**Agenda**  
**Investment Advisory Council (IAC)**  
**Monday, September 25, 2017, 1:00 P.M.***

**Hermitage Room, First Floor**  
**1801 Hermitage Blvd., Tallahassee, FL  32308**

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<th>Time</th>
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| 1:00 – 1:05 P.M. | **1. Welcome/Call to Order/Approval** of Minutes  
(See Attachments 1A – 1B) | Peter Collins, Chair |
| 1:05 – 1:15 P.M. | **2. Opening Remarks/Reports**  
(See Attachments 2A – 2F) | Ash Williams  
Executive Director & CIO |
| 1:15 – 1:45 P.M. | **3. Florida Growth Fund Update**  
(See Attachment 3) | Hamilton Lane  
Nayef Perry  
Gustavo Cardenas  
David Helgerson  
Dan Rosenberger |
| 1:45 – 2:30 P.M. | **4. Global Equity Asset Class Review**  
(See Attachments 4A – 4B) | Alison Romano, SIO  
Tim Taylor, SIO  
Mercer  
Michael Schlachter |
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<td>2:30 – 3:15 P.M.</td>
<td>5. Fixed Income Asset Class Review</td>
<td>Katy Wojciechowski, SIO</td>
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<td>Michael Schlachter</td>
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<td>3:15 – 3:45 P.M.</td>
<td>6. SIO Updates</td>
<td>Steve Spook, SIO Real Estate</td>
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<td>DC Programs Chief Officer Update</td>
<td>John Bradley, SIO Strategic</td>
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<td>Investment Programs &amp; Governance Officer Update</td>
<td>Trent Webster, SIO Strategic Investments &amp; Private Equity</td>
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<td>(See Attachments 6A – 6E)</td>
<td>Joan Haseman, Chief Defined Contribution Programs</td>
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<td>Michael McCauley, Investment Programs &amp; Governance Officer</td>
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<td>3:45 – 3:50 P.M.</td>
<td>7. Review Changes to Florida Retirement System Pension Plan Investment Policy Statement</td>
<td>Ash Williams, Executive Director &amp; CIO</td>
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<td>(See Attachments 7A – 7B)</td>
<td>(Action Required)</td>
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<td>3:50 – 4:05 P.M.</td>
<td>8. Major Mandate Performance Review</td>
<td>Aon Hewitt</td>
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<td>(See Attachment 8)</td>
<td>Katie Comstock</td>
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<td>Steve Voss</td>
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<td>4:05 – 4:10 P.M.</td>
<td>9. IAC Compensation Subcommittee Update</td>
<td>Peter Collins, Chair</td>
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<td>(See Attachment 9)</td>
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<td>4:10 – 4:25 P.M.</td>
<td>10. Audience Comments/December Meeting Date/Closing Remarks/ Adjourn</td>
<td>Peter Collins, Chair</td>
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*All agenda item times are subject to change.*
MINUTES
INVESTMENT ADVISORY COUNCIL
June 5, 2017

A meeting of the Investment Advisory Council (IAC) was held on Monday, June 5, 2017, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the June 5, 2017 meeting is hereby incorporated into these minutes by this reference.

Members Present: Peter Collins, Chair
Gary Wendt, Vice Chair
Chuck Cobb
Les Daniels
Bobby Jones
Sean McGould (via telephone)
Michael Price

SBA Employees: Ash Williams, Executive Director/CIO
John Benton
John Kuczwanski
John Bradley
Wes Bradle
Joan Haseman
Daniel Beard
Walter Kelleher
Tim Taylor
Alison Romano
Katy Wojciechowski
Steve Spook
Trent Webster
Michael McCauley

Consultants: Kristen Doyle, Aon Hewitt
Katie Comstock, Aon Hewitt
Sheila Ryan, Cambridge Associates

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES
Mr. Peter Collins, Chair, called the meeting to order at 12:15 P.M. The members of the Investment Advisory Council approved the minutes from the March 6, 2017 IAC meeting.

OPENING REMARKS/REPORTS
Mr. Ash Williams, Executive Director/Chief Investment Officer, provided a brief summary on the performance of the Florida Retirement System Pension Plan, stating that the fund is up 14.05 percent for the fiscal year, with a record-high balance in the fund of $154.4 billion. Mr. Williams discussed changes made to the Pension Plan and the Investment Plan in the retirement benefit bill which had been passed by the 2017 Legislature and which was awaiting the Governor’s signature. He also advised the council that all indications are that the Legislature will be fully funding both the normal cost and the requisite contribution to unfunded liability for the Florida Retirement System.
PRIVATE EQUITY ASSET CLASS REVIEW

Mr. John Bradley, Senior Investment Officer – Strategic Investments and Private Equity, provided a detailed presentation on the Private Equity asset class including target and actual allocation, goals and objectives, benchmarks, and staffing. He informed the council that Cambridge Associates is the asset class consultant. Mr. Bradley discussed the asset class investment process which includes an annual investment plan, sourcing, monitoring, and due diligence. He briefly discussed their fees. Mr. Bradley reminded the IAC of the asset class investment strategies (buyouts/growth equity, venture capital, distressed/turnarounds, and secondary funds) and discussed the portfolio composition. He elaborated on current asset class allocations and targets and provided pacing estimates for the next three fiscal years. Mr. Bradley discussed sector exposure, geographic exposure and general partner exposure and stated that total asset class performance remains strong. He provided details on vintage year performance and provided a cash flow history. Mr. Bradley concluded his presentation with a discussion of the four sub-strategies within the portfolio.

Mr. Wes Bradle, Senior Portfolio Manager – Strategic Investments and Private Equity, provided details on the Private Equity fund selection process.

Ms. Sheila Ryan, Cambridge Associates, discussed the current market environment for private equity. She stated that first and second quartile performance for the Private Equity portfolio has been very strong relative to other Cambridge Associates clients.

There were several discussions during the Private Equity asset class review, with questions being asked by IAC members which were then answered by SBA staff or Ms. Ryan.

DEFINED CONTRIBUTION PROGRAM REVIEW

Ms. Joan Haseman, Chief – Defined Contribution Programs, provided an overview of the FRS Pension Plan and the FRS Investment Plan, discussing initial choice, day-to-day administration and governance, as well as employers, members, and retirees.

Mr. Dan Beard, Director of Administration, provided details on distributions and discussed the makeup of an average active Investment Plan member. He also mentioned the Investment Plan service providers: Aon Hewitt, BNY Mellon, and the Division of Retirement. Mr. Beard concluded his presentation by providing statistics on choice, membership growth and administration, and he briefly discussed their request for intervention process.

Mr. Walter Kelleher, Director of Educational Services, provided details on the Financial Guidance Program service providers, including statistics on numbers of calls, workshops, website hits, and website chats. He discussed annuities that had been purchased over the last 12 months and elaborated on recent education highlights which include a new hire redesign, employer training, the rollout of a mobile responsive website, and additional Spanish workshops. Mr. Kelleher elaborated on features of the new hire kit and video.

Ms. Haseman concluded her presentation with details on the following: available fund options, assets under management by asset class, retirement date funds, total fund asset allocation by age and by gender, fee structure, asset class performance, findings and recommendations from Aon Hewitt’s Investment Plan structure review, and 2017-18 initiatives.

Ms. Kristen Doyle, Aon Hewitt, observed that the FRS Investment Plan offers a diversified set of investment options and that the program cost is very low. She also discussed the investment structure of the plan.

Ms. Katie Comstock, Aon Hewitt, discussed the trend towards streamlining and simplifying investment plans for the benefit of the participants, indicating that there has been a decrease in the number of funds offered in the FRS Investment Plan and presenting data from a 2015 Aon Hewitt survey. She also discussed the types of options being offered by the Investment Plan as well as target date funds. Ms. Comstock concluded with comments indicating great performance by the Investment Plan in each asset class, with the exception of real assets where the return was flat over three years.
Ms. Doyle concluded the presentation with a brief discussion on the structure review that Aon Hewitt had done in 2016, indicating that the Investment Plan has moved from an asset style menu (where there are many active options for participants) to an asset class based menu. She stated that the Investment Plan has moved in that direction by creating white label funds and by creating custom target date funds. Questions from IAC members were asked and answered throughout the Defined Contribution Program review.

**REVIEW CHANGES TO FLORIDA RETIREMENT SYSTEM INVESTMENT PLAN INVESTMENT POLICY STATEMENT**

Mr. Williams discussed the proposed changes to the Investment Plan Investment Policy Statement. After a brief discussion, Mr. Gary Wendt made a motion to approve the changes; Mr. Michael Price seconded the motion. The motion to approve the updated Investment Plan Investment Policy Statement passed unanimously.

**SIO ASSET CLASS UPDATES AND INVESTMENT PROGRAMS & GOVERNANCE OFFICER UPDATE**

The Senior Investment Officers of Global Equity, Fixed Income, Real Estate, and Strategic Investments and Private Equity (specifically, Strategic Investments) provided an update on the performance of their respective asset classes over the last quarter and trailing time periods and discussed general market conditions. Several questions from IAC members were answered by the Senior Investment Officers.

Mr. Michael McCauley, Investment Programs & Governance Officer, reported that the 2017 Proxy Voting Guidelines had been approved by the Trustees. He also provided details from the most recent proxy season and reported on two of their responses – one to the Singapore Exchange and one to the S&P. Mr. McCauley responded to several questions from IAC members.

**REVIEW CHANGES TO FLORIDA RETIREMENT SYSTEM PENSION PLAN INVESTMENT POLICY STATEMENT**

Mr. Williams discussed the proposed changes to the Pension Plan Investment Policy Statement. After a brief discussion, Mr. Les Daniels made a motion to approve the changes; Mr. Price seconded the motion. The motion to approve the updated Pension Plan Investment Policy Statement passed unanimously.

**MAJOR MANDATE REVIEW**

Ms. Doyle provided an overview of the Pension Plan and its performance. She also reported on the performance of the CAT Fund and the Lawton Chiles Endowment Fund.

**AUDIENCE COMMENTS/2017 SCHEDULED MEETINGS/CLOSING REMARKS/ADJOURN**

There were no comments or questions from the audience.

Mr. Williams acknowledged Mr. Larry Carmichael, Florida Retired Educators Association, (seated in the audience) who had recently presented the State Board of Administration with an award for long-term support of Florida’s retired teachers. Mr. Williams also announced the retirement of Mr. Dennis MacKee and thanked him for his many years of service to the SBA.

The meeting was adjourned at 3:40 P.M.

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Peter Collins, Chair

9/6/17

Date
STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

MONDAY, JUNE 5, 2017
12:15 P.M. - 3:10 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

REPORTED BY: JO LANGSTON
Registered Professional Reporter

APPEARANCES

IAC MEMBERS:
MICHAEL PRICE
GARY WENDT
PETER COLLINS
CHUCK COBB
BOBBY JONES
LES DANIELS
SEAN McGOULD (via telephone)

SBA EMPLOYEES:
ASH WILLIAMS, EXECUTIVE DIRECTOR
MICHAEL McCauley
JOHN BENTON
JOHN KUCZWANSKI
JOHN BRADLEY
WEB BRADLEY
JOAN HASEMAN
DANIEL BEARD
WALTER KELLEHER
TRENTH WEBSTER
STEVE SPOOK
KATY WOJCIECHOWSKI
ALISON ROMANO
TIM TAYLOR

CONSULTANTS:

SHEILA RYAN - (Cambridge Associates)
KRISTEN DOYLE - (Aon Hewitt)
KATIE COMSTOCK - (Aon Hewitt)

ACCURATE STENO TYPE REPORTERS, INC.
INVESTMENT ADVISORY COUNCIL MEETING

** **

MR. COLLINS: All right. So let's start. This clock says 12:15. We will call to order the meeting for the Investment Advisory Council. And I think the first matter before us is to approve the minutes of the previous meeting, which are in everyone's packets. Any other discussion? Seeing none, all in favor?

(Ayes)


MR. WILLIAMS: Okay. Thank you, Mr. Chairman. As usual, we'll open with a performance update. As of Friday evening's close, fiscal year to date, the fund, Florida Retirement System Trust Fund is up 14.05 percent for the fiscal year. That's 34 basis points ahead of target and leaves us with a fund balance of $154.4 billion. That's a record high for the fund. It is also $13.1 billion ahead of where it started the year. And that's net of distributions of 5.7 billion for benefit payments.

MR. COLLINS: Hold on one second, Ash. Did somebody just join the phone?


MR. COLLINS: Sean McGould? All right. Sean, whenever you have a question, if you would just let us know who's asking, since we can't see the people on the phone and so the court reporter will know. Thanks.

MR. McGOULD: Thank you.

MR. WILLIAMS: Sean, this is Ash. Welcome. And for those who don't know, Sean McGould is a new member of the Investment Advisory Council, nominated by Attorney General Bondi and approved by the trustees several weeks ago, I suppose. So welcome, Sean.

MR. COLLINS: Did somebody else just join?

MS. BERT: Yes. This is Anne Bert with the Florida Hurricane Catastrophe Fund.

MR. COLLINS: Hi, Ann. Thanks.

MR. WILLIAMS: So going on by way of updates, another thing I wanted to bring up is just to tie out some of the legislative matters that we had talked about previously. You'll recall that the primary legislation we were monitoring related to the Florida Retirement System was that that changed the default for members who do not make an affirmative election of whether they want to be in the pension plan or the investment plan. The legislation would change the default outcome from the investment plan, or rather from the pension plan to the investment plan.
That legislation did two other things. It created a solution for employees that was a parity issue between the investment plan and the pension plan, which is a death benefit. In the investment plan, public employees who were members who were not special risk members did not have a death benefit. And it is possible, rare fortunately, but it's possible for people to get killed in the line of service, in which case there was a serious lack of congruity between the investment plan and the pension plan. That's been corrected with this legislation.

The third thing it did was to fix a problem that had been created some years ago when legislation was created to avoid people double-dipping in the pension system. And it basically said, if you've ever taken a distribution from the FRS, you are deemed permanently to not be able to earn a subsequent benefit.

There were a number of people, thousands upon thousands of them, primarily teachers, who for whatever reason early in their careers might take out a modest amount of money to meet some family crisis or something of that nature and might have an interruption in service, perhaps to have a child, perhaps to deal with some other family issue.

And then when they came back and went back to work, they were informed that under Florida law, they're welcome to come back to work, but they could not earn any further pension benefit, which is a real problem for a young person in public service not making a particularly large income in an absolute sense.

So this corrects that problem and allows people who are coming back to resume service in the investment plan only, not in the pension plan. So that legislation has been passed and I believe signed into law. No, not signed into law yet. But no reason to believe it won't be signed into law. And in fact, there was an indication, I believe, elsewhere just over the past few days, which Joan is about to clarify.

MS. HASEMAN: There was a letter the governor sent to the secretary of state saying that he intended to sign Bill 722, which is the retirement benefit bill.

MR. WILLIAMS: And we have worked on that bill with the governor's office, the other trustees, the House and the Senate from the beginning. So that's in order. I think the other thing that's important is all indications are that the legislature is again fully funding both the normal cost and the requisite contribution to unfunded liability for the FRS. So notwithstanding all you may have read about excitement surrounding the legislative session, from our
standpoint, it's been a pretty straightforward experience, and the outcomes have been good.

What else? I guess it's interesting to note, going back to performance for a minute, all the asset classes are ahead of benchmark. The one exception being private equity, and that's because private equity's benchmark is a spread off liquid equity markets. And given what they've done lately, beating them by 300 basis points is pretty impressive. John is working hard, and we expect him to get that taken care of shortly. So with that, unless we have questions, why don't we move ahead, Mr. Chairman.

MR. COLLINS: We're going to turn it over to John. And, John, I don't know if you want to start or if you want Sheila to talk first, or how do you want to do it?

MR. BRADLEY: I'll start. Does that work?

MR. COLLINS: Yeah, great.

MR. BRADLEY: Thank you. Good afternoon. I'm John Bradley, senior investment officer, strategic investments and private equity, where my focus is on the private equity asset class. With me is Wes Bradle, a senior portfolio manager in the asset class, and then on Wes's right, Sheila Ryan, our consultant from Cambridge.

With that, we'll jump in. So I'll start with the agenda and kind of what we planned on covering today. I know everyone has received the materials and read through them. So if it's okay, I was going to proceed pretty quickly through the policy and process sections and focus my time on the portfolio composition and performance. And then I'm going to give it to -- turn it over to Wes, who will take a deeper dive into our fund selection process, and I think Sheila is going to bring us home with a few slides and a few comments.

So the private equity asset class, we have a target allocation of 6 percent of the total fund. As of 12/31, our allocation was six and a half percent. If we roll forward to the end of May, that allocation stood at 6.3 percent.

Here we can see our asset class goals and objectives, to create a portfolio that beats our benchmark, to avoid concentrated exposure to a particular vintage, manager, strategy or geography, and then to focus on keeping the number of managers in the portfolio low, so to invest with conviction and discipline.

Our asset class has two benchmarks. Our primary benchmark is the global equity benchmark, which is the MSCI ACWI IMI, plus a 300 basis point premium. This is an opportunity cost benchmark and measures the decision...
to allocate to PE. Our secondary benchmark is the Cambridge Associates peer benchmark. It's the Cambridge Global Private Equity and Venture Capital Index. And this measures our effectiveness in selecting managers. So are we selecting top-performing funds? Is our process working?

The asset class has a staff of six. We have two senior PMs, two PMs, one senior analyst and myself as SIO. And as I mentioned, Cambridge Associates is our asset class consultant.

We have four components to our investment process. First is the creation of our annual investment plan. Our aim here is to focus our resources and efforts on areas of need or the most attractive areas within our portfolio. We use a number of tools when putting this plan together, including a portfolio construction model or a heat map, which can be seen here, where we're ranking areas of investment by attractiveness, and then also a focus list of GPs that we want to proactively target over the next few years. And all of this is done in order to make our sourcing more effective.

So for sourcing, almost every investment we make is the result of proactive sourcing. So we truly are targeting top GPs years in advance of their fundraisings, trying to build relationships and gain allocations for their funds.

On this slide we show our deal funnel. So you can see, similar to last year, we said no to 98 percent of all new funds that we reviewed, only investing with three new GPs that were new to the program during the year.

We're going to cover our due diligence process here in a minute. However, I'll touch on fees. The chart here shows what we would consider market for industry fees for the funds that we invest in. I would note that we were at the bottom of all of these ranges and in many cases below. And so we always use our size and our stature as an LP to negotiate the best terms possible.

Last fiscal year we paid a total of $138 million in fees. That equals 146 basis points of NAV and 87 basis points on our total exposure to private equity, which would include our unfunded commitments.

MR. PRICE: What's the (inaudible)?

MR. BRADLEY: That's management fee. That wouldn't include the performance fees. Here are some examples of our portfolio monitoring efforts. I won't read through the list. I would just point out that we are very active with all of our funds.

So now I'm going to move on to the portfolio and
performance. As a reminder to everyone, we have four main strategies within the portfolio, buyouts, growth equity, venture capital, distressed or turn-around investments and secondary funds.

Here we can see the overall composition. And this is as of 12/31. The portfolio had approximately 9.8 billion in NAV, another 6.3 billion of unfunded commitments on top of that, which equals a program size of roughly $16 billion. We had 162 active funds, managed by 64 GPs. Forty-nine of those GPs we would consider core GPs that we will continue to invest with. And on the bottom of the slide, you can see the geographic and sector breakdown of those 49 core GPs.

MR. COLLINS: What's your targeted dollar amount right now relative to where the fund is and your percentage of target?

MR. BRADLEY: Our target dollar amount for --

MR. COLLINS: Overall. So if you look at your asset allocation and you say private equity is going to be X and the total fund is Y, what's your total dollar amount of target today?

MR. BRADLEY: So I guess by commitments --

MR. COLLINS: Not funded, just what it would be in general. So if it was --

MR. BRADLEY: So I guess, where the fund is today, we probably would be -- I mean, we're at six and a half percent. So it would be nine and change billion, would be NAV. And so we're on a commitment pace of roughly 1.75 billion a year into new commitments to kind of maintain that.

MR. COLLINS: Okay.

MR. BRADLEY: So here we have our current allocations to the four sub-strategies as well as our targets. You can see the targets in the red column on the right. The blue column on the left shows where we're at today, or at 12/31, using 12/31 market values. The middle column would be our total exposure, which would include unfunded commitments.

And this kind of gives us an idea of where we're headed with these exposures. And so as you can see here, our allocation to buyouts is at target, and we're a bit above target with venture and a bit below with distressed and secondary.

So here's an estimate of our pacing in the asset class over the next three years. This is an educated guess. This is based on our existing GPs and what we estimate their fundraising cycle to be, as well as a few new funds that we've been targeting. And so this pacing here averages 1.76 billion, which is in line with the modeling we have done to maintain our
6 percent allocation within the total fund. And this is also consistent with our sub-strategy targets.

So here is the -- here we're looking at sector exposures across the entire portfolio. This is something we actually look at every quarter, and so not much has changed. We remain similar to the peer benchmark, with a slight overweight to technology.

From a geographic perspective, also no change since last quarter. The U.S. remains our largest exposure.

Here we list our largest GP exposures. So 57 percent of our portfolio by market value is concentrated within these 15 firms. Lexington Partners is our largest partner, at 10 percent of the portfolio, with the majority of that being attributed to our co-investment program, which Lexington manages.

MR. COLLINS: Isn't Grove Street an emerging manager program of sorts?

MR. BRADLEY: That's one of their mandates. So with us, Grove Street manages two legacy, small buyout fund of funds and then three venture capital fund of funds.

MR. COLLINS: But that's their -- they're a fund of funds, Grove Street.

MR. BRADLEY: They're a fund of funds, yes. So here we have some overall performance statistics. And I apologize, there's a typo. That nine and a half billion in NAV should read 9.8. But since inception we've committed over $22 billion to 214 funds. We have a cumulative paid-in capital of 15.6 billion to date, with distributions back to the asset class of 14 billion, giving us a DPI of .9x. And the program has a total value multiple or TVPI of 1.5x, which would imply value creation to date within the asset class of 7.8 billion.

Next is performance. Total asset class performance remains strong. Again, this is as of December 31st, with all but our five year return surpassing the benchmark.

MR. WENDT: Question, please. Of the 9.6 billion, approximately how much is in the fund of funds?

MR. BRADLEY: Fund of funds I think represents --

MR. COLLINS: If you go back one slide, it was on that.

MR. BRADLEY: On this one? Yeah. So I guess we could add Grove Street, Silicon Valley Bank, Fairview.

MR. WENDT: Which ones are the fund of funds?

MR. BRADLEY: It's about 20, 20 percent.

MR. COLLINS: The second one, Grove Street, about $750 million.

MR. WENDT: That's the only one that's a fund of
funds on there?

MR. BRADLEY: So on this list it would be Grove Street, Silicon Valley Bank, which is fourth, Fairview underneath them, TrueBridge, and then RCP at the bottom.

MR. WENDT: So a lot, a very high percentage of your activity is through fund of funds.

MR. BRADLEY: Yeah. It's about 20 percent of the portfolio. Probably -- what do you think? Fifteen percent of that is venture, which is run through a fund of fund program. The remainder, maybe five percent of that, would be in legacy, small buyout, fund of fund portfolios that are running off. We don't use fund of funds anymore, only venture capital, and then we have one in Asia.

MR. WILLIAMS: And a key thing to note there is that the fund of funds approach in venture capital is strategic as well as tactical, because, number one, a number of the funds we would choose to be with aren't interested in having public pension funds as LPs.

Number two, the increments of investment are fairly small. So from a return on diligence standpoint, the fund of funds is a way to lever the time and talent and gain access where you otherwise might not be welcome.

MR. WENDT: I think I would understand using it for the venture activities. But for the other stuff, I guess I'm a little surprised that you use fund of funds as much.

MR. BRADLEY: So I guess that was more in the beginning of the program, when we were trying to scale up private equity. And I think the vintage year of those funds are more in the 2005 to 2008 range. I don't believe we've made a commitment to a fund of fund outside of a venture portfolio in the last five years, and we wouldn't have any plans to do so in the future.

MR. WENDT: Thank you.

MR. BRADLEY: So here on this slide breaks down our vintage year performance of the program. So the green bar on this slide would represent our IRR, and the blue square would be the corresponding Cambridge benchmark return for the respective vintage year. So we've done very well as a team, I think, in selecting managers. We've outperformed the vintage year benchmark in 13 out of 17 years.

And I would point out that two of those underperforming years, the vintages in 2014 and 2015, are still very young and maturing. They're still in their investment periods. And so we would ultimately expect to see outperformance from those two as well.

MR. PRICE: So that's the year you committed to
MR. BRADLEY: Yeah. So that --

MR. PRICE: Which is kind of meaningless because they're drawn down over three to five years, right?

MR. BRADLEY: Yeah. But so the Cambridge benchmark would also be all funds raised in that vintage, which are also -- so what it's shown us is in any of these vintage years, the universe of funds that we had to commit to, which ones did we pick versus the broad universe.

MR. PRICE: Right. I got you.

MR. BRADLEY: This shows our cash flows. Cash flows continue to remain strong. 2016 for us came in a bit behind 2015, in terms of distributions and net cash flow, but it was a positive year for us nonetheless.

The program has been self-funding for the last four years, which is always nice to see. I'd say heading into this year, we kind of had the thought that it would be more or less a break-even year for us in terms of cash flows. However, we continue to see strong exits from our GPs.

MR. PRICE: So, John, your unfunded today is about 6 billion, out of the nine and change?

MR. BRADLEY: Correct.

MR. PRICE: There's no segregation of assets for that 6 billion. You've got enough liquidity in the system where you don't have to segregate it out, correct?

MR. BRADLEY: Correct.

MR. PRICE: So there's no cost to have those commitments, in your thinking. If interest rates were 5 percent, there might be some cost, but you have enough liquidity.

MR. BRADLEY: Correct.

MR. WILLIAMS: We manage liquidity for the total portfolio on a very holistic basis. All of the asset classes that use callable capital models or committed capital models have in-house pacing models that they use, developed with the specialty consultants, so that we have a good sense of that.

In addition to that, John Benton manages a process whereby we look at also liability liquidity requirements, because those evolve over time. And we keep track of the entire program. And John has put something in place that looks at that holistically and manages it so that we avoid a big frictional drag for meeting liquidity needs.

MR. PRICE: So this portfolio was not in place in 2008 and '9.

MR. BRADLEY: It was, yeah. So it dates back to
1999 for the portfolio.

MR. PRICE: Okay. So in 2008 and '9, where you had gating, illiquidity in markets, drying up of liquidity overall, and potential capital calls of billions, what did you do in-house to address that?

MR. BRADLEY: I'm not sure -- I guess our experience in that time period was we absolutely saw a dry-up in distributions. But as we can see on this slide, if we looked at 2008 and '9, we saw a corresponding decrease in capital committed. And so both of those years, they were net negative years, but to the tune of 300 million over two years. And so at the time, it was absolutely very manageable.

MR. BRADLEY: Also, maybe it's important to point out that pacing is very important in terms of making sure that when the market turns, that you haven't gone way over your skis in terms of how much capital you allocated, and then when all that gets drawn down, you don't have the distributions to match it, and you can get into a lot of trouble, which happened in a lot of public pension plans in '08 and '09.

MR. BRADLEY: Yeah. And so our experience, what we didn't do, to Wes's point, is we didn't overcommit to PE in 2006 and '07. When our allocation within the fund was falling and our models might have said, hey,

you need to catch up, you should put 3, 4 billion out across cycles, we said, we're going to invest in these two fiscal years, we said, we're going to invest in these two fiscal years, we said, we're going to invest across cycles in a consistent manner. And we were fortunate not to find ourselves in that position.

MR. COLLINS: How many new managers did you invest in in '08, '09 and '10? Maybe '09 and '10. Forget about '08. '09 and '10.

MR. BRADLEY: We've averaged roughly two to three new funds a year. It was probably the same. 2009 sticks out. I think we did 10 funds that entire year.

MR. COLLINS: And how many -- were there any that -- what, you figure --

MR. BRADLEY: Maybe one or two were new. That was a year we had an allocation of 2 billion to put to work, and we invested 800 million. So it was just a -- we went into the year thinking, this is a great time, we'll be able to put a lot of capital to work, this is going to do well for us. And our experience was just GPs were out of the market. No one wanted to be fundraising in 2009.

MR. COLLINS: Right. Everybody was running for the hills.

MR. WILLIAMS: Just to illustrate the point John made a moment ago that is a real distinguishing characteristic for our private equity program. A lot
of our peers in public fund land had a standard
discipline of maintaining a normal percentage of funds
as their objective. So if GPX came to them and said,
I'm raising a new fund. It's a billion dollars. You
were 10 percent of my last fund. I presume you want to
be 10 percent of this fund. They'd say, Sure.

Well, the trick was, around 2006 and '7, what
happened to fund sizes? They went crazy. Everybody
raised huge amounts of money. So many of our peers,
holding their percentage of those funds constant,
overinvested in what became highly undesirable vintage
years. We did the opposite, held the dollar amount
constant to avoid overweighting what seemed like a very
frothy period.

And in retrospect, that's part of the reason
you've got this outperformance in the vintage, because
there was extraordinary judgment that was very
different from that of most of our peers, particularly
some of the funds that some of our current staff used
to work at in the western part of the country.

MR. COLLINS: Please proceed, John.

MR. BRADLEY: So now we're going to turn our
attention to the four sub-strategies within the
portfolio. And we'll start with the buyout portfolio.
So we have a target of 55 percent of the portfolio in
buyout funds. And you can see the breakout of that
55 percent on the right. This is the actual buyout
portfolio, with our GPs broken out by size. I would
note we classify our GPs based on the size of the
companies that they target, not by the size of the
funds that they raise.

And so, you know, we would define large buyout as
GPs who target companies with enterprise values greater
than $750 million. Middle market would be EVs between
750 and 250. And small buyout would be EVs less than
250.

Also we can see on this slide we do target a
number of GPs within each category. And so based on
this, you can see our large and our middle market GP
portfolios are at target. And so, for us, the addition
of a new GP here would likely come at the expense of
one of our existing managers. Small buyout we can see
is under target, so this is a space that we have room
to add.

MR. COLLINS: What was your commitment to KKR's
new Asia fund?

MR. BRADLEY: I believe it was 150 million U.S.

MR. COLLINS: And are you in EnCap's new fund?

MR. BRADLEY: We are, yes. So the buyout
portfolio today is balanced by size. IT and consumer
discretionary make up our managers' largest sector allocations, while the U.S. still dominates geographically in the portfolio.

So this chart, we'll get into performance of this buyout aggregate. We'll start at the chart in the upper left. This shows performance of our buyout portfolio in aggregate versus the Cambridge benchmark, as well as the sub-strategies that make up that aggregate. The portfolio has performed well on an absolute and relative basis. The portfolio has a DPI of .9x and a TVPI of 1.5x.

On the bottom right of the slide, this is new this year. We show a PME, or a Public Market Equivalent since inception for the portfolio. And for those of you who aren't aware what the PME is, the PME would look at every contribution and distribution since inception for the portfolio and says, instead of investing it in our funds, what if when our GPs made capital contributions or distributions, we instead bought or sold the equivalent amount in a public index.

So in this case we've used our primary benchmark, the MSCI ACWI IMI. And so it asks would you have been better off doing that. In the case of our buyout portfolio, we would not have been better off. So out buyout portfolio outperformed that public market equivalent by 564 basis points. And as Wes will show you in a minute, we also do this PME comparison with each individual fund in the portfolio but use a much more customized public index. So this would be since inception, so since 1999.

Our venture capital portfolio is managed today through four fund of fund relationships and/or separate accounts. This portfolio is heavily weighted towards IT, with only a small allocation to health care. By stage, we've oriented the portfolio towards the early stage, which we define as C through series A rounds. We like this construction.

I think Sheila has a slide in her deck on this, but valuations in early stage venture have historically been much more stable than later stage rounds. And so that's especially true in today's market. And we think this construction has and will continue to serves us well in venture.

Our venture portfolio has also performed well. It's beat its benchmark for all but the five year time period. Has a very strong TVPI at 1.5x. However, if we see here on -- the DPI number of .4x does trail every other strategy in our portfolio. We do think, however, the next 12 months have the possibility to be very strong for us in terms of liquidity in venture.
And so we would expect to see this DPI and TVPI spread narrow.

On the bottom right is the PME for our venture portfolio. You can see this portfolio has underperformed that metric by 170 basis points. And the index we used here is the S&P 500 information technology index.

Next is our distressed portfolio. We currently have eight managers focused here in this strategy. I would note this is not a distressed debt trading strategy. All of our GPs here focus on control investing, so majority ownership of the companies that they target, and all focus on creating value through operational improvement.

Sector exposure with these GPs is concentrated in consumer, industrials and the energy sectors, with over 80 percent of the geographical exposure coming from the U.S. and Canada.

This portfolio has been our strongest performer within the asset class by almost any and every measure. Both the DPI and TVPI measures are very strong, at 1.2x and 1.7x respectively. And the portfolio's PME have over 1300 basis points of outperformance versus the public market, leads the portfolio.

Secondary investments make up 5 percent of the portfolio. We have two active GPs here. These are very diversified portfolios, and through these GPs, we hold secondary positions in over a thousand different private equity funds.

Our portfolio performance in the secondary portfolio has exceeded its benchmark over all time periods. Again, we see strong outperformance on a PME basis of 800 basis points. In the portfolio it's nice to see a DPI of 1x and a TVPI of 1.5x.

So in conclusion, we continue to be very active in managing this portfolio. We have continued to increase exposure to the small end of the market, decreasing and reducing our exposure to larger mega buyout. We've been focusing on GPs with an ability to drive value through operations, so making the companies they buy better, and GPs who are sector specialists.

We've also been very active in the secondary market and strategic in using that market to help facilitate some of these portfolio transitions, as well as realize some liquidity at what we think are very attractive valuations.

MR. COLLINS: John, I don't recall if we have any secondary exposure outside of Lexington. Do we?

MR. BRADLEY: We do. We have two GPs. The other is Ardian, who is similar to Lexington but more global.
or European in nature. So with that, I'm now going to
turn it over to Wes. He's going to spend a few minutes
on our fund selection and our due diligence process.

MR. BRADLE: Thanks, John. As John said, my name
is Wes Bradle. I'm a senior PM on the private equity
scene. And I thought today we'd talk about some key
components of our diligence process, also talk about
our formula for decision-making. John highlighted some
of the results already, but I thought I'd talk about a
few of those as well.

So we think that a transparent and a repeatable
investment process is critical to investment
decision-making. Our current process ensures that
regardless of which team member is reviewing a fund,
the information collected and the quality of analysis
is consistent.

But really a process is only as strong as the
people and the plumbing or the tools available to
implement it. We have a smart, capable investment
team, with professionals who show strong investment
judgment. We also work as a team to execute new
investments.

In terms of plumbing or the tools, the SBA
provides the necessary tools we need to effectively
gather and analyze data. And we'll highlight a few of

those shortly. So if you look on this slide, you can
see our four stages of due diligence. Number one is
initial screening. Here we review a fund's strategy
and portfolio fit in the context of our existing
portfolio. At this stage, this is where the majority
of investments are declined.

Number two is full diligence, where we drill down
on specific items related to that fund. And then next
is legal negotiations, and finally closing. We thought
we'd spend a little more time drilling into the
diligence process. As I previously said, after initial
screening, if the team agrees we should do diligence,
we meet with the GP at our office to collect more
information.

This includes an in-depth review on things like
the fund's strategy, the team, the track record, the
investment process and the terms of that fund. Each
team member then rates that manager, and we discuss the
findings at our weekly team meeting.

So we decide to move forward. Then what happens?
Well, a member of our team is assigned to draft a two-
to three-page preliminary diligence summary. Here they
highlight the fund's strategy differentiation and
performance relative to a benchmark, which you can see.
It's the third item down.
We discuss the findings as a team, and if warranted, we gather more information and populate the interim diligence summary, or the IDS. This is a 20- to 40-page memo that addresses both standard and other diligence items.

So what are standard diligence items? Well, there's too many to list them, but it's things like performance, organization, competitive position, market conditions and key risks.

Here on the right side of the slide you'll see the tools like the due diligence questionnaire, the quantitative data request, reference calls, on-site visit, et cetera. Summary findings from these tools are implemented into the IDS memo. As an additional check, we engage Cambridge Associates to write a consultant memo, which is also known as the prudent person opinion.

We discuss and debate our findings as a team, and then we make a decision. If the decision is approved by the private equity team, we draft the investment approval memo, which gets sent to Ash for final approval.

Drilling down a little bit into those items on the right side that we highlighted, first we have the ILPA due diligence questionnaire. And this is 112 questions that include topics on fund strategy, investment process, reporting and administration. Number two is the quantitative data request. This has 71 data points on each company in previous funds. And here the data set is used to test hypotheses and draw conclusions.

MR. COLLINS: On each investment?
MR. BRADLE: Each company, that's correct.
MR. COLLINS: In a particular fund?
MR. PRICE: Let me just -- I want to understand this. This is when you're evaluating new funds.
MR. BRADLE: Yes.
MR. PRICE: Which are blind pools. You have no idea what they're going to do with the money.
MR. BRADLEY: Yeah. So we're looking at previous funds.
MR. PRICE: Right, which have nothing to do with going forward, right? So it's a blind pool.
MR. BRADLEY: Yeah. I think we're using it to test a hypothesis. And if a GP said, We are a value manager and we create value through growing EBITDA of our businesses, we would then use these data sheets to say, Okay, what have you been paying in terms of multiples? What is the EBITDA growth? So we'll separate value creation by EBITDA growth, by leverage and by multiple appreciation, and we'll --
MR. PRICE: So how often are you disappointed when new managers going forward buy things that you don't expect them to buy?

MR. BRADLE: I mean, how often? I don't know if we've ever quantified it. What I would say is --

MR. COLLINS: They call that drift.

MR. BRADLEY: For the most part, I think our managers are pretty consistent with the strategy and what we expect them to do. And, now, they all have pretty broad mandates in terms of what they can do. But there's always head scratchers with -- in today's market, usually it's just around price and multiples that people are paying. So it happens, but maybe not as often as you might think.

MR. COLLINS: So you think your due diligence process keeps you from investing in managers where you -- that might be apt to drift?

MR. BRADLEY: I think it better helps us understand what they do, so that when they do drift, we say, Hey, wait a minute, you guys said that you were only going to invest in companies in North America, in the industrial sector, and now you're off doing a technology investment. Why are you doing that? Help us understand that. How many more of these are you going to do?

And then if they do another and another, you sort of go, Wait a minute, hold on, let's talk about this. And then obviously it has an impact on the decision we make around the next fund.

MR. BRADLEY: I think it also helps us put together a portfolio that's complementary. So that's one of the biggest things we talk about when looking at new funds, is what exposures are we getting, is it duplicative in the portfolio.

And I think it helps us avoid those GPs where we might have invested in the past and said, hey, this is a great GP with a good performance, let's put this in the portfolio, and then realize, when they put the portfolio together, okay, they just did exactly what manager A did in our portfolio, it didn't really add anything. And so I think it's helpful in the construction.

MS. RYAN: Just one other point on that, I think it's great to, just from a pattern recognition perspective, you're collecting all this data, you're looking at all this data over many, many managers. You start to see patterns, and you start to really understand the dynamics of one group versus another. And you can see if something is an outlier. You can also see if something just doesn't add up. So I think
there's a lot of value to that pattern recognition that comes out of collecting this kind of information.

MR. COLLINS: Totally agree. I think all of us agree with that. How many people, when you started reviewing people in '8 and '9, popped out. I mean, of your portfolio, was it 20 percent? Was it lower than that or higher than that that there was some style drift? Because I think, besides valuations, right, in '8 and '9, what people found out that had a lot of private equity, maybe especially in real estate, woke up and said, Wow, we thought we were investing in X and we got Y.

MR. BRADLEY: Yeah. So I think, I mean, there is a bed. I think in those time periods the biggest was just size of company. So enterprise value is one of the things that we'll capture here. So it's just the massive increase in the size of the business they were buying. And many times it was through partnerships with other LPs and co-investors keeping the equity checks consistent with the fund, but yet the enterprise value and the total equity was a lot higher than we would have expected.

If you went and looked back maybe like four or five years ago, I think energy was the sector that really caught our eye with our broad generalist funds. And when we looked at the portfolio and said, hey, we've put together a really nice energy portfolio, why is our energy exposure this large, it was our large sector generalist who had that in their mandate but that had not historically done that, that then thought, hey, this is a great place to be.

I think we're seeing that today with technology. And so I think that's the flavor of the day. That's the best performing sector for PE. And so it's something we're constantly monitoring and trying to figure out, is our GP really good at doing this, have they added the right structure internally to handle these investments or not.

MR. BRADLEY: So we kind of talked about it, but again it's around really understanding where a fund invested capital, who invested the capital, what risk they took, a whole host of things.

From there we conduct a thorough review on a fund's legal terms with our internal and external legal counsel. And this helps us better assess alignment. It helps us identify key red flags and tactically negotiate terms, again, based on some of these data points.

So by way of example, let's say you did the attribution analysis and you said, wow, this one person
at this firm is driving the returns. Well, then we
better have a sole key person and the language on that
person. Whereas if that's not the case, if there were
multiple people who generated outsized returns, then
maybe you don't negotiate the key person, you negotiate
some other term that you think is important.

These tools, in the context of our diligence
process, allow us to make more effective decisions and
give us a consistent framework for considering new
investments.

So on this next slide, I apologize, the print is a
little small, but this is an example of how we
benchmark a fund. The numbers presented were modified
for confidentiality reasons, but they're based on an
actual U.S. buyout fund we reviewed in the last three
years.

So we highlight some of the key areas with a red
outline, and these numbers are net of both management
fees and carried interest. The first item you see is
net IRR. And so on a capital weighted basis,
13.8 percent. That looks pretty good. But what about
on a relative basis? So to the right of that you'll
see the benchmark, global private equity and venture
capital. We view that as our opportunity cost. And, again, you can see that on an aggregate basis, these

set of funds were second quartile. Obviously Fund 2
performed below median, so that would be something you
would want to look into.

Now, again, I mentioned it's a U.S. buyout fund.
So how did it compare to actual U.S. buyout funds?
Well, you go to the next red box, and you'll see that
on an aggregate basis, it's below median. In fact, two
of the three funds are below median.

Now moving down to the second row, the first box
you'll see, this is the net DPI. And, again, what this
measures is how much capital has been realized and
returned to LPs, as compared to how much capital the
LPs have contributed. And, again, it looks pretty
good, second quartile on an aggregate basis. Again,
Fund 2 underperforming.

Then if you move to the right to U.S. buyouts net
TVPI, again, you see the same story here. It is below
median on a aggregate basis. Again, TVPI is the total
value of both realized and unrealized investments
divided by the LP's contributed capital.

So even though on the surface this manager had
strong absolute performance, we ultimately decided to
pass on the next fund, in part because of the relative
performance shown here.

Here's another example of the performance analysis
we do, the public market equivalent, also known as the PME. As John mentioned, what if every time -- PME is
basically if every time a fund called capital you
instead invested that capital in a public market
benchmark or an ETF, what would the results be? Would
we be better off?

Again, this example is based on a real life
fund, but the numbers have been modified. So starting
on the left, Fund 2, 14 percent net IRR, median versus
a relevant benchmark. And you can see the
outperformance against our primary benchmark, the MSCI
ACWI, is 1,040 basis points. We also compare it to a
secondary index, which is the Russell 2000 index, which
is a measure for U.S. small cap stocks. And, again,
this fund outperformed by 710 basis points. Then you
look at Fund 3, again, strong net IRR, top quartile,
outperformance of over 2,000 basis points.

Now, the story changes a little bit in Fund 4. So
8 percent net IRR is okay, not great. Again, median
against the benchmark. But then you look at the
outperformance versus the ACWI. That cleared our
300-basis-point hurdle. But what you see is the alpha
over the Russell 2000, which we think is the more
relevant benchmark here, is 120 basis points. And then
you look at Fund 5, 19 percent net IRR, top quartile.

And, again, you start to see that outperformance again.

So on this fund we did more work to get
comfortable with why the PME declined in Fund 4. But
ultimately we committed to the next fund due to the
expected future outperformance relative to both a
private equity benchmark and the PME.

So these last couple of slides are going to talk
about our keys to success, but more kind of around the
qualitative stuff, less the quantitative. So first
it's critical for us to trust in our system. This
starts with sourcing as many investments as possible.
We then analyze and debate them rigorously until we
come to a decision. In addition, we evaluate our
results every so often and make adjustments as
necessary.

This business is tough. It's too easy to grow
close to a firm. We call it drinking the Kool-Aid.
It's too easy to become complacent. It's too easy to
cherry-pick data points to get to the decision that you
want to get to. And that's why it's so important for
us to trust in the system and to trust in the team
around us.

You'll see in the middle here, this is the process
of refining gold. And we liken our process to refining
gold in ancient times. In this process you'd collect
ore, crush it into powder and clean it to remove nonmetallic elements. Then you'd melt the ore in a furnace at over 1900 degrees Fahrenheit. As the ore melted, impurities in the gold would rise to the top and you could remove them. The more this process was repeated, the more pure the gold became. And the goal of our system is similar. Each new fund commitment must survive the analytical rigor of our process and the scrutiny of our entire team.

Another key element to our process is culture. And this starts by emphasizing the team and not the individual. We think about it like dog sled racing, which is not very big in Florida, but I'll use it anyway.

MR. WILLIAMS: It's very hard on the dogs here.

MR. BRADLE: Yeah. Originally, dog sled drivers used one to two dogs to transport products. But over time they found that larger loads could be transported longer distances when the effort was distributed among more animals. We see this in the Iditarod. This is a race where a team of up to 16 sled dogs run a thousand miles in eight days, pulling 150-plus pounds in sub-zero temperatures. No one dog could do that alone. In a similar way, we can accomplish so much more by working together as a team, utilizing each person's unique skill set and network.

Another key component of our culture is transparency. On some teams one decision-maker listens to the viewpoints of each team member, then makes a final decision on their own, never communicating the rationale for that decision. On our team, we have an iterative process where everyone is encouraged to express their opinion, even down to the analyst level.

Now, we don't always agree, but people know why a decision was made. And when they understand the why, it allows them to take ownership for the decision, regardless of the outcome.

So this process sounds great, but it might be helpful to see an actual example of how it's impacted our portfolio. So first this process has allowed us to make more informed investment decisions about our funds and how specific managers fit into the portfolio, which we discussed a little bit earlier.

Second, we have a more complementary portfolio. And so if you look at the chart here, you'll see that in 2013 we had 13 funds in Europe who managed a fund larger than 2 billion Euros, and we had only one fund that managed a fund that was 2 billion Euros or less. Today, in 2017, we're down to five firms in Europe that manage funds larger than 2 billion Euros and seven...
firms who manage a fund that is 2 billion Euros or less.

Lastly, we have more specialized managers. Again, looking at our European portfolio in 2013, we had zero regional or sector specialists, and today we have five firms with some type of geographic or sector specialization.

Our people, process and plumbing has enabled SBA to build a durable, high quality private equity portfolio that we believe will continue to outperform in the future. Thank you, and I'll turn it over to Sheila.

MS. RYAN: Thanks, Wes. Good afternoon. I'm Sheila Ryan. I'm a managing director at Cambridge Associates. We work with John and Wes and the team on their private equity portfolio. I just have a few slides to go through, a little on the market environment, one or two additional perspectives on performance, and then just a slide or two on a little bit more detailed look on exposure, so just a few things to go over.

Let me page through the detailed performance numbers here. Okay. So I'm on Tab 3-c. So in terms of the current market environment, I've got two slides here. The first one is on the private equity market, and then the second one is on the venture capital market. And what we're showing you here are a couple of things. Number one, returns for our benchmarks relative to public markets over time. And what you see in the light blue bars are the performance for just the top two quartile funds. And in the darker blue bar is the pooled mean. So you've got the sort of average return versus the above median returns.

And you'll see, regardless of which time period you look at, there's a significant advantage, from a return perspective, to be in those top two quartile funds. And this is something that has persisted and will continue to persist in these markets where you really do get paid to make the right choices from the manager selection perspective.

MR. COLLINS: Sheila, why use September 30th, 2016?

MS. RYAN: We just finalized our December benchmarks, and it actually hasn't been updated yet. So we'll probably be updating this slide in the next week or two. It's a very slow process to get those December numbers because they're all audited and then they have to be put together, so those just came out. I wouldn't expect the numbers to really differ a whole lot.
So that's that on the private equity side. The next one is in venture, and you'll see the relationship persists here as well. In the light green are the top two quartiles. The dark -- well, the sort of darker green is the pooled mean, and then you've got the public market benchmarks.

And what's interesting to note here is, as you go from left to right, you'll see a big improvement in returns. And that's because we sort of -- you pick up or you get rid of, I should say, the drag from the bubble, the tech bubble back in 2000. It's hard to believe that was 17 years ago. And we had a long period of time, vintage years of sort of 1999 through 2004. Those vintage years for venture capital were either negative returns or below a 5 percent positive net return. So very meager returns for a long period of time.

And it wasn't starting until about the 2007 vintage when we started to get back to kind of low teens returns. And then we've seen a real improvement in the venture markets and the tech markets in general, which are captured there in the three year and five year numbers.

So the numbers have been great in the private equity. We'll show you venture on the next slide. And it's great for performance looking backward. The challenge here is going forward. Valuations are quite high. So putting capital to work in these markets will require a lot of skill. And I think what we've seen and what we've tried to do to address this is to focus on specialist firms, firms that could bring some skills to the table other than just being able to pay up in price.

You'll see the top line there is the purchase price multiple over time. That's the green line. And you'll see we are basically at peak type valuations. Leverage is in the orange line. And you'll see we're just below peak there. So it is an expensive environment, which we benefited from on one side, but it's going to make it tricky going forward.

Same story here for venture. You'll see the lines on the top, the gold and the sort of dark red, those are the later stage valuations, which we've been benefiting from. The good news is that we're focused primarily on those lower lines, the blue and the green at the very bottom. Those are the early stage valuations. So the game here is to get in on the early stage and to be able to take advantage and sell into the higher valuations at the later end, and that's what the portfolio is positioned to do.
Then John mentioned this earlier. The venture capital market has been slow to distribute capital. If you look at that green line, you’ll see, using the right-hand scale, that the distribution to paid-in ratio, which is what the green line is showing, in 2011 and beyond is below .5. And I think overall, the portfolio is a .43 distributed to paid-in capital versus a total value to paid-in of about 1.5x. So there is a big gap there.

We’re seeing venture companies stay private longer. And this is one of the drivers behind that. And I’ve got a chart in a couple of slides. I’ll talk a little bit about expectations regarding liquidity. But this is what’s driving it, these companies staying private a lot longer and this big boost in these late state valuations is really boosting up the total value numbers.

I won’t go into this in detail. It’s just kind of an interesting quilt chart. Yeah, you really want me to go into each square? This is just showing for all the sub-sectors within private equity, for given vintage years, it shows the top performing all the way down. I think there’s 12 sub-sectors here. So you’ll see how the different sub-sectors do across time.

And key takeaway here is it’s important to be diversified. If you have time, just take a look at it. You’ll see what happened with venture back in ’96 and ’97, top performing asset class. Then we had the bubble. And you’ll see it went down to the very bottom and stayed down there for four consecutive vintage years. And then it gradually worked its way back up and is now in the top performing.

MR. PRICE: Sheila, with all due respect, why do you do it through ’13? This is like ancient history. What about the last four years?

MS. RYAN: Well, the problem is that these, because they’re blind pools, they need to be invested over time. And it takes several years for a fund to really season. In fact, we’ve gone back and looked historically. It’s something like 6.3 years for a fund to be seasoned to produce a meaningful return. So this is about as good as we can get in terms of predictability.

But I would agree with you. It’s not up to the minute. It’s not particularly current. But it gives you a flavor. I mean, look at energy, is kind of another interesting one to look at how well we did in energy, and now obviously, with the shale supply situation there, we’ve been underperforming.

So bottom line, it’s hard to predict which ones
are going to be in the top five. So we choose to
really be diversified and then tactically under- or
overweight sectors that we think are particularly
under- or overvalued.

MR. PRICE: So is the explanation the same for the
fact that you're really three quarters behind in the
results for venture? You ended in September of '16,
your returns on your charts, and this is June of '17.

MS. RYAN: I know. We just got the December
audited numbers finalized literally like a week ago.
It's a huge lag, particularly for the year-end numbers,
because all the funds have to get audited, and then we
have to get in all the audited numbers, and then we
have to put them in our benchmark.

MR. PRICE: So you're waiting for the audits.
That's the answer. The partnership letters might come
in, but you're waiting for the audited --

MS. RYAN: We need audited financials, because
that's what we use to put in our systems.

MR. PRICE: So it's just slow.

MS. RYAN: Yeah. The December numbers are
particularly slow. Usually it's --

MR. COLLINS: But you're still getting quarterly
financials, right?

MS. RYAN: Oh, yeah, yeah. And we won't --

MR. COLLINS: Because that September number is not
an audited number.

MS. RYAN: No, no. Right. One of the challenges
with the asset class, for sure. I won't go over a lot
of these slides because John already covered them.
There is one slide I did want to touch upon, which is
the performance relative to the Cambridge Associates
clients.

So we've looked at the SBA's PE portfolio
performance over these different time periods and
compared it. You'll see the sample size on the bottom.
These are 300 to 380 Cambridge Associate client PE
portfolios over these same time periods. And
performance has been very, very strong, first and
second quartile performance relative to the CA clients,
which is I think particularly remarkable when you think
about the size and scale of this program versus a lot
of our clients, which are much smaller and can be a lot
more nimble in terms of smaller pieces and smaller bite
sizes and whatnot.

MR. COLLINS: It's shocking here, but I'm going to
be nitpicky. We just talked about how it takes a while
to season some funds. So why are we giving one year
quartile rankings?

MS. RYAN: That's a valid point, yeah. I mean --
MR. COLLINS: Or you should at least put an asterisk next to it that says this means nothing.

MS. RYAN: Well, it is actually a little bit different because these could be portfolios that are seasoned and this is just their one year results. Right? So like your portfolio is seasoned, and this is the one year, the three year, the five year and ten year results for those. It's not necessarily just clients that --

MR. COLLINS: No. I get it. There are some longer-term funds in there that are kicking off that last year's worth of returns. But are you -- so I would feel better if you said, oh, we don't include anything that's not through the commitment period, any fund that's not through their current commitment period.

MS. RYAN: Well, yeah. I mean, we do have -- the methodology tends to deemphasize stuff that hasn't been seasoned. I'd have to go back and specifically look at what we excluded and what we included. We tend to be pretty focused on only including stuff that's seasoned.

