SBA TRUSTEES MEETING

JUNE 25, 2013

investing for
FLORIDA'S
future

TRUST - PERFORMANCE - INTEGRITY

STATE BOARD OF ADMINISTRATION

MEETING OF THE STATE BOARD OF ADMINISTRATION

GOVERNOR SCOTT AS CHAIRMAN
CHIEF FINANCIAL OFFICER ATWATER
ATTORNEY GENERAL BONDI

JUNE 25, 2013

To View Agenda Items, Click on the Following Link:
www.sbafla.com

AGENDA

ITEM 1. **REQUEST APPROVAL OF THE MINUTES OF THE APRIL 23, 2013 MEETING.**

(See Attachment 1A)

ACTION REQUIRED

ITEM 2. **REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $245,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION TURNPIKE REVENUE REFUNDING BONDS, SERIES 2013 (TO BE DETERMINED).**

(See Attachment 2A)

ACTION REQUIRED

ITEM 3. **REQUEST APPROVAL OF A DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE FOR ANNUAL CERTIFICATION OF LEGAL COMPLIANCE AND BEST INVESTMENT PRACTICES FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS "FLORIDA PRIME"), AS REQUIRED UNDER s. 218.405 (3), F.S.**

Lewis, Longman & Walker, P.A. independently performed the statutory compliance review and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 24, 2013.

Hewitt EnnisKnupp independently performed a comprehensive review of the various aspects of the Local Government Investment Pool to determine whether the management and operations are in line with best practices and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 24, 2013.

(See Attachments 3A through 3C)

ACTION REQUIRED

ITEM 4. REQUEST APPROVAL OF INVESTMENT POLICY STATEMENTS FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS "FLORIDA PRIME"), AS REQUIRED UNDER s. 218.409(2)(d), F.S. AND FOR THE FUND B SURPLUS FUNDS TRUST FUND AS REQUIRED UNDER s. 218.421(2)(c), F.S.

The Investment Policy Guidelines for the Local Government Surplus Funds Trust Fund must be annually reviewed by the Investment Advisory Council and the Participant Local Government Advisory Council, and reviewed and approved by the Trustees. The last review and approval of the Local Government Surplus Funds Trust Fund Investment Policy Guidelines by the Trustees was on June 26, 2012.

(See Attachments 4A through 4D)

ACTION REQUIRED

Item 5. REQUEST APPROVAL OF A DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE AFFIRMING THAT THE SBA TRUSTEES HAVE "REVIEWED AND APPROVED THE MONTHLY [FLORIDA PRIME AND FUND B MANAGEMENT SUMMARY] REPORTS AND ACTIONS TAKEN, IF ANY, TO ADDRESS ANY [MATERIAL] IMPACTS,"AND "HAVE CONDUCTED A REVIEW OF THE [FUND B] TRUST FUND AND THAT THE TRUST FUND IS IN COMPLIANCE WITH THE REQUIREMENTS OF THIS SECTION." (SECTIONS 218.409(6)(a)1 AND 218.421(2)(a), F.S.)

During the first quarter of 2013, there were no material impacts. Copies of the January, February, and March 2013 reports are attached.

(See Attachments 5A through 5D)

ACTION REQUIRED

ITEM 6. REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA'S INVESTMENTS ACT (PFIA).

Pursuant to Sections 215.473 and 215.442, F.S., the SBA is required to submit a quarterly report that includes lists of "Scrutinized Companies" with activities in Sudan and Iran. The PFIA prohibits the SBA, acting on behalf of the Florida Retirement System Trust Fund, from investing in, and requires divestment from, companies involved in certain types of business activities in or with Sudan or Iran (i.e., the "Scrutinized Companies").

(See Attachment 6A)

ACTION REQUIRED

ITEM 7. QUARTERLY REPORTS PURSUANT TO SECTION 215.44 (2)(e), FLORIDA STATUTES

- Executive Director & CIO Introductory Remarks and Standing Reports – *Ash Williams*

- Major Mandates Investment Performance Reports as of March 31, 2013 – *Kristen Doyle – Hewitt EnnisKnupp*
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund) and Fund B
  - Florida Hurricane Catastrophe Fund (FHCF)

(See Attachments 7A through 7J)

INFORMATION/DISCUSSION ITEMS

ITEM 8. FLORIDA RETIREMENT SYSTEM PLAN (DB) ASSET LIABILITY AND ASSET ALLOCATION REVIEW

Rowland Davis & Kristen Doyle, Hewitt EnnisKnupp

(See Attachment 8A)

INFORMATION/DISCUSSION ITEM

ITEM 9. REQUEST APPROVAL OF THE STATE BOARD OF ADMINISTRATION'S PROPOSED BUDGETS FOR FISCAL YEAR 2013-2014: (1) STATE BOARD OF ADMINISTRATION; (2) FRS INVESTMENT PLAN; (3) FLORIDA HURRICANE CATASTROPHE FUND; (4) DIVISION OF BOND FINANCE; AND (5) FLORIDA PREPAID COLLEGE BOARD.

(See Attachment 9A)

ACTION REQUIRED

In The Matter Of:

The Florida Cabinet

Meeting

April 23, 2013

Accurate Stenotype Reporters

2894-A Remington Green Lane

Tallahassee, Florida

Original File 20130423 CABINET.txt

Min-U-Script® with Word Index

T H E C A B I N E T

S T A T E O F F L O R I D A

Representing:

DIVISION OF BOND FINANCE
STATE BOARD OF ADMINISTRATION
FLORIDA LAND AND WATER ADJUDICATORY COMMISSION

The above agencies came to be heard before THE FLORIDA CABINET, the Honorable Governor Scott presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, April 23, 2013, commencing at approximately 9:03 a.m.

Reported by:

MARY ALLEN NEEL
Registered Professional Reporter
Florida Professional Reporter
Notary Public

ACCURATE STENOTYPE REPORTERS, INC.
2894 REMINGTON GREEN LANE
TALLAHASSEE, FLORIDA 32308
850.878.2221

APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT
Governor

PAM BONDI
Attorney General

JEFF ATWATER
Chief Financial Officer

ADAM PUTNAM
Commissioner of Agriculture

* * *

I N D E X

Appointment Parole Commission	Approved	7
Appointment Department of Revenue	Approved	8

DIVISION OF BOND FINANCE
(Presented by BEN WATKINS)

ITEM	ACTION	PAGE
1	Approved	10
2	Received	10
3	Approved	11
4	Approved	12
5	Approved	13
6	Approved	13
7	Approved	14

STATE BOARD OF ADMINISTRATION
(Presented by ASH WILLIAMS)

ITEM	ACTION	PAGE
1	Approved	17
2	Approved	18
3	Approved	18
4	Approved	18
5	Approved	18
6	Approved	19

FLORIDA LAND AND WATER ADJUDICATORY COMMISSION
(Presented by MARK KRUSE)

ITEM	ACTION	PAGE
1	Approved	20
2	Approved	21

CERTIFICATE OF REPORTER 22

GOVERNOR SCOTT: Now I would like to recognize Executive Director Ash Williams with the State Board of Administration.

MR. WILLIAMS: Good morning, Governor and Cabinet Members.

By way of update, as of last evening's close, the Florida Retirement System Trust Fund fiscal year to date is up 12.83 percent. That's 79 basis points ahead of target and leaves a balance of $133.6 billion.

Item 1, request approval of the minutes of the March 7, 2013, and March 19, 2013 meetings.

GOVERNOR SCOTT: Is there a motion to approve?

ATTORNEY GENERAL BONDI: So moved.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Any comments or objections? Hearing none, the motion carries.

MR. WILLIAMS: Thank you. Items 2, 3, and 4 are the fiscal sufficiencies in support of several items just heard on the Division of Bond Finance agenda. Depending on your preference, I can run through these individually or treat them together.

GOVERNOR SCOTT: Throw them together.

MR. WILLIAMS: Thank you. These fiscal

sufficiencies, as I said, correspond. Item 2 on our agenda corresponds to Item 5 of the Bond Finance agenda, Item 3 to Item 3 on the Bond Finance agenda, and Item 4 to Item 4 on the Bond Finance agenda. Request approval, please.

GOVERNOR SCOTT: Is there a motion to approve these items?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Any comments or objections? Hearing none, the motion carries.

MR. WILLIAMS: Thank you. Item 5, request approval of the 2013-2014 Florida Hurricane Catastrophe Fund premium formula and the proposed 2013-14 rates.

GOVERNOR SCOTT: Is there a motion to approve?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Any comments or objections? Hearing none, the motion carries.

MR. WILLIAMS: Thank you. Item 6, request authority to file a notice of proposed rule for Rule 19-8.028, reimbursement premium formula. This

is the rule to embrace the formula just adopted in Item 5.

GOVERNOR SCOTT: Is there a motion to approve?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Any comments or objections? Hearing none, the motion carries.

MR. WILLIAMS: Thank you.

GOVERNOR SCOTT: Thank you, Ash.

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: June 12, 2013

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $245,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION TURNPIKE REVENUE REFUNDING BONDS, SERIES 2013 (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State of Florida Department of Transportation, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $245,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, Series 2013 (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the outstanding Series 2004A Bonds. The Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Thirty-fifth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on June 25, 2013.

The Division, on behalf of the Department of Transportation, has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2013A (the "Outstanding Bonds"). The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $490,000,000 Turnpike Revenue Refunding Bonds, Series 2013 (to be determined) (the "Previous Refunding Bonds") at its March 19, 2013, meeting, of which $306,860,000 remains unissued. The Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds and the remaining portion of the Previous Refunding Bonds when and if issued. The Bonds shall not be secured by a pledge of the full faith and credit or the taxing power of the State of Florida or any political subdivision thereof.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $245,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION TURNPIKE REVENUE REFUNDING BONDS, SERIES 2013 (TO BE DETERMINED)

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding $245,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, Series 2013 (to be determined) (the "Bonds"), on behalf of the State of Florida Department of Transportation, for the purpose of refunding all or a portion of the outstanding Series 2004A Bonds; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Thirty-fifth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on June 25, 2013, (collectively referred to herein as the "Resolution"); and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed bond issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Division, on behalf of the Department of Transportation has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2013A (the "Outstanding Bonds"); and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $490,000,000 Turnpike Revenue Refunding Bonds, Series 2013 (to be determined) (the "Previous Refunding Bonds") at its March 19, 2013, meeting, of which $306,860,000 remains unissued, and;

WHEREAS, the proposed Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds and the remaining portion of the Previous Refunding Bonds when and if issued; and,

WHEREAS, the proposed Bonds shall be secured by a first lien upon Net Revenues of the Turnpike System, which consists of all tolls, revenues, rates, fees, charges, receipts, rents or other income derived from, or in connection with, the operation of the Florida Turnpike, less any necessary contribution to fund the Cost of Maintenance and Cost of Operation after taking into account other sources of funds available to fund the Cost of Maintenance and Cost of Operation; and,

WHEREAS, the Florida Department of Transportation has covenanted to pay the Cost of Maintenance and Cost of Operation of the Turnpike System from moneys in the State Transportation Trust Fund; and,

WHEREAS, tolls are required to be fixed, and adjusted if necessary, so that gross revenues shall be sufficient to pay at least (i) 100% of Operation and Maintenance costs; (ii) 120% of the Annual Debt Service Requirement; and (iii) 100% of all other payments required by the Resolution; and,

WHEREAS, an examination of this plan of financing indicated that the same will be executed pursuant to the applicable provisions of law, and that the revenue to be used in servicing and liquidating the indebtedness to be created thereby may be reasonably expected to accrue in amounts sufficient to accomplish this purpose; and,

WHEREAS, the estimate of toll revenues available indicates that sufficient moneys can be pledged to exceed the debt service requirements of the proposed issue and that in no State fiscal year will the moneys pledged for the debt service requirement of the proposed issue be less than the required coverage amount; and,

WHEREAS, the Division has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding $245,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, Series 2013 (to be determined) for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED June 25, 2013

STATE OF FLORIDA

DIVISION OF BOND FINANCE
OF THE STATE BOARD OF ADMINISTRATION

HERMITAGE CENTRE, SUITE 200
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

POST OFFICE BOX 13300
TALLAHASSEE, FLORIDA 32317-3300
(Address mail to P.O. Box; deliveries to street address)

TELEPHONE: (850) 488-4782
TELECOPIER: (850) 413-1315

J. BEN WATKINS III
DIRECTOR

RICK SCOTT
GOVERNOR
AS CHAIRMAN

PAM BONDI
ATTORNEY GENERAL
AS SECRETARY

JEFF ATWATER
CHIEF FINANCIAL OFFICER
AS TREASURER

ADAM H. PUTNAM
COMMISSIONER OF AGRICULTURE

June 6, 2013

Mr. Ashbel C. Williams
Executive Director
State Board of Administration
Post Office Box 13300
Tallahassee, Florida 32317-3300

RE: Not Exceeding $245,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, Series 2013 (to be determined)

Dear Mr. Williams:

In compliance with Section 215.73, Florida Statutes, the Division of Bond Finance requests State Board of Administration approval as to fiscal sufficiency for the above referenced bond issue. We request such approval at your board meeting of June 25, 2013.

The bonds will be payable from the net revenues of the turnpike system on a parity with the outstanding Series 2003A through 2013A Bonds and the remaining $306,860,000 2013 Series (to be determined) refunding bonds approved for fiscal sufficiency on March 19, 2013,when and if issued. The bonds will be issued for the purpose of refunding the outstanding Series 2004A. The proposed refunding bonds will only be issued if there is a savings.

The bonds will be issued in one or more series pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Thirty-fifth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on June 25, 2013.

The following documents are enclosed for your consideration:

Enclosure 1: An estimated coverage table for the program without considering the potential savings from the proposed $245,000,000 refunding bonds;

Enclosure 2: An estimated debt service and savings schedule from a recent sizing of the proposed refunding bonds; and

Enclosure 3: A draft copy of the Thirty-fifth Supplemental Resolution anticipated to be adopted by the Governor and Cabinet on June 25, 2013.

A draft of the fiscal sufficiency resolution should be sent to Donna Biggins and Carol Bagley of this office for review. Should you have any questions, please contact either myself or Carol Bagley at 488-4782. Your consideration in this matter is appreciated.

Very truly yours,

J. Ben Watkins III
Director

JBW\nw

Enclosures

cc: Robert Copeland
Janie Knight
Anthony Doheny

TURNPIKE REVENUE REFUNDING BONDS
FISCAL SUFFICIENCY REQUEST FOR NOT EXCEEDING $245,000,000

ESTIMATED COVERAGE TABLE

FISCAL YEAR ENDING JUNE 30	HISTORICAL/PROJECTED PLEDGED REVENUES[1] TURNPIKE SYSTEM REVENUES	OPERATIONS & MAINTENANCE EXPENSES[2]	NET REVENUE	OUTSTANDING DEBT SERVICE[3]	LESS FEDERAL SUBSIDY[4]	NET DEBT SERVICE	NET DEBT SERVICE COVERAGE
Historical							
2008	$ 650,743,000	$ 189,887,000	$ 460,856,000	$ 191,322,000	$ -	$ 191,322,000	2.41 x
2009	604,897,000	190,603,000	414,294,000	203,145,004	-	203,145,004	2.04 x
2010	611,596,000	172,422,000	439,174,000	224,220,717	(5,811,097)	218,409,620	2.01 x
2011	611,946,000	180,060,000	431,886,000	243,061,034	(5,943,001)	237,118,033	1.82 x
2012	620,201,000	173,704,000	446,497,000	249,182,170	(5,943,001)	243,239,169	1.84 x
Projected							
2013	$ 738,615,000	$ 178,774,000	$ 559,841,000	$ 250,913,432	$ (5,684,481)	$ 245,228,952	2.28 x
2014	758,249,000	179,457,000	578,792,000	251,233,741	(5,639,908)	245,593,832	2.36 x
2015	768,401,000	175,200,000	593,201,000	248,891,691	(5,639,908)	243,251,782	2.44 x
2016	789,951,000	176,259,000	613,692,000	248,837,791	(5,639,908)	243,197,882	2.52 x
2017	816,713,000	181,197,000	635,516,000	248,889,691	(5,639,908)	243,249,782	2.61 x
2018	846,893,000	183,805,000	663,088,000	250,045,291	(5,639,908)	244,405,382	2.71 x
2019	858,996,000	178,532,000	680,464,000	248,220,391	(5,639,908)	242,580,482	2.81 x
2020	888,863,000	181,921,000	706,942,000	229,888,453	(5,639,908)	224,248,545	3.15 x
2021	920,023,000	185,401,000	734,622,000	229,867,896	(5,494,499)	224,373,397	3.27 x
2022	953,133,000	188,896,000	764,237,000	203,228,059	(5,601,632)	197,626,427	3.87 x
2023	987,548,000	192,619,000	794,929,000	193,767,972	(5,405,966)	188,362,006	4.22 x
2024	987,548,000	192,619,000	794,929,000	192,737,564	(5,202,456)	187,535,108	4.24 x
2025	987,548,000	192,619,000	794,929,000	192,139,969	(4,990,887)	187,149,082	4.25 x
2026	987,548,000	192,619,000	794,929,000	171,191,060	(4,770,829)	166,420,231	4.78 x
2027	987,548,000	192,619,000	794,929,000	170,942,168	(4,517,478)	166,424,690	4.78 x
2028	987,548,000	192,619,000	794,929,000	143,849,548	(4,252,941)	139,596,607	5.69 x
2029	987,548,000	192,619,000	794,929,000	137,538,443	(3,976,623)	133,561,820	5.95 x
2030	987,548,000	192,619,000	794,929,000	129,772,445	(3,688,167)	126,084,278	6.30 x
2031	987,548,000	192,619,000	794,929,000	126,778,403	(3,386,859)	123,391,544	6.44 x
2032	987,548,000	192,619,000	794,929,000	126,458,420	(3,072,342)	123,386,078	6.44 x
2033	987,548,000	192,619,000	794,929,000	126,134,395	(2,743,902)	123,390,493	6.44 x
2034	987,548,000	192,619,000	794,929,000	114,855,515	(2,400,944)	112,454,571	7.07 x
2035	987,548,000	192,619,000	794,929,000	97,041,703	(2,042,754)	94,998,949	8.37 x
2036	987,548,000	192,619,000	794,929,000	96,666,270	(1,668,737)	94,997,533	8.37 x
2037	987,548,000	192,619,000	794,929,000	62,558,865	(1,278,179)	61,280,686	12.97 x
2038	987,548,000	192,619,000	794,929,000	49,609,710	(870,366)	48,739,344	16.31 x
2039	987,548,000	192,619,000	794,929,000	49,098,528	(444,584)	48,653,944	16.34 x
2040	987,548,000	192,619,000	794,929,000	29,258,600	-	29,258,600	27.17 x
2041	987,548,000	192,619,000	794,929,000	13,081,875	-	13,081,875	60.77 x
2042	987,548,000	192,619,000	794,929,000	6,303,150	-	6,303,150	126.12 x
				$ 4,639,801,033	$ (110,973,981)	$ 4,528,827,052	

[1] Historical and projected revenues and expenses through fiscal year 2023 provided by the Turnpike's traffic and revenue consultant. For fiscal years 2024 and thereafter, revenue and expense projections have been held constant. However, no representation is made that the amounts shown in any fiscal year will be collected.

[2] The operations and maintenance expenses are paid by the Department of Transportation under an operations agreement and then reimbursed by the Turnpike after debt service. The operations agreement is enforcable by bondholders.

[3] Includes debt service for Turnpike Revenue Bonds Series 2003A through 2013A. Excludes debt service for the 2003C bonds which were refunded by the 2011A and 2012A Bonds and debt service for the 2003B bonds refunded by the 2013A bonds all of which will be called on 7/1/13.

[4] Federal subsidy payments on Build America Bonds Series 2009B, adjusted for actual impact for Sequestration on 2013 and an estimated 5.1% reduction due Sequestration for 2014 through 2021.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

June 25, 2013

Honorable Joseph Abruzzo
Alternating Chair
Joint Legislative Auditing Committee
222 Senate Office Building
404 South Monroe Street
Tallahassee, Florida 32399-1100

Honorable Lake Ray
Alternating Chair
Joint Legislative Auditing Committee
405 House Office Building
402 South Monroe Street
Tallahassee, Florida 32399-1300

Dear Senator Abruzzo and Representative Ray:

Section 218.405(3), Florida Statutes, requires the Trustees of the State Board of Administration to "annually certify to the Joint Legislative Auditing Committee that the trust fund is in compliance with the requirements of this part and that the Trustees have conducted a review of the trust fund and determined that the management of the trust fund is in accord with best investment practices."

Please be advised that the Trustees have approved the attached legal compliance and best investment practices reviews and authorized me to convey their certification of compliance and determination of management in accordance with best investment practices to you.

Please contact me if you have any questions.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

ACW/db
Attachments
cc: Honorable Rob Bradley
Honorable Alan Hays
Honorable Jeremy Ring
Honorable Wilton Simpson
Honorable Daphne Campbell
Honorable Gayle Harrell
Honorable Daniel Raulerson
Honorable Ray Rodrigues
Honorable Cynthia Stafford
Ms. Kathy Dubose, Director

DRAFT

LEWIS
LONGMAN &
WALKER | P.A.
ATTORNEYS AT LAW

REPLY TO: TALLAHASSEE

May 30, 2013

By Electronic Delivery

Maureen Hazen, General Counsel
State Board of Administration
1801 Hermitage Boulevard
Tallahassee, FL 32308

Re: Local Government Surplus Funds Trust Fund—Statutory Compliance Review

Dear Ms. Hazen:

Attached pursuant to your request is our review of the Local Government Surplus Funds Trust Fund for compliance with Part IV of Chapter 218, Florida Statutes.

Please let me know if you have any questions with regard to this document.

Yours truly,

Anne Longman

AL/es

Enclosure

LEWIS
LONGMAN &
WALKER | P.A.
ATTORNEYS AT LAW

SUMMARY OF STATUTORY COMPLIANCE REVIEW

This review finds that the Local Government Surplus Funds Trust Fund, Florida PRIME™, (Fund) is in compliance with Sections 218.40 – 218.415, Florida Statutes.

Scope – The time period reviewed is May 30, 2012 through May 31, 2013.

Methodology – The review included analysis of the applicable statute, interviews with State Board of Administration personnel, review of materials posted to the Florida PRIME™ website, materials provided by personnel, a brief sampling of participant files, and review of the Participant Status Report, which is a log produced by Florida PRIME™ staff showing the current status of all accounts.

Additional Findings –

1. The Investment Policy Statement (IPS) must be updated annually. §218.409(2)(a), Fla. Stat. While there is no requirement that the Fund adopt rules, the IPS has been included in the Fund's rules. §19-7.0002, F.A.C. Staff is reviewing this practice and may repeal this rule so as to eliminate yearly revisions.

2. Because the Fund existed long before many requirements for enrollment were added in 2008, a number of participants do not have a Disclosure Statement (a document specifically acknowledging receipt and review of enrollment materials) on file. Staff continues to seek these documents by direct request and by requiring them when participants make account changes.

3. This year's Auditor General report noted an instance of the Fund Manager purchasing securities not permitted by the Fund IPS. This review does not address the substance of this finding but confirms that the statutorily mandated procedures were followed once this exception was discovered. Additional compliance procedures have been initiated with the Fund Manager to assure such exceptions are found in the future.

LEWIS
LONGMAN &
WALKER | P.A.
ATTORNEYS AT LAW

Reply to: Tallahassee

June 1, 2013

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND STATUTORY COMPLIANCE REVIEW

The Local Government Surplus Funds Trust Fund (Trust Fund or Fund) administered by the State Board of Administration (Board) was created in 1977, is governed by Part IV of Chapter 218, Florida Statutes, titled Investment of Local Government Surplus Funds, and is now known as Florida PRIME™.

THE STATUTE

Pursuant to section 218.405(3), the trustees (meaning the trustees of the State Board of Administration, section 218.403(10), constituted per section 215.44(1)) must make a two part annual certification:

> (3) The trustees shall annually certify to the Joint Legislative Auditing Committee <u>that the trust fund is in compliance with the requirements of this part</u> and that the trustees have conducted a review of the trust fund and determined that the management of the trust fund is in accord with best investment practices. (Emphasis added.)

This is the fifth annual review of the Fund under section 218.405(3). There have been no substantive changes to the statute since last year's review.

SCOPE OF REVIEW

This statutory review addresses the first part of the annual certification and examines whether the Trust Fund, defined at section 218.403(9) as "the pooled investment fund created by s. 218.405 and known as the Local Government Surplus Fund Trust Fund," is "in compliance with the requirements of this part." "This part" refers to Part IV of Chapter 218, Florida Statutes, which includes sections 218.40 – 218.422, Florida Statutes.

The scope of this review is sections 218.40 – 218.415, Florida Statutes for the time period May 30, 2012 through May 31, 2013. The remainder of Part IV, Chapter 218 covers the Fund B Surplus Funds Trust Fund, which is not within the scope of this review.

PURPOSE

As set out at section 218.401, Florida Statutes, the purpose of Part IV of Chapter 218 is:

> [T]o promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of government, based on the principals of investor protection, mandated transparency, and proper governance, with the goal of reducing the need for imposing additional taxes.

By its terms, the Fund is limited to units of local government, as defined at section 218.403(11):

> 'Unit of local government' means any governmental entity within the state not part of state government and shall include, but not be limited to, the following and the officers thereof: any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, authority, board, public corporations, or any other political subdivision of the state.

This is a very broad definition, as it covers not just "any governmental entity…not a part of state government," but includes also authorities, boards and public corporations, and is specifically not limited to the enumerated bodies. In addition, the definition of surplus funds, found at section 218.403(8), includes:

> [A]ny funds in any general or special account or fund of a unit of local government, or funds held by an independent trustee on behalf of a unit of local government, which in reasonable contemplation will not be immediately needed for the purposes intended.

Fund participants are charged by statute with determining whether it is in their interest to participate in the Fund. §218.407(2). The enrollment materials require the participant to certify that it has determined it is authorized to invest in the Fund. They also state that the SBA is not responsible for independently verifying that the participant is so authorized.

CREATION, OBJECTIVES

The Trust Fund is created at section 218.405, Florida Statutes,

> (1) There is hereby created a Local Government Surplus Funds Trust Fund to be administered by the board and to be composed of local government surplus funds deposited therein by units of local government under the procedures established in this part. The board may contract with a professional money management firm to manage the trust fund.

The Board has contracted with a professional money management firm, Federated Investment Counseling (Federated), to manage the Trust Fund.

> (2) The primary objectives, in priority order, of investment activities shall be safety, liquidity, and competitive returns with minimization of risks.
> (3) (Certification requirement, cited above)
> (4) The board may adopt rules to administer the provisions of this section.

RULES

Both sections 218.405(4) and 218.412 make rulemaking to administer the Trust Fund permissive rather than mandatory. The Board has adopted rules for the Fund at Chapter 19-7, Florida Administrative Code. The majority of these rules were enacted in 1982, with substantial revisions in 2002 and 2010. Effective April 11, 2012, pursuant to Executive Order 11-01, the former purpose statement at 19-7.001 was eliminated as duplicative, unnecessary or unduly burdensome. Rule 19-7.002 was amended this same date to adopt the then current Investment Policy Statements (IPS) for the Fund and for Fund B and to give website references for them. This was the last amendment to Rule 19-7, and so the current Investment Policy Statement adopted June 26, 2012 is not referenced or incorporated by reference. Staff is evaluating the need for this rule and may repeal it to eliminate annual amendments.

HOW THE TRUST FUND INTERACTS WITH LOCAL GOVERNMENT AUTHORITIES

Section 218.407 sets out the requirements that must be met before a unit of local government may deposit surplus funds in the Trust Fund:

> (1) Prior to any determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, the board or a professional money management firm must provide to the governing body enrollment materials, including a trust fund profile containing impartial educational information describing the administration and investment policy of the trust fund, including, but not limited to:

> (a) All rights and conditions of participation, including potential restrictions on withdrawals.
> (b) The historical performance, investment holdings, credit quality, and average maturity of the trust fund investments.
> (c) The applicable administrative rules.
> (d) The rate determination processes for any deposit or withdrawal.
> (e) Any fees, charges, penalties, and deductions that apply to the account.
> (f) The most recently published financial statements or independent audits, if available, prepared under generally accepted accounting principles.
> (g) A disclosure statement for signature by the appropriate local government official.

The Board, with Federated, has created enrollment materials which include a Trust Fund profile and education information which appear to be impartial and to accurately describe the administration and investment policies of the Trust Fund and which meet the specific requirements of the above section.

All materials are provided to participants and potential participants at the Board's web site: www.sbafla.com at the Florida PRIME™ link, or directly at www.sbafla.com/prime. The New Participant Enrollment Guide, the current Investment Policy Statement, the Earnings Allocation description and the applicable rules are included under the "Enrollment Materials" tab, as are the forms of two documents that must be executed by a new participant: the Disclosure Statement and the Authorizing Resolution. These materials track the statutory information required by section 218.407(1) cited above.

> (2) Upon review of the enrollment materials and upon determination by the governing body that it is in the interest of the unit of local government to deposit surplus funds in the trust fund, a resolution by the governing body and the signed acceptance of the disclosure statement by the local government official, who may be the chief financial or administrative officer of the local government, shall be filed with the board and, if appropriate, a copy shall be provided to a professional money management firm authorizing investment of its surplus funds in the trust fund established by this part. The resolution shall name:
> (a) The local government official, who may be the chief financial or administrative officer of the local government, or
> (b) An independent trustee holding funds on behalf of the unit of local government, responsible for deposit and withdrawal of such funds.

The Fund was created in 1977, and so has many long-standing participants. When the governing statutes were substantially amended effective in 2008, new requirements and safeguards were added, including specific items set out in 218.407(1) and (2) above, that had

to be given to or obtained from participants. Most of these requirements are intended to assure that the participant is fully informed about the nature, purpose, stability and processes of the Fund. Some long-standing participants do not have a Disclosure Statement on file with the Fund, as this was not required when they enrolled. On June 20, 2012, staff sent an email notice to all Fund participants requesting filing of a Disclosure Statement. This notice included the form Disclosure Statement and a set of frequently asked questions, and was also posted to the Fund website the same day. Over 300 Statements were received in response to this request. In a further effort to obtain Disclosure Statements from existing participants, staff also now requires a participant without a Disclosure Statement to file one with any amended Participant Account Maintenance (PAM) form. A PAM form must be submitted when any change is made to the participant's banking information or authorized personnel.

Staff has created a Participant Status Report, (identified in previous years as Exhibit C to this report) which lists all accounts now in the Trust Fund, including the participant name, an identification number, the date the account opened, termination date (if applicable), date the Disclosure Statement was filed, participant type, and for each of the statutory review years, whether the account has a resolution or letter of authorization to open the account and whether a Disclosure Statement is on file.

There are still a number of participants who do not have Disclosure Statements on file, despite efforts of staff. This issue has been addressed in previous year's reviews (see 2010 review), and that analysis still pertains: all participants have putative and actual knowledge of the workings of the Fund, through the Monthly Summary Reports and materials posted to the website. I recommend however, that the Fund still continue all efforts to obtain these Disclosure Statements.

Due to its length, the Participant Status Report is not attached to this report. It can be requested by accessing the Florida PRIME™ website, Client Support Team, Submit Question link, LocalGovPool@sbafla.com.

> (3) The board or a professional money management firm shall, upon the filing of the resolution, invest the moneys in the trust fund in the same manner and subject to the same restrictions as are set forth in s.215.47. All units of local government that qualify to be participants in the trust fund shall have surplus funds deposited into a pooled investment account.

Section 215.47, cited above, details the types of investments permitted for all Board funds, including Florida PRIME™. Pursuant to section 218.409(2)(a), the Fund also must be invested in accordance with the current written investment policy. Part two of the certification required by section 218.405(3), being conducted by Aon Hewitt Ennis, will determine if the Fund's management is in accord with best investment practices (and in accord with the current Investment Policy Statement (IPS)).

ADMINISTRATION OF THE TRUST FUND, ADVISORY COUNCIL

218.409 Administration of the trust fund; creation of advisory council.—

> (1) Upon receipt of the items specified in s. 218.407 from the local governing body, the board or a professional money management firm shall accept all wire transfers of funds into the trust fund. The board or a professional money management firm shall also wire-transfer invested local government funds to the local government upon request of the local government official named in the resolution.

A clearing account maintained by Bank of America, which is a qualified public depository, accepts money transmitted to the Board and transfers to BNY Mellon, as the custodian, as discussed further below.

> (2)(a) The trustees shall ensure that the board or a professional money management firm administers the trust fund on behalf of the participants. The board or a professional money management firm shall have the power to invest such funds in accordance with a written investment policy. The investment policy shall be updated annually to conform to best investment practices. The standard of prudence to be used by investment officials shall be the fiduciary standards as set forth in s. 215.47(9), which shall be applied in the context of managing an overall portfolio. Portfolio managers acting in accordance with written procedures and an investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this part.

The Board administers the Trust Fund on behalf of the participants and handles accounting, statements, monthly reporting and compiling and maintaining enrollment materials. Federated, a professional money management firm contracted by the Board, acts as the Investment Manager and invests the Trust Fund funds in accordance with the written Investment Policy Statement, interacts with participants to answer inquiries and facilitates Standard and Poor's ratings. BNY Mellon acts as custodian of all assets of the Fund and processes all trades made by Federated. BNY Mellon also does valuation and pricing for the Fund. The Investment Policy Statement has been updated and approved by the Trustees, and was effective July 1, 2012. It is posted at the Fund website tab "Risk Management and Oversight."

> (b) Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business on behalf of the trust fund. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the board.

All Board employees are required to complete annual training sessions to assure that Board officers and employees involved in the investment process are not engaged in personal business activity that could conflict with the Trust Fund program or impair their ability to make impartial decisions. The SBA Inspector General confirms that all employees completed this annual training by January 31, 2013. Employees and investment officials are required to disclose material interests in financial institutions with which they also conduct Trust Fund business, and any personal financial or investment positions that could be related to performance of the Trust Fund portfolio. The SBA Code of Ethics is posted to the web site under Risk Management and Oversight, SBA Policies, with the complete Ethics Policy 10-040 posted to the SBA intranet. The Chief Risk and Compliance Officer assures that any trading or investment activity by individual employees is in compliance with the Ethics Policy.

The Board has developed a process and document to be used by professional money manager Federated to certify that it is in compliance with statutory ethics requirements. A Compliance Certification for 2012 was executed on February 27, 2013 by Federated's Chief Investment Officer and Chief Compliance Officer.

> (c) The board or a professional money management firm and all employees have an affirmative duty to immediately disclose any material impact to the trust fund to the participants. To ensure such disclosure, a system of internal controls shall be established by the board, which shall be documented in writing as part of the investment policy. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls shall also include formal escalation reporting guidelines for all employees. The guidelines shall establish procedures to address material impacts on the trust fund that require reporting and action.

The Board intranet home page includes an employee toll-free fraud hotline number which allows all employees to anonymously report any concerns with regard to any aspect of Board functions, including the Trust Fund. This number also is provided in all contracts with external service providers, in order to reach any potential problems in these relationships, and is in the Internal Controls and Fraud Policy 10-042, posted to the SBA website. The hotline, operated by an independent company, is available 24 hours a day, 7 days a week. The Board Inspector General receives any reports from the hotline and copies these to the Chief Risk and Compliance Officer. There have been no fraud reports to the hotline number in the review period.

The current Investment Policy Statement at Section IX, Controls and Escalation Procedures, fulfills the above section by imposing extensive reporting, monitoring and escalation requirements on the executive director, all employees, the Fund custodian, the Investment Manager, an independent investment consultant and any third party used to materially implement the Fund.

Also in accordance with the IPS, the executive director of the Board has organized an Investment Oversight Group (IOG) to regularly review and formally escalate exceptions or events that might have a material impact on the Trust Fund. The minutes of its meetings, which have occurred at least monthly as required by the IPS, are posted to the Fund website.

The IPS requires the Investment Manager to provide the IOG with documented compliance procedures, an assessment of the Fund's ability to withstand events likely to occur in the coming year (stress testing) and their list of designated nationally recognized statistical rating organizations. Board personnel have confirmed that these materials have been provided to the IOG.

Federated maintains several subject-specific compliance procedures for the Fund (e.g., Maturity, Minimal Credit Risk, Diversification.) These procedures are reviewed and updated annually. The Eligible Security compliance procedure is currently being reviewed and revised, in light of the Auditor General exception noted below, although the contents of the procedure must ultimately be approved and implemented by Federated rather than Fund personnel.

The IPS also requires the Trustees to review and approve management summaries of material impacts on the Fund and any actions or escalations, along with any required actions thereon. The Monthly Summary Reports, which are provided at the website, constitute these management summaries. (See further discussion on the contents of this Report under section 218.409(6).) As reflected in the agendas of the meetings of the Board Trustees for the applicable period of time, which are posted to the SBA website, the requisite approvals were requested.

The above safeguards assure that the administration of the Trust Fund is in accordance with stringent standards of disclosure designed to prevent the loss of funds from fraud, error, misrepresentation, market changes or imprudent actions by the Board or a money manager, and in some aspects exceed what is required by statute. This year's Auditor General report noted an instance of the Fund Investment Manager (Federated) purchasing securities not permitted by the Florida PRIME™ IPS. My review does not address the substance of this finding, but confirms that the statutorily mandated safeguards were followed once this exception was discovered. Additional requirements were initiated by Fund staff and made part of the Compliance Program Procedures beginning in September 2012, to assure any such exceptions are found in the future. This is in addition to the amended compliance procedures being implemented by Federated.

> (d) The investment policy shall be reviewed and approved annually by the trustees or when market changes dictate, and in each event the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council.

As set out above, the Investment Policy Statement was amended, endorsed by the Investment Advisory Council and the Participant Local Government Advisory Council and approved by the Trustees to be effective July 1, 2012.

> (3) The board or a professional money management firm may purchase such surety or other bonds as may be necessary for its officials in order to protect the trust fund. A reserve fund may be established to fulfill this purpose. However, any reserve must be a portion of the management fee and must be fully disclosed, including its purpose, in the enrollment materials at the time a unit of local government considers participation. Further, any change in the amount to be charged for a reserve must have a reasonable notice period to allow any participant to withdraw from the trust fund prior to the new reserve charge being imposed.

No surety or other bonds have been purchased to protect the Trust Fund. A reserve fund already existed before the period of this review and no additions have been made to it during the period of this review.

> (4) The board or a professional money management firm shall purchase investments for a pooled investment account in which all participants share pro rata in the capital gain, income, or losses, subject to any penalties for early withdrawal. Any provisions for penalties, including their purpose, must be disclosed in the enrollment materials. Any change in the amount to be charged for a penalty must have a reasonable notice period to allow any participant to withdraw from the trust fund prior to the new penalty charge being imposed. A

> system shall be developed by the board, and disclosed in the enrollment materials, subject to annual approval by the trustees, to keep account balances current and to apportion pooled investment earnings to individual accounts.

All participants in the Trust Fund share pro rata in all capital gain, income or losses, as set out in the Description of Investment Pool Apportionment Subsystem, posted to the website. This system is designed to keep account balances current and to apportion pooled investment earnings to individual accounts.

> (5) The board shall keep a separate account, designated by name and number of each participating local government. A maximum number of accounts allowed for each participant may be established by the board. Individual transactions and totals of all investments, or the share belonging to each participant, shall be recorded in the accounts.

Separate accounts are kept for each participant, with a maximum number of ten accounts for each participant.

> (6)(a) The board or a professional money management firm shall provide a report, at a minimum monthly or upon the occurrence of a material event, to every participant having a beneficial interest in the trust fund, the board's executive director, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The report shall include:
>
> 1. Reports of any material impacts on the trust fund and any actions or escalations taken by staff to address such impacts. The trustees shall provide quarterly a report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports and actions taken, if any, to address any impacts.
> 2. A management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary shall be prepared in a manner that will allow anyone to ascertain whether investment activities during the reporting period have conformed to investment policies. Such reporting shall be in conformance with best market practices. The board or a professional money management firm shall furnish upon request the details of an investment transaction to any participant, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

A document titled Monthly Summary Report is produced monthly to address the above requirements and made available at the Florida PRIME™ website.

The quarterly reports of the Trustees to the Joint Legislative Auditing Committee showing that the Trustees have reviewed and approved the monthly reports and taken responsive action, per the above, are memorialized in the previously mentioned agendas of the meetings of the Trustees of the State Board of Administration, posted to the SBA website.

> (b) The market value of the portfolio shall be calculated daily. Withdrawals from the trust fund shall be based on a process that is transparent to participants and will ensure that advantages or disadvantages do not occur to parties making deposits or withdrawals on any particular day. A statement of the market value and amortized cost of the portfolio shall be issued to participants in conjunction with any deposits or withdrawals. In addition, this information shall be reported monthly with the items in paragraph (a) to participants, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

The market value of the Fund portfolio is calculated daily by BNY Mellon and had been posted on the website within two days until February 1, 2013, at which time reporting was improved to next day disclosure. The Information Statement and Operating Procedures, also posted to the website, sets out the operating procedures for the Fund, including hours of operation, holidays and timing of transactions. These procedures are transparent and appear to ensure, to the extent possible, that disadvantages do not occur to parties making deposits or withdrawals on particular days, as each participant has equal access to the transaction system. A statement of the market value and amortized cost of the portfolio is available at all times to participants on the website, and participants receive monthly individual account statements.

> The review of the investment portfolio, in terms of value and price volatility, shall be performed with practices consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, consideration shall be given to GASB Statement 31.

Compliance with the above part of section 218.409(6)(b) will be determined in part two of the annual certification, conducted by Aon Hewitt Ennis.

> Additional reporting may be made to pool participants through regular and frequent ongoing multimedia educational materials and communications, including, but not limited to, historical performance, investment holdings, amortized cost and market value of the trust fund, credit quality, and average maturity of the trust fund investments.

Additional materials are available on the Trust Fund website, are provided through the monthly reports, and are available at periodic Federated and Board conference call meetings

open to all participants. At these meetings, participants are able to talk with representatives of Federated, the Board Executive Director and Board staff representing various areas of expertise. In addition, Federated attends a number of participant association meetings to provide information about the Fund.

> (7) Costs incurred in carrying out the provisions of this part shall be deducted from the interest earnings accruing to the trust fund. Such deductions shall be prorated among the participant local governments in the percentage that each participant's deposits bear to the total trust fund. The remaining interest earned shall be distributed monthly to participants according to the amount invested. Except for costs, the board or a professional money management firm may not transfer the interest or use the interest for any other purpose, including, but not limited to, making up investment losses.

Cost amounts are shown in the monthly reports. The above statutory requirement, which was present in the law before the 2008 revisions, is theoretically problematic: If fund investment values were to decline sufficiently in a given month, there would be no interest from which to pay costs and fees, and the literal requirements of this provision could not be met within a given month. Staff have analyzed this issue and provided the following clarification:

> Florida PRIME™'s current total expense ratio is approximately 3.0 basis points (or 0.03%), with the SBA's portion of the total fees equal to 1.0 basis point (or 0.01%). Historical asset levels with an average annual balance of $6.5 billion over the last 5 years have been sufficient to generate adequate fees to cover all administrative, operational, compliance and investment management charges. SBA staff is confident the pool will continue to function very well going forward and meet all needs to recover the costs of operation.

> (8)(a) The principal, and any part thereof, of each and every account constituting the trust fund shall be subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action shall be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote

> to continue any such measures prior to the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.

In the time period covered by this review, the principal of all accounts in the Trust Fund has been paid at any time requested by a participant and there have been no events causing the Executive Director to limit contributions or withdrawals.

> (b) An order to withdraw funds may not be issued upon any account for a larger amount than the share of the particular account to which it applies; and if such order is issued, the responsible official shall be personally liable under his or her bond for the entire overdraft resulting from the payment if made.

In the time period covered by this review, there have been no orders to withdraw funds for a larger amount than the share of a particular account.

> (9) The Auditor General shall conduct an annual financial audit of the trust fund, which shall include testing for compliance with the investment policy. The completed audit shall be provided to the participants, the board, the trustees, the Investment Advisory Council, the Participant Local Government Advisory Council, and the Joint Legislative Auditing Committee. As soon as practicable, but no later than 30 days after completion of the audit, the trustees shall report to the Joint Legislative Auditing Committee that the trustees have reviewed the audit of the trust fund and shall certify that any necessary items are being addressed by a corrective action plan that includes target completion dates.

The Auditor General annual financial audit of the Trust Fund, Report No.2013-092, for the fiscal year ended June 30, 2012 was completed in February, 2013, provided to all Fund participants that same month, and is posted at the Florida PRIME™ website under the "Audits" tab (the audit actually covers fiscal years ended June 30, 2012 and 2011.) The Trustees reported to the Joint Legislative Auditing Committee on March 7, 2013 and certified that the annual audit did not disclose any material deficiencies in internal control over financial reporting that were considered to be material weaknesses. The report did recommend a corrective action plan to ensure that only eligible securities per the Investment Policy Statement are purchased. This plan has been implemented.

> (10)(a) There is created a six-member Participant Local Government Advisory Council for the purposes of regularly reviewing the administration of the trust fund and making recommendations regarding such administration to the trustees. The members of the council shall be appointed by the board and subject to confirmation by the Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing,

> and material participation in the dealings of the trust fund. Each member shall serve a 4-year term. Any vacancy shall be filled for the remainder of the unexpired term. The council shall annually elect a chair and vice chair from within its membership. A member may not serve consecutive terms as chair or vice chair.

Participant Local Government Advisory Council (PLGAC) membership is complete, with all appointments made. Quarterly meeting notices, agendas and minutes of Council activities are posted on the Fund website. The PLGAC reviews investment reports, including the Monthly Summary Report, and any annual reports, oversees Fund operations and provides strategic guidance on policy issues.

> (b) The council shall prepare and submit a written biennial report to the board, trustees, the Investment Advisory Council, and the Joint Legislative Auditing Committee that describes the activities and recommendations of the council.

The first Biennial Report of the PLGAC was issued in February 2011. The second Biennial Report was issued in March 2013. It includes a full discussion and analysis of the decision to recommend an increase in the individual fee component effective July 1, 2012, and also explains the decision to recommend no change to the scope or frequency of the fund's monthly compliance testing. I express no opinion as to whether the section 218.409(6) requirement of a monthly report, which must include among other things, "analysis of the status of the current investment portfolio," and "reports of any material impacts," is co-extensive with compliance testing, but note that, in any event an extensive report is required by statute to be done at least monthly.

AUTHORIZATION TO PROVIDE ASSISTANCE

> **218.411 Authorization for state technical and advisory assistance.**
>
> (1) The board is authorized, upon request, to assist local governments in investing funds that are temporarily in excess of operating needs by:
> (a) Explaining investment opportunities to such local governments through publication and other appropriate means.
> (b) Acquainting such local governments with the state's practice and experience in investing short-term funds.
> (c) Providing, in cooperation with the Department of Community Affairs, technical assistance to local governments in investment of surplus funds.
> (2) The board may establish fees to cover the cost of such services, which shall be paid by the unit of local government requesting such service. Such fees shall be deposited to the credit of the appropriation or appropriations from which the costs of providing the services have been paid or are to be charged.

The education offerings of the Fund have been substantially expanded since the last review and were offered on the website beginning in April, 2012. These materials are provided by outside vendors at no cost to the Fund and are directed to participant employees through a learning management system, particularly as a way of satisfying professional continuing education requirements at reduced cost.

218.412 Rulemaking authority.—

The board may adopt rules as it deems necessary to carry out the provisions of this part for the administration of the trust fund.

As noted above, the Board has adopted rules for the administration of the Fund at Chapter 19-7, Florida Administrative Code. These rules are not required by statute, but since they exist, Rule 19-7.002 should be updated to reference the current IPS.

OTHER SECTIONS OF PART IV, CHAPTER 218, FLORIDA STATUTES

Part IV of Chapter 218, Florida Statutes covers other facets of investment of local government funds, such as local government investment policies (Section 218.415) and the Fund B Surplus Funds Trust Fund (Sections 218.417 through 218.422). Because this review, as mandated by Section 218.405, is of the pooled investment fund created by 218.405 only, these sections are not a part of this review. Note, however, that a portion of the Monthly Summary Report is devoted to Fund B status and actions, and that a separate tab on the Fund website covers details of Fund B.

Florida PRIME™ Best Practices Review

Florida State Board of Administration (SBA)

June 2013

Hewitt EnnisKnupp, An Aon Company
© 2011 – Aon Corporation

(This page left blank intentionally)

CONTENTS

1 Executive Summary

2 2013 Participant Survey Results

3 Participant Enhancement Update

4 Federated Investors Onsite Due Diligence Meeting

5 Compliance Exception

6 SEC Rule 2a-7 Reform Update

(This page left blank intentionally.)

Executive Summary

Hewitt EnnisKnupp (HEK) conducts a Best Practices Review of Florida PRIME™ on an annual basis. Based on our most recent review, we continue to believe that the pool is being managed in a manner consistent with best practices. In this report, we review the responses to the annual participant survey, provide an update on recent participant enhancements, review the onsite due diligence meeting at Federated Investors and provide an update on the most recent developments surrounding the SEC 2a-7 reforms. We will begin the report with a review of the recommendations that resulted from the 2012 annual review, followed by a summary of our current recommendations.

2012 Recommendations

- Review the independent compliance verification process completed by SBA Staff and consider reducing the frequency from monthly to quarterly.

Action: The frequency of the independent verification process SBA Staff conducts was discussed at length and the decision was made to maintain verification on a monthly basis.

- Continue to stay apprised of the 2a-7 reform discussions and keep participant needs and best interests at the forefront of any contemplated policy or guideline changes.

Action: SBA Staff, Federated and HEK continue to stay apprised of the ongoing 2a-7 reform discussions and consider the potential impact on the Florida PRIME™ pool.

2013 Recommendations

- Consider additional efforts to remind participants of the Education Center that is conveniently available to them on the Florida PRIME™ website and that offers beneficial education courses at discounted prices.

- Continue to stay apprised of the 2a-7 reform discussions and keep participant needs and best interests at the forefront of any contemplated policy or guideline changes

2013 Participant Survey Results

The SBA conducts a survey of Florida PRIME™ participants every year to gain a better understanding of overall investor satisfaction, gauge interest in various enhancements, and obtain information on investors' usage of the website and other resources. The 2013 survey attracted 87 respondents, a modestly lower number than in previous years. This was the first year the SBA issued two separate surveys, one for the Florida PRIME™ and one for Fund B. The lower participation rate for the Florida PRIME™ survey could be due to participants choosing to complete one or the other, and not both. Despite the lower turnout, the survey continues to provide insight into participant satisfaction and areas for improvement.

A diversified group of governmental units responded to the survey, ranging from colleges and universities, constitutional officers, counties, municipalities, school boards, and school districts. Roughly 77% of respondents indicated that they employ less than 1,000 employees. When asked how often respondents utilize the Florida PRIME™ website, 88% indicated that they visit the website at least once a month, with 71% indicating that they find the website very useful and 64% indicating that they find its functionality very easy to use. The survey indicated that participants continue to utilize the website primarily to access account balances and statements and to make transactions. The SBA launched the Education Center in April 2012. Of the 16 respondents that answered the question, 75% indicated that they found the overall quality of the service to be very useful and the remaining 25% indicated that they found it somewhat useful. When asked about the usefulness of multiple communication pieces, 97% of respondents noted that they find the monthly account statements very useful, and 96% indicated that they find the monthly summary reports and the periodic eNotices very or somewhat useful. Respondents indicated that they call or e-mail their Florida PRIME™ service representatives fairly infrequently; however, when utilized, the large majority of respondents found them to be very helpful, knowledgeable, and responsive.

The survey also posed questions related to competing and complementary vehicles participants are utilizing. The survey indicated that just over half of respondents utilized an SEC-registered money market fund in the past twelve months in addition to Florida PRIME™. When asked what is liked most about competing services currently available from other companies, over 60% of respondents indicated the yield level. Additionally, the survey indicated mixed results from respondents regarding their interest level in a potential additional investment vehicle offered by the SBA. When asked what level of interest a respondent would have if the SBA were to develop one (or more) additional investment pools, with either lower or higher levels of risk and return, between 33% and 35% indicated they would be somewhat likely interested and between 33% and 37% indicated they would be not very likely interested.

Participant Enhancement Update

SBA Staff is committed to enhancing the Florida PRIME™ participant experience by consistently evaluating potential website enhancements, educational opportunities and reporting improvements, among other things. The SBA utilizes an online tracking tool and the annual participant survey to monitor and identify participant behaviors and areas where enhancements may be implemented.

In the last annual review, we noted two specific enhancements that have been recently made for Florida PRIME™ participants. The first was the customized Florida PRIME™ Education Center that was launched in April 2012. The Education Center is conveniently accessible through Florida PRIME™'s website and provides training programs through two well-established online training development organizations, Intuition and BiskCPEasy, each with over 300 financial courses. The courses cover a wide variety of relevant investment and financial topics and many of which can fulfill continuing education units and continuing professional education requirements. As of December 2012, approximately two dozen pool participants have utilized the Education Center since it was launched in April 2012.

While the usage of the Education Center has been lower than expected, it is important to note that the Education Center can continue to be made available to participants at no additional cost to the SBA. Further, the Education Center has only been available for approximately one year. While only a small percentage of participants have taken advantage of the service thus far, of those that have, over 90% rated the course selection and cost effectiveness of both Intuition and BiskCPEasy as very useful or somewhat useful (as indicated in the 2013 participant survey). So, while participation may be low, we find it notable that of those who have used the service, satisfaction has been high. We recommend the SBA gently remind participants that the Education Center is available to them and to make note of the beneficial courses they have access to at discounted prices.

The second enhancement the SBA made available for participants was the implementation of the "Go Green" initiative in late 2011. This initiative provides participants access to monthly account statements online and allows participants to opt out of receiving hard copies through the mail. The "Go Green" program has experienced a significant participation rate and has saved on hard copy mailing costs. Since the program was launched, 344 participant accounts have opted out of receiving monthly statements in the mail, representing 20% of Florida PRIME™'s total accounts.

Florida PRIME™'s investment manager, Federated Investors, also is consistently adding to the Florida PRIME™ participant experience. Federated continues to keep itself in front of participants with appropriate updates and remains very responsive to participant needs. Federated holds multiple conferences throughout the year and will attend a total of 12 different conferences around Florida in order to communicate the investment opportunity and services Florida PRIME™ provides to local governments.

Conclusion

The SBA continues to be dedicated to exploring potential enhancements for Florida PRIME™'s participants and to improving the participant experience. The SBA continues to make diligent efforts to enhance the services, the delivery of information and the level of transparency provided to Florida PRIME™ participants. Further, the SBA continues to make use of the participant survey to ensure that services provided are those that are most important to participants and will create efficiencies for participants on a daily basis. We view the Education Center as a valuable enhancement and believe that many participants can benefit from taking advantage of the discounted education courses. We recommend the SBA consider additional means to reminding participants that the Education Center is available to them and of the ways in which participants can benefit from this opportunity.

Federated Investors Onsite Due Diligence Meeting

SBA Staff and HEK conduct onsite due diligence meetings at the Federated offices on a regular basis. In April 2013, the SBA and HEK visited the Federated offices in Pittsburgh, PA. The goal of the visit was to conduct a comprehensive overview of Federated's business and processes, and specifically those that impact the Florida PRIME™ investment pool and its participants. Below we provide a brief summary of the topics covered and the surrounding discussion.

Corporate Overview and Legal: Federated Investors is very well-known in the money market industry with a sole focus on asset management. As of December 31, 2012, Federated managed a total of $380 billion, of which roughly 75% was invested in money market funds and approximately 32% was in prime money market funds. As of December 2012, twenty-six states were using Federated's services in a direct form. Additionally, of the 50 money market portfolios Federated manages, 15 are prime, 15 are government and 20 are tax-free. The firm works with six internal lawyers and two outside counsels. Currently there are no lawsuits pending.

Compliance: The Federated Compliance Department is comprised of over thirty employees who are responsible for the development and enhancement of compliance programs and who are dedicated to overseeing the investment activities of Federated's business units. The team monitors the investment activities and operations for compliance with applicable regulations, client guidelines and corporate standards.

Federated utilizes three trade order management systems that the Compliance Department is responsible for overseeing. The applicable trading system utilized for stable NAV funds, and specifically for the management of Florida PRIME™, are proprietary systems FedPorts and FedCMS. The Compliance Department works in tandem with the Business Information Services Division (BISD) and Investment Management Operations (IMO) to develop and implement automated tests within the trading systems that are conducted to assure trading compliance with applicable regulations and guidelines. Due to the proprietary nature of Federated's trading system, the Compliance Department, in conjunction with the BISD and IMO, has created a set of rules specifically for the Florida PRIME™ portfolio that are constantly reviewed and updated.

The Compliance Department reviews the applicable regulations and guidelines governing the Florida PRIME™ portfolio and helps to interpret them into automated tests that can be implemented within the trading system. Every trade that is generated runs through compliance. Should any trade placed not comply with the set of rules, a notice of either 'Warn,' 'Fail' or 'Stop' will be received and will need to be rectified before the trade can be processed. Each notice has a different level of importance and corresponding parameter on who can validate the trade. Should a disagreement arise on whether a trade is permissible or not, Federated has a proven escalation process to solve the issue. Federated also conducts manual tests for certain guidelines that are not able to be automated in the trading systems.

Federated also has a nightly process that runs pre-trade and batch checks for the Florida PRIME™ portfolio. Additionally, Federated reviews the Florida PRIME™ Compliance Checklist on a daily basis, which is also provided in the Monthly Summary Reports that are posted to the Florida PRIME™ website. Further, the Compliance Department provides Florida with a Code of Ethics Certification on an annual basis.

Trading and Technology: The Federated trading team is well tenured, consisting of twelve traders with an average of eighteen years of experience. The team is organized by sector and meets on a weekly basis. The trading process begins with the development of the investment strategy, which is followed by a credit analysis and review before trading takes place. The team utilizes a best execution policy when selecting brokers and has a committee that oversees the broker selection practices that meets on a quarterly basis. During the onsite, the trading team illustrated a live demo of the trading process, allowing us to view the functionality of the automated tests, mentioned above, which ensure each trade is in compliance with the applicable guidelines and regulations. The trading team works together with Federated's other business units to execute Florida PRIME™'s investment strategy on a seamless basis.

We also heard from the Business Information Services Division (BISD) and specifically from the Money Market Fixed Income Cash unit of the Investment Management Business Services unit. In addition to working with the Compliance Department, the BISD manages the communications network and information technology infrastructure. Federated utilizes a dual data center architecture located on separate power grids which allows the business to run smoothly in the event of an emergency. All data entered into the trading systems is replicated to a second system in real time. The system has a recovery time of two hours or less, and a goal of zero data loss. Additionally, we heard from the Corporate Business Continuity unit that is responsible for aligning the workplace and technology recovery plans together. All systems are tested on a regular basis to ensure trading and day-to-day business can be run as usual should an unexpected event occur.

Risk Management: The Florida PRIME™ portfolio is managed to a fairly conservative mandate with the goal of providing, in priority order, safety, liquidity and competitive returns with minimization of risks. During the onsite, we met with Senior Portfolio Manager, Paige Wilhelm, and Senior Investment Analyst and Portfolio Manager, Mark Weiss. Ms. Wilhelm provided a brief update on Florida PRIME™ and an overview of what she is seeing in the marketplace. As of March 2013, the Florida PRIME™ portfolio has performed favorably over both short and long periods relative to its performance benchmark, and has provided the safety and liquidity characteristics needed by its participants.

Mr. Weiss then provided us with an overview of the credit review process. All credits must go through Federated's Credit Committee, which meets on a weekly basis. A credit will not be put onto the approved list until it goes through the Credit Committee. Once a credit is approved, an

analyst can immediately downgrade or put it on hold if they deem necessary. However, in order for a credit to be upgraded, it must go through the Credit Committee.

Federated also provided us with an update and their view on the money market fund reform debate. As we discuss later, to date of this report there has not been any concrete proposals put forth. However, Federated did provide a brief description of what they see as likely outcomes. At the time of the onsite, Federated anticipated a proposal centered around a floating net asset value, gating restrictions and/or further adjustments to portfolio limits similar to the reforms in 2010 (i.e., restrictions on weighted average life, weighted average maturity, etc.). Federated continues to make significant contributions to the 2a-7 reform debate and continues to make meaningful efforts to help achieve a reasonable outcome for the industry.

Participant Servicing & Education: Federated offers a comprehensive participant service model that is centered on the participant experience. The model offers a wide-range of services, including customizable technology and reporting services, education opportunities and multiple communication portals, among other things. Currently, SBA Staff provides Florida PRIME™ participants with a comprehensive service model. Though the Federated model is compelling, the SBA has been very successful in servicing the pools' participants in an efficient and effective manner.

Conclusion

The onsite meeting provided a very comprehensive overview of the Federated business and detailed processes related to Florida PRIME™. The meeting reinforced our confidence in Federated's capabilities with regard to the people, the process and the technology to continue to successfully manage the Florida PRIME™ portfolio. We continue to find Federated among the top managers in the money market asset management business and believe they will continue to successfully manage the Florida PRIME™ portfolio and keep the SBA and Florida PRIME™ participants well informed and ahead of the curve as the industry progresses.

Compliance Exception

A single compliance exception was identified by the Auditor General's Office and brought to Federated's attention on September 11, 2012. The breech was due to a 144A issuance that was available for sale only to Qualified Institutional Buyers. Such a security is not eligible for the Florida PRIME™ portfolio and therefore constituted a breach of compliance. At the time of purchase, the security's non-applicability for Florida PRIME™ was unknown to Federated Investors. Immediately after becoming aware, Federated notified SBA's Fixed Income Investment Oversight Group (IOG), per Policy. The following day, the IOG held an ad hoc meeting where it was recommended the security be sold. On September 13, the SBA Executive Director & CIO approved the recommendation and the next day the security was sold with a small realized gain.

We note that the compliance exception was not material and did not cause any notable impact on the Florida PRIME™ portfolio or its participants. The compliance procedures in place at Federated and at the SBA were executed as designed and the issue was resolved quickly and seamlessly. Further, Federated promptly implemented an additional automated test that will prevent any future purchase of a 144A security until it is confirmed that it is eligible for the Florida PRIME™ portfolio.

As part of the 2011 Best Practices Review, we assessed the procedures Florida PRIME™ has in place to ensure compliance with its Investment Policy Statement (IPS). We concluded that Federated has established thorough and effective compliance procedures and we have full confidence in their ability to manage the portfolio successfully and in compliance with the applicable guidelines. Given the recent compliance exception, our opinion of Florida PRIME™'s compliance procedures and Federated's ability to safeguard Florida PRIME™'s assets has not changed. We note that prior to this exception there has not been a breach of guidelines for over three years. Further, the execution by Federated and the SBA to escalate and resolve the issue, as well as implement additional precautions, confirms the effectiveness of the procedures in place.

SEC Rule 2a-7 Reform Update

Florida PRIME™ is not a registered money market fund and therefore is not mandated by law to follow the guidelines set forth by the U.S. Securities and Exchange Commission (SEC) for registered 2a-7 money market funds. However, Florida PRIME™ has dedicated itself to being managed as “2a-7 like,” as defined by the Governmental Accounting Standards Board (GASB). The Florida PRIME™ Investment Policy Statement states that the portfolio will be managed in a manner consistent with the diversification, credit quality and maturity conditions of Rule 2a-7. Accordingly, Federated and Staff have stayed current in managing the portfolio in accordance with the most up-to-date guidelines and best practices as set forth by the SEC for 2a-7 funds.

As a reminder, new regulations for 2a-7 funds were approved by the SEC in 2010. Since approval, Florida PRIME™ has adopted the new guidelines and Federated has managed the portfolio under the most up-to-date 2a-7 regulations. Though the 2010 regulations were received positively and viewed as effective, there has been a push for additional regulations to further protect the industry and the broader economy from another run on money market funds as experienced in 2008.

At the time of the last annual review, significant attention was being paid by industry participants to whether additional reforms were needed or not. Since the last review, Mary Schapiro, former Chairman of the SEC and a strong advocate for money market fund reforms, attempted to push through a proposal that would require capital buffers and redemption restrictions, or alternatively, a move from the current stable net asset value (NAV) structure to a floating NAV structure. The proposal was not well received and three of the five SEC commissioners were not convinced that additional reforms were even necessary. Since that time, a significant research effort and focus has been maintained by industry participants and it has now become widely accepted that additional regulations will ultimately be implemented. Accordingly, the focus of discussion has progressed to identifying the most appropriate and effective measure. Additionally, the SEC has a new Chairman, Mary Jo White, who was sworn into office in April 2013. While Ms. White’s tenure as Chairman has been short, she has confirmed her commitment to finding a balanced and effective solution to the money market reform debate.

The most recent and significant update was announced during the first week of June 2013. The SEC met on June 5th and voted unanimously to propose a new set of rules. The proposal is reported to include two main reform alternatives that were written to be adopted either alone or in combination. One alternative would require prime institutional money market funds to transition to a floating net asset value. The second alternative would allow the use of liquidity fees and redemption gates in periods of market stress. The proposal is also said to include additional diversification and disclosure regulations that would apply whether either alternative is passed. As a result of the unanimous agreement by the SEC commissioners, the proposal will be open for public comment for a period of 90 days. While we view this development as a positive move in

the right direction, it is important to note that though the commissioners agreed to solicit feedback, uncertainty remains whether they will agree on final reform measures.

Conclusion

We find it important to emphasize that while Florida PRIME™ has historically fully complied with the 2a-7 guidelines, the portfolio is not a registered money market fund and therefore is not obligated by law to comply with any potential additional regulations the SEC may enforce. We believe this flexibility provides great advantage for Florida PRIME™ and is common among other local government investment pools around the nation.

As was the case when the previous annual review was written, there continues to be more unknowns than knowns surrounding the potential money market reforms at this time. However, we believe significant progress has been made over that past year towards finding a common middle ground between the industry participants wanting additional reform and those that deem it unnecessary. We believe the proposal most recently released for public comment is much closer to being appropriate for and acceptable to the majority of industry participants. We note that uncertainty still remains surrounding which reforms may ultimately be passed and surrounding the specifics of how the proposed measures will impact various industry participants. Additionally, given the process for reform, it may be years before new regulations will come into effect.

We have confidence that the reforms ultimately approved by the SEC will be in the best interest of money market participants and that the SBA and Federated have the capabilities to adjust the management and oversight of Florida PRIME™, should the decision be made to continue to manage the portfolio as “2a-7 like.”

We note that both the SBA and Federated have continued to stay well informed of the developments surrounding the money market reforms and well aware of potential impacts on Florida PRIME™. We recommend that the SBA continue to focus on the needs of, and potential impact on, Florida PRIME™’s participants when determining whether any new SEC rules should be adopted by Florida PRIME™.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
CHAIR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

To: Ash Williams

CC: Senior Investment Group

From: Michael McCauley

Date: June7, 2013

Subject: **Annual Approval of Florida PRIME Investment Policy Statement**

With respect to Florida PRIME, Section 218.409 Florida Statues requires:

> The trustees shall ensure that the board or a professional money management firm administers the trust fund on behalf of the participants. The board or a professional money management firm shall have the power to invest such funds in accordance with a written investment policy. The investment policy shall be updated annually to conform to best investment practices. [s. 218.409(2)(a), Florida Statutes]
>
> The investment policy shall be reviewed and approved annually by the trustees or when market changes dictate, and in each event the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council. [s. 218.409(2)(d), Florida Statutes]

To that end, the Florida PRIME Investment Policy Statement (IPS) has been updated (attached):

1. Several grammar and changes to sentence structure throughout the document.
2. Language is being added on Page 7 to specify the frequency of manager reporting reconciliation.

Let me know if you have any other questions.

Attachment

Investment Policy Statement
Local Government Surplus Funds Trust Fund (Non-Qualified)
Effective July 1, 2012

I. Purpose and Scope

The purpose of this Investment Policy Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Local Government Surplus Funds Trust Fund ("Florida PRIME"). The Policy also describes the risks associated with an investment in Florida PRIME. This Policy does not relate to Fund B as defined ~~at~~ in Section 218.421, Florida Statutes.

II. Overview of Florida PRIME

The Local Government Surplus Funds Trust Fund was created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest Florida PRIME, in accordance with the statutory fiduciary standards of care as contained in Section 215.47(9), Florida Statutes. The SBA has contracted with Federated Investment Counseling (the "Investment Manager") to provide investment advisory services for Florida PRIME.

Florida PRIME is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Florida PRIME is in compliance with the requirements of Chapter 218, Florida Statutes, and that the management of Florida PRIME is in accord with best investment practices.

The Trustees delegate the administrative and investment authority to manage Florida PRIME to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will, at least annually, review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties set forth in Applicable Florida Law.

IV. Amortized Cost Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to Florida PRIME.

GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). GASB 31 describes a "2a-7 like" pool as an "external investment pool that is not registered with the Securities and

Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act")." Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of $1.00 per share, provided that such funds meet certain conditions.

Florida PRIME will operate in a manner consistent with the diversification, credit quality and maturity conditions of Rule 2a-7. Accordingly, it qualifies for "2a-7 like" status under GASB 31, and is thereby permitted to use the amortized cost method to maintain a stable NAV of $1.00 per share.

