

# Invitation to Negotiate (ITN)

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*Index Replication for the Stanley G. Tate Florida Prepaid College Program and the Florida 529 Savings Plan*

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Florida Prepaid College Board

Issue Date:	May 5, 2017
Questions Deadline:	May 12, 2017 12:00PM ET
Responses to Questions Posted:	May 19, 2017
Response Deadline:	June 1, 2017 12:00PM ET
Anticipated Contract Start:	July 2017

## ITN 17-01

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Commodity Codes

84121700  
84121704

84121701  
93151603

84121703

**REQUEST FOR CLARIFICATION FORM [OPTIONAL]**

**DEADLINE: MAY 12, 2017, 12:00PM ET**

Solicitation: **ITN 17-01**

Title: **Index Replication for the Stanley G. Tate Florida Prepaid College Program and the Florida 529 Savings Plan**

*Each Respondent shall complete this form to address questions relating to the conditions and/or specifications of this solicitation. The completed form shall be submitted in accordance with the instructions provided in Section 5.1 of the solicitation document. Should you need additional space, please use an additional copy of this form.*

Please return completed forms to: [ITNinfo.Prepaid@MyFloridaPrepaid.com](mailto:ITNinfo.Prepaid@MyFloridaPrepaid.com)

Company Name: \_\_\_\_\_

Question	Section	Page	Question/Comment
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			
15.			

Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name & Title: \_\_\_\_\_

The following form, and the content requested within, is **REQUIRED**.

Respondents shall deliver one (1) complete hard copy AND four (4) complete electronic copies of their entire Response on four (4) USB hard drives – one copy per drive. All documents and materials provided in response to this solicitation must be included on the drive. Respondents shall not refer to web-based materials or locations. Notwithstanding, web-links that may be provided within a statutory prospectus which a Respondent provides on the drive and/or in hard copy will not be considered a violation of this requirement.

All Responses **must be** executed and submitted in a sealed package. The face of the package **must contain** the number of the ITN to which the Response applies and the date and time of the Response opening (see Section 4.0).

All Responses are subject to the conditions specified in this ITN; Responses which do not comply with these conditions are subject to rejection.

**INVITATION TO NEGOTIATE RESPONSE [REQUIRED]**

**DEADLINE: JUNE 1, 2017, 12:00PM ET**

Solicitation: **ITN 17-01**  
Title: **Index Replication for the Stanley G. Tate Florida Prepaid College Program and the Florida 529 Savings Plan**

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*This sheet and the accompanying documents constitute an offer from the Respondent. By completing and signing this form, on behalf of the Respondent, I represent that I will be the primary contact for negotiation and agree to abide by all conditions of this negotiation. I certify that I am authorized to sign this Response and that the offer is in compliance with all requirements of the Invitation to Negotiate, including but not limited to, the Mandatory Requirements.*

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Respondent/Firm Name: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Address: \_\_\_\_\_ City, State, Zip: \_\_\_\_\_

Telephone: \_\_\_\_\_

E-mail Address: \_\_\_\_\_

**MANDATORY REQUIREMENT AFFIRMATION**

**(INITIAL)**

- (1) I affirm that, as of December 31, 2016, the Respondent has greater than \$500 billion in discretionary assets under management at the firm level. \_\_\_\_\_
- (2) Statement of Financial Condition – Respondent must attach their latest audited financial statements that is either completed and signed by a Registered Public Account Firm or published in the Respondent’s Annual Report. See section 5.4.3
- (3) [OPTIONAL] Respondent may provide supplemental comments or additional information – including, but not limited to, proposed contract language.

Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name & Title: \_\_\_\_\_

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## 1.0 BACKGROUND

### 1.1 Florida Prepaid College Board

For more than 25 years, the Florida Prepaid College Board ("Board") has helped families plan and prepare to meet future postsecondary education expenses. The Board is an agency of the State of Florida created by Section 1009.97 of the Florida Statutes. The Board has seven members who establish policy and monitor performance for the Prepaid Plan and the 529 Savings Plan. Three members of the Board are appointed by the Governor and are subject to confirmation by the Florida Senate. Four members of the Board are designated in Section 1009.971(2), Florida Statutes. These members are the Attorney General, Chief Financial Officer, Chancellor of the State University System and Chancellor of the Florida College System, or their respective designees. The agency is assigned to and administratively housed within the State Board of Administration ("SBA"), but the Board exercises its powers independent of the SBA. The Board oversees the following programs and organizations:

- Stanley G. Tate Florida Prepaid College Program ("Prepaid Plan") - The Prepaid Plan provides a mechanism whereby costs associated with postsecondary education may be paid in advance of attendance. Florida residency is required. Purchasers sign a Master Contract when they purchase a plan and designate a qualified beneficiary to receive the benefits of the contract at the time of postsecondary enrollment. Proceeds from Prepaid Plan sales are invested in accordance with a Comprehensive Investment Plan approved by the Board. The Prepaid Plan has sold more than 1.90 million plans since 1988, and it is the largest, longest continuously running and most successful prepaid program in the nation. As of December 31, 2016, the Prepaid Plan had a market value in excess of \$10.92 billion.
- Florida 529 Savings Plan ("Savings Plan") - The Savings Plan offers families a flexible way to save for postsecondary education expenses, but offers no guarantees related to principal, earnings or future benefits. Florida residency is not a requirement. Families can save at a pace that meets their budget, allowing them to decide how much money to put into their savings plan. The Savings Plan has over 50,000 active accounts. As of December 31, 2016, the Savings Plan had a market value of approximately \$479 million.
- Stanley G. Tate Florida Prepaid College Foundation ("Foundation") - Created in 1990 as the charitable arm of the Board, the Foundation (a legislatively authorized Direct Support Organization) provides college scholarships to low-income children and other children in need. Many of these children are the first in their family to have the opportunity to go to college. The Foundation also administers private scholarships for eligible 501(c)(3) charitable organizations. Since inception, the Foundation has awarded nearly 40,000 college scholarships statewide. For more information about the Foundation, please visit [www.floridaprepaidcollegefoundation.com](http://www.floridaprepaidcollegefoundation.com).
- ABLE United ("ABLE") - Legislatively created in 2015 as a qualified ABLE Program, ABLE, (a Direct Support Organization) provides a savings and investment option for eligible individuals with disabilities. ABLE is intended to supplement, but not replace, the benefits provided through private insurances, Medicaid, Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), the Beneficiary's employment, and other sources. Earnings in an ABLE Account are tax-free under Section 529A of the Internal Revenue Code if used to pay for qualified expenditures. For more information about ABLE please visit: [www.ableunited.com](http://www.ableunited.com).

The primary statutory provisions affecting the operation of the Florida Prepaid College Board are in Part IV, chapter 1009, Florida Statutes. The administrative rules of the Board are designated by Title 19B of the Florida Administrative Code.

For more information about the Florida Prepaid College Board, including access to the Comprehensive Investment Plans for the Prepaid Plan and the Savings Plan, the Master Contract for the Prepaid Plan and recent annual reports, please visit: [www.myfloridaprepaid.com](http://www.myfloridaprepaid.com). The administrative rules of the Board are available at [www.flrules.org](http://www.flrules.org).

## 1.2 Solicitation Purpose

This Invitation to Negotiate (“ITN”) is being issued to obtain Responses from qualified firms (“Respondents”) to provide investment management services for index replication strategies that support some or all of the investment options to be utilized and/or offered for the Stanley G. Tate Florida Prepaid College Program and the Florida 529 Savings Plan.

- The Prepaid Plan had a market value as of December 31, 2016 of approximately \$10.92 billion. The Prepaid Plan has four fixed income investment managers (three active and one passive: \$9.10 billion) and six equity investment managers (S&P 500 index: \$357 million, large cap domestic value-oriented: \$381 million, large cap domestic growth-oriented: \$340 million, mid-cap domestic core: \$189 million, small-cap domestic core: \$190 million, and international with EAFE mandate: \$357 million). Please be advised that the Prepaid Plan is considered a Qualified Institutional Buyer.
- The 529 Savings Plan has one fixed income manager (\$190 million), one money market manager (\$24 million), and six equity investment managers (S&P 500 Index: \$57 million, large cap domestic value-oriented: \$52 million, large cap domestic growth-oriented \$52 million, mid-cap domestic core: \$27 million, small-cap domestic core: \$28 and international developed markets \$46 million).

For more information on the investments and investment options, see the DRAFT Comprehensive Investment Plans in Appendix A and Appendix B.

The Board seeks to enter into an agreement with one or more large investment management firms who provide index replication strategy vehicles. An agreement, such as that outlined in Appendix C, will be pursued with the selected Respondent(s) to this solicitation deemed to offer the best value. The resulting agreement(s) will be limited to investment management. The administration of the programs will be the sole responsibility of the Board.

To be considered for award, Respondents **must meet** the standards and requirements set forth in Section 5.0 Mandatory Requirements. Any Respondent that does not satisfy these requirements will be rejected.

