

Statement of Investment Policy

Alabama College Education Savings Program
(ACES) Trust Fund

The CollegeCounts 529 Fund

November 2010

Authority and Purpose

The Alabama College Education Savings Program (“ACES”) was established in Section 16-33C-10, Code of Alabama, as a college savings plan (currently marketed as the CollegeCounts 529 Fund or “CollegeCounts”) whereby contributors open savings accounts according to savings agreements for the payment of qualified higher education costs for a designated beneficiary at eligible educational institutions.

The Board of Trustees (“Board”), created in Section 16-33C-4, Code of Alabama, is responsible for investing monies held in the CollegeCounts Fund (“Fund”). The purpose of this Investment Policy & Guidelines Statement (“Statement”) is to establish the Board’s monitoring, evaluating, and revising of the investment program established for the Fund.

This Statement will be reviewed at least annually and amended as necessary.

Purpose of This Statement

This Investment Policy Statement (“Policy”) defines the Program’s investment objectives and establishes policies and procedures so that investment objectives can be met in a prudent manner. This Policy is intended to:

- Articulate objectives of the Program and its investment portfolio;
- Identify roles of specific entities having a fiduciary responsibility to the Program;
- Define policies regarding permitted investments, benchmarks, and asset allocation strategies; and,
- Describe current investment options available to holders of individual savings accounts (“Accounts”) established as part of the Program.

Program Investment Objectives

The overall investment objectives for the Program, and as applicable, the individual Underlying Portfolios provided to the participants shall seek to achieve the following objectives:

1. A long-term competitive rate of return on investments that compares favorably to or exceeds a return of the applicable fund benchmark;
2. An investment program flexible enough to meet the educational needs of participants based upon their age or investment objective and which provides each individual with the ability to invest in a diversified portfolio or appropriate investment option to meet his or her investment goals;
3. Investment options that encompass a range of risk and return opportunities; and,
4. Provide participants, including Alabama residents, a multi-managed, best-in-class approach to investing at a cost that is reasonable.

Responsibilities

The Board

The Board is responsible for the Investment Policy & Guidelines Statement, the direction of investments and administration of the assets of the Program. The Board will maintain written records of all decisions, decision making process, and general Program information. The Board may rely on one or more contract professionals to assist in the administration of the Program.

Section 16-33C-10 (e), Code of Alabama, states that “In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property of the CollegeCounts Fund, the Board and any person or investment manager to whom the Board delegates any of its investment authority, shall exercise the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but to permanent disposition of funds, considering the probable income as well as the safety of their capital. When acting within this standard of care, no Board member, or any person or investment manager to whom the Board delegates any of its investment authority, shall be held personally liable for losses suffered by the CollegeCounts Program on investments made pursuant to this chapter.”

The Program Manager(s)

The Board has engaged, and plans to rely on Union Bank and Trust Company (“Union Bank”) for administrative services and on Union Bank and its investment advisor, Wilshire Funds Management (“Wilshire®”), the investment management business unit of Wilshire Associates Incorporated, for investment management services. Among the current responsibilities of Union Bank is the implementation of the investment strategy outlined in this Statement and the rebalancing of the Underlying Portfolios when market movement and/or cash flows cause an asset class to be outside its policy allocation bands. With the Board’s approval, Union Bank has retained Wilshire to provide it with portfolio design, due diligence and ongoing monitoring services with respect to the Underlying Portfolios and the implementation of the investment strategy outlined in this Statement. The Board and Union Bank shall meet at least quarterly to review the overall Program and performance of the Underlying Portfolios as compared to the applicable benchmarks.

In managing the investments of the Program and the Underlying Portfolios, Union Bank agrees that it will act with the 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 like character and with like objectives.

The Investment Consultant(s)

The Board has determined that it is necessary and reasonable to retain a professional investment consultant (the “Investment Consultant”) to advise the Board with regard to the investments of the Trust. Under this policy, the Investment Consultant will generally be responsible for the following:

- Providing general investment advice to the Board and Staff;
- Making recommendations on investment policies, objectives, and strategies, including asset allocation; and,
- Monitoring of Program Manager and portfolio and underlying investment fund performance.

Program Investment Overview

The Board will pursue the following policies to allow the Program to meet Program Objectives.