V. Investment Objective

The primary investment objectives for Florida PRIME, in priority order, are safety, liquidity, and competitive returns with minimization of risks. Investment performance of Florida PRIME will be evaluated on a monthly basis against the Standard & Poor's U.S. AAA & AA Rated GIP All 30 Day Net Yield Index. While there is no assurance that Florida PRIME will achieve its investment objectives, it endeavors to do so by following the investment strategies described in this Policy.

VI. Investment Strategies & Specific Limitations

The Investment Manager will invest Florida PRIME's assets in short-term, high-quality fixed income securities. To be considered high-quality, a security must be rated in the highest short-term rating category by one or more nationally recognized statistical rating organizations ("NRSROs"), or be deemed to be of comparable quality thereto by the Investment Manager, subject to Section 215.47(1)(j), Florida Statutes. The Investment Manager also may enter into special transactions for Florida PRIME, like repurchase agreements. Each repurchase agreement counterparty must have an explicit issuer or counterparty credit rating in the highest short-term rating category from Standard & Poor's. Certain of the fixed -income securities in which Florida PRIME invests pay interest at a rate that is periodically adjusted ("Adjustable Rate Securities").

The Investment Manager will manage credit risk by purchasing only high quality securities. The Investment Manager will perform a credit analysis to develop a database of issuers and securities that meet the Investment Manager's standard for minimal credit risk. The Investment Manager monitors the credit risks of all Florida PRIME's portfolio securities on an ongoing basis by reviewing periodic financial data, issuer news and developments, and ratings of certain NRSROs. The Investment Manager will utilize a "new products" or similar committee to review and approve new security structures prior to an investment of Florida PRIME's assets in such securities. The Investment Manager will periodically consider and follow best practices in connection with minimal credit risk determinations (e.g., such as those described in Appendix I of the Investment Company Institute's 2009, *Report of the Money Market Working Group)*.

The Investment Manager will manage interest rate risk by purchasing only short-term fixed income securities. The Investment Manager will target a dollar-weighted average maturity range for Florida PRIME based on its interest rate outlook. The Investment Manager will formulate its interest rate outlook by analyzing a variety of factors, such as current and expected U.S. economic growth; current and expected interest rates and inflation; and the

Federal Reserve Board's monetary policy. The Investment Manager will generally shorten Florida PRIME's dollar-weighted average maturity when it expects interest rates to rise and extend Florida PRIME's dollar-weighted average maturity when it expects interest rates to fall. The remaining maturity of securities purchased by the Investment Manager shall not exceed 762 days for government floating rate notes/variable rate notes and will not exceed 397 days ~~for~~ for all other securities.

The Investment Manager will exercise reasonable care to maintain (i) a dollar weighted average maturity ("DWAM") of 60 days or less; and (ii) a maximum weighted average life (WAL) within the range of 90-120 days, depending on the levels of exposure and ratings of certain Adjustable Rate Securities. The maximum WAL will depend upon the percentage exposures to government and non-government Adjustable Rate Securities, with sovereign (government) Adjustable Rate Securities rated AA- and higher allowed a 120-day limit, and non-sovereign (corporate) Adjustable Rate Securities (and sovereign Adjustable Rate Securities rated below AA-) restricted to a 90-day limit. The portfolio's maximum WAL will be based on a weighted average of the percentage exposures to each type of floating-rate instrument.

For purposes of calculating DWAM, the maturity of an Adjustable Rate Security generally will be the period remaining until its next interest rate adjustment. For purposes of calculating WAL, the maturity of an Adjustable Rate Security will be its stated final maturity, without regard to interest rate adjustments; accordingly, the WAL limitation could serve to restrict Florida PRIME's ability to invest in Adjustable Rate Securities.

The Investment Manager will exercise reasonable care to limit exposure to not more than 25% of Florida PRIME's assets in a single industry sector, with the exception that the Investment Manager may invest more than 25% in the financial services industry sector, which includes banks, broker-dealers, and finance companies. This higher limit is in recognition of the large outstanding value of money fund instruments issued by financial services firms. Government securities are not considered to be an industry.

The Investment Manager will exercise reasonable care to not acquire a security, other than (i) a Daily Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 10% of its total assets in Daily Liquid Assets; (ii) a Weekly Liquid Asset, if immediately after the acquisition Florida PRIME would have invested less than 30% of its total assets in Weekly Liquid Assets. Daily Liquid Assets include cash, direct obligations of the U.S. government~~;~~ and securities that convert to cash in one business day. Weekly Liquid Assets include cash, direct obligations of the U.S. government, certain government securities with remaining maturities of 60 business days or less~~,~~ and securities that convert to cash in five business days.

The Investment Manager will exercise reasonable care to not acquire securities that cannot be sold or disposed of in the ordinary course of business within seven days at approximately the value ascribed to them by Florida PRIME if, immediately after the acquisition, Florida PRIME would have invested more than 5% of its total assets in such securities.

In buying and selling portfolio securities for Florida PRIME, the Investment Manager will comply with (i) the diversification, maturity and credit quality conditions imposed by Rule 2a-7 under the 1940 Act, (ii) ~~; with~~ the requirements imposed by any NRSRO that rates Florida

PRIME to ensure that it maintains a AAAm rating (or the equivalent)~~;~~ and (iii) ~~with~~ the investment limitations imposed by Section 215.47, Florida Statutes.

The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in Rule 2a-7. First, at least 50% of Florida PRIME assets will be invested in securities rated "A-1+" or those deemed to be of comparable credit quality thereto by the Investment Manager (i.e., so long as such deeming is consistent with the requirements of the NRSRO's AAAm (or equivalent) rating criteria), subject to Section 215.47(1)(j), Florida Statutes. The Investment Manager will document each instance in which a security is deemed to be of comparable credit quality and its basis for such a determination. Second, exposure to any single non-governmental issuer will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of Florida PRIME assets.

VII. Portfolio Securities and Special Transactions

The Investment Manager will purchase only fixed income securities for Florida PRIME, and may engage in special transactions, for any purpose that is consistent with Florida PRIME's investment objective.

Fixed income securities are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Florida PRIME may invest include corporate debt securities, bank instruments, asset backed securities, U.S. Treasury securities, U.S. government agency securities, insurance contracts, municipal securities, foreign securities, mortgage backed securities, and shares of money market mutual funds. However, Florida PRIME is not permitted to buy such fixed income securities to the extent that they require Florida PRIME to be a qualified institutional buyer.

Special transactions are transactions into which Florida PRIME may enter, including, but not limited to, repurchase agreements and delayed delivery transactions.

For a more detailed description of Florida PRIME's portfolio securities and special transactions, please see "Additional Information Regarding Florida PRIME's Principal Securities" at Appendix A.

VIII. Risks Associated with Florida PRIME

An investment in Florida PRIME is subject to certain risks. Any investor in Florida PRIME should specifically consider, among other things, the following principal risks before making a decision to purchase shares of Florida PRIME.

Risk that Florida PRIME will not Maintain a Stable Net Asset Value

Although the Investment Manager attempts to manage Florida PRIME such that it maintains a stable NAV of $1.00 per share, there is no guarantee that it will be able to do so. Florida PRIME is not registered under the 1940 Act or regulated by the SEC.

Interest Rate Risks

The prices of the fixed income securities in which Florida PRIME will invest rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

Credit Risks

Credit risk is the possibility that an issuer of a fixed income security held by Florida PRIME will default on the security by failing to pay interest or principal when due. If an issuer defaults, Florida PRIME will lose money.

Liquidity Risks

Trading opportunities are more limited for fixed income securities that are not widely held. These features make it more difficult to sell or buy securities at a favorable price or time. Consequently, Florida PRIME may have to accept a lower price to sell a security, sell other securities to raise cash or give up an investment opportunity, any of which could have a negative effect on Florida PRIME's performance.

Concentration Risks

A substantial part of Florida PRIME may be comprised of securities issued by companies in the financial services industry, ~~or~~ companies with similar characteristics,~~;~~ or securities credit enhanced by banks or companies with similar characteristics. As a result, Florida PRIME may be more susceptible to any economic, business, or ~~political~~ political risks or other developments that generally affect finance companies. Developments affecting companies in the financial services industry or companies with similar characteristics might include changes in interest rates, changes in the economic cycle affecting credit losses and regulatory changes.

Risks of Foreign Investing

Foreign securities pose additional risks because foreign economic or political conditions may be less favorable than those of the United States. Securities in foreign markets also may be subject to taxation policies that reduce returns for U.S. investors.

Call Risks

If a fixed income security is called, Florida PRIME may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks~~,~~ or other less favorable characteristics.

Prepayment Risks

Unlike traditional fixed income securities, which pay a fixed rate of interest until maturity (when the entire principal amount is due), payments on asset-backed securities include both interest and a partial payment of principal. Partial payment of principal may be comprised of scheduled principal payments as well as unscheduled payments from voluntary prepayment, refinancing, or foreclosure of the underlying loans. If Florida PRIME receives unscheduled prepayments, it may have to reinvest the proceeds in other fixed income securities with lower interest rates, higher credit risks or other less favorable characteristics.

Risks Associated with Amortized Cost Method of Valuation

Florida PRIME will use the amortized cost method to determine the value of its portfolio securities. Under this method, portfolio securities are valued at the acquisition cost as adjusted for amortization of premium or accumulation of discount rather than at current market value. Accordingly, neither the amount of daily income nor the NAV is affected by any unrealized appreciation or depreciation of the portfolio. In periods of declining interest rates, the indicated daily yield on shares computed by dividing the annualized daily income on Florida PRIME's portfolio by the NAV, as computed above, may tend to be higher than a similar computation made by using a method of valuation based on market prices and estimates. In periods of rising interest rates, the opposite may be true.

Changing Distribution Level~~s~~ Risk

There is no guarantee that Florida PRIME will provide a certain level of income or that any such income will exceed the rate of inflation. Further, Florida PRIME's yield will vary. A low interest rate environment may prevent Florida PRIME from providing a positive yield or paying expenses out of current income.

Throughout this section, it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

For additional information regarding Florida PRIME's principal securities and associated risks, please see Appendix A.

IX. Controls and Escalation Procedures

Section 218.409(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, ~~and~~ misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Florida PRIME that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Florida PRIME. The Custodian will mark to market the portfolio holdings of Florida PRIME on a daily basis and will daily communicate both amortized cost price and mark to market price, so that the SBA and the

Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on at least a monthly~~regular~~ basis, under the supervision of the SBA.

The NRSRO that rates Florida PRIME will perform regular independent surveillance of Florida PRIME. The SBA and an independent investment consultant will regularly monitor the Investment Manager with respect to performance and organizational factors according to SBA manager monitoring policies.

The SBA and third parties used to materially implement Florida PRIME will maintain internal control, fraud and ethics policies and procedures designed to prevent the loss of public funds.

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 to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Florida PRIME. Minutes of the Investment Oversight Group's meetings and a listing of meeting participants shall be timely posted on the Florida PRIME website.

The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on Florida PRIME to the participants, including, but not limited to:

1. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.25%, according to pricing information provided by the Custodian, the Investment Manager will establish a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for the Executive Director's consideration.

2. When the deviation between the market value and amortized cost of Florida PRIME exceeds 0.50%, according to pricing information provided by the Custodian, the Executive Director will promptly consider what action, if any, will be initiated. Where the Executive Director believes the extent of any deviation from Florida PRIME's amortized cost price per share may result in material dilution or other unfair results to investors or existing shareholders, he will cause Florida PRIME to take such action as he deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

3. The Investment Manager will perform daily compliance monitoring to ensure that investment practices comply with the requirements of this Policy, according to documented compliance procedures. The Investment Manager will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. Additionally, the Investment Oversight Group will periodically conduct independent compliance reviews.

4. In the event that a security receives a credit rating downgrade and ceases to be in the highest rating category, or the Investment Manager determines that the security is no longer of comparable quality to the highest short-term rating category (in either case, a "Downgrade"), the Investment Manager will reassess whether the security continues to present minimal credit risk and will cause Florida PRIME to take any actions determined by the Investment Manager to be in the best interest of Florida PRIME; provided however, that the Investment Manager will not be required to make such reassessments if Florida PRIME disposes of the security (or the security matures) within five business days of the Downgrade.

5. In the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a determination that the security no longer presents minimal credit risks, or other material event ("Affected Security"), the Investment Manager must dispose of the security as soon as practical, consistent with achieving an orderly disposition of the security, by sale, exercise of a demand feature or otherwise. An Affected Security may be held only if the Executive Director has determined, based upon a recommendation from the Investment Manager and the Investment Oversight Group, that it would not be in the best interest of Florida PRIME to dispose of the security taking into account market conditions that may affect an orderly disposition.

6. The Investment Manager will monthly stress test Florida PRIME and at least quarterly report the results of the stress tests to the Investment Oversight Group. Stress tests must be conducted for at least the following events, or combinations of events (i) a change in short-term interest rates; (ii) an increase in net shareholder redemptions; (iii) downgrades or defaults; and (iv) changes between a benchmark overnight interest rate and the interest rates on securities held by Florida PRIME.

The Investment Manager will at least annually provide the Investment Oversight Group with: (i) their documented compliance procedures; (ii) an assessment of Florida PRIME's ability to withstand events reasonably likely to occur in the coming year and (iii) their list of NRSROs utilized as a component of the credit risk monitoring process.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Florida PRIME, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under applicable law, regulation or rule.

Pursuant to Florida law, the Auditor General will conduct an annual financial audit of Florida PRIME, which will include testing for compliance with this Policy.

X. Deposits and Withdrawals

Investors should refer to the separate Florida PRIME Operating Procedures for detailed descriptions regarding how to make deposits in and withdrawals from Florida PRIME, including (1) any fees and limitations that may be imposed with respect thereto; and (2) reports provided to participants.

XI. Management Reporting

The Executive Director will be responsible for providing the formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

Appendix A
Additional Information Regarding Florida PRIME's Principal Securities

Throughout this appendix it shall be understood that actions described as being taken by Florida PRIME refer to actions taken by the Investment Manager on behalf of Florida PRIME.

FIXED INCOME SECURITIES

Corporate Debt Securities

Corporate debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Florida PRIME also may purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial paper is an issuer's obligation with a maturity of less than nine months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Florida PRIME treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

Bank Instruments

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, time deposits, certificates of deposit and banker's acceptances. Yankee instruments are denominated in U.S. dollars and issued by U.S. branches of foreign banks. Eurodollar instruments are denominated in U.S. dollars and issued by non-U.S. branches of U.S. or foreign banks.

Florida PRIME will not invest in instruments of domestic and foreign banks and savings and loans unless they have capital, surplus, and undivided profits of over $100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund or the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation. These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Euro-dollar Time Deposits.

Asset Backed Securities

Asset backed securities are payable from pools of obligations, most of which involve consumer or commercial debts. However, almost any type of fixed income assets (including other fixed income securities) may be used to create an asset backed security. Asset backed securities may take the form of commercial paper, notes or pass-through certificates.

Government Securities

Government security means any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing.

U.S. Treasury Securities

U.S. Treasury securities are direct obligations of the federal government of the United States. U.S. Treasury securities are generally regarded as having the lowest credit risks.

Agency Securities

Agency securities are issued or guaranteed by a federal agency or other government sponsored entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Farm Credit System Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans or other benefits. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Investors regard agency securities as having low credit risks, but not as low as Treasury securities. Florida PRIME treats mortgage-backed securities guaranteed by a GSE as if issued or guaranteed by a federal agency. Although such a guarantee protects against credit risks, it does not reduce market risks.

Insurance Contracts

Insurance contracts include guaranteed investment contracts, funding agreements and annuities. Florida PRIME treats these contracts as fixed income securities.

Municipal Securities

Municipal securities are issued by states, counties, cities and other political subdivisions and authorities.

Foreign Securities

Foreign securities are U.S. dollar-denominated securities of issuers based outside the United States. Florida PRIME considers an issuer to be based outside the United States if:

- it is organized under the laws of, or has a principal office located in, another country;
- the principal trading market for its securities is in another country; or
- it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue or profit from goods produced, services performed or sales made in another country.

Mortgage Backed Securities

Mortgage backed securities represent interests in pools of mortgages. The mortgages that comprise a pool normally have similar interest rates, maturities and other terms. Mortgages may have fixed or adjustable interest rates. Interests in pools of adjustable rate mortgages are known as ARMs.

Zero Coupon Securities

Certain of the fixed income securities in which Florida PRIME invests are zero coupon securities. Zero coupon securities do not pay interest or principal until final maturity, unlike debt securities that provide periodic payments of interest (referred to as a "coupon payment"). Investors buy zero coupon securities at a price below the amount payable at maturity. The difference between the purchase price and the amount paid at maturity represents interest on the zero coupon security. Investors must wait until maturity to receive interest and principal, which increases the interest rate and credit risks of a zero coupon security.

Callable Securities

Certain of the fixed income securities in which Florida PRIME invests are callable at the option of the issuer. Callable securities are subject to reinvestment risks.

144A Securities

The SBA has determined that Florida PRIME constitutes (i) an "accredited investor" as defined in Rule 501(a)(7) promulgated under the Securities Act of 1933, as amended (the "Securities Act"), as long as Florida PRIME has total assets in excess of $5,000,000 and (ii) a "qualified purchaser" as defined in Section 2(a)(51)(A)(iv) of the 1940 Act, as long as Florida PRIME in the aggregate owns and invests on a discretionary basis not less than $25,000,000 in investments, but does not constitute a "qualified institutional buyer" as defined in Rule 144A(a)(1) promulgated under the Securities Act. Florida PRIME is restricted from purchasing or acquiring securities or investments that would require Florida PRIME to represent in connection with such purchase or acquisition that it is a "qualified institutional buyer" as defined in Rule 144A(a)(1) promulgated under the Securities Act.

Money Market Mutual Funds

Florida PRIME may invest in shares of registered investment companies that are money market mutual funds, including those that are affiliated with the Investment Manager, as an efficient means of implementing its investment strategies and/or managing its uninvested cash. These other money market mutual funds are managed independently of Florida PRIME and incur additional fees and/or

expenses that would, therefore, be borne indirectly by Florida PRIME in connection with such investment. However, the Investment Manager believes that the benefits and efficiencies of this approach should outweigh the potential additional fees and/or expenses. The Investment Manager must obtain prior written consent of the SBA to invest Florida PRIME in money market mutual funds that are "affiliated persons" of the Investment Manager.

SPECIAL TRANSACTIONS

The Investment Manager on behalf of Florida PRIME may engage in the following special transactions.

Repurchase Agreements

A repurchase agreement is a transaction in which Florida PRIME buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed-upon time and price. The repurchase price exceeds the sale price, reflecting Florida PRIME's return on the transaction. This return is unrelated to the interest rate on the underlying security. Florida PRIME will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Investment Manager.

Florida PRIME's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Investment Manager or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

Delayed Delivery Transactions

Delayed delivery transactions, including when-issued transactions, are arrangements in which Florida PRIME buys securities for a set price, with payment and delivery of the securities scheduled for a future time. During the period between purchase and settlement, no payment is made by Florida PRIME to the issuer and no interest accrues to Florida PRIME. Florida PRIME records the transaction when it agrees to buy the securities and reflects their value in determining the price of its units. Settlement dates may not be more than seven business days after entering into these transactions; nonetheless, the market values of the securities bought may vary from the purchase prices. Therefore, delayed delivery transactions create interest rate risks for Florida PRIME. Delayed delivery transactions also involve credit risks in the event of a counterparty default.

Asset Coverage

In order to secure its obligations in connection with special transactions, Florida PRIME will either own the underlying assets, enter into an offsetting transaction or set aside readily marketable securities with a value that equals or exceeds Florida PRIME's obligations. Unless Florida PRIME has other readily marketable assets to set aside, it cannot trade assets used to secure such obligations without terminating a special transaction. This may cause Florida PRIME to miss favorable trading opportunities or to realize losses on special transactions.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
CHAIR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

To: Ash Williams

CC: Senior Investment Group

From: Michael McCauley

Date: June 7, 2013

Subject: **Annual Approval of Fund B Investment Policy Statement**

With respect to Fund B Surplus Funds Trust Fund, Section 218.421 Florida Statues requires:

> The board or a professional money management firm shall administer the trust fund on behalf of the participants based on a written investment policy, approved by the trustees, and shall have the power to work out, restructure, or invest such funds. [s. 218.421(2)(a), Florida Statutes]
>
> The investment policy shall be reviewed and approved by the trustees upon the transfer of the funds into the trust fund or when market changes dictate, and in each event, the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council. [s. 218.421(2)(c), Florida Statutes]

To that end, the Fund B Investment Policy Statement (IPS) has been updated (attached):

1. Several grammar and other changes to sentence structure throughout the document.
2. Language is being added on Page 2 to specify the frequency of reporting reconciliation.

Let me know if you have any other questions.

Attachment

Investment Policy Statement
Fund B Surplus Funds Trust Fund
(Non-Qualified)
Effective July 1, 2011

I. Purpose and Scope

The purpose of this Investment Policy Statement ("Policy") is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Fund B Surplus Funds Trust Fund ("Fund B"). This Policy does not relate to the Local Government Surplus Funds Trust Fund ("Florida PRIME") created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes).

II. Overview of Fund B

Fund B was created by an Act of the Florida Legislature effective June 1, 2008 (Section 218.421, Florida Statutes). The State Board of Administration ("SBA") is charged with the powers and duties to administer and invest Fund B.

Fund B is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, "Applicable Florida Law").

III. Roles and Responsibilities

The Board of Trustees of the SBA ("Trustees") consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Fund B is in compliance with the requirements of Florida L~~l~~aw.

The Trustees delegate the administrative and investment authority to manage Fund B to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will, at least annually, review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties as set forth in Applicable Florida Law.

IV. Fluctuating Net Asset Value Accounting

In March 1997, the Governmental Accounting Standards Board ("GASB") issued Statement 31, titled "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." GASB 31 applies to Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value ("NAV"). Fund B will be accounted for as a fluctuating NAV pool.

V. Investment Objective

The primary investment objective of Fund B is to maximize the present value of distributions to participants. Fund B principally consists of segregated securities, which

are securities originally purchased for Florida PRIME that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization ("NRSRO") that provides Florida PRIME's AAAm rating (the "Segregated Securities").

Each of the Segregated Securities is currently a note ~~-~~issued by Florida East Funding, LLC, Florida West Funding, LLC, Florida Funding I, LLC, ~~and~~ or Florida Funding II, LLC (the "Special Purpose Entities") that holds collateral securities as security for repayment of the Segretated Securities (the "Collateral Securities"). The SBA has contracted with Stone Tower (the "Collateral Manager") to provide investment advisory services to the Special Purpose Entities with the objective of maximizing the present value of distributions to the Segregated Securities from Collateral Securities. The Collateral Manager has been contractually charged with the responsibility to develop and implement a prudent "work out" or liquidation strategy consistent with the investment objective. The Collateral Manager may, in its sole discretion, sell, exchange, or otherwise dispose of, or agree to the extension, workout or restructuring of the Collateral Securities to meet the investment objective. Proceeds received from any sale, exchange or other disposition of securities may be invested in AAAm-rated money market funds prior to distribution to Fund B participants.
Past performance is no guarantee of future performance. An investment in the Fund B is not a bank deposit and is not insured or guaranteed by the FDIC or any other government entity. Investors may lose money investing in Fund B, and returns may not keep pace with inflation.

VI. Controls and Escalation Procedures

Section 218.421(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Fund B that require reporting and action.

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Fund B. The Custodian will mark to market the portfolio holdings of Fund B on a monthly basis. The SBA will reconcile accounting and performance measurement reports with the Custodian on at least a monthly basis. ~~regular basis.~~

The SBA and third parties used to materially implement the investment objective of Fund B will maintain internal control, fraud and ethics policies and procedures.

The Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Fund B. The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. SBA Risk Management and Compliance will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. The SBA has

an affirmative duty to immediately disclose any material impact on Fund B to the participants.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will, at least monthly, review and approve management summaries of material impacts on Fund B, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under law, regulation or rule. The Trustees will also review progress in returning the principal in Fund B to the participants at each meeting of the Trustees until Fund B self-liquidates or is terminated by law.

VII. Distributions

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or distributions from Collateral Securities resulting in interest payments and principal paydowns of the Segregated Securities; or (2) the sale of Collateral Securities, Collateral Securities liquidation, or other restructure and workout activities undertaken by the Collateral Manager resulting in principal paydowns of the Segregated Securities.

To effect the distribution, the SBA will transfer cash or securities to Florida PRIME for the benefit of Fund B shareholders. Such transfers will be consistent with the pro-rata allocation of Fund B shareholders of record as of the initial partition of Segregated Securities within Florida PRIME.

VIII. Deposits and Withdrawals

Participants cannot make additional deposits into, or any withdrawals from, Fund B.

XI. Management Reporting

The Executive Director will be responsible for providing formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME and Fund B.
~~1.~~2. A monthly report on performance and investment actions taken.
~~1.~~3. Special reports pursuant to Chapter 218, Florida Statutes.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

June 25, 2013

Honorable Joseph Abruzzo
Alternating Chair
Joint Legislative Auditing Committee
222 Senate Office Building
404 South Monroe Street
Tallahassee, Florida 32399-1100

Honorable Lake Ray
Alternating Chair
Joint Legislative Auditing Committee
405 House Office Building
402 South Monroe Street
Tallahassee, Florida 32399-1300

Dear Senator Abruzzo and Representative Ray:

Pursuant to section 218.409(6)(a)1, Florida Statutes, the Trustees of the State Board of Administration are required to "provide a quarterly report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports [on the Florida PRIME and Fund B Management Summary] and actions taken, if any, to address any [material] impacts," and "have conducted a review of the [Fund B] trust fund and that the trust fund is in compliance with the requirements of this section." (Sections 218.409(6)(a)1 and 218.421(2)(a), F.S.)

Please be advised that the Trustees have reviewed the attached reports and authorized me to convey their action to you. During the period January 1 through March 31, 2013, there were no material impacts on the trust funds in question and, therefore, no associated actions or escalations.

Please contact me if you have any questions.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

ACW/db
Attachments
cc: Honorable Rob Bradley
Honorable Alan Hays
Honorable Jeremy Ring
Honorable Wilton Simpson
Honorable Daphne Campbell
Honorable Gayle Harrell
Honorable Daniel Raulerson
Honorable Ray Rodrigues
Honorable Cynthia Stafford
Ms. Kathy Dubose, Director

DRAFT

Monthly Summary Report for January 2013

Including Fund B

State Board of Administration

FLORIDA PRIME™

CONTENTS

FLORIDA PRIME

Disclosure of Material Impacts.....2
Market Conditions.....3
Investment Strategy.....4
Cash Flows.....5
Detailed Fee Disclosure.....5
Fund Performance.....6
Inventory of Holdings.....7
Participant Concentration.....12
Compliance.....13
Trading Activity.....14

FUND B

Portfolio Commentary.....20
Legal Issue.....20
Disclosure of Material Impacts.....20
Return of Fund B Principal.....21
Distributions/Distribution Detail.....21
Inventory of Holdings.....22
Compliance.....23
Trading Activity.....23

Past performance is no guarantee of future results.

Views are as of the issue date and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in this fund.

INTRODUCTION

This report is prepared for stakeholders in Florida PRIME and Fund B in accordance with Section 218.409(6)(a), Florida Statutes. The statute requires:

(1) Reporting of any material impacts on the funds and any actions or escalations taken by staff to address such impacts;

(2) Presentation of a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month; and

(3) Preparation of the management summary "in a manner that will allow anyone to ascertain whether the investment activities during the reporting period have conformed to investment policies."

This report, which covers the period from January 1, 2013 through January 31, 2013, has been prepared by the SBA with input from Federated Investment Counseling ("Federated"), investment advisor for Florida PRIME and Apollo Global Management, the collateral manager for Fund B, in a format intended to comply with the statute.

During the reporting period, Florida PRIME and Fund B were in material compliance with investment policy. Details are available in the PRIME policy compliance table and the Fund B compliance narrative in the body of this report. This report also includes details on market conditions; fees; fund holdings, transactions and performance; and client composition.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during January 2013 that had a material impact on the liquidity or operation of Florida PRIME.

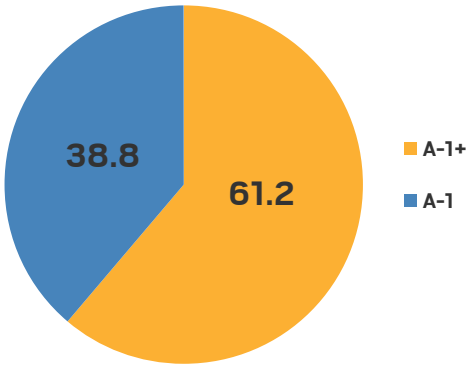
FLORIDA PRIME™

PORTFOLIO COMPOSITION
JANUARY 31, 2013

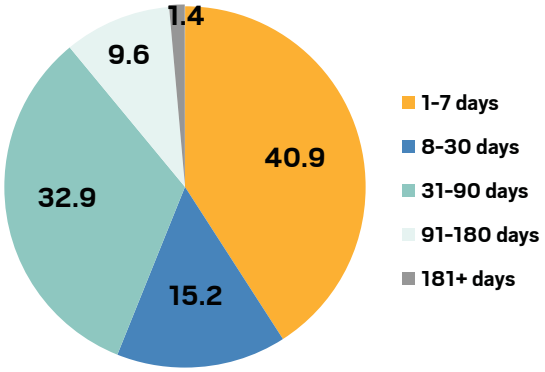
Florida PRIME Assets

$ 8,789,451,738

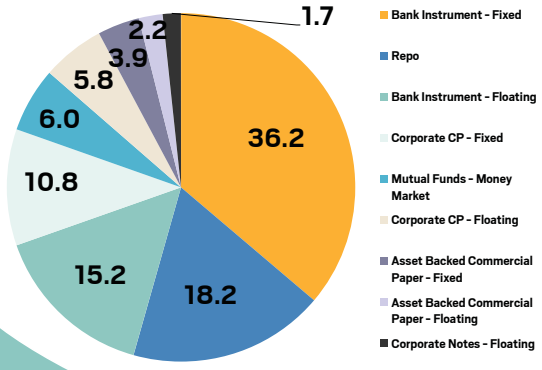
Credit Quality Composition (%)



Effective Maturity Schedule (%)



Portfolio Composition (%)



PORTFOLIO MANAGER COMMENTARY

JANUARY 2013 MARKET CONDITIONS

The biggest macro issue facing the money market world is the looming specter of budget battles in Washington over fiscal policy—the automatic spending cuts; the continuing resolution to allow the federal government to continue functioning; and ultimately, the debt-ceiling debate. We are watching carefully for the potential for a market disruption if the players pass another deadline without compromise. The uncertainty is affecting supply to some degree, and certainly infringing on people's comfort zones. The fear is that we will head down the same path we did a year and a half ago, and bring the budget battle to the 11th hour, and see, once again, ripple effects across markets.

The second big macro issue continues to be quantitative easing, and the Federal Reserve's (the Fed) announcement of an open-ended expansion, or QE3+, under which the Fed is committed to purchasing approximately $85 billion per month of longer-term Treasuries and agency mortgage-backed securities (to be continued, of course, until we hit explicit targets for unemployment and inflation). All that buying has finally impacted repo rates. The repo rates averaged in the high single/low double digits during the month, which represents a drop of 10-12 basis points from December 2012. Much of the drop can be attributed to the supply that has been removed from the marketplace. Short-term rates have seen some additional pressure with the December 31, 2012, expiration of the FDIC's Transaction Account Guarantee (TAG) Program of unlimited insurance on non-interest bearing checking accounts beyond the end of the year, which caused additional cash to flow into money market funds.

From an economic perspective, we have just seen the first read of fourth quarter 2012 GDP, which came in at -0.1%, the first contraction in three years. While the headline number was negative, a good portion of that drop was due to defense spending, which experienced some hits in the fourth quarter after some front-loaded defense spending temporarily inflated that category in the third quarter. Other components of the

FLORIDA PRIME™

JANUARY 31, 2013

Top Holdings (%) and Average Maturity

1.	Sumitomo Mitsui Financial Group, Inc.	4.8%
2.	Bank of Montreal	4.7%
3.	J.P. Morgan Chase & Co.	4.5%
4.	Citigroup, Inc.	4.5%
5.	Mizuho Financial Group, Inc.	4.5%
6.	Royal Bank of Canada, Montreal	4.0%
7.	Rabobank Nederland NV, Utrecht	3.5%
8.	Credit Suisse Group AG	3.4%
9.	Svenska Handelsbanken, Stockholm	3.4%
10.	Australia & New Zealand Banking Group, Melbourne	3.4%

Average Effective Maturity (WAM)

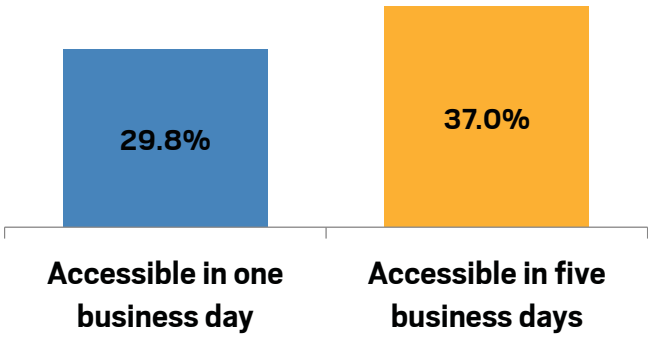
39.9 Days

Weighted Average Life (Spread WAM)

82.0 Days

Percentages based on total value of investments

Highly Liquid Holdings (% at month end)



PORTFOLIO MANAGER COMMENTARY (CON'T.)

GDP did fairly well—consumers came through and housing continued to perform well. The earnings season releases available indicates a fairly positive fourth quarter 2012. We do not see much revenue growth, but companies delivered respectable earnings. From a banking perspective, we are seeing better credit and less provisioning, and better performance statistics for underlying loan portfolios. Remember that in the fourth quarter of 2012, we experienced the aftermath of Hurricane Sandy, and more importantly, we were dogged by uncertainties surrounding the fiscal cliff. If the leaders in the nation's capital can avoid another scare to the markets, things look optimistic going into 2013.

PORTFOLIO INVESTMENT STRATEGY

As of the end of January 2013, Florida PRIME pool assets were up $313 million, ending the month at $8.79 billion, as funds continued to flow in as part of the seasonal nature of the State of Florida's tax collection season. The gross yield for Florida PRIME remained steady, despite the fact that London interbank offered rates (LIBOR) drifted in a bit throughout the month. The weighted average maturity of the pool was lower by 4 days, down to 40 days, and the weighted average life was out two days, to 82 days, largely as a function of the composition of securities purchased during the month. Throughout the month of January, pool management focused most purchases on floating rate bank instruments, offsetting those purchases with six-month fixed-rate industrial commercial paper and asset-backed commercial paper instruments.

Overall, as a function of the need to get incoming funds invested in January, and the typically low levels of repurchase agreement investments held in December 2012, the pool's repurchase agreement position was up 15% in January, to make up 18% of the pool. Exposure to bank instruments increased as well, up 3% to make up 36% of the pool. Other sectors were down, with fixed-rate commercial paper instruments down 8% to make up 15% of the pool, and investments in other securities, which include money market funds, down 11% to make up 7% of the pool.

FLORIDA PRIME™

FLORIDA PRIME SUMMARY OF CASH FLOWS

January 2013		
Opening Balance (01/01/13)	$	8,476,195,715
Participant Deposits		1,516,552,591
Transfers from Fund B		3,975,000
Gross Earnings		1,850,174
Participant Withdrawals		(1,208,904,830)
Fees		(216,912)
Closing Balance (01/31/13)	$	8,789,451,738
Net Change over Month		313,256,023

Valuations based on amortized cost

As shown in the table above, Florida PRIME experienced a net inflow of $313.3 million during January 2013.

This change in value consisted of positive flows of $1.52 billion in participant deposits, $4.0 million in transfers from Fund B and $1.9 million in earnings. Negative flows consisted of $1.21 billion in participant withdrawals and about $217,000 in fees.

Overall, the fund ended the month with a closing balance of $8.79 billion.

FLORIDA PRIME DETAILED FEE DISCLOSURE

January 2013	Amount	Basis Point Equivalent*
SBA Client Service, Account Mgt. & Fiduciary Oversight Fee	$ 73,557.25	$ 1.02
Federated Investment Management Fee	128,810.29	1.79
BNY Mellon Custodial Fee	-	-
Bank of America Transfer Agent Fee	5,664.79	0.08
S&P Rating Maintenance Fee	3,397.26	0.05
Audit/External Review Fees	5,482.42	0.08
Total Fees	**$ 216,912.01**	**3.02**

*The basis point equivalent is an annualized rate based on the dollar amount of fees charged for the month times 12, divided by an average of the fund's beginning and ending total value (amortized cost) for the month which was $8.632.823.726.

IS YOUR ACCOUNT INFORMATION UP TO DATE?

Personnel changes in your organization? If your organization has experienced personnel changes, please take a moment to consider whether you need to add or remove individuals from your Florida PRIME Participant Account Maintenance Form (PAMF). Individuals remain authorized until a revised PAMF is executed, notarized and the original form is submitted and processed by the SBA.

The PAMF is available on the Florida PRIME website after a user logs in to the system. One PAMF, including the Disclosure Statement, must be submitted for each account. The PAMF must be signed by the individual named in the Authorizing Resolution and their signature must be notarized. Florida PRIME must receive the original documents before making changes to your account.

FLORIDA PRIME™

NOTES TO PERFORMANCE TABLE

[1]Net of fees. Participant yield is calculated on a 365-day basis and includes adjustments for expenses and other accounting items to reflect realized earnings by participants.

[2]The net-of-fee benchmark is the S&P AAA/AA Rated GIP All 30-Day Net Index for all time periods.

Net asset value includes investments at market value, plus all cash, accrued interest receivable and payables.

NOTES TO CHART

The 7-Day "SEC" Yield in the chart is calculated in accordance with the yield methodology set forth by SEC rule 2a-7 for money market funds.

The 7-day yield = net income earned over a 7-day period / average units outstanding over the period / 7 times 365.

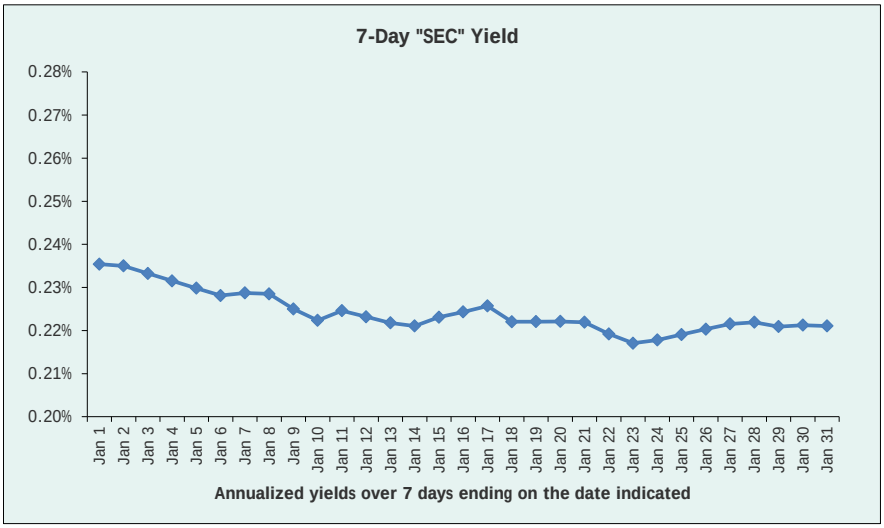
Note that unlike other performance measures, the SEC yield does not include realized gains and losses from sales of securities.

FUND PERFORMANCE THROUGH JANUARY 31, 2013

Florida PRIME Participant Performance Data

	Net Participant Yield[1]	Net-of-Fee Benchmark[2]	Above (Below) Benchmark
1 mo	0.22%	0.08%	0.14%
3 mos	0.26%	0.09%	0.16%
12 mos	0.30%	0.10%	0.20%
3 yrs	0.28%	0.12%	0.16%
5 yrs	0.72%	0.59%	0.13%
10 yrs	2.02%	1.82%	0.20%
Since 1.96	3.21%	2.99%	0.22%
		Net asset value at month end:	$8,790.0 m

Florida PRIME 7-Day "SEC" Yields During the Month



For performance comparisons to other short-term investment options, see www.sbafla.com/prime and click on "Pool Performance."

ABOUT ANNUALIZED YIELDS

Performance data in the table and chart is annualized, meaning that the amounts are based on yields for the periods indicated, converted to their equivalent if obtained for a 12-month period.

For example, ignoring the effects of compounding, an investment that earns 0.10% over a 1-month period yields 1.20% on an annualized basis. Likewise, an investment that earns a total of 3.60% over three years yields 1.20% on an annualized basis, ignoring compounding.

FLORIDA PRIME™

INVENTORY OF HOLDINGS
JANUARY 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/04/13		100,000,000	0.30	99,900,111	99,934,440	34,329
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/10/13		100,000,000	0.30	99,895,278	99,931,270	35,992
Australia & New Zealand Banking Group, Melbourne, Jul 03, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.41	07/03/13	02/04/13	100,000,000	0.39	100,000,000	100,000,000	0
Bank of America N.A. BNOTE	BANK NOTE	0.32	03/18/13		225,000,000	0.33	225,000,000	225,011,453	11,453
Bank of America N.A. Triparty Repo Overnight Fixed	REPO TRIPARTY OVERNIGHT FIXED	0.16	02/01/13		1,125,000,000	0.16	1,125,000,000	1,125,000,000	0
Bank of Montreal CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.38	10/15/13		100,000,000	0.39	100,000,000	100,063,810	63,810
Bank of Montreal CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.31	02/11/13		20,000,000	0.20	20,000,671	20,000,792	121
Bank of Montreal, Jan 16, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	01/16/14	04/16/13	130,000,000	0.31	130,000,000	129,926,810	(73,190)
Bank of Montreal, Mar 04, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.39	03/04/13	02/04/13	50,000,000	0.39	50,000,000	50,008,850	8,850
Bank of Montreal, Sep 16, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.33	09/16/13	03/18/13	100,000,000	0.33	100,000,000	100,025,800	25,800
Bank of Nova Scotia, Toronto, May 09, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.36	05/09/13	02/11/13	50,000,000	0.36	50,000,000	50,019,800	19,800
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	03/11/13		85,000,000	0.26	85,000,000	85,006,435	6,435
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/17/13		75,000,000	0.27	75,000,000	75,006,315	6,315
Barclays Bank PLC CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	04/12/13		100,000,000	0.25	100,000,000	100,013,800	13,800
Canadian Imperial Bank of Commerce, Jul 24, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.31	07/24/13	02/25/13	275,000,000	0.30	275,000,000	274,976,350	(23,650)
Citibank NA, New York CD	CERTIFICATE OF DEPOSIT	0.15	02/06/13		400,000,000	0.15	400,000,000	400,000,000	0

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
JANUARY 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Commonwealth Bank of Australia CP4-2	COMMERCIAL PAPER - 4-2		05/15/13		50,000,000	0.29	49,959,556	49,967,595	8,039
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		02/06/13		90,000,000	0.17	89,997,450	89,997,025	(425)
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		03/22/13		23,000,000	0.27	22,991,375	22,991,704	329
Credit Agricole S.A. CDEUR	CERTIFICATE OF DEPOSIT - EURO	0.30	03/20/13		150,000,000	0.30	150,000,000	150,009,990	9,990
Credit Suisse, Zurich CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/26/13		300,000,000	0.27	300,000,000	300,035,370	35,370
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.36	02/28/13		80,000,000	0.36	80,000,621	80,009,944	9,323
Deutsche Bank Securities, Inc. REP3P	REPO TRIPARTY OVERNIGHT FIXED	0.17	02/01/13		500,000,000	0.17	500,000,000	500,000,000	0
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND	0.01	02/01/13		12,545,861	0.01	12,545,861	12,545,861	0
FCAR Owner Trust, A1+/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		02/04/13		70,000,000	0.42	69,996,811	69,998,754	1,943
FCAR Owner Trust, A1+/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		03/20/13		66,000,000	0.41	65,964,800	65,983,982	19,182
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		02/01/13		70,000,000	0.22	69,999,572	69,999,692	120
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		04/09/13		20,000,000	0.30	19,989,044	19,992,634	3,590
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		07/15/13		23,500,000	0.35	23,463,379	23,468,226	4,846
Fairway Finance Co. LLC, Jul 22, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	07/22/13	02/22/13	14,000,000	0.24	14,000,000	13,998,698	(1,302)
Fairway Finance Co. LLC, Jun 10, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.24	06/10/13	02/11/13	30,000,000	0.24	30,000,000	29,997,960	(2,040)
Fairway Finance Co. LLC, Jun 17, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.24	06/17/13	02/19/13	50,000,000	0.24	50,000,000	49,996,500	(3,500)

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
JANUARY 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Fairway Finance Co. LLC, Jun 18, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.24	06/18/13	02/19/13	75,000,000	0.24	75,000,000	74,994,675	(5,325)
Fairway Finance Co. LLC, Mar 06, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.25	03/06/13	02/06/13	23,500,000	0.25	23,500,000	23,500,635	635
Federated Prime Cash Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.09	02/01/13	02/01/13	251,478,219	0.09	251,478,219	251,478,219	0
Federated Prime Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.09	02/01/13	02/01/13	276,840,200	0.09	276,840,200	276,840,200	0
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		1,000,000	0.41	1,009,140	1,009,684	544
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		500,000	0.41	504,570	504,842	272
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		24,410,000	0.41	24,633,112	24,646,386	13,275
General Electric Capital Corp., Sep 20, 2013	VARIABLE EURO MEDIUM TERM NOTE	0.31	09/20/13	03/20/13	3,000,000	0.41	2,998,397	2,993,553	(4,844)
General Electric Capital, Sr. Unsecd. Note, 5.4%, 9/20/2013	CORPORATE BOND	5.40	09/20/13		1,670,000	0.41	1,722,794	1,722,618	(176)
ICICI Bank Ltd. CPLOC	COMMERCIAL PAPER - LOC		04/10/13		25,000,000	0.46	24,978,438	24,972,928	(5,510)
J.P. Morgan Chase & Co., Feb 28, 2013	VARIABLE RATE COMMERCIAL PAPER	0.35	02/28/13	02/28/13	200,000,000	0.36	200,000,000	200,015,200	15,200
J.P. Morgan Chase & Co., Sr. Note, 4.750%, 05/01/2013	CORPORATE BOND	4.75	05/01/13		100,000,000	0.30	101,110,765	101,063,900	(46,865)
JPMorgan Chase & Co CP	COMMERCIAL PAPER		06/12/13		100,000,000	0.29	99,897,333	99,927,400	30,067
Market Street Funding LLC CPABS4-2	COMMERCIAL PAPER - ABS- 4(2)		03/04/13		30,922,000	0.21	30,916,228	30,917,767	1,539
Market Street Funding LLC CPABS4-2	COMMERCIAL PAPER - ABS- 4(2)		03/05/13		16,090,000	0.21	16,086,903	16,087,699	796
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/05/13		100,000,000	0.27	100,000,000	100,005,490	5,490

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
JANUARY 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/12/13		100,000,000	0.27	100,000,000	100,006,650	6,650
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/13/13		50,000,000	0.27	50,000,000	50,003,410	3,410
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		03/15/13		100,000,000	0.27	99,967,750	99,977,660	9,910
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		04/01/13		50,000,000	0.27	49,977,500	49,981,665	4,165
Mullenix-St. Charles Properties, L.P., Times Centre Apartments Project Series 2004, Jan 01, 2028	VARIABLE RATE DEMAND NOTE	0.22	01/01/28	02/07/13	13,500,000	0.22	13,500,000	13,500,000	0
Nordea Bank Finland PLC CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.23	02/22/13		100,000,000	0.21	100,001,215	100,005,490	4,275
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.37	04/10/13		200,000,000	0.38	200,000,000	200,080,400	80,400
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.35	04/15/13		110,000,000	0.36	110,000,000	110,042,911	42,911
Royal Bank of Canada, Montreal, Feb 03, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.38	02/03/14	02/04/13	75,000,000	0.39	75,000,000	75,000,000	0
Royal Bank of Canada, Montreal, Feb 04, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.36	02/04/14	02/04/13	160,000,000	0.36	160,000,000	159,993,760	(6,240)
Royal Bank of Canada, Montreal, Feb 06, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.38	02/06/13	02/06/13	50,000,000	0.39	50,000,000	50,000,550	550
Royal Bank of Canada, Montreal, Feb 10, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.35	02/10/14	02/08/13	50,000,000	0.35	50,000,000	50,000,000	0
Royal Bank of Canada, Montreal, May 22, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.44	05/22/13	02/22/13	18,000,000	0.45	18,000,000	18,006,498	6,498
Salisbury Receivables Company LLC CPABS4-2	COMMERCIAL PAPER - ABS- 4(2)		02/21/13		50,000,000	0.25	49,992,708	49,994,460	1,752
Societe Generale North America, Inc. CP	COMMERCIAL PAPER		02/01/13		75,000,000	0.33	74,999,333	74,999,543	209
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.28	03/22/13		99,000,000	0.28	99,000,000	99,004,118	4,118

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
JANUARY 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.34	04/24/13		78,000,000	0.34	78,000,000	78,007,184	7,184
St. Andrew United Methodist Church, Series 2004, Jul 01, 2029	VARIABLE RATE DEMAND NOTE	0.16	07/01/29	02/07/13	9,140,000	0.16	9,140,000	9,140,000	0
State Street Bank and Trust Co., Feb 18, 2014	VARIABLE RATE BANK NOTE	0.35	02/18/14	02/19/13	125,000,000	0.36	125,000,000	124,992,625	(7,375)
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.24	05/07/13		130,000,000	0.24	130,000,000	130,000,000	0
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	03/14/13		100,000,000	0.26	100,000,000	100,006,990	6,990
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	04/01/13		200,000,000	0.26	200,000,000	200,003,300	3,300
Svenska Handelsbanken, Stockholm TDCAY	TIME DEPOSIT - CAYMAN	0.16	02/01/13		300,000,000	0.16	300,000,000	300,000,000	0
Toronto Dominion Bank CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.28	06/17/13		100,000,000	0.28	100,000,000	100,034,200	34,200
Toronto Dominion Bank, Jul 26, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	07/26/13	04/26/13	50,000,000	0.31	50,000,000	50,038,100	38,100
Toronto Dominion Bank, Sep 13, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.31	09/13/13	03/13/13	125,000,000	0.31	125,000,000	125,072,500	72,500
Toyota Motor Credit Corp. CP	COMMERCIAL PAPER		07/09/13		250,000,000	0.24	249,735,000	249,731,700	(3,300)
U.S. Treasury Note 1.75% 4/15/2013	US TREASURY NOTE	1.75	04/15/13		15,000,000	0.25	15,045,440	15,049,800	4,360
Wells Fargo Bank, N.A., Feb 20, 2014	VARIABLE RATE BANK NOTE	0.36	02/20/14	03/20/13	100,000,000	0.36	100,000,000	99,996,500	(3,500)
Westpac Banking Corp. Ltd., Sydney, Jul 08, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.26	07/08/13	02/08/13	100,000,000	0.26	100,000,000	99,991,500	(8,500)
Westpac Banking Corp. Ltd., Sydney, May 29, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.25	05/29/13	02/28/13	115,000,000	0.26	115,000,000	114,999,885	(115)
					8,911,096,280		**$8,911,739,577**	**$8,912,262,453**	**$522,876**

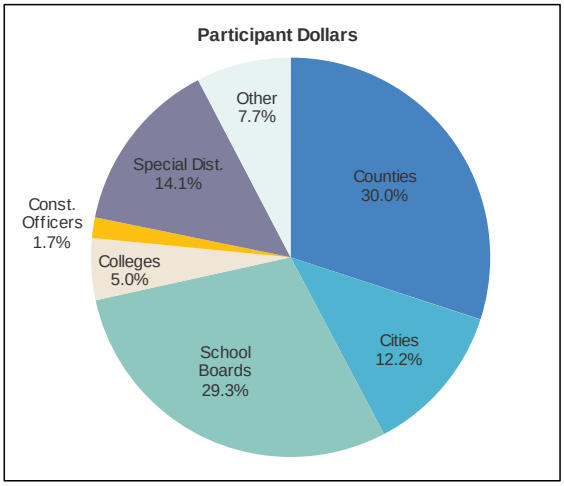
Notes: The data included in this report is unaudited. Amounts above are the value of investments. Income accruals, payables and uninvested cash are not included. Amortizations/accretions are reported with a one-day lag in the above valuations.

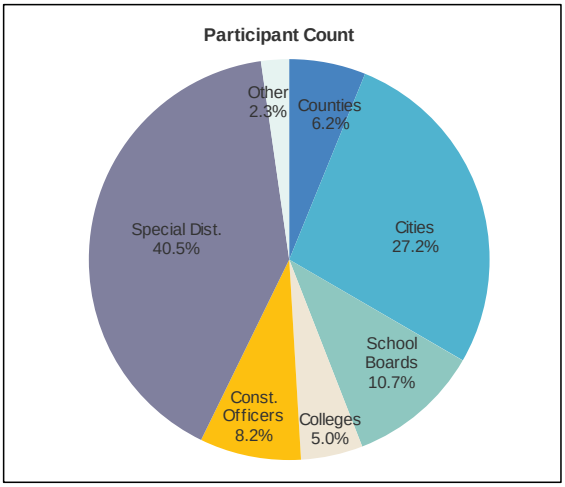
[1] Market values of the portfolio securities are provided by the custodian, BNY Mellon. The portfolio manager, Federated Investment Counseling, is the source for other data shown above.

[2] Amortized cost is calculated using a straight line method.

PARTICIPANT CONCENTRATION DATA - JANUARY 31, 2013

Participant Balance	Share of Total Fund	Share of Participant Count	Participant Balance	Share of Total Fund	Share of Participant Count
All Participants	**100.0%**	**100.0%**	**Colleges & Universities**	**5.0%**	**5.0%**
Top 10	40.4%	1.2%	Top 10	4.5%	1.2%
$100 million or more	61.3%	2.7%	$100 million or more	2.5%	0.1%
$10 million up to $100 million	32.2%	10.2%	$10 million up to $100 million	1.9%	1.0%
$1 million up to $10 million	5.9%	17.3%	$1 million up to $10 million	0.6%	1.3%
Under $1 million	0.6%	69.7%	Under $1 million	0.01%	2.6%
Counties	**30.0%**	**6.2%**	**Constitutional Officers**	**1.7%**	**8.2%**
Top 10	24.8%	1.2%	Top 10	0.9%	1.2%
$100 million or more	22.7%	1.0%	$100 million or more	0.0%	0.0%
$10 million up to $100 million	6.9%	1.4%	$10 million up to $100 million	1.0%	0.5%
$1 million up to $10 million	0.5%	1.1%	$1 million up to $10 million	0.6%	1.5%
Under $1 million	0.0%	2.7%	Under $1 million	0.1%	6.2%
Municipalities	**12.2%**	**27.2%**	**Special Districts**	**14.1%**	**40.5%**
Top 10	7.5%	1.2%	Top 10	9.8%	1.2%
$100 million or more	3.7%	0.4%	$100 million or more	5.6%	0.4%
$10 million up to $100 million	6.5%	2.4%	$10 million up to $100 million	6.9%	2.1%
$1 million up to $10 million	1.8%	5.7%	$1 million up to $10 million	1.4%	4.5%
Under $1 million	0.2%	18.8%	Under $1 million	0.3%	33.5%
School Boards	**29.3%**	**10.7%**	**Other**	**7.7%**	**2.3%**
Top 10	24.6%	1.2%	Top 10	7.5%	1.2%
$100 million or more	21.0%	0.6%	$100 million or more	5.8%	0.4%
$10 million up to $100 million	7.4%	2.4%	$10 million up to $100 million	1.6%	0.5%
$1 million up to $10 million	0.8%	2.5%	$1 million up to $10 million	0.3%	0.7%
Under $1 million	0.1%	5.2%	Under $1 million	0.0%	0.7%





Total Fund Value: $8,789,451,738

Total Participant Count: 842

FLORIDA PRIME COMPLIANCE WITH INVESTMENT POLICY - JANUARY 2013

As investment manager, Federated monitors compliance daily on Florida PRIME to ensure that investment practices comply with the requirements of the Investment Policy Statement (IPS). Federated provides a monthly compliance report to the SBA and is required to notify the Investment Oversight Group (IOG) of compliance exceptions within 24 hours of identification. The IOG meets monthly and on an ad hoc basis to review compliance exceptions, to document responses to exceptions, and to formally escalate recommendations for approval by the Executive Director & CIO. The IOG also reviews the Federated compliance report each month, as well as, the results of independent compliance testing conducted by SBA Risk Management and Compliance. Minutes from the IOG meetings are posted to the Florida PRIME website.

In addition to the compliance testing performed by Federated, the SBA conducts independent testing on Florida PRIME using a risk-based approach. Under this approach, each IPS parameter is ranked as "High" or "Low" with respect to the level of risk associated with a potential guideline breach. IPS parameters with risk rankings of "High" are subject to independent verification by SBA Risk Management and Compliance. These rankings, along with the frequency for testing, are reviewed and approved by the IOG on an annual basis or more often if market conditions dictate. Additionally, any parameter reported in "Fail" status on the Federated compliance report, regardless of risk ranking, is also independently verified and escalated accordingly. The results of independent testing are currently reported monthly to the IOG.

Test by Source	Pass/Fail
Florida PRIME's Investment Policy	
Securities must be USD denominated.	Pass
Ratings requirements	
The Pool must purchase exclusively first-tier securities. Securities purchased with short-term ratings by an NRSRO, or comparable in quality and security to other obligations of the issuer that have received short-term ratings from an NRSRO, are eligible if they are in one of the two highest rating categories.	Pass
Securities purchased that do not have short-term ratings must have a long-term rating in one of the three highest long-term rating categories.	Pass
Commercial Paper must be rated by at least one short-term NRSRO.	Pass
Repurchase Agreement Counterparties must be rated by S&P	Pass
S&P Weighted Average Life - maximum 90 days [1]	Pass
Maturity	
Securities, excluding Government floating rate notes/variable rate notes, purchased did not have a maturity in excess of 397 days.	Pass
Government floating rate notes/variable rate notes purchased did not have a maturity in excess of 762 days.	Pass
The Pool must maintain a Spread WAM of 120 days or less.	Pass
Issuer Diversification	
First-tier issuers (limit does not apply to cash, cash items, U.S. Government securities refunded securities and repo collateralized by these securities) are limited, at the time of purchase, to 5% of the Pool's total assets. [2]	Pass
Demand Feature and Guarantor Diversification	
First-tier securities issued by or subject to demand features and guarantees of a non-controlled person, at time of purchase, are limited to 10% with respect to 75% of the Pool's total assets.	Pass
First-tier securities issued by or subject to demand features and guarantees of a control person, at time of purchase, are limited to 10% with respect to the Pool's total assets.	Pass
Money Market Mutual Funds	
The account, at time of purchase, will not have exposure to any one Money Market Mutual Fund in excess of 10% of the Pool's total assets.	Pass
Concentration Tests	
The account, at time of purchase, will not have exposure to an industry sector, excluding the financial services industry, in excess of 25% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to any single Government Agency in excess of 33.33% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to illiquid securities in excess of 5% of the Pool's total assets.	Pass
The account, at time of purchase, will invest at least 10% of the Pool's total assets in securities accessible within one business day.	Pass
The account, at time of purchase, will invest at least 30% of the Pool's total assets in securities accessible within five business days. [3]	Pass
S&P Requirements	
The Pool must maintain a Dollar Weighted Average Maturity of 60 days or less.	Pass
The account, at time of purchase, will invest at least 50% of the Pool's total assets in Securities in Highest Rating Category (A-1+ or equivalent) .	Pass

[1] The fund may use floating rate government securities to extend the limit up to 120 days

[2] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to liquidate positions if the exposure in excess of the specified percentage is caused by

[3] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to take immediate corrective measures if asset movements cause the exposure to be below the specified percentage.

