

# Verizon Investment Management Corp.

Form ADV Part 2A - Disclosure Brochure

March 27, 2012

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This Brochure provides information about the qualifications and business practices of Verizon Investment Management Corp. If you have any questions about the contents of this Brochure, please contact us at 908-559-5890. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Verizon Investment Management Corp. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

### Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss.

In advising the pension trust, Verizon Investment Management Corp. (“VIMCO”) has historically emphasized a long-term equity orientation, significant global diversification, and the use of both public and private investments. These diversification and risk control processes served to minimize the concentration of risk. In an effort to further reduce the risk and better align assets with liabilities, VIMCO is shifting to a liability driven strategy for the pension trust. This strategy attempts to match cash flows from investments with projected benefit payments from the pension trust, with the goal of reducing the risk that a benefit plan will be underfunded. While attempting to reduce risk, this strategy also may result in lower returns. Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss discusses this change in strategy in greater detail. In addition, Item 8 has been amended to add more specific information about the strategies used in connection with Verizon Communication Inc.’s (“Verizon”) savings and Voluntary Employee Benefit Association (“VEBA”) trusts, captive insurance companies and the charitable foundation.

VIMCO no longer offers the Active U.S. Equity Value Portfolio, Active U.S. Equity Growth Portfolio, or Emerging Markets Equity Portfolio. Therefore, information regarding those portfolios has been removed from the Disclosure Brochure dated March 27, 2012.

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## **Item 4 – Advisory Business**

### **THE ADVISER**

VIMCO is a wholly-owned subsidiary of GTE Corporation, which in turn, is wholly-owned by Verizon. A publicly traded company listed on the New York Stock Exchange, Verizon trades under the symbol "VZ." Verizon began operations in 2000, following the merger of Bell Atlantic and GTE Corporation. VIMCO, founded in 1979, operates as an investment management arm of Verizon and is qualified as an in-house asset manager under Prohibited Transaction Class Exemption 96-23.

### **ADVISORY SERVICES**

VIMCO provides asset management, asset allocation, and investment monitoring services to Verizon-sponsored pension, savings and VEBA trusts, as well as to Verizon's charitable foundation and captive insurance subsidiaries (collectively, "clients"). VIMCO may, on behalf of its clients, directly manage a portfolio of individual securities and other pooled investment vehicles. VIMCO also may allocate all or a portion of a client's assets to third party investment managers.

For the pension trust, VIMCO offers a number of investment strategies that invest directly in a mix of debt and equity securities, such as common and preferred stocks, corporate bonds (including private placements), U.S. Government and agency securities, convertible securities (including stocks and convertible corporate bonds), real estate, options and futures, money market instruments, hedge funds and master limited partnerships. A portion of the assets in the pension trust also may be allocated to third party investment managers. VIMCO performs initial and on-going due diligence on third party investment managers, determines allocations to each manager and rebalances as needed, monitors performance and provides appraisal reports. VIMCO also makes cash management services available to the third party investment managers.

For the savings trusts (as used herein, the term savings trusts shall mean the Verizon Master Savings Trust and the Bell Atlantic Master Trust to the extent that the later trust holds assets of the plans within the Verizon Master Savings Trust), VEBA trusts, Verizon's charitable foundation and captive insurance subsidiaries, VIMCO selects third party investment managers responsible for direct investments in a mix of debt and equity securities. VIMCO also selects third party investment managers to invest assets of the savings trusts in real estate and hedge funds. VIMCO performs initial and on-going manager due diligence, determines allocations to each manager and rebalances as needed, monitors performance and provides appraisal reports. VIMCO also advises the Verizon Employee Benefits Committee with respect to the investment options of the savings trusts (both mutual fund and non-mutual fund investment options).

In selecting investments, VIMCO considers each client's risk tolerance, investment strategy, funding needs and investment limitations. Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss discusses VIMCO's investment strategies in more detail.

## **ASSETS UNDER MANAGEMENT**

As of December 31, 2011, VIMCO had \$50.3 billion in assets under management. All of these assets are managed on a discretionary basis.

## **Item 5 - Fees and Compensation**

### **REIMBURSEMENT FOR COST OF SERVICES**

Advisory services are provided by VIMCO to the pension trust and the savings trusts in exchange for reimbursement of actual costs incurred by VIMCO. Reimbursements are processed monthly for the pension trust and quarterly for the savings trusts, in arrears, and payment is deducted directly from client assets. These reimbursements are exclusive of brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees, third party manager fees and other fees and taxes charged by custodians, investment managers, broker-dealers and other third parties unaffiliated with VIMCO. VIMCO does not receive any portion of these fees, commissions and costs. VIMCO's brokerage practices are discussed in more detail in Item 12 - Brokerage Practices.

