

## **TRUST AGREEMENT**

This Trust Agreement ("Agreement") is entered into between the Client and the SBA on the Effective Date. The terms "Client," "SBA," "Effective Date," "Funds" and "Pools" are defined in Enclosure 1.

1. The investment strategy to be implemented by the SBA for the Client is described in Enclosure 2.

2. As compensation the SBA will be paid fees as described in Enclosure 3. These fees will be deducted in the manner set forth in Enclosure 3.

3. If the investment strategy described in Enclosure 2 is employed for other clients of the SBA, then the Funds may not be commingled with the funds of the other clients for investment purposes, absent authorization from the Client. A separate accounting of Funds for the Client will be maintained at all times.

4. The SBA will perform any discretionary investment duties in accordance with the fiduciary standards set forth in Section 215.47(9), Florida Statutes.

5. Deposits and withdrawals of Funds will be governed by the provisions of Enclosure 3. The SBA will provide the Client with reports as described in Enclosure 3.

6. The persons listed as "designated representatives" of the Client and the SBA on Enclosure 4 are responsible for the day-to-day management and coordination of transactions.

7. This Agreement may be modified at any time upon mutual written agreement of the Client and the SBA. This Agreement is intended to be a temporary arrangement to assist the Client in investing the Funds pending the Client's selection of an investment manager. This Agreement may be terminated, with or without cause, at any time by either party by giving the other party 30 days advance notice in writing, but shall terminate no later than May 1, 2008.

8. All notices, requests, instructions, other advice, or documents required hereunder shall be in writing and delivered personally or mailed by first-class mail, postage prepaid,

**If to the SBA:**

if mailed:	State Board of Administration Post Office Box 13300 Tallahassee, Florida 32317-3300 Attention: Deputy Executive Director
if hand delivered:	State Board of Administration 1801 Hermitage Boulevard, Suite 100 Tallahassee, Florida 32308 Attention: Deputy Executive Director
with copies to:	SBA Corporate Governance and Investment Communications

**If to the Client:**

Thomas Wallace  
Florida Prepaid College Board  
1801 Hermitage Boulevard, 2<sup>nd</sup> Floor  
Tallahassee, Florida 32308

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

10. The SBA has taken all necessary action to duly authorize the execution, delivery, and performance of this Agreement.

11. The Client represents and warrants that:

a) It is acting on its own account and has made its own independent decision as to whether or not to enter into this Agreement and whether or not the two actively managed large cap value strategies described herein are suitable for it, and it is not relying on any oral or written communication from the SBA as investment advice; and

b) It is capable of assessing for itself the merits of this Agreement; and

c) It acknowledges that the SBA is not acting as a fiduciary or investment adviser to the Client for the purposes of deciding whether or not to enter into this Agreement.

12. This Agreement and any and all enclosures and exhibits attached hereto, which are incorporated into the Agreement by this reference, constitute and embody the entire agreement and understanding of the parties with respect to the subject matter hereof,


supersede any prior or contemporaneous agreements or understandings with respect to the subject matter hereof, and, unless otherwise provided herein, cannot be altered, amended, supplemented, or abridged or any provisions waived except by written agreement of the parties as herein provided.

**13.** This Agreement shall be construed and enforced in accordance with the laws of the United States of America and, to the extent not inconsistent therewith, the laws of the State of Florida. The Client consents to the exclusive jurisdiction of Florida courts with respect to all legal proceedings instituted by the Client or the SBA hereunder.

**14. DISCLAIMER:** Notwithstanding anything herein to the contrary, the SBA makes no representations, warranties or guarantees regarding the performance of the Funds invested hereunder. The SBA agrees only to invest the Funds as directed by the Client pursuant to Enclosure 2 of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and attested by their respective officers thereunto duly authorized on the Effective Date.


**CLIENT**

  
\_\_\_\_\_  
Thomas Wallace  
Executive Director

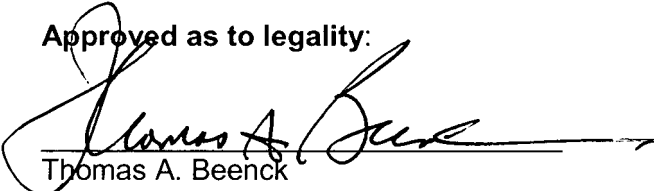
**Attest:**

  
\_\_\_\_\_  
Mari Cashman

**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

  
\_\_\_\_\_  
Coleman Stipanovich  
Executive Director

**Approved as to legality:**

  
\_\_\_\_\_  
Thomas A. Beenck  
Assistant General Counsel

**ENCLOSURE 1**

**TO THE TRUST AGREEMENT BETWEEN**

**THE STATE BOARD OF ADMINISTRATION OF FLORIDA**

**AND THE FLORIDA PREPAID COLLEGE BOARD**

1. "Client" means the Florida Prepaid College Board on behalf of the Florida Prepaid College Trust Fund.
2. "SBA" means the State Board of Administration of the State of Florida.
3. The "Effective Date" is May 15, 2007.
4. "Funds" means existing securities, proceeds, income and any future contributions of Client.
5. "Pools" or "Pool" are commingled investment vehicles under the SBA's Commingled Asset Management Program that are managed for the benefit of SBA clients that are non-qualified for retirement fund status.
6. "QMA" means Quantitative Management Associates, the investment manager designated to invest Funds of the Client.
7. "QMA Monthly Large Cap Value" shall mean the portfolio that QMA invests Funds of the Client in a large cap value style with at least monthly liquidity on behalf of the Client.
8. "QMA Daily Large Cap Value" shall mean the portfolio that QMA invests Funds of the Client in a large cap value style with at least daily liquidity on behalf of the Client.

**ENCLOSURE 2**

**TO THE TRUST AGREEMENT BETWEEN**

**THE STATE BOARD OF ADMINISTRATION OF FLORIDA**

**AND THE FLORIDA PREPAID COLLEGE BOARD**

Through this Agreement, the Client has authorized the SBA to contract with QMA to invest Funds in QMA Monthly Large Cap Value and QMA Daily Large Cap Value and such contract. The SBA shall be responsible for the monitoring of QMA's Large Cap Value strategy and related organizational issues as utilized as an investment manager for the Funds, according to the SBA Manager Monitoring Guidelines and shall promptly advise the Client if such manager is placed on Watch List. The SBA has the sole discretion to terminate QMA as an investment manager for the Client, without affecting or considering this Agreement. In the event of such termination of QMA as an investment manager for the Client, the SBA and the Client will mutually determine the status of QMA under this Agreement.

Absent express prior written amendment to this Agreement, the Client has responsibility for establishing and overseeing all custodial accounts as necessary, in its sole judgment, to facilitate investment of Funds in QMA Monthly Large Cap Value and QMA Daily Large Cap Value. The Client acknowledges the following:

1. Investment strategies providing higher expected long-term returns, including those actively managed, are likely to exhibit greater volatility than investment strategies providing lower expected long-term returns, including those passively managed.
2. Past performance is not indicative of future performance and erosion of the value of the Funds may naturally occur if market performance falls short of historical norms or forward looking expectations for periods of time.
3. Asset allocation will be the primary factor governing future investment returns for Funds under management, assuming sufficient diversification within QMA Monthly Large Cap Value and QMA Daily Large Cap Value.
4. QMA Monthly Large Cap Value and QMA Daily Large Cap Value will be actively managed and QMA's strategy and tactics that are implemented with an intent to outperform its Russell 1000 Value Index over multiple market cycles may cause it to underperform such Index, significantly and for extended periods of time.

