INVESTMENT GUIDELINES
STANLEY G. TATE FLORIDA PREPAID COLLEGE PROGRAM

Effective Date: September 26, 2019

I. OVERVIEW

The Florida Prepaid College Board (Board) has established the following Investment Guidelines to support implementation of the policy and strategy set forth in the Comprehensive Investment Plan (CIP) for the Stanley G. Tate Florida Prepaid College Program (Program). The Investment Guidelines are maintained with the CIP but they are managed separately by the Board to allow for timely response to market conditions and environmental factors that may affect the Program.

II. ASSET ALLOCATION TARGET

Where applicable, the Board has established target allocations within the fund segments. The allocation may deviate from the target allocation, within the allowable range(s) provided in the CIP.

Liability Segment

The Liability Segment represents the total liability obligations (including benefits, cancellation refunds and other expenses) less the present value of projected future premium contributions as calculated by the Actuary.

The target security type allocation for the Liability Segment of the Fund and the related benchmarks are as follows:

Security Type	Current Allocation	Range*	Long-Term Target Allocation	Benchmark Index
U.S. Government Backed Securities	76%	66 - 86%	60%	Policy weighted by security selection
Investment Grade Corporate Bonds	24%	14 - 34%	40%	Bloomberg Barclays U.S. Intermediate Corporate/ Bloomberg Barclays U.S. Long Corporate

* Actively managed portfolios are authorized to be +/- 10% for Investment Grade Corporate Bonds.

The target allocation above represents an allocation to be achieved over time. Currently, the allocation is overweight U.S. Government Backed Securities and underweight Investment Grade Corporate Bonds. The Board will direct the transition to the target based on factors including, but not limited to: (1) plan prices, (2) anticipated tuition and fee inflation, (3) the strength of the actuarial reserve, and (4) plan sales.

Performance of the Liability Segment is evaluated against a custom target-weighted blend of the benchmarks for each security type in the segment. The custom benchmark is developed to replicate the behavior of the Program liabilities; thus, mitigating volatility in the funding status.

Actuarial Reserve Segment

The target Security Type allocations for the Actuarial Reserve Segment of the Fund and the related benchmarks are as follows:

Security Type	Target Allocation	Benchmark Index
Fixed Income		
Fixed Income – Active	27%	Bloomberg Barclays U.S. Aggregate Bond Index
Fixed Income – Passive	3%	Bloomberg Barclays U.S. Aggregate Float Adjusted Index
Domestic Equity		
Large Cap Growth Equity	7%	Russell 1000 Growth
Large Cap Value Equity	7%	Russell 1000 Value
Large Cap Core Equity	28%	S&P 500
Mid Cap Equity	7%	Russell 2500
Small Cap Equity	7%	Russell 2000
International Equity		
International Equity	14%	MSCI EAFE

At least quarterly, the Board shall review the target allocations.

Each Security Type has a range of +/- 5% relative to its target allocation. In order to maintain the target allocation for each Security Type, the allocation shall be monitored monthly and rebalanced to the target when the allowable ranges are exceeded. The allocation should be brought back into compliance within five business days.

Performance of the Actuarial Reserve Segment will be evaluated at the Security Type level against the benchmark for each security type.

III. COMMINGLED ACCOUNTS AND BENCHMARKS

The Board has approved the following commingled accounts and related benchmarks:

Commingled Account	Benchmark
Total Bond Market Index	Bloomberg Barclays U.S. Aggregate Float Adjusted Index

Commingled accounts are monitored per the requirements in the Guidelines for Commingled Accounts.

IV. EXCESS RETURN AND TRACKING ERROR TARGETS

Each Investment Manager has established gross excess return and ex post tracking error targets.

Liability Segment

Investment Manager	Excess Return Target	Tracking Error Target
Neuberger Berman	20 bps	50 bps
Insight	20 bps	50 bps
BlackRock	20 bps	50 bps
Northern Trust	0 bps	10 bps

Actuarial Reserve Segment

Security Type	Investment Manager	Excess Return Target	Tracking Error Target
Fixed Income			
Fixed Income	Wellington	50 bps	150 bps
Domestic Equity			
Large Cap Growth Equity	BMO	150 bps	500 bps
Large Cap Value Equity	QMA	100 bps	400 bps
Large Cap Core Equity	AllianceBernstein	0 bps	25 bps
Mid Cap Equity	AllianceBernstein	300 bps	500 bps
Small Cap Equity	Fiduciary	200 bps	700 bps
International Equity			
International Equity	PanAgora	100 bps	325 bps

V. ALLOCATION MONITORING AND REBALANCING

The Board shall review the Segment and Security Type allocations not less than quarterly. At least annually, the Board shall review and consider rebalancing of the Segment allocation between the Liability and Actuarial Reserve Segments. In addition, the Board may transfer funds between Investment Managers to maintain a reasonable and appropriate distribution of funds.

