

*Virginia Birth-Related  
Neurological Injury Compensation Fund*

**INVESTMENT POLICY STATEMENT**

**March 1, 2005**



7100 Forest Avenue, Suite 301  
Richmond, VA 23219  
804-648-3500

APR - 8 2005

## Virginia Birth-Related Neurological Injury Compensation Fund

### EXECUTIVE SUMMARY

<b>Current Assets</b>	\$141,307,994.20 (12/31/04)
<b>Investment Time Horizon</b>	10 + years
<b>Target Annual Return</b>	6.8% nominal return (CPI plus 4.2%)*
<b>Risk Tolerance</b>	95% confidence that losses will not exceed 7.1% in a given year

<b>Asset Allocation</b>	<u>Lower Limit</u>	<u>Normal Allocation</u>	<u>Upper Limit</u>
<b>Total Equities</b>		<b>50%</b>	
<b>Total Fixed Income/Cash</b>		<b>50%</b>	
		<b>100%</b>	
<b>Domestic Equities</b>		<b>35%</b>	
<i>Large Cap</i>	25%	30%	35%
<i>Small Cap Broad</i>	2%	5%	8%
<b>International Equities</b>		<b>15%</b>	
<i>Core International</i>	9%	12%	15%
<i>Emerging Markets</i>	1%	3%	5%
<b>Fixed Income</b>		<b>45%</b>	
<i>Domestic Fixed Income</i>	35%	45%	55%
<b>Cash</b>	3%	5%	15%

#### **Total Fund Evaluation Benchmarks**

**Short Term** - Performance will be measured against a weighted blend of market and/or median manager benchmarks based upon the strategic asset allocation policy of the Fund.

**Long Term** - Inflation (CPI) plus 4.2%

\*CPI assumption = 2.6% (2005 Capital Markets Projections of Callan Associates, Inc)

**Benchmarks**

<b>Asset Class</b>	<b>Market Index</b>	<b>Callan Database</b>
<i>Total Portfolio</i>	Custom Weighted Blend	N/A
<i>Large Cap U.S. Equities</i>	S&P 500 Russell 1000 Russell 1000 Growth Russell 1000 Value	Large Cap Broad Large Cap Growth Large Cap Value
<i>Small Cap U.S. Equities</i>	S&P 600 Russell 2000 Russell 2000 Growth Russell 2000 Value	Small Cap Broad Small Cap Growth Small Cap Value
<i>International Equities</i>	MSCI EAFE MSCI EAFE Growth MSCI EAFE Value	International Equity
<i>Emerging Market Equities</i>	MSCI Emerging Markets	Emerging Markets Equity
<i>Domestic Fixed Income</i>	Lehman Aggregate Lehman Intermediate Aggregate	U.S. Fixed Income

**Manager Structure History**  
**Current Managers**

**Asset Class**

**Inception**

**Terminated Managers/Funds**

**Asset Class**

**Inception Termination**

## **PURPOSE**

The purpose of this Investment Policy Statement (IPS) is to assist the Board of Directors ("the Board") of the Virginia Birth-Related Neurological Injury Compensation Program ("the Program") and Capital Advisory Group ("the Investment Consultant") in effectively supervising, monitoring and evaluating the management of the Program's investment assets ("the Fund"). The Fund's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of the Fund.
2. Setting forth a comprehensive investment structure for managing the Fund. This structure is based on an asset allocation strategy that is designed to produce certain levels of total return over the long term within acceptable levels of risk, as measured by the annual variance of overall returns and the potential for losses in a given year.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the Fund and the various money managers on a regular basis.
4. Encouraging effective communications between the Board, the Fund's Investment Committee and the Investment Consultant.
5. Complying with all applicable administrative requirements and standards of investor prudence as established under state law.

## **BACKGROUND**

The Program was created with the enactment of the Virginia Birth-Related Neurological Injury Compensation Act and became effective on January 1, 1988 ("the Act"). The purpose of the Program is to assure the lifetime care of infants with birth-related neurological injuries, fostering an environment that will increase the availability of medical malpractice insurance at a reasonable cost for physicians and hospitals providing obstetrical services, and promoting the availability of obstetrical care to indigent and low-income patients.