The QMA Monthly Large Cap Value and the QMA Daily Large Cap Value Narrative of Strategic Approach is attached as an exhibit hereto.

## EXHIBIT 1 TO ENCLOSURE 2: QMA LARGE CAP VALUE NARRATIVE OF STRATEGIC APPROACH

QMA uses a quantitative process to buy a diversified portfolio of low valued companies, including some of those that are the most out-of-favor. They do not look for catalysts that will reverse the fortunes of troubled companies. Rather, QMA looks to hold a diversified group of low valued companies, with the belief that, on average, the market has exaggerated their problems.

The investment objective is to exceed the Russell 1000 Value Index over a market cycle.

The philosophy underlying the large value product is that the most appropriate descriptor of low value is price/earnings ratio, using historic earnings which have been adjusted to get to historical operating earnings from continuing operations. An "expert system" identifies material items in reported earnings that warrant detailed review. Based on guidelines developed over the more than 15 years that adjustments have been made, team members verify that an appropriate adjustment is being made. Some of the more common examples of adjustments include: a gain or loss on the sale of an asset, a gain from a tax benefit or a charge due to corporate restructuring. The process does not attempt to recast GAAP earnings for accounting assumptions such as depreciation schedules or inventory valuation methods. Also, no attempt is made to project a company's earnings forward.

Adjusting earnings tends to add portfolio alpha when low fundamental valuations are favored in the market, but may detract from alpha when growth investing is dominating the market. The adjustment process results in a more diversified portfolio with respect to industry exposures than would otherwise be the case. Adjustments to earnings reduce the volatility of the earnings streams of the companies screened and held, and generally have the effect of lowering the portfolio turnover, which, in turn, is expected to increase alpha in the portfolio.

To improve the timing of purchases and sales the Manager focuses on persistency of low valuation by normalizing a company's price/earnings ratio over a two year period. Hence, companies must exhibit persistency of being low valued prior to purchase and being high valued prior to sale. Additionally, relative performance screens serve to give confirmation of low valued companies truly being out-of-favor prior to purchase, and in-favor prior to sale.

The portfolio typically consists of 125-200 security holdings in a modified equal weighting, with a maximum individual stock holding of generally 4-6% and a maximum single industry group of approximately 25%. The portfolio is normally fully invested, with cash typically representing 0-10%..

**ENCLOSURE 3**  
**TO THE TRUST AGREEMENT BETWEEN**  
**THE STATE BOARD OF ADMINISTRATION OF FLORIDA**  
**AND THE FLORIDA PREPAID COLLEGE BOARD**

1. The SBA agrees to waive the standard administrative support/investment service fee amount of 1.5 basis points annualized, calculated and charged monthly based on end-of-month market value of Funds in QMA Monthly Large Cap Value and QMA Daily Large Cap Value in lieu of a one-time charge approximating actual costs. The one-time charge will be determined by the Chief Operating Officer, upon expiration of this agreement on May 1, 2008.
  - a) The Chief Operating Office will conduct an analysis of staff time/costs dedicated to implementing the terms of this agreement to determine an appropriate reimbursable amount due to the SBA for services rendered, not to exceed \$35,000.
  - b) The Chief Operating Office will provide client with a summary of the analysis findings along with an invoice no later than June 1, 2008 for the reimbursable amount due to the SBA. The amount due is payable in full on or before June 30, 2008.
2. The SBA will not be responsible for providing the Client with monthly, quarterly or annual accounting or financial reports. All accounting and financial reporting and reconciliations of such shall be the responsibility and at the expense of the Client. The Client shall reimburse the SBA for the investment management fees paid by the SBA to QMA pursuant to the terms of the Investment Management Agreement between the SBA and QMA for the investment of the Funds.
3. The Client retains all responsibility for directing, facilitating and reviewing deposits, withdrawals and transfers on a daily, monthly or non-periodic basis of Funds to and from QMA Monthly Large Cap Value and QMA Daily Large Cap Value, including interactions between custodian, QMA and participant recordkeeper.
4. The Client shall at least quarterly secure from the custodian or consultant, as applicable, account statements and performance measurement of the QMA Monthly Large Cap Value and QMA Daily Large Cap Value for provision to the SBA.
5. Client requests for QMA information, including in-person appearances at Client board meetings or interaction with the Client's investment consultant, will be communicated to both QMA and the SBA, but QMA will bear sole responsibility for provision, timeliness and accuracy of such requested information.

**ENCLOSURE 4**  
**TO THE TRUST AGREEMENT BETWEEN**  
**THE STATE BOARD OF ADMINISTRATION OF FLORIDA**  
**AND THE FLORIDA PREPAID COLLEGE BOARD**

The designated representatives for the SBA are as follows:

**FOR THE SBA:**

Ben Latham  
Kevin SigRist  
Gwenn Thomas  
Robert Copeland  
Coleman Stipanovich

The Client's designated representatives are:

Thomas Wallace  
William Nichols



**ENCLOSURE 5**

**TO THE TRUST AGREEMENT BETWEEN**

**THE STATE BOARD OF ADMINISTRATION OF FLORIDA**

**AND THE FLORIDA PREPAID COLLEGE BOARD**

SBA and QMA Investment Management Agreement for Funds

## INVESTMENT MANAGEMENT AGREEMENT

This Investment Management Agreement (the "Agreement"), is dated as of May 16, 2007, and is between the **STATE BOARD OF ADMINISTRATION OF FLORIDA** (the "SBA"), acting on behalf of the Florida Prepaid College Board (the "Board"), having its office at 1801 Hermitage Boulevard, Suite 100, Tallahassee, Florida 32308, and **QUANTITATIVE MANAGEMENT ASSOCIATES LLC**, (the "Manager"), having its office at 2 Gateway Center, 4th floor, Newark, New Jersey 07102.

### WITNESSETH

WHEREAS, the Florida Prepaid College Board desires to transfer certain funds to the SBA for investment during the time period May 15, 2007, to May 1, 2008, while the Florida Prepaid College Board conducts a new search for an investment manager; and

WHEREAS, the SBA desires to appoint the Manager to serve as investment adviser and manager for certain assets of the funds of the Florida Prepaid College Board during this one (1) year period; and

WHEREAS, the Manager desires to act in such capacity as investment adviser and manager with the authority and responsibility to invest the Account Assets (as defined in Section 2 of this Agreement); and

NOW, Therefore, the parties hereto, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

SBA Contract No. 007 307

1. The Manager represents and warrants that:

(a) it will continue at all times to be a fiduciary as described in subsection (b) of this Section and that it is a registered investment adviser under the Investment Advisers Act of 1940 (hereinafter called the "Advisers Act") or Section 517.12, Florida Statutes, and is in lawful compliance with the provisions of the Advisers Act and/or Section 517.12, as applicable, and covenants and agrees that it shall promptly notify the SBA in writing within 5 working days of the revocation, restriction or suspension of such registration or of the Manager's failure to maintain such registration or comply with any applicable provision of the Advisers Act or Section 517.12, in the performance of its duties under this Agreement; and

(b) it is an "investment manager" as such term is defined in the Employee Retirement Income Security Act ("ERISA") with respect to the Account Assets and, by reason thereof, a fiduciary as such term is defined in ERISA with respect thereto, notwithstanding the fact that the terms and provisions of ERISA may not be applicable to this Agreement; and

(c) it is a limited liability company duly organized, validly existing, and in good standing under the laws of the United States and the State of New Jersey 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

(d) it is duly qualified and in good standing in such other states of the United States and in the District of Columbia, as well as in such foreign countries or political subdivisions thereof, as is necessary to perform this Agreement; and

(e) it has taken all corporate or other 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

(f) 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 or entity in order to execute, deliver, and perform this Agreement; and

(g) 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, or regulation of, or judgment, order or decree by, 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; and

(h) if the Manager has answered "Yes" to any questions posed in Item 11 of Form ADV (Uniform Application for Investment Adviser Registration), Part I, Manager affirms that it has provided to the SBA a copy of such Form ADV, Part I, or amended Form ADV, Part I, prior to the date of execution of this Agreement by Manager, and if the Manager answers "Yes" to any questions posed in Item 11 of Form ADV, Part I, during the term of this Agreement the Manager covenants and

agrees to provide the SBA with a copy of such Form ADV, Part I, or amended Form ADV, Part I, within 5 working days after the Form ADV, Part I, or amended Form ADV, Part I, has been filed with the Securities and Exchange Commission. All of the Manager's representations and warranties set forth in this Agreement shall survive the termination of this Agreement.

