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# **INVESTMENT POLICY STATEMENT**

**For**

## **Rhode Island Tuition Savings Program CollegeBound Saver CollegeBound 529**

Prepared: January 2015  
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# PURPOSE

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The purpose of this Investment Policy Statement (“IPS”) is to assist the Rhode Island State Investment Commission (“SIC”) in effectively supervising, monitoring and evaluating the investment portfolios of the Rhode Island Tuition Savings Program (“Program”), also known as “CollegeBound Saver” (Direct Plan) and “CollegeBound 529” (Advisor Plan). The SIC has the authority to oversee the investment of the Program assets, including both Direct and Advisor Accounts. The investment program is defined in the various sections of the IPS by:

- Stating in a written document the SIC’s judgments, expectations, objectives, and guidelines in the investment of all Program assets.
- Setting forth an investment structure for managing all Program assets. This structure includes various asset classes and investment management styles. The Program intends to provide an appropriate range of Investment Portfolios that will span the risk/return spectrum.
- Establishing the criteria and procedures for selecting Investment Portfolios and underlying Investment Managers.
- Providing guidelines for each Investment Portfolio that controls the level of overall risk (appropriate diversification) and liquidity assumed in that Investment Portfolio so that all Program assets are managed in accordance with the stated objectives.
- Encouraging effective communications between the SIC, the Investment Consultant, the Program Manager and the Investment Managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Portfolios and the underlying Investment Managers on a regular basis.
- Complying with all fiduciary, prudence and due diligence requirements and with all applicable laws, rules and regulations from state and federal political entities that may impact Program assets.

This IPS has been arrived at upon consideration by the SIC of the financial implications of a wide range of policies, and describes the prudent investment process that the SIC deems appropriate.

## **PROGRAM SUMMARY**

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The Program was established in 1997 by the State of Rhode Island in accordance with Rhode Island General Laws (herein referred to as “RIGL”) Title 16, Chapter 16-57 to provide tuition savings program to allow persons to save money for the sole purpose of meeting qualified higher education expenses through contributions to individual accounts and the earnings thereon.

The Program is organized as a ”qualified tuition program” in accordance with section 529 of the Internal Revenue Code of 1986, as amended. The Program’s purpose is to provide a vehicle to accumulate and grow assets to fund future college and other tertiary education expenses.

Key information regarding the Program can be found in Appendix A.

# STATEMENT OF OBJECTIVES

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The Program provides vehicles for eligible account owners to take an active role in saving for their tuition expenses by providing education and information so that they can make informed decisions about their Investment Portfolio(s) selections.

The objectives of the Program have been established in conjunction with a comprehensive review. The objectives are:

- To maintain flexibility in meeting the future needs of the account owners.
- To provide account owners with Investment Portfolios that are diversified across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs and risk tolerances of the Program's account owners.
- To control costs of administering the Program and managing the assets.
- To undertake all transactions solely in the interest of the account owners and beneficiaries.
- To provide at least one "Direct Plan" and one "Advisor Plan" to accommodate Program account owners' different preferences for either managing their own investments or using an advisor to manage their account.
- To comply with all fiduciary, prudence and due diligence requirements and with all applicable laws, rules and regulations from state and federal political entities that may impact Program assets.

# **RESPONSIBILITIES**

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## **Responsibilities of SIC**

The ten-member State Investment Commission (SIC), chaired by the General Treasurer, is a Rhode Island governmental commission that has oversight responsibility for the investment of public funds, as well as the assets of the Program.

## **Delegation of Authority**

The SIC members are fiduciaries of the Program and are responsible for providing the investment framework and monitoring the investment management of Program assets. As such, the SIC is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. *Capital Cities, LLC (“Consultant”)*. The Consultant’s role is that of an investment advisor to the SIC. Investment guidance concerning the investment management of Program assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, and constraints as established in this statement. Specific responsibilities of the Consultant include:
  - Providing independent and unbiased information.
  - Assisting in strategic planning and Investment Portfolio mapping.
  - Assisting in the development and periodic review of the IPS.
  - Conducting Investment Portfolio and Investment Manager searches when requested by the SIC.
  - Assisting in the development of performance measurement and qualitative standards.
  - Monitoring and evaluating Investment Portfolios’ performance on an ongoing basis and conducting due diligence when an Investment Portfolio fails to meet a standard.
  - Making recommendations with respect to Investment Portfolio and Investment Manager retention or termination.
  - Assisting in monitoring hired Investment Managers for compliance with this IPS.
  - Assisting in the control of investment expenses.
  - Reporting, on a timely basis, quarterly investment performance results to provide the SIC with the ability to determine the progress and compliance with investment goals and objectives.
  