FLORIDA PRIME™

TRADING ACTIVITY FOR JANUARY 2013

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys					$	$	$	$
BANK OF MONTREAL (CCDYAN	01/14/13	01/07/13	01/07/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL (CCDYAN	01/14/13	01/07/13	01/07/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL (CCDYAN	01/14/13	01/07/13	01/07/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF MONTREAL (CCP	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL (CCP	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL (CCP	01/22/13	01/14/13	01/14/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF MONTREAL/CHICAGO IL	01/16/14	01/15/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL/CHICAGO IL	01/16/14	01/15/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL/CHICAGO IL	01/16/14	01/15/13	01/16/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/11/13	01/10/13	01/10/13	50,000,000	49,999,847	-	49,999,847	-
BANK OF NOVA SCOTIACP	01/22/13	01/18/13	01/18/13	50,000,000	49,999,389	-	49,999,389	-
BANK OF NOVA SCOTIACP	01/22/13	01/18/13	01/18/13	50,000,000	49,999,389	-	49,999,389	-
BANK OF NOVA SCOTIACP	01/22/13	01/18/13	01/18/13	50,000,000	49,999,389	-	49,999,389	-
BANK OF NOVA SCOTIACP	01/22/13	01/18/13	01/18/13	50,000,000	49,999,389	-	49,999,389	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/24/13	01/24/13	50,000,000	49,999,000	-	49,999,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/04/13	01/04/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/04/13	01/04/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/04/13	01/04/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/04/13	01/04/13	25,000,000	25,000,000	-	25,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/04/13	01/04/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/31/13	01/24/13	01/24/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/31/13	01/24/13	01/24/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/31/13	01/24/13	01/24/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/31/13	01/24/13	01/24/13	50,000,000	50,000,000	-	50,000,000	-
BARCLAYS BANK PLCCDYAN	04/12/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
BARCLAYS BANK PLCCDYAN	04/12/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
BARTON CAPITAL LLCCPABS4-	01/11/13	01/10/13	01/10/13	50,000,000	49,999,792	-	49,999,792	-
BARTON CAPITAL LLCCPABS4-	01/11/13	01/10/13	01/10/13	30,000,000	29,999,875	-	29,999,875	-
CREDIT AGRICOLE S,ACDEUR	03/20/13	01/14/13	01/16/13	150,000,000	150,000,000	-	150,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	01/30/13	01/30/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR JANUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/14/13	01/14/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/22/13	01/22/13	50,000,000	50,000,000	-	50,000,000	-
CREDIT AGRICOLE NORCP	01/11/13	01/04/13	01/04/13	4,000,000	3,999,844	-	3,999,844	-
CREDIT AGRICOLE NORCP	01/14/13	01/07/13	01/07/13	50,000,000	49,998,153	-	49,998,153	-
CREDIT AGRICOLE NORCP	01/14/13	01/07/13	01/07/13	50,000,000	49,998,153	-	49,998,153	-
CREDIT AGRICOLE NORCP	01/14/13	01/07/13	01/07/13	50,000,000	49,998,153	-	49,998,153	-
CREDIT AGRICOLE NORCP	01/14/13	01/07/13	01/07/13	10,000,000	9,999,631	-	9,999,631	-
CREDIT AGRICOLE NORCP	02/06/13	01/30/13	01/30/13	50,000,000	49,998,347	-	49,998,347	-
CREDIT AGRICOLE NORCP	02/06/13	01/30/13	01/30/13	40,000,000	39,998,678	-	39,998,678	-
CREDIT AGRICOLE NORCP	03/22/13	01/18/13	01/18/13	23,000,000	22,989,133	-	22,989,133	-
DEUTSCHE BANK AGCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	01/23/13	01/16/13	01/16/13	50,000,000	50,000,000	-	50,000,000	-
FCAR OWNER TRUST, ACPABS3	07/15/13	01/09/13	01/09/13	23,500,000	23,458,496	-	23,458,496	-
FAIRWAY FINANCE LLC	07/22/13	01/17/13	01/22/13	14,000,000	14,000,000	-	14,000,000	-
ICICI BANK LTD,CPLOC	04/10/13	01/10/13	01/10/13	25,000,000	24,971,875	-	24,971,875	-
JPMORGAN CHASE & CO	05/01/13	01/17/13	01/23/13	50,000,000	50,604,750	540,972	51,145,722	-
JPMORGAN CHASE & CO	05/01/13	01/17/13	01/23/13	50,000,000	50,604,750	540,972	51,145,722	-
ROYAL BANK OF CANADA/NEW YORK NY	02/03/14	01/25/13	02/01/13	50,000,000	50,000,000	-	50,000,000	-
ROYAL BANK OF CANADA/NEW YORK NY	02/03/14	01/25/13	02/01/13	25,000,000	25,000,000	-	25,000,000	-
ROYAL BANK OF CANADA/NEW YORK NY	02/10/14	01/30/13	02/07/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PARIS CDYAN .21 1-10-2013	01/10/13	01/03/13	01/03/13	25,000,000	25,000,000	-	25,000,000	-
SOCIETE GENERALE, PARIS CDYAN .21 1-10-2013	01/10/13	01/03/13	01/03/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	01/17/13	01/10/13	01/10/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	01/17/13	01/10/13	01/10/13	20,000,000	20,000,000	-	20,000,000	-
SOCIETE GENERALE, PCDYAN	01/24/13	01/17/13	01/17/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	01/24/13	01/17/13	01/17/13	39,000,000	39,000,000	-	39,000,000	-
SOCIETE GENERALE, PCDYAN	03/22/13	01/18/13	01/18/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	03/22/13	01/18/13	01/18/13	49,000,000	49,000,000	-	49,000,000	-
SOCIETE GENERALE, PCDYAN	04/24/13	01/24/13	01/24/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	04/24/13	01/24/13	01/24/13	28,000,000	28,000,000	-	28,000,000	-
STARBIRD FUNDING COCPABS4	01/10/13	01/09/13	01/09/13	50,000,000	49,999,778	-	49,999,778	-
STARBIRD FUNDING COCPABS4	01/10/13	01/09/13	01/09/13	50,000,000	49,999,778	-	49,999,778	-
STARBIRD FUNDING COCPABS4	01/10/13	01/09/13	01/09/13	50,000,000	49,999,778	-	49,999,778	-
STARBIRD FUNDING COCPABS4	01/10/13	01/09/13	01/09/13	20,000,000	19,999,911	-	19,999,911	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	50,000,000	49,999,792	-	49,999,792	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	50,000,000	49,999,792	-	49,999,792	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	25,000,000	24,999,896	-	24,999,896	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	50,000,000	49,999,792	-	49,999,792	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	50,000,000	49,999,792	-	49,999,792	-
STARBIRD FUNDING COCPABS4	01/11/13	01/10/13	01/10/13	20,000,000	19,999,917	-	19,999,917	-
STARBIRD FUNDING COCPABS4	01/14/13	01/11/13	01/11/13	50,000,000	49,999,375	-	49,999,375	-
STARBIRD FUNDING COCPABS4	01/14/13	01/11/13	01/11/13	50,000,000	49,999,375	-	49,999,375	-
STARBIRD FUNDING COCPABS4	01/14/13	01/11/13	01/11/13	50,000,000	49,999,375	-	49,999,375	-
STARBIRD FUNDING COCPABS4	01/14/13	01/11/13	01/11/13	25,000,000	24,999,688	-	24,999,688	-

FLORIDA PRIME™

TRADING ACTIVITY FOR JANUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
STARBIRD FUNDING COCPABS4	01/14/13	01/11/13	01/11/13	50,000,000	49,999,375	-	49,999,375	-
STARBIRD FUNDING COCPABS4	01/22/13	01/18/13	01/18/13	50,000,000	49,999,167	-	49,999,167	-
STARBIRD FUNDING COCPABS4	01/22/13	01/18/13	01/18/13	30,000,000	29,999,500	-	29,999,500	-
SUMITOMO MITSUI BANCDYAN	05/07/13	01/25/13	01/25/13	50,000,000	50,000,000	-	50,000,000	-
SUMITOMO MITSUI BANCDYAN	05/07/13	01/25/13	01/25/13	50,000,000	50,000,000	-	50,000,000	-
SUMITOMO MITSUI BANCDYAN	05/07/13	01/25/13	01/25/13	30,000,000	30,000,000	-	30,000,000	-
SUMITOMO MITSUI BANCDYAN	01/11/13	01/04/13	01/04/13	30,000,000	30,000,000	-	30,000,000	-
SUMITOMO MITSUI BANCDYAN	01/18/13	01/11/13	01/11/13	40,000,000	40,000,000	-	40,000,000	-
TOYOTA MOTOR CREDIT CP	07/09/13	01/09/13	01/10/13	50,000,000	49,940,000	-	49,940,000	-
TOYOTA MOTOR CREDIT CP	07/09/13	01/09/13	01/10/13	50,000,000	49,940,000	-	49,940,000	-
TOYOTA MOTOR CREDIT CP	07/09/13	01/09/13	01/10/13	50,000,000	49,940,000	-	49,940,000	-
TOYOTA MOTOR CREDIT CP	07/09/13	01/09/13	01/10/13	50,000,000	49,940,000	-	49,940,000	-
TOYOTA MOTOR CREDIT CP	07/09/13	01/09/13	01/10/13	50,000,000	49,940,000	-	49,940,000	-
WESTPAC BANKING CORP	07/08/13	01/03/13	01/03/13	50,000,000	50,000,000	-	50,000,000	-
WESTPAC BANKING CORP	07/08/13	01/03/13	01/03/13	50,000,000	50,000,000	-	50,000,000	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/07/13	01/07/13	2,645,014	2,645,014	-	2,645,014	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/09/13	01/09/13	5,363,859	5,363,859	-	5,363,859	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/10/13	01/10/13	115,385,306	115,385,306	-	115,385,306	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/15/13	01/15/13	272,511	272,511	-	272,511	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/17/13	01/17/13	3,846,195	3,846,195	-	3,846,195	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/23/13	01/23/13	944,697	944,697	-	944,697	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/25/13	01/25/13	370,327	370,327	-	370,327	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/29/13	01/29/13	5,504,408	5,504,408	-	5,504,408	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/31/13	01/31/13	5,298,779	5,298,779	-	5,298,779	-
FEDERATED PRIME CASH OBLIGATIONS FUND	10/01/40	01/01/13	01/01/13	24,909	24,909	-	24,909	-
FEDERATED PRIME OBLIGATIONS FUND	10/01/40	01/01/13	01/01/13	26,783	26,783	-	26,783	-
DEUTSCHE BANK	01/03/13	01/02/13	01/02/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/03/13	01/02/13	01/02/13	900,000,000	900,000,000	-	900,000,000	-
DEUTSCHE BANK	01/04/13	01/03/13	01/03/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/04/13	01/03/13	01/03/13	950,000,000	950,000,000	-	950,000,000	-
DEUTSCHE BANK	01/07/13	01/04/13	01/04/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/07/13	01/04/13	01/04/13	995,000,000	995,000,000	-	995,000,000	-
DEUTSCHE BANK	01/08/13	01/07/13	01/07/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/08/13	01/07/13	01/07/13	910,000,000	910,000,000	-	910,000,000	-
DEUTSCHE BANK	01/09/13	01/08/13	01/08/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/09/13	01/08/13	01/08/13	990,000,000	990,000,000	-	990,000,000	-
DEUTSCHE BANK	01/10/13	01/09/13	01/09/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/10/13	01/09/13	01/09/13	830,000,000	830,000,000	-	830,000,000	-
DEUTSCHE BANK	01/11/13	01/10/13	01/10/13	380,000,000	380,000,000	-	380,000,000	-
BANK OF AMERICA TRIPARTY	01/11/13	01/10/13	01/10/13	430,000,000	430,000,000	-	430,000,000	-
DEUTSCHE BANK	01/14/13	01/11/13	01/11/13	750,000,000	750,000,000	-	750,000,000	-
BANK OF AMERICA TRIPARTY	01/14/13	01/11/13	01/11/13	860,000,000	860,000,000	-	860,000,000	-
DEUTSCHE BANK	01/15/13	01/14/13	01/14/13	1,000,000,000	1,000,000,000	-	1,000,000,000	-
BANK OF AMERICA TRIPARTY	01/15/13	01/14/13	01/14/13	970,000,000	970,000,000	-	970,000,000	-
DEUTSCHE BANK	01/16/13	01/15/13	01/15/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/16/13	01/15/13	01/15/13	1,460,000,000	1,460,000,000	-	1,460,000,000	-
DEUTSCHE BANK	01/17/13	01/16/13	01/16/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/17/13	01/16/13	01/16/13	1,050,000,000	1,050,000,000	-	1,050,000,000	-
DEUTSCHE BANK	01/18/13	01/17/13	01/17/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/18/13	01/17/13	01/17/13	685,000,000	685,000,000	-	685,000,000	-
DEUTSCHE BANK	01/22/13	01/18/13	01/18/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/22/13	01/18/13	01/18/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	01/23/13	01/22/13	01/22/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/23/13	01/22/13	01/22/13	770,000,000	770,000,000	-	770,000,000	-

TRADING ACTIVITY FOR JANUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
DEUTSCHE BANK	01/24/13	01/23/13	01/23/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/24/13	01/23/13	01/23/13	1,055,000,000	1,055,000,000	-	1,055,000,000	-
DEUTSCHE BANK	01/25/13	01/24/13	01/24/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/25/13	01/24/13	01/24/13	425,000,000	425,000,000	-	425,000,000	-
DEUTSCHE BANK	01/28/13	01/25/13	01/25/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/28/13	01/25/13	01/25/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	01/29/13	01/28/13	01/28/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/29/13	01/28/13	01/28/13	480,000,000	480,000,000	-	480,000,000	-
DEUTSCHE BANK	01/30/13	01/29/13	01/29/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/30/13	01/29/13	01/29/13	855,000,000	855,000,000	-	855,000,000	-
DEUTSCHE BANK	01/31/13	01/30/13	01/30/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/31/13	01/30/13	01/30/13	810,000,000	810,000,000	-	810,000,000	-
DEUTSCHE BANK	02/01/13	01/31/13	01/31/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/01/13	01/31/13	01/31/13	1,125,000,000	1,125,000,000	-	1,125,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130123	01/23/13	01/22/13	01/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130124	01/24/13	01/23/13	01/23/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130125	01/25/13	01/24/13	01/24/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130128	01/28/13	01/25/13	01/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130129	01/29/13	01/28/13	01/28/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130130	01/30/13	01/29/13	01/29/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130131	01/31/13	01/30/13	01/30/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130201	02/01/13	01/31/13	01/31/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130122	01/22/13	01/18/13	01/18/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130118	01/18/13	01/17/13	01/17/13	300,000,000	300,000,000	-	300,000,000	-
Total Buys				**37,440,182,789**	**$37,440,986,134**	**$1,081,944**	**$37,442,068,079**	**$0**
Maturities								
BANK OF MONTREAL (CCDYAN	01/14/13	01/14/13	01/14/13	130,000,000	130,000,000	-	130,000,000	-
BANK OF MONTREAL (CCDYAN	01/07/13	01/07/13	01/07/13	90,000,000	90,000,000	-	90,000,000	-
BANK OF NOVA SCOTIA	01/22/13	01/22/13	01/22/13	58,810,000	58,810,000	-	58,810,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/02/13	01/02/13	01/02/13	300,000,000	300,000,000	-	300,000,000	-
BANK OF NOVA SCOTIACP	01/11/13	01/11/13	01/11/13	300,000,000	300,000,000	-	300,000,000	-
BANK OF NOVA SCOTIACP	01/22/13	01/22/13	01/22/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF NOVA SCOTIA/NEW YORK	01/30/13	01/30/13	01/30/13	350,000,000	350,000,000	-	350,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/25/13	01/25/13	01/25/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/04/13	01/04/13	01/04/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/11/13	01/11/13	01/11/13	225,000,000	225,000,000	-	225,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/23/13	01/23/13	01/23/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF TOKYO-MITSUCDYAN	01/31/13	01/31/13	01/31/13	200,000,000	200,000,000	-	200,000,000	-
BARTON CAPITAL LLCCPABS4-	01/11/13	01/11/13	01/11/13	80,000,000	80,000,000	-	80,000,000	-
CITIBANK NA, NEW YOCD	01/22/13	01/22/13	01/22/13	300,000,000	300,000,000	-	300,000,000	-
CITIBANK NA, NEW YOCD	01/29/13	01/29/13	01/29/13	300,000,000	300,000,000	-	300,000,000	-
CREDIT AGRICOLE NORCP	01/07/13	01/07/13	01/07/13	160,000,000	160,000,000	-	160,000,000	-
CREDIT AGRICOLE NORCP	01/11/13	01/11/13	01/11/13	4,000,000	4,000,000	-	4,000,000	-
CREDIT AGRICOLE NORCP	01/14/13	01/14/13	01/14/13	160,000,000	160,000,000	-	160,000,000	-
CREDIT AGRICOLE NORCP	01/30/13	01/30/13	01/30/13	90,000,000	90,000,000	-	90,000,000	-
DEUTSCHE BANK AGCDYAN	01/14/13	01/14/13	01/14/13	200,000,000	200,000,000	-	200,000,000	-
DEUTSCHE BANK AGCDYAN	01/23/13	01/23/13	01/23/13	200,000,000	200,000,000	-	200,000,000	-
FCAR OWNER TRUST, ACPABS3	01/02/13	01/02/13	01/02/13	105,000,000	105,000,000	-	105,000,000	-
FCAR OWNER TRUST, ACPABS3	01/09/13	01/09/13	01/09/13	21,000,000	21,000,000	-	21,000,000	-
FAIRWAY FINANCE LLC	01/11/13	01/11/13	01/11/13	10,000,000	10,000,000	-	10,000,000	-
GENERAL ELECTRIC CAPITAL CORP	01/08/13	01/08/13	01/08/13	44,691,000	44,691,000	-	44,691,000	-
SOCIETE GENERALE NORTH AMERICA INC	01/02/13	01/02/13	01/02/13	80,000,000	80,000,000	-	80,000,000	-
SOCIETE GENERALE, PCDYAN	01/18/13	01/18/13	01/18/13	100,000,000	100,000,000	-	100,000,000	-
SOCIETE GENERALE, PARIS CDYAN .21 1-10-2013	01/10/13	01/10/13	01/10/13	75,000,000	75,000,000	-	75,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR JANUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
SOCIETE GENERALE, PCDYAN	01/17/13	01/17/13	01/17/13	70,000,000	70,000,000	-	70,000,000	-
SOCIETE GENERALE, PCDYAN	01/24/13	01/24/13	01/24/13	89,000,000	89,000,000	-	89,000,000	-
STARBIRD FUNDING COCPABS4	01/10/13	01/10/13	01/10/13	170,000,000	170,000,000	-	170,000,000	-
STARBIRD FUNDING COCPABS4	01/11/13	01/11/13	01/11/13	245,000,000	245,000,000	-	245,000,000	-
STARBIRD FUNDING COCPABS4	01/14/13	01/14/13	01/14/13	225,000,000	225,000,000	-	225,000,000	-
STARBIRD FUNDING COCPABS4	01/22/13	01/22/13	01/22/13	80,000,000	80,000,000	-	80,000,000	-
SUMITOMO MITSUI BANCDYAN	01/04/13	01/04/13	01/04/13	27,000,000	27,000,000	-	27,000,000	-
SUMITOMO MITSUI BANCDYAN	01/11/13	01/11/13	01/11/13	30,000,000	30,000,000	-	30,000,000	-
SUMITOMO MITSUI BANCDYAN	01/25/13	01/25/13	01/25/13	50,000,000	50,000,000	-	50,000,000	-
SUMITOMO MITSUI BANCDYAN	01/25/13	01/25/13	01/25/13	40,000,000	40,000,000	-	40,000,000	-
SUMITOMO MITSUI BANCDYAN	01/18/13	01/18/13	01/18/13	40,000,000	40,000,000	-	40,000,000	-
TORONTO DOMINION BACDYAN	01/16/13	01/16/13	01/16/13	45,000,000	45,000,000	-	45,000,000	-
TOYOTA MOTOR CREDIT CORP	01/14/13	01/14/13	01/14/13	12,100,000	12,100,000	-	12,100,000	-
WESTPAC BANKING CORCP	01/03/13	01/03/13	01/03/13	100,000,000	100,000,000	-	100,000,000	-
GENERAL ELECTRIC CAPITAL CORP	01/31/13	01/31/13	01/31/13	122,307,000	122,307,000	-	122,307,000	-
DEUTSCHE BANK	01/02/13	01/02/13	01/02/13	100,000,000	100,000,000	-	100,000,000	-
BANK OF AMERICA TRIPARTY	01/02/13	01/02/13	01/02/13	150,000,000	150,000,000	-	150,000,000	-
DEUTSCHE BANK	01/03/13	01/03/13	01/03/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/03/13	01/03/13	01/03/13	900,000,000	900,000,000	-	900,000,000	-
DEUTSCHE BANK	01/04/13	01/04/13	01/04/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/04/13	01/04/13	01/04/13	950,000,000	950,000,000	-	950,000,000	-
DEUTSCHE BANK	01/07/13	01/07/13	01/07/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/07/13	01/07/13	01/07/13	995,000,000	995,000,000	-	995,000,000	-
DEUTSCHE BANK	01/08/13	01/08/13	01/08/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/08/13	01/08/13	01/08/13	910,000,000	910,000,000	-	910,000,000	-
DEUTSCHE BANK	01/09/13	01/09/13	01/09/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/09/13	01/09/13	01/09/13	990,000,000	990,000,000	-	990,000,000	-
DEUTSCHE BANK	01/10/13	01/10/13	01/10/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/10/13	01/10/13	01/10/13	830,000,000	830,000,000	-	830,000,000	-
DEUTSCHE BANK	01/11/13	01/11/13	01/11/13	380,000,000	380,000,000	-	380,000,000	-
BANK OF AMERICA TRIPARTY	01/11/13	01/11/13	01/11/13	430,000,000	430,000,000	-	430,000,000	-
DEUTSCHE BANK	01/14/13	01/14/13	01/14/13	750,000,000	750,000,000	-	750,000,000	-
BANK OF AMERICA TRIPARTY	01/14/13	01/14/13	01/14/13	860,000,000	860,000,000	-	860,000,000	-
DEUTSCHE BANK	01/15/13	01/15/13	01/15/13	1,000,000,000	1,000,000,000	-	1,000,000,000	-
BANK OF AMERICA TRIPARTY	01/15/13	01/15/13	01/15/13	970,000,000	970,000,000	-	970,000,000	-
DEUTSCHE BANK	01/16/13	01/16/13	01/16/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/16/13	01/16/13	01/16/13	1,460,000,000	1,460,000,000	-	1,460,000,000	-
DEUTSCHE BANK	01/17/13	01/17/13	01/17/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/17/13	01/17/13	01/17/13	1,050,000,000	1,050,000,000	-	1,050,000,000	-
DEUTSCHE BANK	01/18/13	01/18/13	01/18/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/18/13	01/18/13	01/18/13	685,000,000	685,000,000	-	685,000,000	-
DEUTSCHE BANK	01/22/13	01/22/13	01/22/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/22/13	01/22/13	01/22/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	01/23/13	01/23/13	01/23/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/23/13	01/23/13	01/23/13	770,000,000	770,000,000	-	770,000,000	-
DEUTSCHE BANK	01/24/13	01/24/13	01/24/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/24/13	01/24/13	01/24/13	1,055,000,000	1,055,000,000	-	1,055,000,000	-
DEUTSCHE BANK	01/25/13	01/25/13	01/25/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/25/13	01/25/13	01/25/13	425,000,000	425,000,000	-	425,000,000	-
DEUTSCHE BANK	01/28/13	01/28/13	01/28/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/28/13	01/28/13	01/28/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	01/29/13	01/29/13	01/29/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/29/13	01/29/13	01/29/13	480,000,000	480,000,000	-	480,000,000	-
DEUTSCHE BANK	01/30/13	01/30/13	01/30/13	500,000,000	500,000,000	-	500,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR JANUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
BANK OF AMERICA TRIPARTY	01/30/13	01/30/13	01/30/13	855,000,000	855,000,000	-	855,000,000	-
DEUTSCHE BANK	01/31/13	01/31/13	01/31/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	01/31/13	01/31/13	01/31/13	810,000,000	810,000,000	-	810,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130123	01/23/13	01/23/13	01/23/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130124	01/24/13	01/24/13	01/24/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130125	01/25/13	01/25/13	01/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130128	01/28/13	01/28/13	01/28/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130129	01/29/13	01/29/13	01/29/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130130	01/30/13	01/30/13	01/30/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130131	01/31/13	01/31/13	01/31/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130122	01/22/13	01/22/13	01/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130118	01/18/13	01/18/13	01/18/13	300,000,000	300,000,000	-	300,000,000	-
Total Maturities				**35,543,908,000**	**35,543,908,000**	**0**	**35,543,908,000**	**0**
Sells								
ST ANDREW UNITED METHODIST CHURCH	07/01/29	01/10/13	01/10/13	170,000	170,000	6	170,006	-
BANK OF MONTREAL (CCP	01/22/13	01/15/13	01/16/13	50,000,000	50,000,000	444	50,000,444	(0.04)
BANK OF MONTREAL (CCP	01/22/13	01/15/13	01/16/13	50,000,000	50,000,000	444	50,000,444	(0.04)
BANK OF MONTREAL (CCP	01/22/13	01/15/13	01/16/13	30,000,000	30,000,000	267	30,000,267	(0.04)
BARCLAYS BANK PLCCDYAN	02/07/13	01/14/13	01/14/13	50,000,000	50,002,331	21,181	50,023,511	2,331
BARCLAYS BANK PLCCDYAN	02/07/13	01/14/13	01/14/13	50,000,000	50,002,331	21,181	50,023,511	2,331
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY	10/01/40	01/02/13	01/02/13	32,600,000	32,600,000	-	32,600,000	-
MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	11/15/42	01/02/13	01/02/13	53,000,000	53,000,000	-	53,000,000	-
CITY OF RENO NV	06/01/32	01/18/13	01/18/13	5,000,000	5,000,000	279	5,000,279	-
CITY OF RENO NV	06/01/32	01/18/13	01/18/13	30,235,000	30,235,000	1,690	30,236,690	-
TOYOTA MOTOR CREDIT CP	01/28/13	01/09/13	01/10/13	50,000,000	49,997,000	-	49,997,000	2,250
TOYOTA MOTOR CREDIT CP	01/28/13	01/09/13	01/10/13	50,000,000	49,997,000	-	49,997,000	2,250
TOYOTA MOTOR CREDIT CP	01/28/13	01/09/13	01/10/13	25,000,000	24,998,500	-	24,998,500	1,125
TOYOTA MOTOR CREDIT CP	01/29/13	01/09/13	01/10/13	50,000,000	49,996,833	-	49,996,833	2,375
TOYOTA MOTOR CREDIT CP	01/29/13	01/09/13	01/10/13	50,000,000	49,996,833	-	49,996,833	2,375
TOYOTA MOTOR CREDIT CP	01/29/13	01/09/13	01/10/13	25,000,000	24,998,417	-	24,998,417	1,188
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/02/13	01/02/13	698,316	698,316	-	698,316	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/02/13	01/02/13	1,454,765	1,454,765	-	1,454,765	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/02/13	01/02/13	1,502,696	1,502,696	-	1,502,696	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/02/13	01/02/13	606,372,764	606,372,764	-	606,372,764	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/03/13	01/03/13	82,811	82,811	-	82,811	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/03/13	01/03/13	95,733,706	95,733,706	-	95,733,706	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/04/13	01/04/13	16,902,039	16,902,039	-	16,902,039	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/08/13	01/08/13	449,605	449,605	-	449,605	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/11/13	01/11/13	2,760,579	2,760,579	-	2,760,579	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/11/13	01/11/13	2,645,014	2,645,014	-	2,645,014	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/11/13	01/11/13	5,363,859	5,363,859	-	5,363,859	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/11/13	01/11/13	108,226,375	108,226,375	-	108,226,375	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/14/13	01/14/13	664,214	664,214	-	664,214	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/16/13	01/16/13	3,458,680	3,458,680	-	3,458,680	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/18/13	01/18/13	1,105,664	1,105,664	-	1,105,664	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/22/13	01/22/13	1,930,372	1,930,372	-	1,930,372	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/22/13	01/22/13	272,511	272,511	-	272,511	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/22/13	01/22/13	718,356	718,356	-	718,356	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/24/13	01/24/13	1,298,631	1,298,631	-	1,298,631	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/28/13	01/28/13	1,093,142	1,093,142	-	1,093,142	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	01/30/13	01/30/13	308,418	308,418	-	308,418	-
Total Sells				**1,454,047,517**	**$1,454,036,761**	**$45,492**	**$1,454,082,253**	**$16,223**

FUND B

FUND B FACTS

INVESTMENT OBJECTIVE

Fund B's primary objective is to maximize the present value of distributions from the Fund.

COMPOSITION

Fund B principally consists of Segregated Securities, which are securities originally purchased for the LGIP that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization (NRSRO) that provides Florida PRIME's AAAm rating.

DISTRIBUTIONS

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

ACCOUNTING

Fund B is accounted for as a fluctuating NAV pool, not a 2a-7-like money market fund. That is, accounting valuations reflect estimates of the market value of securities rather than their amortized cost.

STATUS OF INVESTMENTS

Florida East and West: Restructured from KKR and receiving principal and interest.
Florida Funding I: Restructured from Ottimo (Issuer Entity) and receiving principal and interest.
Florida Funding II: Restructured from Axon and receiving principal and interest.

COMMENTARY ON PORTFOLIO MANAGEMENT

All cash from paydowns on securities in Fund B are invested in AAAm-rated money market funds pending monthly distribution to participant accounts in Florida PRIME. This month, $4.0 million in liquid assets were transferred from Fund B to Florida PRIME, consisting of principal paydowns and income from the securities in the Fund.

The investment team continually analyzes the bonds in each portfolio, comparing estimated defaults and estimated cumulative net losses to an historical loss-timing curve. Many different factors in the domestic and global economies can affect both the securities and the underlying bonds. Some of the factors will contribute positively while others could have adverse consequences. The SBA and Apollo Global Management's investment team will continue to employ prudent risk mitigation strategies in order to maximize the present value of distributions from Fund B with a primary focus on the restoration of principal.

LEGAL ISSUE

As an ongoing legal matter, the SBA asserts Lehman Brothers (which is now in liquidation) sold the SBA certain unregistered secured notes that were not exempt from registration under the Securities Act of 1933. The Lehman Trustee has not yet responded to the SBA's general creditor claim on behalf of Fund B as to whether the Lehman estate will have any assets available for recovery. The Trustee's latest reports have stated that "returns to general estate creditors will be limited at best." However, the secured notes sold by Lehman Brothers were secured by certain collateral. Fund B has been receiving and is expected to continue receiving monetary distributions of principal and interest from that underlying collateral.

The SBA will promptly disclose any future developments as they become matters of public record.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during January 2013 that had a material impact on the liquidity or operation of Fund B.

FUND B INVESTOR PRESENTATION

The SBA and Apollo Capital are pleased to communicate the development of a short slideshow presentation covering Fund B's operations, investment holdings, and current market valuation. The overview will be updated periodically based on significant market events or changes in value.

The presentation is available on the Florida PRIME website—within the "Fund B" navigation tab at the top of the homepage.

FUND B

FUND B DISTRIBUTIONS

RETURN OF FUND B PRINCIPAL

The first table below details the SBA's progress in returning principal to investors in Fund B. Through the end of January 2013, investors cumulatively received distributions from Fund B totaling $1.77 billion or 87.9% of their original balances.

The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (as well as overnight instruments temporarily holding fund earnings). As of January 31, 2013, their remaining amortized cost was $450.4 million, or 85.3% more than remaining participant positions in Fund B. Conversely, the current estimated liquidation (market) value of these securities is pegged at $249.7 million or 102.74% of remaining participant positions.

It is important to note that due to the lack of an actively traded market for Fund B securities, their "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. See footnote 1 on page 22.

FUND B DISTRIBUTIONS TO PARTICIPANTS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/05/07	$	$	$ 2,009,451,941	0.0%
CY 2008	$ 1,421,900,000	$ 1,421,900,000	$ 587,551,941	70.8%
CY 2009	$ 89,100,000	$ 1,511,000,000	$ 498,451,941	75.2%
CY 2010	$ 135,100,000	$ 1,646,100,000	$ 363,351,941	81.9%
CY 2011	$ 57,425,000	$ 1,703,525,000	$ 305,926,941	84.8%
CY 2012	$ 58,915,000	$ 1,762,440,000	$ 247,011,941	87.7%
01/31/13	$ 3,975,000	$ 1,766,415,000	$ 243,036,941	87.9%

FUND B MONTHLY DISTRIBUTION DETAIL

January 2013 Distribution Detail Including Receipts by Source For the period 12/8/12 - 1/7/13	Fund B Participant Allocation	Expense Allocation
Beginning Balance	$ -	$ 26,042.32
Receipts:		
Florida East	$ 1,020,364.64	
Florida West	$ 1,285,179.68	
Florida Funding I	$ 613,118.63	
Florida Funding II	$ 1,058,373.10	
Overnight Investments	$ 9.06	
Total Receipts	$ 3,977,045.11	
Distributions:		
Allocation to/from Expense Reserve	$ (2,045.11)	$ 2,045.11
Expenses Paid		$ (2,068.34)
Participant Distribution	$ (3,975,000.00)	
Ending Balance	$ -	$ 26,019.09

FUND B

INVENTORY OF HOLDINGS - AS OF JANUARY 31, 2013

Security Name	Type	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND		4,290,997	0.00	$ 4,290,997	$ 4,290,997	$ -
Florida East Funding LLC	VARIABLE RATE TERM NOTE	01/28/13	70,668,404	0.55	$ 70,668,404	$ 56,493,718	$ (14,174,686)
Florida West Funding LLC	VARIABLE RATE TERM NOTE	01/28/13	170,252,844	0.55	$ 170,252,844	$ 109,438,722	$ (60,814,122)
Florida Funding I LLC	VARIABLE RATE TERM NOTE	01/29/13	118,410,286	0.27	$ 118,410,286	$ 29,465,840	$ (88,944,447)
Florida Funding II LLC	VARIABLE RATE COMMERCIAL PAPER	01/29/13	86,768,466	0.33	$ 86,761,548	$ 50,015,295	$ (36,746,253)
Total Value of Investments			**450,390,998**		**$450,384,079**	**$249,704,571**	**($200,679,508)**

Notes:

[1] Due to the lack of an actively traded market for Fund B securities, the "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. Although the estimate represents an attempt to reasonably reflect the stressed market conditions that currently exist, the amount actually realized if the securities were liquidated at this time could be more or less than the estimate. Moreover, these estimates of current market value are not predictive of the ultimate amount likely to be realized from these securities. Fund B's investment objective is to maximize the present value of distributions to participants. If, in the judgment of the portfolio manager, fair value exceeds liquidation value at points in the future, then complete or partial liquidations of securities could be deferred for an extended period of time; e.g., a four- to five-year horizon for complete termination or self-liquidation of Fund B.

[2] Amortized cost is calculated using a straight line method.

The securities held in Fund B result from workouts of the LGIP's original holdings from 4 issuers – Axon, KKR Atlantic, KKR Pacific and Ottimo. The purpose of Fund B is to maximize the present value of distributions to participants through a prudent workout with an ultimate goal of liquidation. As a result, the maturity dates of each holding in Fund B will be dependent on the maturity date or earlier liquidation, if prudent, of the collateral securities underlying each of these holdings and will be contingent upon future market conditions and other factors.

The collateral manager, Apollo Global Management, is the source for data shown above other than market value. See note 1.

The amounts shown above are the value of investments. Income accruals, payables and uninvested cash are not included. The data is unaudited.

FUND B

COMPLIANCE WITH INVESTMENT POLICY - JANUARY 2013

Investment Policy Statement Compliance is conducted on Fund B by SBA Risk Management and Compliance and reported on a monthly basis to the Investment Oversight Group. Portfolio activity is reviewed to ensure that transactions and holdings are in compliance with guideline requirements and with those stipulated in the respective Investment Management Agreements with Apollo Global Management, the collateral manager for the four special purpose entities held in Fund B (Florida East Funding LLC, Florida West Funding LLC, Florida Funding I LLC, and Florida Funding II LLC). Since the principal holdings in the fund are the notes issued by these special purpose entities, and no deposits or withdrawals are permitted by participants, transactions are typically limited to 1) the receipt cash flows from the underlying note collateral, 2) the investment of these cash flows in AAAm money market funds, and 3) periodic distributions to participants. Apollo Global Management can also sell, exchange, or restructure the notes, consistent with the objective of maximizing the present value of cash flows from the collateral. For the month of January 2013, Fund B was in compliance with its Investment Policy Statement.

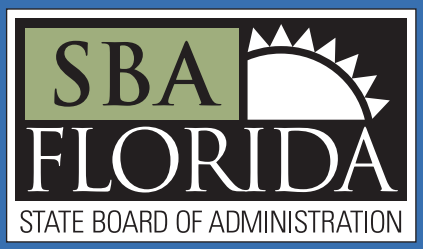
TRADING ACTIVITY - JANUARY 2013

Security Description	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys				$	$	$	$
DREYFUS GOVERNMENT CASH MANAGEMENT	01/03/13	01/03/13	9	9	0	9	0
DREYFUS GOVERNMENT CASH MANAGEMENT	01/30/13	01/30/13	4,267,034	4,267,034	0	4,267,034	0
Total Buys			**4,267,043**	**4,267,043**	**$0**	**$4,267,043**	**$0**
Sells							
FLORIDA FUNDING I LLC	01/30/13	01/30/13	401,056	401,056	0	401,056	0
FLORIDA EAST FUNDING LLC	01/30/13	01/30/13	1,149,112	1,149,112	0	1,149,112	0
FLORIDA WEST FUNDING LLC	01/30/13	01/30/13	1,526,863	1,526,863	0	1,526,863	0
FLORIDA FUNDING II	01/30/13	01/30/13	1,025,059	1,025,059	0	1,025,059	82
DREYFUS GOVERNMENT CASH MANAGEMENT	01/02/13	01/02/13	58	58	0	58	0
DREYFUS GOVERNMENT CASH MANAGEMENT	01/07/13	01/07/13	23,966	23,966	0	23,966	0
DREYFUS GOVERNMENT CASH MANAGEMENT	01/07/13	01/07/13	8	8	0	8	0
DREYFUS GOVERNMENT CASH MANAGEMENT	01/07/13	01/07/13	3,951,026	3,951,026	0	3,951,026	0
DREYFUS GOVERNMENT CASH MANAGEMENT	01/16/13	01/16/13	2,057	2,057	0	2,057	0
Total Sells			**8,079,204**	**8,079,204**	**0**	**8,079,204**	**82**

Note: In the Trading Activity table above, the gain reflected on the sales from Florida Funding II is an accounting gain. The original Axon Financial Funding LLC security was purchased at a discount and was deemed “in default” prior to the original maturity date. At the point of becoming “in default,” amortization of the discount was terminated thus leaving the cost of the security less than par. Any principal payment received at par will result in recognition of a gain, calculated as Proceeds less Cost Basis of the par value being sold.

Our Mission

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.



State Board of Administration
www.SBAFLA.com

Federated

Monthly Summary Report for February 2013

Including Fund B

State Board of Administration

FLORIDA PRIME™

CONTENTS

FLORIDA PRIME

Disclosure of Material Impacts.....2
Market Conditions.....3
Investment Strategy.....4
Cash Flows.....5
Detailed Fee Disclosure.....5
Fund Performance.....6
Inventory of Holdings.....7
Participant Concentration.....12
Compliance.....13
Trading Activity.....14

FUND B

Portfolio Commentary.....20
Legal Issue.....20
Disclosure of Material Impacts.....20
Return of Fund B Principal.....21
Distributions/Distribution Detail.....21
Inventory of Holdings.....22
Compliance.....23
Trading Activity.....23

Past performance is no guarantee of future results.

Views are as of the issue date and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in this fund.

INTRODUCTION

This report is prepared for stakeholders in Florida PRIME and Fund B in accordance with Section 218.409(6)(a), Florida Statutes. The statute requires:

(1) Reporting of any material impacts on the funds and any actions or escalations taken by staff to address such impacts;

(2) Presentation of a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month; and

(3) Preparation of the management summary "in a manner that will allow anyone to ascertain whether the investment activities during the reporting period have conformed to investment policies."

This report, which covers the period from February 1, 2013 through February 28, 2013, has been prepared by the SBA with input from Federated Investment Counseling ("Federated"), investment advisor for Florida PRIME and Apollo Global Management, the collateral manager for Fund B, in a format intended to comply with the statute.

During the reporting period, Florida PRIME and Fund B were in material compliance with investment policy. Details are available in the PRIME policy compliance table and the Fund B compliance narrative in the body of this report. This report also includes details on market conditions; fees; fund holdings, transactions and performance; and client composition.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during February 2013 that had a material impact on the liquidity or operation of Florida PRIME.

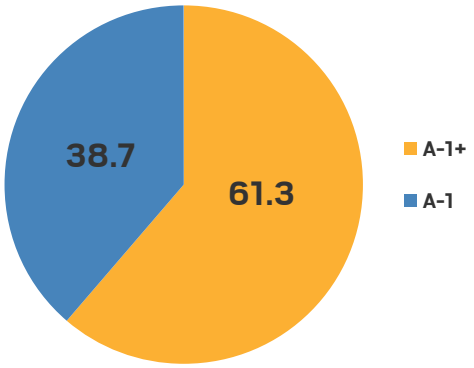
FLORIDA PRIME™

PORTFOLIO COMPOSITION
FEBRUARY 28, 2013

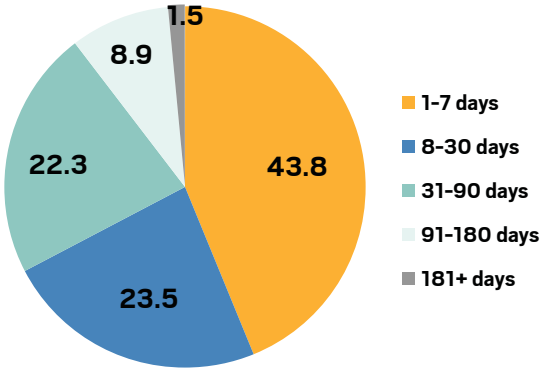
Florida PRIME Assets

$ 8,787,642,645

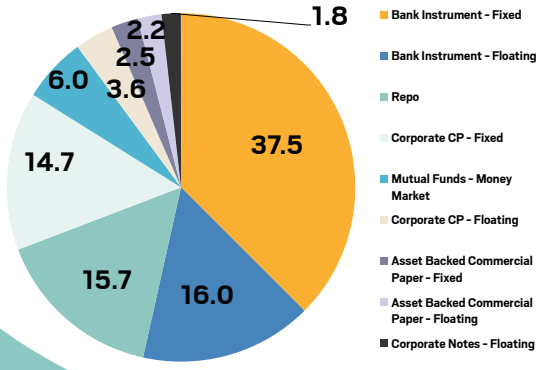
Credit Quality Composition (%)



Effective Maturity Schedule (%)



Portfolio Composition (%)



PORTFOLIO MANAGER COMMENTARY

FEBRUARY 2013 MARKET CONDITIONS

Ben Bernanke's testimony before Congress late in February provided no surprises. The Federal Reserve (the Fed) chairman strongly defended the level of the Fed's asset purchases across its various quantitative easing programs, while simultaneously downplaying the risks of over-accommodation, including the potential for losses and market disruption when the QE program winds down. Bernanke downplayed the risk of a "reach for yield" in the markets—the idea investors desperate for returns in such a low rate environment are going further out the curve and down the credit spectrum than might be prudent. In his testimony, Bernanke acknowledged this may occur, but countered the Fed's easing policies actually reduced overall risk by improving the larger economic environment. If the economy continues to recover, the migration toward lesser credit investments might not have much of an impact, but if investors add too much duration risk in a quest for higher yield, the Fed must keep a close watch and take action.

Bernanke may be unconcerned by the risks of open-ended easing, and the delicate process of unwinding, but the markets are. Many questions are swirling around over how long QE can go on, and what happens when the music stops. The latest Federal Open Market Committee (FOMC) meeting minutes revealed more members are having the same questions. We have seen some public comments by regional Fed presidents openly questioning the current policy direction. Still, what matters in the end is the vote, and FOMC meetings do not, traditionally, end up in closely split voting. Despite the increased level of questioning in the meeting, the most recent Fed statement had just one actual dissenting vote.

In terms of the recovery, we were not particularly deterred by the negative print on the fourth quarter 2012 GDP (just revised upward from a -0.1% to a +0.1%) as there were extenuating circumstances involved. A good deal of government spending had been front-loaded into the third quarter, making the fourth quarter look weak in comparison. When we average the two quarters out, they end up largely in line with market expectations. Key sectors of the economy are showing strength, and we expect the yield curve to steepen later in 2013. The Fed is not likely to act on rates until some point in 2014, but we may see some improvements in rates as a result of this growth.

The acrimonious budget process and the looming threat of

FLORIDA PRIME™

FEBRUARY 28, 2013

Top Holdings (%) and Average Maturity

1.	Sumitomo Mitsui Financial Group, Inc.	4.9%
2.	Mizuho Financial Group, Inc.	4.6%
3.	Royal Bank of Canada, Montreal	4.6%
4.	North Rhine-Westphalia, State of	4.6%
5.	Bank of Montreal	4.5%
6.	Deutsche Bank AG	4.0%
7.	Rabobank Nederland NV, Utrecht	3.5%
8.	Svenska Handelsbanken, Stockholm	3.4%
9.	Credit Suisse Group AG	3.4%
10.	Australia & New Zealand Banking Group, Melbourne	3.4%

Average Effective Maturity (WAM)

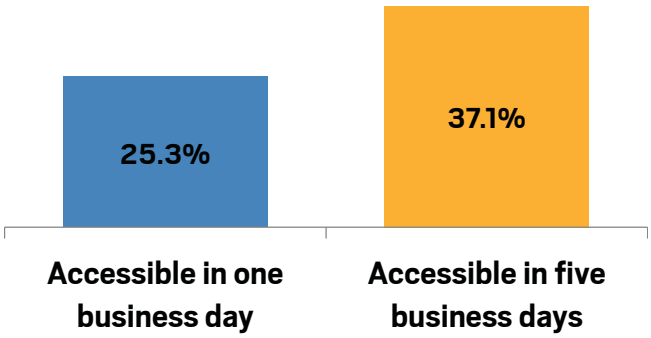
30.7 Days

Weighted Average Life (Spread WAM)

76.4 Days

Percentages based on total value of investments

Highly Liquid Holdings (% at month end)



PORTFOLIO MANAGER COMMENTARY (CON'T.)

sequester may not directly impact the money markets, but the uncertainty coming from Washington can cause a flight to quality, making the Treasuries yield curve less attractive and sending investors toward the London interbank offered rates (LIBOR) curve. Despite the collateral damage to both the recovery and to confidence in the markets, we certainly do not see an early resolution to this fundamental disagreement over fiscal policy, and expect the talks to go into the May 2013 timeframe.

Treasuries and LIBOR were fairly unchanged throughout the month of February. Repo rates, however, were fairly volatile. They had firmed up at the end of January, and held those gains through mid-February, but then in the second half of the month, we saw days where repo rates fell to 0.03-0.04%, followed by days where they increased to the 0.18-0.20% range. That is in part a reflection of supply in the market and, as we get closer to the April 15 tax date, the use of cash management bills. Depending on what happens with the sequestration and the ability to continue to issue new supply as these securities mature, we may continue to see volatility throughout March and the first part of April.

PORTFOLIO INVESTMENT STRATEGY

As of the end of February 2013, Florida PRIME pool assets were down, ending the month at $8.8 billion as the inflow of tax receipts came to its end and funds began to trickle out again. The gross yield for Florida PRIME was up one basis point. LIBOR continued to come in somewhat for a second month—during February, one-month LIBOR was steady at 0.20%, three-month was down a basis point to 0.29%, six-month was down 1 basis point to 0.46%, and twelve-month was down three basis points to 0.75%. Repurchase agreement (repo) rates, while volatile, stayed relatively high in February, making overnight repos attractive when compared to purchases further out on the yield curve. As management took advantage of the opportunities in repos, the weighted average maturity of the pool came down by 9 days in February, down to 31 days, and the weighted average life was down 6 days, to 76 days. The purchases of overnight repos were offset during the month with longer-dated instruments, specifically floating-rate bank and floating-rate asset-backed commercial paper instruments.

FLORIDA PRIME™

FLORIDA PRIME SUMMARY OF CASH FLOWS

February 2013		
Opening Balance (02/01/13)	$	8,789,451,738
Participant Deposits		894,952,886
Transfers from Fund B		4,265,000
Gross Earnings		1,730,185
Participant Withdrawals		(902,558,338)
Fees		(198,825)
Closing Balance (02/28/13)	$	8,787,642,645
Net Change over Month		(1,809,092)

Valuations based on amortized cost

As shown in the table above, Florida PRIME experienced a net ouflow of $1.8 million during February 2013.

This change in value consisted of positive flows of $895.0 million in participant deposits, $4.3 million in transfers from Fund B and $1.7 million in earnings. Negative flows consisted of $902.6 million in participant withdrawals and about $199,000 in fees.

Overall, the fund ended the month with a closing balance of $8.79 billion.

FLORIDA PRIME DETAILED FEE DISCLOSURE

February 2013	Amount	Basis Point Equivalent*
SBA Client Service, Account Mgt. & Fiduciary Oversight Fee	$ 67,420.57	$ 0.92
Federated Investment Management Fee	118,794.39	1.62
BNY Mellon Custodial Fee	233.34	0.00
Bank of America Transfer Agent Fee	4,356.30	0.06
S&P Rating Maintenance Fee	3,068.49	0.04
Audit/External Review Fees	4,951.86	0.07
Total Fees	**$ 198,824.95**	**2.71**

*The basis point equivalent is an annualized rate based on the dollar amount of fees charged for the month times 12, divided by an average of the fund's beginning and ending total value (amortized cost) for the month which was $8,788,547,191.

IS YOUR ACCOUNT INFORMATION UP TO DATE?

Personnel changes in your organization? If your organization has experienced personnel changes, please take a moment to consider whether you need to add or remove individuals from your Florida PRIME Participant Account Maintenance Form (PAMF). Individuals remain authorized until a revised PAMF is executed, notarized and the original form is submitted and processed by the SBA.

The PAMF is available on the Florida PRIME website after a user logs in to the system. One PAMF, including the Disclosure Statement, must be submitted for each account. The PAMF must be signed by the individual named in the Authorizing Resolution and their signature must be notarized. Florida PRIME must receive the original documents before making changes to your account.

FLORIDA PRIME™

NOTES TO PERFORMANCE TABLE

[1]Net of fees. Participant yield is calculated on a 365-day basis and includes adjustments for expenses and other accounting items to reflect realized earnings by participants.

[2]The net-of-fee benchmark is the S&P AAA/AA Rated GIP All 30-Day Net Index for all time periods.

Net asset value includes investments at market value, plus all cash, accrued interest receivable and payables.

NOTES TO CHART

The 7-Day "SEC" Yield in the chart is calculated in accordance with the yield methodology set forth by SEC rule 2a-7 for money market funds.

The 7-day yield = net income earned over a 7-day period / average units outstanding over the period / 7 times 365.

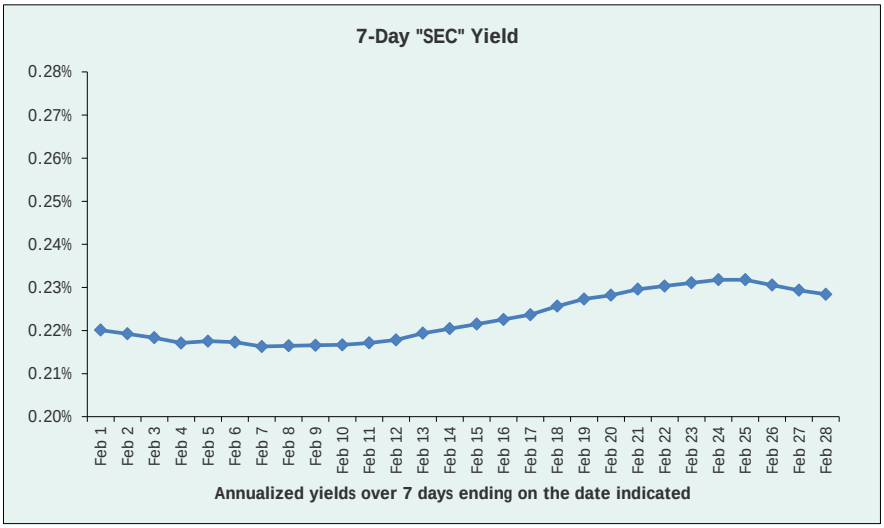
Note that unlike other performance measures, the SEC yield does not include realized gains and losses from sales of securities.

FUND PERFORMANCE
THROUGH FEBRUARY 28, 2013

Florida PRIME Participant Performance Data

	Net Participant Yield[1]	Net-of-Fee Benchmark[2]	Above (Below) Benchmark
1 mo	0.22%	0.07%	0.15%
3 mos	0.23%	0.08%	0.15%
12 mos	0.29%	0.10%	0.20%
3 yrs	0.28%	0.11%	0.17%
5 yrs	0.67%	0.54%	0.13%
10 yrs	2.01%	1.81%	0.20%
Since 1.96	3.20%	2.98%	0.22%
		Net asset value at month end:	$8,788.0 m

Florida PRIME 7-Day "SEC" Yields During the Month



For performance comparisons to other short-term investment options, see www.sbafla.com/prime and click on "Pool Performance."

ABOUT ANNUALIZED YIELDS

Performance data in the table and chart is annualized, meaning that the amounts are based on yields for the periods indicated, converted to their equivalent if obtained for a 12-month period.

For example, ignoring the effects of compounding, an investment that earns 0.10% over a 1-month period yields 1.20% on an annualized basis. Likewise, an investment that earns a total of 3.60% over three years yields 1.20% on an annualized basis, ignoring compounding.

FLORIDA PRIME™

INVENTORY OF HOLDINGS
FEBRUARY 28, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/04/13		100,000,000	0.30	99,922,667	99,951,470	28,803
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/10/13		100,000,000	0.30	99,917,833	99,947,870	30,037
Australia & New Zealand Banking Group, Melbourne, Aug 02, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.40	08/02/13	03/04/13	100,000,000	0.41	100,000,000	99,966,900	(33,100)
Bank of America N.A. BNOTE	BANK NOTE	0.32	03/18/13		225,000,000	0.33	225,000,000	225,012,353	12,353
Bank of America N.A. BNOTE	BANK NOTE	0.30	05/29/13		30,000,000	0.30	30,000,000	30,000,000	0
Bank of America N.A. BNOTE	BANK NOTE	0.30	05/28/13		10,000,000	0.30	10,000,000	10,000,000	0
Bank of America N.A. Triparty Repo Overnight Fixed	REPO TRIPARTY OVERNIGHT FIXED	0.18	03/01/13		875,000,000	0.18	875,000,000	875,000,000	0
Bank of Montreal CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.38	10/15/13		100,000,000	0.39	100,000,000	100,075,920	75,920
Bank of Montreal, Jan 16, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	01/16/14	04/16/13	130,000,000	0.31	130,000,000	129,990,640	(9,360)
Bank of Montreal, Mar 04, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.38	03/04/13	03/04/13	50,000,000	0.38	50,000,000	50,000,000	0
Bank of Montreal, Sep 16, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.33	09/16/13	03/18/13	100,000,000	0.33	100,000,000	100,032,400	32,400
Bank of Nova Scotia, Toronto, May 09, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.35	05/09/13	03/11/13	50,000,000	0.35	50,000,000	50,013,550	13,550
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	03/11/13		85,000,000	0.26	85,000,000	85,002,074	2,074
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/17/13		75,000,000	0.27	75,000,000	75,007,988	7,988
Barclays Bank PLC CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	04/12/13		100,000,000	0.25	100,000,000	100,010,740	10,740
Canadian Imperial Bank of Commerce, Aug 27, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.31	08/27/13	03/25/13	275,000,000	0.32	275,000,000	274,982,950	(17,050)
Citibank NA, New York CD	CERTIFICATE OF DEPOSIT	0.16	03/06/13		200,000,000	0.16	200,000,000	200,000,000	0
Commonwealth Bank of Australia CP4-2	COMMERCIAL PAPER - 4-2		05/15/13		50,000,000	0.29	49,970,444	49,981,985	11,541

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
FEBRUARY 28, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		03/22/13		23,000,000	0.27	22,996,205	22,997,035	830
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		05/07/13		50,000,000	0.32	49,969,778	49,969,790	12
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		05/14/13		40,000,000	0.30	39,975,000	39,972,272	(2,728)
Credit Agricole S.A. CDEUR	CERTIFICATE OF DEPOSIT - EURO	0.30	03/20/13		150,000,000	0.30	150,000,000	150,009,165	9,165
Credit Suisse, Zurich CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/26/13		300,000,000	0.27	300,000,000	300,033,180	33,180
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	05/13/13		50,000,000	0.25	50,000,000	49,997,750	(2,250)
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	05/20/13		50,000,000	0.25	50,000,000	49,997,555	(2,445)
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.17	03/05/13		200,000,000	0.17	200,000,000	200,000,000	0
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	06/06/13		50,000,000	0.26	50,000,000	50,000,000	0
Deutsche Bank Securities, Inc. REP3P	REPO TRIPARTY OVERNIGHT FIXED	0.20	03/01/13		500,000,000	0.20	500,000,000	500,000,000	0
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND	0.01	03/01/13		2,142,778	0.01	2,142,778	2,142,778	0
FCAR Owner Trust, A1+/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		03/20/13		66,000,000	0.41	65,985,333	65,994,133	8,799
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		04/09/13		20,000,000	0.30	19,993,556	19,996,288	2,732
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		07/15/13		23,500,000	0.35	23,469,594	23,477,374	7,781
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		08/01/13		60,000,000	0.34	59,915,300	59,924,598	9,298
Fairway Finance Co. LLC, Jul 22, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	07/22/13	03/22/13	14,000,000	0.23	14,000,000	13,998,922	(1,078)
Fairway Finance Co. LLC, Jun 10, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/10/13	03/11/13	30,000,000	0.23	30,000,000	29,998,440	(1,560)
Fairway Finance Co. LLC, Jun 17, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/17/13	03/18/13	50,000,000	0.24	50,000,000	49,997,300	(2,700)

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
FEBRUARY 28, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Fairway Finance Co. LLC, Jun 18, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/18/13	03/18/13	75,000,000	0.24	75,000,000	74,995,875	(4,125)
Fairway Finance Co. LLC, Mar 06, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.24	03/06/13	03/06/13	23,500,000	0.24	23,500,000	23,500,047	47
Federated Prime Cash Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.09	03/01/13	03/01/13	251,499,244	0.09	251,499,244	251,499,244	0
Federated Prime Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.08	03/01/13	03/01/13	276,862,183	0.08	276,862,183	276,862,183	0
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		1,000,000	0.41	1,008,018	1,008,274	256
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		500,000	0.41	504,009	504,137	128
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		24,410,000	0.41	24,605,712	24,611,968	6,256
General Electric Capital Corp., Sep 20, 2013	VARIABLE EURO MEDIUM TERM NOTE	0.31	09/20/13	03/20/13	3,000,000	0.41	2,998,591	2,997,756	(835)
General Electric Capital, Sr. Unsecd. Note, 5.4%, 9/20/2013	CORPORATE BOND	5.40	09/20/13		1,670,000	0.41	1,716,423	1,715,847	(576)
ICICI Bank Ltd., New York (Series C-BA) CPLOC	COMMERCIAL PAPER - LOC		04/10/13		25,000,000	0.46	24,987,188	24,985,850	(1,338)
J.P. Morgan Chase & Co., Sr. Note, 4.750%, 05/01/2013	CORPORATE BOND	4.75	05/01/13		100,000,000	0.30	100,765,194	100,688,300	(76,894)
JPMorgan Chase & Co CP	COMMERCIAL PAPER		06/12/13		100,000,000	0.29	99,919,111	99,959,840	40,729
Market Street Funding LLC CPABS4-2	COMMERCIAL PAPER - ABS- 4(2)		03/04/13		30,922,000	0.21	30,921,278	30,921,484	205
Market Street Funding LLC CPABS4-2	COMMERCIAL PAPER - ABS- 4(2)		03/05/13		16,090,000	0.21	16,089,531	16,089,665	135
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/05/13		100,000,000	0.27	100,000,000	100,001,250	1,250
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/12/13		100,000,000	0.27	100,000,000	100,003,000	3,000
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	03/13/13		50,000,000	0.27	50,000,000	50,001,625	1,625
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.23	05/28/13		8,000,000	0.23	8,000,000	8,000,000	0

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
FEBRUARY 28, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		03/15/13		100,000,000	0.27	99,988,750	99,993,330	4,580
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		04/01/13		50,000,000	0.27	49,988,000	49,991,895	3,895
Mullenix-St. Charles Properties, L.P., Times Centre Apartments Project Series 2004, Jan 01, 2028	VARIABLE RATE DEMAND NOTE	0.22	01/01/28	03/07/13	13,500,000	0.22	13,500,000	13,500,000	0
NRW Bank CP	COMMERCIAL PAPER		03/04/13		400,000,000	0.18	399,992,222	399,986,388	(5,834)
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.37	04/10/13		200,000,000	0.38	200,000,000	200,050,060	50,060
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.35	04/15/13		110,000,000	0.36	110,000,000	110,028,083	28,083
Royal Bank of Canada, Montreal, Feb 03, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.37	02/03/14	03/01/13	75,000,000	0.38	75,000,000	74,993,175	(6,825)
Royal Bank of Canada, Montreal, Feb 10, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.37	02/10/14	03/01/13	50,000,000	0.38	50,000,000	49,995,350	(4,650)
Royal Bank of Canada, Montreal, Feb 21, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.36	02/21/14	03/01/13	100,000,000	0.37	100,000,000	100,000,000	0
Royal Bank of Canada, Montreal, Mar 04, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.35	03/04/14	03/04/13	160,000,000	0.35	160,000,000	159,983,040	(16,960)
Royal Bank of Canada, Montreal, May 22, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.44	05/22/13	03/22/13	18,000,000	0.45	18,000,000	18,008,910	8,910
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.28	03/22/13		99,000,000	0.28	99,000,000	99,005,445	5,445
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.34	04/24/13		78,000,000	0.34	78,000,000	78,013,096	13,096
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.30	05/08/13		80,000,000	0.30	80,000,000	80,003,640	3,640
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.29	05/14/13		10,000,000	0.29	10,000,000	10,000,227	227
St. Andrew United Methodist Church, Series 2004, Jul 01, 2029	VARIABLE RATE DEMAND NOTE	0.16	07/01/29	03/07/13	9,140,000	0.16	9,140,000	9,140,000	0
State Street Bank and Trust Co., Mar 18, 2014	VARIABLE RATE BANK NOTE	0.34	03/18/14	03/18/13	125,000,000	0.34	125,000,000	124,993,875	(6,125)
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.24	05/07/13		130,000,000	0.24	130,000,000	130,000,000	0

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
FEBRUARY 28, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	03/14/13		100,000,000	0.26	100,000,000	100,002,720	2,720
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	04/01/13		200,000,000	0.26	200,000,000	200,010,640	10,640
Svenska Handelsbanken, Stockholm TDCAY	TIME DEPOSIT - CAYMAN	0.16	03/01/13		300,000,000	0.16	300,000,000	300,000,000	0
Toronto Dominion Bank CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.28	06/17/13		100,000,000	0.28	100,000,000	100,027,200	27,200
Toronto Dominion Bank, Jul 26, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	07/26/13	04/26/13	50,000,000	0.31	50,000,000	50,028,950	28,950
Toronto Dominion Bank, Sep 13, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.31	09/13/13	03/13/13	125,000,000	0.31	125,000,000	125,055,000	55,000
Toyota Motor Credit Corp. CP	COMMERCIAL PAPER		07/09/13		250,000,000	0.24	249,781,667	249,787,125	5,458
U.S. Treasury Note 1.75% 4/15/2013	US TREASURY NOTE	1.75	04/15/13		15,000,000	0.25	15,028,246	15,029,880	1,634
Wells Fargo Bank, N.A., Mar 20, 2014	VARIABLE RATE BANK NOTE	0.36	03/20/14	03/20/13	100,000,000	0.36	100,000,000	99,992,600	(7,400)
Westpac Banking Corp. Ltd., Sydney, Jul 08, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.25	07/08/13	03/08/13	100,000,000	0.25	100,000,000	99,993,200	(6,800)
Westpac Banking Corp. Ltd., Sydney, May 29, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.25	05/29/13	02/28/13	115,000,000	0.26	115,000,000	115,000,000	0
					8,783,736,205		**$8,784,053,853**	**$8,784,443,593**	**$389,739**

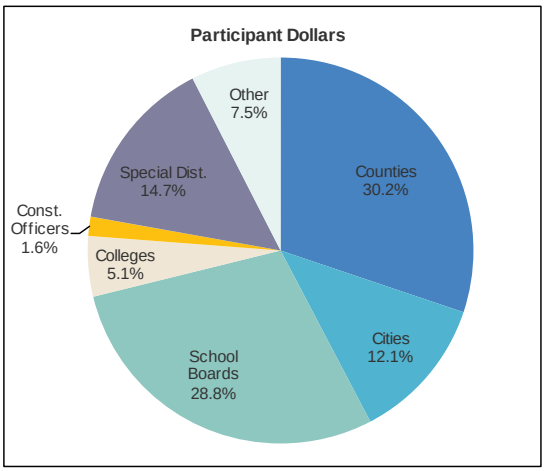
Notes: The data included in this report is unaudited. Amounts above are the value of investments. Income accruals, payables and uninvested cash are not included. Amortizations/accretions are reported with a one-day lag in the above valuations.

[1] Market values of the portfolio securities are provided by the custodian, BNY Mellon. The portfolio manager, Federated Investment Counseling, is the source for other data shown above.

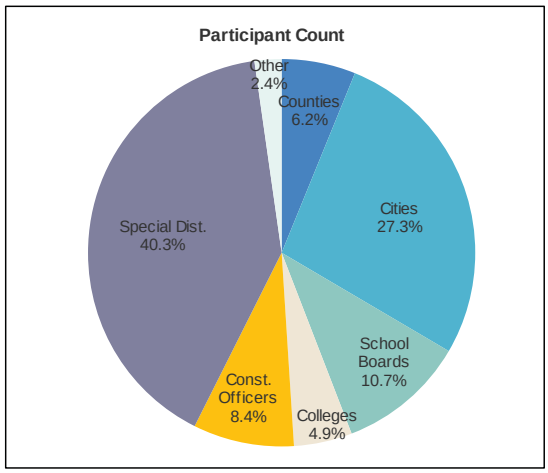
[2] Amortized cost is calculated using a straight line method.

PARTICIPANT CONCENTRATION DATA - FEBRUARY 28, 2013

Participant Balance	Share of Total Fund	Share of Participant Count	Participant Balance	Share of Total Fund	Share of Participant Count
All Participants	**100.0%**	**100.0%**	**Colleges & Universities**	**5.1%**	**4.9%**
Top 10	39.9%	1.2%	Top 10	4.6%	1.2%
$100 million or more	62.5%	2.8%	$100 million or more	2.3%	0.1%
$10 million up to $100 million	30.9%	10.0%	$10 million up to $100 million	2.3%	1.1%
$1 million up to $10 million	5.9%	17.5%	$1 million up to $10 million	0.5%	1.2%
Under $1 million	0.7%	69.5%	Under $1 million	0.01%	2.5%
Counties	**30.2%**	**6.2%**	**Constitutional Officers**	**1.6%**	**8.4%**
Top 10	25.2%	1.2%	Top 10	1.0%	1.2%
$100 million or more	24.1%	1.1%	$100 million or more	0.0%	0.0%
$10 million up to $100 million	5.6%	1.3%	$10 million up to $100 million	0.8%	0.4%
$1 million up to $10 million	0.4%	1.1%	$1 million up to $10 million	0.7%	1.7%
Under $1 million	0.0%	2.7%	Under $1 million	0.1%	6.4%
Municipalities	**12.1%**	**27.3%**	**Special Districts**	**14.7%**	**40.3%**
Top 10	7.4%	1.2%	Top 10	10.3%	1.2%
$100 million or more	3.6%	0.4%	$100 million or more	6.2%	0.4%
$10 million up to $100 million	6.5%	2.4%	$10 million up to $100 million	6.8%	2.1%
$1 million up to $10 million	1.8%	5.7%	$1 million up to $10 million	1.4%	5.0%
Under $1 million	0.2%	18.8%	Under $1 million	0.3%	32.8%
School Boards	**28.8%**	**10.7%**	**Other**	**7.5%**	**2.4%**
Top 10	24.4%	1.2%	Top 10	7.4%	1.2%
$100 million or more	20.6%	0.6%	$100 million or more	5.7%	0.4%
$10 million up to $100 million	7.4%	2.3%	$10 million up to $100 million	1.6%	0.5%
$1 million up to $10 million	0.8%	2.4%	$1 million up to $10 million	0.2%	0.6%
Under $1 million	0.1%	5.5%	Under $1 million	0.0%	0.8%



Total Fund Value: $8,787,642,645



Total Participant Count: 844

FLORIDA PRIME COMPLIANCE WITH INVESTMENT POLICY - FEBRUARY 2013

As investment manager, Federated monitors compliance daily on Florida PRIME to ensure that investment practices comply with the requirements of the Investment Policy Statement (IPS). Federated provides a monthly compliance report to the SBA and is required to notify the Investment Oversight Group (IOG) of compliance exceptions within 24 hours of identification. The IOG meets monthly and on an ad hoc basis to review compliance exceptions, to document responses to exceptions, and to formally escalate recommendations for approval by the Executive Director & CIO. The IOG also reviews the Federated compliance report each month, as well as, the results of independent compliance testing conducted by SBA Risk Management and Compliance. Minutes from the IOG meetings are posted to the Florida PRIME website.

In addition to the compliance testing performed by Federated, the SBA conducts independent testing on Florida PRIME using a risk-based approach. Under this approach, each IPS parameter is ranked as "High" or "Low" with respect to the level of risk associated with a potential guideline breach. IPS parameters with risk rankings of "High" are subject to independent verification by SBA Risk Management and Compliance. These rankings, along with the frequency for testing, are reviewed and approved by the IOG on an annual basis or more often if market conditions dictate. Additionally, any parameter reported in "Fail" status on the Federated compliance report, regardless of risk ranking, is also independently verified and escalated accordingly. The results of independent testing are currently reported monthly to the IOG.

Test by Source	Pass/Fail
Florida PRIME's Investment Policy	
Securities must be USD denominated.	Pass
Ratings requirements	
The Pool must purchase exclusively first-tier securities. Securities purchased with short-term ratings by an NRSRO, or comparable in quality and security to other obligations of the issuer that have received short-term ratings from an NRSRO, are eligible if they are in one of the two highest rating categories.	Pass
Securities purchased that do not have short-term ratings must have a long-term rating in one of the three highest long-term rating categories.	Pass
Commercial Paper must be rated by at least one short-term NRSRO.	Pass
Repurchase Agreement Counterparties must be rated by S&P	Pass
S&P Weighted Average Life - maximum 90 days [1]	Pass
Maturity	
Securities, excluding Government floating rate notes/variable rate notes, purchased did not have a maturity in excess of 397 days.	Pass
Government floating rate notes/variable rate notes purchased did not have a maturity in excess of 762 days.	Pass
The Pool must maintain a Spread WAM of 120 days or less.	Pass
Issuer Diversification	
First-tier issuers (limit does not apply to cash, cash items, U.S. Government securities refunded securities and repo collateralized by these securities) are limited, at the time of purchase, to 5% of the Pool's total assets. [2]	Pass
Demand Feature and Guarantor Diversification	
First-tier securities issued by or subject to demand features and guarantees of a non-controlled person, at time of purchase, are limited to 10% with respect to 75% of the Pool's total assets.	Pass
First-tier securities issued by or subject to demand features and guarantees of a control person, at time of purchase, are limited to 10% with respect to the Pool's total assets.	Pass
Money Market Mutual Funds	
The account, at time of purchase, will not have exposure to any one Money Market Mutual Fund in excess of 10% of the Pool's total assets.	Pass
Concentration Tests	
The account, at time of purchase, will not have exposure to an industry sector, excluding the financial services industry, in excess of 25% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to any single Government Agency in excess of 33.33% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to illiquid securities in excess of 5% of the Pool's total assets.	Pass
The account, at time of purchase, will invest at least 10% of the Pool's total assets in securities accessible within one business day.	Pass
The account, at time of purchase, will invest at least 30% of the Pool's total assets in securities accessible within five business days. [3]	Pass
S&P Requirements	
The Pool must maintain a Dollar Weighted Average Maturity of 60 days or less.	Pass
The account, at time of purchase, will invest at least 50% of the Pool's total assets in Securities in Highest Rating Category (A-1+ or equivalent) .	Pass

[1] The fund may use floating rate government securities to extend the limit up to 120 days

[2] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to liquidate positions if the exposure in excess of the specified percentage is caused by

[3] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to take immediate corrective measures if asset movements cause the exposure to be below the specified percentage.