Verizon bears the expenses of providing advisory services to the VEBA trusts, Verizon's charitable foundation and captive insurance subsidiaries. However, these clients are responsible for brokerage commissions, transaction fees, custodial fees, transfer taxes, wire transfer fees, third party manager fees and other fees and taxes charged by custodians, investment managers, broker-dealers and other third parties unaffiliated with VIMCO.

VIMCO makes a short-term investment fund available to certain third party managers for cash management purposes. In exchange for these services, the third party managers have agreed to reduce the fees they charge the pension trust by 0.08% (eight basis points).

### **INDIRECT FEES AND EXPENSES**

Client assets may be invested in separate accounts of third party investment managers, exchange traded funds, hedge funds, private equity funds and other pooled investment vehicles. These vehicles charge management fees and other expenses, which are disclosed in the offering documents, subscription agreements and/or financial statements of the pooled investment vehicles. Clients indirectly bear these fees.

### **ADDITIONAL COMPENSATION**

Neither VIMCO nor any of its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products; nor

does VIMCO receive any compensation from any third party investment managers selected to manage client assets.

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

VIMCO does not charge performance-based fees. The term “performance-based fees” refers to fees based on a share of capital gains on, or capital appreciation of, a client's assets. VIMCO does not engage in side-by-side management.

## **Item 7 – Types of Clients**

VIMCO provides advisory services to Verizon’s savings trusts, pension trust, VEBA trusts, charitable foundation, and captive insurance subsidiaries. VIMCO also provides advisory services to various limited liability companies for which VIMCO is the managing member, and to limited partnerships for which VIMCO or a subsidiary is the general partner and through which its clients invest. Finally, VIMCO provides advisory services to certain pooled investment options available to plans participating in the Verizon pension trust.

As an in-house asset manager, VIMCO does not have any requirements for opening or maintaining an account, such as minimum account size.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### Pension Trust Strategy

VIMCO utilizes a liability driven strategy for the pension trust. This strategy attempts to match cash flows from investments with projected benefit payments. The intent is to reduce the likelihood that pension trust assets will decline at a time when plan liabilities increase (also called “liability hedging”), with the goal of reducing the risk that a benefit plan will be underfunded. While attempting to reduce risk, this strategy also may result in lower returns. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

While target asset allocation percentages will vary over time, VIMCO’s overall investment strategy is to achieve a mix of assets that allows the pension trust to meet projected benefits payments while taking into consideration risk and return. The initial target allocation for plan assets is designed so that 70% of the assets (comprised of public equities, private equities, real estate, hedge funds and emerging debt) are positioned with the objective to achieve a return in excess of the growth in liabilities and 30% of the assets are invested as liability hedging assets (i.e., typically longer duration fixed income). As the funded status improves, this allocation will shift to a higher proportion of liability hedging

assets. Target allocations are revisited periodically to ensure they are in line with objectives. There are no significant concentrations of risk in terms of sector, industry, geography or company names.

#### VEBA Trust Strategies

VIMCO's portfolio strategies for the VEBA trusts emphasize a long-term equity orientation and significant global diversification. Assets are allocated among equity and fixed income securities. The strategy does not make use of private investments. Because the Welfare Trust for the Verizon Long Term Disability VEBA invests participants' funds, it is managed to a lower risk profile with approximately 60% of its assets allocated to equities and 40% to bonds. The assets of VEBA N, LP, in which the other VEBAs (the Bell Atlantic Retiree Life Insurance Plan Trust, GTE Bargained Retired Group Insurance Welfare Trust, NYNEX Corporation Non-Management Employees Benefits Trust, and NYNEX Corporation Management Employees Benefits Trust) participate as unit-holders, currently are invested 70% in equities and 30% in bonds. The two VEBA Retirement Funding Accounts are currently invested at a higher risk profile with approximately 80% of its assets invested in equities and 20% in bonds. Target allocations are revisited periodically to ensure they are in line with fund objectives. There are no significant concentrations of risk in terms of sector, industry, geography or company names.

#### Captive Insurance Strategy

VIMCO pursues an investment strategy designed to meet the following objectives: (1) immunize expected claim outflows from interest rate risk; (2) ensure that there will be sufficient funds to pay liabilities as they come due, pay significant claims and allow commutation of insurance liabilities; (3) maximize return on an after-tax basis with a level of risk acceptable to management; and (4) reduce the impact of the volatility on economic income (net income and unrealized gains) created by the assumption of underwriting risks when applicable and feasible. The assets used to pay claims and support insurance liabilities are invested using an immunization, or a liability hedging approach. Surplus assets are invested in a return seeking portfolio made up of fixed income, equities, and other securities. Target allocations are revisited periodically to ensure they are in line with strategic objectives. There are no significant concentrations of risk in terms of sector, industry, geography or company names. Periodically, requests for the realization/avoidance of gains or losses will be made by Verizon's management based on tax efficiency and current business needs.

