

INVESTMENT GUIDELINES

FLORIDA COLLEGE SAVINGS PROGRAM

Effective Date: July 22, 2022

OVERVIEW

Florida Prepaid College Board

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 Florida College Savings Program (Program).

Investment Guidelines

The Investment Guidelines are maintained in compliance with the CIP, but they are managed and approved separately by the Board to allow for timely response to market conditions and environmental factors that may affect the Program. Updates to the Investment Guidelines are subject to approval by the Board only.

The Investment Committee shall review, in partnership with the Board's Investment Consultant, the Investment Guidelines annually, or as needed.

Limitation on Use

The CIP and Investment Guidelines are intended to guide the Board and Investment Managers in their duties of administering the Savings Program. These documents are provided publicly to ensure transparency to Savings Program participants. However, participants of the Savings Program bear responsibility for their own investment decisions and the CIP and Investment Guidelines should not be construed as investment advice.

INDIVIDUAL INVESTMENT OPTIONS, BENCHMARKS, AND FEES

To meet the Board's desire to provide a sufficient range of investment options that are flexible enough to meet the needs of participants based on their age, investment knowledge, risk and return, and cost objectives, the Board, based on guidance from the Investment Consultant, has approved the individual investment options outlined below.

Ticker numbers, as applicable, are provided to show detailed information related to the fund's investments and strategies. The Board calculates its own NAV for each investment option which may be different than the NAV provided by the fund.

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Money Market Fund

The fund seeks to provide, in priority order, safety, liquidity and competitive returns with minimization of risks. Short-term, high-quality fixed income securities rated in the highest short-term rating category by one or more nationally recognized rating service, or in comparable securities.

Manager: Florida PRIME
Fund Fee: 0.04% (4 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: Merrill Lynch 91 day T Bill
Ticker: Separately Managed Account



Core Plus Fixed Income Fund

This fund is actively managed and seeks to provide broad exposure to primarily investment grade fixed income securities plus a restricted allocation to lower credit quality investments such as high-yield and emerging market debt.

Manager: Wellington
Fund Fee: 0.22% (22 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: Bloomberg Barclays Aggregate
Ticker: Separately Managed Account



Core Fixed Income Fund

This fund seeks to provide current income through investing in high credit quality investments while providing broad exposure to the investment grade segment of the U.S. bond market.

Manager: Vanguard
Fund Fee: 0.03% (3 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: Bloomberg Barclays Aggregate
Ticker: VBMPX



High Yield Fund

The fund seeks to provide a high level of current income. The fund invests primarily in a diversified group of high-yielding, higher-risk corporate bonds with medium- and lower-range credit quality ratings.

Manager: Vanguard
Fund Fee: 0.13% (13 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: 95% Bloomberg Barclays U.S. High-Yield Ba/B 2% Issuer Capped Index and 5% Bloomberg Barclays U.S. 1-5 Year Treasury Bond Index
Ticker: VWEAX



Emerging Markets Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of U.S. dollar-denominated bonds issued by governments and government-related issuers in emerging market countries.

Manager: Vanguard
Fund Fee: 0.18% (18 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: Bloomberg Barclays U.S. Dollar Emerging Markets Government RIC Capped Index
Ticker: VGIVX



Bank Loan Fund

The fund seeks to maintain broad borrower and industry diversification by investing broadly across the floating-rate loan market, providing diversified exposure to the loan market's many sectors, credit tiers and issuers.

Manager: Eaton Vance
Fund Fee: 0.74% (74 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: S&P/LSTA Leveraged Loan Index
Ticker: EIBLX



Treasury Inflation-Protected Securities Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of inflation-protected public obligations of the U.S. Treasury with remaining maturities of less than 5 years.

Manager: Vanguard
Fund Fee: 0.04% (4 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: Bloomberg Barclays U.S. 0-5 Year TIPS Index
Ticker: VTSPX



U.S. Broad All Cap Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of the overall U.S. stock market.