VI. COMMINGLED ACCOUNT GUIDELINES

Objective
Commingled accounts will be utilized when they are determined to provide the best value to the Board.

Benchmark
Section III of these Guidelines provide the approved commingled accounts and related benchmarks.

Investment Manager
The Board may hire multiple Investment Managers for this mandate. Investment Managers will be selected as a result of a competitive procurement process. Selected Investment Managers' authority is limited to these Guidelines and the specific commingled account prospectus.

Performance
Investment Manager performance will be evaluated using the following metrics:

1. **Passive Commingled Funds:** Performance, net of fees, shall meet the benchmark for the rolling 3- and 5-year periods

2. **Active Commingled Funds:** Performance, net of fees, shall exceed the benchmark for the rolling 3 and 5 year periods

Other factors the Board may consider in evaluating an Investment Manager include:

1. Significant changes in firm ownership and/or structure
2. Loss of one or more key personnel
3. Significant loss of clients and/or assets under management
4. Shifts in the firm's philosophy or process
5. Significant and persistent lack of responsiveness to client requests

If an Investment Manager fails to meet any of these performance objectives, the Investment Consultant will review the situation and make a recommendation as to any action the Board should take. Investment Managers serve at the pleasure of the Board and may be terminated or have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.

VII. LIABILITY SEGMENT GUIDLINES

Objective
The investment objective of the Liability Segment is to immunize the liabilities of the Program by structuring the assets in such a way that the value of the Program's assets increase/decrease in conjunction with increases/decreases in the value of the liabilities.

Benchmark
Performance of the Liability Segment is evaluated against a custom benchmark consisting of a weighted blend of the benchmarks for the security types in the segment. Section II of these guidelines provide the individual security types and benchmarks.

Allocation
The portfolio is expected to be fully invested at all times, relying on the Investment Manager's ability to generate return primarily through security selection, sector rotation and/or curve positioning, not timing of market movements. However, cash holdings may represent an integral part of an Investment Manager's desired portfolio structure. Therefore, for these purposes the Investment Manager shall be allowed to maintain a maximum cash position of 5% of the portfolio, excluding amounts held as collateral for mortgage to be announced securities.

The portfolio is expected to be invested in securities within the benchmark. However, active management strategies are allowed to invest in out-of-benchmark authorized investment vehicles, as limited below.

The use of margin is prohibited except as may be required in the use of approved Derivatives.

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 Manager
The Board may hire multiple Investment Managers for this mandate. Investment Managers will be selected as a result of a competitive procurement process. Selected Investment Managers' authority is limited to these guidelines for this mandate. All references to portfolio in these guidelines refer to the market value of funds provided to each Investment Manager under this mandate.

Authorized investment vehicles for the portfolio:

Cash or Cash Equivalent – Maximum allocation 5% of the portfolio

1. Deposit accounts and certificates of deposit in banks
2. 2a7 (actual or like) money market funds
3. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government
4. Commercial paper of prime quality
    - Must be rated the highest letter and numerical rating provided by at least two nationally recognized rating service

Obligations of the United States Treasury or Agencies – Maximum allocation 100% of the portfolio

1. United States Treasury bonds and notes
2. Interest and principal strips of Treasury securities

3. Treasury Inflation Protection Securities (TIPS)
4. Agencies of the United States Government
   - Not restricted to full-faith and credit obligations

Municipal securities – Maximum allocation of 20% of the portfolio

1. General Obligation or Revenue bonds
   - Must be rated by at least two nationally recognized rating services A-/A3 or higher. If rated by only one nationally recognized rating service, then the rating must be AA-/Aa3 or higher
2. Build America Bonds (BABs) are permitted, but limited to 10% of the portfolio
   - Must be rated by at least two nationally recognized rating services A-/A3 or higher. If rated by only one nationally recognized rating service, then the rating must be AA-/Aa3 or higher

Corporate debt obligations – Maximum allocation of 40% of the portfolio

1. Registered Bonds
   - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher
   - Convertible securities are not permitted
2. 144(a) securities (with and without registration rights) are permitted, but limited to 10% of the portfolio
   - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher

