Nevada Prepaid Tuition

NEVADA HIGHER EDUCATION PREPAID TUITION TRUST FUND

INVESTMENT POLICY

Board of Trustees of the College Savings Plans of Nevada

October 17, 2009

PURPOSE AND SCOPE:

Section 529 of the Internal Revenue Code, as amended (the Code), and Chapter 353B of the Nevada Revised Statutes (NRS) led to the creation of the Nevada Higher Education Prepaid Tuition Program (the Prepaid Program), the intention of which is to allow Purchasers to "lock in" future tuition rates on behalf of Beneficiaries at favorable prices. Oversight of the Prepaid Program is provided by the Board of Trustees of the College Savings Plans of Nevada (Board).

The purpose of this Investment Policy (Policy) is to supplement and clarify many of the objectives, limitations, and responsibilities in the Prepaid Program, as described in NRS 353B.001 through NRS 353B.190, inclusive, with an emphasis on NRS 353B.160 "Investment." In any instance where this Policy is either silent or less restrictive than what is dictated by NRS as it relates to Prepaid Program investment-related activity (directly or indirectly), NRS will dominate. (In this Policy document, "NRS" will include any new, or revisions to, regulations adopted as part of the Nevada Administrative Code – the "NAC.")

This Policy is an addendum to the Comprehensive Investment Plan of the College Savings Plans of Nevada, as amended (Comprehensive Investment Plan). In any instance where this Policy is either silent or less restrictive than what is dictated by the Comprehensive Investment Plan, the Comprehensive Investment Plan will dominate. In any instance where the Comprehensive Investment Plan is either silent or less restrictive than what is dictated by NRS, NRS will dominate.

Many terms used in this Policy which may or may not be defined in the body of this document are defined in a Glossary section at the end.

This Policy is intentionally silent on many issues unrelated to investment activity in the Nevada Higher Education Prepaid Tuition Trust Fund (Trust Fund), such as Prepaid Program marketing, the design and pricing of Prepaid Program contracts, restrictions on Beneficiaries, etc., which are subject to restrictions imposed by NRS, NAC, the Master Agreement and/or separate policy documents.

This Policy will be reviewed and approved (with amendments, if any) by the Board no less frequently than once every 12 months, with more frequent reviews / amendments / approvals at the sole discretion of the Board.

NRS 353B.140 dictates that the Trust Fund will consist of payments received pursuant to i) Prepaid Program contracts, ii) bequests, endowments, and grants from the federal government, and/or iii) any other publicly- or privately-sourced money. Money in the Trust Fund not spent during any biennium does not revert to the General Fund of the State of Nevada (State) or any other State-affiliated trust fund, and is never commingled with the General Fund or any other State-affiliated trust fund.

TRUST FUND INVESTMENT OBJECTIVES:

The investment objectives in the administration of the Trust Fund assets are to:

a) Invest in a manner which is widely viewed as appropriate and prudent for the inherent risks and purpose for the Prepaid Program, which necessarily involves striving to maintain an optimal balance between risk and return;
b) Track an investment time horizon appropriate for the expected payout profile on behalf of Beneficiaries on a commingled basis;
c) Strive to achieve an investment rate of return no less than the rate of return required by the Board and used in the determination of the Prepaid Program contract rates;
d) Accept the potential for short-term investment return volatility in exchange for anticipated larger cumulative gains over the investment time horizon; and
e) Be able to accommodate reasonably anticipated liquidity needs in the routine administration of the Prepaid Program (as in the case of refunds to Purchasers, administrative expenses, etc.).

DELEGATION OF AUTHORITY:

The Board of Trustees of the College Savings Plans of Nevada

The Board will administer the Prepaid Program in general (per NRS 353B.090), but NRS 353B.150 specifically designates the State Treasurer (who is also the Chairman of the Board, per NRS 353B.005(4)) as the administrator of the Trust Fund. NRS

353B.130 dictates that any claim on the Trust Fund caused by any act or undertaking by the Board does not constitute a debt of, or a claim on any asset of, the State or any political subdivision thereof, or a pledge of the full-faith-and-credit of the State or any political subdivision thereof, and is payable solely out of Trust Fund assets.