Manager: Vanguard
Fund Fee: 0.02% (2 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: CRSP US Total Market Index
Ticker: VSMPX



U.S. Large Cap Equity Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of large-capitalization stocks.

Manager: Vanguard
Fund Fee: 0.02% (2 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: S&P 500 Index
Ticker: VIII



Small/Mid Cap Equity Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of small- and mid-capitalization stocks.

Manager: Vanguard
Fund Fee: 0.05% (5 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: S&P Completion Index
Ticker: VIEIX



Developed International Equity Fund

The fund seeks to invest primarily in non-U.S. equity securities and equity-like instruments of companies that are components of, or have characteristics similar to, the companies included in the MSCI EAFE Index and derivatives that are tied economically to securities of the MSCI EAFE Index.

Manager: Blackrock
Fund Fee: 0.45% (45 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: MSCI EAFE Index
Ticker: BROKX



Total International Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in developed and emerging markets, excluding the United States.

Manager: Vanguard
Fund Fee: 0.08% (8 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: FTSE Global All Cap ex US Index
Ticker: VTSNX



Global Equity Fund

The fund seeks to achieve long-term capital appreciation by allocating its assets to underlying funds that invest in domestic and international equity securities such as large capitalization, small capitalization and emerging markets stocks, as well as real estate securities.

Manager: DFA
Fund Fee: 0.25% (25 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: MSCI All Country World Index
Ticker: DGEIX



Social Index Fund

The fund seeks to track the performance of a benchmark index that measures the investment return of large- and mid-capitalization stocks; specifically excluding stocks of certain companies in the following industries: alcohol, tobacco, weapons, fossil fuels, and nuclear power.

Manager: Vanguard
Fund Fee: 0.14% (14 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: FTSE4Good US Select Index
Ticker: VFTAX



Real Estate Index Fund

The fund seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs and other real estate-related investments.

Manager: Vanguard
Fund Fee: 0.12% (12 bps)
Admin. Fee: 0.00% (0 bps)
Benchmark: MSCI US Investable Market Real Estate
Ticker: VGSLX



Fund fees and tickers for mutual funds are subject to change at the discretion of the Investment Manager and as a result, will be updated within this document as the updates occur, without Board approval.

SMA Investment Managers must manage the portfolios in compliance with the investment management agreement and the investment guidelines for the respective asset class.

Commingled account authority is limited to the specific commingled account prospectus document.

STATIC OPTION ASSET CLASS ALLOCATION

The Board, based on guidance from the Investment Consultant, has established the following pre-designed portfolios that focus on the investment goals of growth (more aggressive), income (more conservative), and a blend of the two. The portfolios are offered in both multi-manager (goal of exceeding the benchmark performance) and passive (goal of matching the benchmark performance at a lower fee) options. The investment allocations of the Static Option portfolios are constant over time (i.e., do not change based on the age of the student).

Components	Manager	Multi-Manager Portfolio			Passive Portfolio		
		Growth	Blended	Income	Growth	Blended	Income
Global Equity	DFA	43%	28%	-	-	-	-
Domestic Equity	Vanguard	23%	15%	-	50%	31%	-
International Equity	Vanguard	19%	13%	-	40%	25%	-
High Yield	Vanguard	5%	3%	10%	5%	3%	10%
Emerging Market Debt	Vanguard	5%	3%	10%	5%	3%	10%
Bank Loans	Eaton Vance	5%	3%	10%	-	-	-
Core Fixed Income	Vanguard	-	35%	60%	-	38%	70%
TIPS	Vanguard	-	-	10%	-	-	10%

Asset class balances fluctuate due to daily market movements. The actual asset class balances are monitored each business day and, within reasonable tolerance rates (+/- 2%), rebalanced to the target allocation.

To ensure the allocations remain in alignment with market expectations, they are reviewed, at a minimum, every 3 – 5 years by the Investment Consultant.