2. The SBA hereby appoints the Manager as an investment manager with the power to invest and manage the assets which from time to time are allocated to the Accounts (as defined below) that the Board has opened with its Custodian, Northern Trust, as indicated in Schedule A, which is attached hereto and incorporated into this Agreement by this reference, and the Manager hereby accepts such appointment on the terms and conditions set forth herein. "Accounts" shall mean two accounts of the Florida Prepaid College Board, consisting of an account containing certain assets of the Florida College Savings Program ("FCSP") and an account containing certain assets of the Florida Prepaid College Plan ("FPCP"), which have been entrusted to the SBA for investment and management purposes pursuant to a Trust Agreement between the Florida Prepaid College Board and the State Board of Administration of Florida dated May 15, 2007 (the "Trust Agreement"), and which the SBA hereby entrusts to Manager's management pursuant to the terms of this Agreement. "Account Assets" shall mean the assets contained in the Accounts, and the assets which the SBA, from time to time upon written notice to Manager, contributes to the Accounts, together with dividends, income, proceeds, and profits thereon. The SBA authorizes the Manager to invest

the Account Assets, subject to the fiduciary standards set forth in Section 5 of this Agreement and the investment objectives, guidelines, restrictions and limitations described in the attached Schedule B, which is attached hereto and incorporated into this Agreement by this reference, or its subsequent revision. Account Assets may be loaned by the Florida Prepaid College Board pursuant to a securities lending agreement with the Custodian (see Schedule A). Additionally, at the discretion of the Florida Prepaid College Board, Account Assets may be loaned pursuant to and in accordance with securities lending contracts with other providers. The Florida Prepaid College Board will invest any cash balance in the Accounts.

3. (a) The Manager is hereby authorized on behalf of the SBA, as its agent and manager of the Account Assets, to exercise discretionary investment authority (subject to the standards and investment objectives, guidelines, restrictions and limitations indicated in Section 2, above), without obtaining the prior consent of or consulting with the SBA, or any other person, (i) to issue to brokers instructions to sell, and otherwise trade in, or deal with, the Account Assets, (ii) to purchase and sell to any person the Account Assets, (iii) to instruct any trustee or custodian of any and all of the Account Assets to receive, accept and deliver securities or other assets sold, exchanged or otherwise disposed of from the Account, and (iv) generally to perform any other act necessary or proper to enable the Manager to carry out its obligations under this Agreement. The Manager shall use its best efforts to obtain the best net price and the most favorable execution of each purchase and sale transaction. In selecting a broker-dealer for a particular

transaction, the Manager shall obtain best execution, considering such factors as execution capabilities required by a transaction, cost, speed, efficiency, confidentiality and other factors, including the provision of research or other services or products to the Account or other accounts serviced by the Manager; provided that, the Manager shall comply with Section 28(e) of the Securities Exchange Act of 1934 and the Soft Dollar Standards adopted by the CFA Institute.

(b) It is understood that the Manager performs investment advisory services for various clients. The SBA understands that the Manager may give advice and take action with respect to any of its other clients which may differ from advice given to the SBA, or the timing or nature of action taken with respect to the Accounts; provided, however, the Manager agrees that it will (i) not favor or disfavor consciously or consistently any client or class of clients in the allocation of investment opportunities, and (ii) to the extent practicable see that such opportunities are allocated among clients over a period of time on a fair and equitable basis.

(c) Nothing in this Agreement shall impose upon the Manager any obligation to purchase or sell, or to recommend for purchase or sale, for the Accounts any security which the Manager, its principal affiliates or employees may purchase or sell for its or their own accounts or for the account of any other client, if in the discretion of the Manager such investment would be unsuitable for the Accounts or if the Manager determines in the best interest of the Accounts it would be impractical or undesirable.

(d) In the event monies in the Florida Prepaid College Trust Fund fail to offset the Florida Prepaid College Board's liability to the qualified beneficiaries of advance payment contracts as a result of imprudent investing by the Manager, the Manager agrees to be liable for the Florida Prepaid College Board's liability. Investments made by the Manager in accordance with the Investment Management Guidelines set forth as Schedule B to this Agreement or the Comprehensive Investment Plans adopted by the Florida Prepaid College Board will not be considered imprudent.

4. (a) The Manager shall send a statement of all investments, receipts, disbursements (including but not limited to fees and commissions paid), and other transactions directed by it for the Accounts to the Florida Prepaid College Board and the SBA monthly. The Manager shall keep accurate and detailed records of all transactions entered into pursuant to this Agreement and such records shall be open to inspection and audit at all reasonable times by representatives of the Florida Prepaid College Board and the SBA. Within fifteen (15) days following the close of each calendar month during the term of this Agreement and, within thirty (30) days following the end of a calendar quarter, or within thirty (30) days after the effective date of the termination of this Agreement, the Manager shall file a written report with the SBA setting forth all transactions effected by it during the preceding period (i.e., calendar month, quarter or applicable period prior to termination), including a schedule of assets of cash and securities, which securities shall be identified by issuer; type of security; maturity date, if any; rate of interest, if any; collateral, if



any; and par or maturity value, if applicable. Such report shall also contain a valuation of the securities and options over which the Manager has control. Such assets shall be valued as of the close of business on the last business day of the preceding period.

(b) The Manager will provide any information and descriptive statements concerning the large capitalization value domestic equity investment product and the investment strategy used for the management of such product as may be periodically required by the Board for inclusion in any prospectus or disclosure booklet for the Florida Prepaid College Program or Florida College Savings Program. The Board may specify the requirements for such information or descriptive statements and the times when such information or statements must be submitted to the Board. Any such information and descriptive statements are subject to the prior written approval of the Board and the Board may require changes to such information and descriptive statements. The Board will work cooperatively with the Manager to ensure the information and statements included in any prospectus or disclosure statement for the Program are accurate in all material respects and are not misleading. Notwithstanding the foregoing, (i) Manager shall only be responsible for the accuracy of information and descriptive statements that it provides to the Board (and not for changes to such information made without Manager's approval); and (ii) Manager shall have no responsibility for ensuring that any prospectus or disclosure booklet complies with applicable State law or federal securities laws.

(c) The Manager will present reports to the Board, at a minimum on a quarterly basis, to review performance of the Accounts, changes in manager strategies and investment personnel, and to prepare written monthly, quarterly and fiscal year-end reports in a format as required by the Board. Monthly reports will be provided no later than fifteen (15) days after the last day of the month which is the subject of the report; quarterly reports will be provided no later than thirty (30) days after the last day of the quarter which is the subject of the report. The Manager will make available to the Board's appointed consultant any information necessary for the conduct of its responsibilities to the Board including final asset and transaction statements within two weeks of month end.

