

**MISSOURI HIGHER EDUCATION SAVINGS
PROGRAM BOARD**

Investment Policy
for
The Missouri Higher Education Saving Program

June 8, 2016

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I. PURPOSES OF THIS POLICY

The Missouri Higher Education Savings Program (the "Trust") is administered by the Missouri Higher Education Savings Program Board, as Trustee of the Trust (the "Board"). There is one distinct 529 plan (the "Plan") operating under the Trust: the Missouri Saving for Tuition Program, Direct Program ("Direct Plan" or "Plan"). The Trust is a "qualified tuition program" in accordance with Section 529 of the Internal Revenue Code of 1986, as amended (the "Code"). It was established to provide families with an opportunity to invest toward future qualified higher education expenses.

Ascensus College Savings Recordkeeping Services, LLC currently serves as the Program Manager and Recordkeeping and Servicing Agent, respectively with overall responsibility for the day-to-day operations of the Plan. The Plan is marketed directly to the public with The Vanguard Group ("Vanguard" or the "Investment Manager") providing the investment options and customer service. Vanguard Marketing Corporation is the distributor for the Plan.

The purposes of this Investment Policy ("Policy") are to:

- A. Establish objectives for structuring the investment options ("Portfolios") offered in the Plan.
- B. Define the roles of the Board, staff of State Treasurer Clint Zweifel and the Board's partners, each of which may have certain fiduciary responsibilities in managing and administering the Plan.
- C. Formulate policies for selecting appropriate investment managers and the use of specific investment vehicles ("Underlying Investments") in the Portfolios within the framework of the structure as stated in this Policy.
- D. Establish objectives for prudently monitoring and evaluating the performance of the Underlying Investments and the Portfolios of the Trust.

The Investment Policy shall be consistent with the Second Amended and Restated MOST Services Contract entered into by and among the Board, Ascensus College Savings Recordkeeping Services, LLC, Ascensus Broker Dealer Services, Inc. and Ascensus Investment Advisors, LLC dated as of February 8, 2016 (the "MOST Services Contract"). In the event any of the provisions of this Policy conflict with the MOST Services Contract, the MOST Services Contract shall prevail.

II. RESPONSIBILITIES

- A. The Board shall act as fiduciary and trustee of the Plan. Accordingly, the Board is responsible for ensuring that the Plan operates in compliance with the Code; State statutes, specifically RSMo Section 166.400 *et. seq.*; and applicable regulations established by federal authorities including the U.S. Treasury Department and Municipal Securities Rulemaking Board. As such, the Board is responsible for the following investment-related matters:
 - Development and review of this Investment Policy.
 - Appointment of a qualified program manager and other vendors necessary for the successful operation of the Plan.
 - Review, approval and/or modification of the Program Manager's annual Investment Review.
 - Review of quarterly investment reports, including the benchmarking, if applicable, and monitoring of investment performance of all Underlying Investments and Portfolios.

B. State Treasurer Zweifel is responsible for the periodic review and monitoring of the Underlying Investments' and Portfolios' performance. Accordingly, Treasurer Zweifel is responsible for the following investment-related matters and providing staff to perform the following duties:

- As required by law, Treasurer Zweifel's Director of Investments (the "Director of Investments") shall conduct a semi-annual review of the Plans and report his/her findings annually to the Board.
- The Director of Investments or a designee shall on a quarterly basis review reports benchmarking the performance of Underlying Investments and Portfolios.
- The Director of Investments or a designee shall report to the Board on a quarterly basis regarding any Underlying Investments that the Director has determined to be placed on WATCH status, or determined to be removed from WATCH status, as defined in this Policy.
- The Director of Investments or a designee shall review the Program Manager's Investment Review prior to submission to the Board. The Director of Investments shall prepare a memorandum to the Board commenting on the proposed Investment Review.