Any Board approvals required in the execution of this Policy will be made in formal Board meetings and recorded in Board meeting minutes. The State Treasurer will be responsible for establishing the agenda for each Board meeting. Material decisions made by the State Treasurer without direct Board approval will be documented and reported to the Board no later than the next regularly-scheduled Board meeting.

The Board is also responsible for the administration of the Nevada College Savings Program (as described in NRS 353B.300 through 370, inclusive). While Board meetings may address issues relating to both the Nevada College Savings Program and the Prepaid Program, the two programs will be administered independently of each other, and in particular, the trust funds under each program will not be commingled.

NRS 353B.190 dictates that the Board will contract with a certified actuary of its choosing, to assess the actuarial soundness of the Trust Fund on an annual basis. In conjunction with this study, the Board will approve an asset allocation method, a long term investment rate of return, and other actuarial modeling inputs, all as proposed by the State Treasurer, to determine the actuarial soundness of the Trust Fund. Each modeling input can be independently approved or disapproved by the Board. Each or any modeling input can be approved as a range of values rather than a single value, at the discretion of the Board. The specificity of the asset allocation method will also be at the discretion of the State Treasurer, as approved by the Board. (For example, a certain percentage of the Trust Fund can be allocable to "Stocks," per the NRS. Alternatively, at the State Treasurer's discretion, that same percentage can be broken down into a "small cap" Stock allocation and a "large cap" Stock allocation.)

NRS 353B dictates that the Board will be responsible for:

a) Promoting the Trust Fund to potential Purchasers and Beneficiaries (NRS 353B.155);
b) Soliciting the opinion of the Securities and Exchange Commission (SEC) as it relates to the Trust Fund (NRS 353B.155);
c) Ensuring conformity to federal law (especially the Code) in the structuring and offering of the Trust Fund (NRS 353B.155);
d) Creating a comprehensive plan (the Comprehensive Investment Plan cited above) that specifies general policies for investment to which the State Treasurer will be bound in the administration of the Trust Fund, and which may be more restrictive than investments permitted in NRS 353B.160 and this Policy;
e) (At its option) procuring insurance against any loss in connection with the properties, assets, or activities of the Trust Fund, the State Treasurer, or the Board (per NRS 353B.110(4)); and

f) Financial reporting and audit activities relating to the Trust Fund (per NRS 353B.170 and 180), including approval of the financial reporting and surveillance protocol initiated and administered by the State Treasurer. The audit, which will be conducted by a certified public accounting firm no less frequently than one time per every 12 months, will include an assessment of adherence to this Policy by all relevant parties.

At the Board's initiative, changes to the asset allocation method, and/or a reconsideration of actuarial modeling parameters, and/or an updated actuarial assessment, can take place at any time during the year, but a formal consideration of these factors must occur no less frequently than one time every 12 months.

The Board will be responsible for deciding on the choice of investment vehicles in the Trust Fund (for example, direct holdings of Stocks, versus Stock holdings via mutual funds or ETFs), which may vary across Trust Fund assets at any point in time, and/or be changed for any asset class through time.

In the case of ETFs or similar investment vehicles, NRS and Policy constraints will be based on a "look-through" to the underlying asset holdings, as if the underlying assets were being held directly by the Trust Fund.

In accordance with NRS 353B.160(4), the Board will also be responsible for approving the sale, assignment, transfer, or disposition of any property or investment of the Trust Fund. This may take place with the approval by the Board on an asset-by-asset basis at the proposed time of sale, or alternatively with the approval by the Board of a written procedure to be followed by the State Treasurer and/or any investment manager(s) hired by the State Treasurer. Such a procedure would determine the degree of autonomy exercised by the State Treasurer and/or the investment manager(s), and would also address Board and/or State Treasurer surveillance over such activity. This procedure would be approved by the Board no less frequently than one time every 12 months, at the sole discretion of the Board.

NRS 353B.160(10) dictates that the "actuarial soundness" of the Trust Fund at any point in time will greatly influence the pricing of Prepaid Program contracts going forward, and would also be integral to the Board's assessment of the Prepaid Program's viability. Neither NRS nor this Policy imposes rigid criteria for the assessment of "actuarial soundness," leaving that judgment to the Board. Any action taken or not taken as a result of the Trust Fund being perceived as deviating materially from the Board's criteria for "actuarial soundness" will be at the discretion of the Board.