**2.0 DESCRIPTION OF SERVICES**

The Respondent(s) with whom the Board enters into agreement, pursuant to this solicitation, shall perform comprehensive investment management services, employing a passive management style, for one or more of the investment classes utilized by the Prepaid Plan and investment options offered by the Savings Plan. Services shall include but may not be limited to:

1. Serve as an agent of the Board to manage and invest assets at the discretion of the Board.
2. Provide access to index replication strategy vehicles available to the Board for investment of any amount, in any fund, on any trading day at the discretion of the Board.
3. Provide gross and/or net of fee investment performance for monthly, quarterly and/or annual statements.
4. Provide approved logos, trademarks and disclosure materials that may be included in marketing materials created by the Board.
5. Upon request, and for a negotiated fee, make presentations to the Florida Prepaid College Board on investment topics including, but not limited to: strategy, mechanics, environment, performance and projections upon request.

### 3.0 ITN PROCESS

The ITN process is divided into two (2) phases, the Evaluation Phase and the Negotiation Phase. The Evaluation Phase involves the initial evaluation of replies. During the Evaluation Phase, all responsive replies will be evaluated against the evaluation criteria set forth in this document. The Board intends to select the three highest-ranked Respondents ("shortlist"), but may adjust the quantity to accommodate a competitive range, for negotiation.

The Board intends to initially negotiate concurrently with the Respondents on the shortlist. However, the Board reserves the right, after posting notice thereof and in its sole discretion, to expand the shortlist to include additional responsive Respondents for negotiation or change the method of negotiation (e.g., order of ranking versus concurrent), if it determines that to do either would be in the best interest of the Board. A Respondent will be deemed responsive unless determined to be nonresponsive pursuant to the terms of this document.

The Negotiation Phase will involve at least one (1) telephone conference with each selected shortlist Respondent. During the Negotiation Phase, the Board may request supplemental information and/or best and final offers based on the negotiations or supplemental information. Following negotiations, the Board will post a Notice of Intent to Award, identifying the Respondent(s) that provides the best value to the Board. Be advised, Respondents will not be eliminated from the ITN process until posting of the Notice of Intent to Award.

All Respondents shall be accorded fair and equal treatment.

### 3.1 Official Notices

All notices, revisions, decisions, intended decisions, addenda and other matters relating to this ITN will be electronically posted on the Department of Management Services (DMS) Vendor Bid System (VBS) website located at: [http://myflorida.com/apps/vbs/vbs\\_main\\_menu](http://myflorida.com/apps/vbs/vbs_main_menu).

Please utilize the following search criteria to view this information on the aforementioned website:

Agency: State Board of Administration

Title: ITN #17-01.

It is the responsibility of prospective Respondents to check the VBS for revisions, addenda, notices of decisions, and other information or clarifications to this ITN.

### 3.2 Public Records

All Responses to this ITN shall result in a Respondent's waiver of any and all rights relating to confidentiality, or claims thereof, upon delivery to the Board. All electronic and written communications pertaining to this ITN, whether sent from or received by the Board and all Responses to this ITN including, without limitation, administrative information, proposed services/commodities and cost information will be subject to disclosure after the contract award as required under Chapter 119 of the Florida Statutes (Florida Public Records Law).

### 3.3 Legal Requirements

Applicable provisions of all federal, state, county, and local laws will govern development, submittal, and evaluation of all Responses received and will govern any and all claims and disputes that may arise between persons submitting a Response and the Board. Lack of knowledge by any Respondent will not constitute a cognizable defense against the legal effect of any such provision.

### 3.4 Protests and Disputes

Any protest concerning this solicitation shall be made in accordance with Sections 120.57(3) and 287.042(2) of the Florida Statutes, and Chapter 28-110 of the Florida Administrative Code. Failure to file a protest within the time prescribed in Section 120.57(3) of the Florida Statutes, or failure to post the bond or other security required by law within the time allowed for filing a bond shall constitute a waiver of proceedings under Chapter 120 of the Florida Statutes.

**Section 120.57(3)(b), Florida Statutes and Section 28-110.003, Florida Administrative Code require that a notice of protest of the solicitation documents shall be made within seventy-two (72) hours after the posting of the solicitation.**

### 3.5 Limitations on Contacting Personnel and Others

Respondents to this solicitation or persons acting on their behalf may not contact, between the release of the solicitation and the end of the seventy-two-hour (72) period following the agency posting the notice of intended award, excluding Saturdays, Sundays, and state holidays, any employee or officer of the executive or legislative branch concerning any aspect of this solicitation, except in writing to the ITN Administrator or as provided in the solicitation documents. Violation of this provision may be grounds for rejecting a Response.

### 3.6 Cost of Developing and Submitting Responses

The Florida Prepaid College Board nor the State of Florida is liable for any of the costs incurred by the Respondent in preparing and/or submitting a Response.

**4.0 SCHEDULE**

The following time schedule, provided as Table 1, is set forth for informational and planning purposes. The Board reserves the right to change any of the dates or times in its sole discretion.

<b>ACTION</b>	<b>DATE &amp; TIME</b>	<b>ADDRESS</b>
Notice of issuance of ITN is published in Florida Administrative Register	May 5, 2017	
ITN Issued	May 5, 2017	
Written requests for clarification from Respondents about the ITN are due to the Board	May 12, 2017 12:00PM ET	
The Board responds to written requests for clarification about the ITN on the Vendor Bid System (VBS)	May 19, 2017	
Deadline for written responses to the ITN	June 1, 2017 12:00PM ET	1801 Hermitage Boulevard Suite 210 Tallahassee, FL 32308
*All responses publicly opened at The Board headquarters	June 1, 2017 1:00PM ET	1801 Hermitage Boulevard Tallahassee, FL 32308
*Meeting for Validation of Evaluator Scoring at the Board headquarters	June 2017	1801 Hermitage Boulevard Tallahassee, FL 32308
Negotiation Period	June-July 2017	
*Meeting to recommend contract award(s) at the Board headquarters	July 2017	1801 Hermitage Boulevard Tallahassee, FL 32308
Notice of intent to award	June-July 2017	
Anticipated contract date	July 2017	

\*All Respondents are hereby notified that the events noted with an asterisk above (\*) are public meetings open to the public and may be electronically recorded by any member of the audience. All public meetings will be published in the Florida Administrative Register.

## 5.0 MANDATORY REQUIREMENTS

### 5.1 Requests for Clarification

Any questions concerning the conditions and/or specifications of this ITN must be addressed in the form of written questions submitted by Respondents pursuant to the schedule in Section 4.0 and using the form provided as page i of this document. Written questions must be legible, to the point, and identify the Respondent submitting the question. Written questions must be submitted to:

Jeff Smithson  
ITN Administrator  
Florida Prepaid College Board  
Email: ITNinfo.Prepaid@MyFloridaPrepaid.com

Written requests for clarification, along with corresponding responses, will be posted as Official Notice pursuant to Section 3.1 of this document. Respondents unable to download responses should notify the ITN Administrator at the email address provided above.

No interpretations other than those responded to as described in this section will be considered binding. The Board does not guarantee the validity or reliability of information obtained from other sources.

### 5.2 Mandatory Qualifications

Respondents must be able to affirmatively respond to the following statement in order to be considered for this award.

1. As of December 31, 2016, the Respondent has greater than \$500 billion in discretionary assets under management at the firm level.

Further, to be considered, each Response **must meet** the standards and requirements set forth in Section 5.0 Mandatory Requirements.

Any Respondent that does not satisfy all of the criteria in this section shall be rejected.

### 5.3 Submission of Responses

All Responses must be executed and submitted in a sealed package. The face of the package must contain the number of the ITN to which the Response applies and the date and time of the Response opening (see Section 4.0). All Responses are subject to the conditions specified in this ITN; Responses which do not comply with these conditions may be rejected subject to the reservation of rights by the Board as specified in Section 6.1.

Respondents shall deliver one (1) complete hard copy AND four (4) complete electronic copies of their entire Response on four (4) USB hard drives – one copy per drive. All documents and materials provided in response to this solicitation must be included on the drive. Respondents shall not refer to web-based materials or locations. Notwithstanding, web-links that may be provided within a statutory prospectus which a Respondent provides on the drive and/or in hard copy will not be considered a violation of this

requirement. All electronic files must be in one of the following formats. Alternate file types, including web-based materials, will not be considered.

Documents – PDF or any Microsoft Office Suite files are the required file types for all documents.

Images – JPG or PNG are the required file types for images.

Video – MP4 or MOV are the required file types for videos.

Audio – MP3 is the required file type for audio.

The Respondent is responsible for the timely and proper delivery of its Response to the Board. Responses which, for any reason, are not delivered and received in the Board offices by the deadline established in Section 4.0 of this ITN will not be considered. Late Responses will be retained in the Board offices. Responses or offers by facsimile, telephone or email are not acceptable.