2. *Ascensus College Savings Recordkeeping Services, LLC (“Program Manager”)*. The Program Manager has the responsibility to manage the day-to-day operations of the

## **RESPONSIBILITIES**

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Program. The Program Manager performs administrative, recordkeeping, risk management, reporting, regulatory, tax reporting, client services, CollegeBound Saver (Direct Plan) marketing and other services in connection with the operation of the Program.

The Program Manager is authorized to subcontract investment advisory and other services subject to the terms of the Program Management Agreement. As such, the Program Manager has contracted with Invesco Advisors Inc., and its affiliates (“Invesco”). Invesco performs investment management, asset allocation, CollegeBound 529 (Advisor Plan) sales and services, national distribution and marketing, and other services in connection with the Program.

Additionally, the Program Manager can delegate the performance of accounting, custody and other administrative services to Bank of New York Mellon.

3. *Investment Managers (“Investment Managers”)*. The Investment Managers have discretion to purchase, sell, or hold the specific securities or products that will be used to meet the Program’s investment objectives. Investment Managers can include both actively and passively managed mutual funds, collective investment trusts, exchange-traded funds (“ETFs”) and separate accounts. Investment Managers will be held responsible and accountable to achieve the objectives herein stated. Investment Managers must furnish the SIC with regular investment reports as required by the SIC.
4. Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the SIC to assist in meeting its responsibilities and obligations to administer Program assets prudently.

### **Responsibilities of Account Owners**

Account owners are responsible for choosing an appropriate investment program. The SIC will not provide individual investment counseling to account owners. Account owners choosing to invest in the Age Based and Target Risk Portfolios must determine that the Portfolios’ asset allocation strategies are appropriate for their risk tolerance, time horizons and return expectations. Account owners choosing to invest in the Individual Portfolios are responsible for utilizing the basic principles of strategic asset allocation to select a combination of Investment Portfolios based on the account owner’s unique time horizon, risk tolerance, return expectation, and asset class preferences.

Account owners may employ a financial intermediary to provide advice on financial matters. A financial intermediary is a firm that receives compensation for contributions made to an Account established by one of its clients. Financial intermediaries may include, among others, an account owner’s broker, financial planner or advisor, banks and insurance companies. Financial intermediaries employ individual financial advisors who advise account owners and other contributors on an individual basis.

# **GUIDELINES AND INVESTMENT POLICY**

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In order to provide appropriate investment alternatives for account owners, several Investment Portfolios will be made available that provide a range of risk and return characteristics, each unique to aid in proper diversification. **Three different types of Investment Portfolios are offered to account owners: Age Based Portfolios, Target Risk Portfolios, and Individual Portfolios.** Once an account owner's Investment Portfolio(s) is selected for a particular contribution, IRS guidance dictates the rules through which an account owner can move money or transfer from one Investment Portfolio to another. More specific information on each type of Investment Portfolio can be found below and in Appendix B and Appendix C of this statement.

## **Age Based Portfolios**

The Age Based Portfolios offer account owners pre-diversified Investment Portfolios that become more conservative as the beneficiary nears his/her intended year of enrollment into college.

The Age Based Portfolios represent a weighted allocation among a pre-determined number and type of investment strategies. The Program Manager, with the oversight of the SIC and Consultant, reviews these strategic allocations periodically and makes adjustments when deemed appropriate within the terms of the Program Management agreement.

## **Age Based Portfolios Glide Path and Rebalancing**

A "glide path" describes how the asset allocation of the Age Based Portfolio evolves over time - transitioning from a heavier weight in equities in earlier years to a more conservative investment in fixed income and cash as the beneficiary approaches college age. This change in asset allocation helps smooth the shift from capital accumulation in the earlier years to capital preservation in the near-college and college years. For the CollegeBound Age Based Portfolios, the glide path adjusts this allocation quarterly to create a smooth transition from equities to fixed income with less lumpy trades.