<u>The State Treasurer</u>

(In the context of this Policy, any responsibilities of the State Treasurer can be delegated to any employee(s) of the State Treasurer's Office, at the sole discretion of the State Treasurer.)

As part of the administration of the Trust Fund, NRS 353B.150(2) dictates that the State Treasurer will be responsible for:

a) Maintaining the financial records of the Trust Fund, which will include the reporting and surveillance protocol on behalf of the Board;
b) Managing any bank or brokerage accounts associated with the Trust Fund which may include a vetting process for choice of bank/brokerage counterparties;
c) Maintaining any instruments that evidence investments made with the property from the Trust Fund;
d) Contracting with vendors (which may include a vetting process, in some cases at the State Treasurer's sole discretion) for any good or service that is necessary for carrying out any aspect of the Prepaid Program, except those contractual relationships specifically reserved for Board-level decision-making (as with the annual audit per NRS 353B.180 and the annual actuarial study per NRS 353B.190); and
e) The hiring of employees as necessary to administer the Prepaid Program, in addition to an investment manager(s) (if any), all of whom must be paid out of the assets of the Trust Fund, subject to Board approval (per NRS 353B.110(3)). The Board will also give consideration to the perceived span of competencies and available resources of the direct managers of the Trust Fund assets.

NRS 353B.160(3) dictates that the State Treasurer will exercise the standard of care in investing the property of the Trust Fund that a person of prudence, discretion and intelligence would exercise in the management of his/her own affairs, given the prevailing circumstances, not in regard to speculation but rather to the permanent disposition of the property, considering the potential income from, and the probable safety of, his/her capital.

NRS 353B.150(2)(e) and (f) enable the State Treasurer to hire an investment manager(s) to invest some or all of the property of the Trust Fund, whose activity will be dictated in large part by NRS 353B.160, the Comprehensive Investment Plan, and this Policy. The decision to hire any investment manager(s), and the vetting criteria for the choice of any investment manager(s), will be the responsibility of the State Treasurer, but the ultimate choice of investment manager(s) (including the terms of any contract(s)) will be the responsibility of the Board.

Any investment-related responsibilities not explicitly delegated by NRS or by this Policy will be responsibilities of the State Treasurer, who will notify the Board of any activities and decisions in such areas, no later than the next regularly-scheduled Board meeting.

PERMITTED INVESTMENTS:

Trust Fund investments will be limited by NRS 353B.160(2), elsewhere in NRS, in the Comprehensive Investment Plan, or be more restrictive, as described below. More restrictive, or discretionary, investment parameters as determined by the Board will be delineated in any agreement(s) between the Board and any third-party investment manager(s). Potentially differentiated treatment of investment activity not directly addressed by NRS, the Comprehensive Investment Plan, or this Policy, at the sole discretion of the State Treasurer, will be addressed and preapproved by the Board. This would include, as examples, obligor caps, exposures to foreign countries, etc. Permitted investments will include the following categories:

1) Corporate Bonds – (which will include obligations of SLM Corporation) issued by corporations created or existing under the laws of the U.S., or the laws of a state, district, or territory of the U.S., with a credit rating not lower than "single-A" or its equivalent by an NRSRO at the time of purchase.
   a) The number of required ratings, and the eligibility of individual NRSROs for categories of bonds, will be at the discretion of the Board;
   b) The treatment of "split"-rated bonds will be at the discretion of the Board;
   c) The treatment of private placements will be at the discretion of the Board;
   d) Maturity restrictions (if any) will be at the discretion of the Board;
   e) Corporate Bonds convertible into equity or with warrants attached at the time of purchase will be prohibited;
   f) Preferred or other quasi-capital obligations, as determined in the judgment of the State Treasurer, will be prohibited;
   g) ETNs or similar investment vehicles will not necessarily be categorically treated as Corporate Bonds in this context, at the discretion of the Board;
   h) Corporate Bonds must not exceed 50% of the <u>book</u> value of the total "fixed income" investments (as defined by the Board) of the Trust Fund; and
   i) Other types of exposure limits (to individual obligors, industries, etc.) may be imposed by the Board.

