



MARYLAND PREPAID COLLEGE TRUST

STATEMENT OF INVESTMENT POLICY

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PROLOGUE

This document represents the Statement of Investment Policy (“Policy”) of the Maryland Prepaid College Trust (“MPCT” or “Prepaid Trust”) developed in accordance with Maryland Annotated Code, Education Article § 18-1906(a). This Policy is binding upon all persons with authority over the Prepaid Trust’s assets, including: investment advisers, Investment Managers, custodians, members of the Board and Maryland 529 Staff.

As set forth in § 18-1903(b) of the Enabling Legislation, the purpose of MPCT is to:

provide a means for payment of the cost of *tuition* in advance of enrollment at an *eligible institution of higher education*; and an assurance to a *beneficiary* who enrolls at an *eligible institution of higher education* that the Board shall make every effort to invest the advance payments so that the prepaid contract will cover the average in-State *tuition* costs at public institutions of higher education in the State at the time that the benefits are exercised. (*Italicized terms have the meanings set forth in § 18-1901 of the Enabling Legislation.*)

MPCT benefits can be used at Maryland public colleges, as well as at most private and out-of-state institutions.

Definitions

Account. Account means an account established by an Account Holder under the Prepaid Trust.

Account Holder. Account Holder means an individual or legally recognized entity such as a corporation (for-profit or nonprofit), partnership, association, trust, foundation, guardianship, or estate that establishes an Account for the benefit of the Beneficiary.

Advisers Act. Advisers Act means the Investment Advisers Act of 1940, as amended.

Beneficiary. Beneficiary means the individual designated by the Account Holder to receive the benefit of an Account.

The Board. The Board means the Maryland 529 Board, as Trustee and Fiduciary of the MPCT.

The Code. The Code refers to the Maryland Annotated Code. Unless otherwise noted, references to Code sections are those found in Education Article § 18-1901 et. seq.

Committee on Investments. Committee on Investments means the Committee Chair and other members of the Board appointed by the Chairperson, in accordance with the Bylaws, requested to serve on the Committee on Investments. The Committee acts in accordance with its Charter.

Enabling Legislation. Enabling Legislation refers to Maryland laws that established and govern the MPCT which are currently located in the Maryland Annotated Code, Education Article § 18-1901 et. seq. The Enabling Legislation is incorporated by reference into this Policy.

Fiduciary. Fiduciary means the Board, a member of the Board, any employee of Maryland 529 or any service provider of the Prepaid Trust who renders investment advice or exercises any discretionary authority or control over the management or administration of the Prepaid Trust or the management or disposition of the assets of the Prepaid Trust.

A Fiduciary is required to discharge his or her duties with respect to the Prepaid Trust (a) solely in the interest of the Account Holders and the Beneficiaries; (b) for the exclusive purposes of providing benefits to the Account Holders and the Beneficiaries and providing reasonable expenses of administering the Prepaid Trust; (c) with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims; (d) by diversifying the selection of investments of the Prepaid Trust so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; (e) in accordance with the laws governing the Prepaid Trust; and (f) in accordance with the documents and instruments governing the Prepaid Trust.

In exercising authority, control, or discretion with respect to the Prepaid Trust, a Fiduciary may not (a) use the assets of the Prepaid Trust for the Fiduciary's own interest or Account; (b) act in a transaction involving the Prepaid Trust on behalf of a person, or represent a person, if the interests of the person are adverse to the interests of the Prepaid Trust or the interests of Account Holders; (c) receive any consideration for the Fiduciary's own account from a person dealing with the Prepaid Trust in connection with a transaction involving the assets of the Prepaid Trust; or (d) become an endorser or surety or, in any manner, an obligor, for money lent to or borrowed from the Prepaid Trust.

Investment Consultant. Investment Consultant means the professional investment adviser retained by the Board in accordance with Code § 18-1906(i).

Investment Manager. Investment Manager means the qualified investment firms or vehicles selected by the Board to manage the assets of the Prepaid Trust.

Maryland 529 Staff. Maryland 529 Staff means the Executive Director and the Director of Investments and Cash Management.

Net Contributions. Net Contributions means the cash inflows received from Account Holders net of any cash outflows requested by Account Holders or for payment of eligible expenses of the Prepaid Trust.

Policy. This Statement of Investment Policy, as amended from time to time.

Policy Benchmark. The is the aggregate combination of broad asset class benchmark weighted in accordance with the target level allocations determined during the annual asset allocation review and voted on by the Board. Maryland 529 staff and/or the Investment Consultant may make recommendations to change the benchmark to the Committee on Investments.

Trustee. Each individual that is a member of the Board is a Trustee of the trust established to hold, manage and administer all money, assets and other proceeds received by the Board from the sale of investment accounts authorized by the Enabling Legislation. Each Trustee is a Fiduciary.

Tuition. In this Policy, and pursuant to § 18-1901 of the Code, the term "Tuition" means the actual tuition and mandatory fees assessed to all students by an eligible institution of higher education as a condition of enrollment at the institution. "Tuition" does not include any fee that is assessed by the institution for a particular course taken, year of enrollment, academic status, course of study, residency status or any other distinguishing factor used by the institution to determine a specific fee.