The Fund represents the Program's reserves and a primary resource for meeting the Program's present and future funding needs that are in excess of the annual assessments from participating physicians and hospitals, nonparticipating physicians and insurers engaged in writing liability insurance in the Commonwealth of Virginia. Tracking of the Fund's ability to meet the forecasted benefits funding needs is the responsibility of the Bureau of Insurance of the SCC, but the Program has also engaged consulting actuaries to develop estimates of the investment returns that must be earned to meet the Fund's long-term actuarial requirements. The current actuarial report dated September 2004, indicates that the Fund is substantially under-funded but should be capable of supporting the program in combination with anticipated assessments for the next twenty to twenty-five years.

The Program and the Fund are governed and administered by a seven-member Board of Directors who is appointed by the Governor of the Commonwealth to serve three year terms. The Board has appointed an Investment Committee to work with an investment management consultant in developing recommendations for Board approval for managing the Fund. The Board is also required to submit to the Virginia Retirement System certain information regarding the Fund's investment strategy, risk and return objectives and selected investment managers.

**Key Information:**

**Name of Fund:** Virginia Birth Related Neurological Injury Compensation Fund

**Tax Identification Number:** 54-1445155

**Board of Directors:**

Melina Dee Perdue, RN, MBA, CAN  
Lynn M. Chapman, Esq.  
Wilette L. LeHew, MD  
McLain T. O'Ferrall  
Edward J. Mazur, CPA  
Jennifer Z. Ogburn  
Ralph W. Shelman

**Investment Committee Members:**

McLain T. O'Ferrall  
Edward J. Mazur, CPA  
Ralph W. Shelman  
Candace L. Thomas, CGFM - Staff

**Consulting Actuary:** Pinnacle Actuarial Resources, Inc. Consulting Actuaries. Robert J. Walling, III, FCAS, MAAA

**Annual Actuarial Review:** Mercer Oliver Wyman Actuarial Consulting, Inc., on behalf of the Virginia State Corporation Commission, not engaged by the program.

**Legal Counsel:** Frank Ferguson, Esquire  
Virginia Office of the Attorney General

**Custodian:** Merrill Lynch

**Investment Consultant:** Capital Advisory Group  
Richmond, VA

## **STATEMENT OF FINANCIAL OBJECTIVES**

The Board has established this Investment Policy in conjunction with a comprehensive review of the returns and risks associated with various investment strategies in relation to current and projected financial requirements. This policy has been chosen as the most appropriate policy for achieving the financial objectives of the Fund.

The objectives are to:

1. Provide a permanent funding source to supplement annual assessments in meeting the ongoing financial needs of the Program.
2. Preserve the purchasing power of the Fund's current assets and all future additions to the Fund's capital base.
3. Generate long-term total returns that are consistent with the rate of return assumptions that are developed by the Program's actuary in establishing fundings objectives for the Fund.
4. Manage market risk through extensive diversification and investment manager selection.
5. Control the costs of administering and managing the Fund's investment assets.
6. Ensure that the management of the Fund will be in strict compliance with all provisions of relevant legislation.

## **DUTIES and RESPONSIBILITIES**

### **Board of Directors**

The Board is responsible for managing the investment process in a prudent manner, so that the Fund's investments continue to reflect the funding needs of the Program. Therefore, the Board is responsible for making all decisions pertaining to the investment policy and guidelines for the policy's implementation. This includes, but is not limited to, selection of acceptable asset classes, allowable ranges of holdings by asset class as a percent of total assets, the definition of acceptable securities within each asset class, and investment performance expectations. The Board shall also establish specific rules for the rebalancing of assets between asset classes and among individual investment managers and/or commingled funds. In carrying out these duties, the Board may retain a qualified Investment Consultant to assist in the development and implementation of the investment policy and guidelines.