An essential component of the asset allocation process is rebalancing. Rebalancing is a process that realigns a portfolio back to its strategic targets as market fluctuations change the initial allocations over time. The Program Manager monitors and rebalances the underlying asset allocation of the Age Based Portfolios on a monthly basis. The Program Manager rebalances the Age Based Portfolios when the Portfolios fall outside the strategic targets by more than one percentage point.

## **Target Risk Portfolios**

Target Risk Portfolios offer account owners pre-diversified Investment Portfolios based on risk tolerance. The strategic asset allocation of these Investment Portfolios remains static over time.



# **GUIDELINES AND INVESTMENT POLICY**

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The Target Risk Portfolios represent a weighted allocation among a pre-determined number and type of investment strategies. The Program Manager, with the oversight of the SIC and Consultant, reviews these strategic allocations periodically and makes adjustments when deemed appropriate.

## **Target Risk Portfolios Rebalancing (*CollegeBound 529*)**

The Program Manager monitors and rebalances the underlying asset allocation of the Target Risk Portfolios on a monthly basis. The Program Manager rebalances the Target Risk Portfolios when the Portfolios fall outside the strategic targets by more than one percentage point.

## **Individual Portfolios**

The Individual Portfolios are stand-alone options which allow account owners to allocate their account into one or more Investment Portfolios. The goal in offering the Individual Portfolios is to provide account owners with the ability to construct diversified portfolios by asset class and investment style that match their risk tolerance, asset class preferences, time horizons and expected returns.

## **Risk Tolerance**

The Program Manager, with the oversight of the SIC and Consultant, seeks to provide account owners with a broad array of Individual Portfolios so they have the ability to construct portfolios that could represent a variety of levels of risk and return regardless of time horizon.

## **Individual Portfolios Structure**

The Program Manager, with the oversight of the SIC and Consultant, seeks to achieve diversity in the Individual Portfolios offered. Certain criteria will be used to determine the material difference between and among potential Individual Portfolios with exposure to the various asset classes. These criteria are:

- A distinct definable market;
- A distinct risk and return profile; and
- Use of a distinct management style that is definable in terms of the investment strategies/methodologies utilized (e.g. passive versus active management).

The SIC reserves the right to add or replace Individual Portfolios based upon market conditions, Program Manager and Consultant input, account owner response, or other factors.

## **SECURITIES GUIDELINES**

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The guidelines set forth in the prospectus or trust document shall govern all mutual fund, collective investment trust, and ETF vehicle investments. Securities guidelines for separate accounts shall be negotiated and agreed upon in writing on a case-by-case basis.

## **SELECTION OF INVESTMENT MANAGERS**

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The SIC has the responsibility for selecting the underlying Investment Managers of the Investment Portfolios. The SIC, with the assistance of the Program Manager and Consultant, will select appropriate Investment Managers to manage the Program assets. The SIC's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting Investment Managers, the following criteria will be considered:

1. The organizational structure of the Investment Manager (with the SIC seeking banks, insurance companies, investment management companies, or investment advisers as defined by the Investment Advisers Act of 1940).
2. Historical quarterly performance numbers calculated on a time-weighted basis for performance screening.
3. Performance evaluation reports that illustrate the risk/return profile of the Investment Manager relative to other Investment Managers of like investment style, as appropriate.
4. Detailed information on the history of the firm and key personnel (including any material litigation and fraud), key clients, costs, and support personnel.
5. The stated investment strategy and adherence to that strategy over time.
6. Fees that are competitive compared to similar investments.
7. Evaluation relative to a comparable peer group, where appropriate.

# **CONTROL PROCEDURES**

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## **Disclosure to Account Owners**

A Program Description document will be made available to all account owners in order to ensure account owners have sufficient information to make informed investment decisions.

## **Monitoring Service Contracts and Costs**

The SIC will review the service contracts and costs associated with the Program periodically.

## **IPS Review and Evaluation**

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. The SIC and Consultant will review the IPS periodically to determine whether any changes are appropriate. Based on the SIC's and the Consultant's IPS review, the SIC may revise the IPS and/or Program to meet current needs. Additionally, the SIC shall consult with the Program Manager to obtain input prior to amending the Investment Policy Statement.