A Response may not be altered after it is delivered to the Board. At its discretion, the Board may request supplemental Responses from the Respondents; all other supplemental Responses are prohibited.

#### **5.4 Response Format and Content**

The Board has established certain mandatory requirements which must be included in a Response to this ITN. The use of "shall", "must", or "will" (except to indicate simple futurity) in this ITN indicates a mandatory requirement or condition. The words "should" or "may" in this ITN indicate desirable attributes or conditions, but are permissive in nature. Deviation from, or omission of, such a desirable attribute will not by itself cause rejection of a proposal. Only those Respondents who have met the mandatory requirements of this ITN will be considered; any Respondent who has not done so will be rejected. The right is reserved to reject any or all bids. Failure to meet any contractual obligations may result in cancellation of any award.

Each Response shall be prepared simply and economically providing a straightforward, concise delineation of the Respondent's capabilities to satisfy the requirements of this ITN. Fancy bindings and promotional material are not desired nor expected.

A Response must be complete as to all terms and conditions, including the appendices, on the date it is delivered to the Board. Additional information submitted after the Response or separate from the Response will not be considered unless specifically requested by the Board and then only to the extent requested. Incomplete Responses may be eliminated from further consideration.

In its Response, a Respondent shall expressly indicate its willingness to comply with, provide satisfactory evidence of its ability to meet and expressly respond to each requirement and information request contained in the following mandatory provision(s) of this ITN.

A copy of this ITN in Microsoft Word format may be downloaded from:

[www.myfloridaprepaid.com/who-we-are/about-the-board/board-reports-and-plans/](http://www.myfloridaprepaid.com/who-we-are/about-the-board/board-reports-and-plans/).

##### **5.4.1 [REQUIRED] Invitation to Negotiate Response Form**

The Invitation to Negotiate Response form, included as page iii of this document, must be completed in its entirety, including providing the required documents as requested in the form. The form must be signed

by an officer or agent of the Respondent who is empowered to bind it in a contract. If an agent signs, written authorization empowering the agent to bind the Respondent must accompany the documents signed by the agent.

**5.4.2 [REQUIRED] Attachment 1: Statutory Prospectus and/or Participation Agreement Documents for Proposed Replication Strategies**

The Respondent shall provide no more than one (1) complete statutory prospectus and/or participation agreement for each of the following replication strategies. The information provided for any one strategy shall represent investment vehicles for which the Prepaid and/or Savings plan qualify. During the Evaluation Phase of this solicitation, the Respondent will be evaluated, in part, based on the materials provided for the mandates below; additional replication strategies may be considered during the Negotiation Phase.

- 1a. Large Cap Value (Russell 1000 Value)
- 1b. Large Cap Growth (Russell 1000 Growth)
- 1c. Large Cap Core (Russell 1000)
- 1d. Mid Cap (S&P 400)
- 1e. Small Cap (Russell 2000)
- 1f. Developed Non-US Equity (MSCI EAFE)
- 1g. Core Fixed Income (Bloomberg Barclays Aggregate Bond Index)

Each prospectus provided must be marked to indicate the mandate for which it is being proposed (e.g. 1a through 1g). Respondents are not required to provide a prospectus or participation agreement for every mandate above. At a minimum, a Respondent must supply one (1) statutory prospectus or participation agreement for one (1) of the mandates above to satisfy this requirement. Not providing a prospectus for any one mandate, or not marking a prospectus appropriately, may affect the evaluation of the response.

Summary prospectus documents will not be accepted in Attachment 1.

**5.4.3 [REQUIRED] Attachment 2: Statement of Financial Condition**

The Respondent shall provide a Statement of Financial Condition which states the audited financial statements that is either completed and signed by a Registered Public Account Firm or published in Respondent's Annual Report. The effective date of this statement shall not be before January 1, 2016.

**5.4.4 [REQUIRED] Attachment 3: Grid Response**

The Respondent shall provide a complete response to each tab of the attached supplemental questions grid (see Appendix D). Mark all responses that are not applicable as "N/A". For metrics not tracked by the firm, please respond as "unknown". Information submitted should be as of December 31, 2016.

**5.4.5 [OPTIONAL] Attachment 4: Supplemental Information**

The Respondent may provide supplemental comments or additional information. This may include, but is not necessarily limited to, such items as: an organizational overview, information relating to the portfolio management team(s) for the proposed replication strategies and recent changes thereof, information relating to other replication strategies that the Board may consider and proposed contract language.

**6.0 EVALUATION AND NEGOTIATION**

**6.1 Evaluation**

Only responses that meet the mandatory requirements of this ITN will be considered by the Board. Responses will be independently evaluated by each member of an Evaluation Team (“Evaluation Team”) on the basis of written Responses to this ITN and additional written information as requested. The Evaluation Team may consider information received from Callan Associates, Inc. (Callan), an investment consultant for the Board. Callan may provide factual information relating to the historical investment performance of the Respondent, including investment returns for the portfolio attributes and consistency of performance. Callan may also provide factual information related to the experience, background, and staffing of the Respondent. Any information provided by Callan will be based on the responsive replies to this ITN and information possessed by Callan through a normal course of business. Callan will not make any decisions on behalf of the Board.

The Board reserves the right to determine which Responses meet the mandatory requirements of this ITN, and whether any deviation from the specifications, terms, or conditions contained herein is merely minor or technical in nature; **the right to accept Responses which deviate in a minor or technical fashion is also reserved by the Board and the Board reserves the right to accept or reject any and all Responses and to award the contract in the best interests of the Board**

Responses will be evaluated in a multi-step, progressive, process as follows; Respondents may be removed from consideration in each step based on the criteria documented in this ITN:

**6.1.1 Evaluation Step 1: Evaluation of Mandatory Requirements**

The evaluation process will begin with a review of the mandatory requirements for Responses set forth in Section 5.0. Any Response that does not meet the mandatory requirements of Section 5.0 will be rejected, subject to the Board reservation of rights. The determination in this evaluation step is pass/fail. Respondents that satisfy the mandatory requirements will be moved to the next evaluation step. Respondents that do not satisfy the mandatory requirements will be removed from consideration. No points will be awarded in this evaluation step.

**6.1.2 Evaluation Step 2: Evaluation of Responsive Replies**

For index replication strategies, each prospectus and/or participation agreement document provided in Attachment 1 (items “1a”-“1g” as provided) by the Respondent will be independently evaluated by each member of an Evaluation Team and points will be awarded in the following areas: (1) investment performance considering investment philosophy and strategy, (2) organizational experience, and (3) annual fees. In addition, based on all documents and materials provided in a Response, the (4) financial stability of the Respondent and (5) the Respondent’s ability to meet the needs of the Board will also be evaluated.

The following represents the maximum initial point values that may be awarded per evaluator by criteria.

Scoring Criteria	Score (a)	Possible (b)
------------------	-----------	--------------

<b>1a Large Cap Value</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1b Large Cap Growth</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1c Large Cap Core</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1d Mid Cap</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1e Small Cap</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1f Developed Non-US Equity</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>1g Core Fixed Income</b>		
Did Respondent provide a prospectus for this option? (YES = 100, NO = 0)		100
If the answer above is YES, the following elements will be evaluated:		
(1) Investment performance given investment strategy	40	
(2) Experience	20	
(3) Fees	40	
<b>Subtotal (1), (2), and (3)</b>	<b>700</b>	<b>700</b>
<b>(4) Financial Stability – Score (c)</b>		<b>15</b>
<b>(5) Ability to meet the needs – Score (d)</b>		<b>25</b>

The Total Annual Operating fees for each replication strategy proposed by the Respondent (in bps) will be evaluated and points will be awarded for each fee based on the following formula. The maximum of 40 total points will be awarded for the lowest fee proposed for a given mandate. (Fee proposals will be awarded using a weighted average fee based on assets under management (AUM) for each plan.) The score for any replication strategy for which a Respondent does not reply shall be zero (0). Please note that shareholder fees and/or other fee or fee structure information provided in the Response will be considered when scoring the Respondent’s ability to meet the needs of the Board.

**Formula to Determine Fee Score**

$(X/N) \times 40 = Z$ ; where:

X = Lowest Fee;

N = Proposed Fee;

Z = Points awarded points

The total score for the Respondent will be awarded based on the formula provided below. A maximum of 100 total points, per evaluator, may be awarded.

Formula	Maximum Points
Score (a) / Possible (b) = Multiplier	700 / 700 = 1.00
Multiplier x 60 = Score (a/b)	1.00 x 60 = 60
Score (a/b) + Score (c) + Score (d) = Total Score	60 + 15 + 25 = <b><u>100</u></b>

For any and all scores determined by calculation, including the calculation to determine fee scores, the points awarded will be rounded to the nearest whole number. Decimal values less than 0.50 will be rounded down to the next whole number; decimal values greater than, or equal to, 0.50 will be rounded up to the next whole number. For example, a value of 20.49 would be rounded to 20. A value of 20.50 would be rounded to 21. The minimum possible calculated points awarded will be 0.

