

# **National ABLE Alliance**

## **INVESTMENT POLICY STATEMENT**

### **1.0 Statement of Purpose**

The purpose of this Investment Policy Statement (the “Policy”) is to assist contractors retained by the National Achieving a Better Life Experience (“ABLE”) Alliance (the “Consortium”) to provide services related to the management of the ABLE account assets of the owners and beneficiaries of an ABLE account (“Account Owners”), within the Consortium and to assist the Consortium in evaluating the performance of such contractors by:

- Describing the Consortium’s investment philosophy and objectives;
- Providing general guidelines for the investment of assets;
- Describing the roles and responsibilities of employees or contractors and the process of evaluating the performance of employees or contractors that provide investment management services to the Consortium; and
- Specifying the roles and responsibilities of the Consortium and any contractors that provide investment management services to the Consortium.

The Consortium oversees the management and operations of the National ABLE Alliance Program (“Program”).

This is the official Policy of the Consortium, and deviation from this Policy is not permitted without prior approval from the Consortium.

If a member state is restricted from participating or abiding by any portion of the Policy due to applicable individual state law, the member state is responsible for adding, and updating its addendum to the Policy (Exhibit E). The addendum shall include a reference to the applicable state law in conjunction with the section of the Policy that is restricted. Each member state is responsible for ensuring that abiding by any portion of the Policy is not restricted or prohibited within its individual state statutes.

### **2.0 Establishment and Authority of Consortium**

The federal 2014 Stephen Beck, Jr. Achieving a Better Life Experience Act (ABLE Act) authorized states to pass enabling legislation to offer tax-favored ABLE plans to people with disabilities. The Consortium was established by an Interstate Agreement dated January 15, 2016 and amended thereafter, to allow its member states to work together to achieve efficiencies and economies of scale by adopting common ABLE Program (Program) elements through a single program manager, and to oversee the efficient and effective implementation and maintenance of the Program.

ABLE accounts encourage and assist individuals and families in saving private funds for the purpose of supporting persons with disabilities in endeavors to maintain health, independence, and quality of life. ABLE accounts provide secure funding for disability-related expenses for Account Owners that will supplement, but not supplant, benefits provided through private insurance, federal and State medical and disability insurance, the Account Owner's employment, and other sources.

### **3.0 Investment Philosophy**

The Consortium has adopted the goal of providing a broad array of investment options to meet the needs of a diverse set of Account Owners. Account Owner time horizons and risk tolerances vary, so a diverse set of Allocation Driven Portfolios (“Portfolios”) ranging from conservative to aggressive is appropriate. In order to achieve the Consortium’s investment objectives, Portfolios shall be diversified to minimize the risk of loss through the utilization of various asset classes. While some asset classes may experience short-term and intermediate-term volatility, their long-term return assumptions justify their inclusion. A long-term focus on investment results as well as prudent diversification across public security markets will be the primary risk control mechanisms.

In its investment strategy, the Consortium has relied on prevailing financial theory, which currently utilizes a long-term diversified asset allocation strategy. A prudently allocated investment program possesses a significant level of diversification, which produces risk reduction. In terms of impact, diversification shall be considered along the following lines: (1) asset classes (stocks, bonds, cash, etc.); (2) geography/country; (3) industry; and (4) maturity.

Account Owners’ contributions will be directed to one or more of the available Portfolios based on the investment selections made by the Account Owners. Each Portfolio is composed of a designated mix of investments funds. The determination of the investment parameters of each Portfolio shall be made by the Consortium and shall consider the financial characteristics of the investments in the Program. The investment parameters will also give due consideration to the fact that the investment horizon for Account Owners will vary from a few months to over 25 years.

The Consortium will review the investment performance of each Portfolio at least quarterly and shall review this Policy at least annually.