MR. COLLINS: We all get it. We're either in the private equity business or we invest in private equity and we understand that it's like, you know, Silly Putty trying to get a grip on it. But let's come up with some -- one page we're stopping at 2013 because anything newer than that really isn't seasoned. One slide we're getting September financials because we don't have audited, but September is not an audited number.

MR. BRADLEY: I think the difference on the quilt chart to stop at 2013 is the seasoning of the fund being -- if we were to look at 2015 and put every subcategory up there, the odds that those would change over the next two years are pretty high, and you really couldn't take any information from it.

But at 2013, given the length that those funds have been investing and the returns, that column probably aren't going to have too many shifts in there. So you can actually start to see the trends over time for that.

MR. COLLINS: All I would say is let's maybe give a little bit more thought, as you're putting this together, on how the pages flow. You know, one page you're giving us data that's as of four years ago. This page is like, oh, well, here's our one year return, but I don't know if it includes funds that are through their commitment period. And if it does, I mean, I don't know how you're --

MR. BRADLEY: Our one year return, this one year
return and the one return for the Cambridge clients would be every dollar invested in the portfolio, how has that entire portfolio performed over the last year.

MR. COLLINS: Your due diligence process on these funds is amazing, really, really detailed. So I would just say, before the next meeting, run your own reporting through that process.

MR. PRICE: So, John, what -- I know Cambridge writes a letter when you do your due diligence on specific funds, either existing or new. In your judgment, if you're the allocator, what percent of the decision do you weight on the Cambridge letter?

MR. BRADLEY: I think we weight their opinion, we value their opinion. And so I guess how the process works is we meet as a team every week, as Wes said, to kind of go through where we're at in diligence decisions. We have a call with Cambridge every other week to go through that same process, where are you at in your process. And through that, we might be in a preliminary diligence on a fund. Cambridge will do their own full diligence process apart from ours.

And they might come up with and say, Hey, we just ran the numbers. We think you need to look at this factor. And so we will then take that into account, roll that into our diligence. So what we don't do is

we don't do our own work. They do their own work. We merge it together at the end and say, What do we want to do? It's an iterative process. But we absolutely value their opinion. And they're very, very helpful in the diligence process for us.

MS. RYAN: Often we'll do on-site due diligence meetings together. Wes and I were just at one -- was it last week or two weeks ago? And we'll go spend a whole day at a manager, and he'll have a bunch of questions, we'll have a bunch of questions. And then we'll have that opportunity to vet it, which we're doing right now, sort of making different types of reference calls.

MR. BRADLEY: It's a good debate. I mean, there is absolutely -- there will be funds we like, and Cambridge says, We think this isn't very good, you can find a bunch of other funds. We'll take that into account. We might try to convince them otherwise. And then vice versa, they might like a fund that we just can't get comfortable with. And we just encourage that debate.

MR. COLLINS: Any other questions?

MR. WENDT: I just have to comment that the results up there certainly validate the sled dog approach toward investing.
MR. COBB: Mr. Chairman, I have a question of Cambridge and maybe to the rest of my fellow members on the committee. I personally was impressed with page nine, which was looking at the future. And I was delighted that large buyout firms was a very low priority and some of these special situations were more higher priority, and then also more of a focus on Asia.

I react very positive to that. So my question to Cambridge, do you agree that this is -- and then do you agree this is a good format, and fellow committee members, I'd like to know other people's reaction on it.

MS. RYAN: Yeah, we agree with it. And in fact we meet twice a year for specific kind of strategy review sessions, where in one case we're not even talking specific managers, we're just talking about sectors overall, and across all the various sectors to be able to invest in, which ones do we like, which ones don't we like. And it helps kind of feed into this matrix. So, yeah, we come across and come away with a view as to where to focus and where not to focus.

MR. COLLINS: Anybody else on the committee have an opinion on the graph on page number nine, or the table on page number nine?

MR. DANIELS: Well, I would say that I think specialization is very important, particularly when you get to these levels in the market. You have to add value somehow. And being a generalist, it's tougher to do.

MR. COLLINS: I would agree with that.

MR. DANIELS: Specialization is very important. And I'd like to compliment the team on the process. I think it's a very good, robust process.

MR. WILLIAMS: Just to give you a little more color on what Sheila just said and John and Wes had alluded to, we had Cambridge in, I guess it was last week, the entire team, and spent two full days going through all the different valuation discussions, scenario discussions, sector discussions, how does all this relate to our existing book, how can we tune things going forward, what do we think about the risk of the bottom dropping out, what does it mean to exit potential, et cetera.

So the amount of thought that goes into this is extraordinary. And the team is really, really good, and Cambridge I think is fully integrated as an extension of staff. And it's worked well. There's good alignment all the way across it.

MR. COBB: Mr. Chairman, I have another question.

MR. COLLINS: Go ahead.
MR. COBB: And it relates to these new infrastructure funds that I have been reading about, and I guess Blackstone has a billion-dollar fund.

MS. RYAN: $40 billion.

MR. COBB: Anyway, big. And my sense is that it's less than 10 percent returns. And are they still proposing one and a half and 20 type fees for those lower-yielding but, you know, pretty safe assets?

MR. WEBSTER: So infrastructure resides in the strategic investments asset class. And to answer your questions, the answer is yes.

MR. PRICE: With a hurdle rate or no hurdle?

MR. WEBSTER: With a hurdle rate. But we have been generally cautious on infrastructure because of what you're seeing, big allocations, and it's been used as a bond proxy by many plans. And the negative convexity of a long-lived asset is kind of frightening for us. So we haven't done a lot in infrastructure for that reason.

MR. COLLINS: What is the hurdle rate on Blackstone's new fund?

MR. WEBSTER: I don't know. We haven't looked at it. We got a call on it last week. And they're just looking for a mere billion-dollar allocation. So we went into Ash's office and took it off the table.

MR. WILLIAMS: I had to open a drawer to --

MR. COBB: It was close to a trillion, wasn't it?

MR. BRADLEY: I think it was 40 billion.

MR. WEBSTER: It was 40 billion. My understanding is --

MR. COBB: Oh, I thought it was much bigger than that.

MR. WEBSTER: It's 40 billion, but 60 billion in debt, so the total enterprise value of some of these projects will be about $100 billion.

MR. COLLINS: The government is talking about a trillion dollar infrastructure plan, so Blackstone is only going to do about 5 percent of that.

MR. BRADLEY: Not to confuse things further, but Southbank is raising a $100 billion fund to invest in technology, so that's another one out there.

MR. COLLINS: Okay. Sheila, sorry.

MS. RYAN: No, that's fine. I think the rest of the slides in here are pretty explanatory. That's really all I had to say.

MR. BRADLEY: Thank you.

MR. COLLINS: Okay. How are we doing, Les? Doing good?

MR. DANIELS: Yes.

MR. COLLINS: All right. We're going to do the
defined contribution program review. Joan --

MS. HASEMAN: The really exciting part --

MR. COLLINS: -- who is always just boringly very competent.

MS. HASEMAN: I try. I do try. Joining me at the table today is Dan Beard, director of administration for the plan, and Walter Kelleher is the director of educational services. And I'm going to skip through these. These are a repeat of what was here the last time. To give you an overview of the system setup, there are two plans, the defined benefit and the defined contribution plan.

New employees are provided an opportunity to make an initial choice between the two plans. We oversee that educational program for them as well as for all FRS members through the financial guidance program. Additionally, the Division of Retirement, who is represented here today, looks after the pension plan and the administration of it, and we look after the investment plan. All major components, including record-keeping, custodial services, benefit payments are all outsourced as mandated by Florida Statute.

Our governance oversight is found in Section 121.4501. It provides the outline and charter for us. The executive director, who has been delegated the authority by the trustees, and the deputy executive director provides guidance and input. And he in turn -- they in turn have delegated the authority to my office for the administrative duties and responsibilities.

This is our organizational chart. We did add one new member since I think we last met. Maybe -- she might have been here in December. Ruthie Bianco has joined us as a DC specialist. We are lean and mean, one way of looking at us. There are only seven of us total running this plan.

Overall, just a quick snapshot, we have about 994, a little less than 1,000 separate employers. Understand that the State of Florida is considered one of those employers. We have, as of March 31, 175,400, plus or minus, members in the plan and 113,000 retirees. The pension plan as of March 31st had 517,000 members and 420 retirees. I'm going to ask Dan to take over. He's going to give you the overview of the plan and the administration.

MR. WENDT: Excuse me. I'm just curious as to, on your last chart, the changes in those numbers.

MS. HASEMAN: As far as the membership goes?

MR. WENDT: Yeah, over the last year.

MS. HASEMAN: Dan is going to cover those for you.
MR. WENDT: Dan has got that? Okay.

MR. BEARD: Good afternoon. I’ll touch on a couple of numbers that Joan didn’t touch on. As far as distributions out of the plan, we’ve had about 10.5 billion since inception. Of that, about 61 percent has been rollovers, 39 percent has been lump sum distributions, or where members have taken payments directly to themselves.

And then if you look at the bottom this page, as far as the makeup of the average active investment plan member, we have about 64 percent female, 36 percent male, average age of about 47, average balance of about 55,000 and average years of about five years of service.

Again, we’re totally outsourced. Aon Hewitt is our record-keeper. BNY Mellon is our custodian bank. And then we have an interagency agreement again with the Division of Retirement, who handles all the payroll reporting and contributions.

This next page is our choice stats. As Joan said, when new hires are -- when they’re hired, they have a choice between the two plans. If they do not make an active choice, present day, they will default to the pension plan. For the past three years our default rate has been 59 percent. Our active rate, as far as between the two plans, has been around 40 percent.
seen a huge growth in membership over the last -- and
that's pretty standard across the last five to ten
years, where we have not seen a lot of growth in the
overall membership.

MR. WENDT: That was what I was looking for.
Thank you.

MS. HASEMAN: Yes. We manage between 625- to
640,000 members a year. It depends on what kind of
hiring is occurring at what level of state government.
School boards obviously represent 50 percent of the
membership. If we see a large turnover there, we may
see an active, more active hiring period. But our
average is about 70- to 72,000 new hires a year across
all state agencies.

MR. WILLIAMS: And the State itself is actually
only about 20 percent of FRS beneficiaries. The other
80 percent are local governments. And I would say the
State of Florida --

MR. WENDT: They're not in this?

MR. WILLIAMS: They're in there, yeah. When we
talk about a million beneficiaries, 80 percent of those
are non-state public employees. And I would say
overall, compared to local governments, the State's
head count, absolute head count and payroll of that
head count growth has been substantially more

attenuated than local governments.

MS. HASEMAN: Yes.

MR. WENDT: Attenuated.

MR. WILLIAMS: Less.

MS. HASEMAN: Less. There are fewer state
employees than there are -- than there were probably
five years ago. But we're seeing a shift. A lot of
that is being shifted down to your local governments.
So although the overall membership is remaining steady,
the state employee membership is steady now, but it did
lose quite a number.

MR. COLLINS: Bobby?

MR. JONES: From an SBA standpoint, we are
Switzerland, right? We want to offer the best two
choices between the defined benefit and the investment
plan but with no favoritism either way?

MS. HASEMAN: Correct.

MR. WILLIAMS: We're in fact required by law to
have no favoritism either way. And this default shift
that I mentioned earlier will in fact increase the
growth in the defined contribution relative to the
defined benefit if -- I mean, in theory, as is.

Now, what remains to be seen is employees have
nine months under this new law to make an election of
whether they want to be in the pension plan or the
investment plan. For some people, unquestionably the investment plan is a better fit. For others, the defined benefit plan or pension plan will be a better fit. Whether they will follow through in looking out for their own interests and make those decisions or just default, whether the numbers of defaults change remains to be seen.

MR. JONES: So if there's a bias, it's based on the default, and that's outside of our hands. That's a legislative decision.

MR. WILLIAMS: Correct.

MR. WENDT: Will employee unions be lobbying for one way or the other, making their presence known?

MR. WILLIAMS: I think they will. They certainly did during the legislative session. And, again, I guess I would say, if I were an employee organization, I would do the best I could to consider the real needs of my employees and help them fulfill those needs, period.

MS. HASEMAN: The only other caveat to the default is to mention that special risk holds a default to the pension plan, so all your firefighters, police officers, sheriff's deputies.

MR. COLLINS: They don't have a choice.

MS. HASEMAN: They have a choice. If they choose not to make an election, they will default to the pension plan. All other employees will default to the investment plan at the end of their nine-month election window. So it's a small group. They're actually our highest active electors, based on some statistics we ran about a year ago. Special risk is involved, engaged in what choice they want to make. So we don't expect to see that as a huge impact --

MR. COLLINS: So that's pretty impactful, right? I mean, we expect the defined contribution plan, because of the change in law, to really grow. I would anticipate it grows rapidly.

MR. WILLIAMS: I don't think it's a huge change. It will grow more rapidly, but it's not overwhelming. And of course the key to this from our perspective is, from the standpoint of managing the total cost and stability of the pension plan, what you don't want to do is have cash flows and liquidity become so constrained that our ability to do things like run the fine private equity program we just spent an hour talking about is limited because we can't tolerate the illiquidity and volatility that's associated with it, or for real estate, which we've heard before, or for strategic investments.

MR. COLLINS: I agree with you on all that. I'm
just saying that the default position is going to be
defined contribution. I would imagine it's going to
grow.

MS. HASEMAN: It will grow. It's expected to
grow.

MR. WILLIAMS: It will grow, but we don't think it
will swamp us.

MR. JONES: But Joan said that there was a -- what
was the rate of default decision-making by --

MS. HASEMAN: Today it's about 59 percent of our
membership are defaulting.

MR. JONES: That's a big number.

MS. HASEMAN: It is a big number, and they're
hoping that with the additional time that members will
have, that they'll make a more active election between
the two plans and look at what's right for them. It's
anticipated that a lot of what we're hearing and seeing
in the defaults are members being told by other state
employees that -- you know, go to the pension plan,
it's the better plan. We see a lot of that, and we've
heard of it when we're talking to our focus groups.

I think as new hires are coming in, they actually
might start looking at what's right for them and what
their long-term career path is going to be.

MR. COLLINS: All right. Let's keep going.

MS. HASEMAN: Moving right along.

MR. COLLINS: Yeah.

MR. BEARD: This next page just gives some
administration stats from Aon Hewitt and BNY Mellon.
As far as for Aon Hewitt, member contributions, phone
calls, what they've mailed out, quarterly statements,
and those are average. And then for BNY Mellon, it's
distribution checks, direct deposit checks and then
assets under custody.

This next one is one we've just added just for
information. We have a request for intervention
process. This allows members under either plan, if
they disagree with a decision that we've made, they can
fill out what is called a request for intervention, and
then we'll -- it gets sent to us, and then we have kind
of like a hearing process or we respond to it. And it
can escalate up from there to, they can appeal it to
the District Court of Appeals, and then they can ask
the Florida Supreme Court to hear the case. We haven't
had any go that far. We have had several go to the
District Court of Appeals. So I just threw that in
there just for informational purposes. Thank you.

MR. KELLEHER: Good afternoon. I'm Walter
Kelleher, director of educational services here at the
State Board. In my role I oversee a couple of
different firms. Ernst & Young, they're the financial planners, so all members of the Florida Retirement System, pension plan members and investment plan members, can contact a financial planner. The good thing is they're unbiased. They don't try to sell them any products. They also conduct workshops for us. So you'll see some statistics later about that.

Financial Engines, they provide some online tools for us, a choice service, also an adviser service, which helps people allocate their money within the investment plan. We also have a contract with Aon Communications to produce all the print materials that we've got. They also produced a microsite for us, which you'll see a couple of screen shots of.

We also have a contract with MetLife, because one of the biggest dangers in a defined contribution plan is outliving your money. Members can actually annuitize some of their money so they can guarantee they'll get lifetime income. Some of the features of the financial guidance program, we provide access to Ernst & Young financial planners. We have a website, print materials, videos, workshops, webcasts held throughout the year.

Some highlights. Statistics show the financial planners, 317,000 calls made last year. Remember it's split between pension plan and investment plan members. That's up 13 percent. Financial planning workshops, last year we produced 537 all throughout the state, from Pensacola to Key West, educated over 18,000 members.

Website hits, the website is really, really popular, 2.2 million hits. And chats has really become popular. People don't want to talk to someone. They want to go online. But they can actually access an Ernst & Young financial planner, get personal information via website chats. And we're up to 32,000 of those a year.

I mentioned the annuities down at the bottom. This past year we sold 19 annuities, about 1.94 million. Inception to date, 93 annuities have been sold for around 12 million. That is a statistic we would like to get up, but it's a hard sell, frankly. People accumulate, accumulate, accumulate money in their account. The last thing they want to do is give something to someone else to then start receiving a monthly amount.

Some of the other highlights, we implemented a new hire redesign. We did focus groups a couple of years ago to figure out why are so many people defaulting, because we had that 60 percent default rate. So we did
focus groups. The biggest thing we found out was simplify everything. So we redid all the new hire publications and materials that we've got.

Some of the other things that we do, employer training, so this is how we educate employers on the choice and the availability of both retirement plans. We actually do them here at the SBA. We do them four times a year. We also broadcast them throughout the entire state, and we record them and post them online.

We also have a mobile website, redesigned everything. You'll be able to access your account on your phone. That should be rolling out within the next week or so. And we've also introduced three additional Spanish workshops, and we host those all over the state also. They're recorded. They're available online.

I mentioned the new hire process overhaul. Focus groups, when we went out, we looked at who's the biggest group of defaulters. By far it was teachers, people on school boards. I think it was like a 78 percent default rate. What did we get back from them? They said, Look, the first six months of my job, I'm so busy I don't have time to look at anything. So they also indicated to us there's too much information being provided. It's overwhelming. Try to keep the stuff simple. And they also said, frankly, they're not reading the materials.

So what we did is we had a goal out there to increase active elections and reduce the default. So what we did, we did a couple of things. We redesigned the whole new hire process. So this is what we call the benefit comparison statement. Someone gets this. Once they're hired, about two months later they get a publication in the mail, and it indicates, here's your PIN number, so if you want to log into the website. Here's your deadline date, because if you don't make an election by this date, you're going to default into the pension plan.

But most importantly, look at that table down at the bottom. That is an important little feature that we've added. It basically puts in real simple terms, if you work this amount of years and you're this age and below or you're within this age range, this is the plan that's probably going to provide you the greater benefits. So we're trying to put it in front of their face. So if you look at that, anyone that's under 45 that works that many number of years is probably better off in the investment plan. If you're between 45 and 49, et cetera, at certain ranges, the pension plan becomes a greater benefit.

The biggest question we get from employers is, why
is that, that fact? Because it was never like that before. It was always true in the past, if you worked a full career, the pension plan would provide you a greater benefit.

Well, back in 2011 they made some massive changes to the pension plan, changed the average final compensation from five years to eight years, changed the vesting from six years to eight years. They increased normal retirement from age 62 to 65. And when you do all of that and then you compare it to the investment plan, the investment plan provides a richer benefit for those people under 45. So it's an interesting chart. We put it in front of all the members. I also mentioned that we created a real simple site --

MR. DANIELS: Walter, excuse me. On that, should we have more disclosures on that, about the -- it may vary or what it depends on?

MR. KELLEHER: We've got a big legalese section on the bottom that's not shown here. And what we recommend is that employees call in and speak to an Ernst & Young financial planner, and they can actually get the exact numbers run for them. If you work 15 years, you're going to get $2,130 out of the pension plan versus $1,500, let's say, out of the investment plan. We'll actually give them the exact numbers for their situation.

MR. WENDT: I'm trying to learn about this new legislation with this question. The new legislation says a default, meaning you don't do anything, you go automatically into the investment plan, right? At which time people will begin getting tons of mail and e-mails and everything. And after six months -- and they won't understand any of it. And after six months can they change their mind?

MR. KELLEHER: We have a mulligan available, yes.

MR. WENDT: One-time mulligan?

MR. KELLEHER: One-time second election, yes. One time in your career you can switch.

MS. HASEMAN: They have to be actively employed. They do have to be actively employed and earning service credit in order to trigger a second election.

MR. WENDT: Okay. But they can do it. Okay.

Thank you.

MR. KELLEHER: And so this is our ChooseMyFRSplan. It's a real simple site. They don't need to log in. They go there, answer a few questions, and ultimately it will pop back and say, We recommend this plan. Based upon everything you've told me, this one will probably provide you a greater benefit. If they want
to make an election, they click on a button. It shoots them to an online form. Fill it out. The election is made. So it's really quick. We're seeing a lot more people making online elections like this. And that's all I had. Were there any questions?

MR. COLLINS: Any questions for Walter? Thank you.

MS. HASEMAN: I'm going to do a real quick overview, because I know Kristen and team are here to help with the performance numbers. Just a quick look. These are the funds that we currently have in the lineup. As you can see, we have three that are not white labeled. Going in July 1, based on a review of the plan, we are going to be white labeling the column on the right side. The FIAM and two American funds will be white labeled starting on July the 1st. We have no new managers since we last met. Yes, sir.

MR. COLLINS: We haven't had white labeled funds before, right?

MS. HASEMAN: We've had white labeled funds since 2014.

MR. COLLINS: 2014. But we had some non-white labeled funds.

MS. HASEMAN: Correct. And those are the remaining -- the three right there that you see are the only remaining mutual funds that were not white labeled back in 2014.

MR. COLLINS: So who is our U.S. large cap equity fund?

MS. HASEMAN: The index fund is BlackRock.

MR. COLLINS: Okay.

MS. HASEMAN: They're a multi-manager. Many of them are multi-managers, but BlackRock is the index fund.

MR. COLLINS: Okay. Go ahead.

MS. HASEMAN: We took the existing managers that we had in the lineup and we white labeled them and made them fund of funds. So we didn't remove any active managers, or any passive or active. We just white labeled them into a fund of fund relationship. Yes, sir.

MR. WENDT: In your money market fund, do you take advantage of the -- what is this thing called here?

MR. WENDT: Florida PRIME?

MR. WENDT: Florida PRIME?

MS. HASEMAN: I don't know the --

MR. WENDT: You should. I mean, you can get a lot higher interest rate on that.

MS. HASEMAN: I believe BlackRock is our money manager there as well.
MR. WENDT: But these guys can get you 1 percent.

MR. COLLINS: Cheaper.

MS. HASEMAN: It may be cheaper, but it's not allowed under the statute.

MR. COLLINS: It really isn't?

MS. HASEMAN: We could take the fund back out and evaluate it against what fund manager they're currently using, but we can't use a fund that's sponsored by the State Board. We outsource it.

MR. WENDT: Oh, you can't. That would be a good law to change.

MS. WOJCIECHOWSKI: (Inaudible).

MS. HASEMAN: Yes. It has to meet -- it actually has to meet -- yeah, there's a difference, too. We had to meet the new federal statute on the money market fund, which is what we did with --

MR. COLLINS: Yeah. That's probably 80 percent of A-1+.

MS. HASEMAN: Here's our breakdown by asset class. This is looking very familiar to you. On March 31st our assets were 9.1 or 9.6 billion. On June 2nd they were 9.9 billion. So we're just shy of our $10 billion threshold. These are just the make-ups, the different members that make up our different white labeled funds. You asked who they were. These are the managers behind each of them.

These are the retirement date funds and the breakdown by membership and what assets are being held by percent. And obviously our largest one is sitting at 12 percent. Thirteen percent is the 2045 fund at 421 million.

Total asset allocations by age. This includes everything, including our retirement date funds. I don't think there are any surprises here. And this is the asset allocation by gender. This does not include the RDFs. Again, not a huge surprise. And our retirement date funds, the allocation is set up by their glide path. This is the allocation among the separate individual managers. And this is put together for us. It's a custom target date fund for each one of them, and it's done with our financial adviser, Aon Hewitt Investment Consulting.

These are the fee structures. To date we're running less than most or all of the average mutual fund fees. And our average retirement date fees, we range between .07 and .15 percent. So our average retirement date fund fee is 10 basis points.

Asset class performance, we've actually done very well so far this year, fingers crossed. We finished the year out better than we did last year. Total fund
as of March 31 was 10.1. At the close on Friday, we are at 13.82.

In the fall and into the early winter of 2016 we asked Aon Hewitt Investment Consulting to undertake an investment plan structure review. The last one we did was prior to our rollout in 2014, of the retirement date funds. Out of their findings and recommendations, we are implementing, I would say, all of them. We had considered white labeling the remainder of our funds. Our current allocations to our fund managers is efficient. And we are continuing to use a passive TIPS manager. We did ask them to see whether there was any benefit to going active in the TIPS arena, and they said no. So we're leaving it passive.

They had recommended and we brought this and kind of updated you on this last fall, that we were looking at a private real estate manager. We have decided to go forward with the search on this, and we've signed off and have Ash's approval to proceed. We have not yet stepped into the arena of who, but we hope to do that in the next two to three weeks.

MR. COLLINS: So a fund?
MS. HASEMAN: It will be a private real estate manager, not a mutual fund, someone who actually is capable of doing daily NAV reporting.
MR. WILLIAMS: We build it into the target --

MS. DOYLE: Target date funds.


MS. DOYLE: Yeah. It will only be for the target
date funds. So if you're in a target date fund, you'll
have access to real estate. And the main reason for
that is obvious, that we want to be able to control the
allocation and not give participants that option.

MS. HASEMAN: 2017-18 initiatives. We're
obviously going to be implementing the legislative
changes that were passed during the 2017 session,
assuming they get signed by the governor, which we are
anticipating. There are two parts to it. Obviously we
have two that are beginning on July 1st. That's the
renewed membership and the in line of duty death
benefits for all of our members. We do have the change
in default, which is effective January 1st, with a
nine-month window, eight months from the month of hire.

We are preparing, as of last Friday, this change
from potential to we are, transition of our plan choice
and our guidance providers. That will be effective on
April the 1st of 2018. And we are looking at use of
the cloud --

MR. COLLINS: So who are the current plan choice

and -- the guidance provider is E&Y?

MS. HASEMAN: E&Y is the financial guidance
program. This is the online tool service that we use
for asset guidance and for the plan choice, retirement
plan choice. And we haven't signed contracts yet, so
that's still kind of -- we'll be happy to tell you that
next time we meet. Stay tuned.

We are going to be conducting focus groups to
check out our new hire materials that Walter talked
about. We will implement the retirement -- or the plan
structure review recommendations. We're developing a
second online election enrollment form for members to
use, and we will continue the enhancement of our
website security and also our website mobile
capabilities. And I'll turn it over now. Does anyone
have any questions?

MR. COLLINS: Last question. Go back to that last
slide, the second from the last, the enhanced website
security development. Obviously, as more and more
people come in contact with the site and the site
contains, I'm assuming, information --

MS. HASEMAN: Some.

MR. COLLINS: -- right, some private information.
You don't keep that on a separate server from their --

MS. HASEMAN: Yes.
MR. COLLINS: Do you keep that on a separate server from the plan choice stuff, so that they're constantly not accessing their data?

MS. HASEMAN: Yes. They ping each other, but they don't -- they're not on the same server. And just for -- we do conduct an annual penetration test. In fact, we just concluded one and did very well with it. We also conduct quarter vulnerability tests as well. Anything else?

MS. DOYLE: Okay. Thank you. We just have a couple of additional comments on the investment plan. So typically we're providing you with just performance of the investment plan on a quarterly basis. Once a year, in conjunction with Joan's team, we provide a little bit of a deeper dive. So we will do that just for a few minutes right now.

A couple of key observations about the investment plan. These are the same as they have been over the last couple of years. You continue to have the right number of diversified investment options across the program. We'll talk more about the tiered structure that you have within the investment plan. But having that type of plan structure is a really effective tool to help different groups of participants with different levels of investment knowledge construct efficient portfolios.

Joan mentioned the fees relative to average mutual fund fees, and you run a very, very low cost program here. That's extremely important, as that is usually the one item that is scrutinized the most out of defined contribution plans. And as we know, most participants don't have any investment knowledge to effectively manage their own portfolio. So what we like to see is a really high allocation within the program to the target date funds. And that is the case here.

As we all know, investment structure matters a lot. So I just want to spend a few minutes on the investment structure of the plan. This helps, as I mentioned, shape how participants invest their assets. It influences their readiness for retirement, so basically what it does is it improves investment outcomes, both in terms of asset accumulation but also investment returns for participants.

So this is how we think about the way that you should structure a defined contribution plan. You need to balance the need of most participants of having simplicity and not a lot of extra choice and in fact making most of the choices for them, because they don't have the investment knowledge or the expertise to do
But you’re also always going to have a group that has some investment knowledge or a lot of investment knowledge or just simply the desire to make active decisions with their defined contribution plan. So having a range of choices from simple to more complex is the right way to structure a DC plan.

And the way that you have done that here in Florida is depicted here. So what we have are different tiers that are then utilized by participants that kind of fit the description of each of those tiers. So for a participant that has no investment knowledge or very little, maybe is even disinterested in making choices, they can default or choose the target retirement date funds. You just choose when you are expecting to retire. You go into that fund, and we do the asset allocation for you. And this is, as I mentioned, where the majority of the FRS investment plan participants reside today.

Then we have the second tier, which are the passive funds. So these are broadly diversified, very low cost investment options for participants who still want to choose their own asset allocation but they don’t want to pick among active managers. And then for the more sophisticated investors, you have a list of active choices, as well as the somewhat recently added self-directed brokerage account, where a participant has as much choice as they would ever like to have.

Any questions on the overall plan structure? Okay.

MS. COMSTOCK: So now we’ll talk about the investment plan structure relative to how the FRS is set up currently. So as Kristen mentioned, there’s been a trend towards trying to make plans streamlined and simplified for the benefit of the participants. And what we’ve seen is a decrease in the number of funds offered. Currently the FRS offers 12 investment options, and that includes the RDFs. The RDFs, the retirement date funds or target date funds count as a single option.

You can see here, this is survey data, shows the distribution of number of funds offered. Over 54 percent of plans offer between 10 and 15 fund options. So we believe the number of options offered to the FRS plan participants is a strong number, and it allows them to create diversified portfolios with this number of investments.

MR. WENDT: And these are plans from across the country?

MS. COMSTOCK: These are plans in the United States. I think there’s about 150 to 200 plans...
MR. WENDT: All right. So that's your population.

MS. COMSTOCK: Yeah. And this is also pretty consistent with other surveys as well. This is just one sample. The other thing when we talk about investment structure, one of the right types of options as we think about this in kind of two ways, one, do they set aside the types of investors. Kristen just went through the different tiered structures, and the FRS has different options across these tiers, so different investment types, those who want the allocation done for them, retirement date funds, low cost option at tier two. Tier three and tier four include active options. So the FRS satisfies that goal of being able to have an option for each investor type.

And then in the option, the asset class type, we also like to see plan sponsors offer different allocations across asset classes, across the risk-return spectrum, so low risk, lower return, higher risk, higher expected returns, as well as different active and passive options, as well as considering costs.

So we believe that the FRS offers options across all of these different types of asset classes. This table here, it shows another survey of what are the most prevalent investment options offered across DC plans. And the check marks show the options that the FRS currently offers. So you'll see that the plan covers the most prevalent investment options and we believe the right number and type of options for participants to create diversified portfolios.

MR. JONES: Katie, what was the asterisk on alternatives, TIPS and --

MS. COMSTOCK: That is for the real assets. So within the real asset set, that fund can vary. So there's TIPS currently in there. Real estate can be in there. And then some alternatives, maybe commodities might be in there. So it depends on how the survey respondents are filling out these surveys. So the check mark is the -- the FRS does not have three different options. That represents the one real assets fund.

MR. JONES: So compared to our peers, it seems like the two largest areas that we don't have an answer is emerging markets and balanced plans?

MS. DOYLE: Right. So in terms of the balanced funds, what we replaced -- we used to have the risk based funds, and actually we replaced those with the custom target date funds, which we think are a better option. That's why you don't have that there.
And emerging markets tends to not be a great option to offer participants on a stand-alone basis because it's not diversified, it's high risk, lots of volatility, and so participants don't really know how to use that type of concentrated fund.

MS. COMSTOCK: There is exposure. Participants can gain exposure to emerging markets through the non-U.S. equity option and global equity options that are offered. So there is availability to those markets.

So now looking at plan cost, this is similar to the data analysis that Joan provided. The investment cost for each of the options here are well below the average mutual fund fee, with 10 out of the 12 investment options over 50 percent discount to what the average fee is here, so consistent with what Joan had presented a little bit earlier.

And then quickly, this has also been touched on, the last few slides have. About 43 percent of all participant assets are invested in the target date funds. We view this as a favorable allocation, allowing the experts to run the portfolios for participants. The remaining assets are allocated between the passive funds, with about 14 percent, and 38 or so percent in the tier three, which represent the actively managed options, and then roughly 5 percent in the brokerage window. And this is as of the end of March.

MS. DOYLE: And for the brokerage window, that's fairly, where it's a pretty -- typically a pretty low percentage of participants that utilize the brokerage window.

MS. COMSTOCK: The last few slides just touch on performance. And, again, Joan had mentioned this, but performance through the end of the first quarter of 2017 has been very strong. The green bars there represent the total plan's aggregated outperformance relative to the aggregate benchmark, which is a roll-up of the options, the individual fund options' benchmarks.

We peel back the layers a little bit. The next slide shows each asset class performance. And to sum this up, each of these asset classes have outperformed their benchmarks over all the trailing time periods shown here, with just one exception, and that's the real assets over the three years, which is a return -- a flat return relative to a 20 basis point return of the benchmark. So great performance. And also the numbers in parentheses there represent the rank within an appropriate universe. And all of these that have an
appropriate universe to compare them against have been above median. So that's on performance.

And then peeling back one more layer to the individual funds, these numbers in green or red show the over- or underperformance of each of the investment options over these trailing time periods. So you'll see excellent relative performance of each of these investment options. I went through that a little bit quickly. Any questions?

MS. DOYLE: And then just to close, Joan mentioned that we did do a deep dive, investment structure review of the program at the end of 2016. And this chart here just kind of shows the evolution of the DC plan structure. And it's something we shared with the DC team here, and we've examined this very carefully as we went through that review.

And we would say the investment plan has certainly moved from the far left, which is that asset style menu, where there's lots and lots of active options for participants, to more of the middle column, which is an asset class based menu. And we talked a lot about how can we shift to even more of -- to the right side of this chart, which would be even more focused funds, more objective based funds, less fund options for participants to choose from.

And I would argue that we've moved in that direction simply by creating the white label funds, so that participants aren't choosing actual investment managers. They're selecting the asset classes that they would like to have in their portfolios. And then also creating the custom target date funds has also moved us closer towards the right side of this page.

So this is something that we think is best practice and we'll continue to talk to the SBA team here about as we move forward and cause some change in the program. Happy to answer any other questions.

MR. COLLINS: It's so good, you don't have any questions.

MS. DOYLE: Great.

MR. COLLINS: Ash, I think we have -- the next item is something that we need to take some action on?

MR. WILLIAMS: Yes. We have a set of updates for the -- under Tab 3-e, for the investment plan policy statement for the defined contribution plan, the investment plan. And basically there's a red line version in your book that makes clear what all the changes are. I think I would sum them up by saying that they make explicit and holistic the way compliance and risk management will work in the investment plan.

They update the language used in regard to
investor information and training and also clarify and update the terms used to refer to the underlying investment components, both in the retirement date funds and other options. Let's see what else. Clarifies the monitoring guidelines. I think it's straightforward, and I don't think I've left anything out that's terribly material.

MR. COLLINS: The only question I have is on the -- I guess on page three, the executive director and CIO will appoint a chief of defined contributions programs, and I'm assuming that's Joan?

MR. WILLIAMS: Yeah.

MR. COLLINS: So we're just cleaning up the old plan to essentially state how we're doing it. We're not really making a big change there?

MR. WILLIAMS: Correct.

MR. JONES: It looks like it gives Joan some responsibilities that before was kind of a nonexistent board.

MR. COLLINS: Okay. Anybody have any questions on this? Motion?

MR. WENDT: Move it.

MR. COLLINS: Second?

MR. PRICE: Second.

MR. COLLINS: All favor?

Michael.

MR. TAYLOR: Actually, Mr. Chairman, it will be global equity first.

MR. COLLINS: Oh, I'm sorry.

MR. TAYLOR: Under Tab 3-f, page three.

MR. COLLINS: All right. Tim, are you going to go first and Alison is going to go second?

MR. TAYLOR: Yes, that's correct.

MR. COLLINS: Okay, great.

MR. TAYLOR: So on page three, I won't go through every line item of this, but just to give you a sense of how the markets performed in the first quarter and indeed over the past year. Global stocks rallied in the first quarter of 2017. U.S., Japan and Europe all announced improving economic data. The companies also there announced strong earnings growth.

There was a significant amount of optimism that President Trump would initiate tax cuts, increase infrastructure spending and reduce burdensome regulations on many sectors, including financials, health care and energy. The highest returns during Q1, however, were in the emerging markets. They surged almost 12 percent in U.S. dollar terms, and after that,
a pretty strong year, returning 10 percent in calendar year 2016.

What this slide is trying to make a point of is that in the last year investors have shifted their preferences dramatically from quarter to quarter on a really short-term basis. If we were to go back just one year, to June 5th, 2016, many would have predicted and would have been confident that the United Kingdom would vote to remain in the European Union and that Hillary Clinton would win the U.S. presidential election in November. Those predictions would prove to be incorrect.

The outcomes of these two events were surprising. Those were just two of the surprises for investors in the last year. On this slide specifically, I'd like to highlight just three things, all in the bottom half of the page, the graphs. The one to the far left, this shows that value beat growth by 6 percent in Q4, but then in Q1 growth beat value by 6 percent, so a dramatic shift.

Emerging markets, two graphs over to the right, emerging markets lagged developed markets by 6 percent in the fourth quarter, but then developed markets outperformed emerging markets by 5 percent in Q1. Again, another sharp contrast. And, finally, U.S.

large cap lagged U.S. small cap by 5 percent in the fourth quarter. But then after that, large cap beat small cap by three and a half percent the very next quarter. So these are just three examples of many that indicate a time of rapidly changing investor preferences.

On the next slide, page four, global equities' return for the first quarter was a strong 7.09 percent. We exceeded our benchmark return of 6.81 percent by 28 basis points. Our return for the one year period is almost 15 and a half percent, very strong year. We've modestly outperformed a very strong benchmark by eight basis points. You can see that performance is above the benchmark for the three and five year periods and also from inception -- for those periods from inception ending March 31st, 2017. Again, our inception, July 1st, 2010.

Active managers across the industry, many of us know, have faced a very challenging environment in recent periods. We have been impacted by this. However, the performance of global equities' active managers has been improving. And now I'll turn it over to Alison to discuss starting on page 193.

MS. ROMANO: Thanks, Tim. For the very reasons that Tim outlined with the flip-flopping of markets, it
was a very difficult period for active management. I want to dive in a little bit to the one year performance and the more recent quarter performance ending in March.

So for the one year there were some positive highlights for us. Our largest active aggregate, which is the foreign developed large cap, is 20 percent of our asset class. They had a very strong year. They had a very strong quarter. Currency for the year did exactly what we want it to do. We hired currency managers to have an uncorrelated source of return. In a period where it was difficult for equity managers, our currency managers performed.

On the other side, it was a tough year for our global managers. But we understand why. They tend to have a little bit of a defensive tilt. It was a very positive year from an equity market perspective. We're not pleased necessarily with the magnitude of that underperformance, but we understand it.

Focusing a little bit more on the last quarter, we have a lot of detail on this page aggregate by aggregate as to what happened, but I'll highlight a few points. One, again, the foreign developed aggregate did very well. We haven't talked much about it in the past, but we do allow these managers to make off-benchmark bets. They are very good at making off-benchmark bets. And in particular they were very good at doing it this quarter. So buying a company like Samsung, which is technically an emerging market company, but clearly a very international and developed company, was a good bet. And I could list other companies that likewise helped our performance.

Emerging markets, likewise, it was a very good quarter for us, positive selection in financials. That's often a difficult space. So it was nice to see a positive performance there. On the foreign developed small cap, we had a turn in performance there as well. Tim had mentioned Brexit. We had some challenges with that aggregate. They were on the wrong side of the bet with some U.K. names, but those names have come back. They've come back strong, and that aggregate is doing well.

U.S. small cap, really positive news here. So 45 BPs, good outperformance. But this quarter, biotech outperformed 17 percent. Typically, managers don't like biotech. So to have outperformance in a period where biotech runs that much is actually very good.

U.S. large cap has continued to struggle. Particularly this period they were hurt as megacaps ran. They tend to be underweight there. And they
weren't on the right side of a number of health care
names. That actually ties into our next slide, which
is what we're working on now, because we recognize that
there have been performance challenges in the U.S.
large cap space.

So as you all know, we're fully funded. If we
want to make a change, we have to think about the pros
and the cons of our existing managers, the pros and
cons of who we want to hire and the cost of that
transition. So we're relatively slow to move, but
purposely slow to move.

This quarter and this year we've done a few more
changes and we're in the process of making a few more
changes. First on the foreign developed small cap,
we've traded out a manager and added some more
diversified value exposure, and we have some other
anticipated changes that we're working on.

U.S. large cap, we've talked about it in the past.
We've carried out an extensive review with our breadth
of consultants to understand what we really think the
opportunity set is in this space; is it perfectly
efficient, is there alpha opportunity. And what we've
determined was that a search was merited, that because
of our scale, we can get very aggressive and low fees,
and we think that we can put together an aggregate in a
risk-controlled manner that will perform in the
long-term. So we're in the final stretches of making a
decision there and will be hiring a manager soon.

We've also brought down the percent of assets we
have in that space, and we're allowing ourselves to
take risk where reward has been higher; for instance,
in the international side. And then finally, the other
change that we are making is a search is underway for
the U.S. small cap, both on the growth and the value
side.

In addition to those searches, we continue to push
managers on fees, and we've successfully renegotiated
about 10 percent of our strategies to lower fees, and
any manager that we hire has to be at or below what we
currently pay existing managers.

And one other point that I would make in terms of
what we've been working on is getting access to a new
structure in China so that we can access with greater
liquidity the opportunity set that exists there. So
we'll be working with our existing emerging market
managers to access really thousands more potential
opportunities within China. Any questions?

MR. TAYLOR: Thank you, Mr. Chairman.

MR. COLLINS: Katy.

MS. WOJCIECHOWSKI: Okay. So just a couple of
comments in the ho-hum, in the guardrails world of fixed income. Small returns, low returns. As you can see, only 75 basis points through April, end of April. Our returns are positive across the board. As you can see if you look on the bottom left chart on page 196, credit has been the winner. Long credit, which we can invest in, but it's off of our benchmark, is up about 6 percent on the year. So it's been a good year. A lot of people seeking a lot of risk, if you will, just to come up with returns.

On the next page 197, you'll see what that has done to the market on the left-hand side of the chart. We are at tights for option adjusted spread available. So if you think of 10 year Treasuries at 2.17 and you can get about 100 basis points over that, that's not very exciting returns. And the chart on the right will speak to that. There is just a wall of money seeking good assets.

And central banks throughout the world, hedge funds, if we look at pension funds, insurance companies, things like that, I think I mentioned it last time, you've got to come up with a coupon. How do you do it? You invest more in fixed income. And that's what they've been doing. And we see huge inflows every month, actually.

As you can see, the risk, total risk in our funds throughout the world, I don't know if -- I made the comment at lunchtime. I don't know if it's because you can trade risk, you can buy them fixed ETF, you can do things like that, if that has pushed down risk, or the fact that central banks have invested so much in it and they don't hedge out their risk, they just invest and hold, if that's contributing to it, certainly. But it's certainly contributing.

In our portfolio, we don't see great opportunities to invest and increase our risk. So our risk in our portfolios, both internally and externally, have been coming down, improving our information ratio but definitely not seeing a lot of risk that we do.

One of the things that we are looking at, and you can see we've moved more of our funds in-house. We've moved more into active. And it has paid off this year, and we're up about 40, 45 basis points, 50 basis points year to day. And that's overall. Considering that 40 percent of that is in passive, that's a pretty good information ratio and return.

We have been looking at could we barbell it a little bit more, could we maybe do a short duration and then move more into core plus. That would keep our overall risk about the same level but perhaps give us
more opportunities at the ends of curve. And that was kind of recommended by Mercer, and we've been doing it ourselves, too. And I think that's it.

MR. PRICE: What's the information ratio?

MS. WOJCIECHOWSKI: So how much return did you get for the risk that you took, essentially, in simple terms.

MR. COLLINS: Steve, my man.

MR. SPOOK: Good afternoon. Good to see you-all again. So in slide one we've got the total real estate portfolio performance. As you can see, over all time periods and even if you go on to 10 years and since inception, good outperformance. Breaking the returns down to principal investments, which is our direct investments, that performance is still strong across all time periods.

Externally managed, which is a combination of our pooled funds and our REIT portfolios, again, outperformance across all time periods against our primary benchmark. And sector allocation, we're exactly on target. Private real estate, 90 percent. Public real estate, which is our REIT portfolios, 10 percent. We're targeting non-core of 20 percent. We're almost on target there. We're probably reducing that a little bit with a little bit less development now, given where we are in the cycle. And right about 9 percent allocation versus the total pension fund.

Again, versus our benchmark, we're pretty close on property type diversification, a little bit below on each of them because of a relative overallocation to alternative property types. We're very comfortable with that. It's been intentional. Most of those property types are defensive in nature. Given where we are in the cycle, we like that. Geographic, again, pretty close to our benchmarks. The 3.6 percent would be international.

MR. COLLINS: How are you getting that exposure? Is that just Blackstone?

MR. SPOOK: International is strictly through commingled funds, Blackstone being probably our largest international fund. We've got investments with them in Asia, in Europe and their global funds.

MR. COLLINS: We committed to that when? A year ago? Blackstone.

MR. SPOOK: The Europe one about a year ago, within the past year. The Asia one about three years ago. And we've been with the global ones since 2007.

MR. COLLINS: And how are drawdowns going in the Europe one?

MR. SPOOK: They're drawing down pretty good
overall. The Blackstone funds have been returning way more capital than they've been drawing down. So they're taking advantage of some pretty good equity markets.

MR. COBB: Mr. Chairman, I have a question and a comment. I have been concerned, and I've challenged Steve several times on this issue of -- from my point of view, real estate is such an opportunistic business, that targets of product type, regional, should be the least of our considerations, as a real estate investor myself.

Now, I'd like to compliment -- give the other side of the coin. I'd like to compliment the fact that in office buildings, which we've talked about before, and we sold in San Francisco I would call something like a two and a half cap, two and a half percent cap rate, and we talked about maybe doing this in Boston and some other places.

So evidently we've done a little of that, which I think is good. And so now our commitment is 28 percent versus a 36 percent target, which I'd like to compliment management on for being opportunistic. But shouldn't -- so my question is, shouldn't we be more opportunistic and not worry about these targets in terms of geography and product type?

MR. SPOOK: Well, we do have a risk budget that we have to work within. So if we make big bets in any one sector, that could work for you, it could work against you.

MR. COLLINS: You mean a policy, right, a policy that you're working under?

MR. SPOOK: Yes, sir.

MR. WILLIAMS: That's the way we manage risk for the total fund. Each asset class has a budgeted amount of risk in basis points that they take, and the judgment has to be applied how that's deployed, where the greatest information ratio can be captured on that incremental risk-taking.

MR. COBB: I guess I would argue that there is greater risk of being overcommitted to a region or a product type that is in a bubble. So from my point of view, there is greater risk in that than there is in worrying about these targets. But maybe I'm in the minority of this committee and management. But I've continued to worry about us being wedded to these targets that I think might prohibit entrepreneurial and opportunistic approaches in real estate.

MR. SPOOK: I would agree with you. We do have a good amount of latitude. Our policy says we have to be -- we can be plus or minus 15 percent of our
benchmark in property type and geographic. And I think if you look at the "other" category, 15.8 percent, which is ag, senior housing, student housing, medical office, I think over the last couple of years, two, three years, where we've seen core real estate getting very expensive, we've expanded that. So I would agree with you.

MR. COLLINS: So you get the point, though, right?

MR. SPOOK: I do.

MR. COLLINS: It's not always just about policy. You know, it's about seeing how that policy matches up with today's investment environment. And, you know, you could be overweight somewhere, but it could be how you're counting it, right? It could be how -- you know, a momentary blip on the down side for another component, right, and we missed something.

All of us look back with the benefit of hindsight and wish we'd invested more in real estate in 2010, right? But we were probably overweight relative to domestic equities but not in terms of real value or certainly opportunity at the time. So I think that's what Ambassador Cobb is talking about. But at the same time, big fund, $180 billion we're managing, and we've got policies, and we've got to have the policies.

MR. SPOOK: We do. Also real estate is a very slow-moving asset class. I wish four years ago I would have sold all the office and gotten into industrial, but it's hard to move that battleship.

MR. COLLINS: Sure, sure. Keep going.

MR. SPOOK: Activity has been fairly muted since the last IAC report, with again kind of our theme on alternative asset types, one ag property, two medical office buildings, and we sold two student housing properties that were value add and the business plan had been achieved. Two commingled funds, $100 million each.

And just a few comments on the real estate environment. You know, we all know real estate, just like all the asset classes, seems to be getting a bit expensive. Appreciation is slowing to more normalized levels. I think that's a good thing. It's been unrealistically high for the last few years. So income is making up more and more of the total return.

Transaction volume is slowing. Part of that is a little bit of the slowdown of Chinese capital coming into the U.S. with capital controls. Having said all that, fundamentals remain sound. Occupancies continue to rise. Rental rates continue to rise. Supply remains, other than multifamily, fairly muted. That's a good thing. Part of the reason for that is further
Construction financing is pretty difficult to obtain nowadays.

Some commentary on the different property types. Like I said, I wish I would have gone all in in industrial years ago. E-commerce is really kind of propelling that. The opposite side of that coin is retail. Again, E-commerce is impacting it, so asset selection is increasingly important. You want to be either necessity driven or what they call experiential, so more and more restaurants and entertainment is what people are looking for.

Large malls, those are dying. Department stores are dying. Big boxes, depending on the category, very difficult. Peter, I know you do grocery anchor. That's probably one of the best areas, necessity. Office is the most volatile of the property types, so I'm happy to be 10 percent below our target, given where we are in the cycle now.

Multifamily, growth is slowing, rental growth is slowing. That's mostly due to new supply, but demographic trends still support it.

MR. COLLINS: Can I stop you there for a second on the multifamily?

MR. SPOOK: Sure.

MR. COLLINS: So what would you say one of your core apartment assets -- what do you think the difference is in the cap rate of a sale today versus a year ago? Is it higher or lower or still the same?

MR. SPOOK: No. It's still --

MR. COLLINS: Pretty flat?

MR. SPOOK: In the major markets, you know, you use 4 percent as a benchmark.

MR. COLLINS: So going back to your office thought, does it give you pause to want to sell more core at four caps?

MR. SPOOK: More core office or multifamily?

MR. COLLINS: Multifamily. Going back to your -- you know, you said, hey, four years ago I wish we would have sold more office. I can't see multifamily going to three caps. And I see interest rates going higher, right? So opportunistically are we sellers of multifamily core today at four caps?

MR. SPOOK: And we have been over the last year.

MR. COLLINS: I agree.

MR. SPOOK: We sold two towers in Chicago. We've got San Diego apartments on the market today. So, yeah, we're looking at lightening up where we can, not necessarily going way down in our allocation. But if we do sell, we are looking for opportunities to upgrade the portfolio. So if we can sell a lower quality,
aging asset at a 4, 4.2, and replace it with a 
brand-new four cap, we might do that.

MR. COLLINS: And what about development today on 
the multifamily? Would you sell a core at four and 
develop at a six and a half?

MR. SPOOK: The spreads have kind of narrowed in a 
bite. When we started doing our build to core program, 
we were probably building to a seven.

MR. COLLINS: Right. That's why I said a six and 
a half.

MR. SPOOK: If you started a new development 
today, you're not going to get that. So we haven't 
started a new multifamily development for over a year. 
We've got several that are still going vertical that I 
think we're going to do great on, because we are 
building to a pretty good spread.

MR. COLLINS: Right. And are you building that to 
own it, or are you building it to sell it?

MR. SPOOK: The intent is to own it. If we get a 
stupid offer, we're always a seller.

MR. COLLINS: So if you could build at six -- and 
I'm sorry, guys. But if you could build at six and a 
half today, even, but you're selling at four and you 
don't want to get -- you know, you have policy targets 
on multifamily, let's say. Why wouldn't you build 

more, if you could still build it at six and a half?

MR. SPOOK: In most of the major markets, there's 
a lot of new supply coming on. So, you know, once that 
product comes online, they're competing against a lot 
of other buildings that are trying to lease up. And so 
things are going to get more challenging in the future, 
in my view.

MR. COLLINS: I don't disagree with you on that. I 
do think that there's markets, obviously, that are 
better than others.

MR. SPOOK: We haven't taken it off the table. We 
just haven't seen good enough opportunity in the last 
year or so to pull the trigger.

MR. COLLINS: Okay.

MR. SPOOK: And unless there are any other 
questions, that's all I have.

MR. COLLINS: Anybody else? Okay. Mr. Webster.

MR. WEBSTER: Thank you, Steve. That is the 
strategic investments portfolio by sub-strategy. We're 
currently 29 percent invested in debt, 13 percent in 
equity, 19 percent in real assets, 19 percent in 
diversifying strategies, which is the purple part of 
the graph. That orange part is something we call 
flexible mandates. That's 13 percent. And 6 percent 
is in special situations.
Now, we talked about Blackstone's infrastructure product earlier. You can see in the green we've got infrastructure there at 4 percent. We have roughly 20 strategies that we can invest in. So that's roughly slightly less than a market weight.

And that's our performance. We've generated a 9 percent return over one and five years, just over 6 percent in three years and just under 4 percent since inception. And the red is the benchmark returns, and the yellow bars are the CPI plus 500, which is our long-term target.

The two highlights that I would like to point out, or the two things I'd like to highlight on this page are that, for this fiscal year, for the three quarters of fiscal year 2017, we've been negative cash flow -- we've had negative cash flow of $38 million. That's only because we made a $200 million allocation to our managed futures platform in March.

We're the asset class that still has a lot of room to grow. We're at roughly eight and a quarter percent. Without that allocation, we would have been net cash flow positive. So we're running to stand still for the total FRS. And the reason for that is simple, is that managers are throwing back cash faster than we can put it out because they see that valuations are very attractive to sell.

The other thing I'd like to point out is that we redeemed from one hedge fund, that was King Street, in part because it would not provide full position-level transparency. We require all our hedge funds to provide position-level transparency through Novus, our risk aggregator. And then that comes back to us.