The Board also has authority to select and retain qualified investment managers and commingled funds for the purposes of carrying out the investment policy defined in this statement. With the guidance of the Investment Consultant, the Board will retain investment managers and funds that

will have discretion over the investment and reinvestment of Fund assets within specific asset class and/or investment style mandates.

The Board will communicate the policy and performance expectations to the managers through the Investment Policy Statement and the Investment Consultant. The Board will review the performance of the investment managers with the Investment Consultant on at least a quarterly basis to assure that the overall investment policy is being followed and progress is being made toward achieving the Fund's investment objectives.

The Board is responsible for accounting for all expenses related to the investment of Fund assets and controlling such expenses within reason. Investment expenses with the various service providers will be negotiated and monitored with the assistance of the Investment Consultant.

#### **Investment Committee**

The Investment Committee is appointed by the Board to work with the Investment Consultant in the oversight of the investment process and the reporting of recommendations to the Board to expedite informed decision making in the execution of the Fund's IPS.

#### **Investment Consultant**

The Board has engaged Capital Advisory Group as its Investment Consultant to guide the Board through a disciplined process for creating and implementing the Fund's Investment Policy and maintaining compliance with the required standards of fiduciary prudence.

#### **Investment Managers**

The duties and responsibilities of each manager retained by the Board include the following:

1. Managing Fund assets under its care and control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Board.
2. Exercising investment discretion as to the purchase and sale of securities in the account (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
3. Promptly informing the Board and the Investment Consultant in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition

- g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm.
4. If managing a separate account (as opposed to a mutual fund or a commingled account), seek approval from the Board prior to purchasing and/or implementing the following securities and transactions.
  - Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
  - Securities lending; pledging or hypothecating securities.
  - Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
5. Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
6. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing, that experienced investment professionals acting in a like capacity and fully familiar with such matters, would use in like activities for like organizations with like aims, in accordance and compliance with all applicable laws, rules and regulations of local, state, federal and international political entities pertinent to fiduciary duties and responsibilities.
7. Effect all transactions for the Fund subject "to best price and execution." If a manager utilizes brokerage from the Fund assets to effect "soft dollar" transaction, detailed records will be kept and communicated to the Board.
8. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the IPS set forth herein, and as modified in the future.

#### **Custodian**

The Custodian is responsible for the safekeeping of the Fund's assets. The specific duties and responsibilities of the custodian include:

1. Maintain separate accounts by for each investment manager/mutual fund.
2. Value all holdings.
3. Collect all income and dividends owed to the Fund.
4. Settle all transactions (buy-sell orders) initiated by the investment managers.
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the previous report.
6. Invest all cash in appropriate money market sweep fund.



## **Commingled Funds**

Commingled funds may be used to implement the specific style and/or sub-asset class strategies approved in the IPS. Mutual funds and other commingled funds are selected based on the investment objectives and constraints set forth in this document and in the respective prospectuses for each fund. The managers are expected to adhere to these objectives and constraints. In addition, the custodian will provide access to a money market fund to invest discretionary cash reserves and to provide for a daily automatic sweep of idle cash and investment income for each manager's sub-account.

## **INVESTMENT GUIDELINES**

### **Investment Risk Profile**

The Committee recognizes the difficulty of achieving the investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Committee also recognizes that some risk must be assumed to achieve the Fund's long-term investment objectives.

A critical decision which the Committee must make is to determine the degree of risk they wish to accept in investing the portfolio's assets. Although there are generally-accepted definitions of risk which are used in quantitative models of asset allocation, the Committee must determine their attitude toward risk from a practical perspective, recognizing that the term "risk" has many different connotations depending on the investor's frame of reference, circumstances and objectives. It is useful to consider various types of risk to see how each impacts the investment process:

- **Liquidity Risk** Will there be sufficient cash to meet disbursement and expense requirements
- **Boardroom Risk** Are decision-makers willing to "ride out" short-term volatility in favor of appropriate long-term strategies?
- **Purchasing Power Risk** Has an investment strategy been employed that will, at the very least, keep pace with inflation?
- **Planning Risk** What is the probability that anticipated contributions will not be made?
- **Return vs. Risk** Are expected investment returns consistent with the level of risk taken?
- **Asset Allocation Risk** Are assets optimally allocated to meet required return and risk parameters?
- **Lost Opportunity Risk** Have market timing strategies been inappropriately employed, exposing the investor to missed opportunities in the market?