C. The Program Manager manages the Plan on a daily basis and also has certain fiduciary responsibilities as defined by the MOST Services Contract and by law. The Program Manager's and Investment Manager's responsibilities under the Policy are as follows:

- At least annually, the Program Manager and Investment Manager shall prepare an Investment Review, which shall include an asset allocation review and any proposed changes to the Underlying Investments and Portfolios for the Direct Plan.
- Quarterly, the Program Manager and Investment Manager shall collect performance data for all Underlying Investments and Portfolios.
- The Program Manager shall provide monthly and quarterly reports as required under the MOST Services Contract.
- The Program Manager shall coordinate, manage and oversee the Investment Manager.
- The Program Manager shall perform due diligence and monitoring of applicable investment managers and all Underlying Investments.
- The Investment Manager shall monitor and rebalance the age-based Portfolios and other similar portfolios in accordance with asset allocation guidelines.
- The Investment Manager shall coordinate, manage and oversee all applicable investment manager relationships with respect to the Underlying Investments.

III. ASSET ALLOCATION

The Underlying Investments and the Portfolios offered by the Trust shall be selected and managed in accordance with the standards set forth in the various contracts applicable to the Plan, the Code and applicable Missouri law.

The determination of the asset allocation of each Portfolio will take into account the financial characteristics that establish appropriate risk versus return. In accomplishing this goal, due consideration is to be given to the fact that the investment horizon for Account Owners (and beneficiaries) will vary from a few months to approximately 22 years.

A. Overall Investment Objectives

The overall investment objective for the Trust is to achieve the following long-term investment objectives:

- A long-term competitive rate of return for each Underlying Investment compared to its benchmark.
- An investment program that provides choice among Portfolios in order to provide Account Owners the opportunity to invest in a diversified line-up designed to help meet their goal of saving for higher education. When practical, choice should be offered among different fund families, asset classes, portfolio investment strategies (active versus passive), capitalization levels, and investing styles (growth versus value) within the Plan.
- At least a portion of the Direct Plan's lineup should include low-cost funds.

B. Permitted Investments

The Underlying Investments of the Trust should primarily fall into the following, broad asset classes:

- Short-Term Marketable Securities
- U.S. Fixed-Income Securities
- U.S. Equity Securities
- International and Global Equity Securities
- International and Global Fixed Income Securities

The Underlying Investments of the Trust are to be limited to mutual funds, separate accounts, exchange traded funds, stable value investments or other investment vehicles acceptable to the Program Manager and the applicable investment managers. The Board may establish reasonable guidelines for the development and structuring of the Plan's lineup, including prohibited investments, limits on asset and asset class exposures, risk constraints and investment return objectives. The guidelines should not be construed as absolutes, which will result in certain returns or outcomes, but as benchmarks to be used in a thoughtful process.

C. The Plan

The Direct Plan is designed to appeal to a broad range of investors who prefer to invest on a no-load basis without the assistance of a financial advisor. Therefore, the Portfolios included in the Direct Plan are intended for the "retail" investor. Although it is important to provide an adequate level of choice for participants in this Plan, the objective of choice also must be weighed against the potential to overwhelm a retail investor. In creating a low-cost plan, low-cost index mutual funds and separate accounts shall serve as the core component of the Underlying Investments with actively managed mutual funds and/or separate accounts with potentially higher management expenses also offered.

Accordingly, the Direct Plan's Portfolios shall consist of the following:

- At least one age-based option, which automatically resets its asset allocation based on the age of beneficiary, shall be offered. Each age-based option offered shall include at least five age bands or tracks and the Underlying Investments for such shall consist primarily of low-cost index mutual funds and separate accounts.

- At least one 100% Equity option, which invests solely in US and international equities.
- To further diversify the Portfolios of the Direct Plan, additional Portfolios shall be offered on a stand-alone basis. The stand-alone, or static, Portfolios offered may include Portfolios investing primarily in actively managed funds as an alternative to the index funds and separate accounts offered in the age-based options.
- At least one Portfolio that invests primarily in money-market, stable value, or fixed income investment options.