#### Charitable Foundation Strategy

VIMCO annually recommends an investment policy to Verizon's charitable foundation that takes into consideration liquidity requirements, as well as the objectives of preserving capital while generating a desired level of investment return without excessive risk. The

investment recommendations may change from year-to-year based upon projections of the foundation's priorities for expenditures and funding. The foundation assets may be invested in a combination of U.S. equities, U.S. fixed income securities, and cash and cash equivalents. The allocation of assets is based on the factors discussed above and additional asset classes could be added if the asset base and investment time horizon change significantly. There are no significant concentrations of risk in terms of sector, industry, geography or company names.

#### Savings Trusts Strategy

VIMCO also advises the Verizon Employee Benefits Committee with respect to the investment options of the savings trusts, which are a participant directed individual account plan under Section 404 (C) of ERISA, designed to provide eligible employees of Verizon and its affiliates with a convenient way to save for medium-term and long-term savings and retirement needs. The savings trusts offer investment options into two distinct tiers; Target Date Funds and Asset Class Investment Options, each of which provides investment options designed to meet specific objectives. There are no significant concentrations of risk in terms of sector, industry, geography or company names.

### **INTERNALLY MANAGED STRATEGIES**

VIMCO manages a portion of the assets of the pension trust internally. For these clients, VIMCO allocates assets to the following investment portfolios, each of which pursues a different investment strategy.

***Active U.S. Equity Core Portfolio.*** This is an actively managed portfolio consisting primarily of common stocks of companies included in the Russell 1000 Index. The objective of the portfolio is twofold. First, VIMCO seeks to manage a U.S. equity core portfolio at a lower cost and with a lower level of risk relative to industry peers. Second, VIMCO seeks to outperform the Russell 1000 Index over one and three year periods.

Securities are evaluated through a combination of quantitative and qualitative factors, including the use of a proprietary internal alpha model. Portfolio construction is facilitated through the use of a quadratic optimization program, taking into account various benchmark-relative metrics, including active sector exposure, risk factor exposures, and fundamental characteristics, as well as relative industry weights, investment style, market capitalization, turnover, and contribution to tracking error.

The portfolio can hold exchange traded funds as necessary to accommodate cash requirements and maintain equity exposure. Shares of Verizon common stock can be held in proportion to the portfolio benchmark. The portfolio is typically rebalanced on a quarterly basis, or as necessary. At the time of each scheduled rebalancing, up to 10% of the value of the portfolio can consist of stocks outside of the Russell 1000 Index. Various portfolio attributes, including fundamental characteristics, number of securities held, and relative position size are monitored on an ongoing basis.

***Passive U.S. Equity Growth Portfolio.*** This is a passively managed portfolio consisting of all common stocks included in the Russell 1000 Growth Index. VIMCO's objective is to manage a passive U.S. equity growth portfolio at a lower cost than comparable external products, and at a risk level within ten basis points of the Russell 1000 Growth Index. The portfolio also seeks to track the return of the Russell 1000 Growth Index return by plus/minus fifteen basis points over one and three year periods.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing companies are included and that the represented companies continue to reflect growth characteristics. Overall risk levels are controlled along several parameters, including active risk and specific asset exposure. The portfolio will hold Russell 1000 Growth Exchange Traded Funds and/or Standard and Poor's futures contracts, as necessary, to accommodate cash requirements and maintain equity exposure.

The portfolio will be monitored for compliance with guidelines relating to active risk, individual securities weightings, cash holdings and percentage of exchanged traded funds in the portfolio on both an ongoing basis and during specific periods when trading activity is required

***Futures Funds (International, U.S. Small, U.S. Large, Fixed Income)*** These portfolios are utilized to adjust the overall asset allocation of pension and VEBA trusts clients. The portfolio invests in Commodities Futures Trading Commission ("CFTC") approved listed futures and options contracts in equities and fixed income, exchange traded funds (ETF's) and over-the-counter derivatives, including swaps. Notional value ceilings for the accounts are monitored at least quarterly.

### **THIRD PARTY INVESTMENT MANAGEMENT STRATEGIES**

VIMCO employs third party investment managers as both strategic partners and specialist managers to complement VIMCO's management of the Verizon pension trust and to manage the assets of the Verizon savings and VEBA trusts, Verizon's charitable foundation and captive insurance subsidiaries. Strategic partnerships with third party managers generally entail deeper relationships, involving multiple portfolios and an asset allocation component. Specialist managers, on the other hand, operate within specific parameters and with well-defined investment mandates.

