

**INVESTMENT POLICY STATEMENT
FOR THE
VIRGINIA PORT AUTHORITY DEFERRED COMPENSATION PLAN
(457 – EMPLOYEE CONTRIBUTIONS)
AND THE
VIRGINIA PORT AUTHORITY MATCHING PLAN
(401A – EMPLOYER CONTRIBUTIONS)**

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I. Purpose

The purpose of this Statement of Investment Policy is to assist the Virginia Port Authority in effectively supervising and monitoring the investment of the Deferred Compensation Plan and Matching Plan (“the Plans”) assets

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In the various sections of this policy document, the Virginia Port Authority defines its investment program by:

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- stating in a written document the Virginia Port Authority’s expectations and objectives in the investment of plan assets and the duties and responsibilities of the various individuals and/or organizations responsible for the management of these assets,
- setting forth an investment "structure" for managing assets that includes various asset classes and investment management styles that, in the aggregate, are expected to produce a prudent level of diversification and a satisfactory investment return over time,
- providing guidelines for each investment portfolio that control the level of risk assumed in the portfolio and ensure that assets are managed in accordance with stated objectives,
- stating how the performance results of the investment managers will be evaluated and monitored.

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This Statement represents the Virginia Port Authority’s current philosophy regarding the investment of plan assets. Although the Virginia Port Authority will utilize this Policy Statement in making decisions concerning the plan, it shall not necessarily be bound solely by its contents.

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II. Responsibilities

The Virginia Port Authority’s Board of Commissioners has created the Investment and Administrative Committee (the “Committee”) and charged it with fiduciary responsibility for the investment management of the Virginia Port Authority Deferred Compensation Plan and Matching Plan assets. Specifically, the Committee is charged with the following responsibilities related to the management of the assets of the plans:

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- manage the Plans’ assets in compliance with the applicable laws and regulations governing the investment of the Plans’ assets,

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- review, on a periodic basis, the current funds in the Plans’ investment program and the Plans’ participants’ (the participants) use of such funds to ensure that those funds continue to be appropriate,
- undertake, on a periodic basis, a review of the Plans’ overall investment program relative to the types of investment programs then available in the marketplace to ensure that the current program remains competitive and attractive (or to make changes, if appropriate),
- develop, review (at least annually) and revise (when necessary) the guidelines established in this Investment Policy Statement,
- retain, at its discretion, third-party outside professionals to facilitate and assist with the management of the Plans,
- review regularly the performance of the Plans’ service providers, and report at least annually to the Commissioners, and
- as appropriate, establish specific guidelines and objectives for individual managers of the Plans’ assets.

The Plans’ investment managers, trustee and other service providers will discharge their duties in compliance with applicable laws and regulations. If there is any perceived conflict between these laws or regulations and the guidelines set forth in this policy and/or other instructions to the service provider, the service provider shall immediately bring this to the attention of the Committee. The Committee will then seek appropriate advice to resolve the conflict promptly.

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III. Plan Objectives

The objective of the Plans is to provide a vehicle for accumulation of retirement assets. Investment of the Plans’ assets will be made for the sole interest and exclusive purpose of providing benefits to participants. The Plans’ investment choices should be selected with the care, skill, and diligence that a prudent person acting in a like capacity would undertake.

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The Plans are "participant-directed account plans" that are intended to provide individual accounts for Plan participants and permitting each participant or beneficiary to exercise independent control over the investments of the assets in such individual’s account. Each participant and beneficiary should be given reasonable opportunity to give investment instructions and obtain written confirmation of the completion of such instructions. Sufficient information should be provided in a timely manner so that participants and beneficiaries may make intelligent and informed investment decisions. The Committee may rely on information and materials developed and disseminated by investment advisers and managers, to the extent appropriate, in fulfilling its responsibilities to the Plan participants and beneficiaries.

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The Plans' objective is to offer a broad range of no less than 3 diversified investments, which will enable a participant to construct a portfolio with aggregate risk and return characteristics within a broad range normally appropriate for participants. The investments offered should provide the participant the opportunity to diversify his or her account so as to generally reduce the risk of large losses. Pooled funds (such as bank or insurance company pooled funds or mutual funds) may be used as the investment vehicles for the Plans.

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The following two tiers of investment options have been included to facilitate investing for participants and beneficiaries with different objectives and investment experience:

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- **Core Funds** – A selection of funds that provide broad coverage of the stock, fixed income and cash asset classes.
- **Lifecycle (Target-Date) Funds** – A series of pre-mixed asset allocation funds (ranging from conservative to aggressive, based on age/life-cycle). Each fund will normally be comprised of a diversified blend of securities, including (as is appropriate for each fund's respective objective) US stocks, foreign stocks, US fixed income, foreign fixed income, and cash equivalents.

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Given these two tiers of options, a participant has the flexibility to tailor his or her investment portfolio to meet a wide variety of investment objectives.

