MSRP Investment Contract Pool Investment Policy and Guidelines

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I. Policy Statement, Investment Objectives, and Definitions

The purpose and objective of the Investment Contract Pool (the "ICP") is to provide participants in the Maryland Teachers & State Employees Supplemental Retirement Plans (the "MSRP") with an investment vehicle that:

- emphasizes safety through preservation of principal and accrued income;
- provides benefit responsiveness for qualifying participant withdrawals at book value;
- credits a periodically determined rate of interest that exhibits low volatility and tracks the general direction of interest rates;
- delivers as high a return as possible subject to these constraints;
- exceeds the returns on money market investments by 100 - 200 basis points per year over a full market cycle; and
- diversifies portfolio holdings by product, security and issuer.

Other definitions:

- the "Benchmark Index" means the index used for measuring duration exposure and book value returns.
- "Book Value Contract(s)" are, singly or collectively, benefit responsive investment contracts or investments such as General Account GICs, Separate Account GICs, BICs, Wrapper Agreements, or Stable Value Pooled Funds as further defined in section IV., Investment Contract Pool Guidelines and Limitations.
- "Fixed Income Fund(s)" are, singly or collectively, bank collective trusts or publicly registered mutual funds that primarily invest in fixed income instruments.
- "ICP Manager" means Deutsche Investment Management Americas, Inc., the Stable Value Fund Manager of the entire ICP.
- "Sub-Manager" means either: (1) a separate manager of a Stable Value Pooled Fund that accepts an investment of MSRP ICP assets; or, (2) a manager appointed by the ICP Manager under a separate account insurance instrument; or (3) a fixed income manager appointed under an investment management agreement to manage a Sub-Manager Account according to the guidelines as described under section VI, Guidelines and Conditions for Underlying Book Value Contract Issuers.
- "Sub-Manager Account(s)" means a portion of the MSRP ICP assets that is allocated to a Sub-Manager, is covered by Wrapper Agreements, and is invested by the Sub-Manager either directly in fixed income instruments and/or in Fixed Income Funds that invest in fixed income instruments.

II. Investment Contract Pool Structure

Benchmark Index Determination

The ICP's Benchmark Index for measuring duration exposure and book value returns will consist of a percentage allocation, summing to 100%, to both the return of the Lehman Intermediate Aggregate Index and the return of the Lehman 1-5 Year Government / Credit Index. The percentage allocation of the Benchmark Index to each of these Lehman indexes was determined after an initial cash-flow and demographic analysis of the plan and may be changed periodically by the ICP Manager to reflect the changing characteristics of the plan and plan demographics.

After completing the initial cash-flow and demographic analysis of the plan, the Benchmark Index's allocation for measuring returns, which will be calculated monthly on a book value basis, is determined to be as follows:

- 70% of the return of the Lehman Intermediate Aggregate Index; and
- 30% of the return of the Lehman 1-5 Year Government / Credit Index

This allocation resulted, for instance, in a duration target of 3.56 as of May 31, 2006.

Overall Duration Target/Range

The ICP's overall duration shall normally be within the range of the duration of the Benchmark Index plus or minus 0.5 year, which is normally expected to be with a range of 2.5 to 5 years.

The ICP's duration may occasionally be outside the range established above due to, for example, large cash flows due to participant activity, unusual changes to the payment characteristics of securities in the market, or tactical duration decisions of the ICP's Sub-Managers. When appropriate, the ICP Manager will attempt to bring the ICP back to the target duration range within a reasonable time period taking into account the ICP's projected liquidity needs.

Target Allocation

Outlined below are the eventual target product allocations for the ICP after restructuring by the ICP Manager.

	Target	Typical Range
Liquidity Buffer	2%	1% to 5%
Maturing Structures	28%	23% to 33%
Evergreen (Constant Maturity) Structures	70%	65% to 75%

The ICP's allocations may occasionally be outside the ranges established above due to, for example, large cash flows because of participant activity, market movement or the performance of the underlying Sub-Managers. The ICP Manager will use their discretion to bring the ICP back within the target ranges established within a reasonable time frame. Furthermore, the ICP Manager reassesses the target allocations of the ICP periodically based on analysis of plan characteristics and may recommend a change to the above target allocation to the Liquidity Buffer, the Maturing Structures, and Evergreen Structures from time to time.

