

INTERNAL AGREEMENT OF UNDERSTANDING

This Internal Agreement of Understanding (the "Agreement") is effective as of the 1st day of June, 2006, by and between the Florida Hurricane Catastrophe Fund (the "FHCF") and the State Board of Administration of Florida (the "SBA").

WITNESSETH:

WHEREAS, the 2006 Florida legislature created the Insurance Capital Build-up Incentive Program (" Program") Section 215.5595, Florida Statutes to be administered by the SBA. The purpose of the Program is to provide surplus notes to new or existing authorized residential property insurers under specific conditions as outlined in the statute, and

WHEREAS, total costs to invest and administer the Program are not to exceed \$2.5 million over the life of the Program, pursuant to Section 215.5595, Florida Statutes, and

WHEREAS, pursuant to provisions in Rule 19-3.016, Florida Administrative Code, the Executive Director of the SBA has requisite authority to appoint the Senior Officer of the Florida Hurricane Catastrophe Fund (SO-FHCF) as designee to carry out the duties and responsibilities of implementing and administering the Program in his capacity as an officer of the SBA with considerable knowledge of the Florida insurance industry, separate from his managerial duties related (or fiduciary responsibilities) to the FHCF , and

WHEREAS, the SO-FHCF shall consult, coordinate, and present recommendations to the Executive Director of the SBA, as well as consult with other appropriate SBA personnel in carrying out the daily activities required in administering and monitoring the Program, and

WHEREAS, the SO-FHCF, acting in the capacity of SBA designee, will be in contact with insurers during the application phase of the Program, the Office of Insurance Regulation, the Commissioner of Insurance, and other contracted service providers as necessary for compliance with the Program, Section 215.5595, Florida Statutes, and

WHEREAS, the SBA shall adopt rules prescribing the procedures, administration, and criteria for approval and issuance of surplus notes pursuant to Section 215.5595, Florida Statutes, and

WHEREAS, the SBA shall invest and reinvest the funds appropriated for the Program in accordance with Section 215.47, Florida Statutes, and consistent with SBA policy, and

WHEREAS, the SBA, the FHCF, and other service providers are entitled to compensation for services rendered, and

WHEREAS, the SBA represents that it has the requisite authority to enter into this Agreement;

NOW THEREFORE, in consideration of the mutual covenants and promises contained below, the receipt and sufficiency of which are hereby acknowledged, the SBA and FHCF hereby, agree as follows:

I. Duties

- A. The SBA established an Insurance Capital Build-up Incentive Program (ICBIP) Expense Account #26001 and separate insurer allocation and repayment accounts to record all transaction activity as directed by the SO-FHCF, or designated FHCF staff.
- B. The SO-FHCF, or designated FHCF staff will monitor and coordinate the services contained in Paragraph O of Schedule A of SBA Contract 006-25 rendered by the FHCF Administrator, Paragon Strategic Solutions, Inc., for the Program.
- C. Expenses of the Program will be paid directly from the ICBIP Expense Account #26001, resources permitting, as directed by the SO-FHCF, or designated FHCF staff subject to SBA internal policies and procedures.
- D. Compensation to the SBA and FHCF for time spent implementing and administering the Incentive Program will be funded from the ICBIP Expense Account #26001, resources permitting.
- ~~E. The SBA will manage and invest the assets of the ICB Program utilizing the SBA Commingled Asset Management Program Money Market (CAMPMM) Fund, pursuant to the CAMPMM Pool Description which is attached hereto and made a part hereof as **Schedule B.**~~

II. Compensation

The SBA is entitled to compensation for the investment of Program funds and Program oversight. The FHCF is entitled to reimbursement for staff time (i.e. salaries and benefits) consumed in carrying out the duties and responsibilities to implement and provide administrative oversight of the Program on a daily basis. The SBA and FHCF shall receive the agreed upon fees set forth in Schedule A, which is attached hereto and made a part hereof. The fees set forth in Schedule A shall be subject to annual review by the parties in accordance with Schedule A, not to exceed \$2.5 million over the life of the Program.

III. Governing Law

This Agreement shall be governed, construed, performed and enforced in all respects in accordance with the laws of the State of Florida.

IV. Public Records

Both parties to this Agreement acknowledge that they are subject to compliance with the provisions of Chapter 119, Florida Statutes (Public Records Act).

V. Audit

The SBA reserves the right to audit the Program upon reasonable notice to the FHCF.

VI. Severability

The terms of this Agreement shall be severable. If any term or provision is held to be invalid or unenforceable, that term or provision shall be ineffective to the extent of such invalidity or unenforceability. The remaining terms and provisions shall continue in full force and effect.

VII. Termination

This Agreement shall remain in effect until the delegation of authority to administer the Program by the SBA Executive Director to the SO-FHCF is revoked in writing or termination of the Program, whichever occurs first.

VIII. Entire Agreement

This Agreement constitutes the entire agreement between the parties. No modification or waiver of this Agreement shall be binding upon any party unless made in writing and signed by both parties.

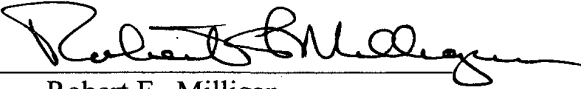
IX. Effective Date

The effective date of the Agreement shall be the date first written above.