FLORIDA PRIME™

TRADING ACTIVITY FOR FEBRUARY 2013

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys					$	$	$	$
BANK OF AMERICA N,ABNOTE	05/29/13	02/21/13	02/21/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF AMERICA N,ABNOTE	05/28/13	02/27/13	02/27/13	10,000,000	10,000,000	-	10,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/14/13	02/07/13	02/07/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/14/13	02/07/13	02/07/13	30,000,000	30,000,000	-	30,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/13/13	02/13/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	03/06/13	02/27/13	02/27/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	03/06/13	02/27/13	02/27/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	03/06/13	02/27/13	02/27/13	50,000,000	50,000,000	-	50,000,000	-
CITIBANK NA, NEW YOCD	03/06/13	02/27/13	02/27/13	50,000,000	50,000,000	-	50,000,000	-
CREDIT AGRICOLE NORCP	02/13/13	02/06/13	02/06/13	40,000,000	39,998,678	-	39,998,678	-
CREDIT AGRICOLE NORCP	05/07/13	02/06/13	02/06/13	50,000,000	49,960,000	-	49,960,000	-
CREDIT AGRICOLE NORTH AMERICA	05/14/13	02/13/13	02/13/13	40,000,000	39,970,000	-	39,970,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/05/13	02/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	05/13/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-

TRADING ACTIVITY FOR FEBRUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/12/13	02/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	05/20/13	02/19/13	02/19/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/05/13	02/26/13	02/26/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/05/13	02/26/13	02/26/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/05/13	02/26/13	02/26/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/05/13	02/26/13	02/26/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	06/06/13	02/26/13	02/26/13	50,000,000	50,000,000	-	50,000,000	-
FCAR OWNER TRUST, ACPABS3	08/01/13	02/01/13	02/01/13	50,000,000	49,917,042	-	49,917,042	-
FCAR OWNER TRUST, ACPABS3	08/01/13	02/01/13	02/01/13	10,000,000	9,983,408	-	9,983,408	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS TSB BANK PLCCP	02/14/13	02/07/13	02/07/13	50,000,000	49,998,639	-	49,998,639	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/14/13	02/14/13	50,000,000	49,998,444	-	49,998,444	-
MIZUHO CORPORATE BACDYAN	05/28/13	02/27/13	02/27/13	8,000,000	8,000,000	-	8,000,000	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
NRW BANKCP	03/04/13	02/25/13	02/25/13	50,000,000	49,998,299	-	49,998,299	-
ROYAL BANK OF CANADA/NEW YORK NY	02/21/14	02/15/13	02/21/13	50,000,000	50,000,000	-	50,000,000	-
ROYAL BANK OF CANADA/NEW YORK NY	02/21/14	02/15/13	02/21/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE, PCDYAN	05/08/13	02/05/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR FEBRUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
SOCIETE GENERALE, PCDYAN	05/08/13	02/05/13	02/06/13	30,000,000	30,000,000	-	30,000,000	-
SOCIETE GENERALE, PCDYAN	05/14/13	02/13/13	02/13/13	10,000,000	10,000,000	-	10,000,000	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/05/13	02/05/13	1,747,589	1,747,589	-	1,747,589	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/06/13	02/06/13	387,858	387,858	-	387,858	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/08/13	02/08/13	3,113,141	3,113,141	-	3,113,141	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/11/13	02/11/13	100,013	100,013	-	100,013	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/14/13	02/14/13	7,725,530	7,725,530	-	7,725,530	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/20/13	02/20/13	728,132	728,132	-	728,132	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/22/13	02/22/13	41,041,992	41,041,992	-	41,041,992	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/26/13	02/26/13	2,928,108	2,928,108	-	2,928,108	-
FEDERATED PRIME CASH OBLIGATIONS FUND	10/01/40	02/01/13	02/01/13	21,024	21,024	-	21,024	-
FEDERATED PRIME OBLIGATIONS FUND	10/01/40	02/01/13	02/01/13	21,983	21,983	-	21,983	-
DEUTSCHE BANK	02/04/13	02/01/13	02/01/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/04/13	02/01/13	02/01/13	1,135,000,000	1,135,000,000	-	1,135,000,000	-
DEUTSCHE BANK	02/05/13	02/04/13	02/04/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/05/13	02/04/13	02/04/13	1,220,000,000	1,220,000,000	-	1,220,000,000	-
DEUTSCHE BANK	02/06/13	02/05/13	02/05/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/06/13	02/05/13	02/05/13	665,000,000	665,000,000	-	665,000,000	-
DEUTSCHE BANK	02/07/13	02/06/13	02/06/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/07/13	02/06/13	02/06/13	650,000,000	650,000,000	-	650,000,000	-
DEUTSCHE BANK	02/08/13	02/07/13	02/07/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF AMERICA TRIPARTY	02/08/13	02/07/13	02/07/13	365,000,000	365,000,000	-	365,000,000	-
DEUTSCHE BANK	02/11/13	02/08/13	02/08/13	400,000,000	400,000,000	-	400,000,000	-
BANK OF AMERICA TRIPARTY	02/11/13	02/08/13	02/08/13	230,000,000	230,000,000	-	230,000,000	-
DEUTSCHE BANK	02/12/13	02/11/13	02/11/13	250,000,000	250,000,000	-	250,000,000	-
BANK OF AMERICA TRIPARTY	02/12/13	02/11/13	02/11/13	450,000,000	450,000,000	-	450,000,000	-
DEUTSCHE BANK	02/13/13	02/12/13	02/12/13	250,000,000	250,000,000	-	250,000,000	-
BANK OF AMERICA TRIPARTY	02/13/13	02/12/13	02/12/13	495,000,000	495,000,000	-	495,000,000	-
DEUTSCHE BANK	02/14/13	02/13/13	02/13/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/14/13	02/13/13	02/13/13	200,000,000	200,000,000	-	200,000,000	-
DEUTSCHE BANK	02/15/13	02/14/13	02/14/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/15/13	02/14/13	02/14/13	210,000,000	210,000,000	-	210,000,000	-
DEUTSCHE BANK	02/19/13	02/15/13	02/15/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF AMERICA TRIPARTY	02/19/13	02/15/13	02/15/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	02/20/13	02/19/13	02/19/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/20/13	02/19/13	02/19/13	385,000,000	385,000,000	-	385,000,000	-
DEUTSCHE BANK	02/21/13	02/20/13	02/20/13	300,000,000	300,000,000	-	300,000,000	-
BANK OF AMERICA TRIPARTY	02/21/13	02/20/13	02/20/13	985,000,000	985,000,000	-	985,000,000	-
DEUTSCHE BANK	02/22/13	02/21/13	02/21/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/22/13	02/21/13	02/21/13	1,040,000,000	1,040,000,000	-	1,040,000,000	-
DEUTSCHE BANK	02/25/13	02/22/13	02/22/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/25/13	02/22/13	02/22/13	1,100,000,000	1,100,000,000	-	1,100,000,000	-
DEUTSCHE BANK	02/26/13	02/25/13	02/25/13	600,000,000	600,000,000	-	600,000,000	-
BANK OF AMERICA TRIPARTY	02/26/13	02/25/13	02/25/13	670,000,000	670,000,000	-	670,000,000	-
DEUTSCHE BANK	02/27/13	02/26/13	02/26/13	585,000,000	585,000,000	-	585,000,000	-
BANK OF AMERICA TRIPARTY	02/27/13	02/26/13	02/26/13	750,000,000	750,000,000	-	750,000,000	-
DEUTSCHE BANK	02/28/13	02/27/13	02/27/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/28/13	02/27/13	02/27/13	597,000,000	597,000,000	-	597,000,000	-
DEUTSCHE BANK	03/01/13	02/28/13	02/28/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/01/13	02/28/13	02/28/13	875,000,000	875,000,000	-	875,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130204	02/04/13	02/01/13	02/01/13	300,000,000	300,000,000	-	300,000,000	-

TRADING ACTIVITY FOR FEBRUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
SVENSKA HANDELSBANKTDCAY 0.15 20130205	02/05/13	02/04/13	02/04/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130206	02/06/13	02/05/13	02/05/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130207	02/07/13	02/06/13	02/06/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130208	02/08/13	02/07/13	02/07/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130211	02/11/13	02/08/13	02/08/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130212	02/12/13	02/11/13	02/11/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130213	02/13/13	02/12/13	02/12/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130214	02/14/13	02/13/13	02/13/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130215	02/15/13	02/14/13	02/14/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130220	02/20/13	02/19/13	02/19/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130221	02/21/13	02/20/13	02/20/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130222	02/22/13	02/21/13	02/21/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130225	02/25/13	02/22/13	02/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130226	02/26/13	02/25/13	02/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130227	02/27/13	02/26/13	02/26/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130228	02/28/13	02/27/13	02/27/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130301	03/01/13	02/28/13	02/28/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.17 20130219	02/19/13	02/15/13	02/15/13	300,000,000	300,000,000	-	300,000,000	-
Total Buys				**30,912,815,371**	**$30,912,607,554**	**$0**	**$30,912,607,554**	**$0**
Maturities								
BANK OF MONTREAL (CCDYAN	02/11/13	02/11/13	02/11/13	20,000,000	20,000,000	-	20,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/12/13	02/12/13	02/12/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/14/13	02/14/13	02/14/13	80,000,000	80,000,000	-	80,000,000	-
BANK OF TOKYO-MITSUCDYAN	02/19/13	02/19/13	02/19/13	200,000,000	200,000,000	-	200,000,000	-
CITIBANK NA, NEW YOCD	02/06/13	02/06/13	02/06/13	400,000,000	400,000,000	-	400,000,000	-
CITIBANK NA, NEW YOCD	02/13/13	02/13/13	02/13/13	400,000,000	400,000,000	-	400,000,000	-
CITIBANK NA, NEW YOCD	02/20/13	02/20/13	02/20/13	400,000,000	400,000,000	-	400,000,000	-
CREDIT AGRICOLE NORCP	02/06/13	02/06/13	02/06/13	90,000,000	90,000,000	-	90,000,000	-
CREDIT AGRICOLE NORCP	02/13/13	02/13/13	02/13/13	40,000,000	40,000,000	-	40,000,000	-
DEUTSCHE BANK AGCDYAN	02/28/13	02/28/13	02/28/13	80,000,000	80,000,000	-	80,000,000	-
DEUTSCHE BANK AGCDYAN	02/12/13	02/12/13	02/12/13	350,000,000	350,000,000	-	350,000,000	-
DEUTSCHE BANK AGCDYAN	02/19/13	02/19/13	02/19/13	300,000,000	300,000,000	-	300,000,000	-
DEUTSCHE BANK AGCDYAN	02/26/13	02/26/13	02/26/13	250,000,000	250,000,000	-	250,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR FEBRUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
FCAR OWNER TRUST, ACPABS3	02/04/13	02/04/13	02/04/13	70,000,000	70,000,000	-	70,000,000	-
FCAR OWNER TRUST, ACPABS3	02/01/13	02/01/13	02/01/13	70,000,000	70,000,000	-	70,000,000	-
JPMORGAN CHASE & CO	02/28/13	02/28/13	02/28/13	200,000,000	200,000,000	-	200,000,000	-
LLOYDS TSB BANK PLCCP	02/14/13	02/14/13	02/14/13	400,000,000	400,000,000	-	400,000,000	-
LLOYDS BANK PLC, LOCDYAN	02/21/13	02/21/13	02/21/13	400,000,000	400,000,000	-	400,000,000	-
NORDEA BANK FINLANDCDYAN	02/22/13	02/22/13	02/22/13	100,000,000	100,000,000	-	100,000,000	-
ROYAL BANK OF CANADA/NEW YORK NY	02/06/13	02/06/13	02/06/13	50,000,000	50,000,000	-	50,000,000	-
SALISBURY RECEIVABLCPABS4	02/21/13	02/21/13	02/21/13	50,000,000	50,000,000	-	50,000,000	-
SOCIETE GENERALE NOCP	02/01/13	02/01/13	02/01/13	75,000,000	75,000,000	-	75,000,000	-
DEUTSCHE BANK	02/01/13	02/01/13	02/01/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/01/13	02/01/13	02/01/13	1,125,000,000	1,125,000,000	-	1,125,000,000	-
DEUTSCHE BANK	02/04/13	02/04/13	02/04/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/04/13	02/04/13	02/04/13	1,135,000,000	1,135,000,000	-	1,135,000,000	-
DEUTSCHE BANK	02/05/13	02/05/13	02/05/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/05/13	02/05/13	02/05/13	1,220,000,000	1,220,000,000	-	1,220,000,000	-
DEUTSCHE BANK	02/06/13	02/06/13	02/06/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/06/13	02/06/13	02/06/13	665,000,000	665,000,000	-	665,000,000	-
DEUTSCHE BANK	02/07/13	02/07/13	02/07/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/07/13	02/07/13	02/07/13	650,000,000	650,000,000	-	650,000,000	-
DEUTSCHE BANK	02/08/13	02/08/13	02/08/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF AMERICA TRIPARTY	02/08/13	02/08/13	02/08/13	365,000,000	365,000,000	-	365,000,000	-
DEUTSCHE BANK	02/11/13	02/11/13	02/11/13	400,000,000	400,000,000	-	400,000,000	-
BANK OF AMERICA TRIPARTY	02/11/13	02/11/13	02/11/13	230,000,000	230,000,000	-	230,000,000	-
DEUTSCHE BANK	02/12/13	02/12/13	02/12/13	250,000,000	250,000,000	-	250,000,000	-
BANK OF AMERICA TRIPARTY	02/12/13	02/12/13	02/12/13	450,000,000	450,000,000	-	450,000,000	-
DEUTSCHE BANK	02/13/13	02/13/13	02/13/13	250,000,000	250,000,000	-	250,000,000	-
BANK OF AMERICA TRIPARTY	02/13/13	02/13/13	02/13/13	495,000,000	495,000,000	-	495,000,000	-
DEUTSCHE BANK	02/14/13	02/14/13	02/14/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/14/13	02/14/13	02/14/13	200,000,000	200,000,000	-	200,000,000	-
DEUTSCHE BANK	02/15/13	02/15/13	02/15/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/15/13	02/15/13	02/15/13	210,000,000	210,000,000	-	210,000,000	-
DEUTSCHE BANK	02/19/13	02/19/13	02/19/13	200,000,000	200,000,000	-	200,000,000	-
BANK OF AMERICA TRIPARTY	02/19/13	02/19/13	02/19/13	490,000,000	490,000,000	-	490,000,000	-
DEUTSCHE BANK	02/20/13	02/20/13	02/20/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/20/13	02/20/13	02/20/13	385,000,000	385,000,000	-	385,000,000	-
DEUTSCHE BANK	02/21/13	02/21/13	02/21/13	300,000,000	300,000,000	-	300,000,000	-
BANK OF AMERICA TRIPARTY	02/21/13	02/21/13	02/21/13	985,000,000	985,000,000	-	985,000,000	-
DEUTSCHE BANK	02/22/13	02/22/13	02/22/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/22/13	02/22/13	02/22/13	1,040,000,000	1,040,000,000	-	1,040,000,000	-
DEUTSCHE BANK	02/25/13	02/25/13	02/25/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/25/13	02/25/13	02/25/13	1,100,000,000	1,100,000,000	-	1,100,000,000	-
DEUTSCHE BANK	02/26/13	02/26/13	02/26/13	600,000,000	600,000,000	-	600,000,000	-
BANK OF AMERICA TRIPARTY	02/26/13	02/26/13	02/26/13	670,000,000	670,000,000	-	670,000,000	-
DEUTSCHE BANK	02/27/13	02/27/13	02/27/13	585,000,000	585,000,000	-	585,000,000	-
BANK OF AMERICA TRIPARTY	02/27/13	02/27/13	02/27/13	750,000,000	750,000,000	-	750,000,000	-
DEUTSCHE BANK	02/28/13	02/28/13	02/28/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	02/28/13	02/28/13	02/28/13	597,000,000	597,000,000	-	597,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130201	02/01/13	02/01/13	02/01/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130204	02/04/13	02/04/13	02/04/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130205	02/05/13	02/05/13	02/05/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130206	02/06/13	02/06/13	02/06/13	300,000,000	300,000,000	-	300,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR FEBRUARY 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
SVENSKA HANDELSBANKTDCAY 0.15 20130207	02/07/13	02/07/13	02/07/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130208	02/08/13	02/08/13	02/08/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130211	02/11/13	02/11/13	02/11/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130212	02/12/13	02/12/13	02/12/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130213	02/13/13	02/13/13	02/13/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130214	02/14/13	02/14/13	02/14/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130215	02/15/13	02/15/13	02/15/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130220	02/20/13	02/20/13	02/20/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130221	02/21/13	02/21/13	02/21/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130222	02/22/13	02/22/13	02/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130225	02/25/13	02/25/13	02/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130226	02/26/13	02/26/13	02/26/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130227	02/27/13	02/27/13	02/27/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130228	02/28/13	02/28/13	02/28/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.17 20130219	02/19/13	02/19/13	02/19/13	300,000,000	300,000,000	-	300,000,000	-
Total Maturities				**30,972,000,000**	**$30,972,000,000**	**$0**	**$30,972,000,000**	**$0**
Sells								
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/01/13	02/01/13	427,649	427,649	-	427,649	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/01/13	02/01/13	944,697	944,697	-	944,697	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/01/13	02/01/13	370,327	370,327	-	370,327	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/01/13	02/01/13	1,298,692	1,298,692	-	1,298,692	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/04/13	02/04/13	4,205,716	4,205,716	-	4,205,716	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/04/13	02/04/13	432,405	432,405	-	432,405	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/07/13	02/07/13	3,564,453	3,564,453	-	3,564,453	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/12/13	02/12/13	1,301,922	1,301,922	-	1,301,922	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/12/13	02/12/13	58,789	58,789	-	58,789	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/13/13	02/13/13	1,688,800	1,688,800	-	1,688,800	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/13/13	02/13/13	387,858	387,858	-	387,858	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/13/13	02/13/13	435,127	435,127	-	435,127	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/15/13	02/15/13	2,678,014	2,678,014	-	2,678,014	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/15/13	02/15/13	100,013	100,013	-	100,013	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/15/13	02/15/13	1,038,936	1,038,936	-	1,038,936	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/19/13	02/19/13	1,251,002	1,251,002	-	1,251,002	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/21/13	02/21/13	1,375,568	1,375,568	-	1,375,568	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/25/13	02/25/13	406,024	406,024	-	406,024	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/25/13	02/25/13	728,132	728,132	-	728,132	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/25/13	02/25/13	40,620,169	40,620,169	-	40,620,169	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/27/13	02/27/13	1,440,815	1,440,815	-	1,440,815	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/28/13	02/28/13	2,213,185	2,213,185	-	2,213,185	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/28/13	02/28/13	421,823	421,823	-	421,823	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	02/28/13	02/28/13	785,330	785,330	-	785,330	-
Total Sells				**68,175,447**	**$68,175,447**	**$0**	**$68,175,447**	**$0**

FUND B

FUND B FACTS

INVESTMENT OBJECTIVE

Fund B's primary objective is to maximize the present value of distributions from the Fund.

COMPOSITION

Fund B principally consists of Segregated Securities, which are securities originally purchased for the LGIP that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization (NRSRO) that provides Florida PRIME's AAAm rating.

DISTRIBUTIONS

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

ACCOUNTING

Fund B is accounted for as a fluctuating NAV pool, not a 2a-7-like money market fund. That is, accounting valuations reflect estimates of the market value of securities rather than their amortized cost.

STATUS OF INVESTMENTS

Florida East and West: Restructured from KKR and receiving principal and interest.
Florida Funding I: Restructured from Ottimo (Issuer Entity) and receiving principal and interest.
Florida Funding II: Restructured from Axon and receiving principal and interest.

COMMENTARY ON PORTFOLIO MANAGEMENT

All cash from paydowns on securities in Fund B are invested in AAAm-rated money market funds pending monthly distribution to participant accounts in Florida PRIME. This month, $4.27 million in liquid assets were transferred from Fund B to Florida PRIME, consisting of principal paydowns and income from the securities in the Fund.

The investment team continually analyzes the bonds in each portfolio, comparing estimated defaults and estimated cumulative net losses to an historical loss-timing curve. Many different factors in the domestic and global economies can affect both the securities and the underlying bonds. Some of the factors will contribute positively while others could have adverse consequences. The SBA and Apollo Global Management's investment team will continue to employ prudent risk mitigation strategies in order to maximize the present value of distributions from Fund B with a primary focus on the restoration of principal.

LEGAL ISSUE

As an ongoing legal matter, the SBA asserts Lehman Brothers (which is now in liquidation) sold the SBA certain unregistered secured notes that were not exempt from registration under the Securities Act of 1933. The Lehman Trustee has not yet responded to the SBA's general creditor claim on behalf of Fund B as to whether the Lehman estate will have any assets available for recovery. The Trustee's latest reports have stated that "returns to general estate creditors will be limited at best." However, the secured notes sold by Lehman Brothers were secured by certain collateral. Fund B has been receiving and is expected to continue receiving monetary distributions of principal and interest from that underlying collateral.

The SBA will promptly disclose any future developments as they become matters of public record.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during February 2013 that had a material impact on the liquidity or operation of Fund B.

FUND B INVESTOR PRESENTATION

The SBA and Apollo Capital are pleased to communicate the development of a short slideshow presentation covering Fund B's operations, investment holdings, and current market valuation. The overview will be updated periodically based on significant market events or changes in value.

The presentation is available on the Florida PRIME website—within the "Fund B" navigation tab at the top of the homepage.

FUND B

FUND B DISTRIBUTIONS

RETURN OF FUND B PRINCIPAL

The first table below details the SBA's progress in returning principal to investors in Fund B. Through the end of February 2013, investors cumulatively received distributions from Fund B totaling $1.77 billion or 88.1% of their original balances.

The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (as well as overnight instruments temporarily holding fund earnings). As of February 28, 2013, their remaining amortized cost was $446.3 million, or 86.9% more than remaining participant positions in Fund B. Conversely, the current estimated liquidation (market) value of these securities is pegged at $244.9 million or 102.58% of remaining participant positions.

It is important to note that due to the lack of an actively traded market for Fund B securities, their "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. See footnote 1 on page 22.

FUND B DISTRIBUTIONS TO PARTICIPANTS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/05/07	$	$	$ 2,009,451,941	0.0%
CY 2008	$ 1,421,900,000	$ 1,421,900,000	$ 587,551,941	70.8%
CY 2009	$ 89,100,000	$ 1,511,000,000	$ 498,451,941	75.2%
CY 2010	$ 135,100,000	$ 1,646,100,000	$ 363,351,941	81.9%
CY 2011	$ 57,425,000	$ 1,703,525,000	$ 305,926,941	84.8%
CY 2012	$ 58,915,000	$ 1,762,440,000	$ 247,011,941	87.7%
01/17/13	$ 3,975,000	$ 1,766,415,000	$ 243,036,941	87.9%
02/06/13	$ 4,265,000	$ 1,770,680,000	$ 238,771,941	88.1%

FUND B MONTHLY DISTRIBUTION DETAIL

February 2013 Distribution Detail Including Receipts by Source For the period 1/8/13 - 2/6/13	Fund B Participant Allocation	Fund B Expense Allocation
Beginning Balance	$ -	$ 26,019.09
Receipts:		
Florida East	$ 1,182,729.05	
Florida West	$ 1,607,269.78	
Florida Funding I	$ 427,896.96	
Florida Funding II	$ 1,049,138.51	
Overnight Investments	$ 9.09	
Total Receipts	$ 4,267,043.39	
Distributions:		
Allocation to/from Expense Reserve	$ (2,043.39)	$ 2,043.39
Expenses Paid		$ (2,115.03)
Participant Distribution	$ (4,265,000.00)	
Ending Balance	$ -	$ 25,947.45

FUND B

INVENTORY OF HOLDINGS - AS OF FEBRUARY 28, 2013

Security Name	Type	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND		3,174,476	0.00	$ 3,174,476	$ 3,174,476	$ -
Florida East Funding LLC	VARIABLE RATE TERM NOTE	02/26/13	69,936,271	0.55	$ 69,936,271	$ 55,678,918	$ (14,257,352)
Florida West Funding LLC	VARIABLE RATE TERM NOTE	02/26/13	169,133,243	0.55	$ 169,133,243	$ 108,169,326	$ (60,963,917)
Florida Funding I LLC	VARIABLE RATE TERM NOTE	02/27/13	118,032,818	0.33	$ 118,032,818	$ 28,482,722	$ (89,550,095)
Florida Funding II LLC	VARIABLE RATE COMMERCIAL PAPER	02/27/13	86,014,793	0.41	$ 86,007,934	$ 49,419,488	$ (36,588,446)
Total Value of Investments			**446,291,600**		**$446,284,741**	**$244,924,931**	**($201,359,811)**

Notes:

[1] Due to the lack of an actively traded market for Fund B securities, the "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. Although the estimate represents an attempt to reasonably reflect the stressed market conditions that currently exist, the amount actually realized if the securities were liquidated at this time could be more or less than the estimate. Moreover, these estimates of current market value are not predictive of the ultimate amount likely to be realized from these securities. Fund B's investment objective is to maximize the present value of distributions to participants. If, in the judgment of the portfolio manager, fair value exceeds liquidation value at points in the future, then complete or partial liquidations of securities could be deferred for an extended period of time; e.g., a four- to five-year horizon for complete termination or self-liquidation of Fund B.

[2] Amortized cost is calculated using a straight line method.

The securities held in Fund B result from workouts of the LGIP's original holdings from 4 issuers – Axon, KKR Atlantic, KKR Pacific and Ottimo. The purpose of Fund B is to maximize the present value of distributions to participants through a prudent workout with an ultimate goal of liquidation. As a result, the maturity dates of each holding in Fund B will be dependent on the maturity date or earlier liquidation, if prudent, of the collateral securities underlying each of these holdings and will be contingent upon future market conditions and other factors.

The collateral manager, Apollo Global Management, is the source for data shown above other than market value. See note 1.

The amounts shown above are the value of investments. Income accruals, payables and uninvested cash are not included. The data is unaudited.

FUND B

COMPLIANCE WITH INVESTMENT POLICY - FEBRUARY 2013

Investment Policy Statement Compliance is conducted on Fund B by SBA Risk Management and Compliance and reported on a monthly basis to the Investment Oversight Group. Portfolio activity is reviewed to ensure that transactions and holdings are in compliance with guideline requirements and with those stipulated in the respective Investment Management Agreements with Apollo Global Management, the collateral manager for the four special purpose entities held in Fund B (Florida East Funding LLC, Florida West Funding LLC, Florida Funding I LLC, and Florida Funding II LLC). Since the principal holdings in the fund are the notes issued by these special purpose entities, and no deposits or withdrawals are permitted by participants, transactions are typically limited to 1) the receipt cash flows from the underlying note collateral, 2) the investment of these cash flows in AAAm money market funds, and 3) periodic distributions to participants. Apollo Global Management can also sell, exchange, or restructure the notes, consistent with the objective of maximizing the present value of cash flows from the collateral. For the month of February 2013, Fund B was in compliance with its Investment Policy Statement.

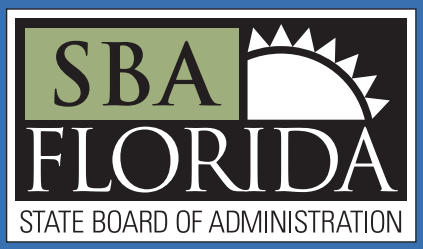
TRADING ACTIVITY - FEBRUARY 2013

Security Description	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys				$	$	$	$
DREYFUS GOVERNMENT CASH MANAGEMENT	02/04/13	02/04/13	9	9	0	9	0
DREYFUS GOVERNMENT CASH MANAGEMENT	02/28/13	02/28/13	3,150,650	3,150,650	0	3,150,650	0
Total Buys			3,150,659	3,150,659	$0	$3,150,659	$0
Sells							
FLORIDA FUNDING I LLC	02/28/13	02/28/13	377,468	377,468	0	377,468	0
FLORIDA EAST FUNDING LLC	02/28/13	02/28/13	732,134	732,134	0	732,134	0
FLORIDA WEST FUNDING LLC	02/28/13	02/28/13	1,119,602	1,119,602	0	1,119,602	0
FLORIDA FUNDING II	02/28/13	02/28/13	753,674	753,674	0	753,674	60
DREYFUS GOVERNMENT CASH MANAGEMENT	02/05/13	02/05/13	58	58	0	58	0
DREYFUS GOVERNMENT CASH MANAGEMENT	02/06/13	02/06/13	23,895	23,895	0	23,895	0
DREYFUS GOVERNMENT CASH MANAGEMENT	02/06/13	02/06/13	9	9	0	9	0
DREYFUS GOVERNMENT CASH MANAGEMENT	02/06/13	02/06/13	4,241,096	4,241,096	0	4,241,096	0
DREYFUS GOVERNMENT CASH MANAGEMENT	02/19/13	02/19/13	2,121	2,121	0	2,121	0
Total Sells			7,250,057	7,250,057	0	7,250,057	60

Note: In the Trading Activity table above, the gain reflected on the sales from Florida Funding II is an accounting gain. The original Axon Financial Funding LLC security was purchased at a discount and was deemed “in default” prior to the original maturity date. At the point of becoming “in default,” amortization of the discount was terminated thus leaving the cost of the security less than par. Any principal payment received at par will result in recognition of a gain, calculated as Proceeds less Cost Basis of the par value being sold.

Our Mission

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.



State Board of Administration
www.SBAFLA.com

Federated

Monthly Summary Report for March 2013

Including Fund B

State Board of Administration

FLORIDA PRIME™

CONTENTS

FLORIDA PRIME

Disclosure of Material Impacts....2
Market Conditions....3
Investment Strategy....4
Cash Flows....5
Detailed Fee Disclosure....5
Fund Performance....6
Inventory of Holdings....7
Participant Concentration....12
Compliance....13
Trading Activity....14

FUND B

Portfolio Commentary....20
Legal Issue....20
Disclosure of Material Impacts....20
Return of Fund B Principal....21
Distributions/Distribution Detail....21
Inventory of Holdings....22
Compliance....23
Trading Activity....23

Past performance is no guarantee of future results.

Views are as of the issue date and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in this fund.

INTRODUCTION

This report is prepared for stakeholders in Florida PRIME and Fund B in accordance with Section 218.409(6)(a), Florida Statutes. The statute requires:

(1) Reporting of any material impacts on the funds and any actions or escalations taken by staff to address such impacts;

(2) Presentation of a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month; and

(3) Preparation of the management summary "in a manner that will allow anyone to ascertain whether the investment activities during the reporting period have conformed to investment policies."

This report, which covers the period from March 1, 2013 through March 31, 2013, has been prepared by the SBA with input from Federated Investment Counseling ("Federated"), investment advisor for Florida PRIME and Apollo Global Management, the collateral manager for Fund B, in a format intended to comply with the statute.

During the reporting period, Florida PRIME and Fund B were in material compliance with investment policy. Details are available in the PRIME policy compliance table and the Fund B compliance narrative in the body of this report. This report also includes details on market conditions; fees; fund holdings, transactions and performance; and client composition.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during March 2013 that had a material impact on the liquidity or operation of Florida PRIME.

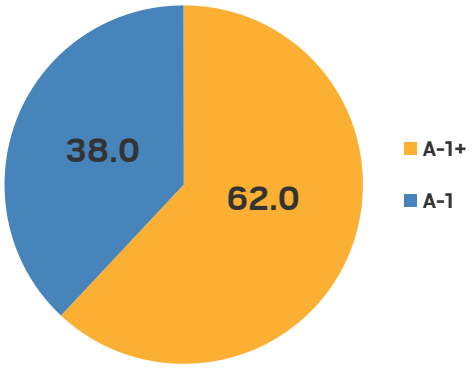
FLORIDA PRIME™

PORTFOLIO COMPOSITION
MARCH 31, 2013

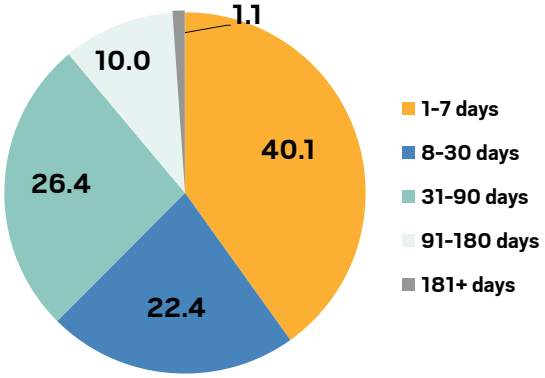
Florida PRIME Assets

$ 8,481,864,061

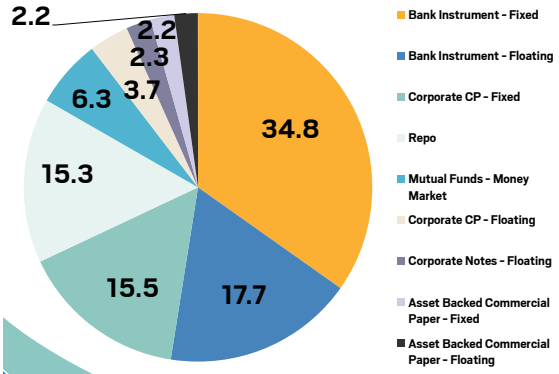
Credit Quality Composition (%)



Effective Maturity Schedule (%)



Portfolio Composition (%)



PORTFOLIO MANAGER COMMENTARY

MARCH 2013 MARKET CONDITIONS

During late March, all eyes were on the fiscal crisis bubbling in Cyprus, despite the fact that the tiny island country off southeastern Europe represents only a small portion of the overall EU economy. The crisis has been averted, if only temporarily, with a last-minute agreement that has international creditors bailing out the troubled country. But only in exchange of a tax on uninsured deposits over 100,000 euros in the country's second largest bank, a move that could result in a 40% haircut for those depositors. There was some concern in the marketplace that the action might set a precedent, and depositors in other EU countries could suffer if their respective governments could not get their fiscal houses in order. Depositors in the stronger EU countries and in the solvent, high-quality banks within those countries (the banks Federated money funds deal with) are not likely to be at risk. Large depositors in countries with less-than-solvent governments, such as Greece, might look at the Cypriot "solution" as a sign to move their money out of Greek banks.

We continue to see promising signs the recovery is kicking into higher gear on the domestic economic front. The housing market has picked up steam, with better pricing, lower inventory, fewer regional issues, and increased sales of existing homes and housing starts. Unemployment is down, with the four-week moving average for unemployment claims dropping to around 340,000, a new low in the recovery. The most recent Federal Open Market Committee (FOMC) meeting statement produced little change. The statement reiterated the Fed's commitment to keep to a 0% to 0.25% federal funds target as long as unemployment remains above 6.5% and projected inflation runs no more than a half point above its 2% target. The Fed's acknowledgment of improving conditions sparked speculation it might consider scaling back its monthly purchases of $85 billion in longer-term Treasury and agency mortgage-backed securities.

Repurchase (repo) rates were better than anticipated in March. We expected rates to run in the high single digits, but they held in at the 13-15 basis point range throughout much of the month. This is likely a reflection of the issuance of cash management bills into the marketplace as tax payments went out from Washington. That might change in mid April—individuals who file their taxes before April 15 are generally those who expect a refund, and those who file on the due date are those who owe, so the federal government

FLORIDA PRIME™

MARCH 31, 2013

Top Holdings (%) and Average Maturity

1.	Royal Bank of Canada, Montreal	5.1%
2.	Bank of Montreal	5.0%
3.	Credit Suisse Group AG	4.7%
4.	Toyota Motor Corp.	4.3%
5.	Mizuho Financial Group, Inc.	4.2%
6.	Sumitomo Mitsui Financial Group, Inc.	3.9%
7.	Rabobank Nederland NV, Utrecht	3.7%
8.	Svenska Handelsbanken, Stockholm	3.5%
9.	Australia & New Zealand Banking Group, Melbourne	3.5%
10.	Bank of America Corp.	3.4%

Average Effective Maturity (WAM)

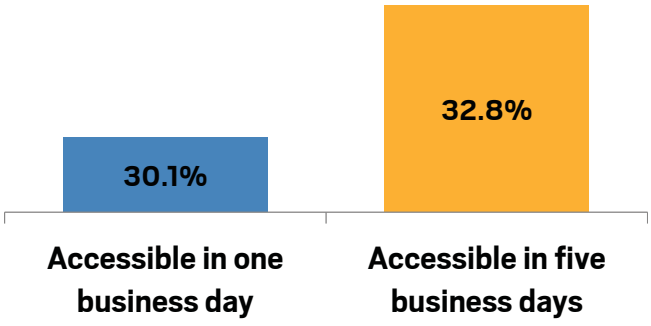
41.1 Days

Weighted Average Life (Spread WAM)

88.3 Days

Percentages based on total value of investments

Highly Liquid Holdings (% at month end)



PORTFOLIO MANAGER COMMENTARY (CON'T.)

should start seeing more cash coming in soon.

The confirmation hearings for Mary Jo White's nomination to head the Securities and Exchange Commission (SEC) went smoothly. This is seen as a good development for money market funds, as it may add a fresh perspective in the ongoing regulatory debate. It is too early to tell exactly what position White might take on money funds, but given her background as the U.S. Attorney for the Southern District of New York it looks as if she would approach the issue with a thorough analysis of the facts and consider reasonable regulatory measures.

PORTFOLIO INVESTMENT STRATEGY

As of the end of March 2013, Florida PRIME pool assets were down to 8.5 billion as funds trickled out due to the seasonal nature of the State of Florida's tax collection season. The gross yield for Florida PRIME was unchanged for the month, largely a function of London interbank offered rates (LIBOR), which remained basically static in March at the short end of the curve. Despite all the headline news about Cyprus, there was no real impact on yield spreads for the more established, better-capitalized European banks in which Florida Prime invests. The weighted average maturity of the pool was extended by 10 days, out to 41 days, and the weighted average life was out 12 days, to 88 days, due to management purchases in the longer end of the market, focused on fixed-rate asset-backed commercial paper and industrial commercial paper in the 6-month range, as well as variable-rate bank instruments with one-year final maturities and monthly or quarterly resets.

Allocation of the pool's assets remained relatively steady during March, with the pool's repurchase agreement (repo) position down 1%, to make up 15% of the pool, exposure to bank instruments down 2%, to 35% of the pool, and variable rate instruments up 2%, to make up 24% of the pool. Fixed-rate commercial paper instruments were up 1%, to 18% of the pool, while investments in other securities, which include money market funds, remained steady at 8% of the pool.

FLORIDA PRIME™

FLORIDA PRIME SUMMARY OF CASH FLOWS

March 2013		
Opening Balance (03/01/13)	$	8,787,642,645
Participant Deposits		720,726,660
Transfers from Fund B		3,150,000
Gross Earnings		1,880,261
Participant Withdrawals		(1,031,310,432)
Fees		(225,072)
Closing Balance (03/31/13)	$	8,481,864,061
Net Change over Month		(305,778,584)

Valuations based on amortized cost

As shown in the table above, Florida PRIME experienced a net ouflow of $305.8 million during March 2013.

This change in value consisted of positive flows of $720.7 million in participant deposits, $3.2 million in transfers from Fund B and $1.9 million in earnings. Negative flows consisted of $1.03 billion in participant withdrawals and about $225,000 in fees.

Overall, the fund ended the month with a closing balance of $8.48 billion.

FLORIDA PRIME DETAILED FEE DISCLOSURE

March 2013	Amount	Basis Point Equivalent*
SBA Client Service, Account Mgt. & Fiduciary Oversight Fee	$ 73,491.92	$ 1.02
Federated Investment Management Fee	136,951.81	1.90
BNY Mellon Custodial Fee	-	-
Bank of America Transfer Agent Fee	5,748.31	0.08
S&P Rating Maintenance Fee	3,397.26	0.05
Audit/External Review Fees	5,482.42	0.08
Total Fees	**$ 225,071.72**	**3.13**

*The basis point equivalent is an annualized rate based on the dollar amount of fees charged for the month times 12, divided by an average of the fund's beginning and ending total value (amortized cost) for the month which was $8,634,753,353.

KEEP AN EYE OUT!

The SBA needs your views on how Florida PRIME and Fund B are managed. This year's participant surveys, to be released in the next few days, will include separate coverage of both pools. Please help us to deliver high quality cash management services by completing one or both of the short surveys.

FLORIDA PRIME™

NOTES TO PERFORMANCE TABLE

[1]Net of fees. Participant yield is calculated on a 365-day basis and includes adjustments for expenses and other accounting items to reflect realized earnings by participants.

[2]The net-of-fee benchmark is the S&P AAA/AA Rated GIP All 30-Day Net Index for all time periods.

Net asset value includes investments at market value, plus all cash, accrued interest receivable and payables.

NOTES TO CHART

The 7-Day "SEC" Yield in the chart is calculated in accordance with the yield methodology set forth by SEC rule 2a-7 for money market funds.

The 7-day yield = net income earned over a 7-day period / average units outstanding over the period / 7 times 365.

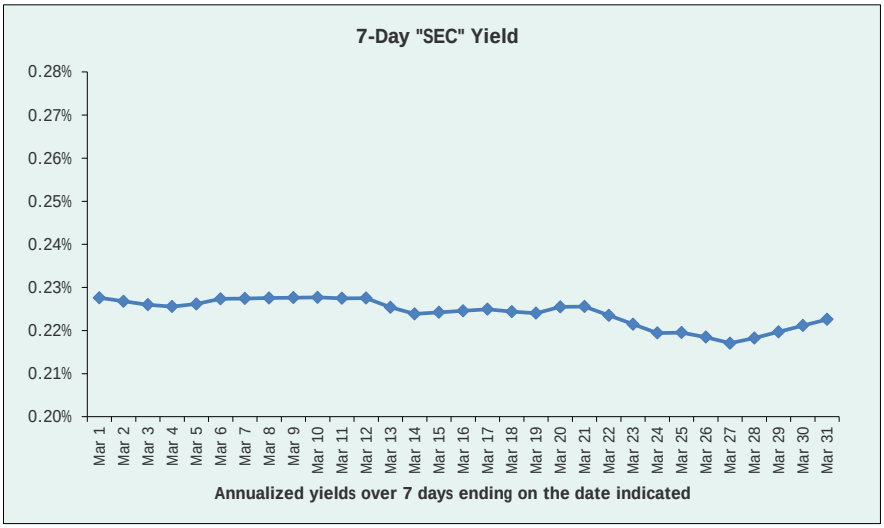
Note that unlike other performance measures, the SEC yield does not include realized gains and losses from sales of securities.

FUND PERFORMANCE THROUGH MARCH 31, 2013

Florida PRIME Participant Performance Data

	Net Participant Yield[1]	Net-of-Fee Benchmark[2]	Above (Below) Benchmark
1 mo	0.23%	0.07%	0.16%
3 mos	0.22%	0.07%	0.15%
12 mos	0.28%	0.09%	0.19%
3 yrs	0.28%	0.11%	0.17%
5 yrs	0.62%	0.49%	0.13%
10 yrs	2.00%	1.80%	0.20%
Since 1.96	3.18%	2.97%	0.22%
		Net asset value at month end:	$8,482.2 m

Florida PRIME 7-Day "SEC" Yields During the Month



For performance comparisons to other short-term investment options, see www.sbafla.com/prime and click on "Pool Performance."

ABOUT ANNUALIZED YIELDS

Performance data in the table and chart is annualized, meaning that the amounts are based on yields for the periods indicated, converted to their equivalent if obtained for a 12-month period.

For example, ignoring the effects of compounding, an investment that earns 0.10% over a 1-month period yields 1.20% on an annualized basis. Likewise, an investment that earns a total of 3.60% over three years yields 1.20% on an annualized basis, ignoring compounding.

FLORIDA PRIME™

INVENTORY OF HOLDINGS
MARCH 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/04/13		100,000,000	0.30	99,945,222	99,964,990	19,768
ANZ National (Int'l) Ltd. CP4-2	COMMERCIAL PAPER - 4-2		06/10/13		100,000,000	0.30	99,940,389	99,961,080	20,691
Australia & New Zealand Banking Group, Melbourne, Sep 04, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.40	09/04/13	04/04/13	100,000,000	0.41	100,000,000	99,968,400	(31,600)
Bank of America N.A. BNOTE	BANK NOTE	0.30	05/29/13		30,000,000	0.30	30,000,000	30,000,000	0
Bank of America N.A. BNOTE	BANK NOTE	0.30	05/28/13		10,000,000	0.30	10,000,000	9,999,990	(10)
Bank of America N.A. BNOTE	BANK NOTE	0.29	06/25/13		225,000,000	0.29	225,000,000	225,000,000	0
Bank of America N.A. Triparty Repo Overnight Fixed	REPO TRIPARTY OVERNIGHT FIXED	0.20	04/01/13		1,050,000,000	0.20	1,050,000,000	1,050,000,000	0
Bank of Montreal CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.38	10/15/13		100,000,000	0.39	100,000,000	100,077,790	77,790
Bank of Montreal, Jan 16, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	01/16/14	04/16/13	130,000,000	0.31	130,000,000	130,000,910	910
Bank of Montreal, Mar 14, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	03/14/14	06/14/13	75,000,000	0.31	75,000,000	74,985,300	(14,700)
Bank of Montreal, Sep 16, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	09/16/13	06/17/13	100,000,000	0.30	100,000,000	100,046,400	46,400
Bank of Nova Scotia, Toronto, May 09, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.35	05/09/13	04/09/13	50,000,000	0.36	50,000,000	50,008,600	8,600
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/17/13		75,000,000	0.27	75,000,000	75,003,743	3,743
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	07/01/13		100,000,000	0.25	100,000,000	100,000,000	0
Bank of Tokyo-Mitsubishi Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.18	04/02/13		75,000,000	0.18	75,000,000	75,000,000	0
Barclays Bank PLC CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	04/12/13		100,000,000	0.25	100,000,000	100,003,750	3,750
Canadian Imperial Bank of Commerce, Sep 24, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.31	09/24/13	04/24/13	275,000,000	0.32	275,000,000	274,989,275	(10,725)
Commonwealth Bank of Australia CP4-2	COMMERCIAL PAPER - 4-2		05/15/13		50,000,000	0.29	49,981,333	49,990,000	8,667

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
MARCH 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		04/01/13		150,000,000	0.16	149,997,333	149,996,666	(668)
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		05/07/13		50,000,000	0.32	49,982,222	49,982,310	88
Credit Agricole North America, Inc. CP	COMMERCIAL PAPER		05/14/13		40,000,000	0.30	39,984,333	39,984,000	(333)
Credit Suisse, Zurich CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.27	04/26/13		300,000,000	0.27	300,000,000	300,021,720	21,720
Credit Suisse, Zurich CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.24	07/10/13		100,000,000	0.24	100,000,000	100,003,160	3,160
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	05/13/13		50,000,000	0.25	50,000,000	50,002,160	2,160
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	05/20/13		50,000,000	0.25	50,000,000	50,002,455	2,455
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	06/06/13		50,000,000	0.26	50,000,000	50,000,000	0
Deutsche Bank AG CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.25	06/12/13		50,000,000	0.25	50,000,000	50,000,000	0
Deutsche Bank Securities, Inc. REP3P	REPO TRIPARTY OVERNIGHT FIXED	0.25	04/01/13		250,000,000	0.25	250,000,000	250,000,000	0
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND	0.00	04/01/13		6,847,910	0.00	6,847,910	6,847,910	0
FCAR Owner Trust, A1+/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		09/16/13		65,500,000	0.29	65,409,246	65,403,492	(5,754)
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		04/09/13		20,000,000	0.30	19,998,067	19,998,934	867
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		07/15/13		23,500,000	0.35	23,475,808	23,484,133	8,325
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		08/01/13		60,000,000	0.34	59,930,700	59,940,924	10,224
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		08/07/13		12,935,000	0.26	12,922,669	12,921,298	(1,371)
FCAR Owner Trust, A1/P1 Series CPABS3A3	COMMERCIAL PAPER - ABS 3A3		09/03/13		3,000,000	0.30	2,996,025	2,995,815	(210)
Fairway Finance Co. LLC, Jul 22, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	07/22/13	04/22/13	14,000,000	0.24	14,000,000	14,000,406	406

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
MARCH 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Fairway Finance Co. LLC, Jun 10, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/10/13	04/10/13	30,000,000	0.24	30,000,000	30,001,170	1,170
Fairway Finance Co. LLC, Jun 17, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/17/13	04/17/13	50,000,000	0.24	50,000,000	50,002,250	2,250
Fairway Finance Co. LLC, Jun 18, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.23	06/18/13	04/18/13	75,000,000	0.24	75,000,000	75,003,375	3,375
Fairway Finance Co. LLC, Sep 06, 2013	VARIABLE RATE COMMERCIAL PAPER-ABS-4(2)	0.22	09/06/13	04/08/13	21,200,000	0.23	21,200,000	21,198,177	(1,823)
Federated Prime Cash Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.10	04/01/13	03/29/13	251,516,957	0.08	251,516,957	251,516,957	0
Federated Prime Obligations Fund, Class IS	MUTUAL FUND MONEY MARKET	0.09	04/01/13	03/29/13	276,880,689	0.07	276,880,689	276,880,689	0
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		1,000,000	0.41	1,006,895	1,006,314	(581)
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		500,000	0.41	503,448	503,157	(291)
General Elec Cap Corp, Sr. Note, 1.875%, 9/16/2013	CORPORATE BOND	1.88	09/16/13		24,410,000	0.41	24,578,312	24,564,125	(14,188)
General Electric Capital Corp., Sep 20, 2013	VARIABLE EURO MEDIUM TERM NOTE	0.28	09/20/13	06/20/13	3,000,000	0.39	2,998,784	2,997,168	(1,616)
General Electric Capital, Sr. Unsecd. Note, 5.4%, 9/20/2013	CORPORATE BOND	5.40	09/20/13		1,670,000	0.41	1,710,051	1,709,242	(809)
ICICI Bank Ltd., New York (Series C-BA) CPLOC	COMMERCIAL PAPER - LOC		04/10/13		25,000,000	0.46	24,995,938	24,995,803	(135)
Illinois Finance Authority, (Northwest Community Hospital), (Series 2008B), 07/01/2032	MUNICIPAL VARIABLE RATE DEMAND NOTE	0.10	07/01/32	04/04/13	37,750,000	0.10	37,750,000	37,750,000	0
J.P. Morgan Chase & Co., Sr. Note, 4.750%, 05/01/2013	CORPORATE BOND	4.75	05/01/13		100,000,000	0.30	100,419,622	100,347,300	(72,322)
JPMorgan Chase & Co CP	COMMERCIAL PAPER		06/12/13		100,000,000	0.29	99,940,889	99,962,990	22,101
JPMorgan Chase Bank, N.A., Apr 07, 2014	VARIABLE RATE BANK NOTE	0.36	04/07/14	04/08/13	35,000,000	0.37	35,000,000	34,992,720	(7,280)
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.23	05/28/13		8,000,000	0.23	8,000,000	8,000,473	473
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.23	06/03/13		100,000,000	0.23	100,000,000	99,995,940	(4,060)

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
MARCH 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Mizuho Corporate Bank Ltd. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.24	06/13/13		100,000,000	0.24	100,000,000	100,000,000	0
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		04/01/13		50,000,000	0.27	49,998,500	49,999,220	720
Mizuho Funding LLC CP4-2	COMMERCIAL PAPER - 4-2		06/13/13		100,000,000	0.24	99,949,736	99,940,780	(8,956)
Mullenix-St. Charles Properties, L.P., Times Centre Apartments Project Series 2004, Jan 01, 2028	VARIABLE RATE DEMAND NOTE	0.17	01/01/28	04/04/13	13,500,000	0.17	13,500,000	13,500,000	0
NRW Bank CP	COMMERCIAL PAPER		04/02/13		100,000,000	0.15	99,997,917	99,997,083	(834)
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.37	04/10/13		200,000,000	0.38	200,000,000	200,018,040	18,040
Rabobank Nederland, Utrecht CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.35	04/15/13		110,000,000	0.36	110,000,000	110,012,639	12,639
Royal Bank of Canada, Montreal, Apr 04, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.34	04/04/14	04/04/13	160,000,000	0.34	160,000,000	160,018,240	18,240
Royal Bank of Canada, Montreal, Feb 03, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.36	02/03/14	03/29/13	75,000,000	0.35	75,000,000	75,025,050	25,050
Royal Bank of Canada, Montreal, Feb 10, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.32	02/10/14	03/29/13	50,000,000	0.35	50,000,000	50,017,050	17,050
Royal Bank of Canada, Montreal, Feb 21, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.38	02/21/14	03/29/13	100,000,000	0.34	100,000,000	100,000,000	0
Royal Bank of Canada, Montreal, May 01, 2014	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.33	05/01/14	04/01/13	30,000,000	0.34	30,000,000	29,994,300	(5,700)
Royal Bank of Canada, Montreal, May 22, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.44	05/22/13	04/22/13	18,000,000	0.45	18,000,000	18,006,066	6,066
Societe Generale North America, Inc. CP	COMMERCIAL PAPER		07/02/13		90,000,000	0.31	89,925,600	89,924,825	(775)
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.34	04/24/13		78,000,000	0.34	78,000,000	78,008,767	8,767
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.30	05/08/13		80,000,000	0.30	80,000,000	80,008,392	8,392
Societe Generale, Paris CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.29	05/14/13		10,000,000	0.29	10,000,000	10,000,999	999
St. Andrew United Methodist Church, Series 2004, Jul 01, 2029	VARIABLE RATE DEMAND NOTE	0.16	07/01/29	04/04/13	9,140,000	0.16	9,140,000	9,140,000	0

See notes at end of table.

FLORIDA PRIME™

INVENTORY OF HOLDINGS (CONTINUED)
MARCH 31, 2013

Security Name	Security Classification	Cpn/ Disc	Maturity	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
							$	$	$
Standard Chartered Bank plc CDEUR	CERTIFICATE OF DEPOSIT - EURO	0.26	06/26/13		200,000,000	0.26	200,002,498	200,002,720	222
State Street Bank and Trust Co., Apr 17, 2014	VARIABLE RATE BANK NOTE	0.33	04/17/14	04/18/13	125,000,000	0.33	125,000,000	125,001,875	1,875
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.24	05/07/13		130,000,000	0.24	130,000,000	129,996,620	(3,380)
Sumitomo Mitsui Banking Corp. CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.26	04/01/13		200,000,000	0.26	200,000,000	200,001,320	1,320
Svenska Handelsbanken, Stockholm TDCAY	TIME DEPOSIT - CAYMAN	0.07	04/01/13		300,000,000	0.07	300,000,000	300,000,000	0
Toronto Dominion Bank CDYAN	CERTIFICATE OF DEPOSIT - YANKEE	0.28	06/17/13		100,000,000	0.28	100,000,000	100,024,710	24,710
Toronto Dominion Bank, Jul 26, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.30	07/26/13	04/26/13	50,000,000	0.31	50,000,000	50,019,700	19,700
Toronto Dominion Bank, Sep 13, 2013	VARIABLE RATE CERTIFICATE OF DEPOSIT	0.28	09/13/13	06/13/13	125,000,000	0.28	125,000,000	125,054,000	54,000
Toyota Motor Credit Corp. CP	COMMERCIAL PAPER		09/06/13		100,000,000	0.25	99,887,500	99,885,120	(2,380)
Toyota Motor Credit Corp. CP	COMMERCIAL PAPER		09/16/13		80,000,000	0.27	79,896,800	79,891,400	(5,400)
Toyota Motor Credit Corp. CP	COMMERCIAL PAPER		09/17/13		183,000,000	0.27	182,762,558	182,750,205	(12,353)
U.S. Treasury Note 1.75% 4/15/2013	US TREASURY NOTE	1.75	04/15/13		15,000,000	0.25	15,011,053	15,009,375	(1,678)
Wells Fargo Bank, N.A., Apr 17, 2014	VARIABLE RATE BANK NOTE	0.33	04/17/14	06/20/13	100,000,000	0.33	100,000,000	100,009,500	9,500
Westpac Banking Corp. Ltd., Sydney, Jul 08, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.25	07/08/13	04/08/13	100,000,000	0.26	100,000,000	100,002,700	2,700
Westpac Banking Corp. Ltd., Sydney, May 29, 2013	VARIABLE RATE COMMERCIAL PAPER - 4-2	0.25	05/29/13	04/02/13	115,000,000	0.26	115,000,000	115,005,405	5,405
					8,478,350,556		**$8,477,985,005**	**$8,478,279,559**	**$294,555**

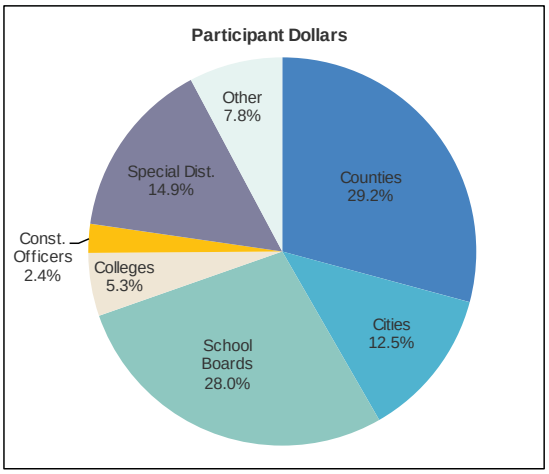
Notes: The data included in this report is unaudited. Amounts above are the value of investments. Income accruals, payables and uninvested cash are not included. Amortizations/accretions are reported with a one-day lag in the above valuations.

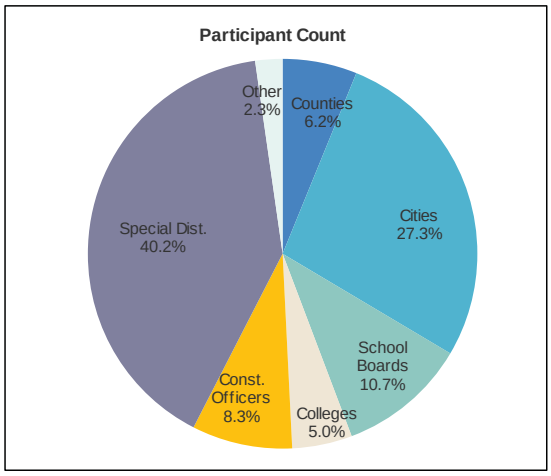
[1] Market values of the portfolio securities are provided by the custodian, BNY Mellon. The portfolio manager, Federated Investment Counseling, is the source for other data shown above.

[2] Amortized cost is calculated using a straight line method.

PARTICIPANT CONCENTRATION DATA - MARCH 31, 2013

Participant Balance	Share of Total Fund	Share of Participant Count	Participant Balance	Share of Total Fund	Share of Participant Count
All Participants	**100.0%**	**100.0%**	**Colleges & Universities**	**5.3%**	**5.0%**
Top 10	38.9%	1.2%	Top 10	4.7%	1.2%
$100 million or more	62.0%	2.9%	$100 million or more	2.4%	0.1%
$10 million up to $100 million	30.7%	9.8%	$10 million up to $100 million	2.3%	1.1%
$1 million up to $10 million	6.5%	18.1%	$1 million up to $10 million	0.6%	1.2%
Under $1 million	0.7%	69.3%	Under $1 million	0.01%	2.6%
Counties	**29.2%**	**6.2%**	**Constitutional Officers**	**2.4%**	**8.3%**
Top 10	24.5%	1.2%	Top 10	1.2%	1.2%
$100 million or more	23.4%	1.1%	$100 million or more	0.0%	0.0%
$10 million up to $100 million	5.4%	1.3%	$10 million up to $100 million	1.5%	0.5%
$1 million up to $10 million	0.4%	1.1%	$1 million up to $10 million	0.8%	1.8%
Under $1 million	0.0%	2.7%	Under $1 million	0.1%	6.1%
Municipalities	**12.5%**	**27.3%**	**Special Districts**	**14.9%**	**40.2%**
Top 10	7.5%	1.2%	Top 10	10.5%	1.2%
$100 million or more	3.7%	0.4%	$100 million or more	6.2%	0.4%
$10 million up to $100 million	6.6%	2.4%	$10 million up to $100 million	6.9%	2.1%
$1 million up to $10 million	1.9%	5.7%	$1 million up to $10 million	1.5%	4.9%
Under $1 million	0.2%	18.9%	Under $1 million	0.3%	32.8%
School Boards	**28.0%**	**10.7%**	**Other**	**7.8%**	**2.3%**
Top 10	23.8%	1.2%	Top 10	7.6%	1.2%
$100 million or more	20.5%	0.6%	$100 million or more	5.9%	0.4%
$10 million up to $100 million	6.4%	1.9%	$10 million up to $100 million	1.6%	0.5%
$1 million up to $10 million	1.0%	2.7%	$1 million up to $10 million	0.3%	0.7%
Under $1 million	0.1%	5.5%	Under $1 million	0.0%	0.7%





Total Fund Value: $8,481,864,061

Total Participant Count: 841

FLORIDA PRIME COMPLIANCE WITH INVESTMENT POLICY - MARCH 2013

As investment manager, Federated monitors compliance daily on Florida PRIME to ensure that investment practices comply with the requirements of the Investment Policy Statement (IPS). Federated provides a monthly compliance report to the SBA and is required to notify the Investment Oversight Group (IOG) of compliance exceptions within 24 hours of identification. The IOG meets monthly and on an ad hoc basis to review compliance exceptions, to document responses to exceptions, and to formally escalate recommendations for approval by the Executive Director & CIO. The IOG also reviews the Federated compliance report each month, as well as, the results of independent compliance testing conducted by SBA Risk Management and Compliance. Minutes from the IOG meetings are posted to the Florida PRIME website.

In addition to the compliance testing performed by Federated, the SBA conducts independent testing on Florida PRIME using a risk-based approach. Under this approach, each IPS parameter is ranked as "High" or "Low" with respect to the level of risk associated with a potential guideline breach. IPS parameters with risk rankings of "High" are subject to independent verification by SBA Risk Management and Compliance. These rankings, along with the frequency for testing, are reviewed and approved by the IOG on an annual basis or more often if market conditions dictate. Additionally, any parameter reported in "Fail" status on the Federated compliance report, regardless of risk ranking, is also independently verified and escalated accordingly. The results of independent testing are currently reported monthly to the IOG.

Test by Source	Pass/Fail
Florida PRIME's Investment Policy	
Securities must be USD denominated.	Pass
Ratings requirements	
The Pool must purchase exclusively first-tier securities. Securities purchased with short-term ratings by an NRSRO, or comparable in quality and security to other obligations of the issuer that have received short-term ratings from an NRSRO, are eligible if they are in one of the two highest rating categories.	Pass
Securities purchased that do not have short-term ratings must have a long-term rating in one of the three highest long-term rating categories.	Pass
Commercial Paper must be rated by at least one short-term NRSRO.	Pass
Repurchase Agreement Counterparties must be rated by S&P	Pass
S&P Weighted Average Life - maximum 90 days [1]	Pass
Maturity	
Securities, excluding Government floating rate notes/variable rate notes, purchased did not have a maturity in excess of 397 days.	Pass
Government floating rate notes/variable rate notes purchased did not have a maturity in excess of 762 days.	Pass
The Pool must maintain a Spread WAM of 120 days or less.	Pass
Issuer Diversification	
First-tier issuers (limit does not apply to cash, cash items, U.S. Government securities refunded securities and repo collateralized by these securities) are limited, at the time of purchase, to 5% of the Pool's total assets. [2]	Pass
Demand Feature and Guarantor Diversification	
First-tier securities issued by or subject to demand features and guarantees of a non-controlled person, at time of purchase, are limited to 10% with respect to 75% of the Pool's total assets.	Pass
First-tier securities issued by or subject to demand features and guarantees of a control person, at time of purchase, are limited to 10% with respect to the Pool's total assets.	Pass
Money Market Mutual Funds	
The account, at time of purchase, will not have exposure to any one Money Market Mutual Fund in excess of 10% of the Pool's total assets.	Pass
Concentration Tests	
The account, at time of purchase, will not have exposure to an industry sector, excluding the financial services industry, in excess of 25% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to any single Government Agency in excess of 33.33% of the Pool's total assets.	Pass
The account, at time of purchase, will not have exposure to illiquid securities in excess of 5% of the Pool's total assets.	Pass
The account, at time of purchase, will invest at least 10% of the Pool's total assets in securities accessible within one business day.	Pass
The account, at time of purchase, will invest at least 30% of the Pool's total assets in securities accessible within five business days. [3]	Pass
S&P Requirements	
The Pool must maintain a Dollar Weighted Average Maturity of 60 days or less.	Pass
The account, at time of purchase, will invest at least 50% of the Pool's total assets in Securities in Highest Rating Category (A-1+ or equivalent) .	Pass

[1] The fund may use floating rate government securities to extend the limit up to 120 days

[2] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to liquidate positions if the exposure in excess of the specified percentage is caused by

[3] This limitation applies at time of trade. Under Rule 2a-7, a fund is not required to take immediate corrective measures if asset movements cause the exposure to be below the specified percentage.