# **MONITORING OF INVESTMENT MANAGERS**

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The SIC is aware that the ongoing review and analysis of underlying Investment Managers of the Investment Portfolios is just as important as the due diligence implemented during the Investment Manager selection process. Monitoring these Investment Managers is a three step process, outlined below:

## **Step 1 – On-Going Monitoring**

The Consultant and the SIC will perform a constant and on-going analysis of all Investment Managers. In addition to reviewing quarterly investment performance, the Consultant and the SIC will continually evaluate:

- Investment Manager's adherence to the IPS guidelines
- Material changes in the Investment Manager's organization, investment philosophy and/or personnel
- Volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix B and Appendix C)
- Comparisons of the Investment Manager's results to appropriate indices and peer groups (as listed in Appendix B and Appendix C)

If appropriate market indices and/or peer groups are not available, the Consultant and SIC will evaluate factors such as the Investment Manager's adherence to stated risk and return objectives and the Investment Manager's portfolio exposures in relation to the market environment and stated philosophy and process.

## **Step 2 – Formal Watchlist**

If the Consultant and the SIC determine that any of the above factors, or any other development regarding the Investment Manager's performance or organization, warrants a more thorough examination, the SIC will place the Investment Manager on a formal "watchlist." Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events that may lead to an Investment Manager termination include such things as:

- Change in ownership (e.g., key people "cash out")
- Change in professionals
- Changes to an Investment Manager's philosophy or the process it uses to implement the agreed upon strategy
- Material litigation or fraud involving the Investment Manager
- Client-servicing problems

# MONITORING OF INVESTMENT MANAGERS

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- Significant account losses or significant account growth
  - Change in cost
  - Change in financial condition
  - Extreme performance volatility
- Long-Term Performance in Relation to Appropriate Market Index, Market Environment or Stated Goals and Objectives

Long-term performance standards measure an Investment Manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate “Style Group,” Market Environment or Stated Goals and Objectives

Shorter-term performance standards incorporate a time period of at least three years. Each Investment Manager is expected to consistently perform in the 50th percentile or better versus an appropriate peer group of Investment Managers with similar investment styles. Additionally, each Investment Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. If appropriate peer groups are not available, the Investment Manager's adherence to stated risk and return objectives and the Investment Manager's portfolio exposures in relation to the market environment and stated philosophy and process will be evaluated. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

## **Step 3 – Replace or Retain**

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the examination of an Investment Manager on the watchlist, a recommendation by the Consultant to either **replace** or **retain** the Investment Manager will be made. The recommendation will weigh performance relative to peers, outlook for future returns, changes in the Investment Manager's staff and/or strategy, and other considerations.

It is at the SIC's discretion to take corrective action by replacing an Investment Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Investment Manager. The aforementioned events, or any other events of concern identified by the SIC, may prompt the immediate removal of an Investment Manager without it being watchlisted.

# SIGNATURES

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Prepared:  
Capital Cities, L.L.C.

Accepted:  
SIC

Date: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Consultant

\_\_\_\_\_  
Treasurer, Chair

## **APPENDIX A: KEY INFORMATION**

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### **Key Information:**

Name of Program: CollegeBound Saver (Direct Plan)  
CollegeBound 529 (Advisor Plan)

Program Manager: Ascensus College Savings

SIC: Rhode Island General Treasurer, or Designee, Chair  
An Active or Retired Public Employee in the Retirement System or  
Teacher, State or Municipal Union Official  
Director of Administration or Designee  
Three Public Treasurer Appointees  
Three Gubernatorial Appointees  
Executive Director of the Employees' Retirement System (Non-voting)

Type of Program: Qualified Tuition Program (referred to as a "529 Plan")

Account Owner Directed Investment Options: Yes

Account Owner Frequency to Change Investment Options: Up to 2 times per calendar year

Investment Consultant: Capital Cities, L.L.C. (317) 475-4500



## **APPENDIX B: COLLEGEBOUND SAVER (DIRECT PLAN)**

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### **CollegeBound Saver Investment Menu**