III. Withdrawal Hierarchy/Liquidity Structure

Withdrawals from the ICP will be paid in accordance with the following Net/Pro-rata withdrawal order:

1) Contributions, transfers in, loan repayments, and cash flows from existing contracts netted against withdrawals and transfers out;
2) A replenishable Liquidity Buffer account. The Liquidity Buffer account will hold units of a STIF fund or money market securities and may also hold stable value buffer contracts;
3) Pro–rata among all remaining Book Value Contracts in the ICP.

IV. Investment Contract Pool Guidelines and Limitations

Allowable Cash Vehicles and Book Value Investment Contracts

The ICP Manager may invest the assets of the ICP in an MSRP selected STIF or money market fund(s).

The ICP Manager may invest the assets of the ICP in the following Book Value Contracts, which are benefit responsive investment contracts that pay a fixed or floating rate of interest, have a fixed, variable, serial, or unspecified maturity date(s), and provide book value accounting and liquidity for certain participant-initiated withdrawals:

- **General Account Guaranteed Investment Contracts** ("General Account GICs") are issued by insurance companies and backed by the insurance company's general account.

- **Separate Account Guaranteed Investment Contracts** ("Separate Account GICs") are issued by insurance companies and backed by assets held in a separate account established by the insurance company that are pledged to satisfy the obligations of the Separate Account GIC. For purposes of these guidelines, the credit quality of the Separate Account GIC investment is the claims paying ability of the issuing insurance company.

- **Bank Investment Contracts** ("BICs") are issued by financial institutions other than insurance companies, such as banks, and backed by assets of the issuing bank or financial institution.

- **Wrapper Agreements** ("Wrapper Agreements") are issued by banks, insurance companies, or other financial institutions and cover an identifiable set of fixed income securities, and are backed primarily by such fixed income securities held in a custody account in the name of the plan and to a lesser extent by the assets of the issuing institution. Wrapper Agreements also provide for the exchange of cash payments between the plan's custody accounts and the issuing institution, which include the wrapper fee, and may include payments made in connection with a withdrawal from the Wrapper Agreement as well as payments to the issuer in exchange for a guaranteed fixed or floating rate of interest. The terms of a Wrapper Agreement may limit the types of fixed income securities that are covered under the Wrapper Agreement. Certain Wrapper Agreements may also provide that the ICP Manager's role be limited to accepting or rejecting the purchase or sale of fixed income securities proposed under the terms of the Wrapper Agreement. In such cases, the issuing institution, or an affiliate thereof, proposes the purchase or sale and executes the purchase or sale of the fixed income securities once the ICP Manager has accepted such purchase or sale proposal. In all cases, any fixed income securities purchased in conjunction with Wrapper Agreements shall comply with these Investment Policy and Guidelines.

- **Stable Value Pooled Funds** ("Stable Value Pooled Funds"), also known as stable value commingled funds, stable value bank pooled funds, or stable value collective funds, are bank collective trusts that allow investment by multiple qualified, though unaffiliated, plans through the commingling of assets in a trust that primarily purchases GICs and other book value investment contracts to provide benefit responsiveness and principal stability.

Note: The ICP Manager does not intend to hold Stable Value Pooled Funds long-term. The existing Stable Value Pooled Funds will remain in the ICP until October 2007 due to liquidity restrictions on exiting Stable Value Pooled Funds.

<u>Average credit quality for the overall ICP:</u>

The ICP Manager will normally target an average credit quality of the equivalent of AA or higher for the ICP investments. If the average credit quality of the ICP investments falls below the equivalent of AA-, using a generally accepted process for measuring the market value weighted average credit quality deemed appropriate by the ICP Manager, the ICP Manager shall take corrective action to restore such average credit quality to the equivalent of AA or better within 60 days.

<u>Maximum exposure to Book Value Contract issuers at time of purchase – Diversification Requirements</u>

	Target Maximum	**Temporary Maximum***
BIC issuer	3%	5%
General Account GIC issuer	7%	10%
Separate Account GIC issuer	30%	35%
Wrapper Agreement issuer	30%	60%
Stable Value Pooled Fund**	25%	n/a

* The ICP's total exposure to any single issuer of BICs, General Account GICs, Separate Account GICs, or Wrapper Agreements may exceed the Target Maximum, but not the Temporary Maximum, for up to 6 months.