Residential Mortgage Backed Securities – Maximum allocation of 20% of the portfolio

1. United States Agency Mortgage backed securities
2. Privately Issued Mortgage Backed securities
   - Includes but is not limited to and real estate mortgage investment conduits
   - Must be rated AAA/Aaa by at least one nationally recognized rating service
   - Sub-prime mortgage backed securities are not permitted
   - Alt-A mortgage backed securities are not permitted
3. Mortgage To Be Announced (TBA) securities
   - Require a cash equivalent set aside for future settlement of the forward agreement

Other Collateralized Securities – Maximum allocation of 15% of the portfolio

1. Asset-backed and commercial mortgage backed securities
   - Must be rated AA/Aa2 by at least one nationally recognized rating service

2. 144(a) securities (with and without registration rights) are permitted
   - Must be rated by at least one nationally recognized rating services AA/Aa2 or higher

Foreign Debt Securities – Maximum allocation of 10% of the portfolio

1. Supranational Debt Obligations, Sovereign Debt Obligations, Foreign Debt Obligations
   - Must be U.S. dollar-denominated
   - Must be rated by at least one U.S. nationally recognized rating services A-/A3 or higher

Commingled Investment Funds

1. Exchange Traded Funds (ETF's), commingled investment funds and mutual funds
   - Traded on domestic exchanges
   - Primarily invested in authorized investment vehicles provided in this Guideline
   - Compliance and monitoring shall be reviewed relative to the commingled investment funds' prospectus or participation agreement
   - Before a Commingled Investment Fund is used by an Investment Manager, approval must be obtained by the Board

Derivatives

1. Derivatives shall only be used to substitute for physical securities, duration management or risk control
2. Derivative strategies must demonstrate one or more of the following benefits:
   - Increase liquidity
   - Stabilize and enhance portfolio returns
   - Lower transaction costs, including market impact costs
   - Reduction in the time required to change the mix of the portfolio
3. Before a Derivative strategy is used by an Investment Manager, approval must be obtained from the Board

Other Restrictions

Maximum investment in the securities of any issuer, except Obligations of the United States Treasury or Agencies, is 2% of the portfolio.

Active and Passive management is permitted. Passive strategies shall replicate the returns of the custom benchmark for the Liability Segment.

<u>Passive Management</u>

1. Only securities eligible for inclusion in the benchmark indices are permitted.
2. Sector allocation shall be made consistent with the benchmark sector weights.

3. Total duration, as calculated by the manager's preferred pricing source, shall not differ from benchmark duration, plus or minus, by more than one-tenth of one year (0.10 years).

4. Tracking error to the benchmark shall be less than 10 basis points.

5. The average credit quality rating must equal the benchmark.

<u>Active Management</u>

1. Total duration, as calculated by the manager's preferred pricing source, shall not differ from benchmark duration, plus or minus, by more than one-half of one year (0.50 years).

2. Tracking Error to the benchmark shall be less than 70 bps.

3. Aggregate investment in obligations of the United States Treasury and Agencies shall not be less than 50% of the portfolio.

4. The average credit quality rating cannot be more than one letter rating below the benchmark.

Performance

The Board may elect to employ multiple investment managers with complementary investment skills and/or styles. As part of this 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. As a result, non-performance information is also considered in the evaluation process.

Investment Manager performance will be evaluated using the following metrics by investment strategy.

<u>Passive Management</u>

Passive investment strategies will be assessed on a gross of fee basis.

1. Rolling gross performance shall meet the benchmark for the 3 and 5 year periods.

2. Tracking error shall not exceed 10 bps for the rolling 3 and 5 year periods.

<u>Active Management</u>

Active investment strategies will be assessed on a gross and net of fee basis. Further, while 3 and 5 year periods are used to assess performance, the Board may consider longer time periods as part of the assessment.

1. Rolling net performance shall exceed the benchmark for the 3 and 5 year periods.

2. Excess return targets shall be set for each Investment Manager. Investment Managers shall meet or exceed their excess return target for the rolling 3 and 5 year periods.

3. Rolling Alpha, calculated in accordance to the Jensen methodology, shall be positive for the 3 and 5 year periods.

4. Tracking error targets shall be set for each Investment Manager. Investment Managers shall meet or be less than their tracking error target for the rolling 3 and 5 year periods.