2) Commercial Paper – issued by corporations created or existing under the laws of the U.S. or the laws of a state, district, or territory of the U.S., or of a wholly-owned subsidiary of such a corporation, with a rating not lower than "A-3" or "P-3" or its equivalent, at the time of purchase, by an NRSRO at the time of purchase.
   a) The number of required ratings and the eligibility of individual NRSROs for categories of commercial paper will be at the discretion of the Board;

b) The treatment of "split"-rated commercial paper will be at the discretion of the Board;
c) Maturity restrictions (if any) will be at the discretion of the Board;
d) The treatment of private placements will be at the discretion of the Board; and
e) Any unique restrictions on "asset-backed" commercial paper will be at the discretion of the Board, but will otherwise not be differentiated.

3) U.S. Treasury Debt Obligations
   a) Maturity restrictions (if any) will be at the discretion of the Board.

4) Debt Obligations (including mortgage passthroughs (MBS) where applicable, along with debentures, but excluding preferred or other quasi-capital instruments in the Board's judgment) issued by an agency or instrumentality of the U.S. or that is fully guaranteed by the U.S. in:
   a) the Federal Farm Credit Bank System;
   b) FannieMae;
   c) the Federal Home Loan Bank System;
   d) FreddieMac;
   e) GinnieMae; and/or
   f) The issues of any other private entities with a formal U.S. government guarantee as to payment of principal and interest for the entire life of the obligation (as with the TLGP program);

   This debt must also not be convertible into equity and not have warrants attached at the time of purchase.

5) Collateralized Mortgage Obligations (CMOs) with a credit rating not below "triple-A" by an NRSRO at the time of purchase:
   a) The number of required ratings and the eligibility of individual NRSROs for categories of CMOs will be at the discretion of the Board;
   b) The treatment of "split"-rated bonds will be at the discretion of the Board;
   c) The treatment of private placements will be at the discretion of the Board;
   d) The collateral will be limited to whole commercial mortgages and whole residential mortgages, or securitizations of either;
   e) Structure requirements (if any) will be at the discretion of the Board;
   f) Maturity restrictions (if any) will be at the discretion of the Board; and
   g) Any other potential diversification requirements will be at the discretion of the Board.

6) Asset-Backed Securities with a credit rating not below "triple-A" by an NRSRO at the time of purchase:

a) The number of required ratings and the eligibility of individual NRSROs for categories of asset-backed securities will be at the discretion of the Board;
b) The treatment of "split"-rated bonds will be at the discretion of the Board;
c) The treatment of private placements will be at the discretion of the Board;
d) The types of collateral and exposure limits on collateral (if any) will be at the discretion of the Board;
e) Structure requirements (if any) will be at the discretion of the Board;
f) Maturity restrictions (if any) will be at the discretion of the Board; and
g) Any other potential diversification requirements will be at the discretion of the Board.

7) Money Market Mutual Funds that:
   a) Are registered with the SEC;
   b) Are rated by an NRSRO (with the number of required ratings and the eligibility of individual NRSROs for categories of such funds at the discretion of the Board);
   c) Invest only in U.S. Treasury Debt Obligations or "agencies" of the U.S. government (limited to agencies acceptable to the Board), or repurchase agreements fully collateralized by U.S. Treasury or acceptable agency obligations;
   d) Have a combined <u>book</u> value across all Money Market Mutual Fund holdings no greater than 20% of Trust Fund assets; and
   e) Are otherwise constrained at the discretion of the Board (exposure per fund, minimum fund size, etc.).

8) Common or Preferred Stock (Stock) of a corporation created by or existing under the laws of the U.S. if:
   a) The Stock is listed on a national stock exchange or traded "over-the-counter" and NASDAQ-quoted;
   b) The outstanding Stock (Common plus Preferred combined) of the corporation has a total market value of not less than $50 million;
   c) The maximum investment in Stock is not greater than 60% of the <u>book</u> value of Trust Fund assets;
   d) The maximum Stock investment in a single corporation (including affiliates, Common plus Preferred combined) is not greater than 3% of the <u>book</u> value of Trust Fund assets;
   e) The Trust Fund owns no more than 5% of the outstanding Stock (Common plus Preferred combined, market value) of a single corporation (including affiliates); and
   f) ETFs or similar investment vehicles are each individually treated as Stock in this context, at the discretion of the Board.