** Stable Value Pooled Funds must be benefit responsive, typically maintain duration between 1.5 and 3.5 years, have a competitive fee structure, and at the time of purchase be rated a minimum of AA-. Also, at the time of purchase, Stable Value Pooled Fund Sub-Managers must have a minimum of assets under management of $250 million, a 5 year track record of managing stable value products, and competitive historical performance.

Note: The ICP Manager does not intend to hold Stable Value Pooled Funds long-term. The existing Stable Value Pooled Funds will remain in the ICP until October 2007 due to liquidity restrictions on exiting Stable Value Pooled Funds.

V. Guidelines and Conditions for Underlying Book Value Contract Issuers

Material conditions for book value Wrapper Agreements, BICs, Separate Account GICs, and General Account GIC providers:

Issuer credit quality limitations

	Minimum Credit Quality*	Target Credit Quality
S&P	AA-	AA+/AAA
Moody's	Aa3	Aa1/Aaa
Fitch	AA-	AA+/AAA

* Issuers of Book Value Contracts must be rated the equivalent of AA- or higher by at least one of the above rating services at time of purchase.

- provide book value accounting (compliance with applicable accounting standards)
- pass credit screen
- $2 billion in book value wrapper agreements or GICs in force
- competitive fee (for wrapper)
- competitive rate (for GIC provider)
- complete understanding and sign off on withdrawal hierarchy
- Competent back room operations (statements/monitoring/rate reset)
- Ability to interact with custodian(s), trustees
- US-domiciled entity or subsidiary

Desired Wrapper Agreement/Separate Account GIC contract requirements

- 0% minimum crediting rate (guarantee of principal)
- Benefit-responsive for following participant events:
    - participant withdrawals (including terminations and layoffs)

  - participant inter-fund transfers
  - loans (if allowed by Plan)
  - annuity purchases
- Provision to set crediting rate 30 days in advance of crediting rate period
- Clone contract provision
- Reasonable provision for dealing with impaired securities
- Minimum industry standard definition of competing fund definition and equity wash rule
- Seek book value corridor for employer or sponsor level withdrawals of at least 10% - ideally at 20% or higher
- Book value settlement provision with a limitation on duration extension
- Plan right to discontinue within 30 days for no reason with selection of termination of wrap contract or book value settlement.
- Wrapper Agreement issuer may not discontinue contract without cause.
- Fee guarantee over specific period.
- Statement of minimum and maximum dollar amount willing to wrap.

VI. Guidelines and Conditions for Underlying Sub-Managers and Sub-Manager Accounts

Fixed Income Funds:
Fixed Income Funds may be used as investments either as all or a portion of a Sub-Manager Account covered by Wrapper Agreements. In the former case the selection of the Fixed Income Fund shall be made by the ICP Manager and in the latter case by the Sub-Manager. A Sub-Manager Account which contains a Fixed Income Fund must meet the overall material conditions for Sub-Managers and other requirements specified in this section VI; but minor variations in these rules caused by a Fixed Income Fund shall not be considered a violation of the Investment Policy. The ICP Manager is responsible for approving and monitoring the use of any Fixed Income Funds and shall take appropriate steps to liquidate the ICP's investment in such fund if its activity, management, or investment composition changes so that it is no longer an appropriate investment vehicle for the Sub-Manager Account.

Material conditions for underlying Sub-Managers:

- a demonstrated track record of managing separate account insurance instruments or fixed income portfolios
- for constant duration (evergreen) Sub-Managers, top quartile fixed income performance (not applicable to index, index-plus, or enhanced index strategies)
- 5 years experience managing fixed income strategies
- ability to provide liquidity as stated in the wrap agreement or insurance contract without disrupting the total return objective

Credit quality requirements of Sub-Manager Accounts covered by Wrapper Agreements

- Average Portfolio Credit Quality = Equivalent of S&P AA- or Moody's AA3 or higher
- Minimum Single Security Credit Quality = Equivalent of S&P BBB- or Moody's Baa3
- Securities rated below A-/A3 (higher rating applies) will constitute no more than 25% of the portfolio
- Commercial paper must be rated A-1 by S&P or P-1 by Moody's

Primary credit ratings are those issued by S&P or Moody's. If a security is not rated by either S&P or Moody's, the security's rating should be issued by another nationally recognized rating agency and/or the Sub-Manager will consult with the discretionary ICP Manager before purchase to ensure suitable equivalency.