Permitted Investments

The universe of possible investment options for the CollegeCounts Program includes: equities (both domestic and foreign); real estate; corporate and government debt instruments (of any maturity); commodities; currency and any other investment vehicle utilized in the marketplace. However, all of the assets in the Program will be allocated to Investment Portfolios which will initially be invested in

one or more Funds. Since all mutual fund assets are subject to the provisions of the Investment Company Act of 1940 (the "1940 Act"), the Program's assets must be managed in a manner consistent with the 1940 Act. The Board has further limited investments in the Underlying Investments of the Program to the following broad asset categories (collectively known as "Permitted Investments"):

- Domestic equities and international equities;
- Medium and long-term debt obligations of domestic corporations;
- U.S. government and government sponsored entity debt obligations;
- Real estate commingled funds that invest in publicly traded real estate securities;
- Money market instruments, cash, and money market mutual funds that are registered in the U.S. and denominated in U.S. dollars; and,
- Investments in mutual funds, but limited to existing, rated mutual funds, which are registered in the United States and denominated in U. S. dollars.

Benchmarks

The Board shall evaluate investment performance relative to an assigned benchmark. The Program Manager shall at all times seek to provide performance consistent with performance criteria as shown in the CollegeCounts Fund Monitoring Procedures and Criteria. When evaluating investment performance, a benchmark will be used to provide relative results with the following stipulations:

- Evaluations shall be against an industry standard benchmark;
- Program Investment Portfolios are to be displayed against an appropriate benchmark or policy benchmark as outlined in the CollegeCounts Fund Monitoring Procedures and Criteria; and,
- All Underlying Investments and Investment Portfolios shall be considered against their respective benchmarks over an identical time period.

Asset Allocation

The Board will pursue asset allocation strategies to allow the Program to meet Program objectives. The Program Manager is responsible for establishing asset allocation guidelines, which the Board must approve, and maintain these allocations within approved levels. When implementing new asset allocation guidelines, the Program Manager will have a commercially reasonable period of time (not to exceed ninety (90) days, or as directed by the Board) to complete the task.

The Program Manager will utilize daily cash flows to manage to the targeted asset allocations. In addition, within the first 10 days of each month the Program Manager will review and rebalance any Age-Based or Target Portfolios that are more than plus or minus 3% from the stated asset allocations. In the event there is a cataclysmic event during the month the Program Manager will also conduct the monthly rebalance review and process at that time.

The Board shall monitor the asset allocation of the Program's Investment Portfolios relative to approved allocations. Within 30 days following the close of each quarter, the Program Manager will provide to the Board a report describing the Program Manager's compliance with target allocations as designated in Addendum 1 to this document. In addition, the Program Manager will meet with the Board on a periodic basis to review actual asset allocations of Investment Portfolios.

Addendum 1

While the investment parameters for all of the Investment Portfolios offered in the Program are approved by the Board, Account Owners bear the risk of investment results derived from the selected Investment Portfolio specifically and the Program generally. The appropriate Investment Portfolio (or Portfolios) for each Account Owner is (are) a function of multiple factors, including age (of Beneficiary), income, length of time before money is used, and tolerance for investment risk. Investment Portfolios for the Direct Plan are presented below by investment management style. All of the Advisor Plan Portfolios are summarized after the Direct Plan Portfolios. A list of Funds that may be used in each Portfolio and their respective benchmarks and asset classes may be found in Addendum 2.

Participants in the Program may choose for their contributions to be invested in one or more of the available Underlying Portfolios, each composed of a designated mix of investments or an individual investment fund(s). The various portfolios are developed to provide a mix of available options appropriate for various ages and/or the investment objectives of the Participant. The asset allocation of each Underlying Portfolio will be established by the Board and managed by Union Bank. The Board may adjust the weighting across each of the asset classes represented in each Underlying Portfolio and may change the funds within the Underlying Portfolios consistent with this Investment Policy & Guidelines Statement.

CollegeCounts 529 Fund - Direct Plan

The policy target asset allocations and benchmarks for the investment options within the Age-Based and Target Portfolios are shown below. There is a permissible range of plus or minus 3% around the target allocation for each underlying fund.

Age-Based Portfolios

The Direct Plan offers three Age-Based Options. The Age-Based Portfolios invest in a mix of equity, real estate, fixed income and/or money market funds allocated according to the current age of the beneficiary. The Age-Based Portfolios adjust over time so that as the beneficiary nears college age each Age-Based Portfolio's allocation between equity, real estate, fixed income, and money market funds becomes more conservative relative to the allocation in earlier years. The asset allocation percentages by asset class are set forth in the following table.