Statutes Incorporated by Reference

The Enabling Legislation and any regulations promulgated thereunder are incorporated by reference into this Policy.

Explanatory Notes

For purposes of this policy, the use of the term "annually" refers to a calendar year and not to the Prepaid Trust's fiscal year ending June 30. In addition, the numbering of paragraphs in this policy does not necessarily indicate an order of priority.

I. PURPOSE OF POLICY

This Policy defines the Prepaid Trusts' investment objectives and establishes policies and procedures designed to ensure that these objectives are met in a prudent manner. This Policy is intended to:

1. Provide a mechanism to establish and review the Prepaid Trusts' long-range investment objectives;
2. Promote understanding among various functional roles; and
3. Address the Board's obligations as Fiduciary of the Prepaid Trust's and the fiduciary obligations of the Committee on Investments, the Custodian, the Investment Consultant, the Investment Manager(s) and Maryland 529 staff.

Long Range Policy

This Policy represents the long-term views made by the Board after a deliberate and focused review of the Prepaid Trust's expected obligations and funding resources. The Prepaid Trust's investments are a vehicle to:

- (1) Provide a resource for future Tuition payments to Beneficiaries, and
- (2) Insulate, to the extent possible, the Prepaid Trust's assets against the deterioration of purchasing power.

The Board recognizes that investment markets have repeatedly demonstrated broad performance cycles having two fundamental characteristics, which bear heavily on the Prepaid Trust's expectations toward its future:

- (1) The cycles cannot be accurately predicted as to either their commencement, duration, or their magnitude, and
- (2) There is little or no relationship between market cycles and the convenient fiscal or calendar periods commonly used for measurement and evaluation.

The Board will review investment performance and investing activities on a regular, periodic basis. The Board, in forming judgments and acting on those judgments, will aim to match the long-term needs of the Prepaid Trust with the proven, long-term performance patterns of the various investment markets.

Various Functional Roles

This Policy is intended to serve as a reference tool, an operating code, and a communications link between the Board and its members, Investment Manager(s), investment advisors, and other professional advisors.

Fiduciary Obligations

Investments will be made in the sole interest of the participants and Beneficiaries and in accordance with the following objectives:

- (1) To ensure the assets of the Prepaid Trust are invested with the care, skill, prudence and diligence that a prudent person acting in a like capacity would undertake; and, is consistent with the actuarial soundness of the Prepaid Trust and the risk level expected from the asset allocation.
- (2) To ensure the assets of the Prepaid Trust are invested in a manner that minimizes and controls the costs incurred in administering and managing the assets.

The investment guidelines are based upon an investment horizon commensurate with the Prepaid Trust's long-term goals.

All fiduciaries to the Prepaid Trust shall conduct their responsibilities with the care, skill, prudence, and diligence under the circumstances then prevailing which a prudent person familiar with these matters and acting in a like capacity would use in the conduct of an activity of like character and purpose. Fiduciaries, their employees, agents, and designees shall discharge their duties with respect to the Prepaid Trust solely in the interest of the participants and Beneficiaries.

II. ROLES AND RESPONSIBILITIES

The Board's Authority and Responsibilities

The Board will conduct its responsibilities as Trustee and Fiduciary of the MPCT. In accordance with the Enabling Legislation, the Board may retain the services of consultants, administrators, and other personnel, as necessary, to administer the MPCT. It is acknowledged that the Board is not, and cannot be, involved in the day-to-day activities of the MPCT. The day-to-day activities and operations of the MPCT are conducted by the service providers engaged by the MPCT, MD 529 Staff and other employees of MD 529. The role of the Board is one of review and oversight.

Under this Policy, the Board will generally be responsible for the following:

- (1) Overseeing MPCT's compliance with applicable laws, regulations, and rulings, including the Enabling Legislation and any regulations adopted by the Board pursuant thereto.
- (2) Approving a sound and consistent Policy and revising the Policy to reflect changing conditions within the markets or the Prepaid Trust, or to make it more effective.
- (3) Searching for, interviewing, selecting and maintaining qualified investment advisers in accordance with applicable State procurement laws and regulations.
- (4) Monitoring and evaluating performance and compliance with this Policy.
- (5) Delegating the primary duties and responsibilities of those accountable for achieving investment results.

Committee on Investments

Specific responsibilities of the Committee on Investments related to the oversight of the Prepaid Trust include:

- (1) As needed or requested by either the Board or the Committee on Investments, interviewing, reviewing MD529 staff or Investment Consultant investment manager recommendations in order to maintain qualified Investment Managers/mutual funds and custodians.
- (2) Approving appropriateness of decisions and recommendations received from the Director of Investments and/or the Investment Consultant.
- (3) Recommending a comprehensive investment policy that addresses items such as financial and investment objectives, asset allocation, benchmarks, liquidity and general maintenance guidelines (e.g., diversification and quality guidelines).
- (4) Setting guidelines and monitoring and evaluating results to ensure that policy is being adhered to and that policy objectives are being met.
- (5) Communicating clearly the major duties and responsibilities of those qualified agents accountable for achieving investment results and to whom specific responsibilities have been delegated (i.e., the Executive Director, the Director of Investments and Cash Management, the Investment Consultant and the Prepaid Trust's investment managers).
- (6) Providing recommendations to the full Board on the appointment, retention and termination of appropriate investment advisers, investment vehicles, investment managers, and custodian banks.
- (7) Assigning such work and studies as may be necessary to keep committee members adequately informed as to the portfolio's status.
- (8) Communicating with the Board about investment activity and portfolio status and performance and generating and approving written minutes of all Committee on Investments meetings, including all resolutions approved by the committee for action.