(d) In computing the market value of all common and preferred stock and options in the Accounts, each such security listed on any national securities exchange shall be valued at the last sale price on the valuation date. Options, listed stocks not traded on valuation date and all unlisted stocks regularly traded in the over-the-counter market shall be valued at the closing price furnished to the Manager by such sources as may be deemed appropriate. Any other security shall be valued in such manner as determined in good faith by the Manager and agreed to by the SBA to reflect its fair market value.

5. The Manager agrees to discharge its duties, as investment manager and fiduciary, with respect to the Account Assets solely in the interest of the Florida Prepaid College Board, the beneficiaries thereunder and the SBA, and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent

man acting in the like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Manager further agrees that it will continue at all times during the term of this Agreement to be an investment manager and a fiduciary as above described, and that it will comply with all laws, rules, and regulations of any governmental authority or agency having applicability to the transactions contemplated by this Agreement, and that it will perform in accordance with the standards of care set forth in this section and this Agreement.

6. The Manager hereby covenants and agrees that it shall (i) immediately notify the SBA if it fails to comply with or will for any reason be unable to comply with any term, condition or provision of this Agreement; (ii) immediately notify the SBA of any material change in the Manager's partners, directors, managers, managing members, or employees who exercise investment discretion with respect to the Accounts or of any other material adverse change in the Manager's condition, financial or otherwise, or in its business, business organization, or any such change which is or might be materially adverse to the Manager or the Accounts; (iii) notify the SBA, if any of the partners, directors, managers, member-managers or employees of the Manager, or any of the partners, directors, managers, member-managers or employees of any "affiliated person" of the Manager (as that term is defined in the Investment Company Act of 1940), to the actual knowledge of the Manager's senior management (without inquiry) or as otherwise required by law, is employed by, sits on the board of, or provides consulting or similar services to, an

issuer of securities in which the Manager has invested, or intends to invest, Account Assets; (iv) immediately notify the SBA, following the occurrence of any happening or event which would cause any representation or warranty of the Manager in Section 1 hereof, to be no longer true and correct in all respects (assuming solely for the purpose of this covenant of notification that all such representations and warranties are deemed to be reiterated and brought down during each successive day during this Agreement) provided that nothing in this provision shall detract from or modify any representation or warranty made by the Manager in Section 1 hereof; (v) Notwithstanding the notice requirements contained in this Section 6, the Manager shall not be required to disclose any information that (i) the Manager or any other Prudential Financial, Inc. company would not otherwise disseminate to the public if Manager reasonably and in good faith believes that such disclosure would require full public disclosure of such information under applicable securities laws because it would be considered material, nonpublic information regarding Prudential Financial, Inc., or (ii) if disclosure is otherwise prohibited pursuant to applicable law or order of a court of competent jurisdiction.

7. The objective of the Manager is to produce an incremental return over a mutually acceptable benchmark. This objective is outlined in Schedule B, which is attached hereto and made a part of this Agreement.

8. (a) Custody and control of all Account Assets shall remain with the Florida Prepaid College Board Custodian. Accordingly, the Manager will arrange to have all investments, option premium funds or other cash flow arising from any

transaction effected in accordance with the terms and provisions of this Agreement to be promptly remitted to the Florida Prepaid College Board's Custodian and credited to the appropriate Account number. The Manager shall also provide the SBA with such information as the SBA, from time to time, may request with regard to the Account Assets, including the identity of the employees, officers, and directors or other principals of the Manager, or other matters relating to this Agreement and the transactions contemplated hereby. The Manager will have the responsibility to monthly provide the Florida Prepaid College Board with data to support asset and return reconciliations between the Manager and the Custodian and to participate and cooperate fully and proactively in such reconciliation processes, as may be requested by the SBA, the Florida Prepaid College Board, and/or the Custodian. The objective of the Manager's participation in such reconciliation processes will be to help identify and resolve, to the extent practicable, material discrepancies between the Manager's records and the Master Custodian's records. The SBA with the approval of the Florida Prepaid College Board has the power at any time, in its sole discretion, to appoint one or more additional or substitute custodians to hold the Account Assets pursuant to the terms of any other custody agreements or pursuant to the terms of Schedule A, attached hereto and made a part of this Agreement, as may be revised.

**(b)** The SBA, during the term of this Agreement, will give the Manager notice of any termination of the Custodian or any substitute custodian.

(c) The Manager agrees to cooperate with the Custodian or its successor in connection with all transactions for the Accounts.

9. The Manager represents and warrants that it presently has in effect insurance coverage which complies with the bonding requirements of Section 412 of ERISA, and the Manager covenants that it shall keep such insurance coverage as required by said section (as the same may from time to time be supplemented or amended) in effect during the term of this Agreement, notwithstanding the fact that the terms and provisions of ERISA may not be applicable to this Agreement. Upon request of the SBA, the Manager shall provide to the SBA evidence that the premium therefor has been paid.

10. The Manager presently has in effect, and will maintain during the term of this Agreement, fiduciary liability insurance in an amount not less than \$25,000,000 which provides coverage with respect to any loss resulting from a breach of its fiduciary duties and including coverage in the event of recourse against it by, or on behalf of, the SBA. Upon request of the SBA, the Manager shall provide to the SBA evidence that the premium therefor has been paid.

11. (a) The Manager agrees to reimburse the SBA for, and to hold the SBA and each entity having an interest in the Account Assets harmless from, all liabilities, claims, losses, costs, and expenses arising from, or in connection with, the Accounts (including reasonable attorneys' fees and expenses) which are judicially determined to result from the Manager's willful misconduct, lack of good faith, or negligence, or, from the actions or inactions of, or by, the Manager in

violation of its duties hereunder or for which it would otherwise be legally liable under applicable law. The agreement and obligation of the Manager under this provision shall survive the termination of this Agreement.

(b) 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 SBA may have under any such federal or state securities laws.

12. Except to the extent otherwise required by any applicable federal or state law, or requested by regulatory authority, or by direction of the SBA, the Manager shall keep confidential any and all information concerning the affairs of the SBA or the Florida Prepaid College Board, the actions of the Manager taken pursuant hereto, and the details of any transaction effected in accordance with the terms and provisions of this Agreement; provided, however, Manager may disclose such information to (i) affiliates of Manager; (ii) any custodian for the Accounts; (iii) brokers and dealers that are counterparties for trades for the Accounts; (iv) futures commission merchants executing or clearing transactions in connection with the Accounts; and (v) third party service providers subject to confidentiality agreements. The Manager acknowledges that the SBA is bound by the provisions of the Florida Public Records Law, Chapter 119, Florida Statutes, and that documents and other records received by the SBA, unless exempt by applicable law, are open to public inspection.

13. The compensation of the Manager for its services hereunder shall be calculated and paid in accordance with Schedule C, attached hereto and incorporated into this Agreement by this reference. 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.

14. The SBA reserves the right to instruct the Manager in writing to direct the SBA's brokerage commissions, subject to the restriction of best execution, to a particular broker-dealer, and shall be reported by the Manager on a monthly basis as provided in Section 4 of this Agreement.

15. 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 shall be made by the Manager without the prior written consent of the SBA.