In summary, the investment philosophy of the Fund's Committee members, in combination with the Fund's liabilities, return objectives, financial condition, and long time horizon, suggests that the Fund's long term investment portfolio can incur interim fluctuations in market value and rates of

return in order to achieve long-term objectives. However, the portfolio should be structured so that there is at least a 95% probability of not exceeding a loss greater than 7.1% in a given year.

### **Time Horizon**

The Board recognizes the importance of the Fund in maintaining the ongoing solvency of the Program. Therefore, the Fund's investment strategy is based on the assumption that the Program and its funding encompass a very long-term investment horizon of indeterminate length, and interim fluctuations should be viewed with appropriate perspective.

### **Expected Returns and Variance Parameters**

The Board recognizes that return objective of the Fund at any point in time should equal or exceed the Fund's long-term actuarial investment return assumption of 6.79%. To that end, the *Asset Allocation Study* appended to this IPS targets a total annual return of 6.8%, which is 4.2% above the current inflation assumption (CPI) of 2.6%. This *Asset Allocation Study* is based on *2005 Capital Markets Projections* for the returns, variance of returns and cross correlations for various asset classes as developed by Callan Associates, Inc.

The Fund's return objectives and its ability to withstand short and intermediate term variability were considered in establishing the risk parameters for this IPS. The aforementioned *Asset Allocation Study* provides a range of expected returns for the ensuing five-year period. In summary, it estimates there is approximately a 67% probability that returns will range between 15.9% and minus 2.3% in any twelve month period, with a 95% probability that annual losses will not exceed 7.1%.

### **Liquidity Needs**

The Fund's liquidity needs are based on any year-to-year shortfall between total benefit payments plus expenses versus collected assessments plus the return on investment assets. A shortfall is not anticipated at this time, as the expected cash flows from assessments and the assets available in the Fund's investment portfolio are expected to exceed the total cash flow needs of the Program.

### **Legal Constraints**

The enabling legislation requires the Board to adopt and implement rules consistent with the provisions of the Virginia Public Procurement Act. In addition, the Board will follow the standards of investment prudence required of fiduciaries under the Virginia Uniform Prudent Investor Act.

### **Strategic Asset Allocation**

The Board recognizes that the Fund's return, risk and liquidity posture are, in large part, a function of asset class mix. Given the long-term actuarial return assumption of the Fund and the current Capital Markets Projections of Callan Associates, Inc., the Board had elected to allocate 50% of its assets to equities and 50% to fixed income and cash investments. As explained in the appended Asset Allocation Study, this basic ratio will be sub-divided into the following asset classes as set forth at in the current Executive Summary of this IPS:

- Large Capitalization U.S. Equities
- Small Capitalization U.S. Equities
- International Developed Markets Equities

- International Emerging Markets Equities
- Domestic Fixed Income
- Cash

### **Rebalancing of Strategic Asset Allocation**

The Fund's asset class rebalancing protocol is designed to maintain the strategic asset allocation plan within acceptable ranges, recognizing the potential for market movements to cause material divergences from the normal positions, thereby changing the expected return and risk profile of the Fund. Therefore, an allowable upper and lower limit for each asset/style category is established in the Executive Summary of this IPS to guide a prudent rebalancing process. The Investment Consultant will review the Fund positions on a quarterly basis and advise the Board in a timely manner regarding the need for rebalancing.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. If the Board judges cash flows to be insufficient to bring the portfolio within the strategic allocation ranges, it shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges. Such changes will be managed with the assistance of the Investment Consultant to minimize transaction costs and the impact on the investment processes of the involved investment managers.

