Florida Prepaid College Board
Comprehensive Investment Plan
for the
Stanley G. Tate Florida Prepaid College Program
June 14, 2017

AUTHORITY

All investments made under this plan are made under the authority granted the Florida Prepaid College Board under Section 1009.973, Florida Statutes. All funds managed by the Board are funds of the State of Florida.

PURPOSE

The Stanley G. Tate Florida Prepaid College Program (the Program) is a program created pursuant to Section 1009.98 of the Florida Statutes to provide a medium through which the cost of a state postsecondary education may be paid in advance of enrollment at a rate lower than the projected corresponding cost at the time of actual enrollment. The Program is administered by the Florida Prepaid College Board (the Board), which was created pursuant to Section 1009.97 of the Florida Statutes.

The policy goals of this Comprehensive Investment Plan (CIP) are established as follows in the priority listed. These goals are:

1. Safety
2. Liquidity
3. Yield

The sole purpose of the investment program is to meet the forecasted actuarial liability projections. In pursuing the objective of meeting the forecasted liabilities, the primary policy goal is the safety in the Program's ability to meet the forecasted liabilities. The goals of safety must be met by the limitation of risk through portfolio allocation based on liability requirements, diversification within asset classes, credit quality guidelines and investment operating procedures.

A second and equally important portfolio objective is giving adequate consideration to the liquidity requirements necessitated by the Program obligations. Consideration will be given to investment maturities, investment income and funds receipts in calculating funds required for liquidity purposes.

After meeting safety and liquidity requirements, the goals of maximizing investment return will be met. Strategies will be employed to achieve the highest possible net returns within policy guidelines.

The investment strategy is designed to enable the Board to meet actuarially determined Program liabilities, calculated by an independent actuarial consultant firm, and approved by the Board, at the time of funding. By definition, responsibility for financing any divergence of actual liabilities from actuarial assumptions that may result in Program funding deficits belongs to the Legislature. The sole purpose of the Board's CIP is to outline the strategies to be employed to meet forecast actuarial liability projections, and to establish the guidelines under which each investment manager will operate.
ORGANIZATION

The Board retains ultimate responsibility for the development, execution and control of the CIP. The Board may delegate responsibility for the administration of the CIP to a Committee of the Board or a person duly chosen by the Board. This Committee or person shall ensure that Board policies are strictly followed and that investment procedures, which protect the financial assets of the Program, are in place and properly followed. The Committee will employ the services of a professional consultant to advise it in the pursuit of the investment objectives.

INVESTMENT MANAGEMENT

The Board will hire duly qualified investment managers to carry out the day-to-day investment responsibilities outlined in the CIP. Investment managers (product providers) will have investment discretion as to security selection subject to the guidelines and limitations expressed in the CIP and any manager-specific guidelines agreed upon between the Board and manager.

REPORTING

The Executive Director will cause detailed quarterly reports and monthly flash reports of the investment portfolio structure and performance to be prepared for review by the Board.

To ensure that the Executive Director and the Board have the necessary information to discharge their oversight responsibility, the quarterly reports will include the following:

1. Performance Measurement and Attribution

Performance measurement of the Prepaid College Trust Fund (the Fund) shall be reported each quarter for the most recent completed quarter, fiscal year-to-date, most recent twelve-month period and cumulatively from inception showing returns on the assets compared to returns on the customized benchmark index, which approximates the Program’s liability requirements. Returns will be reported on a time-weighted basis.

- The performance of the total Fund will be compared against a benchmark comprised of market portfolios representing the underlying investment strategies and weighted in accordance with the Program’s asset allocation policy.

- Performance of each asset class will be shown along with an analysis of each manager’s contribution to the performance of the asset class.

- Performance of each investment manager and an attribution analysis of that manager’s performance will be shown in comparison to benchmarks appropriate to their investment strategy.
  
  - Fixed Income attribution will include such factors as the effects of changes in interest rates, and sector and quality decisions.
  
  - Equity attribution will include such factors as sector and industry weights, beta, company size, yield and growth in earnings.
The performance of each equity manager will also be evaluated relative to a universe of its peers managing similar portfolios and following a similar investment style.

Returns for each manager and the overall Fund will also be evaluated on a risk-adjusted basis.

- For individual managers, the risk measurement will be expressed relative to appropriate benchmarks.
- For each asset class and the overall Fund, the risk measurement will take into consideration any deviation from asset allocation policy and the impact on the funded status of the Program’s liabilities.