**6.1.3 Evaluation Step 3: Ranking and Shortlisting**

After the Response evaluations are complete, the total score awarded by each Evaluation Team member will be validated pursuant to the schedule in Section 4.0 and then aggregated. The Respondents will be ranked based on their aggregate scores.

The Board intends to select the three highest-ranked Respondents (“shortlist”), but may adjust the quantity to accommodate a competitive range, for negotiation. The Board reserves the right, after posting notice thereof, to expand the shortlist to include additional responsive Respondents. The Board expressly reserves the right to accept or reject any and all Responses and to award the contract in the best interests of the Board.

Be advised, Respondents will not be eliminated from the ITN process until posting of the Notice of Intent to Award.

## **6.2 Negotiation**

### **6.2.1 Negotiation Meeting(s)**

The Board intends to participate in at least one (1) telephone conference with each of the selected Respondent(s) scheduled pursuant to Section 4.0. During the Negotiation Phase, the Board may request supplemental information and/or best and final offers based on the negotiations. Further information, including a scope and agenda for the call(s), will be provided with the Notice of Intent to Negotiate to the Respondent(s) selected to the shortlist. The Board prefers that the Respondent representation participating in the call include the portfolio manager(s), but this is not required. At a minimum, the representative(s) shall be familiar with the portfolio(s).

The Negotiation Team may consider information received from Callan Associates, Inc. (Callan), an investment consultant for the Board. Callan may provide factual information relating to the historical investment performance of the Respondent, including investment returns for the portfolio attributes and consistency of performance. Callan may also provide factual information related to the experience, background, and staffing of the Respondent. Any information provided by Callan will be based on the responsive replies to this ITN and information possessed by Callan through a normal course of business. Callan will not make any decisions on behalf of the Board.

### **6.2.2 Contract Negotiation**

The Board intends to initially negotiate with the shortlist Respondent(s) concurrently. However, the Board reserves the right, after posting notice thereof, to expand the shortlist to include additional responsive Respondents for negotiation or change the method of negotiation (e.g., concurrent versus by order of ranking), and evaluation criteria if it determines that to do such would be in the best interest of the Board. When negotiations have been completed, the Board will award the contract(s) to the responsive and responsible Respondent(s) that the Board determines will provide the best value. The Board will post its Notice of Intent to Award or its notice informing of its decision that all Responses have been rejected pursuant to Section 3.1.

The Board reserves the right to change the members of the Negotiation Team in its sole discretion.

### **6.2.3 Board Rights During Negotiations**

At any time during the negotiation process, the reserved rights of the Board include but are not limited to:

1. Schedule additional negotiating sessions with any or all Respondent(s);
2. Require any or all Respondent(s) to provide additional or revised replies and detailed written proposals addressing specified topics;
3. Require any or all Respondent(s) to provide a written best and final offer;
4. Require any or all Respondent(s) to address services, prices, or conditions offered by any other Respondent;
5. Pursue a contract with one or more Respondent(s) for the services encompassed by this solicitation, any addenda thereto, and any request for additional or revised detailed written proposals or request for best and final offers;
6. Arrive at an agreement with any Respondent, finalize principal contract terms with such Respondent and terminate negotiations with any or all other Respondents, regardless of the status of or scheduled negotiations with such other Respondent(s);

7. Decline to conduct further negotiations with any Respondent;
8. Reopen negotiations with any Respondent;
9. Take any additional administrative steps deemed necessary in determining the final award, including additional fact-finding, evaluation, or negotiation where necessary and consistent with the terms of this ITN;
10. Review and rely on relevant information contained in the replies received;
11. Review and rely on relevant portions of the evaluations conducted pursuant to Section 6.0; and
12. Seek factual information from Callan as it pertains to Callan's investment consultant services provided to the Florida Prepaid College Board.

The Board has sole discretion in deciding whether and when to take any of the foregoing actions, the scope and manner of such actions, the Respondent(s) affected, and whether to provide concurrent public notice of such decision.

#### **6.2.4 *Negotiation Meetings Not Open to Public***

Negotiations between the Board and a Respondent are exempt from being held as public meetings by Section 286.0113(2)(a) of the Florida Statutes. Furthermore, negotiation strategy meetings of the Board Negotiation Team are exempted by Section 286.0113(2)(a) of the Florida Statutes.

## **7.0 GENERAL INFORMATION**

### **7.1 Glossary of Terms**

1. "Contract" means the document developed as a result of this ITN, which will incorporate, among other provisions, the contents of this ITN, questions and answers regarding this ITN, the Respondent's response to this ITN, and any amendments to the response.
2. "Day" means a calendar day unless a different meaning is otherwise indicated.
3. "Fiscal Year" means the fiscal year of the Board. Each fiscal year begins July 1 and ends the next June 30.
4. "ITN" means this Invitation to Negotiate.
5. "Respondent" means any firm, group, or person who submits a Response to the Board in response to this ITN.
6. "Response" means all materials and documents submitted by the Respondent pursuant to this ITN.
7. "State" means the State of Florida and its departments, boards, commissions, officials, and employees.
8. "Trust Fund" means the Prepaid Plan and the Savings Plan Trust Fund.

Throughout this ITN and where deemed appropriate by the Board, the singular may be read as the plural and the plural as the singular.

### **7.2 Responsibility for Services**

The Respondent(s) whose response is selected by the Board shall establish and assume direct responsibility for the services awarded. Accordingly, the Respondent(s) shall designate a Contract Manager whose primary responsibility is to work with the Board in making certain that all contract terms are strictly observed. At any time during the term of the contract, the Board reserves the right to reject the Respondent's choice of Contract Manager and may terminate the contract if a Contract Manager acceptable to the Board cannot be made available by the Respondent.

### **7.3 Contract**

The terms and conditions for a contract resulting from this ITN process, indicating the respective duties of the successful Respondent and the Board are included with this solicitation as Appendix C. The Board reserves the right to modify existing language and to consider proposed language by the Respondent as it may arise from negotiations.

### **7.4 Order of Precedence**

In the event of any conflict, in the opinion of the Board between any provision of the Contract and the ITN, the Questions and Answers regarding the ITN, or the Response, the Contract shall govern the conduct of the Board and the Respondent. In the event of any conflict, in the opinion of the Board between the ITN and the Respondent's Response, the ITN shall govern the conduct of the Board and the Respondent. In the event of any conflict, in the opinion of the Board, between the ITN and the Questions and Answers

regarding the ITN, the Questions and Answers regarding the ITN shall govern the conduct of the Board and the Respondent. In the event of any conflict, in the opinion of the Board between the Questions and Answers regarding the ITN and the Response, the Questions and Answers regarding the ITN shall govern the conduct of the Board and the Respondent.

### **7.5 Confidentiality of Account Information**

Section 1009.98(6) and 1009.981(6), Florida Statutes, provide that all information that identifies the purchasers or beneficiaries of any advance payment contract or the benefactor or designated beneficiary of any savings account is not subject to the provisions of s. 119.07(1), Florida Statutes, the Public Records Law. All other documents, papers, letters, or other materials relating to this contract that are made or received by the Respondent in conjunction with the contract, and which are required by law to be maintained, must be available for public access pursuant to Chapter 119, Florida Statutes, and for audit purposes for a period of three (3) years after the expiration of the contract. Said records must also be maintained per Chapter 119 and other applicable Florida Statutes.

### **7.6 Property of the Board**

All Responses to this ITN shall result in a Respondent's waiver of any and all proprietary rights, or claims thereto, upon delivery to the Board. Any and all materials delivered shall become the property of the Board and will not be returned to the Respondents. Without limitation, the Board has the right to use any and all materials, data, ideas and/or adaptations thereof contained in any response to this ITN, regardless of copyright, trademark or other protected status. A Respondent shall not submit any information in its response which the Respondent does not own or otherwise have the right to waive any and all proprietary rights or claims relating to such information. The Respondent shall indemnify the Board to the fullest extent permitted by law against any and all claims by any third party relating to or arising from any claim of ownership or any proprietary rights to any information submitted by Respondent in response to this ITN. Selection or rejection of the Response will not affect this right.

All materials and data produced for the Board under the contract(s) resulting from this ITN will be owned by the Board unless otherwise agreed to in writing by the Board.

### **7.7 Response Tenure**

All Responses are valid for one hundred eighty (180) days from the Response due date. The period of time during which Responses are valid will be tolled during the pendency of any proceeding related to any contract awarded pursuant to this ITN.

### **7.8 News Releases**

The Florida Prepaid College Board is the only entity authorized to issue news releases relating to this ITN, Responses submitted in response to this ITN, and any contract resulting from this ITN.