The holdings of the Program and the Portfolios are divided into the following broad asset categories:

- Short-Term Investments
- Domestic Fixed Income Investments
- International Fixed Income Investments
- Domestic Equity Investments
- International Equity Investments
- Public Real Estate Investments

The Consortium will establish reasonable Target Portfolio Objectives for each Portfolio, specifying, where applicable, limits on asset and asset class exposures, risk constraints, and investment return objectives. While the investment parameters offered under the Program are developed by the Consortium, Account Owners bear the risk of investment results.

The administration and offering of the Program should not be relied upon as a guarantee to Account Owners. Each Account Owner should seek appropriate advice as he or she deems necessary.

#### **4.0 Checking Account Option**

The Program has included the option of a short-term investment vehicle in the form of a Demand Deposit Account (the “Checking Account Option”) for Account Owners. The Checking Account Option will be an FDIC-Insured bank account whose primary objective is the preservation and safety of the principal and the provision of a stable and low-risk rate of return. This option allows Account Owners the ability to execute recurring transactions with greater ease.

The Checking Account Option Provider will provide monthly account statements following any month in which an account utilizing the Checking Account Option had financial activity. All account statements shall be sent to the respective Account Owner and any authorized agents and may be sent by U.S. postal mail and/or provided via website access electronic delivery, as specified by the Account Owner.

#### **5.0 Investment Objectives**

The overall Program’s investment options and, as applicable, the Portfolios provided to Account Owners shall seek to achieve the following long-term investment objectives:

- A long-term competitive rate of return on investments that is equal to or exceeds a return of the applicable benchmarks shown in Exhibit D hereof; and
- An investment program flexible enough to meet the needs of Account Owners based upon their investment objectives and which provides each individual with the ability to invest in a diversified portfolio to meet his or her long-term investment goals.

#### **6.0 Investment Guidelines**

The Program’s investment options will be governed by a set of investment guidelines consistent with the investment objectives for the Program. The current guidelines are attached as Exhibit A. These guidelines may be modified from time to time by the Consortium to best meet the needs of ABLE Account Owners.

#### **7.0 Roles and Responsibilities**

##### **The Consortium**

The Consortium is responsible for the investments held within the Program and available for selection by Account Owners. This includes investment plan design, model portfolio construction, investment manager selection, ongoing monitoring and, as needed, investment manager replacement.

The Consortium shall have an Investment Policy Sub-Committee (“IPSC”) to facilitate the oversight duties of the Consortium as described in this Policy and the NAA Guiding Principles for Investment Analysis and Due Diligence (the “Guiding Principles,” attached hereto as Exhibit E). The IPSC shall not act independently, but rather bring recommendations to the Consortium for final approval and decision making. Each member state may choose to participate in the IPSC. The lead member of the IPSC shall be a representative of the

facilitating state (currently Illinois).

The IPSC will meet on an as-needed basis and will ensure that the Consortium completes its oversight duties as outlined in the Guiding Principles.

### **The Contractor and Investment Advisor**

The Consortium may engage and rely upon a contractor for administrative services and investment management services (the “Contractor”). Among the responsibilities of the Contractor are the implementation of the investment strategy outlined in this Policy and the rebalancing of the Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Consortium’s approval, the Contractor may retain an investment advisor to provide it with portfolio design, due diligence, and ongoing monitoring services with respect to the Portfolios and the implementation of the investment strategy outlined in this Policy. The Consortium and the Contractor shall meet quarterly to review portfolio performance as compared to the applicable benchmarks and peer group performance.

In managing the investments of the Portfolios, the Contractor will act:

- With the skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives; and
- For the sole benefit of the Program’s beneficiaries.

### **Investment Consultant**

The Consortium may utilize an external investment consultant for investment advisory services in the fulfillment of its oversight responsibilities. In doing so, the external investment consultant will independently:

- Measure investment performance results, evaluate the investment program, and advise the Consortium as to the performance and continuing appropriateness of each investment manager;
- Monitor investments for fee competitiveness and inform the Consortium on optimal fund structures to minimize fees;
- Conduct an annual review of the investment policies, objectives, guidelines, or management structure;
- Recommend modifications to the investment policies, objectives, guidelines, or management structure as appropriate; and
- Promptly inform the Consortium regarding significant matters pertaining to the investment program.