### **SELECTION OF INVESTMENT MANAGERS**

The Board, with the assistance of the Investment Consultant, will select appropriate investment managers ("managers") to manage Fund assets. Managers must meet the following minimum criteria:

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Investment Advisers Act of 1940.
2. Have historical quarterly performance results calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style. Manager should
3. provide performance presentation reports compliant with Association for Investment Management and Research (AIMR) standards.
4. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time. Manager's risk/return profile will be evaluated relative to other managers of like investment style.
5. Provide detailed information on the history of the firm, key investment staff, key clients, key support personnel and fee schedule. This information can be a copy of the manager's disclosure Form ADV and/or a recent Request For Proposal (RFP) completed by the manager.
6. Have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.

The Board, with the assistance of the Consultant, may also select appropriate commingled funds in which to invest a portion of the Fund's assets. These funds should meet the following minimum criteria unless otherwise approved by the Board:

1. Commingled funds must correspond to the asset classes outlined in the Fund's IPS. For example, to the extent that it is appropriate to use a mutual fund to implement the growth stock component of the asset allocation strategy, a mutual fund investing in growth stocks should be selected.
2. The commingled fund's senior portfolio manager should have been in place for three years or more.
3. The commingled fund's manager must have been following the same investment strategy for at least three years.

## **SECURITIES GUIDELINES**

### **Investment Managers**

Every investment manager selected to manage Fund assets must adhere to the following guidelines unless otherwise authorized by the Fund.

The following securities and transactions are not authorized, unless receiving prior Fund approval:

- Purchasing of securities on margin or speculative short sales.
- Borrowing of money.
- Pledging or hypothecating of any securities.
- Purchase or sale of futures or options for speculation or leverage.
- Purchase or sale of commodities, commodity contracts, or illiquid interest in real estate or mortgages.
- Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor; and investments for the purpose of exercising control of management are all restricted.

### **Domestic Equities**

The following guidelines apply to each investment manager retained to manage domestic equity accounts:

- No more than 6% of the market value of a manager's account should be invested in any one company.
- Allocation to any one of the major economic sectors recognized by Standard & Poor's should not be excessive and should be consistent relative to the manager's benchmark and to managers following similar style disciplines.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the manager will be evaluated against its benchmarks based on the performance of the total funds under its direct management.
- Holdings of the shares of a specific stock in a manager's account should be less than 5% of the total outstanding shares of that company.
- The manager shall not invest in securities trading or foreign exchanges. The use of American Depository Receipts (ADR's) listed on domestic exchanges is acceptable.

### **Domestic Fixed Income**

The following guidelines apply to investment managers retained to manage domestic fixed income accounts:

- All fixed-income securities held in the portfolio shall have a Standard & Poor's and/or equivalent credit quality rating (Fitch, Moody's) of no less than Investment Grade. U.S. Treasury and U.S. government agencies, rated or unrated, are qualified for unlimited inclusion in the portfolio.
- No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality.
- Holdings of the debt of any one issuer, other than securities of the U.S. government or its agencies, should not exceed 6% of the market value of that manager's account.
- Holdings of individual issues in a manager's account should not exceed 5% of the total outstanding par value of that issue.
- If directed by the client, investment grade foreign bonds may be held in the account in amounts not to exceed 20% of the portfolio.

### **Cash/Cash Equivalents**

- Cash equivalent reserves shall consist of instruments having a quality rating of A-1 or P-1, maturing in 360 days or less. Eurodollar Certificates of Deposits, time deposits, and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the investment managers shall be invested daily through a money market fund or an automatic interest bearing sweep vehicle provided by the custodian.

### **Commingled Funds**

- In addition to direct investment in individual securities the Fund may invest in mutual funds and other commingled vehicles provided they conform to all restrictions set forth under Duties and Responsibilities of Commingled Funds. It is expected that allocations to international equities, both developed and emerging markets, will be accomplished through mutual funds.