2. Compliance and Monitoring

- Asset allocation of the Fund and diversification within each asset class will be reported to ensure allocation guidelines are met.

- Projection of sources and uses of funds will be reported to ensure liquidity requirements are met.

- Investment asset holdings will be reported and monitored monthly to ensure investment only in authorized vehicles.

- Each manager will certify monthly that their portfolio is in compliance with the terms of this CIP and their specific investment mandate. Any exceptions to policy will be noted and a statement provided indicating the steps to be taken to bring the portfolio back into compliance with the policy.

- Each manager will be monitored based upon the performance objectives outlined in this CIP.

- Each manager shall immediately disclose to the Board in writing any instance which a member of the investment manager’s Board of Directors, an officer of the investment management firm, or a member of the portfolio management staff is also a member of the Board of Directors, an officer of, or a significant shareholder of 5% or more in stocks of a company in which they propose to invest Board funds. In addition, the Board’s investment consultant and the trustee/custodian shall annually certify that no conflicts of interest exist with respect to the services they provide to the Program and shall annually provide the Board with a copy of the firm’s policy governing conflicts of interest. The requirements of this paragraph do not apply with respect to the common stock of the manager responsible for investment of the large capitalization core domestic equity portfolio (or the common stock of the manager's holding company) when the manager's common stock (or that of its holding company) is included in the S&P 500; provided that, prior to the initial purchase of the manager’s common stock (or that of its holding company), the manager notifies the Board in writing that the manager's common stock (or that of its holding company) is included or has been included, in the S&P 500.

- Commingled or Mutual Funds - The Board may approve the use of pooled vehicles such as mutual funds or commingled funds to achieve the objectives and asset allocation strategy with the understanding that the investment policy stated in the mutual fund’s prospectus or the commingled fund’s participation agreement supersedes the guidelines set forth in this CIP.
AUTHORIZED INVESTMENT VEHICLES

Funds managed by the Board may be placed in the following accounts or investments:

1. Deposit accounts and certificates of deposit in banks.
2. Obligations of the United States Treasury, including Treasury Inflation Protection (TIPs) bonds.
3. Obligations of agencies of the United States Government (not restricted to full-faith and credit obligations).
4. Commercial paper of prime quality of the highest letter and numerical rating established by a nationally recognized rating service.
5. Bankers' acceptances that are accepted by a member bank of the Federal Reserve System.
6. Corporate debt obligations, preferred stock, mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities, provided the obligations meet the minimum credit criteria set forth elsewhere in this CIP.
7. Municipal securities including Build America Bonds (BABs), limited to General Obligation or Essential Services bonds, provided the obligations meet the minimum credit criteria set forth elsewhere in this CIP.
8. Institutional investment products including fixed annuities, variable annuities and guaranteed insurance contracts that are obligations of United States insurance companies.
9. Common stocks traded on domestic exchanges, including over-the-counter markets and recognized third and fourth markets.
10. Common stocks of foreign-domiciled companies traded on non-U.S. exchanges including over-the-counter markets.
11. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
12. Commingled investment funds and mutual funds.
13. American Depositary Receipts, 144(a) securities (with and without registration rights), and non-corporate bonds (including supranationals, sovereign and foreign bonds issued in USD).
14. Exchange Traded Funds (ETF’s) traded on domestic exchanges, so long as consistent with the investment mandate, and guidelines.
15. Mortgage TBAs (“To Be Announced”) securities. These securities require an equivalent amount of cash equivalents set aside for future settlement of the forward agreement.
16. Derivatives: In general, the following uses of derivatives are approved for portfolio management purposes, although specific written permission must be granted to each manager on a case-by-case basis in formal written account guidelines.

- Substitute for physical
- Duration management
- Risk control
- Foreign currency hedging

Before a derivative security or derivative strategy is used by an investment manager, one or more of the following benefits must be demonstrated to the Board:

- Increased liquidity.
- Stabilized and enhance portfolio returns.
- Lower transaction costs, including market impact costs.
- Reduction in the time required to change the mix of the portfolio.

Before any such derivative strategy is used by an Investment Manager, written permission for such use must be obtained from the Executive Director of the Prepaid Board.

Investment managers must keep in mind at all times the Board’s preference for safety and liquidity.