FLORIDA PRIME™

TRADING ACTIVITY FOR MARCH 2013

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys					$	$	$	$
BANK OF AMERICA N,ABNOTE	06/25/13	03/18/13	03/18/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF AMERICA N,ABNOTE	06/25/13	03/18/13	03/18/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF AMERICA N,ABNOTE	06/25/13	03/18/13	03/18/13	25,000,000	25,000,000	-	25,000,000	-
BANK OF AMERICA N,ABNOTE	06/25/13	03/18/13	03/18/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF AMERICA N,ABNOTE	06/25/13	03/18/13	03/18/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL/CHICAGO IL	03/14/14	03/12/13	03/14/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF MONTREAL/CHICAGO IL	03/14/14	03/12/13	03/14/13	25,000,000	25,000,000	-	25,000,000	-
BANK OF TOKYO-MITSUCDYAN	07/01/13	03/01/13	03/01/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	07/01/13	03/01/13	03/01/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	04/02/13	03/25/13	03/25/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	04/02/13	03/25/13	03/25/13	25,000,000	25,000,000	-	25,000,000	-
STANDARD CHARTERED CDEUR	06/26/13	03/18/13	03/20/13	200,000,000	200,002,720	-	200,002,720	-
CREDIT AGRICOLE NORTH AMERICA INC	04/01/13	03/27/13	03/27/13	50,000,000	49,998,889	-	49,998,889	-
CREDIT AGRICOLE NORTH AMERICA INC	04/01/13	03/27/13	03/27/13	50,000,000	49,998,889	-	49,998,889	-
CREDIT AGRICOLE NORTH AMERICA INC	04/01/13	03/27/13	03/27/13	50,000,000	49,998,889	-	49,998,889	-
CREDIT SUISSE, ZURICDYAN	07/10/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
CREDIT SUISSE, ZURICDYAN	07/10/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/12/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/12/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/12/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/12/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	06/12/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/19/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/19/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/19/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
DEUTSCHE BANK AGCDYAN	03/19/13	03/12/13	03/12/13	50,000,000	50,000,000	-	50,000,000	-
FCAR OWNER TRUST, ACPABS3	09/16/13	03/20/13	03/20/13	50,000,000	49,927,500	-	49,927,500	-
FCAR OWNER TRUST, ACPABS3	09/16/13	03/20/13	03/20/13	15,500,000	15,477,525	-	15,477,525	-
FCAR OWNER TRUST, ACPABS3	08/07/13	03/06/13	03/06/13	4,035,000	4,030,512	-	4,030,512	-
FCAR OWNER TRUST, ACPABS3	08/07/13	03/06/13	03/06/13	8,900,000	8,890,101	-	8,890,101	-
FCAR OWNER TRUST, ACPABS3	09/03/13	03/06/13	03/06/13	3,000,000	2,995,475	-	2,995,475	-
FAIRWAY FINANCE LLC	09/06/13	03/06/13	03/06/13	21,200,000	21,200,000	-	21,200,000	-
GENERAL ELECTRIC CO CP	03/20/13	03/07/13	03/07/13	50,000,000	49,996,569	-	49,996,569	-
GENERAL ELECTRIC CO CP	03/20/13	03/07/13	03/07/13	50,000,000	49,996,569	-	49,996,569	-
GENERAL ELECTRIC CO CP	03/20/13	03/07/13	03/07/13	50,000,000	49,996,569	-	49,996,569	-
GENERAL ELECTRIC CO CP	03/20/13	03/07/13	03/07/13	50,000,000	49,996,569	-	49,996,569	-
ILLINOIS FINANCE AUTHORITY	07/01/32	03/27/13	03/27/13	37,750,000	37,750,000	2,689	37,752,689	-
JPMORGAN CHASE BANK NA	03/07/19	03/08/13	03/14/13	35,000,000	35,000,000	-	35,000,000	-
MIZUHO FUNDING LLCCP4-2	06/13/13	03/15/13	03/15/13	50,000,000	49,970,625	-	49,970,625	-
MIZUHO FUNDING LLCCP4-2	06/13/13	03/15/13	03/15/13	50,000,000	49,970,625	-	49,970,625	-
MIZUHO CORPORATE BACDYAN	06/03/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
MIZUHO CORPORATE BACDYAN	06/03/13	03/05/13	03/05/13	50,000,000	50,000,000	-	50,000,000	-
MIZUHO CORPORATE BACDYAN	06/13/13	03/13/13	03/13/13	50,000,000	50,000,000	-	50,000,000	-

TRADING ACTIVITY FOR MARCH 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
MIZUHO CORPORATE BACDYAN	06/13/13	03/13/13	03/13/13	50,000,000	50,000,000	-	50,000,000	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/21/13	03/14/13	03/14/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/26/13	03/19/13	03/19/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANKCP	03/26/13	03/19/13	03/19/13	50,000,000	49,998,444	-	49,998,444	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANK	03/28/13	03/21/13	03/21/13	50,000,000	49,998,396	-	49,998,396	-
NRW BANKCP	04/02/13	03/26/13	03/26/13	50,000,000	49,998,542	-	49,998,542	-
NRW BANKCP	04/02/13	03/26/13	03/26/13	50,000,000	49,998,542	-	49,998,542	-
NOVARTIS FINANCE COCP4-2	03/14/13	03/13/13	03/13/13	50,000,000	49,999,875	-	49,999,875	-
NOVARTIS FINANCE COCP4-2	03/14/13	03/13/13	03/13/13	10,000,000	9,999,975	-	9,999,975	-
ROYAL BANK OF CANADA/NEW YORK NY	04/01/19	03/01/13	03/06/13	30,000,000	30,000,000	-	30,000,000	-
SOCIETE GENERALE NOCP	07/02/13	03/27/13	03/27/13	50,000,000	49,958,236	-	49,958,236	-
SOCIETE GENERALE NOCP	07/02/13	03/27/13	03/27/13	40,000,000	39,966,589	-	39,966,589	-
TOYOTA MOTOR CREDIT CP	09/06/13	03/13/13	03/13/13	50,000,000	49,938,542	-	49,938,542	-
TOYOTA MOTOR CREDIT CP	09/06/13	03/13/13	03/13/13	50,000,000	49,938,542	-	49,938,542	-
TOYOTA MOTOR CREDIT CP	09/16/13	03/19/13	03/19/13	50,000,000	49,932,125	-	49,932,125	-
TOYOTA MOTOR CREDIT CP	09/16/13	03/19/13	03/19/13	30,000,000	29,959,275	-	29,959,275	-
TOYOTA MOTOR CREDIT CP	09/17/13	03/19/13	03/19/13	50,000,000	49,931,750	-	49,931,750	-
TOYOTA MOTOR CREDIT CP	09/17/13	03/19/13	03/19/13	33,000,000	32,954,955	-	32,954,955	-
TOYOTA MOTOR CREDIT CP	09/17/13	03/19/13	03/19/13	50,000,000	49,931,750	-	49,931,750	-
TOYOTA MOTOR CREDIT CP	09/17/13	03/19/13	03/19/13	50,000,000	49,931,750	-	49,931,750	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/01/13	03/01/13	1,476,750	1,476,750	-	1,476,750	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/04/13	03/04/13	2,829,316	2,829,316	-	2,829,316	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/06/13	03/06/13	167,711	167,711	-	167,711	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/08/13	03/08/13	2,404,790	2,404,790	-	2,404,790	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/13/13	03/13/13	3,802,980	3,802,980	-	3,802,980	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/15/13	03/15/13	4,006,293	4,006,293	-	4,006,293	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/19/13	03/19/13	980,442	980,442	-	980,442	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/20/13	03/20/13	1,865,933	1,865,933	-	1,865,933	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/26/13	03/26/13	1,490,372	1,490,372	-	1,490,372	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/27/13	03/27/13	4,215,566	4,215,566	-	4,215,566	-
FEDERATED PRIME CASH OBLIGATIONS FUND	10/01/40	03/01/13	03/01/13	17,713	17,713	-	17,713	-
FEDERATED PRIME OBLIGATIONS FUND	10/01/40	03/01/13	03/01/13	18,506	18,506	-	18,506	-
DEUTSCHE BANK	03/04/13	03/01/13	03/01/13	300,000,000	300,000,000	-	300,000,000	-

TRADING ACTIVITY FOR MARCH 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
BANK OF AMERICA TRIPARTY	03/04/13	03/01/13	03/01/13	925,000,000	925,000,000	-	925,000,000	-
DEUTSCHE BANK	03/05/13	03/04/13	03/04/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/05/13	03/04/13	03/04/13	1,180,000,000	1,180,000,000	-	1,180,000,000	-
DEUTSCHE BANK	03/06/13	03/05/13	03/05/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/06/13	03/05/13	03/05/13	1,140,000,000	1,140,000,000	-	1,140,000,000	-
DEUTSCHE BANK	03/07/13	03/06/13	03/06/13	750,000,000	750,000,000	-	750,000,000	-
BANK OF AMERICA TRIPARTY	03/07/13	03/06/13	03/06/13	1,070,000,000	1,070,000,000	-	1,070,000,000	-
DEUTSCHE BANK	03/08/13	03/07/13	03/07/13	800,000,000	800,000,000	-	800,000,000	-
BANK OF AMERICA TRIPARTY	03/08/13	03/07/13	03/07/13	740,000,000	740,000,000	-	740,000,000	-
DEUTSCHE BANK	03/11/13	03/08/13	03/08/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/11/13	03/08/13	03/08/13	1,085,000,000	1,085,000,000	-	1,085,000,000	-
DEUTSCHE BANK	03/12/13	03/11/13	03/11/13	600,000,000	600,000,000	-	600,000,000	-
BANK OF AMERICA TRIPARTY	03/12/13	03/11/13	03/11/13	1,080,000,000	1,080,000,000	-	1,080,000,000	-
DEUTSCHE BANK	03/13/13	03/12/13	03/12/13	900,000,000	900,000,000	-	900,000,000	-
BANK OF AMERICA TRIPARTY	03/13/13	03/12/13	03/12/13	775,000,000	775,000,000	-	775,000,000	-
DEUTSCHE BANK	03/14/13	03/13/13	03/13/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/14/13	03/13/13	03/13/13	810,000,000	810,000,000	-	810,000,000	-
DEUTSCHE BANK	03/15/13	03/14/13	03/14/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/15/13	03/14/13	03/14/13	735,000,000	735,000,000	-	735,000,000	-
DEUTSCHE BANK	03/18/13	03/15/13	03/15/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/18/13	03/15/13	03/15/13	710,000,000	710,000,000	-	710,000,000	-
DEUTSCHE BANK	03/19/13	03/18/13	03/18/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/19/13	03/18/13	03/18/13	725,000,000	725,000,000	-	725,000,000	-
DEUTSCHE BANK	03/20/13	03/19/13	03/19/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/20/13	03/19/13	03/19/13	790,000,000	790,000,000	-	790,000,000	-
DEUTSCHE BANK	03/21/13	03/20/13	03/20/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/21/13	03/20/13	03/20/13	930,000,000	930,000,000	-	930,000,000	-
DEUTSCHE BANK	03/22/13	03/21/13	03/21/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/22/13	03/21/13	03/21/13	625,000,000	625,000,000	-	625,000,000	-
DEUTSCHE BANK	03/25/13	03/22/13	03/22/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/25/13	03/22/13	03/22/13	980,000,000	980,000,000	-	980,000,000	-
DEUTSCHE BANK	03/26/13	03/25/13	03/25/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/26/13	03/25/13	03/25/13	905,000,000	905,000,000	-	905,000,000	-
DEUTSCHE BANK	03/27/13	03/26/13	03/26/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/27/13	03/26/13	03/26/13	935,000,000	935,000,000	-	935,000,000	-
DEUTSCHE BANK	03/28/13	03/27/13	03/27/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/28/13	03/27/13	03/27/13	440,000,000	440,000,000	-	440,000,000	-
DEUTSCHE BANK	04/01/13	03/28/13	03/28/13	250,000,000	250,000,000	-	250,000,000	-
BANK OF AMERICA TRIPARTY	04/01/13	03/28/13	03/28/13	1,050,000,000	1,050,000,000	-	1,050,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130314	03/14/13	03/13/13	03/13/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130304	03/04/13	03/01/13	03/01/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130305	03/05/13	03/04/13	03/04/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130306	03/06/13	03/05/13	03/05/13	300,000,000	300,000,000	-	300,000,000	-

TRADING ACTIVITY FOR MARCH 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys (continued)					$	$	$	$
SVENSKA HANDELSBANKTDCAY 0.16 20130307	03/07/13	03/06/13	03/06/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130308	03/08/13	03/07/13	03/07/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130311	03/11/13	03/08/13	03/08/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130312	03/12/13	03/11/13	03/11/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130313	03/13/13	03/12/13	03/12/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130315	03/15/13	03/14/13	03/14/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130318	03/18/13	03/15/13	03/15/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130319	03/19/13	03/18/13	03/18/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130320	03/20/13	03/19/13	03/19/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130321	03/21/13	03/20/13	03/20/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130322	03/22/13	03/21/13	03/21/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130325	03/25/13	03/22/13	03/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130326	03/26/13	03/25/13	03/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130327	03/27/13	03/26/13	03/26/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130328	03/28/13	03/27/13	03/27/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.07 20130401	04/01/13	03/28/13	03/28/13	300,000,000	300,000,000	-	300,000,000	-
Total Buys				**38,246,661,372**	**$38,245,892,778**	**$2,689**	**$38,245,895,467**	**$0**
Maturities								
BANK OF AMERICA N,ABNOTE	03/18/13	03/18/13	03/18/13	225,000,000	225,000,000	-	225,000,000	-
BANK OF MONTREAL/CHICAGO IL	03/04/13	03/04/13	03/04/13	50,000,000	50,000,000	-	50,000,000	-
BANK OF TOKYO-MITSUCDYAN	03/11/13	03/11/13	03/11/13	85,000,000	85,000,000	-	85,000,000	-
CREDIT AGRICOLE S,ACDEUR	03/20/13	03/20/13	03/20/13	150,000,000	150,000,000	-	150,000,000	-
CITIBANK NA, NEW YOCD	03/06/13	03/06/13	03/06/13	200,000,000	200,000,000	-	200,000,000	-
CREDIT AGRICOLE NORCP	03/22/13	03/22/13	03/22/13	23,000,000	23,000,000	-	23,000,000	-
DEUTSCHE BANK AGCDYAN	03/05/13	03/05/13	03/05/13	200,000,000	200,000,000	-	200,000,000	-
DEUTSCHE BANK AGCDYAN	03/12/13	03/12/13	03/12/13	200,000,000	200,000,000	-	200,000,000	-
DEUTSCHE BANK AGCDYAN	03/19/13	03/19/13	03/19/13	200,000,000	200,000,000	-	200,000,000	-
FCAR OWNER TRUST, ACPABS3	03/20/13	03/20/13	03/20/13	66,000,000	66,000,000	-	66,000,000	-
FAIRWAY FINANCE LLC	03/06/13	03/06/13	03/06/13	23,500,000	23,500,000	-	23,500,000	-
GENERAL ELECTRIC CO CP	03/20/13	03/20/13	03/20/13	200,000,000	200,000,000	-	200,000,000	-
MARKET STREET FUNDICPABS4	03/04/13	03/04/13	03/04/13	30,922,000	30,922,000	-	30,922,000	-
MARKET STREET FUNDICPABS4	03/05/13	03/05/13	03/05/13	16,090,000	16,090,000	-	16,090,000	-
MIZUHO CORPORATE BACDYAN	03/05/13	03/05/13	03/05/13	100,000,000	100,000,000	-	100,000,000	-
MIZUHO CORPORATE BACDYAN	03/12/13	03/12/13	03/12/13	100,000,000	100,000,000	-	100,000,000	-
MIZUHO CORPORATE BACDYAN	03/13/13	03/13/13	03/13/13	50,000,000	50,000,000	-	50,000,000	-
MIZUHO FUNDING LLCCP4-2	03/15/13	03/15/13	03/15/13	100,000,000	100,000,000	-	100,000,000	-
NRW BANKCP	03/04/13	03/04/13	03/04/13	400,000,000	400,000,000	-	400,000,000	-
NRW BANKCP	03/21/13	03/21/13	03/21/13	300,000,000	300,000,000	-	300,000,000	-
NRW BANKCP	03/26/13	03/26/13	03/26/13	100,000,000	100,000,000	-	100,000,000	-
NRW BANK	03/28/13	03/28/13	03/28/13	300,000,000	300,000,000	-	300,000,000	-
NOVARTIS FINANCE COCP4-2	03/14/13	03/14/13	03/14/13	60,000,000	60,000,000	-	60,000,000	-
SOCIETE GENERALE, PCDYAN	03/22/13	03/22/13	03/22/13	99,000,000	99,000,000	-	99,000,000	-
SUMITOMO MITSUI BANCDYAN	03/14/13	03/14/13	03/14/13	100,000,000	100,000,000	-	100,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR MARCH 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
DEUTSCHE BANK	03/01/13	03/01/13	03/01/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/01/13	03/01/13	03/01/13	875,000,000	875,000,000	-	875,000,000	-
DEUTSCHE BANK	03/04/13	03/04/13	03/04/13	300,000,000	300,000,000	-	300,000,000	-
BANK OF AMERICA TRIPARTY	03/04/13	03/04/13	03/04/13	925,000,000	925,000,000	-	925,000,000	-
DEUTSCHE BANK	03/05/13	03/05/13	03/05/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/05/13	03/05/13	03/05/13	1,180,000,000	1,180,000,000	-	1,180,000,000	-
DEUTSCHE BANK	03/06/13	03/06/13	03/06/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/06/13	03/06/13	03/06/13	1,140,000,000	1,140,000,000	-	1,140,000,000	-
DEUTSCHE BANK	03/07/13	03/07/13	03/07/13	750,000,000	750,000,000	-	750,000,000	-
BANK OF AMERICA TRIPARTY	03/07/13	03/07/13	03/07/13	1,070,000,000	1,070,000,000	-	1,070,000,000	-
DEUTSCHE BANK	03/08/13	03/08/13	03/08/13	800,000,000	800,000,000	-	800,000,000	-
BANK OF AMERICA TRIPARTY	03/08/13	03/08/13	03/08/13	740,000,000	740,000,000	-	740,000,000	-
DEUTSCHE BANK	03/11/13	03/11/13	03/11/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/11/13	03/11/13	03/11/13	1,085,000,000	1,085,000,000	-	1,085,000,000	-
DEUTSCHE BANK	03/12/13	03/12/13	03/12/13	600,000,000	600,000,000	-	600,000,000	-
BANK OF AMERICA TRIPARTY	03/12/13	03/12/13	03/12/13	1,080,000,000	1,080,000,000	-	1,080,000,000	-
DEUTSCHE BANK	03/13/13	03/13/13	03/13/13	900,000,000	900,000,000	-	900,000,000	-
BANK OF AMERICA TRIPARTY	03/13/13	03/13/13	03/13/13	775,000,000	775,000,000	-	775,000,000	-
DEUTSCHE BANK	03/14/13	03/14/13	03/14/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/14/13	03/14/13	03/14/13	810,000,000	810,000,000	-	810,000,000	-
DEUTSCHE BANK	03/15/13	03/15/13	03/15/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/15/13	03/15/13	03/15/13	735,000,000	735,000,000	-	735,000,000	-
DEUTSCHE BANK	03/18/13	03/18/13	03/18/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/18/13	03/18/13	03/18/13	710,000,000	710,000,000	-	710,000,000	-
DEUTSCHE BANK	03/19/13	03/19/13	03/19/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/19/13	03/19/13	03/19/13	725,000,000	725,000,000	-	725,000,000	-
DEUTSCHE BANK	03/20/13	03/20/13	03/20/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/20/13	03/20/13	03/20/13	790,000,000	790,000,000	-	790,000,000	-
DEUTSCHE BANK	03/21/13	03/21/13	03/21/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/21/13	03/21/13	03/21/13	930,000,000	930,000,000	-	930,000,000	-
DEUTSCHE BANK	03/22/13	03/22/13	03/22/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/22/13	03/22/13	03/22/13	625,000,000	625,000,000	-	625,000,000	-
DEUTSCHE BANK	03/25/13	03/25/13	03/25/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/25/13	03/25/13	03/25/13	980,000,000	980,000,000	-	980,000,000	-
DEUTSCHE BANK	03/26/13	03/26/13	03/26/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/26/13	03/26/13	03/26/13	905,000,000	905,000,000	-	905,000,000	-
DEUTSCHE BANK	03/27/13	03/27/13	03/27/13	500,000,000	500,000,000	-	500,000,000	-
BANK OF AMERICA TRIPARTY	03/27/13	03/27/13	03/27/13	935,000,000	935,000,000	-	935,000,000	-
DEUTSCHE BANK	03/28/13	03/28/13	03/28/13	700,000,000	700,000,000	-	700,000,000	-
BANK OF AMERICA TRIPARTY	03/28/13	03/28/13	03/28/13	440,000,000	440,000,000	-	440,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130301	03/01/13	03/01/13	03/01/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130304	03/04/13	03/04/13	03/04/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130305	03/05/13	03/05/13	03/05/13	300,000,000	300,000,000	-	300,000,000	-

FLORIDA PRIME™

TRADING ACTIVITY FOR MARCH 2013 (CONTINUED)

Security Description	Maturity Date	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Maturities (continued)					$	$	$	$
SVENSKA HANDELSBANKTDCAY 0.16 20130306	03/06/13	03/06/13	03/06/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130307	03/07/13	03/07/13	03/07/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130308	03/08/13	03/08/13	03/08/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130311	03/11/13	03/11/13	03/11/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130312	03/12/13	03/12/13	03/12/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130313	03/13/13	03/13/13	03/13/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130315	03/15/13	03/15/13	03/15/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130318	03/18/13	03/18/13	03/18/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130319	03/19/13	03/19/13	03/19/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130320	03/20/13	03/20/13	03/20/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130321	03/21/13	03/21/13	03/21/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130322	03/22/13	03/22/13	03/22/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130325	03/25/13	03/25/13	03/25/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130326	03/26/13	03/26/13	03/26/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130327	03/27/13	03/27/13	03/27/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.15 20130328	03/28/13	03/28/13	03/28/13	300,000,000	300,000,000	-	300,000,000	-
SVENSKA HANDELSBANKTDCAY 0.16 20130314	03/14/13	03/14/13	03/14/13	300,000,000	300,000,000	-	300,000,000	-
Total Maturities				**38,283,512,000**	**$38,283,512,000**	**$0**	**$38,283,512,000**	**$0**
Total Sells								
TOYOTA MOTOR CREDIT CP	07/09/13	03/19/13	03/19/13	50,000,000	49,970,444	-	49,970,444	7,778
TOYOTA MOTOR CREDIT CP	07/09/13	03/19/13	03/19/13	50,000,000	49,970,444	-	49,970,444	7,778
TOYOTA MOTOR CREDIT CP	07/09/13	03/19/13	03/19/13	50,000,000	49,970,444	-	49,970,444	7,778
TOYOTA MOTOR CREDIT CP	07/09/13	03/19/13	03/19/13	50,000,000	49,970,444	-	49,970,444	7,778
TOYOTA MOTOR CREDIT CP	07/09/13	03/19/13	03/19/13	50,000,000	49,970,444	-	49,970,444	7,778
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/05/13	03/05/13	1,376,110	1,376,110	-	1,376,110	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/07/13	03/07/13	766,668	766,668	-	766,668	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/07/13	03/07/13	652,943	652,943	-	652,943	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/11/13	03/11/13	41,079	41,079	-	41,079	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/12/13	03/12/13	782,729	782,729	-	782,729	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/12/13	03/12/13	2,829,316	2,829,316	-	2,829,316	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/12/13	03/12/13	1,329,498	1,329,498	-	1,329,498	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/14/13	03/14/13	3,714,488	3,714,488	-	3,714,488	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/18/13	03/18/13	167,711	167,711	-	167,711	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/18/13	03/18/13	1,075,292	1,075,292	-	1,075,292	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/18/13	03/18/13	1,109,070	1,109,070	-	1,109,070	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/21/13	03/21/13	88,491	88,491	-	88,491	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/21/13	03/21/13	2,276,237	2,276,237	-	2,276,237	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/22/13	03/22/13	119,429	119,429	-	119,429	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/25/13	03/25/13	501,557	501,557	-	501,557	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/25/13	03/25/13	980,442	980,442	-	980,442	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/25/13	03/25/13	43,389	43,389	-	43,389	-
DREYFUS GOVT CASH MGMT FUND	10/01/13	03/28/13	03/28/13	680,572	680,572	-	680,572	-
Total Sells				**268,535,021**	**$268,387,243**	**$0**	**$268,387,243**	**$38,889**

FUND B

FUND B FACTS

INVESTMENT OBJECTIVE

Fund B's primary objective is to maximize the present value of distributions from the Fund.

COMPOSITION

Fund B principally consists of Segregated Securities, which are securities originally purchased for the LGIP that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization (NRSRO) that provides Florida PRIME's AAAm rating.

DISTRIBUTIONS

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

ACCOUNTING

Fund B is accounted for as a fluctuating NAV pool, not a 2a-7-like money market fund. That is, accounting valuations reflect estimates of the market value of securities rather than their amortized cost.

STATUS OF INVESTMENTS

Florida East and West: Restructured from KKR and receiving principal and interest.
Florida Funding I: Restructured from Ottimo (Issuer Entity) and receiving principal and interest.
Florida Funding II: Restructured from Axon and receiving principal and interest.

COMMENTARY ON PORTFOLIO MANAGEMENT

All cash from paydowns on securities in Fund B are invested in AAAm-rated money market funds pending monthly distribution to participant accounts in Florida PRIME. This month, $3.15 million in liquid assets were transferred from Fund B to Florida PRIME, consisting of principal paydowns and income from the securities in the Fund.

The investment team continually analyzes the bonds in each portfolio, comparing estimated defaults and estimated cumulative net losses to an historical loss-timing curve. Many different factors in the domestic and global economies can affect both the securities and the underlying bonds. Some of the factors will contribute positively while others could have adverse consequences. The SBA and Apollo Global Management's investment team will continue to employ prudent risk mitigation strategies in order to maximize the present value of distributions from Fund B with a primary focus on the restoration of principal.

LEGAL ISSUE

As an ongoing legal matter, the SBA asserts Lehman Brothers (which is now in liquidation) sold the SBA certain unregistered secured notes that were not exempt from registration under the Securities Act of 1933. The Lehman Trustee has not yet responded to the SBA's general creditor claim on behalf of Fund B as to whether the Lehman estate will have any assets available for recovery. The Trustee's latest reports have stated that "returns to general estate creditors will be limited at best." However, the secured notes sold by Lehman Brothers were secured by certain collateral. Fund B has been receiving and is expected to continue receiving monetary distributions of principal and interest from that underlying collateral.

The SBA will promptly disclose any future developments as they become matters of public record.

DISCLOSURE OF MATERIAL IMPACTS

There were no developments during March 2013 that had a material impact on the liquidity or operation of Fund B.

FUND B

FUND B DISTRIBUTIONS

RETURN OF FUND B PRINCIPAL

The first table below details the SBA's progress in returning principal to investors in Fund B. Through the end of March 2013, investors cumulatively received distributions from Fund B totaling $1.77 billion or 88.3% of their original balances.

The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (as well as overnight instruments temporarily holding fund earnings). As of March 31, 2013, their remaining amortized cost was $443,3 million, or 88.1% more than remaining participant positions in Fund B. Conversely, the current estimated liquidation (market) value of these securities is pegged at $246.4 million or 104.6% of remaining participant positions.

It is important to note that due to the lack of an actively traded market for Fund B securities, their "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. See footnote 1 on page 22.

FUND B DISTRIBUTIONS TO PARTICIPANTS

	Distributions to Participants	Cumulative Distributions	Participant Principal	Proportion of Original Principal Returned
12/05/07	$	$	$ 2,009,451,941	0.0%
CY 2008	$ 1,421,900,000	$ 1,421,900,000	$ 587,551,941	70.8%
CY 2009	$ 89,100,000	$ 1,511,000,000	$ 498,451,941	75.2%
CY 2010	$ 135,100,000	$ 1,646,100,000	$ 363,351,941	81.9%
CY 2011	$ 57,425,000	$ 1,703,525,000	$ 305,926,941	84.8%
CY 2012	$ 58,915,000	$ 1,762,440,000	$ 247,011,941	87.7%
01/17/13	$ 3,975,000	$ 1,766,415,000	$ 243,036,941	87.9%
02/06/13	$ 4,265,000	$ 1,770,680,000	$ 238,771,941	88.1%
03/06/13	$ 3,150,000	$ 1,773,830,000	$ 235,621,941	88.3%

FUND B MONTHLY DISTRIBUTION DETAIL

March 2013 Distribution Detail Including Receipts by Source For the period 2/7/13 - 3/6/13	Fund B Participant Allocation	Fund B Expense Allocation
Beginning Balance	$ -	$ 25,947.45
Receipts:		
Florida East	$ 763,597.38	
Florida West	$ 1,195,403.35	
Florida Funding I	$ 409,478.80	
Florida Funding II	$ 782,170.07	
Overnight Investments	$ 6.90	
Total Receipts	$ 3,150,656.50	
Distributions:		
Allocation to/from Expense Reserve	$ (656.50)	$ 656.50
Expenses Paid		$ (2,179.20)
Participant Distribution	$ (3,150,000.00)	
Ending Balance	$ -	$ 24,424.75

NOTE ON RECENT FUND B ASSET SALES AND FUTURE FUND B RESOLUTION

The SBA recently divested a portion of the portfolio and was able to secure in excess of $61.5 million, which was applied to the outstanding principal balances of Fund B participants, in April, 2013 bringing the proportion of original principal returned to more than 91 percent.

The SBA and Fund B's external investment manager, Apollo Capital Management, expect disciplined asset sales to continue. Any future sales will be governed by market conditions and the relative pricing of specific collateral assets at the time of divestiture

FUND B

INVENTORY OF HOLDINGS - AS OF MARCH 31, 2013

Security Name	Type	Rate Reset	Par	Current Yield	Amort Cost [2]	Mkt Value [1]	Unrealized Gain (Loss)
Dreyfus Government Cash Management Fund OVNMF	OVERNIGHT MUTUAL FUND		61,533,617	0.00	$ 61,533,617	$ 61,533,617	$ -
Florida East Funding LLC	VARIABLE RATE TERM NOTE	03/26/13	52,876,445	0.55	$ 52,876,445	$ 38,737,342	$ (14,139,103)
Florida West Funding LLC	VARIABLE RATE TERM NOTE	03/26/13	126,048,886	0.55	$ 126,048,886	$ 67,477,150	$ (58,571,736)
Florida Funding I LLC	VARIABLE RATE TERM NOTE	03/27/13	117,675,413	0.32	$ 117,675,413	$ 29,394,507	$ (88,280,906)
Florida Funding II LLC	VARIABLE RATE COMMERCIAL PAPER	03/27/13	85,160,948	0.35	$ 85,154,158	$ 49,268,427	$ (35,885,731)
Total Value of Investments			**443,295,310**		**$443,288,519**	**$246,411,043**	**($196,877,476)**

Notes:

[1] Due to the lack of an actively traded market for Fund B securities, the "market value" is an estimate of current liquidation value that has been determined through a collaborative process among various pricing experts and sources in the marketplace. Although the estimate represents an attempt to reasonably reflect the stressed market conditions that currently exist, the amount actually realized if the securities were liquidated at this time could be more or less than the estimate. Moreover, these estimates of current market value are not predictive of the ultimate amount likely to be realized from these securities. Fund B's investment objective is to maximize the present value of distributions to participants. If, in the judgment of the portfolio manager, fair value exceeds liquidation value at points in the future, then complete or partial liquidations of securities could be deferred for an extended period of time; e.g., a four- to five-year horizon for complete termination or self-liquidation of Fund B.

[2] Amortized cost is calculated using a straight line method.

The securities held in Fund B result from workouts of the LGIP's original holdings from 4 issuers – Axon, KKR Atlantic, KKR Pacific and Ottimo. The purpose of Fund B is to maximize the present value of distributions to participants through a prudent workout with an ultimate goal of liquidation. As a result, the maturity dates of each holding in Fund B will be dependent on the maturity date or earlier liquidation, if prudent, of the collateral securities underlying each of these holdings and will be contingent upon future market conditions and other factors.

The collateral manager, Apollo Global Management, is the source for data shown above other than market value. See note 1.

The amounts shown above are the value of investments. Income accruals, payables and uninvested cash are not included. The data is unaudited.

FUND B

COMPLIANCE WITH INVESTMENT POLICY - MARCH 2013

Investment Policy Statement Compliance is conducted on Fund B by SBA Risk Management and Compliance and reported on a monthly basis to the Investment Oversight Group. Portfolio activity is reviewed to ensure that transactions and holdings are in compliance with guideline requirements and with those stipulated in the respective Investment Management Agreements with Apollo Global Management, the collateral manager for the four special purpose entities held in Fund B (Florida East Funding LLC, Florida West Funding LLC, Florida Funding I LLC, and Florida Funding II LLC). Since the principal holdings in the fund are the notes issued by these special purpose entities, and no deposits or withdrawals are permitted by participants, transactions are typically limited to 1) the receipt cash flows from the underlying note collateral, 2) the investment of these cash flows in AAAm money market funds, and 3) periodic distributions to participants. Apollo Global Management can also sell, exchange, or restructure the notes, consistent with the objective of maximizing the present value of cash flows from the collateral. For the month of March 2013, Fund B was in compliance with its Investment Policy Statement.

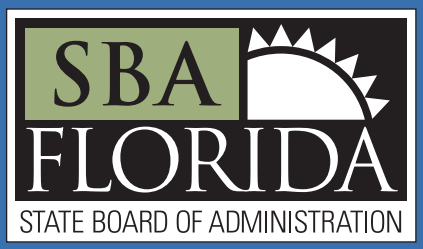
TRADING ACTIVITY - MARCH 2013

Security Description	Trade Date	Settlement Date	Par or Shares	Principal	Traded Interest	Settlement Amount	Realized Gain (Loss)
Buys				$	$	$	$
DREYFUS GOVERNMENT CASH MANAGEMENT	03/04/13	03/04/13	7	7	0	7	0
DREYFUS GOVERNMENT CASH MANAGEMENT	03/28/13	03/28/13	61,511,071	61,511,071	0	61,511,071	0
Total Buys			**61,511,078**	**61,511,078**	**$0**	**$61,511,078**	**$0**
Sells							
FLORIDA FUNDING I LLC	03/28/13	03/28/13	357,405	357,405	0	357,405	0
FLORIDA EAST FUNDING LLC	03/28/13	03/28/13	17,059,825	17,059,825	0	17,059,825	0
FLORIDA WEST FUNDING LLC	03/28/13	03/28/13	43,084,357	43,084,357	0	43,084,357	0
FLORIDA FUNDING II	03/28/13	03/28/13	853,844	853,844	0	853,844	68
DREYFUS GOVERNMENT CASH MANAGEMENT	03/01/13	03/01/13	58	58	0	58	0
DREYFUS GOVERNMENT CASH MANAGEMENT	03/06/13	03/06/13	3,150,000	3,150,000	0	3,150,000	0
DREYFUS GOVERNMENT CASH MANAGEMENT	03/18/13	03/18/13	1,879	1,879	0	1,879	0
Total Sells			**64,507,368**	**64,507,368**	**0**	**64,507,368**	**68**

Note: In the Trading Activity table above, the gain reflected on the sales from Florida Funding II is an accounting gain. The original Axon Financial Funding LLC security was purchased at a discount and was deemed “in default” prior to the original maturity date. At the point of becoming “in default,” amortization of the discount was terminated thus leaving the cost of the security less than par. Any principal payment received at par will result in recognition of a gain, calculated as Proceeds less Cost Basis of the par value being sold.

Our Mission

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.



State Board of Administration
www.SBAFLA.com

Federated

Protecting Florida's Investments Act (PFIA)

Quarterly Report – June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Table of Contents

About the State Board of Administration 2
Primary Requirements of the PFIA 3
Definition of a Scrutinized Company 4
SBA Scrutinized Companies Identification Methodology 5
Key Changes Since the Previous PFIA Quarterly Report 7
Table 1: Scrutinized Companies with Activities in Sudan 8
Table 2: Continued Examination Companies with Activities in Sudan 10
Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector 12
Table 4: Continued Examination Companies with Petroleum Energy Activities in Iran 13
Table 5: Correspondence & Engagement Efforts with Scrutinized Companies 14
Table 6: Correspondence & Engagement Efforts with Continued Examination Companies 16
Key Dates for PFIA Activities 18
Summary of Investments Sold, Redeemed, Divested or Withdrawn 19
Table 7: List of Prohibited Investments (Scrutinized Companies) 20
Table 8: SBA Holdings in Prohibited Investments Subject to Divestment 22
Summary of Progress, SBA Investment Manager Engagement Efforts 23
Listing of All Publicly Traded Securities (Including Equity Investments) 23

About the State Board of Administration

The statutory mandate of the State Board of Administration (SBA) is to invest, manage and safeguard assets of the Florida Retirement System (FRS) Trust Fund and a variety of other funds for state and local governments. FRS Trustees are dedicated to ensuring that the SBA invests assets and discharges its duties in accordance with Florida law, guided by strict policies and a code of ethics to ensure integrity, prudent risk management and top-tier performance. The SBA is an investment fiduciary under law, and subject to the stringent fiduciary duties and standards of care defined by the Employee Retirement Income Security Act of 1974 (ERISA), as incorporated into Florida law. The SBA has three Trustees: the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

As of March 31, 2013, the net asset value of total funds under SBA management was approximately $158.7 billion. The FRS Pension Plan provides defined pension benefits to 1.1 million beneficiaries and retirees. The strong long-term performance of the FRS Pension Plan, the fourth-largest public pension fund in the nation, reflects our commitment to responsible fiscal management.

The SBA's 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.

We encourage you to review additional information about the SBA and FRS on our website at www.sbafla.com.

Introduction

On June 8, 2007, the Protecting Florida's Investments Act ("PFIA") was signed into law. The PFIA requires the State Board of Administration ("SBA"), acting on behalf of the Florida Retirement System Trust Fund (the "FRSTF"), to assemble and publish a list of "Scrutinized Companies" that have prohibited business operations in Sudan and Iran. Once placed on the list of Scrutinized Companies, the SBA and its investment managers are prohibited from acquiring those companies' securities and are required to divest those securities if the companies do not cease the prohibited activities or take certain compensating actions. The implementation of the PFIA by the SBA will not affect any FRSTF investments in U.S. companies. The PFIA will solely affect foreign companies with certain business operations in Sudan and Iran involving the petroleum or energy sector, oil or mineral extraction, power production or military support activities. This quarterly report is developed pursuant to Section 215.473 (4), Florida Statutes.

Primary Requirements of the PFIA

The PFIA created new reporting, engagement, and investment requirements for the SBA, including:

1. Quarterly reporting to the Board of Trustees of every equity security in which the SBA has invested for the quarter, along with its industry category. This report is posted on the SBA website.

2. Quarterly presentation to the Trustees of a "Scrutinized Companies" list for both Sudan and Iran for their approval. Scrutinized Company lists are available on the SBA's website, along with information on the FRSTF direct and indirect holdings of Scrutinized Companies.

3. Written notice to external investment managers of all PFIA requirements. Letters request that the managers of actively managed commingled vehicles (i.e., those with FRSTF and other clients' assets) consider removing Scrutinized Companies from the product or create a similar actively managed product that excludes such companies. Similar written requests must be provided to relevant investment managers within the defined contribution plan.

4. Written notice to any company with inactive business operations in Sudan or Iran, informing the company of the PFIA and encouraging it to continue to refrain from reinitiating active business operations. Such correspondence continues semiannually.

5. Written notice to any Scrutinized Company with active business operations, informing the company of its Scrutinized Company status and that it may become subject to divestment. The written notice must inform the company of the opportunity to clarify its Sudan-related or Iran-related activities and encourage the company, within 90 days, to cease its scrutinized business operations or convert such operations to inactive status.

6. A prohibition on further investment on behalf of the FRSTF in any Scrutinized Company once the Sudan and Iran scrutinized lists have been approved by the Trustees. All publicly traded securities of Scrutinized Companies must be divested within 12 months after the company's initial (and continued) appearance on the Scrutinized Companies list. Divestment does not apply to indirect holdings in actively managed commingled investment funds—i.e., where the SBA is not the sole investor in the fund. Private equity funds are considered to be actively managed.

7. Reporting to each member of the Board of Trustees, President of the Senate, and the Speaker of the House of Representatives of Scrutinized Company lists within 30 days of creation, and public disclosure of each list.

8. Quarterly reporting of the following to each member of the Board of Trustees, the President of the Senate, the Speaker of the House of Representatives, the United States Presidential Special Envoy to Sudan, and the United States Presidential Special Envoy to Iran. The report is made publicly available and posted to the SBA's website.

a. A summary of correspondence with engaged companies;
b. A listing of all investments sold, redeemed, divested, or withdrawn;
c. A listing of all prohibited investments;
d. A description of any progress related to external managers offering PFIA compliant funds; and
e. A list of all publicly traded securities held directly by the state.

9. Adoption and incorporation into the FRSTF Investment Policy Statement (IPS) of SBA actions taken in accordance with the PFIA. Changes to the IPS are reviewed by the Investment Advisory Council (IAC) and approved by the Trustees.

10. Relevant Sudan or Iran portions of the PFIA are discontinued if the Congress or President of the United States passes legislation, executive order, or other written certification that:

    a. Darfur genocide has been halted for at least 12 months;
    b. Sanctions imposed against the Government of Sudan are revoked;
    c. Government of Sudan honors its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons;
    d. Government of Iran has ceased to acquire weapons of mass destruction and support international terrorism;
    e. Sanctions imposed against the government of Iran are revoked; or
    f. Mandatory divestment of the type provided for by the PFIA interferes with the conduct of U.S. foreign policy.

11. Cessation of divestment and/or reinvestment into previously divested companies may occur if the value of all FRSTF assets under management decreases by 50 basis points (0.5%) or more as a result of divestment. If cessation of divestment is triggered, the SBA is required to provide a written report to each member of the Board of Trustees, the President of the Senate, and the Speaker of the House of Representatives prior to initial reinvestment. Such condition is required to be updated semiannually.

12. In 2009, the Florida Legislature approved a bill requiring the SBA to identify and offer, by March 1, 2010, at least one terror-free investment product for the FRS Investment Plan. The product must allocate its funds among securities not subject to divestiture, as provided in section 215.473, Florida Statutes.

Definition of a Scrutinized Company

The following is a brief review of the criteria on which the active business operations of companies must be judged, in accordance with subsection (1)(t) of Section 215.473, F.S.

Sudan:

1. Have a material business relationship with the government of Sudan or a government-created project involving oil related, mineral extraction, or power generation activities, or
2. Have a material business relationship involving the supply of military equipment, or
3. Impart minimal benefit to disadvantaged citizens that are typically located in the geographic periphery of Sudan, or
4. Have been complicit in the genocidal campaign in Darfur.

Iran:

1. Have a material business relationship with the government of Iran or a government-created project involving oil related or mineral extraction activities, or
2. Have made material investments with the effect of significantly enhancing Iran's petroleum sector.

Affiliates of companies with scrutinized business operations are also subject to the requirements of the PFIA. An affiliated company is generally defined as any other company that either directly or indirectly controls, is controlled by or is under common control with the company conducting scrutinized active business operations. Control generally means the power to exercise a controlling influence over the management or policies of a company. As well, many companies have parent-subsidiary relationships whereby a parent company may own several other companies. In such cases, the SBA has included any known parent and/or subsidiaries which can be clearly linked to a company with scrutinized active business operations. The SBA has used a 50 percent ownership threshold in determining whether or not companies are affiliated, examining parent company-subsidiary ownership on a pro rata basis.

The SBA views companies which have explicit plans and activities related to discontinuation of active business operations as meeting the PFIA definition of substantial action. For all identified companies, the SBA will request information detailing what a company has actually done, if anything, to discontinue its active business operations or if it has pursued humanitarian efforts (applicable to Sudan only).

SBA Scrutinized Companies Identification Methodology

The SBA has developed two lists (the Sudan List and the Iran List) of Scrutinized Companies with active business operations. The lists are developed by principally relying on the research and findings of our "External Research Providers". Below is a brief description of our External Research Providers, which are maintained to provide input from multiple sources.

1. **EIRIS Conflict Risk Network (CRN).** In May 2013, the Conflict Risk Network became part of EIRIS, a global provider of environmental, social, governance, and ethical performance of companies. EIRIS provides services to more than 150 asset owners and managers globally, with a staff of over 60, based primarily in London. CRN was formerly known as the Sudan Divestment Task Force (SDTF).

2. **MSCI ESG Research (MSCI)**. MSCI combined, through acquisition, the resources of the RiskMetrics Group (Institutional Shareholder Services) and KLD Research & Analytics (KLD). MSCI delivers proxy voting and corporate governance analysis to institutional investors. Through its ESG Research unit, MSCI offers screening services with specific and unique components of state law pertaining to investments in sanctioned countries, including Sudan and Iran.

3. **IW Financial (IWF).** IWF is a provider of environmental, social, and governance research and consulting. IWF partners with Conflict Securities Advisory Group (CSAG) to provide clients with detailed information on the business ties of publicly traded companies in Sudan and Iran.

4. **Jantzi-Sustainalytics, Inc. (Sustainalytics).** Sustainalytics provides environmental, social and governance research and analysis, sustainability benchmarks, and investment services, and is the result of the merger between Jantzi Research, Inc. and Sustainalytics in 2009. Sustainalytic's company database, "Sustainalytics Global Platform," covers business operations in both Iran and Sudan.

Staff members within the Investment Programs & Governance unit, as well as other senior investment staff, review the assessments of the External Research Providers and other publicly available information. The SBA has utilized the following sources to evaluate over 400 companies and affiliates with reported links to Sudan or Iran:

Company disclosures:
- SEC filings (DEF 14A Proxy Statements, 10-K & 20-F Annual Reports, etc.)
- Investor Relations/company websites
- Industry publications and analyst research

Investment/Finance Organizations:
- Industry Analysts
- Index Providers (e.g., Russell)
- Other Institutional Investors/Private Investors

U.S Government Agencies:
- U.S. Department of State
- U.S. Treasury, Office of Foreign Asset Control (OFAC)
- U.S. Government Accountability Office (GAO)
- SEC Office of Global Security (EDGAR)
- Dept. of Energy, Energy Information Administration (EIA)
- Congressional Research Service (CRS), Library of Congress

Non-Governmental Organizations (NGOs):
- American Enterprise Institute (AEI)
- Amnesty International
- Yale University (Allard K. Lowenstein International Human Rights Project)
- Human Rights Watch

Other Sources:
- SBA External Investment Managers
- U.S. Federal Sanctions Laws covering State Sponsors of Terror
- Any other publicly available information.

Using the previous information sources, the SBA has developed two separate categorizations of a company's involvement in Sudan and/or Iran.

1. **"Scrutinized"** — Information provided by several External Research Providers indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473 (1)(t)1., 2., or 3. [Sudan] or Section 215.473 (4)(t)1. [Iran]. Upon SBA review, no other information sources clearly contradict the conclusions of the External Research Providers.

2. **"Continued Examination"** — At least one External Research Provider indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473, (1)(t)1., 2., or 3. [Sudan] or Section 215.473, (4)(t)1. [Iran]. In other words, the External Research Providers do not agree on the status of a company and the SBA is unable to definitively categorize the company's activities as scrutinized without further research to resolve the differences. For companies classified as "Continued Examination" the SBA will begin an engagement process to clarify each firm's current business relationships.

Key Changes Since the Previous PFIA Quarterly Report

Sudan

Companies *added* to the Sudan Scrutinized List this quarter:

- **None**

Companies *removed* from the Sudan Scrutinized List this quarter:

- **Electricity Generating Public Co:** The company no longer has Sudan-related operations.
- **LS Industrial Systems:** Downgraded due to classification changes by one of the SBA's external research providers.

Companies *added* to the Sudan Continued Examination List this quarter:

- **LS Industrial Systems**
- **Orca Gold Inc**

Companies *removed* from the Sudan Continued Examination List this quarter:

- **AREF Investment Group**
- **Nam Fatt**
- **PTT Public Company Ltd**
- **Seadrill Ltd**

Recent Sudan developments: Oil production resumed in South Sudan in early April 2013 and the governments of Sudan and South Sudan met on April 23, 2013 for an extraordinary meeting of the Joint Peace and Security Mechanism (JPSM) to discuss security along their border. Despite officials from both Sudan and South Sudan anticipating that oil exports will resume by mid-June, tensions continue over the status of South Kordofan, which is home to the oil hub of Abyei.

Iran

No changes were made to the Iran Scrutinized or Continued Examination lists this quarter.

Table 1: Scrutinized Companies with Activities in Sudan

New companies on the list are shaded and in bold. (There were no new companies this quarter.)

Company	Country of Incorporation	Date of Initial Scrutinized Classification
AREF Energy Holdings Co	Kuwait	July 28, 2009
AviChina Industry & Technology Company Limited	China	September 19, 2007
Chennai Petroleum Corp Ltd	India	September 19, 2007
China National Petroleum Corporation (CNPC)	China	December 11, 2012
China Petroleum & Chemical Corp (CPCC) Sinopec	China	September 19, 2007
CNPC General Capital Ltd	China	June 26, 2012
CNPC Golden Autumn	China	September 18, 2012
CNPC HK Overseas Capital Ltd	China	June 16, 2011
Daqing Huake Group Co Ltd	China	March 25, 2008
Egypt Kuwait Holding Co. SAE	Kuwait	January 13, 2009
Gas District Cooling (Putrajaya) Sdn Bhd	Malaysia	April 14, 2009
Groupe ONA (ONA SA)	Morocco	November 9, 2010
Harbin Electric Co. Ltd. (fka: Harbin Power Equipment)	China	September 19, 2007
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
Jiangxi Hongdu Aviation (aka Hongdu Aviation)	China	September 19, 2007
Jinan Diesel Engine Co. Ltd	China	July 28, 2009
Kingdream PLC	China	April 14, 2009
KLCC Property Holdings Bhd	Malaysia	April 14, 2009
Kunlun Energy Company Ltd (fka: CNPC Hong Kong Limited)	Hong Kong	September 19, 2007
Kuwait Finance House	Kuwait	April 14, 2009
Lanka IOC Ltd	India	September 19, 2007
Managem SA	Morocco	November 9, 2010
Mangalore Refinery & Petrochemicals Ltd	India	September 19, 2007
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
MISC Capital Ltd	Malaysia	April 14, 2009
Oil India Ltd.	India	September 18, 2012
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
PetroChina	China	September 19, 2007
Petroliam Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Chemicals Bhd	Malaysia	June 16, 2011
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Petronas Global Sukuk	Malaysia	September 18, 2012
Ranhill Bhd	Malaysia	September 16, 2008
Ranhill Power Sdn Bhd	Malaysia	September 20, 2011

Company	Country of Incorporation	Date of Initial Scrutinized Classification
Ranhill Powertron Sdn	Malaysia	April 14, 2009
Sinopec Finance	China	April 14, 2009
Sinopec Group Overseas Development 2012 Ltd	China	June 26, 2012
Sinopec Kantons Holdings Ltd	Bermuda	September 19, 2007
Sinopec Shanghai Petrochemical	China	September 19, 2007
Sinopec Yizheng Chemical Fibre	China	March 25, 2008
Societe Metallurgique D'imiter	Morocco	November 9, 2010
# of Sudan Scrutinized Companies	**44**	

Companies **removed** from the Sudan Scrutinized List during the quarter.

Removed Company	***Country of Incorporation***
Electricity Generating Public Co	***Thailand***
LS Industrial Systems	***South Korea***

Table 2: Continued Examination Companies with Activities in Sudan

New companies on the list are shaded and in bold.

Company	Country of Incorporation
Alstom	France
Alstom Projects India	India
ASEC Company for Mining S.A.E.	Egypt
Bharat Heavy Electricals, Ltd	India
Bollore Group	France
China Gezhouba Group Company Ltd	China
China North Industries Group Corp (CNGC/Norinco)	China
Dongfeng Motor Group Co Ltd	China
Dongan Motor (aka Harbin Dongan Auto Engine)	China
Drake & Scull International PJSC	United Arab Emirates
El Sewedy Cables Holding Company	Egypt
Glencore International AG	Switzerland
Hafei Aviation Industry Co Ltd	China
Infotel Broadband Services Ltd	India
JX Holdings Inc.	Japan
KMCOB Capital Bhd	Malaysia
LS Industrial Systems	**South Korea**
Mercator Lines Limited (Mercator Lines Singapore)	India
Muhibbah Engineering Bhd	Malaysia
Nippo Corporation	Japan
Nippon Oil Finance	Japan
Orca Gold Inc	**Canada**
PetroFac	United Kingdom
PT Pertamina Persero	Indonesia
Reliance Industries Ltd	India
Scomi Engineering Bhd	Malaysia
Scomi Group Bhd	Malaysia
Sinohydro	China
Statesman Resources Ltd	Canada
Sudan Telecommunications (Sudatel)	Sudan
Wartsila Oyj	Finland
Wuhan Boiler Company	China
# of Companies	**32**

Companies **removed** from the Sudan Continued Examination List during the quarter.

Removed Company	***Country of Incorporation***
AREF Investment Group	***Kuwait***
Nam Fatt	***Malaysia***
PTT Public Company Ltd	***Thailand***
Seadrill Ltd	***Bermuda***

Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector

New companies on the list are shaded and in bold. ***(There were no new companies this quarter.)***

Company	Country of Incorporation	Date of Initial Scrutinized Classification
China BlueChemical Ltd	China	March 19, 2013
China National Petroleum Corporation (CNPC)	China	December 11, 2012
China Petroleum & Chemical Corp (CPCC) Sinopec	China	September 19, 2007
China Oilfield Services Ltd.	China	June 16, 2011
CNOOC Ltd.	China	June 16, 2011
CNPC HK Overseas Capital Ltd.	China	June 16, 2011
Daelim Industrial Co Ltd	South Korea	June 16, 2011
Gas District Cooling (Putrajaya) Sdn Bhd	Malaysia	April 14, 2009
Gazprom	Russia	September 19, 2007
Gazprom Neft	Russia	September 16, 2008
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
KLCC Property Holdings Bhd	Malaysia	April 14, 2009
Kunlun Energy Company Ltd. (fka: CNPC Hong Kong Limited)	Hong Kong	September 19, 2007
Mangalore Refinery & Petrochemicals Ltd	India	March 19, 2013
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
MISC Capital Ltd.	Malaysia	April 14, 2009
Mosenergo	Russia	September 16, 2008
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
PetroChina	China	September 19, 2007
Petroliam Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Chemicals Bhd	Malaysia	June 16, 2011
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Sinopec Finance	China	April 14, 2009
Sinopec Kantons Holdings Ltd.	Bermuda	September 19, 2007
Sinopec Shanghai Petrochemical	China	September 19, 2007
Sinopec Yizheng Chemical Fibre	China	March 25, 2008
# of Iran Scrutinized Companies	**29**	

No companies were **removed** from the Iran Scrutinized List during the quarter.

Table 4: Continued Examination Companies with Petroleum Energy Activities in Iran
New companies on the list are shaded and in bold. ***(There were no new companies this quarter.)***

Company	Country of Incorporation
China Communications Construction Co	China
China Nonferrous Metal Industry's Foreign Engineering and Construction	China
GAIL (India) Limited, aka GAIL Ltd.	India
GS Engineering & Construction Corp.	South Korea
GS Holdings	South Korea
Hyundai Engineering & Construction Co.	South Korea
Hyundai Heavy Industries	South Korea
INA-Industrija Nafte DD	Croatia
Lukoil OAO	Russia
Maire Technimont	Italy
Oil India Ltd.	India
Petrofac Ltd.	United Kingdom
Petronet LNG Ltd.	India
PetroVietnam Drilling and Well Services Joint Stock Co.	Vietnam
Saipem SpA	Italy
Sasol Ltd.	South Africa
Shanghai Zhenhua Heavy Industry Co. Ltd.	China
Technip	France
# of Companies	**18**

No companies were **removed** from the Iran Continued Examination List during the quarter.

Table 5: Correspondence & Engagement Efforts with Scrutinized Companies

In accordance with Section 215.473(3)(a), F.S., the SBA began to engage companies on the September 19, 2007, Scrutinized Company lists. The SBA sent letters to each Scrutinized Company that was owned and held as of September 19, 2007, per the requirements of the law.

The SBA also sent written communication to other scrutinized firms since the initial company engagement effort in September 2007. Each letter encouraged the company to cease any active business operations within 90 days or convert such operations to inactive status to avoid qualifying for divestment by the SBA. In addition, the SBA sent a second letter to scrutinized companies on January 25, 2008, again requesting companies to provide all information necessary to avoid divestment.

On September 30, 2008, the SBA sent a follow-up letter to all Scrutinized Companies. Although, these companies are no longer held by the SBA, the September 30, 2008, letter was intended to once again provide notice of the requirements of the PFIA. Since our original correspondence, several companies on the scrutinized list have replied with valuable information. Each company's response and classification status is summarized below. Any company that responded to the SBA's written correspondence is highlighted in blue text.

Company	Company Responsive to SBA Communications	Status
ABB	Yes; January 29, 2009	Removed from Sudan Scrutinized List
Alstom	Yes; October 1, 2007 and October 25, 2011	Moved to Sudan Continued Examination List
Bharat Heavy Electricals Limited	Yes; October 4, 2007	Sudan Scrutinized Classification Continues
Bow Valley Energy	Yes; October 22, 2008	Removed from Iran Scrutinized List
Chennai Petroleum Corporation Limited	Yes; October 16, 2008	Sudan Scrutinized Classification Continues
China Petroleum & Chemical Corp (Sinopec)	No	Iran & Sudan Scrutinized Classification Continues
CNOOC Ltd	Yes; October 28, 2008	Iran Scrutinized Classification Continues
Dongfeng Motor Group Co. Ltd.	No	Sudan Scrutinized Classification Continues
Electricity Generating Public Co	No	Removed from Sudan Scrutinized List
ENI	Yes; February 13, 2008 and May 13, 2011	Removed from Iran Scrutinized and CE Lists
GAIL (India) Limited, aka GAIL Ltd.	Yes; October 5, 2010	Moved to Iran Continued Examination List
Gazprom	Yes; November 1, 2007	Iran Scrutinized Classification Continues
Harbin Electric Co. (fka Harbin Power Equipment)	No	Sudan Scrutinized Classification Continues
Indian Oil Corp Ltd (IOCL)	No	Iran & Sudan Scrutinized Classification Continues
Inpex Corp.	Yes; October 15, 2007 and July 11, 2011	Removed Iran Scrutinized List
Kencana Petroleum	Yes; October 31, 2008	Moved to Sudan Continued Examination List
Korea Electric Power (and subsidiaries, KEPCO Plant/Korea Plant)	Yes; December 27, 2011	Removed from Sudan Scrutinized List
Kunlun Energy Company Ltd. (fka: CNPC Hong Kong Limited)	Yes; October 5, 2007 and May 24, 2008	Iran & Sudan Scrutinized Classification Continues
Lukoil OAO	Yes; October 8, 2007	Moved to Iran Continued Examination List
Lundin Petroleum AB	Yes; October 17, 2008	Removed from Sudan Scrutinized List
Lundin International SA	No	Removed from Sudan Scrutinized List
MISC Bhd	No	Iran & Sudan Scrutinized Classification Continues
Norsk Hydro	Yes; November 30,2007	Removed from Iran Scrutinized List

Company	Company Responsive to SBA Communications	Status
OMV AG	Yes; November 6, 2007 and April 14, 2010	Removed from Iran Continued Examination List
PetroChina	Yes; December 22, 2008	Iran & Sudan Scrutinized Classification Continues
Petroleo Brasileiro (Petrobras)	Yes; January 13, 2010	Removed from Iran Scrutinized List
Ranhill Bhd	Yes; October 22, 2008	Sudan Scrutinized Classification Continues
Repsol YPF	Yes; October 15, 2007; January 2013	Removed from Iran Scrutinized and CE Lists
Royal Dutch Shell PLC	Yes; October 5, 2007; January 27, 2011; April 13, 2011	Removed from Iran Scrutinized and CE Lists
Sinopec Kantons Holdings Ltd.	No	Iran & Sudan Scrutinized Classification Continues
Sinopec Shanghai Petrochemical Company	No	Sudan Scrutinized Classification Continues
Snam Rete Gas	Yes; October 9, 2008	Removed from Iran Scrutinized Classification
Statoil ASA (fka: StatoilHydro)	Yes; February 4, 2008; January 24, 2011; June 16, 2011	Removed from Iran Scrutinized and CE Lists
Total Capital	Yes; January 26, 2011 and April 25, 2011	Removed from Iran Scrutinized and CE Lists
Total SA	Yes; October 12, 2007; October 29, 2010; April 25, 2011	Removed from Iran Scrutinized and CE Lists
Wärtsilä Oyj	Yes; December 4, 2007	Moved to Sudan Continued Examination List

Table 6: Correspondence & Engagement Efforts with Continued Examination Companies

In addition to Scrutinized Companies, the SBA engaged companies on our initial September 19, 2007, Continued Examination company lists. The SBA also sent written communication to firms added to the Continued Examination list since the initial company engagement effort in September 2007. Such companies were asked to provide information to the SBA in order to assist us in determining the extent of their activities, if any, in Sudan and Iran. The SBA sent a follow-up letter to all companies on September 30, 2008. Each company's response and classification is summarized below. Any company that responded to the SBA's written correspondence is highlighted in blue text.

Company	Company Responsive to SBA Communications	Continued Examination Status
Actividades de Construccion y Servicios S.A.(ACS)	No	Removed from Iran List
Aggreko PLC	Yes; January 28, 2008	Removed from Iran List
Air Liquide	Yes; November 30, 2007 January 28, 2008	Removed from Iran List
Aker Solutions ASA (fka Aker Kvaerner ASA)	No	Iran CE Classification Continues
AREF Investment Group	No	Removed from Sudan List
Areva SA	Yes; October 27, 2008 December 29, 2009	Removed from Sudan List
Bauer Aktiengesellschaft	Yes; March 13, 2008	Removed from Sudan List
BG Group	Yes; November 23, 2007	Removed from Iran List
Bharat Electronics Limited	No	Removed from Sudan CE List
Bollore Group	No	Sudan CE Classification Continues
Costain Group PLC	Yes; November 5, 2007	Removed from Iran List
Daelim Industrial Co Ltd	No	Moved to Iran Scrutinized List
Engineers India Ltd.	Yes; October 16, 2008; September 9, 2010	Removed from Iran CE List
Essar Oil	Yes; January 9, 2009	Removed from Iran List
Finmeccanica SpA	No	Removed from Sudan List
Glencore International AG	Yes; September 20, 2010	Sudan CE Classification Continues
GVA Consultants	Yes; September 26, 2007 September 30, 2010	Removed from Iran CE List
ICSA India Limited	No	Removed from Sudan List
Itochu Corp	Yes; May 9, 2008	Removed from Iran List
JGC Corp	Yes; October 1, 2007	Removed from Iran List
La Mancha Resources	Yes; October 21, 2008	Removed from Sudan List
Linde AG	Yes; November 14, 2007	Removed from Iran List
Liquefied Natural Gas LNGL	No	Iran CE Classification Continues
Mitsubishi Heavy Industries Ltd.	Yes; October 26, 2007	Removed from Iran List
Mitsui & Co.	Yes; October 17, 2007	Removed from Iran List
Mitsui Engineering & Shipbuilding	Yes; November 21, 2007 December 18, 2007	Removed from Iran and Sudan Lists
MMC Bhd	No	Sudan CE Classification Continues
Nam Fatt	No	Removed from Sudan List
PT Citra Tubindo Tbk.	Yes; September 27, 2010	Removed from Iran CE List

Company	Company Responsive to SBA Communications	Continued Examination Status
PTT Public Company Limited	Yes; October 1, 2010	Removed from Sudan CE List
Saipem	Yes; December 12, 2007	Removed from Iran List
Samsung Engineering Co. Ltd.	No	Removed from Iran CE List
Samsung Heavy Industries Co. Ltd.	No	Removed from Iran List
Sasol Ltd.	Yes; May 25, 2010 September 29, 2010	Iran CE Classification Continues
Seadrill Ltd	Yes; September 20, 2010	Removed from Sudan CE List
Siam Cement Group (SCG)	Yes; September 24, 2010	Iran CE Classification Continues
Siemens AG	Yes; October 22, 2009 October 8, 2010	Removed from Iran CE List
Schlumberger Limited NV	Yes; October 19, 2007	Removed from Iran and Sudan Lists
Siam Cement PCL	Yes; October 21, 2008	Iran CE Classification Continues
SNC - Lavalin Group Inc.	Yes; September 25, 2007	Removed from Iran List
Sudan Telecommunications (Sudatel)	No	Sudan CE Classification Continues
Technip	Yes; April 30, 2010 and November 30, 2010	Iran CE Classification Continues
The Weir Group PLC	Yes; November 16, 2007	Removed from Iran and Sudan Lists
Total SA	Yes; October 12, 2007	Sudan CE Classification Continues
Trevi-Finanziaria Industriale S.p.A.	Yes; September 17, 2010	Removed from Iran CE List
Weatherford International, Ltd.	No	Removed from Sudan List
Welspun Corp. Limited (fka Welspun-Gujarat Stahl Rohen Ltd.)	Yes; September 24, 2010	Iran CE Classification Continues

Key Dates for PFIA Activities

June 8, 2007 — Legislation's effective date, upon becoming a law.

August 6, 2007 — SBA letter to state agencies requesting data on all publicly traded securities held directly by the State.

August 20, 2007 — First of two letters to investment managers providing written notice of PFIA enactment and amendment to Schedule B of investment management contracts.

September 19, 2007 — SBA assembles initial Scrutinized Companies lists for Sudan and Iran.

September 20, 2007 — SBA engages companies classified as either Scrutinized or needing Continued Examination through written correspondence, subsequent conference calls and additional communication. SBA disclosed the Scrutinized Companies lists on its website, including reporting of all equities held by the State.

September 21, 2007 — Second of two letters to investment managers providing Scrutinized Companies lists.

October 16, 2007 — SBA formally submits the Scrutinized Companies lists to the Legislature and the United States Special Envoy to Sudan, and continues to do so every quarter.

November 30, 2007 — SBA sends notification via email to any owned scrutinized company that has not responded to initial written correspondence. Similar notification was sent to each company classified as needing continued examination.

January 25, 2008 — SBA sends additional notice of divestment and request for information to all Scrutinized Companies, with emphasis to companies that have been unresponsive to the SBA's prior request for the necessary information.

July 1, 2008 — In March 2008, the SBA developed a policy approach directing all affected managers to sell their remaining PFIA related holdings no later than July 1, 2008, approximately three months earlier than the statutory deadline of September 18, 2008.

September 18, 2008 — Statutory deadline for the SBA to complete divestment of *initial* Scrutinized Companies (i.e., within 12 months of their initial appearance on the September 19, 2007 list), if they do not stop scrutinized active business operations.

March 1, 2010— Deadline for the SBA to identify and offer at least one terror-free investment product for the FRS Investment Plan (Defined Contribution).

Quarterly Reporting—SBA provides quarterly updates to the Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities. PFIA quarterly reports have been issued on the following dates:

September 19, 2007
December 18, 2007
March 25, 2008
June 10, 2008
September 16, 2008
January 13, 2009
April 14, 2009
July 28, 2009
October 27, 2009
January 26, 2010
April 27, 2010
July 29, 2010
November 9, 2010
February 22, 2011
June 16, 2011
September 20, 2011
December 6, 2011
March 20, 2012
June 26, 2012
September 18, 2012
December 11, 2012
March 19, 2013
June 25, 2013

Summary of Investments Sold, Redeemed, Divested or Withdrawn

In accordance with the PFIA, the SBA must divest all holdings of any scrutinized companies within 12 months of their original appearance on the prohibited securities list. External managers are contractually responsible for administering investments in accordance with restrictions set forth by the SBA, including the prohibited securities list of the PFIA. Historical divestment transaction data is contained in prior PFIA Quarterly Reports. The table below presents the cumulative market capitalization of scrutinized companies divested by the SBA since the PFIA's inception:

Royal Dutch Shell**	$215,784,700.79
Total SA**	$214,536,015.45
Petroleo Brasileiro SA (Petrobras) **	$206,135,264.10
ENI**	$141,403,034.78
CNOOC Ltd	$131,737,735.86
Gazprom (a.k.a. OAO Gazprom)	$71,275,453.14
Alstom**	$65,897,698.67
Repsol YPF**	$53,420,179.87
Statoil ASA** (fka: StatoilHydro)	$46,792,677.58
China Petroleum and Chemical Corp (CPCC) Sinopec	$38,455,440.48
PetroChina	$25,723,158.75
Inpex Corp.**	$24,835,110.63
MISC Bhd	$16,448,397.44
Snam Rete Gas**	$9,596,905.78
Lukoil OAO**	$9,487,631.46
OMV AG **	$8,601,977.98
Shell International Finance**	$8,599,813.40
Wärtsilä Oyj**	$1,797,871.96
Daelim Industrial Co Ltd	$1,566,926.73
Petrofac Ltd **	$1,496,881.43
The Weir Group PLC **	$1,322,666.62
Petrobras International Finance**	$1,148,750.00
Lundin Petroleum AB **	$1,133,120.04
Oil & Natural Gas Corporation (ONGC)	$945,363.83
China BlueChemical Ltd	$528,071.50
Petrobras Energia (Participaciones) **	$298,632.08
Dongfeng Motor Group**	$158,623.49
Electricity Generating Public Company**	$121,321.38
Gazprom Neft	$37,892.73
** denotes companies no longer on the Prohibited Company list.	**$1,299,287,317.95**

In accordance with the PFIA, the SBA will report on the performance implications of PFIA-related divestitures and restrictions. Generally, the impact of PFIA legislation on performance is measured as the opportunity cost of not being able to hold prohibited securities, measured by comparing the monthly return of the standard foreign equity benchmark (i.e., the MSCI ACWI ex-US) to a custom foreign equity benchmark based upon PFIA divestiture requirements. The difference in returns between the standard benchmark and custom benchmark represents the opportunity cost to the SBA of not being able to invest in (or hold) prohibited companies. The percent return difference is then applied to the average monthly balance of foreign equity investments to determine a dollar impact. Monthly dollar impacts, whether positive or negative, are added together through time and then compared to the total value of the FRS Pension Plan to determine the percentage or basis point impact of PFIA legislation.

Table 7: List of Prohibited Investments (Scrutinized Companies)

New companies on the list are shaded and in bold. (There were no new companies this quarter.)

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
AREF Energy Holdings Co.	Sudan	Kuwait	July 28, 2009	Yes
AviChina Industry & Technology Company Limited	Sudan	China	September 19, 2007	Yes
Chennai Petroleum Corp Ltd	Sudan	India	September 19, 2007	Yes
China BlueChemical Ltd	Iran	China	March 19, 2013	Prior to 3/19/2014
China National Petroleum Corporation (CNPC)	Sudan & Iran	China	December 11, 2012	Yes
China Oilfield Services Ltd	Iran	China	June 16, 2011	Yes
China Petroleum & Chemical Corp (CPCC) Sinopec	Sudan & Iran	China	September 19, 2007	Yes
CNOOC Ltd	Iran	China	June 16, 2011	Yes
CNPC General Capital Ltd	Sudan	China	June 26, 2012	Yes
CNPC Golden Autumn	Sudan	China	September 18, 2012	Yes
CNPC HK Overseas Capital Ltd	Sudan & Iran	China	June 16, 2011	Yes
Daelim Industrial Co Ltd	Iran	South Korea	June 16, 2011	Yes
Daqing Huake Group Co Ltd	Sudan	China	March 25, 2008	Yes
Egypt Kuwait Holding Co. SAE	Sudan	Kuwait	January 13, 2009	Yes
Gas District Cooling (Putrajaya) Sdn Bhd	Sudan & Iran	Malaysia	April 14, 2009	Yes
Gazprom	Iran	Russia	September 19, 2007	Yes
Gazprom Neft	Iran	Russia	September 16, 2008	Yes
Groupe ONA (ONA SA)	Sudan	Morocco	November 9, 2010	Yes
Harbin Electric Co. Ltd. (fka: Harbin Power Equipment)	Sudan	China	September 19, 2007	Yes
Indian Oil Corp Ltd (IOCL)	Sudan & Iran	India	September 19, 2007	Yes
Jiangxi Hongdu Aviation (aka Hongdu Aviation)	Sudan	China	September 19, 2007	Yes
Jinan Diesel Engine	Sudan	China	July 28, 2009	Yes
Kingdream PLC	Sudan	China	April 14, 2009	Yes
KLCC Property Holdings Bhd	Sudan & Iran	Malaysia	April 14, 2009	Yes
Kunlun Energy Company Ltd. (fka: CNPC Hong Kong)	Sudan & Iran	Hong Kong	September 19, 2007	Yes
Kuwait Finance House	Sudan	Kuwait	April 14, 2009	Yes
Lanka IOC Ltd	Sudan	India	September 19, 2007	Yes
Managem SA	Sudan	Morocco	November 9, 2010	Yes
Mangalore Refinery & Petrochemicals Ltd	Sudan & Iran	India	September 19, 2007	Yes
Midciti Resources Sdn Bhd	Sudan	Malaysia	September 19, 2007	Yes
MISC Bhd	Sudan & Iran	Malaysia	September 19, 2007	Yes
MISC Capital Ltd.	Sudan & Iran	Malaysia	April 14, 2009	Yes
Mosenergo	Iran	Russia	September 16, 2008	Yes
Oil India Ltd.	Sudan	India	September 18, 2012	Yes
Oil & Natural Gas Corp (ONGC)	Sudan & Iran	India	September 19, 2007	Yes
PetroChina	Sudan & Iran	China	September 19, 2007	Yes
Petroliam Nasional (Petronas)	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Capital Limited	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Chemicals Bhd	Sudan & Iran	Malaysia	June 16, 2011	Yes
Petronas Dagangan Bhd	Sudan & Iran	Malaysia	September 19, 2007	Yes

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
Petronas Gas Berhad	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Global Sukuk	Sudan	Malaysia	September 18, 2012	Yes
Ranhill Bhd	Sudan	Malaysia	September 16, 2008	Yes
Ranhill Power Sdn Bhd	Sudan	Malaysia	September 20, 2011	Yes
Ranhill Powertron Sdn	Sudan	Malaysia	April 14, 2009	Yes
Sinopec Finance	Sudan & Iran	China	April 14, 2009	Yes
Sinopec Group Overseas Development 2012 Ltd	Sudan	China	June 26, 2012	Yes
Sinopec Kantons Holdings Ltd	Sudan & Iran	Bermuda	September 19, 2007	Yes
Sinopec Shanghai Petrochemical	Sudan & Iran	China	September 19, 2007	Yes
Sinopec Yizheng Chemical Fibre	Sudan & Iran	China	March 25, 2008	Yes
Societe Metallurgique D'imiter	Sudan	Morocco	November 9, 2010	Yes
# of Prohibited Investments	**51**	**-**	**-**	

Companies **removed** from the Prohibited Investments List this quarter.

Removed Company	***Country of Incorporation***
Electricity Generating Public Co	***Thailand***
LS Industrial Systems	***South Korea***

Table 8: SBA Holdings in Prohibited Investments Subject to Divestment

As of April 30, 2013, the SBA held the following shares in China BlueChemical Ltd in accounts subject to the PFIA divestiture requirements. China BlueChemical was was added to the Prohibited Investments List as of the March 19, 2013 PFIA report, and is subject to full divestment within one year (prior to 3/19/2014).

Issuer	Shares	Market Value
China BlueChemical Ltd	11,896,000	$7,250,480.62

The following table summarizes the SBA's China BlueChemical Ltd divestment since the March 19, 2013 PFIA Quarterly Report.

Date	Company	Action	Shares	Proceeds
4/3/2013	China BlueChemical Ltd	Sold	868,000	$ 528,071.50

Summary of Progress, SBA Investment Manager Engagement Efforts

On August 20, 2007, the SBA sent letters to 66 external investment managers notifying them of the Act and informing them of new contract language that would enforce their cooperation with the requirements of the new law.

On September 19, 2007, the SBA sent letters to all affected managers outlining the list of prohibited securities for any future purchases. The letter described the SBA's engagement process with companies on the list, which affords companies a 90-day period in which to comply with the conditions of the law or clarify their activities. The letter directed these managers to cease purchase of securities on the list and to await the direction of the SBA for any divestment necessary in the event engagement fails, with a deadline for divestment under the law of September 18, 2008.

On September 19, 2007, the SBA sent letters to actively-managed, indirectly held funds holding scrutinized securities, including managers of the defined contribution program, asking the funds to review the list of scrutinized securities and consider eliminating such holdings from the portfolio or create a similar fund, devoid of such holdings, per the requirements of the law.

Each quarter, the SBA sends written and electronic notification to all affected managers about the list of prohibited companies.

The SBA has received responses noting our concerns in writing and by phone from several of the contacted managers.

Listing of All Publicly Traded Securities (Including Equity Investments)

Due to the large number of individual securities and the volume of information, this list has been electronically posted to the SBA's website and is updated quarterly. A list of all publicly traded securities owned by the State of Florida can be found within the PFIA information section of the SBA's website. Please observe the electronic report's notes page for important clarifying explanations of included data.

For more information, please contact:

State Board of Administration of Florida (SBA)
Investment Programs & Governance
1801 Hermitage Blvd., Suite 100
Tallahassee, FL 32308
www.sbafla.com

or send an email to:
pfia@sbafla.com

MINUTES
INVESTMENT ADVISORY COUNCIL
ASSET LIABILITY AND ASSET ALLOCATION WORKSHOP
March 18, 2013

A meeting of the Investment Advisory Council (IAC) was held on Monday, March 18, 2013 at 1801 Hermitage Boulevard, Hermitage Room, First Floor, Tallahassee, Florida 32308.

Members Present: David Grain, Chair
Martin Garcia, Vice Chair
Chuck Cobb
Les Daniels
Will Harrell
Chuck Newman
Gary Wendt

Members Absent: Michael Price

SBA Staff: Ash Williams
John Benton
Kathy Whitehead
Mike McCauley
Lamar Taylor
Trent Webster
John Bradley
Jeff Smith
Janice Yecco
Scott Seery
Katy Wojciechowski

ASSET LIABILITY AND ASSET ALLOCATION WORKSHOP

Prior to the regularly scheduled IAC meeting a workshop was held on asset liability and asset allocation where the following presented to the IAC: Ash Williams, Roland Davis, Mike Sebastian, and Kristen Doyle.