5. Tracking error shall not exceed 70 bps for the rolling 3 and 5 year periods.

In addition to the objectives listed above, other quantitative criteria should be considered with a focus on the interpretation of results. These criteria include risk metrics (e.g. standard deviation, downside risk, beta) and risk-adjusted performance metrics (e.g. Sharpe ratio, Treynor ratio, information ratio, excess return ratio).

Several non-performance factors may prompt the Board to re-evaluate a manager's retention. Any of the following may warrant immediate termination or further review:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests

If an Investment Manager fails to meet any of these performance objectives, the Investment Consultant will review the situation and make a recommendation to the board as to any action the Board should take. Investment Managers serve at the pleasure of the Board and may be terminated or have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.

VIII. ACTUARIAL RESERVE SEGMENT - FIXED INCOME GUIDLINES

Objective

The investment objective for this Segment is to bring broad exposure to the fixed income market and assist in limiting actuarial reserve volatility.

Benchmark

Section II of these guidelines provide the benchmark for this Segment.

Investment Manager

The Board may hire multiple Investment Managers for this mandate. Investment Managers will be selected as a result of a competitive procurement process. Selected Investment Managers' authority is limited to these guidelines for this mandate. All references to portfolio in these guidelines refer to the market value of funds provided to each Investment Manager under this mandate.

Allocation

The portfolio is expected to be fully invested at all times, relying on the Investment Manager's ability to generate return primarily through security selection, sector rotation and/or curve positioning, not timing of market movements. However, cash holdings may represent an integral part of an Investment Manager's desired portfolio structure. Therefore, for these purposes the Investment Manager shall be allowed to maintain a maximum cash position of 5% of the portfolio, excluding amounts held as collateral for mortgage to be announced securities.

The portfolio is expected to be invested in securities within the benchmark. However, active management strategies are allowed to invest in out-of-benchmark authorized investment vehicles, as limited below.

The use of margin is prohibited except as may be required in the use of approved Derivatives.

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.

Authorized investment vehicles for the portfolio:

Cash or Cash Equivalent – Maximum allocation 5% of the portfolio

1. Deposit accounts and certificates of deposit in banks
2. 2a7 (actual or like) money market funds
3. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government
4. Commercial paper of prime quality
   - Must be rated the highest letter and numerical rating provided by at least two nationally recognized rating service

Obligations of the United States Treasury or Agencies – Maximum allocation 100% of the portfolio

1. United States Treasury bonds and notes
2. Interest and principal strips of Treasury securities
3. Treasury Inflation Protection Securities (TIPS)

4. Agencies of the United States Government
   - Not restricted to full-faith and credit obligations

Municipal securities – Maximum allocation of 20% of the portfolio

1. General Obligation or Revenue bonds.
   - Must be rated by at least two nationally recognized rating services BBB-/Baa3 or higher. If rated by only one nationally recognized rating service, then the rating must be A-/A3 or higher
2. Build America Bonds (BABs) are permitted, but limited to 10% of the portfolio
   - Must be rated by at least two nationally recognized rating services A-/A3 or higher. If rated by only one nationally recognized rating service, then the rating must be AA-/Aa3 or higher

Corporate debt obligations – Maximum allocation of 70% of the portfolio

1. Registered Bonds
   - Rated by at least one nationally recognized rating services BBB-/Baa3 or higher
   - Convertible securities are not permitted
2. 144(a) securities (with and without registration rights) are permitted
   - Must be rated by at least One nationally recognized rating services BBB-/Baa3 or higher

Residential Mortgage Backed Securities

1. United States Agency Mortgage backed securities, limited to 50% of the portfolio
2. Privately Issued Mortgage Backed securities, limited to 15% of the portfolio
   - Includes but is not limited to real estate mortgage investment conduits
   - Must be rated AAA/Aaa by at least one nationally recognized rating service
   - Sub-prime mortgage backed securities are not permitted
   - Alt-A mortgage backed securities are not permitted
3. Mortgage To Be Announced (TBA) securities
   - Require a cash equivalent set aside for future settlement of the forward agreement

Other Collateralized Securities – Maximum allocation of 20% of the portfolio

1. Asset-backed and commercial mortgage backed securities
   - Must be rated AA/Aa2 by at least one nationally recognized rating service
2. 144(a) securities (with and without registration rights) are permitted
   - Must be rated by at least one nationally recognized rating services AA/Aa2 or higher
3. Collateralized Loan Obligations
   - Must be rated by at least one nationally recognized rating services AAA/Aaa or higher
   - Limited to 10% of portfolio