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ENROLLMENT YEAR OPTION ASSET CLASS ALLOCATON

The Board, based on guidance from the Investment Consultant, has established the following target allocations for the enrollment year funds. The Board will offer 20 individual enrollment year funds, starting at 19 years to enrollment. Years to enrollment relate to a fiscal year (July 1 – June 30). Each enrollment year fund allocates the invested funds between stocks and bonds based on remaining years to enrollment. Quarterly, the investments transition from majority-stock to majority-bond within the fund based on the chart below:

Enrollment Year Option	Asset Class Allocations									
	Years to Enrollment	US Equity	Intl. Equity	High Yield Bonds	Core Bonds	Emerging Market Debt	Bank Loans	TIPS	Money Market	Fee
2041	19.00	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	18.75	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	18.50	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	18.25	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
2040	18.00	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	17.75	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	17.50	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	17.25	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
2039	17.00	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	16.75	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	16.50	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	16.25	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
2038	16.00	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	15.75	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	15.50	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	15.25	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
2037	15.00	51.00%	34.00%	5.00%	0.00%	5.00%	5.00%	0.00%	0.00%	0.09%
	14.75	50.75%	33.88%	5.00%	0.44%	5.00%	4.94%	0.00%	0.00%	0.09%
	14.50	50.50%	33.75%	5.00%	0.88%	5.00%	4.88%	0.00%	0.00%	0.09%
	14.25	50.25%	33.63%	5.00%	1.31%	5.00%	4.81%	0.00%	0.00%	0.09%
2036	14.00	47.00%	32.00%	5.00%	7.00%	5.00%	4.00%	0.00%	0.00%	0.09%
	13.75	46.25%	31.25%	5.00%	8.75%	4.75%	4.00%	0.00%	0.00%	0.09%
	13.50	45.50%	30.50%	5.00%	10.50%	4.50%	4.00%	0.00%	0.00%	0.09%
	13.25	44.75%	29.75%	5.00%	12.25%	4.25%	4.00%	0.00%	0.00%	0.09%
2035	13.00	44.00%	29.00%	5.00%	14.00%	4.00%	4.00%	0.00%	0.00%	0.08%
	12.75	43.00%	28.50%	4.75%	15.75%	4.00%	4.00%	0.00%	0.00%	0.08%
	12.50	42.00%	28.00%	4.50%	17.50%	4.00%	4.00%	0.00%	0.00%	0.08%
	12.25	41.00%	27.50%	4.25%	19.25%	4.00%	4.00%	0.00%	0.00%	0.08%
2034	12.00	40.00%	27.00%	4.00%	21.00%	4.00%	4.00%	0.00%	0.00%	0.08%
	11.75	39.25%	26.25%	4.00%	22.75%	4.00%	3.75%	0.00%	0.00%	0.08%
	11.50	38.50%	25.50%	4.00%	24.50%	4.00%	3.50%	0.00%	0.00%	0.08%
	11.25	37.75%	24.75%	4.00%	26.25%	4.00%	3.25%	0.00%	0.00%	0.08%
2033	11.00	37.00%	24.00%	4.00%	28.00%	4.00%	3.00%	0.00%	0.00%	0.07%
	10.75	36.25%	23.50%	3.75%	29.75%	3.75%	3.00%	0.00%	0.00%	0.07%
	10.50	35.50%	23.00%	3.50%	31.50%	3.50%	3.00%	0.00%	0.00%	0.07%
	10.25	34.75%	22.50%	3.25%	33.25%	3.25%	3.00%	0.00%	0.00%	0.07%
2032	10.00	34.00%	22.00%	3.00%	35.00%	3.00%	3.00%	0.00%	0.00%	0.07%
	9.75	33.00%	21.50%	3.00%	36.75%	3.00%	2.75%	0.00%	0.00%	0.07%
	9.50	32.00%	21.00%	3.00%	38.50%	3.00%	2.50%	0.00%	0.00%	0.07%
	9.25	31.00%	20.50%	3.00%	40.25%	3.00%	2.25%	0.00%	0.00%	0.07%
2031	9.00	30.00%	20.00%	3.00%	42.00%	3.00%	2.00%	0.00%	0.00%	0.06%
	8.75	29.00%	19.50%	3.00%	43.50%	3.00%	2.00%	0.00%	0.00%	0.06%
	8.50	28.00%	19.00%	3.00%	45.00%	3.00%	2.00%	0.00%	0.00%	0.06%
	8.25	27.00%	18.50%	3.00%	46.50%	3.00%	2.00%	0.00%	0.00%	0.06%
2030	8.00	26.00%	18.00%	3.00%	48.00%	3.00%	2.00%	0.00%	0.00%	0.06%
	7.75	25.25%	17.25%	3.00%	49.75%	2.75%	2.00%	0.00%	0.00%	0.06%
	7.50	24.50%	16.50%	3.00%	51.50%	2.50%	2.00%	0.00%	0.00%	0.06%
	7.25	23.75%	15.75%	3.00%	53.25%	2.25%	2.00%	0.00%	0.00%	0.06%
2029	7.00	23.00%	15.00%	3.00%	55.00%	2.00%	2.00%	0.00%	0.00%	0.06%
	6.75	22.00%	14.50%	2.75%	56.75%	2.00%	2.00%	0.00%	0.00%	0.06%
	6.50	21.00%	14.00%	2.50%	58.50%	2.00%	2.00%	0.00%	0.00%	0.06%
	6.25	20.00%	13.50%	2.25%	60.25%	2.00%	2.00%	0.00%	0.00%	0.06%
2028	6.00	19.00%	13.00%	2.00%	62.00%	2.00%	2.00%	0.00%	0.00%	0.06%