Custodian

The Custodian has three primary responsibilities, namely: (1) Safekeeping of Assets – custody, pricing and accounting, and reporting of assets owned by the Prepaid Trust; (2) Trade Processing – track and reconcile assets that are acquired and disposed; and, (3) Asset Servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and

proxy notification issues. Specific responsibilities of the Custodian include, but are not limited to, the following:

- (1) Safekeeping services for both domestic and international securities.
- (2) Timely settlement of securities transactions, including cross-border investments.
- (3) Proper pricing of equities, fixed-income, and international securities, or alternative investments.
- (4) Timely collection of income, including tax reclamations.
- (5) Prompt and accurate administration of corporate actions, including proxy issues.
- (6) Direct, accurate daily communications with investment managers to ensure trades are correct and confirmed.
- (7) Proactive reconciliation with investment managers at least monthly.
- (8) Immediate communication with the Director of Investments and Cash Management regarding any concerns or issues with respect to services provided by the Custodian.

Investment Consultant

The Board has determined that it is necessary and reasonable to retain a professional investment adviser (the “Investment Consultant”), to advise the Board with regard to the investments of the Prepaid Trust. The Investment Consultant’s duties shall generally include the following:

- (1) Assisting in the development, implementation and evaluation of the investment policy that reflects the Prepaid Trust’s investment objectives including risk tolerance, performance, funded status, and expenses/investment management fees.
- (2) Assist in the development of asset allocation strategies by incorporating the above parameters alongside macro/micro-economic outlooks, market environments, liquidity needs, and other factors.
- (3) Assisting in the development, implementation and evaluation of an investment manager structure that provides appropriate diversification with respect to the number and types of investment managers retained and guidelines for those investment managers to follow.
- (4) Making recommendations regarding the identification of appropriate market benchmarks and peer groups against which each investment option should be evaluated

and reviewed at least annually.

- (5) Assisting in the search process for service providers, including on-site due diligence as required.
- (6) Producing regular reports to assist in evaluating the investment plan, risk, monitor program liquidity and performance. Such reports will evaluate the performance and risk characteristics of each Investment Manager relative to established objectives. The Investment Consultant will also evaluate the investment style of each Investment Manager to determine if the Investment Manager is fulfilling the role for which they were hired. The Investment Consultant will also stress test the aggregate portfolio and/or asset class(es) and report out on the results. In conjunction with these reports, the Investment Consultant will provide recommendations for action when appropriate or when requested.
- (7) Monitoring the investment management firms and products employed by the Prepaid Trust on an ongoing basis and inform the Board and the Maryland 529 Staff, as appropriate, of any developments that might impact performance and/or the liquidity profile of the Prepaid Trust's investments.
- (8) Educating Maryland 529 Staff and the Board, as appropriate, on investment issues that could impact the Prepaid Trust.

Aid the Director of Investments and Cash Management to actively monitor allocations and suggest portfolio rebalancing as needed to remain in compliance with the approved asset allocation policy.

Investment Managers

The Board will retain a diversified portfolio that could be inclusive of active or passive strategies employed across a variety of legal structures including, but not limited to mutual funds, exchange-traded funds (ETFs), separate accounts, and limited partnerships.. The Investment Managers, as fiduciaries of the MPCT, assume certain responsibilities. Specifically, the Investment Managers have discretionary authority to invest a specific allocation of the MPCT subject to the parameters set forth in the investment guidelines governing the specific mandate in the case of separate accounts, or the mutual/commingled fund governing documents.

While the specific duties and responsibilities of the Plan's Investment Managers are contained in each contractual agreement between the designated Investment Manager and the Plan, Investment Managers, in general, have the following responsibilities:

- (1) Comply with the applicable provisions and standards of the Enabling Legislation and other applicable laws.
- (2) Maintain registration as an investment Adviser under the Advisers Act, or be authorized and regulated by another appropriate authority.
- (3) Understand and accept the designated role within the Prepaid Trust's investment structure and construct a portfolio of securities that reflects the execution of a specific investment strategy.
- (4) Adhere to its Investment Management Agreement, or the terms of its Commingled Fund or Private Placement Memorandum, whichever is applicable, as well as the investment guidelines, recommended by the Investment Consultant and proved by the Board, to govern the management of the assets.
- (5) Provide timely notification to Maryland 529 staff and the Investment Consultant regarding any changes in investment philosophy, management, ownership or key personnel, changes in benchmarks, accounting treatment, regulatory notices and resolution outcomes.
- (6) Meet with the Investment Consultant and Maryland 529 Staff, as requested, generally at least annually.
- (7) Issue a monthly report, where available, to the Director of Investments and Cash Management and/or their designees which includes the following information:
 - a) the market value of account assets as of the last business day of each month;
 - b) the portion of account assets allocated to each investment asset class as of the last business day of each month;
 - c) time-weighted rates of return measured net of investment management fees and all expenses or gross of fees (as appropriate) for the current month, quarter, year-to-date and historical time periods;
 - d) average account characteristics (i.e. risk statistics or risk-adjusted statistics) and number of holdings as of the last business day of each month.