## **8.0 Guiding Principles for Investment Analysis and Due Diligence**

The performance of external investment managers and Contractors will be governed and monitored by the Guiding Principles. The Guiding Principles may be modified as needed by the Consortium to best adhere to industry best practices.

## **EXHIBIT A**

### **Investment Guidelines**

The investment options shall be constructed and administered to comply with the following guidelines:

**A. Simplicity** – The Program’s Investment Portfolios and underlying asset allocations shall be constructed and administered in a manner that provides a range of clear, easily understood options, defined in terms of expected risk/return, in order to encourage participation and provide opportunities for investment returns for Account Owners. Furthermore, the Program shall be designed and administered in a manner that promotes full transparency of fees and investments.

**B. Low Cost** – The Program’s investment options shall be constructed and administered in a manner that is designed to minimize investment fees to Account Owners, while still providing value to Account Owners and meeting the investment option’s risk and return objectives. The lowest cost index-based investment funds should be viewed as the default standard in evaluating investment management fees.

**C. Investment Horizons and Risk Tolerances** – The Program’s investment options shall account for a diversity of time horizons (e.g., short-term, long-term) and risk tolerances (e.g., aggressive, moderate, conservative) among Account Owners. Portfolios shall also be constructed in a manner that accounts for investment time horizons and risk tolerances through the utilization including but not limited to, pre-mixed dynamic portfolios, static portfolios with varying target allocations, and the Checking Account Option.

**D. Open Architecture** – The Program’s investment framework shall utilize an open architecture plan design which allows the use of investment options and managers that are not proprietary to the Contractor. The open architecture design shall offer Account Owners benefits such as access to best in class managers, increased flexibility when choosing underlying strategies, and the ability to obtain the lowest fees for underlying investment funds.

**E. Non-Proprietary Products** – The Program’s investment options shall consist of non-proprietary funds. The non-proprietary funds shall be issued and managed by firms that are not affiliated with the Contractor, the Contractor’s investment advisor (if any), or the Consortium’s investment consultant (if any).

**F. Passive versus Active Funds** – The Program’s investment options shall consist of passively managed strategies that replicate the risk and return characteristics of their respective benchmarks. In asset classes where passively managed strategies are not prevalent or in asset classes that are deemed to be inefficient, actively managed strategies may be used.

**G. Investment Policy Statement** – The Consortium shall create an Investment Policy Statement that governs the Program’s investment options, which may include asset allocations, glide paths underlying investment funds, and each investment option’s corresponding benchmark. The Consortium shall conduct a review of the Investment Policy Statement at least annually. The Contractor, investment advisor, and the Consortium shall provide each other suggested changes to the Program’s asset allocation strategy, associated glide paths, investment options, and the underlying investment funds in accordance with industry standards and best practices.

**H. Investment Performance Report** – The Contractor shall analyze the performance of the Program’s investment options by comparing their performance to the benchmarks set forth in the Investment Policy Statement.

**I. Revenue Sharing Funds** – The Program shall not utilize any underlying investment funds in an investment option that are considered “revenue sharing funds” (i.e. 12-b) as an investment vehicle.

**J. Separate Accounts/Institutional Share Class Options** – When available and cost-effective, the Program shall utilize separately managed accounts and/or a lowest available share class option (i.e., institutional share class and/or separately managed accounts).

**K. Manager Flexibility** – The Program’s investment framework shall provide the Consortium with the ability to replace existing managers for reasons including, but not limited to, underperformance or investment team personnel turnover.

**L. Annual Benchmark Review** – Annually the Consortium shall determine the impact a potential benchmark’s performance has on an investment and assess whether the assigned benchmark is an accurate representation of market performance.

**M. Annual Asset Allocation Review** – Annually the Consortium shall ensure that the asset allocation of the investment framework aligns with the goals and objectives of the Program set forth in the Investment Policy Statement.