Enrollment Year Option	Asset Class Allocations (Continued)									
	Years to Enrollment	US Equity	Intl. Equity	High Yield Bonds	Core Bonds	Emerging Market Debt	Bank Loans	TIPS	Money Market	Fee
	5.75	18.25%	12.25%	2.00%	62.50%	2.00%	1.75%	1.25%	0.00%	0.06%
	5.50	17.50%	11.50%	2.00%	63.00%	2.00%	1.50%	2.50%	0.00%	0.05%
	5.25	16.75%	10.75%	2.00%	63.50%	2.00%	1.25%	3.75%	0.00%	0.05%
2027	5.00	16.00%	10.00%	2.00%	64.00%	2.00%	1.00%	5.00%	0.00%	0.05%
	4.75	14.75%	9.50%	2.00%	64.50%	2.00%	1.00%	6.25%	0.00%	0.05%
	4.50	13.50%	9.00%	2.00%	65.00%	2.00%	1.00%	7.50%	0.00%	0.05%
	4.25	12.25%	8.50%	2.00%	65.50%	2.00%	1.00%	8.75%	0.00%	0.05%
2026	4.00	11.00%	8.00%	2.00%	66.00%	2.00%	1.00%	10.00%	0.00%	0.05%
	3.75	10.25%	7.50%	1.75%	66.50%	1.75%	1.50%	10.00%	0.75%	0.05%
	3.50	9.50%	7.00%	1.50%	67.00%	1.50%	2.00%	10.00%	1.50%	0.06%
	3.25	8.75%	6.50%	1.25%	67.50%	1.25%	2.50%	10.00%	2.25%	0.06%
2025	3.00	8.00%	6.00%	1.00%	68.00%	1.00%	3.00%	10.00%	3.00%	0.06%
	2.75	7.50%	5.50%	0.75%	68.25%	0.75%	3.50%	10.00%	3.75%	0.07%
	2.50	7.00%	5.00%	0.50%	68.50%	0.50%	4.00%	10.00%	4.50%	0.07%
	2.25	6.50%	4.50%	0.25%	68.75%	0.25%	4.50%	10.00%	5.25%	0.07%
2024	2.00	6.00%	4.00%	0.00%	69.00%	0.00%	5.00%	10.00%	6.00%	0.07%
	1.75	6.00%	4.00%	0.00%	67.75%	0.00%	5.50%	10.00%	6.75%	0.08%
	1.50	6.00%	4.00%	0.00%	66.50%	0.00%	6.00%	10.00%	7.50%	0.08%
	1.25	6.00%	4.00%	0.00%	65.25%	0.00%	6.50%	10.00%	8.25%	0.08%
2023	1.00	6.00%	4.00%	0.00%	64.00%	0.00%	7.00%	10.00%	9.00%	0.09%
	.75	6.00%	4.00%	0.00%	63.50%	0.00%	7.25%	10.00%	9.25%	0.09%
	.50	6.00%	4.00%	0.00%	63.00%	0.00%	7.50%	10.00%	9.50%	0.09%
	.25	6.00%	4.00%	0.00%	62.50%	0.00%	7.75%	10.00%	9.75%	0.09%
Enrolled	Enrolled	6.00%	4.00%	0.00%	62.00%	0.00%	8.00%	10.00%	10.00%	0.10%