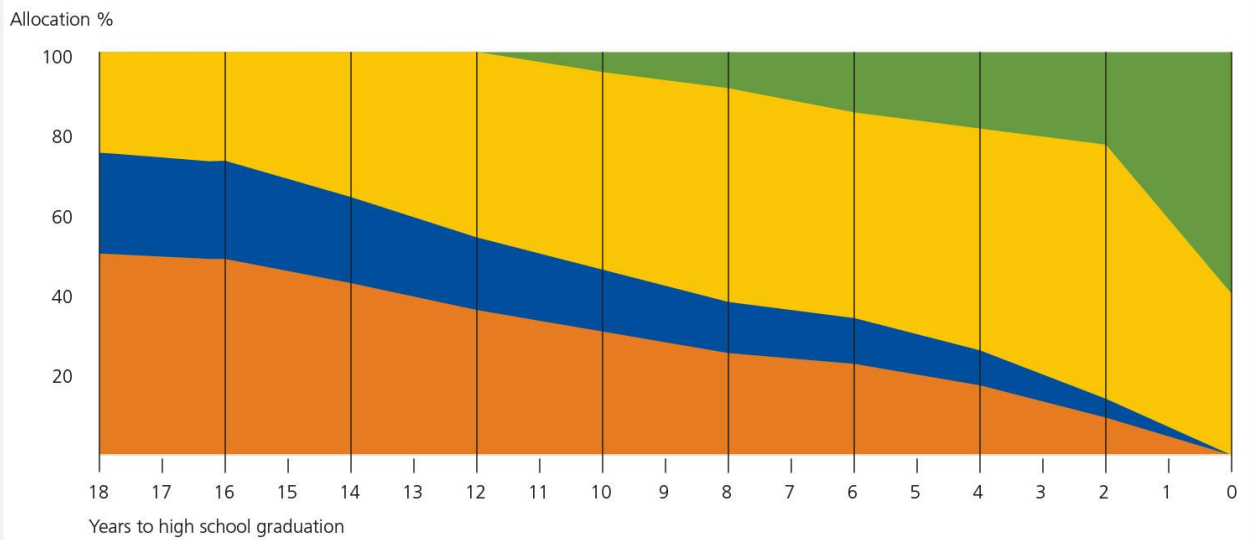
A summary of the investment menu is provided below.

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# APPENDIX B: COLLEGEBOUND SAVER (DIRECT PLAN)

## CollegeBound Saver Age Based Portfolios

Glide path for CollegeBound Saver age-based portfolios

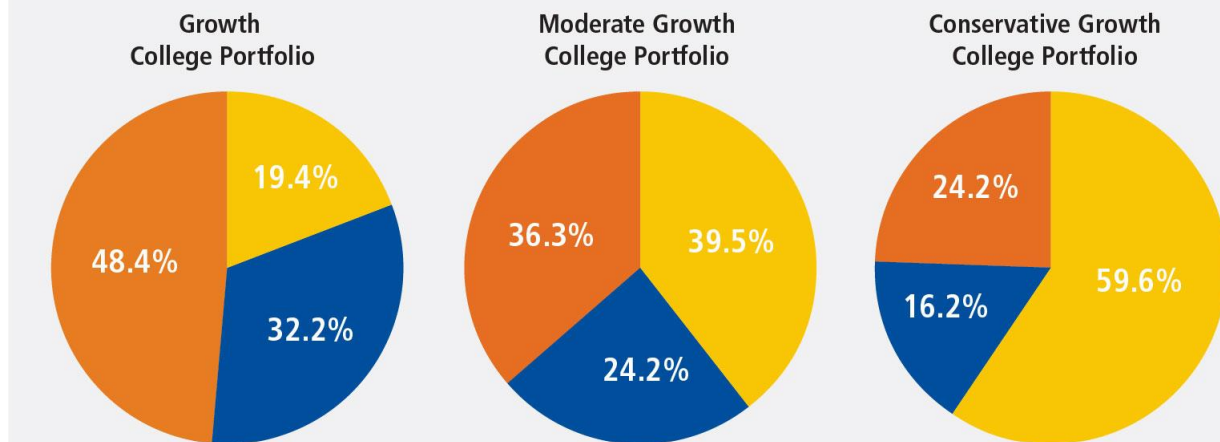


■ Capital preservation 
 ■ Fixed income 
 ■ Global equities 
 ■ US equities

Current allocations may differ.

## CollegeBound Saver Target Risk Portfolios

CollegeBound Saver target risk portfolios



■ Capital preservation 
 ■ Fixed income 
 ■ Global equities 
 ■ US equities

Current allocations may differ.