The Portfolios offered in the Direct Plan—age-based portfolios, 100% equity portfolios(s), and static Portfolios—shall be constructed to minimize overlap between Portfolios and to provide appropriate investment diversification. Criteria for the selection of Underlying Investments to be included in the static Portfolios shall include asset classes or styles which can supplement an Account Owner's investment exposure to age-based or 100% equity portfolios. For instance, for investors who desire greater exposure to international stocks, a stand-alone international equity portfolio may be offered to increase that investor's exposure to this asset class.

IV. PERFORMANCE MONITORING

The monitoring of Portfolios for the Plan will be performed in a manner consistent with generally accepted standards of fiduciary responsibility. The Portfolios will be selected and monitored with the skill, care, and diligence of a prudent person acting in a like capacity, familiar with such matters and in accordance with applicable laws. All determinations undertaken on behalf of the Plan will be for the sole benefit of the Account Owners and Beneficiaries in the Plan. The Director of Investments will monitor the Underlying Investments and Portfolios and will make recommendations to add, remove, or change the investment options to the Board as may be appropriate.

Passive management strategies exhibit low variability of returns, and also have a zero-alpha performance expectation relative to each specific index. For these reasons, index funds will use annual tracking error objectives to monitor performance.

The quantitative evaluation of active investment managers is a more complex process. There is significant volatility in active manager returns (relative to the manager's benchmark), and this volatility makes it very difficult to assess whether a manager's over- or under-performance is the product of random volatility or true investment skill. A proper quantitative analysis must therefore consider the variability of a manager's excess return, in addition to the absolute magnitude of the excess return, when making judgments about manager skill.

It should be expected that skilled managers will often have periods of under-performance, as it should be expected that unskilled managers will often experience periods of over-performance. Due to the inherent volatility of active manager returns relative to an assigned benchmark, investment manager skill must be evaluated from a long-term perspective. Over time, skilled managers may produce a higher average excess return more frequently than unskilled managers. Depending on the availability and appropriateness of each manager's historic quarterly return series, manager skill should be evaluated on a three-year rolling average basis.

A number of qualitative and quantitative factors will be considered when monitoring any Underlying Investment or Portfolio. The Director of Investments will focus the evaluation on long-term issues related to the management of an Underlying Investment, both qualitative and quantitative. No single factor will determine whether a Portfolio or Underlying Investment should be added, retained, or eliminated; however, certain factors may carry more weight in the Director of Investment's final analysis.

Quantitative factors may include adherence to an Underlying Investment's objectives, performance and expenses as detailed below. With regard to performance evaluation, the Program Manager and Investment Manager will continually monitor the Underlying Investments' benchmarks to ensure that they are the most appropriate for comparison purposes.

Qualitative factors which may be considered as part of the review (and thus the decision to require changes in Underlying Investments or Portfolios) include: (i) adherence of the Underlying Investments to the guidelines established in this Policy, (ii) material changes in an Underlying Investments investment style and personnel (including manager tenure), (iii) material changes in an Underlying Investment's financial condition (including any significant changes in total assets under management), and (iv) any other matters the Board deems relevant.

A. Performance Monitoring Process

Quarterly, the Investment Manager shall collect performance data for all Underlying Investments and Portfolios including quarterly and trailing annualized performance. Based on this information, the Director of Investments or a designee shall prepare a separate quarterly evaluation which shall indicate whether any Underlying Investment's under-performance merits WATCH status or other qualitative reasons for an Underlying Investment's placement on WATCH status. Once the Director of Investments has determined that an Underlying Investment shall be placed on WATCH, the Director of Investments or a designee shall report on a quarterly basis to the Board on these Underlying Investments, including the approximate date the Underlying Investment was placed on WATCH, and any recommendations, as needed. If the Underlying Investment was placed on WATCH for investment performance reasons, the report will also include post-WATCH investment performance to gauge if the Underlying Investment is addressing investment performance issues.