Asset Allocation for Age Based Funds – By Asset Class

Age-Based Portfolios	Age of Beneficiary						
			0 – 8	9 – 12	13 – 16	17 – 20	21 plus
Conservative			0 – 8	9 – 12	13 – 16	17 – 20	21 plus
Moderate		0 – 8	9 – 12	13 – 16	17 – 20	21 plus	
Aggressive	0 – 8	9 – 12	13 – 16	17 – 20	21 plus		
Asset Class							
Domestic Equity	70.0%	57.0%	43.0%	30.0%	16.0%	0.0%	0.0%
International Equity	27.0%	21.0%	15.0%	9.0%	4.0%	0.0%	0.0%
Real Estate Equity	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%	0.0%
U.S. Intermediate Bond	0.0%	15.0%	33.0%	51.0%	59.0%	38.0%	0.0%
U.S. TIPS	0.0%	5.0%	7.0%	9.0%	11.0%	12.0%	0.0%
Money Market	0.0%	0.0%	0.0%	0.0%	10.0%	50.0%	100.0%

Target Portfolios

The Direct Plan offers six Target Portfolios. The Target Portfolios are asset allocation portfolios that invest in a set or “static” mix of equity, real estate, fixed income and/or money market funds. The allocation between equity, real estate, fixed income, and money market investments within the Target Portfolios does not change as the beneficiary gets older. The asset allocation percentages by asset class are set forth in the following table.

Asset Class	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Fixed Income Fund
Domestic Equity	70.0%	57.0%	43.0%	30.0%	16.0%	0.0%
International Equity	27.0%	21.0%	15.0%	9.0%	4.0%	0.0%
Real Estate Equity	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%
U.S. Intermediate Bond	0.0%	15.0%	33.0%	51.0%	59.0%	38.0%
U.S. TIPS	0.0%	5.0%	7.0%	9.0%	11.0%	12.0%
Money Market	0.0%	0.0%	0.0%	0.0%	10.0%	50.0%

Direct Plan - Individual Fund Portfolios

In addition to offering Age-Based and Target Portfolios, the Direct Plan allows investors to choose from a list of Individual Fund Portfolios to build a customized portfolio. The Direct Plan offers Individual Fund Portfolios covering the following broad asset classes: money market, fixed income, TIPs, real estate, domestic equity, and international equity.

CollegeCounts 529 Fund - Advisor Plan

The policy target asset allocations and benchmarks for the mutual funds within the Age-Based and Target Portfolios are shown below. There is a permissible range of plus or minus 3% around the target allocation for each mutual fund.

Age-Based Portfolios

The Advisor Plan offers three Age-Based Options. The Age-Based Portfolios invest in a mix of equity, real estate, fixed income and/or money market funds allocated according to the current age of the beneficiary. The Age-Based Portfolios adjust over time so that as the beneficiary nears college age each Age-Based Portfolio’s allocation between equity, real estate, fixed income, and money market funds becomes more conservative relative to the allocation in earlier years. The asset allocation percentages by asset class are set forth in the following table.

Age-Based Portfolios	Age of Beneficiary						
Conservative			0 – 8	9 – 12	13 – 16	17 – 20	21 plus
Moderate		0 – 8	9 – 12	13 – 16	17 – 20	21 plus	
Aggressive	0 – 8	9 – 12	13 – 16	17 – 20	21 plus		
Asset Class							
Domestic Equity	70.0%	57.0%	43.0%	30.0%	16.0%	0.0%	0.0%
International Equity	27.0%	21.0%	15.0%	9.0%	4.0%	0.0%	0.0%
Real Estate	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%	0.0%
U.S. Intermediate Bond	0.0%	15.0%	33.0%	51.0%	59.0%	38.0%	0.0%
U.S. TIPS	0.0%	5.0%	7.0%	9.0%	11.0%	12.0%	0.0%
Money Market	0.0%	0.0%	0.0%	0.0%	10.0%	50.0%	100.0%

Advisor Plan - Target Portfolios

The Advisor Plan offers six Target Portfolios. The Target Portfolios are asset allocation portfolios that invest in a set or “static” mix of equity, real estate, fixed income and/or money market funds. The allocation between equity, real estate, fixed income, and money market investments within the Target Portfolios does not change as the beneficiary gets older. The asset allocation percentages by asset class are set forth in the following table.

Asset Class	Fund 100	Fund 80	Fund 60	Fund 40	Fund 20	Fixed Income Fund
Domestic Equity	70.0%	57.0%	43.0%	30.0%	16.0%	0.0%
International Equity	27.0%	21.0%	15.0%	9.0%	4.0%	0.0%
Real Estate Equity	3.0%	2.0%	2.0%	1.0%	0.0%	0.0%
U.S. Intermediate Bond	0.0%	15.0%	33.0%	51.0%	59.0%	38.0%
U.S. TIPS	0.0%	5.0%	7.0%	9.0%	11.0%	12.0%
Money Market	0.0%	0.0%	0.0%	0.0%	10.0%	50.0%

Advisor Plan - Individual Fund Portfolios

In addition to offering Age-Based and Target Portfolios the Advisor Plan allows investors to choose from a list of Individual Fund Portfolios to build a customized portfolio. The Advisor Plan offers Individual Fund Portfolios covering the following broad asset classes: money market, fixed income, TIPS, real estate, domestic equity, and international equity.