Mr. Williams opened the workshop with a brief presentation about the three basic functions of long-term success for any pension plan (i.e., (1) the benefits have to be reasonable, (2) the policy of funding has to be actuarially sound and consistently applied and (3) a sound and successful investment policy and process for execution must be in place). He explained that actuarial funding is determined by the Florida legislature, with the guidance from an independent actuary named Milliman, which engages in a collaborative process with the Actuarial Estimating Conference. The actuarial investment return assumption of 7.75% for the Florida Retirement System ("FRS") is a legislative determination. To achieve this, Mr. Williams explained that history and analysis has shown that a long-term real investment rate of return of 5% should be attained.

Mr. Davis explained that the basic issue of asset allocation is a two phase process (i.e., (1) assessing the overall risk by evaluating liabilities, flow of costs, and current funding status, and (2) evaluating and determining the best asset allocation plan to achieve the most efficient mix of asset classes based on the overall risk level of the fund or plan). He presented on the mechanics and functions of assessing, evaluating and managing the pension plan's assets and liabilities. He talked about the various risks in a pension plan like long-term cost uncertainty, short-term volatility, and short-term balance sheet exposures. From a cash flow perspective, he explained the analysis of segmenting the various beneficiaries of the plan and the discount rate to calculate the accumulated benefit obligation. He illustrated how varying assumptions on the discount rate can change the calculation of the accumulated benefit obligation. Specifically, every one point rate change in the discount rate changes the projected liabilities for the FRS 13%. In advising the SBA, Mr. Davis' firm is constantly advising about new and updated information and assumptions based on current market status.

Mr. Davis reviewed many of the assumptions used and applied in the Monte Carlo simulation model he uses to project plan liabilities. Some of the assumptions in the model relate to asset returns for various asset classes, interest rates, standard deviations and inflation rates. The thoroughness of Mr. Davis' work and his clarity of explanation were acknowledged by several of the IAC members. There were questions by the IAC about some of the assumptions in the Monte Carlo model and how those assumptions influence investment decisions at the SBA. There were questions about: (1) the level of the standard deviation used for bond prices, (2) whether the assumption that inflation affects bonds and equities the same is a valid assumption, particularly in moderate to high inflation periods, (3) and the unbelievably large number of outcomes in the model where the FRS portfolio compounds at minus 10% a year or minus 5% a year for 15 years. Mr. Davis acknowledged that the assumptions in the model are conservative. There was acknowledgment by some on the IAC that applying conservative assumptions in evaluating liabilities was prudent. It was discussed that doing the same, however, in crafting an asset allocation investment plan can result in long-term underperformance.

Mr. Sebastian characterized the FRS plan and the approach applied by the SBA as flexible in the ability to access all available investment products and services in the market. He said the plan had a long-term investment horizon, thus enabling it to invest in less liquid investments. The size of the FRS also creates an opportunity to negotiate lower fees with outside vendors, which the SBA has done effectively. On the other hand, he said the size of the FRS makes it more difficult to access niche asset classes and there is more risk of over-diversification. Larger funds also can have greater market exposure risk by virtue of size. He explained that the toolkit of investments used by the SBA was vast, including almost everything except maybe farmland. He explained that the public equity portion of the portfolio for the FRS has been slowly decreasing over time, and correspondingly in exchange, assets have been deployed into strategic or hedge fund investments.

Mr. Sebastian discussed the role of fixed income in the portfolio. He said the primary role for fixed income is the risk-reducing function for downside protection during a weak equity market, like most recently in 2008, where there was a significant flight to quality, and bonds provided protection for investors. He explained that fixed income investments have a lower standard deviation. On the other hand, he pointed out that if you view risk differently, there is definitely some concern about the low current level of interest rates and that presents new and different risks for the FRS fixed income portfolio. Mr. Williams explained that liquidity to manage cash flow obligations is a factor in

allocating capital to fixed income. The option of securing a lending facility was discussed as a source for liquidity during illiquid periods in the market. A number of IAC members asked questions about the level of capital that is currently allocated to fixed income when interest rates are so low from a historical perspective, and such rates serve as a drag on the portfolio to achieve the targeted rate of return for the FRS. An IAC member suggested that the standard deviation would likely be different than that which is used in the model if the assumption in the model took into consideration the historical comparative perspective of where the price/earnings ratios are today vis-à-vis interest rates today verses other periods.

With the workshop running 15 minutes overtime, the IAC promptly went into regular session.

REGULARLY SCHEDULED IAC QUARTERLY MEETING

WELCOME/CALL TO ORDER

Mr. Grain called the meeting to order at 2:00 PM. Mr. Cobb moved to approve the minutes from the December 2012 meeting. Mr. Newman seconded the motion, which passed unanimously.

Mr. Williams, Executive Director & CIO for the State Board of Administration, led the discussion on the election of officers, explaining that it was customary for the vice-chair to become chair and sequential seniority generally dictates succession from that point. Mr. Garcia, currently serving as vice-chair, would become chair, and in the normal course of things, Mr. Newman would become vice-chair. Mr. Newman asked that he not be considered for the vice-chair role as he has been chairing the compensation subcommittee, and recommended Mr. Les Daniels for the vice-chair role. Mr. Grain made the motion, Mr. Garcia seconded, and the motion carried unanimously.

OPENING REMARKS

Mr. Williams provided an update on the Florida Retirement System Pension Plan funding level, overview of challenges filling vacant positions, update on the continued success in resolving outstanding audit issues, and a review of legislative issues.

MAJOR MANDATE PERFORMANCE REVIEWS

Mr. Sebastian and Ms. Doyle, Hewitt EnnisKnupp provided a brief overview of performance through the end of the 2012 calendar year for each of the major mandates, and cash flows for the pension fund. An IAC member pointed out that the funding status of the FRS declined from 87% in the previous year to 85% in the current year, and Mr. Williams noted that the impact of recent positive investment returns had been attenuated by the impact of prior legislative decisions regarding contribution rates.

Ms. Doyle went on to provide a status update of the asset allocation and a performance update for the FRS pension fund, as well as a comparison to peer funds. The FRS underperformed its absolute nominal target rate of return (currently CPI plus 5%) for the 5 year and 15 year periods and achieved its objective for the 1, 3, 10, 20 and 25 year periods. She compared the performance of the FRS pension fund to the 10 largest public and corporate plans and reported that the FRS pension fund

performed below the median for the 3 year period, at the median for the 10 year period and above for the 1 and 5 year periods. For all the periods measured, the FRS fund outperformed the aggregate benchmark.

Ms. Doyle then provided a review of the Investment Plan performance. A brief discussion among IAC members, SBA staff and Hewitt EnnisKnupp ensued regarding the drivers of the Investment Plan's slight average-return underperformance relative to peers versus its net outperformance relative to benchmark over the five-year period.

Ms. Doyle then provided a performance review of the Hurricane Catastrophe Fund, Lawton Chiles Endowment Fund and Florida PRIME/Fund B. Mr. Williams added that due to current market conditions, the sale of Fund B assets have been accelerating and will likely continue to do so.

ASSET LIABILITY AND ASSET ALLOCATION REVIEW

Mr. Davis, as a continuation to the earlier workshop, provided an overview of the asset liability review, including modeling results, trend lines, funded ratio, distributions, risk-reward curve and potential impacts of legislative changes. The presentation then focused on the equity risk premium assumption. The current equity risk premium assumed in the model is 4.76%, which is up from 3.36% in 2010, a 140 bps increase. From a historical perspective, 4.76% is on the high side. In light of currently low interest rates and historically normal price/earnings ratios, it was pointed out by an IAC member that assigning a high risk premium to equities seemed counter-intuitive.

Mr. Sebastian, Hewitt EnnisKnupp, also provided information on the processes by which each asset classes' expected returns and volatility are developed. He said they have a 50- page document that explains how they handle each individual asset class in projecting returns. The information they use to project returns is based upon both historical information and qualitative judgment. With respect to volatility assumptions almost all of the assumptions are based upon historical data.

Mr. Davis continued with the presentation discussing charts indicating the defined benefit plan's projected cost as a percentage of pay and projected funded status under the current investment policy. Mr. Davis then discussed the risk reward curve and the impact of changing assumptions relating to the equity risk premium. The risks associated with the FRS' current fixed income allocation in light of the goal of earning the 7.75% actuarially assumed rate of return were discussed. It was acknowledged that the returns on fixed income investments are providing a drag on the ability to achieve the actuarially assumed rate of return. On the other hand, it was pointed out that there was short-term political risk associated with allocating more to public equities if there were a significant downturn in the market. Mr. Davis explained that there is a real issue of depressed expectations from fixed income investments. He said the solutions are one of two (i.e., (1) you either change your strategic asset allocation policy or (2) you explore tactical allocation solutions). He did not recommend a strategic allocation shift because it puts more exposure to a dramatic downturn in equities. There was a suggestion by an IAC member to increase cash at the exchange of decreasing longer-term fixed income investments. Mr. Williams expressed a preference for managing the fixed income dilemma tactically rather than strategically. These are topics that will be part of the agenda for the June IAC meeting.

Mr. Davis acknowledged that the results of any Monte Carlo model are the product of its assumptions. He said the model is just an informational tool. Although the model generates a precise recommendation as to asset allocation percentages, there are thousands of inputs that go into generating the ultimate asset allocation recommendation. Rather than use the model to generate a

precise outcome from thousands of inputs, it was suggested by an IAC member that the model instead be used to generate different scenarios with different corresponding outcomes to evaluate the inputs. It was pointed out that FRS' long-term performance could fall short because it is too cautious equally as well as if it takes on too much risk. To the beneficiaries, however, one outcome may not be any better than the other. A brief discussion among IAC members ensued with two IAC members commenting on the extent to which the model assumptions may be too conservative on a number of assumptions. Another member indicated that the fund's very long-term investment horizon along with capability to respond to changing market environments over time could support the fund's current investment policy.

Mr. Davis continued his presentation discussing the impact of certain potential changes to the plan such as increasing investment plan elections and legislative closure. Ms. Doyle then explained that in the June meeting that they will present a number of options in light of the fixed income dilemma (e.g., (1) shortening duration, (2) diversifying into higher yielding segments of the bond market, and (3) lowering the allocation to fixed income. A brief discussion between IAC members, Mr. Williams, SBA staff and Hewitt EnnisKnupp ensued regarding current actions the SBA is considering and taking with respect to the fixed income portfolio.

STRATEGIC INVESTMENTS PROGRAM REVIEW

Mr. Ash Williams provided an overview of the SBA's Strategic Investments asset class, which was created in 2007 to opportunistically take advantage of nontraditional and multi-asset-class investments. The intent was to take risk in a more diversified manner and increase flexibility across a range of market environments. The overview included the current allocation, at approximately 5% of the fund, and an explanation of the benchmark. Mr. Williams acknowledged SBA staff, and Messrs. Jim Mnookin, Andre Mehta, Samit Chhabra of Cambridge and Associates. Mr. Mnookin provided a brief overview of the current Strategic Investments portfolio composition and performance; took questions from IAC members, and engaged in a discussion with SBA staff and IAC members. Mr. Chhabra presented on the Hedge Fund portfolio and potential global opportunities. The presentation then turned to Mr. Trent Webster, the SBA's Senior Investment Officer for Strategic Investments and Private Equity, who provided an overview of the recent activities untaken by his staff and a high-level breakdown of current investments. A question was posed from the IAC related to the number of funds, which was answered. Mr. Webster then presented performance data related to the strategic investment asset class, followed by Cambridge Associates discussing their recent activities and outlook in the strategic investment arena. Mr. Webster concluded with the 2012 fourth quarter investment activities for the Strategic Investments asset class, and brief overview of items in the pipeline, and staffing issues. Additional questions from IAC members were posed and answered in a discussion format.

COMPENSATION STUDY

Mr. Garcia recognized Mr. Chuck Newman, Chair of the IAC Compensation Subcommittee to provide the Subcommittee's report. Mr. Chuck Newman thanked the members of and consultants to the Compensation Subcommittee of the IAC for their work and time. Mr. Newman provided an overview of the three meetings of the Subcommittee that were held since the December 10th IAC meeting, wherein the Subcommittee reviewed the compensation consultant's (Mercer's) work, which showed the SBA's salary and total compensation levels were, in general, below the competitive market level, and explained the competitive market level used by Mercer in its analysis. Mr. Newman relayed to the IAC the Subcommittee's recommendation that the SBA adopt and begin prudently implementing a compensation policy that both adjusts base pay and replaces the SBA's legacy incentive

compensation plan with one that is more market competitive and aligned with stakeholder interests. Mr. Newman then outlined the key design elements of the incentive compensation plan reviewed and recommended by Mercer and the Subcommittee. Mr. Newman also relayed the Subcommittee's recommendation that the SBA management team develop an implementation plan and time table that addresses the deficiencies in base and incentive compensation and the associated human capital risk. After providing the update, Mr. Newman moved that the IAC accept the recommendation of the Subcommittee and recommend to the Trustees the implementation of a compensation policy that reflects market levels for the top public pension funds as documented in the Mercer report. Mr. Newman then reported that the Subcommittee planned to meet telephonically in April to be immediately followed up by an IAC telephonic meeting where the Subcommittee would review and advise on the implementation plan to be developed by the SBA and review Mercer's compensation recommendation for the Executive Director & CIO.

Mr. Grain seconded Mr. Newman's motion, whereupon there was discussion by IAC members. Messrs. Garcia, Cobb and Harrell relayed discussion in the Subcommittee meeting regarding their views that the incentive compensation portion of the compensation recommendation should be tied more to absolute performance or peer group comparison, rather than relative benchmark, performance. During this discussion, Mr. Newman relayed that the Mercer recommendation was based on relative benchmark performance and the Subcommittee's recommendation at this point was to move forward with Mercer's recommendation. Mr. Garcia then called for a vote, and Mr. Newman's motion passed unanimously.

FUTURE AGENDA TOPICS FOR DISCUSSION/OPEN DISCUSSION

Mr. Garcia opened the discussion explaining his desire to start a dialogue among IAC members related to developing future agenda items for IAC meetings. Mr. Newman and Mr. Cobb expressed that the workshop earlier in the day was a very productive agenda item. Mr. Williams provided an overview of future meetings that envisioned a format where he and his SBA staff would present more, consultants would present less and the IAC would have more opportunity to ask questions and provide input.

AUDIENCE COMMENTS/2013 MEETING DATES/CLOSING REMARKS/ADJOURN

Mr. Garcia, after receiving no comments from the audience, turned the meeting over to Mr. Williams for a brief farewell ceremony for Mr. Grain. After the ceremony, a motion to adjourn from Mr. Newman was made, seconded by Mr. Cobb, and Mr. Garcia adjourned the meeting at 4:30pm.

Martin Garcia, Chair

6-18-13
Date

(Further meeting information can be found in the written transcripts of the meeting kept by the State Board of Administration.)

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL

ASSET LIABILITY AND ASSET ALLOCATION WORKSHOP

MONDAY, MARCH 18, 2013
12:20 P.M. - 2:00 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

QUARTERLY MEETING

MONDAY, MARCH 18, 2013
2:00 P.M. - 4:30 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:

DAVID GRAIN
MARTIN GARCIA
CHUCK COBB
CHUCK NEWMAN
GARY WENDT
WILL HARRELL
LES DANIELS

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR
JOHN BENTON
MIKE McCAULEY
KATHY WHITEHEAD
LAMAR TAYLOR
TRENT WEBSTER
JOHN BRADLEY
JEFF SMITH
JANICE YECCO
SCOTT SEERY
KATY WOJCIECHOWSKI

CONSULTANTS:

ROWLAND DAVIS - (Hewitt EnnisKnupp)
MIKE SEBASTIAN - (Hewitt EnnisKnupp)
KRISTEN DOYLE - (Hewitt EnnisKnupp)
JIM MNOOKIN - (Cambridge Associates)
ANDRE MEHTA - (Cambridge Associates)
SAMIT CHHABRA - (Cambridge Associates)
JAN OLSON - (Mercer)
JOSH WILSON - (Mercer)
JON MASON - (Mercer)

ASSET LIABILITY AND ASSET ALLOCATION WORKSHOP

* * *

MR. WILLIAMS: I'd like to welcome everyone joining us. My name is Ash Williams. I'm the executive director and CIO of the State Board of Administration, and I'd like to convene our asset liability and asset allocation workshop. In Tab 1 of your books you have a handful of slides that I'm going to walk you through. And then we have with us a professional team from Hewitt EnnisKnupp, including Mike Sebastian and Kristen Doyle, who are our normal coverage on asset allocation work and overall performance reporting, et cetera, and also Rowland Davis, who has a long history of doing the actuarial work for the SBA as an independent actuary working with us through Hewitt EnnisKnupp. And, of course, Rowland has a long history in working with us on asset allocation in the context of the asset-liability work and the equity risk premium, which is fundamental to setting allocation.

So let me direct you to the slides in Tab 1, and let's just take a look at these and discuss a little bit about what we do at its most fundamental level here. First of all, the long-term success of any pension plan is going to be dependent upon the

achievement of three rather basic objectives. First of all, the benefits have to be reasonable. Secondly, the policy of funding has to be actuarially sound and consistently applied. And, thirdly, a sound and successful investment policy and process for execution has to be in place.

Now, when we look at the stakeholders of the FRS, the retirement benefits are determined by the legislature, not us. The actuarial funding is determined by the legislature, with guidance from an independent actuary. And the independent actuary currently in that role for the State is Milliman. But the sound and successful investment policy and process is squarely here at the SBA. And without all three legs of that triangle being in place, the chances of a pension plan being successful over the long-term are diminished.

So if we look at the FRS, our investment policy statement really is the fundamental policy document that designs and implements the pension plan. So one could ask the question, why would we have this pension policy statement, why not just go out and buy some stocks and bonds and hope for the best. And obviously there are several things we do. First of all, if you submit something to the documentary

1 process, then by definition you've thought about
2 what the words mean and why they're chosen, and
3 they're there for a reason.
4 And, furthermore, the process of preparing that
5 document, which is done primarily by the SBA staff
6 and the IAC working together and then submitting it
7 to the trustees for their approval, also creates a
8 clear expression of risk appetite and return
9 expectations and helps define expectations for all
10 the various stakeholders in the SBA and, by
11 extension, the pension plan.
12 It would also establish what the asset classes
13 are that we choose to have exposure to, what the
14 allocations to each should be and what the maximum
15 and minimum shares of exposure can be over the
16 course of market variance before we would trigger
17 either some sort of special permission from the
18 trustees to be out of bounds from the targets or to
19 simply rebalance to bring ourselves back into
20 balance.
21 And by definition, investment policy is always
22 of its greatest value when the markets are most
23 attenuated in their swings either positive or
24 negative, because that's when either fear or greed
25 tend to take over human emotion and cause paralysis

1 of action at the exact time when action is most
2 required.
3 We talk a little bit about the FRS pension plan
4 objectives, investment objectives specifically.
5 There are several. First, we need to provide
6 investment returns that are sufficient for the plan
7 to be maintained over the longer term in a manner
8 that ensures timely payment of benefits to current
9 and future participants and keeps costs at a
10 reasonable level.
11 To achieve this, history has shown and analysis
12 has shown that a long-term real return approximating
13 5 percent annually should be attained, which is
14 reasonably consistent, the way the math works out
15 currently with inflation, with the actuarial
16 investment return assumption of 7.75 percent. That
17 number, the 7.75, is set by the legislature, not by
18 the State Board.
19 Additional considerations would include seeking
20 to avoid excessive risk in our long-term cost
21 trends, which is to say contribution shock. If we
22 have an investment policy that can cause the asset
23 value of the Florida Retirement System Trust Fund to
24 vary dramatically in value from day to day, that
25 could lead to unwanted shock in the contributions

1 required of member employers if we should happen to
2 come into a funding period with a diminished value
3 of assets. And obviously, given the scale of
4 numbers involved, that's not welcome. Lastly, but
5 part of that same issue, volatility of annual
6 returns is something we seek to moderate over time.
7 It's also important to understand how we
8 perceive risk. And risk in the setting of a large
9 institution is often counterintuitively different to
10 the way individuals would think of risk. From our
11 perspective, risk is really the failure to earn the
12 absolute real return over long periods of time. And
13 we, therefore, try and come up with an asset mix
14 that minimizes the probability of that risk being
15 fulfilled over time. We want to minimize the risk
16 that we come up with some amount of money less than
17 the amount of money required to meet our benefit
18 payments over the long-term.
19 So when we set the target portfolio or asset
20 allocation, there are several considerations that
21 come into that mix. First we have information from
22 actuarial valuation reviews, asset-liability studies
23 and projected liability studies of the FRS. And
24 we're going to talk about those a little bit more in
25 just a moment. Second, we have capital market

1 expectations. Obviously, one can't set a mix of
2 assets without some sense of what those assets are
3 expected to return over the future. We also talk
4 about the risk associated with each asset class
5 because that in turn will inform the aggregate risk
6 of the portfolio once the allocation is established.
7 We also look at the timing of cash demands or
8 the liquidity requirements of the portfolio so that
9 we know that we minimize the risk of falling short
10 on benefit payments or other liabilities as they
11 come due. Lastly, we look at asset mixes with
12 respect to their expected return, volatility,
13 liquidity and economic cost and benefit.
14 So those are the broad parameters that we think
15 about in looking at allocation. And I would just
16 add a little bit more and say that this historical
17 asset allocation, where one could simply set a mix
18 of assets and go forward with the view that the
19 correlations were going to remain constant across
20 those asset classes and that the execution within
21 the asset classes was less relevant than the
22 selection of the classes and the ratios of exposure
23 for each, that's actually changed a bit. And I
24 think there's a fair amount to be said for the way
25 asset class exposure is executed, because that in

1 turn can have bearing on what the risk is even on an
2 intra-asset-class basis.
3 So let me stop there for a moment and see if
4 there are any questions. And absent questions or
5 discussion -- welcome, Mr. Grain -- we will turn
6 things over to our friends from Hewitt EnnisKnupp.
7 Questions or comments? Thank you. Rowland, do you
8 want to lead off here?
9 MR. DAVIS: Thank you and good afternoon. I
10 guess you guys can't get enough of this stuff, so
11 you need to pack an extra hour in during the lunch
12 hour here. I'm amazed and mystified. But I think
13 the workshop idea is a good one. It flows a little
14 bit from last year, particularly after Will
15 expressed an interest in looking under the hood a
16 little bit, a little bit, and seeing a little bit
17 more about how the risk-reward analysis is put
18 together. So a lot of the workshop stuff that I'll
19 be doing is a peek under the hood.
20 My intent here is, in a lot of this stuff, to
21 go through pretty quickly and just give you an idea
22 of the flow of the process without really drilling
23 down deep into the details. But, importantly, it's
24 an opportunity to ask questions. So to the extent
25 you want to learn more, we can ask questions. I can

1 also follow up after the meeting with any specific
2 questions. But I think the ability to get a deeper
3 understanding and keep it outside of the framework
4 of the formal IAC meeting itself is probably a good
5 one. So that's my goal.
6 The basic issue of asset allocation, from our
7 perspective, we sort of divide it into two phases.
8 The first phase asks the very top level question,
9 what's the overall risk appetite of the fund, how
10 much risk should the fund be exposed to, recognizing
11 the liabilities, the flow of costs, funded status of
12 the plan, all of those things. That's the area that
13 I focus on with the asset-liability study, that top
14 level question.
15 The second phase then, after we address that,
16 is, okay, if we have a certain level of risk that
17 we're willing to take on, what's the best way to
18 allocate into different asset classes to achieve the
19 most efficient mix at that risk level. And that's
20 the asset -- we refer to it more as the asset
21 allocation or the diversification part of the
22 exercise. And that's where Mike and Kristen will
23 come in for the second half of the workshop and talk
24 about the specifics of that.
25 So that's the game plan. Before I start, I

shared this with the staff last week, but I think I need to share it with you all as well. This is spring break. I try and gear back to some lighter reading, so this is *State and Local Pensions, What Now*. The author is Alicia Munnell, who is a professor at Boston College, one of the top two or three pension experts it the country really. She's been at it a long time. She's been in the Treasury Department, maybe the Federal Reserve at some point, too. But she runs something called the Pension Research Center at Boston College.

And it's a brand new book, 2013. Page 115, "Well Run Systems" is the section heading. Sentence number one, Florida is the poster child for a well run pension system. There you go. Period. So from someone who pays a lot of attention to pensions and now particularly state and local pensions, Florida has a great reputation. So that's something to be proud of. And groups like this are part of that, the care that you take to looking at all these. And it does -- Ash made it important for me to recognize that the consultants supporting the system, blah, blah, blah, blah, blah, have made a big impact. So anyway.

Okay. Let's go into the material. I'm going

to start very big picture, and I'm going to move relatively quickly because our time is limited, but that doesn't mean don't raise your hand and interrupt me with questions. So pension finance basics, pension obligations. The obligations are best thought of as cash flows, projected cash flows, if you can stay with that and avoid thinking of liabilities right off the bat, that's the most important thing. Cash flows are ultimately what we're dealing with.

Now, liabilities is a way to capture the value of a cash flow, and there are a variety of ways to measure liabilities. The two main frameworks that we have are current accrued benefit obligations, more of a balance sheet view of things, and then the second kind of liability, which is perhaps the one more prominent in public plans, is a target for long-term funding. And we'll talk a little bit about those.

Funding approaches kind of, coincidentally, tie into those. The corporate plan model now is much more a balance sheet perspective on how you manage pension plans in the private sector. For obvious reasons, I think obvious, corporate entities are not necessarily as long-lived as they might have been in

1 the past. There's acquisitions. There's
2 bankruptcies. The pension plan can stop at any
3 moment in the private sector environment. In the
4 public plan the model is to focus on long-term cost
5 levels and less on the balance sheet issues.
6 As Ash indicated, the investment policy is the
7 part where we kind of come in and try and integrate
8 all these things. But there's always competing
9 objectives in the investment policies. Obviously
10 you want to earn a high return, the highest return
11 possible over the long-term, using the available
12 equity risk premium, one of the key assumptions in
13 our modeling, which we'll talk a fair bit about
14 later.
15 But the flip side of that is you need to
16 control risk, and there's risk in a variety of forms
17 in a pension plan. You have long-term cost
18 uncertainty. You have short-term cost volatility,
19 and you have short-term balance sheet exposures.
20 Again, that's much more relevant, I think, in the
21 corporate private world than in the public world,
22 but it has relevance there as well.
23 So cash flows, this picture I did last year. I
24 did all of these slides last year. The visual
25 aspect is more important than the specific numbers.

1 But this is the cash flow projection for the FRS
2 pension plan starting in 2011. And I've divided it
3 into different segments because it's helpful, I
4 think, in understanding the different liability
5 measures.
6 The first segment, A, is current retirees.
7 It's a pretty well-defined cash flow, not much
8 uncertainty in that. It diminishes as the retirees
9 die off. And so that's a significant but all
10 front-loaded type of the cash flow. Part B is the
11 promises already made in terms of accrued benefits,
12 so past service, current pay to current
13 participants, is the next section. Those first two
14 sections then get to the accrued benefit obligations
15 of a plan.
16 C1 and C2 are again just current participants
17 but represent the liabilities for future growth in
18 benefits, either because of pay increases or future
19 service accruals as they continue on their career.
20 I divide C1 and C2 into the two sections because
21 actuarial funding methods recognize part of this in
22 a systematic way but not necessarily the whole thing
23 at one time. So when you get to the actuarial
24 methodologies, part of that segment C is recognized
25 in the cost calculations at any one moment, and

1 another part is going to be recognized in the
2 future.
3 And then D is sort of completing the picture,
4 represents not current participants but future
5 participants, future hires. And on an ongoing
6 basis, if the plan is ongoing and ultimately becomes
7 sort of stable, where there's as many new people
8 coming in, that line continues upward, basically at
9 the rate of inflation. That would be a typical way
10 of thinking about the cash flow obligations of an
11 open continuing plan.
12 Talking about the liability measures, a
13 liability obviously is built from the cash flow. So
14 we look at the cash flow estimates, which are
15 reasonably well estimated, but less so as you move
16 up into those other categories. And you need a cash
17 flow discount rate to bring it back to a liability.
18 And that brings you to a liability measure.
19 So when you talk about a liability, you need to
20 answer two questions; what cash flows am I including
21 and at what interest rate am I discounting those
22 cash flows. Those are the two main questions. The
23 two main kinds of liabilities that I talk about here
24 are -- for balance sheet purposes, the term of art
25 is accumulated benefit obligation, or ABO measure.

1 That's the first two segments of the cash flow
2 projections, A and B. Typically, since it's a
3 balance sheet measure, you would use a low-risk bond
4 yield in discounting them. That is the corporate or
5 private sector framework.
6 You can also use the expected portfolio return
7 to discount that. And that's the approach that
8 public plans typically take for this ABO measure.
9 The ABO measure in the public plan framework is
10 really just a disclosure item. It doesn't go
11 directly into the cost calculations of the plan.
12 The second kind of liability is the guide for
13 long-term funding rates. And this is the one that
14 is the most important kind of liability for a public
15 plan, in the public plan framework. For the public
16 plans, it's a more comprehensive measure. It
17 includes part of that third cash flow section,
18 section C. And the standard approach is to use the
19 actuary's estimate of long-term expected portfolio
20 return. And currently that's 7.75 percent for the
21 FRS. And, again, that's an assumption that the
22 actuary, which is Milliman, I guess owns that
23 assumption, but here in Florida in combination with
24 a group called the Actuarial Estimating Conference,
25 which meets once a year, in the fall, is composed of

1 legislative staff or -- or government -- I was at
2 one meeting, but I'm not sure who all the parties
3 were. But they're staff, economists who sit on the
4 Actuarial Estimating Conference. And they review
5 every year the assumptions of the actuary and then
6 recommend what those assumptions should be going
7 forward.
8 So liability measures, what do we have at the
9 last valuation date, actuarial measurement date of
10 July 1, 2012? I have the different cash flow
11 segments listed on the left. A, current retirees.
12 B, benefits already accrued for current
13 participants. And C1 is a slice of future benefit
14 growth that would be recognized for funding purposes
15 only.
16 If you just look at A and B and you use the
17 actuary's 7.75 percent, we get to $122 billion of an
18 accumulated benefit obligation for the FRS system,
19 which is the disclosure in the annual report. If
20 you took those same two cash flows, A and B, but
21 used a discount rate more in line with high quality
22 corporate debt yield, maybe four and a half percent,
23 probably actually a little bit lower at July 1, but
24 let's use four and a half percent, the number
25 increases to $181 billion. That's a rough estimate

1 on my part. That's not from Milliman or anything
2 like that.
3 It's a ballpark figure, but to give you an idea
4 of the sensitivity of those liabilities to the
5 interest rate discount, and it's a very high
6 sensitivity. Your duration of liabilities is
7 roughly 13 years. So every one percentage point
8 change in the discount rate would change your
9 liabilities by about 13 percent, roughly.
10 And then the last column is the measure that is
11 the -- when you talk about the liability for the FRS
12 system, this is the one that most likely is being
13 talked about. It's the liability that the actuary
14 calculates for determining the cost rate. It's a
15 target basically that the actuary says, if we can
16 keep our assets roughly at that level of this
17 liability, this last column, then the cost of the
18 plan will be stable as a percentage of payroll as we
19 move forward, which is the goal of most public plan
20 systems.
21 So the idea is to fund towards that liability,
22 keep the assets roughly tracking with that
23 liability. And if you do, the cost of the plan will
24 be relatively stable as a percentage of payroll
25 going forward. So it's $147 billion using the 7.75

1 percent discount rate. And currently a little over
2 85 percent funded towards that amount.
3 MR. COBB: I have a question on your D, on your
4 earlier chart. What assumptions have you made
5 regarding future beneficiaries compared to what the
6 legislature has already passed and is considering
7 passing?
8 MR. DAVIS: That's a good question. First I
9 guess, make clear that the regular actuarial
10 calculations from Milliman don't ever reflect future
11 hires. They always are just a one-year snapshot of
12 current participants. When we do our work for the
13 projections, we do bring new hires in. And our
14 assumptions are that the elections to the DC
15 investment plan versus the DB plan are at the rate
16 of 25 percent electing into the investment plan, the
17 remaining 75 percent in the DB plan. This basically
18 has been the historical experience over the last
19 several years, except for a little blip when things
20 were changing.
21 And then in terms of overall population, we
22 assume that population is flat for three years, and
23 then we assume a one percent overall growth. It's
24 not a critical assumption in the work that we do,
25 but the idea is that Florida is still expected to

1 have population growth and that at some point
2 government will probably also grow. But as I said,
3 that's not one of the more critical assumptions.
4 MR. WENDT: But just so I don't get too
5 confused, the calculations you're showing here on
6 numbered page five, they don't include any D, any
7 new hires.
8 MR. DAVIS: When we bring new hires in,
9 basically -- what we do with our projections is
10 basically say the actuary did their last valuation
11 on July 1, 2012. We move the world forward to 2013,
12 and then we estimate what the actuary's calculations
13 would be then, and we move it forward another year,
14 and we estimate what the actuary's calculations
15 would be then.
16 So we're bringing new people in in the same way
17 that the actuary does every time they go to another
18 year. All the people hired in that last year are
19 now part of the actuary's calculations. So we bring
20 them in one year at a time, I guess is the simple
21 way to say that.
22 MR. NEWMAN: And you don't include anything for
23 C2?
24 MR. DAVIS: C2 gets recognized as you move
25 forward as well. So C2 is, for example, part of the

growth that would be recognized by pay increases and service accrual. So as you move one year forward, everybody has one more year of service and they've gotten some pay increases, and that gets picked up at that point. So we keep slicing pieces of that off.

Assumptions. Assumptions in our world are unavoidable, but also sometimes confusing, controversial, what have you. So I'll spend a little bit of time talking about assumptions. Actuarial, by that I mean the ones that Milliman would use to develop the cost of the plan, and the asset-liability, which is what we use each year as we do these studies and present the results to you.

A couple of key points are, when we do our projections, we're looking 15 years ahead. So it's a reasonably long period of time. But the actuary, in doing their regular calculations, really have a much longer time frame, 40 or more years, because they're including people that are newly hired, out until the time those people are projected to die and the annuities would stop. So they have very long time frames.

Plus, coupled with that is the fact that our framework, when we come every year, is tied to

current market conditions, because we're talking about investment issues, and so we can't ignore where current markets are, what the current market prices are, where current market interest rates are. So we are constantly bringing you new and updated information and assumptions based on where the market is at that point in time.

The actuary, if they were to follow that same thing, you might think that they would change their assumptions every year when they do their valuations, but that would mean that the cost measurements would bounce around. And for budgeting purposes, the general framework for public plans is that's a problem, you know, we need to plan ahead. In fact, when the actuary does their calculations, you don't start funding it for two years later anyway. So there's already a divorce from current market conditions, just in the time lag of all that.

So the actuary sets their assumptions in general with an eye towards, once I set these assumptions, I would prefer never to change them again, unless something really dramatic happens in terms of economic framework or what have you. There's other things that might trigger it. But the actuary really wants to have as stable a set of

1 long-term assumptions as possible.
2 And the typical way an actuary would look at
3 building out their assumption set is in building
4 blocks with what I would term each building block
5 would be a long-term equilibrium view of whatever
6 economic variable they're looking at. So it's a
7 little more diverse from current market conditions
8 and a little more assuming that you're way out in
9 the long-term where things are -- the economy is
10 roughly in equilibrium.
11 So I'll talk about some of these. But what
12 I've done here on the table -- it's hard to see on
13 the screen, so you probably need to look at the
14 page. I have -- if I were in Milliman's seat and
15 was asked to describe the building blocks that might
16 go into the actuarial assumptions, this would be my
17 best guess at what those would be. These are not
18 from Milliman. These are from me. But it's my view
19 as an actuary who has done this kind of stuff in the
20 past, how they might turn out.
21 So you start with bond returns. There's a
22 number of components in the bond return. There's
23 inflation and inflation risk premium, a real
24 risk-free yield and a credit risk premium. So go
25 through those components. Inflation, this actually

1 is Milliman's assumption. Three percent is their
2 long-term inflation assumption.
3 We, in our work, use a lower inflation
4 projection because we're tied to current market
5 expectations, which have been in the two to two and
6 a half percent range. I think we're at 2.3 now for
7 15 years. This is a key area of difference between
8 what we are building in our projections and what the
9 base official actuarial assumptions include.
10 Now, 3 percent can be pretty well defended on a
11 long-term historical basis. If you go back 75 years
12 or so in the U.S., the average inflation rate is in
13 excess of 3 percent. So actuaries often look --
14 traditional actuarial assumptions are often built on
15 historical experience as a defense for certain of
16 the building blocks as well.
17 Inflation risk premium might be 25 basis
18 points. The real risk-free yield might be in the
19 range of one and a half to two. I've used 1.75
20 percent. This is another assumption that is one
21 that you want to say, okay, now current market is
22 about zero percent real yield. So this is another
23 point of departure in terms of the real world as we
24 know it today and the long-term actuarial
25 assumptions.

1 But although the real yields are now
2 zero percent, I don't think anybody really expects
3 them to say there forever. The only question is
4 when do they start to return. The one and a half to
5 two percent I think is still sort of the long-term
6 equilibrium thinking that most people would have in
7 terms of an economy that's not in a stressed
8 condition.
9 Credit risk premium, maybe 50 basis points to
10 get to about five and a half percent bond return.
11 Then equity returns, the approach that we take is to
12 build an equity risk premium on top of the bond
13 return. So I've used that same approach. Equity
14 risk premium, historically we'll see -- we'll see
15 some more on this in a bit, but about three and a
16 quarter percent is a reasonable one based on history
17 and also reasonable based on most consultants'
18 expectations going forward. It's not too far out of
19 line.
20 So that gets us to a total equity return of
21 8.75 percent. Seventy-five percent equity or risk
22 assets and 25 percent fixed income gets you to
23 8 percent. Subtract 25 basis points for expenses,
24 and that also is Milliman's explicit assumption,
25 gets you to the 7.75 percent.

1 So this is the way -- again, I'm not Milliman,
2 so take it all with a grain of salt. But if I were
3 Milliman and someone said, can you break down your
4 assumptions into pieces that we can understand, this
5 is the way I would do it. Then the other key
6 assumption that kind of uses some of the same
7 building blocks is salary increases. And it works
8 the opposite as investment return. So if you lower
9 your investment return, your liabilities would go
10 up, but if you lower your salary assumption,
11 liabilities will go down. So there's a trade-off in
12 these two. The investment discount rate is the more
13 important one, always. But it's tempered by the
14 salary increase. So you get the same price
15 inflation assumption of 3 percent in there.
16 So if 3 percent seems high in one piece, it
17 would also be high in the other piece. If you
18 compress the inflation down, it would counteract
19 each other to some degree. Real growth in U.S.
20 wages may be about 1 percent, and then for
21 individuals, as they progress through their career,
22 there's an assumption that that maybe averages about
23 one and a half percent between ages 30 and 60, to
24 get to a five and a half percent on average pay
25 increase assumption.

1 MR. WENDT: In the State of Florida -- and I
2 don't know who would know the answer to this. But
3 in the State of Florida does anyone give these
4 assumptions to Milliman, or does Milliman make up
5 the assumptions and then gives the State of Florida
6 a number?
7 MR. DAVIS: I would describe it, as best I
8 understand it, as a collaborative process between
9 Milliman and the Actuarial Estimating Conference
10 group that meets each year, and then -- I mean,
11 Milliman obviously plays a key role in presenting
12 information to that conference. But ultimately the
13 conference will then say, this sounds like the right
14 package, and they will -- I don't know. Do the
15 trustees then adopt it or not?
16 MR. WILLIAMS: No. The way the Actuarial
17 Estimating Conference process works is dominated by
18 the legislative branch. The House and the Senate
19 have appointees. And then the Division of
20 Retirement, which is part of the State Department of
21 Management Services, is involved and contracts with
22 Milliman as the State's actuary. The SBA is simply
23 a resource to that process, and we are usually
24 present when they meet. We sometimes submit
25 comments in advance. We did so in writing last

1 year. And the decision process goes from there to
2 the legislature.
3 MR. WENDT: But you would have had input into
4 the net return 7.75 percent number, is that correct,
5 in what you sent to them?
6 MR. WILLIAMS: The commentary we submitted last
7 year was that our analysis was that it would not be
8 inappropriate to look at a lower return assumption.
9 MR. WENDT: I see. But you didn't give them a
10 number.
11 MR. WILLIAMS: No.
12 MR. DAVIS: And that was driven mostly because
13 of the inflation. They're using 3 percent. We have
14 consistently been using something less than that.
15 MR. WILLIAMS: And it might be useful, too, to
16 think about the history of the real return target,
17 which is something that doesn't move around a great
18 deal over time. And I understand the return
19 assumption is more of a nominal number, but on the
20 real return, just to give you some history, the
21 first real return number in the investment policy
22 statement was back in April of 2000, and it was
23 4.3 percent. In June of 2003 it was moved to
24 4 percent, and in June of '07 went to 5 percent and
25 has remained there subsequently. So we try and

1 simply look at a number that's more of a durable
2 long-term target.
3 MR. DAVIS: Okay. Now I'm going to -- I took
4 some time on this because I think it's always kind
5 of an important issue and sometimes a stumbling
6 block, so I am going to turn the speed way up now
7 because we have about 35 minutes left. So the next
8 part of it describes the asset-liability modeling,
9 so it's the process by which we do our projections.
10 I think what I want to do is jump through a lot of
11 slides here. But let me give you a quick overview.
12 Basically the reason that we do this modeling
13 is to build some raw material for doing risk and
14 reward analysis. So the way that we can capture
15 information about risk is to run through a range of
16 scenarios that cover what we think is a realistic
17 range of expectations for things like inflation,
18 like investment and bond returns and equity returns
19 and so forth, and then do the projections on all of
20 those scenarios, good and bad and average. And that
21 gives us the raw materials.
22 So that's the basic approach. We do -- and
23 this whole methodology is called a Monte Carlo
24 simulation approach. That's the fancy pants name
25 for it. We do a thousand scenarios for 15 years

1 into the future. That's our basic process each
2 year. We do the economic simulation of asset
3 returns, interest rates, inflation. Those feed into
4 both sides of the calculation process. The assets
5 are driven by the asset returns, interest rates.
6 The inflation and interest rates can guide the way
7 the liabilities are emerging. We reflect all of the
8 actuarial processes that are currently in place, so
9 the way the actuary smooths assets, the way the
10 actuary amortizes costs for unfunded liabilities,
11 the particular way that the actuary develops the
12 cost of the plan. So we follow the current
13 actuary's procedures to get to a cost projection.
14 And so that's the basic thing we're doing.
15 Now, these next slides, please don't pay any
16 attention to the specific numbers or anything on
17 here. These are merely guides to looking at it. So
18 if we're looking under the hood, which is what we're
19 starting to do here, I might point and say, this is
20 the carburetor, but I don't want you to necessarily
21 deal with the messy parts of how a carburetor works
22 or anything, just that a carburetor is part of the
23 process. So this is an attempt to follow the flow
24 of what we're doing, just so you have at least a
25 vague sense of what's going on in the model behind

1 the scenes.
2 So we set some assumptions for the expected
3 returns of the asset classes. We get a portfolio
4 expected return from that, and we also recognize a
5 certain amount of uncertainty through a standard
6 deviation of returns. And we can put those
7 parameters into our model and then generate our
8 thousand scenarios, which is down at the bottom, I
9 show three sample scenarios, that develop, when you
10 put all thousand of them together, are consistent
11 with the expectations about expected return and
12 uncertainty. So we form a distribution of results
13 when we're done.
14 And this is kind of going back from the
15 projections of those economic variables, which in
16 this case are the return for the portfolio and price
17 inflation. If we take all 1,000 scenarios, we get
18 distributions that we can plot, and those are shown
19 in the charts at the bottom.
20 MR. COBB: I have a question at that point. As
21 I understand, I want to focus on your standard
22 deviation for U.S. bonds, 3.5 percent. Now, I
23 assume what you have done, you said you looked at 30
24 years or 15 or some years of statistical evidence.
25 And I don't question that at all. I suspect in

1 whatever year you've taken, 3.5 percent probably is
2 the variation of bond prices.
3 But it seems to me what you should be looking
4 at is, when bond prices were -- when bond yields
5 were at today's numbers, which is historic lows, I
6 would suspect, if we go back 100 years or 200 years
7 or something, that the standard deviation of bond
8 prices after unusual lows of yields would be much
9 greater than 3.5 percent.
10 So I'm questioning, for your model, I'm
11 questioning whether you have properly measured the
12 risk of our bond position at this point.
13 MR. DAVIS: Okay. That's a good question, a
14 fair question. So the answer has to deal with sort
15 of two separate aspects of the model. Let's talk
16 about interest rates, because that's really what
17 we're talking about. So in the model we're at the
18 start of our 15-year projection period, the interest
19 rates that are in the model are current market
20 interest rates. So we have a Treasury bond of
21 two-point-something as a starting point. The model
22 also assumes that, as we move forward, the various
23 pieces that go into a Treasury yield will evolve
24 towards normal positions, kind of like that building
25 block thing.

So although real yields are close to zero now, the model assumes that over a period of time, they will tend to evolve back towards one and a half to two percent, somewhere in there. So the bottom line -- and inflation has a similar thing. Each component has that. So basically when you look at interest yields in the model, we are projecting that the trend over time will move up towards -- I forget what the ultimate is, maybe four and a half or something like that, at the trend level.

The standard deviation is the year-to-year volatility. So it basically gets to the question of, if we expect this kind of trend, the answer is we don't know exactly when all this is going to happen, so our scenarios will -- they'll bunch around that trend, but they'll be jumping around. And I guess a good point of -- the general expectation is that things will move up, but the uncertainty about when all that will happen gets back to like Bill Gross of PIMCO, who two years ago I thought said bond yields are too low, they're going to go up. Well, they've come down in those two years. So even someone as close to the market as he has a hard time with the timing aspect. But that's the standard deviation. It's basically the

vibrations rather than the underlying trend.

MR. COBB: What was the standard deviation of bond yields in the late seventies?

MR. DAVIS: Well, they were, I think, quite a bit higher, actually. Probably like 5 or 6 percent.

MR. COBB: I would have said much higher.

MR. DAVIS: Yeah, but -- yeah, bond standard deviations historically have been trending down over the period that I've been involved in doing this kind of stuff.

MR. HARRELL: I don't know if this is the right place, but I had a couple of questions as well, and some of them may be in the category of the carburetor question. If you want to push those off, feel free. As far as understanding the methodology, if I understand from our prior conversations correctly, the way that stock returns are calculated in your model is bond returns plus an equity risk premium, right?

MR. DAVIS: Yes.

MR. HARRELL: So in the event of inflation, bonds and stocks would both be affected in the same way by inflation. In other words, inflation would be bad for bonds, but it would also be bad for stocks.

1 MR. DAVIS: Yeah. Let me -- well, we do not --
2 in the specifics of the model, when we have an
3 equity return for a particular year, it's not
4 something that we could say, here's the bond return
5 for that year and here's the equity risk premium we
6 added onto it. The connection is in terms of the
7 expectations about how the distribution should work.
8 The connection between any particular scenario, a
9 15-year scenario or in particular one year to the
10 next scenario, is only the correlation factor that
11 connects bond returns and equity returns. And
12 that's about .2 percent or something like that. So
13 it's definitely not a 100 percent correlation. It's
14 a 20 to 25 percent correlation factor.
15 So in the model, if bond returns are suffering
16 because yields go up, there's a tendency for equity
17 returns to also suffer but not in a direct
18 one-to-one fashion necessarily.
19 MR. HARRELL: Right. And I should say, I
20 talked to Mr. Davis for a long time on this, and I
21 think he's an outstanding analyst and we're
22 fortunate to have him helping us. But it's a model,
23 and any model has limits, and so I'm interested in
24 probing those. If we as a committee were really
25 interested in the potential for, say, inflation to

1 be an issue for the pension fund -- and at least one
2 of us is interested in that -- we can't really tease
3 out, as I understand it from this model, how
4 inflation is impacting the results.
5 If for instance I had a different point of view
6 about how inflation might impact bonds or stocks,
7 there's no way to look at the high inflation
8 scenarios and say, well, here's how we did. It's
9 more like, it's got to be taken -- you can't look at
10 one rib. You've got to look at the whole cow kind
11 of thing.
12 MR. DAVIS: Actually, we can slice and dice the
13 results and sometimes do, but always with a caveat
14 or two, that the more you slice and dice -- as you
15 said, it's a model, and the more you slice and dice,
16 you know, the more fragile the information becomes,
17 I think. But we can take, out of our thousand
18 scenarios, we could say give me the ones that have
19 the highest inflation over the first ten years of
20 the forecast and the ones that had the lowest
21 inflation and the ones that were in the middle, you
22 know, slice it into quintiles or three segments or
23 whatever you want, and then look at the variables of
24 costs, funded ratio, whatever you want. And so we
25 can do that.

1 But as you can guess, the ability to slice and
2 dice and address those specific issues is a
3 challenge to point it all together into broad
4 recommendations. But I am happy to do some slicing
5 and dicing for someone such as yourself. If you
6 have a specific interest on inflation, we can
7 definitely do that.
8 We maybe need a little conversation to talk
9 about how to do it, so that I give you the kind of
10 stuff that would be relevant. And sometimes it's a
11 back and forth process. I'll slice and dice one
12 way, and you'll look at it, and then you'll say, can
13 you also do it a different way. So we can do that.
14 We can definitely do that.
15 MR. HARRELL: And one more question. On the
16 lower left-hand chart, the distribution of 15-year
17 returns -- and I think this question sort of comes
18 into play more when you do that allocation curve
19 table on a later slide. But the thing that I'm
20 struck by is on the left side of that chart, you
21 have the scenarios that came out with a 15-year
22 return, and I assume these are annual returns to be
23 compounded over 15 years.
24 MR. DAVIS: Yes.
25 MR. HARRELL: It's a small looking tail, but

1 relative to the broad sweep of history, it seems
2 like an almost unbelievably large number of outcomes
3 in which our portfolio compounds at minus 10 percent
4 a year or minus 5 percent a year for 15 years. And
5 I don't know if it's a question or not, but doesn't
6 it seem like a really -- maybe if this country turns
7 into Lebanon and everything falls apart, okay, I can
8 see how the stock market goes to zero. But if you
9 negatively compound it 5 or 10 percent a year for 15
10 years, that means, as a society, we're kind of
11 toast, I think.
12 MR. DAVIS: And I can give you the
13 probabilities of what that tail, any part of that
14 tail is. We use -- for modeling the risky assets,
15 equities and other risky assets, we use an approach
16 that develops a fat tail. What you see there is a
17 distribution that's not normal distribution. It has
18 a fat left tail, which means there's more downside
19 risk kind of baked into the process.
20 There's a conservatism in that. And it's, I
21 guess, a way of saying, well, if you're sitting
22 there at the end of 2008 and say this is a once in a
23 million year event we just went through, what we're
24 saying is, no, maybe it's a once in a 30-year event
25 that you just lived through. You know, as I said,

it's a model. We have to make the best assumptions we can. We tend to be at least a little conservative on that part of it, on the downside risk.

MR. HARRELL: I'm not criticizing that aspect of it at all. I just wanted to make the point, because I think then when we look at the later table, I think it influences how we interpret those outcomes.

MR. DAVIS: But this is -- even though you look at that graph and may be surprised to see any amount of red shade there, it's still a pretty small portion of the cumulative total of the distribution. But it is in there. It's the very worst --

MR. HARRELL: There's an awful lot of years in which we compounded zero percent for 15 years, which is also a pretty bad scenario.

MR. DAVIS: Right.

MR. SEBASTIAN: Rowland, is it possible to quickly generalize at all about the impact of high inflation scenarios on assets or liabilities? I know we haven't done the cut, but sort of the 30,000-foot level?

MR. DAVIS: Yeah. If we were to slice out the high inflation scenarios in some way, say, go out

ten years and just do a slice and dice based on the highest inflation and the lowest inflation and leave the middle alone, so we'd be talking about scenarios where there has been surprise, either inflation plus or inflation minus relative to our expectations, with the high plus inflation groups, we would obviously see yields rising faster than the basic expectation built into the model, which means bond losses would have been more severe even than anticipated. And that would have been a drag on equities, but only a drag in terms of the way we model it.

So overall portfolio returns in the high scenario years will be depressed relative to the middle part of the distribution and vice versa, although probably a little less so on the low inflation because we're already at pretty low, and so the low inflation years, it would still be there, but I think the most pronounced part would be the -- if we sliced out the high inflation ones, we would see those associated with lower expected returns, lower returns than expected.

MR. HARRELL: And since the only opportunity we have to exchange views is here, I'm just going to share my own bias, which is I think the methodology

1 makes a lot of sense. I have a real question around
2 it. In the moderate to high inflation scenario, I
3 think you might see very different results between
4 bonds and stocks than the model assumes. And so
5 perhaps when we get to that point, perhaps it's a
6 different way to think about it. That's all. Thank
7 you.
8 MR. DAVIS: Definitely we can drill down and
9 provide specific information. Would be happy to do
10 that.
11 So picking up here, we now have a distribution
12 of economic variables. And basically what we're
13 going to do is move forward each year, one year at a
14 time on each of these scenarios, and do an estimated
15 actuarial valuation to calculate what the actuary
16 would come up with in terms of a cost rate.
17 So moving one year at a time in any scenario
18 means, as you move one year at a time, maybe the
19 year you've just moved through had bad investment
20 experience, so that would be measured as an
21 actuarial loss, the way the actuary does their
22 calculations, based on smoothing that asset loss
23 out, amortizing it. We're reflecting all of that as
24 we go through year by year by year. So we're
25 basically trying to gather in these gains and losses

1 versus the regular actuarial assumptions and process
2 them the same way the actuary does.
3 So we get two basic results. We can get --
4 with any set of economic variables, we then can
5 project the cost of the plan, and we express it as a
6 percentage of payroll, that's down at the bottom,
7 and the funded ratio of the plan, both of which here
8 are reflecting the asset smoothing and just
9 everything the way the actuary presents the
10 information.
11 But, again, we can drill down behind the scenes
12 and look at market values as opposed to the
13 smoothed-out values. But you can see that now we
14 have a thousand scenarios of cost rates and funded
15 ratios.
16 And then, so now we're at the point of having
17 distributions of results that are based on
18 distributions of economic scenarios. And you might
19 recall these kinds of pictures; the projection
20 charts of cost rates, which is on the left, on the
21 bottom there, and the projection of funded ratio on
22 the right.
23 And these are the charts that I often describe
24 as sort of the hurricane charts, where you know
25 where the hurricane is at point one, but as you move

1 forward in time, there's a growing amount of
2 uncertainty about where the hurricane will be, but
3 you can do probability calculations. That's what
4 we're doing. We're doing probability distributions.
5 In these charts what you'll see, when we get to
6 the regular meeting, these are from last year, but
7 they look pretty similar. The dark shaded area is
8 the 50 percentile probability band, and in the
9 middle of that is the trend line, sort of the best
10 guess expectation, and the whole yellow shaded area
11 is a 90 percentile probability band, so from the
12 95th to the 5th percentile.
13 Still a lot of information. So we have 15
14 years and a thousand points for each of those years.
15 And we haven't yet moved away from the current
16 investment policy. When we talk about risk and
17 reward, we want to analyze different policies and
18 see how they trade off. So we need to compress the
19 information.
20 And to compress the information we developed a
21 metric which we call long-term economic cost. And
22 this is where things get to the point where at some
23 point you say, I trust you, you know, that you
24 squeezed the information into the right things, but
25 this is where I reveal at least behind the scenes

1 what goes into that particular calculation.
2 So long-term economic cost for any scenario has
3 four things that we want to recognize. So let's go
4 down to scenario one at the bottom. No, can't quite
5 see where that is. I see it flashing. Then it
6 disappears. Anyway, look at scenario one down at
7 the bottom. There's A, B, C and D. Those are four
8 things that will go into calculating a single number
9 for that scenario that we're going to use as our
10 compressed information.
11 Number A is looking at 15 years of
12 contributions and discounting those at a, in this
13 case, a risk-free interest rate, $34.2 billion. So
14 for scenario one we looked at 15 years of
15 contributions. We get a discounted present value of
16 34.2 billion.
17 Part B is looking at the end of 15 years, is
18 what's the funded position of the plan. And we
19 discount that at a risk-free interest rate. And on
20 a discounted basis, we see that the plan was
21 unfunded, and on a present value basis, the amount
22 of the unfunded liability was $17.7 billion. That
23 is another piece of the cost of the plan. It just
24 hasn't been funded yet. And so when we go out 15
25 years, we look at what has been funded and what

1 remains to be funded with respect to the liability
2 at that point in time. So it's another element of
3 cost.
4 Part C is a factor that we apply that gets at
5 the fact that there's a utility function to the
6 amount of surplus or unfunded liability. And the
7 basic concept is you're never going to be 100
8 percent funded. There's always going to be some
9 deviation. That's the nature of the beast. If the
10 deviations are pretty small around the expected
11 value, then that's normal. But if you get to very
12 large unfunded liabilities, let's say, we want to
13 give them extra weight because they carry political
14 risk.
15 In the same way, if you get to very large
16 surplus, which happens a fair bit in this modeling
17 process, we don't want to be overly generous in
18 giving value to those huge surpluses. Surplus is
19 great, but you can't draw the money directly out of
20 the plan and put it back in the Florida budget. And
21 so the really large surplus has a diminishing
22 utility, and that's what we pick up here.
23 So in this case we're applying a factor of 1.1,
24 which means this surplus -- this unfunded liability
25 is a little bit above the normal range, and we're

1 giving an extra 10 percent weight. So we're bumping
2 that piece up to 19.5. We add the part A and part B
3 together, and that gets us $53.8 billion. That's
4 the economic cost measure for scenario one. We now
5 have a thousand of these measures for this
6 particular run of the model, based on current
7 investment policy.
8 This is the same thing. These pages talk a
9 little bit more about that utility factor. And I
10 won't spend any more time about it. You can look at
11 it. We just don't have time to get into it. But it
12 shows exactly what we do.
13 MR. WENDT: I was with you pretty far along,
14 until we get to this last page. What is the value
15 of having that number that you have? What's the
16 value of that?
17 MR. DAVIS: It compresses the impact of the
18 investment policy into a range of results like this.
19 Let me just -- hopefully I can answer it as I move
20 into this next section. What we need is a metric
21 that compresses the information enough that we can
22 do good risk-reward analysis with it. And that's
23 what I'm getting to here. So let me try and come
24 back and ask me again if it hasn't become clear.
25 MR. SEBASTIAN: Do you mean the value of the

long-term cost or the --

MR. WENDT: It seems to me we had some pretty good data. We all understood what it was and we knew where we were generally at the end of -- on numbered page 36. But when we got on numbered page 37, we got some more numbers, but I didn't understand what it had to do with that.

MR. DAVIS: Maybe this addresses the question. Now, the next step is, if those charts were good information for what the current policy looks like -- so these charts are -- maybe if we're only looking at the current investment policy, we could stop there.

MR. WENDT: I'm pretty pleased with that at that point.

MR. DAVIS: Now we're talking about, okay, you, the Investment Advisory Council, you need to know what happens if we change from 75 percent risk asset allocation to 85 percent risk asset allocation, or 65 percent risk asset allocation, how do these pictures change.

MR. WENDT: That's not intuitive?

MR. DAVIS: If I put a bunch of pictures like that in front of you, you'd have a hard time making decisions, I guarantee you.

MR. SEBASTIAN: You compress that cone path into one number for each. Is that fair to say?

MR. DAVIS: Yeah. Each element that's compressing the cone, we now compress it into one distribution rather 15 distributions going forward. So we're picking the 15 years and compressing it into one number. And that gives us a little more ability to do comparisons. Is that --

MR. WENDT: No. Keep going.

MR. DAVIS: So, anyway, now we have a thousand values of this economic cost, and we can look at the distribution, and you can see now we're moving into distributions that are way different than any kind of normal distributions, that are heavily skewed. But this is the distribution based on the current 75 percent risk asset allocation policy.

Then we can rerun the model. Oh, before we do that. Okay, so now we've got a thousand things in a distribution. We squeeze one more time. I squeeze that distribution into two numbers. So I take a thousand numbers, look at the distribution, and I extract two values that are going to help me do risk-reward analysis. The first value on the bottom is look at all 1,000, get the average of them. In this case it's $79 billion. And the second value

1 that I squeeze out is to take the worst 20 percent,
2 the right tail in this case, of the high cost
3 scenario, so the ones that are troublesome, caused
4 by poor investment results, look at the average of
5 those worst 20 percent. Now that's $191 billion.
6 So now I've gone from basically 15,000 numbers
7 down to two. So I've squeezed pretty hard here.
8 But now we can start to do risk-reward analysis. So
9 the next thing we do is we can rerun the model. In
10 this case, we reran it with an 85 percent allocation
11 instead of 75 percent. We get a little different
12 distribution. That's the yellow bars instead of the
13 red ones.
14 And as you can see, if you were just trying to
15 do the analysis without squeezing, you'd have a hard
16 time with this. But I can squeeze those two numbers
17 out of the yellow distribution, and I now get 75
18 billion instead of 79. So we've saved $4 billion on
19 average by going to a higher risk allocation. So
20 that's a good thing.
21 But the other number we squeeze out is the
22 risk, the average of the worst 20 percent. We've
23 gone from 191 billion to 197 billion. So the risk
24 has gone up by 6 billion. That's a bad thing. So
25 now we're faced with the choice of, okay, see -- a

1 policy choice which is going to 85 percent that does
2 some good things and some bad things, and that's
3 what you're always going to see. There's always
4 going to be some good things and some bad things
5 because that's the nature of risk-reward analysis.
6 Now you're confronted with the question of,
7 okay, good things, bad things, is this a good thing
8 to do or not? It's a risk-reward trade-off
9 analysis. And that's where we strive -- I have a
10 couple of charts that talk about this a little bit
11 more.
12 MR. COBB: I'd like to ask a question at this
13 point. And, again, not to ask you to do a thousand
14 new numbers. But what if the bond standard
15 deviation was higher than 3.5 percent? Let's assume
16 it was 5 percent. How would that affect, in your
17 judgment, doing a quick calculation, how do you
18 think that would affect this thousand average?
19 MR. DAVIS: If we tweak something like the
20 volatility of bonds or any other asset class, we've
21 increased the uncertainty, so all of our little cone
22 charts would be wider. There would be more
23 uncertainty going forward. But when we get to this
24 point of saying, what about 85 percent versus 75
25 percent, in terms of making a policy decision, a lot

1 of that would disappear because those cones would be
2 wider for every one of those that we run.
3 And the things that drive the risk-reward
4 trade-off is -- the most critical assumption is the
5 difference between equity expected returns and bond
6 expected returns. Volatility would come into play
7 but in a minor way, I think, to some degree. So if
8 you increased volatility and that's all you did and
9 it filters into equity volatility as well, then you
10 would probably see a shift towards taking more
11 equity risk.
12 But it's a little hard to -- it's really hard
13 to pin down until you actually do it. We can run
14 sensitivity to that, too. I guess I'm saying that
15 the bond uncertainty is not one of the top most
16 important assumptions that I would put into this.
17 MR. COBB: Thank you.
18 MR. SEBASTIAN: How are we doing on clarity of
19 this material? Are there other -- this is critical
20 right now. This is sort of a transition, and I know
21 we're short on time as well. Are there other
22 questions right now?
23 MR. HARRELL: Can I ask one quick one? I think
24 your -- if I understand you correctly, your factor D
25 in long-term economic cost is almost a political

1 judgment, or a judgment, maybe it's political, that
2 a large surplus -- the utility of a large surplus is
3 very low. And the disutility of a large deficit is
4 very high. And so anything that increases the
5 volatility of the outcomes is going to give you more
6 scenarios that fall into a bad situation, where you
7 weight them heavily, and more scenarios that fall
8 into a good situation, where you underweight them.
9 Would that also -- anything that increases
10 volatility is --
11 MR. DAVIS: Pushing you towards less risk.
12 MR. HARRELL: At least one of the forces would
13 be --
14 MR. DAVIS: Right, towards less risk. If it
15 was just the bonds and you left equity assumptions
16 alone, then you'd be sort of taking it the opposite
17 way. You'd say, well, if we can get this risky
18 return with the same volatility we assume but the
19 low risk asset has more volatility, then the risky
20 assets are going to look relatively more attractive,
21 so it would work the other way. But in general
22 that's -- so it's going to be a complex mix of those
23 two things.
24 Okay. Let's get to this chart because this is
25 the punchline chart every year from my work, from

1 the asset-liability work. And it takes those two
2 numbers we've squeezed out of each of the runs, and
3 we plot them on a risk-reward chart like this. So
4 this is our risk-reward curve, is what we refer to
5 it as. And it's sort of the bottom line of our
6 analysis.
7 The risk is plotted on the bottom. So if you
8 go to the right, you're getting more risk. If you
9 go to the left, you're getting less risk. The
10 expected cost is on the left axis. If you go up,
11 you get a higher expected cost across all 1,000
12 scenarios versus risk, which is only looking at the
13 worst 200 scenarios. The center point there where
14 the crosshairs are is always the current allocation,
15 which is 00. So everything is measured as the
16 change in risk or change in reward relative to where
17 you are now.
18 And so when we had 85 percent in that previous
19 example, we increased our risk by 6 billion, so
20 we've moved six units over to the right, but we've
21 had cost savings of 4 billion, so we've moved up in
22 terms of cost savings. So the mixed news is
23 combined into that plot point there.
24 We draw a diagonal in this case through -- the
25 way this chart is put together, the diagonal is all

1 the points where if you were neutral in terms of
2 taking three units of risk to get one unit of
3 return. So this is sort of an embedded risk
4 tolerance level measured by that diagonal line. If
5 you're above that diagonal, you're doing better than
6 that three-to-one trade-off.
7 So we plot the lines. We look at that
8 diagonal. We say relative to a three-to-one
9 benchmark risk tolerance level, if you're above the
10 diagonal, you're getting better trade-offs than
11 that. So in this chart, which we saw last year and
12 you're going to see it again pretty much the same
13 way this year, it's saying that, yeah, the best
14 results on this particular metric, using this
15 modeling exercise, is to increase risk so that you
16 get higher above the diagonal line. You get to
17 85 percent, and you've pretty much lost the ability
18 to get any higher elevation above the diagonal.
19 So this kind of interpretation would be, this
20 measure right now would indicate maybe moving up to
21 85 percent but not beyond because there's no real
22 marginal improvement beyond 85 percent. That's how
23 we look at this risk-reward chart. It's been a
24 struggle to get to this, but this is the most
25 important chart that we present each year.