And finally, the two things I'd highlight on here is that private credit is becoming overheated. It seems that every fund, private equity fund is raising a private credit fund. There's a lot of money that's come into there. We've been investing in private credit for well over a decade, so we've become more cautious on that. But my guess is it's probably going to get even more overheated because in Katy's asset class, 2, 3 percent for some funds isn't attractive to the 5 or 6 percent you can get in the private credit market.

The other thing that I would like to highlight is that in insurance, we've been doing a lot of work in that. We've mentioned that in the past. We don't like the market because it's expensive from an investment standpoint. It's good for the CAT Fund but not so much for us. But having said that, it's a small market. And so what we're doing is that we've interviewed most
of the managers that we want to interview, and we're going to place structures and make small allocations to some insurance funds over the next year.

We could see it being 5 to 10 percent of the asset class in years to come, but I can't imagine in the near term it would get much more than 1 percent of the asset class. But the whole point is to get the structures in place so, when it's attractive, we can move fairly quickly and fund up those strategies.

MR. WENET: Excuse me. And you're going to be investing in the product of the insurance or in the stocks of the company?

MR. WEBSTER: The funds, yes. Not the stocks.

MR. WENET: Funds that are investing in the product.

MR. WEBSTER: That's correct, yes.

MR. WENET: Like what? They have really crazy things they do, right?

MR. WEBSTER: Yeah. What they -- so as opposed to a publicly traded company that's writing insurance, it's funds who are writing insurance. It's that. And that's all I have.

MR. COLLINS: Trent gets the award for briefest presentation.

MR. WEBSTER: You're welcome.
announcing the settlement. So Elliott was able to
garner three of the four seats. And, candidly, that's
the direction we were going. We were going to support
at least a couple of the nominees, if not three or
four.

MR. PRICE: How many shares were you voting?

MR. McCALL: I want to say a little over a
million. I forget the number off the top of my head.
I can get it for you. Not an insignificant stake, and
it's a fairly large holding. So we're pleased with the
outcome in that case.

MR. PRICE: Excuse me one second, because it's so
interesting. So some of your shares are directly
actively managed and some are your indexes, correct?

MR. McCALL: Yes, that's correct. I think in
the Arconic case, we had zero actively held shares.

MR. PRICE: But your indexes are internally-run,
passive funds, not out with other index funds that you
get to vote. They get to vote, right?

MR. McCALL: Well, it's a little more
complicated than that. The short answer is yes for the
majority of the shares. We do have a couple of
portfolios, BlackRock in particular, where we do retain
the voting rights. They're passed through on a
pro rata basis for us. So we're actually voting --
the only example. I thought almost all of the shares
where we had hired an active manager we would have the
votes.

MR. McCAULEY: That's true. That's true. We have
a couple of exceptional accounts where -- predominantly
international exposure, which creates some wrinkles
with voting. A couple of those managers out of -- I
don't know the current number of managers that we have,
but it's a pretty high number. There's just two or
three that we don't retain the voting authority on, due
to logistical --

MR. TAYLOR: Mike, I think it's maybe four
managers, where we've continued to allow the manager to
vote the proxy. And it's for dedicated frontier
markets, where these managers know these companies very
well. They engage management very closely.

MR. McCAULEY: But we do, whenever we can, either
on an inbound basis, if a manager contacts us to
discuss and share information, or vice versa, we're
always very eager to hear what they have to say and, on
a formal basis, incorporate that into our
decision-making. And they are oftentimes concentrated
holders. They're close to management, close to the
company, and they have very good insight in a lot of
cases.

MR. COLLINS: So just to be clear, all the shares
that we owned of Arconic were held in ETFs or other
passive vehicles?

MR. McCAULEY: I believe the exposure we had with
Arconic was in three or four of the passively managed
internally run portfolios.

MR. COLLINS: Which we retained the voting rights
for.

MR. McCAULEY: Exactly.

MR. COLLINS: A hundred percent.

MR. McCAULEY: A hundred percent. There's no
external manager to defer to or potentially defer to.
Another one was CSX Corporation. This was a highly
unusual scenario that Mantle Ridge had recruited, kind
of engineered a recruitment for Hunter Harrison to take
over. CSX is obviously a Florida-based railroad.
We've had some experience with them. They had a proxy
contest back in 2009, so we -- they're Florida
contacts, and just the history of the company, we had
some engagement history there.
But it was a very unusual scenario where Mantle
Ridge was able to recruit a very highly capable CEO,
Hunter Harrison. He started. The board selected him.
As part of that recruitment, he had foregone equity
interest in a Canadian railroad, CP. And in order to
reimburse him for that foregone compensation, Mantle Ridge engineered, as part of the agreement to hire him, a subsequent review, which the board concurred with, to put it up for investor approval, even though it was a precatory or advisory basis so it didn't bind the board necessarily. But we ended up voting in favor of it.

A very, very good -- you know, I kind of included a thumbnail from one of the Mantle Ridge slides. It's been a phenomenal performance effect on the company. And the AGM actually occurred earlier today, and it was passed overwhelmingly, I think got 93 or 94 percent of the (inaudible). So we voted in favor of that.

Another highly unusual scenario was GM. That vote is tomorrow. We've already cast our shares in that, voting against a proposal by Greenlight to essentially create a new dual class, so they would split the share structure, kind of a dividend preferred versus growth. We fail to see the advantages of doing that, to put it in short. And Greenlight had a history with Apple and some other companies of kind of coming up with unusual capital proposals that we haven't necessarily bought into.

I think GM was another one that had very little active exposure, and we did have an engagement call with management at GM, did share -- even though we were going to vote, at that point we hadn't cast our proxy, but we intended to vote against it. We were clear in our frustration with the performance of the stock price, has essentially gone sideways for quite a long time.

I won't go into too much detail. Immunomedics was another one, a much smaller name, had an activist fund, medical fund that was involved. It quite antagonistic, litigious. Long story short is the dissident won. And since inception of the activist campaign, the stock is up about 150 percent, even though it's a smaller name, so very successful. And we did vote in favor of the dissident slate in that scenario as well.

And then Volkswagen and Wells Fargo were examples. They weren't proxy contests, but we withheld support from a rather large number of board members. I think we withheld from 30 of 31 at Volkswagen and 6 of 15 at Wells Fargo. Wells Fargo we had a --

MR. COLLINS: Who was the one?

MR. McCAULEY: I don't remember off the top of my head. It think it was a member of the supervisory, one of the newer directors. But Wells Fargo, we had a history of relatively higher withhold at that bank over the years. So kind of on a hindsight basis, we were pleased with our voting pattern. And then lastly we
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had a couple of regulatory comments, survey responses, one to the Singapore Exchange on essentially maintaining a restriction on dual-class share structures. This kind of relates back to kind of the Alibaba IPO and Hong Kong activity. So there's a couple of Asian exchanges that are still trying to move forward to attract listings.

And then somewhat similar, we had response to the S&P, Dow Jones indices, consultation on non-voting shares or dual-class multi-class shares. This has a link to the Snap IPO with respect to non-voting share classes. And essentially what we did there is we mimicked the policy position of the Council of Institutional Investors, which says or advocates we -- not supportive of a non-voting or even a dual-class share structure absent any kind of sunset provision.

So if you want to go to the public markets, you want to receive public money, at some point you've got to go back and revisit that, whether it's the founder or some controlling investor group. We essentially just consider that a best practice, a risk mitigant on a longer term basis.

And to the extent that S&P or FTSE Russell and MSCI include these newer non-voting share structures, we want to have a caveat that at some point -- and we proposed a five year sunset provision -- you would then go back to the shareowners, the noncontrolling minority shareowners, to revisit the need for that protection. And we feel that's a pretty balanced, reasonable approach. Given there are a high number of dual-class shares already in the market, we wouldn't want to -- and can't, frankly, really go back and secure those securities. They're already out there in the float and that sort of thing.

And that's pretty much it. I've got a couple of other slides in the appendix, but they're just really informational, shows some of the voting stats. I'm happy to answer any questions.

MR. COLLINS: Any more questions for Mike? Ash, we have another change to the investment policy statement?

MR. WILLIAMS: Yes. Investment policy statement update for the retirement plan, and this is Tab 3-g in your book. There's an intro memo to John Benton from Kristen Doyle and Katie Comstock. Basically what we're doing is updating the investment policy statement to do a couple of things. I'll give you a qualifying motivation.

Number one, we do an annual review of capital market return expectations, where Aon looks at the
return expectations by asset class across five major providers, including themselves, averages those, and we use those to inform our internal asset-liability work and asset allocation work. And you've all been through that exercise with us, so you're well familiar with it.

Historically, we have used a 5 percent real return number. And our judgment is, given the inescapable trends that we've been observing, the more prudent thing to do is move that down 50 basis points to four and a half percent real, which we think is reflective of reality and well within our ability to capture. In fact, it's I believe roughly the center of a normal distribution of expected returns over the next 15 years, so it's a pretty reasonable target. And that's assuming we make market returns.

In fact, if you look at long periods of history, the SBA has added substantial value to passive market performance. So our expected real return would be, I would argue, somewhere in the 25 to 100 basis points higher ballpark. So that's point one.

Point two is we have removed a reference that used to be in the investment policy statement to the actuarial investment return assumption. A couple of reasons for doing that. Number one, we have no control over that number. That's set legislatively, and it has been -- it is currently 7.6 percent, down from 7.65 the year before that. It's been as high as eight and a half. It moves around. The legislature sometimes seeks to change that number, commonly in the wake of recent performance activity.

And I can remember in years gone by we had a run of years back in the nineties when we had really high returns, and there was serious interest in raising the actuarial investment return assumption to 10 because that would provide great benefits in lowering funding cost. So rather than have us in harm's way on that, which we have no control over, it seemed smarter to take it out of there.

Finally, you think about the trustees' duty and our duty as fiduciaries, we have a duty of prudence on how we manage this fund, and that includes avoiding taking excessive risk that would magnify a negative tail experience that could be catastrophic to the well-being of the fund and, by extension, to the taxpayers of Florida if we take some crazy risk in pursuit of an unrealistically high return objective and suffer catastrophic damage in asset values as a result.

So those are the changes that are in here. There's a red line version in your books. And happy to answer any questions you may have.
MR. COBB: Is table two consistent with our existing targets?

MR. WILLIAMS: Yes.

MR. COLLINS: So when they go -- when the legislature goes through their process of setting the actuarial return, do they look at this in our investment policy statement?

MR. WILLIAMS: Well, in fairness, it's not solely the legislature.

MR. COLLINS: Right. It goes through the revenue estimating conference.

MR. WILLIAMS: The actuarial estimating conference that takes place commonly late September, early October every year. You have the executive branch and the legislative branch.

MR. COLLINS: And so you -- somebody sits at that table, right, from here?

MR. WILLIAMS: We are a staff input to it. We're not members.

MR. COLLINS: Right. And I'm assuming -- well, it's public record, so I'm going to stop there. But somebody looks at the four and a half. Somebody sees this in our investment policy statement?

MR. WILLIAMS: Sure.

MR. COLLINS: Okay.

MR. WENDT: They may or may not take it into consideration once they reach their decision.

MR. COLLINS: Well, I don't think they do. They can't, if they're at 7.6.

MR. WENDT: Why do you bother then?

MR. COLLINS: It looks good.

MR. WILLIAMS: Well, that fiduciary thing is pretty important. We've got some liability here. And I think, from the trustees' standpoint, not to mention our own, this is reality, and we're in the reality business.

MR. COLLINS: We're joking a little bit around about this, but I think the one serious thing that I do want to have on the record is we do believe it's four and a half. And I don't think there's anybody on this committee that would argue for higher right now. I mean, everything that you read today in any publication, anything that you see in the financial press is all going lower. I commend you for going from five to four and a half. So if something happens, it wasn't this body that came up with 7.6.

MR. WENDT: Do we vote on this?

MR. WILLIAMS: Please, yes.

MR. DANIELS: Motion to approve.

MR. PRICE: Second.
MR. COLLINS: All in favor.

(Ayes)


MR. WILLIAMS: Thank you.

MR. COBB: I have a follow-up question. This may be opposite of my challenge to Steve on not being too committed to targets. Excuse me for not having my mike on. On the issue of global equity and the mix between domestic and international developed and emerging markets, that seems to me a critical subject that we really didn't discuss today.

And I guess I would like to -- because it really relates to these allocations. I'm one who is a little pessimistic on U.S. markets today and more positive to European and emerging markets.

So I guess that's a question as it relates to long-term, but it also relates to what we've just passed in terms of an allocation. I mean, we've agreed that the allocation to global equity is appropriate, but we really haven't discussed the mix between international and domestic.

MR. COLLINS: Ash, if you would answer that and just tell us where you are with staff on going over all that.

MR. WILLIAMS: Well -- and I'm going to defer to Alison and Tim on this, but basically the allocation is what it is, which is a global equity allocation. And then the global equity team, within their risk budget, exercises their judgment, how that's subdivided not only geographically but across capitalization, across growth, value, et cetera. And as we just heard, you've seen some pretty rapid spinning of the barbells recently in terms of where value is and what's outperformed.

And if anything, I think we were early on globalization the book and probably paid a little bit of a price for that, given what happened subsequently. But in the current environment I think we'll be well-compensated for where we are positioned. And we're probably, I'm going to say full weight to a little bit overweight non-U.S. now. I'll defer to my colleagues in global equity to put the finest edge on that.

MS. ROMANO: In some respects our answer might be a little bit similar to Steve, in that we have a very narrow risk budget. So to maintain that risk budget, we can't make big bets relative to the benchmark. So we hire our managers, for instance on the U.S. side, to approximate the benchmark.

That being said, we have global managers, and they
can invest in the world and have much higher tracking error targets. So where they see opportunity, for instance in Europe versus the U.S., which we've certainly seen them make that switch over the year, they will do that.

We also let our international managers, as I mentioned before, in some cases invest in the U.S. or invest in emerging markets. So there is flexibility. But for the most part we're running it relatively close to the benchmark in terms of allocation.

MR. TAYLOR: And I would add, in terms of -- we have a modest risk budget, 75 basis points, to operate within. And so what that means is we have to be very thoughtful as to how we use that risk budget. What do we consider the most -- more inefficient parts of the market. And, Ambassador, your view is held by others in terms of perhaps emerging markets in Europe, good opportunity going forward.

Most of our active risk is spent on non-U.S. managers. Within the U.S., we have some active management, but more than most we're more passively positioned in the U.S. So, much of our risk budget is active, but it's used outside of the U.S. or on global managers.

MR. COBB: Thank you.
next quarter, we can spend some time on that. I think ultimately it does come down to, under our current policy, with 75 BPs of risk that we can take, we see better opportunity by giving managers the authority to take risk as opposed to us spending our entire risk budget on --

MR. COLLINS: Yeah. I don't think anybody is arguing with that, and I don't think anybody is arguing with taking the -- in the U.S., your investing passively makes sense. I think the question is, is do we have a different view on the bucket and how the bucket is sliced up, such that maybe you don't need as much of the risk premium to make some changes.

MR. WENDT: Well, those who have ears, let them hear. Isn't it general consensus today that we're supposed to be moving into Europe or that Europe is a better market than the U.S.? I mean, I hear it everywhere. It's in the newspapers every day. I'm sorry, but maybe I'm just behind or have been. Where am I? But, honestly, I think the whole world and your advisers are I'm sure moving some of their stocks into Europe.

MR. TAYLOR: And one point I would make is we think in terms of U.S., non-U.S. But when you're investing in particularly U.S. companies, like AT&T or Coca-Cola, these are global, multinational companies. So by virtue, you can invest in some U.S. companies that have a lot of exposure in emerging markets.

MR. WENDT: We understand that. But in general, people are saying that the European markets are going to do better than the U.S. markets going forward. I'm just a novice and I hear it all the time.

MR. COBB: And don't forget Japan. No one has mentioned Japan.

MR. COLLINS: So we are doing the deeper dive next time?

MR. TAYLOR: Yes, Mr. Chairman.

MR. COLLINS: So you know what you'll get questions on. Maybe you can come up, Ambassador, and spend an afternoon with them before the deep dive. Major mandate review.

MS. DOYLE: Thank you. I'm going to just cover a couple of the major mandates, since we already covered the investment plan and Florida PRIME today. So I'll start with the pension plan. And this is all data through March 31st, 2017. If we were looking at this through Friday's close, the results would be even better on an absolute basis. We continue to see positive returns from both the global equity markets and the fixed income markets.
But if we look at this through 3/31, here -- and Ash mentioned this at the beginning of the meeting. The portfolio, from an investment earnings perspective, has generated about 13 and a half billion dollars in investment earnings. And if you net out the 5.2 billion that was paid out in benefit payments, we've seen the FRS grow in assets from about 141 billion to 149.7 billion over the fiscal year to date period.

And here's that performance on both an absolute and a relative basis. A couple of periods I'll point out. Over the quarter, the FRS outperformed the blue bar, which is the performance benchmark, by about 10 basis points. That's coming from mainly global equity and the strategic investment asset classes.

If you look at the one year period, strong absolute performance driven mainly by the global equity markets but also strong outperformance as well, coming from really all of the asset classes, with the one exception of private equity, which we talked about earlier that lags a bit the public markets. And then over the five year period, all asset classes added value. So, again, strong absolute performance, over 8 percent, and over 1 percent in -- or just a little less than 1 percent in outperformance relative to the performance benchmark.

And then if we look at the much, much longer periods, relative to the nominal target rate of return, which is that CPI plus 5 percent, you can see the continued outperformance of the FRS relative to that benchmark.

Relative to peers, so this is the asset allocation that we have relative to peers, so the FRS on the left and the TUCS top ten defined benefit plans on the right. We continue to have a little bit of an overweight to global equity and a slight underweight to alternatives, which if we wanted to make a comparison here, we would add private equity plus strategic investments, which is currently roughly about 14 and a half percent relative to the universe that has around 22 percent. We have an equal allocation to fixed income and somewhat of an overweight to real estate.

So we just share this information because a lot of the asset allocation positioning is what's going to drive the ranks from period to period.

So ranks continue to be very strong relative to these top ten defined benefit plans. And actually I'm just going to skip here to this slide. You can see that the ranking is either kind of right in line with that median plan or outperforming the median plan, the median fund over all of these periods. And actually
over the 10 year period it's the best performing fund
in this universe. Any questions?

MR. COLLINS: I'm sure you've looked at that,
right? Or other people want to look at it when they
see it. They want to know who that is that's
outperforming the TUCS. So what is it that did it?

MS. DOYLE: So in this case it's mainly going to
have been your higher allocation to global equities, to
public equities relative to other alternative
investments that lagged the public markets over this
period of time. And so that's why -- and this is a
fairly concentrated universe. And if you look at
actually the dispersion at the 10 year, it's really
tight. So even if you -- even a couple of basis points
here and there can actually influence your rank in this
universe.

So we take it with a little bit of a grain of
salt. But this is good information to look at on a
quarterly basis or so to determine how you're doing
relative to peers that are most comparable to you,
which are the largest plans in the United States.

MR. COLLINS: Okay.

MS. DOYLE: Okay. And then briefly I'll just
touch on the CAT Fund. So, again, muted returns from
an absolute perspective but continued outperformance
over all the trailing periods here for both the
operating fund and the 2013A fund.

And then lastly is Lawton Chiles. And just a
reminder of how Lawton Chiles is allocated, fairly high
allocation to equities, global equities, managed by one
active manager, and then a fairly sizable allocation as
well to fixed income and TIPS.

And so how that's influencing performance, very
strong absolute performance. Look over the one year,
almost up 13 percent, again, driven mainly by that
global equity allocation. A little bit of
underperformance over the quarter, but over all of the
trailing periods, strong outperformance from that one
active manager. And that was all I was going to cover.

MR. COLLINS: Out of all those slides? Okay.

Does anybody have any questions? Ash, anything else we
need? One more thing we need to discuss?

MR. WILLIAMS: Well, audience questions would be
one thing to do.

MR. COLLINS: They don't look like they have any
questions. Does anybody have any questions in the
audience? No.

MR. WILLIAMS: I had two things relating to the
audience, if I may. First we are fortunate to have
Larry Carmichael with us in the back row from the
Florida Retired Educators' Association. Larry, how many years have you been covering IAC meetings?

MR. CARMICHAEL: Twenty-two.

MR. WILLIAMS: So 22 years of attendance. I think he gets the attendance prize. And since I've been back, I've had equally perfect attendance at the annual members of the Florida Retired Educators' Association.

And at a meeting, I guess it was -- was it last week -- down in Orlando, a restful day trip to and from Orlando by car, I was honored to accept on behalf of the SBA from Larry Carmichael himself the Larry Carmichael award for long-term support of Florida's retired teachers. So thank you for that on behalf of the board.

And the other person I wanted to draw attention to is in the front here, Mr. Dennis MacKee. Dennis has been involved in the SBA for a good long time. And while we spend all our time here torturing the investment team, I mean questioning the investment team on --

MR. COLLINS: Getting along with really, I think is the term you're looking --

MR. WILLIAMS: -- the quality and the adequacy of their judgment and leverage, et cetera, Dennis has supported the SBA on a much more foundational level, which is to say protecting us and helping manage a number of the existential risks that we are exposed to in the media and the political environment, et cetera. And he's been extraordinarily helpful over a long, long time. But he's been very instrumental in managing and executing these meetings in particular.

So Dennis is about to do what many aspire to and get on the beneficiary retiree side of the seesaw with the Florida Retirement System and will be retiring in August. So this is his last IAC meeting. I just wanted to recognize Dennis and thank him.

(Applause)

MR. COLLINS: And we're assuming you didn't default into the contribution plan, you made a choice.

MR. MACKEE: Mine was very well thought out.

MR. COLLINS: Thank you. Okay. So motion to adjourn?

MR. COBB: Move it.

MR. COLLINS: Second?

MR. PRICE: Second.

MR. COLLINS: All in favor?

(Ayes)

MR. COLLINS: Opposed? We are adjourned.

(Whereupon, the meeting was concluded at 3:10 p.m.)
CERTIFICATE OF REPORTER

STATE OF FLORIDA    
COUNTY OF LEON     

I, Jo Langston, Registered Professional Reporter, 
do hereby certify that the foregoing pages 3 through 138, 
both inclusive, comprise a true and correct transcript of 
the proceeding; that said proceeding was taken by me 
stenographically and transcribed by me as it now appears; 
that I am not a relative or employee or attorney or counsel 
of the parties, or a relative or employee of such attorney 
or counsel, nor am I interested in this proceeding or its 
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand 
this 2nd day of July 2017.

[Signature]

JO LANGSTON
Registered Professional Reporter

ACCURATE STENOTYPE REPORTERS, INC.
MEMORANDUM

To: Board of Trustees
From: Gary Price, Chairman
Participant Local Government Advisory Council (PLGAC)
Date: September 6, 2017
Subject: Quarterly Update – Florida PRIME™

The Participant Local Government Advisory Council (the “Council”) last met on June 5, 2017 and will meet next on September 21, 2017. Over the prior quarter, the Council continued to oversee the operations and investment management of Florida PRIME™.

CASH FLOWS / PERFORMANCE

- During fiscal year 2017, the pool’s net asset value increased by $1.54 billion, equal to a 19.8 percent increase.
- During fiscal year 2017, the pool processed over $38.2 billion in participant cash flows (including both deposits and withdrawals).
- During fiscal year 2017, Florida PRIME™ delivered an aggregate $86.1 million in gross investment earnings. During the 2nd quarter of 2017, Florida PRIME™ delivered an aggregate $28.5 million in gross investment earnings.
- During the 2nd quarter of 2017, participant deposits totaled $3.6 billion; participant withdrawals totaled $4.5 billion; providing a net decrease in the fund’s net asset value (NAV) of approximately $925 million.
- Performance of Florida PRIME™ has been consistently strong over short-term and long-term periods. For the period ending June 30, 2017, Florida PRIME™ generated excess returns (performance above the pool’s benchmark) of approximately 34 basis points (0.34 percent) over the last 12 months, 22 basis points (0.22 percent) over the last three years, and 19 basis points (0.19 percent) over the last five years. Based on June 30, 2017 fund values, the last 12 month excess return equals earnings of approximately $31.7 million.
- Florida PRIME™ has outperformed all other government investment pools statewide.
- Through the five-year period ending June 30, 2017, Florida PRIME™ ranked as the highest performing investment vehicle when compared to all registered money market funds within iMoneyNet’s First Tier Institutional Fund Universe.

POOL CHARACTERISTICS

- As of June 30, 2017, the total market value of Florida PRIME™ was approximately $9.33 billion.
- As of June 30, 2017, the investment pool had a seven-day SEC Yield equal to 1.29 percent, a Weighted Average Maturity (WAM) equal to 39.2 days, and a Weighted Average Life (WAL or Spread WAM) equal to 75.7 days.
Date: August 14, 2017
To: Board of Trustees
From: Mark Thompson, Audit Committee Chair
Subject: Quarterly Audit Committee Report

The State Board of Administration’s Audit Committee met on July 31, 2017. Please see the attached agenda for the items discussed. Also please see the attached Office of Internal Audit Quarterly Report presented to the Audit Committee at the meeting.
1. Call to Order

2. Approval of the minutes of the meeting held on April 17, 2017

3. SBA Executive Director & CIO status report
   ➢ SBA Update: investment performance, risks, opportunities and challenges

4. Invitation to Negotiate (ITN) Triennial GRC Review
   ➢ Approval of final selection

5. Annual review of the charters
   a. Audit Committee
   b. Office of Internal Audit

6. Presentation of OIA issued reports:
   a. Internal Controls over Financial Reporting Advisory Project
   b. Fixed Income Data Analytics Advisory Project

7. Office of Internal Audit Quarterly Report

8. Chief Risk & Compliance Officer Quarterly Report

9. Other items of interest

10. Closing remarks of the Audit Committee Chair and Members

11. Adjournment
Office of Internal Audit (OIA)
Quarterly Report to the Audit Committee

July 31, 2017
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<th></th>
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</tr>
<tr>
<td>• External Engagement Oversight</td>
<td>5</td>
</tr>
<tr>
<td>• Special Projects, Risk Assessment, and Other Activities</td>
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<tr>
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<td>8</td>
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<tr>
<td>• Details of open items – Audit and Advisory Projects</td>
<td>9–10</td>
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</table>

<table>
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<th>Other OIA Activities:</th>
<th></th>
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<tbody>
<tr>
<td>• Risk Assessment Process</td>
<td>12</td>
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<td>• Data Analytics Program Accomplishments &amp; Timeline</td>
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<td>• Status of FY 2016–17 OIA Department Goals</td>
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<tr>
<td>• Budget to Actual Comparison FY 2016–17</td>
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<tr>
<td>• Results of FY 2016–17 Client Surveys (Audit and Advisory projects)</td>
<td>16–17</td>
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<tr>
<td>• Professional Staff Training and Development for FY 2016–17</td>
<td>18</td>
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<tr>
<td>• 2018 Audit Committee Meeting Dates</td>
<td>19</td>
</tr>
<tr>
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<td>20</td>
</tr>
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</table>
Status of Annual Audit Plans
## Status of the FY 2016–17 Annual Audit Plan

### Internal Audit and Advisory Engagements

<table>
<thead>
<tr>
<th>Projects Status</th>
<th>Type</th>
<th>Planned Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Completed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust Services – carry over</td>
<td>OIA Operational Audit</td>
<td>Q1</td>
</tr>
<tr>
<td>4th Quarter of FY 15-16 Follow-up</td>
<td>OIA Follow-up Audit</td>
<td>Q1</td>
</tr>
<tr>
<td>Global Equity Trading Activities</td>
<td>OIA Operational Audit</td>
<td>Q1/Q2</td>
</tr>
<tr>
<td>Information Technology General Controls</td>
<td>OIA Advisory</td>
<td>Q1/Q2</td>
</tr>
<tr>
<td>2nd Quarter of FY 16-17 Follow-up</td>
<td>OIA Follow-up Audit</td>
<td>Q3</td>
</tr>
<tr>
<td>Derivatives Audit</td>
<td>Co-sourced Operational Audit</td>
<td>Q2/Q3</td>
</tr>
<tr>
<td>Internal Controls over Financial Reporting (see Tab 6a)</td>
<td>OIA Advisory</td>
<td>Q3/Q4</td>
</tr>
<tr>
<td>Fixed Income Data Analytics Dashboard (see Tab 6b)</td>
<td>OIA Advisory</td>
<td>Q3/Q4</td>
</tr>
<tr>
<td>4th Quarter of FY 16-17 Follow-up (see Appendix C)</td>
<td>OIA Follow-up Audit</td>
<td>Q4</td>
</tr>
<tr>
<td><strong>In Progress</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recommendation/Action Plan Monitoring</td>
<td>OIA Project Management</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Real Estate, commingled</td>
<td>OIA Operational Audit</td>
<td>Q4</td>
</tr>
<tr>
<td><strong>Not Started</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Highlighted: Completed since prior quarterly report.*

*All projects completed or in progress from FY 2016-17 Annual Audit Plan*
# Status of the FY 2016–17 Annual Audit Plan

## External Engagement Oversight

<table>
<thead>
<tr>
<th>Project Status</th>
<th>Type</th>
<th>Planned Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>OPPAGA's review of Florida Growth Fund Initiative</td>
<td>External Operational Audit</td>
</tr>
<tr>
<td></td>
<td>OPPAGA’s biennial review of SBA Investment Management</td>
<td>External Operational Audit</td>
</tr>
<tr>
<td></td>
<td>Florida Hurricane Catastrophe Fund</td>
<td>External Financial Statement Audit</td>
</tr>
<tr>
<td></td>
<td>FRS Trust Fund</td>
<td>External Financial Statement Audit</td>
</tr>
<tr>
<td></td>
<td>FRS Investment Plan Trust Fund</td>
<td>External Financial Statement Audit</td>
</tr>
<tr>
<td></td>
<td>Auditor General financial statement audit of Florida PRIME</td>
<td>External Financial Statement Audit</td>
</tr>
<tr>
<td></td>
<td>Auditor General financial statement audit as part of the statewide CAFR</td>
<td>External Financial Statement Audit</td>
</tr>
<tr>
<td></td>
<td>Auditor General IT operational audit of selected financial systems</td>
<td>External Operational Audit</td>
</tr>
<tr>
<td></td>
<td><strong>In Progress</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auditor General Operational Audit (follow-up on report #2015-083)</td>
<td>External Operational Audit</td>
</tr>
<tr>
<td></td>
<td>Network Security, outsourced</td>
<td>External IT Security Assessment</td>
</tr>
<tr>
<td></td>
<td><strong>Not Started</strong></td>
<td></td>
</tr>
</tbody>
</table>

All projects completed or in progress from FY 2016-17 Annual Audit Plan
# Status of the FY 2016–17 Annual Audit Plan

## Special Projects, Risk Assessments, and Other Activities

### Project Status

<table>
<thead>
<tr>
<th>Project Status</th>
<th>Type</th>
<th>Planned Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Completed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITN – FRS audit</td>
<td>OIA Special Projects</td>
<td>FY 2015-16</td>
</tr>
<tr>
<td>FHCF audit contract extension</td>
<td>OIA Special Projects</td>
<td>FY 2015-16</td>
</tr>
<tr>
<td>Annual Quality Assessment Review – carry over</td>
<td>OIA Special Projects</td>
<td>Q1</td>
</tr>
<tr>
<td>RFQ – FHCF Audit and Paragon Agreed Upon Procedures</td>
<td>OIA Special Projects</td>
<td>Q1/Q2</td>
</tr>
<tr>
<td>RFQ – Real Estate Pool</td>
<td>OIA Special Projects</td>
<td>Q2/Q3</td>
</tr>
<tr>
<td>Implementation of Data Analytics Program, including IDEA enhancements</td>
<td>OIA Special Projects</td>
<td>Q2/Q3</td>
</tr>
<tr>
<td>Annual Risk Assessment</td>
<td>OIA Risk Assessment</td>
<td>Q2/Q3/Q4</td>
</tr>
<tr>
<td>Annual Audit Plan</td>
<td>OIA Risk Assessment</td>
<td>Q3</td>
</tr>
<tr>
<td>RFQ – Network Security</td>
<td>OIA Special Projects</td>
<td>Q3/Q4</td>
</tr>
<tr>
<td>ITN – Triennial GRC Assessment (See Tab 4)</td>
<td>OIA Special Projects</td>
<td>Q3/Q4</td>
</tr>
<tr>
<td>Annual Quality Assessment Review (See Appendix B)</td>
<td>OIA Quality Assurance</td>
<td>Q4</td>
</tr>
<tr>
<td>4th Quarter Risk Assessment Update (See Slide 12)</td>
<td>OIA Risk Assessment</td>
<td>Q4</td>
</tr>
<tr>
<td><strong>Ongoing/In Progress</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special requests from SBA management and/or Audit Committee</td>
<td>OIA Special Projects</td>
<td>Ongoing</td>
</tr>
<tr>
<td>WorkSmart Portal Initiative</td>
<td>OIA Special Projects</td>
<td>Ongoing</td>
</tr>
<tr>
<td>OIA process improvement initiatives, including QAR identified initiatives</td>
<td>OIA Quality Assurance</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Not Yet Started</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All projects completed or in progress from FY 2016-17 Annual Audit Plan

---

Highlighted: Completed since prior quarterly report.
Status of Management Action Plans and Recommendations
## New/Closed Action Plans & Recommendations

### Audit and Advisory Engagements

<table>
<thead>
<tr>
<th># of Recs</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New recommendations</strong></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>OIA Report 2017–07 Internal Controls Over Financial Reporting Advisory <em>(Tab 6A)</em></td>
</tr>
<tr>
<td>4</td>
<td>Total recommendations added to the database</td>
</tr>
</tbody>
</table>

### Closed action plans and recommendations:

| (1) | OIA Report 2015–05 Post-implementation assessment of the Charles River Investment Management Solution (Ernst & Young) | Reported in the OIA’s 4th Quarter Follow-up Audit *(Appendix C)* |
| (1) | OIA Report 2015–10 Florida PRIME Access Controls |
| (1) | OIA Report 2016–09 Trust Services Operational Audit |
| (1) | OIA Report 2017–05 Internally Managed Derivatives Operational Audit |
| (1) | OIA Report 2017–06 2nd Quarter Follow-up Audit |
| **Total** | **Total action plans/recommendations closed in the database** |
| **(1)** | Total Change for both Audit and Advisory Action Plans/Recommendations |
Management Action Plans relating to findings from audits performed by internal or external auditors. The OIA monitors and performs follow-up procedures on the management action plans in accordance with the IIA Standard 2500. A1. In certain cases, follow-up procedures are performed by external auditors.

For details, see Appendix A.
Status of Recommendations – Advisory Projects

Legend:
Pending - Further management discussion needed
NYI - Not yet implemented
PI - Partially Implemented, as represented by SBA management
IMP - Implemented, as represented by SBA management

Advisory Recommendations made by OIA or external consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery preparedness program, etc. The OIA monitors the disposition of these recommendations in accordance with the IIA Standard 2500.C1.

At the advice of the Audit Committee, the OIA closes Advisory Recommendations that management represented as “complete” once the OIA has considered those in the annual risk assessment. The next annual risk assessment will occur during Fiscal Year 2016-2017.
Other OIA Activities
Joint risk assessment performed with RMC in November 2016

Independent risk assessment performed in April 2017 to develop OIA’s Annual Audit Plan (AAP)

Updated in July 2017 with no planned changes to AAP
  ◦ Carryover of ICFR with report issued in July – did not formally change AAP as minor hours used in FY 2017–2018 for this project
  ◦ No longer performing quarterly updates as we will perform an analysis in between the two main assessments. Throughout the year, we will attend meetings and work with management to understand any changes in risks that would potentially impact our flexible AAP.
## Data Analytics Program

### Accomplishments & Timeline

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hired Audit Data Analyst III</strong></td>
<td><strong>Continuous Monitoring:</strong></td>
<td><strong>Continuous Monitoring:</strong></td>
</tr>
<tr>
<td><strong>OIA Project Support:</strong></td>
<td>- Continued collaboration with FI management to identify and produce key metrics</td>
<td></td>
</tr>
<tr>
<td>- Accounts Payable (A/P) Audit</td>
<td>- Combined use of IDEA &amp; Tableau to write/run scripts automating the metrics and dashboard data</td>
<td></td>
</tr>
<tr>
<td>- Payroll Audit</td>
<td>- Improved “Cost by Dealer Activity” dashboard using Tableau</td>
<td></td>
</tr>
<tr>
<td>- Fixed Income (FI) Trading Audit</td>
<td>- Tested compliance with specific policy and Investment Portfolio Guidelines (IPG) where IPG requirements could be tested using data analytics</td>
<td></td>
</tr>
<tr>
<td>- Trust Services Audit</td>
<td>- With FI management input selected other metrics to perform data analytics using Tableau</td>
<td></td>
</tr>
<tr>
<td>- Global Equity (GE) Trading Audit</td>
<td></td>
<td>- Complete the following dashboards: GE, A/P, Payroll, Pcard</td>
</tr>
<tr>
<td>- Derivatives Audit</td>
<td></td>
<td>- Determine system information that can feed directly into our dedicated server</td>
</tr>
<tr>
<td><strong>Obtained data from SBA systems:</strong></td>
<td></td>
<td><strong>OIA Project Support:</strong></td>
</tr>
<tr>
<td>- PeopleSoft Financials</td>
<td></td>
<td>- Attend planning meetings and walkthroughs for audits to determine where data analytics may be relevant for projects</td>
</tr>
<tr>
<td>- PeopleSoft HR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Eagle STAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- BNYYM Workbench</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Charles River</td>
<td></td>
<td></td>
</tr>
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**Greater Efficiency and Effectiveness**
## Status of FY 2016–17 OIA Department Goals

<table>
<thead>
<tr>
<th>Objective</th>
<th>Completed</th>
<th>In Progress / Ongoing</th>
<th>Not Yet Started</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Audit Plan</strong></td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Successfully deliver the fiscal year 2016-17 Audit Plan and budget. Enhance communication of the COSO internal control framework.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal Audit Process</strong></td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Focus on enhancing OIA processes, programs and procedures, resulting in more efficient operation of the department administration and the effective development and utilization of department resources.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Use of Technology</strong></td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Implement audit technology solutions to enhance department effectiveness and efficiency.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>People</strong></td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Evaluate staffing and development needs.</td>
<td></td>
<td></td>
<td></td>
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## Budget to Actual Comparison FY 2016–17

<table>
<thead>
<tr>
<th>Category</th>
<th>Budget</th>
<th>Percent</th>
<th>Actual</th>
<th>Percent</th>
<th>Budget to Actual Over / Under</th>
<th>Explanation for any difference greater than 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit/Advisory Projects</td>
<td>5,142</td>
<td>41.2%</td>
<td>5,233.75</td>
<td>41.8%</td>
<td>-0.6%</td>
<td></td>
</tr>
<tr>
<td>Oversight of External Auditors</td>
<td>384</td>
<td>3.1%</td>
<td>457.50</td>
<td>3.7%</td>
<td>-0.6%</td>
<td></td>
</tr>
<tr>
<td>Special Projects</td>
<td>472</td>
<td>3.8%</td>
<td>776.75</td>
<td>6.2%</td>
<td>-2.4%</td>
<td>Rebid of external audits and assessments took more time than anticipated.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>596</td>
<td>4.8%</td>
<td>319.75</td>
<td>2.6%</td>
<td>2.2%</td>
<td>2nd year of using IIAMS for risk assessments. The process was more streamlined this year.</td>
</tr>
<tr>
<td>Audit Committee Related Activities</td>
<td>456</td>
<td>3.7%</td>
<td>288.50</td>
<td>2.3%</td>
<td>1.4%</td>
<td>Administrative Assistant took over many activities previously performed by professional staff.</td>
</tr>
<tr>
<td>Leave &amp; Holidays</td>
<td>2,810</td>
<td>22.5%</td>
<td>2,695.50</td>
<td>21.5%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Continuing Education</td>
<td>840</td>
<td>6.7%</td>
<td>1,110.00</td>
<td>8.9%</td>
<td>-2.2%</td>
<td>3-day CIDA training for all professional staff; additional training for ADA III.</td>
</tr>
<tr>
<td>Quality Assessment Review</td>
<td>148</td>
<td>1.2%</td>
<td>126.75</td>
<td>1.0%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>1,632</td>
<td>13.1%</td>
<td>1,519.50</td>
<td>12.1%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,480</strong></td>
<td><strong>100%</strong></td>
<td><strong>12,528</strong></td>
<td><strong>100%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# FY 2016–17 Client Survey Results: Audits

<table>
<thead>
<tr>
<th>Audit Client Survey Questions</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neither Agree Nor Disagree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1: Achieved Objective, Scope &amp; Timing</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2: Risks &amp; Controls Understood</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td></td>
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<tr>
<td>Q3: Conducted Efficiently</td>
<td>6</td>
<td>10</td>
<td>1</td>
<td></td>
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<tr>
<td>Q4: Knowlegeable of Business Unit</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td></td>
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<tr>
<td>Q5: Effectively Communicated</td>
<td>12</td>
<td>5</td>
<td>1</td>
<td></td>
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<tr>
<td>Q6: Demonstrated Team Approach</td>
<td>11</td>
<td>6</td>
<td>1</td>
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<tr>
<td>Q7: Accurate and Clear Report</td>
<td>6</td>
<td>10</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>Q8: Client Contributed To Action Plans</td>
<td>9</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>Q9: Value Added</td>
<td>8</td>
<td>9</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>Q10: Issuance Time Acceptable</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td></td>
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</tbody>
</table>

Count of Client Survey Responses for Audit Engagements
(Includes responses for 3 audit reports)
FY 2016-17 Client Survey Results: Advisory

Advisory Client Survey Questions

Q1: Achieved Objective, Scope & Timing
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q2: Scope Satisfactory
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q3: Risks & Controls Understood
  - Strongly Agree: 1
  - Agree: 2
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q4: Conducted Efficiently
  - Strongly Agree: 1
  - Agree: 2
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q5: Knowledgeable of Business Unit
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q6: Effectively Communicated
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q7: Demonstrated Team Approach
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q8: Recommendations Helpful
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q9: Deliverable Accurate and Clear
  - Strongly Agree: 1
  - Agree: 2
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q10: Client Contributed To Action Plans
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q11: Improved Initiatives & Efficiency
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q12: Value Added
  - Strongly Agree: 1
  - Agree: 2
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Q13: Issuance Time Acceptable
  - Strongly Agree: 2
  - Agree: 1
  - Neither Agree Nor Disagree: 1
  - Disagree: 0
  - Strongly Disagree: 0
  - N/A: 2

Count of Client Survey Responses for Advisory Engagements
(Includes responses for 1 advisory project)
Professional Staff Training FY 2016–17

Training Hours by Type

- Audit and Accounting, 319.75, 40%
- Information Technology, 55, 7%
- Technical Business, 102, 13%
- Soft Skills, 94, 12%
- Fraud, 34.5, 4%
- SBA Policy, 40, 5%
- Investments, 148, 19%
2018 Audit Committee Meeting Dates

- Monday, January 29, 2018
- Monday, April 30, 2018
- Monday, July 30, 2018
- Monday, November 5, 2018
Other Items for Discussion

- No additional ITNs or RFQs planned or expected

- Next Audit Committee Meeting for 2017
  - November 13, 2017

- Office of Internal Audit Internship
  - Jameel Brannon
Questions/Comments
CHARTER OF THE AUDIT COMMITTEE
OF THE
STATE BOARD OF ADMINISTRATION OF FLORIDA

A. PURPOSE:

Acting pursuant to Section 215.44(2)(c), Florida Statutes, the Board of Trustees ("Board") of the State Board of Administration (SBA) has established an Audit Committee (the "Committee") whose purpose is to assist the board in fulfilling its oversight responsibilities. The Committee shall serve as an independent and objective party to monitor processes for financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules, and regulations.

B. AUTHORITY:

The Committee’s authority comes from Section 215.44(2)(c), Florida Statutes and from the Board. The Committee has the authority to direct the Board’s independent external auditors, the SBA’s Chief Audit Executive (“CAE”) or the SBA’s Office of Internal Audit (“OIA”) staff to conduct an audit, review, and/or a special investigation into any matters within the scope of the Committee’s responsibility.

C. MEMBERSHIP:

The Committee shall consist of three (3) members appointed by the Board. Members shall be appointed for four (4) year terms. A vacancy shall be filled for the remainder of the unexpired term. Per statute, the persons appointed must have relevant knowledge and expertise as determined by the Board.

The Committee will annually elect its chair and vice chair from its membership by majority vote of the members. A member may not be elected to consecutive terms as chair or vice chair.

Each Committee member will be independent and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment.
as a member of the Committee and will be required to complete an annual independence statement.

D. MEMBERSHIP QUALIFICATIONS:

The Committee members are appointed by the Board pursuant to Section 215.44(1)(c), Florida Statutes. At the time of his or her appointment, each member shall be independent and financially literate according to the following standards:

1. Each member must meet the independence requirements of the United States Securities and Exchange Commission (SEC) with respect to the activities and funds of the State Board of Administration.
2. Each member must be able to read and understand fundamental financial statements, including balance sheet, income statement and statement of cash flows and have working familiarity with financial practices applicable to fiduciary trust, banking, brokerage, asset management or other similar financial services operations.

The Board shall consider the following guidelines when appointing members to ensure the Committee, as an entity, has the collective knowledge, skills, and abilities necessary to accomplish its statutory mission. Members must possess one or more of the following attributes:

1. Financial expertise as defined in the “audit committee financial expert” corporate governance rules and regulations of the SEC.
2. Investment literacy consistent with a current working knowledge of investment products commonly used by institutional investors.
3. Knowledge and experience in the practice of internal and/or external auditing, including familiarity with current auditing standards.

The Board shall endeavor to ensure at least one member is deemed to meet the requirements of an “audit committee financial expert” as defined by the corporate governance rules and regulations of the SEC, to the extent practical.

E. MEETINGS AND COMMUNICATIONS:

The Committee shall meet four (4) times annually, or more frequently as deemed necessary by the Committee. All Committee members are expected to attend each meeting in person or via teleconference or video conference. The Committee may not conduct any meeting with fewer than three (3) members present. The Committee may ask members of the SBA management or others to attend meetings and provide pertinent information as necessary. The CAE, in conjunction with the Committee chair and the Executive Director & CIO, will ensure that meeting agendas and appropriate briefing materials are prepared and provided in advance to the Committee and SBA management. Minutes of all Committee meetings will be prepared and approved.

The Committee is subject to Florida’s Government in the Sunshine Law (Sunshine Law) as set forth in Chapter 286, Florida Statutes. The Sunshine Law extends to all discussions and
deliberations as well as any formal action taken by the Committee. The law is applicable to any gathering, whether formal or casual, of two or more members of the Committee to discuss some matter on which foreseeable action will be taken. Reasonable public notice must be given for all such gatherings. In the event any meeting or portion thereof would reveal information that specifically is made exempt under the Sunshine Law, the Committee either may hold a separate closed meeting to discuss the exempted information or the Committee can close the portion of the publicly noticed meeting in which the exempted information is discussed but will notify the public of such closed meeting in a manner advised by the SBA’s General Counsel (or his or her designee). The Committee will make an audio or other recording in the manner advised by the SBA’s General Counsel (or his or her designee) of all or any portion of a meeting that is closed because of such exemption.

F. REPORTING RESPONSIBILITIES:

The Committee shall report periodically, but no less than quarterly, to the Board and the Executive Director & CIO of the SBA regarding the Committee activities, issues, and recommendations.

G. DUTIES AND RESPONSIBILITIES:

The primary duties and responsibilities of the Committee are to:

1. Financial Reporting

   • Review the annual financial statements of all Trust Funds required to be audited and any certification, report, opinion, or review rendered by internal or external auditors.

   • Inquire as to the external auditors’ independent qualitative judgments about the appropriateness, not just the acceptability, of the accounting principles and clarity of financial disclosures practices used or proposed to be adopted by SBA.

   • Inquire as to the external auditors’ views about whether management’s choices of accounting principles are conservative, moderate or aggressive from the perspective of income, asset and liability recognition, and whether those principles are common practices or a minority practice.

   • Review, in consultation with the external auditors and the CAE, the integrity of SBA’s financial reporting processes.

2. Internal Controls and Risk Assessment

   • Review OIA or external evaluation of the effectiveness of the SBA’s process for assessing significant risks or exposures and the steps management has taken to monitor and control such risks, including internal controls.
• Review significant findings and recommendations of the auditors (internal and external) with management’s responses, including the timetable for implementation of recommendations to correct weaknesses in the internal controls.

• Review with the independent auditors, CAE and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the SBA and review any significant recommendations for the improvement of such internal control procedures or particular areas where more effective controls or procedures are desirable.

3. Compliance

• Review OIA or external provider’s evaluation of the effectiveness of the system for ensuring compliance with laws, rules, regulations, policies, and procedures and the results of management’s investigation and follow-up of any instances of noncompliance.

• Review the findings of any examinations by regulatory agencies.

• Review information from management and legal counsel regarding compliance matters.

• Review reports on compliance activities from the Chief Risk and Compliance Officer.

• Review the results of the externally commissioned governance, risk and compliance review as it pertains to compliance activities.

4. Enterprise Risk Management

• Review quarterly reports on enterprise risk management activities from the Chief Risk and Compliance Officer.

• Review the results of the externally commissioned governance, risk and compliance review as it pertains to enterprise risk management activities.

5. Internal Audit

• Review and approve annually, in consultation with the Executive Director & CIO and the CAE, the OIA Charter, annual audit plan, budget, staffing, and organizational structure of the internal audit department. Confirm and assure the independence and objectivity of the OIA.

• Receive internal audit reports and a progress report on the approved annual audit plan on a periodic basis.
• Assist the Board in decisions regarding the appointment and removal of the CAE.

• Review periodic internal and no less frequently than every five years self-assessment with independent external validation of quality assurance reviews required by the Standards.

6. External Audit

• Search, select, and engage external audit firms by approving:
  o Scope of work for competitive solicitations
  o Selection process
  o External audit firms selected by the evaluation team chaired by the CAE or the CAE’s designee)

• Meet, as needed, with the representatives of the Auditor General and other external auditors regarding the proposed scope and approach of their external auditing functions and subsequently the results of their audit of the SBA.

• Meet, as needed, with representatives of OPPAGA regarding its review of the performance of the SBA.

• Review with management the results of all audits, including any difficulties encountered by the auditors or disputes with management during the course of their audit. External auditors will be consulted, as needed.

7. Other Responsibilities

• Review and assess the adequacy of the Committee Charter no less than annually, and request Board approval for the proposed changes.

• Commission a SBA governance, risk management and compliance (GRC) program evaluation and performance improvement analysis (including the assessment of the utilization and effectiveness of both the internal and external audit functions) to be performed by an external provider no less frequently than every three years and incorporating input from SBA management.

• Directing the CAE to conduct investigations into any matters within its scope of responsibility and obtaining advice and assistance from outside legal, accounting, or other advisers, as necessary, to perform its duties and responsibilities.

While the Committee has the responsibilities and the authority as set forth in Section 215.44(2)(c), Florida Statutes, and this Charter, it is not the responsibility of the Committee to plan or conduct individual audits, reviews and/or investigations, to attest to the SBA’s financial information or condition, to resolve disagreements, or to assume responsibility
for compliance with laws, rules, regulations, policies, procedures, the Employee Handbook, or the Code of Ethics.
GLOBAL EQUITY PROXY VOTING & OPERATIONS
During the full fiscal year, the SBA cast votes at 10,562 annual investor meetings, covering 102,064 individual ballot items. During the 2nd quarter of 2017, the SBA cast votes at 7,081 public companies, voting on ballot items including director elections, audit firm ratification, executive compensation plans, merger & acquisitions, and a variety of other management and shareowner proposals. The table below provides major statistics on the SBA’s proxy voting activities during both the full fiscal year and the most recent quarter ending on June 30, 2017:

<table>
<thead>
<tr>
<th>Votes in Favor</th>
<th>Votes aligned to Management’s Recommendation</th>
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<tbody>
<tr>
<td>79.1% (Q2: 79.3%)</td>
<td>80.7% (Q2: 80.8%)</td>
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<tr>
<th>Most Voted Market (# of Votes)</th>
<th>Total Eligible Ballot Items (All Markets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (2,799)</td>
<td>102,064 (Q2: 76,179)</td>
</tr>
<tr>
<td>United States (Q2: 2,216)</td>
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The SBA actively engages portfolio companies throughout the year, addressing corporate governance concerns and seeking opportunities to improve alignment with the interests of our beneficiaries. SBA votes were cast in 81 countries, with the top five countries comprised of the United States (2,799 votes), Japan (1,310), India (512), Canada (489), and the United Kingdom (423).

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP
The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on June 19, 2017, and the Committee will meet next on September 29, 2017. The Proxy Committee continues to discuss ongoing governance issues including the volume and trends for recent SBA proxy votes, company-specific voting scenarios, corporate governance policies, governance-related investment factors, major regulatory developments and individual company research related to the Protecting Florida’s Investments Act (PFIA) and recent statutory investment requirements implemented for Israel and Northern Ireland.

LEADERSHIP & SPEAKING EVENTS
Staff periodically participates in and often is an invited presenter at investor and other governance conferences. Typically, these events include significant involvement by corporate directors, senior members of management, and other key investor or regulatory stakeholders. The following items detail involvement at events that occurred recently:
• In early July, SBA staff participated in the Annual General Meeting of the International Corporate Governance Network (ICGN) with staff elected to the role of Chair of the Board of Governors. The ICGN is a member-led organization that works to promote effective standards of corporate governance and investor stewardship.

ACTIVE OWNERSHIP & CORPORATE ENGAGEMENT
From late June through early September, SBA staff conducted engagement meetings with companies owned within Florida Retirement System (FRS) portfolios, including McKesson Corp. and Microsoft.

2017 PROXY SEASON SUMMARY
Highlights from the 2017 proxy season included the continued focus on proxy access by U.S. companies, unprecedented levels of investor support for environmental and social proposals, marketplace re-examination of multi-class share structures, and the continued rise in activist investors’ targeting of the largest companies. Rising shareowner dissent was also on display during the year, with more negative votes on say-on-pay and other matters related to executive compensation. Voting categories are detailed below:

Director Elections
Average shareowner support for director nominees at U.S. companies was approximately 96 percent in 2017. Only 18 directors at U.S. firms (out of 13,065 directors up for election) failed to gain a majority level of support. Bloomberg data analysis shows that investors have withheld 20 percent or more of their votes for 102 directors at S&P 500 companies in the first half of 2017. This rate of dissent is the highest in seven years, according to ISS Corporate Solutions. Investors typically withhold support for individual director nominees for one or more of the following reasons: 1) lack of director independence; 2) directors supporting multi-class share structures; 3) directors not allowing shareowners the right to amend bylaws; 4) lack of a director nominating committee; 5) failure to respond to compensation concerns; 6) poor attendance; and/or 7) “over-boarded” directors simultaneously serving on numerous boards. The Council of Institutional Investors (CII) tracks the number of directors at Russell 3000 companies failing to win majority support from investors, finding that on average over 30 directors fail to resign within 3-years of the initial vote of no confidence. The SBA voted against 18.1 percent of all director candidates at U.S. companies, and voted against 21.3 percent across all global markets.