**N. Annual Fee Study** – Annually the Consortium shall assess the fees of underlying investment fund managers of the Program in comparison to that of their peers in order to ensure that the investment framework of the Program consists of high-quality funds at the lowest available cost.

## **Exhibit B**

### **Target Portfolio Objectives**

The **Aggressive Target Portfolio** seeks to provide very aggressive capital appreciation and some current income. The fund holds 90% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 10% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for the most aggressive growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Moderately Aggressive Target Portfolio** seeks to provide aggressive capital appreciation and some current income. The fund holds 75% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 25% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for aggressive growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Growth Target Portfolio** seeks to provide capital appreciation and some current income. The fund holds 60% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 40% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Moderate Target Portfolio** seeks to provide moderate capital appreciation and current income. The fund holds 45% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 55% in bonds, allocated among domestic and international bonds. Investors with a long-term time horizon who are looking for growth of principal over time and who can accept stock market volatility may wish to consider this Portfolio.

The **Moderately Conservative Target Portfolio** seeks to provide conservative capital appreciation and current income. The fund holds 30% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 70% in bonds, allocated among domestic bonds, international bonds, and short-term investments. Investors with a medium-term time horizon who are looking for conservative growth of principal over time and who can accept some stock market volatility may wish to consider this Portfolio.

The **Conservative Target Portfolio** seeks to provide very conservative capital appreciation and current income. The fund holds 10% of its assets in stocks allocated among domestic stocks, international stocks, and REITs and 90% in bonds, allocated among domestic bonds, international bonds, and short-term investments. Investors with a short-term time horizon who are looking for very conservative growth of principal over time and who can accept limited stock market volatility may wish to consider this Portfolio.



**Exhibit C**  
**Underlying Investment Products**

<b>Underlying Investment Product</b>	<b>Asset Class</b>	<b>Benchmark</b>
<b>Vanguard Institutional Index Fund</b>	U.S. Large Cap	S & P 500 Index
<b>Vanguard Extended Market Index Fund</b>	U.S. Small & Mid Cap	S & P Completion Index
<b>iShares Core MSCI EAFE ETF</b>	Non-U.S. Multi Cap	MSCI EAFE IMI Index
<b>Schwab Emerging Markets Equity ETF</b>	Emerging Markets	FTSE Emerging Index (Net)
<b>Schwab U.S. REIT ETF</b>	Real Estate	Dow Jones Equity All REIT Capped Index
<b>Vanguard Total Bond Market Index Fund</b>	U.S. Core Bond	Bloomberg U.S. Aggregate Float Adjusted Bond Index
<b>Vanguard Short-Term Bond Index Fund</b>	Short-Term Investment Grade	Bloomberg U.S. 1-5yr Gov't/Credit
<b>Vanguard Short-Term Inflation Protected Securities Index</b>	Short-Term Inflation Protected Bond	Bloomberg US TIPS 0-5 Yrs.
<b>iShares Core International Aggregate Bond ETF</b>	International Bond	Bloomberg Global Aggregate ex USD 10% IC Hedged Index
<b>Sallie Mae High-Yield FDIC</b>	Cash & Cash Equivalents	3-month T-Bills

## **EXHIBIT D**

### **Investment Parameters**

Contributions will be invested in one or more of the available Portfolios, each composed of a designated mix of investments which is appropriate for the investment preference of the Account Owner or the investment objective of the Portfolio. Each Portfolio may allocate assets among domestic equity, international equity, real estate, domestic and international fixed-income, and/or cash and cash equivalents. The asset allocation of each Portfolio will be established by the Consortium and managed by the Contractor. The Consortium may adjust the weighting in stocks, bonds, real estate, and cash in each Portfolio and may change the underlying investment funds within the Portfolios consistent with the Investment Policy.

The target asset allocations and benchmarks for the underlying investments within the Target Portfolios are shown in the following table. There is a permissible range of plus or minus 5% of the target allocation for each underlying investment fund. Please refer to Exhibit B for Target Portfolio Objectives and refer to Exhibit C for a list of underlying investment products and their corresponding benchmarks.