1 And it's not that we're going to make
2 recommendations every year off of the chart, but it
3 keeps you -- keeps your fingers on the pulse of how
4 things change from year to year. This year, as
5 you'll see, there's very little change in how things
6 look relative to what we saw last year. Sometimes
7 the changes are more dramatic.
8 The last thing that I'll go to kind of stresses
9 the fact that, okay, we chose three-to-one
10 risk-reward trade-off as a benchmark for that
11 diagonal, but that's a subjective call as well. We
12 think it is a benchmark that works pretty well for
13 trustees and fiduciaries who want to avoid risk
14 generally, but you can draw different benchmark
15 lines. And here I've drawn in two-to-one and
16 four-to-one. Two-to-one is a more conservative
17 investor. Four-to-one is a little more aggressive
18 investor, willing to take a little more risk.
19 And with that, I've run out of time, and we
20 might want to spend a little time on the asset
21 allocation. I apologize. I always end up taking
22 more time than I intend to.
23 MR. WILLIAMS: Just because the actuarial
24 material is so exciting and compelling, people can't
25 keep their hands off of it. Why don't we -- I've

1 talked to some of our members. I think the sense is
2 we can go ahead and take the time that would have
3 otherwise been the break to keep moving, if that's
4 acceptable to everyone.
5 So, Mike, do you want to take us forward a
6 little bit? And also the other thing to understand
7 is, because the legislature is in session now and we
8 don't know what the outcome of discussions on
9 further benefit reform will be, at this meeting of
10 the IAC, it's not expected that we would take any
11 definitive action on allocation anyway.
12 What we'll need to do is use today's time
13 together to inform ourselves on the appropriate
14 issues. Then when we come back in June, we'll have
15 the benefit of knowing what if anything the
16 legislature has changed, take that into
17 consideration, and then revisit our existing
18 investment policy, determining whether we want to
19 make changes and go forward from there. Mike?
20 MR. SEBASTIAN: Sounds great. Thank you very
21 much. So we'll use the remainder of our time to
22 talk a little bit about what Rowland alluded to
23 earlier as sort of the second half of our work here,
24 with the first half being what's commonly referred
25 to as asset-liability, the second what we call asset

1 allocation.
2 So here recaps a lot of what Rowland said, so I
3 won't spend a lot of time on it, other than to say
4 that the asset-liability work provides some guidance
5 analytically as to what the right choice of overall
6 risk level might be for the plan, and risk level
7 being proxied in this case by allocation to what we
8 often call risky or return-seeking assets, so
9 equities, alternatives, private equity, real estate,
10 hedge funds, so on, and other equity-like assets,
11 and fixed income on the other hand being the
12 non-risky or risk-reducing assets, so one number
13 that's split, which is currently 75 percent, between
14 return-seeking and risk-reducing, what would be
15 your -- what direction if any would be the right one
16 to move there.
17 But the second half asks if we can do better
18 than just looking at the risky, non-risky split.
19 And in Rowland's work, we are assuming that those
20 two categories stay allocated as they are now on a
21 pro rata basis. So a hypothetical increase in the
22 allocation to return-seeking assets would do so in
23 the same proportion to global equities, private
24 equity, real estate, strategic investments and so on
25 as exists now. But perhaps by altering the

1 subcomponents of that category, you might be able to
2 get at something that would just sort of -- in an
3 artist's conception of reality shown here is that
4 yellow dot. So going beyond the red risk-reward
5 curve that we saw from Rowland's work into something
6 that takes us into a better plane of risk-reward
7 space, diversifying better or moving to a better
8 risk-reward outcome.
9 We will be spending more time on this in June,
10 but I wanted to set the stage in the workshop for
11 some of the factors that drive the way we think
12 about that asset allocation and diversification. We
13 split it into three; governance, time horizon and
14 portfolio size. Governance being the oversight and
15 resources that are available to the plan, how
16 quickly the FRS could act to take advantage of an
17 opportunity or a change in market conditions, and
18 also the amount of scrutiny that it's under in a
19 public sense.
20 And sort of the spectrum between those two,
21 strategic, as being the funds that are slower to act
22 or the ability to act, and on the right-hand side is
23 more flexible. I would place FRS more on the
24 right-hand side, more of a flexible plan, in the
25 sense that you have very skilled investment staff

1 with a discretion to choose portfolios, expert
2 oversight on the part of the IAC and the ability to
3 allocate to a broad range of strategies.
4 What does that mean for how you might allocate
5 assets and diversify? If we see the ability to look
6 at the full toolkit of assets, so to diversify
7 across a lot of different strategies and asset
8 classes, particularly ones that are more complex or
9 less constrained, I'm thinking particularly about
10 the strategic investment area that includes
11 alternative investments.
12 Secondly, what is the time horizon? And so
13 that's a function of not only the life span of the
14 plan, which is measured in many decades for the FRS,
15 but also in the cash flow position, given that
16 negative cash flows shorten the effective duration
17 of the plan.
18 So we're placing the FRS in basically the long
19 category, so an open plan with a long time horizon
20 but one also that has around five percent or so
21 negative cash flows per year and also the risk or
22 possibility of the plan closing or the default
23 choice changing.
24 The impact of a long time horizon means the
25 ability to capture liquidity premium through

1 investing in less liquid assets, private assets,
2 real estate, private equity, and also arguably
3 approach more active strategies. So think again of
4 strategic investments, strategies that are less tied
5 to a particular benchmark or asset class that might
6 take a certain amount of time for them to play out.
7 And then, lastly, portfolio size. Obviously
8 very, very large. That's a double-edged sword. So
9 large plans have the ability, through their size, to
10 get access to the best managers, to diversify across
11 a wide range of asset classes, negotiate
12 advantageous fees. But at the same time, the market
13 impact of anything you do would be greater. And so
14 that means it becomes more difficult to be in niche
15 asset classes or categories. It means market impact
16 can be greater. And also there's always a risk of
17 over-diversification, being in a particular asset
18 class and having many, many managers or just too
19 broad exposure to the asset class to really add
20 value, at least from an active sense.
21 We have a set of core beliefs that we apply.
22 I'm not going to walk through all of them but just
23 talk briefly in the context of the FRS. The top
24 half really is asset allocation related and the
25 bottom half is more implementation related, things

1 like choices between active and passive management.
2 From the top, we believe that you all gain
3 exposure to the broad opportunity set, the process
4 it blesses within asset classes. That's the way the
5 FRS operates now in the sense that you are
6 diversified across many opportunities, and also
7 within them, for example, in global equity, you're
8 globally diversified. There's not large parts of
9 the market you're leaving out. We think that -- and
10 this has been a theme over the past several years,
11 that efficiency can be enhanced through alternative
12 investments, through less constrained investments
13 like hedge funds and others, particularly in
14 strategic, that might give you a better trade-off to
15 be able to reduce risk, maintain the same level of
16 expected return, or vice versa, increase returns
17 without increasing risk too much through good active
18 decisions.
19 And then lastly, this is going to be a focus of
20 much of the rest of our comments here, but the role
21 of fixed income. So there are many things that
22 fixed income can do for you. It can be a total
23 return engine, can be a liability hedge or it can be
24 a risk reducer, something that's just meant or
25 mostly meant to protect you in the event of

1 downturns in the equity markets. We think that at
2 least some fixed income ought to be used for that,
3 in conservative investment grade bonds. And we'll
4 talk more about the role for fixed income a little
5 bit later on.
6 And then the remainder of this, not spending
7 much time, just we think you ought to not pay much
8 for market returns because you have the ability to
9 get them cheaper through index funds. Focus manager
10 selection on skill, not style, and seek to keep your
11 fees low. Fees are low in the DB plan relative to
12 competing plans, and that's been an addition to the
13 bottom line.
14 The toolkit, so just harkening back one more
15 time to Rowland's work, the left side of the
16 return-seeking is the 75 percent equity and
17 equity-like assets, and the right-hand side the
18 safety, the mostly investment grade fixed income.
19 So those are the two big roles. But as we think
20 more about diversification, we split them out more
21 into asset classes that are designed to generate
22 equity returns or equity risk premium, ones that
23 have the risk premium associated with them but also
24 do a good role of diversifying. So that's the
25 second from the left, credit bonds, commodities,

1 certain kinds of real estate. And in the middle
2 there's skill-based asset classes, your private
3 equity investments, your strategic investments,
4 hedge funds and so on.
5 My message here is that you use almost all of
6 this toolkit already. There's hardly anything,
7 maybe farmland, that's left off here. But we want
8 to think about ways to allocate among subcategories,
9 and also if there's anything missing, if there's any
10 missing piece, something that we can add.
11 And then also within the categories like
12 safety, other ways that they can be allocated in a
13 more advantageous way, which clearly in an asset
14 class like fixed income, that is in a kind of unique
15 position right now, given market levels. I'm going
16 to transition right now to Kristen to kind of round
17 this session out.
18 MS. DOYLE: So how does the asset allocation
19 toolkit then get implemented or how is it
20 implemented today with regard to the FRS? That's
21 what's detailed here on the following slide. So
22 these are the returns, what we would consider the
23 return-seeking portion of the current FRS portfolio
24 and the asset classes that currently have a
25 strategic or a long-term policy allocation to them,

1 laid out in the investment policy statement.
2 Here we detailed the role of each of these
3 asset classes. They would not necessarily have a
4 strategic policy assigned to them if we did not
5 believe in the role that each of these play on a
6 long-term basis within the plan. And then the
7 farthest column is the risk and liquidity, because
8 we want to be mindful of what risks exist by
9 allocating to these different asset classes, as well
10 as the liquidity aspect, especially given the large
11 cash outflows that we see with regards to the FRS.
12 So a couple of comments. The public equity
13 portion of the portfolio, as you know, it has slowly
14 been decreasing over time. And most of that has
15 been deployed into the strategic or hedge fund
16 allocation within the policy. That's consistent
17 with what we've seen from your peers. And during
18 the regular IAC meeting, when we look at peer
19 comparison, you'll see that the FRS is currently
20 overweight to public equities relative to peers, or
21 moving in the same direction as your peers.
22 With regards to private equity, 5 percent -- it
23 fluctuates a bit, but around 5 percent is the
24 strategic allocation to private equity. And that is
25 consistent, maybe on the lower end, but fairly

1 consistent with your peers. And then a seven to
2 seven and a half percent allocation to real estate,
3 again, a bit maybe on the higher end but very much
4 within the range of where we would expect a plan of
5 this size to be able to allocate assets.
6 And then just to set the stage for a broader
7 discussion of the role of fixed income, during the
8 regular IAC meeting, the primary role that we see a
9 fixed income portfolio playing is the risk-reducing
10 role that Mike described, which would be a downside
11 protection during a weak equity market, like most
12 recently in 2008, where there was a significant
13 flight to quality, and we saw bonds, especially
14 Treasuries, providing that protection for investors.
15 The risk of a fixed income portfolio is low
16 generally, from when we're looking at standard
17 deviation. However, if we look at risk differently,
18 there is definitely some concern about the low level
19 of interest rates and that that does present new and
20 different risks for the bond portfolio. Liquidity
21 generally is high, especially if you have a
22 portfolio that's highly tilted towards Treasury
23 bonds and can act as a liquidity provider for a
24 plan, especially in volatile markets.
25 So just to conclude, hopefully this discussion

1 gave you a better sense of the two exercises that we
2 undertake, and we're doing this almost every year,
3 where we're looking at the asset-liability study,
4 which is the first step to really determining what
5 the best mix is between return-seeking and
6 risk-reducing assets. And then, further, the asset
7 allocation exercise, drilling down into those two
8 components and determining the most optimal way and
9 efficient way to allocate among the different
10 toolkits that you have with regards to
11 return-seeking and the risk-reducing portfolio.
12 MR. GARCIA: I have a question. Do we do a
13 specific analysis of the risk of short-term
14 volatility as it relates to our short-term liquidity
15 needs?
16 MR. SEBASTIAN: Yes, we do, and we'll see some
17 of that later on?
18 MR. DAVIS: Yeah.
19 MR. SEBASTIAN: So there are cash flow
20 projections out in different scenarios. You'll see
21 some results.
22 MR. WILLIAMS: In addition to that, we also do
23 a pretty extensive modeling of our internal sources
24 of liquidity demand, which would include not only
25 benefit payments, which commonly average about

1 $600 million monthly, but also potential capital
2 calls for committed capital structure investments,
3 such as private equity, opportunistic, credit, real
4 estate, et cetera.
5 MR. WENDT: I have a question. Your analysis,
6 as you did for us last year and apparently this
7 year, is going to come out to be the same, which
8 says the 75/25 risk asset basis is the way to go.
9 When you do it next year, just what could happen
10 that would cause that number to change?
11 MR. DAVIS: Again, a critical question in terms
12 of what makes these curves change from one year to
13 the next. Three major factors would drive the shape
14 of that curve. One, which we'll talk about a fair
15 bit today, is the equity risk premium assumption; in
16 other words, how much are you getting paid to take
17 risk, you know, what's the difference between
18 equities and bonds. So that's critical, and we
19 always do a sensitivity of that.
20 MR. WENDT: But that's subjective, isn't it?
21 MR. DAVIS: That's subjective. So we do a
22 sensitivity, so you see the sensitivity of that.
23 The second thing, which we'll also talk about today,
24 is the dynamics of the plan itself can change. So
25 the legislature is currently considering things

1 that, either in the House, which would shut off all
2 new entrants into the DB plan, or in the Senate,
3 which would probably pretty dramatically slow down
4 the number of new entrants into the defined benefit
5 plan. Either of those, which we're waiting to see
6 exactly what will transpire, that changes the
7 dynamics of the plan. And we're going to see the
8 sensitivity to that as well.
9 And the third thing that changes is the funded
10 status of the plan. And so in general, as the plan
11 becomes more well funded and particularly if it
12 moves into a surplus position, our curves would
13 start to say take less risk, protect rather than
14 stretch. And so those are the three key variables.
15 For example, the chart that Mike showed with
16 the yellow circle on it, you saw the red curve
17 basically at a perfect tangent to the current
18 policy, that was from 2007. So from 2007 to what
19 you're going to see, that shows what's changed.
20 Well, what's changed is the funded status of the
21 plan went down. That's going to move the curve
22 towards maybe taking a little more risk. And the
23 equity risk premium assumption from four years ago,
24 five years ago, has steadily gone up, primarily
25 because fixed income returns have gone down. And so

1 that also has been a factor.
2 So two of the -- and now we're waiting for the
3 plan change thing to be the last component of that.
4 But the reason that, from 2007 to 2012, has tilted
5 that way is because of those things. But there are
6 other factors that can move it back and even put the
7 hump of the curve on the de-risking side rather than
8 the risk-increasing side.
9 MR. WENDT: Thank you.
10 MR. GARCIA: I have a comment. I very much
11 value and understand the value of doing these models
12 and the discipline that it brings to the thought
13 process. But if you rely exclusively on the models
14 without any qualitative assessment, then the models
15 become essentially the investment decision-maker,
16 because there's no qualitative analysis there. And
17 I find that to be problematic.
18 MR. DAVIS: If I can just respond. We do also.
19 We don't say here's the model results and that's the
20 end of the story. We hopefully are always the first
21 to say, this is just a model. It provides some of
22 the important input. And most importantly, as you
23 move -- that's one of the reasons we decided a while
24 back to do this every year. Most plans don't do
25 this every year. But this allows you to sort of

1 keep your pulse on these things that do change from
2 one time. And it doesn't necessarily mean that
3 every time there's a change, that you're going to
4 make a policy change because of it. But you start
5 to see the evolution over time of how the dynamics
6 can push you one way or another.
7 And if we don't say it, then we're at fault,
8 but it is just a model and should be looked at only
9 as one of the inputs to your thinking. We would be
10 the first to stress that, absolutely.
11 MR. HARRELL: Can I clarify something? And,
12 Gary, maybe I misunderstood you. Does HEK make a
13 recommendation, and if so, has it made a
14 recommendation of 75 percent or some other number to
15 risk assets, or is it just providing us information
16 and we --
17 MR. WENDT: Just giving us a tool, and based on
18 last year's information, we did it, I guess. I
19 wasn't here.
20 MR. WILLIAMS: As a practical matter, the way
21 it works is we reason together on this. We sit down
22 and have exactly the conversation that was alluded
23 to a moment ago. Gary, when you said, but the
24 equity risk premium is subjective, isn't it, after
25 the comment was made that it's one of the three

1 primary drivers.
2 And then Martin said, but if it's a model and
3 it's simply followed as a straight process of
4 putting inputs, letting the model run and then
5 acting on the outputs, that would be problematic.
6 We couldn't agree more with both points.
7 And as you'll see, what we'll do in the next
8 meeting is talk a little bit through this. And, for
9 example, on the equity risk premium, while it is at
10 an all-time high right now, the discussions we're
11 having with HEK are, well, that's true, but that's
12 largely because -- not because equity opportunities
13 are so extraordinarily rich. It's because fixed
14 income returns are extraordinarily suppressed, which
15 in contrast puts the risk premium very high. But
16 that would color the way you would use it, and it
17 would be important interpretive data for how the
18 model's outputs would be used, which is to say you
19 should not just jump to jack risk assets to an
20 extraordinary level because it would appear that
21 you're being paid a historic rate to take risk.
22 So I think all of these points are right on it
23 and reflect the way this works, which is to say it's
24 a reasoned dialogue that tries to integrate the
25 long-term policy aspects of the near-term market

1 realities and come up with something that's
2 practical and prudent, net of all those things. Is
3 that a fair assessment, Rowland?
4 MR. DAVIS: Yes.
5 MR. SEBASTIAN: We do and you will see
6 recommendations from us, not in our materials today.
7 The legislative changes that are pending and so on
8 cause too much uncertainty, so we wrap that up in
9 June.
10 MR. WILLIAMS: And also, I would say lastly,
11 it's not any sort of a given that any
12 recommendations we make will be acted upon. We have
13 made recommendations in the past year, and the
14 legislature has not chosen to embrace them, but
15 that's their choice.
16 MR. GARCIA: Let me just pose an issue, because
17 when the investment policy statement says that the
18 responsibility of the trustees is to -- and the risk
19 that they're to manage is that the targeted rate of
20 return is not achieved, that's the risk that the
21 investment policy statement says that they're
22 charged with managing, and when you have fixed
23 incomes that are yielding substantially less than
24 the targeted rate of return, and if you allocate 25
25 percent to fixed income, then by default they're not

1 managing the risk that they're charged with in the
2 investment policy statement.
3 MR. DAVIS: I'll take a crack at at least the
4 first response to that. I think the first step in
5 thinking through that is if you think of the
6 expected returns by investing in a class that has a
7 lower expected return and lower than any kind of
8 target, then it's not a wise choice. But the range
9 of uncertainty has to come into play very quickly as
10 the second part of it.
11 And so the points that Kristen was making about
12 fixed income being that sort of anchor in a stressed
13 market situation, where there's a flight to quality,
14 as we saw in 2008. So the expected returns, you
15 know, move your thinking one way, but we have to
16 temper it by thinking of the risky situations as
17 well.
18 MR. GARCIA: I understand the analysis that
19 you're doing. Okay. You're taking a lot of
20 historical data, and you're saying, based on these
21 assumptions, if you -- your important graph, the 75
22 percent -- if you don't allocate some to fixed
23 income, 25 percent, then the utility above that is
24 not very high. Okay.
25 But in a situation where you're specifically

1 charged with an obligation, i.e., achieving a rate
2 of return that's given to them, okay, and you select
3 investment products that you know are not achieving
4 that, then I don't know that -- it's like apples and
5 oranges.
6 I understand your analysis, and I think that --
7 and for someone that generally is approaching
8 investment theory, it makes sense. But when the
9 legislature tells you, this is what you're charged
10 with, and 25 percent of it you know is not achieving
11 that objective, that's -- I can't reconcile that.
12 MR. SEBASTIAN: I think that the way that the
13 25 percent fixed income, despite it by itself having
14 a lower expected return than the 5 percent real
15 return target, the way it contributes to the
16 achievement of it over a long period of time, which
17 is what we're looking at here, is by that downside
18 protection and compounded return, so avoiding or
19 lessening the losses when the market invariably does
20 turn down.
21 Lessening those losses does translate to a
22 higher long-term compounded return. But it's
23 certainly true that that 25 percent is in an asset
24 that has a pretty low return and far south of the
25 5 percent real. The remainder of the portfolio then

1 logically has to make up for it with higher expected
2 returns through capture of equity risk premium in
3 global equity, through the risk and return in
4 private equity and strategic investments, through
5 skill and so on.
6 And so later on, in the regular IAC meeting,
7 we'll see our best guess at the expected long-term
8 return on the portfolio as it stands, with the 75/25
9 mix. And it, like all these things, gets
10 complicated between means and medians and so on, but
11 it's somewhere in the neighborhood of 7 to
12 7.4 percent.
13 That doesn't account for a lot of the value
14 added through active management, through your
15 skilled professional managers, internal and
16 external. When you add those factors in together,
17 our best guess, over 15 years, for your policy now,
18 is that you get to about that 5 percent real return
19 target. And it's part of the driver between us not
20 pounding the table right now to make any changes.
21 So I think we'll get into more detail on some of
22 this in the regular IAC meeting, but that's the way
23 we would approach it.
24 MR. COBB: I have one more on this point. From
25 my point of view, a little bit different than your

1 point, Martin, if in fact there is a 20 percent
2 standard deviation over time and it could reasonably
3 be expected into the future, then I totally buy into
4 your 75/25 analysis and I understand it. My sense
5 is that if you did a historical perspective of
6 public equities at less than 15 times earnings per
7 share and you did a historical perspective of
8 interest rates where they are, the standard
9 deviations for equities wouldn't be seven to one, as
10 you have assumed in this -- or six to whatever it
11 was, whatever 21 over 3.5 is -- that if you did a
12 historical perspective of where the price/earnings
13 ratios are today vis-a-vis interest rates today,
14 that the standard deviations would be different than
15 you have used in your assumption.
16 And I don't know how difficult -- like I say, I
17 don't want you to do a thousand more, but maybe that
18 would be productive, if it's not very expensive, to
19 do it with different historical standard deviations
20 based on the facts as they are today, with interest
21 rates and price/earnings ratios. How much would
22 that cost and would that be productive?
23 MR. DAVIS: So I think rerunning the model with
24 an elevated assumption for risk in the bond market,
25 risk of returns, volatility of returns, that's easy

to do. How useful would it be? I hate to prejudge it until I see the results.

MR. COBB: In combination with I suspect lower standard deviations for common stocks, when they're at this price/earnings ratio.

MR. DAVIS: But because we are intending to revisit in June once we know more about the plan, that might be a good time to do some of these, you know, with inflation and standard deviation sensitive --

MR. WILLIAMS: If I may, the curiosity of the group is such that we have overrun the time allocated to the workshop very substantially, and we're 15 minutes behind the starting time of a publicly noticed meeting of the IAC. And the last line of conversation is exactly what the substantive component of the main IAC meeting is today, in large measure.

So if we could, why don't we call our workshop session to a close. And if everybody is all right with moving ahead, let's go ahead and convene the meeting of the Investment Advisory Council.

(Whereupon, the workshop was concluded at 2:00 p.m.)

INVESTMENT ADVISORY COUNCIL QUARTERLY MEETING

* * *

MR. GRAIN: Thank you, Ash. We'll call this meeting to order. We've got two pieces of business in the first section here. Let's first start with the minutes, and then we'll deal with elections. Has everyone had an opportunity to take a look at the minutes from the December meeting, and do I have a motion to approve those minutes?

MR. COBB: Motion to approve.

MR. NEWMAN: Second.

MR. GRAIN: Thank you. Any discussion? All those in favor say aye.

(Ayes)

MR. GRAIN: Any opposed? Motion carries. With that, we have the election of officers, which, Ash, if you want to lead us in that.

MR. WILLIAMS: Well, the way that normally works, Mr. Chair, is it's commonly a succession situation, and normally vice-chairs become chairs and sequential seniority kind of drives the way things go from there. So at this point, we have Mr. Garcia in the vice-chair role. So he will become chair. And in the normal course of things, Mr. Newman would become vice-chair, and he's

expressed a question or two about --

MR. NEWMAN: I have asked to not do that, in that I've been chairing the subcommittee for this compensation study, and I think we're going to recommend that that committee continue, and I probably would be better in that role. And, Ash, I'd like to nominate Les Daniels to take the vice-chair.

MR. GRAIN: With that motion on the floor, do I have a second?

MR. GARCIA: Second.

MR. GRAIN: All in favor.

(Ayes)

MR. GRAIN: Motion carries. With that, Martin, congratulations.

MR. GARCIA: Thank you, Mr. Grain. And there will be a ceremonial farewell at the end of this meeting, so we won't do it now. Thank you for your --

MR. GRAIN: No paddles.

MR. GARCIA: So with that, Mike, I think you're up on the agenda, or is it Rowland?

MR. WILLIAMS: Actually, I think I'm up on the agenda, for opening remarks. Let me just give everybody an update on where we are. Through the

close on the 15th, the Florida Retirement System Trust Fund, fiscal year to date, is up 12.92 percent. That's 45 basis points ahead of target. The balance in the fund stood at $134.2 billion. That's 11.4 billion up from where we were at prior fiscal yearend, which would have been on June 30, '12. And that's net, of course, of paying out the 600 million a month in benefits that we discussed earlier. So clicking along well.

And I would say, in terms of a few other observations, the remainder of the mandates that we have are likewise performing well. We have had vacancies that we've been recruiting for the organization. We've had some challenges filling some of those vacant positions. We're still on it.

From a control standpoint, things are in very good shape there. We've not had any sort of material problems of any kind. We're in very good shape in terms of outstanding audit issues being few, and those that do exist are on track for resolution.

It's the time of year, of course, when the legislature is in session, so we've had no shortage of queries on every imaginable permutation of thinking on the hurricane catastrophe fund, the

pension fund, this, that and the other, many, many other things we're responsible for. We get lots of unanticipated calls for information there.

Generally speaking, I think we're in very good shape and trucking along well and holding the team together. So unless there are questions, happy to proceed.

MR. GARCIA: Now you're on, Mike.

MR. SEBASTIAN: Kristen is going to walk through the majority of this, and we're going to keep us on time, with very brief remarks. But to summarize, performance ending 12/31/2012 across all mandates have been good. The pension plan outperformed the performance benchmark over every time period that we've shown and the absolute target rate of return over shorter periods and long time periods, 15 years or more.

The investment plan, the DC plan, has done admirably well to this aggregate benchmark. Lawton Chiles, the same. And the CAT Funds and Florida PRIME have also continued to outperform, with the exception of the CAT operating fund, over the trailing five-year period, that about approximated the return of the benchmark. That's the super, super high level --

MS. DOYLE: I don't know if I have anything else to say, but we'll see. So just to summarize, here is a summary of the cash flows for the pension plan. As you can see, very strong -- we had a very strong equity market rally over the past year or so. And so what you see here is the investment earnings at $9 billion for the fiscal year. So that's June 30 to December 31 for 2012, $9 billion, really dwarfing that net withdrawal out of the plan, which was about $3 billion for the fiscal year period.

MR. HARRELL: Can I ask you a quick question?

MS. DOYLE: Sure.

MR. HARRELL: I think earlier in your presentation you said our funded status was 85 percent, and my memory may be totally off, but I feel like I remember this time last year it was 87 or something. And I'm just wondering, after a pretty good year, I know there were a lot of withdrawals and so on, I'm just wondering, whoever the right person is to answer that, what would be the main driver.

MR. WILLIAMS: I'll take that, and that's an absolutely great question, and it's one we talk about a lot. And here are the variables. Go back to the three components of the plan; funding,

1 responsible funding, prudent investment and
2 reasonable benefits. Well, a couple of things have
3 changed in recent years. In 2011 the legislature
4 enacted benefit reforms that reduced the liabilities
5 to the fund over the long-term. They eliminated the
6 cost of living adjustment on future benefit payouts,
7 which is a significant cost savings action.
8 They also increased vesting, which means people
9 are less likely to draw benefits, and there's some
10 possibility that people will never vest, in which
11 case contributions made into the plan on their
12 behalf will never be drawn out in the form of
13 benefits.
14 However, the accounting for those used an
15 actuarial method that accelerates those savings into
16 the present, which magnifies their value in the near
17 term, which then becomes a rationale for
18 contributing less in the current period in the form
19 of employer contributions. Add to that the fact
20 that for the past three years, the actuarial
21 unfunded liability that first in modern times
22 appeared post the collapse of 2008, the legislature
23 did not fully fund the actuarial liability of the
24 plan for any of the past three consecutive budget
25 years.

1 And as someone said the other day, a billion
2 dollars into the fund, it doesn't matter where it
3 comes from, it could be investment returns or
4 employer contributions or employee contributions.
5 And in this case, the impact of the investment
6 returns has been muted by the fact that there has
7 been a recent history of under-contribution of
8 employer contributions and the actuarial treatment
9 of the benefit savings that have been accomplished
10 through benefit reform.
11 MR. HARRELL: Thank you.
12 MR. WILLIAMS: And I should say, on both those
13 points, we've been very clear in communications to
14 all parties.
15 MS. DOYLE: So this chart here is the asset
16 allocation of the FRS. So for each asset class,
17 there's a target allocation, and then there's a
18 range around that. What we're attempting to
19 illustrate here is that the blue dot, which is the
20 actual allocation as of the end of December, was on
21 that gray line, which is a little bit difficult to
22 see on the screen. Hopefully you can see it on your
23 handout. Basically the point here is that the
24 actual allocation is extremely close to the policy
25 allocation for every single asset class. And that's

where we would like it to be on a continuous basis.

So here's performance on a trailing period basis for the FRS ending December 31. The gray bar, the beige bar is the actual performance, and we compare that to two benchmarks, the performance benchmark, which is a passive representation of the underlying asset classes, and then the green bar, which is the absolute target nominal rate of return, which is CPI plus 5 percent.

So you can see that over all trailing time periods, the total fund has outperformed its performance benchmark and for the most part outperformed the green bar, which is that absolute nominal target rate of return, which truly is a longer term measure. But looking at it over shorter time periods, we see that over the five-year period is when it did not keep up with CPI plus 5 percent, primarily due to the downturn in the market that we saw in 2008. We're still seeing that in the five-year return.

And so here, on a longer term basis, relative to the absolute nominal target rate of return, some lag relative over the 15-year period, but over the longer term periods, it's achieved its objective, over the 20- and 25-year periods. And these are all

net-of-fee returns.

We have one peer comparison here. This was relative to TUCS Universe that is comprised of the top 10 defined benefit plans in the United States. On the left is the asset allocation of the FRS. On the right is the average allocation for the universe.

And as I mentioned previously, during the workshop, you see that the FRS is slightly overweight to global equity, which is the beige section of the pie chart, relative to peers, similar in its allocation to fixed income and real estate, and then slightly underweight to alternative investments, which for the TUCS Universe is both private equity and other types of investments that in the context of the FRS we call strategic investments.

MR. SEBASTIAN: Top 10, by the way, is 10 biggest public and corporate plans.

MS. DOYLE: So here we show performance relative to the median return of the plan. So we see relative outperformance for the quarter and the one-year period, as well as the five-year period, just very, very slight underperformance relative to the median over the three-year period, and matching

1 that of the median over the ten-year period.
2 Another look at that here on the next slide. Over
3 the same time periods, the one-, three-, five- and
4 ten-year periods, you can see the distributions are
5 very tight, so any change relative to the median
6 will cause a change in the overall rank. But what
7 we see again is below the median for the three-year
8 period, at the median for the ten, and then for the
9 one and three significantly higher than the median
10 plan. So very strong performance for the FRS
11 relative to peers.
12 One thing I'll note, over the three-year
13 period, the main driver of being under the median is
14 most likely the fact that this plan moved to a
15 global orientation in 2010, and that was increasing
16 the allocation to non-U.S. equities, believing that
17 you should have -- truly have a global orientation
18 to your public equity portfolio. And as we've seen,
19 over the past three years, non-U.S. equity has
20 lagged U.S. equities, and that has caused some
21 difference in the return relative to peers. But,
22 again, only 10 basis points below the median. I'll
23 move on to the investment plan.
24 MR. GARCIA: Can I ask a question? In your
25 executive summary you say that over the trailing

1 ten-year period, the pension plan performed in line
2 with the median plan's performance. What is that?
3 MS. DOYLE: That's illustrated here. If you
4 look at the ten-year -- the blue bar is the median
5 return for that universe, for the top 10 defined
6 benefit plans. So that median return was 8.1. And
7 that was the same return that the FRS experienced.
8 MR. WENDT: Do you recall what the maximum was
9 for any of those?
10 MS. DOYLE: That is illustrated here. Again,
11 you can see that the range is extremely tight. So
12 it's probably somewhere around -- I don't have the
13 specific numbers in front of me, but maybe it was
14 8.5 percent. So when you start looking at universe
15 data out past 10 or 15 years, the distribution gets
16 very, very tight.
17 So here we have investment plan performance
18 relative to its aggregate benchmark, which is the
19 weighted average of the underlying benchmarks for
20 the investment options within the investment plan.
21 So you can see that over all time periods the
22 investment plan has outperformed the aggregate
23 benchmark, indicating that for the most part, the
24 investment options within the investment plan are
25 outperforming their respective benchmarks. So

1 that's positive performance.
2 And then on the bottom chart, so this is a bit
3 lagged, but this is CEM data. They're a cost
4 benchmarking organization that provides data to the
5 SBA. What we see here for the five-year average
6 return relative -- and we compare the returns,
7 five-year average return and the five-year net value
8 added return, compared to a broad peer group that is
9 representative of about 166 defined contribution
10 plans, we see just a slight underperformance of the
11 five-year average return. But when we look at value
12 added, so alpha over the benchmark, you see that the
13 investment plan is adding more alpha over the
14 five-year period than its peers.
15 And then most importantly or just as
16 importantly as return is cost, so we want to ensure
17 that the participants have access to investment
18 options that have very, very competitive cost
19 profiles. So that's the expense ratio. And we see
20 that the FRS investment plan relative to an even
21 more concentrated peer universe of about 19 defined
22 contribution plans, that the cost is slightly lower
23 on an average basis.
24 MR. HARRELL: Just a quick question. How do
25 you have five-year net value added and five-year

1 average return underperformance? Is it a different
2 mix or something?
3 MS. DOYLE: So the net value added is the
4 return over the plan's composite benchmark. And so
5 that's a different measure than just the absolute
6 average.
7 MR. HARRELL: It's a different mix.
8 MR. SEBASTIAN: A different mix. Let me just
9 make a quick comment. So there's two things that
10 are going to drive the aggregate return of the DC
11 plan. And what matters to any DC participant is, of
12 course, what they earn and not necessarily what the
13 aggregate is. But for the overseers of the plan,
14 you're thinking about that. So the drivers can be
15 the participants' choices as far as asset
16 allocation; are they making good choices given their
17 characteristics, like age. And that drives a lot of
18 the first one, the five-year average return.
19 MR. HARRELL: That was actually my question.
20 You have no control at all over that. All you can
21 control is how you did relative to what they gave
22 you in that category.
23 MR. WILLIAMS: Well, actually, we do have a
24 little bit of control from the standpoint that we
25 have control over the managers and the quality of

1 the managers and the fees that we pay. And we are
2 consistently very, very aggressive on the fees we
3 have our employees able to take advantage of. The
4 other thing that's very important is those employee
5 choices, particularly when you have a beneficiary
6 base of public employees who for the most part are
7 not sophisticated investors.
8 For that reason we put a lot of time and effort
9 into designing instructional materials and making
10 them available, having an interactive website,
11 having direct counseling available at no cost to
12 beneficiaries, et cetera. That's actually one of
13 the few areas where we spend more money than our
14 peers, because we think it's the right thing to do
15 for our beneficiaries so they'll make informed
16 decisions and do the right things.
17 MS. DOYLE: I'll move on to the hurricane
18 catastrophe fund. So we provide performance for two
19 components of that, the operating fund and the
20 2007 A fund. Performance is illustrated here. Both
21 of these funds are invested in short-term, high
22 quality bonds. And so what you see here is very low
23 absolute returns, because of the low absolute return
24 yield environment that we're in, but very strong
25 relative outperformance relative to the benchmark.

1 And the benchmark currently is a mix of three-month
2 T bills and a money market fund universe, to sort of
3 illustrate the short-term component but also the
4 active management component of the two funds. We
5 see a little bit of underperformance for the
6 operating fund over the five-year period. Again,
7 that's still pulling in some losses that we saw
8 through the 2008 time period.
9 And then the next mandate is the Lawton Chiles
10 Endowment Fund. So this is the same chart that I
11 showed for the FRS pension plan. Here you see that
12 the blue dot for global equity and for cash is
13 significantly outside what the set policy is for the
14 Lawton Chiles Endowment Fund. The reason for that
15 is the $250 million that was appropriated from the
16 endowment to be paid in June, I believe. And so it
17 was determined that that money should not take any
18 additional equity risk, and it was moved out of
19 global equity and moved into cash, waiting to be
20 paid out. Otherwise we would see those allocations
21 very close to their policy targets.
22 Performance here, strong relative to the
23 performance benchmark, again, which is the weight to
24 the underlying asset classes based on the policy
25 allocation, and very strong absolute performance,

given the global or equity orientation of this portfolio, up 13 percent over the one-year period.

Then the last mandate is the Florida PRIME. This is trailing performance. Again, this is also invested similarly to a money market fund, very similarly, according to money market 2a-7 guidelines, so again, high quality, shorter term, bond portfolio, very low absolute returns, but very strong outperformance relative to its benchmark, which is similar to a peer benchmark of other local government investment pools.

This is a chart that we introduced a couple of meetings ago. This illustrates the standard deviation on the bottom and the annualized return on the vertical axis, and the blue dots are a universe of money market funds. This just helps to illustrate -- you can see the Florida PRIME there is the green dot. We're illustrating that Florida PRIME is earning a higher return at a somewhat lower level of risk or a similar level of risk to other money market funds that are investing according to similar investment guidelines. And then the index, the index we use there is a bit difficult to see, but again also the Florida PRIME outperforming that index at a lower level of risk.

And then, lastly, this is Fund B. So this just shows the distributions that have been made to participants out of Fund B, about $15 million for the fourth quarter, $30 million at the fiscal year to date period. And we did see over the fiscal year to date period some price appreciation in the underlying holdings of Fund B. So Fund B continues to distribute capital back to investors and has distributed just a little bit less than 90 percent.

There's additional information in the appendix that I'm not going to cover, but if there are any questions, I'm happy to take them now.

MR. WILLIAMS: I'd just like to add one other thing, if I could, on Fund B, and that is, we had had some discussion in some of our prior meetings about taking advantage of the current very aggressive appetite for yield and very tight spreads on all kinds of fixed income assets. So we've taken advantage of that opportunity to opportunistically sell off certain Pool B assets in recent weeks, and we think we'll be seeing some more opportunities of that nature going forward.

And we've taken the approach of moving from the bottom up, which is to say taking those assets that we believe are more likely or less likely, I would

say, to have improving underlying asset revenue streams going forward, going ahead and selling those off while they're hot, so to speak, and then keeping those assets that we're completely comfortable will continue to pay to maturity or will improve in their ability to pay toward maturity.

So we'll be accelerating, I think, the rate at which we repay Pool B assets. And we're currently, net of our most recent sales, I believe north of 90 percent or right around 90 percent for the first time. So that's -- considering back when Pool B was created, there was concern of a lot of -- I think on the part of some of the underlying investors that those assets might be gone. The fact that they've now been repaid in cash to the tune of 90 percent and we're going on from here I think is a positive.

MS. WOJCIECHOWSKI: It also had the effect of shortening the duration of the portfolio. So it's a cleaner, shorter pool now, too.

MR. WILLIAMS: Right. The whole thing has been well managed, I believe.

MR. COBB: So I hear management believes the standard deviation is greater than 3.5 on those fixed income securities.

MR. WILLIAMS: On those ABS securities, those

particular ABS securities, certainly.

MR. GARCIA: Thank you, Kristen. Does that conclude your report?

MS. DOYLE: Yes.

MR. GARCIA: Strategic investment program review. Ash?

MR. WILLIAMS: Did you want to go ahead and go into that instead of going on with the -- we can do the strategic.

MR. GARCIA: No. I'm jumping ahead. Excuse me. Number four.

MR. WILLIAMS: Okay. So this brings us back to where we were just a moment ago in terms of the asset-liability and allocation review. We had covered a number of the fundamental parts, and since we didn't take a break and the crowd is essentially the same, we can probably jump right in, if you want to, Rowland. Do you want to do this?

MR. DAVIS: Sure, yeah. I think the -- hopefully the workshop will pay dividends now, and we can cut to the chase. On page three, under Tab 4, executive summary of the asset-liability modeling results for this year, the bottom line is that they're going to look very, very similar to what we saw last year. The trend lines for both cost and

1 funded ratios are relatively stable, which is a good
2 thing. There's a significant range of uncertainty,
3 as there always is, especially for cost rates.
4 And as we saw last year and sort of raised a
5 flag last year with poor investment results, the
6 funded ratio distributions continue to show sort of
7 a softening of the floor that we usually like to
8 see. And we'll talk more about that. But you may
9 recall that we raised that issue last year. It has
10 to do with the actuarial methodology to some degree.
11 On the risk-reward curve, again, we'll see
12 things that look a lot like last year. The baseline
13 risk-reward curve will show a curve that goes above
14 the diagonal on the higher risk side, so that it
15 tends to support an increased allocation to risk
16 assets. But importantly we believe, when you look
17 at the sensitivity results, if you reduce the equity
18 risk premium assumption by 100 basis points -- and
19 arguably that would be more of a historical,
20 equilibrium kind of assumption, then we get a curve
21 that actually supports where we are right now.
22 And one of the things that we're going to want
23 to talk about, which we sort of got into, but I
24 think we probably can come back to it, is this whole
25 issue of -- with the depressed expectations for

1 fixed income returns, where are we in the spectrum
2 of strategic policy decisions versus tactical
3 decisions. And I guess I might say that we're
4 somewhere kind of in the middle of those issues.
5 So if the issue is basically that fixed income
6 is going to present losses to us in the intermediate
7 term, how can we deal with that? One answer would
8 be strategic policy choices. Another answer might
9 be through tactical decisions. So we can talk about
10 that, I think, and those discussions may continue to
11 set the stage for the June discussions as we go
12 forward.
13 And then the last bullet point, very
14 importantly also, we are waiting for the legislature
15 to make it a little clearer what the plan will be,
16 and we'll talk about some of the important issues
17 surrounding that with respect to the investment
18 policy choices. Okay.
19 Assumptions, as I mentioned before, the equity
20 risk premium assumption is the single most important
21 one. This chart shows two things. One, how we do
22 it for the Florida system, which is to look at four
23 consultants' sets of assumptions, which are updated
24 regularly, in some cases quarterly, in some cases
25 maybe once a year, but we look at the four

1 consulting firms that the SBA works with. We take
2 an average for those. And in this chart, it's just
3 the U.S. equity risk premium, so we're not in a
4 global framework yet.
5 And the chart shows each of the last four
6 years, how that averaging process has worked out.
7 You can see in the last column that the current
8 equity risk premium is 4.76 percent. So that's what
9 we're feeding into our baseline modeling for this
10 year. And you can see, if you look along that
11 bottom line, that that equity risk premium has
12 increased each and every year.
13 When we go through this process, if you look
14 back at 2010, which is the year that we really did a
15 full-blown asset allocation study, it was 3.36. So
16 it's come up significantly, 140 basis points.
17 That's a pretty big move in this particular
18 assumption. And as we, I think, commented earlier,
19 the driving force of all this, for the most part, is
20 the fact that fixed income return expectations have
21 been low and actually drifted lower year by year
22 over this period of time. So these are 15-year
23 prospective kind of expectations that we're looking
24 at here.
25 MR. HARRELL: There's something in this that

1 puzzles me, and it goes back a little bit to one of
2 the ambassador's questions earlier. For me, there's
3 a disconnect when you look at at least U.S. stocks,
4 which are, if not cheap, probably reasonably valued,
5 this 15 times reference. Bonds are very expensive.
6 And I hear us -- and then we have this equity risk
7 premium, which I hear us talking about maybe it's
8 too high, we should bring it down. A lot of this
9 seems very counter to the way I would reason through
10 expectations and where I want my money.
11 I'm just having a disconnect with understanding
12 why we would be pulling back expectations for
13 equities based on a market risk premium, when they
14 seem like the more attractive asset class to me,
15 objectively.
16 MR. DAVIS: I guess I would say that we're not
17 arguing that we should pull back on the equity risk
18 premium assumption, but that, A, we recognize it's a
19 very hard thing to prospectively estimate, and
20 therefore we do sensitivity, and it's a relative
21 weighting of those sensitivity results. And then it
22 starts to lead pretty quickly into this issue of
23 tactical versus strategic policy.
24 This could drive both, active -- you know,
25 strategic policy but also tactical. And so we're

1 definitely not saying that there might not be
2 reasonable tactical strategies to pursue, but it's
3 finding the right answer to the issue, I think. Is
4 that fair?
5 MR. GARCIA: Is this the appropriate time to go
6 back to the fixed income discussion that we were
7 having at the conclusion of the workshop?
8 MR. DAVIS: I would say, if we can hold it a
9 little bit, because we're definitely coming back to
10 it. It is the central issue for discussion, I
11 think. So we'll definitely come back to it.
12 Equity risk premium, this is a chart that shows
13 historical 15-year rolling averages, going back to
14 1926, I guess. But the shaded portion there
15 represents experience since 1960. I think that's
16 probably the more relevant point of emphasis. And
17 what you can see is, even over 15-year periods, this
18 number is very volatile. And since it is a critical
19 assumption for us, the volatility leads us to always
20 do a sensitivity test and to pay close attention to
21 that sensitivity.
22 So, anyway, our current assumption there is
23 shown with the dotted red line, 4.76. You can see
24 that relative to the historical averages in the
25 shaded area, it's on the high side. During that

1 period the average has been 3.26. So we're 150
2 basis points, exactly, above the historical average.
3 And arguably that whole amount could be attributable
4 to the lower fixed income expectations than what you
5 would be in in a normal economy. If not all of it,
6 then certainly the vast majority of it.
7 From there we build out the asset class
8 assumptions. And this shows each of the asset
9 classes. I think this was distributed earlier,
10 several weeks ago actually. What we do is look at
11 those expectations and the uncertainty assumptions,
12 the volatility.
13 Anyway, we put it all together, and we get a
14 gross return for the portfolio over the next 15
15 years, estimated at 7.14 percent. We subtract the
16 administrative and investment expenses, but
17 investment expenses adjusted to what they would be
18 if we were a totally passive investor, because we'd
19 assume that, to the extent you're paying more for
20 active management, you're at least earning back. So
21 we don't put any positive alpha in, but we also
22 don't put any net expenses that are pursuing
23 positive alpha into these assumptions. That comes
24 maybe a little farther down the road in terms of
25 implementation type issues.

1 But we get to a very round number this year of
2 7.00 percent. Not too often that actuaries can deal
3 with numbers that round. And gives us a real after
4 inflation expected net return of 4.5 percent on this
5 basis.
6 MR. WENDT: Excuse me. Who and how came up
7 with all the numbers for expected 15-year returns?
8 Where did that come from?
9 MR. DAVIS: The basic approach here is that
10 Hewitt EnnisKnupp has a very disciplined process
11 each quarter of setting capital market assumptions
12 for all asset classes, but in this case particularly
13 focused on the fixed income asset classes, based on
14 yield curves and projections of future yield curves
15 and how they evolve over time. And so the U.S. bond
16 return assumptions are directly from that Hewitt
17 EnnisKnupp process.
18 The other assumptions in the risk asset box up
19 above are built up from the bond with the equity
20 risk premium assumption that is derived from the
21 four consultant average. And the way we go about
22 that is taking again the Hewitt EnnisKnupp
23 assumptions but adjusting them, in this case,
24 downward slightly, because if you look back on page
25 five, you see that the Hewitt EnnisKnupp equity risk

1 premium assumption was 5.1. The average that we're
2 using is 4.76. So all of these risk assets --
3 MR. WENDT: But you have different numbers for
4 each type of --
5 MR. DAVIS: Yeah. So what we do is Hewitt
6 EnnisKnupp builds up specific assumptions for all of
7 these, and then we adjust the risk premium down to
8 reflect the process that we go through with the four
9 consultants.
10 MR. SEBASTIAN: He's asking about the process
11 for each asset class. There's a 50-page document
12 that explains how we handle each individual asset
13 class returns, and maybe I won't go into detail on
14 each one of them, but I'm happy at another time to
15 spend more time on it. So for each asset class,
16 there's a combination of qualitative judgment and
17 quantitative modeling.
18 So we like to use market expectations wherever
19 possible for fixed income, and in many ways we're
20 taking market expectations for future changes in
21 yields, for example. For things like inflation, we
22 use consensus values of economists. For global
23 equity, a big driver of that is expectations for
24 real GDP growth there. We use a consensus economic
25 forecast as well. And for more niche asset classes

1 or more alternatives, like private equity, real
2 estate, we're building more complex models related
3 to the risk and return drivers of each of those
4 asset classes.
5 So for private equity, combinations of things
6 that reflect venture capital and buyouts and
7 mezzanine and distressed debt and so on. For real
8 estate, a discounted cash flow model, very similar
9 to what we do for publicly traded equities. And for
10 hedge funds, the strategic investments you see
11 here --
12 MR. WENDT: I think you're almost to where I
13 want to be. Would it be unfair to assume that a
14 good bit of these numbers come from historical, the
15 historical returns of those industries, of those
16 basic activities? Is that fair to assume or not
17 fair to assume?
18 MR. SEBASTIAN: For the most part, no. We take
19 history as an input or a guide, but all of these are
20 forward-looking models, dependent on current market
21 prices, say, for equities and also expectations for
22 future earnings growth and so on. So if we had a
23 model that said that the future was going to be
24 absolutely nothing like the past whatsoever, that
25 would cause us to think a little bit about what the

1 quantitative model said. But in general, these are
2 intended to be forward-looking models.
3 Now, on volatilities, because that's come up a
4 lot today, their history is a big guide, because we
5 believe the volatilities -- that risks are more
6 stable throughout time than returns are. So one
7 driver of that is historical volatilities over long
8 periods of time, but weighted more heavily towards
9 more recent periods, because we think the volatility
10 tends to shift up and down a bit. And when you're
11 in a regime of higher volatility, you tend to stay
12 there for a while.
13 And then where possible, we also use options
14 pricing where implied volatilities are available,
15 and market-traded instruments is another input
16 for -- particularly for equities. It's a
17 combination of those factors, and some qualitative
18 judgment on top of the model, is where we get those
19 volatilities.
20 By the way, I wanted to follow up on Ambassador
21 Cobb's question about bond volatilities. I asked
22 folks back at the office to look at what it has been
23 historically for bonds. On rolling 15-year periods,
24 going back to 1975, the peak was about 7.5 percent.
25 And then you could farther back. I can get those

1 numbers in a little while. So our 3.7 percent is
2 low relative to that, but also influenced by where
3 we are yield-wise right now as opposed to where we
4 were in 1975 when those numbers started. So we
5 think that your starting point does tend to
6 influence your future volatility, but not to say
7 that we won't do any further analysis, just to give
8 you that initial data.
9 MR. COBB: Thank you.
10 MR. DAVIS: Okay. From that table of expected
11 returns and some standard deviation assumptions, we
12 move into simulation mode. We get a thousand
13 scenarios. And this chart shows the range of the
14 15-year compound return, nominal, net of expenses,
15 that we get. And the important thing from this, if
16 you look from the fifth percentile at the bottom,
17 we're just at about negative 50 basis points, and at
18 the 95th, we're at 12 and a half percent, is even
19 over 15-year periods, our simulation captures a
20 very, very wide range of results, but results that
21 we think are based on the kinds of assumptions that
22 reflect historical volatility and reasonable
23 expectations of the level of return going forward.
24 In the middle of the distribution you see
25 two -- a red circle, which is the 50th percentile,

1 7.4 percent, and a box with an X in it, which is the
2 mean value, average value, which we just saw of 7.0
3 percent. So there's a little skewness to the
4 distribution. The 50th percentile is a little
5 higher number than the average value. Relative to
6 the actuarial assumption, which is 7.75 percent, we
7 would look at our thousand distributions and say, in
8 45 percent of those cases, we exceed 7.75 percent.
9 And so typically, you know, last year I think
10 we were 53 percent or something. So returns have
11 come down, but basically our returns move with the
12 market. But the probability of hitting that
13 actuarial return assumption, at least over the last
14 many years, has hovered around 50 percent, plus or
15 minus a little bit.
16 So this is the kind of chart that we do present
17 to the Actuarial Estimating Committee as input for
18 their thinking. But it generally has been that
19 there never seems to be a huge disconnect with the
20 actuarial assumption relative to what we're doing.
21 MR. HARRELL: Rowland, is this where -- on the
22 previous slide, there's an inflation estimate of
23 2.35, and there's a dashed line for the standard
24 deviation around that. I'm not sure I totally
25 understand that.

1 MR. DAVIS: There is a standard deviation on
2 the inflation. It's probably --
3 MR. HARRELL: Small?
4 MR. DAVIS: It could be approaching 1 percent,
5 but I'm not sure exactly what it is.
6 MR. HARRELL: So I asked some questions about
7 inflation earlier, and maybe we were more in the
8 actuarial section. Is this maybe where some of
9 those would be more relevant, to thinking about the
10 impact on the return outcomes and how it flows from
11 sort of the stocks equals bonds plus market risk
12 premium?
13 MR. DAVIS: Yeah. So this 2.35 again is also
14 one of the variables that is simulated. And so this
15 is the point that our distributions are built out
16 from. The central part of the distribution is going
17 to be at 2.35, which comes from the Hewitt
18 EnnisKnupp process. But in our thousand simulations
19 we have results that will be significantly different
20 than that as well. And so what we can do and will
21 do is take our current results and slice them into
22 the pieces that come out on either side of the
23 average.
24 MR. HARRELL: But if we had -- if for the next
25 15 years we had a different assumption about the

1 likely level of inflation and if we used a different
2 assumption about how stocks and bonds separately
3 respond to inflation, our range of outcomes on
4 slides eight and nine could look really different,
5 right?
6 MR. DAVIS: Yes, they can. I mean, this is
7 where things -- the points that were made about it's
8 only a model and it's going to reflect what the
9 model is doing. It's making the model dance to some
10 different tunes. It can be done, but -- and
11 sometimes should be done, but it presents a more
12 complex picture of things. But you're right.
13 You're exactly right.
14 This next chart, which is in the same format,
15 but this is now the net real return from our
16 thousand simulations. We have a median value of
17 4.9 percent and a best estimate or mean value of
18 4.5 percent, both now below the 5 percent real
19 return target, but given the range of uncertainty
20 there, pretty darn close. We have a 48 percent
21 probability, out of our thousand simulations, of
22 hitting, or exceeding the 5 percent real return
23 target. So we remain very comfortable that the
24 5 percent real return target is consistent with the
25 way we have done our simulations.

1 MR. SEBASTIAN: Now is the point where I
2 usually make the comment that, alluding to what
3 Rowland said earlier, this is a 15-year projection
4 in the actuarial numbers over a much longer time
5 horizon, many decades, but also that these are the
6 closest to -- these 4.9 and 4.5 are the closest we
7 can get to a passive representation of the policy,
8 so wherever possible assuming index funds. There's
9 no active manager value added.
10 So clearly there's a great deal of active
11 management in various parts of the global equity,
12 fixed income, strategic investments and so on that's
13 not accounted for here. It's certainly not a
14 guarantee that there's value added from that, but
15 you have a lot of resources devoted toward that, and
16 those are numbers that are not reflected or those
17 are values not reflected in these values.
18 MR. DAVIS: Okay. So now we get to these
19 projection charts under the current policy. This
20 chart is the cost as a percentage of pay for the
21 defined benefit plan, assuming that everything stays
22 as it is now; in other words, the defined benefit
23 plan is not changed and the default is to the
24 defined benefit plan going forward.
25 The trend line is that red line in the middle,

1 relatively stable going forward. So that's
2 something you want to see. But the range of
3 uncertainty is huge, and that's the source of
4 problems for trying to manage the cost. So there's
5 those two things that need to be dealt with. But
6 the trend line is stable, and that's -- that means
7 that the investment policy seems to be supporting
8 the plan in the right fashion with respect to
9 long-term cost trends.
10 If it was otherwise, for example, if we had a
11 chart that says what would this chart look like if
12 we were a hundred percent in bonds, we would have a
13 very different chart, and it would start out, if we
14 assume the actuary didn't change their assumptions
15 because of that, it would start out maybe close to
16 where it is, but it would go much, much higher
17 because we'd be consistently earning less than the
18 actuarial assumption, and vice versa.
19 So the fact that it's a stable trend line is
20 sort of supportive of that the policy is positioned
21 reasonably well relative to the other moving parts
22 of the program.
23 MR. WILLIAMS: Two points here, if I may.
24 First, Rowland said something important, that this
25 distribution is assuming the plan stays as is, that

1 allocations between DB and DC remain as they are.
2 It would seem the likelihood of that being valid is
3 low. And the reason is exactly what Rowland opened
4 with, which is you have the House right now
5 entertaining legislation to close the defined
6 benefit entirely to new members and the Senate
7 looking at legislation that, at its most recent
8 iteration, would increase the vesting period for the
9 DB plan by an additional two years, from eight to
10 ten, and change the default for public employees who
11 do not elect specifically to go into one or the
12 other, change the default from DB to DC, and thirdly
13 would permanently close the DB to new entrants from
14 either the senior management or elected officers
15 class.
16 Those three things taken together I think will
17 alter that cost curve in the favor of reducing the
18 cost of the DB going forward. So either way, things
19 are likely to be a little better for the DB on the
20 cost side than would be indicated here.
21 The other point of note is the downside tail of
22 cost, or the upper end of the cost bracket, which
23 would be the downside tail of bad investment
24 outcomes, that has something to do with something
25 else Rowland touched on earlier, which is, in the

1 interest rate/fixed income discussion, the
2 relationship between strategic change in allocation
3 and tactical management of rising interest rate
4 risk, because to the extent you address that on the
5 strategic end and you respond to the concern about
6 rising rates by dramatically decreasing your fixed
7 income allocation in favor of increasing risk
8 assets, then you're accepting an implied greater
9 volatility in the remaining portfolio, the resulting
10 portfolio, which means the possibility that in a
11 down trough, you tip into a tail of ruin. And a
12 consequent spike in employer cost contributions is
13 there as well, which is part of the risk tolerance
14 definition that the asset allocation exercise brings
15 out. So you can see how this all ties together.
16 MR. WENDT: What happened to that 3 percent
17 employee contribution thing? Is that still in the
18 courts, or are people making the --
19 MR. WILLIAMS: No. People have been making the
20 contribution right along, and the Court found in
21 favor of the State, which was to say that was an
22 allowable action.
23 MR. WENDT: I would have thought that would
24 have had a pretty significant effect on these
25 numbers. No?

MR. WILLIAMS: Well, another great question. And here again we have a tale of reality not necessarily fitting what the original perception was. And the perception was that we were going to have employee contributions to strengthen the pension fund. In fact, what happened was we put in place employee contributions equal to 3 percent of gross pay in the 2011 legislative session.

However, at the same time that took place, employer contributions were reduced by a dollar for dollar amount. So the creation of employee contributions did nothing to benefit the actual soundness of the fund. It was just a transfer of how things were financed.

MR. DAVIS: This is the same style of chart, but this is the funded ratio of the plan assets, and here assets on a smoothed basis, the way the actuary does it, relative to liabilities. And here the liability is that funding target type liability, the most comprehensive, that we talked about in the workshop this morning, the far right-hand column. Currently 87 percent funded.

You can see the trend line, very flat. And sometimes the question, the natural question there is, if we're funding this thing, why aren't we

moving towards a hundred percent. And actually the goal of an actuarial funding process is to move to a hundred percent. But the process is such that you have to go to a 30-year time horizon to actually see it. And the way the actuary has structured things now is most of that funding or progress towards a hundred percent would occur in years 20 through 30. So there's a sort of back-loading to the funding process.

That's part of what we talked about last year. It gets deep into the weeds of the actuarial process. But part of what we saw is that the savings from the plan changes of a year, year and a half ago were front-loaded in terms of how they're being recognized, to some degree. It's not dramatic, but it's enough, you know, subtle.

And one of the things that we saw that we continue to see is if you look at the bottom line there, the fifth percentile, so it's the very worst outcomes, you can see that it continues to drop. It's 33 percent funded ratio. And these are Illinois type numbers now, when you're looking out there, below it even, 33 percent, then drops to 26 percent.

What we saw every time before last year, before

1 the plan changes were recognized, was that, yeah,
2 those bottom lines are still at scary levels, but at
3 least they flatten out, at least they don't keep
4 dipping lower and lower. And last year was the
5 first time saw that this very bottom line in the
6 worst outcomes actually hasn't, at least over a
7 15-year period, established a floor.
8 So this is where you'd say the slippery slope
9 arguments come in, that there comes a point where,
10 if things turn really bad, it becomes very hard to
11 recover and dig your way out of that hole, given a
12 certain set of rules about how the plan is going to
13 be funded. And those seem to have changed a little
14 bit when the plan change was being recognized.
15 We continue to have that issue in front of us.
16 When we talked to the Actuarial Estimating
17 Conference, it was addressed last fall. They
18 deferred further consideration, I think, until this
19 fall, so it hasn't gone away, but there was no
20 action taken on it last year.
21 One of the implications for investment policy,
22 and I don't want to overstate it, but certainly in
23 controlling risk through what you can do to control
24 risk, which is on the investment policy, means being
25 aware of the ability of the plan to recover from

1 those drastic scenarios.
2 And what we're faced with now is -- one of
3 those pending issues is that there seems to be a
4 somewhat diminished ability of the plan to dig out
5 of a big hole, and that has to be part of your
6 background thinking when you talk about investment
7 risk.
8 Okay. Now we get to the risk-reward curve.
9 This is the version from this year's run. And if
10 you recall from the workshop, it looks almost
11 exactly the same. The crosshairs is the current
12 policy. And we run, rerun the model at 5 percentage
13 point shifts in risk assets. So the crosshairs is
14 75 percent risk asset. If you move to the right on
15 the red curve, it's 80 percent, then 85, 90, 95 and
16 100 percent. And if you move the other way, we're
17 taking risk off of the table.
18 If you look at that diagonal line, which we
19 talked about in the workshop as being a benchmark of
20 three units of risk to one unit of reward, if that's
21 considered a fair trade-off for a risk-averse
22 investor, then the points above the diagonal are the
23 ones that indicate a little more efficient policy
24 based on this particular metric, so it would
25 indicate a preference for taking a little more risk.

1 That's driven, as we'll see in a minute, exclusively
2 by the high equity risk premium assumption.
3 So we're going to -- let's shift now. This is
4 probably the most important chart in the package
5 today, because this is the one that shows the
6 sensitivity of the curve to that particular
7 assumption. So the red line is our baseline.
8 Equity risk premium is 4.76. The green line is if
9 you take 100 basis points off of that assumption, we
10 get the 3.76. And you'll see that the green line no
11 longer screams, you know, take more risk, because
12 you're pretty much at the right place. There's no
13 points above the diagonal of any significance and so
14 no reason to change.
15 And if we go the other way, went to a very,
16 very, very optimistic equity risk premium of 5.76,
17 it shifts, but the shift is actually smaller, more
18 negligible than the green line shift is. So the
19 reason this is important is it gets us to this
20 question of, okay, the equity risk premium is high
21 and it's telling us something in this modeling
22 process. But the equity risk premium is high
23 because fixed income returns are depressed and
24 presumably temporarily so.
25 And so if we plug in an assumption that's more

1 like the historical average or sort of long-term
2 expectation, we get a line that supports where we
3 are. So there is a real issue of depressed
4 expectations from fixed income. And the question
5 becomes how and -- should and how we deal with it.
6 One answer would be deal with it through a shift in
7 the strategic policy.
8 We've had discussions with Ash and with the
9 staff, good discussions, and our feeling is that if
10 the -- if there's a desire to deal with the issue,
11 it should not be in a shift in the strategic asset
12 allocation policy, because, for reasons that Ash
13 just mentioned. It puts you more exposed to a
14 dramatic downturn in equities. It moves you into
15 sort of maverick territory with respect to peers, so
16 that if the worst does happen, not only will you be
17 exposed to the financial impact of it, but you'd be
18 exposed to the public scrutiny issue that, you know,
19 you've moved away. I'm not saying that that should
20 drive the thinking, but it's a reality.
21 So our thinking has been leaning towards, if
22 there's an issue to be dealt with, you might want to
23 explore tactical approaches rather than think of
24 this as an indicator for policy changes. And it
25 kind of also comes back to the looming issues of

1 changes in the plan as well. So maybe I can go to
2 that, and then we can have a fuller discussion of
3 this, or not. But I see a question.
4 MR. GARCIA: The 75 percent recommendation, how
5 much of that is driven by your liquidity analysis?
6 MR. DAVIS: The liquidity analysis comes sort
7 of after the fact, to make sure -- liquidity and
8 short-term risk in general are things that once we
9 do this kind of picture, which is long-term, we say
10 this appears to be the message that we're extracting
11 from the long-term, and that should drive policy,
12 but then we want to test and make sure that we don't
13 do anything that puts us in a bad situation for
14 short-term issues, liquidity.
15 And so it's more of a veto power kind of thing
16 that could come after the fact. And so we look
17 at -- it doesn't drive this, and we would feel
18 comfortable, I think, on a liquidity basis,
19 probably -- we're certainly more comfortable at 75
20 than we would be at 85 percent on a liquidity basis.
21 But we could relook at liquidity issues as well.
22 MR. GARCIA: Because just intellectually I have
23 problems reconciling the allocation to fixed income
24 that we have as it relates to what we're charged
25 with in terms of the targeted rate of return. And I

1 kind of see it from an analogy that if I were hired
2 to be the football coach of a team, I would go to
3 the most brilliant mind, like you all, to give me a
4 play book on having winning seasons. But if I were
5 in a game and there was a minute left and I was on
6 my 20 yard line and I was down by one point -- and
7 by the way, the play book probably would say 75
8 percent running plays and 25 percent throwing plays,
9 and throwing is more risky.
10 But if in a game there's a minute left and I'm
11 on my 20 yard line and I'm down by a point, I'm
12 going to throw the ball every time because that's
13 the only way I'm likely to win the game.
14 And here, what we have been charged with by the
15 legislature -- and maybe the real problem here is
16 the rate shouldn't be 7.75 percent. But we're told
17 that that is how you win. Okay. And so I
18 understand the play book that you put together,
19 which is the model and makes perfectly good sense to
20 have winning seasons on a long-term basis. But the
21 minute the objective is well defined,
22 7.75 percent -- and I understand it's unconventional
23 and it's perceived to be risky not to be all the
24 things that you said. I understand that.
25 But I intellectually can't reconcile being told

1 that the charge is 7.75 percent and then allocating
2 investments to things that you know are going to
3 yield less than that and probably, from a principal
4 loss standpoint, are going to go down. And, again,
5 it may be that the legislature has got the rate too
6 high. But intellectually I can't reconcile this.
7 MR. DAVIS: I keep coming back to move the
8 portfolio expected return as high as you can,
9 subject to risk controls, and that risk control is
10 kind of where we then start to say there's a point
11 where fixed income, even though the expected returns
12 are significantly below the expected returns for the
13 risk assets, there is a role in terms of preserving
14 that downside protection that we just can't walk
15 away from.
16 I guess, I don't know, I'm trying to think of a
17 football analogy. It's kind of like if your game
18 was at the start of the season rather than at the
19 Super Bowl and you were on the one yard line and
20 your best player has just pulled a hamstring, would
21 you have him stretch out for a floater in the end
22 zone or would you play it a little more cautious at
23 that point in time because your goal is to get to
24 the Super Bowl and win the Super Bowl?
25 But I understand your point. I understand your

1 point totally. It's one of those issues of risk and
2 reward. And I guess we just keep coming up with the
3 risk control part of it as a very important thing.
4 And we're going to see some more on risk control as
5 well. Hopefully that will at least give a little
6 more view on some of the risk aspects as well.
7 MR. WENDT: Rowland, you probably have the
8 right answer, but you've tried this same answer four
9 times now, and he's not buying it. So I'm going to
10 try something else. There's more to portfolio
11 management than simply the rate of return on a given
12 asset. Warren Buffett says today, sell all your
13 bonds. But if you look at Warren Buffett's
14 insurance companies, he hasn't sold all his bonds.
15 He's got a lot of bonds. Why? Because his
16 regulators say, have bonds.
17 Now, we're dealing with a political
18 circumstance -- and I'm not saying, by the way,
19 you're not right. That's not what I'm saying. But
20 we're dealing with a political circumstance here.
21 If we put a hundred percent, just to take the
22 extreme, in equities and equities go down
23 15 percent, we've got a whole different world to
24 worry about. I don't know if that helps, but it's
25 just not one play book. It's a big play book.

MR. GARCIA: I do understand that.

MR. WENDT: You're with us.

MR. GARCIA: One of the solutions would be to go a hundred percent in equities. And I understand all the issues related to that. Maybe the solution is the legislature has the wrong rate. It is a dilemma.

MR. WENDT: I find that just a lot of math, frankly. That's my opinion. All this math is becoming cumbersome. We all know interest rates are going to go up and so our bond portfolios are going to go down. We all know that. It doesn't mean we go too far.

MR. DANIELS: One of the options of the model may be to increase cash to a lesser extent than you decrease fixed income. You could look at that. And then the cash doesn't have the risk for loss that the bonds have.

MR. WENDT: Unless you keep your money in Cypress. Then you'd be in big trouble.

MR. DANIELS: We could get there.

MR. DAVIS: We actually, as part of the liquidity analysis work, do model increased cash, stay within the -- right now it's 24 percent bonds, 1 percent cash, is the fixed income piece of it.

And we model increasing that to -- I think we do 3 percent cash and 22 percent bonds. So basically it's shortening duration. It's sort of an extreme way of shortening duration. So we can model that. And the answer is, in today's environment, there's not much difference between the expected return on cash and the expected return on mid-level bond durations, for over a 15-year, 5- or 10-year horizon.

MR. DANIELS: And the inflation.

MR. DAVIS: And the inflation, yeah.

MR. WILLIAMS: Let me take one more shot at trying to respond, Martin, to your concern, because I hear where you're coming from. And that is, if the legislature said this is what we're supposed to do and we're knowingly doing something else, are we in breach and are we subject to some sort of sanction as a consequence? Is that essentially what it comes to?

MR. GARCIA: I'm not worried about the sanctions. It's just intellectually --

MR. WILLIAMS: Right. So let me see if I can help. It strikes me that fundamentally the most important obligation our trustees have is their fiduciary responsibility, because there's no

1 ambiguity who the fiduciaries are on this plan.
2 It's our trustees. It's our staff here at the SBA
3 and technically not you, but you're in some sort of
4 near fiduciary monastic state, shall we say.
5 And on that basis, if you go back to the
6 fundamentals of what we talked about our role is,
7 which is minimize the probability of shortfall,
8 maximize the probability that we can meet the
9 long-term demands as they come due, minimize the
10 probability of ruin along the way, minimize the
11 probability of negative employer contribution
12 spikes, which would be a consequence, as we saw from
13 these hurricane risk cones earlier, of downside
14 performance experience, and hold down plan costs, if
15 we look at all of those things, I would say if we
16 optimize all of those variables consistent with pure
17 intellectual thought of the highest quality we can
18 get, the other will fall into place.
19 And let me tell you why I say that, when we're
20 talking about legislative history on return
21 assumptions. When I was here in the early nineties,
22 we had a string of years with very, very good
23 performance, well into the teens. And in those days
24 the return assumption was either eight or eight and
25 a half percent. Seven seventy-five would have

1 looked great in those days.
2 And I remember a couple of years being called
3 up by the Actuarial Estimating Conference and asked
4 the question, gee, you're getting great returns, it
5 would be very helpful if we moved the return
6 assumption to 10 or 12, which relative to what
7 you've been doing seems conservative, and it would
8 be great from an employer standpoint, saves a lot of
9 money in contributions. Why don't we do that?
10 And I said, Because the returns we're getting
11 are anomalously positive compared to long-term
12 equity returns or long-term returns of the mix of
13 assets that we would commonly have as a prudent
14 institution. So, no, I think we ought to, at worst,
15 leave it where it is, at eight or eight and a half,
16 whatever it was, which is what happened.
17 But the legislature does move rates around over
18 time. They will move return assumptions around over
19 time. Sometimes up, sometimes down. They've been
20 as high, I think -- and John would know this. I
21 want to say the highest they've ever been was, what,
22 nine?
23 MR. BENTON: Nine, correct.
24 MR. WILLIAMS: Yeah. And the lowest is, what,
25 maybe seven and a half?