Asset class balances fluctuate due to daily market movements. The actual asset class balances are monitored each business day and, within reasonable tolerance rates (+/- 2%), rebalanced to the target allocation.

To ensure the allocations remain in alignment with market expectations, they are reviewed, at a minimum, every 3 – 5 years by the Investment Consultant.

INVESTMENT MANAGER SELECTION, PERFORMANCE EVALUATION, AND MONITORING

Investment Manager Selection

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

The Program's assets will be invested primarily through mutual funds, exchange-traded funds, commingled funds, and/or separately managed accounts containing Authorized Investments as delineated by the Comprehensive Investment Plan.

If the Board determines an Investment Manager or Fund should be added or replaced, the Board will evaluate potential alternatives based on best value to participants. Best value shall include but not be limited to experience, strategy, performance, and fees. Specifically, at a minimum, the below criteria will be considered:

- Overall organizational strength and investment professional tenure.
- Well-articulated and consistent application of investment philosophy and process.
- Portfolio characteristics and sector weightings relative to style benchmark.
- Consistent performance history relative to style benchmark and industry style universe.
- Strategy's long-term risk/reward profile compared to style benchmark and industry style universe.
- Investment management fee competitiveness.

Investment Manager Performance Expectations

The Board, with the assistance of the Investment Consultant and Board Staff, will monitor the performance of its existing Investment Managers on a regular, ongoing basis. Investment returns will be measured net of investment management fees. At a minimum, the following quantitative expectations will be used as criteria for monitoring Investment Manager performance:

- For actively-managed portfolios, the Investment Manager is expected to have:
 - Performance, net of Investment Manager fees, meet or exceed the assigned benchmark for the 3 and 5 year periods.
 - Total return to rank median or above peers in the comparative peer universe for the 3 and 5 year periods
 - Volatility, as measured by standard deviation, is expected to be no greater than 120% of the assigned benchmark for the 5 year period.
- For passively-managed (or indexed) portfolios, the Investment Manager is expected to have:
 - Performance meet the assigned benchmark, gross of Investment Manager fees for the 3 and 5 year periods.
 - Volatility, as measured by standard deviation, is expected to be no greater than 110% of the assigned benchmark for the 5 year period.

The Investment Managers and their respective assigned benchmarks are identified in the Underlying Investment Manager Section above.

Where an Investment Manager does not have all the periods of historical performance with the Board, performance from the mutual fund or similar composite can be utilized for evaluation. If additional historical performance for an Investment Manager is not available, the Board's since inception performance will be monitored.