## ***Strategic Partnerships***

Although formal strategic partners currently are used only with the pension trust, similar strategies are employed in the VEBA N partnership. In forming strategic partnerships with third party investment managers, VIMCO considers the following criteria:

- **Asset Allocation Capacity.** The manager must have a disciplined, systematic, and proven tactical asset allocation process and the ability to deliver a single portfolio solution.
- **Solid and Reliable Investment Products.** The manager must have demonstrated competitive advantages, style consistency (across sectors, cap ranges, components of return), and solid risk management controls.
- **Long-Term Performance.** The manager must have strong long-term performance.
- **Global Organization and Similarity of Investment Philosophy.** The manager must be global in scale and be willing to provide a differentiated level of service.
- **Shared Resources.** The manager must be willing to periodically sponsor proprietary research projects with VIMCO and share knowledge, resources, technology, and data as required.
- **Reporting Capacity.** The manager must be able to deliver asset allocation reports and detailed performance and portfolio characteristics and other reports as requested by VIMCO.

Strategic partners may manage assets in separate or commingled accounts. VIMCO reviews, monitors and evaluates each strategic partner's performance, asset allocation and individual portfolio characteristics on an ongoing basis using formal reports and periodic meetings. Item 13 – Review of Accounts contains additional information regarding portfolio reviews.

## ***Specialist Managers***

Within each asset class, specialist third party investment managers complement the services provided to the portfolios managed internally by VIMCO and by the strategic partners. The asset classes using the services of the specialist managers include global large cap and small cap equities, emerging markets, fixed income, high yield and currency. Specialist managers may manage assets in separate or commingled accounts.

Specialist third party investment managers are used with the pension trust, Verizon savings and VEBA trusts, Verizon's charitable foundation and captive insurance subsidiaries. In determining whether to allocate client assets to a specialist third party investment manager, VIMCO considers the following criteria:

- **Management Team.** The specialist manager must have an experienced, proven portfolio manager and analyst team.
- **Organization.** VIMCO must have confidence in the external manager's organization, portfolio construction process, and resource allocation.
- **Compliance and Risk Controls.** VIMCO must be satisfied in terms of the risk controls, compliance with investment guidelines, and reporting requirements.
- **Performance.** A specialist manager's short- and long-term performance track record must be in line with expectations. VIMCO utilizes numerous analytical tools, which provide detailed assessments of portfolio returns under a variety of market conditions.
- **Compatibility.** The specialist manager's investment philosophy, style, portfolio construction, and other internal processes must be compatible with VIMCO and the client
- **Fee structure.** The specialist manager's fee must be competitive, as determined by VIMCO taking into consideration all of the above criteria.

VIMCO reviews, monitors and evaluates each specialist manager's performance, asset allocation and individual portfolio characteristics on an ongoing basis using formal reports and periodic meetings.

## **ABSOLUTE RETURN AND CASH OVERLAY STRATEGIES**

Absolute return strategies are currently implemented in the pension trust, savings trusts, and VEBA trusts. VIMCO may invest a portion of the assets in a variety of directional and non-directional strategies managed by third party investment managers that are designed to take advantage of specific investment opportunities in areas such as global macro, event driven, equity hedged, and relative value. The strategies in aggregate seek to outperform LIBOR by 400 basis points over a market cycle.

## **PRIVATE EQUITY, REAL ESTATE AND NATURAL RESOURCES PORTFOLIOS**

VIMCO invests in private equity, real estate and natural resources portfolios for the pension trust and recommends private real estate and Real Estate Investment Trust portfolios for the savings trusts. VIMCO may allocate client pension trust assets to private equity funds, real estate partnerships and separate account investments to build a diversified portfolio of domestic and international buyout, venture capital, natural resources and real estate investments. These investments are diversified by stage, type, industry and location. In selecting investments, VIMCO looks for a consistent performance record and strong management.

## DIRECT PRIVATE EQUITY INVESTMENTS

VIMCO may invest pension trust assets in privately-held joint ventures, limited liability companies and partnerships to build a diversified portfolio of equity, real estate and debt investments. Over time, no more than 30% of the specific private equity or real estate investment portfolios are invested in a single industry or property market. Focus industries include, but are not limited to, manufacturing, consumer products, communications, financial services, household products, food and retail. VIMCO's real estate focus is on retail, multi-family, industrial, office, hotel, senior housing and other assets with real estate characteristics, such as land. In selecting investments, VIMCO looks for a reasonable acquisition price, a consistent operating record or expected results, and strong management.

## INVESTMENT RISKS

Investing in securities involves risk of loss that clients should be prepared to bear. The material risks associated with the strategies discussed in this brochure are discussed below.

**Market Risk** Market risk refers to the risk related to investments in securities in general and the daily fluctuations in the securities markets. A client's investment is affected by many factors, including fluctuation in interest rates, the quality of the instruments in the client's investment portfolio, adverse national and international economic conditions and general market and economic conditions.

**Equity Risk** The value of equity securities can fluctuate — at times dramatically. The prices of equity securities are affected by various factors, including market conditions, political and other events, and developments affecting the particular issuer or its industry or geographic sector.