Maryland 529 Staff

Under the direction of the Executive Director, the Director of Investments and Cash Management is responsible for the Prepaid Trust's investments and the day-to-day responsibility of ensuring that the Prepaid Trust's investment policies are followed. Specific responsibilities include:

- (1) Regularly reviewing the Investment Policy Statement with the Committee on Investments and the Board.
- (2) Creating and reviewing, along with the Investment Consultant, asset allocation strategies.
- (3) Communicating with and monitoring Investment Managers on a regular basis.
- (4) Accounting for and verifying portfolio positions and activity.
- (5) Meeting with and monitoring the Prepaid Trust's Investment Consultant, custodian and other third-party service providers on a regular basis, including the services provided.
- (6) In coordination with the Investment Consultant, actively monitor allocations and rebalance the portfolio as needed to remain in compliance with the approved asset allocation policy.
- (7) Review the reporting information, distributed to the Committee on Investments, that is generated by the Investment Consultant. Report should include items such as: performance, risk, liquidity, fees, rebalancing transactions and manager guideline compliance.

III. ASSET ALLOCATION AND LONG-TERM PERFORMANCE

Objectives

The Board intends to pursue a level of return on the Prepaid Trust's investments that will provide the Prepaid Trust with the funds necessary to meet its liabilities. To achieve this objective, the Board will invest the Prepaid Trust's in a suitable mix of marketable assets.

Investment Philosophy and Strategy

The Board will exercise due care at all times to adequately diversify assets as it implements strategies to achieve the objectives for the Prepaid Trust. Thorough due diligence will be conducted and documented by Maryland 529 staff and/or the Investment Consultant in implementing specific investment strategies. Several philosophical beliefs underpin how the assets of the Prepaid Trust should be structured. They are:

- (1) Over the long term, equities are expected to outperform fixed income investments. The Prepaid Trust's asset allocation may also include alternative investments such as private equity and real assets for higher return potential and for diversification benefits. Furthermore, the long-term nature of the Prepaid Trust's liabilities makes them well suited to bear the added variability of return from equities in return for the greater long-term expected return. Accordingly, the Prepaid Trust's asset allocation may favor higher allocations to equities unless circumstances warrant otherwise.
- (2) Many segments of the capital markets are sufficiently inefficient and the rewards of sufficient magnitude to warrant pursuing active management (i.e. actively-managed mutual funds and alternative investments) with the goal of outperforming passive management over time. However, a portion of the Prepaid Trust's assets may be invested passively due to the low cost realized by this strategy in the segments of the capital markets that are viewed to be reasonably efficient.
- (3) The Board recognizes that asset class structure analysis is important so that issues such as market capitalization, value or growth style positioning, geographies and sectors can be addressed and reviewed on an ongoing basis. These investment structure decisions are intended to help maximize the efficiencies of asset classes included in the target asset allocation policy.

Development of Long-Term Asset Allocation Policy

As a general rule under this Policy, the Prepaid Trust's asset allocation will be reviewed annually by the Board. A formal, long-term asset liability valuation study will be conducted at least every three years by the Investment Consultant with input from the MPCT's actuary. Some specific occurrences that might prompt the Board to undertake a more frequent formal asset liability valuation study include:

- (1) Significant changes in Prepaid Trust demographics, benefit design, or actuarial methodology.
- (2) Significant changes in the prospects for revenue growth, derived from the purchase of new tuition contracts and continued payment of existing contracts.
- (3) Significant changes in capital markets performance, the outlook for future asset class returns and/or the availability of acceptable new asset classes.
- (4) The passage of relevant new state or federal legislation or regulations.
- (5) Significant changes in Maryland public policy on higher education, the actual Tuition charged at Maryland public colleges and/or the methodology used to determine Tuition at Maryland public colleges.

Specific asset allocation policy issues may be visited whenever the Board deems necessary and advisable.

The asset classes and their definitions can be found in Appendix A. The current discount rate for the Prepaid Trust can be found in Appendix B. Discount rate is defined as the assumed investment return, net of all fees, for the current asset allocation and liquidity requirements.

Investments in alternative investments such as private equity and private real estate are generally less liquid than investments in public market securities and are typically implemented via commitments and periodic capital calls to funds with limited partnership structures. As a result, until committed capital is drawn down by Investment Managers and fully invested, actual allocations to these two asset classes may deviate from their strategic targets for extended periods. Committed and undrawn capital will be considered "invested" for purposes of calculating investment allocations. Committed and undrawn capital shall be invested in liquid options most closely representing the private assets, to the extent available (e.g. private equity commitments could be held in equity index funds while private credit commitments could be held in bank loan index funds), Deviations in actual vs. targeted investment allocations

resulting from committed but undrawn (un-invested capital) shall be considered an exception to this policy.

Investment Goals

The primary goal of the investments is to ensure that liabilities are met when due. Prepaid Trust assets should thus be invested in a manner that maximizes the probability of meeting liabilities.