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IV. Selection and Retention Criterion for Investment Fund Managers

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Investment fund managers shall be chosen using the following criteria:

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- Performance Record – The manager should have a performance record that suggests investment results will meet the investment goals of the plan. The attributes of such a performance record would be expected to include that it is:
 - reasonable
 - a representative composite
 - above average in investment returns over trailing periods relative to an appropriate index and peer group
 - sufficiently long in track record to afford adequate assessment (longer track records [at least 5 years] are desirable, but shorter records may be acceptable depending on the circumstances)
- Management – The manager should have a stable corporate structure and consistent manager tenure.

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- Investment Style & Process – The style should be consistent with the given asset class and the process should be reasonable.
- Assets Under Management – The manager should have a reasonable client base in this investment style and the level of assets under management should be appropriate given the specific product to be managed.

Changes in the investment management organization that cause any of the above criteria to be violated will be carefully reviewed and could constitute cause for termination of the manager.

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V. Investment Guidelines

The Plans may offer investment options in some or all of the asset categories described below. Guidelines for each category are as follows. The investment performance for each option in the plan will be assessed in comparison to the benchmarks detailed on Appendix A – Index and Peer Group Benchmarks.

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Guaranteed Account or Guaranteed Investment Contract (GIC)

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If the Committee uses a Group Annuity Contract as the investment vehicle instead of a Stable Value Fund, and if the investments of that fund reside in the insurance company's General Account, the Committee will require the following quality constraints:

- Rating of A+ or better from A.M. Best's and
- Rating of AA- or better from at least two of the following three agencies: Fitch, Standard & Poor's or Moody's.

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The Committee shall require the insurance company to provide a written, detailed explanation of any withdrawal restrictions, whether for transfer to another investment offered by the Plan, or for withdrawal from the company's General Account.

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If a Market Value Adjustment (MVA) can be applied, a specific written explanation of how that adjustment is calculated, along with examples of the adjustment under both positive (market value gain) and negative (market value loss) scenarios, is required. References to "standard company procedures" shall not be acceptable. Contracts that do not pay a market value gain when one would normally be in effect (e.g. when prevalent rates are lower than the underlying rate of return of the contract) shall not be acceptable.

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The Committee shall have a strong preference for guaranteed account contracts containing a de facto "put option." Under such a provision, the insurance company would guarantee that if its ratings fall below A, from A.M. Best, or below A+, from another agency mentioned above, assets would be transferred out of the insurer's General Account. In this circumstance the assets would be moved to either a separate account managed by the insurer or to an independent Stable Value Fund manager.

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Fixed Income Funds

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The investment objective of fixed income funds is to provide a rate of return reflective of the overall bond market. Fixed income funds are expected to invest predominantly in domestic debt securities, including corporate and government bonds and mortgages. Foreign debt securities (defined as debt issued by entities that report in non-dollar currencies) may also be purchased. However, such securities should not comprise more than 30% of the total value of the fund. The average credit rating of the portfolio should be A or higher (as rated by Standard and Poor's and/or Moody's). Normally, the fund's duration should be within +/- 2 years of the duration of the Barclays Capital Aggregate Bond Index (or other appropriate index). All investments (except for US government obligations) should be well diversified by issuer such that not more than 8% of the total market value of the portfolio is invested with any one issuer.

Asset Allocation and Balanced Funds

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The investment objective of asset allocation and balanced funds is current income and growth of capital, consistent with preservation of capital. Asset allocation and balanced funds are expected to invest in a diversified mix of stocks, fixed income, and money market instruments. Money market investments should include high quality short-term debt securities. There are no minimum or maximum limits on total equity and fixed income holdings. However, over the long run, it is expected that equities will average approximately 60% of assets and fixed income will be approximately 40% of assets.

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Issues selected for the portfolio(s) are subject to the following limits:

- Except for issues of the U.S. Government, its Agencies and instrumentalities of the U.S. Government, the Committee expects that generally no more than five (5%) of the portfolio at the time of purchase will be invested in the issues of a single entity.
- Fixed income investments should be made primarily in investment grade securities (rated BBB/Baa or higher). Below investment grade issues should typically not exceed 10% of the fixed income portfolio value at market.

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S&P 500 Stock Index Fund

The investment objective of the S&P 500 Index fund is to offer participants the opportunity for broad participation in the U.S. equity market. This investment will, on a month-by-month basis, achieve results nearly identical to the S&P 500 Index. This result may be accomplished through sampling, full replication, or a combination of both techniques to track the results of the S&P 500 Index. This alternative may also use derivatives to enhance the fund's tracking.

Domestic Equity Funds

The objective of the Domestic Equity Funds is to offer participants the growth and diversification opportunities available from investments in the domestic equity market. The Committee expects that funds with an identified asset class or category (Examples: Large Cap Growth, Small Cap Value, etc.) will be managed so as to be in general alignment with their respective asset class or category. (The investment performance of these funds will be evaluated in comparison to the specific benchmarks identified in Appendix A – Index and Peer Group Benchmarks.) In general, the Committee expects that these portfolios may include any or all of the following:

- Equities traded on the domestic exchanges or in the Over-The-Counter (OTC) market. This includes rights, warrants and issues convertible to stock.
- American Depositary Receipts (ADRs) and foreign equities (defined as equities issued by firms that report in non-dollar currencies) may also be included, for up to 30% of these portfolios. Foreign exchange contracts may be held to the extent that the use of such contracts is limited to hedging currency exposure existing in the portfolio.
- Fixed income securities and preferred stock. These issues should not form a significant portion of any of domestic stock portfolio, but the Committee recognizes that at times, the use of these instruments may be consistent with a portfolio's objectives.
- Stock index futures and/or options may be used to control a portfolio's asset allocation, to reduce transaction costs, or to simulate full investment while maintaining cash to meet expected withdrawals.
- Cash equivalents may also be held as a hedge against anticipated down markets or to meet other liquidity needs, although the Committee expects that the domestic stock options will normally maintain a fully invested status. Safety is the primary consideration for cash equivalent investments. Cash equivalent investments should be well diversified and of high quality.