Foreign Debt Securities – Maximum allocation of 10% of the portfolio

1. Supranational Debt Obligations, Sovereign Debt Obligations and Foreign Debt Obligations
    - Must be U.S. dollar-denominated
    - Must be rated by at least one U.S. nationally recognized rating services BBB-/Baa3 or higher

Commingled Investment Funds – Maximum allocation of 100% of the portfolio

1. Exchange Traded Funds (ETF's), commingled investment funds and mutual funds
    - Traded on domestic exchanges
    - Primarily invested in authorized investment vehicles provided in this Guideline
    - Compliance and monitoring shall be reviewed relative to the commingled investment funds' prospectus or participation agreement
    - Before a Commingled Investment Fund is used by an Investment Manager, approval must be obtained by the Board

Derivatives

1. Derivatives shall only be used to substitute for physical securities, duration management or risk control
2. Derivative strategies must demonstrate one or more of the following benefits:
    - Increase liquidity
    - Stabilize and enhance portfolio returns
    - Lower transaction costs, including market impact costs
    - Reduction in the time required to change the mix of the portfolio
3. Before a Derivative strategy is used by an Investment Manager, approval must be obtained by the Board

Other Restrictions

Maximum investment in the securities of any issuer, except Obligations of the United States Treasury or Agencies, is 2% of the portfolio.

Active and Passive management is permitted. Passive strategies shall replicate the returns of the benchmark.

<u>Passive Management</u>

1. Only securities eligible for inclusion in the benchmark indices are permitted.
2. Sector allocation shall be made consistent with the benchmark sector weights.
3. Total duration, as calculated by the manager's preferred pricing source, shall not differ from benchmark duration, plus or minus, by more than one-tenth of one year (0.10 years).
4. Tracking error to the benchmark shall be less than 10 basis points.

5. Average credit quality rating must equal the benchmark.

Active Management

1. Total duration, as calculated by the manager's preferred pricing source, shall not differ from benchmark duration, plus or minus, by more than 20% of benchmark duration.

2. Tracking Error to the benchmark shall be less than 300 bps.

Performance

The Board may elect to employ multiple investment managers with complementary investment skills and/or styles. As part of this 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. As a result, non-performance information is also considered in the evaluation process.

Investment manager performance will be evaluated using the following metrics by investment strategy.

Passive Management

Passive investment strategies will be assessed on a gross of fee basis.

1. Rolling gross performance shall meet the benchmark for the 3 and 5 year periods.

2. Tracking error shall not exceed 10 bps for the rolling 3 and 5 year periods.

Active Management

Active investment strategies will be assessed on a gross and net of fee basis. Further, while 3 and 5 year periods are used to assess performance, the Board may consider longer time periods as part of the assessment.

1. Rolling net performance shall exceed the benchmark for the 3 and 5 year periods.

2. Excess return targets shall be set for each Investment Manager. Investment Managers shall meet or exceed their excess return target for the rolling 3 and 5 year periods.

3. Rolling Alpha, calculated in accordance to the Jensen methodology, shall be positive for the 3 and 5 year periods.

4. Tracking error targets shall be set for each Investment Manager. Investment Managers shall meet or be less than their tracking error target for the rolling 3 and 5 year periods.

5. Tracking error shall not exceed 300 bps for the rolling 3 and 5 year periods.

In addition to the objectives listed above, other quantitative criteria should be considered with a focus on the interpretation of results. These criteria include risk metrics (e.g. standard deviation, downside risk, beta) and risk-adjusted performance metrics (e.g. Sharpe ratio, Treynor ratio, information ratio, excess return ratio).

Several non-performance factors may prompt the Board to re-evaluate a manager's retention. Any of the following may warrant immediate termination or further review:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests

If an Investment Manager fails to meet any of these performance objectives, the Investment Consultant will review the situation and make a recommendation to the board as to any action the Board should take. Investment Managers serve at the pleasure of the Board and may be terminated or have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.

IX. ACTUARIAL RESERVE SEGMENT – DOMESTIC EQUITY GUIDELINES

Objective
The investment objective shall be to provide broad exposure to the domestic equity market for companies that offer the best combination of earnings, growth and valuation.

Benchmark
Section II of these guidelines provide the domestic equity mandates and related benchmarks.

Investment Manager
The Board may hire multiple Investment Managers for this mandate. Investment Managers will be selected as a result of a competitive procurement process. Selected Investment Managers' authority is limited to these guidelines for this mandate. All references to portfolio in these guidelines refer to the market value of funds provided to each Investment Manager under this mandate.