**PROHIBITED INVESTMENT VEHICLES AND GENERAL INVESTMENT RESTRICTIONS**

1. Short selling of securities is prohibited.

2. Maximum investment in the securities of any issuer, except U.S. Treasury, Agency, Agency Mortgage-Backed Securities, or repurchase agreements collateralized by U.S. Treasury or Agency securities, is the greater of 5% of the market value of the total Fund, or 2% greater than the appropriate benchmark weight.

3. Debt obligations and preferred stock may not be rated less than Baa3 by Moody’s, or BBB- by Standard & Poor’s or Fitch at the time of purchase. Split-rated bonds will be governed by the Barclays Capital Index Inclusion Rules across the three rating agencies. Debt obligations with Expected Ratings are permissible unless the Actual Rating causes the security to be out of compliance with the above guideline.

4. The following derivative strategies and derivative instruments are considered inappropriate and therefore not permitted for use in the managing of assets for the Florida Prepaid College Program.

- Derivatives use for speculative purposes.
- Derivatives that leverage the account.
- Commodity options, swaps or other derivatives based on commodities.
ASSET ALLOCATION POLICY

The Fund shall maintain an asset allocation such to maximize the probability of meeting the Program’s liabilities over the long term. An asset / liability study shall be conducted once every five years, and more often if warranted by a material change in the underlying liabilities or the investment environment. Taking into consideration the results of the asset liability study and the recommendations of the Program’s consultants, the Board will adopt an asset allocation which properly reflects its attitude towards the balancing of risk and return. The Board at this time has adopted an asset allocation policy which limits the amount of equities to fifteen percent (15%) of the market value of the total Fund, or the most current actuarial reserve balance as determined by the Board’s actuary, whichever is less. The Fund's principal objective in asset allocation is that of asset/liability matching. An immunized fixed income strategy emphasizing zero coupon U.S. Treasury issues is the dominant investment strategy employed to meet these goals. Other fixed income investments may be used in limited amounts to seek incremental yield. Actuarial reserve assets may be invested in other asset classes as directed by the Board.

The benchmarks for monitoring investment performance of the total Fund and asset class level shall be:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Allocation</th>
<th>Range</th>
<th>Corresponding Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund</td>
<td></td>
<td></td>
<td>A policy-weighted blend of the Customized Equity and Immunized Fixed Income Benchmarks</td>
</tr>
<tr>
<td>Equities</td>
<td>Actuarial Reserve</td>
<td>0 – 15%</td>
<td>80% Russell 3000 and 20% MSCI EAFE</td>
</tr>
<tr>
<td>Immunized Fixed Income</td>
<td>Up to 100%</td>
<td>85 – 100%</td>
<td>Customized Benchmark</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>0 – 5%</td>
<td>90-day US Gov't T-bills</td>
</tr>
</tbody>
</table>

The Customized Fixed Income Benchmark will be reconstituted annually using the June 30 liability profile as determined by the Program’s actuary. The duration of the benchmark and the pattern of its cash flows will mirror that of the Program’s liabilities. The benchmark is comprised of United States Treasury Strip securities, Bloomberg Barclays Capital U.S Corporate Index, and Bloomberg Barclays Capital U.S. Mortgage-Backed Securities Index, and other Authorized Investment Vehicles as defined in the CIP.

At no time shall the allocation to the fixed income segment of the Fund be less than at a fully funded status net of projected payments from participants. That is, the fixed income segment shall always be greater than or equal to the total Fund value or actuarial liability minus projected cash flows from the participants, whichever is less.

The total equity segment of the Fund, and each of its components shall be constructed using one or more investment manager or products such that in the aggregate the equity component is capitalization and style neutral to its corresponding Customized Equity index.
Based on the market values of the total Fund as of June 30th as determined by the Board’s actuary and after approval by the Board, the allocation of fixed income and equity will be rebalanced no later than September 30th of each year, in order to have the equity component equal fifteen percent (15%) of the total Fund, or the actuarial reserve balance, whichever is less.

In the fixed income segment and subject to Board direction, the allocation to the managers will be rebalanced so that in aggregate the segment is consistent with the customized benchmark.

In the equity segment and in the absence of strong evidence supporting a deviation from these baseline allocations, and subject to Board direction, the allocations to each style and market capitalization of management will be rebalanced in a manner designed to minimize portfolio impact, including transaction costs.

In order to accommodate asset value fluctuations due to short-term economic or market conditions, the asset allocation of the equity segment can vary among asset categories within the ranges noted above. At a minimum, the Board will review the asset allocation and the equity segment targets on a quarterly basis and will make a determination as to whether to rebalance at that time.