**8.0 APPENDICES**

**APPENDIX A DRAFT COMPREHENSIVE INVESTMENT PLAN FOR THE STANLEY G. TATE FLORIDA PREPAID COLLEGE PROGRAM**

**DRAFT**  
**Florida Prepaid College Board**  
**Comprehensive Investment Plan**  
*for the*  
**Stanley G. Tate Florida Prepaid College Program**  
**March 30, 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:

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

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.

<u>Equity Segments</u>	<u>Targeted Weight</u>	<u>Allowable Range</u>
Growth Portfolio	20.00%	0.00% - 25.00%
Value Portfolio	20.00%	0.00% - 25.00%
Index Portfolio	20.00%	0.00% - 75.00%
Mid Cap Portfolio	10.00%	5.00% - 15.00%
Small Cap Portfolio	10.00%	5.00% - 15.00%
International Portfolio	20.00%	15.00% - 25.00%

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 30<sup>th</sup> 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.

**PART III  
LARGE CAP GROWTH 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. 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.

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**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.

**PART VI  
MID 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. 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.



**DRAFT**  
**Florida Prepaid College Board**  
**Comprehensive Investment Plan**  
*for the*  
**Florida College Savings Program**  
**March 30, 2017**

**AUTHORITY**

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

**PURPOSE**

The Florida College Savings Program ("Savings Program" or "Program") is a program created to provide a medium through which families and individuals may save for qualified educational expenses. The Savings Program is intended to be an alternative to the Prepaid Program, though participants in the Savings Program do have the option to enroll a qualified beneficiary in the Savings Program, the Prepaid Program, or both. The Program is administered by the Florida Prepaid College Board which was created pursuant to Section 1009.981 of the Florida Statutes.

**BOARD RESPONSIBILITIES**

The Board has the authority and the responsibility to control and manage the investment offerings under the Savings Program, and to formulate and oversee investment policies for that purpose.

Other specific responsibilities of the Board under this Comprehensive Investment Plan ("CIP") include:

- Delegating specific administrative and operational responsibilities dealing with the investment of Program assets to the Executive Director or his/her staff.
- Establishing and periodically reviewing the appropriateness of the range of options offered to participants in the Program.
- Approving changes to this CIP.
- Monitoring compliance with this CIP.
- Appointing and terminating investment managers and other service providers to the Program.
- Reviewing periodically the performance of the investment managers.

**INVESTMENT OPTIONS**

The number and range of investment options offered to Program participants will be reviewed by the Board at least annually. The decision to offer additional options will take into account the growth of the Program, industry trends, administrative feasibility, diversification and costs associated with adding options. Permitted investment vehicles for any of the investment options include, but are not limited to separately managed account, a pooled or commingled account, or a mutual fund.

The Board has elected to provide Program participants the following investment options:

Option 1 – a large cap growth investment fund designed to provide exposure to large capitalization domestic growth stocks.

Option 2 – a large cap value investment fund designed to provide exposure to large capitalization domestic value stocks.

Option 3 – a large cap investment fund designed to provide exposure to large capitalization domestic stocks by tracking the returns of the S&P 500 as closely as possible.

Option 4 – a mid cap investment fund designed to provide exposure to middle capitalization domestic stocks.

Option 5 – a small cap investment fund designed to provide exposure to small capitalization domestic stocks.

Option 6 – an international investment fund designed to provide exposure to international stocks in developed international markets.

Option 7 – a fixed income investment fund designed to mirror the broad domestic bond market.

Option 8 – a money market investment fund designed to provide exposure to very liquid short-term fixed income instruments.

Option 9 – an equity investment fund with a twenty percent allocation to domestic large capitalization growth equity (Option 1), twenty percent to a domestic large capitalization value equity portfolio (Option 2), twenty percent to a U.S. large capitalization index portfolio (Option 3), ten percent to a domestic mid cap portfolio (Option 4), ten percent to a domestic small capitalization portfolio (Option 5) and twenty percent to an international equity portfolio (Option 6). Option 9 will be rebalanced to these target weights on a periodic basis, according to the parameters outlined in the rebalancing section of this CIP.

Option 10 – a balanced investment option which will consist of a 50/50 mix of fixed income (Option 7) and equity (Option 9). Option 10 will be rebalanced to the targeted asset mix on a periodic basis, according to the parameters outlined in the rebalancing section of this CIP.

Option 11 – a combination of fixed income (Option 7) and equity (Option 9) based on the age of the beneficiary or the number of years remaining before the beneficiary plans to enroll in college. The chart below describes the targeted asset allocations based on the participant's age or years to enrollment.

Option 11: Allocation between fixed income (Option 7) and equity (Option 9)

<u>Aged-Based Option</u>	<u>Years to Enrollment</u>	<u>Asset Allocation</u>	
		<u>Option 7</u>	<u>Option 9</u>
Age 0 – 4	14 or more years	0%	100%
Age 5 – 8	10 – 13 years	25%	75%
Age 9 – 12	6 – 9 years	50%	50%
Age 13 – 15	3 – 5 years	75%	25%
Age 16 & above	0 – 2 years	100%	0%

## REPORTING

The Executive Director will cause monthly flash reports and detailed quarterly reports of the investment performance of each investment option 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:

Investment results for each investment option will be reported each quarter for the most recent completed quarter, calendar year-to-date, most recent twelve month period and cumulatively from inception showing returns relative to appropriate market benchmarks. Returns will be reported on a time weighted basis. At a minimum, the report will contain the following items:

### 1. Performance Measurement and Attribution

- Performance of each investment option relative to its stated benchmark will be reported.
- The performance of each underlying sub-portfolio will be reported relative to its stated benchmark.
- An attribution analysis of each investment option and sub-portfolio will be provided.
  - Fixed income attribution will include effects of changes in interest rates, sector and quality decisions and reinvestment rate.
  - Equity attribution will include such factors as sector and industry weights, beta, company size, yield and growth in earnings.
  - The attribution analysis will also account for any deviations in asset class or style weights from the targeted portfolio weights.
- Returns for each manager will also be evaluated on a risk-adjusted basis.

## 2. Compliance and Monitoring

- The allocation of each investment option will be reported to ensure allocation guidelines are met.
- Asset holdings will be reported to ensure investments are being made only in authorized securities and investment vehicles.
- Each manager will certify *monthly* that their portfolio is in compliance with the terms of this CIP and their specific investment mandate, as well as any applicable prospectus and Statement of Additional Information. 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 as outlined in this Comprehensive Investment Plan.
- 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 Florida Prepaid College Board may be placed in the following accounts or investments:

1. Deposit accounts and certificates of deposit in banks.
2. Obligations of 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, commercial mortgage-backed, and asset-backed securities, provided the obligations meet the minimum credit criteria set forth elsewhere in this CIP.
7. Institutional investment products including fixed annuities, variable annuities and guaranteed insurance contracts that are obligations of United States insurance companies.
8. Common stocks traded on domestic exchanges, including over-the-counter markets and recognized third and fourth markets.
9. Common stocks of foreign-domiciled companies traded on non-U.S. exchanges including over-the-counter markets.
10. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
11. Commingled investment funds and mutual funds.
12. American Depositary Receipts, 144(a) securities (with registration rights), and Yankee bonds (including sovereign bonds issued in USD).
13. Municipal Bonds issued or guaranteed by U.S. local, city, and state governments and agencies including Build America Bonds (BABs).
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.

### **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 or Agency or repurchase agreements collateralized by U.S. Treasury or Agency securities, is the greater of 5% of the market value of the fund, or 2% greater than the appropriate benchmark weight.
3. Debt obligations and preferred stock must be investment grade, as rated by one established nationally recognized rating service.
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 College Savings Program:
  - Derivatives use for speculative purposes.
  - Derivatives that leverage the account
  - Commodity options, swaps or other derivatives based on commodities.

### **INVESTMENT MANAGER SELECTION AND EVALUATION**

Appropriate selection criteria will be used in the process of selecting investment managers/funds. Though not exhaustive, below is a list of considerations:

- Impact on asset class diversification. The characteristics of the potential investment option(s) relative to the characteristics of the existing options will be evaluated to determine the impact on participants' ability to diversify within a risk/reward spectrum.
- Adherence to designated style.
- Reasonable and competitive expense levels.

- Investment performance characteristics. Funds will have a record of performing well compared to peer groups and relevant published market indices. A minimum of a three year performance history is desirable for the assessment of manager skill.

The performance of each investment option will be evaluated in the context of its role in the array of options offered to Program participants. The Board shall evaluate investment performance over a sufficient time horizon, and in the context of the prevailing market environment, in order to properly assess the investment manager’s success or failure. In general, a three to five-year time horizon will be used to evaluate a manager’s attainment of 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 each investment option.