To supplement these quantitative measures, the Investment Committee may also consider qualitative factors in developing forward-looking expectations on Investment Manager performance. Examples of qualitative factors that may prompt the Board to re-evaluate a manager's ability to meet future expectations include but are not limited to:

- Significant tracking error changes on passively managed options
- Significant changes in firm ownership and/or structure
- Loss of one of more key personnel
- Significant loss of clients and/or assets under management
- Shifts in the firm's philosophy or process
- Lack of responsiveness to client requests

Investment Manager Monitoring

The Board with the assistance of its Investment Consultant will maintain a formal process for monitoring of Investment Managers (Monitoring) in relation to each Investment Manager's ability to meet the above expectations. The Monitoring shall be presented at each quarterly Board meeting and designed to address shortfalls, quantitative or qualitative, in performance relative to expectations. The Monitoring serves to facilitate communication relating to the Investment Manager(s) between the Investment Consultant and the Board. The Monitoring includes assigning a status to each Investment Manager to promote a disciplined yet flexible

approach to addressing any conditions requiring remedy in a thoughtful manner. In assigning the status, the Investment Consultant will, at a minimum, consider the following:

- Results versus quantitative expectations outlined above
- Expectations for the Investment Manager's strategy in the current market environment
- The ability of the Investment Manager to invest in the benchmark and how limitations may affect their performance in certain market environments
- Any qualitative items the Investment Consultant is aware of

The following terminology has been developed to describe each Reporting status:

"In-Compliance" – The Investment Manager is acting in accordance with the CIP and Investment Guidelines and/or there is continued confidence on a forward looking basis..

"Alert" – Continued confidence in the Investment Manager on a forward looking basis but a shortfall has been identified that causes concern. The Investment Consultant will conduct due diligence necessary to review the concern and propose the most prudent course of action (which may include no action) to the Board.

"On Notice" – Material concern has been identified that may affect the Investment Managers ability to meet future performance expectations. The concern is communicated to the Investment Manager. Specific criteria required for status upgrade is outlined, including any timeframes, in the notification. In addition, processes may be put in motion to consider alternate investment strategies. Failure to improve upon stated noted issues within the detailed time frame justifies Investment Manager termination.

"Termination" – The Board, working with the Investment Consultant, has decided to terminate the Investment Manager. The Investment Manager has been notified and transition plans are in motion.

The Investment Consultant shall document justification for Investment Managers assigned an "In-Compliance" status while substantially deviating from the quantitative expectations. In addition, the Board may request documentation for any "In-Compliance" status as determined necessary.

Monitoring shall be used by the Board as a guide rather than a required precursor to termination of an Investment Manager. The assigned status is not required to progress through each option. Based on the circumstances, and the Investment Consultant's recommendations, status can change to any level at any time, for example move from "In-Compliance" directly to "On Notice" or "Termination".

Notwithstanding these criteria, the Board may terminate any Investment Manager at any time for any sound reason in prudent service of the Program's investment objectives and participants as severity and circumstances of the concern warrant.

EXCEPTIONS TO INVESTMENT GUIDELINE REQUIREMENTS

Occasionally, in the day-to-day administration of the Program, events may occur that may require exceptions to Investment Guideline requirements. The Executive Director has the authority to grant exceptions to the Investment Guidelines provided the following:

- Does not violate the Comprehensive Investment Plan
- The exception is in the best interest of the Program
- Consideration has been given to transaction costs, market environments, and/or other pertinent information
- The exception is recommended by the Investment Consultant

Any exceptions granted must be presented to the Board at the next scheduled meeting.

Objective

Provide participants with a low risk, low volatility option for saving for qualified higher education expenses. It is expected that fixed income will be used by those participants with a short horizon to matriculation or with little appetite for short-term investment volatility.

Benchmark

The Underlying Investment Manager Section above provides the benchmarks for fixed income portfolios.

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.

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.

Quality Downgrade

If a security is downgraded to below any rating requirements, the Investment Manager shall promptly (within 10 days) notify the Board of the event and the Investment Manager's plan of action regarding the security.