In developing strategic asset allocation guidelines for the Prepaid Trust, an emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes and investment vehicles. Consideration is also given to the proper long-term level of risk for the Prepaid Trust, particularly with respect to the long-term nature of the liabilities, the actuarial status of the Prepaid Trust and the impact of asset allocation on investments.

The secondary goal of Prepaid Trust investments is to insulate, to the extent possible, the Prepaid Trust's assets against the deterioration of purchasing power.

Investment Managers

Specific market benchmarks are assigned to each individual Investment Manager based on the Investment Manager's investment style and strategy. The benchmarks and specific risk and return objectives for separate account managers are contained in the investment guidelines section of each Investment Management Agreement. Each active Investment Manager is expected to outperform its respective market benchmark, over the applicable market cycle for the asset category, by an amount that reflects the active risk taken by the manager. Generally, Investment Managers with higher levels of active risk will be expected to provide greater returns over their benchmark.

The Board believes that, during a market cycle, fluctuations of the market will generally balance out and provide a fair reflection on the managers' effectiveness in the capital markets. A shorter time period may be used if the performance is significantly below that of the managers' peer group or performance expectations for the individual Investment Manager. The Board realizes that most investment styles go through cycles, and that at any given time an Investment Manager may encounter a time period in which it fails to meet its expected performance objectives due to certain investment styles being out of favor. The Board will take these factors into account in its evaluation of Investment Manager performance.

Control Policies

The Prepaid Trust will employ best practices and policies that impact and/or control the amount of risk in the portfolio. The details of these established policies and procedures are listed below.

Valuation Policy

For publicly listed securities for which market quotations are readily available, the Maryland 529 will rely on the valuation of investments as reported by the custodian based on market prices.

For private investments — or for securities held in private, illiquid limited partnerships — Maryland 529 will rely on the valuation of investments as reported by the investment managers or their investment committees or third-party administrators. Maryland 529 Staff and the Investment Consultant will review the valuation policies utilized by investment managers and review the annual audited financial statements to ensure that the auditors have provided an unqualified opinion on the audit of the financial statements.

Rebalancing Policy

A rebalancing discipline is intended to keep the portfolio invested at the targeted asset allocation. Rebalancing activities will generally be triggered primarily by market movements and secondarily by cash flows into and out of the Prepaid Trust including Net Contributions as well as reinvested dividends. Rebalancing will take into account the market valuation of all portfolio assets. Except when there is a perceived extraordinary downside risk in a particular asset class, movement outside of normal ranges should be avoided. The Investment Consultant and Maryland 529 Staff will monitor allocations and rebalance as needed in order to keep the Prepaid Trust compliant with asset allocation. Activities will be reported on a timely basis to the Committee on Investments and captured in the performance report generated by the Investment Consultant.

Liquidity Policy

Liquidity is the measure of the ability to convert assets held in the portfolio into cash.

Maryland 529 Staff is responsible for ensuring proper liquidity is available to fund Prepaid Trust needs as they arise. The Investment Consultant should include portfolio liquidity reporting during the quarterly meetings including:

- (1) Categorizing holdings in terms of the time required to convert each investment into cash (e.g., one day, one week, one month, 90 days, one year, greater than one year).

Performance Measurement

For purposes of performance measurement, the returns of the investment portfolio will be measured against a series of benchmarks (**Appendix C**) that are designed to assist in the assessment of the plan's performance against distinct goals and objectives. Monthly reports on target vs. actual asset allocations and portfolio performance vs. benchmarks will be prepared by the Investment Consultant and presented quarterly to both the Committee on Investments and the Board.

Asset class returns and benchmarks are calculated on a time-weighted basis, with the exception of Private Equity. Time-weighted returns are appropriate for measuring the performance of traditional asset classes where frequently updated market valuations are available, and cash flows are not irregular. The appropriate method of calculating performance for asset classes without the availability of frequently updated market valuations, and with irregular cash flows, such as Private Equity, is to measure the performance on an IRR (Internal Rate of Return) basis, rather than on a time-weighted basis as with all other asset classes.

Private Equity performance will be measured on an IRR basis for individual investments as well as at the asset class level. Individual IRRs for Private Equity investments will be compared to an industry recognized universe of other Private Equity investments with a similar vintage year. However, when the Private Equity asset class is measured and benchmarked as part of the total Prepaid Trust's performance, time-weighted returns must be used for purposes of aggregating the performance with the rest of the total Prepaid Trust. Therefore, when Private Equity is benchmarked as a part of the total Prepaid Trust performance benchmark, the actual time-weighted returns of the asset class will be applied as the benchmark component in the total Prepaid Trust weighted average benchmark calculation. This process will provide an appropriate method of measuring and benchmarking total Prepaid Trust performance where Private Equity is included.

Policy Portfolio Benchmark: This benchmark will measure the plan's performance against a model portfolio that is constructed by using investible indexes that are weighted at the target weight of each role category in the approved asset allocation. This benchmark will indicate the impact of sub-asset class allocation decisions which differ from the targets in the model portfolio.

Prepaid Trust Custom Benchmark: This benchmark will measure the plan's performance against a model portfolio that is constructed by using style or sector specific indexes, specific to each manager, and that are weighted at the current weight of each investment in the asset class.