**Management Risk** The risk that VIMCO's judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security, investment manager or private equity investment may be incorrect. There is no guarantee that individual companies will perform as anticipated.

**Small Cap and Mid Cap Company Risk** Investments in small and mid capitalization companies involve greater risks than investments in larger, more established companies. These companies may not have the size, resources or other assets of large capitalization companies, and may experience higher growth and higher failure rates than do larger companies. Because they may have limited product lines and financial resources, small and mid capitalization companies also may be more vulnerable to economic, market and industry changes. As a result, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**Foreign Investment Risk** Foreign investing involves risks not typically associated with U.S. investments. These risks include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting a foreign

country. In addition, foreign investing involves less publicly available information, and more volatile or less liquid securities markets. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws, and potential difficulties in enforcing contractual obligations. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**Sovereign Debt Risk** Sovereign debt securities are issued or guaranteed by foreign governmental entities. These investments are subject to the risk that a governmental entity may delay or refuse to pay interest or repay principal on its sovereign debt (for example, due to cash flow problems, insufficient foreign currency reserves, political considerations, the relative size of the governmental entity's debt position in relation to the economy or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies). If a governmental entity defaults, it may ask for more time in which to pay or for further loans. There is no legal process for collecting sovereign debts that a government does not pay, nor are there bankruptcy proceedings through which all or part of the sovereign debt that a governmental entity has not repaid may be collected.

***Emerging Markets Risk*** The securities markets in emerging market countries are less developed and less liquid, and may be subject to greater price volatility. These countries may have relatively unstable governments and deficiencies in regulatory oversight, market infrastructure, shareholder protections and company laws that could expose investors to risks beyond those generally encountered in developed countries. In addition, profound social changes and business practices that depart from norms in developed economies have hindered the orderly growth of emerging economies and their markets in the past and have caused instability. Countries in emerging markets are also more likely to experience high levels of inflation, deflation or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative.

***Pooled Investment Risk*** Clients invested in hedge funds and other pooled investment funds will indirectly bear fees and expenses charged by the underlying investment funds. Clients also may incur brokerage costs when purchasing exchange traded funds and closed-end funds.

***Interest Rate Risk*** Fixed income securities increase and decrease in value based on changes in interest rates. If interest rates increase, the value of fixed income securities will decline. Conversely, if interest rates decline, the value of fixed income securities generally increase. Securities with longer maturities tend to produce higher yields, but are more sensitive to changes in interest rates and are subject to greater fluctuations in value.

***Credit Risk*** The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. This could result in a loss to the investor.

**High Yield Securities Risk** High yield securities provide greater income and opportunity for gain, but entail greater risk of loss of principal. High yield securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. These securities may be issued by companies which are highly leveraged, less creditworthy or financially distressed. Although these securities generally provide a higher yield than higher-rated debt securities, the high degree of risk involved in these securities can result in substantial or total losses. The market for high yield securities is generally less active than the market for higher quality securities and the market price of these securities can change suddenly and unexpectedly.

**Government Securities Risk** These securities may be backed by the credit of the U.S. Government as a whole or only by the credit of the issuing agency. U.S. Treasury bonds, notes, and bills and some agency securities, such as those issued by the Federal Housing Administration and Ginnie Mae, are backed by the full faith and credit of the U.S. Government as to payment of principal and interest and are the highest quality government securities. Other securities issued by U.S. Government agencies or instruments, such as securities issued by the Federal Home Loan Banks and Freddie Mac, are supported only by the credit of the agency that issued them, and not by the U.S. Government. Securities issued by the Federal Farm Credit System, the Federal Land Banks, and Fannie Mae are supported by the agency's right to borrow money from the U.S. Treasury under certain circumstances, but are not backed by the full faith and credit of the U.S. Government. If an U.S. Government agency or instrument defaults and the U.S. Government does not stand behind the obligation, investors could lose money.

**Counterparty Risk** Similar to credit risk, counterparty risk refers to the risk that a party to a transaction will default on its obligations, resulting in missed or delayed payments.

**Prepayment and Call Risk** The issuer of mortgage-backed and asset-backed securities and other callable securities may repay principal in advance, especially when interest rates fall. When mortgages and other obligations are prepaid, a third party investment manager may have to reinvest in securities with lower yields. Some asset-backed securities also may be insufficiently collateralized.

**Derivatives Risk** Derivatives may be more sensitive to changes in economic or market conditions than other types of investments. The successful use of futures and options depends on the availability of a liquid secondary market to enable the position to be closed on a timely basis. There can be no assurance that such a market will exist at any particular time.

**Structured Instrument Risk** Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. Although structured instruments may be sold in the form of a corporate debt obligation, they may not have some of the protection against counterparty default that may be available with publicly traded debt securities.

