09-CV-00041-WDM-BNB

APPENDIX I

The following criteria are the specific conditions and security guidelines for the Investment Manager.

For Morgan Stanley Investment Management Inc.:

1. The Benchmark shall be 42% in the Barclays Capital US Intermediate Government / Credit Index and 58% in the Barclays Capital US Municipal 1 to 10-year Index

2. In addition to the sectors represented in the benchmark, permissible fixed income sectors are:

   a. US Agency-backed mortgage pass-through securities
   b. Treasury Inflation Protected securities (TIPS)
   c. Cash or short term liquid investments, rated A1/P1 or higher, with final maturities less than one year
   d. Securities with maturities greater than 10 years that are in sectors that are in the benchmark.

   No more than **25%** of the portfolio value may be invested in securities in this section

3. The Adjusted Duration of the portfolio will have a range of +/- 1.0 years versus the benchmark.

4. All securities must be rated investment grade at purchase. Investment grade ratings are considered to be all rating categories at or above BBB- or Baa3, as assigned by a nationally recognized statistical rating organization. In the case of a split rating, the NAIC rules (the second highest rating) will be used. In the event of a downgrade of a security to below investment grade, the manager will inform COPIC immediately.

5. Subject to the above limitations, the following are permitted investments: securities issued under Rule 144A; and Yankee and Euro issued securities.

6. <u>Tracking Error:</u>

   The portfolio will be actively managed. In order to manage investment risks, the Investment Manager will seek to maintain a prospective annualized tracking error versus the benchmark of less than 150 basis points (bps) per year as measured by a quantitative analysis system chosen by the Investment Manager. The Investment Manager will notify the client if the prospective tracking error exceeds 150 bps

PLAINTIFF'S EXHIBIT 1

per year. The Investment Manager may suggest to the client that no action be taken. If the client does not consent to leave the prospective tracking error higher than 150 bps, the Investment Manager must take steps to bring it below 150 bps in a manner and timing of its discretion.

COPIC will monitor the tracking error of the portfolio by calculating the annualized standard deviation of the differences of the monthly returns of the actual portfolio and the benchmark portfolio, calculated on rolling 18 month time periods. COPIC will notify Investment Manager when the realized tracking error exceeds 150 bp per annum and discuss with the Investment Manager what, if any, action should be taken.

The Investment Manager makes no representation that prospective tracking error provided to it by the quantitative analysis system it chooses to utilize will translate to any particular level of realized tracking error. COPIC acknowledges that whatever actions the Investment Manager takes to control prospective tracking error, realized or retrospective tracking error may be greater than 150 bps, and the Investment Manager will not be held liable for failure to meet any realized tracking error target.

7. Exceptions will require written approval from COPIC.

From: Hwang, Gerald (IM) [Gerald.Hwang@morganstanley.com]
Sent: Sunday, December 09, 2007 6:36 PM
To: Delimbeis, Kostas (Client Service)
Subject: FW: COPIC Ins #1002 revised guidelines

kostas-
did the new guidelines come through one of your contacts at copic? i don't recall seeing it at all. thx

---

From: DeMatte, Lisa (IM)
Sent: Wednesday, December 05, 2007 2:33 PM
To: Stone, Neil (IM); Hwang, Gerald (IM); Kreider, Steven (IM)
Cc: mas.fix.traders
Subject: COPIC Ins #1002 revised guidelines

COPIC #1002 has revised their guidelines as follows:

modified adjusted duration 80%-120% of bm dur (was +/- 1.5 yrs vs. bm)
AA- avg credit quality (was A-)
A- min rating ABS / muni (was BBB-)
no risky mbs (was 5% max)
yankees permitted (was no yankees)
no equity (was $50 million max)

Neil & Jerry- A few questions-
1. Is preferred still permitted? It was explicitly listed as such under old guidelines.
2. ABS is now limited to a min of A-, do you think that we should move MBS to this minimum as well?
3. I'm assuming that COPIC is limiting us to a 30% BBB basket, but language is ambiguous. Can you please clarify?
(see pg 20, #2) Also, assuming that the min rating is BBB- (not mid BBB)- please confirm.
4. Due to guideline changes, we now have quite a few non-compliant issues. Are they considered grandfathered or do we need to sell? (I can give you a list, but basically 36 mbs positions (risky), 1 abs position and 9 munis)

Thanks,
Lisa

Lisa DeMatte - Vice President
Morgan Stanley | IM-Fixed Income
One Tower Bridge
100 Front Street | Suite 1100
West Conshohocken, PA 19428-2881
Phone: +1 610 260-7235
Lisa.Dematte@morganstanley.com