Short-term performance criteria should not be designed in such a way that Underlying Investments are flagged based simply on the volatility in active manager returns. Rather, the purpose of placing an Underlying Investment on WATCH status based on short-term performance criteria is to serve primarily as a "red flag" to the Director of Investments, Program Manager and Board that further due diligence is required in terms of ascertaining the reasons for under-performance and whether there are any underlying causes for under-performance or other issues that merit increased attention.

For intermediate-term performance, the Director of Investments shall use a number of tools to evaluate the relative performance of a fund. Since it is important to monitor both the volatility of returns and the "value added" from active management of these funds, both "Alpha" and "Beta" shall be considered when evaluating the overall performance of an actively managed fund. The Director of Investments will monitor the Alpha—that is, the risk adjusted incremental return due to the active management of the fund—for negative trends and shall report such trends to the Board. Additionally, the Director will watch for negative trends in the fund's Beta, which signals changes in the overall risk or volatility of the fund's returns. While not necessarily causing the fund to be placed on WATCH, both Alpha and Beta will be closely monitored for qualitative changes to both the "excess" returns and risk profile.

B. WATCH Status Criteria

An Underlying Investment shall be placed on WATCH status by the Director of Investments if one of the following events occurs:

1. Short-Term Performance– If in any three consecutive quarters:
 - a. an index-based Underlying Investment in the Plan has a one-year annualized tracking error (return difference plus expense ratio) compared to its benchmark index in excess of 0.50%; or
 - b. an actively-managed Underlying Investment's one-year total return has lagged its benchmark index by 2.50%.
2. Intermediate-Term Performance –
 - a. an index-based Underlying Investment's rolling three-year return has lagged its benchmark by 0.50% for three consecutive quarters; or
 - b. an actively-managed Underlying Investment's rolling three-year total return has fallen below its benchmark index by 2.50% for three consecutive quarters.
3. If a significant change occurs in any one or more key qualitative characteristics of the Underlying Investment.

On a quarterly basis, the Director of Investments shall report to the Board those funds placed on WATCH status. The placement of an Underlying Investment on WATCH status may also require additional information and reporting to be supplied to the Director of Investments by the Program Manager or Investment Manager.

C. CORRECTIVE ACTION

The status of an Underlying Investment on WATCH serves two basic purposes. First, it is a major step towards transitioning from one Underlying Investment to an alternative Underlying Investment. Second, it allows the Underlying Investment on WATCH to take any corrective action (or justify its changing condition) before the Board elects to terminate its existing relationship with the Underlying Investment. Typically, once an Underlying Investment is placed on WATCH, it should be able to exhibit improvement within a time frame of 9 to 15 months, if not sooner.

For cost considerations and an orderly transition to a suitable replacement Underlying Investment, the Director of Investments and Program Manager shall attempt to coordinate replacement of an Underlying Investment not released from WATCH status with any fund lineup changes recommended via the Annual Investment Review process whenever possible.

Release from WATCH Status

Underlying Investments that show indications of an improvement, as determined by the Director of Investments, in one or more of the factors above may be released from WATCH status. Examples of improvements warranting a change in status are:

- Improved investment performance in approximately 9 to 15 months from the day it was placed on WATCH status.
- Investment style characteristics returning to, and remaining at, levels originally agreed upon.
- Qualitative factors (such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc.) being met or satisfied.

The Director of Investments shall determine whether an Underlying Investment should be released from WATCH status. This action should be supported by documentation produced by the Treasurer's staff, which shall include the original reasons for WATCH status and a discussion of how the Underlying Investment has addressed these issues and warrants release from WATCH status. On a quarterly basis, the Director of Investments shall report to the Board those Underlying Investments released from WATCH status.

Replacement of Underlying Investments on WATCH

If an Underlying Investment is not released from WATCH status 9 to 15 months from the day it was placed on WATCH status, the Board may replace the Underlying Investment, based on the relevant qualitative and quantitative factors as well as the best interest of the Direct Plan and its participants and beneficiaries. Any such replacement shall be in accordance with the various contracts applicable to the Direct Plan. The Investment Manager shall identify an alternative Underlying Investment, subject to the Director of Investment's approval. The failure of an Underlying Investment to be released from WATCH status shall not be considered a breach of the MOST Services Contract or any applicable investment management contract or agreement. All final decisions to replace an Underlying Investment(s) rest with the Board.