9) Mutual funds, common trust funds, ETFs, ETNs, hedge fund partnership interests, etc. or any other "pooled" investment vehicle, each of which is comprised of any of the above categories (individually or in any combination), and only the above categories, if specifically approved by the Board on a case-by-case basis.
    a) Constraints imposed by this Policy on any asset category held by the Trust Fund <u>outside</u> the pooled investment vehicle will apply to that same asset category <u>inside</u> the investment vehicle (i.e., Policy constraints will "look through" the investment vehicle to the underlying assets permitted by a mutual fund, for example, as if they were being held <u>directly</u> by the Trust Fund).

MISCELLANEOUS RESTRICTIONS:

The above-mentioned limitations and restrictions on Investments which are drawn directly from NRS 353B.160 apply only at the time any investment is originally acquired by the Trust Fund, according to NRS 353B.160(11). At its discretion, and only where NRS allows for the exercise of discretion, the Board may impose requirements should any investments migrate away from restrictions imposed by this Policy and or NRS after the investment is acquired (such as a Corporate Bond downgrade to below "single-A"). This may, but need not, include generic divestment criteria which may, but need not be, a formal addendum(a) to this Policy.

Trust Fund assets as a whole, or any subset of Trust Fund assets, may be managed against a benchmark(s), at the Board's discretion. The Board will decide:
a) What proportion of Trust Fund assets will be managed against a benchmark(s);
b) Which investment categories will be managed against a benchmark(s);
c) What the benchmark(s) will be;
d) How frequently to reaffirm or change current benchmark(s); and
e) How to respond to performance deviations from the chosen benchmark(s).

Regarding "maturity" restrictions in some of the asset categories above (individually or in combinations), the Board may define "maturity" as it relates to:
a) The "legal" final maturity of any individual bond;
b) The expected "average" maturity of any individual bond (such as a CMO);
c) The expected final maturity of any individual bond; and/or
d) The "average" of (a), (b), or (c) above at a "portfolio" level, i.e., a group of bonds.

In accordance with NRS 353B.160(5), Trust Fund assets will not be lent or borrowed against, in the reverse repurchase market or in the securities lending market.

The Board will set explicit limitations on derivatives usage, including the definition of "derivatives" in the context of the Prepaid Program.

The Board may, at its discretion, set limitations on Trust Fund asset turnover, on subsets of assets or in the Trust Fund as a whole, at the Board's discretion.

Per NRS 353B.160(6), all income including gains/losses on the sale or exchange of any Trust Fund assets will be credited/charged to the Trust Fund.

Proposals for new, or revisions to old, regulations relating to the Prepaid Program, as part of the NAC, will be at the initiative of the Board, or the State Treasurer with the approval of the Board.

Neither the State Treasurer (nor any employee of the State Treasurer's Office) nor any member or employee of the Board will be permitted to personally benefit financially - directly or indirectly - from the activities of the Trust Fund, according to NRS 353B.160(9), since such activity could interfere with the objectives of the Prepaid Program. Activities of such personnel relating to State finances but not directly related to the Prepaid Program will be fully insulated from Prepaid Program-related activities.

NRS 353B.160(7) and (8) mandate that each asset purchase for the Trust Fund will be at a price not to exceed the prevailing market price, and that each Trust Fund investment be clearly reflected in custody records to indicate ownership by the Trust Fund.

GLOSSARY

(NOTE: IN THE INTEREST OF BEING COMPREHENSIVE, THIS GLOSSARY WILL REPEAT MANY TERMS AND ACRONYMS THAT HAVE ALREADY BEEN DEFINED IN THE BODY OF THIS POLICY DOCUMENT.)