16. This Agreement shall terminate on May 1, 2008. Further, this Agreement may be terminated by the Manager at any time by giving the SBA written notice at least thirty (30) days prior to the date on which such termination is to become effective. The SBA may at any time terminate the authority of the Manager to act hereunder upon delivery of written notice, effective upon receipt, regardless of whether or not the Manager is on the watch list or is under or has been under any evaluation, review or monitoring in any fashion whatsoever, as more particularly described in SBA Policy #10-011, State Board of Administration of Florida (SBA) External Investment Manager Retention and Termination, with



Appendices, as such may be amended from time to time. Termination of the Manager's authority by the SBA shall terminate this Agreement. Termination of the Agreement shall not affect the right of either party to bring an action against the other with respect to the Agreement. Except as may be provided otherwise herein, this Agreement may be modified at any time upon mutual written agreement of the Manager and the SBA.

17. All notices, requests, instructions, or other communications hereunder shall be in writing and shall be deemed to have been properly given and effective, if addressed or sent to the other party at the address or number indicated below (or such other address or number provided in writing by the party), (i) on the date of actual receipt if provided by hand delivery, certified or registered mail (return receipt requested), United States Express Mail, or courier service (e.g. Federal Express or UPS) or (ii) on the date sent if provided by facsimile transmission confirmed afterwards as soon as reasonably possible by telephone call, first-class mail, or by any method specified in (i), above, and there exists tangible evidence of the facsimile transmission such as a transmission or confirmation report produced by the transmitting machine.

**If to the SBA:**

if mailed:

State Board of Administration  
Post Office Box 13300  
Tallahassee, Florida 32317-3300  
Attention: Executive Director

if delivered by hand or  
express mail/courier service :

State Board of Administration  
1801 Hermitage Boulevard, Suite 100  
Tallahassee, Florida 32308

Attention: Executive Director

SBA Fax#: (850) 413-1255

**If to the Manager:**

if mailed: Quantitative Management  
Associates LLC  
2 Gateway Center, 4th Floor  
Newark, NJ 07102  
Attention: Steven A. Bloom,  
Vice President

if delivered by hand or  
express mail/courier service : Quantitative Management  
Associates LLC  
2 Gateway Center, 4th Floor  
Newark, NJ 07102  
Attention : Steven A. Bloom,  
Vice President

Manager Fax#: (973) 367-8566

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

19. The SBA has taken all necessary action to duly authorize the execution, delivery and performance of this Agreement.

20. This Agreement and any and all exhibits, schedules and enclosures attached hereto, which are incorporated into the Agreement by this reference, constitute and embody the entire agreement and understanding of the parties with respect to the subject matter hereof, supersede any prior or contemporaneous agreements or understandings with respect to the subject matter hereof, and, unless

otherwise provided herein, cannot be altered, amended, supplemented, or abridged or any provisions waived except by written agreement of the parties as herein provided.

**21.** This Agreement shall be construed and enforced in accordance with the laws of the United States of America and, to the extent not inconsistent therewith, the laws of the State of Florida. The Manager consents to the exclusive jurisdiction of Florida courts with respect to all legal proceedings instituted by the Manager or the SBA hereunder.

**22.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but together shall constitute one and the same document.

**23.** All titles, headings, or captions respecting the content of the sections or paragraphs of this Agreement are for convenience of reference only and shall not be construed as a part or limitation of those provisions to which they refer.

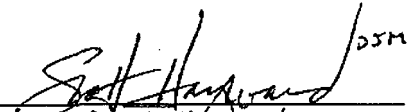
**24.** The SBA hereby acknowledges receipt of the Manager's Investment Adviser Disclosure Statement (Part II of Form ADV), as required by SEC Rule 204-3 (17 CFR 275.204-3) under the Advisers Act, not less than 48 hours prior to the signing of this Agreement.

**25.** In the event the SBA becomes involved in a class action lawsuit or other proceeding involving securities traded by the Manager, the Manager agrees to cooperate with the SBA and the judge or other authority in charge of such proceeding in all related matters including, but not limited to, discovery requests

and, if required, appearances in court. This provision shall survive the termination of this Agreement.

**IN WITNESS WHEREOF**, 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.

**QUANTITATIVE MANAGEMENT  
ASSOCIATES LLC**

By:  <sup>DSM</sup>  
Name: Scott Hayward  
Title: Chief Executive Officer

**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

By: \_\_\_\_\_  
Coleman Stipanovich  
Executive Director

**Approved as to Legality:**

\_\_\_\_\_  
Thomas A. Beenck  
Assistant General Counsel

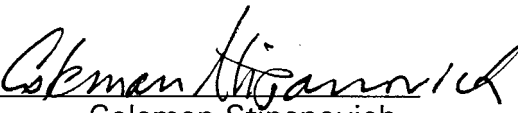
Schedules: Schedule A – Custodian  
Schedule B - Investment Management Guidelines  
Schedule C - Fees

IN WITNESS WHEREOF, 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.

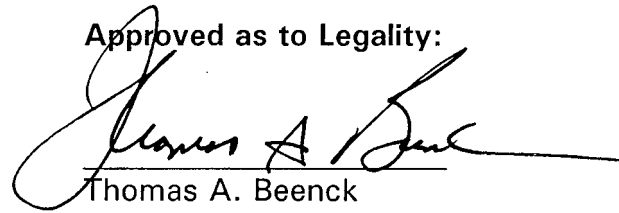
**QUANTITATIVE MANAGEMENT  
ASSOCIATES LLC**

**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

By: \_\_\_\_\_  
Name:  
Title:

By:   
Coleman Stipanovich  
Executive Director

Approved as to Legality:

  
Thomas A. Beenck  
Assistant General Counsel

Schedules: Schedule A – Custodian  
Schedule B - Investment Management Guidelines  
Schedule C - Fees

**SCHEDULE A**  
**Of Agreement Between**  
**QUANTITATIVE MANAGEMENT ASSOCIATES LLC ("Manager")**  
**and the STATE BOARD OF ADMINISTRATION ("SBA")**

**CUSTODY AGREEMENT**

The purpose of this part of Schedule A is to describe the custody Accounts with Northern Trust (the "Custodian"), having its principal place of business at Chicago, Illinois, under the Custodian Contracts, both as amended, dated July 19, 2000 (FPCP) and September 19, 2002 (FCSP) between the Custodian and the Florida Prepaid College Board. The Florida Prepaid College Board has engaged the Custodian to perform certain custodial services on behalf of the Florida Prepaid College Board. In respect of the investments contemplated by the Investment Management Agreement, the Florida Prepaid College Board has opened the Accounts with its Custodian which performs such services as are described in the Custodian Contract.

**SECURITIES LENDING**

The Florida Prepaid College Board has entered into a Securities Lending Authorization Agreement with Northern Trust as the Custodian for the Board dated July 19, 2000 (FPCP) and September 19, 2002 (FCSP) (the "Lending Agreement"). The Lending Agreement authorizes the Custodian as lending agent to loan securities

held in specified Board accounts. The Custodian has been instructed by the Board to lend securities held in the Accounts.

### **TENDERS**

The Manager shall have no responsibility with respect to the tendering of securities or interest coupons in response to offers, calls or redemptions or with respect to the exercise of conversion rights, subscription rights or other options relating to securities in the Accounts unless the Manager has received written notice thereof that refers to the particular securities managed by it for the Board as opposed to a notice referring merely to the securities of a particular issuer.

### **PROXIES**

Subject to the limitations set forth in this Paragraph, the Manager is authorized and assigned the right and authority to vote and act upon all proxy issues on behalf of the Board related to securities held in the Accounts. The Manager will:

1. Have the fiduciary duty to vote the proxies attendant to securities held in the Accounts. The Board will instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager will not be responsible for voting proxies not received in a timely manner.
2. Exercise such proxies solely in the interest of the participants and beneficiaries of the FCSP and FPCP and for the exclusive purpose of providing benefits to participants and beneficiaries in accordance with the Manager's Proxy Voting Policies and Procedures, a current copy of which is attached hereto.
3. Establish written procedures for proper handling of proxy ballots.