Allocation
The portfolio is expected to be fully invested at all times, relying on the Investment Manager's ability to generate return through security and/or sector selection, not timing of market movements. However, cash holdings may represent an integral part of an Investment Manager's desired portfolio structure. Therefore, for these purposes the Investment Manager shall be allowed to maintain a maximum cash position of 5%.

The use of margin is prohibited except as may be required in the use of approved Derivatives.

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.

Authorized investment vehicles for the portfolio:

Common Stock – Maximum allocation of 100% of the portfolio

1. Domestic Equities and American Depositary Receipts
   - Traded on domestic exchanges, including over-the-counter markets and recognized third and fourth markets

Commingled Investment Funds – Maximum allocation of 100% of the portfolio

1. Exchange Traded Funds (ETF's), commingled investment funds and mutual funds
   - Traded on domestic exchanges
   - Primarily invested in authorized investment vehicles provided in this Guideline
   - Compliance and monitoring shall be reviewed relative to the commingled investment funds' prospectus or participation agreement
   - Before a Commingled Investment Fund is used by an Investment Manager, approval must be obtained by the Board

Derivatives

1. Derivatives shall only be used to substitute for physical securities or control risk
2. Derivative strategies must demonstrate one or more of the following benefits:
    - Increase liquidity
    - Stabilize and enhance portfolio returns
    - Lower transaction costs, including market impact costs
    - Reduction in the time required to change the mix of the portfolio
3. Before a Derivative strategy is used by an Investment Manager, approval must be obtained by the Board

Other Restrictions

Maximum investment in any security is the greater of 5% of the portfolio or 2% greater than the benchmark weight.

Active and Passive management is permitted. Passive strategies shall replicate the returns of the benchmark.

<u>Passive Management</u>

1. Only securities eligible for inclusion in the benchmark indices are permitted.
2. Sector allocation shall be made consistent with the benchmark sector weights.
3. Tracking Error to the benchmark shall be equal to or less than 25 bps.

<u>Active Management</u>

1. Tracking Error to the benchmark shall be equal to or less than the tracking error target.

Performance

The Board may elect to employ multiple investment managers with complementary investment skills and/or styles. As part of this 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. As a result, non-performance information is also considered in the evaluation process.

Investment Manager performance will be evaluated using the following metrics by investment strategy.

<u>Passive Management</u>

Passive investment strategies will be assessed on a gross of fee basis:

1. Rolling performance shall meet the benchmark for the 3 and 5 year periods.
2. Beta, as calculated using monthly data, shall not be less than 0.98 and not more than 1.02 relative to the benchmark over any 3 year rolling period.
3. Annualized tracking error to the benchmark shall be less than 25 basis points.

Active Management

Active investment strategies will be assessed on a gross and net of fee basis. Further, while 3 and 5 year periods are used to assess performance, the Board may consider longer time periods as part of the assessment.

1. Rolling net performance shall exceed the benchmark for the 3 and 5 year periods.
2. Rolling gross performance shall rank above the median of a peer universe managing similar portfolios in a similar style for the 3 and 5 year periods.
3. Excess return targets shall be set for each Investment Manager. Investment Managers shall meet or exceed their excess return target, gross of fees, for the rolling 3 and 5 year periods.
4. Alpha, calculated in accordance to the Jensen methodology, shall be positive, net of fees for the 3 and 5 year periods.
5. Tracking error targets shall be set for each Investment Manager. Investment Managers shall not exceed their tracking error target for the rolling 3 and 5 year periods.
6. The coefficient of determination (or R-squared) relative to the benchmark, calculated using monthly data, shall not be less than 0.80 for the 3 and 5 year periods.

In addition to the objectives listed above, other quantitative criteria should be considered with a focus on the interpretation of results. These criteria include risk metrics (e.g. standard deviation, downside risk, beta) and risk-adjusted performance metrics (e.g. Sharpe ratio, Treynor ratio, information ratio, excess return ratio).

Several non-performance factors may prompt the Board to re-evaluate a manager's retention. Any of the following may warrant immediate termination or further review:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests

If an Investment Manager fails to meet any of these performance objectives, the Investment Consultant will review the situation and make a recommendation to the Board as to any action the Board should take. Additionally, Investment Managers serve at the pleasure of the Board and may have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.

X. ACTUARIAL RESERVE SEGMENT – INTERNATIONAL EQUITY GUIDELINES

Objective
The investment objective shall be to provide exposure to companies in developed markets outside of the United States.