"actuarial soundness" – In the context of the Prepaid Program, a determination that the current liquidation value of the Trust Fund assets are sufficient to "cover" the present value of the Prepaid Program liabilities. These liabilities are dominated by the anticipated tuition payments in the future based on the Prepaid Program contracts entered into with Purchasers as well as the "demographics" of the Beneficiaries, discounted to present value by the anticipated investment return on the Trust Fund assets. The Trust Fund would generally be considered "actuarially sound" if the Trust Fund asset liquidation value was greater than the present value of the Prepaid Program liabilities. However at the Board's discretion, other factors will be included in the determination of "actuarial soundness."

"Asset-Backed Securities" – Often called "ABS," bonds which are each collateralized by a "pool" of relatively homogeneous loans (such as auto loans, credit card receivables, student loans, small business equipment loans, etc.). Typically, since such loan pools don't usually have a third-party credit insurance "wrap," the bonds are structured such that the investors do <u>not</u> share pro rata in the principal and interest payments, and the collateral pool is "tranched" (see the definition of CMO).

"average maturity" – An ABS or MBS is each made up of a pool of typically relatively homogeneous loans. However it is highly unlikely that the loans will pay off at the same time, and in most instances, the loans will have payment patterns which call for partial amortization of each loan over time, before the loan finally pays off (and "matures"). As such, an ABS or MBS will have an <u>average</u> maturity which is shorter than its <u>final</u> maturity, since the <u>average</u> will represent a weighted average time of all principal payments. Early principal receipts are the result of routine partial amortization of each loan through time, as well as the prepayment in full of individual loans before their respective maturity dates.

"benchmark" – An objective, observable means of gauging investment performance on a <u>relative</u> basis. For example, the S&P 500 stock index is a popular "benchmark" for measuring the performance of many equity investment managers. In such a scenario, the manager is typically not evaluated by his <u>absolute</u> returns, but on his returns <u>relative to</u> the performance of the S&P 500 index over the same measurement time interval. Presumably such a manager will (to a large degree) mimic the composition of the S&P 500 index in his/her own portfolio. This has major implications for governance in the event that any other program-related constraints conflict with a passive holding of the S&P 500 index stocks. For example, a statutory requirement that no less than 50% of a portfolio be held in bonds would clash with a manager mandate to track the S&P 500 with the total portfolio, since the S&P 500 index doesn't include bonds.

"Beneficiary" – A person for whom tuition payments are bought (by a specified Purchaser) for use when the Beneficiary enters college.

"Board" - The Board of Trustees of the College Savings Plans of Nevada – Created and empowered by NRS to provide oversight to both the Prepaid Program and (independently) the Nevada College Savings Program. The State Treasurer is Chairwoman of the Board.

"book value" - The purchase price of an asset, and in the case of fixed income investments, including an adjustment over time for discount accretion or premium amortization recorded to date (and could also include an adjustment for impairment as dictated by accounting rules). The "book value" is in contrast to the "market value" which reflects the price at which the asset can be bought/sold – typically at "arm's length" – in an open market.

"CMO" – Collateralized Mortgage Obligation – A pool of mortgage loans or MBS passthroughs (typically residential mortgages) from which principal and interest payments are passed through to investors on a non-pro rata basis, such that investors bear prepayment risk and possibly credit risk disproportionately with each other. (The collateral pool is said to be "tranched" into bonds with differentiated risk characteristics.) For the purpose of this Policy, a "CMO" will refer to a pool of residential first mortgages or commercial first mortgages. More often, a pool of commercial mortgages is referred to as a "CMBS" – commercial mortgage-backed security. A pool of residential mortgages is often referred to as an "RMBS" – residential mortgage-backed security.

"Code" – The Internal Revenue Code, as amended through time, embodying the federal tax code of the United States.

"Commercial Paper" – a short-term debt obligation with a maturity of between one and 270 days issued by a company, typically as a way to fine tune its near term working capital needs. "Asset-backed" commercial paper is typically backed by consumer or business loans (such as auto loans) which are awaiting a more permanent form of liquefication (such as sale or securitization). Commercial paper which isn't described as "asset-backed" is typically a general, unsecured obligation of the issuer.

"Common Stock" – See Preferred Stock.

"common trust fund" – A fund managed by a trust department that pools assets of individual trust accounts. Substantively similar to a mutual fund.