4. Take reasonable steps to reconcile proxies received with holdings on the record date.

5. Keep accurate records of the votes on proxies received.

6. Make available upon reasonable request to the Board and its investments consultant documentation relating to the handling and voting of proxies and will forward written reports of its voting activities to the Board and its investment advisor as reasonably requested.

The Manager will notify the Board in writing annually or upon request of all actions taken on behalf of the Board with regard to proxy issues, in accordance with the Notice provisions as set forth in Paragraph 17 of this Agreement.

#### **REVISIONS**

The Executive Director of the SBA may revise the terms of this Schedule A by written notification to the Manager without affecting any other part of this Investment Management Agreement.

**SCHEDULE B**  
**of Agreement Between**  
**QUANTITATIVE MANAGEMENT ASSOCIATES LLC ("Manager")**  
**and the STATE BOARD OF ADMINISTRATION ("SBA")**

The purpose of this Schedule B is to define the investment objective, special reporting requirements, and performance criteria for the Manager with respect to the Accounts and to cite any specific or unique investment authority or restrictions to the Manager.

1. **Investment Objective and Performance:** The Accounts are principally an equity management program for the SBA. The benchmark portfolio will be the Russell 1000 Value Index. A narrative explaining the Manager's strategic approach is set out below in this Schedule B. This information will be reviewed by both the Manager and the SBA and will be revised as necessary.

Manager performance will be gauged by the ability to meet or exceed the return of the benchmark portfolio consistently over time. Information sufficient to monitor performance against the benchmark will be prepared by the SBA and will be provided to the Manager at least semi-annually.

2. **Specific Investment Restrictions and Limitations:**

A. The Manager may select common stocks, Exchange Traded Funds (ETFs), and American Depositary Receipts (ADRs), and securities convertible into equity securities, and any such authorized equity securities may involve the issuance to the

SBA of rights to purchase and warrants, as a result of the SBA's ownership thereof, as authorized in Section 215.47 of the Florida Statutes.

B. The Manager is being hired as an equity only Manager. The cash holdings of the portfolio typically range from 0 to 5 percent. Holding cash or cash equivalents for the purpose of protecting the portfolio against perceived adverse equity market conditions will not be permitted. While the Manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to a maximum of 10 percent of the Manager's portfolio for the purpose of making securities adjustments to the portfolio. As specified in Section 2 of this Agreement, the SBA will invest any cash balance that is in the Accounts, but the income and capital gain/loss from this investment will be credited to the Accounts.

C. The Manager shall confer with the SBA prior to commencing its investment program in order to ascertain SBA policies regarding investments and shall be bound by such policies and the Board's Comprehensive Investment Plans for the FCSP and FPCP (each a "CIP" and collectively, the "CIPs") attached hereto. In the event of a conflict between a CIP and the policies in this Schedule, the CIP shall prevail. The SBA shall provide the Manager with any amendments to the CIPs and the Manager shall not be responsible for complying with any amended CIP until it has received and has had a reasonable period of time to implement such CIP. The Manager may not invest in any instruments not specified herein in Schedule B.

D. Notwithstanding any provision of the Investment Management Agreement to the contrary, the Manager (i) is not authorized to invest in any publicly

traded partnership which would cause the SBA to earn unrelated business taxable income under the provisions of Section 512(c)(2) of the Internal Revenue Code of 1986, as amended, (ii) is prohibited from acquiring or retaining for the Accounts any obligation, security or other investment which would be in violation of Sections 215.471 and 215.472, Florida Statutes, and (iii) shall divest of any Account investment in any institution doing business in or with Northern Ireland upon receipt of written direction from the SBA identifying the institution.

3. **Reporting.** The Manager will provide the Custodian with trade details on a daily basis and the Manager will also provide the Custodian with a monthly summary report to be used in the monitoring of performance.

The Manager will provide a performance report as well as a detailed schedule of all transaction costs to the SBA on a monthly basis.

4. **Revision:** The SBA may revise this Schedule B by written notification to the Manager without affecting any other parts of this Agreement. Any investment limitation or restrictions specified in Schedule B supersede any authority given in any other part of this Agreement.

**ENCLOSURE: Manager's Narrative of Strategic Approach.**

QMA uses a quantitative process to buy a diversified portfolio of low valued companies, including some of those that are the most out-of-favor. They do not look for catalysts that will reverse the fortunes of troubled companies. Rather, QMA looks to hold a diversified group of low valued companies, with the belief that, on average, the market has exaggerated their problems.

The investment objective is to exceed the Russell 1000 Value Index over a market cycle.

The philosophy underlying the large value product is that the most appropriate descriptor of low value is price/earnings ratio, using historic earnings which have been adjusted to get to historical operating earnings from continuing operations. An “expert system” identifies material items in reported earnings that warrant detailed review. Based on guidelines developed over the more than 15 years that adjustments have been made, team members verify that an appropriate adjustment is being made. Some of the more common examples of adjustments include: a gain or loss on the sale of an asset, a gain from a tax benefit or a charge due to corporate restructuring. The process does not attempt to recast GAAP earnings for accounting assumptions such as depreciation schedules or inventory valuation methods. Also, no attempt is made to project a company’s earnings forward.

Adjusting earnings tends to add portfolio alpha when low fundamental valuations are favored in the market, but may detract from alpha when growth investing is dominating the market. The adjustment process results in a more diversified portfolio with respect to industry exposures than would otherwise be the case. Adjustments to earnings reduce the volatility of the earnings streams of the companies screened and held, and generally have the effect of lowering the portfolio turnover, which, in turn, is expected to increase alpha in the portfolio.

To improve the timing of purchases and sales the Manager focuses on persistency of low valuation by normalizing a company’s price/earnings ratio over a

two year period. Hence, companies must exhibit persistency of being low valued prior to purchase and being high valued prior to sale. Additionally, relative performance screens serve to give confirmation of low valued companies truly being out-of-favor prior to purchase, and in-favor prior to sale.

The portfolio typically consists of 125-200 security holdings in a modified equal weighting, with a maximum individual stock holding of generally 4-6% and a maximum single industry group of approximately 25%. The portfolio is normally fully invested, with cash typically representing 0-10%.

***COMPREHENSIVE INVESTMENT PLAN  
FOR THE  
FLORIDA COLLEGE SAVINGS PROGRAM  
DECEMBER 7, 2006***

**Florida Prepaid College Board  
Comprehensive Investment Plan  
*for the*  
Florida College Savings Program  
December 7, 2006**

**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, including tuition, local fees, and dormitory expenses that are covered under the Florida Prepaid College Program ("Prepaid Program"). The Savings Program is intended to complement 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.

At the outset, the Board has elected to provide Program participants the following five investment options:

Option 1 – a fixed income investment fund designed to mirror the broad domestic bond market.

Option 2 – a US equity investment fund consisting of a large capitalization segment with thirty percent allocations to a domestic growth equity portfolio, thirty percent to a domestic value equity portfolio, and thirty percent to a U.S. market index portfolio and a small capitalization segment consisting of ten percent allocation to a small capitalization portfolio. Option 2 will be rebalanced to these target weights on a periodic basis, according to the parameters outlined in the rebalancing section of this CIP.

Option 3 – a balanced investment option which will consist of a 50/50 mix of Options 1 and 2. Option 3 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 4 – a combination of Option 1 and Option 2 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 4: Allocation Between Option 1 and Option 2

<u>Aged-Based Option</u>	<u>Years to Enrollment</u>	<u>Asset Allocation</u>	
		<u>Option 1</u>	<u>Option 2</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%

Option 5 - a money market or cash equivalent fund to accommodate those purchasers who seek absolute stability with minimum risk of principal.