At a minimum, investment manager reviews will include a quarterly quantitative performance review conducted by the Program’s consultant. Specific evaluation criteria are stated in the investment guidelines that have been individually prepared for each investment option pursuant to its specific role in the Program. As necessary, the evaluation may also include an annual site visit to review each portfolio manager’s operations. This portion of the evaluation may be conducted by a member of the Board, the Investment Committee, or Board Staff, as may be designated either by the Board or the Investment Committee.

**REBALANCING**

In order to maintain the level of risk the Board has established for each respective option, the asset class allocation within Option 9 and Option 10 will be monitored monthly and rebalanced to the specified target when the allowable ranges are exceeded. The portfolio should be brought back into compliance within five business days. The following ranges will apply:

<u>Option 9</u>	<u>Targeted Weight</u>	<u>Allowable Range</u>
Growth Portfolio	20.00%	17.00% - 23.00%
Value Portfolio	20.00%	17.00% - 23.00%
Index Portfolio	20.00%	17.00% - 23.00%
Mid Cap Portfolio	10.00%	8.00% - 12.00%
Small Cap Portfolio	10.00%	8.00% - 12.00%
International Equity Portfolio	20.00%	17.00% - 23.00%

<u>Option 10</u>	<u>Targeted Weight</u>	<u>Allowable Range</u>
Equity Portfolio (Option 9)	50%	48 - 52%
Fixed Income Portfolio (Option 7)	50%	48 - 52%

In addition, portfolio balances within Option 11 will require rebalancing both with respect to the equity / fixed income mix within each age bracket and with respect to the targeted mix as a beneficiary moves from one age bracket to the next.

The following ranges will apply to each of the age brackets within Option 11:

<u>Age Bracket</u>	<u>Years to Enrollment</u>	<u>Targeted Equity Allocation</u>	<u>Allowable Equity Range</u>	<u>Targeted Fixed Income Allocation</u>	<u>Allowable Fixed Income Range</u>
0 – 4 years	14 or more years	100%	98 - 100%	0%	0 – 2%
5 – 8 years	10 – 13 years	75%	73 – 77%	25%	23 – 27%
9 – 12 years	6 – 9 years	50%	48 – 52%	50%	48 – 52%
13 – 15 Years	3 – 5 years	25%	23 – 27%	75 %	73 – 77 %
Age 16 & above	0 – 2 years	0%	0 – 2%	100%	98 - 100%

Beneficiary account balances shall be moved to the next age bracket on the day following their birthdate during which they reach age 5, 9, 13 and 16. Accounts established based on the year's to enrollment option will move to the next age bracket on the day following the beneficiaries birthdate when their projected enrollment year is 13, 9, 5 and 2 years from enrollment in college.

### **IMPLEMENTATION**

All assets invested for the Program by the Investment Manager(s) after the adoption of this CIP shall conform to this Statement.

The following portfolio-specific guidelines have been established to:

1. Ensure that the managers continually adhere to all regulations administered by any regulatory authority charged with oversight responsibility
2. Limit the Program's exposure to unintended risks
3. Ensure that each investment option adheres to its specific objectives
4. Communicate objective, reasonable criteria of the Board's expectations to the managers.

The following sections contain the investment guidelines and policies for each option of the Florida College Savings Program:

**OPTION 1  
LARGE CAP GROWTH PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the Large Cap Growth Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments.

**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 not more than five percent.

**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 in compliance with the 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 Comprehensive Investment Plan (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**Passive Managers

- A passive manager's performance is expected to meet the Russell 1000 Growth Index, or other agreed-upon investible benchmark representing the large cap growth 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.

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.

**OPTION 2  
LARGE CAP VALUE PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the Large Cap Value Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments.

**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 not more than five percent.

**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 in compliance with the 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 Comprehensive Investment Plan (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**Passive Managers

- A passive manager's performance is expected to meet the Russell 1000 Value Index, or other agreed-upon investible benchmark representing the large cap value 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.

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.

**OPTION 3  
LARGE CAP CORE PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the Large Cap Core Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments

**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 not more than five percent.

**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 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 Comprehensive Investment Plan (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

### 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 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 S&P 500 of less than 25 basis points.

### 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.

**OPTION 4  
MID CAP PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the Mid Cap Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments.

**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 not more than five percent.

**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**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.

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.

**OPTION 5  
SMALL CAP PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the Small Cap Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments.

**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 not more than 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:

**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 in compliance with the 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 Comprehensive Investment Plan (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**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.

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.

**OPTION 6  
INTERNATIONAL EQUITY PORTFOLIO  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the International Equity Portfolio is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in equity investments.

**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 not more than five percent.

**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**Passive Managers

- A passive manager's performance is expected to meet the MSCI EAFE Index, or other 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.

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.

**OPTION 7  
FIXED-INCOME  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the fixed income option is to provide participants with a low risk, low volatility option for saving for college expenses. It is expected that this option will be used by those participants with a short horizon to matriculation or with little appetite for short term investment volatility.

**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 the manager shall be allowed a maximum cash position of not more than five percent.

**INVESTMENT GUIDELINES**

- Fixed income investments will be made only in dollar-denominated securities traded in domestic markets.
- The portfolio shall maintain a coefficient of determination ( $R^2$ ) to the Barclays Capital Aggregate Index of not less than .90 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 in compliance with the Global Investment Performance Standards (GIPS), shall be utilized in determining portfolio compliance.

**RESTRICTED INVESTMENTS**

1. Use of margin is prohibited except as may be required in the use of futures, options and swaps.
2. Other than futures, options and swaps, the use of derivative securities that have not been specifically approved by the Board is prohibited.
3. Convertible securities shall not be considered for investment.

**PERFORMANCE OBJECTIVES**Passive Managers

- For passive managers, the manager's performance is expected to meet the Barclays Capital Aggregate Index.
- 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 15 basis points.

Active Managers

Manager performance shall be reviewed relative to the Bloomberg Barclays Capital Aggregate Index over any three to five year period, taking into consideration the following:

- The manager's performance, net of fees, is expected to exceed the Bloomberg Barclays Capital Aggregate 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 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 Index.

**OPTION 8  
MONEY MARKET OPTION  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The Money Market option seeks high current income consistent with liquidity, interest income and capital preservation.

**ASSET ALLOCATION**

The assets of each participant's account will be invested in Option 8 in accordance with the guidelines described under the "Investment Options" section of this CIP.

**INVESTMENT GUIDELINES**

The Money Market Option may invest in highly liquid money market instruments and fixed income securities with maturities not to exceed two years. The average portfolio maturity is not to exceed 6 months, notwithstanding the objective of preservation of capital. The minimum rating criteria for securities to be purchased in this paper are A1/P1 or an equivalent rating by two nationally recognized rating services.

**PERFORMANCE OBJECTIVES**

The performance of the money market fund shall be reviewed against a composite 91 day Treasury Bills index and a universe of other money market funds.

**OPTION 9  
EQUITY OPTION  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the equity option is to provide participants an opportunity for meaningful growth of capital over a long investment horizon through participation in diversified equity investments. Participants invest in a pre-packaged equity option diversified across investment styles and market capitalization.

**ASSET ALLOCATION**

Option 9 will be a diversified allocation of twenty percent allocated to a domestic large capitalization growth portfolio (Option 1), twenty percent to a domestic large capitalization value portfolio (Option 2), twenty percent to a U. S. large capitalization index portfolio (Option 3), ten percent to a mid-capitalization portfolio (Option 4), ten percent allocated to a small capitalization portfolio (Option 5) and twenty percent allocated to an international equity portfolio (Option 6).

Allocations to the underlying equity portfolios will be rebalanced periodically according to the rebalancing guidelines specified the rebalancing section of this CIP.

**INVESTMENT GUIDELINES**

The investment guidelines under Options 1 through 6, above, will apply to each respective portion of Option 9.

**PERFORMANCE OBJECTIVES**

The performance objectives specified in Options 1 through 6, above, will apply to each respective portion of Option 9.

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**OPTION 10  
BALANCED OPTION  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The objective of the balanced investment option is to provide participants with an opportunity to generate long term growth of capital, but with less short-term volatility than the all-equity investment option.

**ASSET ALLOCATION**

Option 10 will be a blend of fixed income (Option 7) and equity (Option 9) and is expected to be fully invested at all times, relying on the manager's ability to generate return through interest rate anticipation and security selection, not through the timing of market movements. Allocations to the underlying fixed income and equity portfolios will be rebalanced periodically according to the rebalancing guidelines specified the rebalancing section of this CIP.

**INVESTMENT GUIDELINES**

The investment guidelines under Options 7 and 9, above, will apply to each respective portion of Option 10.

**PERFORMANCE OBJECTIVES**

The performance objectives specified in Options 7 and 9, above, will apply to each respective portion of Option 10.

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**OPTION 11  
AGE-BASED  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The age-based investment option is intended to provide Program participants with an asset allocation profile that links the amount of volatility in the portfolio directly to the investment horizon of the participant. As the participant approaches the date at which account balances will be used for college expenses, a lower tolerance for risk is assumed and the equity component of the portfolio is reduced accordingly.