Proxy Access
Continuing the trend from last year, proxy access resolutions were the most frequently submitted proposal topic in 2017. Resolutions aimed at corporate adoption of proxy access received average shareowner support of 63.2 percent among votes cast. In the first half of the year approximately 175 U.S. companies adopted proxy access bylaws. Proxy access refers to the right, as detailed in a company’s bylaws, for investors to nominate candidates for election to the board and have the shareowner nominee(s) included in a company’s proxy materials. Over the last several years, many large capitalization companies have implemented proxy access and today more than 60 percent of firms in the S&P 500 index have procedures allowing for investor-nominated director candidates. A key segment of these proposals involved efforts by investors to amend existing elements of proxy access mechanisms to either raise the maximum number of shareowners allowed for group ownership (typically 20) or the number of shares owned (typically at least 3 percent of stock held for 3 years)—referred to as the “3/3/20” rule. During 2017, all investor proposals to reduce existing proxy access requirements failed to garner a majority level of support. Approximately 112 proxy access proposals were submitted for 2017 meetings—with 59 proposals requesting the adoption of a proxy access bylaw and 53 proposals requesting amendments to an existing proxy access bylaw. The SBA voted in favor of 100 percent of resolutions to adopt proxy access and voted in favor of 91.7 percent of resolutions to amend existing proxy access procedures, across all voted markets.

Executive Compensation and Say-on-Pay
On average, investors supported 93 percent of public company advisory votes on executive compensation (“say-on-pay”), up from 91 percent last year. Among firms in the Russell 3000 stock index, only 75 firms failed to receive at least 70 percent support, considered by many investors as the benchmark for minimum support. Some of the notable companies with low support include the say-on-pay votes at Bed Bath & Beyond, ConocoPhillips, Nabors Industries, Nuance Communications, SeaWorld Entertainment, and Sprouts Farmers Market. Seven U.S. companies failed to receive majority investor support for their executive pay practices. The SBA voted against 58.5 percent of say-on-pay measures at U.S. companies and voted against 26.3 percent across all voted markets.
Environmental & Social Issues

The largest category of shareowner proposals in 2017 were those dealing with the environment or social business activities—the first time since 2014 the category has been top ranked. Over 40 percent of all investor proposals submitted in 2017 related to environmental or social issues. The most frequent environmental proposals were climate change proposals (69 resolutions averaging 33.8 percent support), environmental impacts on communities or supply chains (28 resolutions, averaging 23.6 percent support), and reports on sustainability (24 resolutions averaging 30 percent support). The key social proposals included board diversity proposals (35 resolutions averaging 28.3 percent support), diversity-related proposals (34 resolutions averaging 24.2 percent support), and gender pay gap proposals (19 resolutions averaging 18.8 percent support). Proposals on environmental issues, particularly climate change, have achieved incrementally greater levels of investor support over the past few years. In 2015, the average support level was 18 percent with zero resolutions receiving majority support. In 2017, the average support level was 29 percent (a 72 percent increase), with three resolutions passing. These include the proposals at Exxon (62 percent support), Occidental Petroleum (67 percent support) and PPL Corporation (57 percent support). The SBA voted in favor of each of these individual company environmental resolutions. Support for such proposals will likely continue to gain investor favor as several large asset managers have made public announcements that climate risk will be a focus of their company engagement effort in the future. Other investors have revised proxy-voting policies this year, raising support for reports on sustainability, renewable energy and environmental impact. Board diversity was a significant issue during 2017 with many of the largest asset managers renewing their focus on gender makeup and related board characteristics. Despite these efforts, only a quarter of all such resolutions gained majority support. Across all voted markets, the SBA voted in support of 54.8 percent of environmental proposals and 28.5 percent of social resolutions.

Other Major Proposals

Overall, approximately 11 percent of shareowner proposals voted on at 2017 annual general meetings received support from a majority of votes cast, down from approximately 15 percent in 2016. Among all shareowner resolutions, on average 29 percent of all votes cast supported various measures. The proposal topics that received the highest level of shareowner support included:

- **Board Declassification**: Three proposals voted on averaged support of 70.2 percent of votes cast in 2017, compared to three proposals with average support of 64.5 percent in 2016. The SBA supported 100 percent of proposals during the 2017 fiscal year;
- **Elimination of Supermajority Voting Requirements**: Seven proposals voted on averaged support of 64.3 percent of votes cast, compared to 13 proposals with average support of 59.6 percent in 2016. The SBA supported 100 percent of proposals during the 2017 fiscal year;
- **Majority Voting in Uncontested Director Elections**: Seven proposals voted on averaged support of 62.3 percent of votes cast, compared to 10 proposals with average support of 74.2 percent in 2016. The SBA supported 100 percent of proposals during the 2017 fiscal year;
- **Written Consent**: Twelve proposals voted on averaged support of 45.6 percent of votes cast, compared to 13 proposals with average support of 43.4 percent in 2016. The SBA supported 100 percent of proposals during the 2017 fiscal year; and
- **Shareholder Ability to Call Special Meetings**: Fifteen proposals voted on averaged support of 42.9 percent of votes cast, compared to 16 proposals with average support of 39.6 percent in 2016. The SBA supported 87.9 percent of proposals during the 2017 fiscal year.

Activist Investors

Some of the largest and most conspicuous activist hedge funds increased their activity during 2017, with several notable campaigns targeting U.S. blue chip companies. Some of the campaigns aimed to unseat or replace incumbent CEOs and other board members, including Mantle Ridge’s single-investment targeting of CSX. Numerous high profile CEOs were shown the door because of activist investor efforts—including at AIG, Arconic, CSX, GE, Pandora, and Perrigo. Other initiatives were unexpected, such as the proposal by Greenlight Capital to create a new dual-class share structure at General Motors, which was voted down by investors. Several activist funds went outside the U.S. for their investments,
including Elliott’s campaigns at AkzoNobel and BHP Billiton, as well as Third Point’s efforts to improve performance at Nestlé.

**NOTABLE RESEARCH & GOVERNANCE TRENDS**

**Japan Nikkei400 Index**

The JPX-Nikkei400 Index, referred to by some in Japan as the “Shame Index”, began in 2014 and is composed of companies that have demonstrated higher levels of performance as measured by return on equity (ROE) and other financial metrics. Since inception, the JPX-Nikkei400 Index has not materially outperformed the broader Topix 500 Index. Many investors have begun voting against members of the board when firms consistently fail to achieve a five-percent ROE. However, although 23 percent of Topix 500 index firms fall below the five-percent benchmark, none of these firms experienced a high vote of no confidence against their CEO. CLSA Ltd, a market research firm, found that companies that have missed the five-percent ROE mark for five consecutive years still received high levels of proxy voting support for board and management nominees—with only a 10 percent differential for those above and below the benchmark. A separate study has shown that the Nikkei400’s creation has affected corporate behavior by serving as a way to differentiate member firms. The study’s authors found that companies in the JPX-Nikkei400 index since its introduction in 2014 have increased return on equity (ROE) by 35 percent on average. Improved profit margins, financial efficiency, and rising dividend payouts were factors.

**HIGHLIGHTED PROXY VOTES**

**Arconic (United States)—**on May 25, 2017, SBA staff voted shares held in Arconic, Inc. as part of a highly contentious proxy contest and what was the company’s first annual shareowner meeting following the separation of predecessor Alcoa Inc.’s upstream and downstream businesses late last year. Activist investment fund Elliott Management had built a 13.2 percent economic stake in the company and pushed for the election of four independent directors in opposition to a slate of candidates nominated by the incumbent board. Elliott’s critique with incumbent management included an investor presentation that ran more than 300 pages. The fund’s primary concern at Arconic initially focused on financial performance under the leadership of former Chair and CEO Klaus Kleinfeld, whom Elliott sought to remove and replace, and who resigned with “mutual agreement” of the board after sending a threatening, bizarre letter to Paul Singer, founder of Elliott Management. Elliott pushed for a strategic review and the two sides offered competing approaches to improve performance at the company’s core Engineered Products and Global Rolled Products segments. Elliott identified former Spirit Aerosystems, Inc. CEO Larry Lawson as its preferred candidate.

SBA staff voted to support three of four dissident nominees and one management nominee. In addition, the SBA voted to eliminate the company’s supermajority voting requirements and classified board structure. Just days before the scheduled proxy contest, the board and Elliott reached a settlement, ensuring the activist investor with three board seats (the same three nominees supported by the SBA). One of Elliott’s director nominees was added to the CEO search committee and a number of candidates, including Larry Lawson, were evaluated for the CEO role. The Company also announced that it will be working to reincorporate in Delaware by the end of 2017, and that the certificate of incorporation and bylaws of the resulting Delaware corporation will provide for an annually elected board of directors and the elimination of supermajority shareholder vote thresholds. The company also dropped its demand to prohibit Elliott from pursuing another proxy contest within the next 24 months. Since the date of the settlement, the company has underperformed broad stock indexes as well as its peer firms.

**CSX Corporation (United States)—**for its June 5, 2017 annual meeting, SBA staff voted in support of an unusual advisory vote on reimbursement arrangements sought in connection with the recruitment of E. Hunter Harrison, CEO of CSX. The ballot item, which was ultimately successful, requested investor input for two compensation elements: 1) a payment to Mantle Ridge of $55 million in order to reimburse the activist investment fund for prior payments it made to Mr. Harrison; and 2) a $29 million payment to Mr. Harrison for reimbursement for compensation and benefits while working at Canadian Pacific Railway. Mr. Harrison forfeited compensation and benefits he earned at Canadian Pacific in order to relax non-compete restrictions that would have prevented him from working at the Company. The board did not make a recommendation whether investors should support or oppose the resolution, and Mantle Ridge separately pursued its own proxy card to solicit votes in favor of the reimbursements. On January 18, 2017, Mr. Harrison had entered into a consulting agreement with Mantle Ridge, which scoped out his compensation for recruitment as the next CEO of CSX. Until January 31, 2017, Mr. Harrison served as the CEO of Canadian Pacific Railway. Mr. Harrison has an established record of lowering
operating ratios (the percentage of revenues consumed by operating costs) and consistently creating more value than the industry averages, at Illinois Central, Canadian National, and Canadian Pacific.

On March 6, 2017, CSX announced it appointed Mr. Harrison as CEO. Proxy advisor Glass, Lewis & Co. noted, “We are inclined to suggest Mr. Harrison’s anticipated service at CSX -- despite certain impediments associated with his non-compete arrangements with Canadian Pacific -- represents something of a coup for investors, who have already enjoyed returns vastly outstripping any relevant benchmark.” The day after the hiring of Mr. Harrison, the stock price increased over 23 percent, adding approximately $8 billion to the company's market capitalization. Through late April’s proxy record date, CSX shares were worth 38 percent more than their January 18, 2017 close, corresponding to a $12.4 billion increase in market capitalization. Since the hiring announcement in late January, the company’s stock price has increased by 11 percent and has outperformed the S&P Railroad sector. Mantle Ridge noted that the reimbursement payments represented less than 1 percent of the stock value increase derived from Mr. Harrison’s joining the company through the proxy record date.

GLOBAL REGULATORY & MARKET DEVELOPMENTS

Hong Kong—on August 11, 2017, SBA staff submitted a response to the Hong Kong Exchanges and Clearing Ltd.’s (HKEX) New Board Concept Paper setting forth proposals for the establishment of a new listing board. As detailed in the New Board Concept Paper, the HKEX is evaluating the introduction of a new listing venue to accommodate a wider range of companies that do not currently qualify for listing with HKEX. These companies include companies with “non-standard” governance features, such as non-profitable companies and Mainland Chinese companies that wish to secondarily list in Hong Kong. The purpose of the new venue, called the New Board, would be to segregate newly eligible listings from Hong Kong’s two existing boards: the Main Board and Growth Enterprise Market (GEM), created during the tech boom of the 1990s. SBA staff detailed opposition to the New Board proposal. Over the long-term, such proposals for weakened governance practices and investor protections are likely to undermine the basis on which HKEX has become “highly successful” as a “leading IPO venue,” as the Concept Paper describes. SBA staff believes that reduced listing qualifications related to corporate governance and voting rights, including the allowance of equity with unequal (or “weighted”) voting rights, would have long-term negative consequences for HGEX, and more importantly for the performance of listed companies and for investment returns.

United Kingdom—in late August 2017, the U.K. government published guidelines covering executive compensation and employee disclosures aimed at strengthening the country’s corporate governance practices in the wake of the historic “Brexit” vote to break from the European Union. The guidelines were an outcome of the previous Green Paper consultation published late last year. Beginning in 2019, almost 1,000 public companies will be required to publish annual pay ratios between the chief executive officer and average employee. The disclosures will also represent a first of its kind database of firms receiving less than 20 percent investor support for executive pay packages. All large companies are obliged to make their responsible business arrangements public. The UK Financial Reporting Council is also tasked with introducing a new requirement for Corporate Governance Code that will require companies to ensure that employee interests are represented at the board level and to assign a non-executive director to represent employees and create an employee advisory council.

United States—Multi-Class Share Consultations

Providers of market indexes have an important role to play by helping investors to mitigate the increasing long-term risk that low-vote and no-vote shares pose to public shareowners. The SBA joined other investors comprising over $20 trillion in market value in advocating for one share, one vote structures at all portfolio companies in written responses to several leading index providers. Multi-class structures diminish accountability, increase risk and are detrimental to public markets long-term. Shares with essentially no voting rights (as opposed to disproportionately low voting rights) cut out public shareowners altogether from governance structures and eliminate shareholder input. In written responses, SBA staff questioned whether securities such as this are even a true form of equity, as equity holders by necessity should have commensurate ownership rights in significant matters. SBA staff supports proposals to limit the inclusion of equity securities with differential voting rights within global stock indices. SBA staff believe dual class shares distort the commensurate relationship between economic interest and voting power and ultimately risk harm to companies and their
shareowners. A number of academic studies have documented an array of value-destroying effects stemming directly from dual class share structures.

**FTSE Russell**
In July, FTSE Russell announced that companies with 5 percent or less of their voting rights in the hands of unrestricted shareowners would be ineligible for index inclusion. FTSE’s decision to adopt a minimum voting rights element is a very significant decision that will affect domestic investors’ investments tied to the Russell 3000 stock index as well as other global indices. FTSE Russell defined voting power as, “The percentage of a company’s voting rights held in Index Shares is calculated by aggregating the voting rights of the Index Shares of all the eligible share classes in the company, and dividing this by the total voting rights of the shares outstanding of all the company’s share classes. Wherever possible, the denominator should include the votes of those share classes that are not listed, for example share classes that are reserved for the company’s founders.” In its own comment letter, which mimicked the letter sent to Standard & Poor’s Dow Jones Indices, the SBA advocated that FTSE Russell set the listing requirement at 25 percent of the voting rights in the hands of public shareowners and exclude any non-voting share classes in indexes in the future unless they have a sunset provision of 5 years. This policy position aligns with the SBA’s policies on dual class share structures, and generally mimics the approach taken by the Council of Institutional Investors (CII). FTSE’s initial consultation had 68 percent of respondents agreeing that a minimum hurdle for the percentage of voting rights in public hands should be imposed across all FTSE Russell global and US indexes. For potential new index constituents, including IPOs, the rule will apply with effect from the September 2017 semi-annual and quarterly reviews. For existing index constituents, the rule will apply with effect from September 2022, affording a five-year grandfathering period to allow constituent companies to change their capital structure to maintain index eligibility. Pursuant to the proposed approach, shares of Snap will be excluded from the Russell 3000 and other indexes. Other market estimates identify an additional 30 companies that will eventually be excluded from the Russell 3000 index, unless they increase proportional voting rights in the public float. FTSE Russell indicated it would review its decision annually and stated that it “believes that the proposals set out in this document represent a pragmatic compromise between those that believe the SNAP Inc. [initial-public-offering] set a dangerous precedent for companies to come to the market with few, if any, voting rights attached to their securities, and those respondents who believe the role of the index provider is to represent the investable opportunity set as comprehensively as possible.”

**Standard & Poor’s Dow Jones Indices**
On July 31, 2017, Standard & Poor’s Dow Jones Indices (SPDJI) announced it will modify its index construction rules for the S&P Composite 1500 (which includes the S&P 500, S&P MidCap 400, and S&P 600 SmallCap indices) to prospectively restrict any new equity securities that offer multi-class share structures. Existing index components are grandfathered in and are not affected. All other SPDJI indices’ methodologies of non-U.S. companies will not change and will continue to allow multi-class share structures. Companies such as Snap and Blue Apron will be excluded from both indices, and companies such as Facebook and Alphabet will not be impacted.

**MSCI**
On August 29, 2017, the SBA also submitted a response to MSCI’s Consultation on the Treatment of Non-Voting Shares in the MSCI Equity Indexes. The Consultation covers companies’ eligibility for inclusion in the MSCI Global Investable Markets Indexes (GIMI) as well as US Equity Indexes. MSCI’s proposal would have no effect on shares with voting rights and prospective index constituents would face exclusion of non-voting shares from the MSCI GIMI and MSCI US Equity Indexes only if the voting power of listed shares is less than 25 percent of the total voting power. For existing index constituents, non-voting shares would be excluded if the same calculation falls below the 16.67 percent threshold. MSCI indicates the proposal would result in the exclusion of Snap Inc. from the MSCI All Country World Index (ACWI) and removal from the MSCI US Equity Index. Additionally, after one year, six companies’ non-voting shares would be removed from the MSCI ACWI, including one U.S. security, Eaton Vance’s non-voting stock. The exclusion of these six companies’ non-voting shares would amount to a reduction of the ACWI by 0.08%, unless those companies change their capital structure to satisfy the 16.67 percent threshold. Currently, for each of the six companies, their listed shares represent zero percent of their total voting power.
MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Maureen M. Hazen, General Counsel

Date: September 6, 2017

Subject: Office of General Counsel: Standing Report
For Period May 6, 2017 – August 31, 2017

SBA Agreements.

During the period covered by this report, the General Counsel’s Office drafted, reviewed and negotiated: (i) 42 new agreements – including 9 Private Equity investments, 5 Strategic Investments, 3 Real Estate investments, 1 new Investment Management Agreement for each of Global Equity and the FRS Investment Plan, and 1 new Master Repurchase and Custodial Undertaking for Fixed Income (i.e. for Repo trading); (ii) 154 contract amendments, addenda or renewals; and (iii) 12 contract or related terminations.

SBA Litigation.

(a) Passive. As of August 31, 2017, the SBA was monitoring (as an actual or putative passive member of the class) 623 securities class actions. From May 1, 2017 – July 31, 2017, the SBA collected recoveries in the amount of $14,815,952.90 as a passive member in 53 securities class actions.

(b) Active.

(i) In re Tribune Litigation. On January 24, 2012, the SBA was served a complaint (along with other defendants) now pending in the U.S. Bankruptcy Court, Southern District of New York by the Official Committee of Unsecured Creditors of the Tribune Company alleging damages for fraudulent conveyance and requesting the return of proceeds received by all defendant investors in a leveraged buy-out of the Tribune Company (which subsequently declared bankruptcy). Pursuant to a plan approved in the bankruptcy proceeding, the claim was

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1 As of the date of this report, August numbers were not available.
transferred to the U.S. District Court, Southern District of New York (the "Court") and consolidated with additional parallel cases for multi-district litigation. The SBA received approximately $11 million in connection with this leveraged buy-out. Several amended complaints have been filed in the action in which the SBA was originally served in January, 2012 (the "FitzSimons Action"). In early 2017, the Court dismissed the intentional fraudulent transfer count (the only claim applicable to the SBA), and the SBA (and other defendants) are monitoring for a possible appeal.

(ii) Valeant Opt-Out Action. During the past year, the General Counsel’s Office has been reviewing and monitoring the securities class action filed against Valeant Pharmaceuticals International, Inc. for alleged violations of the federal securities laws. The SBA may have incurred more than $62,000,000 in LIFO losses. The General Counsel’s Office believes this is a highly meritorious case and that the SBA will significantly enhance its recovery by opting out of the class case and pursuing a direct action. SBA staff intends to seek the approval of the Trustees at the September 26, 2017 meeting to file the opt-out action and engage Bernstein Litowitz to represent the SBA.

(c) FRS Investment Plan. During the period covered by this report, the General Counsel’s Office monitored and/or managed the following cases for the Florida Retirement System Investment Plan (the “Investment Plan”). The SBA issued ten (10) Final Orders, received notice of filing of six (6) new cases, and continued to litigate nine (9) cases that were pending during the periods covered by previous reports.

Other Matters.

(a) Public Records. During the period covered by this report, the General Counsel’s Office received 48 new public records requests and provided responses to 46 requests. As of the date of this report, the General Counsel’s Office continues to work on 6 open requests.

(b) SBA Rule Activities.

The following amendments have been drafted, received approval from OFARR to proceed with rulemaking, and have been set forth in Notices of Development of Rulemaking that were published in Florida Administrative Register on August 30, 2017. The following proposed amendments will be submitted for approval at the September 26, 2017 Trustee Meeting:

(i) Rule Chapter 19-7: Rule 19-7.002, F.A.C.: Rule 19-7.002, F.A.C., (Investment Policy Statements) is being amended to adopt the most recent revised Investment Policy Statement approved and made effective by the Trustees on June 14, 2017 for the Local Government Surplus Funds Trust Fund (Non-Qualified). As required by Executive Order 11-211, the proposed amendments were timely submitted to OFARR for review. No comments were received. A Notice of Development of Rulemaking then was published in the August 30, 2017 edition of the Florida Administrative Register, notifying the public of the proposed changes and offering a rule development workshop on September 15, 2017.
(ii) Rule Chapter 19-9: Rule 19-9.001, F.A.C.: Rule 19-9.001, F.A.C., (Investment Policy Statement) is being amended to adopt the most recent revised Investment Policy Statement approved and made effective by the Trustees on June 14, 2017 for the Florida Retirement System Investment Plan. As required by Executive Order 11-211, the proposed amendments were timely submitted to OFARR for review. No comments were received. A Notice of Development of Rulemaking then was published in the August 30, 2017 edition of the Florida Administrative Register, notifying the public of the proposed changes and offering a rule development workshop on September 15, 2017.

(iii) Rule Chapter 19-11: Revisions have been drafted for the following rules:

<table>
<thead>
<tr>
<th>Rule Number</th>
<th>Rule Title</th>
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<tbody>
<tr>
<td>19-11.001</td>
<td>Definitions</td>
</tr>
<tr>
<td>19-11.002</td>
<td>Beneficiary Designations and Distributions for FRS Investment Plan</td>
</tr>
<tr>
<td>19-11.003</td>
<td>Distributions from FRS Investment Plan Accounts</td>
</tr>
<tr>
<td>19-11.004</td>
<td>Excessive Trading in the FRS Investment Plan</td>
</tr>
<tr>
<td>19-11.006</td>
<td>Enrollment Procedures for New Hires</td>
</tr>
<tr>
<td>19-11.007</td>
<td>Second Election Enrollment Procedures for the FRS Retirement Programs</td>
</tr>
<tr>
<td>19-11.008</td>
<td>Forfeitures</td>
</tr>
<tr>
<td>19-11.009</td>
<td>Reemployment with an FRS-covered Employer after Retirement</td>
</tr>
<tr>
<td>19-11.012</td>
<td>Rollovers or Plan to Plan Transfers to or from the FRS Investment Plan</td>
</tr>
<tr>
<td>19-11.013</td>
<td>FRS Investment Plan Self-Directed Brokerage Account</td>
</tr>
</tbody>
</table>

Certain changes to Rules 19-11.001 and 19-11.009 are necessitated by Chapter 2017-88, Laws of Florida, which amends Section 121.122, Florida Statutes to provide that a retiree of the Investment Plan, Senior Management Service Optional Annuity Program (SMSOAP), State University System Optional Retirement Program (SUSORP) or State Community College System Optional Retirement Program (SCCSORP) who is reemployed with a FRS-participating employer in a covered position on or after July 1, 2017 will be a mandatory renewed member of the Investment Plan, unless employed in a position eligible for participation in the SUSORP or SCCSORP. Such renewed member will be enrolled in the Regular Class, unless the position meets the requirements to enroll in the Special Risk Class, Elected Officers’ Class or Senior Management Service Class.


Rules 19-11.002 and 19-11.014, F.A.C. are being amended to indicate that, as provided by Chapter 2017-88, Laws of Florida, survivorship benefits paid to the surviving spouse and children of an Investment Plan member killed in the line-of-duty shall be paid as provided in Section 121.091(7)(d) and (i), Florida Statutes. As required by Executive Order 11-211, the proposed amendments were timely submitted to OFARR for review. No comments were received. A Notice of Development of Rulemaking then was published in the August 30, 2017
edition of the *Florida Administrative Register*, notifying the public of the proposed changes and offering a rule development workshop on September 15, 2017.


The rule amendments to Rule 19-13.001 serve to indicate that there no longer are just ten (10) target date funds that are available investment options to investment plan members. The total number of funds may continue to vary over time. Rule 19-13.002 is being amended to recognize that Chapter 2017-88, Laws of Florida, amended Section 121.591(4), Florida Statutes, to provide for special in line-of-duty death benefits for the spouse and child(ren) of any investment plan member, and not just special risk class members. Thus, the Division of Retirement will now administer in-line-of-duty death benefits for all members. As required by Executive Order 11-211, the proposed amendments were timely submitted to OFARR for review. No comments were received. A Notice of Development of Rulemaking then was published in the August 30, 2017 edition of the *Florida Administrative Register*, notifying the public of the proposed changes and offering a rule development workshop on September 15, 2017.

For all of the above changes, there are no significant policy issues or controversial issues connected to the rule amendments. The amendments simply serve as an informational update. The proposed rule amendments do not impose any burdens on businesses; they do not restrict entry into a profession; they have no impact on the availability of services to the public; they have no impact on job retention; they do not impose any restrictions on employment seekers; and they do not impose any costs. No legislative ratification is required.
DATE: September 6, 2017

TO: Board of Trustees

FROM: Ken Chambers, Inspector General

SUBJECT: Quarterly Report on SBA Inspector General Activities

The SBA Inspector General (IG) is responsible for serving as the organization’s ethics officer; conducting internal investigations; overseeing investment protection principles (IPP) compliance; and handling special projects as directed by the Executive Director.

Ethics and Training

- Mandatory ethics training and certification of compliance are required for all SBA employees on an annual basis. The on-line training covers gifts, conflicts of interest, financial disclosure, outside employment, lobbyist/principal restrictions, honorarium related events, etc. In addition to ethics training, mandatory training is annually required for all employees in the areas of sexual harassment, information security, personal investment activity, and insider trading. For 2017, two new courses have been added; incident management framework and acceptable use of information technology resources. Every other year, employees are also required to complete training courses for public records and the Sunshine Law. All new employees are required to take all of the mandatory training courses within 30 days of their start date. Additionally, new employees are required to take a fiduciary responsibility course (for existing employees, this course is required every four years). The deadline for completing the courses was June 30, 2017, and all SBA employees are in compliance.

- During the period May 16, 2017 to September 6, 2017, no instances were reported to the Inspector General concerning non-compliance with the SBA gift policy.

Investment Protection Principles Compliance

In September 2002, the Trustees of the SBA adopted Investment Protection Principles (IPPs) for broker-dealers and investment managers in the wake of Wall Street scandals involving tainted equity research and conflicts of interest. The IPPs are geared toward promoting independence, transparency and regulatory compliance, and adherence to the highest standards of ethics and professionalism. On an annual basis, written certification is required from equity, fixed income and real estate investment managers, and broker-dealers. Additionally, annual certifications have been developed for the investment services related consulting firms engaged by the SBA. These consulting firms are required to certify their compliance with certain independence and disclosure principles.
The compliance results for the investment managers and consultants were reported in the previous quarterly report.

Certification forms for broker-dealers were disseminated to the applicable firms in April 2017. All of the broker-dealers completed and returned their IPP certification forms for the 2016 reporting period. An analysis of the 2016 certifications indicated full compliance with the IPP’s by the broker-dealers

Investment Advisory Council Disclosures

As required by Chapter 215.444, Florida Statutes, all current IAC members have completed their annual Conflict Disclosure Statement. Additionally, all current IAC members have completed the fiduciary training program as stipulated in Chapter 215.444.

SBA Fraud Hotline

Since July 2006, The Network Inc. has been the independent provider of SBA Fraud Hotline services. Through an 800 number, SBA employees may anonymously report tips or information related to fraud, theft, or financial misconduct. The telephone number and information is prominently displayed on the SBA intranet home page. Additionally, the hotline information is available on the SBA internet site. To date, no reports or tips have been received by the Hotline for 2017.

Financial Disclosure Forms

The Commission on Ethics requires certain state employees and officials who meet the reporting requirement to file an annual Financial Disclosure Form. The Financial Disclosure Forms for the year ending December 31, 2016 were due by July 1, 2017. All SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics.

Internal Investigations

During the period May 16, 2017 to September 6, 2017, one internal investigation was initiated and completed by the Inspector General. The investigation concerned an allegation of inappropriate behavior by an SBA employee. The investigation concluded that the allegation was substantiated.

cc: Ash Williams
DATE: September 6, 2017  
TO: Ash Williams, Executive Director & CIO  
FROM: Karen Chandler, Chief Risk & Compliance Officer  
SUBJECT: Trustee Update – September 2017  

The role of the Risk Management and Compliance (RMC) unit is to assist the Executive Director & CIO in maintaining an appropriate and effective risk management and compliance program to identify, monitor and mitigate key investment and operational risks. RMC plays a critical role in developing and enhancing the enterprise-wide system of internal controls. RMC proactively works with the Executive Director & CIO and designees to ensure issues are promptly and thoroughly addressed by management.

SBA senior management has created a culture of risk management and compliance through the governance structure, allocation of budgetary resources, policies and associated training and awareness. Management is committed to ethical practices and to serving the best interests of the SBA’s clients. The SBA’s mission statement further supports this culture: “To provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.”

Included below is a brief status report of RMC activities and initiatives completed or in progress during the period May 16, 2017 through September 6, 2017.

**Compliance Exceptions**
No material compliance exceptions were reported during the period.

**Risk Assessments and Management Plans**
The Risk and Compliance Committee (RCC) held its quarterly meeting on July 5, 2017. Minor modifications were made to management’s risk mitigation plans based on management’s appetite for risk and planned initiatives in the 2017-2018 Strategic Plan. Minor modifications were also made to the Enterprise Risk Management Framework in preparation for the Annual Risk Assessment planned for October.

**Strategic Planning**
Results of the risk assessment process and collaborative efforts of leaders across the SBA contributed to the development of strategic priorities going forward. The 2017-2018 Strategic Plan was vetted by the senior leadership group and the RCC prior to approval by the Executive Director & CIO and distribution to all SBA employees. This process was facilitated by RMC, with collaboration among all senior management. Further refinement of Governance, Risk and Compliance (GRC) processes across the organization remains a strategic objective.

**Regulatory Requirements**
RMC continues to collaborate with management through contract negotiations and internal process changes related to regulatory requirement implementation, including that related to collateral.
management. RMC has created a WorkSmart portal site for collaboration among all business units. The site will be the repository for all SBA regulatory requirements and ownership.

**Charles River - Trading and Compliance System**
The SBA is currently in the process of upgrading to the new Charles River Development (CRD) Software as a Service model for the Charles River Investment Management Solution (CR IMS). In June, CRD conducted an assessment of the SBA’s utilization of the CR IMS version currently in place to determine the project scope in preparation for a multiple-version upgrade. The Upgrade Assessment and associated Statement of Work were finalized in August, and the project is expected to commence in mid-September. Once the conversion is complete, upgrades will occur on an annual basis and will ensure the SBA is utilizing the latest technology offered by CRD with respect to trading and compliance for internally managed Global Equity portfolios.

**Policy Development and Enhancement**
Efforts continue in creating new and/or updating existing written policies as processes evolve. Written policies guide the SBA in achieving its purpose, goals, and objectives by, among other things, providing a framework for management-decision making and communicating “Tone at the Top”. Using collaboration tools in place, new monitoring dashboards are also being designed as part of the development process.

**Triennial GRC Assessment**
One of the responsibilities of the SBA Audit Committee is to commission a Governance, Risk Management, and Compliance (GRC) program evaluation and performance improvement analysis (including the assessment of the utilization and effectiveness of both the internal and external audit functions) to be performed by an external provider no less frequently than every three years. This year’s triennial assessment is currently underway and a report is scheduled to be issued in the first quarter of 2018.

**Third-party Oversight Program**
RMC continues to refine the SBA’s System and Organization Controls (SOC) review program. While the SBA has robust program over contracting and monitoring third parties, efforts continue on enhancements to third-party contract risk assessments and oversight methods. RMC worked collaboratively with the COO/CFO in identifying vendors that are significant to the financial reporting process and with contract owners to review SOC reports for select vendors. Additional training is scheduled for employees identified by contract owners for cross-training and leadership development purposes.

**Risk Transfer – Insurance Coverage**
RMC completed a project to document current insurance coverage held by the SBA, determine potential coverage options for transferable risks, collaborate with other SBA leaders in deciding whether to pursue additional coverage, and document decisions made. Collaboration efforts were productive and project results were positive.

**On-Demand Performance Reporting**
The FRS Trust Fund on-demand performance reporting was expanded in the current period to include reporting by external manager as well as a new performance and risk summary report. Total Fund reporting has also been developed. RMC is currently developing an internal interactive dashboard that will allow users to specify multiple parameters as well as formats for visualizing information. On-Demand performance reporting will continue to be enhanced to provide management easier access to available data.
**External Manager Compliance Certification**

Testing continues of an internally developed external manager evaluation system, which includes automation of annual external manager certifications regarding compliance with contractual agreements. Features are also included for external manager document uploading related to operational due diligence, allowing staff to more quickly process the data for evaluation. Implementation of the system is planned for the first half of 2018.

**RMC Team**

The Performance & Risk Analytics function has filled two vacancies, bringing the group to a fully staffed level. Anning Tang, CFA, filled the Senior Quantitative Investment Analyst III position in June 2017. Anning previously served as a software engineer for Thomson Reuters and earned a Master of Engineering from Peking University and his MBA from Duke University. Joshua Durden began in August as the Senior Performance & Risk Analyst III. Joshua most recently served as a consultant for a private document management and workflow automation company in Clearwater, Florida, and earned his MBA from Florida State University. Both of these individuals bring strong technology skills to the function, which will bolster the team as they continue to enhance processes to provide greater real-time access to the most current information. Plans are also in place to fill a vacant Analyst position in the External Investment Oversight function.
Florida Growth Fund Review

Investment Advisory Council (IAC) Presentation
September 25, 2017

Nayef Perry  |  Gustavo Cardenas
Hamilton Lane successfully went public on March 1, 2017 on the Nasdaq Stock Market, trading under the ticker HLNE

Firm Benefits

- Maintain economic independence and growth
- Market profile and positioning
- Maintain culture and governance

Client Benefits

A. Alignment
- The majority of HL employees now own equity in the company

B. Recruiting and maintaining talent

C. Transparency and controls

Recent Awards

- We have been a signatory to the UN’s Principles for Responsible Investment since 2008
- ~50% of Hamilton Lane is represented by women and minorities

Hamilton Lane Update

Firm Spotlight

- 15* Global Offices
- $24.7B in primary commitments in 2016*
- 290+ Employees
- $225.7M invested alongside our clients
- $359B+ assets under management & supervision
- 94 investment team members

Investment/ Executive Committee Composition

No changes:

Strategic Decision Making

Investment Philosophy

*: As of June 30, 2017
*: The 2016 capital allocated includes all primary commitments for which Hamilton Lane retains a level of discretion and all advisory client commitments for which Hamilton Lane performed due diligence and made an investment recommendation. This amount excludes secondary and co-investment commitments.
*: Sydney and Munich offices opened 7/17/17; Portland office opened 8/14/17
Florida Growth Fund ("FGF")

FGF was launched in 2009 to generate attractive private equity returns and invest in technology and growth companies in the state of Florida.

Objective

**Fund Investments:** Buyout, Growth Equity, Credit, and Venture Capital funds with a strong Florida track record

**Equity Co-Investments:** Across industries alongside a lead sponsor at the same time and in the same security

**Credit Co-Investments:** Across industries and typically, alongside a lead sponsor in either a 1st Lien, Uni-tranche, 2nd Lien, or Mezzanine security (opportunistically with equity upside)

Strategy

<table>
<thead>
<tr>
<th></th>
<th>FGF I ($500M)</th>
<th>FGF II ($250M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranche</td>
<td>I</td>
<td>II</td>
</tr>
<tr>
<td>Size</td>
<td>$250M</td>
<td>$150M</td>
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<tr>
<td>Vintage</td>
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<tr>
<td>Fund Investments</td>
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<td>11</td>
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<tr>
<td>Co-Investments</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>% Deployed/Committed</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Currently Investing

All figures as of 3/31/17

¹ Represents capital committed including reserves
Dedicated cross functional team to provide for a comprehensive portfolio construction and management

Senior Leadership

- Mario Giannini
  CEO
- David Helgerson
  Managing Director
- Michael Koenig
  Managing Director
- Michael Kelly
  Managing Director

FGF Team

- Nayef Perry
  Principal Investments
- Gustavo Cardenas
  Vice President Investments
- Anup Sharma
  Vice President Product Management
- Dan Rosenberger
  Analyst Investments

FGF Team Leverages the Entire Hamilton Lane Platform

- Andrea Kramer
  Managing Director
- Brian Gildea
  Managing Director
- Tom Kerr
  Managing Director
- Mike Ryan
  Managing Director

- Operations
  48 Professionals
- Co-Investment Team
  21 Professionals
- Secondary Team
  15 Professionals
- Research Team
  5 Professionals

- Chris Corrao
  Managing Director
- Anthony Donofrio
  Managing Director
- Fred Shaw
  Managing Director

As of 6/30/17
FGF continues to deliver on its objectives while generating attractive performance and impact to Florida

- **12.0% Net IRR FGF I & II**
- **$270M+ of Liquidity**
- **25% Gross IRR / 2.2x MOIC 13 Co-Investment Realizations**
- **2 Credit Realizations**
- **~55% Deployed on FGF Credit & FGF II**
- **FGF II Out of J-Curve in 2 Quarters**
- **Over 80% of capital invested in FL**
- **15.3K FL Jobs**

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1. As of 3/31/17
2. FGF I and FGF II
3. Jobs data as of 6/30/16
Florida Growth Fund I Overview

Vintage Year: 2009

- 34 Co-Investments
- 20 Fund Investments
- $265M+ in Distributions
- 13 Co-Investment Realizations
- 2.2x Realized Multiple

- 14.7% Gross IRR
- 12.0% Net IRR
- 1.6x Gross MOIC
- 1.4x Net MOIC

As of 3/31/17
Florida Growth Fund I - Credit Tranche

Vintage Year: 2013

- $56M Capital Committed
- 11.5% Average Coupon
- 9 Investments
- 2 Full Realizations
- $16M+ in Liquidity
- 18.6% Gross IRR
- 9.3% Net IRR
- 1.2x Gross MOIC
- 1.1x Net MOIC

As of 3/31/17
Florida Growth Fund II Overview

Vintage Year: 2015

- **7 Co-Investments**
- **8 Fund Investments**
- **~55% Committed\(^1\)**
- **J-Curve Positive in 2 Quarters**
- **25% New Managers**

**Performance Metrics as of 3/31/17:**
- **18.6% Gross IRR**
- **12.0% Net IRR**
- **1.2x Gross MOIC**
- **1.1x Net MOIC**

\(^1\) Represents capital committed including reserves
FGF has returned over $270 million in liquidity to the SBA and its beneficiaries

**FGF I** (USD in Millions)

- FGF I Tranche I ($250M) has generated a DPI of 1.03x
- FGF I Tranches I and II ($400M) have generated a combined DPI of 0.77x
- Since 3/31/17, FGF I has fully exited one additional equity co-investment resulting in $28.4M of liquidity

<table>
<thead>
<tr>
<th>Fund Size</th>
<th>Contributions</th>
<th>Distributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400.0</td>
<td>$327.1</td>
<td>$251.5</td>
</tr>
</tbody>
</table>

Demarcation indicates difference between FGF I - Tranche I and FGF I - Tranche II

**FGF Credit** (USD in Millions)

- FGF Credit has two full realizations as of 3/31 and continues to generate current income
- Since 3/31/17, FGF Credit had full repayment of two loan positions and ongoing interest payments resulting in $11.9M of additional liquidity

<table>
<thead>
<tr>
<th>Fund Size</th>
<th>Contributions</th>
<th>Distributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100.0</td>
<td>$51.1</td>
<td>$16.4</td>
</tr>
</tbody>
</table>

**FGF II** (USD in Millions)

- FGF II is showing early liquidity related to a partial co-investment realization and a tail-end secondary investment

<table>
<thead>
<tr>
<th>Fund Size</th>
<th>Contributions</th>
<th>Distributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$250.0</td>
<td>$77.9</td>
<td>$5.4</td>
</tr>
</tbody>
</table>

As of 3/31/17

1 FGF I is fully invested and committed. The delta between fund size and contributions is attributable to fund commitments, co-investment reserves and fees & expenses.
FGF I continues to deliver on its portfolio objectives by maintaining a significant Florida focus and investing in technology and growth oriented opportunities.

**Diversification by Investment Type**
- Equity Co-Investment: 44%
- Partnership: 43%
- Credit Co-Investment: 13%

**Diversification by Industry**
- Healthcare: 30%
- Information Tech: 20%
- Industrials: 20%
- Materials: 4%
- Financials: 1%
- Consumer Discretionary: 22%
- Consumer Staples: 3%

**Diversification by Strategy**
- Buyout: 39%
- VC Growth: 15%
- VC Early Stage: 24%
- Credit: 22%

**Diversification by Geography**
- Florida: 66%
- Other: 34%

*As of 3/31/17*

1 Exposure calculated using exposed market value of co-investments and portfolio companies of underlying fund managers. The exposure is subject to exits and valuation movements within the portfolio.
FGF II expects to maintain a strong Florida footprint with a greater emphasis on growth and buyout than FGF I

Diversification by Investment Type

- Partnership: 49%
- Co-Investment: 51%
- Equity: 18%
- Buyout: 69%
- Co-Investment: 51%
- Equity: 18%
- Buyout: 69%

Diversification by Industry

- Industrials: 33%
- Consumer Staples: 17%
- Consumer Discretionary: 22%
- Healthcare: 15%
- Information Tech: 13%
- Materials: 2%
- Financials: 1%

Diversification by Strategy

- Buyout: 69%
- VC Growth: 8%
- VC Early Stage: 6%
- Credit: 18%

Diversification by Geography

- Florida: 97%
- Rest of U.S.: 3%

As of 3/31/17

1 Exposure calculated using exposed market value of co-investments and portfolio companies of underlying fund managers. The exposure is subject to exits and valuation movements within the portfolio.
Community Outreach and Presence

- **Speaking Engagements**
- **Board Representation**
- **Conferences**
- **Co-Investment Headquarters**
- **Co-Investment Satellite Locations**
- **Partnership Investments (GP Headquarters)**

- **167 Conferences/Events**
- **828 GP Meetings/Discussions**
- **309 Networks/Organizations/Universities**
- **370 Intermediaries**

*Conferences include out-of-state conferences intended to attract capital into Florida
As of 3/31/17
FGF has enabled the creation of a significant number of additional jobs in Florida.

Hamilton Lane collects economic development data from underlying managers annually. 6/30/16 figures shown.
In conclusion, the Florida Growth Fund continues to perform against its objectives

- **1.6x** Gross MOIC\(^1\)
  - Leveraging the Florida team, the SBA partnership, and the broader Hamilton Lane platform to access opportunities, resources, and deliver results

- **$268M** in Distributions\(^1\)
  - FGF I ($500M total) has provided $268M of liquidity to the Florida SBA

- **15K+** Jobs Created\(^2\)
  - Supporting and growing private investment and economic activity throughout the Florida economy

---

\(^1\) As of 3/31/17. Includes FGF I
\(^2\) Jobs data as of 6/30/16
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  USA
  +1 503 624 9910
Global Equity

Alison Romano, Senior Investment Officer
Tim Taylor, Senior Investment Officer

Investment Advisory Council
September 25, 2017
Agenda

• Program Overview
  – Investment Objectives
  – Benchmark
  – Structuring Considerations and Investment Goals
  – Investment Policy Parameters
  – Structure / Characteristics

• Performance Review
  – Returns and Risk
  – Return Attribution

• Business Review
  – Global Equity Team
  – Milestones and Strategic Initiatives

• Investment Process Review
  – Internal Portfolio Management
  – External Manager Oversight
Program Overview
Overview:
Global Equity Investment Objectives

• Invest to achieve or exceed return of benchmark over long period of time
  – Well diversified relative to benchmark
  – Reliance on low cost passive strategies scaled according to:
    • Degree of efficiency in underlying securities markets
    • Capacity in effective active strategies
    • Ongoing total fund liquidity requirements

Source: DB Plan Investment Policy Statement
Overview: GE Policy Benchmark

- SBA Custom MSCI All Country World Investable Market Index (ACWI IMI)
  - Large, mid and small capitalization
  - In US dollar terms
  - Reflects provisions of Protecting Florida’s Investments Act
  - Includes over 45 countries and over 8,600 securities

**Benchmark Regional Weights (%)**

- Developed Markets ex US: 52.3%
- United States: 36.6%
- Emerging Markets: 11.1%

**Benchmark Sector Weights (%)**

- Financials: 17.9%
- Information Technology: 16.5%
- Consumer Discretionary: 11.1%
- Industrials: 11.2%
- Health Care: 11.8%
- Consumer Staples: 12.5%
- Materials: 8.8%
- Energy: 5.6%
- Real Estate: 5.6%
- Utilities: 4.2%
- Telecommunication Services: 3.1%

Note: Source FactSet. As of June 30, 2017.
## Overview: Structure Considerations

<table>
<thead>
<tr>
<th>Low Benchmark Relative Risk Budget</th>
<th>Advantages</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Diversify risk sources</td>
<td></td>
<td>• Avoid being index fund</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scale – Putting +$85bn to Work</th>
<th>Advantages</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leverage scale to minimize fees</td>
<td></td>
<td>• Balance number of managers against single manager risk and capacity constraints</td>
</tr>
<tr>
<td>• Predominantly separate accounts with full transparency</td>
<td></td>
<td>• Manage global operational, regulatory, legal and tax demands</td>
</tr>
<tr>
<td>• Operational efficiencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to be opportunistic in illiquid segments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Diversified alpha sources</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regular Provider of Liquidity</th>
<th>Advantages</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strategic rebalances on liquidity raises</td>
<td></td>
<td>• Asset class bears costs of raising liquidity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recurring cash needs limit less liquid, higher alpha exposure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Potentially at odds with long term investment horizon</td>
</tr>
</tbody>
</table>
### Overview: GE Investment Policy Parameters

<table>
<thead>
<tr>
<th>Policy</th>
<th>Current Snapshot</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allocate Significant Portion of Total Fund to Global Equity</strong></td>
<td><strong>Target 53%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Range 45% - 70%</strong></td>
</tr>
<tr>
<td><strong>Seek Returns</strong></td>
<td><strong>Provider of Long-Term Returns</strong></td>
</tr>
<tr>
<td></td>
<td><strong>5.71% (3yr)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>11.58% (5yr)</strong></td>
</tr>
<tr>
<td><strong>Provide Liquidity</strong></td>
<td><strong>Averaging $5.4 Billion per year</strong></td>
</tr>
<tr>
<td><strong>Reliance on Passive:</strong></td>
<td><strong>47% - 57%</strong></td>
</tr>
<tr>
<td><strong>Active / Passive Split</strong></td>
<td><strong>51.7% Active</strong></td>
</tr>
<tr>
<td><strong>Risk Management:</strong></td>
<td><strong>0.75% Monitoring</strong></td>
</tr>
<tr>
<td><strong>Active Risk (3 Year)</strong></td>
<td><strong>0.57%</strong></td>
</tr>
<tr>
<td><strong>1.25% Escalation</strong></td>
<td><strong>1.25% Escalation</strong></td>
</tr>
<tr>
<td><strong>Reward for Risk:</strong></td>
<td><strong>0.25</strong></td>
</tr>
<tr>
<td><strong>Risk-Adjusted Return Standard (3 Year)</strong></td>
<td><strong>1.25</strong></td>
</tr>
</tbody>
</table>

*Note: As of June 30, 2017.*
Overview:
Investment Philosophy and Goals Drive Structure

<table>
<thead>
<tr>
<th>Goals</th>
<th>Global Equity Investment Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide Beta</td>
<td>Aggregate Beta: 0.97</td>
</tr>
<tr>
<td>Manage Costs</td>
<td>Total Asset Class Avg. Fee: 18.2bps</td>
</tr>
<tr>
<td>% Assets managed internally: 42.1%</td>
<td>% Assets managed internally: 42.1%</td>
</tr>
<tr>
<td>Diversify Sources of Alpha</td>
<td>Range of manager tracking error: 0.05% to 8.13%</td>
</tr>
<tr>
<td>Strategies span varying styles, processes and regions</td>
<td></td>
</tr>
<tr>
<td>Maintain Low Active Risk</td>
<td>Realized aggregate tracking error</td>
</tr>
<tr>
<td></td>
<td>Total: 0.57%</td>
</tr>
<tr>
<td></td>
<td>US: 0.27%</td>
</tr>
<tr>
<td></td>
<td>Non-US: 0.95%</td>
</tr>
<tr>
<td></td>
<td>Dedicated Global: 1.63%</td>
</tr>
<tr>
<td>Be Selectively Opportunistic</td>
<td>US Microcap, Frontier Markets</td>
</tr>
<tr>
<td></td>
<td>Currency Overlay: 4.9% (Notional)</td>
</tr>
</tbody>
</table>

Note: As of June 30, 2017. Weighted active fee is across all strategies. Tracking error is based on 3 years.
Overview: Current GE Investment Structure

- **Total AUM**: $87bn
- **11,000+ securities**
- **77 Countries**
- **53 Currencies**
- **8 Internal strategies**
- **61 Externally managed strategies**

### Quick Facts

<table>
<thead>
<tr>
<th>Active / Passive Split</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>16.5%</td>
</tr>
<tr>
<td>Foreign</td>
<td>83.7%</td>
</tr>
<tr>
<td>Global</td>
<td>79.1%</td>
</tr>
<tr>
<td>Total</td>
<td>51.8%</td>
</tr>
</tbody>
</table>

### Internal / External Management

<table>
<thead>
<tr>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign</td>
</tr>
<tr>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Off Benchmark Allocations

<table>
<thead>
<tr>
<th>Market Value</th>
<th>Value Add Since Inception (Annualized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Currency</td>
<td>$4.25B Notional</td>
</tr>
<tr>
<td>US Microcap</td>
<td>$206M</td>
</tr>
<tr>
<td>Frontier</td>
<td>$383M</td>
</tr>
<tr>
<td>China A-Shares</td>
<td>$100M*</td>
</tr>
</tbody>
</table>

Note: As of June 30, 2017. China-A strategy defunded. Initial allocation was $100M.
Overview: Current Benchmark Relative Structure

Region Relative By Holdings

Relative Weight

-3.00% -2.00% -1.00% 0.00% 1.00%

United States: 0.4%
Developed ex US: -2.5%
Emerging Markets: 0.7%

Sector Relative

Relative Weight

-1.00% -0.8% -0.6% -0.4% -0.3% -0.3% -0.2%

IT: 0.7%
Consumer Staples: 0.2%
Consumer Disc: 0.1%
Industrials: 0.1%
Telecom: 0.0%
Health Care: -0.2%
Utilities: -0.3%
Materials: -0.3%
Energy: -0.4%
Financials: -0.6%
Real Estate: -0.8%

Note: As of June 30, 2017.
Overview: Diversified Drivers of Risk And Return

- The Total Fund has established asset allocation ranges that support the long term return objective via diversified sources of risk and returns
- Similarly, Global Equity is structured to deliver the equity return objective via diversified return drivers

Benefits of Diversified Risk Sources
- Aligns with strategic objective
- Multiple excess return sources with lower dependence on one good bet
- Potential to smooth excess returns
- Manager processes and skill drive performance

Risk of More Concentrated Bets
- Potential deviation from strategic objective
- Liquidity risk
- Unintended exposures
- Timing risk
- Uncompensated transaction costs
- Potentially higher volatility and lower risk-adjusted return

Note: Projected one-year risk of 48bps based on Barra GEM3 Risk model as of June 30, 2017.
## Overview: Diversified Strategy Types

### Diversified for Market Conditions

<table>
<thead>
<tr>
<th>Diversified for Market Conditions</th>
<th>Defensive Active</th>
<th>Core Active</th>
<th>Upmarket Active</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low Beta</td>
<td>Multifactor Quant</td>
<td>High Growth</td>
</tr>
<tr>
<td></td>
<td>High Yield</td>
<td>Quality Emphasis</td>
<td>Pro - Cyclical</td>
</tr>
<tr>
<td></td>
<td>Earnings Stability</td>
<td>Regional Strategies</td>
<td></td>
</tr>
<tr>
<td><strong>Currency Overlay</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Passive</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Diversified by Investment Process

| | Fundamental Approach | Traditional Quant Approach | Factor/Other |
|----------------------|--------------------------|---------------------------|
| **Growth**           | US LC                    | US Small Cap              |                |
| **Core**             | US Small Cap             | Developed LC              |                |
| **Value**            | US Small Cap             | Developed SC              |                |
| **Growth**           | Developed LC             | EM & Frontier             |                |
| **Core**             | EM & Frontier            | Global                    |                |
| **Value**            | Global                   | Currency                  |                |
## Overview:
**Active Management Structure**