## **CONTROL PROCEDURES**

### **Actuarial Oversight**

The Board recognizes that the Program's long-term funding needs are difficult to estimate with a high degree of confidence, due to the uncertainties relating to the life expectancies of the Program beneficiaries and the inability to accurately forecast levels of qualifying medical expenses and the entry of new Program beneficiaries. Therefore, the Board will endeavor to coordinate the work of the Investment Consultant with the Program's Actuary and the Bureau of Insurance to ensure the highest possible level of integration of the Fund's Investment Policy with its actuarial funding requirements.

### **Brokerage Policy**

All transactions effected for the Fund will be "subject to the best price and execution." Unless approved by the Board, a manager may not utilize brokerage from the Fund assets to effect "soft dollar" transactions other than for research-related services which benefit the Fund. If approved, detailed records will be kept by the manager and communicated to the Board.

### **Proxy Voting**

Voting of proxy ballots shall be for the exclusive benefit of the Fund. Proxies for securities held in the portfolios of individual investment managers will be voted as outlined in the Duties and Responsibilities of Investment Managers section. The investment managers shall vote the proxies in accordance with this policy on all shareholder issues. Mutual fund proxies may be forwarded for voting to the Board. The Investment Consultant will not vote any proxies.

## **Review of Investment Objectives**

Investment performance relative to the Fund's return objectives will be reviewed quarterly. The continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives will be considered on an annual basis. It is not expected that the investment objectives set forth in this IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

## **Monitoring of Investment Managers**

Performance will be evaluated quarterly to test progress toward the attainment of longer term performance objectives. It is understood that there are likely to be short term periods during which performance deviates from market and peer-manager benchmarks.

On a timely basis, but not less than four times a year, the Board will meet to focus on:

- Manager's adherence to the IPS guidelines;
- Comparisons of the manager's results to appropriate indices and peer groups, as described in the most current Executive Summary. Each manager is expected to perform in the upper half of the manager's respective style universe and outperform a relevant market index over full market cycles.
- Progress toward the long-term performance objective.
- Material changes in the manager's organization, investment philosophy and/or personnel.

The Board is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough review and analysis of an investment manager will be conducted, should:

- A manager perform in the bottom quartile (75th percentile) of their peer group over the most recent annual period.
- A manager fall in the southeast quadrant of the risk/return scatter plot for 3- and/or 5-year time periods.
- A manager have a 3-year risk adjusted return fall below that of the median manager within the appropriate peer group.
- A manager underperform a relevant market index over the most recent 3 year period.

Furthermore, performance which may require the replacement of a manager includes:

- Performance below the median (50th percentile) of their peer group and/or a relevant market index over the majority of available rolling three year periods.
- Performance below the median (50th percentile) of their peer group and/or a relevant market index over a five year period.

- Negative alphas for 3- and/or 5-year time periods.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professional staff
- Significant account losses
- Significant growth of new business
- Change in firm ownership

The performance of the Fund's investment managers will be monitored on a regular basis. It is at the discretion of the Board to take corrective action at anytime if deemed appropriate.

#### **Oversight by the Virginia Retirement System**

The Board is required to consult with the chief investment officer of the Virginia Retirement System for advice regarding the Fund's investment strategy and the selection of investment managers. The Board will direct the Investment Consultant to provide the VRS with the required information on a timely basis.



**INVESTMENT POLICY ENDORSEMENTS**

The Board of Directors of the Virginia Birth-Related Neurological Injury Compensation Fund hereby acknowledges and approves the provisions of this Investment Policy Statement this \_\_\_\_\_ day of March, 2005.

\_\_\_\_\_

\_\_\_\_\_ Date

\_\_\_\_\_

\_\_\_\_\_ Date

\_\_\_\_\_

\_\_\_\_\_ Date

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\_\_\_\_\_ Date

\_\_\_\_\_

\_\_\_\_\_ Date

\_\_\_\_\_

\_\_\_\_\_ Date

Acknowledged by:

\_\_\_\_\_  
James D. Rorrer, Managing Director  
Capital Advisory Group

## **INVESTMENT MANAGER ENDORSEMENTS**

The undersigned investment manager hereby acknowledges receipt of the Investment Policy Statement dated March \_\_\_\_, 2005, of the Virginia Birth-Related Neurological Injury Compensation Fund and agrees to comply with the duties, responsibilities and guidelines as stated therein.