**Currency Risk** Foreign currencies may fluctuate in relative value to the U.S. dollar, adversely affecting the value of an investment and its returns. Client assets are valued in

U.S. dollars. Clients may lose money if the local currency of a foreign market depreciates against the U.S. dollar, even if the market value of the client's holdings appreciates.

**Real Estate Risk** Investing in real estate entails a variety of risks, including possible declines in the value of a property due to a deterioration of general and local economic conditions or overbuilding, a possible lack of availability of mortgage funds, changes in interest rates and environmental problems. As a property owner, clients also may be liable for accidents or events occurring on property, even if the accident or event results from unauthorized use. Real Estate Investment Trusts (REITs), although not a direct investment in real estate, are subject to many of the same risks associated with investing directly in real estate. The value of equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while the value of mortgage REITs may be affected by the quality of any credit extended. An investment in REITs also may involve risks similar to those associated with investing in small capitalization companies, as previously discussed.

**Legal Risk** Some investing strategies involve activities that may give rise to legal liabilities. For example, the owners of real estate or companies in the transportation, shipping, or construction industries may be liable for actual or potential harm to people, wildlife or the environment from, among other things, effluents, emissions, wastes, and resource depletion, arising out of or occurring in connection with a company's activities. Investors in such companies may see a decline in the value of their investment or may, in some cases, be held personally liable.

**Liquidity Risk** Liquidity risk exists when VIMCO is required to liquidate investments to meet a client's pension funding obligations. VIMCO may be required to sell a security at a disadvantageous time or at a price lower than it otherwise would expect to receive. In addition, certain investments, such as real estate and private funds, may be difficult to sell, thereby requiring VIMCO to sell liquid investments that it would otherwise wish to retain. Finally, when VIMCO liquidates a position to satisfy a client's pension funding obligation, the client foregoes any potential future appreciation in the value of the liquidated position.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of VIMCO or the integrity of VIMCO's management. VIMCO has not been subject to any legal or disciplinary events that were material to a client's evaluation of VIMCO or the integrity of VIMCO management.

## **Item 10 – Other Financial Industry Activities and Affiliations**

VIMCO is the managing member of the general partner of VEBA Partnership N LP, a limited partnership in which assets of the VEBA trusts are invested. The investments of the limited partnership are managed by third party investment managers chosen by VIMCO. The third party investment managers are not affiliated with VIMCO and VIMCO does not receive a management fee or any other compensation from either the partnership or any of the third party investment managers in connection with the investment.

VIMCO is affiliated with, and provides advisory services to, Verizon’s captive insurance subsidiaries.

As mentioned in Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss, VIMCO selects third party investment managers to provide advisory services to its clients. In selecting the third party investment managers that will serve as strategic partners, VIMCO considers whether the manager is willing to periodically sponsor proprietary research projects with VIMCO and share knowledge, resources, technology, and data. This resource sharing may create a potential conflict of interest for VIMCO. To mitigate this conflict, VIMCO has constructed rigorous due diligence, monitoring, review and reporting procedures to ensure that strategic partners meet performance and compliance benchmarks, regardless of the quantity and quality of the research and other resources provided by the third party investment managers.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **SUPPLEMENTAL CODE OF CONDUCT AND PERSONAL TRADING**

VIMCO personnel may on occasion invest in the same securities (or related securities) that are held in one or more of the portfolios managed by VIMCO. VIMCO has adopted a Supplemental Code of Conduct that prohibits directors, officers, and employees of VIMCO from front running the portfolio’s managed by VIMCO or otherwise trading in securities in a manner that conflicts with VIMCO’s and each VIMCO employee’s duty to clients.

VIMCO maintains a list of securities that no VIMCO employee, other than an exempt employee<sup>1</sup> may purchase or sell for their personal account (“Restricted List”). These

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<sup>1</sup> In order to be designated as a VIMCO Exempt Employee, a VIMCO employee shall be a person who has been designated as a director or officer of VIMCO to perform non-investment functions and who (i) does not have

securities include private offerings in which VIMCO and/or a VIMCO client is an investor, as well as publicly traded securities that VIMCO intends to purchase or sell in any of the investment strategies directly managed by VIMCO. VIMCO considers it inconsistent with its obligations to its clients and with its own corporate interests to permit employees to participate in private placements in which VIMCO invests, or where VIMCO has access to nonpublic information. In addition, employee co-investment in these transactions could involve a variety of conflicts of interest with VIMCO or its clients (i.e., conflicts as to price and availability of securities, and priority of execution).