This measure will indicate the value added from active management.

IV. EVALUATION AND REVIEW

Review of Investment Managers

The Investment Managers will discharge their responsibilities with respect to that portion of the Prepaid Trust's assets under their management in accordance with the fiduciary responsibility provisions of the applicable mutual fund account agreement, Investment Management Agreement, or limited partnership agreement.

The Investment Consultant and Maryland 529 Staff will monitor Investment Managers/mutual funds and periodically review performance with the Board. The Investment Consultant will provide ongoing performance reporting that will emphasize, but not be limited to, the following:

- (1) Each Investment Manager's/fund's adherence to this Policy, Investment Manager's guidelines and each prospectus/offering document, as applicable.
- (2) Investment Manager's performance relative to their market benchmarks and their individual return and risk objectives and correlation relative to other existing portfolio and asset class holdings.
- (3) Comparison of quarterly manager/fund results to peer groups using similar policies (i.e. in terms of diversification, volatility, style, trading volume, etc.).
- (4) The opportunities available in the Investment Manager's asset class.
- (5) Material changes to the Investment Manager's/fund's organizational stability, including changes in ownership or personnel; changes in its investment philosophy, additions and losses of customer accounts, assets under management, etc.
- (6) Offenses of either regulatory or ethical standards, or acts of moral turpitude that are committed by the investment firm's owners or one or more members of their staff.

The Board will review and monitor investment performance quarterly, recognizing that non-traditional investments such as Private Equity are more appropriately evaluated over the full life cycle of the investments.

Investment manager/mutual fund representatives will be required to meet with the Board when requested, which may be based on the advice of the Investment Consultant or Maryland 529 Staff. No Investment Manager/mutual fund will be selected who has not, by its record and

experience, demonstrated its fiduciary responsibility, its investment expertise, and its capacity to undertake the mandate for which it is being considered.

To act as an Investment Manager, firms must:

- (1) Acknowledge in writing a fiduciary relationship with respect to the Prepaid Trust.
- (2) Be currently registered and maintain registration as an investment adviser under the Advisers Act, a bank (as defined in the Advisers Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis, or exempt from such registration, and
- (3) Be granted by the Prepaid Trust the power to manage, acquire or dispose of assets of the Prepaid Trust pursuant to this Policy and the prospectus and/or appropriate investment fund plan documents governing the investment.

In addition, an Investment Manager of a separate account will be required to execute an Investment Management Agreement that will contain specific investment objectives and guidelines for the manager to follow.

Thorough due diligence will be performed before the appointment of all Investment Managers by the Board, subject to any existing Investment Manager exceptions referenced in Section III (Allocations Among Different Investment Management Styles, Historical Asset Allocation).

Investment Guidelines

The following guidelines are expected to apply to all Investment Managers entrusted with Prepaid Trust assets:

Investment Managers are expected to be fully invested in the asset classes they have been engaged to manage, with minimal allocations to cash as stipulated in their respective investment guidelines.

Prohibited investments

Unless specifically provided for in an investment management agreement, the following items are prohibited in all applicable accounts:

- (1) Borrowing of money, except for certain alternative asset classes where leverage may be a key component of the investment strategy and permitted in the investments' governing documents,

- (2) Purchase of securities on margin, unless fully collateralized by cash or cash equivalents, or short sales,
- (3) Pledging, mortgaging, or hypothecating of any securities except for loans of securities that are fully collateralized,
- (4) Purchase of the securities of the Investment Managers, its parents, or its affiliates, unless private letter ruling has been obtained specific to the securities in question, with the exception of index funds managed by publicly listed companies, and
- (5) Purchase or sale of futures or options or other derivatives that result in leveraging the Investment Manager's account.

Investment Manager/Mutual Fund Termination

Investment managers/mutual funds may be terminated at the discretion of the Board.

Reasons for termination may include, but are not limited to:

- (1) They have committed a significant or intentional breach of their mandate or directive.
- (2) They have experienced material organizational changes of concern including, but not limited to, loss of key personnel.
- (3) They have breached a fiduciary duty.
- (4) They have lost the confidence of Maryland 529 staff and the Investment Consultant.
- (5) Their performance has been inconsistent with their initial investment strategy at the time of the Prepaid Trust's investment (style drift) and/or the expectations of the Board.
- (6) Performance has not been acceptable. Generally, decisions based on performance will be made only after a full market cycle (historically 3 to 5 years), although the period may be shorter when severe underperformance or other evidence exist that suggests inconsistencies between the investment manager's/mutual fund's stated style and the characteristics of investments actually made.
- (7) A manager/fund has had poor performance for an extended period of time:

- (a) Prior to termination, an active investment manager/mutual fund may be placed on the "Watch List" if based on the most recent three-year performance history, they have not met or exceeded the benchmark return. (the Board may ask for an explanation of the poor performance history).
- (b) The Director of Investments and Cash Management will work with the Investment Consultant to review all Watch List managers/funds.
- (c) Such manager/fund will be removed from the Watch List when it has exceeded its benchmark in the most recent one-year period. If the manager/fund remains on the Watch List for over a year for a Performance Matter, a deeper review of the manager/fund and the peer group will be performed to identify potential replacement candidates. This does not require a fund/manager to be replaced, merely that the universe of options should be re-evaluated.