Immediate Replacement of an Underlying Investment

The above notwithstanding, the Director of Investments may recommend that the Board immediately replace an Underlying Investment when an extraordinary situation involving the Underlying Investment compromises the interests of the Trust's Account Owners and beneficiaries. Examples of such extraordinary situations include (1) an Underlying Investment's rapidly deteriorating performance due to management turnover or regulatory issues or (2) situations involving an Underlying Investment or its management, which subject the Plan to significant reputational risk.

The purpose for recommending immediate replacement of an Underlying Investment without that Underlying Investment being on WATCH status first should be confined to extreme situations where the Director of Investment believes (1) there is significant reputational risk to the Plan, or (2) that a period of 9 to 15 months to evaluate corrective actions would significantly harm Account Owners' interests. The Program Manager and Investment Manager shall implement such replacement(s) within a commercially reasonable period of the time under the circumstances.

V. ANNUAL INVESTMENT REVIEW

The Investment Manager for the Direct Plan may recommend changes to the Underlying Investments that comprise the Portfolios or changes to the Portfolio Asset Allocation of the Portfolios. Such recommendations will be presented to the Director of Investments, with the Board having the final decision to accept, reject or modify the recommendations.

On or before the meeting covering the 2nd quarter results (held in Q3), the Program Manager and Investment Manager, as applicable, shall submit to the Director of Investments the Investment Review report. This report shall include any changes to the Underlying Investments or the Portfolios for the Plan's current fiscal year-end, as applicable. Any recommendations will be consistent with the Policy outlined in Section II above. The Director of Investments or a designee shall review the Investment Review report prior to submission to the Board. The Director of Investments shall prepare a memorandum to the Board and the State Treasurer commenting on the proposed Investment Review report. The Board will notify the Program Manager and Investment Manager, as applicable, that the recommendation has been accepted or rejected. The Program Manager and Investment Manager, as applicable, shall then implement such changes within a commercially reasonable time that also allows for any modifications necessary to the Plan's disclosure documents.

The Board may also consider the addition of Underlying Investments or Portfolios at any time during the year. The Program Manager and Investment Manager, as applicable, shall then implement such changes within a commercially reasonable time that also allows for any modifications necessary to the Plan's disclosure documents.

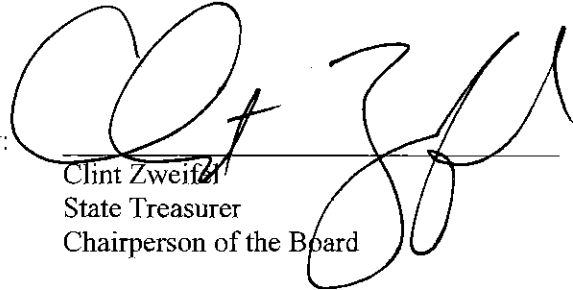
VI. ADOPTION AND REVIEW OF POLICY

State Treasurer Clint Zweifel has worked with the Program Manager and Investment Manager to jointly develop this Investment Policy. The Board will review this Policy at least once every two years. Changes to this Policy can be made at any time if such changes are in the best interest of the Trust's Account Owners and beneficiaries; however changes are to be infrequent, as they will reflect long-term considerations, rather than short-term changes in the financial markets. Treasurer Zweifel will communicate any proposed modifications in writing on a timely basis to interested parties, including the Program Manager and Investment Manager, who shall have a commercially reasonable amount of time to respond to such proposals.

Adopted this 8th day of June, 2016

MISSOURI HIGHER EDUCATION SAVINGS PROGRAM
BOARD

By:



Clint Zweifel
State Treasurer
Chairperson of the Board