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Issues selected for the portfolio(s) are subject to the following limits:

- The Committee expects that generally no more than five percent (5%) of a portfolio at the time of purchase will be invested in the issues of a single entity.
- No more than 2 times the appropriate benchmark index weight, based upon the fund’s investment category or asset class, should be concentrated in any one economic sector as defined by the most recent quarterly issue of the Morningstar database.

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Developed Markets International Stock Funds

The investment objective of developed markets international stock funds is long-term growth of capital. Developed markets international stock funds should be well diversified across the foreign equity markets with a primary emphasis on the more established companies in “developed” countries and markets unless the fund has a regional or emerging market objective. Generally, it is intended that no more than 40% of the fund should be held in any particular country. All investments should be well diversified by issuer such that no more than 8% of the total market value of the portfolio, at time of purchase, is invested with any one issuer.

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Lifecycle (Target-Date) Funds

The investment objective of each lifecycle fund is to provide a level of return and risk appropriate for the respective fund’s time horizon or risk tolerance. Funds with stated objectives that are based upon participant target retirement dates are expected to become more conservative over time. Conservative funds will have a higher emphasis on fixed income investments and aggressive funds will have a higher emphasis on stocks. The lifecycle funds are expected to invest in a mix of stocks, fixed income, and money market instruments. Stock investments should generally be made in marketable securities of investment grade quality. Fixed income investments should be made primarily in investment grade securities (BBB/Baa or higher). Money market investments should include high quality short-term debt securities.

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The performance objective for Lifecycle Funds is to achieve a rate of return (after investment management fees) over the majority of rolling three-year periods that:

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1. exceed the median of a peer group universe of similarly-managed balanced or target-date funds, and
2. outperform a benchmark of an appropriate combination of the Barclays Capital Government/Credit Bond Index and the Standard & Poors 500 Stock Index or an appropriate mix of indices that best reflect the fund’s investment style.

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VI. Derivative Policy

The Plans' investment fund managers may use derivative instruments. However, in no case may a derivative instrument be used that would cause the Plans to:

- be leveraged in any way, or
- be exposed to risks that would not inherently be encountered by investing directly in a portfolio of securities allowed by this policy.

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VII. Investment Restrictions

It is the policy of the Committee to allow the Plans' investment advisors discretion within their area of expertise. It is expected that the majority of the Plans' investment funds will be mutual funds or other commingled fund vehicles. As such, the Committee clearly understands that any investments in any mutual or commingled funds are governed solely by the guidelines as stated in the fund's prospectus or similar charter. The guidelines and objectives in this Investment Policy Statement are solely for the Committee's use in evaluating the continued appropriateness of an investment in the given mutual fund or commingled fund. The funds shall be monitored for adherence to these guidelines and objectives, recognizing that a fund change may be necessary if such parameters are not met.

VIII. Investment-related Expenses

Total fund operating expenses (including investment management fees, 12b-1 fees, etc.) should be reviewed periodically to ensure that such expenses are competitive and being managed in the best interest of the Plans' participants and beneficiaries.

IX. Reporting

The Plans' service provider, plan vendor, and/or record-keeper will ensure that all data necessary for the appropriate execution of plan oversight will be provided to the Plans' sponsor. This information is generally expected to include:

- A quarterly summary of contributions, withdrawals, income and expenses by fund,
- A quarterly listing of individual security holdings at market,
- Quarterly investment returns, net of fees, and the current expense ratio of the fund.

The Committee shall meet at least annually to review the investment performance of each fund and to review the Plans' objectives and guidelines. In addition, the Committee intends to provide participants with sufficient information to make informed decisions with regard to investment alternatives available under the Plans. This information, which may be provided by the Plans' service provider, will be provided in a timely manner so as to enable participants to make informed investment decisions.

X. Investment Policy Changes

Any changes to this Investment Policy Statement, or exceptions to the guidelines herein, whether recommended by the investment managers, or initiated by the Investment and Administrative Committee, should be documented in the Committee meeting minutes.

The foregoing Virginia Port Authority Investment Policy Statement was adopted by the Plans' Investment and Administrative Committee on _____ during a regular scheduled meeting.

APPENDIX A
Index and Peer Group Benchmarks

Table with 3 columns: Investment Option, Performance Benchmark, Peer Group. Rows include various investment options like Great West Guaranteed Fixed Account, PIMCO Total Return A, etc.

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