<table>
<thead>
<tr>
<th></th>
<th>Total AUM ($mm)</th>
<th>Active AUM ($mm)</th>
<th>% Active</th>
<th>Average Active Mandate Size ($mm)</th>
<th># of Active Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed LC</td>
<td>$23,981</td>
<td>$17,874</td>
<td>74.5%</td>
<td>$1,986</td>
<td>9</td>
</tr>
<tr>
<td>Emerging</td>
<td>$9,053</td>
<td>$9,053</td>
<td>100.0%</td>
<td>$696</td>
<td>13</td>
</tr>
<tr>
<td>Global</td>
<td>$8,705</td>
<td>$6,886</td>
<td>79.1%</td>
<td>$983</td>
<td>7</td>
</tr>
<tr>
<td>US LC</td>
<td>$37,578</td>
<td>$4,754</td>
<td>12.7%</td>
<td>$1,189</td>
<td>4</td>
</tr>
<tr>
<td>Developed SC</td>
<td>$4,573</td>
<td>$4,573</td>
<td>100.0%</td>
<td>$508</td>
<td>9</td>
</tr>
<tr>
<td>US SC</td>
<td>$3,058</td>
<td>$1,656</td>
<td>54.1%</td>
<td>$183</td>
<td>9</td>
</tr>
<tr>
<td>Frontier</td>
<td>$382</td>
<td>$382</td>
<td>100.0%</td>
<td>$128</td>
<td>3</td>
</tr>
<tr>
<td>Currency</td>
<td>$4,250 (Notional)</td>
<td>$4,250 (Notional)</td>
<td>100.0%</td>
<td>$850</td>
<td>5</td>
</tr>
</tbody>
</table>

Higher Active Exposures In Segments Where Risk Is Rewarded

Note: As of June 30, 2017. US All Cap passive strategy assets allocated the US LC and SC groups in-line with the benchmark large cap/small cap split. US SC includes microcap.
Performance Review
Global Equity Outperformed Benchmark, net of fees, for last 67 of 72 One-Year Rolling Periods

Note: Based on official performance numbers through June 30, 2017. Each dot represents a one year period based on rolling monthly returns.
## Performance: Total GE Summary

<table>
<thead>
<tr>
<th></th>
<th>QTD</th>
<th>FYTD</th>
<th>CYTD</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
<th>Incept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE Return</td>
<td>4.72</td>
<td>19.60</td>
<td>12.15</td>
<td>19.60</td>
<td>5.71</td>
<td>11.58</td>
<td>11.57</td>
</tr>
<tr>
<td>Benchmark</td>
<td>4.28</td>
<td>19.06</td>
<td>11.37</td>
<td>19.06</td>
<td>4.93</td>
<td>10.81</td>
<td>10.62</td>
</tr>
<tr>
<td>Excess Return</td>
<td>0.45</td>
<td>0.53</td>
<td>0.77</td>
<td>0.53</td>
<td>0.78</td>
<td>0.77</td>
<td>0.96</td>
</tr>
<tr>
<td>Tracking Err</td>
<td></td>
<td></td>
<td></td>
<td>0.57</td>
<td>0.50</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td>Info Ratio</td>
<td>0.99</td>
<td>1.25</td>
<td>1.36</td>
<td>1.68%</td>
<td>1.33%</td>
<td>0.16%</td>
<td>1.03%</td>
</tr>
</tbody>
</table>

Note: As of June 30, 2017. GE Inception July 2010.
Performance: FY 2017 Total GE Attribution

Stock Selection Drove FY2017 Outperformance

Note: Attribution based on official performance numbers and Barra factor performance.
## Performance: Returns by Approach and Region

<table>
<thead>
<tr>
<th>Weight (% of Asset Class)</th>
<th>One Year Excess Return</th>
<th>Three Year Excess Return</th>
<th>Five Year Excess Return</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By Approach</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passively Managed Strategies</td>
<td>48.3%</td>
<td>0.22%</td>
<td>0.22%</td>
</tr>
<tr>
<td>Actively Managed Strategies</td>
<td>51.7%</td>
<td>0.33%</td>
<td>0.74%</td>
</tr>
<tr>
<td><strong>By Region</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>46.5%</td>
<td>-0.04%</td>
<td>-0.23%</td>
</tr>
<tr>
<td>Foreign</td>
<td>43.5%</td>
<td>0.99%</td>
<td>1.11%</td>
</tr>
<tr>
<td>Global</td>
<td>10.0%</td>
<td>-1.87%</td>
<td>0.55%</td>
</tr>
</tbody>
</table>

Note: As of June 30, 2017.
Performance: By Active Aggregate

Key Drivers of One Year Returns

- Foreign Large Cap
  - Outperformance by core, value and growth managers in year characterized by strong value markets followed by strong growth markets; Particularly good stock selection with opportunistic bets in Emerging Markets technology
- Emerging
  - Performance lagged due to underweights in high tech/Internet companies in Asia and cash drag against significant upmarket (EM was up over 23%)
- Dedicated Global
  - Despite good performance by growth managers, aggregate underperformed partly as a result of defensive characteristics in strong up market
- US Large Cap
  - Value managers performed well on tailwinds from beta and value factors. Restructured growth managers during period. Growth managers lagged in IT and Consumer Discretionary
- Foreign Small Cap
  - Good stock selection complemented by value factor tailwinds as well as Yen and real estate underweight
- Currency
  - Benefited from USD strength post election and then gave back excess returns as USD weakened in 2017
- US Small Cap
  - Underweight to non-earners, including biotech, detracted in period during which small and high growth rewarded. Microcap and high growth small cap manager performed well

<table>
<thead>
<tr>
<th>Active Strategy Grouping</th>
<th>Weight (% of Asset Class)</th>
<th>One Year Excess Return</th>
<th>Three Year Excess Return</th>
<th>Five Year Excess Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Developed Standard</td>
<td>25.7%</td>
<td>-2.51%</td>
<td>2.17%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Emerging &amp; Frontier Markets</td>
<td>10.8%</td>
<td>-1.31%</td>
<td>0.52%</td>
<td>0.73%</td>
</tr>
<tr>
<td>Dedicated Global</td>
<td>7.9%</td>
<td>-2.48%</td>
<td>0.51%</td>
<td>0.13%</td>
</tr>
<tr>
<td>US Large Cap</td>
<td>5.4%</td>
<td>-0.75%</td>
<td>-2.02%</td>
<td>-1.05%</td>
</tr>
<tr>
<td>Foreign Developed Small Cap</td>
<td>5.2%</td>
<td>0.59%</td>
<td>0.10%</td>
<td>0.42%</td>
</tr>
<tr>
<td>Currency</td>
<td>4.9%</td>
<td>0.05%</td>
<td>1.42%</td>
<td>NA</td>
</tr>
<tr>
<td>US Small Cap</td>
<td>1.9%</td>
<td>-2.69%</td>
<td>-1.14%</td>
<td>-1.08%</td>
</tr>
</tbody>
</table>

Note: Currency weight based on underlying notional equity assets. Returns as of June 30, 2017.
Staffed to Meet Strategic Objectives

Internal Management and Trading
- Joe Wnuk
- Jennifer Myers
- James Wells
- Denise Hale
- Brian Staverosky

Senior Investment Officers
- Alison Romano
- Tim Taylor

Risk and Analytics
- Ray Sherlock
- Shane Varn
- Daniel Gold
  [Open Position]

External Manager Oversight
- Dustin Heintz
- Meghan Brown
- Ashley McCoy
- Sarah Burns

Administration
- Lisa Cheshire
  [Open Position]
Accomplishments and Looking Forward

<table>
<thead>
<tr>
<th>FY2017 Milestones</th>
<th>Key Elements of FY2018 Work Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Completed US Large Cap manager search and restructuring</td>
<td>• Fund two US Small Cap strategies</td>
</tr>
<tr>
<td>• Modified International Small Cap Aggregate</td>
<td>• Further Diversify Developed Large Cap aggregate</td>
</tr>
<tr>
<td>• Increased assets in enhanced developed markets portfolios which generate alpha with low fee and low risk</td>
<td>• Implement upgrade of trade execution system</td>
</tr>
<tr>
<td>• Renegotiated fees with several current managers</td>
<td>• Establish access to Hong Kong Connect to broaden China A market opportunity set</td>
</tr>
<tr>
<td>• Continued to enhance internal analytics platform to evaluate risks and identify opportunities</td>
<td>• Evaluate approach to transition management</td>
</tr>
<tr>
<td>• Raised approximately $5.4bn in liquidity</td>
<td>• Continue to evaluate underperforming strategies/aggregates and take action as needed</td>
</tr>
<tr>
<td></td>
<td>• Identify and review opportunistic strategies</td>
</tr>
<tr>
<td></td>
<td>• Emphasize internal management of international liquidations and transitions</td>
</tr>
</tbody>
</table>
Investment Process Review
Process: Internal Asset Management

Benches of GE’s Internal Management Program

- Explicit cost advantage in that asset management fees are not paid to external investment firms
- Fixed cost of running passive money spread over large asset base
- Ability to leverage skills gained in directly managing money to analyze external managers
- Capability to manage equity transitions and liquidity raises
- Ability to support certain trading needs of other asset classes
- Ability to manage cash flows associated with Currency program

% Internally Managed Assets over Time
## Process: Manager Monitoring

<table>
<thead>
<tr>
<th>Daily</th>
<th>Monthly</th>
<th>Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Manager and aggregate performance</td>
<td>• Performance review</td>
<td>• Customized performance analysis</td>
</tr>
<tr>
<td>• High level performance attribution</td>
<td>• Assess drivers of performance</td>
<td>– Reconciliation with managers</td>
</tr>
<tr>
<td>• Positioning (e.g. Cash, PFIA)</td>
<td>• Largest holdings, over and underweights</td>
<td>– Attribution</td>
</tr>
<tr>
<td>• Big moves in individual holdings</td>
<td>• Securities lending income</td>
<td>• Customized risk analysis</td>
</tr>
<tr>
<td>• Currency manager positioning</td>
<td>• Derivatives positioning</td>
<td>– Sources of realized risk</td>
</tr>
<tr>
<td>• Regional index performance</td>
<td></td>
<td>– Sources of predicted risk (country, factor, currency, stock specific)</td>
</tr>
<tr>
<td>• Economic/Macro events impacting performance</td>
<td></td>
<td>• Process review</td>
</tr>
<tr>
<td>• Monitor organizational or operational changes</td>
<td></td>
<td>– Alignment of risk/performance with manager defined process</td>
</tr>
<tr>
<td>• Dialogue with managers</td>
<td></td>
<td>• Formal performance review conducted with manager quarterly (In-person 1x/year); External PM</td>
</tr>
<tr>
<td></td>
<td></td>
<td>participation required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Pre-call preparation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Post-call summary, with issues to consider</td>
</tr>
</tbody>
</table>
## Process: Manager Selection

### Steps in Typical Manager Selection Process

1. **Identify need**
   - Review alpha opportunity in given market segment
   - Evaluate performance trends, risk and factor exposures of existing aggregate

2. **Develop search criteria**

3. **Develop list of managers meeting criteria, based on:**
   - Screen external databases of investment managers
   - Prior meetings/diligence on prospective managers
   - Input from consultant

4. **Send very detailed questionnaire to identified managers**
   - Investment questions cover process, performance attribution, risk, trading, approach to currency, and pre/post trade compliance
   - Data requested includes monthly historical returns and holdings
   - Non-investment questions cover team, organization structure, risk/compliance capabilities, and legal topics

5. **Narrow universe based on internal discussion and consultant input**
   - Evaluate quality and clarity of response
   - Complete detailed analytics of manager performance
   - Run scenario analysis evaluating impact on aggregate of adding manager
   - Work with legal and RMC to identify potential non-investment risks
6. Negotiate key terms of contract and have preliminary fee discussions
7. Conduct interviews at SBA. PM attendance required.
   - 2+ hour interviews led by GE with representatives from Legal, RMC and SBA Executives
8. Determine manager(s) to hire based on internal discussion and consultant input
9. Contract
10. Typically conduct onsite due diligence
11. Determine best approach to transition
12. Fund
Appendix
Process: Internal Asset Management

Significant Systems and Human Capital Resources Required to Operate Effectively

- **Best In Class Systems**
  - Portfolio optimization and risk management tools
  - Order management system (equity and FX)
  - Pre and Post Trade compliance
  - Transaction Cost Analysis tools
  - Real-time market data and research
  - Computing power to support quantitative models
  - Business continuity plan

- **Experienced Staff**
  - PMs able to navigate index changes, corporate actions and cash flows while managing within narrow risk budget (passive portfolios)
  - PMs with strong quantitative and programming skills able to develop alpha engine (active portfolio)
  - Global trading expertise in equity and currency
  - Redundancy is critical
    - Departure of skilled personnel always a risk
    - Large asset management firms able to maintain deep bench of replacements – public plans find this challenging or not possible
## Process:
### Aggregate and Asset Class Construction

<table>
<thead>
<tr>
<th>Monthly</th>
<th>Quarterly</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assess drivers of aggregate performance</td>
<td>• Comprehensive total asset class review</td>
</tr>
<tr>
<td>• Daily structure report</td>
<td>– Market trends</td>
</tr>
<tr>
<td>– Evaluate regional over/underweights, style over/underweights and active/passive split</td>
<td>– Overall positioning and attribution</td>
</tr>
<tr>
<td>• Use regular monthly liquidity assessments to rebalance opportunistically</td>
<td>– Sources of aggregate risk</td>
</tr>
<tr>
<td></td>
<td>• Comprehensive aggregate review</td>
</tr>
<tr>
<td></td>
<td>– Drivers of performance</td>
</tr>
<tr>
<td></td>
<td>– Manager correlations</td>
</tr>
<tr>
<td></td>
<td>– Drivers of risk</td>
</tr>
<tr>
<td></td>
<td>– Restructuring recommendations, as needed</td>
</tr>
<tr>
<td></td>
<td>– Prospective managers</td>
</tr>
</tbody>
</table>

Process: Allocation or Manager Changes

### Allocation Changes

- **Liquidity – Opportunity for reallocation**
  - Review daily structure report
  - Consider
    - Active/passive split, regional exposures and style exposures
    - Individual manager performance and relative risk
    - Trim winners – buy low and sell high

- **Non-Liquidity driven reallocations**
  - Example – Realigning US Large Cap Aggregate
    - Decrease overall active exposure
    - Reduce tracking error of active aggregate
    - Balance Growth/Value Exposure
    - Manage factor and risk exposure (Run scenario analysis)

- **Opportunistic – Allocation to new alpha sources**

### Manager Changes

- **Typically conduct 1 - 2 manager searches per year**

- **Changes made over last year**
  - US Large Cap
  - International Small Cap
  - US Small Cap

- **Defunding considerations**
  - Unexplained vs. explainable underperformance
  - Team, organization or compliance issues
  - Near term versus long term risks
  - Range of short term or longer term alternatives (e.g. ETF, another manager, in-house, etc.)
  - Transaction costs; evaluate need for transition manager
  - Fees versus alpha potential
AGENDA

• SBA’s Public Markets Investment Program
• Review of Equities
• Recent Activity
• Appendix
SBA’S PUBLIC MARKETS INVESTMENT PROGRAM
SBA’S PUBLIC MARKETS INVESTMENT PROGRAMS
GUIDING PRINCIPLES

• All asset classes shall be invested to achieve or exceed the return of their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:
  – Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements (Investment Policy Statement).
In 2016, Mercer conducted a structural review of the Global Equity Asset Class and concluded Global Equity incorporates many of the best practices in institutional fund management and is appropriate given the FRS’s size and negative cash flow position. Specifically, Mercer believes the following characteristics to be among best practices:

– Active/Passive Allocations. The SBA is utilizing active/passive management across sub-asset classes effectively.

– Use of Internal Management. The SBA has been cost effective in their use of internal passive management within the US Equities space, unlike many of their peers.

– Active Risk Budget. The risk budgeting monitoring standards for the FRS Pension Plan for the Global Equity asset class is a monitoring standard of 0.75% and an escalation standard of 1.25% and staff has stayed well within these bounds over time.

– Investment Manager Review. Overall we believe the sub-asset classes to be well diversified in terms of manager style and risk.

– Benchmarking/Market-Capitalization Weighted Exposures. Except in unique circumstances, the staff has incurred very little misfit risk relative to its asset class benchmarks.

– Potential Alpha Opportunities. The Global Equity staff continually researches and capitalizes on potential alpha opportunities which has included exposures to China A shares, frontier markets, emerging markets small cap, US microcap, and a currency overlay program

– Performance Summary. The SBA has realized strong risk-adjusted returns historically. These strong risk-adjusted returns are attributable to the SBA’s thoughtful approach to portfolio constriction through employing passive mandates in more efficient markets, allocating assets to a diversified yet high conviction active manager base, and deploying assets in higher alpha potential market segments.
SBA’S PUBLIC MARKETS INVESTMENT PROGRAMS
MERGER’S GENERAL OBSERVATIONS

• FRS Pension Plan
  – All public market investment portfolios are managed in a prudent, risk-controlled fashion
  – Appropriate levels of delegation are given to the staff
  – FRS is a significant user of passive management (39% of Portfolio vs. 26% of Peers’ Portfolios)¹
  – Active risk levels are monitored against predetermined ranges
  – The Plan effectively uses internal resources to keep costs low (43% of Portfolio vs. 35% of Peers’ Portfolios)¹
  – Results have been favorable over all time periods measured

¹ Represents percentage of total fund assets as of 12/31/15. Source: CEM 2016 Survey
The SBA uses more passive management for its internal management, and more active management for external management.

<table>
<thead>
<tr>
<th></th>
<th>FRS</th>
<th>Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Passive</td>
<td>33%</td>
<td>15%</td>
</tr>
<tr>
<td>Internal Active</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>External Passive</td>
<td>6%</td>
<td>11%</td>
</tr>
<tr>
<td>External Active</td>
<td>51%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: Data as of 12/31/2015- CEM 2016 Survey

¹ May not add to 100% due to rounding.
REVIEW OF EQUITIES
REVIEW OF EQUITIES
ASSET ALLOCATION – REGION

• In July 2010 the SBA consolidated its separate allocations to US and Foreign Equity asset classes into a single Global Equity asset class benchmarked to the FSB ACWI IMI ex Iran and Sudan.

• This is consistent with a general trend among large public plans of moving toward global benchmarks.

<table>
<thead>
<tr>
<th>Product¹</th>
<th>FRS</th>
<th>Large Plan Peers</th>
<th>All US Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>47.8%</td>
<td>52.1%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Developed Market ex US</td>
<td>34.8%</td>
<td>30.8%</td>
<td>31.1%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>9.3%</td>
<td>8.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Global Equity²</td>
<td>8.1%</td>
<td>8.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
<td>1.1%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Source: Data as of 12/31/2015 - CEM 2016 Survey

¹ May not add to 100% due to rounding
² The lower allocation to global equities is due to a greater use of dedicated strategies.
REVIEW OF EQUITIES
ASSET ALLOCATION – PASSIVE VERSUS ACTIVE

- The SBA uses more passive management for its US allocation but less passive management for Foreign Equity. The majority of dedicated Global Equity mandates are fully active, while all Emerging Market mandates are fully active.

<table>
<thead>
<tr>
<th>Product¹</th>
<th>FRS</th>
<th>Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passive</td>
<td>80.6%</td>
<td>73.8%</td>
</tr>
<tr>
<td>Active</td>
<td>19.4%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Developed Market ex US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passive</td>
<td>30.1%</td>
<td>42.9%</td>
</tr>
<tr>
<td>Active</td>
<td>69.9%</td>
<td>57.1%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passive</td>
<td>0.0%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Active</td>
<td>100.0%</td>
<td>75.4%</td>
</tr>
<tr>
<td>Global Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passive</td>
<td>16.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Active</td>
<td>83.1%</td>
<td>95.3%</td>
</tr>
</tbody>
</table>

Source: Data as of 12/31/2015 - CEM 2016 Survey

¹ May not add to 100% due to rounding.
REVIEW OF EQUITIES
PERFORMANCE: GLOBAL EQUITY

- Since inception the asset class has exceeded its benchmark by 95 bps net of all fees and expenses.

<table>
<thead>
<tr>
<th>Periods Ending 6/30/2017</th>
<th>Year to Date Return</th>
<th>1 Year Return</th>
<th>3 Years Return</th>
<th>5 Years Return</th>
<th>Inception (July 2010) Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Global Equity¹</td>
<td>12.15%</td>
<td>19.60%</td>
<td>5.71%</td>
<td>11.58%</td>
<td>11.57%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>11.37%</td>
<td>19.06%</td>
<td>4.93%</td>
<td>10.81%</td>
<td>10.62%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.78%</td>
<td>0.54%</td>
<td>0.78%</td>
<td>0.77%</td>
<td>0.95%</td>
</tr>
<tr>
<td>Information Ratio²</td>
<td>--</td>
<td>--</td>
<td>1.37</td>
<td>1.54</td>
<td>1.83</td>
</tr>
</tbody>
</table>

¹ Returns are shown net of fees.
² Calculated using monthly returns
## Review of Equities Performance: US, Non-US, & Dedicated Global Equity

- Over the 3- and 5-year period, the FRS US Equity allocation has delivered poor risk-adjusted returns with information ratios ranking in the bottom half among peers.

- Over the 5-year period and since inception, the FRS Non-US Equity portfolio has delivered attractive risk-adjusted returns with an information ratio ranking in the top quartile among its peer group universe.

- Over the 3- and 5-year period, the FRS Dedicated Global Equity portfolio has delivered attractive risk-adjusted returns.

### Periods Ending 6/30/2017

<table>
<thead>
<tr>
<th></th>
<th>Year to Date Return (Rank)</th>
<th>1 Year Return (Rank)</th>
<th>3 Years Return (Rank)</th>
<th>5 Years Return (Rank)</th>
<th>Inception (April 1988) Return (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FRS US Equity</strong> 1,2</td>
<td>8.74% (47)</td>
<td>18.39% (65)</td>
<td>8.86% (45)</td>
<td>14.47% (48)</td>
<td>10.43%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>8.95%</td>
<td>18.43%</td>
<td>9.09%</td>
<td>14.58%</td>
<td>10.29%</td>
</tr>
<tr>
<td>Value Added</td>
<td>-0.21%</td>
<td>-0.04%</td>
<td>-0.23%</td>
<td>-0.11%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Information Ratio 3</td>
<td>--</td>
<td>--</td>
<td>-0.91 (81)</td>
<td>-0.37 (62)</td>
<td>0.09 (1)</td>
</tr>
</tbody>
</table>

| **FRS Non-US Equity** 2,4 | 16.26% (21) | 21.59% (30) | 2.42% (49) | 8.71% (46) | 7.44% |
| Benchmark            | 14.49%       | 20.59%      | 1.31%      | 7.77%      | 6.27% |
| Value Added          | 1.77%        | 1.00%       | 1.11%      | 0.94%      | 1.17% |
| Information Ratio 3  | --           | --          | 1.25 (3)   | 1.23 (1)   | 0.79 (1) |

| **FRS Dedicated Global Equity** 2, 5 | 11.55% (82) | 16.47% (99) | 5.68% (35) | 11.30% (38) |
| Benchmark            | 10.84%       | 18.33%      | 5.13%      | 11.12%    |
| Value Added          | 0.71%        | -1.86%      | 0.55%      | 0.18%      |
| Information Ratio 3  | --           | --          | 0.35 (54)  | 0.12 (35)  |

1 Compared to the Public Funds >$1B - US Equity universe; rankings are based on gross-of-fees FRS performance.
2 Returns are shown net of fees.
3 Calculated using monthly returns
4 Compared to the Public Funds >$1B - Non-US Equity universe; rankings are based on gross-of-fees FRS performance.
5 Compared to the Public Funds >$1B - Global Equity universe; rankings are based on gross-of-fees FRS performance.
RECENT ACTIVITY
MERCER RESEARCH RATING REVIEW

BREAKDOWN OF STRATEGIES BY RATING

• Of the 66 global equity strategies in the Plan, 54 strategies, or 82%, are rated “B+” and above
• The graph below shows the breakdown of the strategies by the Mercer Rating:

Mercer Ratings:

A = "above average" prospects of outperformance
B+ = "above average" prospects of outperformance, but there are strategies in which Mercer has greater conviction
B = "average" prospects of outperformance
C = "below average" prospects of outperformance
N = not rated
R= Mercer does not maintain formal ratings in category, but has reviewed the strategy.
RECENT ACTIVITY

• US Large Cap Growth Deep Dive
• US Small Cap Growth and US Small Cap Value Searches
• International Small Cap Search
• Regularly working with staff conducting ongoing performance and manager monitoring
• Ongoing Manager Reviews
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MAKE TOMORROW, TODAY
Fixed Income Annual Review

Katy Wojciechowski,
Senior Investment Officer Fixed Income
Investment Advisory Council
September 25, 2017
Agenda

- Program Overview
  - Fixed Income Allocation Objective
  - Benchmark Makeup
  - Investment Allocation and Risk Parameters
  - Structure and Characteristics of FI Allocation
  - Mercer Asset Class Review

- Performance Review
  - Periodic Returns
  - Attribution

- Investment Process Review
  - Internal Active and Passive Management
  - External Manager Oversight

- Program Review and Outlook
  - Accomplishments and Initiatives
  - Mercer Recommendations
Fixed Income Program Overview
Overview:
Fixed Income Investment Objectives

• Provide Stable Fixed Income Returns with Low Risk Budget that Exceed Benchmark over Long Horizon
• Provide Liquidity on Demand
• Serve as Diversification for Equity Allocation

Source: DB Plan Investment Policy Statement
Overview
Fixed Income Benchmark

Bloomberg Barclays US Intermediate Aggregate Bond Index

Statistics
Size $15.7T
Duration 4.48 years
Coupon 2.81 Price 102.19
YTM 2.30
Fixed Income Overview

- Total Fund Investment Policy Allocation

  - Policy High 22%
  - Current operating Range High 19.5%

- Policy Target Weight 17% (+1% Cash)

- Current Weight (9/6/2017) 18.4% (+0.6% Cash)

  - Current Operating Range Low 13.5%
  - Policy Low 12%

Active Risk Budget

  - 0.75% monitoring standard
  - 1.10% escalation
Overview
Structure and Characteristics of FI Allocation

Active/Passive Split
$26,274,403,645

Active
Passive

Active Management
Diversification
$15,612,028,499
Overview: Mercer Structural Review Key Findings

- The Fixed Income Portfolio has been thoughtfully constructed, incorporating many best practices in institutional fund management
- Significant attention has been given to the role of the portfolio within the entire plan (considering liquidity requirements and funding needs for other asset classes)
- The Portfolio has added value while operating within risk monitoring standards
Performance Review
# Performance Summary: Asset Class as of 6/30/2017

<table>
<thead>
<tr>
<th></th>
<th>QTD</th>
<th>FYTD</th>
<th>CYTD</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FI Total</strong></td>
<td>1.00</td>
<td>0.36</td>
<td>1.79</td>
<td>0.36</td>
<td>2.28</td>
<td>2.13</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>0.92</td>
<td>(0.16)</td>
<td>1.61</td>
<td>(0.16)</td>
<td>2.01</td>
<td>1.71</td>
</tr>
<tr>
<td><strong>Active Return</strong></td>
<td>0.08</td>
<td>0.52</td>
<td>0.18</td>
<td>0.52</td>
<td>0.27</td>
<td>0.42</td>
</tr>
<tr>
<td><strong>Tracking Err</strong></td>
<td></td>
<td></td>
<td>0.18</td>
<td></td>
<td>0.20</td>
<td>0.22</td>
</tr>
<tr>
<td><strong>Info Ratio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.88</td>
</tr>
<tr>
<td><strong>FI Internal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Passive</strong></td>
<td>0.94</td>
<td>(0.13)</td>
<td>1.67</td>
<td>(0.13)</td>
<td>2.11</td>
<td>1.79</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>0.92</td>
<td>(0.16)</td>
<td>1.61</td>
<td>(0.16)</td>
<td>2.01</td>
<td>1.72</td>
</tr>
<tr>
<td><strong>Excess</strong></td>
<td>0.02</td>
<td>0.03</td>
<td>0.06</td>
<td>0.03</td>
<td>0.10</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>Active</strong></td>
<td>1.02</td>
<td>0.14</td>
<td>1.75</td>
<td>0.14</td>
<td>2.24</td>
<td>2.46</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>0.92</td>
<td>(0.16)</td>
<td>1.61</td>
<td>(0.16)</td>
<td>2.01</td>
<td>1.73</td>
</tr>
<tr>
<td><strong>Excess</strong></td>
<td>0.10</td>
<td>0.30</td>
<td>0.14</td>
<td>0.30</td>
<td>0.23</td>
<td>0.73</td>
</tr>
<tr>
<td><strong>FI External</strong></td>
<td>1.04</td>
<td>0.98</td>
<td>1.94</td>
<td>0.98</td>
<td>2.30</td>
<td>2.17</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>0.92</td>
<td>(0.16)</td>
<td>1.61</td>
<td>(0.16)</td>
<td>2.00</td>
<td>1.71</td>
</tr>
<tr>
<td><strong>Excess</strong></td>
<td>0.12</td>
<td>1.14</td>
<td><strong>0.33</strong></td>
<td>1.14</td>
<td>0.30</td>
<td>0.46</td>
</tr>
</tbody>
</table>
Fixed Income Performance Attribution

Source: Barclay’s Point as of 6/30/2017
Fixed Income Investment Process
Organized and Staffed to Achieve Fixed Income Goals within the Fund

**Rates Team**
- Securitized Assets Research and Portfolio Management
  - Brian Geller

**Risk and Analytics**
- External Manager Oversight
  - Kevin Moose
  - Jon Yeatman
  - Jacqui Cook

**Credit Research and Portfolio Management Oversight**
- Kevin Ceurvorst
- Ken Hovey
- Randy Hall
- Tom Haynes

**Senior Investment Officer**
- Katy Wojciechowski

**Securities Lending and Middle Office**
- SarahJane Gainey
- Devin Austin
- Carmen Ratcliff

**Trading and Short Term Portfolio Management**
- Cherie Jeffries
- Richard Smith
- Trent Carter
Fixed Income Overview

Internal Fund Management/Trading
- Significant internal index fund management
- Internal Active Portfolio Management
- Experienced trading desk supports internally managed index funds, manager transitions, $23bln cash portfolios, securities lending activity management.

External Management
- Investment manager selection/allocation/oversight
  - Frequent dialog
  - Monthly performance review
  - Monthly markets review
  - Monthly analytics report, with attribution, contribution, and peer analyses
  - Quarterly conference calls with each investment manager and watch list call with Mercer
  - Annual manager visits

Maintain Liquidity
- Support fund rebalances, meet benefit payments, and fund ongoing initiatives within other asset classes
Current Risk Posture
Global Demand Keeps Spreads Tight

Option Adjusted Spread – Benchmark
Developed Capabilities to Take Advantage of Opportunities Globally

Global bonds capture the broadest FI opportunities

Source: Barclays, Pictet Asset Management
Fixed Income Investment Process

- Asset class managed internally and with external managers. 43% of portfolio is managed passively to track the Intermediate Aggregate Benchmark – all managed internally. Team has developed a process and systems to successfully manage with minimal tracking error.

- 57% of portfolio is actively managed. This allows us to maintain liquidity, preserve principal, and operate with limited risk while achieving returns superior to benchmark.

- An internal dedicated team manages 25% of our Active allocation. This team has a positive value added track record across one-three-five year measurements.

- External managers are used for remainder of our Active allocation. Managers are diversified for areas of expertise across asset classes. External managers have added value over one, three, and five year horizon.
Risk Breakdown Within Total Allocation

Source: Barclay's Point as of 7/31/2017
Internal Portfolio Management

• Collaborative process involves Portfolio Management Group
  – Smaller team meetings contribute to overall portfolio construction
  – Decisions implemented through our Trading Group
  – Analytics monitored daily, frequent discussions as market changes
• Passive portfolio managed through constant monitoring of new issues and tight risk controls within our analytics system
• Overall Passive/Active split monitored as well as use of Risk Budget
External Manager Selection

Following determination of need in our optimization process:

- Develop Search Criteria
- Screen consultant and other external databases for filter
- Request responses from filtered list to detailed questionnaire
  - Process
  - Historical Returns
  - Organizational details
- Narrow universe based upon responses and consultant input
  - Run detailed analytics analysis on manager, both independently and within overall asset allocation
  - Evaluate non-investment risks
- Negotiate key terms of contract and preliminary fee discussions
- Conduct detailed interviews
  - Evaluation team evaluation and selection
- Final Manager selection
  - Internal discussion
  - Consultant input
  - Onsite due diligence as needed
- Contract negotiation and finalization
- Establish funding and transition timeline
Business Review
Looking Back and Forward

**FY2017**

- Completed transition of External Manager Oversight team and expanded responsibilities of several team members
  - Increased growth opportunities for current staff within the department and somewhat reduced key man risk
- Refined internal evaluation process for External Managers
- Expanded trading capabilities to allow us to explore more global rates trading opportunities
- Added value through expanded Rates trades both domestically and globally
- Transitioned responsibilities in Internal Credit team to new members, transferring knowledge from retiring member
Looking Forward:
Recommendations from Mercer Structure Review

Mercer’s Recommendations Support Fixed Income Structure and Workplan

• Consider moving more assets in house
  – SBA already possesses the needed infrastructure and internal staff to manage assets internally; taking the opportunity to use current resources while driving down costs

• Consider increasing active allocation

• Consider adding dedicated exposure to out of benchmark structured products in a dedicated strategy
  – Consider opportunity to reduce risk to a rising rate environment within overall allocation

• Continue to take thoughtful, incremental approach to opportunistic investments
Fixed Income Major Initiatives

- Continue Research for Optimizing Fixed Income allocation in a rising rate environment. Recommended consideration to allocation of expanded opportunities within Fixed Income to mitigate risk to rising US Interest Rates.

- Seek alternative opportunities within current slightly larger risk budget

- Identify opportunities for optimization of external managers

- Major industry transition towards clearing and/or collateralization of transactions

- Transition to new Analytics platform
AGENDA

• SBA’s Public Fixed Income Markets Investment Program
• Review of Fixed Income
• Recent Activity
• Appendix
SBA’S PUBLIC FIXED INCOME MARKETS INVESTMENT PROGRAM
SBA’S PUBLIC MARKETS INVESTMENT PROGRAMS
GUIDING PRINCIPLES

• All asset classes shall be invested to achieve or exceed the return of their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:
  – Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements (Investment Policy Statement).

• Investing Guidelines:
  – The primary benchmark index was formally changed from the Barclays Capital US Aggregate Index to the Barclays Capital US Intermediate Aggregate Index in 4Q13 in order to decrease the overall interest rate sensitivity of the fixed income program.
SBA’S PUBLIC MARKETS INVESTMENT PROGRAMS
MERCER’S GENERAL OBSERVATIONS

• FRS Pension Plan
  – All public market investment portfolios are managed in a prudent, risk-controlled fashion
  – Appropriate levels of delegation are given to the staff
  – FRS is a significant user of passive management (39% of Portfolio vs. 27% of Peers’ Portfolios)\(^1\)
  – Active risk levels are monitored against predetermined ranges
  – The Plan effectively uses internal resources to keep costs low (43% of Portfolio vs. 35% of Peers’ Portfolios)\(^1\)

\(^1\) Represents percentage of total fund assets as of 12/31/15. Source: CEM 2016 Survey.
REVIEW OF FIXED INCOME
Within Fixed Income, the SBA utilizes more passive management relative to peers.

<table>
<thead>
<tr>
<th>Product</th>
<th>FRS</th>
<th>Peers</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Fixed Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passive</td>
<td>48.5%</td>
<td>15.5%</td>
</tr>
<tr>
<td>Active</td>
<td>51.6%</td>
<td>84.5%</td>
</tr>
</tbody>
</table>

Source: CEM 2016 Survey

¹ May not add to 100% due to rounding.
REVIEW OF FIXED INCOME PERFORMANCE: FIXED INCOME

- Over the 3- and 5-year period, the FRS Fixed Income Portfolio has ranked in the fourth quartile for performance but in the top quartile for risk adjusted returns. The universe rank versus peers can be attributed to the SBA using a shorter duration benchmark than many peers, as well as the SBA not having any exposure to high yield fixed income.

- The information ratios, a measure of return per unit of risk taken, are very strong over the trailing 3- and 5-year periods.

<table>
<thead>
<tr>
<th>Periods Ending 6/30/2017</th>
<th>Year to Date Return (Rank)</th>
<th>1 Year Return (Rank)</th>
<th>3 Years Return (Rank)</th>
<th>5 Years Return (Rank)</th>
<th>Inception (April 1988) Return (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Fixed Income¹, ²</td>
<td>1.80% (96)</td>
<td>0.37% (81)</td>
<td>2.22% (92)</td>
<td>2.13% (93)</td>
<td>6.67%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.61%</td>
<td>-0.16%</td>
<td>2.01%</td>
<td>1.71%</td>
<td>6.50%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.19%</td>
<td>0.53%</td>
<td>0.21%</td>
<td>0.42%</td>
<td>0.17%</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>--</td>
<td>--</td>
<td>1.08 (5)</td>
<td>1.91 (2)</td>
<td>0.14 (78)</td>
</tr>
</tbody>
</table>

¹ Compared to the Public Funds >$1B - US Fixed Income universe; rankings are based on gross-of-fees FRS performance.
² Comprised of both active and passive strategies.
**REVIEW OF FIXED INCOME PERFORMANCE: FIXED INCOME**

- Over the 5-year period, the FRS Fixed Income Internal Active Portfolio has ranked in the bottom half for performance but its information ratio ranked in the 7th percentile in its peer group universe.
- Over all periods examined, the FRS Fixed Income Internal Passive Portfolio has exceeded its benchmark.

<table>
<thead>
<tr>
<th>Periods Ending 6/30/2017</th>
<th>Year to Date Return (Rank)</th>
<th>1 Year Return (Rank)</th>
<th>3 Years Return (Rank)</th>
<th>5 Years Return (Rank)</th>
<th>Inception (January 2002) Return (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income Internal Active(^1,2)</td>
<td>1.78% (56)</td>
<td>0.17% (60)</td>
<td>2.25% (40)</td>
<td>1.93% (70)</td>
<td>5.04% (43)</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.61%</td>
<td>-0.16%</td>
<td>2.01%</td>
<td>1.68%</td>
<td>5.04%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.17%</td>
<td>0.33%</td>
<td>0.24%</td>
<td>0.25%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>--</td>
<td>--</td>
<td>1.02 (10)</td>
<td>1.21 (7)</td>
<td>0.00 (43)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Periods Ending 6/30/2017</th>
<th>Inception (Sept 2010) Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income Internal Passive</td>
<td>1.68%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.61%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.07%</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>--</td>
</tr>
</tbody>
</table>

\(^1\) Compared to the SBA Intermediate Core Fixed Income Custom Universe; rankings are based on gross-of-fees FRS performance.
\(^2\) Excludes the AA Investment Grade account.
The FRS Fixed Income External Portfolio has ranked in the top half for performance and its information ratio has ranked in the top quartile.

1 Compared to the SBA Intermediate Core Fixed Income Custom Universe; rankings are based on gross-of-fees FRS performance.

<table>
<thead>
<tr>
<th>Periods Ending 6/30/2017</th>
<th>Year to Date Return (Rank)</th>
<th>1 Year Return (Rank)</th>
<th>3 Years Return (Rank)</th>
<th>5 Years Return (Rank)</th>
<th>Inception (January 2002) Return (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External1</td>
<td>1.94% (27)</td>
<td>0.99% (14)</td>
<td>2.30% (20)</td>
<td>2.17% (35)</td>
<td>4.99% (1)</td>
</tr>
<tr>
<td>Benchmark</td>
<td>1.61%</td>
<td>-0.16%</td>
<td>2.00%</td>
<td>1.71%</td>
<td>4.51%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.33%</td>
<td>1.15%</td>
<td>0.30%</td>
<td>0.46%</td>
<td>0.48%</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>--</td>
<td>--</td>
<td>0.64 (21)</td>
<td>0.96 (9)</td>
<td>0.30 (3)</td>
</tr>
</tbody>
</table>

1 Compared to the SBA Intermediate Core Fixed Income Custom Universe; rankings are based on gross-of-fees FRS performance.
RECENT ACTIVITY
Of the 7 FRS fixed income strategies in the Plan, 5 strategies, or 71%, are rated “B+” and above.

The graph below shows the breakdown of the strategies by the Mercer Rating:

**Mercer Ratings:**
- **A** = "above average" prospects of outperformance
- **B+** = "above average" prospects of outperformance, but there are strategies in which Mercer has greater conviction
- **B** = "average" prospects of outperformance
- **C** = "below average" prospects of outperformance
- **N** = not rated
- **PP** "Preferred Provider" = Mercer does not maintain formal ratings in category, but has reviewed the strategy.
Real Estate Update

Steve Spook
SIO Real Estate

Investment Advisory Council Meeting
September 25, 2017
Total Real Estate Portfolio Performance
Data Through March 31, 2017

Market Value $13,435 M

<table>
<thead>
<tr>
<th></th>
<th>One Year Return</th>
<th>Three Year Return</th>
<th>Five Year Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBA RE Total Net Return</td>
<td>8.5%</td>
<td>11.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>SBA RE Primary Benchmark</td>
<td>6.9%</td>
<td>10.5%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: The Townsend Group
Principal Investments Performance
Data Through March 31, 2017

Market Value $8,333 M

<table>
<thead>
<tr>
<th>One Year Return</th>
<th>Three Year Return</th>
<th>Five Year Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI Total Net Return</td>
<td>ODCE Total Net Return</td>
<td>SBA Primary Benchmark</td>
</tr>
<tr>
<td>9.3%</td>
<td>11.5%</td>
<td>13.0%</td>
</tr>
<tr>
<td>7.4%</td>
<td>10.8%</td>
<td>10.9%</td>
</tr>
<tr>
<td>6.9%</td>
<td>10.5%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Source: The Townsend Group
Externally Managed Portfolio Performance
Data Through March 31, 2017

Source: The Townsend Group
Real Estate Portfolio
Sector Allocation

Total RE Portfolio
- Private: 90%
- Public: 10%

Private Market
- Core: 82%
- Non-Core: 18%

Florida Retirement System Defined Benefit Fund
- Fixed Income: 18.2%
- Global Equities: 57.1%
- Cash: 1.2%
- Private Equity: 6.3%
- Strategic Inv.: 8.3%
- Real Estate: 8.9%

Source: IBP 3/31/17 Report
Private Market
Property Type Diversification
Target NFI-ODCE +/- 15%

<table>
<thead>
<tr>
<th>Property Type</th>
<th>SBA Exposure</th>
<th>ODCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td>22.9%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Industrial</td>
<td>14.1%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Retail</td>
<td>16.3%</td>
<td>20.3%</td>
</tr>
<tr>
<td>Office</td>
<td>36.5%</td>
<td>27.7%</td>
</tr>
<tr>
<td>Other *</td>
<td></td>
<td>19.1%</td>
</tr>
</tbody>
</table>

* Other includes Agriculture, Student Housing, Senior Housing, MOB, Hotel, Land
Private Market
Geographic Diversification
Target NFI-ODCE +/- 15%

East 29.2% 30.6%
Midwest 6.4% 9.7%
South 19.800% 19.0%
West 39.7% 40.7%
Other 4.9% 0%

* Other includes International Investments
Recent Activity
(Since Last IAC Report)

**Direct Owned:**
Acquisitions (Price/Equity)
- Self-Storage Portfolio $30.2 million/$15.1 million
- One Medical Office Building $41.8 million/$20.9 million
- One Office Building $105 million/52.5 million

**Commingled Funds (New Commitments):**
- Domestic Open-End Fund $50 million

**Commingled Funds (Redemptions):**
- Domestic Open-End Fund $50 million
- Domestic Open-End Fund $100 million
Market/Portfolio Update

- Private equity market activity remains strong
  - U.S. buyout volume remained steady while Europe and Asia saw volumes increase
  - GPs remain cautious, particularly in the U.S.
  - Fundraising remains strong
- Distressed and U.S. buyout strategies led portfolio performance over the past year
- Net cash flow through August 2017: $637 million
Portfolio sector exposure remains similar to that of the Cambridge PE/VC benchmark with a slight overweight to technology.

Relative to the asset class primary benchmark, the portfolio has a large overweight to technology (+18%) and a large underweight to the financials sector (-10%).
Geographic Exposure
As of March 31, 2017

- The portfolio remains overweight North America while underweight Europe and Asia
- Exposure outside of the U.S. continues to grow

Source: Cambridge Associates
Private Equity Asset Class Performance

Asset Class - Net Managed and Benchmark Returns (IRRs) as of March 31, 2017

Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010, the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equities asset class and its benchmark was the Domestic Equities target index + 750 bps.
### Sub-strategy Performance

As of March 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
<th>Since Inception</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Buyouts</td>
<td>23.0%</td>
<td>14.2%</td>
<td>15.1%</td>
<td>10.3%</td>
<td>11.9%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Non-U.S. Buyouts</td>
<td>12.1%</td>
<td>9.9%</td>
<td>14.0%</td>
<td>9.5%</td>
<td>9.4%</td>
<td>6.9%</td>
</tr>
<tr>
<td>U.S. Venture</td>
<td>7.6%</td>
<td>12.9%</td>
<td>14.0%</td>
<td>11.4%</td>
<td>10.6%</td>
<td>7.5%</td>
</tr>
<tr>
<td>U.S. Growth Equity</td>
<td>17.2%</td>
<td>16.0%</td>
<td>16.3%</td>
<td>13.0%</td>
<td>12.9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Non-U.S. Growth Equity</td>
<td>10.5%</td>
<td>6.0%</td>
<td>9.3%</td>
<td>--</td>
<td>5.5%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Distressed/Turnaround</td>
<td>20.5%</td>
<td>12.6%</td>
<td>14.4%</td>
<td>14.6%</td>
<td>20.5%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Secondaries</td>
<td>12.0%</td>
<td>9.0%</td>
<td>12.0%</td>
<td>10.3%</td>
<td>15.8%</td>
<td>15.2%</td>
</tr>
<tr>
<td><strong>Total PE Asset Class</strong></td>
<td><strong>17.5%</strong></td>
<td><strong>13.2%</strong></td>
<td><strong>14.6%</strong></td>
<td><strong>11.0%</strong></td>
<td><strong>12.7%</strong></td>
<td><strong>10.4%</strong></td>
</tr>
</tbody>
</table>

Sub-strategy returns and benchmark returns provided by Cambridge Associates and are calculated net of all fees and expenses. The Cambridge benchmark is the median return for the respective sub-strategy.
2017 Commitment Activity

- PE committed $1.1 billion to 11 funds through June 30, 2017
  - $600 million to 6 buyout funds
    - Small 19%, Middle-Market 16%, Large 65%
  - $150 million to 3 venture funds
  - $300 million to 2 distressed/turnaround fund
  - Geographic Focus
    - US 57%, Europe 10%, Asia 14%, Global 19%
Appendix
## Private Equity Aggregates

### Dollar-Weighted Performance (IRRs) as of March 31, 2017

<table>
<thead>
<tr>
<th>Inception Date</th>
<th>Market Value (in Millions)</th>
<th>1yr</th>
<th>3yr</th>
<th>5yr</th>
<th>10yr</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Private Equity</strong></td>
<td>1/27/1989</td>
<td>$9,805</td>
<td>17.4%</td>
<td>13.1%</td>
<td>13.8%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Custom Iran- and Sudan-free ACWI IMI +300bps</td>
<td></td>
<td>18.3%</td>
<td>8.2%</td>
<td>13.6%</td>
<td>10.3%</td>
<td>10.7%</td>
</tr>
<tr>
<td><strong>Private Equity Legacy Portfolio</strong></td>
<td>1/27/1989</td>
<td>$10</td>
<td>2.8%</td>
<td>-4.0%</td>
<td>-21.7%</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Custom Iran- and Sudan-free ACWI IMI +300bps</td>
<td></td>
<td>18.3%</td>
<td>7.3%</td>
<td>14.5%</td>
<td>6.4%</td>
<td>9.8%</td>
</tr>
<tr>
<td><strong>Private Equity Asset Class Portfolio</strong></td>
<td>8/31/2000</td>
<td>$9,795</td>
<td>17.5%</td>
<td>13.2%</td>
<td>14.6%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Custom Iran- and Sudan-free ACWI IMI +300bps</td>
<td></td>
<td>18.3%</td>
<td>8.2%</td>
<td>13.6%</td>
<td>11.2%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

**Note:** Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010, the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equity asset class and its benchmark was the Domestic Equity target index + 750 bps.
State Board of Administration

Strategic Investments

Trent Webster

Senior Investment Officer, Strategic Investments & Private Equity

Investment Advisory Council Meeting

September 25, 2017
Strategic Investments Portfolio

- **Special Situations**: 6%
- **Open Mandate**: 2%
- **Distressed**: 13%
- **Mezzanine**: 6%
- **Opportunistic Debt**: 5%
- **Senior Loans**: 6%
- **Activist Equity**: 7%
- **GP Investments**: 2%
- **Long/Short Equity**: 2%
- **Commodities**: 4%
- **Infrastructure**: 4%
- **Real Estate**: 9%
- **Timberland**: 4%
- **CTAs**: 8%
- **Global Macro**: 6%
- **Relative Value**: 4%
- **Royalties**: 1%
- **Event-Driven**: 3%

**Total**: 100%
Strategic Investments

Strategic Investments Portfolio

- Liquid Markets - Diversifying: 18%
- Liquid Markets - Growth: 27%
- Private Markets - Income: 21%
- Private Markets - Growth: 34%
Strategic Investments Performance
Strategic Investments

3-Year Returns by Strategy

- Debt
- Equity
- Real Assets
- Diversifying Strategies
- Flexible Mandates
- Special Situations
Recent Activity

- Quarterly cash inflows were $94 million.
- Fiscal year cash inflows were $56 million.
- Five new funds totaling $625 million were hired in the most recent quarter.
- Fourteen new funds totaling $1.87 billion were hired in the fiscal year.
- Three existing mandates were funded $200 million in the fiscal year.
- Three new funds totaling $550 million have been hired this quarter.
Strategic Investments

Current Focus

• The pipeline consists of 8 funds totaling $1.2 billion
• Private credit is overheated
• Commodities are interesting but institutional opportunities are limited
• Merger arbitrage spreads are attractive
• Emerging Markets are a long-term interest
• The world is expensive
FRS INVESTMENT PLAN
FRS Investment Plan Snapshot
(as of June 30, 2017)

- **Assets:** $9.967 B (12% increase over prior year-end’s $8.918 B)
  - +2.96% - 2nd Quarter 2017
  - +7.59% - Calendar Year to Date Return
  - +13.36% - Fiscal Year to date (Jul 16 – Jun 17)

- **Members:** 177,218 (up 4.3% over prior year-end)
  - Active – 121,205
  - Inactive – 56,013

- **Average Acct Balance:** $56,291 (7% increase over prior year-end)

- **Average Age:** 47
  - Males 48 (36.7% of members)
  - Females 46 (63.3% of members)

- **Average Yrs of Service:** 6 (active members)

- **Retirees:** 116,065 (increase of 10% over prior year-end)

- **Distributions:** $10.8 B
  - Lump Sum Payouts – 39%
  - Rollovers – 61%
FRS Investment Plan AUM by Asset Class
(as of June 30, 2017 in $ millions)

Total Assets: $9.96 Billion

Retirement Date Funds, $4.333, 43%
Domestic Stock Funds, $2.707, 27%
International/ Global Equities Funds, $729, 7%
Fixed Income Funds, $666, 7%
Real Assets Fund, $90, 1%
Money Market Fund, $929, 9%
Self-Directed Brokerage Accounts, $512, 5%

Asset allocation is a result of member investment selection.
## FRS Investment Plan Performance
by Asset Class as of June 30, 2017

<table>
<thead>
<tr>
<th></th>
<th>QTD</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Fund</strong></td>
<td>2.96%</td>
<td>13.36%</td>
<td>13.36%</td>
<td>4.85%</td>
<td>7.95%</td>
<td>6.89%</td>
</tr>
<tr>
<td><strong>Money Market</strong></td>
<td>0.29%</td>
<td>0.87%</td>
<td>0.87%</td>
<td>0.47%</td>
<td>0.38%</td>
<td>1.51%</td>
</tr>
<tr>
<td><strong>Real Assets &amp; TIPS</strong></td>
<td>0.36%</td>
<td>2.73%</td>
<td>2.73%</td>
<td>-1.48%</td>
<td>-0.96%</td>
<td>-1.41% (7/1/14)</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>1.64%</td>
<td>2.06%</td>
<td>2.06%</td>
<td>2.91%</td>
<td>2.82%</td>
<td>4.94%</td>
</tr>
<tr>
<td><strong>Domestic Equities</strong></td>
<td>2.92%</td>
<td>20.14%</td>
<td>20.14%</td>
<td>9.06%</td>
<td>14.90%</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Global &amp; Intl Equities</strong></td>
<td>6.23%</td>
<td>21.00%</td>
<td>21.00%</td>
<td>2.62%</td>
<td>9.45%</td>
<td>8.34%</td>
</tr>
<tr>
<td><strong>Retirement Date Funds</strong></td>
<td>3.23%</td>
<td>13.23%</td>
<td>13.23%</td>
<td>4.28%</td>
<td>N.A.</td>
<td>4.28% (7/1/14)</td>
</tr>
<tr>
<td><strong>TF x RDFs</strong></td>
<td>2.74%</td>
<td>13.45%</td>
<td>13.45%</td>
<td>5.33%</td>
<td>N.A.</td>
<td>5.33% (7/1/14)</td>
</tr>
</tbody>
</table>
FRS Investment Plan Membership Growth
Percent Membership Growth Year to Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Membership</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 11-12</td>
<td>144,299</td>
<td>5.3%</td>
</tr>
<tr>
<td>FY 12-13</td>
<td>150,721</td>
<td>4.3%</td>
</tr>
<tr>
<td>FY 13-14</td>
<td>157,227</td>
<td>4.1%</td>
</tr>
<tr>
<td>FY 14-15</td>
<td>163,456</td>
<td>3.8%</td>
</tr>
<tr>
<td>FY 15-16</td>
<td>169,576</td>
<td>3.6%</td>
</tr>
<tr>
<td>FY 16-17</td>
<td>177,218</td>
<td>4.3%</td>
</tr>
</tbody>
</table>
FRS Financial Guidance Program
(as of June 30, 2017)

**INVESTMENT EDUCATION**

- **EY Financial Planner Calls**: 302,024 (+4%)
- **# Financial Planning Workshops**: 494 (-10%)
- **Attendance Financial Workshops**: 17,872 (-5%)
- **Website Hits**: 2353,299 (+11%)
- **Website Chats**: 32,730 (+16%)

15 Annuities purchased last 12 months ($1.74 million)
96 Total Annuities purchased inception to date ($12.09 million)
Investment Programs & Governance (IP&G)
Michael McCauley
Senior Officer

Investment Advisory Council Meeting – September 25, 2017
Recent Actions

Proxy Voting:
- FY2017 peak voting level—10,562 meetings voted / 102,064 ballot Items
- 19.3% of all votes cast against management
- Voting in 81 countries: U.S. (2,799 votes), Japan (1,310), India (512), Canada (489), United Kingdom (423)

Index Providers’ Multi-class Share Consultations:
- FTSE Russell—restrict new securities with low voting power
- SPDJI—restrict all new securities with multi-class shares
- MSCI—decision pending

Other Regulatory Items:
- Hong Kong Exchanges & Clearing (HKXE)—submitted comment letter on dual listing proposal
- United Kingdom—increased disclosure on compensation and board process
Appendix

SBA Corporate Governance Statistics
SBA Proxy Voting Summary
Fiscal Year 2017
SBA Proxy Voting Summary

Fiscal Year 2017
Director Election Trends

Median Shareholder Opposition to Director Election

Directors at Russell 3000 Companies Public for Less than Three Years

Source: ISS Analytics

ISS "Withhold" and "Against" Director Recommendation Rate

Directors at Russell 3000 Companies Public for Less than Three Years

Source: ISS Analytics
Shareowner Resolution Voting

Shareholder Proposals in the U.S.: An 18-Year Lookback

Source: ISS Analytics
Below is a summary of the voting behavior of top investors at proxy contests since 2012.