## 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.

- For each investment option which is implemented using a mutual fund, the manager will submit to the Board for approval on any proposed changes to the Prospectus or the Statement of Additional Information in advance of making the changes.
- 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.

## **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.
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 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. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
10. Commingled investment funds and mutual funds.
11. American Depositary Receipts, 144(a) securities (with registration rights), and Yankee bonds (excluding sovereign bonds).
12. Exchange Traded Funds (ETF's), traded on domestic exchanges, so long as consistent with the investment mandate, and guidelines.
13. 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

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. However, in recognition of the balances that may exist in the early stages of the Savings Program, the use of derivatives to meet the objectives of diversification will be permissive during the first twelve months of the launch of the Savings Program. The use of derivatives after the first twelve-month period will be reevaluated at that time.

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. Assets may not be invested in the securities of any foreign-domiciled entities, except to the extent those securities are registered in the United States and traded on one of the domestic exchanges or markets, and otherwise meet the limitations of this comprehensive investment plan.

2. Short selling of securities is prohibited
3. 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 5% of the market value of the fund. In recognition of the start-up phase of the Program, the 5% restriction referenced in this paragraph is waived until the market value of the investment mandate for the individual manager reaches \$10,000,000 or until December 31, 2004, whichever occurs first.
4. Debt obligations and preferred stock may not be rated less than BAA/BBB. Rating from each service must meet or exceed the required rating. (As established by two nationally recognized rating services.)
5. 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 (except as described in the section on leverage).
  - ❑ 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 2 and Option 3 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:

<i>Option 2</i>	<u>Targeted Weight</u>	<u>Allowable Range</u>
Growth Portfolio	30.00%	27.00% - 33.00
Value Portfolio	30.00%	27.00% - 33.00
Index Portfolio	30.00%	27.00% - 33.00
Small Cap Portfolio	10.00%	8.00% - 12.00%

<i>Option 3</i>	<u>Targeted Weight</u>	<u>Allowable Range</u>
Large Capitalization Equity Portfolio (Option 2)	50%	48 - 52%
Fixed Income Portfolio (Option 1)	50%	48 - 52%

In addition, portfolio balances within Option 4 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 4:

<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 four parts contain the investment guidelines and policies for each option of the Florida College Savings Program:

**PART I – OPTION 1  
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 Lehman 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 Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.

**RESTRICTED INVESTMENTS**

Use of margin is prohibited except as may be required in the use of futures, options and swaps.

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

Convertible securities shall not be considered for investment.

**PERFORMANCE OBJECTIVES**

Manager performance shall be reviewed relative to the Lehman 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 Lehman 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.

**PART II – OPTION 2  
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 equity investments. The equity option will be diversified across investment styles and market capitalization. The equity option will consist of a large capitalization segment with thirty percent allocated to a domestic growth portfolio, thirty percent to a domestic value portfolio, and thirty percent to a U.S. market index fund and a small capitalization segment consisting of ten percent allocation to a small capitalization fund.

**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. Allocations to the three underlying portfolios will be rebalanced periodically according to the rebalancing guidelines specified elsewhere in this CIP.

**PERFORMANCE OBJECTIVES**

The performance of Option 2 will be evaluated with respect to the underlying style-specific portfolios and in the aggregate, based upon the weighted average of the benchmarks in Option 2.

**A. LARGE CAP GROWTH:**

**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 in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.

3. 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 of less than six hundred basis points relative to the Russell 1000 Growth Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.
4. 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.
5. 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, primes, scores or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.
4. No commingled or mutual funds may be used to achieve desired diversification.

#### **PERFORMANCE OBJECTIVES**

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.

## **B. LARGE CAP VALUE EQUITY:**

### **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 in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.
3. 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 fourth in these guidelines, the manager shall maintain an annualized tracking error of less than five hundred basis points relative to the Russell 1000 Value Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.
4. 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, primes, scores or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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.

## **C. LARGE CAP CORE:**

### **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 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 Depositary Receipts, provided those same companies are included in the S&P 500 as American Depositary 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.

## **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 13 (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.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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, net of fees, 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 fourth in these guidelines, the manager shall maintain an annualized tracking error to the S&P 500, net of fees, of less than 25 basis points

Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.

## **D. SMALL CAP PORTFOLIO**

### **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 in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.
3. 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 of no less than four hundred basis points and no more than one thousand basis points relative to the Russell 2000 Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.
4. 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, primes, swaps or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.

4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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.



**PART III – OPTION 3  
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 3 will be a blend of Option 1 and Option 2 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 1 and 2, above, will apply to each respective portion of Option 3.

**PERFORMANCE OBJECTIVES**

The performance objectives specified in Options 1 and 2 above will apply to each respective portion of Option 3.

**PART IV – OPTION 4  
AGE-RATED  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The age-rated 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 Option 1 and Option 2 in accordance with the guidelines described under the "Investment Options" section of this CIP. The Board may periodically request an audit to ensure that participant balances are managed in accordance with these guidelines.

**INVESTMENT GUIDELINES**

The investment guidelines specified in Options 1 and 2 above will apply to each account balance maintained under Option 4.

**PERFORMANCE OBJECTIVES**

The performance objectives specified in Options 1 and 2 above will apply to each account balance maintained under Option 4.

**PART V – OPTION 5  
MONEY MARKET OPTION  
INVESTMENT GUIDELINES**

**OBJECTIVE**

The Money Market option seeks high current income consistent with liquidity, interest income and capital preservation. The Fund will be actively managed and will primarily invest in high quality, liquid, short-term instruments to control credit risk and interest rate sensitivity.

**ASSET ALLOCATION**

The assets of each participant's account will be invested in Option 5 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.

***COMPREHENSIVE INVESTMENT PLAN  
FOR THE  
FLORIDA PREPAID COLLEGE PROGRAM  
DECEMBER 7, 2006***

**Florida Prepaid College Board  
Comprehensive Investment Plan  
*for the*  
Florida Prepaid College Program  
December 7, 2006**

**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 Florida Prepaid College Program is a program created 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 (Board), which was created pursuant to Section 1009.98 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 comprehensive investment plan 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 comprehensive investment plan. The Board may delegate responsibility for the administration of the comprehensive investment plan 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 comprehensive investment plan. Investment managers (product providers) will have investment discretion as to security selection subject to the guidelines and limitations expressed in the comprehensive investment plan 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 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 vs. 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 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 comprehensive investment plan 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 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.

## 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.
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 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. Collateralized repurchase agreements for which the underlying securities are obligations of the United States Treasury or agencies of the United States Government.
10. Commingled investment funds and mutual funds.
11. American Depositary Receipts, 144(a) securities (with registration rights), and Yankee bonds (excluding sovereign bonds).
12. Exchange Traded Funds (ETF's), traded on domestic exchanges, so long as consistent with the investment mandate, and guidelines.
13. 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

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. However, in recognition of the balances that may exist in the early stages of the Savings Program, the use of derivatives to meet the objectives of diversification will be permissive during the first twelve months of the launch of the Savings Program. The use of derivatives after the first twelve month period will be reevaluated at that time.