In developing this asset allocation policy, the total Fund has been designed to be fully invested, and thus no portion of the Fund has been targeted for cash. However, managers may raise cash balances in accordance with their individual investment guidelines. In the course of operations the Board may deem it appropriate to maintain a cash balance outside of the managers' portfolios in order to meet the Program's liquidity and allocation needs.

**MANAGER SELECTION AND EVALUATION**

The Board has elected to employ multiple investment managers with complementary investment skills and/or styles. As part of this multi-manager structure, managers are hired for their expected contribution to the overall portfolio performance over the various market cycles based on their style, stated strategy, and asset mix. Therefore, the Board shall evaluate manager performance over a sufficient time horizon, and in the context of the prevailing market environment, in order to properly assess each manager's contribution to the overall portfolio. In general, a three or more year period of time will be used to evaluate a manager’s success or failure at attaining agreed-upon goals. On an interim basis, portfolio risk and investment performance will be monitored continually to ensure that the management of Program assets remains consistent with the style and objective for which the manager was retained.
At a minimum, investment manager reviews will include a quarterly quantitative performance review conducted by the consultant. Specific evaluation criteria are stated in the investment guidelines that have been individually prepared for each manager pursuant to their specific role in the Program's multi-manager strategy. As necessary, the evaluation may also include an annual site visit to review each portfolio manager's operations. This portion of the evaluation will be conducted by a member of the Board or the Investment Committee, as may be designated either by the Board or the Investment Committee.

IMPLEMENTATION

All money invested for the Program by the investment managers after the adoption of this Comprehensive Investment Plan shall conform to this Statement.

The following guidelines have been established: (1) to ensure that the manager continually adheres to all regulations administered by any regulatory authority charged with oversight responsibility; (2) to limit the Fund's exposure to unintended risk; (3) to ensure that the manager maintains the style of management for which they were retained; and (4) to provide objective, reasonable criteria to the manager of the Board's expectations.
PART I
PASSIVE FIXED INCOME
INVESTMENT GUIDELINES

OBJECTIVE

The Board has chosen to employ a multi-manager fixed income investment strategy. In order to reduce the relative volatility of the actively managed portfolios and control overall investment management costs, an allocation to passive fixed income management is maintained. The objective of this component of the portfolio is to replicate the returns of the Customized Benchmark which consists of U.S. Treasury Strips, BC Corporate Index, and BC Fixed-Rate Mortgage-Backed Index.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times.

PASSIVE FIXED INCOME GUIDELINES

1. The portfolio will be managed in a manner that protects the Program's funded status relative to changes in its projected liabilities due to changes in interest rates. Therefore, the primary purpose of the portfolio shall be on limiting actuarial reserve volatility.

2. The guidelines permit, within the framework and limitations of the broader CIP, all securities eligible for inclusion in the indices which comprise the Customized Benchmark.

3. The total duration of the portfolio shall not differ from the total duration of the benchmark by more than +/- one-quarter of one year.

4. The individual number of holdings in the portfolio shall be sufficient enough to minimize the near-term tracking error relative to the Customized Benchmark.

5. Sector allocations shall be made consistent with the sector weights within the Customized Benchmark.

6. Any cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.

RESTRICTED INVESTMENTS

1. The use of futures, options and swaps will be permitted subject to the restrictions imposed by “AUTHORIZED INVESTMENT VEHICLES” Paragraph 16.
PERFORMANCE OBJECTIVES

Manager performance shall be reviewed relative to the Customized Benchmark over any three or more year period of time, taking into consideration the following:

- The manager’s performance is expected to meet the Customized Benchmark.

- Tracking error measures the standard deviation of the differences between an investment manager’s return and the index return. A low tracking error indicates that the manager’s performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the Customized Benchmark of less than 10 basis points.
PART II
ACTIVE FIXED INCOME
INVESTMENT GUIDELINES

OBJECTIVE

Fixed income managers will be retained as part of a multi-manager investment strategy. Their function within this strategy is to manage an enhanced immunized fixed-income portfolio.

The enhanced immunization style of management shall mean that the manager shall immunize the liabilities of the Program by structuring the assets in such a way that the value of the Program's assets increase (decreases) in conjunction with increases (decreases) with the value of the liabilities due to the changes in interest rates. The manager shall be permitted to attempt to add value to the portfolio relative to the liabilities through modest duration and yield management and through active sector and security selection, to the extent permitted by this policy.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times. However, cash holdings may represent an integral part of the manager's desired portfolio structure. Therefore, for purposes of this constraint cash will be defined as securities with a duration of less than three months and manager shall be allowed a maximum cash position of not more than five percent.