The Investment Consultant will make clear recommendations to the Committee on Investments, and ultimately the Board, regarding the termination of investment managers/mutual funds.

V. OPERATIONAL GUIDELINES

General

The Investment Managers shall exercise due care at all times to adequately diversify their portfolio to protect against any loss associated with a single security, issuer, geography, sector exposure, or single event. Specific diversification requirements will be stipulated in the Investment Manager's investment guidelines document. Assets are to be managed in conformity with the stated investment guidelines. The Investment Managers shall notify the Board and Staff in writing immediately of any deviations from their governing investment guidelines.

Exemptions

The Board acknowledges that, if it elects to invest in a commingled investment product (e.g. a group trust, mutual fund, limited partnership, etc.), the policies established for each product will govern and may not comply fully with policies established for the Prepaid Trust. The Board, in participation with the Investment Consultant and Maryland 529 Staff, will monitor the performance of commingled funds to the extent appropriate for the particular product in accordance with the principles set forth in this document.

Number and Type of Managers/Funds to be used

In order to improve overall portfolio performance and further reduce risk, the Board will utilize multiple investment managers/mutual funds. There will be at least one investment manager/mutual fund per approved asset class. The Board intends to add managers of different investment styles, from time to time, when practical. An investment manager may manage a separately managed investment account and/or a mutual/commingled investment account.

In addition, no more than 10 percent of the portfolio may be invested in one investment offered by an investment manager. No more than 15 percent of the portfolio assets may be invested in multiple investments with one investment firm. The Board must approve exceptions to this policy.

Proxy Voting

The Board expects that investment managers for Prepaid Trust's portfolios be responsible for all proxy voting. In voting proxies investment managers should be guided by the United Nations Principles of Responsible Investment (**Appendix D**) and the ESG factors enumerated therein and pay particular attention to governance issues relating to board diversity and structure. Maryland 529 Staff should maintain managers' records, where available, of how each manager has voted proxies with regard to the Prepaid Trust's investments.

Inclusion of Minority Business Enterprises

The Board desires to include minority business enterprises (as defined in Section 14-301 of the State Finance and Procurement Article of the Annotated Code of Maryland) in the Investment Manager selection process and to objectively evaluate all investment manager candidates without regard to race, color, religion, creed, age, sex, sexual orientation, gender identification, marital status, national origin, ancestry, or disability of a qualified individual.

VI. POLICY MODIFICATION AND REVISION

Frequency of Policy Review

The Board may use each of its periodic investment performance evaluations as occasions to also consider whether any elements of the existing Policy are either insufficient or inappropriate. However, a formal review of the Policy will occur at least annually. Key environmental or operational occurrences, which could result in a Policy modification, include:

- (1) Significant changes in expected patterns of the Prepaid Trust's liability stream,
- (2) Impractical time horizons,
- (3) Change in the Prepaid Trust's priorities,
- (4) Convincing arguments for change presented by investment managers/mutual funds and/or the Investment Consultant,
- (5) Federal and/or state legislation and regulations, and
- (6) Areas found to be important, but not covered by the Policy.

Policy Modification

While the Board will review this Policy at least annually, the Board recognizes that major changes to the Policy can produce potentially damaging inconsistency. Changes, particularly the type that can be characterized as reversals of direction, or "responses" to current market conditions from time to time, are viewed as particularly undesirable. However, the Board acknowledges that this Policy should be responsive to changing conditions, particularly those having to do with the Prepaid Trust liabilities.

VII. POLICY ADOPTION

The Board has adopted this amended Policy as of October 27, 2022.

Program Manager's Acknowledgement:

We have received, reviewed and understand the Program's Investment Policy.

By: _____

Name:

Title:

Company:

Date

APPENDIX A- Asset Class Explanations

The tables below represent the broad asset classes used in constructing the portfolio. Individual asset class portfolios will be diversified so that they are representative of the investment opportunity set within each asset class.

Fixed Income Asset Class	Description	Expected Correlation and Risk/Return Profile	Expected Liquidity
Core Fixed Income	Investment grade and non-investment grade fixed income securities. Low expected credit losses and intermediate interest rate duration.	Low correlation to equities. Low risk and return.	Can be readily liquidated to fund cash needs.
Low Duration Fixed Income	Investment grade and non-investment grade securities, debt, or other securities with fixed-income like characteristics with very low expected credit losses and interest rate durations generally less than 3 years.	Low correlation to equities. Low risk and return.	Can be readily liquidated to fund cash needs.
High Yield Fixed Income	Fixed income securities providing broad exposure to return opportunities and investment characteristics of the high yield/below investment grade credit markets. Moderate interest rate duration.	High correlation to equities. High risk and return.	Semi-liquid depending on market environment.
Emerging Market Fixed Income	Fixed income securities issued by Emerging Markets. May be investment grade or below investment grade credit risks. Moderate interest rate durations.	Moderate to high correlation to equities. High risk and return.	Semi-liquid depending on market environment.
Senior Secured Loans	Investments in floating-rate debt issued by corporations and other non-government sectors of the fixed income market. Credit ratings expected to be below investment grade.	Moderate correlation to equities. Moderate risk and return	Semi-liquid depending on market environment.
Private Debt	Public or Private fixed income securities, debt, or other investments with fixed-income like characteristics. Generally assumed to be below investment-grade credit quality. Moderate or low interest rate durations.	Moderate to high correlation to equities. Moderate risk and return	Illiquid

Public Equity Asset Class	Description	Expected Risk/Return Profile	Expected Liquidity
US Equity & Non-US Equity	Publicly traded common stock, preferred stock, convertible to stock, options, futures or other derivatives on stocks or composites representing ownership interests in US and Non-US domiciled companies.	High risk and return.	Can be readily liquidated to fund cash needs.