<table>
<thead>
<tr>
<th>Investor/Voting Manager</th>
<th>Number of Proxy Contests Voted</th>
<th>No. of Meetings Voted Dissident Card</th>
<th>% Times Voted Dissident Card</th>
<th>No. of Times Voted all Dissidents</th>
<th>% Voted all Dissidents</th>
<th>% of Dissidents voted for when not voting for all dissidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimensional Fund Advisors, Inc.</td>
<td>195</td>
<td>78</td>
<td>40.0</td>
<td>45</td>
<td>57.7</td>
<td>49.3</td>
</tr>
<tr>
<td>BlackRock</td>
<td>168</td>
<td>51</td>
<td>30.4</td>
<td>21</td>
<td>41.2</td>
<td>54.3</td>
</tr>
<tr>
<td>Vanguard Group, Inc.</td>
<td>154</td>
<td>37</td>
<td>24.0</td>
<td>17</td>
<td>45.9</td>
<td>45.9</td>
</tr>
<tr>
<td>California Public Employees’ Retirement System (CalPERS)</td>
<td>149</td>
<td>67</td>
<td>45.0</td>
<td>38</td>
<td>56.7</td>
<td>46.9</td>
</tr>
<tr>
<td>TIAA-CREF Asset Management LLC</td>
<td>149</td>
<td>32</td>
<td>21.5</td>
<td>16</td>
<td>50.0</td>
<td>48.4</td>
</tr>
<tr>
<td>SSgA Funds Management, Inc. (State Street)</td>
<td>133</td>
<td>30</td>
<td>22.6</td>
<td>11</td>
<td>36.7</td>
<td>43.0</td>
</tr>
<tr>
<td>Northern Trust Investments</td>
<td>126</td>
<td>31</td>
<td>24.6</td>
<td>16</td>
<td>51.6</td>
<td>55.7</td>
</tr>
<tr>
<td>Florida State Board of Administration</td>
<td>125</td>
<td>55</td>
<td>44.0</td>
<td>28</td>
<td>50.9</td>
<td>56.2</td>
</tr>
<tr>
<td>California State Teachers’ Retirement System (CalSTRS)</td>
<td>114</td>
<td>35</td>
<td>30.7</td>
<td>20</td>
<td>57.1</td>
<td>52.8</td>
</tr>
<tr>
<td>AllianceBernstein LP</td>
<td>113</td>
<td>40</td>
<td>35.4</td>
<td>17</td>
<td>42.5</td>
<td>55.9</td>
</tr>
</tbody>
</table>

Source: Activist Insight voting database as of September 6, 2017.
Source: FactSet Research Shark Repellant database as of September 6, 2017.
FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.¹ For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(10), Florida Statutes.

¹ The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.
The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at
any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 4.5% per annum (compounded and net of investment expenses) should be attained. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.
VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund’s net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio’s potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between 0.47% and 8.73% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -0.65% and 9.96%.

<table>
<thead>
<tr>
<th>Time Horizon</th>
<th>5th Percentile Real Return</th>
<th>10th Percentile Real Return</th>
<th>90th Percentile Real Return</th>
<th>95th Percentile Real Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Years</td>
<td>-1.78%</td>
<td>-0.42%</td>
<td>9.71%</td>
<td>11.22%</td>
</tr>
<tr>
<td>15 Years</td>
<td>-0.65%</td>
<td>0.47%</td>
<td>8.73%</td>
<td>9.96%</td>
</tr>
<tr>
<td>20 Years</td>
<td>0.03%</td>
<td>1.00%</td>
<td>8.16%</td>
<td>9.22%</td>
</tr>
<tr>
<td>25 Years</td>
<td>0.49%</td>
<td>1.37%</td>
<td>7.77%</td>
<td>8.71%</td>
</tr>
<tr>
<td>30 Years</td>
<td>0.84%</td>
<td>1.64%</td>
<td>7.48%</td>
<td>8.34%</td>
</tr>
</tbody>
</table>

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for
fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Policy Range Low</th>
<th>Policy Range High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>53%</td>
<td>45%</td>
<td>70%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18%</td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10%</td>
<td>4%</td>
<td>16%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>6%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Strategic Investments</td>
<td>12%</td>
<td>0%</td>
<td>16%</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>1%</td>
<td>0.25%</td>
<td>5%</td>
</tr>
<tr>
<td>Total Fund</td>
<td>100%</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type. An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty

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2 The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.
(30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Outflow ($ millions/ % Fund)

<table>
<thead>
<tr>
<th></th>
<th>In 5 Years</th>
<th></th>
<th>In 10 Years</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10th Percentile</td>
<td>$ 4,851</td>
<td>3.67%</td>
<td>$ 3,497</td>
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<td>$ 6,776</td>
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VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

**Table 4: Authorized Target Indices**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida’s Investments Act</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>The Barclays Capital U.S. Intermediate Aggregate Index</td>
</tr>
<tr>
<td>Real Estate</td>
<td>The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%³</td>
</tr>
<tr>
<td>Private Equity</td>
<td>The MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida’s Investments Act, plus a fixed premium return of 300 basis points per annum</td>
</tr>
<tr>
<td>Strategic Investments</td>
<td>A weighted-average of individual portfolio level benchmark returns</td>
</tr>
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<td>Cash Equivalents</td>
<td>iMoneyNet First Tier Institutional Money Market Funds Net Index</td>
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The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the private market asset classes would all “float” against the

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\text{Core RE} = (76.5\% \times \text{NFI-ODCE}) + [13.5\% \times (\text{NFI-ODCE} + 150 \text{ bps})] + (10\% \times \text{REIT Index})
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public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2

Target Allocations

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<th>Float Allocation Limit</th>
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<tr>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Strategic Investments</td>
</tr>
<tr>
<td>Global Equity</td>
<td>N/A</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>75%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>N/A</td>
<td>50%</td>
</tr>
<tr>
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<tr>
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Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class’s actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity and Strategic Investments asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, the joint Cambridge Associates Global Private Equity and Venture Capital Index pooled return at peer group weights.
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 4.5%. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.
All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.

- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
  - Financial, operational and investment expertise and resources;
  - Alignment of interests;
  - Transparency and repeatability of investment process; and
  - Controls on leverage.

**Strategic Investments Guidelines**

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 4.5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

**Other Guidelines**

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the “Protecting Florida’s Investments Act.” Actions taken and determinations made pursuant to said policies are
hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2016-36, Laws of Florida, an act relating to companies that boycott Israel. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.4725(5), Florida Statutes.

On August 16, 2017, the Trustees of the Board adopted a Resolution directing the following (the “Venezuela Resolution”) be included in this Investment Policy Statement upon review of the IAC in accordance with Section 215.475(2), Florida Statutes:

1. Prohibited Investments. Until such as time as the SBA determines it is otherwise prudent to do so, the SBA is prohibited from investing in:
(a) any financial institution or company domiciled in the United States, or foreign subsidiary of a company domiciled in the United States, which directly or through a United States or foreign subsidiary and in violation of federal law, makes any loan, extends credit of any kind or character, advances funds in any manner, or purchases or trades any goods or services in or with the government of Venezuela; and
(b) any securities issued by the government of Venezuela or any company that is majority-owned by the government of Venezuela.

2. Proxy Voting. The SBA will not vote in favor of any proxy resolution advocating the support of the Maduro Regime in Venezuela.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementing of the Venezuela Resolution. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.
X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective July 1, 2017 upon approval by the Board.
FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.¹ For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

¹ The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.
The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(10), Florida Statutes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment
Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 4.5% per annum (compounded and net of investment expenses) should be attained. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.
VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund’s net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio’s potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between 0.47% and 8.73% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -0.65% and 9.96%.

<table>
<thead>
<tr>
<th>Time Horizon</th>
<th>5th Percentile Real Return</th>
<th>10th Percentile Real Return</th>
<th>90th Percentile Real Return</th>
<th>95th Percentile Real Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 Years</td>
<td>-1.78%</td>
<td>-0.42%</td>
<td>9.71%</td>
<td>11.22%</td>
</tr>
<tr>
<td>15 Years</td>
<td>-0.65%</td>
<td>0.47%</td>
<td>8.73%</td>
<td>9.96%</td>
</tr>
<tr>
<td>20 Years</td>
<td>0.03%</td>
<td>1.00%</td>
<td>8.16%</td>
<td>9.22%</td>
</tr>
<tr>
<td>25 Years</td>
<td>0.49%</td>
<td>1.37%</td>
<td>7.77%</td>
<td>8.71%</td>
</tr>
<tr>
<td>30 Years</td>
<td>0.84%</td>
<td>1.64%</td>
<td>7.48%</td>
<td>8.34%</td>
</tr>
</tbody>
</table>

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida
Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Policy Range Low</th>
<th>Policy Range High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>53%</td>
<td>45%</td>
<td>70%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>18%</td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10%</td>
<td>4%</td>
<td>16%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>6%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Strategic Investments</td>
<td>12%</td>
<td>0%</td>
<td>16%</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>1%</td>
<td>0.25%</td>
<td>5%</td>
</tr>
<tr>
<td>Total Fund</td>
<td>100%</td>
<td>--</td>
<td>--</td>
</tr>
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</table>

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type. An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an

---

2 The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.
allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Outflow ($ millions/ % Fund)

<table>
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<th>Percentile</th>
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| Real Estate     | The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%  
| Private Equity  | The MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida’s Investments Act, plus a fixed premium return of 300 basis points per annum |
| Strategic Investments | A weighted-average of individual portfolio level benchmark returns |
| Cash Equivalents | iMoneyNet First Tier Institutional Money Market Funds Net Index |

\[
\text{3 Core RE} + \left(76.5\% \times \text{NFI-ODCE}\right) + \left[13.5\% \times \left(\text{NFI-ODCE} + 150 \text{ bps}\right)\right] + \left(10\% \times \text{REIT Index}\right) + \text{Non-Core RE} + \text{Public RE} + \text{Public RE} + \text{Private Equity} + \text{Private Equity} + \text{Private Equity} + \text{Strategic Investments} + \text{Cash Equivalents} \]
The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the private market asset classes would all “float” against the public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

| Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2 Target Allocations |
|---|---|---|---|
| **Public Market Asset Classes** | **Float Allocation Limit** | **Private Market Asset Classes** | |
| | | **Real Estate** | **Private Equity** | **Strategic Investments** |
| Global Equity | N/A | 50% | 100% | 75% |
| Fixed Income | N/A | 50% | 0% | 25% |

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class’s actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity and Strategic Investments asset classes shall be assessed relative to both the applicable index in Table 4 and:

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All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
  - Financial, operational and investment expertise and resources;
  - Alignment of interests;
  - Transparency and repeatability of investment process; and
  - Controls on leverage.

**Strategic Investments Guidelines**

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 4.5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.
Other Guidelines

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the “Protecting Florida’s Investments Act.” Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2016-36, Laws of Florida, an act relating to companies that boycott Israel. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.4725(5), Florida Statutes.

On August 16, 2017, the Trustees of the Board adopted a Resolution directing the following (the “Venezuela Resolution”) be included in this Investment Policy Statement upon review of the IAC in accordance with Section 215.475(2), Florida Statutes:

1. Prohibited Investments. Until such as time as the SBA determines it is otherwise prudent to do so, the SBA is prohibited from investing in:
   (a) any financial institution or company domiciled in the United States, or foreign subsidiary of a company domiciled in the United States, which directly or through a United States or foreign subsidiary and in violation of federal law, makes any loan, extends credit of any kind or character, advances funds in any manner, or purchases or trades any goods or services in or with the government of Venezuela; and
   (b) any securities issued by the government of Venezuela or any company that is majority-owned by the government of Venezuela.

2. Proxy Voting. The SBA will not vote in favor of any proxy resolution advocating the support of the Maduro Regime in Venezuela.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementing of the Venezuela Resolution. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
• A monthly report on performance and investment actions taken.
• Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective upon approval by the Board.
State Board of Administration of Florida

Major Mandate Review
Second Quarter 2017

Table of Contents

1. Executive Summary
2. Pension Plan Review
3. Investment Plan Review
4. CAT Fund Review
5. Lawton Chiles Endowment Fund Review
6. Florida PRIME Review
7. Appendix
Executive Summary

- The major mandates each produced generally strong returns relative to their respective benchmarks over both short- and long-term time periods ending June 30, 2017.
- The Pension Plan outperformed its Performance Benchmark during the second quarter and over the trailing one-, three-, five-, ten-, and fifteen-year periods.
  - Over the long-term, Global Equity is the leading source of value added, followed by Strategic Investments, Fixed Income and Real Estate.
  - Over the trailing one-, three-, five-, and ten-year periods, the Pension Plan’s return ranked in the top quartile of the TUCS Top Ten Defined Benefit Plan universe.
- The FRS Investment Plan has outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark during the second quarter and over the trailing one-, three-, five-, and ten-year periods.
- The CAT Funds’ performance is strong over both short-term and long-term periods, outperforming the benchmark over the trailing one-, three-, five-, and ten-year time periods.
- Florida PRIME has continued to outperform its benchmark over both short and long time periods.
Pension Plan: Executive Summary

- The Pension Plan assets totaled $153.6 billion as of June 30, 2017 which represents a $3.9 billion increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed its return during the second quarter and over the trailing one-, three-, five-, ten-, and fifteen-year periods.
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan underperformed over the trailing three-, and ten-year periods, and outperformed over the trailing one-, five-, fifteen-, twenty-, twenty-five-, and thirty-year time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
  - Public market asset class investments do not significantly deviate from their broad market-based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
  - Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, and investment strategy.
  - Asset allocation is monitored on a daily basis to ensure that the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Hewitt Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

FRS Pension Plan Change in Market Value
Periods Ending 6/30/2017

<table>
<thead>
<tr>
<th>Summary of Cash Flows</th>
<th>Second Quarter</th>
<th>Fiscal YTD*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>$149,705,355,156</td>
<td>$141,321,201,894</td>
</tr>
<tr>
<td>+/- Net Contributions/(Withdrawals)</td>
<td>($1,611,157,770)</td>
<td>($6,771,736,903)</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>$5,479,103,547</td>
<td>$19,023,835,942</td>
</tr>
<tr>
<td>= Ending Market Value</td>
<td>$153,573,300,932</td>
<td>$153,573,300,932</td>
</tr>
<tr>
<td>Net Change</td>
<td>$3,867,945,777</td>
<td>$12,252,099,039</td>
</tr>
</tbody>
</table>

*Period July 2016 – June 2017
Asset Allocation as of 6/30/2017
Total Fund Assets = $153.6 Billion

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value ($B)</th>
<th>Current Allocation (%)</th>
<th>Target Allocation (%)</th>
<th>Minimum Allocation (%)</th>
<th>Maximum Allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund</td>
<td>153,573,300.32</td>
<td>100.0</td>
<td>100.0</td>
<td>70.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Global Equity</td>
<td>88,706,033.22</td>
<td>57.8</td>
<td>56.1</td>
<td>45.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>27,551,166.752</td>
<td>17.9</td>
<td>19.5</td>
<td>10.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>9,803,121.404</td>
<td>6.4</td>
<td>6.3</td>
<td>2.0</td>
<td>9.0</td>
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<tr>
<td>Real Estate</td>
<td>13,674,719.791</td>
<td>8.9</td>
<td>8.8</td>
<td>4.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Strategic Investments</td>
<td>12,654,971.256</td>
<td>6.2</td>
<td>8.2</td>
<td>0.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Cash</td>
<td>1,184,186.588</td>
<td>0.8</td>
<td>1.0</td>
<td>0.3</td>
<td>5.0</td>
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</table>

* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

FRS Pension Plan Investment Results
Periods Ending 6/30/2017

<table>
<thead>
<tr>
<th>Period</th>
<th>Performance Benchmark</th>
<th>Absolute Nominal Target Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FRS Pension Plan</td>
<td>Total FRS Pension Plan</td>
<td>Total FRS Pension Plan</td>
</tr>
<tr>
<td>Quarter</td>
<td>1-Year</td>
<td>5-Year</td>
</tr>
<tr>
<td>3.7</td>
<td>6.7</td>
<td>9.5</td>
</tr>
<tr>
<td>3.2</td>
<td>4.9</td>
<td>8.6</td>
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<tr>
<td>1.7</td>
<td>6.0</td>
<td>6.4</td>
</tr>
<tr>
<td>6.7</td>
<td>5.5</td>
<td>4.8</td>
</tr>
<tr>
<td>4.9</td>
<td>6.7</td>
<td>6.7</td>
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<tr>
<td>6.0</td>
<td>7.5</td>
<td>6.9</td>
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<td>9.5</td>
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<td>8.6</td>
<td>7.5</td>
<td>6.9</td>
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<tr>
<td>6.4</td>
<td>6.7</td>
<td>6.9</td>
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<tr>
<td>5.5</td>
<td>4.8</td>
<td>6.7</td>
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<tr>
<td>4.8</td>
<td>6.7</td>
<td>6.9</td>
</tr>
<tr>
<td>6.7</td>
<td>7.5</td>
<td>6.9</td>
</tr>
<tr>
<td>7.5</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>6.9</td>
<td>6.9</td>
<td>6.9</td>
</tr>
</tbody>
</table>
FRS Pension Plan Investment Results
Periods Ending 6/30/2017

Long-Term FRS Pension Plan Performance Results
vs. SBA’s Long-Term Investment Objective

Comparison of Asset Allocation (TUCS Top Ten)
As of 6/30/2017

FRS Pension Plan vs. Top Ten Defined Benefit Plans

*Global Equity Allocation: 26.5% Domestic Equities; 24.7% Foreign Equities; 5.7% Global Equities; 0.9% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

**Global Equity Allocation: 29.7% Domestic Equities; 17.6% Foreign Equities.

Note: The TUCS Top Ten Universe includes $1,433.2 billion in total assets. The median fund size was $142.0 billion and the average fund size was $143.3 billion.
FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 6/30/2017

Note: The TUCS Top Ten Universe includes $1,433.2 billion in total assets. The median fund size was $142.0 billion and the average fund size was $143.3 billion.

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)
Periods Ending 6/30/2017

Note: The TUCS Top Ten Universe includes $1,433.2 billion in total assets. The median fund size was $142.0 billion and the average fund size was $143.3 billion.
Investment Plan: Executive Summary

- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods. This suggests strong relative performance of the underlying fund options in which participants are investing.

- The FRS Investment Plan’s total expense ratio is slightly higher, on average, when compared to a defined contribution peer group and is lower than the average corporate and public defined benefit plan, based on year-end 2015 data. The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication, and education costs. Communication and education costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group.

- Management fees are lower than the median as represented by Morningstar’s mutual fund universe for every investment category.

- The FRS Investment Plan offers an appropriate number of fund options that span the risk and return spectrum.

- The Investment Policy Statement is revisited periodically to ensure that the structure and guidelines of the FRS Investment Plan are appropriate, taking into consideration the FRS Investment Plan’s goals and objectives.

Total Investment Plan Returns & Cost

Periods Ending 6/30/2017*

<table>
<thead>
<tr>
<th></th>
<th>One-Year</th>
<th>Three-Year</th>
<th>Five-Year</th>
<th>Ten-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Investment Plan</td>
<td>13.4%</td>
<td>4.8%</td>
<td>8.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Total Plan Aggregate Benchmark**</td>
<td>12.6%</td>
<td>4.6%</td>
<td>7.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>FRS Investment Plan vs. Total Plan Aggregate Benchmark</td>
<td>0.8</td>
<td>0.2</td>
<td>0.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Periods Ending 12/31/2015***

<table>
<thead>
<tr>
<th></th>
<th>Five-Year Average Return****</th>
<th>Five-Year Net Value Added</th>
<th>Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Investment Plan</td>
<td>5.6%</td>
<td>0.1%</td>
<td>0.36%****</td>
</tr>
<tr>
<td>Peer Group</td>
<td>6.3</td>
<td>0.2</td>
<td>0.27</td>
</tr>
<tr>
<td>FRS Investment Plan vs. Peer Group</td>
<td>-0.7</td>
<td>-0.1</td>
<td>0.09</td>
</tr>
</tbody>
</table>

*Returns shown are net of fees.
**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
***Source: 2015 CEM Benchmarking Report. Peer group for the Five-Year Average Return and Value Added represents the U.S. Median plan return based on the CEM 2015 Survey that included 136 U.S. defined contribution plans with assets ranging from $64 million to $46.4 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 15 DC plans including corporate and public plans with assets between $2.1 - $15.9 billion.
****Returns shown are gross of fees.
*****The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. These latter costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group utilized above.
CAT Fund: Executive Summary

- Returns on an absolute basis continue to be modest given the current low interest rate environment.
- Performance on a relative basis has been favorable over both short- and long-term periods, as the CAT Funds outperformed during the quarter and over the trailing one-, three-, five-, and ten-year time periods.
- The CAT Funds are adequately diversified across issuers within the short-term bond market.
- The Investment Policy Statement appropriately constrains the CAT Funds to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Adequate liquidity exists to address the cash flow obligations of the CAT Funds.
- The Investment Policy Statement is revisited periodically to ensure that the structure and guidelines of the CAT Funds are appropriate, taking into consideration the CAT Funds’ goals and objectives.

CAT Funds Investment Results
Periods Ending 6/30/2017

*CAT Operating Fund: Beginning March 2008, the returns for the CAT Fund reflect marked-to-market returns. Prior to that time, cost-based returns are used.
**Performance Benchmark: The CAT Fund was benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month LIBOR. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. From July 2010 to September 2014, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Effective October 2014, it is a blend of the average of the Merrill Lynch 1-Yr US Treasury Bill Index and the MoneyNet First Tier Institutional Money Market Funds Net Index.
Lawton Chiles Endowment Fund: Executive Summary

- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
  - The investment objective is to preserve the real value of the net contributed principal and provide annual cash flows for appropriation.
  - The Endowment’s investments are diversified across various asset classes including global equity, fixed income, inflation-indexed bonds (TIPS) and cash.
- The Endowment assets totaled $699.7 million as of June 30, 2017.
- The Endowment’s return outperformed its Target over the quarter and the trailing one-, three-, five-, and ten-year time periods.

Asset Allocation as of 6/30/2017
Total LCEF Assets = $699.7 Million
LCEF Investment Results
Periods Ending 6/30/2017

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total LCEF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Benchmark</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Annualized Return (%)

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Florida PRIME: Executive Summary

- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately diversified across issuers within the short-term bond market, and adequate liquidity exists to address the cash flow obligations of Florida PRIME.
- Performance of Florida PRIME has been strong over short- and long-term time periods, outperforming its performance benchmark during the second quarter and over the trailing one-, three-, five-, and ten-year time periods.
- As of June 30, 2017, the total market value of Florida PRIME was $9.3 billion.
- Aon Hewitt Investment Consulting, in conjunction with SBA staff, compiles an annual best practices report that includes a full review of the Investment Policy Statement, operational items, and investment structure for Florida PRIME.

Florida PRIME Investment Results
Periods Ending 6/30/2017

*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.
Florida PRIME Risk vs. Return
5 Years Ending 6/30/2017

Return Distribution
Periods Ending 6/30/2017

-0.10% 0.00% 0.10% 0.20% 0.30% 0.40% 0.50% 0.60% 0.70% 0.80% 0.90% 1.00% 1.10%

Rate of Return (%)

1-Year 3-Year 5-Year

-0.10% 0.00% 0.10% 0.20% 0.30% 0.40% 0.50% 0.60% 0.70% 0.80% 0.90% 1.00% 1.10%

Rate of Return (%)
Standard Deviation Distribution
Periods Ending 6/30/2017

- FL PRIME
- 1 mo LIBOR
- S&P US AAA & AA Rated GIP All 30-Day Net
- Citigroup 90-day T-Bill

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# FRS Investment Plan Costs

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Investment Plan Fee*</th>
<th>Average Mutual Fund Fee**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Equity</td>
<td>0.15%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Small-Mid Cap Equity</td>
<td>0.66%</td>
<td>1.03%</td>
</tr>
<tr>
<td>International Equity</td>
<td>0.31%</td>
<td>1.05%</td>
</tr>
<tr>
<td>Diversified Bonds</td>
<td>0.15%</td>
<td>0.58%</td>
</tr>
<tr>
<td>Target Date</td>
<td>0.10%</td>
<td>0.64%</td>
</tr>
<tr>
<td>Money Market</td>
<td>0.06%</td>
<td>0.18%</td>
</tr>
</tbody>
</table>

*Average fee of multiple products in category as of 6/30/2017.

**Source: AHIC’s annual mutual fund expense analysis as of 12/31/2016.
Investment Plan Fiscal Year End Assets Under Management

By Fiscal Year ($ millions)

*Period Ending 6/30/2017

Source: Investment Plan Administrator

Investment Plan Membership

*Period Ending 6/30/2017

Source: Investment Plan Administrator
Florida Hurricane Catastrophe Fund Background

- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.
- Both the CAT Fund (Operating Fund) and the CAT 2013 A Fund are internally managed portfolios benchmarked to a blend of the average of the Merrill Lynch 1-Yr US Treasury Bill Index and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
- As of June 30, 2017, the total value of all FHCF accounts was $16.6 billion.

CAT Operating Fund Characteristics
Period Ending 6/30/2017

<table>
<thead>
<tr>
<th>Maturity Analysis</th>
<th></th>
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<tbody>
<tr>
<td>1 to 30 Days</td>
<td>34.1%</td>
</tr>
<tr>
<td>31 to 60 Days</td>
<td>12.7</td>
</tr>
<tr>
<td>61 to 90 Days</td>
<td>3.6</td>
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<tr>
<td>91 to 120 Days</td>
<td>1.7</td>
</tr>
<tr>
<td>121 to 150 Days</td>
<td>5.8</td>
</tr>
<tr>
<td>151 to 180 Days</td>
<td>5.8</td>
</tr>
<tr>
<td>181 to 270 Days</td>
<td>6.8</td>
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<tr>
<td>271 to 365 Days</td>
<td>7.1</td>
</tr>
<tr>
<td>366 to 455 Days</td>
<td>2.4</td>
</tr>
<tr>
<td>&gt;= 456 Days</td>
<td>19.9</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond Rating Analysis</th>
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<tbody>
<tr>
<td>AAA</td>
<td>34.3%</td>
</tr>
<tr>
<td>AA</td>
<td>11.4</td>
</tr>
<tr>
<td>A</td>
<td>54.3</td>
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<tr>
<td>Baa</td>
<td>0.0</td>
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<tr>
<td>Other</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
### CAT 2013 A Fund Characteristics
**Period Ending 6/30/2017**

<table>
<thead>
<tr>
<th>Maturity Analysis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 30 Days</td>
<td>16.8%</td>
</tr>
<tr>
<td>31 to 60 Days</td>
<td>14.2%</td>
</tr>
<tr>
<td>61 to 90 Days</td>
<td>10.0%</td>
</tr>
<tr>
<td>91 to 120 Days</td>
<td>8.0%</td>
</tr>
<tr>
<td>121 to 150 Days</td>
<td>6.3%</td>
</tr>
<tr>
<td>151 to 180 Days</td>
<td>3.3%</td>
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<tr>
<td>181 to 270 Days</td>
<td>7.2%</td>
</tr>
<tr>
<td>271 to 365 Days</td>
<td>11.2%</td>
</tr>
<tr>
<td>366 to 455 Days</td>
<td>3.3%</td>
</tr>
<tr>
<td>&gt;= 456 Days</td>
<td>19.8%</td>
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<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td>100.0%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond Rating Analysis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>67.6%</td>
</tr>
<tr>
<td>AA</td>
<td>8.6%</td>
</tr>
<tr>
<td>A</td>
<td>23.8%</td>
</tr>
<tr>
<td>Baa</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### CAT 2016 A Fund Characteristics
**Period Ending 6/30/2017**

<table>
<thead>
<tr>
<th>Maturity Analysis</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1 to 30 Days</td>
<td>15.5%</td>
</tr>
<tr>
<td>31 to 60 Days</td>
<td>11.0%</td>
</tr>
<tr>
<td>61 to 90 Days</td>
<td>10.2%</td>
</tr>
<tr>
<td>91 to 120 Days</td>
<td>13.5%</td>
</tr>
<tr>
<td>121 to 150 Days</td>
<td>7.7%</td>
</tr>
<tr>
<td>151 to 180 Days</td>
<td>3.3%</td>
</tr>
<tr>
<td>181 to 270 Days</td>
<td>6.3%</td>
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<tr>
<td>271 to 365 Days</td>
<td>9.0%</td>
</tr>
<tr>
<td>366 to 455 Days</td>
<td>2.1%</td>
</tr>
<tr>
<td>&gt;= 456 Days</td>
<td>21.4%</td>
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<tr>
<td><strong>Total % of Portfolio:</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond Rating Analysis</th>
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<tr>
<td>AAA</td>
<td>58.4%</td>
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<tr>
<td>AA</td>
<td>8.4%</td>
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<tr>
<td>A</td>
<td>33.2%</td>
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<tr>
<td>Baa</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td>100.0%</td>
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</table>
Florida PRIME Characteristics
Quarter Ending 6/30/2017

<table>
<thead>
<tr>
<th>Cash Flows as of 6/30/2017</th>
<th>Second Quarter</th>
<th>Fiscal YTD*</th>
</tr>
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<tbody>
<tr>
<td>Opening Balance</td>
<td>$10,255,188,006</td>
<td>$7,789,430,976</td>
</tr>
<tr>
<td>Participant Deposits</td>
<td>$3,578,147,239</td>
<td>$19,814,606,085</td>
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<tr>
<td>Gross Earnings</td>
<td>$28,536,262</td>
<td>$86,114,042</td>
</tr>
<tr>
<td>Participant Withdrawals</td>
<td>($4,531,714,093)</td>
<td>($18,359,368,604)</td>
</tr>
<tr>
<td>Fees</td>
<td>($807,827)</td>
<td>($1,432,915)</td>
</tr>
<tr>
<td>Closing Balance (6/30/2017)</td>
<td>$9,329,349,587</td>
<td>$9,329,349,587</td>
</tr>
</tbody>
</table>

| Change                     | ($925,838,419)  | $1,539,918,611 |

*Period July 2016 – June 2017

Florida PRIME Characteristics
Quarter Ending 6/30/2017

Portfolio Composition

- Bank Instrument - Fixed: 23.0%
- Repurchase Agreements: 1.3%
- Corporate Commercial Paper - Fixed: 9.9%
- Bank Instrument - Floating: 8.3%
- Mutual Funds - Floating: 8.4%
- Asset-Backed Commercial Paper - Fixed: 4.1%
- Corporate Notes - Floating: 16.6%
- Corporate Commercial Paper - Floating: 28.2%
- Asset-Backed Commercial Paper - Floating: 0.3%
## Effective Maturity Schedule

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-7 Days</td>
<td>42.3%</td>
</tr>
<tr>
<td>8-30 Days</td>
<td>18.9%</td>
</tr>
<tr>
<td>31-90 Days</td>
<td>26.4%</td>
</tr>
<tr>
<td>91-180 Days</td>
<td>9.1%</td>
</tr>
<tr>
<td>181+ Days</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

## S & P Credit Quality Composition

<table>
<thead>
<tr>
<th>Credit Quality</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>A-1+</td>
<td>67.0%</td>
</tr>
<tr>
<td>A-1</td>
<td>33.0%</td>
</tr>
<tr>
<td><strong>Total % of Portfolio:</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
# Table of Contents

1 Market Environment ........................................ 1
2 Total Fund .................................................. 17
3 Global Equity .............................................. 27
4 Domestic Equities .......................................... 29
5 Foreign Equities ........................................... 33
6 Global Equities ........................................... 37
7 Fixed Income ................................................. 39
8 Private Equity ............................................... 43
9 Real Estate .................................................. 47
10 Strategic Investments ....................................... 51
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12 Appendix .................................................... 55
The momentum triggered by the prospects of US reflationary policies that carried global equity markets higher in late 2016 and earlier this year stuttered and was ultimately replaced by strong corporate and economic fundamentals. Global equity markets returned 4.25% in Q2 2017. Performance was, however, far more varied on both a regional and sector level.

All the regions generated positive returns with the Developed Europe (excluding the UK) being the strongest performing region, returning 8.75% in the second quarter of 2017. Much of the return, however, was due to the weakness of the US dollar. Political risk within continental Europe subsided following the win of pro-EU candidate Emmanuel Macron which encouraged greater risk appetite in the region.
U.S. Equity Markets

The Russell 3000 Index returned 3.02% during the second quarter and returned 18.51% over the one-year period. During the second quarter, the Healthcare sector was the strongest performer, posting a return of 7.27%. Conversely, Energy and Utilities were the weakest and the only sectors which posted negative returns in Q2 2017, falling 7.36% and 1.33% respectively.

Performance across the market capitalization spectrum was positive over the quarter. A similar trend to the first quarter of 2017 was observed as Growth stocks outperformed Value stocks across the market capitalization spectrum. In particular, small-cap Value stocks underperformed, returning 0.67% while large-cap Growth stocks was the standout performer returning 4.83%.

U.S. Fixed Income Markets

The Bloomberg Barclays Aggregate Bond returned 1.45% in the second quarter of 2017. Corporate bonds outperformed with a return of 2.54%, driven by lower government bond yields and narrowing credit spreads. ABS bonds returned the least at only 0.60%.

Baa bonds outperformed High Yield bonds and all the other investment grade corporate bonds across different credit qualities. Over the year, High Yield bonds have been the strongest performer, returning 12.70%.

Longer duration bonds outperformed as the US yield curve flattened over the quarter.
U.S. Fixed Income Markets

The Treasury yield curve flattened over the quarter. Short maturity bond yields continued to rise as the US Federal Reserve (Fed) hiked the federal funds rate for a third successive quarter. Yields of long maturity bonds fell as inflation expectations decreased amid falling oil prices and concerns over the implementation of reflationary policies.

The 10-year U.S. Treasury yield ended the quarter at 2.31%, 9 basis points lower than its level at the beginning of the quarter. The 10-year TIPS yield rose by 15 basis points over the quarter and ended the period at 0.58%.

European Fixed Income Markets

In the Eurozone, bond spreads fell during the second quarter of 2017 with yields falling across the Eurozone periphery (except for Italy). German bund yields rose by 14bps over the quarter with major rise coming towards end of the quarter following a hawkish twist in European Central Bank sentiment, as the ECB Governor intimated that tapering of the extensive Quantitative Easing policy may be on the cards sooner than initially expected.

Furthermore, the election of Emmanuel Macron stemmed the rising tide of populism in European politics and helped to narrow both French and other European government bond yields from German Bund yields.

The bailout of Greek debt led to a larger narrowing of 161bps over the quarter while stronger than expected economic data led to a narrowing of Portuguese government bond yields relative to German Bund yields.
Credit Spreads

During the second quarter, increased risk appetite saw a further narrowing of credit spreads which fell across all areas of the credit market except for MBS bonds which rose by 5 basis points.

High Yield bonds spreads (-19 basis points) fell by the most over the quarter, followed by spreads on Long Credit bonds (-11 basis points). After falling by over 30bps last quarter, movements Emerging Market bond spreads were more muted with a narrowing of only 2 basis points.

<table>
<thead>
<tr>
<th>Spread (bps)</th>
<th>6/30/2017</th>
<th>3/31/2017</th>
<th>6/30/2016</th>
<th>Quarterly Change (bps)</th>
<th>1-Year Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Aggregate</td>
<td>43</td>
<td>44</td>
<td>55</td>
<td>-1</td>
<td>-12</td>
</tr>
<tr>
<td>Long Gov't</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Long Credit</td>
<td>157</td>
<td>168</td>
<td>215</td>
<td>-11</td>
<td>-58</td>
</tr>
<tr>
<td>Long Gov't/Credit</td>
<td>94</td>
<td>101</td>
<td>130</td>
<td>-7</td>
<td>-36</td>
</tr>
<tr>
<td>MBS</td>
<td>32</td>
<td>27</td>
<td>27</td>
<td>5</td>
<td>5</td>
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<tr>
<td>CMBS</td>
<td>74</td>
<td>77</td>
<td>98</td>
<td>-3</td>
<td>-24</td>
</tr>
<tr>
<td>ABS</td>
<td>46</td>
<td>54</td>
<td>61</td>
<td>-8</td>
<td>-15</td>
</tr>
<tr>
<td>Corporate</td>
<td>109</td>
<td>118</td>
<td>156</td>
<td>-9</td>
<td>-47</td>
</tr>
<tr>
<td>High Yield</td>
<td>364</td>
<td>383</td>
<td>594</td>
<td>-19</td>
<td>-230</td>
</tr>
<tr>
<td>Global Emerging Markets</td>
<td>255</td>
<td>257</td>
<td>345</td>
<td>-2</td>
<td>-90</td>
</tr>
</tbody>
</table>

Source: Bloomberg Barclays Live

Commodities

The Bloomberg Commodity index fell during the second quarter returning -3.00%.

Over the quarter, the best performing segment was Livestock with a return of 11.21%, followed by Grains (4.46%). Softs was the worst performing sector during the quarter with a return of -14.25%.

The Energy sector was particularly volatile over the quarter. High crude oil inventory levels in the US, driven up by US shale producers, offset the extension of agreed crude oil production cuts which temporarily drove the price of crude oil higher.
U.S. political uncertainties which could compromise the implementation of reflationary policies, alongside disappointing U.S. economic data dragged the U.S. dollar sharply lower over the quarter as measured through the broad trade weighted U.S. dollar index.

The U.S. dollar depreciated against all the major currencies (except for the yen) despite the Fed hiking the target range for the federal funds rate to 1.00%-1.25% in June as more pronounced expectations that the Bank of England and the ECB would begin tightening their respective monetary policy sent sterling and the euro higher against the U.S. dollar by 3.7% and 6.2% respectively. Meanwhile, the yen fell by 0.8% against the U.S. dollar.

Hedge fund performance was positive across strategies with the exception of Global Macro strategies. The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 1.14% and 0.20% respectively during the quarter.

Emerging Markets continued to be the best performer, with a return of 3.92% in the second quarter.
Sector returns are mature and moderating. U.S. Core real estate returns generating 1.71% over the second quarter, down 42 bps YOY and 211 bps lower than 2Q2015. The trailing one-year return of 7.9% is down 88bps since year-end and down 394 bps from this time last year. While falling significantly in the last 12-months, sector returns had been well above average for a long time and are now back in line with the long-run average range of 7-9%. Moderating returns are expected to continue, with income (versus appreciation) making up the lion’s share of the total return going forward.

After declining sharply in the quarter, U.S. REITs (FTSE NAREIT Equity REIT Index) gained 1.5% over the quarter, following a 2.2% gain in June. REITs continued to underperform broader equities up until June, as investors appeared to prefer sectors with a perceived better growth environment. Declining bond yields in June appeared to bolster REIT share prices although performance varied widely by property type. Slowing same-store NOI growth, driven by modest economic growth and increasing supply deliveries, is creating elevated uncertainty in pricing. That said, U.S. REITs are currently trading towards the middle of their five-year historical range relative to their underlying property assets, currently at a 4% premium to private market pricing.

One of the main leading indicators of a peaking market is the sector’s falling transaction activity, which has been especially present for portfolio and entity deals, down over 30% YOY. Sales volumes as well as pricing for individual assets, however, has remained fairly stable and elevated YTD. That said, stabilized assets are the most attractive to the marketplace while non-stabilized assets or assets in less than key locations often struggle to attract acceptable bids. A disconnect between buyers and sellers is growing, driven initially by a moderation in underlying fundamentals such as demand and rent growth. Given the advanced state of the current real estate cycle, investors’ return expectations have begun to decline, increasing the sector’s exit risk. The Fed hiked the federal funds rate target for a third successive quarter to 1.00%-1.25%. The Fed has also signaled for a further rate hike later in 2017. This coupled with the new administration’s uncertain policy directions and other global events, such as Britain’s recent election shakeup, are impacts yet to be fully reflected in sector dynamics or pricing.

*Indicates preliminary NFI-ODCE data gross of fees.
Executive Summary

- Performance of the Pension Plan, when measured against the Performance Benchmark, has been strong over short- and long-term time periods.
- Performance relative to peers is also competitive over short- and long-term time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
- Public market asset class investments do not significantly deviate from their broad market based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
- Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, or investment strategy.
- Asset allocation is monitored on a daily basis to ensure the actual asset allocation of the plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Hewitt Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

Performance Highlights

- During the second quarter, the Total Fund outperformed the Performance Benchmark. The Total Fund outperformed the Performance Benchmark during the trailing one-, three-, five-, and ten-year periods.

Asset Allocation

- The Fund assets total $153.6 billion as of June 30, 2017, which represents a $3.9 billion increase since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges at quarter-end.
- The Fund was modestly overweight to global equity, with corresponding underweights to fixed income and cash.

### Highlights

<table>
<thead>
<tr>
<th>As of June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Market Value</strong>&lt;br&gt;From April 1, 2017 to June 30, 2017</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
</tr>
<tr>
<td><strong>Beginning Market Value</strong></td>
</tr>
<tr>
<td><strong>Net Additions / Withdrawals</strong></td>
</tr>
<tr>
<td><strong>Investment Earnings</strong></td>
</tr>
<tr>
<td><strong>Ending Market Value</strong></td>
</tr>
<tr>
<td><strong>Summary of Cash Flow</strong></td>
</tr>
<tr>
<td><strong>Quarter</strong></td>
</tr>
<tr>
<td>1 Quarter</td>
</tr>
<tr>
<td>1 Quarter</td>
</tr>
<tr>
<td>1 Quarter</td>
</tr>
<tr>
<td>1 Quarter</td>
</tr>
</tbody>
</table>

*Period July 2016 - June 2017
Total Plan Performance Summary

As of June 30, 2017

Return Summary

- Total Fund
- Performance Benchmark
- Absolute Nominal Target Rate of Return

Asset Allocation & Performance

As of June 30, 2017

Allocation

<table>
<thead>
<tr>
<th></th>
<th>1 Quarter</th>
<th>Fiscal YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value ($)</td>
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<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Benchmark</td>
<td>6.7</td>
<td>3.2</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Absolute Nominal Target Rate of Return</td>
<td>1.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Equity*</td>
<td>56.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Asset Class Target</td>
<td>4.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Domestic Equities</td>
<td>26.5</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Asset Class Target</td>
<td>3.0</td>
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<td></td>
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<tr>
<td>Foreign Equities</td>
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<tr>
<td>Asset Class Target</td>
<td>5.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Global Equities</td>
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<td></td>
<td></td>
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<tr>
<td>Benchmark</td>
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<td></td>
<td></td>
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<td>Fixed Income</td>
<td>19.5</td>
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<td>Asset Class Target</td>
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<td>Private Equity</td>
<td>6.3</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Asset Class Target</td>
<td>5.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Real Estate</td>
<td>8.9</td>
<td></td>
<td></td>
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<tr>
<td>Asset Class Target</td>
<td>2.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Strategic Investments</td>
<td>8.2</td>
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<td>Short-Term Target</td>
<td>1.3</td>
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<tr>
<td>Cash</td>
<td>0.8</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Benchmark and universe descriptions can be found in the Appendix.

* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.
### Plan Sponsor Peer Group Analysis

**As of June 30, 2017**

**Total Fund**

All Public Plans > $1B

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Quarter</th>
<th>Fiscal YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.7 (10)</td>
<td>13.8 (24)</td>
<td>8.6 (18)</td>
<td>13.8 (24)</td>
<td>5.9 (11)</td>
<td>9.5 (19)</td>
<td>5.5 (24)</td>
<td>7.2 (63)</td>
<td>1.5 (11)</td>
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<tr>
<td>2015</td>
<td>3.2 (50)</td>
<td>13.0 (35)</td>
<td>8.0 (34)</td>
<td>13.0 (35)</td>
<td>4.9 (58)</td>
<td>8.6 (43)</td>
<td>4.8 (58)</td>
<td>7.1 (65)</td>
<td>0.3 (36)</td>
</tr>
<tr>
<td>5th Percentile</td>
<td>2.8</td>
<td>15.2</td>
<td>9.0</td>
<td>15.2</td>
<td>6.2</td>
<td>10.1</td>
<td>6.1</td>
<td>9.1</td>
<td>1.9</td>
</tr>
<tr>
<td>1st Quarter</td>
<td>3.5</td>
<td>13.8</td>
<td>8.4</td>
<td>13.8</td>
<td>5.6</td>
<td>9.3</td>
<td>5.5</td>
<td>8.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Median</td>
<td>3.1</td>
<td>12.3</td>
<td>7.6</td>
<td>12.3</td>
<td>5.0</td>
<td>8.4</td>
<td>4.9</td>
<td>7.5</td>
<td>0.0</td>
</tr>
<tr>
<td>3rd Quartile</td>
<td>2.8</td>
<td>11.0</td>
<td>6.9</td>
<td>11.0</td>
<td>4.4</td>
<td>7.5</td>
<td>4.5</td>
<td>6.6</td>
<td>-1.1</td>
</tr>
<tr>
<td>95th Percentile</td>
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<td>6.8</td>
<td>4.3</td>
<td>6.8</td>
<td>2.7</td>
<td>5.7</td>
<td>3.8</td>
<td>2.9</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

**Performance Benchmark**

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Quarter</th>
<th>Fiscal YTD</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
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**Population**

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<td>0.3 (36)</td>
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Parentheses contain percentile rankings.

### Universe Asset Allocation Comparison

**Total Fund**

As of June 30, 2017

- **Cash**: 0.8%
- **Fixed Income**: 17.9%
- **Real Estate**: 9.9%
- **Private Equity**: 6.4%
- **Strategic Investments**: 8.2%
- **Global Equity**: 57.8%

**BNY Mellon Public Funds > $1B Net Universe**

- **Cash**: 1.5%
- **Fixed Income**: 23.6%
- **Real Estate**: 6.1%
- **Alternative Investments**: 17.2%
- **Global Equity**: 31.6%
- **Global Equity**: 51.6%

*Global Equity Allocation: 26.5% Domestic Equities; 24.7% Foreign Equities; 5.7% Global Equities; 0.9% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

**Global Equity Allocation: 30.5% Domestic Equities; 21.1% Foreign Equities.**
Total Fund
As of June 30, 2017

Attribution

Global Equity
Fixed Income
Real Estate
Private Equity
Strategic Investments
Cash AA*
TAA
Other**
Total Fund

-100 -50 0 50 100

-100 -50 0 50 100

Basis Points
1-Year Ending 6/30/2017

Global Equity
Fixed Income
Real Estate
Private Equity
Strategic Investments
Cash AA*
TAA
Other**
Total Fund

24

Total Fund
As of June 30, 2017

Asset Allocation Compliance

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<th>Market Value ($)</th>
<th>Current Allocation (%)</th>
<th>Target Allocation (%)</th>
<th>Minimum Allocation (%)</th>
<th>Maximum Allocation (%)</th>
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| Global Equity* | 88,706,033,221 | 17.7% | 19.5% |
| Fixed Income   | 27,551,168,752 | -1.6% | 17.9% |
| Private Equity | 9,803,121,404  | 0.0%  | 6.4%  |
| Real Estate    | 13,674,719,791  | 0.1%  | 8.9%  |
| Strategic Investments | 12,654,071,256 | 0.0%  | 8.2%  |
| Cash           | 1,184,186,508   | -0.2% | 0.8%  |

* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.


**Other includes legacy accounts and unexplained differences due to methodology.
Global Equity* Portfolio Overview

As of June 30, 2017

Current Allocation

June 30, 2017: $88,706M

- Domestic Equities: 45.8%
- Foreign Equities: 42.8%
- Global Equities: 9.8%
- GE Liquidity: 1.6%
- Currency Managed Account: 0.0%

Return Summary

- 1 Quarter: 4.7, 4.3%
- 1 Year: 12.2, 11.4%
- 3 Years: 19.7, 19.1%
- 5 Years: 11.6, 10.8%
- 10 Years: 4.9, 4.1%
- Inception (10/1/92): 8.7, 8.3%

* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

Domestic Equities
Foreign Equities

As of June 30, 2017

Foreign Equities Portfolio Overview

Current Allocation
June 30, 2017: $37,991M

- Frontier Active 1.0%
- Broad Active 0.0%
- Emerging Active 23.8%
- Developed Passive 16.1%
- Developed Active 59.1%
- Frontier Passive 1.0%

Return Summary

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<th>1 Quarter</th>
<th>Year To Date</th>
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Asset Class Target

- Return

1. Year To Date
- 2016: 7.7 (34)
- 2015: 21.6 (25)
- 2014: 2.4 (35)
- 2013: 8.7 (39)
- 2012: 2.7 (12)
- 2011: 16.3 (20)
- 2010: 4.1 (37)
- 2009: -3.4 (56)
- 2008: -3.0 (39)

- 5th Percentile
- 2016: 7.723.5
- 2015: 20.16
- 2014: 8.98
- 2013: 2.42
- 2012: 16.06
- 2011: 4.76
- 2010: 3.32
- 2009: 0.04
- 2008: -1.20
- 2007: -1.90

- 1st Quartile
- 2016: 7.021.6
- 2015: 19.12
- 2014: 9.18
- 2013: 2.82
- 2012: 8.92
- 2011: 4.79
- 2010: 3.49
- 2009: 0.34
- 2008: -1.20
- 2007: -1.90

- Median
- 2016: 6.320.1
- 2015: 19.12
- 2014: 9.18
- 2013: 2.82
- 2012: 8.92
- 2011: 4.79
- 2010: 3.49
- 2009: 0.34
- 2008: -1.20
- 2007: -1.90

- 3rd Quartile
- 2016: 5.719.1
- 2015: 19.12
- 2014: 9.18
- 2013: 2.82
- 2012: 8.92
- 2011: 4.79
- 2010: 3.49
- 2009: 0.34
- 2008: -1.20
- 2007: -1.90

- 95th Percentile
- 2016: 4.714.7
- 2015: 14.72
- 2014: 7.66
- 2013: 0.60
- 2012: 12.80
- 2011: -0.9-6.7
- 2010: 2.1-6.7
- 2009: -4.3-6.7
- 2008: -4.1-6.7

- Population
- 2016: 706759513270645538
- 2015: 70645538
- 2014: 645538

Plan Sponsor Peer Group Analysis

As of June 30, 2017

All Public Plans > $1B-Intl. Equity Segment

- 1 Quarter
- 1 Year
- 3 Years
- 5 Years
- 10 Years
- Year To Date
- 2016
- 2015
- 2014

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Parentheses contain percentile rankings.
Global Equities

As of June 30, 2017

Global Equities Performance Summary

Return Summary

Fixed Income
Current Allocation
June 30, 2017: $27,551M

Active External 34.1%
Fixed Income Liquidity 4.6%
Passive Internal 38.7%
Other 0.0%
Active Internal 22.6%

Return Summary

Plan Sponsor Peer Group Analysis
As of June 30, 2017
All Public Plans > $1B-US Fixed Income Segment

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<tr>
<td>1939</td>
<td>1.9 (90)</td>
<td>1.2 (9)</td>
</tr>
</tbody>
</table>
Overview

FRS Private Equity by Market Value*

- Venture Capital: 21.3%
- LBO: 68.7%
- Other**: 10.0%

Preqin Private Equity Strategies by Market Value**

- Venture Capital: 15.5%
- LBO: 46.8%
- Other**: 37.7%

Overview

Private Equity As of June 30, 2017

FRS Private Equity by Market Value* - Allocation data is as of June 30, 2017.

Preqin Private Equity Strategies by Market Value** - Allocation data is as of June 30, 2015, from the Preqin database.

FRS Private Equity consists of Growth Capital, Secondary, PE Cash, and PE Transition.

Preqin universe is comprised of 10,000 private equity funds representing $3.8 trillion.
As of June 30, 2017

Private Equity Dollar-Weighted Investment Results

Since Inception

<table>
<thead>
<tr>
<th>Rate of Return (%)</th>
<th>Private Equity</th>
<th>Legacy Portfolio*</th>
<th>Post-AC Portfolio**</th>
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<td>9.0</td>
<td>10.8</td>
<td>4.4</td>
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<td>12.2</td>
<td>13.2</td>
<td>12.0</td>
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Private Equity Legacy Portfolio* Post-AC Portfolio**

As of June 30, 2017

Since Inception

<table>
<thead>
<tr>
<th>Rate of Return (%)</th>
<th>Private Equity</th>
<th>Legacy Portfolio*</th>
<th>Post-AC Portfolio**</th>
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</thead>
<tbody>
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<tr>
<td>13.2</td>
<td>13.2</td>
<td>12.2</td>
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</tr>
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</table>

Private Equity Secondary Target***

---

*The Inception Date for the Legacy Portfolio is January 1989.
**The Inception Date for the Post-AC Portfolio is September 2000.
***The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary Target data is on a quarterly lag.

Real Estate
Overview

Real Estate As of March 31, 2017

*Property Allocation data is as of March 31, 2017. The FRS chart includes only the FRS private real estate assets. Property type information for the REIT portfolios is not included.