However, VIMCO employees may purchase securities on the Restricted List if the security is (1) issued by a company listed in the Russell 1000 Index; (2) a publicly traded security of a company with a market capitalization equivalent to that of companies listed in the Russell 1000 Index; or (3) a bond which has received either of the two highest quality ratings issued by Moody's or Standard & Poor's provided, that at the time of such purchase or sale, the employee has no material, nonpublic information nor any right to receive material, nonpublic information with respect to the company that issued the security or that might otherwise affect the value of the security. VIMCO employees also may purchase or sell for a personal account any security on the Restricted List which does not satisfy (1)-(2) above only with the prior written approval from the VIMCO compliance office.

In addition, no VIMCO employee with primary responsibility for selecting and monitoring the performance of third party investment managers or for allocating brokerage to brokers and dealers in securities transactions for VIMCO clients may, for their personal account, acquire or hold equity securities of a company of, or enter into transactions with such third part investment managers or broker-dealers. This rule is designed to prevent conflicts of interest in the selection and monitoring of third party investment managers and in the allocation of brokerage transactions by prohibiting VIMCO employees involved in the selection and monitoring processes from receiving or holding what might be or appear to be financial or personal inducements to favor a particular third party investment manager or broker or dealer.

Under the Supplemental Code of Conduct, each employee is required to file a quarterly report of all securities transactions involving the direct or indirect purchase or sales of securities, other than transactions in shares acquired through an automatic dividend reinvestment plan, U.S. Government obligations, open end mutual fund shares and securities transactions in connection with the employee's participant account(s) in Verizon employee benefit plans. This policy applies to securities (1) owned directly by a VIMCO employee; (2) owned by a VIMCO employee's spouse, any minor children and any other relatives (by marriage or otherwise) living in the VIMCO employee's home; (3) any security in which a VIMCO employee, a VIMCO employee's spouse, minor children or other relative living in the VIMCO employee's home has a beneficial interest; and (4) any security over

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an office on VIMCO's premises, (ii) does not have routine access to VIMCO's premises, (iii) does not have access directly or indirectly from or through VIMCO to any information used by VIMCO in making investment decisions, and (iv) does not influence or otherwise participate in any investment decisions made by VIMCO.

which a VIMCO employee or a VIMCO employee's spouse exercises control or investment influence. Each quarterly report is reviewed for compliance with the Supplemental Code of Conduct.

Clients may request a copy of the Supplemental Code of Conduct by contacting VIMCO at 908-559-5890.

## **TRADE ERRORS**

VIMCO attempts to resolve, or "break" all erroneous trades before the transactions settle. If an erroneous trade cannot be broken, the trade will be immediately corrected and VIMCO will absorb all costs, including any investment losses associated with the trading error. VIMCO is prohibited from using a client's account to absorb trading error costs, including investment losses of that client or any other client. Investment gains from trade errors generally will be left in a client's account (unless, for example, undesired tax consequences would occur or the account would be out of policy guidelines).

## **Item 12 – Brokerage Practices**

### **BROKER SELECTION AND BEST EXECUTION**

VIMCO utilizes various broker-dealers to execute, settle and clear securities transactions. In selecting broker-dealers to effect portfolio transactions, VIMCO's primary consideration is the broker-dealer's ability to provide best execution of trades. In making a decision about best execution, VIMCO considers a number of factors including, but not limited to, (1) the broker-dealer's trading methods and marketing knowledge, access to liquidity, quality and efficiency of execution, commission rates, operational reliability and financial responsibility; (2) special execution capabilities and expertise; (3) block trading and positioning capabilities; (4) willingness to execute related or unrelated difficult transactions in the future; and (5) willingness to resolve errors. VIMCO also considers the length of the relationship; custody, recordkeeping or similar services a broker-dealer may provide; and any research or brokerage services provided by the broker-dealer.

VIMCO analyzes the performance of each broker-dealer executing transactions for client accounts. Periodically, VIMCO meets with broker-dealers to review the overall level of service received in executing client transactions. VIMCO also uses an independent third party to periodically review and evaluate each broker-dealer's execution performance.

## **RESEARCH AND OTHER SOFT DOLLARS BENEFITS**

VIMCO has not entered into any commitments or understandings to trade with specific broker-dealers, direct a minimum number of transactions to specific brokers-dealers, or generate a specified level of brokerage commission with any particular broker-dealer, in order to receive brokerage or research services. These commitments or understandings are generally known as soft dollar arrangements. Certain brokers-dealers through whom VIMCO executes trades may provide VIMCO with unsolicited proprietary research (i.e., research created or developed by the broker.) This research is used for all VIMCO client accounts, even though certain clients may not have paid direct commissions to the broker-dealers who provided the research. This research may include a wide variety of reports, charts, publications or proprietary data on economic and political strategy, financial and economic studies and forecasts, credit analysis, analysis concerning specific securities, companies or industry sectors or stock and bond market conditions and projections. In addition to unsolicited research, certain brokers-dealers may provide invitations to attend conferences and meetings with management representatives of issuers or with other analysts and specialists. Brokerage services could include use of pricing services and proprietary order management systems.