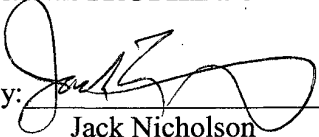
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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on behalf of their respective authorized officers.

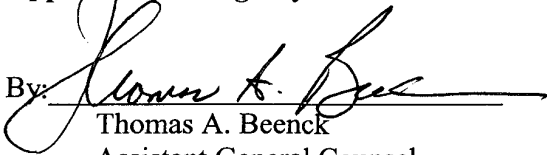
**STATE BOARD OF ADMINISTRATION
OF FLORIDA**

By: 
Robert F. Milligan
Interim Executive Director

**FLORIDA HURRICANE
CATASTROPHE FUND**

By: 
Jack Nicholson
Senior Officer

Approved as to legality:

By: 
Thomas A. Beenck
Assistant General Counsel

SCHEDULE A

SBA – The SBA charges a monthly fee in compliance with Rule 19.3016, Florida Administrative Code, for the operation/investment of the CAMP investment pools, including CAMPMM. Currently, the annualized fee is 1.50 basis points of assets under management for operating the investment pool and approximately 1 basis point for the other fees such as, but not limited to, monthly pricing fees, performance measurement charges, and custody fees. Additionally, the SBA reserves the right to hire external manager(s) for all or a portion of the CAMP portfolios and charge those fees directly to the portfolio where applicable. These rates are subject to annual review and can be modified at the SBA's discretion with 60 days notice to the Participants.

FHCF – The FHCF (Account #03001) is entitled to reimbursement of costs incurred to the FHCF for staff salary and benefit expenses during initial implementation and ongoing administrative oversight of the Program. Initial implementation of the Program including the procedure developed and instituted by the SBA to determine which applicants would receive surplus notes and the dollar amount of each surplus note in the Program was more labor intensive, with less time being anticipated for the ongoing administration of the Program.

Implementation and administrative oversight costs to the FHCF for the period of June 1, 2006 through June 30, 2007 in the amount of \$84,649.14. The FHCF will invoice the SBA in the amount of \$84,649.14 to be paid from the ICB Program Expense Account #26001 upon receipt. The invoice shall be submitted to the SBA Budget Manager for payment processing and shall include support documentation explaining the methodology used in determining cost estimates.

Effective July 1, 2007 through June 30, 2008 and every fiscal year thereafter, the FHCF shall be reimbursed \$30,000 (flat fee) for providing daily administrative oversight of the Program during the term of this Agreement. The FHCF will invoice the SBA no later than May 31 of each fiscal year for payment on or before June 30. Invoices shall be submitted to the SBA Budget Manager for payment processing.

This compensation schedule is subject to review by the parties and any material changes to services or circumstances may prompt revisions to the fee structure outlined in Schedule A.

SCHEDULE B

POOL DESCRIPTION

Commingled Asset Management Program Money Market Pool (Actively Managed/Non-Qualified)

Background and Purpose

The CAMP Money Market Pool (CAMPMM) invests in U.S. dollar denominated high quality, liquid fixed income securities with shorter-term maturities. Changes in interest rates will cause volatility in the yield of CAMPMM. CAMPMM may be suitable for investors seeking liquidity and preservation of capital, rather than growth of capital. CAMPMM is a commingled pool managed actively for the benefit of SBA clients that are non-qualified for retirement fund status. CAMPMM is designed to provide daily liquidity to clients, based on a 1 day notice requirement. **An investment in CAMPMM is not a bank deposit and is not insured or guaranteed by the F.D.I.C. or any other government entity. It is possible to lose money investing in CAMPMM and returns may not keep pace with inflation.**

Investment Objective and Process

The objective of CAMPMM is to exceed the average 30-day annualized yield achieved by the First Tier Institutional Money Market Funds published in the weekly iMoneyNet Fund Report (“benchmark”) over market cycles. The investment process will emphasize the maintenance of a “2a-7 like” fund, reasonably complying with Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds).

All securities purchased will be consistent with Section 215.47, Florida Statutes and may be loaned to qualified borrowers in accordance with Florida Statutes and consistent with SEC Rule 2a-7.

Investment Restrictions/Compliance

The following restrictions will typically be observed and checked at least monthly for compliance. Any exceptions will be resolved in a timely and prudent fashion, in the SBA’s sole discretion:

- Non-qualified funds may not purchase 144A securities.
- Repurchase agreements must be fully collateralized by U.S. Government or agency securities.
- All eligible investments must be 2a-7 first tier securities at the time of purchase. In the event an issuer is downgraded below first tier, the SBA must justify retention.

- Exposure to a single issuer shall be limited to 5% of portfolio amortized cost, not to include the U.S. government, and exposure to second tier issuers shall not exceed 1% of portfolio amortized cost.
- The weighted average maturity shall not exceed 90 days. Reset dates will be used to calculate the weighted average maturity of the portfolio.
- Maturity of money market securities shall not exceed 397 days.
- Maturity of government securities shall not exceed 762 days.
- In the event that the deviation between market value and amortized cost exceeds $\frac{1}{2}$ of 1 percent, the SBA shall promptly consider what action, if any, shall be initiated.

Evaluation

A performance evaluation will be conducted monthly versus the benchmark. At a minimum, the evaluation will compare three-year moving period performance of the CAMPMM and the benchmark.