**Other for the FRS consists of Hotel, Land, Preferred Equity, Agriculture, Self-Storage and Senior Housing.

***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Health Care, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

---

Real Estate As of June 30, 2017

Real Estate Portfolio Overview

Current Allocation

June 30, 2017: $13,675M

Return Summary

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<thead>
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<th>Year</th>
<th>Real Estate</th>
<th>Asset Class Target</th>
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<tr>
<td>10</td>
<td>6.4</td>
<td>5.2</td>
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Real Estate

Principal Investments Return Summary as of June 30, 2017

Pooled Funds Return Summary as of June 30, 2017

REITs Return Summary as of June 30, 2017

Strategic Investments
Strategic Investments

As of June 30, 2017

Strategic Investments Portfolio Overview

Current Allocation

June 30, 2017: $12.654M

- SI Cash AA 0.6%
- SI Equity 13.7%
- SI Real Assets 18.7%
- SI Diversifying Strategies 18.5%
- SI Flexible Mandates 13.7%
- SI Special Situations 5.6%
- SI Debt 29.3%

Return Summary

- 1 Quarter Return: 2.2%
- 1 Year Return: 9.9%
- 3 Years Return: 6.6%
- 5 Years Return: 4.0%
- Inception 6/1/07 Return: 2.2%

Strategic Investments

Cash
Return Summary

As of June 30, 2017

Cash Performance Summary

Cash

MoneyNet First Tier Institutional Money Market Funds Net Index

0.0
0.2
0.4
0.6
0.8
1.0
1.2
-0.2
-0.4
-0.6

1 Quarter
1 Year
1 Year To Date
3 Years
5 Years
10 Years

Return

0.2
0.4
0.6
0.8
1.0
1.2

0.2
0.4
0.6

Cash

MoneyNet First Tier Institutional Money Market Funds Net Index

Appendix
As of June 30, 2017

Appendix

Total FRS Assets

Performance Benchmark: A combination of the Global Equity Target, the Barclays Capital U.S. Intermediate Aggregate Index, the Private Equity Target Index, the Strategic Investments Target Benchmark, and the iMoneyNet First Tier Institutional Money Market Funds Net Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Please refer to section VII, Performance Measurement in the FRS Defined Benefit Plan Investment Policy Statement for more details on the calculation of the Performance Benchmark. Prior to October 1, 2013, the Performance benchmark was a combination of the Global Equity Target, the Barclays Aggregate Bond Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the MoneyNet First Tier Institutional Money Market Funds Net Index. The short-term target policy allocations to the Strategic investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Prior to July 2010, the Performance Benchmark was a combination of the Russell 3000 Index, the Foreign Equity Target Index, the Strategic Investments Target Benchmark, the Barclays Aggregate Bond Index, the Real Estate Investments Target Index, the Private Equity Target Index, the Barclays U.S. High Yield Bar/B 2% Issuer Capped Index, and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. During this time, the short-term target policy allocations to Strategic Investments, Real Estate and Private Equity asset classes were floating and based on the actual average monthly balance of the Strategic Investments, Real Estate and Private Equity asset classes. The target weights shown for Real Estate and Private Equity were the allocations that the asset classes were centered around. The actual target weight floated around this target month to month based on changes in asset values.

Total Global Equity

Performance Benchmark: - A custom version of the MSCI All Country World Investable Market Index, adjusted to exclude companies divested under the provisions of the Protecting Florida’s Investments Act (PFIA). Prior to July 2010, the asset class benchmark was a weighted average of the underlying Domestic Equities, Foreign Equities and Global Equities historical benchmarks.

Total Domestic Equities

Performance Benchmark: - The Russell 3000 Index. Prior to July 1, 2002, the benchmark was the Wilshire 2500 Stock Index. Prior to January 1, 2001, the benchmark was the Wilshire 2500 Stock Index ex-Tobacco. Prior to May 1, 1997, the benchmark was the Wilshire 2500 Stock Index. Prior to September 1, 1994, the benchmark was the S&P 500 Stock Index.

Total Foreign Equities

Performance Benchmark: - A custom version of the MSCI ACWI ex-U.S. Investable Market Index adjusted to exclude companies divested under the PFIA. Prior to April 1, 2008, it was the MSCI All Country World Index ex-U.S. Investable Market Index. Prior to September 24, 2007, the target was the MSCI All Country World ex-U.S. Free Index. Prior to November 1, 1999, the benchmark was the MSCI Europe, Australasia and Far East (EAFE) Foreign Stock Index and 15% IFCI Emerging Markets Index with a half weight in Malaysia. Prior to March 31, 1995, the benchmark was the EAFE Index.

Total Global Equities

Performance Benchmark: - Aggregated based on each underlying manager's individual benchmark. The calculation accounts for the actual weight and the benchmark return. The benchmarks used for the underlying managers include both the MSCI FSB All Country World ex-Sudan ex-Iran Net Index and MSCI FSB All Country World ex-Sudan ex-Iran Net Investable Market Index (IMI).

Total Fixed Income

Performance Benchmark: - The Barclays Capital U.S. Intermediate Aggregate Index. Prior to October 1, 2013, it was the Barclays U.S. Aggregate Bond Index. Prior to June 1, 2007, it was the Fixed Income Management Aggregate (FIMA). Prior to July 1, 1999, the benchmark was the Florida High Yield Extended Duration Index. Prior to July 31, 1997, the benchmark was the Florida Extended Duration Index. Prior to July 1, 1989, the Salomon Brothers Broad Investment-Grade Bond Index was the benchmark. For calendar year 1985, the performance benchmark was 70% Shearson Lehman Extended Duration and 30% Salomon Brothers Mortgage Index.

Total Private Equity

Performance Benchmark: - The MSCI All Country World Investable Market Index (ACWI IMI), adjusted to reflect the provisions of the Protecting Florida’s Investments Act (PFIA), plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2014, the benchmark was the domestic equities target index return (Russell 3000 Index) plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2010, it was the domestic equities target index return plus a fixed premium return of 450 basis points per annum. Prior to November 1, 1999, Private Equities was part of the Domestic Equities asset class and its benchmark was the domestic equities target index return plus 750 basis points.

Total Real Estate

Performance Benchmark: - The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%. Prior to July 1, 2014, the benchmark was a combination of 90% NCREIF ODCE Index, net of fees, and 10% FTSE EPRA/NAREIT Developed Index, net of fees. Prior to July 1, 2010, it was a combination of 90% NCREIF ODCE Index, gross of fees, and 10% Dow Jones U.S. Select REPI. Prior to June 1, 2007, it was the Consumer Price Index plus 450 basis points annually. Prior to July 1, 2003, the benchmark was the Dow Jones U.S. Select Real Estate Securities Index Un-Levered. Prior to November 1, 1999, the benchmark was the Russell-NCREIF Property Index.

Total Strategic Investments

Performance Benchmark: - Long-term, 5% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmarks.

Total Cash

Performance Benchmark: - The iMoneyNet First Tier Institutional Money Market Funds Net Index. Prior to July 1, 2010, it was the iMoneyNet First Tier Institutional Money Market Funds Gross Index. Prior to June 1, 2007, it was the return of the Merrill Lynch 90-Day (Auction Average) Treasury Bill Index.
Description of Benchmarks

Barclays Capital U.S. Intermediate Aggregate Bond Index - A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

Consumer Price Index (CPI) - The CPI, an index consisting of a fixed basket of goods bought by the typical consumer and used to measure consumer inflation.

FTSE EPRA/NAREIT Developed Index - An index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposition and development of income-producing real estate. This index covers the four primary core asset classes (Industrial, Retail, Office, and Apartment).

iMoneyNet First Tier Institutional Money Market Funds Net Index - An average of non-governmental institutional funds that do not hold any second tier securities. It includes money market mutual funds, net of fees, that invest in commercial paper, bank obligations and short-term investments in the highest ratings category and is open to corporations and fiduciaries only.

MSCI All Country World Investable Market Index - A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. This investable market index contains constituents from the large, mid, and small cap size segments and targets a coverage range around 99% of free-float adjusted market capitalization.

NCREIF ODCE Property Index - The NCREIF ODCE is a capitalization-weighted, gross of fee, time-weighted return index. The index is a summation of open-end funds, which NCREIF defines as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests.

Russell 3000 Index - A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This represents most publicly traded, liquid U.S. stocks.

Description of Universes

Total Fund - A universe comprised of 82 total fund portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $1.4 trillion as of quarter-end and the average market value was $16.5 billion.

Domestic Equity - A universe comprised of 72 total domestic equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $323.3 billion as of quarter-end and the average market value was $3.9 billion.

Foreign Equity - A universe comprised of 70 total international equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $243.8 billion as of quarter-end and the average market value was $3.0 billion.

Fixed Income - A universe comprised of 69 total fixed income portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $342.7 billion as of quarter-end and the average market value was $4.2 billion.

Real Estate - A universe comprised of 50 total real estate portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $77.8 billion as of quarter-end and the average market value was $0.9 billion.

Private Equity - An appropriate universe for private equity is unavailable.

Strategic Investments - An appropriate universe for strategic investments is unavailable.
Appendix

Explanation of Exhibits

Quarterly and Cumulative Excess Performance - The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

Ratio of Cumulative Wealth Graph - An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis - An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.
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Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer

Disclaimers
Table Of Contents

1  FRS Investment Plan 1
2  Appendix 11
### Asset Allocation & Performance

#### As of June 30, 2017

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<thead>
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<th>Allocation</th>
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<td>FRS Investment Plan</td>
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<th>Performance (%)</th>
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<td>1 Quarter</td>
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<td>FRS Retirement Fund</td>
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### Asset Allocation & Performance

#### As of June 30, 2017

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<td>Fixed Income</td>
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<td>Domestic Equity</td>
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<th>Performance (%)</th>
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<tr>
<td>1 Quarter</td>
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### Asset Allocation & Performance

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<td>Market</td>
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<td>Total Foreign and Global Equities Index</td>
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<td>FRS Foreign Stock Index Fund</td>
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<td>American Funds New Perspective Fund</td>
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<td>FRS Self-Dir Brokerage Acct</td>
<td>511,788,891</td>
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The returns for the Retirement Date Funds, Real Assets Fund, Core Plus Fixed Income Fund, U.S. Large Cap Equity Fund, and U.S. Small/Mid Cap Equity Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.
### Asset Allocation & Performance

#### As of June 30, 2017

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<td><strong>FRS Money Market Fund</strong></td>
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<td>0.1 (23)</td>
<td>0.1 (23)</td>
<td>0.2 (7)</td>
<td>0.7 (3)</td>
<td>3.0 (5)</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>FRS Real Assets Fund</strong></td>
<td>6.0</td>
<td>-7.9</td>
<td>3.2</td>
<td>-9.1</td>
<td>9.1</td>
<td>7.4</td>
<td>11.7</td>
<td>16.0</td>
<td>-</td>
</tr>
<tr>
<td><strong>FRS Custom Real Assets Index</strong></td>
<td>6.2</td>
<td>-5.0</td>
<td>1.8</td>
<td>-8.9</td>
<td>6.6</td>
<td>4.6</td>
<td>13.0</td>
<td>17.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>4.7 (9)</td>
<td>0.3 (78)</td>
<td>4.7 (3)</td>
<td>-1.1 (85)</td>
<td>6.0 (36)</td>
<td>6.7 (1)</td>
<td>7.6 (30)</td>
<td>11.7 (55)</td>
<td>1.4 (51)</td>
</tr>
<tr>
<td><strong>Total Bond Index</strong></td>
<td>4.3 (11)</td>
<td>0.1 (84)</td>
<td>4.9 (2)</td>
<td>-1.2 (88)</td>
<td>4.8 (62)</td>
<td>7.4 (1)</td>
<td>7.0 (35)</td>
<td>8.9 (78)</td>
<td>1.9 (49)</td>
</tr>
<tr>
<td><strong>FRS U.S. Bond Enhanced Index Fund</strong></td>
<td>2.7 (3)</td>
<td>0.7 (33)</td>
<td>6.2 (35)</td>
<td>-2.0 (16)</td>
<td>4.4 (14)</td>
<td>7.9 (67)</td>
<td>6.7 (48)</td>
<td>6.5 (6)</td>
<td>5.9 (87)</td>
</tr>
<tr>
<td><strong>Bloomberg Barclays U.S. Aggregate</strong></td>
<td>2.6 (3)</td>
<td>0.5 (43)</td>
<td>6.0 (36)</td>
<td>-2.0 (17)</td>
<td>4.2 (15)</td>
<td>7.8 (67)</td>
<td>6.5 (49)</td>
<td>5.9 (7)</td>
<td>5.2 (88)</td>
</tr>
<tr>
<td><strong>PIM Intermediate Duration Pool Fund</strong></td>
<td>3.1 (31)</td>
<td>0.9 (30)</td>
<td>3.4 (20)</td>
<td>-0.5 (63)</td>
<td>4.9 (59)</td>
<td>5.9 (12)</td>
<td>7.0 (35)</td>
<td>11.9 (54)</td>
<td>-1.7 (56)</td>
</tr>
<tr>
<td><strong>FRS Core Plus Fixed Income Fund</strong></td>
<td>2.0 (69)</td>
<td>1.2 (16)</td>
<td>4.1 (6)</td>
<td>-1.0 (83)</td>
<td>3.6 (79)</td>
<td>6.0 (11)</td>
<td>6.1 (48)</td>
<td>6.5 (86)</td>
<td>4.9 (11)</td>
</tr>
<tr>
<td><strong>FRS Core Custom-Plus Fixed Income Index</strong></td>
<td>5.7 (27)</td>
<td>0.1 (46)</td>
<td>4.6 (88)</td>
<td>0.8 (20)</td>
<td>11.1 (16)</td>
<td>4.6 (88)</td>
<td>10.1 (28)</td>
<td>21.6 (20)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Domestic Equity</strong></td>
<td>13.7 (27)</td>
<td>0.7 (32)</td>
<td>11.5 (43)</td>
<td>35.2 (44)</td>
<td>16.9 (34)</td>
<td>0.3 (37)</td>
<td>20.4 (24)</td>
<td>30.9 (51)</td>
<td>-36.5 (33)</td>
</tr>
<tr>
<td><strong>Total U.S. Equities Index</strong></td>
<td>14.9 (21)</td>
<td>-0.5 (43)</td>
<td>11.1 (47)</td>
<td>34.0 (55)</td>
<td>16.5 (37)</td>
<td>-0.1 (40)</td>
<td>19.3 (30)</td>
<td>28.4 (64)</td>
<td>-36.5 (33)</td>
</tr>
<tr>
<td><strong>FRS U.S. Stock Market Index Fund</strong></td>
<td>12.9 (26)</td>
<td>0.6 (51)</td>
<td>12.6 (33)</td>
<td>33.6 (40)</td>
<td>16.5 (39)</td>
<td>1.0 (39)</td>
<td>17.1 (17)</td>
<td>28.6 (51)</td>
<td>-37.2 (49)</td>
</tr>
<tr>
<td><strong>Russell 3000 Index</strong></td>
<td>12.7 (27)</td>
<td>0.5 (51)</td>
<td>12.6 (33)</td>
<td>33.6 (40)</td>
<td>16.4 (40)</td>
<td>1.0 (39)</td>
<td>16.9 (19)</td>
<td>28.3 (52)</td>
<td>-37.3 (51)</td>
</tr>
<tr>
<td><strong>FRS U.S. Large Cap Equity Fund</strong></td>
<td>9.3 (58)</td>
<td>2.7 (30)</td>
<td>12.8 (42)</td>
<td>36.4 (22)</td>
<td>17.2 (24)</td>
<td>1.2 (45)</td>
<td>17.8 (19)</td>
<td>30.5 (36)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Russell 1000 Index</strong></td>
<td>12.1 (33)</td>
<td>0.9 (43)</td>
<td>13.2 (33)</td>
<td>33.1 (47)</td>
<td>16.4 (31)</td>
<td>1.5 (41)</td>
<td>16.1 (31)</td>
<td>28.4 (43)</td>
<td>-</td>
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<tr>
<td><strong>FRS U.S. Small/Mid Cap Equity Fund</strong></td>
<td>19.9 (24)</td>
<td>-1.1 (37)</td>
<td>8.6 (28)</td>
<td>37.1 (46)</td>
<td>18.7 (26)</td>
<td>-0.9 (37)</td>
<td>29.6 (25)</td>
<td>37.0 (41)</td>
<td>-</td>
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<tr>
<td><strong>FRS Custom Small/Mid Cap Index</strong></td>
<td>19.6 (25)</td>
<td>-4.2 (72)</td>
<td>7.7 (34)</td>
<td>22.0 (98)</td>
<td>15.3 (53)</td>
<td>1.1 (23)</td>
<td>21.3 (86)</td>
<td>26.4 (86)</td>
<td>-</td>
</tr>
</tbody>
</table>

The returns for the Retirement Date Funds, Real Assets Fund, Core Plus Fixed Income Fund, U.S. Large Cap Equity Fund, and U.S. Small/Mid Cap Equity Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.
<table>
<thead>
<tr>
<th>Fund Type</th>
<th>U.S. Equity</th>
<th>Non-U.S. Equity</th>
<th>U.S. Fixed Income</th>
<th>Real Assets</th>
<th>Cash</th>
<th>Brokerage</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Retirement Fund</td>
<td>63,356,302</td>
<td>25,743,872</td>
<td>136,159,469</td>
<td>129,710,170</td>
<td></td>
<td></td>
<td>398,246,845</td>
<td>3.5%</td>
</tr>
<tr>
<td>FRS 2015 Retirement Date Fund</td>
<td>62,349,602</td>
<td>25,737,247</td>
<td>117,485,810</td>
<td>107,131,630</td>
<td></td>
<td></td>
<td>344,476,650</td>
<td>3.0%</td>
</tr>
<tr>
<td>FRS 2020 Retirement Date Fund</td>
<td>141,769,330</td>
<td>131,224,504</td>
<td>187,453,077</td>
<td>123,386,287</td>
<td></td>
<td></td>
<td>689,823,677</td>
<td>5.9%</td>
</tr>
<tr>
<td>FRS 2025 Retirement Date Fund</td>
<td>194,046,318</td>
<td>170,322,433</td>
<td>187,500,213</td>
<td>87,726,743</td>
<td></td>
<td></td>
<td>649,827,328</td>
<td>5.6%</td>
</tr>
<tr>
<td>FRS 2030 Retirement Date Fund</td>
<td>201,871,187</td>
<td>180,259,209</td>
<td>144,442,723</td>
<td>47,587,483</td>
<td></td>
<td></td>
<td>560,001,852</td>
<td>5.0%</td>
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<tr>
<td>FRS 2035 Retirement Date Fund</td>
<td>208,595,539</td>
<td>192,549,729</td>
<td>115,181,234</td>
<td>23,533,856</td>
<td></td>
<td></td>
<td>524,040,337</td>
<td>4.4%</td>
</tr>
<tr>
<td>FRS 2040 Retirement Date Fund</td>
<td>199,733,304</td>
<td>184,790,099</td>
<td>72,010,481</td>
<td>10,280,708</td>
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<td></td>
<td>467,950,490</td>
<td>4.0%</td>
</tr>
<tr>
<td>FRS 2045 Retirement Date Fund</td>
<td>193,333,425</td>
<td>183,667,963</td>
<td>53,013,300</td>
<td>10,279,372</td>
<td></td>
<td></td>
<td>446,599,206</td>
<td>3.8%</td>
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<tr>
<td>FRS 2050 Retirement Date Fund</td>
<td>108,811,370</td>
<td>102,371,261</td>
<td>29,276,602</td>
<td>5,611,349</td>
<td></td>
<td></td>
<td>243,071,661</td>
<td>2.1%</td>
</tr>
<tr>
<td>FRS 2055 Retirement Date Fund</td>
<td>42,102,345</td>
<td>38,758,347</td>
<td>11,327,985</td>
<td>2,171,197</td>
<td></td>
<td></td>
<td>94,399,871</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

**Total Retirement Date Funds**

$1,419,386,608 $1,310,129,945 $1,053,725,676 $548,844,769 $929,509,835 $511,788,891 $9,967,198,945 $100.0%

The returns for the Retirement Date Funds, Real Assets Fund, Core Plus Fixed Income Fund, U.S. Large Cap Equity Fund, and U.S. Small/Mid Cap Equity Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.
## Multi Timeperiod Statistics

As of June 30, 2017

<table>
<thead>
<tr>
<th>Plan</th>
<th>5 Years Return</th>
<th>5 Years Standard Deviation</th>
<th>5 Years Sharpe Ratio</th>
<th>5 Years Tracking Error</th>
<th>5 Years Information Ratio</th>
<th>5 Years Up Market Capture</th>
<th>5 Years Down Market Capture</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS Investment Plan</td>
<td>7.95</td>
<td>6.40</td>
<td>1.21</td>
<td>0.42</td>
<td>0.72</td>
<td>101.83</td>
<td>98.79</td>
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<tr>
<td>FRS Retirement Fund</td>
<td>4.39</td>
<td>4.82</td>
<td>0.88</td>
<td>1.32</td>
<td>0.09</td>
<td>107.01</td>
<td>111.43</td>
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<tr>
<td>FRS 2015 Retirement Date Fund</td>
<td>5.12</td>
<td>5.12</td>
<td>0.97</td>
<td>1.11</td>
<td>0.11</td>
<td>105.18</td>
<td>108.45</td>
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<tr>
<td>FRS 2020 Retirement Date Fund</td>
<td>6.55</td>
<td>5.80</td>
<td>1.10</td>
<td>0.81</td>
<td>0.24</td>
<td>104.51</td>
<td>106.47</td>
</tr>
<tr>
<td>FRS 2025 Retirement Date Fund</td>
<td>7.92</td>
<td>6.47</td>
<td>1.19</td>
<td>0.56</td>
<td>0.42</td>
<td>102.48</td>
<td>101.64</td>
</tr>
<tr>
<td>FRS 2030 Retirement Date Fund</td>
<td>9.26</td>
<td>7.23</td>
<td>1.24</td>
<td>0.43</td>
<td>0.61</td>
<td>101.65</td>
<td>99.69</td>
</tr>
<tr>
<td>FRS 2035 Retirement Date Fund</td>
<td>10.41</td>
<td>8.15</td>
<td>1.24</td>
<td>0.48</td>
<td>0.73</td>
<td>101.90</td>
<td>99.48</td>
</tr>
<tr>
<td>FRS 2040 Retirement Date Fund</td>
<td>10.57</td>
<td>8.41</td>
<td>1.22</td>
<td>0.50</td>
<td>0.56</td>
<td>101.13</td>
<td>98.82</td>
</tr>
<tr>
<td>FRS 2045 Retirement Date Fund</td>
<td>10.66</td>
<td>8.48</td>
<td>1.22</td>
<td>0.56</td>
<td>0.44</td>
<td>100.31</td>
<td>97.85</td>
</tr>
<tr>
<td>FRS 2050 Retirement Date Fund</td>
<td>10.67</td>
<td>8.50</td>
<td>1.22</td>
<td>0.55</td>
<td>0.46</td>
<td>100.65</td>
<td>98.03</td>
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<tr>
<td>FRS 2055 Retirement Date Fund</td>
<td>10.66</td>
<td>8.49</td>
<td>1.22</td>
<td>0.55</td>
<td>0.45</td>
<td>100.57</td>
<td>97.98</td>
</tr>
<tr>
<td>FRS Money Market Fund</td>
<td>0.38</td>
<td>0.08</td>
<td>4.59</td>
<td>0.02</td>
<td>8.65</td>
<td>234.36</td>
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<tr>
<td>FRS Real Assets Fund</td>
<td>-0.35</td>
<td>6.13</td>
<td>-0.05</td>
<td>1.68</td>
<td>-0.03</td>
<td>112.12</td>
<td>112.69</td>
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<tr>
<td>FRS U.S. Bond Enhanced Index Fund</td>
<td>2.33</td>
<td>2.88</td>
<td>0.75</td>
<td>0.11</td>
<td>1.07</td>
<td>102.25</td>
<td>99.83</td>
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<tr>
<td>FIAM Intermediate Duration Pool Fund</td>
<td>2.22</td>
<td>2.22</td>
<td>0.93</td>
<td>0.57</td>
<td>0.60</td>
<td>112.07</td>
<td>105.94</td>
</tr>
<tr>
<td>FRS Core Plus Fixed Income Fund</td>
<td>3.91</td>
<td>3.27</td>
<td>1.14</td>
<td>0.76</td>
<td>0.54</td>
<td>114.86</td>
<td>119.05</td>
</tr>
<tr>
<td>FRS U.S. Stock Market Index Fund</td>
<td>14.68</td>
<td>9.81</td>
<td>1.43</td>
<td>0.05</td>
<td>1.67</td>
<td>100.29</td>
<td>99.72</td>
</tr>
<tr>
<td>FRS U.S. Large Cap Equity Fund</td>
<td>15.01</td>
<td>10.76</td>
<td>1.34</td>
<td>2.73</td>
<td>0.15</td>
<td>105.12</td>
<td>109.44</td>
</tr>
<tr>
<td>FRS U.S. Small/Mid Cap Equity Fund</td>
<td>15.44</td>
<td>11.91</td>
<td>1.26</td>
<td>2.46</td>
<td>1.48</td>
<td>114.66</td>
<td>95.45</td>
</tr>
<tr>
<td>FRS Foreign Stock Index Fund</td>
<td>8.76</td>
<td>11.39</td>
<td>0.78</td>
<td>1.36</td>
<td>0.20</td>
<td>99.24</td>
<td>96.41</td>
</tr>
<tr>
<td>American Funds New Perspective Fund</td>
<td>13.04</td>
<td>10.09</td>
<td>1.25</td>
<td>2.83</td>
<td>0.81</td>
<td>105.56</td>
<td>86.17</td>
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<tr>
<td>American Funds Euro-Pacific Growth Fund</td>
<td>9.61</td>
<td>10.54</td>
<td>0.91</td>
<td>3.62</td>
<td>0.47</td>
<td>95.91</td>
<td>79.09</td>
</tr>
</tbody>
</table>

The returns for the Retirement Date Funds, Real Assets Fund, Core Plus Fixed Income Fund, U.S. Large Cap Equity Fund, and U.S. Small/Mid Cap Equity Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

## Appendix
**Benchmark Descriptions**

As of June 30, 2017

**Retirement Date Benchmarks** - A weighted average composite of the underlying components' benchmarks for each fund.

iMoneyNet 1st Tier Institutional Net Index - An index made up of the entire universe of money market mutual funds. The index currently represents over 1,300 funds, or approximately 99 percent of all money fund assets.

FRS Custom Real Assets Index - A monthly weighted composite of underlying indices for each TIPS and Real Assets fund. These indices include Barclays U.S. TIPS Index, MSCI World-AC World Index and the Bloomberg Commodity Total Return Index, NAREIT Developed Index, S&P Global Infrastructure Index, S&P Global Natural Resources Index.

Total Bond Index - A weighted average composite of the underlying benchmarks for each bond fund.

Barclays Aggregate Bond Index - A market value-weighted index consisting of government bonds, SEC-registered corporate bonds and mortgage-related and asset-backed securities with at least one year to maturity and an outstanding par value of $250 million or greater. This index is a broad measure of the performance of the investment grade U.S. fixed income market.

Barclays Intermediate Aggregate Bond Index - A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

FRS Custom Core-Plus Fixed Income Index - A monthly rebalanced blend of 80% Barclays U.S. Aggregate Bond Index and 20% Barclays U.S. High Yield Ba/B 1% Issuer Constrained Index.

Total U.S. Equities Index - A weighted average composite of the underlying benchmarks for each domestic equity fund.

Russell 3000 Index - A capitalization-weighted index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

FRS Custom Small/Mid Cap Index - A monthly rebalanced blend of 25% S&P 400 Index, 30% Russell 2000 Index, 25% Russell 2000 Value Index, and 20% Russell Mid Cap Growth Index.

Total Foreign and Global Equities Index - A weighted average composite of the underlying benchmarks for each foreign and global equity fund.

MSCI All Country World ex-U.S. IMI Index - A capitalization-weighted index of stocks representing 22 developed country stock markets and 23 emerging countries, excluding the U.S. market.

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI All Country World ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 21 emerging countries, but excluding the U.S.

**Descriptions of Universes**

As of June 30, 2017

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Money Market Fund - A money market universe calculated and provided by Lipper.

FRS U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Lipper.

FIAM Intermediate Duration Pool Fund - A broad intermediate-term fixed income universe calculated and provided by Lipper.

FRS Core Plus Fixed Income Fund - A core plus bond fixed income universe calculated and provided by Lipper.

FRS U.S. Stock Market Index Fund - A large cap blend universe calculated and provided by Lipper.

FRS U.S. Large Cap Equity Fund - A large cap universe calculated and provided by Lipper.

FRS U.S. Small/Mid Cap Equity Fund - A small/mid cap universe calculated and provided by Lipper.

FRS Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

American Funds New Perspective Fund - A global stock universe calculated and provided by Lipper.

American Funds Euro-Pacific Growth Fund - A foreign large blend universe calculated and provided by Lipper.
The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.

Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.

Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Notes

Disclaimers
Quarterly Investment Review
Visit the Aon Hewitt Retirement and Investment Blog (http://retirementandinvestmentblog.aon.com); sharing our best thinking.
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LCEF Total Fund

As of June 30, 2017

Total Plan Asset Summary

Change in Market Value
From April 1, 2017 to June 30, 2017

Summary of Cash Flow

<table>
<thead>
<tr>
<th>LCEF Total Fund</th>
<th>1 Quarter</th>
<th>Fiscal YTD*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Market Value</td>
<td>681,772,109</td>
<td>611,715,263</td>
</tr>
<tr>
<td>* Additions / Withdrawals</td>
<td>-5,544,445</td>
<td>-5,544,445</td>
</tr>
<tr>
<td>+ Investment Earnings</td>
<td>23,516,253</td>
<td>93,573,098</td>
</tr>
<tr>
<td>= Ending Market Value</td>
<td>699,743,916</td>
<td>699,743,916</td>
</tr>
</tbody>
</table>

*Period July 2016 - June 2017
As of June 30, 2017

Return Summary

Quarterly Excess Performance

Ratio of Cumulative Wealth - 10 Years

Asset Allocation & Performance

Allocation

<table>
<thead>
<tr>
<th>LCEF Total Fund</th>
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<tr>
<td>Total Endowment Target</td>
<td>3.2 (22)</td>
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<tr>
<td>Global Equity*</td>
<td>514,981,288</td>
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<tr>
<td>Global Equity Target</td>
<td>4.2</td>
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<tr>
<td>Fixed Income</td>
<td>107,240,524</td>
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<td>Barclays. B. U.S. Aggregate</td>
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<td>TIPS</td>
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<td>Cash Equivalents</td>
<td>10,864,944</td>
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Performance (%)

<table>
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<tr>
<th>LCEF Total Fund</th>
<th>3.5 (10)</th>
<th>15.3 (5)</th>
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<tbody>
<tr>
<td>Total Endowment Target</td>
<td>4.6 (48)</td>
<td>8.3 (37)</td>
</tr>
<tr>
<td>Global Equity*</td>
<td>4.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Global Equity Target</td>
<td>4.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>2.6 (32)</td>
<td></td>
</tr>
<tr>
<td>Barclays. B. U.S. Aggregate</td>
<td>2.2 (51)</td>
<td></td>
</tr>
<tr>
<td>TIPS</td>
<td>4.3</td>
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<tr>
<td>Barclays U.S. TIPS</td>
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<td></td>
</tr>
<tr>
<td>Cash Equivalents</td>
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<td></td>
</tr>
<tr>
<td>S&amp;P US AAA &amp; AA Rated GIP 30D Net Yield Index</td>
<td>0.7</td>
<td></td>
</tr>
</tbody>
</table>

Benchmark and universe descriptions are provided in the Appendix.

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities’ and Foreign Equities’ historical performance.
### As of June 30, 2017
#### Calendar Year Performance

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LCEF Total Fund</strong></td>
<td>9.2 (5)</td>
<td>-1.4 (44)</td>
<td>5.2 (41)</td>
<td>14.7 (53)</td>
<td>13.2 (23)</td>
<td>1.9 (15)</td>
<td>14.0 (14)</td>
<td>21.2 (48)</td>
<td>-29.2 (75)</td>
<td>6.3 (84)</td>
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<tr>
<td><strong>Total Endowment Target</strong></td>
<td>7.1 (26)</td>
<td>-1.6 (47)</td>
<td>4.3 (55)</td>
<td>12.8 (78)</td>
<td>12.2 (47)</td>
<td>1.5 (17)</td>
<td>13.7 (18)</td>
<td>19.6 (59)</td>
<td>-28.9 (73)</td>
<td>6.5 (79)</td>
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<td><strong>Global Equity</strong></td>
<td>11.4</td>
<td>-1.9</td>
<td>5.3</td>
<td>27.1</td>
<td>20.4</td>
<td>-1.1</td>
<td>17.0</td>
<td>30.8</td>
<td>-39.6</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Global Equity Target</strong></td>
<td>8.4</td>
<td>-2.4</td>
<td>3.9</td>
<td>24.1</td>
<td>19.4</td>
<td>-2.2</td>
<td>16.1</td>
<td>30.5</td>
<td>-39.2</td>
<td>7.2</td>
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<tr>
<td><strong>Fixed Income</strong></td>
<td>2.7 (60)</td>
<td>0.6 (33)</td>
<td>6.0 (19)</td>
<td>-1.8 (75)</td>
<td>4.6 (62)</td>
<td>7.6 (41)</td>
<td>7.0 (74)</td>
<td>4.9 (96)</td>
<td>5.8 (5)</td>
<td>7.3 (40)</td>
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<td><strong>Bloomberg Barclays U.S. Aggregate</strong></td>
<td>2.6 (65)</td>
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<td>-2.0 (77)</td>
<td>4.2 (58)</td>
<td>7.8 (38)</td>
<td>6.5 (77)</td>
<td>5.9 (87)</td>
<td>5.2 (15)</td>
<td>7.0 (51)</td>
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<td><strong>TIPS</strong></td>
<td>4.8</td>
<td>-1.2</td>
<td>3.5</td>
<td>-8.7</td>
<td>7.2</td>
<td>13.6</td>
<td>6.1</td>
<td>13.3</td>
<td>-2.0</td>
<td>12.4</td>
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<tr>
<td><strong>Barclays U.S. TIPS</strong></td>
<td>4.7</td>
<td>-1.4</td>
<td>3.6</td>
<td>-8.6</td>
<td>7.0</td>
<td>13.6</td>
<td>6.3</td>
<td>11.4</td>
<td>-2.4</td>
<td>11.6</td>
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<tr>
<td><strong>Cash Equivalents</strong></td>
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<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
<td>1.3</td>
<td>0.1</td>
<td>2.0</td>
<td>2.6</td>
<td>0.5</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>S&amp;P US AAA &amp; AA Rated GIP 30D Net Yield Index</strong></td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.7</td>
<td>2.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities’ and Foreign Equities’ historical performance.

---

#### Plan Sponsor Peer Group Analysis

**All Endowments-Total Fund**

<table>
<thead>
<tr>
<th></th>
<th>1 Quarter</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LCEF Total Fund</strong></td>
<td>3.5 (10)</td>
<td>15.3 (5)</td>
<td>4.6 (38)</td>
<td>8.3 (37)</td>
<td>4.8 (40)</td>
<td>9.2 (5)</td>
<td>-1.4 (44)</td>
<td>5.2 (41)</td>
</tr>
<tr>
<td><strong>Total Endowment Target</strong></td>
<td>3.2 (22)</td>
<td>13.1 (31)</td>
<td>4.0 (83)</td>
<td>7.1 (80)</td>
<td>4.1 (72)</td>
<td>7.1 (26)</td>
<td>-1.6 (47)</td>
<td>4.3 (55)</td>
</tr>
</tbody>
</table>

5th Percentile

- 3.8 15.3
- 6.1 9.6
- 5.8 8.9
- 1.8 8.8

1st Quartile

- 3.1 13.6
- 5.0 8.6
- 5.2 7.1
- 0.3 6.0

Median

- 2.8 12.2
- 4.4 8.0
- 4.6 6.2
- -1.7 4.6

3rd Quartile

- 2.4 10.8
- 3.5 7.4
- 4.0 5.2
- -2.8 3.1

95th Percentile

- 1.5 6.4
- 1.6 4.8
- 3.0 2.6
- -4.4 1.2

Population

- 183 175 165 153 115 322 309 297

Parentheses contain percentile rankings.
Universe Asset Allocation Comparison

LCEF Total Fund

- Global Equity: 50.4%
- Fixed Income: 17.9%
- Alternative Investments: 24.8%
- Real Estate: 4.7%
- Cash: 2.2%

As of June 30, 2017

BNY Mellon Endowment Universe

- Global Equity: 50.4%
- Fixed Income: 17.9%
- Alternative Investments: 24.8%
- Real Estate: 4.7%
- Cash: 2.2%

Attribution

- Domestic Equity: 0
- Foreign Equity: 0
- Global Equity: 178
- Fixed Income: 3
- TIPS: 0
- Real Estate: 0
- Cash: 0
- TAA: 35
- Other: -3
- Total Fund: 214

- Domestic Equity: 0
- Foreign Equity: 0
- Global Equity: 107
- Fixed Income: 3
- TIPS: 2
- Real Estate: 0
- Cash: 2
- TAA: -1
- Other: -2
- Total Fund: 111

Basis Points

1-Year Ending 6/30/2017

5-Year Ending 6/30/2017

*Other includes differences between official performance value added due to methodology and extraordinary payouts.
## Appendix

### LCEF Total Fund

- **Total Endowment Target**: A weighted blend of the individual asset class target benchmarks.

### Total Global Equity

- **MSCI ACWI IMI ex-Tobacco**: From 7/1/2014 forward, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. From 10/1/2013 to 6/30/2014, a custom version of the MSCI ACWI IMI adjusted to reflect a 55% fixed weight in the MSCI USA IMI and a 45% fixed weight in the MSCI ACWI ex-USA IMI, and excluding certain equities of tobacco-related companies. From 9/1/2012 to 9/30/2013, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. Prior to 9/1/2012, the benchmark is a weighted average of both the Domestic Equities and Foreign Equities historical benchmarks.

### Total Domestic Equities

- **Russell 3000 Index ex-Tobacco**: Prior to 9/1/2012, an index that measures the performance of the 3,000 stocks that make up the Russell 1000 and Russell 2000 Indices, while excluding tobacco companies.

### Total Foreign Equities

- **MSCI ACWI ex-US IMI ex-Tobacco**: Prior to 9/1/2012, a capitalization-weighted index representing 44 countries, but excluding the United States. The index includes 23 developed and 21 emerging market countries, and excludes tobacco companies.

### Total Fixed Income

- **Barclays Aggregate Bond Index**: A market value-weighted index consisting of the Barclays Credit, Government, and Mortgage-Backed Securities Indices. The index also includes credit card, auto, and home equity loan-backed securities. This index is the broadest available measure of the aggregate investment grade U.S. fixed income market.

### Total TIPS

- **Barclays U.S. TIPS**: A market value-weighted index consisting of U.S. Treasury Inflation-Protected Securities with one or more years remaining until maturity with total outstanding issue size of $500 million or more.

### Total Cash Equivalents

- **S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index**: An unmanaged, net-of-fees, market index representative of the Local Government Investment Pool. On 10/1/2011, the S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index replaced the S&P U.S. AAA & AA Rated GIP 30-Day Gross Yield Index, which was previously used from 4/30/08 - 9/30/11. Prior to 4/30/08, it was the average 3-month T-bill rate.
LCEF Total Fund
A universe comprised of 181 total endowment portfolio returns, net of fees, calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $232.9 billion as of quarter-end and the average market value was $1.3 billion.

Total Fixed Income
A universe comprised of 50 total fixed income portfolio returns, net of fees, of endowment plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $15.5 billion as of quarter-end and the average market value was $312.4 million.

Quarterly and Cumulative Excess Performance - The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds’ relative performance for the quarter.

Ratio of Cumulative Wealth Graph - An illustration of a portfolio’s cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis - An illustration of the distribution of returns for a particular asset class. The component’s return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.
The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.

Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.

Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Notes

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Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer
September 19, 2017

Dear Members of the Investment Advisory Council,

The IAC Compensation Subcommittee met by conference call on Monday, September 18th at 3:30 pm. On the call were Peter Collins, Vinny Olmstead and myself, in addition to Ash Williams, SBA staff, and Jon Mason from Mercer. Due to technical difficulties my voice could not be heard but I was able to listen to a majority of the call and now report as follows.

Mercer presented its compilation of the individual Subcommittee members’ evaluations of the Executive Director & CIO (ED/CIO) for purposes of the 2016-17 individual component of his incentive compensation plan. Mercer also updated the Subcommittee regarding current market salary information it reviewed for the ED/CIO position and recommended increasing Mr. Williams’ salary to $455,000. This recommendation is consistent with the median CIO salary of the five largest US pension funds and is in keeping with last year’s recommendation to move Mr. Williams to this amount in 2017.

Based on this information, the Subcommittee members on the call voted unanimously to recommend Mr. Williams receive the maximum award (up to $30,673) for the individual component of his incentive compensation plan for Fiscal Year 2016-17, and that his salary be increased to $455,000, effective immediately. I support this vote.

Finally, comments were made on the purpose and structure of the incentive compensation plan in review of the 2015-2016 fiscal year, and it was agreed that the plan has worked as expected in successfully serving the SBA with the plan objectives of alignment of interests and talent recruitment and retention. There appears to be no need to address any structural or operational issues.

Michael F. Price
Investment Advisory Council
Compensation Subcommittee Conference Call
September 18, 2017
Agenda
Investment Advisory Council (IAC) Compensation Subcommittee Conference Call

Monday, September 18, 2017, 3:30 P.M.
Hermitage Room, First Floor
1801 Hermitage Blvd., Tallahassee, FL 32308

1. Welcome/Call to Order/Approval of Minutes of September 7, 2016 Meeting (Attachment 1A and 1B)  
   Michael Price, Chair

2. Opening Remarks  
   Opening Remarks  
   Ash Williams, Executive Director & CIO

3. Recap of ED/CIO’s FY 2016-17 Incentive Plan Design (Attachment 2)  
   Jon Mason, Mercer

4. Presentation of Results of ED/CIO’s Evaluation and Mercer’s Salary Recommendation (Attachments 3A, 3B, Appendix to 3B, 3C)  
   Jon Mason, Mercer

5. Discussion of Evaluation Results and Salary Recommendation by Subcommittee  
   Michael Price, Chair

6. Formulation of Recommendation to IAC and Trustees  
   Michael Price, Chair

7. ACTION REQUESTED: Approval of Recommendation

8. Other Business/Audience Comments/Closing Remarks Adjournment  
   (Attachment 4, Information Only)  
   Michael Price, Chair
MINUTES
INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE CONFERENCE CALL
September 7, 2016

A special meeting of the Investment Advisory Council (IAC) Compensation Subcommittee was held on Wednesday, September 7, 2016, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the September 7, 2016 meeting is hereby incorporated into these minutes.

IAC Compensation Subcommittee
Members Present: Michael Price, Chair (Via telephone)
Peter Collins (Via telephone)
Les Daniels (Via telephone)
Vinny Olmstead (Via telephone)
Gary Wendt (Via telephone)

Other IAC Members Present: Chuck Cobb (Via telephone)
Bobby Jones (Via telephone)

SBA Employees: Ash Williams, Executive Director/CIO
Lamar Taylor
Kathy Whitehead
Randy Harrison

Consultant: Josh Wilson, Mercer (Via telephone)

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES OF APRIL 21, 2016 MEETING
Mr. Michael Price, Chair, called the meeting to order at 2:00 PM and asked Mr. Ash Williams, Executive Director & Chief Investment Officer (EDCIO) to detail the purpose of the meeting. Mr. Williams explained that the purpose of the meeting was to discuss the EDCIO’s incentive compensation package evaluation results and recommendation for the Trustees and then to vote on that recommendation.

OPENING REMARKS
Mr. Williams summarized the Incentive Plan evaluation process for the EDCIO. He explained that the subjective component of the total incentive compensation (15 percent) was what the IAC Compensation Subcommittee would be considering during the conference call.

Mr. Williams asked Mr. Josh Wilson, Mercer, to provide specific details of the SBA’s incentive plan, including the number of participants, information on the incentive target, and the total cost.

There was a brief discussion about the incentive compensation results for other SBA staff members based on performance levels as well as other criteria. Mr. Lamar Taylor, Deputy Executive Director, indicated that the information on asset class performance was not ready at that time but that SBA staff would get the information to the IAC members when it was available.
Mr. Williams clarified that some investment valuations (e.g., real estate) are done only once a year due to the time and cost involved, and had not been completed at that time.

RECAP OF EDCIO'S FY2015-16 INCENTIVE PLAN DESIGN
Mr. Wilson directed the IAC members to attachment 2A, the Incentive Plan Design for the EDCIO for Fiscal Year 2015-16, and explained the organizational (quantitative) and individual (qualitative) components of the plan.

PRESENTATION OF RESULTS OF EDCIO'S EVALUATION
Mr. Wilson presented the results of the Subcommittee members' Qualitative Evaluations for the EDCIO in the following categories: overall mission; people; efficiencies/infrastructure/operations; interactions with the IAC, PLGAC and Audit Committee; and overall individual/qualitative performance rating.

DISCUSSION OF EVALUATION RESULTS BY SUBCOMMITTEE
Mr. Williams and Mr. Wilson answered questions from IAC members about the quantitative payout and the individual component of the Incentive Plan for the EDCIO.
Mr. Williams presented the key points contained in his letter of July 15, 2016. He also answered questions about SBA performance versus peers in other state pension plans.

FORMULATION OF RECOMMENDATION TO IAC AND TRUSTEES
There was a discussion during which several IAC members expressed the opinion that the maximum individual/qualitative performance objective for the EDCIO had been met and that they would support a highest rating which, if the FRS Trust Fund's investment performance value added is 50 basis points or higher, would translate to a qualitative award of approximately $30,000.

ACTION REQUESTED: APPROVAL OF RECOMMENDATION
Mr. Bobby Jones recommended approval of the maximum individual qualitative incentive award for the EDCIO. Mr. Peter Collins seconded the motion. The motion to approve the recommendation passed unanimously.

AUDIENCE COMMENTS/CLOSING REMARKS/ADJOURNMENT
Mr. Williams, Mr. Wilson, and IAC members discussed the Incentive Compensation Plan design as it relates to other SBA employees and the percentage of those employees who may be eligible to receive the maximum incentive compensation.
Mr. Jones moved that the minutes from the April 21, 2016 IAC Compensation Subcommittee conference call be approved; Mr. Collins seconded the motion. The minutes were approved.
The meeting was adjourned at 2:55 PM.

Michael Price, Chair
IAC Compensation Subcommittee

Date 10/17/16
Attachment 1B
STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE
CONFERENCE CALL

WEDNESDAY, SEPTEMBER 7, 2016
2:00 P.M. - 2:55 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

REPORTED BY: JO LANGSTON
Registered Professional Reporter

ACCURATE STENOTYPE REPORTERS, INC.
2894-A REMINGTON GREEN LANE
TALLAHASSEE, FLORIDA 32308
(850)878-2221

APPEARANCES

IAC MEMBERS:
MICHAEL PRICE
LES DANIELS
GARY WENDT
PETER COLLINS
VINNY OLMSTEAD
BOBBY JONES
CHUCK COBB

SBA EMPLOYEES:
ASH WILLIAMS, EXECUTIVE DIRECTOR
LAMAR TAYLOR
KATHY WHITEHEAD
RANDY HARRISON

CONSULTANTS:
JOSH WILSON - (Mercer)
MR. PRICE: This meeting concerns -- it's a follow-on from last June -- it may be a follow-on from July's compensation subcommittee of the IAC to approve Ash's compensation package based on both input we get quantitatively and qualitatively and our own survey of Ash's performance. And it's fine that Ash is on as part of the call. So we're going to have a presentation.

And I think, Ash, you should make a comment first, and Josh Wilson from Mercer will have some comments. I would like to make a few comments at the end of Josh's, and then we can have a vote. I think everyone has received the package of contents, which included the Mercer work, as well as the July 15th letter from Ash, talking about his view of his role at the IAC since -- Ash, is it since '07 or '08?

MR. WILLIAMS: I got back in Q4 of '08.

MR. PRICE: '08. I think it's been a tremendous run. I think the IAC is doing better than ever. And that is based on, you know, I think it's been three or four years' dealings with Ash but also with his staff, extensively with his staff on separate phone calls with and without Ash, going over positions and approaches and all that. And I think the -- on the qualitative aspect side of it, I think he's got a good team. I've enjoyed working with them. And I just want to hand it over to Josh. Josh or Ash, if you want to interject now, either one of you, with some thoughts.

MR. WILLIAMS: Sure. Thank you, Michael. Really what we're doing today is following a process that's set forward in attachment 3A of today's materials, which wraps up the part of this process on the incentive that applies to the executive director and CIO. The reason we have that one-person focus at the level of the comp subcommittee of the IAC, of course, is that either I, for my direct reports, or other executives here at the board for their subordinates, can handle the qualitative element of their incentive comp.

The quantitative element, which is driven by investment performance, handles itself. But given that I'm at the top of the pyramid here, there's nobody to do that review for me, so that's the role that you folks are in. And the process we follow is that we start off with me submitting a self-assessment, which I did circa July 15. And that is then shared with you. Each of you responds with an evaluation of your own on
All of those things have happened. Josh will go over the results of his tabulation in just a second. But basically that's where we are.

And back in the spring of this year, when we adopted the budget of the SBA for fiscal 16-17, we included an increment of money to cover the second half of the incentive program, the first half of which we had already created funding for in fiscal 15-16. So we're fully positioned to move ahead. And it really is just a question of what everybody earns.

And the way it works, again, is we have varying components of total incentive comp, quantitatively driven by very explicit numerical accomplishments of relative performance. And the more senior one is and the more ability one has to influence investment outcomes, the higher the proportion of that quantitative determination of incentive comp is.

So in the case of the executive director and CIO, it's 85 percent of the total incentive comp. The subjective component is 15 percent, and it is that 15 percent that we're discussing today. So unless anyone has questions, I'll hand off there to Josh.
percent payout. Within those numbers is an 85/15 split. Eighty-five percent is based on the quantitative achievement of the total fund, and 15 percent is based on the qualitative assessment, which is what we're here to discuss today.

The last bit of information, just so you recall, the total cost of the plan for the 62 individuals at target was 1.4 million, and the cost for the CIO at target for the incentive plan was 134,000.

Any questions on that before we move specifically to -- I believe it's attachment 2A, which is the page describing the CIO specifically?

MR. WENDT: Are you going to discuss what the results for everyone other than the CIO have been? I don't mean each one. In total, how did it work out?

MR. WILSON: I'm not sure if that's answerable yet because the results are not audited. But, Ash, maybe you want to handle that.

MR. WILLIAMS: Yes. Where we are so far, Gary, on the performance is that the investment performance is -- and this is unaudited. We will have audited numbers probably Q4 of this year. But as of June 30, '16, the unaudited number is 71 basis points of outperformance, and that's a 61 basis point net return versus a benchmark of minus 11.

MR. WENDT: So what would that mean? If the audited comes out to be the same as the unaudited, which is highly probable, what percentage would people earn? And I know it varies depending on position, but give me above 2 percent, down 2 percent, whatever. Can you summarize?

MR. WILLIAMS: I think I can. I'm going to give you -- what we'll do is, assuming that the audited number comes out the way the unaudited one did, we would trigger the maximum quantitative incentive payout with any performance equal to or greater than 50 basis points. That would give the total cost of --

MR. WILSON: If I can, Ash. That results in the payment of approximately $2.1 million in aggregate, assuming that everyone's qualitative performance is equal to the quantitative, so they're both at max.

MR. WENDT: So everybody will max out on the quantitative part.

MR. WILLIAMS: Not necessarily, because there would be -- what that does is that's a triggering mechanism that creates funding. To the extent there has been any individual asset class that, for example, had underperformed in some meaningful way or had some other issue, a compliance issue or something like that, then they could get a significantly reduced or even no
incentive comp, depending on what's what, because the 
payment of that incentive comp is qualified not only by 
the quantitative performance but also by not having any 
compliance exceptions of a material nature, things of 
that nature. You have to be well behaved and have good 
scores.

MR. WENDT: But on the quantitative part, did 
anybody not get maximum?

MR. WILLIAMS: Again, we won't know yet until we 
have audited numbers but --

MR. WENDT: Given that audited equals unaudited. 
Okay. I won't get to talk to you about this again, so 
I've got to ask the question now. Is there anybody 
that isn't maxing out on the quantitative part of the 
performance test, assuming audited equals unaudited?

MR. TAYLOR: Honestly, Gary, we'll have to get 
back to you more specifically. These numbers that we 
have here are at the total fund performance level. And 
we don't have today ready, for even unaudited numbers, 
quoting for you today on asset class outperformance. 
It's possible that not everybody maxed out at the asset 
class level, and we'll just have to come back to you 
with that information.

MR. WENDT: I'd like to know that.

MR. TAYLOR: Okay.

MR. WILLIAMS: That's a completely reasonable 
request. And just to be clear, the reason why that 
delay is there is simply that some asset classes, 
primarily real estate, we do valuations once a year 
because the valuation process itself is time-consuming 
and expensive, and it really makes no sense to do it on 
a quarterly basis.

The other area where you'll see some lag will be 
in some of our private asset class holdings, notably 
private equity and some of the positions we hold in 
strategic investments.

MR. WENDT: Thank you.

MR. WILSON: Okay. If I can take you to the 
attachment 2A, you'll see it's a breakdown of the CIO's 
incentive design. You'll see that on the top line is a 
35 percent opportunity. It shows how much is 
organizational, i.e., quantitative, how much is 
individual, or qualitative. So in the end, 15 percent 
of the total, or about five and a quarter percent of 
his target is qualitatively achieved. And from a 
dollar perspective, on a target of $136,000, 20,000 of 
that is the individual or qualitative section of it.

So with that, if I can take you to attachment -- 
I'm going to skip 3A because that's the process that 
Ash described. I'm going to take you to 3B, which is
our amalgamation really of the evaluations that everyone on the IAC subcommittee put together.

So on page one of that document, the document is called Qualitative Evaluation Review, et cetera. You'll see that all five members of the IAC compensation subcommittee submitted their evaluations in a number of different categories, the four that we're measuring, overall mission, people, efficiencies/infrastructure/operations, interactions, and then overall rating. We measured it using a zero through three scale. Three is exceeds expectations. Two is meets expectations. One is below, and zero is poor.

On the overall mission, of the five raters, four of them rated exceeds expectations and one rated meets expectations, and there were no comments. On the people, which is the following page, page three of the document, again, four people rated exceeds and one rated as a meets. And there were some comments there that I won't read for you at the bottom, but they are taken there verbatim.

On page four of the document, if you look at the efficiencies, infrastructure and operations, three of the five rated the CIO as an exceeds and two rated as meets, with no comments. On page five, the interactions with the IAC, PLGAC and Audit Committee, again, three raters gave the CIO an exceeds, and two raters gave him a meets, with one comment there.