Each underlying investment fund's return objective seeks to equal or exceed, over a five-year rolling period, the return of the applicable benchmark net of fees. Volatility, measured by the standard deviation of quarterly returns over that period, is expected to be similar to the benchmark. Each underlying investment fund is also expected to perform favorably relative to its peer group.

To the extent that the assets of a Portfolio are invested in one or more underlying investment funds approved by the Consortium having investment objectives consistent with the above-noted asset allocation categories, the above-noted percentage guidelines shall be deemed satisfied. This shall be the case even if the underlying assets may not be entirely invested in the asset class in which the underlying investment fund has been placed.

Target Portfolios		#1	#2	#3	#4	#5	#6
Asset Class	Benchmark	Aggressive	Moderately Aggressive	Growth	Moderate	Moderately Conservative	Conservative
<b>Domestic Equity</b>	S & P 500 Index	31.50%	26.25%	21.00%	15.75%	10.50%	3.50%
	S & P Completion Index	27.00%	22.50%	18.00%	13.50%	9.00%	3.00%
<b>Real Estate</b>	Dow Jones Equity U.S. All REIT Index	9.00%	7.50%	6.00%	4.50%	3.00%	1.00%
<b>International Equity</b>	MSCI EAFE IMI Index	16.20%	13.50%	10.80%	8.10%	5.40%	1.80%
	FTSE Emerging Index (Net)	6.30%	5.25%	4.20%	3.15%	2.10%	0.70%
<b>Domestic Fixed Income</b>	Bloomberg US TIPS 0-5 Years Index	3.50%	8.75%	14.00%	19.25%	15.75%	10.50%
	Bloomberg U.S. Aggregate Bond Float Adjusted Index	3.00%	7.50%	12.00%	16.50%	13.50%	9.00%
	Bloomberg Barclays U.S. 1-5yr Gov't/Credit	2.50%	6.25%	10.00%	13.75%	11.25%	7.50%
<b>International Fixed Income</b>	Bloomberg Global Aggregate ex USD 10% IC Index	1.00%	2.50%	4.00%	5.50%	4.50%	3.00%
<b>Short Term Investments</b>	3-month T-Bills	0.00%	0.00%	0.0%	0.00%	25.00%	60.00%

## **EXHIBIT E**

### **Addenda**

#### **Illinois**

In addition to the considerations and objectives as set forth in the Investment Policy Statement, the State of Illinois complies with all Illinois state laws and regulations including the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.) and the State Treasurer Act (15 ILCS 505/1 et seq.). Pursuant to the Illinois Sustainable Investment Act, IL ABLE and the Illinois State Treasurer's Office use sustainability factors in its investment policy. These factors include material, relevant, and decision-useful sustainability factors to be considered as a component of the overall evaluation of investment decisions, including the selection of fund managers. Such factors include but are not limited to 1) corporate governance and leadership factors; 2) environmental factors; 3) social capital factors; 4) human capital factors; and 5) business model and innovation factors. 30 ILCS 238/15(b). IL ABLE and the Illinois State Treasurer's Office integrate sustainability factors into all investment decisions in accordance with state law.

Additionally, the State Treasurer Act requires the Illinois State Treasurer to utilize minority-owned businesses, women-owned businesses, and veteran-owned businesses to the greatest extent feasible within the bounds of financial and fiduciary prudence. 15 ILCS 505/30. When procuring services, the State Treasurer is authorized to incorporate preferences for minority-owned, women-owned, a business owned by a person with a disability, and veteran-owned and small businesses and businesses having a record of support for increasing diversity and inclusion in board membership, management, employment, philanthropy, and supplier diversity. 15 ILCS 505/30(d).

Per the investment policy statement of Illinois, Illinois shall endeavor to identify and evaluate investment managers that are more than 50% owned and/or managed by minorities, women, military veterans, or disabled persons.

