I. OBJECTIVES

This actively managed minimally funded U.S. fixed income portfolio will consist of U.S. cash equivalents; Treasury bills, notes, and bonds; U.S. Treasury Futures; or, Options on U.S. Treasury Futures.

The objectives of this portfolio are to generate exposure to the Barclays Capital U.S. Treasury Long Index. The Board will provide the manager with a notional value, in writing, prior to the funding of the portfolio. The Board will provide the manager with any changes in the notional value of the portfolio, in writing, at least two (2) business days prior to the effective date of the change, but it will otherwise remain constant. The portfolio will only be implemented over the notional value and not over any realized or unrealized gains or losses of the portfolio.

II. PORTFOLIO RISK MANAGEMENT

The Board’s expectations are that this portfolio be actively managed within the spirit of a U.S. Long Treasuries Fixed Income mandate. Within this framework, the following are the portfolio risk constraints under which the manager is required to operate:

A. Interest Rate Risk

The effective or Option-adjusted duration of the portfolio must range from plus to minus 2.0 years relative to the Index based on the notional value.

B. Spread Risk

No spread risk is permissible. Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible.

C. Credit Risk

No credit risk is permissible. Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible.

D. Currency Risk

No currency risk is permissible. Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible.
E. **Sovereign Risk**

No securities or bonds from non-U.S. countries are permitted. Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible.

F. **Concentration Risk**

Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible; therefore, concentration risk is not considered an issue since all of the instruments are either fully guaranteed by the U.S. Government or by the members of the clearinghouse where the U.S. Treasury Futures or Options on U.S. Treasury Futures were traded.

G. **Absolute Restrictions**

U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible investments; otherwise, any other investments are strictly prohibited without the written permission of the CIO.

H. **Derivative Counterparty Risk**

The commercial and investment banks used for approved OTC futures, approved OTC Options, or forward/spot currency transactions must be rated A3 or better by Moody's Counterparty Ratings, (if not rated by Moody's, then rated A- or better by Standard and Poor's Counterparty Ratings or rated B or better by Fitch's Bank Individual Ratings).

I. **Liquidity Risk**

Only U.S. cash equivalents, Treasury bills, notes and bonds and U.S. Treasury Futures or Options on U.S. Treasury Futures are permissible therefore liquidity is not a risk.

**III. DERIVATIVES**

The portfolio is permitted to establish and maintain long positions in:

a. Listed Options on U.S. Treasury Futures Contracts; and
b. Listed U.S. Treasury Futures Contracts.

Fixed income derivatives may only be used to manage interest rate risk.

**IV. AMENDMENTS**
A written request to the Chief Investment Officer (CIO) and Deputy CIO (DCIO) should be made if the manager believes that these portfolio risk constraints significantly limit the ability of the manager to achieve the objectives of the portfolio. A written amendment will be issued from the CIO, or the DCIO in the CIO’s absence, if the request is approved.