And finally, from an overall perspective, three raters gave the CIO an exceeds expectations and two raters gave him a meets expectations. And there's a comment at the bottom there and then some other commentary on page seven. Again, all the commentaries were taken verbatim from the evaluations.

MR. PRICE: Thank you, Josh.
MR. WILSON: Are there any questions from the committee on the process or how we did that?

MR. WENDT: Again, on the quantitative portion, assuming that audited equals unaudited, what will the bonus be or percentage of the maximum bonus be for the CIO?

MR. WILSON: If he maxes out on the both quantitative and qualitative, the maximum he can receive is 52 and a half percent of his salary. From a dollar perspective, I'll get that for you. From a dollar perspective, that's --

MR. WENDT: I understand the rules. I want to know now what happened, based on unaudited results, what percentage will be received of the 85 percent.

MR. WILLIAMS: If I understand -- this is Ash.
Gary, if I understand your question, your question is simply, if the numbers hold, what's the quantitative payout; is that right?

MR. WENDT: Yes, the percentage. If 85 percent is based on that and you've given us what the expectation, maximum and minimum is, given that those figures exist, what will the, with the unaudited result, what will the payout be?

MR. WILLIAMS: Yeah. What it would be would be, by my calculations, the organizational component or the quantitative component would be 44.65 percent. That translates into dollars of $173,814. And then the --

MR. WENDT: Can you say that one more time? Did you say that you would -- rather than 85 percent, you would get 62 percent of that 85 percent?

MR. WILLIAMS: If you look at the chart under exhibit 2A, it sets it all out quite clearly, in terms of the percentages, and also matches dollars to them. So what I did and what's broken down in the second half of that chart is the total incentive opportunity, the organizational component, which is also the quantitative investment performance piece, and then the individual component, which is the subjective piece we're talking about today.

And taking your question all the way through to maturity, at maximum investment performance assumption, the total incentive opportunity would be 204,487, which is composed of two components. The quantitative piece is 173,814, and the individual component, or subjective component, would max out at 30,673.

MR. WENDT: I got all that. That was all in the presentation.

MR. WILLIAMS: Correct.

MR. WENDT: Now I want to know, based on the organizational component, which I think is quantitative, is it not?

MR. WILLIAMS: Yes, it is. That's right.

MR. WENDT: How did you do?

MR. WILLIAMS: Well, we think we're topping out, because what we're showing now is 71 basis points of outperformance. So 50 or above triggers the max. So we'd be maxed.

MR. WENDT: So you're going to get 173. Okay. That's all I wanted to know.

MR. WILLIAMS: Sorry if I made it complicated.

MR. OLIMSTEAD: A quick clarification on the individual component, which it looked like they were pretty good scores, but I don't know how the individual qualitative review -- it may be in here -- turns into the individual at the 15 percent. So is there some
sort of numerical number in order to hit that, or in Gary's words, what's your estimate on the individual component?

MR. WILLIAMS: Right. And basically what you've got there -- and I'll defer to Josh on this. But what you've got is basically one of three options, one, two and three, which basically break you out at, just rounding out, as the chart shows on 2A, 10,000, 20,000, 30,000, depending on what your evaluations are.

Your evaluations clustered around exceeds, with a minority position of achieves in there. So what we're really not set up to do is extrapolate between the two. So I think whatever recommendation the group makes today it makes, and it's somewhere in that realm. It's either two or three, by my assessment.

MR. WILSON: If you just do the pure math -- this is Josh -- you have three threes and two twos. That's an average of about 2.6. So if you rounded it, it would round up. I think that's the committee's decision, whether it wants to go one, two or three on the qualitative component.

MR. PRICE: On that point, Ash, maybe you would like to go through some of the points in your letter.

MR. WILLIAMS: Yeah, sure.

MR. COLLINS: This is Peter Collins. I'm on. I apologize for being late.

MR. WILLIAMS: Hey, Peter. Yeah. I mean, I think the key points in the letter -- I don't want to take you through it because it's in the book and I'm sure you've all had an opportunity to see it. But I think the key things that we've done are that we've gotten the overall mission right in terms of getting the team in place, keeping the governance environment together that makes good sense, working closely with the trustees to deal with all sorts of external constituencies, including the legislature, to achieve some very high level things, like getting the funding back on track for the fund after the great financial crisis and getting our performance and getting the teams right in all the various asset classes.

We've had fully 50 percent turnover in our management team over the nearly seven years that I've been back, including new heads in the majority of the asset classes; in fact, I'm just thinking out loud here, probably all the asset classes. And all of them have performed well. All of them have built good teams, and all of them have affected turnover as appropriate.

So I think not only have we done what we should have done, as indicated by a strong control environment
that gives us clean audit results, as indicated by
investment performance that has generally exceeded not
only our portfolio benchmarks but our long-term real
return assumption, but we've also had a fair amount of
external validation of what we've done.

And the external validation has come in several
forms, not least of them being being recognized as the
top large public pension fund in the country in 2015 by
_institutional investor_. And I was pleased earlier this
year to receive an award individually as the top large
fund CIO in the United States from _institutional investor_.

And we've done a lot of things like that. Next
week I'll be in New York. I'm on the advisory board of
CNBC and _institutional investor_ Annual Delivering
Alpha Conference. I'll be there for that. We're
planning to be on Squawk Box that morning, talking
about things that relate to what we do here. I think
having a brand that has that kind of recognition
nationally and internationally is good for the State
and it's good for us and it helps us recruit and retain
talent.

I think also the interaction we've had with you on
the IAC, with your counterparts on the Participant
Local Government Advisory Council and also our Audit
Committee, has been very constructive and open. And I
think the change you'll see and the evolution in the
way SBA and the role that we play and the job that we
do as treated in the media has evolved very, very
favorably over the past five years and is more or less
where you'd like it to be.

There are always challenges. We're in a low
return environment, and we will confront those with
your help and do the best we can, and we're always open
to new ways to do things and do them better.

MR. PRICE: Do any of the subcommittee people have
any comments or questions of Ash?

MR. COLLINS: This is Peter Collins. I read the
letter and actually had a conversation with Ash about it
afterwards. I can't see -- I know we don't have a
lot of experience at sort of perceiving these letters
that the comp plan calls for, you know, for Ash to do
these self-assessments. But I certainly thought it was
thorough and covered all the aspects that we set out
for him. I don't have any issues with the letter at all.

MR. COBB: Mr. Chairman, this is Chuck Cobb. I'm
not on the committee, but I'd like to make a comment.
First, I recognize --

MR. PRICE: Sure, go ahead.
MR. COBB: -- this is totally focused on the qualitative and not the quantitative things, and from my point of view, Ash and the team have exceeded what we might expect from a qualitative point of view. If I had a vote, I would vote max on the qualitative.

My question, which I think should be brought up as this committee deals with this important point, is the other quantitative issues. I actually lost in the voting, because I thought a portion of the incentives should relate to actual results and possibly peer review results. And I lost out on that vote. I was voted out, and we agreed that it would be totally based on performance vis-a-vis a benchmark and policy.

However, for this deliberation, I think it should be in the record, because I think it was pretty good, how we did on an absolute basis and how we did versus the other peers of state pension funds.

MR. PRICE: Thank you. So that should be noted in the --

MR. COBB: Ash, can you answer that question?

MR. WILLIAMS: Well, you know that we did well relative to our benchmarks. We've discussed that.

MR. COBB: I understand that.

MR. WILLIAMS: Relative to our peers broadly, there are several different ways you can cut that. But I think by any measure we appear in the top half for most measurable periods. And then depending on whether you're looking at one, three, five, ten, 20, 25, et cetera, year periods, we will vary a little bit based on the following.

In periods where liquid equity markets do well, we will do better than our peers because we tend to have more global equity exposure and less alternative exposure than most of our large fund peers. In periods that are negative for public equity markets, they will sometimes outperform us by a little bit because they have less exposure to a bear market, even a transient bear market, and it will show up in a quarter or two.

MR. COBB: Ash, let me ask for a more precise -- for this year, as I understand it, we were positive, our funds were positive for the year being measured, and secondly we were in the top half of our peer review. Is that a correct assumption?

MR. WILLIAMS: That's correct. For the fiscal year ended June 30, from the range of reports we've seen -- and they're not all out yet, but for those we've seen with other major funds, we're pretty much middle of the pack or slightly ahead of middle of the pack. There are some that are a little better, some that are a little worse.
MR. COBB: And we were positive.
MR. WILLIAMS: Yes, sir.
MR. COBB: Positive by how much?
MR. WILLIAMS: A whopping 61 basis points net.
MR. COBB: No, no. Absolute.
MR. WILLIAMS: That is absolute. The relative performance was 71 basis points to the good.
MR. COBB: Because the benchmark was slightly negative, you're saying.
MR. WILLIAMS: Correct.
MR. COBB: And we were positive. Thank you, Mr. Chairman. I just thought it was important that be on the record, that although it's not part of our stated plan, some board members think it's important, and it clearly meets all the criteria that I had that we be positive and that we be doing well vis-a-vis our peers. So excuse me for interrupting.
MR. PRICE: Thank you very much, Chuck. Are there any other questions or comments from the members of the committee?
MR. JONES: Yeah. I don't know where we go from here, Michael, but it seems to me that based on our review of Ash's response, our understanding particularly of the organizational accomplishments this past year as set out in his performance objectives and the fund's performance, it seems like the maximum individual objective has been met, and I think there's some subjectivity to that. But whether it's 26,000 or 30,000, I'm all for the 30,000 max, but it seems like that's what we're discussing.
MR. PRICE: Any other comments from committee members?
MR. WENDT: Gary Wendt has one. But it doesn't have to do with how much is the qualitative bonus to Ash. I'd like to just make sure somebody listens to me at the end.
MR. COLLINS: This is Peter Collins. I'm assuming that was Bobby Jones that was talking before Gary. And I would agree with Bobby on his recommendation. But, again, whether it's 26 or 30, I know relative to other state employees, that might be a big number, but I certainly think that if the 30 is the max, then I would vote for the 30.
MR. PRICE: Thank you. Are there any other comments from committee members?
MR. DANIELS: This is Les. I would go along with that.
MR. OLIMSTEAD: Vinny Olmstead likewise.
MR. PRICE: Thank you, Les. Thank you. If I may speak, as I said at the outset, my interactions have
all been very positive with both Ash and the committee, and I feel very strongly that, you know, incentivizing people and compensating people is the right thing to do for the IAC, with Ash and his staff.

And as long as I'm sticking around, that's kind of where I come from. As I said before, a little turnover is good, but too much turnover is no good. And we certainly don't want any turnover in the leadership. And I feel very strongly that we vote for the recommendation of this incentive plan for our CIO.

MR. WENDT: Is it a recommendation?
MR. JONES: I recommend the maximum individual objective for the executive director and CIO, Ash Williams.

MR. PRICE: That's correct.
MR. COLLINS: If that was a motion, then Peter Collins will second it.

MR. PRICE: All in favor? (Ayes)

MR. PRICE: Any opposed? The motion is passed to accept the recommendation. Thank you very much. Josh, thank you. Ash, thank you. And I think we'll be seeing everybody on the 19th.

MR. COLLINS: Gary Wendt had something to say, I think.

MR. WENDT: I do have a comment. And it has nothing to do with the -- I voted for the maximum. All that's good. But I think the answer to the first set of questions I was asking, which had to do with everybody other than Ash, was that we don't know but it's pretty sure everybody is going to get the max.

And whether or not that's 100 percent correct or 90 percent correct is less relevant than my thought that if we have a program which in a year where it's barely break-even and almost every (inaudible) we don't have a good plan, and that plan should be redesigned so that there are incentives to do better and not where people can max out, everybody can max out. It's just a comment.

MR. PRICE: Thank you, Gary. I understand. Any questions or comments?

MR. WILSON: Just one comment from Josh, if it's helpful. Just on a dollar basis, on the size of the fund that we're dealing with, $150 billion, 71 basis points of outperformance is about a billion dollars, and we're paying out about 2 million in incentive, which is less than .2 percent. The 99.98 percent, I believe, or 99.8 percent, is going back to the constituents. In the experience that I have with other states, that's a very, very good ratio and extremely
MR. WENDT: I also think these people should be paid and paid a lot, and I wouldn't mind paying them more. My comments -- and I don't want them misinterpreted -- are directly at Marsh & McLennan here, I guess it is, who have designed a plan that we approved, which is not a good plan when almost everybody gets max. It's just not.

MR. WILLIAMS: Well, this is Ash, Gary. I hear all your points. I would just add, I don't think everybody will get max. Let's get there, and we'll have that conversation.

MR. COLLINS: This is Peter Collins. Gary, I can't disagree with you based on one premise. But on the other, I would disagree. So the one premise is, yeah, a comp plan that pays everybody 100 percent probably isn't great, because I can't believe that everybody deserves 100 percent.

But on the other hand, if we're tying it to performance, you can't really knock them for 71 basis points if that's outperformance. We don't want to be paying them to take too much risk to outperform the market. Right? So that's just not their role. Some of the managers, yes, but not on an overall basis.

So if the complaint is, hey, we've got a comp plan that everybody got 100 percent, we probably need to look at that. If the complaint is they got 100 percent because -- you know, seeing as they only got 71 basis points, I don't have an issue with that.

MR. WENDT: I do. I do. And as a taxpayer --

MR. OLMSHEAD: What was the last two years? And just for maybe historical context, was it 100 percent in the last few years, or is this--

MR. WILLIAMS: The history, Vinny, on that, when we were doing the plan structure, when we looked back on this, with the thresholds that we set, the minimum trigger to pay any incentive comp of any kind would not have been met in 43 percent of the years in the history of the SBA, as I remember.

MR. COLLINS: So essentially what they're saying is, prior to us doing this, there really wasn't a real comp plan like you would traditionally think.

MR. WILLIAMS: Well, that's correct. But if you take a look at the thresholds that we've used in this plan and you applied them to the actual historical performance of the SBA, what I'm saying -- and, Josh, correct me if I'm wrong on this, but as I remember the analysis when we did the plan structure, at these thresholds, 43 percent of the time in the history of the SBA no incentive would have been triggered, zero.
MR. WENDT: Hey, look, if everybody thinks that a plan where almost everybody gets max is a good plan at a time when we're not even coming close to (inaudible) of what we're supposed to do for the pension, for the taxpayers, if everybody thinks that's fine, I'm not going to argue. But I've only been at this for 30 years, and I know that a plan where everybody goes home with a big smile on their face is not a good plan.

MR. OLMSHEAD: Ash, in the context of the last -- since you've been at the helm, what percentage do you think would -- you know, 43 percent over the history I get. How about what percent over your latest regime here?

MR. WILLIAMS: Over the -- go ahead, Gary.

MR. WENDT: Who did you ask that question to?

MR. OLMSHEAD: I'm just curious, from Ash's perspective -- and I understand over the history of the SBA, it's 43 percent. I'm just curious what it would be over the last seven or eight years.

MR. WILLIAMS: I don't know about the seven or eight, but over the six fiscal year-ends that I've been on deck since I came back, I think we would have triggered it every year.

MR. WENDT: Then your standards aren't -- then your objectives aren't high enough, if everybody wins every year. What's the program for? You might as well put it in salary and let it --

MR. PRICE: Gary, this is Michael. I think it's a little different in the public realm, where the compensation is somewhat lower. I think it's a little different, number one. And, number two, I think there's something like 62 employees we're talking about in total. And not 100 percent of them are going to go home -- Ash, is this right -- with smiles on their faces. I don't think 100 percent.

MR. WILLIAMS: Correct.

MR. PRICE: There is a subjective nature to their reviews.

MR. WENDT: But 90 percent will. And I think the fact that this is -- I don't know what you call public or private, but that this is a governmental agency, for us to be giving out 100 percent to everybody down the trail at a time when we aren't even coming close to meeting the obligation. This has nothing to do with our capabilities. I'm not talking about people's capability. I'm talking about plan design.

MR. COLLINS: So Gary -- Peter Collins again. So, again, the issue that I have -- I don't have an issue with the premise that if everybody gets 100 percent, we might want to look at it. I don't have that issue. I
don't have a disagreement there. I do have a
disagreement with saying, Hey, you know, you can't get
100 percent if you don't even come close to getting
6 percent return.

We on the one hand bonus them for performance, but
we are also the ones that sign off on asset allocation.
So you can't tell them you have to invest this way and
then -- and they outperform the market based on that
benchmark and then say that's not good enough.

MR. WENDT: I'm okay about your bonus, Peter.
MR. COLLINS: I do it for free. And you know
what? I'm in a different business. Right? So I'm
supposed to outperform the market by a lot.

MR. WENDT: Your business in this case has to do
with operating in the IAC --

MR. COLLINS: Right. I just think it's unfair to
say, Hey, here's your asset allocation. You can't have
a big tracking error, and you have to follow this --
you know, and here's your benchmark. But at the same
time say, Well, you know, you didn't do good enough,
when you still outperformed your benchmark.

MR. WENDT: You understand my point. Any plan
which has 90 to 100 percent of the people getting 100
percent bonus in any year, in any year, is not a good
plan. It just isn't, from a management standpoint.

MR. COLLINS: That I don't necessarily have an
issue with. I can't really argue with you on that.

MR. WENDT: I think as guardians of the taxpayer
funds, it's not going to look real good. I don't know
whether this will get broadcast or not. I don't know
how much information goes out. But if anybody wants to
make an issue about giving 100 percent when you made
less than 1 percent --

MR. COLLINS: There again, now, you're losing me
on that. They made less than 1 percent because we gave
them an asset allocation and a benchmark and said, Hey,
you can't have too much tracking error. So on one hand
we said, hey -- you know, sort of like, here's your
ceiling, and then we penalize them for not busting
through the ceiling.

MR. WENDT: I understand you disagree.

MR. WILLIAMS: Gentlemen, can I help you here?

MR. WENDT: I understand you disagree with me on
that part. I'm not going to change. I don't think we
should do this. I think we should have a plan that's
designed with some flexibility to take care of the
taxpayers.

MR. DANIELS: I think there are a couple of points
here that we're looking at. First, Gary, we're looking
at a data point of one. This is the first plan that
we've been through. The back-testing, the plans three, five and ten years ago rather than over the whole course, 43 percent, might be something we might want to take a look at.

As far as giving a bonus when we don't make money, I remember the days when Lee Iacocca took over Chrysler's turnaround, and the whole public went crazy because he got a $20 million bonus and they lost money. Well, he got the bonus because they lost less money than they would have.

MR. WENDT: Les, we are an organization that works for the taxpayers of the state, and that should be taken into consideration. But if everyone disagrees with me, I don't have a problem.

MR. WILLIAMS: Mr. Chairman, this is Ash. Can I say something?


MR. WILLIAMS: Gary, I don't disagree with you, and I am sensitive to your points. And I can absolutely assure you that they will be taken into consideration as we go through this plan. And the likelihood of a sample of 200 human beings all being 100 percent on their incentive comp might happen in Lake Wobegon, but I don't think it happens in Tallahassee. So I think we're rushing to judgment about a problem here that we don't know that we have yet. Let's get through the process and come back to it and see where we are.

MR. OLMSSTEAD: A real quick question. Vinny Olmstead. So just -- again, it's sort of high level. But when you look at we're greater than 50 percent, in determining how we came up with this plan, right, was there any contemplation of, you know, above 50, above 70 or above 80 with where we fell out? I guess it's a question on the construct of the plan. Is any of that -- was it contemplated?

MR. WILLIAMS: Yes. This thing was under construction for two or three years, with extensive public meetings and discussion and input from an awful lot of folks.

MR. OLMSSTEAD: I agree with Peter with regard to I don't have a problem with earning 100 percent. The other question I have, though, is if you're just above 50 percent, you know, does that mean there's 47 percent that are outperforming? I don't know if that's the right way to look at it. Does that mean it should equal the 100 percent, which is more a conversation around the construct of the plan that I don't have historical knowledge of.

I see both sides of the story. Gary, I don't
disagree with you. I think there is contemplation of everybody being paid out 100 percent. So I don't have a strong conviction, because I'm new, but I do think it's a worthwhile discussion, at least for next year.

MR. JONES: I think one mitigating factor that we've got to recognize -- and I think it comes back to Gary's comment about the taxpayers. This is not the normal type job. I think we all recognize these are highly trained investment professionals, usually working in New York or Atlanta, to get them to Tallahassee and to do it with very little turnover.

You know, I would agree with Gary that many people -- if we asked a state teacher if she thought anybody ought to make 200,000, the answer would be, hell, no. If you ask her about her retirement fund in 15 years, maybe, maybe. But that's why we're there, is to make sure we're protecting her.

I think the biggest thing we need to do -- somebody said it earlier -- is to protect these people and Ash and make sure we maintain a stable environment to outperform not only our peers but to make sure we take care of the retirement needs of the State of Florida employees over the long haul. And, I mean, that's just not the normal job. It's not a 3 percent raise.

MR. WENDT: Once again, I want to make clear with Michael Price and with you that we should pay these people all we can, all we can get away with. But a bonus plan that has everybody getting max is not a well designed plan. And I will not be -- I'm convinced of that.

MR. COBB: Mr. Chairman, this is Chuck Cobb again. I wasn't going to say anything.

MR. PRICE: Yes, Chuck. Please go ahead.

MR. COBB: Now I'm going to talk twice today. First, I think that Gary is on a reasonable point. My answer to Gary is that, in my judgment, our pension plan is really well managed. And I compare it to the other eight or nine pension committees I'm on. And it is by far the best results, and it consistently is one of the best results.

I know for a fact that the average foundation last year had a minus 2 percent return. And so we were -- and so while maybe the average state pension fund was down one-tenth of 1 percent, the average foundation in this country was down even more. So our performance was really very good. And so I'm comfortable with us giving max.

My problem would be -- and fortunately this is not the case. But this is where I may be agreeing with
Gary. If in fact we were in the bottom quartile of other pension funds and we were basically break-even or six-tenths of 1 percent positive and we were in the bottom quartile of other pension funds or other endowments in this country and we were paying max, even though we beat our benchmark, then I would have a concern.

But since we're not there — but maybe Gary has a good point, that this is a good time to review our quantitative criteria, which — and you've heard my position, that I think peer review is important.

MR. WILSON: One more comment from Josh here. I understand the commentary and the concern. Whoever mentioned that this is a one data point argument I think is a great one. If we have 100 percent payout ten years in a row, Gary, I would absolutely say fire us. I think one year perspective, we probably need a little bit more perspective to understand how it's going to play out over time.

We modeled it backwards, as Ash pointed out, and tried to measure it so that an average year target would be achieved. And that was the goal, because we're trying to motivate performance better than it's been. So I think one year is a short sample and, you know, let's take a look at it next year.

MR. WENDT: It would not be important if we were in year seven. But in year one, when you start right out and you see that this program is poorly designed (inaudible). But that's not the point. The point isn't the quality of the people. It is do we have a plan that reflects better payments for better people and not such good payment for (inaudible).

MR. COLLINS: Mr. Chairman, Peter. As I said, I agree with part of what Gary is saying. I disagree with part of it. But I do think that it probably is a topic for a conversation, but a longer conversation, maybe an in-person conversation at a future subcommittee, the next subcommittee meeting. I do think that we should talk a little bit about it.

But I think for the task at hand today, I think we all, even Gary, approved. So I don't know if everybody has it on their calendar to stay on the phone call another hour, but I do think it needs some discussion.

MR. PRICE: That's fine. I'm all in favor of that. If there are any other comments, I welcome them. If not, we can move for adjournment and we can discuss this on the 19th.

MR. JONES: Mr. Chairman, just a question. I noticed in the minutes that you needed an approval for April 21st minutes.
MR. PRICE: Yes. Would someone please move it?

MR. JONES: So moved.

MR. COLLINS: Second.

(Ayes)

MR. PRICE: Thank you. Okay. Any other business?

So we've had our vote. We've had a very good discussion, and we'll see you on the 19th. Thank you very much.

(Whereupon, the meeting was concluded at 2:55 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA  )
COUNTY OF LEON    )

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 3 through 37, both inclusive, comprise a true and correct transcript of the proceeding; that said proceeding was taken by me stenographically and transcribed by me as it now appears; that I am not a relative or employee or attorney or counsel of the parties, or a relative or employee of such attorney or counsel, nor am I interested in this proceeding or its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of September 2016.

JO LANGSTON
Registered Professional Reporter
• Individual component level for ED/CIO position accounts for 15% of total award

• Organizational and individual component payouts at various incentive achievement levels are shown below. Evaluation criteria for individual component was determined by IAC Compensation Subcommittee in June 2015.

<table>
<thead>
<tr>
<th>Incentive as a % of Salary</th>
<th>Mix</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
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</thead>
<tbody>
<tr>
<td>Total Incentive Opportunity</td>
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<td>17.500%</td>
<td>35.000%</td>
<td>52.500%</td>
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<td>Organizational Component</td>
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<td>Individual Component</td>
<td>15%</td>
<td>2.625%</td>
<td>5.250%</td>
<td>7.875%</td>
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<table>
<thead>
<tr>
<th>Incentive Opportunity Breakdown (Annual Salary = $389,500)</th>
<th>Mix</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
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<tr>
<td>Total Incentive Opportunity</td>
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<td>15%</td>
<td>$10,224</td>
<td>$20,449</td>
<td>$30,673</td>
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</table>
ED/CIO Incentive Plan Evaluation Process - FY 16-17

ED/CIO Individual/Qualitative Measurement

The sections below outline the approved criteria and process for evaluating the ED/CIO’s individual/qualitative performance, which constitutes 15% of his incentive award (the other 85% of the award is determined by the level of outperformance of the FRS Pension Fund). Any changes to the criteria for the next Performance Period (fiscal year) need to be determined and communicated to the ED/CIO prior to July 1.

ED/CIO Individual/Qualitative Performance Criteria

In line with the overall framework for the incentive plan, criteria for the individual/qualitative performance portion of the ED/CIO’s incentive award initially approved in June 2015 are: (1) Overall Mission; (2) People; (3) Efficiencies/Infrastructure/Operations; and (4) Interaction with the Investment Advisory Council, PLGAC and Audit Committee. The Qualitative Evaluation Form on the following pages includes more descriptive information regarding each rating area.

Process and Schedule for ED/CIO Qualitative Performance Rating

In June 2015 it was decided the Compensation Subcommittee will rate the qualitative performance of the ED/CIO and recommend to the full IAC the amount of incentive to be awarded for the Performance Period. The IAC will vote to approve or disapprove the recommendation.

July 1-13: ED/CIO prepares summary of accomplishments in each of the four areas (Mission, People, Efficiencies/Infrastructure/Operations, and Interaction with IAC, PLGAC and Audit Committee). As part of the summary, the ED/CIO may want to encourage the individual Compensation Subcommittee or IAC raters to speak with individual members of the Audit Committee and/or PLGAC to gain additional perspective on interactions with them.

By July 15: ED/CIO sends his/her Summary to raters (members of Compensation Subcommittee) along with the attached evaluation form.

By July 31: Raters evaluate ED/CIO and return form to Mercer. Mercer may seek clarification of the ratings and/or comments of individual raters.

By August 31: Mercer compiles final ratings and all final comments from raters and sends them to the ED/CIO, who will compile the materials for a noticed public meeting of the Compensation Subcommittee to review/discuss the evaluation with ED/CIO and provide an overall recommendation to Trustees. The Subcommittee will present its recommendation to the IAC for its approval or disapproval prior to sending the recommendation to the Trustees.

Following the public meetings of the Subcommittee and the IAC, the Subcommittee Chair communicates the recommendation regarding qualitative incentive award and supporting rationale to Trustees, with a copy to IAC members, as materials for a noticed public meeting of the Trustees.

Final Action: Trustees consider recommendation in public meeting.
Attachment 3B
STATE BOARD OF ADMINISTRATION FLORIDA

EXECUTIVE DIRECTOR PERFORMANCE EVALUATION SUMMARY

AUGUST 2017

Jon Mason
Josh Wilson

Atlanta
INTRODUCTION

• Mercer has advised State Board of Administration Florida to a variety of human capital needs since 2012.

• Mercer was asked to collect and disseminate a summary of the performance evaluations completed by the Compensation Subcommittee of the IAC. Performance reviews were completed by the following members:
  – Michael Price
  – Gary Wendt
  – Peter Collins
  – Les Daniels
  – Vinny Olmstead

• The following pages include an overall summary of the responses and detailed pages on the survey questions
**EXECUTIVE SUMMARY**

- The Executive Director received the highest scores related to the overall mission and the individual rating with all “exceeds” ratings for these two questions.
  - The marks were high across all questions with the remaining three questions falling in-between “meets” and “exceeds” on average.

<table>
<thead>
<tr>
<th>Question</th>
<th>Average Rating</th>
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<tbody>
<tr>
<td>Overall Mission</td>
<td>4 out of 4</td>
</tr>
<tr>
<td>People</td>
<td>3.8 out of 4</td>
</tr>
<tr>
<td>Efficiencies/Infrastructure/Operations</td>
<td>3.6 out of 4</td>
</tr>
<tr>
<td>Interaction with Committees</td>
<td>3.6 out of 4</td>
</tr>
<tr>
<td>Individual Rating</td>
<td>4 out of 4</td>
</tr>
</tbody>
</table>

- Mercer converted the verbal rating scale to a numerical scale as follows:
  - Exceeds = 4 out of 4
  - Meets = 3 out of 4
  - Below = 2 out of 4
  - Poor = 1 out of 4
OVERALL MISSION

• The rating for this category should reflect the degree to which the ED/CIO has:

• Assured appropriate alignment with the investment policy of the SBA’s mandates (e.g., FRS Defined Benefit Pension Fund, FRS Investment Plan, Florida PRIME, Florida Hurricane Catastrophe Fund (FHCf), etc.), considering the long term needs of the relevant fund, the risk tolerance of SBA Trustees, and the perceived market environment.

• Provided leadership for effective functioning of the SBA, FHCF and the Office of Defined Contribution Programs.

• Maintained/strengthened the reputation/brand and performance of the SBA in relation to its large public pension fund peers; external communications and issue management.

4 OUT OF 4

Comments:
- “Ash has clearly exceeded expectations and exemplifies both the mission and vision. The culture of accountability and credibility should be pointed out”
- “Very impressed after 5 years of working team and Ash”
PEOPLE

• The rating for this category should reflect the degree to which the ED/CIO has:
  – Developed subordinate staff
  – Recruited and retained key talent

3.8 OUT OF 4

Comments:
- “Perhaps the key aspect, Ash has exceeded expectations. Recruiting and maintaining talented team members in the public sector, and in Tallahassee is no small task”
- “High quality, dedicated, at below market compensation rates”
EFFICIENCIES/INFRASTRUCTURE/OPERATIONS

• The rating for this category should reflect the degree to which the ED/CIO has:
  – Assured the development of organizational structures, systems and processes that enable effective functioning of the SBA, FHCF and the Office of Defined Contribution Programs.
  - This includes such areas as communication of knowledge; development and institutionalization of systems and structures to enhance performance and control risk; efficient acquisition and use of data and other resources; business continuity planning, etc.

3.6 OUT OF 4

Comments:
- “Excellent”
- “Ash’s blend of high competency in government, investing and leadership has aided to the success of Investment success”
INTERACTION WITH IAC, PLGAC & AUDIT COMMITTEE

• The rating for this category should reflect the degree to which the ED/CIO has:
  – Maintained effective working relationships with individual IAC members and the Council as a whole, with members of the Audit Committee, and members of the PLGAC, on matters within the concern of each body.
  – Provided requested information and transparency. Note: As part of the evaluation process, individual raters may speak with individual members of the IAC, Audit Committee and/or FLGAC to gain perspective on ED/CIO interactions with them.

3.6 OUT OF 4

Comments:
- “Prompt, clear and appropriate”
- “Minimal/no communication other than once each three month meetings and repetitive form of stats with no comments”
- “Extremely good communication, open, transparent and honest”
OVERALL INDIVIDUAL/QUALITATIVE PERFORMANCE RATING FOR THIS PERIOD

4 OUT OF 4

Note: There was no comments section provided for this final rating
Appendix to Attachment 3B
July 14, 2017

Mr. Michael Price  
MFP Investors LLC  
667 Madison Avenue  
New York, NY 10065

Dear Michael:

Consistent with the process adopted by the IAC Compensation Subcommittee and affirmed by the IAC, following is my self-assessment, inclusive of the fiscal year ended June 30, 2017, together with a Qualitative Evaluation Form (attachment 1) for you to complete and return to Josh Wilson at Mercer by July 31. For your convenience, an addressed, stamped envelope is enclosed for this purpose. Mercer will review the responses and may contact responders for clarification. They will then compile the ratings and final comments from raters and return them to me by August 31. I will share them with you and the other Subcommittee members and compile materials for a noticed public meeting of the Subcommittee to discuss and adopt a recommendation for the IAC. Please see “ED/CIO Incentive Plan Evaluation Process – FY 16-17” (attachment 2) for additional process details.

As a reminder, in keeping with Florida’s Sunshine Law, please do not discuss this evaluation with any other members of the IAC. All members will have the chance to discuss this evaluation at the noticed public meeting planned for later this year.

Background

Upon being triggered by total fund performance as of fiscal year end June 30, implementation of SBA’s incentive compensation structure is based on achievement as evidenced by quantitative investment performance measures and qualitative assessment of each incentive plan participant’s contributions to the accomplishment of SBA’s objectives. These are summarized at a high level in our Mission and Vision Statements:

Our mission is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards. Our vision is to be the best public sector investment and administrative service provider while exemplifying the principles of trust, integrity and performance.

As Executive Director and CIO, my priority has been and continues to be building and maintaining our organization’s team, culture, reputation, credibility and resources at a strength that empowers mission and vision fulfillment. This is consistent with the Trustees’ delegation of authority to the Executive
July 14, 2017
Page 2

Director & CIO. Our most visible output is investment results, the goodness or inadequacy of which is readily seen. What is less visible is the team building, policy and strategy formation, risk management and execution. If the team, culture, processes and resources are right, the probability of investment outcomes that earn trust, enhance reputation and build brand value is vastly enhanced. The result is a virtuous cycle where our credibility and performance help garner critical policy support from key SBA stakeholders (Trustees, Legislature, local governments, beneficiaries, taxpayers, media, etc.), which in turn, positions us as a serious, stable, and therefore desirable investment partner in the marketplace. This enables us to capture superior deal flow and more favorable terms and pricing, which ultimately drives the performance that earns trust, enhances reputation and builds brand value. I make it my business to ensure that the SBA executes effectively at all levels of this cycle.

Not so long ago, this cycle was operating in reverse. The event that led to my returning to the SBA was a crisis of confidence and reputational damage arising from liquidity problems in the face of credit downgrades and mass redemption requests from local government clients of a cash pool SBA managed for their benefit. Staff vacancies and resource constraints had created control and oversight gaps. Occurring at the onset of the great financial crisis, the cash pool problems led into a protracted period of painfully public SBA criticism and doubt that worsened with the GFC. The Trustees and Legislature heightened oversight and a new advisory body, the Participant Local Government Advisory Council (PLGAC), was created for the express purpose of overseeing SBA’s management of the local government pool. At this June’s joint IAC/PLGAC meeting, the PLGAC members recommended dissolution of the PLGAC, noting a high degree of satisfaction with and confidence in the SBA’s management of the rebranded cash pool, Florida PRIME. PRIME clients appreciate and respect the safety, liquidity and performance they have experienced since the challenges of Q4 2007. This outcome reflects years of focus on getting all the inputs to the virtuous cycle right, as we do in all of SBA’s businesses.

While effective strategy execution and policy engagement describe my responsibilities at a high level, the purpose of this letter is to communicate specifically what I have accomplished over the past year for your consideration. As you are aware, evaluation of the Executive Director & CIO and recommending an appropriate level of qualitative incentive compensation falls to the IAC Compensation Subcommittee, which may also make a recommendation on base compensation. Final action on the ED/CIO compensation is reserved for the SBA Trustees. Following are my thoughts on my contribution and accomplishments relating to each of the four central performance areas for the ED/CIO to be evaluated by the Subcommittee and addressed on the Evaluation Form.

1) Overall Mission

I believe the SBA continues to be in its strongest position ever, reflecting the performance of a stable, highly competent team under thoughtful, consistent leadership that recognizes and rewards merit and embraces constructive change. Investment performance is an obvious threshold metric for management success. While preliminary FY year end numbers clearly suggest value added in all asset
classes and total fund relative to benchmarks; the incentive plan documentation requires that we rely on audited numbers (available Q4) so that final market values and necessary income/expense accruals are included and the resulting performance calculations are definitive. The focus of this evaluation is qualitative so I will focus on elements of my management performance beyond specific investment returns and over/under performance. Examples include:

- SBA clearly has historically performed well, continually adding value relative to benchmarks. Initial estimated investment performance numbers for FY 16-17 are sound; total pension fund return is 13.69%; we grew the FRS Trust Fund by $12.2 billion, net of distributing $6.8 billion in benefit payments. The FRS Investment Plan (DC) also had a good year, returning 13.36%, 79 bps (unaudited) ahead of target. All other major mandates likewise beat benchmarks.

- Controls and risk management were effective as evidenced by a lack of material compliance or audit issues; all asset classes and the total fund remained within budgeted risk tolerances.

- While adding value the SBA has done so with all in costs of 40.5 bps, among the lowest of our US large pension fund peers.

- An increasing portion of SBA assets are managed in house, 43.3% at December 31, 2016 vs 36.3% at December 31, 2010. This holds down costs but requires competent, stable professional talent and support for portfolio and risk analytics, trading, systems, portfolio accounting, compliance, etc.

- SBA investment policies for FRS Pension (DB) and Investment (DC) plans, together with other SBA “client” mandates (Cat Fund, FL PRIME, Lawton Chiles Endowment Fund) are reviewed in public meetings of the IAC and affirmed to be appropriately aligned with legal and client requirements by expert third party investment consultants who contractually are fiduciaries to the SBA. Long-term evidence is that these policies have been well chosen and effective in achieving desired investment results, within stated risk tolerances.

- SBA is a very visible leader in US and global investment circles and has been recognized in many ways. During FY 16-17, I served on the Institutional Investor Investor Roundtable and have continued board service with the Council of Institutional Investors, Institutional Investor/CNBC Delivering Alpha, Pensions & Investments Global Future of Retirement, National Institute for Public Finance, Managed Funds Association, Alternative Investment Forum, Robert Toigo Foundation, etc. The Yale School of Management is now teaching a case based on SBA’s alternative investment program. SBA was also honored to win two Hermes Awards for excellence in beneficiary plan choice education.

- Control and compliance is working well with “tone at the top” balancing commitment to achieving desired investment results while always staying within ethical, legal, regulatory, compliance and fiduciary bounds. These standards are extended to our external investment partners; they are required to annually certify compliance with a range of relevant policies and statutory obligations. Annually, the SBA undergoes over 100 audits among our business units and investment holding companies. The fact that we have had clean opinions on all our financial statements provides an objective confirmation of the quality of our control environment.
The Florida Hurricane Catastrophe Fund is financially stronger than it has ever been, through a combination of good luck and good leadership driving prudent policy. We have taken advantage of record low reinsurance and interest rates to transfer $1 billion of loss liability for the 2017 hurricane season. The Cat Fund again has full liquidity to meet its statutory maximum single-season risk liability for the second time since its 1993 inception.

Florida PRIME AUM ended FY 16-17 at $9.33 billion, gaining $1.54 on the year, 20% annual asset growth, reflecting the restoration of confidence as the top performing, lowest cost, and most liquid and transparent cash management option for Florida governments.

2) People

Thanks largely to the IAC’s support of the SBA Comp Plan now in full effect, talent recruitment and retention is far stronger than it was just a few years ago. Over the FY just ended, we had 20 terminations, mostly retirements, some talent upgrades and a few moves for personal reasons. We completed 21 new hires and are very pleased with the quality of people recruited, successfully bringing in great talent from both the private and public sectors and many regions of the US. While we continue to have succession exposure, with 25% of management retirement eligible over the next few years, we have the tools in place to manage and mitigate the human capital risk.

3) Efficiencies/Infrastructure/Operations

Initiatives in these three areas have been motivated and accelerated by a new internal budget process, which subjects each business unit’s budget request to peer review; this brings relative priorities into focus quickly and gives the entire management team ownership of resource allocation decisions. Linking priorities of our strategic plan to budget formulation has helped too. Motivationally, the new compensation structure has been a powerful positive because incentives can be used to motivate smarter resource use at all levels. Examples include:

• IT Information Security — We continue to enhance our information security profile. Over the last year we completed an internal audit IT General Controls Advisory Engagement and engaged additional private consulting services to evaluate the strength of our IT controls and information security capabilities. Stemming in part from these activities, we have requested and received budget support for the addition of a dedicated Information Security Manager, which we plan to fill in the fall of 2017.
• Disaster Recovery and Business Continuity continue to be enhanced and tested. Our Disaster Recovery and Business Continuity Plans received a real-time, live event test this past year with Hurricane Hermine. Although back-up building power was temporarily and unexpectedly affected during the storm, SBA staff was able to manage the event with minimal disruption and no loss to the SBA. Much our success on this point can be attributed to the extensive preparation SBA staff undertook as the storm approached to ensure all necessary transactions,
wires and investment activity was completed prior to the planned building closure. All of which was in accordance with our business continuity plans.

- Defined Contribution—This past year Defined Contribution staff took the opportunity to update its guided choice platform on the MyFRS.com portal. The legacy system had been in place since the early 2000s. Defined Contribution has just completed its competitive selection process for a new vendor for this product and expects an updated and improved system to be completed this year.

4) Interaction with the Investment Advisory Council, Participant Local Government Advisory Council (PLGAC) and Audit Committee

Our experience working together on the IAC speaks for itself. I therefore defer to your judgement as to the quality and productivity of our relationship. With regard to the PLGAC and Audit Committee, I have attended and actively participated in almost all of their meetings, built relationships with the members and together resolved issues big and small. It might be helpful for you to contact some of the members of the PLGAC and Audit Committee to hear their perception of my interaction with them.

Thank you for your service on the IAC and especially for stepping up to the additional commitment of serving on the Compensation Subcommittee. As you can see from several of my comments above, your work has made a real and valuable difference for our team and organization.

Best regards,

Ash Williams

cc: Josh Wilson
Attachment 3C
MEMO

TO: Michael Price, Chairman, Compensation Subcommittee of the Investment Advisory Council, State Board of Administration

DATE: August 30, 2017 (Revised 9/20/2017)

FROM: Jon Mason, Principal, Mercer

SUBJECT: Mercer’s Review of SBA Compensation study and Salary Recommendation for Executive Director/Chief Investment Officer (ED/CIO)

Dear Mr. Price,

In 2012-13, Mercer was engaged to conduct a compensation study for the State Board of Administration of Florida (SBA). Near the conclusion of that study, Mercer issued a letter of recommendation to Chuck Newman, your predecessor as the Chairman of the Compensation Subcommittee of the Investment Advisory Council, State Board of Administration with regard to the SBA’s ED/CIO (Mr. Ash Williams) compensation. The recommendation was to increase the ED/CIO’s annual salary to $410,000 which approximated the median of the five largest public pension funds in the United States. Mr. Williams’ salary was adjusted from $325,000 to $367,500 effective 12/10/13 and adjusted again to $389,500 effective 12/1/2014. Mr. Williams’ salary was not adjusted in 2015.

In 2016, the SBA refreshed the analysis done in 2013 but did so internally (as a fee savings measure) and Mercer reviewed and validated the work. In Mercer’s view, the process undertaken by the SBA was appropriate and consistent with the approach Mercer would have taken. Mercer’s recommendation for 2016 was to increase Mr. Williams’ base salary to $425,000, however Mr. Williams’ base salary was actually adjusted to $411,000, which is his current base salary amount.

This year, the SBA again conducted the ED/CIO salary analysis internally and has asked Mercer to review the analysis and provide a base pay recommendation for the ED/CIO. We again believe the process undertaken by the SBA is reasonable and consistent with past practices.

Annual Review of CIO’s performance
Mercer received feedback from all five members of the Compensation Subcommittee pertaining to the annual performance of the ED/CIO. Mr. Williams received high marks in all categories, with all Subcommittee members giving the highest possible ratings with respect to Mr. Williams’ overall individual performance. The Subcommittee has consistently communicated its desire to retain Mr. Williams and the intention to provide market competitive compensation to all SBA employees, including Mr. Williams.

Mercer’s Recommendations Regarding SBA’s ED/CIO Compensation
The 2016 market data for the SBA pegged the median base salary for CIOs at the five largest public pension funds in the United States at approximately $455,000. Last year, we recommended phasing
in the increase for Mr. Williams’ salary by initially adjusting to $425,000 in 2016 and then adjusting his salary again in 2017 to $455,000 to align with market median.

The SBA compiled multiple salary market reference points for Mercer’s review which ranged from approximately $460,000 to $490,000. Based on this review, we recommend staying on track and increasing Mr. Williams’ salary this year to $455,000 which is the midpoint of the ED/CIO’s pay grade. In 2018, Mr. Williams should be considered for another increase, depending on the market at that time and performance.

Additionally, several SBA employees, including Mr. Williams, are eligible for a performance based incentive which is closely tied to the results of the funds. Mr. Williams is eligible for incentive compensation ranging from 17.5% to 52.5% of salary and Mercer remains comfortable that the incentive compensation is reasonable and competitive.

If you have any questions, please do not hesitate to contact me.

Thank you,

Jon
Attachment 4
2016-17 SBA Compensation Update
## SBA Incentive Compensation Information
### 2015-16 and 2016-17

<table>
<thead>
<tr>
<th>2015-16 Incentive Compensation Statistics</th>
<th>2016-17 Incentive Compensation Information</th>
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<tr>
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<td>53%</td>
</tr>
<tr>
<td>Total Awards Pd. in December 2016</td>
<td>Total Awards Pd. in December 2016</td>
</tr>
<tr>
<td>$869,218</td>
<td>**</td>
</tr>
<tr>
<td>Total Awards Deferred to December 2017</td>
<td>Total Awards Deferred to December 2017</td>
</tr>
<tr>
<td>$769,318</td>
<td></td>
</tr>
</tbody>
</table>

* 8.1% of SBA budgeted salaries
* *More than 50% paid out due to two individuals reaching age 65 in calendar year 2016, triggering 100% payout pursuant to the Plan document.
SBA Base Compensation Update as of December 2016 – Latest Cycle

**Non-Incentive Eligible**

<table>
<thead>
<tr>
<th>Total Employees</th>
<th>126</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Incentive Eligible as % of Total Employees</td>
<td>68.1%</td>
</tr>
<tr>
<td>Aggregate 2016 Midpoints</td>
<td>10,055,200</td>
</tr>
<tr>
<td>Aggregate 2016 Actual Salaries (PT Adjusted to FT)</td>
<td>9,255,223</td>
</tr>
<tr>
<td>Salaries as % of 2016 Midpoints</td>
<td>92.0%</td>
</tr>
<tr>
<td>Average Years in Job/Grade</td>
<td>4.8</td>
</tr>
<tr>
<td>Aggregate Last Increase</td>
<td>313,617</td>
</tr>
<tr>
<td>Average % of Last Salary Increase</td>
<td>3.5%</td>
</tr>
<tr>
<td>Average Non-Incentive Eligible Salary Increase</td>
<td>2,489</td>
</tr>
<tr>
<td>% Increase Range for Last Salary Increase</td>
<td>0.0% - 15.9%</td>
</tr>
</tbody>
</table>

**Incentive Eligible**

<table>
<thead>
<tr>
<th>Total Employees</th>
<th>59</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive Eligible as % of Total Employees</td>
<td>31.9%</td>
</tr>
<tr>
<td>Aggregate 2016 Midpoints</td>
<td>8,873,300</td>
</tr>
<tr>
<td>Aggregate 2016 Actual Salaries</td>
<td>7,462,656</td>
</tr>
<tr>
<td>Salaries as % of 2016 Midpoints</td>
<td>84.1%</td>
</tr>
<tr>
<td>Average Years in Job/Grade</td>
<td>3.2</td>
</tr>
<tr>
<td>Aggregate Last Increase</td>
<td>176,047</td>
</tr>
<tr>
<td>Average % of Last Salary Increase</td>
<td>2.3%</td>
</tr>
<tr>
<td>Average Incentive Eligible Salary Increase</td>
<td>2,984</td>
</tr>
<tr>
<td>% Increase Range for Last Salary Increase</td>
<td>0.0% - 5.5%</td>
</tr>
</tbody>
</table>

*The data on this slide reflect only SBA information and exclude FHCF and ODCP.

### Distribution of Salary Increases - Non-Incentive Eligible

<table>
<thead>
<tr>
<th>Percentage Increase</th>
<th>Number of Employees</th>
<th>Percentage of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Increase</td>
<td>26</td>
<td>20.6%</td>
</tr>
<tr>
<td>.1% - 5%</td>
<td>73</td>
<td>57.9%</td>
</tr>
<tr>
<td>5.1% - 10%</td>
<td>22</td>
<td>17.5%</td>
</tr>
<tr>
<td>10.1% - 15%</td>
<td>3</td>
<td>2.4%</td>
</tr>
<tr>
<td>Greater than 15%</td>
<td>2</td>
<td>1.6%</td>
</tr>
<tr>
<td>Median % Increase:</td>
<td>3.1%</td>
<td></td>
</tr>
</tbody>
</table>

### Distribution of Salary Increases - Incentive Eligible

<table>
<thead>
<tr>
<th>Percentage Increase</th>
<th>Number of Employees</th>
<th>Percentage of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Increase</td>
<td>5</td>
<td>8.5%</td>
</tr>
<tr>
<td>.1% - 5%</td>
<td>51</td>
<td>86.4%</td>
</tr>
<tr>
<td>5.1% - 10%</td>
<td>3</td>
<td>5.1%</td>
</tr>
<tr>
<td>10.1% - 15%</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Greater than 15%</td>
<td>59</td>
<td>100.0%</td>
</tr>
<tr>
<td>Median % Increase:</td>
<td>2.2%</td>
<td></td>
</tr>
</tbody>
</table>
Progress of Salaries Toward Midpoint
(2016 Salary Data)

Progress Toward Target Salaries
Salary as Percent of Pay Grade Midpoint

90-110% is "Competitive Range"

- 4/1/2016 vs. 2013 Midpt
- 4/1/2016 vs. 2016 Midpt
- 12/1/2016 vs. 2016 Midpt
Progress of Salaries Toward Midpoint
(Salaries Compared to Relevant Period Midpoints)

Progress Toward Target Salaries
Salaries v. Relevant Period Midpoint Target
(2013 vs. 2016)
Progress Toward Target Salaries  
(Organization-wide Compa-Ratio)

Progress Toward Target Salaries  
Weighted Average "Compa-Ratio"  
(Total Actual Salary as a % of 2013 or 2016 Midpoints)

09/30/2013 vs. 2013 Midpt  
12/31/2013 vs. 2013 Midpt  
12/31/2014 vs. 2013 Midpt  
04/1/2016 vs. 2013 Midpt  
04/1/2016 vs. 2016 Midpt  
12/1/2016 vs. 2016 Midpt
Comparison of Current SBA Compensation to 2016 Market Medians for Senior Investment Officers

*If the SBA is at 100.0%, then the SBA is doing as well as the median market peer for salary, bonus, or total cash compensation (salary + bonus).
Comparison of Current SBA Compensation to 2016 Market Medians for PMs & Directors

*If the SBA is at 100.0%, then the SBA is doing as well as the median market peer for salary, bonus, or total cash compensation (salary + bonus).
Comparison of Current SBA Compensation to 2016 Market Medians for Analysts, Sr. Analysts, APMs, Manager-IA&O, & Equity Trader

*If the SBA is at 100.0%, then the SBA is doing as well as the median market peer for salary, bonus, or total cash compensation (salary + bonus).

*The median for the maximum bonus-market index was not provided by McLagan for the Equity Trader.
All Staff Turnover – By Reason

Turnover 2008-17
All Staff - By Reason

- Total Turnover
- Retirement Turnover
- Non-Retirement Turnover
- 2-Yr Moving Average Non-Retirement Turnover
Asset Class Staff Turnover – By Reason

Asset Class Positions - Turnover
By Reason

- Asset Class Turnover
- Asset Class Retirement Turnover
- Asset Class Non-Retirement Turnover
- 2-Yr Moving Average Non-Retirement Turnover
FY 2018 Information

- **Employee Recruitment & Retention Rate for FY 2018**
  - SBA = $900,000
  - ODCP = $37,430
  - FHCF = 60,379

- **Non-Recurring Compensation Rate for FY 2018**
  - SBA = $2,350,000
  - ODCP = $150,000
  - FHCF = 93,700

<table>
<thead>
<tr>
<th>Business Unit/Department</th>
<th>12/1/2016 Compa-Ratio</th>
<th>Current Compa-Ratio (08/31/2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBA, ODCP, FHCF</td>
<td>88.7%</td>
<td>88.3%</td>
</tr>
<tr>
<td>ODCP</td>
<td>93.0%</td>
<td>93.0%</td>
</tr>
<tr>
<td>FHCF</td>
<td>91.4%</td>
<td>91.8%</td>
</tr>
<tr>
<td>SBA</td>
<td>88.3%</td>
<td>87.9%</td>
</tr>
<tr>
<td>Non-Incentive Eligible</td>
<td>92.0%</td>
<td>91.0%</td>
</tr>
<tr>
<td>Incentive Eligible</td>
<td>84.1%</td>
<td>84.2%</td>
</tr>
<tr>
<td>Month</td>
<td>January</td>
<td>April</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>S M T W T F S</td>
<td>S M T W T F S</td>
</tr>
<tr>
<td></td>
<td>1 2 3 4 5 6 7</td>
<td>2 3 4 5 6 7 8</td>
</tr>
<tr>
<td></td>
<td>8 9 10 11 12 13 14</td>
<td>9 10 11 12 13 14 15</td>
</tr>
<tr>
<td></td>
<td>15 16 17 18 19 20 21</td>
<td>16 17 18 19 20 21 22</td>
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<td></td>
<td>22 23 24</td>
<td>23 24 25</td>
</tr>
<tr>
<td></td>
<td>25 26 27 28</td>
<td>26 27 28 29</td>
</tr>
<tr>
<td></td>
<td>29 30 31</td>
<td></td>
</tr>
</tbody>
</table>

**Legend:**
- Aqua: Proposed PLGAC Meeting
- Purple: Proposed Joint PLGAC/IAC Meeting
- Yellow: Proposed IAC Meeting
- Orange: Proposed Cabinet Meeting

**Month Breakdowns:**
- **January**
  - Key Dates: 1
- **April**
  - Key Dates: 1
- **July**
  - Key Dates: 1
- **October**
  - Key Dates: 1

**Months:**
- March
- April
- May
- June
- July
- August
- September
- October
- November
- December