Benchmark
Section II of these guidelines provide the benchmark for this mandate.

Investment Manager
The Board may hire multiple Investment Managers for this mandate. Investment Managers will be selected as a result of a competitive procurement process. Selected Investment Managers' authority is limited to these guidelines for this mandate. All references to portfolio in these guidelines refer to the market value of funds provided to each Investment Manager under this mandate.

Allocation
The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through security and/or sector selection, not timing of market movements. However, cash holdings may represent an integral part of an Investment Manager's desired portfolio structure. Therefore, for these purposes the Investment Manager shall be allowed to maintain a maximum cash position of 5%.

The use of margin is prohibited except as may be required in the use of approved Derivatives.

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.

Authorized investment vehicles for this mandate:

Common Stock – Maximum allocation of 100% of the portfolio

1. Foreign Equities
   - Foreign-domiciled companies traded on domestic or non-U.S. exchanges, including over-the-counter markets
   - Securities domiciled, incorporated, or traded in a benchmark country

Commingled Investment Funds – Maximum allocation of 100% of the portfolio

1. Exchange Traded Funds (ETF's), commingled investment funds and mutual funds
   - Primarily invested in authorized investment vehicles provided in this Guideline
   - Compliance and monitoring shall be reviewed relative to the commingled investment funds' prospectus or participation agreement
   - Before a Commingled Investment Fund is used by an Investment Manager, approval must be obtained by the Board

Derivatives

1. Derivatives shall only be used to substitute for physical securities, control risk or foreign currency hedging
2. Derivative strategies must demonstrate one or more of the following benefits:
   - Increase liquidity

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

3. Before a Derivative strategy is used by an Investment Manager, approval must be obtained by the Board

Other Restrictions

Maximum investment in any security is the greater of 5% of the portfolio or 2% greater than the benchmark weight.

Active and Passive management is permitted. Passive strategies shall replicate the returns of the benchmark.

<u>Passive Management</u>

1. Only securities eligible for inclusion in the benchmark indices are permitted.
2. Sector allocation shall be made consistent with the benchmark sector weights.
3. Tracking Error to the benchmark shall be equal to or less than 25 bps.

<u>Active Management</u>

1. Tracking Error to the benchmark shall be equal to or less than the tracking error target.

Performance

The Board may elect to employ multiple investment managers with complementary investment skills and/or styles. As part of this 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. As a result, non-performance information is also considered in the evaluation process.

Investment manager performance will be evaluated using the following metrics by investment strategy.

<u>Passive Management</u>

Passive investment strategies will be assessed on a gross of fee basis:

1. Rolling performance shall meet the benchmark for the 3 and 5 year periods.
2. Beta, as calculated using monthly data, shall not be less than 0.98 and not more than 1.02 relative to the benchmark over any 3 year rolling period.
3. Annualized tracking error to the benchmark shall be less than 25 basis points.

<u>Active Management</u>

Active investment strategies will be assessed on a gross and net of fee basis. Further, while 3 and 5 year periods are used to assess performance, the Board may consider longer time periods as part of the assessment.

1. Rolling net performance shall exceed the benchmark for the 3 and 5 year periods.
2. Rolling gross performance shall rank above the median of a peer universe managing similar portfolios in a similar style for the 3 and 5 year periods.
3. Excess return targets shall be set for each Investment Manager. Investment Managers shall meet or exceed their excess return target, gross of fees, for the rolling 3 and 5 year periods.

4. Alpha, calculated in accordance to the Jensen methodology, shall be positive, net of fees for the 3 and 5 year periods.

5. Tracking error targets shall be set for each Investment Manager. Investment Managers shall not exceed their tracking error target for the rolling 3 and 5 year periods.

6. The coefficient of determination (or R-squared) relative to the benchmark, calculated using monthly data, shall not be less than 0.80 for the 3 and 5 year periods.

In addition to the objectives listed above, other quantitative criteria should be considered with a focus on the interpretation of results. These criteria include risk metrics (e.g. standard deviation, downside risk, beta) and risk-adjusted performance metrics (e.g. Sharpe ratio, Treynor ratio, information ratio, excess return ratio).

Several non-performance factors may prompt the Board to re-evaluate a manager's retention. Any of the following may warrant immediate termination or further review:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Significant and persistent lack of responsiveness to client requests

If an Investment Manager fails to meet any of these performance objectives, the Investment Consultant will review the situation and make a recommendation to the Board as to any action the Board should take. Additionally, Investment Managers serve at the pleasure of the Board and may have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.