"Comprehensive Investment Plan" – A "framework" policy document, mandated by NRS, which governs activities in the Prepaid Program as well as the Nevada College Savings Program (which is <u>not</u> governed by this Policy document). The Prepaid Program "shares" a Comprehensive Investment Plan with the Nevada College Savings Program in part because they share a common Board. Version adopted August 19, 2009, or as amended and updated by the Board.

"contract" – as in a "Prepaid Program contract" – A formal agreement between the Prepaid Program and a Purchaser which delineates, among other features, what the Purchaser's payment obligations are, and what payments (strictly for undergraduate college credit hours) will be made by the Prepaid Program on behalf of the Beneficiary when the Beneficiary begins college.

"debenture" – A bond which is an unsecured general obligation of the issuer.

"derivative" – In most contexts, a contract between two parties, involving no or only a nominal exchange of cash up-front, which has a value "derived" from some arbitrary economic phenomenon unrelated to either party, but which over time may create a payment obligation from one of the two parties to the other party.

"ETF" – Exchange-Traded Fund – Economically equivalent to an open-ended mutual fund, except that ETFs trade on an exchange. Earlier versions of ETFs were rather passively managed (resembling "indexed" mutual funds) but more recent versions involve active management of assets as well as substantial leverage including derivative overlay. ETF assets can be stocks, bonds, commodities, and derivatives.

"ETN" – Exchange-Traded Note – A corporate note which has a "yield" that is derived to track some other economic phenomenon unrelated to the underlying credit risk of the issuer of the note.

"FannieMae" – A private company with a public charter, with a mandate to provide liquidity to the home mortgage market.

"Federal Farm Credit Bank System" – A network of borrower-owned lending institutions that lend mostly to the agricultural industry. While the "FFCB" is a federal "government-sponsored enterprise" (commonly called a "GSE"), their debt obligations are <u>not</u> full-faith-and-credit obligations of the federal government.

"Federal Home Loan Bank System" – A network of borrower-owned financial institutions with a mandate to provide liquidity for housing-related activities to its owners (mostly commercial banks and thrifts). While the "FHLB" is a federal "government-sponsored enterprise" (commonly called a "GSE"), their debt obligations are <u>not</u> full-faith-and-credit obligations of the federal government.

"FreddieMac" - A private company with a public charter, with a mandate to provide liquidity to the home mortgage market.

"GinnieMae" – A government-owned corporation that "wraps" (mostly) Federal Housing Administration home mortgage loans into MBS pass-throughs which are full-faith-and-credit obligations of the federal government.

"investment manager" – A third party selected by the Board on a contractual basis to manage all or part of the Trust Fund's assets. The decision to hire any investment manager(s), and the vetting criteria for the choice of any investment manager(s), will be the responsibility of the State Treasurer, but the ultimate choice of investment manager(s) (including the terms of any contract(s)) will be the responsibility of the Board.

"investment vehicle" – The medium through which an investment asset is held. For example a stock is an investment asset but a stock <u>mutual fund</u> is an investment <u>vehicle</u>, since the stock is owned by way of the mutual fund, and the stock's individual performance is diluted by the performance of other stocks in the same mutual fund.

"legal final" – In the context of a pooled structure, the legal final maturity date is that of the longest maturing loan in the original pool.

"MBS" – Mortgage-Backed Security – Typically a mortgage passthrough where all investors share in the loan pool's principal and interest payments on a pro rata basis. However MBS passthroughs issued by FannieMae and FreddieMac and GinnieMae have external credit support. Other MBS, which stand alone from a credit risk standpoint, will pass-through principal and interest on a non-pro rata basis, with different investors in the same pool of loans bearing the risk of credit loss on a non-pro rata basis.

"Money Market Mutual Fund" – A mutual fund made up of typically very short term debt instruments of a high credit quality, which tries to maintain a constant purchase and redemption value of $1 per share.

"NAC" – The Nevada Administrative Code, as amended through time – The regulations which are in place to clarify and make executable the associated NRS.

"NASDAQ" – National Association of Securities Dealers Automated Quotation system – An electronic (as opposed to "physical") auction stock market.