Real Estate/Infrastructure Asset Class	Description	Expected Risk/Return Profile	Expected Liquidity
Core Real Estate	Assets that represent claims on future streams of income, comprising real estate or real estate linked investments.	Low to moderate correlation to equities. Moderate risk and return.	Illiquid
Global Infrastructure	Assets that represent claims on future streams of income generated by long-lived assets such as toll roads, utilities, pipeline, ports, airports, etc.	Moderate correlation to equities. Moderate risk and return.	Illiquid

Private Equity Asset Class	Description	Expected Risk/Return Profile	Expected Liquidity
Private Equity	Common stock, preferred stock, or debt in private companies. Could include private investments in natural resources.	High correlation to equities. High risk and return.	Illiquid

Cash Asset Class	Description	Expected Risk/Return Profile	Expected Liquidity
Cash	Investments in high-quality fixed income securities, with an average duration of less than one year; can be helpful as a defensive position.	Low risk, low return	Available to fund cash needs

APPENDIX B- Asset Allocation

The table below details the current asset allocation policy targets, approved and effective as of September 10, 2020, for the asset classes and allowable ranges of variance from the targets.

	<u>Target %</u>	<u>Allocation Ranges</u>	
		Minimum (%)	Maximum (%)
Fixed Income	35	30	40
Core Fixed Income	20	15	25
High Yield Fixed Income	5	2	8
Emerging Market Fixed Income	5	2	8
Senior Secured Loans	5	2	8
US Equity	22	17	27
Large-Cap	9	4	14
Mid-Cap	4	1	7
Small-Cap	4	1	7
Low-Volatility	5	2	8
Non-US Equity	23	18	28
Non-US Large-Cap	13	8	18
Non-US Small-Cap	5	2	8
Emerging Market	5	2	8
Real Estate	15	7	23
US Core Real Estate	10	5	15
Global Infrastructure	5	2	8
Private Capital	5	2	8
Private Equity	5	2	8

On September 10, 2020 the Discount Rate Assumption was reduced from 6.30% to 6.0%.

APPENDIX C- Benchmarks

Each asset class in the asset allocation model has been assigned a benchmark that best represents the investible universe of that asset class.

Asset Class	Benchmark
Fixed Income	45% Bloomberg Barclays US Aggregate Bond 14% Bloomberg Barclays 1-3 year US Aggregate Bond 9% Bloomberg Barclays US Corporate High Yield 9% S&P/LSTA Loan (Floating Rate Bank Loans) 9% JPM EMBI Global Diversified (Emerging Market Debt) 14% Credit Suisse Leveraged Loans
US Equity	40% Russell 1000 20% MSCI US Minimum Volatility 20% Russell Mid-cap 20% Russell 2000
International Equity	62% MSCI ACWI ex-US 19% MSCI ACWI ex-US Small Cap 19% MSCI Emerging Markets
Real Estate/Infrastructure	67% NFI OCDE 33% Bloomberg Barclays US TIPS
Private Equity	100% Pitchbook Private Equity

Total Portfolio Policy Benchmark:

As of October 1, 2021, the Total Portfolio Policy Benchmark is composed of 20% Bloomberg Barclays Aggregate, 6% Bloomberg Barclays 1-3 yr Aggregate, 4% Bloomberg Barclays US Corp High Yield, 4%, S&P/LSTA Loan, 4% JPM EMBI Global Diversified, 6% CS Leveraged Loan, 6% Russell 1000, 3% MSCI US Min Vol, 3% Russell MidCap, 3% Russell 2000, 10% MSCI ACWI ex-US, 3% MSCI ACWI ex-US Small Cap, 3% MSCI EM, 10% NFI-ODCE, 5% Bloomberg Barclays US TIPS, and 10% Pitchbook Global All Private Equity.

The Board also considers, where appropriate, peer comparisons reflecting defined benefit plans with assets between \$250 million and \$1 billion.

APPENDIX D- United Nations Principles for Responsible Investment

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3

We will seek appropriate disclosure on ESG issues by entities in which we invest.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

Examples of environmental, social and governance (ESG) factors include:

Environmental (E) factors:

- Climate change
- Greenhouse (GHG) emissions
- Biodiversity and natural capital depletion
- Deforestation

Social (S) factors:

- Working conditions, including slavery and child labor
- Local communities, including indigenous communities
- Diversity, Equity, and Inclusion
- Health and safety

Governance (G) factors

- Executive pay
- Bribery and corruption
- Political lobbying and donation
- Board diversity and structure