XI. SECURITIES LENDING GUIDELINES

Mandate
The selected Investment Manager(s) shall not exceed the authority provided within this guideline for the mandate. All references to percentages refer to the market value of funds provided to the Investment Manager under this mandate.

Objective
The investment objective shall be to provide additional income from loaning securities to third parties and reinvesting the cash collateral similar to 2a7 like money market funds.

Benchmark
The performance for the securities lending program shall be measured against the 91 day Treasury Bill Index.

Investment Manager
The Investment Managers' authority is limited to these guidelines for securities lending. All references to portfolio in these guidelines refer to the cash collateral received by the Investment Manager under this mandate.

Allocation
The portfolio is expected to be fully invested at all times, relying on the manager's ability to generate return through security and/or sector selection, not timing of market movements.

The use of margin is prohibited.

<u>Authorized investment vehicles for this portfolio</u>:

Cash or Cash Equivalent

1. Deposit accounts and certificates of deposit in banks
2. 2a7 (actual or like) money market funds
3. Repurchase agreements with the following collateral types and levels:
   - Obligations of the United States Treasury or agencies of the United States Government at 102%
   - Equity securities included in the S&P 500, Russell 1000 or Russell 3000 at a minimum of 105%
   - Investment grade Corporate bonds at a minimum of 105%
   - Commercial paper and certificates of deposits with a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category at a minimum of 102%
4. Commercial paper of prime quality
   - Must have a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category
5. Asset-backed commercial paper

- Excludes structured investment vehicles, extendable commercial notes and liquidity notes
- Must have a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category

Obligations of the United States Treasury or Agencies

1. United States Treasury bonds and notes
2. Agencies of the United States Government
   - Not restricted to full-faith and credit obligations

Short Term Corporate debt obligations

1. Registered Bonds
   - Must have a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category
2. 144(a) securities (with and without registration rights)
   - Must have a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category

Short Term Foreign Debt Securities

1. Supranational Debt Obligations, Sovereign Debt Obligations, Foreign Debt Obligations
   - Must be U.S. dollar-denominated and registered with the SEC
   - Must have a short term rating in the highest rating category by at least two nationally recognized rating services, or if only rated by one nationally recognized rating service, rated in the highest rating category

Other Restrictions

1. A maximum of 30% of the portfolio may be with a single borrower.
2. A maximum of 40% of the Fund may be on loan.
3. The U.S. dollar-weighted average portfolio life maturity must be 120 days or less.
4. A maximum maturity for all investments must be less than 397 days, except for variable rate United States Treasury or agencies of the United States Government securities, which shall be less than 762 days.
5. Floating and variable rate securities must have interest rates that reset at least every 97 days.
6. A minimum of 20% of the portfolio must be available each business day.
7. The rate sensitivity of the portfolio will be limited to 60 days.
8. Commercial paper, asset-backed commercial paper, certificates of deposit and time deposits must have a maturity date or demand feature not exceeding 13 months from the date of purchase.

9. Fixed rate securities must have a maturity date or demand feature not exceeding 13 months from the date of purchase.
10. A maximum of 10% of the portfolio may be invested with any one counterparty in repurchase agreements collateralized by securities other than United States Treasury or agencies of the United States Government securities.
11. A maximum of 25% of the portfolio may be invested with any one counterparty in repurchase agreements collateralized by United States Treasury or agencies of the United States Government securities.
12. Excluding overnight securities, a maximum of 40% of the portfolio may be invested in the same industry.
13. A maximum of 5% of the portfolio may be invested in any one issuer, except securities backed by the United States Treasury or agencies of the United States Government.
14. No more than 35% of the portfolio may be in repurchase agreements collateralized by securities other than those issued by the United States Treasury or agencies of the United States Government and no more than 10% of the portfolio may be in each individual type of collateral other than United States Treasury or agencies of the United States Government securities.
15. A maximum of 10% of the portfolio may be invested in a single money market fund.
16. Residual cash balances shall not be subject to diversification limits.

Performance

Investment manager performance shall be evaluated using the following metric:

1. Rolling net performance shall exceed the benchmark for the 1 and 3 year periods.

If an Investment Manager fails to meet any of these performance requirements, the Investment Consultant will review the situation and make a recommendation to the Board as to any action the Board should take. Additionally, Investment Managers serve at the pleasure of the Board and may have their funds reduced at the Board's discretion due to any qualitative or quantitative factor listed or not listed above.