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. Assets may not be invested in the securities of any foreign-domiciled entities, except to the extent those securities are registered in the United States and traded on one of the domestic exchanges or markets, and otherwise meet the limitations of this comprehensive investment plan.
2. Short selling of securities is prohibited.
3. 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 5% of the market value of the fund.
4. Debt obligations and preferred stock may not be rated less than BAA/BBB. Rating from each service must meet or exceed the required rating. (As established by two nationally recognized rating services.)
5. 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 (except as described in the section on leverage).
  - 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 Portfolio, 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 at the Total Fund and asset class level shall be:

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

The Customized 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, United States Treasury Inflation Protected Securities (TIPS), Lehman Credit Index and Lehman Mortgage Backed Securities Index, and other Authorized Investment Vehicles as defined in the Comprehensive Investment Plan (CIP).

At no time shall the allocation to the fixed income segment of the Portfolio 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 portfolio value or actuarial liability minus projected cash flows from the participants, whichever is less.

The total equity segment of the portfolio, 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 index.

<u>Equity Segments</u>	<u>Targeted Weight</u>	<u>Allowable Range</u>
------------------------	------------------------	------------------------

Growth Portfolio	30.00%	25.00% - 35.00%
Value Portfolio	30.00%	25.00% - 35.00%
Index Portfolio	30.00%	25.00% - 35.00%
Small Cap Portfolio	10.00%	5.00% - 15.00%

Based on the market values of the total portfolio as of June 30th as determined by the Board's actuary and after approval by the Board, the allocation of fixed income and equity will be rebalanced no later than September 30th of each year, in order to have the equity component equal fifteen percent (15%) of the total Portfolio, 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 portfolio 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 portfolio 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 portfolio has been designed to be fully invested, and thus no portion of the portfolio 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 Plan by their Investment Managers after the adoption of this Investment Policy Statement 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 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. The following four-parts contain the investment guidelines and policies for each segment of the Florida Prepaid College Program funds:

**PART I**  
**FIXED-INCOME**  
**INVESTMENT GUIDELINES**

**OBJECTIVE**

A fixed-income manager(s) 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 focus 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 +/- one-half of one year.
3. Investments in fixed income instruments can be made in sectors and securities as authorized in the Comprehensive Investment Plan (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 or Agency Securities, is 5% of the market value of the portfolio.
6. Cash and cash equivalent investments shall be made in liquid Authorized Investment Vehicles as defined in the CIP.
7. The use of futures, options and swaps will be permitted subject to the restrictions imposed by "AUTHORIZED INVESTMENT VEHICLES" Paragraph 13.

8. A maximum allocation of 30% to securitized debt obligations including, but not limited to, mortgage pass-throughs and asset-backed securities is permitted.
9. A maximum allocation of 20% to corporate debt securities is permitted.

### **RESTRICTED INVESTMENTS**

Use of margin is prohibited except as may be required in the use of futures, options and swaps as permitted in subparagraph 7 of this section.

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.

Convertible securities shall not be considered for investment.

No commingled or mutual funds may be used to achieve desired diversification.

### **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, 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 II**

### **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) will be retained as part of a multi-manager investment strategy. Their function within this strategy is to manage an equity only portfolio utilizing an active large cap growth style of investment. For purposes of this Comprehensive Investment Plan, 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. The manager is expected to add value over a passively managed benchmark over a three to five year time frame.

#### **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 in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.

3. 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 of less than six hundred basis points relative to the Russell 1000 Growth Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.
4. 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.
5. 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, primes, swaps or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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.



### **PART III**

## **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) will be retained as part of a multi-manager investment strategy. Their function within this strategy is to manage an equity only portfolio utilizing an active large cap value style of investment. For purposes of this comprehensive plan, 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. The manager is expected to add value over a passively managed benchmark over a three to five year time frame

### **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 in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.
3. 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 fourth in these guidelines, the manager shall maintain an annualized tracking error of less than five hundred basis points relative to the Russell 1000 Value Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.

4. 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, primes, scores or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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.

**PART IV  
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. An allocation to a passive core equity strategy is one component of this strategy. The objective for this component of the portfolio is to replicate the returns of the S&P 500.

**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 IV 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 Depositary Receipts, provided those same companies are included in the S&P 500 as American Depositary 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.

**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 13 (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.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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, net of fees, 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 fourth in these guidelines, the manager shall maintain an annualized tracking error to the S&P 500, net of fees, of less than 25 basis points.

Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data, which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.

**PART V**  
**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. Their function within this strategy is to manage an equity only portfolio utilizing an active small cap style of investment. For purposes of this Comprehensive Investment Plan, this style seeks access 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. The manager is expected to add value over a passively managed benchmark over a three to five year time frame.

**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 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 Association of Investment Management and Research Performance Presentation Standards, shall be utilized in determining portfolio compliance.
3. 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 of no less than four hundred basis points and no more than one thousand basis points relative to the Russell 2000 Index over any rolling five year time period. Until such time that the portfolio has sufficient historical results, the manager's reported monthly historical performance data,

which shall be in compliance with the Association of Investment Management and Research Performance Presentation Standards, shall be used to determine portfolio compliance.

4. 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, primes, swaps or any other type of derivative securities is prohibited.
3. Convertible securities shall not be considered for investment.
4. No commingled or mutual funds may be used to achieve desired diversification.

## **PERFORMANCE OBJECTIVES**

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.

**SCHEDULE C**  
**of Agreement Between**  
**QUANTITATIVE MANAGEMENT ASSOCIATES LLC ("Manager")**  
**and the STATE BOARD OF ADMINISTRATION ("SBA")**

The purpose of this Schedule C is to specify the fees paid to the Manager by the SBA. The Manager will provide the SBA invoices for fees for the Florida College Savings Program account (the "FCSP Account") and the Florida Prepaid College Plan account (the "FPCP Account") based upon the following calculation methodology:

**ANNUAL FEE**

Flat Rate Fee: 15 basis points (15/100 of 1%) on all assets in the Accounts.

**Calculation of Compensation for Manager – Florida Prepaid College Plan Account**

The Fee due to the Manager will be determined quarterly in accordance with the flat rate set forth above and the formula below, based on the Market Value of the assets held in the FPCP Account as determined by the Custodian, on the last business day of the quarter being billed. The management fee shall be calculated on a prorated basis to reflect the periods of time such assets were in the FPCP Account during the billing period. The formula which shall be utilized in calculating this proration is shown below and calculated on a settlement date basis using actual, rather than standard, days.

**Formula:**

**Quarterly Fee =**

$$[(\text{Portfolio Market Value On Last Day of the Quarter Being Billed} - \text{Adjustment for Contributions} + \text{Adjustment for Withdrawals}) * (\text{Flat Rate Fee}) * (\text{number of days in preceding quarter/number of days in year})]$$

**Adjustment for Contributions =**

$$[\text{Contribution Amount} * ((\text{Number of days from Beginning of Quarter to Date of Contribution}) / (\text{Number of days in Quarter}))]$$

**Adjustment for Withdrawals =**

[Withdrawal Amount \* ((Number of days from Beginning of Quarter to Date of Withdrawal)/(Number of days in Quarter))]

**Calculation of Compensation for Manager - Florida College Savings Program Account**

The fee due to the Manager will be determined quarterly in accordance with the flat rate set forth above and the formula below, based on the Market Value of the Assets held in the FCSP Account as determined by the Custodian, based on the average daily net asset value of the assets in the FCSP Account during the quarter being billed. The management fee shall be calculated on a prorated basis to reflect the periods of time such assets were in the FCSP Account during the billing period. The formula which shall be utilized in calculating this proration is shown below and calculated on a settlement date basis using actual, rather than standard, days.

**Formula:**

Quarterly Fee = [Average Daily Net Asset Value for the Quarter Being Billed \*  
Flat Rate Fee \* (number of days in preceding quarter/number  
of days in year)].