Authorized investment vehicles for the portfolio:

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

- Deposit accounts and certificates of deposit in banks
- 2-a7 (actual or like) money market funds
- Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
- 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

- United States Treasury bonds and notes
- Interest and principal strips of Treasury securities
- Treasury Inflation Protection Securities (TIPS)
- Agencies of the United States Government
 - Not restricted to full-faith and credit obligations

Municipal securities – Maximum allocation of 20% of the portfolio

- 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
- 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

- Registered Bonds
 - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher
- 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

- United States Agency Mortgage backed securities, limited to 50% of the portfolio
- 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
- 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

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

- 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

- Exchange Traded Funds (ETF's), commingled investment funds and mutual funds
 - Traded on domestic exchanges
 - Primarily invested in authorized investment vehicles provided in these Guidelines
 - 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

- Derivatives shall only be used to substitute for physical securities, duration management or risk control
- 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
- Before a Derivative strategy is used by an Investment Manager, approval must be obtained from the Board

Other Restrictions

- The use of margin is prohibited except as may be required in the use of approved Derivatives. At no time may any derivative be utilized to leverage the portfolio for speculation.
- Maximum investment in the securities of any issuer, except Obligation of the United States Treasury or Agencies, is 2% of the portfolio.
- 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 the benchmark duration.
- Tracking Error to the benchmark shall be less than 150 bps.
- Credit quality rating cannot be more than one letter rating below the benchmark.

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Objective

Provide participants with the opportunity for additional growth (with additional risk) over the Core Fixed Income Option by utilizing non-investment grade credit and emerging market debt.

Benchmark

The Underlying Investment Manager Section above provides the benchmarks for Core + Fixed Income portfolio.

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 generally expected to be invested in securities within the benchmark. However, Core + Fixed Income management strategies are allowed to invest in out-of-benchmark authorized investment vehicles, as limited below.

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.

Quality Downgrade

If a security is downgraded to below any rating requirements, the Investment Manager shall promptly (within 10 days) notify the Board of the event and the Investment Manager's plan of action regarding the security.

Authorized investment vehicles for the portfolio:

Cash or Cash Equivalent

- Deposit accounts and certificates of deposit in banks
- 2-a7 (actual or like) money market funds
- Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
- 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

- United States Treasury bonds and notes
- Interest and principal strips of Treasury securities
- Treasury Inflation Protection Securities (TIPS)
- Agencies of the United States Government
 - Not restricted to full-faith and credit obligations

Municipal securities

- General Obligation or Revenue bonds
 - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher
- Build America Bonds (BABs)
 - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher

Corporate debt obligations

- Registered Bonds
- 144(a) securities (with and without registration rights) are permitted

Residential Mortgage Backed Securities

- United States Agency Mortgage backed securities
- Privately Issued Mortgage Backed securities
 - Includes but is not limited to real estate mortgage investment conduits
 - Must be rated BBB-/Baa3 by at least one nationally recognized rating service
 - Sub-prime mortgage backed securities are not permitted
 - Alt-A mortgage backed securities are not permitted
- Mortgage To Be Announced (TBA) securities
 - Require a cash equivalent set aside for future settlement of the forward agreement

Other Collateralized Securities

- Asset-backed and commercial mortgage backed securities
 - Must be rated BBB-/Baa3 by at least one nationally recognized rating service
- 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
- Collateralized Loan Obligations
 - Must be rated by at least one nationally recognized rating services BBB-/Baa3 or higher

Foreign Debt Securities

- Supranational Debt Obligations, Sovereign Debt Obligations and Foreign Debt Obligations

Commingled Investment Funds

- 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

- Derivatives shall only be used to substitute for physical securities, duration management or risk control
- 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
 - Currency risk management
- Before a Derivative strategy is used by an Investment Manager, approval must be obtained from the Board

Other Restrictions

- The use of margin is prohibited except as may be required in the use of approved Derivatives.
- Maximum investment in the securities of any issuer, except Obligations of the United States Treasury or Agencies, is 2% of the portfolio.
- Maximum investment in unrated securities is 5%.
- Maximum investment in securities rated less than BBB-/Baa3 is 20% of the portfolio.
- 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 the benchmark duration.
- Tracking Error to the benchmark shall be less than 300 bps.

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