hereby authorizes the State Treasurer and Investment Division Staff to invest and reinvest the Trust 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 Trust 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. Real Estate and Private Equity – Strategic Lending Asset Allocations

For the avoidance of doubt, the State Treasurer and Investment Division Staff may implement passive or active, internal strategies using publicly traded securities, including but not limited to Real Estate Investment Trusts ("REITs") and non-investment grade, fixed income securities, in order to gain exposure to the real estate and private equity-strategic lending asset classes.

Recommendations for the acquisition and disposition of real estate or private equity-strategic lending commitments, transactions or investments (involving non-publicly traded securities) shall be presented by the Investment Staff to the State Treasurer for consideration and, if approved, reported to the Trustees at their next meeting.

VI. Transition Mandate

It is anticipated that the Trust Fund will undergo an initial funding phase comprised of several transfers or deposits of cash. Given the timing and nature of the initial funding phase, the Trustees recognize that the Trust Fund's portfolio will be in a period of transition. The Trustees expect the CIO and Investment Staff to appropriately manage this transition based upon market conditions, opportunity and the funding requirements of the State of Tennessee Post-Retirement Benefits Trust in an effort to, over time, structure the Trust Fund's portfolio as contemplated within this Investment Policy. Furthermore, given the nature and length of the transition period, the Trustees recognize that it may be more appropriate during the transition period to analyze assets based upon their terminal value and not relative to a benchmark.

VII. Custodian and Service Providers

The Trust 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 Fund, the State Treasurer is authorized to contract for investment-related service providers for the Trust Fund.

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 Trustees.

IX. Administrative Fee

The State Treasurer may charge an investment-related administrative fee to the Trust Fund. The fee rate (basis points) may be deducted from the Trust Fund as an investment expense. The State Treasurer shall annually report such fee to the Trustees.

X. Policy Interpretation

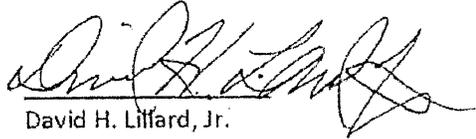
The Trustees hereby authorizes the State Treasurer to take, for and on behalf of the Trust Fund, all actions necessary to comply with applicable federal and state securities laws, rules and regulations. The State Treasurer is authorized to provide written interpretive guidance and approve in writing, from time to time, exceptions from the requirements contained within the Investment Policy in furtherance of compliance or as deemed in the best interest of the State of

Tennessee Post-Retirement Benefits Trust's beneficiaries, consistent with both fiduciary standards and the scope of the Investment Policy. Such interpretive guidance or exception shall be reported in writing to the Trustees no later than thirty (30) days after issuing such guidance or exception.

XI. Policy Adoption

The Trustees for the State of Tennessee Post-Retirement Benefits Trust adopted this Investment Policy on 11/2/18.

TRUSTEES OF THE STATE OF TENNESSEE POST-EMPLOYMENT BENEFITS TRUST



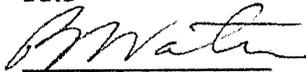
David H. Lillard, Jr.
Treasurer, State of Tennessee
Chair of the Tennessee Consolidated Retirement
System Board of Trustees

November 2, 2018
Date



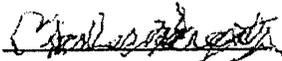
Larry B. Martin
Commissioner, Tennessee Department of Finance
and Administration

10/31/18
Date



Senator Bo Watson
Chairman, Senate Finance, Ways & Means
Committee

10/28/2018
Date



Representative Charles M. Sargent, Jr.
Chairman, House Finance, Ways & Means
Committee.

10/3/18
Date