"Nevada College Savings Program" – A State of Nevada-sponsored program run in parallel with the Prepaid Program, sharing a common Board but with an independent trust fund, and with a very different design from the Prepaid Program in that after-tax contributions by Account Owners (and others) are invested to grow tax-free, and the distributions are tax-free as long as the proceeds are used for specified college-related expenses (not limited to tuition). Unlike the Prepaid Program, there is no "fixed" payout to the Beneficiary.

"NRS" – The Nevada Revised Statutes, as amended through time - The laws governing the State of Nevada.

"NRSRO" – Nationally Recognized Statistical Rating Organization – Credit rating agencies registered with, and officially recognized by, the SEC. Since ratings requirements permeate laws and regulations as well as private sector policy documents, there is a need to have an "official" list of agencies whose ratings qualify.

"passthrough" – A pool of loans which is "wrapped" in a security where investors share in the principal and interest payments on the loans. Typically, when the term "passthrough" is used, all investors in the bond in question share pro rata in the principal and interest payments. MBS are often issued in a "passthrough" format.

"Policy" – This Investment Policy document, as amended, and including any addendum(a).

"Preferred Stock" – The investor has a claim on the issuing company's assets which is superior to "Common Stock" holders' but inferior to any bondholder's claim on the same assets.

"Prepaid Program" – The Nevada Higher Education Prepaid Tuition Program – A program sponsored by the State of Nevada to enable Purchasers to "lock in" future college tuition rates at favorable prices, under a presumption that future tuition rates will be higher, but the increase in tuition rates over time is expected to be offset by investment earnings on Trust Fund assets.

"private placement" – A bond which, at the time of issuance, has reduced legal requirements relating to SEC-mandated documentation and disclosure, relative to a fully-registered "public" bond. The reduced documentation requirements are justified because the privately-placed bond is offered to a narrow range of investors.

"Purchaser" – A person who "buys," by way of a Prepaid Program contract, future tuition payments on behalf of a specified Beneficiary.

"SEC" – Securities and Exchange Commission – Provides broad federal regulatory oversight of the securities markets.

"SLM Corporation" – Also known as "SallieMae," mentioned specifically in this Policy document because it is treated separately in NRS, but it's credit risk characteristics have migrated dramatically in recent years, to make it more accurately viewed as a Corporate Bond, and therefore subject to the same vetting criteria as any other Corporate Bond.

" 'split-rated' bond" – A bond which has ratings at different tiers across NRSROs at the same time. Credit ratings tend to readily "map" across NRSROs, ie, a Moody's Aa3 is viewed as approximately equivalent to an S&P AA- in terms of investor credit risk. So if a bond has a Moody's Aa3 but an S&P AA+ - S&P has a more optimistic credit outlook on this bond - this bond is said to be "split-rated."

"State Treasurer" – The State Treasurer of the State of Nevada, but in the context of this Policy document, in many cases the "State Treasurer" means the State Treasurer's Office, i.e., employees of the State Treasurer's Office, which can be delegated responsibilities solely at the discretion of the State Treasurer.

"TLGP" – Temporary Liquidity Guarantee Program – A debt guarantee program sponsored by the FDIC which enables banks and bank holding companies to issue "private" debt but (with prespecified constraints) the U.S. government "wraps" the obligation with a credit guarantee. While such obligations are issued by a private entity, for the purposes of this Policy, such bonds will not be treated as "Corporate Bonds" as long as the wrap is in place for the entire life of the instrument.

"Trust Fund" – The Nevada Higher Education Prepaid Tuition Trust Fund – Made up predominantly of proceeds from Prepaid Program contracts purchased by Purchasers on behalf of Beneficiaries, as well as investment earnings. Used to fund future tuition payments as well as ongoing Prepaid Program-related operating expenses. Prepaid Program resources are limited to Trust Fund assets, as they do not rely on the full-faith-and-credit of the State of Nevada or any State of Nevada assets.

"warrant" – A typically long-dated option which is often attached to a corporate bond at the time of issuance, which gives the bondholder the right to buy a prespecified number of shares of stock of the same company at a prespecified price.

Adopted this 17th day of November, 2009

Board of Trustees, College Savings Plans of Nevada

Kate Marshall, Chairman