## **APPENDIX C: COLLEGEBOUND 529 (ADVISOR PLAN)**

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### ***CollegeBound 529 Investment Menu***

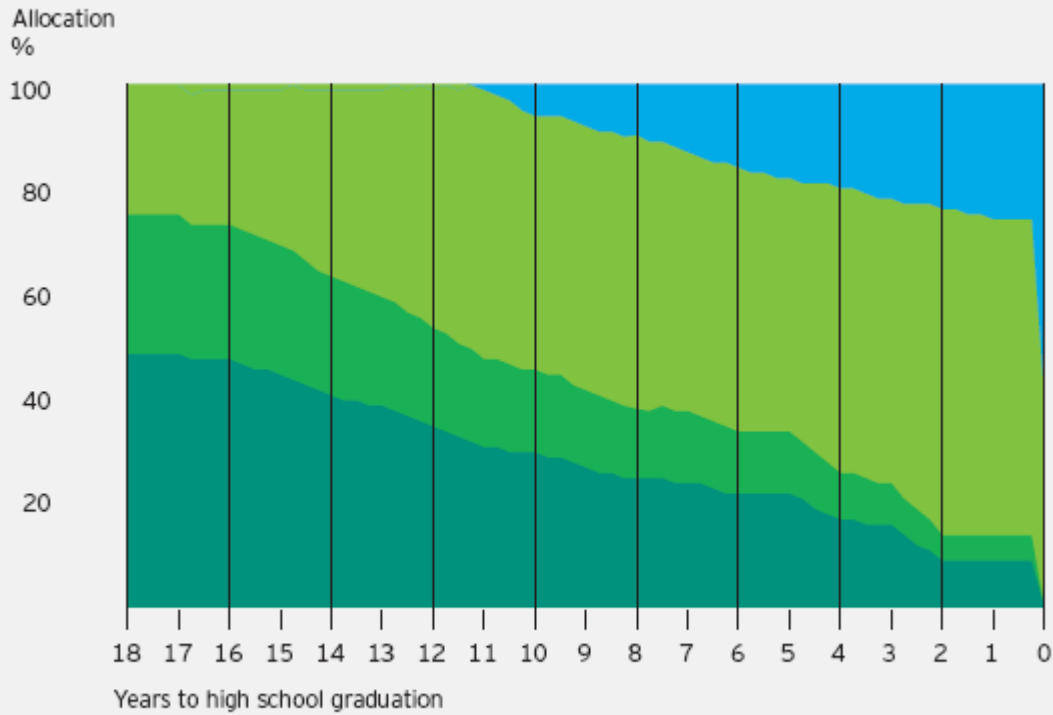
A summary of the investment menu is provided below.

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# APPENDIX C: COLLEGEBOUND 529 (ADVISOR PLAN)

## CollegeBound 529 Age Based Portfolios

Glide path for CollegeBound 529 age-based portfolios

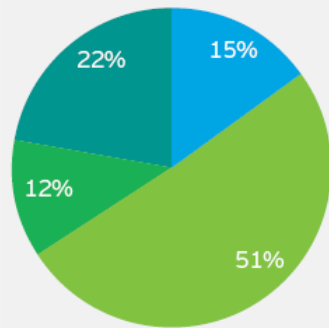


■ Capital preservation    ■ Fixed income    ■ Global equities    ■ US equities  
 Current allocations may differ.

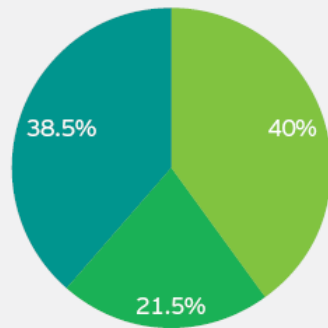
## CollegeBound 529 Target Risk Portfolios

CollegeBound 529 target risk portfolios

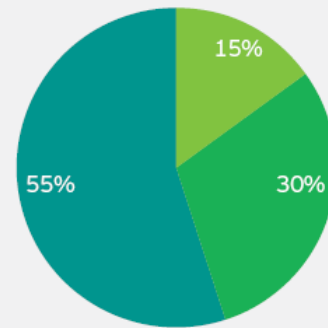
Invesco Conservative College Portfolio



Invesco Moderate College Portfolio



Invesco Growth College Portfolio



■ Capital preservation    ■ Fixed income    ■ Global equities    ■ US equities  
 Current allocations may differ.