ENHANCED IMMUNIZATION GUIDELINES

1. The portfolio will be managed in a manner that protects the Program's funded status relative to changes in its projected liabilities due to changes in interest rates. Therefore, the primary purpose of the portfolio shall be on limiting actuarial reserve volatility.

2. The total duration of the portfolio shall not differ from the total duration of the benchmark by more than +/- three-quarters of one year.

3. Investments in fixed income instruments can be made in sectors and securities as authorized in the CIP.

4. Sector allocations shall be made so that the portfolio is well diversified such that it meets its liability requirements.

5. The maximum investment for any issue, except U.S. Treasury, Agency, and Agency Mortgage-Backed Securities, is the greater of 5% of the portfolio market value or 2% greater than the security’s benchmark weight.

6. The maximum investment in Build America Bonds (BABs) is limited to 2% of the market value of the manager’s portfolio.

7. The maximum investment in 144(a) bonds without Registration Rights is limited to 3% of the market value of the manager’s portfolio.
8. Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.

9. The use of futures, options and swaps will be permitted subject to the restrictions imposed by “AUTHORIZED INVESTMENT VEHICLES” Paragraph 16.

10. A maximum allocation of 50% of the market value of the manager’s portfolio to corporate debt, asset-backed securities and mortgage backed securities is permitted. On a periodic basis, the Board may set a maximum and minimum allocation each to corporate debt, asset-backed securities and mortgage-backed securities.

RESTRICTED INVESTMENTS

1. Use of margin is prohibited except as may be required in the use of futures, options and swaps as permitted in subparagraph 9 of this section.

2. Other than futures, options and swaps, the use of derivative securities that have not been specifically approved by the Board in written form is prohibited.

3. Convertible securities shall not be considered for investment.

PERFORMANCE OBJECTIVES

Manager performance shall be reviewed relative to the customized benchmark over any three or more year period of time, taking into consideration the following:

- The active manager’s performance, net of fees, is expected to exceed the customized benchmark.

- The effectiveness of the manager's duration, sector and security allocations will be reviewed to determine if the manager has demonstrated, on a total return basis, the ability to add value above the benchmark.
OBJECTIVE

The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class using multiple styles of management. Large cap growth equity manager(s) may be retained as part of a multi-manager investment strategy. For purposes of this CIP, growth is a style that seeks to purchase stocks of companies, which offer the best combination of strong earnings growth and valuation. This allocation will be represented in the policy benchmark by the Russell 1000 Growth Index.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through the selection of securities and not through the timing of market movements. Therefore, during these time periods the manager shall be allowed to maintain a maximum cash position of only five percent. Asset allocation shall be determined based on the average position over any three month time period and shall operate within the following constraints set forth herein:

EQUITY INVESTMENT GUIDELINES

1. The Board prefers the manager to invest only in equity securities that have a publicly available operating history of at least three years. However, the manager can invest up to five percent of the portfolio in initial public offerings that have been spun off by a company for which there is an adequate history and that has at least $1 billion in market capitalization. Further, the parent must have been previously listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX) or have been traded on the National Association of Securities Dealer's Automated Quotation system (NASDAQ) or other recognized domestic exchange. If, through spin-offs or other activities of the companies held, the portfolio exceeds five percent of holdings with less than three years operating history, the manager will bring the portfolio into compliance within a six-month period.

2. The coefficient of determination (R^2) measures the percentage of total market-related risk that an investment manager has undertaken. Therefore, the manager shall maintain a coefficient of determination to the Russell 1000 Growth Index of not less than .80 over any rolling five-year time horizon calculated using monthly data. Until such time as the portfolio has sufficient historical data, the manager's reported monthly historical performance data, which shall be calculated in a manner consistent with Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.
3. Equity investments shall be made only in securities listed on a United States stock exchange or traded on NASDAQ in the United States or in other, recognized domestic markets.

4. Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.

RESTRICTED INVESTMENTS

1. Use of margin is prohibited.

2. Use of options, futures or any other type of derivative securities is prohibited.

3. Convertible securities shall not be considered for investment.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the Russell 1000 Growth Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the Russell 1000 Growth Index, taking into consideration the degree of risk.

- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.

- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.

- The manager’s tracking error relative to the Russell 1000 Growth Index is expected to rank below the highest quartile of managers in the Large Cap Growth peer group over rolling three year time periods.

Passive Managers
- The manager’s performance is expected to meet the Russell 1000 Growth Index.

- The beta of the portfolio over any three-year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.

- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the index of less than 25 basis points.
PART IV
LARGE CAP VALUE EQUITY
INVESTMENT GUIDELINES

OBJECTIVE

The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class. Large cap value manager(s) may be retained as part of a multi-manager investment strategy. For purposes of this CIP, value is a style that seeks to purchase stocks in companies generally exhibiting lower price/earnings, lower price/book and higher dividend yield than the average large cap equity. This allocation will be represented in the policy benchmark by the Russell 1000 Value Index.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through the selection of securities and not through the timing of market movements. Therefore, during these time periods the manager shall be allowed to maintain a maximum cash position of only five percent. During periods of market over-valuation, the manager may have difficulty in identifying solid companies that could be purchased within their value style of management. Therefore, asset allocation shall be determined based on the average position over any three month time period and shall operate within the following constraints set forth herein:

EQUITY INVESTMENT GUIDELINES

1. The Board prefers the manager to invest only in equity securities that have a publicly available operating history of at least three years. However, the manager can invest up to five percent of the portfolio in initial public offerings that have been spun off by a company for which there is an adequate history and that has at least $1 billion in market capitalization. Further, the parent must have been previously listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX) or have been traded on the National Association of Securities Dealer's Automated Quotation system (NASDAQ), or in other, recognized domestic markets. If, through spin-offs or other activities of the companies held, the portfolio exceeds five percent of holdings with less than three years operating history, the manager will bring the portfolio into compliance within a six-month period.

2. The coefficient of determination (R^2) measures the percentage of total market-related risk that an investment manager has undertaken. Therefore, the manager shall maintain a coefficient of determination to the Russell 1000 Value Index of not less than .80 over any rolling, five-year time horizon calculated using monthly data. Until such time as the portfolio has sufficient historical data, the manager's reported monthly historical performance data, which shall be calculated in a manner consistent with Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.
3. Equity investments shall be made only in securities listed on a United States stock exchange or traded on NASDAQ in the United States.

CASH AND SHORT TERM INVESTMENT GUIDELINES

Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.

RESTRICTED INVESTMENTS

1. Use of margin is prohibited.
2. Use of options, futures or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the Russell 1000 Value Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the Russell 1000 Value Index, taking into consideration the degree of risk.
- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.
- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.
- The manager’s tracking error relative to the Russell 1000 Value Index is expected to rank below the highest quartile of managers in the Large Cap Value peer group over rolling three year time periods.

Passive Managers
- The manager’s performance is expected to meet the Russell 1000 Value Index.
- The beta of the portfolio over any three-year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.
- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the index of less than 25 basis points.
PART V
LARGE CAP CORE
INVESTMENT GUIDELINES

OBJECTIVE

The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class. Large cap core manager(s) may be retained as part of a multi-manager investment strategy. For purposes of this CIP, core managers do not exhibit a style bias such as value or growth. This allocation will be represented in the policy benchmark by the S&P 500 Index.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times.

EQUITY INVESTMENT GUIDELINES

1. The Manager shall be permitted to invest in any securities which are a part of the S&P 500 without regard for the constraint within this policy prohibiting or restricting the ownership of companies with less than a 3 year publicly available operating history. If the Manager’s common stock (or the common stock of the Manager’s holding company) is included in the S&P 500, the Manager is permitted to purchase, retain and sell the Manager’s common stock (or the common stock of the manager’s holding company), consistent with the other requirements, guidelines, restrictions and performance objectives applicable to this portfolio under this Part V and the reporting requirements imposed on Managers.

2. The Manager shall be permitted to invest in any securities which are a part of the S&P 500 without regard for the preference within this policy for investments to be made in United States based corporations. There shall be no limit on the percent of the portfolio held in American Depository Receipts, provided those same companies are included in the S&P 500 as American Depository Receipts.

3. The use of futures as a substitute for physical investing, or to facilitate cash flows shall be permitted for this portfolio, provided the manager receives prior written approval from the Board. In order to obtain such approval, the manager must submit a written request to the Board, quantifying the net advantages that will accrue to the portfolio.

4. The Manager may temporarily invest in companies outside of the index in the case of additions or deletions, with the goal of minimizing tracking error and/or reducing trading costs.