All investment guidelines established with individual Sub-Managers will contain detailed "fallen-angel" provisions, identifying the course of action to be pursued by the Sub-Manager in the event that a security falls below the investment guideline credit minimums. In any case, such provisions will require the Sub-Manager to exercise prudence in the disposition of such assets. The provisions will also place a maximum time period for which the assets may be held, unless the assets are held within a Fixed Income Fund, in which case the Sub-Manager shall nonetheless be prudent in the disposition of such assets.

Permissible investments/securities in Sub-Manager Accounts covered by Wrapper Agreements

- Non-convertible bonds, notes, bills
- Variable and floating rate securities
- U.S. treasury securities and government-related securities such as agencies, municipals, supranationals, and sovereigns
- Agency and non-agency mortgage-related securities backed by loans secured by residential, multifamily or commercial properties
- Mortgage dollar roll transactions are permitted provided that the forward settlement date on any mortgage transaction does not exceed 92 days from the trade date of the transaction
- Asset-backed securities
- U.S. and Yankee corporate securities
- Eurodollar and other U.S. dollar-denominated securities of U.S. and foreign issuers
- Derivative financial instruments - used only for hedging purposes, such as swaps, futures and options on financial instruments. Derivatives may not subject the portfolio to greater risk than that to which it would be exposed if the underlying instruments were purchased directly in the cash markets.
- Non-convertible preferred securities (other than payable-in-kind preferred securities)
- Rule 144A securities

- Cash equivalents maturing in less than one year, commercial paper, certificates of deposit, bankers acceptances, repurchase agreements, and other money market instruments, money market funds, or STIF
- Securities Lending ("Sec Lending"), within Fixed Income Funds only

Non-permissible investments/securities in Sub-Manager Accounts covered by Wrapper Agreements

- Common/preferred stock
- Non-US dollar denominated securities
- Convertible bonds
- Short sales of physical securities
- Margin purchases
- Private or direct placements (excluding rule 144A securities)
- Commodities
- Direct ownership of real estate or REITS
- Lending of securities, including Sec Lending if not within a Fixed Income Fund
- Derivatives used for speculative purposes

Desired concentration limits on Sub-Manager Accounts covered by Wrapper Agreements

Rule 144A Securities	20%
Single corporate Issue	2.5%
Single corporate Issuer	5%
Corporate Sector (total)	60%
Mortgage-backed Securities and Commercial Mortgage-backed Securities Sector (total)	60%
Asset-backed Securities Sector (total)	40%
U.S. Treasury Sector	100%
Government-Related Sector (including Agencies, Municipals, Supranationals, and Sovereigns)	50%
STIF, money market instruments and funds	100%

Desired duration limits on Sub-Manager Accounts covered by Wrapper Agreements

Sub-Managers managing a Sub-Manager Account covered by Wrapper Agreements will constrain the variability of their respective account's duration to no more than ±20% from their respective assigned benchmark index, (e.g., if the index duration is 5.0 years, the Sub-Managers will manage their respective accounts to duration within 1 year of the index).

VII. Other Considerations

Minority Business Enterprise status

A Minority Business Enterprise or MBE means a legal entity organized to engage in commercial transactions that is at least 51 percent owned and controlled by one or more minority persons. MBE also includes a nonprofit entity engaged in promoting the interests of persons with physical or mental disabilities. An MBE must be certified as such by the State of Maryland Department of Transportation.

In selecting Stable Value Pooled Fund providers, providers of Book Value Contracts, or any Sub-Managers and other ICP providers, the ICP Manager is authorized and directed to take MBE status into consideration, provided that in making any MBE provider selection, the ICP Manager determines that the investment return anticipated to be generated by a MBE provider is approximately commensurate to the returns anticipated from alternative providers offering products or strategies of commensurate risk.