**ASSET ALLOCATION**

The assets of each participant's account will be invested in fixed income (Option 7) and equity (Option 9) in accordance with the guidelines described under the "Investment Options" section of this CIP. The Board may periodically request a review to ensure that participant balances are managed in accordance with these guidelines.

**INVESTMENT GUIDELINES**

The investment guidelines specified in Options 7 and 9, above, will apply to each account balance maintained under Option 11.

**PERFORMANCE OBJECTIVES**

The performance objectives specified in Options 7 and 9, above, will apply to each account balance maintained under Option 11.

**APPENDIX C CONTRACT**

## Investment Management Agreement

This Investment Management Agreement (the "Agreement"), is entered into this \_\_\_\_ day of \_\_\_\_\_, 2017, by and between the Florida Prepaid College Board. (the "Board"), an agency of the State of Florida, and \_\_\_\_\_ (the "Manager"), a corporation operating under the laws of the State of \_\_\_\_\_ and doing business in the State of Florida to provide Investment Management Services to the Stanley G, Tate Florida Prepaid College Program (the "Prepaid Plan") and the Florida 529 Savings Plan (the "Savings Plan").

### BACKGROUND

An Invitation to Negotiate, Index Replication for the Prepaid Plan and the Savings Plan, ITN 17-01, (the "ITN") was issued by the Florida Prepaid College Board on or about May \_\_, 2017. The Florida Prepaid College Board determined that the Manager has the expertise, organizational capacity, financial resources, and ability to perform services for the Prepaid Plan and the Savings Plan as required pursuant to this agreement.

**THEREFORE**, in consideration of the services to be performed and the payments to be made, together with the mutual covenants and conditions hereinafter set forth, the parties agree as follows:

#### I. SERVICES

##### A. REPRESENTATIONS AND WARRANTIES

The Manager represents and warrants that:

1. It is a duly registered investment adviser under the Investment Advisers Act of 1940, as amended, and further represents, warrants, and agrees that it will continue at all times during the term of this Agreement to be an investment adviser and manager, as well as a fiduciary as described in paragraph 2 of this Section and that it will comply with all federal and state security laws, rules and regulations, as well as all other state and local laws referenced by this Agreement and all rules adopted hereafter; and

2. It is an "investment manager" as such term is defined in the Employees Retirement Income Security Act ("ERISA"), 29 U.S.C. § 1002(38), with respect to the Account Assets and, by reason thereof, a fiduciary as such term is defined in ERISA. Nothing in this paragraph incorporates any other term or provision of ERISA and the terms and provisions of ERISA are not applicable to this Agreement; and

3. It is a corporation duly organized, validly existing, and in good standing under the laws of the United States and the State of \_\_\_\_\_ and has the power and authority to carry on its business as now being conducted and has the power and authority to execute, deliver, and perform this Agreement; and

4. It is duly qualified and in good standing in such other states of the United States as well as in foreign countries or political subdivisions thereof, as is necessary to perform this Agreement; and

5. It has taken all actions necessary to authorize the execution, delivery, and performance of this Agreement, and this Agreement is a valid and binding obligation of the Manager enforceable against it in accordance with its terms except as may be limited by federal and state laws affecting the rights of creditors generally and except as may be limited by legal or equitable remedies; and

6. It has made, obtained, and performed all other registrations, filings, approvals, authorizations, consents, licenses, or examinations required by any government or governmental authority, domestic or foreign, or required by any other person, corporation or other entity in order to execute, deliver, and perform this Agreement; and

7. To the best of the Manager's knowledge, neither the execution, delivery, nor performance of this Agreement by the Manager will violate any law, statute, order, rule, regulation, judgment, order or decree by or of any federal, state, local, or foreign court or governmental authority, domestic or foreign, to which the Manager is subject nor will the same constitute a breach of, or default under, provisions of any agreement or contract to which it is a party or by which it is bound.

8. It is possessed in the legal authority and capacity to enter into and perform this Agreement.

9. It has been duly authorized to operate and do business in all places where it will be required to conduct business under this Agreement; that it has obtained, at no cost to the State of Florida, all necessary licenses and permits required in connection with this Agreement; and that it will fully comply with all laws, decrees, labor standards and regulations of its domicile and wherever performance occurs during the performance of this Agreement.

10. It has no present interest nor will acquire any interest which would conflict in any manner with the Manager's duties and obligations under this Agreement.

## **B. DESCRIPTION OF SERVICES**

1. The Board hereby appoints the Manager as an investment manager with the power to invest and manage assets as allocated at the discretion of the Board (the "Account Assets") in accordance with the Statutory Prospectus set forth in Exhibit "B".

2. The Manager will provide the Board with access to replication strategies for investment of any amount, in any fund, on any trading day at the discretion of the Board.

3. The Manager will provide access as may be required by the Board to data and reporting of gross and/or net of fee investment performance; this may include monthly, quarterly and/or annual statements.

4. The Manager will provide the Board with approved logos, trademarks, copyrights and other similar identifying symbols or descriptive statements, that may be included in marketing materials created by the Board for one or more funds included in, or the entire, family of funds to the extent permitted by law.

5. The Manager will provide disclosure materials concerning each strategy within the family of funds as may be required by the Board for inclusion in any prospectus or disclosure booklet for the Prepaid Plan and/or the Savings Plan.

6. Upon request, and for a negotiated fee, the Manager will make presentations to the Florida Prepaid College Board, or as otherwise requested by the Board on investment topics including but not limited to investment strategy, mechanics, environment, performance and projections.

7. All services provided under this Agreement related to the Prepaid Plan and/or the Savings Plan shall be provided in accordance with the ITN. All provisions of the ITN, the Questions and Answers regarding the ITN, and the Manager's Proposal submitted in response to the ITN are incorporated by reference and attached to this Agreement as Composite Exhibit "A."

8. The Manager agrees to discharge its duties, as investment manager and fiduciary, with respect to the Account Assets solely in the interest of the Board and the beneficiaries thereunder and (a) with the care, skill, prudence, and diligence that a prudent man acting in the like capacity and familiar with such matters, under the then present circumstances, would use in the conduct of an enterprise of a like character and with like aims, and (b) in accordance with the investment instructions as the Board may furnish to the Manager in writing from time to time and with this Agreement.

### **C. DURATION AND CONSIDERATION**

1. The duration of this Agreement shall be for five (5) years beginning \_\_\_\_\_, 20\_\_\_\_, and continuing through \_\_\_\_\_, 20\_\_\_\_. The Board reserves the right, in its discretion to renew this Agreement for five (5) additional years under the terms and conditions set forth herein or under such terms and conditions as the parties may mutually agree upon. The renewal may be divided into increments or may be for a complete term. Any renewal or extension will be in writing and executed by both parties to this Agreement.

2. The continuation of this Agreement shall be contingent upon the satisfactory performance and evaluation of the Manager by the Board. The Board may terminate this Agreement or any part of this Agreement, without penalty or cost, at its convenience at any time and for any reason. Such termination will be effective at such time as is determined by the Board.

3. In the event the Manager files for protection or reorganization or a petition for involuntary bankruptcy is filed against the Manager, under the United States Bankruptcy Code, during the term of the Agreement, the term of this Agreement shall automatically convert to a single one-year contract terminating on the next June 30, after the bankruptcy petition is filed. In such event, the Board shall have the option to renew the Agreement or any portion of this Agreement in accordance with this Agreement or such conditions as may be negotiated between the parties for a number of one-year Agreement extensions which shall be equal to the number five minus the number of years remaining under the term of the Agreement pursuant, prior to the filing of the bankruptcy petition. Each such one-year Agreement renewal shall be contingent upon continued need and satisfactory performance by the Manager.

4. The Manager will be compensated pursuant to the Statutory Prospectus for the investment options in which the Prepaid Plan and/or the Savings Plan has invested. The Board shall pay the fees associated with holding Institutional Shares.

5. The Manager shall be compensated for services set forth in B.6 in such manner as will be agreed upon, from time to time, by the Manager and the Board.

6. All out-of-pocket expenses of the Manager, including without limitation, mailing and telephone expenses, travel expenses, salaries, and overhead costs, are to be paid for by the Manager.

7. Any invoices submitted by the Manager seeking payment for services rendered under the terms of this Agreement shall be submitted to the Board in sufficient detail to ensure proper pre-audit and post-audit thereof.

**D. NONEXCLUSIVE RIGHTS**

1. By this Agreement, the Board does not intend to grant any firm the exclusive rights to provide all materials or services required by the Board during the period covered by the Agreement.

**E. SEVERABILITY**

1. If any provisions of this Agreement are held invalid or unenforceable, such invalidity or unenforceability will not affect any other provisions, and this Agreement will be construed and enforced as if such provisions had not been included.