CASH AND SHORT TERM INVESTMENT GUIDELINES

Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.
RESTRICTED INVESTMENTS

1. The use of futures will be permitted subject to the restrictions imposed by Paragraph 16 (entitled “Derivatives”) in the “Authorized Investment Vehicles” section.

2. Use of margin is prohibited except as may be required in the use of futures.

3. Convertible securities shall not be allowed for investment purposes.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the S&P 500 Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the S&P 500 Index, taking into consideration the degree of risk.

- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.

- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.

- The manager’s tracking error relative to the S&P 500 Index is expected to rank below the highest quartile of managers in the Large Cap Value peer group over rolling three year time periods.

Passive Managers
Manager performance shall be reviewed relative to the S & P 500, over any three to five year period, taking into consideration the following:

- The manager’s performance is expected to meet the S&P 500 Index.

- The beta of the portfolio over any three-year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.

- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the S&P 500 of less than 25 basis points.
OBJECTIVE
The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class using multiple styles of management. Mid cap equity manager(s) will be retained as part of a multi-manager investment strategy. For purposes of this CIP, this style seeks access to the mid-cap segment of the US equity universe. This allocation will be represented in the policy benchmark by the S&P MidCap 400 Index which represents the performance of mid-sized companies.

ASSET ALLOCATION
The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through the selection of securities and not through the timing of market movements. Therefore, during these time periods the manager shall be allowed to maintain a maximum cash position of only five percent. Asset allocation shall be determined based on the average position over any three month time period and shall operate within the following constraints set forth herein:

EQUITY INVESTMENT GUIDELINES
1. The Board prefers the manager to invest only in equity securities that have a publicly available operating history of at least three years. However, the manager can invest up to ten percent of the portfolio in initial public offerings of companies that have at least two years of audited financial statements and have been profitable (from continuing operations) for at least one of the last two years.

2. The coefficient of determination (R^2) measures the percentage of total market-related risk that an investment manager has undertaken. Therefore, the manager shall maintain a coefficient of determination to the S&P MidCap 400 Index of not less than .80 over any rolling five-year time horizon calculated using monthly data. Until such time as the portfolio has sufficient historical data, the manager's reported monthly historical performance data, which shall be calculated in a manner consistent with Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.

3. Equity investments shall be made only in securities listed on a United States stock exchange or traded on NASDAQ in the United States or in other, recognized domestic markets.

CASH AND SHORT TERM INVESTMENT GUIDELINES
Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.
RESTRICTED INVESTMENTS

1. Use of margin is prohibited.
2. Use of options, futures, or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the S&P MidCap 400 Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the S&P MidCap 400 Index, taking into consideration the degree of risk.
- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.
- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.
- The manager’s tracking error relative to the S&P MidCap 400 Index is expected to rank below the highest quartile of managers in the MidCap Broad peer group over rolling three year time periods.

Passive Managers
- A passive manager’s performance is expected to meet the S&P 400 Index, or other agreed-upon investible benchmark representing the mid cap U.S. equity market.
- The beta of the portfolio over any two year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.
- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the index of less than 25 basis points.
PART VII
SMALL CAP EQUITY
INVESTMENT GUIDELINES

OBJECTIVE

The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class using multiple styles of management. Small cap equity manager(s) will be retained as part of a multi-manager investment strategy. For purposes of this CIP, this style seeks access to the small-cap segment of the US equity universe. This allocation will be represented in the policy benchmark by the Russell 2000 Index which includes the smallest 2000 securities in the Russell 3000 index.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through the selection of securities and not through the timing of market movements. Therefore, during these time periods the manager shall be allowed to maintain a maximum cash position of only ten percent. Asset allocation shall be determined based on the average position over any three month time period and shall operate within the following constraints set forth herein:

EQUITY INVESTMENT GUIDELINES

1. The Board prefers the manager to invest only in equity securities that have a publicly available operating history of at least three years. However, the manager can invest up to ten percent of the portfolio in initial public offerings of companies that have at least two years of audited financial statements and have been profitable (from continuing operations) for at least one of the last two years.

2. The coefficient of determination ($R^2$) measures the percentage of total market-related risk that an investment manager has undertaken. Therefore, the manager shall maintain a coefficient of determination to the Russell 2000 Index of not less than .80 over any rolling five-year time horizon calculated using monthly data. Until such time as the portfolio has sufficient historical data, the manager's reported monthly historical performance data, which shall be calculated in a manner consistent with Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.