Acknowledged by:

\_\_\_\_\_  
Manager Name

\_\_\_\_\_  
Date

**INVESTMENT MANAGER ENDORSEMENTS**

The undersigned investment manager hereby acknowledges receipt of the Investment Policy Statement dated March \_\_\_\_, 2005, of the Virginia Birth-Related Neurological Injury Compensation Fund and agrees to comply with the duties, responsibilities and guidelines as stated therein.

Acknowledged by:

\_\_\_\_\_  
Manager Name

\_\_\_\_\_  
Date

**INVESTMENT MANAGER ENDORSEMENTS**

The undersigned investment manager hereby acknowledges receipt of the Investment Policy Statement dated March \_\_\_\_, 2005, of the Virginia Birth-Related Neurological Injury Compensation Fund and agrees to comply with the duties, responsibilities and guidelines as stated therein.

Acknowledged by:

\_\_\_\_\_  
Manager Name

\_\_\_\_\_  
Date

**INVESTMENT MANAGER ENDORSEMENTS**

The undersigned investment manager hereby acknowledges receipt of the Investment Policy Statement dated March \_\_\_\_, 2005, of the Virginia Birth-Related Neurological Injury Compensation Fund and agrees to comply with the duties, responsibilities and guidelines as stated therein.

Acknowledged by:

\_\_\_\_\_  
Manager Name

\_\_\_\_\_  
Date

## **ASSET ALLOCATION STUDY**

This Asset Allocation Study has been developed for the investment policy planning of the Virginia Birth-Related Neurological Injury Compensation Program's investment fund. The Study employs a proprietary investment modeling technology and the *2005 Capital Markets Projections* provided by Callan Associates, Inc. (Callan), a leading investment management consulting firm. These projections are developed by Callan at the beginning of each year to assist investors with prudent asset allocation planning and are based on Callan's assessments of past capital markets performance, key economic indicators and the market insights of Callan professionals.

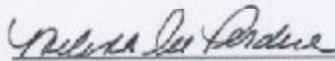
The capital market projections consist of projected returns and two measures of risk – standard deviation and correlation -- for each of nine asset classes and inflation, as represented by the following market benchmarks:

<b>Asset Class</b>	<b>Benchmark</b>
<b><u>Equities</u></b>	
Broad Domestic Equity	Russell 3000 Index
Large Cap Domestic Equity	S&P 500 Index
Small/Mid Cap Domestic Equity	Russell 2500 Index
International Equity	MSCI EAFE Index
<b><u>Fixed Income</u></b>	
Domestic Fixed Income	Lehman Brothers Aggregate Bond Index
International Fixed Income	Citigroup Non-U.S. Government Bond Index
<b><u>Other</u></b>	
Real Estate	Callan Total Real Estate Database
Private Equity	Venture Economics Post-Venture Capital Index
Cash Equivalents	90-Day U.S. Treasury Bill
Inflation	CPI - All Urban Consumers

The projections for returns, standard deviations and correlations are for the five-year period from 2005 through 2009. A five-year period is chosen because it typically captures a market cycle and explains the general investment environment that should be considered by investors in setting expectations for performance. The benchmarks above are investable, measurable and representative of the markets they cover.

## INVESTMENT POLICY ENDORSEMENTS

The Board of Directors of the Virginia Birth-Related Neurological Injury Compensation Fund hereby acknowledges and approves the provisions of this Investment Policy Statement this 8th day of March 2005.

  
\_\_\_\_\_  
Melina Dee Perdue, RN, MBA, ~~CAN~~  
Chairperson *CNA*

4-18-2005  
\_\_\_\_\_  
Date

Acknowledged by:

\_\_\_\_\_  
James D. Rorrer, Managing Director  
Capital Advisory Group