**F. NO ASSIGNMENTS**

1. No assignment, as that term is defined in the Investment Advisers Act of 1940, nor any other form of assignment, transfer, or conveyance of this Agreement will be made by the Manager without prior written consent of the Board.

*The remainder of this page was intentionally left blank*

**II. SPECIAL TERMS****A. OWNERSHIP OF MATERIALS**

1. The Board owns all materials developed and produced under this Agreement, unless otherwise agreed to in writing by the Board. The provisions of this Paragraph shall survive the termination of this Agreement.

**B. PUBLIC RECORDS**

1. Section 1009.98(6) and 1009.981(6), Florida Statutes, provide that all information that identifies the purchasers or beneficiaries of any advance payment contract or the benefactor or designated beneficiary of any savings account is not subject to the provisions of s. 119.07(1), Florida Statutes, the Public Records Law. All other documents, papers, letters, or other materials relating to this contract that are made or received by the Respondent in conjunction with the contract, and which are required by law to be maintained, must be available for public access pursuant to Chapter 119, Florida Statutes, and for audit purposes for a period of three (3) years after the expiration of the contract. Said records must also be maintained per Chapter 119 and other applicable Florida Statutes. The Board may cancel this Agreement if the Manager refuses to allow public access to any documents, papers, letters, or other materials subject to the provisions of Chapter 119, Florida Statutes, and made or received by the Manager in conjunction with this Agreement. The provisions of this Paragraph shall survive the termination of this Agreement.

**C. INTERPRETATION AND DISPUTE RESOLUTION**

1. In the event of any conflict, in the opinion of the Board, between any provision of this Agreement and the ITN, the Questions and Answers regarding the ITN or the Response, this Agreement shall govern the conduct of the Board and the Manager. In the event of any conflict, in the opinion of the Board, between the ITN and the Response, the ITN shall govern the conduct of the Board and the Manager. In the event of any conflict, in the opinion of the Board, between the ITN and the Questions and Answers regarding the ITN, the Questions and Answers regarding the ITN shall govern the conduct of the Board and the Manager. In the event of any conflict, in the opinion of the Board, between the Questions and Answers regarding the ITN and the Response, the Questions and Answers regarding the ITN shall govern the conduct of the Board and the Manager.

2. The validity, interpretation and performance of this Agreement shall be controlled by and construed under the laws of the State of Florida.

3. The sole and exclusive manner of resolution of all claims, disputes or controversies related to or arising under or from this Agreement shall be pursuant to Rules 19B-14.001, 19B-14.002, 19B-14.003, Florida Administrative Code, as amended from time to time.

4. Any and all litigation arising under this Agreement shall be brought in accordance with subparagraph 3 in a court of competent jurisdiction in Leon County, Florida. All appeals shall be to the First District Court of Appeals of the State of Florida.

5. The provisions of this Paragraph shall survive the termination of this Agreement.

**D. INDEMNIFICATION**

1. The Manager shall act as an independent contractor and not as an employee of the Board in the performance of the tasks and duties, which are the subject of this Agreement.

2. The Manager shall be liable, and agrees to be liable for, and shall indemnify, defend and hold the Board harmless from:

i. All claims, suits, judgments, or damages (including litigation costs and reasonable attorney's fees) arising directly from fraud, gross negligence or willful misconduct in the Manager's performance, or any subcontractor's performance, of the tasks and duties which are the subject of this Agreement. "Misconduct" means violation of Florida law, Board rules or directives, Prepaid Plan and/or Savings Plan Comprehensive Investment Plans, state or federal securities laws and rules or regulations implementing such laws.

ii. All claims, suits, judgments, or damages (including litigation costs and reasonable attorney's fees) relating to bodily injury, death of any person or damage to any real or tangible personal property arising from the Manager's performance, or any subcontractor's performance, of the tasks and duties which are the subject of this Agreement.

iii. All third-party claims, suits, judgments, or damages (including litigation costs and reasonable attorney's fees) arising from the Manager's performance, or any subcontractor's performance, of the tasks and duties which are the subject of this Agreement.

3. The Manager shall notify the Board in writing immediately of any such claim or suit. The Manager shall not settle, compromise, mediate, agree to dismiss, or voluntarily agree to the entry of any judgment, temporary injunction or permanent injunction, in any claim or suit against the Manager arising from or related to the Manager's tasks and duties which are subject of this Agreement without the prior written authorization of the Board. Nothing in this Agreement authorizes the Manager to waive the Board's immunity from suit under the Eleventh Amendment to the United States Constitution or any application of sovereign immunity recognized by federal or state courts.

4. Federal and state securities laws may impose liabilities under certain circumstances on investment advisers, managers or fiduciaries who act in good faith, and nothing herein shall constitute a waiver or limitation of any right that the Board may have under any such federal or state securities laws.

5. The provisions of this Paragraph shall survive the termination of this Agreement.

**E. PROHIBITION OF COMMUNICATION**

1. The Manager shall not initiate any communication with any member of the Florida Prepaid College Board, on any matter related to this Agreement or related to the duties of the Board under Chapter 1009, Florida Statutes, or which in any way relate to the Manager's activities. Except at publicly noticed meetings of the aforementioned boards or any of their committees, all communication by the Manager directed to the Board shall only be sent to the Executive Director of the Board who will forward

same to the appropriate party. If the Manager receives any communication from any member of the boards, the Manager shall notify the Executive Director of the Board immediately, and shall take no further action on any matter related to this Agreement or any other matter related to the duties of the Board under Chapter 1009, Florida Statutes, until advised by the Executive Director.

**F. NOTICES**

- 1. Where notice is to be sent, it shall be addressed to:

**FLORIDA PREAPID COLLEGE BOARD**

Kevin Thompson  
Executive Director  
1801 Hermitage Boulevard, Suite 210  
Tallahassee, FL 32308  
Telephone: (850) 488 - 8514  
Facsimile: (850) 488 - 3555

**THE MANAGER**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

With copy to:

GrayRobinson, P.A.  
Attention: Jason Unger, Esq.  
301 S. Bronough Street, Suite 600  
Tallahassee, FL 32301  
Telephone: (850) 577 - 9090  
Facsimile: (850) 222 - 3494

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**G. TITLES**

- 1. All titles, headings or captions respecting the section or paragraphs of this Agreement are for convenience or reference only and will not be construed as a part or limitation of those provisions to which they refer.

**H. BINDING EFFECT**

- 1. This Agreement shall be binding upon the parties, their related or resulting organizations, successors or transferees, administrative staff, agents, and attorneys.

**I. WAIVER**

- 1. Failure of either party to this Agreement to object to or to take affirmative action with respect to any conduct of the other that is in violation of the terms of this Agreement will not be construed as a waiver of the violation or breach, or of any future violation or breach.

**J. INVOICES**

1. Any invoices submitted by the Manager seeking payment for services rendered under the terms of this Agreement will be submitted to the Board in sufficient detail to ensure proper pre-audit and post-audit review time.

**K. ENTIRE AGREEMENT; AMENDMENTS**

1. This Agreement constitutes the entire agreement between the parties and supersedes any prior written or oral agreements between them. No modification or waiver of this agreement is valid unless written and properly executed by both parties.

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**IN WITNESS THEREOF**, the parties have caused this Agreement to be executed and attested by their respective officers thereunto duly authorized on the day and year first above written.

Florida Prepaid College Board

\_\_\_\_\_

By: \_\_\_\_\_

Attested to by

Its: Executive Director

\_\_\_\_\_

(Seal)

Witness

STATE OF FLORIDA

COUNTY OF \_\_\_\_\_

Before me, the undersigned authority, personally came and appeared KEVIN THOMPSON, EXECUTIVE DIRECTOR OF the FLORIDA PREPAID COLLEGE BOARD, who is personally known to me or who has produced \_\_\_\_\_ as identification.

In witness whereof, I have placed my hand and seal in the county and state last aforesaid, this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_

Notary Public, State of Florida at Large

Printed Name: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

**IN WITNESS THEREOF**, the parties have caused this Agreement to be executed and attested by their respective officers thereunto duly authorized on the day and year first above written.

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Attested to by

Its: \_\_\_\_\_

\_\_\_\_\_

(Seal)

Witness

STATE OF FLORIDA  
COUNTY OF \_\_\_\_\_

Before me, the undersigned authority, personally came and appeared \_\_\_\_\_, of \_\_\_\_\_, who is personally known to me or who has produced \_\_\_\_\_ as identification.

In witness whereof, I have placed my hand and seal in the county and state last aforesaid, this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, State of Florida at Large  
Printed Name: \_\_\_\_\_  
My Commission Expires: \_\_\_\_\_

**EXHIBIT A**  
**INVITATION TO NEGOTIATE**

**EXHIBIT B**  
**PROSPECTUS**

**EXHIBIT C**  
**MARKETING AND TRADEMARK MATERIALS**

**APPENDIX D SUPPLEMENTAL QUESTIONS GRID**