3. Equity investments shall be made only in securities listed on a United States stock exchange or traded on NASDAQ in the United States or in other, recognized domestic markets.

CASH AND SHORT TERM INVESTMENT GUIDELINES

Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.
RESTRICTED INVESTMENTS

1. Use of margin is prohibited.

2. Use of options, futures or any other type of derivative securities is prohibited.

3. Convertible securities shall not be considered for investment.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the Russell 2000 Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the Russell 2000 Index, taking into consideration the degree of risk.

- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.

- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.

- The manager’s tracking error relative to the Russell 2000 Index is expected to rank below the highest quartile of managers in the Small Cap peer group over rolling three year time periods.

Passive Managers

- A passive manager’s performance is expected to meet the Russell 2000 Index, or other agreed-upon investible benchmark representing the small cap U.S. equity market.

- The beta of the portfolio over any two year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.

- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the index of less than 25 basis points.
PART VIII
INTERNATIONAL EQUITY
INVESTMENT GUIDELINES

OBJECTIVE

The Board hopes to achieve its goal of reducing total portfolio volatility while enhancing total return through diversification of the equity asset class using multiple styles of management. International equity manager(s) will be retained as part of a multi-manager investment strategy. For purposes of this CIP, this strategy seeks access to companies that are domiciled outside of the US equity market. This allocation will be represented in the policy benchmark by the MSCI EAFE (i.e., Europe, Australasia, Far East) Index which is designed to measure the equity market performance of developed markets, excluding the US and Canada.

ASSET ALLOCATION

The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through the selection of securities and not through the timing of market movements. Therefore, during these time periods the manager shall be allowed to maintain a maximum cash position of only five percent. Asset allocation shall be determined based on the average position over any three month time period and shall operate within the following constraints set forth herein:

EQUITY INVESTMENT GUIDELINES

1. The Board prefers the manager to invest only in equity securities that have a publicly available operating history of at least three years. However, the manager can invest up to five percent of the portfolio in initial public offerings that have been spun off by a company for which there is adequate history of audited financial statements. If, through spin-offs or other activities of the companies held, the portfolio exceeds five percent of holdings with less than three years operating history, the manager will bring the portfolio into compliance within a six-month period.

2. The coefficient of determination ($R^2$) measures the percentage of total market-related risk that an investment manager has undertaken. Therefore, the manager shall maintain a coefficient of determination to the MSCI EAFE Index of not less than .80 over any rolling five-year time horizon calculated using monthly data. Until such time as the portfolio has sufficient historical data, the manager's reported monthly historical performance data, which shall be calculated in a manner consistent with Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.

CASH AND SHORT TERM INVESTMENT GUIDELINES

Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.
RESTRICTED INVESTMENTS

1. The use of currency futures and currency forwards will be permitted subject to the restrictions imposed by Paragraph 16 (entitled “Derivatives”) in the “Authorized Investment Vehicles” section.

2. Use of options, futures, forwards or any other types of derivative securities that are not used for currency hedging purposes are prohibited.

3. Use of margin is prohibited except as may be required in the use of currency futures or forwards.

4. Securities not domiciled, incorporated, or traded in a benchmark country.

PERFORMANCE OBJECTIVES

Active Managers
Manager performance shall be reviewed relative to the MSCI EAFE Index, over any three or more year period of time, taking into consideration the following:

- The manager’s performance, net of fees, is expected to exceed the MSCI EAFE Index, taking into consideration the degree of risk.

- The manager’s performance is expected to rank at or above the median when compared to a universe of its peers managing similar portfolios and following a similar investment style.

- The manager should generate a positive alpha calculated in accordance to the Jensen methodology.

- The manager’s tracking error relative to the MSCI EAFE Index is expected to rank below the highest quartile of managers in the International Equity peer group over rolling three year time periods.

Passive Managers

- A passive manager’s performance is expected to meet the MSCI EAFE Index, or other agreed-upon investible benchmark representing the broad developed international equity markets.

- The beta of the portfolio relative to the index over any two year rolling time period and calculated using monthly data shall not be less than .98 nor greater than 1.02.

- Tracking error measures the standard deviation of the differences between an investment manager's return and the index return. A low tracking error indicates that the manager's performance is closely tracking the performance of the index. In meeting the objectives set forth in these guidelines, the manager shall maintain an annualized tracking error to the index, of less than 30 basis points.