Addendum 2

Asset Classes, Benchmarks, and Underlying Funds – Direct Plan

Asset Class	Benchmark	Underlying Fund(s)
US Equity		
Large Blend	MSCI US Broad Market Index	Vanguard Total Stock Market Index Fund
Large Blend	S&P 500 Index	Vanguard 500 Index Fund
Large Value	MSCI US Prime Market Value Index	Vanguard Value Index Fund
Large Growth	MSCI US Prime Market Growth Index	Vanguard Growth Index Fund
Mid-Cap Blend	S&P Completion Index	Vanguard Extended Market Index Fund
Mid-Cap Blend	MSCI US Mid Cap 450 Index	Vanguard Mid-Cap Index Fund
Mid-Cap Blend	S&P Mid Cap 400 Index	Fidelity Advisor Mid Cap II Fund
Small-Cap Value	MSCI US Small Cap Value Index	Vanguard Small-Cap Value Index Fund
Small-Cap Blend	MSCI US Small Cap 1750 Index	Vanguard Small-Cap Index Fund
Small-Cap Growth	MSCI US Small Cap Growth Index	Vanguard Small-Cap Growth Index Fund
Non-US Equity		
Foreign Stock	MSCI ACWI xUS Index	Vanguard Total International Stock Index Fund
Real Estate		
Real Estate	MSCI REIT Index	Vanguard REIT Index Fund
Balanced		
Balanced	52% S&P 500, 13% MSCI EAFE, 35% Barclays Capital U.S. Agg. Bond Index	T. Rowe Price Balanced Fund
Fixed Income		
Intermediate-Term Bond	Barclays U.S. 5-10 Year Govt/Credit Index	Vanguard Int.-Term Bond Index Fund
Core Bond	Barclays U.S. Aggregate Bond Index	Vanguard Total Bond Market Index Fund
Core Bond	Barclays U.S. Aggregate Bond Index	PIMCO Total Return Fund
U.S. TIPS	Barclays U.S. TIPS Index	Vanguard Inflation-Protected Securities Fund
Short-Term Bond	Citigroup 3-month T-Bill Index	PIMCO Short-Term Fund
Money Market	Citigroup 3-month T-Bill Index	Vanguard Prime Money Market Fund

Asset Classes, Benchmarks, and Underlying Funds – Advisor Plan

Asset Class	Benchmark	Underlying Fund(s)
US Equity		
Large Blend	S&P 500 Index	Northern Instl. Equity Index Fund
Large Blend	S&P 500 Index	American Century Equity Growth Fund
Large Value	Russell 1000 Value Index	Harbor Large Cap Value Fund
Large Growth	Russell 1000 Growth Index	T. Rowe Price Instl. Large Cap Growth Fund
Mid-Cap Blend	S&P Mid-Cap 400 Index	Northern Mid-Cap Index Fund
Mid-Cap Growth	S&P Mid-Cap 400 Index	Fidelity Advisor Mid-Cap II Fund
Small-Cap Value	Russell 2000 Value Index	William Blair Value Discovery Fund
Small Cap Blend	Russell 2000 Index	Northern Instl. Small Company Index Portfolio
Small-Cap Growth	Russell 2000 Growth Index	Lord Abbett Developing Growth Fund
Non-US Equity		
Foreign Stock	MSCI EAFE Index	Northern Instl. International Equity Index
Foreign Stock	MSCI EAFE Index	Neuberger Berman International Large Cap Fund
Emerging Markets	MSCI Emerging Markets Index	Lazard Emerging Markets Equity Portfolio
Real Estate		
Real Estate	DJ Wilshire Real Estate Securities	T. Rowe Price Real Estate Fund
Balanced		
Balanced	52% S&P 500, 13% MSCI EAFE, 35% Barclays Capital U.S. Agg. Bond Index	T. Rowe Price Balanced Fund
Fixed Income		
Intermediate-Term Bond	Barclays U.S. Aggregate Bond Index	Northern Bond Index Fund
Core Bond	Barclays U.S. Aggregate Bond Index	PIMCO Total Return Fund
U.S. TIPS	Barclays U.S. TIPS Index	BlackRock Inflation Protected Bond Portfolio
Short-Term Bond	Citigroup 3-month T-Bill Index	PIMCO Short-Term Fund
Money Market	Citigroup 3-month T-Bill Index	BlackRock Cash Funds