Receipt of research or brokerage services from broker-dealers who execute client trades involves conflicts of interest. When VIMCO obtains brokerage or research products or services, it does not have to produce or pay for the research, products or services itself. This is a benefit to VIMCO. Consequently, VIMCO may have an incentive to select or recommend broker-dealers based on its desire to receive brokerage or research products or services, rather than a desire to obtain the most favorable execution, which is in the clients' best interest.

Broker-dealers providing research services, even on an unsolicited basis, may charge commissions for executing portfolio transactions that are higher than the amount of commissions that other brokers would charge for affecting the same transactions. VIMCO will execute portfolio transactions through these brokers only if it has determined that such brokers-dealers provide best execution based on the factors described above.

### **Item 13 – Review of Accounts**

The activities of external third party investment managers, including open and closed-end investment companies, hedge funds, real estate investment trusts and master limited partnerships, are reviewed periodically by VIMCO. Periodic meetings with third party investment managers to discuss performance, organizational characteristics and investment strategies are conducted under the direction of VIMCO's Vice President of Public Markets and Vice President of Private Markets.

VIMCO provides monthly written performance reports on all internally managed or supervised portfolios. The monthly reports discuss investment results in absolute and

relative terms, and provide comparisons with the appropriate benchmarks. Comparisons with peer accounts are generated on a quarterly basis.

Performance reports for the pension and VEBA trusts, savings trusts and Verizon's charitable foundation and captive insurance subsidiaries are reviewed monthly, quarterly and annually, as applicable, by Verizon's Chief Financial Officer, Verizon's Assistant Treasurer, Employee and Executive Benefits Committees and Verizon's Board of Directors, as well as the Board of Directors of the Verizon Foundation.

## **Item 14 – Client Referrals and Other Compensation**

Other than the compensation described in Item 5 – Fees and Compensation, VIMCO does not receive an economic benefit from anyone other than its clients for advisory services.

## **Item 15 – Custody**

VIMCO does not provide custodial services to its clients.<sup>2</sup> Client assets are held with banks, registered broker-dealers or other “qualified custodians.” Clients receive statements directly from the qualified custodians at least quarterly. Clients are urged to carefully review those statements and compare the custodial records to the reports provided by VIMCO. The information in VIMCO's reports may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

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<sup>2</sup> VIMCO is considered under rule adopted by the Securities and Exchange Commission to have “custody” of assets of the limited partnerships and limited liability companies for which it is the general partner and managing member, respectively. VIMCO established the limited partnership of which it is general partner as an investment vehicle for certain of the VEBA Trusts of Verizon Communications Inc. A master trust or group trust structure is not available under the law to permit the assets of several VEBAs of a single plan sponsor to be invested in common. The partnership permits certain of VIMCO's VEBA Trust clients to pool their assets for investment purposes and to limit the liability of each VEBA Trust partner to the amount it has invested. VIMCO established two limited liability companies of which it is managing member in order to invest certain assets of two Verizon Savings Plans in structures insure that the client's liability to loss is limited to the amounts invested. The limited liability company assets are each invested in a single investment; a commingled fund in one case and a separate account in the other. All investments of the partnership and limited liability companies are managed by third party investment managers that are registered investment advisers and all assets are held by qualified custodians. VIMCO also is deemed to have custody because it debits advisory fees directly from client accounts. However, physical custody of client assets is maintained by unaffiliated qualified custodians.

## **Item 16 – Investment Discretion**

VIMCO accepts discretionary authority to manage assets in a client's account and make all investment decisions with respect to the type and amount of securities to be bought or sold in an account without obtaining client consent. In all cases, however, such discretion is exercised in a manner consistent with a client's stated investment objectives, policies and restrictions. Investment guidelines and restrictions must be provided to VIMCO in writing at the outset of the advisory relationship.

VIMCO also has full discretion and authority to select broker-dealers to execute portfolio transactions, subject to applicable law, and to determine the commission rates to be paid to such broker-dealers. VIMCO's brokerage practices are discussed in more detail in Item 12 – Brokerage Practices.

## **Item 17 – Voting Client Securities**

VIMCO does not accept authority to vote proxies. All proxies held in internally managed investment portfolios are voted by trustees of the pension trust in accordance with VIMCO's proxy voting policy. Proxies related to securities managed by third party investment managers are voted by the third party manager in accordance with proxy voting guidelines approved by VIMCO.

A copy of VIMCO's proxy voting policies and procedures is available upon request by contacting VIMCO at 908-559-5890.

## **Item 18 – Financial Information**

Registered investment advisers are required to provide clients with financial information or disclosures about their financial condition in this Item. VIMCO has no financial commitments that impair its ability to meet contractual and fiduciary commitments to its clients and has never been the subject of a bankruptcy proceeding.