1 MR. BENTON: Back in the eighties it was nine,
2 and right now the lowest it's been is 7.75.
3 MR. WILLIAMS: So that's what's there. And I
4 think at the end of the day, if it really comes down
5 to it, on a personal level, I want to do what I
6 think is the best possible thing and the most
7 rational thing, knowing what we all know about
8 markets and about fiduciary responsibility. I think
9 where it takes you is, if we're really concerned
10 about interest rates going up -- and I don't think
11 there's a person in this room that doesn't accept
12 the reality that that's going to happen. But to a
13 point someone made earlier, Bill Gross couldn't get
14 it right. You know, do we really think we can get
15 it perfectly? Maybe not. So how do we deal with
16 that?
17 And the answer is we can deal with it
18 tactically. Katy is here, our senior investment
19 officer for fixed income, and she's got all kinds of
20 thoughts about things we can do within the fixed
21 income asset class, shortening duration, changing
22 the asset mix a bit, barbelling perhaps some of what
23 we're doing in the portfolio, that will mitigate our
24 exposure to rising rate harm and allow us to capture
25 the benefit of rates as they rise.

1 Also think in terms of what we're doing in
2 strategic. And we're going to have a review of that
3 class in a little bit, where that's another
4 alternative to fixed income that doesn't bear the
5 full risk profile necessarily of straight global
6 equities. So there are other things we can do.
7 But I would be careful about tying ourselves
8 too tightly to a mast of I've got to get 7.75 with a
9 high probability every year or else. And when we're
10 looking out 20 and 30 years, by definition, the
11 crystal ball begins to fog just a bit. And if
12 you're kind of within hand grenade range, you may
13 very well set yourself up with some upset skewness
14 in your returns in the form of cost savings likely
15 to come that you haven't really modeled in.
16 MR. DAVIS: Martin, one thing I could easily
17 do -- let me know if it might be helpful, but I
18 could take just purely the investment returns that
19 we're modeling and have something that would say
20 probability of exceeding 7.75 percent over a 15-year
21 period under different allocations, different risk
22 allocations. And then on the down side, probability
23 of returns -- negative returns, or I could have a
24 number of things.
25 And it would show just purely in investment

1 return numbers the kind of risk and reward, kind
2 of -- they're driving what we're seeing now, but it
3 might be helpful just to see them as returns on the
4 average expectation versus the downside risk. It
5 might just help you kind of wrap your head around
6 some of that, too, because it's all -- it's what's
7 driving these pictures, but sometimes it's hard to
8 actually translate. So let me do that for you, and
9 I'll e-mail those out.
10 MR. SEBASTIAN: Just one last comment, at the
11 risk of opening a can of worms again. But the
12 policy defined target rate of return is the nominal
13 rate, the 5 percent plus CPI inflation. Our
14 inflation expectation -- I know we've talked about
15 that -- is around 2.3, 2.4 percent. So based on our
16 modeling over the next 15 years, 7.3, 7.4, your
17 policy expected rate of return, on a median basis,
18 7.4, on an average 7.0, so in that neighborhood, not
19 accounting for difference in time horizons, for
20 active management value added that will be there if
21 your professional staff and external managers are
22 successful in doing that, I think you're about
23 there.
24 I think the 7.75 is a number, but the number
25 that you manage to is the 5 percent real. And I

1 think that you are well positioned for that, given
2 your current policy. That's part of the reason
3 why we are -- we'll see what happens in June, but
4 we're not pounding the table for a change.
5 MR. DAVIS: As I mentioned a minute ago, after
6 we look at the long-term risk-reward analysis, we
7 usually want to check ourselves against other kinds
8 of risks that are important to consider, short-term
9 risk measures, liquidity issues and things like
10 that.
11 So short-term downside risk, the metric that we
12 look at here is the probability of having a funded
13 ratio fall below some threshold that would be a
14 painful experience. And so I've shown five years
15 out, the probability of having a funded ratio below
16 60 percent funded, 50 percent funded and 40 percent
17 funded. So those I think all, we could probably all
18 agree, are scary places to be. Certainly 40 percent
19 is the land of Lincoln, back in Illinois. So you
20 don't want to be there.
21 And across the bottom we have different
22 allocations to risk assets. So at 75 percent I've
23 drawn the current policy line. And you can see
24 there, our current policy, there's a little over a
25 15 percent chance of falling below 60 percent,

1 9 percent chance of falling below 50 percent and
2 almost 5 percent chance of falling below 40 percent.
3 And you can see how those probabilities change if
4 you dial risk, the risk asset allocation up or down.
5 And so these are things that are really hard to
6 imagine, that the plan could ever get to that place,
7 but the numbers in the model tell us that you can't
8 ignore those probabilities. They're low, but you
9 need to keep those things in mind. And anything
10 that you do that would dial up risk asset allocation
11 also dials up the probabilities of these extreme
12 events occurring.
13 MR. HARRELL: Rowland, can I jump in here?
14 Because I'm wrestling with a few things mentally,
15 and I guess we'll see if I can get it down in a
16 coherent way. One of the things that challenges me
17 in looking at this, as I've said, I think the
18 analysis is excellent, really impressive, but it is
19 still just a model.
20 And in this model it's very hard to connect the
21 specific scenarios that have unfolded in each of the
22 thousand hypothetical scenarios to the results. So
23 do what we may, the SBA has a risk in some scenarios
24 of falling short. It can fall short because it was
25 too cautious. It can fall short because it took too

1 much risk. When we look at these outcomes, it's
2 hard to say which things are driving which outcomes.
3 And I think if we had -- if you had instead a
4 set of scenarios -- and this may be completely
5 unfeasible, but it's more like the way that I think
6 about it. If you had a set of scenarios and
7 outcomes, there's a qualitative element to this of
8 what kind of scenario is it in which we are willing
9 to accept the risk that we come up short.
10 And some of these scenarios are Great
11 Depression type scenarios, stock market falling 5 to
12 10 percent a year for 15 years. If that's
13 happening, that's not going to be the only bad thing
14 happening in the world at large, and it's not going
15 to be shocking if pension funds come up short. If
16 the stock market compounds at zero, something
17 similar is true. And maybe that all folds into the
18 model in a certain way, but those might be scenarios
19 where we say we can accept the risk that we come up
20 short.
21 However, and this may be going a little bit to
22 Martin's point, a different set of scenarios in
23 which the country is reasonably prosperous, everyone
24 has the expectation that bills should be paid and we
25 come up short because we have a lot of fixed income

yielding next to nothing, or a lot of fixed income that got hammered when rates went up. That's a different kind of falling short.

And I, for one, am more than willing to take the maverick risk of -- of course, mostly it won't fall on me, but I would hate to think that's the reason, that we invested like our peers. But that thought carries over here to what are the scenarios in which you're willing to be the guys that came up short.

And I think I'm more willing personally to come up short if it turns out that the world is headed for another Great Depression than I am willing to have been here voting and have us all come up short in a scenario that is more gentle than that. That's kind of long. I don't know if it made sense. But that is definitely the way that I'm thinking about it.

And it's what troubles me as we talk about the model so much. It is so much the driver for this incredibly important decision about our asset allocation. And it's informative. It's a tool. It's incredible the number of issues and ideas that it's brought up just in this discussion, but there's still something missing from it, which is not a

reflection on you in any way.

MR. DAVIS: No. I think you expressed it beautifully. The piece that at the end of the day connects all the dots, these being some of the dots, are individuals such as yourself trying to weigh and understand risk and reward. And, again, this is just an informational tool. And I totally understand the fact that it doesn't present all the information that any one individual might really want to see. And our goal is to --

MR. HARRELL: I think I'm more hoping that I'm providing food for thought over on this side of the room as we decide how much weight to attach to 75 percent or what have you than anything else.

MR. GRAIN: If I can make a comment. It's easy for the outgoing guy to have points of view that he doesn't have to be responsible for necessarily. But what I would say is that while I understand that risk that you are concerned about, with the 75/25, I would say two things. Number one, when you look over a really long horizon, I think that risk is reasonably well managed, particularly to Michael's point, as we really shoot for a target that's more like 5 percent, one.

Two, as you think about the risk of interest

1 rates rising, as Ash pointed out and what Katy will
2 do is probably have a substantially shorter duration
3 portfolio on the fixed income side, which is really
4 what a lot of the banks are doing right now, because
5 you can't make -- it's very competitive to make
6 good, long-term loans. So they're making short-term
7 loans or they're buying agency securities that have
8 an average duration that's less than two or three
9 years, just to get a little bit of yield to kind of
10 keep some cash flow coming in.
11 And the expectation is that when all the
12 quantitative easing and any other stimulus that's
13 being provided to kind of keep rates as low as they
14 are, when that changes, we're going to see rates gap
15 up dramatically and very, very quickly. In that
16 scenario I think we'll be in a position, if properly
17 structured, where on the fixed income side, Katy is
18 going to be able to ladder in higher yielding
19 securities with a commensurate amount of risk
20 associated with them.
21 The other thing I would say is that I take a
22 look at the equity markets. And, you know, we sort
23 of think about a 15 multiple on the equity market.
24 That translates into a 6.67 percent cap rate.
25 Historically, the equity markets really should be

1 generating returns that are closer to 8 to 11
2 percent over a long period of time. So when I think
3 about the equity market, I actually don't think it's
4 that cheap.
5 Which when you think about the 75/25, well,
6 then you've got 52 percent global equity. There's
7 some margin there to make decisions outside of North
8 America, what have you, which may not have been the
9 right trade over the last couple of years, but let's
10 see where that goes going forward.
11 And then number two, as we think about the
12 bands that we have to play with around strategic,
13 you know, it's a pretty big category. And in that
14 pretty big category, with what I would consider a
15 tip-top staff to make reasonable risk assessments
16 and decisions, we have an opportunity to grab yield
17 that we wouldn't otherwise gather on the fixed
18 income side, provided that we hedge that risk with
19 much shorter duration, until we see rates start to
20 move.
21 So, one, we're not in the last minute, the way
22 that I see it. I think we're -- we've got a number
23 of years. Now, there could be changes, as Ash
24 points out, with the legislature that could eat up
25 some of the clock. But in truth, we have a very

1 long horizon within which to plan around achieving
2 these targets. And I think we're headed down the
3 right path, we're on the right path. And staying
4 the course, as opposed to chasing yield in an
5 environment like this, we'll be well served, I
6 believe.
7 MR. DAVIS: Okay. I'm close to wrapping up
8 here. We are now at the point where we talk about
9 the issues that are still hanging out in front of
10 us. This chart highlights some that are related to
11 funding the plan. The last three years, the
12 legislature has not fully funded the contributions
13 as calculated by the actuary. There's been about a
14 billion dollars each of the last three years. So
15 those shortfalls are being amortized over 30 years.
16 Eventually they'll be paid, but it's a slow recovery
17 process. We have -- I think Ash can speak to this
18 more than I -- but some hopeful expectations that
19 that period of time is over, that full funding will
20 resume.
21 Actuarial assumptions and actuarial
22 methodology, again, the Actuarial Estimating
23 Conference, working with the actuary and then going
24 to the legislators, are the decision-makers there.
25 They last fall deferred action. This fall things

1 will be revisited, so there may be changes. We
2 don't know.
3 And then this one is -- this page are the other
4 key issues about the plan. It's possible that the
5 program will switch the default from the DB to the
6 investment plan. To approximate that, we ran a
7 scenario where we moved the investment plan election
8 rate from 25 percent up to 50 percent to see how the
9 risk-reward curve responds. Actually, I would say
10 with the Senate bill, which also shifts 1 percent of
11 pay and makes the investment plan more generous,
12 because it takes 1 percent of what are now employee
13 contributions and makes them employer contributions,
14 I would not be surprised to see election rates hit
15 75 percent if that were passed. And if the plan is
16 closed completely, which is the House version, then
17 of course the time frame starts to shorten right
18 away.
19 So if you look at the sensitivity charts here,
20 the red one is our baseline. The green line is
21 almost sitting on top of it, and that's if you
22 change the default and get 50 percent election. The
23 blue line is if you close the plan completely.
24 Interestingly, again with the blue line, we see a
25 curve that supports where we are.

1 But more important, I think the more important
2 message is once -- if the plan is closed or if it's
3 substantially closed because election rates approach
4 75 percent or so for the investment plan, that a
5 de-risking process will start to unfold for the
6 pension plan. And it starts to unfold to some
7 degree right away if the plan is closed. But that
8 will accelerate as the time frames of a closed plan
9 get shorter and shorter.
10 Assuming the plan remains well funded and is
11 continuing to be funded, you will get to a point
12 where you're going to be escalating your bond
13 allocations on probably a fairly regular basis. And
14 that's occurring in the corporate world, well, for
15 other reasons as well, but in the corporate world
16 that's occurring at a pretty quick pace right now.
17 And that is the conclusion of my part. We have
18 some more material on the role of fixed income,
19 which we've already talked some about, but it's
20 obviously an important issue here. And I'll turn it
21 over to Kristen.
22 MS. DOYLE: So in the interest of time and
23 since we really have already had a substantial
24 conversation about fixed income, covered a lot of
25 the issues and things that we point out in the next

1 couple of slides, what I'll do is just set the stage
2 for June and what we will plan to do in June. Let
3 me flip to the last slide in this section.
4 Actually, let me just note that this slide is
5 here. This is just a comparison of the duration of
6 some of your peers. So this might give you a sense
7 of what other public pension plan systems are doing
8 as far as duration or where they're positioned. But
9 then in closing, we just are leaving you with a
10 couple of observations, things that have already
11 been pointed out today.
12 So just the fact that interest rates are
13 difficult to predict, I included an example there, a
14 more recent example. We saw rates were really low,
15 and then -- in October of 2011, and by July they
16 were even lower. And that was in reference to
17 something that Rowland had referenced, a very
18 talented fixed income manager that missed that.
19 The plan has a very long perspective, as Mr.
20 Grain just articulated. But there are some things
21 that we can do that have also been mentioned today
22 with regards to the fixed income allocation that we
23 will look at for the June meeting when we come with
24 scenarios from an asset allocation perspective.
25 So today we spent most of our time, almost all

of our time looking at the asset-liability and the split between return-seeking and risk-reducing assets and where we want to be on that spectrum. But in June what we'd like to do is spend some more time on the actual asset allocation and what changes we can make to the return-seeking portfolio and the risk-reducing portfolio and what impact that will have on expected return and risk and also the long-term economic cost number that Rowland will share with us.

So we lay out a couple of options. Shortening duration is one option, diversifying into higher yielding segments of the bond market, and obviously lowering your allocation to fixed income is also an option, so we'll look at the trade-offs of all those different options.

MR. WENDT: I have a question to Ash, based on that information that you just gave us, and it has to do with talking about it in June. We'll analyze all these things, but the world has already jumped into emerging market debt and high yield debt. By June I suspect it will be over-subscribed by a lot. Right now the junk bond yields are crazy. Can we wait 90 days before we make any changes, or are you not waiting 90 days?

MR. WILLIAMS: We're not waiting 90 days.

MR. WENDT: So we should relax.

MR. WILLIAMS: I'm going to ask Katy to talk a little bit more about the portfolio generally in terms of where we are now and changes we could make going forward, but I would say this. I couldn't agree more about your comment about high yield. We've taken the view that high yield is not necessarily a durable asset class, quote, unquote, that we want constant exposure to.

It's an opportunity set that waxes and wanes in its appeal. And our view is that as the global thirst for yield has become in extremis, the spreads on high yield have tightened to a degree that the risks are uncompensated. So we've been net sellers of high yield in the strategic asset class for some time now.

MR. WEBSTER: Just to comment on that. High yield was shifted into the strategic asset class a couple of years ago, and we liquidated our last dollar of high yield last month.

MR. WILLIAMS: So, no, we're not waiting. We're done.

MR. WENDT: So there's no sense looking at that as an option.

MR. WILLIAMS: Well, it depends. Why don't we hear from Katy a little bit about her thoughts about the portfolio.

MR. WENDT: How much can you do? I mean, we're all sitting here thinking -- you know, understanding that rates are going up, which by the way, I need to comment. I've been expecting that for five years, and it's cost me a lot of money.

MR. HARRELL: You're only that much closer to being right --

MR. WENDT: How fast can you -- how much can you insulate us?

MS. WOJCIECHOWSKI: Fixed income is what you typically think of as that's what lets you sleep well, as opposed to live well. But there are opportunities in fixed income that are less interest sensitive, if you will, so less sensitive to rising interest rates, bank loans, Kristen mentioned, I believe, in here. High yield opportunistically, not as a dedicated asset class but as an investment opportunity within a core portfolio, so an expanded opportunity portfolio is one of the things that we've looked at, a shorter duration.

One of the things that we've looked at is maybe we have the wrong benchmark. Maybe it should be a

LIBOR benchmark or a shorter three-year benchmark, and look at it that way.

MR. WENDT: What would you do differently if you used a LIBOR benchmark?

MS. WOJCIECHOWSKI: It would unconstrain us somewhat. And I don't know that that's the right thing to look at, you know, to change the benchmark. But one of the things we've looked at is expanded opportunities, to pull yourself away from the benchmark. It's become much more Treasury-centric over the last couple of years because of issuance of Treasuries and mortgages.

MR. HARRELL: Following up on Gary's comments, one thing I've been noodling as I sat here, there was an exchange a couple of times about strategic versus tactical changes in asset allocation, and I get -- I totally get the hesitation to make a strategic change. I'm not sure what exactly is meant by a tactical change.

But with the same 90-day notion, I mean, I'd make a motion right now, if you said you wanted a little tactical flexibility from the current asset allocation policy to use or maybe use until the next meeting, to go from fixed income to something else. I don't know if that's desirable or that's not

1 plausible or whatever but --
2 MR. WILLIAMS: The way this works is the
3 investment policy statement, any changes to the
4 policy statement would be approved by the IAC and
5 then would have to be approved by the trustees to be
6 acted upon. And, commonly, the way we would do that
7 would be to have enough time to work with them, to
8 go over them, et cetera, which probably would imply
9 a longer period of time than tomorrow morning at
10 9:00 a.m.
11 MR. HARRELL: Even to do something tactical.
12 MR. WILLIAMS: It's a change to the policy
13 statement.
14 MR. HARRELL: Okay, that's my question.
15 MR. WEBSTER: If I could just interject. We're
16 acting tactically within strategic investments. So
17 we're investing in a variety of different fixed
18 income and debt strategies. So if you look at it
19 holistically, we're actually bigger than 24 percent,
20 but we're doing many different interesting things in
21 the fixed income markets because there are many
22 interesting opportunities there. So we are to some
23 extent undertaking what you're suggesting.
24 MS. WOJCIECHOWSKI: Yes, I think we are. One
25 of the things that I'd like to do is

1 opportunistically look at maybe the tweeners, things
2 that fall between Trent and my group.
3 MR. WILLIAMS: Exactly. So I think there have
4 been steps taken within the fixed income asset class
5 that are very appropriate. And this is a perfect
6 segue to the next part of the agenda, which is what
7 are we doing in strategic, what is it, and what's
8 there and how does it work. So I think this has
9 been a great discussion. It's informed all of us,
10 and we've got a little bit of time between here and
11 June to noodle and go from there.
12 Of course, the other thing is, don't forget,
13 given the size of this fund, this isn't like when
14 any of us make a personal asset allocation change.
15 We talked about the global equity allocation. We
16 are still 600 basis points ahead of our long-term
17 desired place where we want to be in global equity
18 simply because it takes time to fund up strategic in
19 a prudent manner. So it takes a long time to act.
20 So I don't think by waiting until June we're
21 necessarily going to put ourselves in harm's way. I
22 don't think you should feel anxious about that.
23 MR. GARCIA: The floor is yours, Ash.
24 MR. WILLIAMS: Okay. Well, why don't we then
25 move on, unless there's anything else from

1 EnnisKnupp on any of the actuarial stuff, which I
2 don't think there is, let's move on into the
3 strategic investments review, which is Tab 5. This
4 is an asset class that was created in 2007. The
5 purpose was to contain a variety of portfolios which
6 may or may not be appropriate for permanent
7 allocations.
8 So the whole notion here, the way I see it, is
9 that there are going to be opportunities that will
10 present themselves for periods of time where they
11 will be very attractive, and then they will wane in
12 attractiveness as capital comes in, and they'll
13 eventually become undesirable.
14 So rather than have permanent allocations to
15 things like that, we thought it would be better to
16 have -- I was not here at the time. But the
17 thinking was it would be better to have an asset
18 class that could opportunistically take advantage of
19 relationships that could capture those kinds of
20 opportunities.
21 This would include nontraditional and
22 multi-asset-class investments in a range of areas
23 that all would share the common characteristic of
24 contributing to increasing the probability of
25 earning returns equal to or greater than the

1 5 percent real return target over time.
2 Also, the idea was to take risk more
3 intelligently, to be blunt. One can take risk by
4 having passive equity exposure or equity-like
5 exposure or by taking it in ways that might get you
6 similar returns but be a diversifier to straight
7 global liquid equities. So the idea there was to
8 improve both diversification and the smartness with
9 which we take risk, also to potentially provide
10 hedges against inflation. Think here about things
11 like timberland or commodities in that regard.
12 And lastly to increase investment flexibility
13 across a range of market environments. So this
14 would include opportunistic or absolute return
15 oriented strategies where the mandate for a given
16 investment partner could allow nimbleness within and
17 across asset classes.
18 So think, if you will, of the hedge fund that
19 might simultaneously take positions in different
20 parts of the capital structure, going long a cheap
21 equity component of the capital structure or a cheap
22 credit component and hedging it with some other
23 position in a different part of the capital
24 structure of either the same company or maybe even
25 an index in the appropriate industry or area.

1 So that is the idea generally in strategic.
2 And if you look at how we think about the total fund
3 investment policy allocation, when we did what is
4 now our investment policy, which originally came up
5 in June of 2010, the modeling that Rowland did and
6 EnnisKnupp and the IAC and we agreed upon as the
7 attractive optimal mix was a target allocation of
8 11 percent.
9 And the key to this asset class compared to any
10 other is it doesn't have any minimum. So if the
11 feeling is that there's nothing here that really
12 excites us that we want to do, we don't feel
13 compelled to allocate a dime here. And to the
14 extent there are things that are compelling or that
15 other asset classes are for whatever reason
16 repellant, then we have considerable flexibility in
17 the asset range, as you can see by that second
18 bullet.
19 So our current allocation is we're at 5 percent
20 of the fund or a little north of 6 billion as of 31
21 December '12. The benchmarks we use, the primary is
22 a weighted individual portfolio level benchmark, and
23 the secondary is CPI plus five, or the long-term
24 real return objective. And, again, we see this both
25 as a diversifier and a way to take risk more

1 intelligently.
2 We have in the strategic investments team, and
3 we'll introduce a couple of members of that team and
4 have them talk a little bit more in just a moment, I
5 think a very thoughtful focus on how the investment
6 class should be set up, how the portfolio should be
7 structured. And we put together an annual
8 investment work plan, which comes up through our
9 senior investment group, which is the heads of all
10 of our investment classes, together with our chief
11 of risk management and compliance and other senior
12 members of our team here at the State Board. And
13 then I approve that work plan in its finality.
14 We have ongoing compliance oversight in
15 strategic, as we do in all asset classes. Our chief
16 risk and compliance officer has embedded compliance
17 team members in each asset class who monitor things
18 on a daily basis. And we have formal escalation
19 procedures to the extent there are any compliance
20 issues that come to the surface.
21 We also use specialty consultants in the area.
22 Cambridge has been very instrumental in the
23 strategic asset class, starting out with us in the
24 hedge fund area and other strategic areas, and more
25 recently they've taken the lead in private equity as

well. Since private equity is akin to strategic, organizationally, that's a particularly efficient setup.

So basically the way we have been building this asset class is in direct investments. We have not taken the approach of setting that 11 percent allocation and then say, how quickly can we fill toward it, which would have put us in the direction of funds of funds. Instead we elected to go direct, take a little more time doing it, own the relationships, eliminate a significant layer of fees, and start off by adding strategies that were complementary to existing exposures in the book we had at the time and were building out over time. And we found a number of attractive opportunities in that space.

So with that, unless there are questions, I'm going to hand it off to Trent, or I'm sorry, hand it off to Cambridge Associates. Cambridge, you may know, is a very, very large international consultancy. I'd say they're clearly the leader, if not -- certainly among the leaders and probably the leader in this space worldwide, dominant advisers in the endowment and foundation space and also probably in the family office space. Beyond that, I don't

know what else to say about Cambridge, other than --

MR. WEBSTER: They're the leader.

MR. WILLIAMS: I would say so. Jim, Andre, Samit.

MR. MNOOKIN: It's nice to be here. Thank you. We have a new colleague who has joined us since last year, Samit Chhabra, who has been a welcome member of the team. Since we are starting when we were supposed to be ending, we will try to be quick, because I know Trent is also sharing some time. But we will go through only a few slides and talk broadly about what we have done here.

And we thought we would go to this slide, which talks about the current portfolio. And at the end of 2012, we had invested a little over $1.7 billion in 10 different funds. And as you can see, five -- 53 percent are in multi-strategy, with multi-strategy managers. There are five of them. We have 21 percent with two managers who focus on credit opportunities, and then we have 26 percent with three managers in the long/short equity space. And of these ten, four were added in 2012, and we gave some existing managers a little bit of additional investments.

MR. WENDT: This $5 million amount, you've got

1 percents there.
2 MR. MNOOKIN: The total here for the hedge fund
3 portfolio is 1.7 billion.
4 MR. WENDT: 1.7 billion?
5 MR. MNOOKIN: Yes.
6 MR. WENDT: I have a sheet here, page 10 from a
7 much previous presentation, that says we're at
8 5 billion.
9 MR. MNOOKIN: For the total strategic space.
10 But the hedge fund portion we're talking about is
11 1.7. At the end of the year it was 1.755 billion.
12 It's a little over 1.85 billion today.
13 And to get to these ten managers, we and the
14 staff have reviewed information from over a hundred
15 managers, and I think staff have had -- have
16 actively reviewed 80 of them, and those have been
17 filtered down into ten investments. Andre, do you
18 want to talk a little bit about how we've done?
19 MR. MEHTA: So moving ahead to whatever that
20 page is whose print is so small that I can't make
21 out the number at the bottom of the page.
22 MR. WEBSTER: 160.
23 MR. MEHTA: 160, thank you. To talk about the
24 current performance of the portfolio as of year end.
25 And as a reminder, this is still a relatively young

1 asset class for the SBA. There are only 21 months
2 of history on this, and some of that is skewed
3 naturally by what the market has done during this
4 time period. So what you see on the left-hand side
5 is what we call a risk-return chart. So we're
6 showing the annualized return since inception of the
7 program on the Y axis, and risk as measured by
8 standard deviation or volatility on the X axis.
9 And for this time period you'll see that the
10 SBA's hedge fund program has underperformed the
11 equity markets but outperformed both the benchmarks
12 for the hedge funds, the individual hedge funds as
13 aggregated in a composite, as well as a peer index,
14 the Hedge Fund Research Fund of Funds Index.
15 The other thing to note, of course, is that
16 volatility has been significantly less than the
17 equity markets, roughly one-third of that of the
18 equity markets. The volatility obviously has a
19 critical importance, as was discussed earlier. The
20 other thing that you'll note is we look at different
21 measures of risk, including something we call
22 drawdown. And drawdown is a measure of the maximum
23 peak-to-trough return, typically expressed as a
24 negative amount, so how much have you lost from a
25 prior peak. And you can see that on the graph on

1 the bottom right-hand side, where the SBA's hedge
2 fund program, for that particular peak to trough,
3 lost 5.2 percent versus the equity markets of 16 to
4 19 percent, depending on which benchmark is used.
5 MR. CHHABRA: So the following page, why do we
6 continue to push forward with this allocation to
7 hedge funds and why do we consider this to be such a
8 critical component of the overall pool of assets.
9 Andre mentioned as far as the volatility reduction
10 and as well as generating an appropriate amount of
11 return. You know, we've seen an environment where
12 both the credit and equity markets have rallied
13 significantly over the last two years. What that's
14 done is limited the opportunities that we see across
15 the landscape for more inexpensive beta.
16 And so the search to find areas that are unique
17 that can generate alpha beyond kind of a market
18 return is that much more important to us. And so
19 we've included a few graphs on just equity markets
20 where we feel that there's a -- valuations range
21 from fairly valued to over-valued, and then we talk
22 significantly about the bond markets and the reduced
23 margin of safety that those markets present today.
24 And so we think that finding assets that present a
25 unique source of return become that much more

1 important today.
2 We looked for assets that we can't get --
3 investments that we can't get across traditional
4 asset classes. We mentioned a few on this page,
5 merger, arbitrage and others. And so that's
6 essentially what we're looking for, unique sources
7 of returns. And that's why these vehicles are
8 structured differently, and that's why we think they
9 can add value to the total pool of assets.
10 And there are -- we've talked about tactical
11 opportunities. And here we mention European
12 distressed. Back in late 2008, the distressed
13 opportunity in the U.S. was significant. Many
14 investors in these strategies were benefited
15 greatly, and we expect future opportunities,
16 tactical opportunities to arise, and these may be
17 vehicles to capitalize on these opportunities.
18 MR. MEHTA: Trent, we wanted to keep this
19 fairly short so that you could spend some time
20 talking.
21 MR. WEBSTER: Okay, no problem. Just step back
22 a little bit. Thanks, guys. Step back a little bit
23 and accentuate maybe a little bit of what Ash said
24 at the beginning. The strategic investment asset
25 class is a little different from the other asset

1 classes. So, with my colleagues at the table here,
2 we thought equity, bonds, private equity and real
3 estate, anything that doesn't fit nice and neatly
4 with them comes to us. So I like to joke that we're
5 the mut of the organization. We do a little bit of
6 everything. So they're the purebred show dogs, and
7 I'm the mangy mongrel you get from the shelter.
8 Three things that make a difference in our
9 minds. The first one, as Ash had said, was that
10 we're meant to be opportunistic and tactical. So we
11 can be -- we think of ourselves as being up to
12 11 percent of the fund and as low as zero.
13 Practically, that probably won't get to zero, but
14 it's nice to have that flexibility to commit capital
15 when the opportunities arise or pull it back when we
16 think the opportunities aren't there.
17 Ideally what we want to be doing is that we
18 want to be committing capital to the markets when
19 capital is dear and withdrawing it when capital is
20 cheap. So during the financial crisis we were
21 committing capital into the distressed debt and
22 senior loan markets. Today we're withdrawing it
23 from high yield, and we're allowing some of our
24 senior loan funds to run off, because we think the
25 absolute return from these areas won't keep up with

1 our benchmark.
2 The difference -- the difference from the whole
3 FRS is that we have a shorter time frame, where we
4 can be tactical and take advantage of opportunities
5 in the market. And that leads us to the second
6 thing, is that we're absolute return focused. So
7 when we're putting together a portfolio, we're
8 thinking of things that will over time generate
9 absolute returns as opposed to beating a benchmark.
10 We put managers on benchmarks to see if they are
11 doing what they're supposed to be doing relative to
12 their peers or relative to markets or whatever. But
13 when we're thinking about it, we're thinking about
14 absolute returns.
15 Now, we will take beta risk, when we think beta
16 is attractive and beta is relatively cheap. So we
17 don't want to be paying a lot in fees for beta, and
18 we certainly don't want to be going into markets
19 when beta is expensive from an investment
20 standpoint. But for the most part, we're looking at
21 the world in an absolute return space.
22 And that leads us to the third way we think of
23 ourselves as somewhat different, is that we think of
24 ourselves as being a volatility dampener for the
25 FRS. Ideally we're looking for uncorrelated

1 returns. That's the holy grail of portfolio
2 construction. And the truth is, is that's not
3 particularly abundant. So we try and find it where
4 we can. But in strategies which are leveraged to
5 the economy, we want to find strategies and we want
6 to find managers that will help limit the down side.
7 So we do this one of two ways. One is we do
8 act opportunistically across markets. We also like
9 to find good managers who can do that for us. And
10 if we can find good managers who can add value for
11 us over time through various markets, then we'll do
12 so.
13 So if you look here, those are our current
14 strategies that we've delineated. The important
15 thing to know about this is that this list isn't
16 exhaustive and will likely change at least somewhat
17 over time. So currently we're looking at a couple
18 of other strategies. We're currently researching
19 CTAs and health care royalties, which don't show up
20 on there. We haven't made a conclusion whether or
21 not we're going to invest, but that's something that
22 could show up in the future.
23 We've also looked on the margin at insurance
24 and reinsurance funds, which can provide
25 uncorrelated returns, but we're still in the very

1 conceptual stage on that. It's also important to
2 note that we're not necessarily investing in all the
3 strategies here. So like I said a few minutes ago,
4 we currently have nothing, at least no direct fund
5 investments in high yield debt. We have no
6 non-dollar debt.
7 If you go down about half the page, there's a
8 category that says equity long-biased, which we call
9 opportunistic equity funds. We would consider those
10 to be funds with risk characteristics that might
11 fall outside of the global equities portfolio. So
12 those could be highly concentrated funds with maybe
13 eight or ten slots that may have the option to go to
14 100 percent cash if they wanted. But we don't have
15 any investments in that.
16 Things that we have looked at that we've passed
17 on include bank recapitalizations. We looked at a
18 fund that was investing in music royalties. There's
19 a fund out there that is trying to raise money to
20 write insurance on major league baseball contracts.
21 I don't think we'll do that, but that's interesting.
22 We've looked at life settlements. We've looked at
23 securitized lottery winnings.
24 And we looked at one fund that would invest in
25 other things, barnyard animals in Australia. In

1 Australia they call those beasts, so we thought it
2 would be kind of fun to talk about our beast
3 portfolio. And also there are some investors out
4 there that speculate in wine. And so if we ever get
5 around to doing a wine fund, I've got dibs on that.
6 Another important point here is that we don't
7 view hedge funds as an asset class. Instead we view
8 hedge funds as structures to access opportunity and
9 talent. So we don't have a formal hedge fund
10 allocation. But if you flip over, you can see on
11 the next page, you can see here what our current
12 allocations are. And all the hedge funds, the way
13 we classify them -- and, again, it might change in
14 time. They would fall into the absolute return or
15 the equity long short, and they might show up in the
16 equity long-biased as well.
17 So the first numerical column is the allocation
18 by market value. If you wanted to delve deeper, the
19 slide is not in here, but if you were to look at our
20 allocation by security, currently, by market value,
21 47 percent of strategic is in debt securities and
22 16 percent is in mezzanine.
23 So if you add up debt and mezzanine, that's
24 63 percent. Equity is 24 percent. Real assets,
25 which we consider to be infrastructure, timber and

1 commodities, are 4. Arbitrage is 3, and other,
2 things like hedges and CDFs are 2. And if you were
3 to do that breakdown on the far right column, which
4 is our market value plus unfunded commitments, which
5 are funds that we've already invested in but they
6 haven't called capital yet, debt and mezz would
7 still be at 63 percent, but the allocation to debt
8 is falling because we're running off some of our
9 debt funds, and the allocation to mezzanine
10 attribute is rising a bit because there are some
11 opportunities we think in mezz. Equity falls from
12 24 to 21 percent, and the real assets rise from 4 to
13 10.
14 MR. WENDT: Excuse me, Trent. How many funds
15 did you say you had invested in to get this?
16 MR. WEBSTER: We have 69 fund investments, with
17 49 separate managers. So if you were also to break
18 it down by public and private security, it's roughly
19 half. Roughly half the investments are in public
20 securities, roughly half are in private. And if you
21 did want to know what the allocation to hedge funds
22 are, based on current market value, it's currently
23 27 percent. And if you include the unfunded
24 commitments, it's 18 percent.
25 This is our performance over the last year. I

1 would really caution heavily not to expect this. We
2 were up nearly 16 percent. This approximates also
3 for the calendar year of 2012 as well. We did very
4 well. I would be very surprised if we were to do
5 that well again in 2013. And the reason for the
6 rally or the reason for the strong performance was
7 because we are so heavily invested in debt, and
8 there's been a lot of -- there's been a good rally
9 in the fixed income market, which we've benefited
10 from. So if we get 8, 10 percent in 2013, I'll be
11 happy, and we'll bank that for years when we lag the
12 overall market or lag our absolute return.
13 Flip over here, and this just accentuates what
14 I was saying. Our leading strategies in 2012,
15 performing debt was up 21 percent. Distressed debt
16 was up 19 percent. Our lagging strategies were
17 equity long short, in the absolute return, which is
18 where our hedge funds are. And I think Andre and
19 Jim and Samit had explained that we had actually
20 done better than our peers or done better than our
21 benchmark, but the group as a whole had lagged in
22 2012.
23 This gives us more color on a relative basis.
24 Most strategies were positive for both the quarter
25 and the year. And on an absolute basis, most

1 strategies were positive for the fourth quarter, and
2 all strategies were positive for the year. We
3 talked about credit spreads. We still think that
4 there are opportunities in the debt market. In
5 pockets of the distressed debt market, we still
6 think there's attractive returns. In small balance
7 loans, Europe, real estate and some parts of the
8 mezzanine market we're still finding very
9 attractive. We generally think that equities are
10 more attractive than debt on a valuation basis, but
11 we're looking again at opportunities
12 opportunistically.
13 Cambridge, have you got any more color on any
14 opportunities out there that you're seeing?
15 MR. MEHTA: We can talk about that. I just
16 wanted to come back to the lagging strategies, and
17 the hedge funds in particular. Just a couple of
18 thoughts on that. One, with investing in hedge
19 funds, there are several mandates, if you will, that
20 we had. One was to think very conservatively, so
21 not to rush into anything, certainly not to choose
22 anything with leverage, but also to diversify the
23 economic sources of returns of the overall
24 portfolio. And so with a large degree of assets in
25 the equity markets, one of the things that we looked

1 at were really those diversifying strategies with
2 low correlations. That implies some of the more
3 conservative managers that will have less exposure
4 to both the equity and the debt markets. And so
5 that explains the outperformance of the top
6 category, the performing of the distressed debt,
7 which are really long those markets, versus some
8 more hedge strategies, which you see down below.
9 In terms of opportunities, I think Samit spoke
10 a little bit about them. Samit or Jim, I don't know
11 if you have anything to add to that.
12 MR. MNOOKIN: I think we are going to look with
13 you at some macro managers and CPAs, other
14 strategies, which as Trent said, are uncorrelated to
15 the traditional equity markets.
16 MR. CHHABRA: And I would also add that we have
17 been actively looking at newer and smaller managers,
18 managers that are a bit more nimble.
19 MR. WEBSTER: The activity, we had $377 million
20 in outflow in the fourth quarter. We've had a
21 smidge under $500 million for the fiscal year,
22 that's from July 1st to Feb. 28. We made new
23 commitments in the fourth quarter to CarVal Credit
24 and GSO, which are two current managers, so we were
25 re-upping on those funds.

1 We also funded up two new funds. One is the
2 IFM Global Infrastructure, which is a consortium of
3 like-minded investors, such as public pension plans
4 like us, as well as Scout Capital Parters, which is
5 an equity hedge fund. We also increased our
6 allocations to our hedge funds, primarily in
7 November but also in December, to take advantage of
8 some of the volatility that was occurring in the
9 latter part of last year.
10 Our pipeline also includes -- we are in legal
11 negotiations, we're currently in legal negotiations
12 with a global macro hedge fund, a European
13 long/short equity fund, and a real estate debt fund,
14 as well as re-upping with two or three existing
15 funds. We are currently in various stages of formal
16 due diligence on eight to nine other funds across a
17 variety of strategies. And of those, six of them
18 would be brand new relationships.
19 So our major initiatives on the docket is that
20 we've expanded our relationship with Cambridge
21 Associates. As Ash had mentioned earlier, we've
22 been working with Cambridge for over three years now
23 on the hedge fund side. I think they're excellent,
24 and I've enjoyed working with them. And they've
25 currently won the mandate to be our private equity

1 consultant, not just private equity but also private
2 debt, as well as commodities, infrastructure and
3 timber. So I'm very much looking forward to working
4 with Margo and the rest of the staff over at
5 Cambridge Associates.
6 Our information flow has exploded, so we've
7 installed Backstop, which is a CRM system, to help
8 monitor that. We're also evaluating a portfolio
9 monitoring and risk system to help us better
10 understand our risks and exposures. We're currently
11 evaluating several portfolio construction
12 methodologies for alternative investments. And like
13 I said earlier, we're evaluating strategies in
14 healthcare royalties, CTAs and emerging managers.
15 Flip over. I've put in a few slides on
16 staffing, process and monitoring. We recently hired
17 an individual who will be starting for us on
18 March 25th. The good news is that he's -- I've
19 known him for a long time. I think highly of him
20 and think he'll be additive towards the asset class.
21 The bad news is I poached him from Katy. So she's
22 been very magnanimous, and I've had no tax on my
23 (inaudible) yet.
24 So I've got a few other things in process. A
25 nice picture, I like pictures, of how we select

1 managers. We generally like to get to know a
2 manager before we invest with them, and we like to
3 meet with them a few times before we do. Cambridge
4 has been a very valuable resource for us on our
5 hedge fund side, looking forward to it on the
6 draw-down funds and that sort of monitoring. Are
7 there any questions?
8 MR. COBB: I have one question. I have a
9 question on the name "strategic investments." In a
10 corporate sense, we made strategic investments to
11 expand our market share or to forward integrate or
12 to do something strategically. And other than that,
13 it was an opportunistic investment. So I guess I
14 always kind of thought of strategic and
15 opportunistic as opposites.
16 And here today we have talked about allocation
17 is a strategic decision, which I agree with, and
18 other strategic decisions to this board. But I
19 guess I would think -- and by your own admission
20 this is opportunistic, it's not strategic, and
21 whether that's the right name for this asset class.
22 MR. WILLIAMS: I think it's to a degree
23 semantics. But I accept your view, that we do see
24 these as opportunistic investments. And the
25 strategic element of the asset class name I think

1 would be primarily derived from the fact that we
2 believe we're simultaneously getting better
3 diversification, better protection of capital in
4 down markets. And for that reason we're getting
5 more efficient compounding of capital over the
6 long-term, and that's a strategic benefit. Hence
7 the name for the asset class. Even though the
8 underlying opportunities are in a number of cases
9 opportunistic, they will always be opportunistic in
10 terms of when they're put on, based on asset
11 pricing.
12 But some of them, like the timberland
13 opportunity that we took advantage of fairly
14 recently is something that will be a durable
15 exposure. But timberland or infrastructure are both
16 things that, while long-lived, valuations go up on a
17 relative basis over time and down. And we like to
18 not buy things when they're at their peaks.
19 MR. WENDT: The industry seems to like this
20 nomenclature, too. I agree with you. It isn't very
21 strategic, but --
22 MR. WEBSTER: Sounds cool.
23 MR. WENDT: Yeah. I've seen a lot of funds
24 that call this strategic.
25 MR. COBB: I would guess most funds would call

1 them alternative investments.
2 MR. WENDT: I have a question for Trent, but I
3 don't want to rush you.
4 MR. WILLIAMS: I was just going to say, in
5 Florida alternatives are statutorily named. And
6 alternatives in Florida include everything in
7 strategic and private equity, but not real estate,
8 which some funds call alternatives, et cetera. So
9 the term "alternative" is one that's sort of all
10 over. And since it's defined in Florida, we went
11 ahead and named this ourselves.
12 MR. WENDT: You had a chart, Trent, that's all
13 different kinds of things you go through. What are
14 the three most important things that you look for as
15 you decide whether you're going to make a
16 investment, and what's the thing that puts you over
17 the top?
18 MR. WEBSTER: Well, I would say there's more
19 than three.
20 MR. WENDT: Well, I know, but give me the top
21 three.
22 MR. WEBSTER: I would look at it this way. I
23 would say the first thing, being a large
24 institution, is they have to be institutional.
25 That's the first thing. So they have to have

institutional process. They have to have institutional back office. The have to have institutional systems, traders and the like. They have to be able to deal with the demands of a large institution like us. That's the first thing.

The second thing is track record; have you been able to perform in the past. And really what we're looking for is we're not buying a track record, we're buying a process. So what we're looking for when we invest in a manager is that we're looking for a process which we think is logical and consistent and repeatable. Hopefully it's unique in some way. Those are the inputs, and the output is the track record.

And there's always the issue of are you chasing returns, you know, how are you investing. And truth is is that we've got to see some demonstrable evidence that this works. If I had to have a third thing, it would be high level of ethics and integrity. That's really important.

MR. WENDT: Good. Thank you.

MR. GRAIN: So, Trent, it sort of falls in your category also, but I just wanted to bring -- again remind the IAC of something that was proposed and unanimously passed back in September, is a focus

within both the strategic area as well as real estate and private equity on smaller managers, and the correlation that was brought to our attention by the folks at Hamilton Lane and I believe also at one point by Townsend, and Cambridge as well, that smaller managers that may be earlier in their life cycle, their first three funds, it may not be those mega funds that are raising 2, 5, $10 billion, have better returns.

And there's some activity going on with the staff, which I've talked with Ash about and I know is sort of in the works, but since this is my last meeting, I want to make sure I remind you guys that I think this is a great opportunity and something that hopefully you'll follow back up on.

MR. GARCIA: Trent, does that conclude your report?

MR. WEBSTER: Yes.

MR. GARCIA: Thank you very much.

MR. WEBSTER: My pleasure.

MR. GARCIA: The next item, compensation committee. Chuck.

MR. NEWMAN: Thank you, Martin. First, before I read my report here, let me just thank all the members of the compensation subcommittee. I know

1 it's been a -- we spent a lot of time on this. I
2 think there have been some really great discussions
3 and comments, starting with the consultants and the
4 staff and the members. And I think we've come to a
5 recommendation for the IAC today. But let me just
6 take a couple of minutes and kind of look at where
7 we've been.
8 Since our last meeting in December, the
9 subcommittee has met three times, on February 4th,
10 February 26th and then again this morning. We've
11 reviewed and accepted the competitive pay study
12 completed by the independent compensation
13 consultants, Mercer, that shows that the SBA's
14 salary and total compensation levels in general are
15 below the competitive market level.
16 The competitive market level was defined
17 generally as the 50th percentile of the five largest
18 U.S. public pension funds. When data for the top
19 five funds were not available, the 75th percentile
20 of the broader public pension fund market, which
21 includes much smaller, less complex funds, was used
22 as a proxy. And then for positions where a
23 comparison to financial services or general industry
24 was more appropriate, the market level was defined
25 as the 50th percentile of that market data.

1 In early February Mercer presented to us its
2 preliminary findings, showing that the SBA base
3 compensation for investment positions generally fell
4 13 to 30 percent below the 50th percentile for the
5 top 19 U.S. public pension funds and 40 to
6 55 percent below endowments and foundations. Mercer
7 found that the total cash compensation, this would
8 be base compensation plus incentive, for SBA
9 investment positions generally ranks 17 to
10 40 percent below the market for public pension funds
11 and 60 to 70 percent below the market for endowments
12 and foundations.
13 At that meeting we decided to only compare to
14 the public pension funds and not to the endowments
15 and foundations. For non-investment positions the
16 SBA was more competitive with pay at the staff level
17 and less so at the management level.
18 Based on the information provided from Mercer
19 and the input from the subcommittee members, the
20 subcommittee recommends that to help attract,
21 motivate and reward outstanding employees, while
22 ensuring a proper alignment of interests that
23 prudently mitigates human capital risk, the SBA
24 should adopt and begin implementing a compensation
25 policy that both adjusts base pay and replaces the

1 SBA's legacy incentive compensation plan with one
2 that is more market competitive and that are aligned
3 with stakeholder interests. This plan will be
4 shared with the subcommittee prior to the budgeting
5 process and be implemented as a part of that
6 process.
7 In terms of incentive compensation, the
8 subcommittee reviewed and agreed upon the following
9 design elements, which were also reviewed and
10 recommended by Mercer. Eligibility would be broad
11 but limited to senior and investment related
12 functions, which includes about 63 positions.
13 Performance measurements, standards and the time
14 period, largely quantitative based on value added to
15 the FRS trust fund, with a minimum threshold of five
16 basis points of value added, established to fund any
17 payouts under the plan and a maximum award based on
18 50 basis points of outperformance. Qualitative
19 measures would be added to ensure appropriate
20 behaviors and long-term sustainability.
21 To recognize the importance of longer term
22 performance, the measurement period would be a
23 rolling three-year period, with deferral of payments
24 if the final year of the three-year plan has actual
25 negative returns. Payments in that case would be

1 deferred until the fund earns two quarters of actual
2 positive returns.
3 The incentive opportunity, the targets would
4 range from 10 to 35 percent of salary, depending on
5 organizational level and criticality to the
6 business. The timing of the payout would be
7 one half paid at the end of the performance cycle
8 and one half deferred for one year.
9 A key point relating to the incentive plan is
10 that the overwhelming majority of the outperformance
11 dollars are being returned to the outside
12 stakeholders, since each basis point of
13 outperformance represents 12.5 million of excess
14 return for the pension fund. And we've included one
15 slide under Tab 6 that shows you that the -- for
16 example, at the maximum level of 50 basis points,
17 the cost to the fund would be about $1.8 million,
18 but the return to the fund, the increase in the size
19 of the fund would be $625 million. So obviously the
20 major -- or almost all of the return goes back to
21 the fund.
22 The subcommittee recommends that the SBA
23 management team develop an implementation plan and
24 time table through the normal budget process with
25 the Board of Trustees for addressing the deficiency

1 in compensation, both base pay and incentives, and
2 the associated human capital risk exposure.
3 The other thing that we discussed was the role
4 of the subcommittee. We agreed that we should
5 continue to meet on an ongoing basis to review the
6 compensation implementation plan, the compensation
7 level of the executive director/chief investment
8 officer as recommended by our independent
9 consultants, and the compensation strategy for the
10 top investment positions.
11 So given that, I have a motion that I could
12 propose, based on what we agreed to this morning,
13 which would be to move that the IAC accept the
14 report of the compensation subcommittee and
15 recommend to the trustees that to enable the SBA to
16 recruit, retain and motivate qualified,
17 high-performing staff, while improving the alignment
18 of interests between SBA employees and stakeholders
19 and minimizing human capital risk, the SBA would
20 adopt and begin prudently implementing a
21 compensation policy that reflects market levels for
22 the top public pension funds as documented in this
23 study by the Mercer consultants in its budget
24 process.
25 The other thing we discussed was our next

1 meeting, which would be to review and advise on the
2 implementation. We would do that telephonically in
3 April, and then that would be followed up by an IAC
4 telephonic meeting, to where we would report the
5 results of that April committee meeting and include
6 a recommendation on the compensation of the
7 executive director. And that's my report.
8 MR. GRAIN: Mr. Chairman, I'd like to second
9 that motion, and just sort of harken back to some
10 thoughts I had when I first joined the SBA in 2009.
11 I created a little orientation process, with Ash's
12 help, to go around and meet the staff. And the
13 serendipity of it was that everyone seemed to have a
14 connection to Tallahassee. So you have these
15 terrific investment professionals who arguably, over
16 a very long period of time, had terrific returns and
17 results for the pensioners. And, you know, what
18 were they doing here? Was it the money? What was
19 it? It clearly wasn't the money. And I think we've
20 sort of figured that out through the study. But it
21 was the connection to Tallahassee.
22 Now, you know, that's great, and we've
23 withstood that for some period of time. But there
24 have been some notable departures, jim Treanor,
25 Kevin SigRist and others, where there are either

1 tempting opportunities or life changes or what have
2 you that we really just can't depend on not
3 happening.
4 And the strategic vulnerability of our staff is
5 one of the greatest that I see, much more so than
6 anything else that's out in the marketplace. So I
7 wholeheartedly second this motion.
8 MR. GARCIA: Chuck, may I please be heard? I
9 think I should point out that the only area of
10 disagreement -- and I was the sole person
11 disagreeing with my fellow committee members -- is
12 that I did feel that a portion of the bonus should
13 be tied to achieving the target rate of return. But
14 I was in the minority on that issue.
15 MR. NEWMAN: And over two or three different
16 meetings, there was a lot of discussion of that and
17 trying to find a way to implement that. After that
18 discussion, the consultants recommended we not do
19 that at this point, and the rest of the committee
20 agreed with that. I thought it was interesting that
21 Cambridge had just come out with a study that said
22 the same thing.
23 So I think we agreed today that we would move
24 forward with this plan and that over time, if there
25 was a way to do something like that, we could

1 revisit that.
2 MR. COBB: Mr. Chairman, I'd like to -- I guess
3 I'm going to vote for the motion. I'd like to first
4 applaud David's initiative to get this on the
5 agenda, because I think it's absolutely critical
6 that our management team be paid a higher percentile
7 of the industry average. It's no question they are
8 underperformed by their talent.
9 Secondly, I strongly support the committee's
10 recommendation that that gap be partially made up by
11 an incentive plan and the incentive plan be based on
12 a performance basis. And I also agree that that
13 performance basis should be primarily based on
14 results vis-a-vis benchmark. I personally would
15 have been more comfortable with a 75 percent
16 relating to benchmark and 25 percent relating to
17 absolute return.
18 I was concerned at the report we had earlier
19 from HEK that says there is a one in six chance,
20 about a 16 percent chance, that with the world as
21 they see it in the model, that there is a one in six
22 chance that we're going to drop from 87 percent
23 funded to 60 percent funded, with normal
24 risk-reward. In other words, so if we as a
25 management team do slightly better than benchmark,

we can still have one out of six chances of a pretty bad result. And I guess I'm worried about the public policy element of no setbacks or cutbacks with that kind of environment. It still could be making money, but it might not be making sufficient for our 7-plus percent or 5 percent nominal rate of return. So I just think nominal rate of return. And so hopefully we'll get a chance to review this as we go forward.

I think what also I heard is that -- is the focus was on the big picture, which I guess I support and I'm going to vote for, although I do have the concerns I've just expressed, and I guess Martin does, and I think maybe Will does, too.

MR. HARRELL: I would adopt everything the ambassador said pretty much verbatim. I'd add one thing, which would be that if it was my plan, I'd benchmark to peer groups rather than to passive indexes. But if we can't raise pay my way, I'm more than happy to vote for raising pay everybody else's way.

MR. GARCIA: Is there any other discussion? If not, all in favor, please indicate by voting.

(Ayes)

MR. GARCIA: Any opposed? Okay. I want to

thank both David and Chuck because both of them worked significantly on this. I don't think Chuck realized the amount of work that was going to be involved. We've met several times. He met before with Ash. And so I particularly want to thank both of you for a fabulous job. Thank you very much.

The next item on the agenda is item number seven. And in reviewing the bylaws of the IAC, the one thing that I discovered that's really the only function that the chairman serves, other than getting a title, is to assist in formulating the agenda for the upcoming meetings.

And so Ash and I met in January. He was kind enough to come to Tampa, and we spent -- first of all, we exchanged e-mails on the subject a number of times and then had a day-long meeting, which resulted in an e-mail that Ash sent to all of the IAC members in terms of issues that at least I was interested in, and then Will responded with some issues that he was interested in.

But I thought it would be a good idea to open it up to the IAC, if there are things that you desire to have on the agenda for the coming year, that this would be a good time to discuss that.

MR. NEWMAN: I would just add that I really did

like the session, the workshop today. To do something like that over lunch or whatever was really helpful. We can do more of those.

MR. COBB: I support that. It was very productive.

MR. WILLIAMS: Well, thematically, one of the things we picked up very clearly from the IAC is your desire to have meetings with a higher degree of interaction between the SBA staff, myself, and less, with all due respect to our wonderful external consultants, less talking heads and more talking staff, or different kinds of talking heads.

So what we're going to do is continue to drive in the direction of having more interaction in these things. So for example, even if a senior investment officer or I or one of the consultants is doing a presentation, there will be some interplay among us. And we will get better at managing how we plan these discussions going forward so there's more and more of that, because I think that's what everybody likes. And at the end of the day, the real value of this group is us getting the benefit of your wisdom and creative thinking and questions and challenges.

I notice you've not been shy with questions or challenges. And I hope that will continue in that

vein. So that's where we're headed. And anything is fair game. And we're happy to tee up radical straw men for the purpose of prompting discussion, shown a willingness to do a little of that as well.

MR. GARCIA: Anything else on this topic? Before we have our farewell ceremony, I'm going to ask the audience if they have any questions or comments.

Hearing none, the tradition, when we have a departing member, is that Ash conducts the farewell ceremony, so I'll turn it over to Ash at this time.

MR. WILLIAMS: Thank you. I'm actually (inaudible).

MR. GRAIN: You're going to double the pay now?

MR. WILLIAMS: So I would just like to thank you, David, for your service, which has been extraordinary. And for some of you who have been around during most of the time David was here, the past couple of years, in my experience with the IAC -- and my experience with the IAC is now about a decade's worth, over two different tours -- the number of challenges and the amount of time that was put in by the IAC over the past three years has been without precedent. And I'm hoping it's going to be a little calmer going forward.

We were dealing with a lot of externalities, including the wake of the financial meltdown in '08 and a handful of other things that came from out of left field and had to get dealt with. And this group was unretreating, particularly with David's leadership and participation, was willing to hold the lamp of truth, do the right things at the right times, including when it was awkward to do so.

And just continuing that tradition, not to speak out of school, but David made the trip up here today roughly two weeks post a pretty significant medical procedure. And the fact that he showed up and is here in person, could have dialed in, speaks volumes and tells a lot of the story.

So I would say thank you, and we look forward to honoring your memory with continued work on the small manager program. We'll keep you posted. And we have a plaque commemorating your service, which can go alongside your collection of wild beasts that no longer roam the plains in your office. If you go into this guy's office, it's remarkable. You sort of wonder, no wonder everything is extinct.

MR. GRAIN: I've been getting in touch with my inner redneck. What can I say?

MR. WILLIAMS: Thank you very much.

(Applause)

MR. GRAIN: Appreciate it. In short, my mom was a school teacher, and my dad was a postal worker, so when I first started to get involved with state pension funds, it was actually in Massachusetts, shortly before my dad passed away. And it was very meaningful to me. You know, I think about these pensioners just as I do about my parents. And they were able to send seven kids to college and most of us to grad school.

And you think about how challenging things are today for public servants, and the least we can do is ensure that they have a comfortable retirement. So this is great work. And I appreciate everything that you guys all do, and it's been a pleasure working with all of you.

(Applause)

MR. GARCIA: If there's no further business, do I have a motion to adjourn?

MR. NEWMAN: So moved.

MR. COBB: Second.

MR. GARCIA: We're adjourned.

(Whereupon, the meeting was concluded at 4:30 p.m.)

1
2 CERTIFICATE OF REPORTER
3
4 STATE OF FLORIDA)
5 COUNTY OF LEON)
6
7 I, Jo Langston, Registered Professional Reporter,
8 do hereby certify that the foregoing pages 3 through 188,
9 both inclusive, comprise a true and correct transcript of
10 the proceeding; that said proceeding was taken by me
11 stenographically and transcribed by me as it now appears;
12 that I am not a relative or employee or attorney or counsel
13 of the parties, or a relative or employee of such attorney
14 or counsel, nor am I interested in this proceeding or its
15 outcome.
16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 2nd day of April 2012.
18
19
20
21 _____
22 JO LANGSTON
Registered Professional Reporter
23
24
25

MINUTES
INVESTMENT ADVISORY COUNCIL
SPECIAL MEETING ON COMPENSATION STUDY

April 29, 2013

A meeting of the Investment Advisory Council (IAC) was held Monday, April 29, 2013 at 1801 Hermitage Boulevard, Hermitage Room, First Floor, Tallahassee, Florida 32308.

Members Present
(all via telephone): **Martin Garcia, Chair**
Les Daniels, Vice Chair
Chuck Newman
Michael Price
Peter Collins
Chuck Cobb
Gary Wendt
Will Harrell

SBA Staff: **Ash Williams**
Lamar Taylor
Kathy Whitehead
Mike McCauley
John Kuczwanski

WELCOME/CALL TO ORDER
The meeting was called to order and the following business was conducted.

Amendment of March 18 Minutes. The minutes from the March 18 subcommittee was amended to clarify that actions taken by the subcommittee will be communicated to the trustees in the form of a formal action by the IAC acting in their official capacity in their advisory role to the Trustees. Chairman Newman clarified the earlier minutes by noting that the subcommittee "would make a formal recommendation, not just as part of the budget package".

ED/CIO Compensation Recommendation. Josh Wilson from Mercer presented to the subcommittee a proposal for the ED/CIO compensation. The proposal contained ambiguous language suggesting that perhaps Mercer was making a recommendation of compensation based on a performance review. Mercer was asked to amend its written report to clarify that its recommendations were devoid of any performance review and Mercer was not hired to conduct a performance review as part of its recommendations. Mr. Daniels indicated that "I think my recollection is what we asked [Mercer] to do is come back to us with a recommendation of what the appropriate salary range would be, and I think that's what they're coming back with, is an appropriate range. We could adjust it if our view of performance is higher or lower than the average." Chairman Newman reported that "there will have to be a review going forward". Mr. Garcia indicated that "what I interpreted we were doing is merely looking at what Ash is getting paid relative to the market." To which Chairman Newman responded "Perfect. I think we are all in agreement then." Chairman Newman further noted that the subcommittee was "accepting the recommendation [of Mercer with the amendment] that [the subcommittee] would work to move Ash's salary to the median."

ED/CIO Incentive-Discretionary Portion. The Subcommittee discussed with Mercer the process and potential general categories for the 15% discretionary portion of the incentive award for the ED/CIO. Categories discussed included asset allocation; investment performance relative to a group of peers with an asset allocation and risk tolerance similar to the SBA's; and other qualitative factors such as personnel decisions (e.g., attracting and retaining top candidates; development of staff); interaction with the IAC and/or Trustees. Five members of the IAC felt strongly that peer review should be criteria for performance measurement. The Subcommittee agreed that the criteria should be discussed and developed by the Subcommittee and presented to the IAC for its review, change and approval. Mercer recommended that criteria be kept as simple as possible and at a high level (e.g., investment strategy/asset allocation/peer performance comparisons; personnel decisions –retaining, attracting, developing staff; interaction with IAC and Trustees). Mercer recommended that the process for assessing the ED/CIO's performance for the discretionary portion include a third party to collect and aggregate the evaluations, which could be sent to the chairman of the Compensation Committee to make a recommendation. The Subcommittee will discuss the process and categories at a future meeting.

Review of SBA Implementation Plan. There was much discussion about the implementation of the proposed compensation plan. Mr. Wendt commented "that with the exception of Ash, there was no mention at all of the bonus program for other employees. " He said he "hoped that Ash could give us an outline of how he intended to implement it.... The implementation of the plan and how the targets are going to be set and that kind of stuff is something that I have been concerned about since the very beginning, and I have received nothing. Perhaps I don't deserve to have it. I think we have to be involved certainly with setting the items that will go into Ash's, and then in general the items that will go into the rest of it". Mr. Price and Mr. Garcia agreed with Mr. Wendt's request and assessment. Mr. Wendt further said "I do think that we should have some input into the how the criteria are set for the people in this plan. I don't mean minutiae. I mean, is it going to be 20% judgment and 80% basis point increases to GNP or whatever. I just think we ought to have input into that and I've asked for this a couple times... Certain people with certain goals get certain minimum, maximum and everything. It doesn't say whether it's going to be all objective or all subjective or what part is based on performance of the portfolio. We don't have any of that information. In my opinion, the execution of this is going to be as important as putting it in." Mr. Williams responded by saying he agreed with Mr. Wendt's comments.

There was further discussion about the form of a compensation plan the subcommittee was approving. Mr. Cobb indicated that "it was my understanding that the philosophy of where we were going was there was a total agreement by everybody that we were --- that our people were undercompensated and that we had to make adjustments to deal with the market, but that what we were going to do, as I understood it, we were going to have an incentive plan that was going to get us competitive... So it seems to me that before we can approve your committee work, we have to know what the incentive, the estimated incentive amounts are going to be in addition to these salary adjustments, and how does that put us in the marketplace."

Mr. Garcia commented "I thought we were going to get a presentation on how that $2.3 million would be allocated, so as to enhance performance from a salary basis, and then I thought we were going to get a presentation on how the $1.8 million, which is over and above the $2.3 million, would be integrated so as to enhance performance. So if indeed this analysis confirms that $2.3 million will bring us up to market, then what I think we need to see is a specific plan on how the $2.3 million and the $1.8 million is going to be allocated so as to make us better performers overall. And those are the specifics that I think we are lacking.... And so to me I think we've got to see the whole plan. At some point Ash has to present a plan that gets approved in the budget. It just seems to me we ought to look at that plan, see what we think of it."

Mr. Williams responded "so we will go to work on the next phase of this, which would be the incentive piece. We will also go to work on the process with the trustees on the budget, and we'll report back to you in terms--- I'm trying to figure out how to do this--- between now and when the budget gets adopted. If we want to schedule a workshop or something of that nature, I mean, I just don't know."

Chairman Newman noted "One of the things I think that may be helpful to at least put to bed the base is a follow-up schedule or memo where we take--- you know the individuals, you know how it's getting broken out, and just put that in four or five categories that make sense to you, that are the managers, the portfolio managers, or this much of the $2.3 million is going there, this much is going to compliance, you know, if there's four or five different categories, the way you guys think, that we could at least see that. And then we can say—if [Mr. Garcia] says, I still need some more detail, and then we'll look from there, on the base. And then incentive, we need at least that also. And we may need even a little more on the portfolio managers, but we're only talking 56 people there."

There was considerable discussion by several members of the IAC attending the subcommittee meeting. Some wanted more information about the compensation plan before its approval, while others wanted less information. It was clear that the subcommittee work was not completed with regards to the specifics of the compensation plan.

Mr. Garcia made a motion that based on the consultant's report that employees at the SBA are underpaid relative to the market and the overall implementation of compensation increases should be approved. In response, Mr. Wendt asked "so is the motion simply that we agree that our people are underpaid?" To which Chairman Newman responded "Underpaid and that we agree with this implementation plan, as to how we get to the $2.3 million, where we put it into the budget starting in the fiscal years that they laid out, to move to the graph that you so eloquently described, and that's what we would--- that's all the motion is." Mr. Wendt seconded the motion and it was unanimously approved.

Mr. Williams was asked to come back to the subcommittee with specifics about the compensation plan. Chairman Newman indicated that "What we're going to do is get more information, and then management will come back with the incentive plan implementation, which will be more detail and the categories of where the money is actually being allocated." Several members expressed their preference

for benchmarks of performance for awarding incentive compensation with a strong preference by many members for peer performance comparisons.

There was considerable discussion about how the compensation increases would affect the budget. Some pointed out that the increases would have approximately a 6% increase on the overall SBA budget. Others pointed out that the increase with base and incentive compensation were an increase of compensation by about 30%. One member pointed out that the subcommittee was merely doing its job as best as we can and further pointed out that the trustees are going to have a little bit of a problem with understanding why these compensation levels are being raised, when no other department of the government is getting the raises. It was thus emphasized that the compensation for the SBA employees needed to be done correctly for this effort to be successful.

All of the members of the IAC were on the subcommittee conference call when the motions by the subcommittee were made and approved, so the work of the subcommittee was adopted by the IAC at its scheduled meeting following the subcommittee meeting.

The IAC meeting was adjourned.

Martin Garcia, Chair

6-14-13

Date

(Further meeting information can be found in the written transcripts of the meeting kept by the State Board of Administration.)

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL

COMPENSATION SUBCOMMITTEE MEETING

MONDAY, APRIL 29, 2013
9:00 A.M. - 10:35 A.M.

INVESTMENT ADVISORY COUNCIL MEETING

MONDAY, APRIL 29, 2013
10:35 A.M. - 10:45 A.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

SUBCOMMITTEE MEMBERS:
(Appearing via telephone)

CHUCK NEWMAN
MARTIN GARCIA
GARY WENDT
LES DANIELS
MICHAEL PRICE

IAC MEMBERS
(Appearing via telephone)

CHUCK COBB
WILL HARRELL
PETER COLLINS

SBA EMPLOYEES:

ASH WILLIAMS
MIKE McCAULEY
KATHY WHITEHEAD
LAMAR TAYLOR
JOHN KUCZWANSKI

CONSULTANTS:
(Appearing via telephone)

JOSH WILSON - (Mercer)

ALSO PRESENT:
(Appearing via telephone)

ABBY VAIL

COMPENSATION SUBCOMMITTEE MEETING

* * *

MR. NEWMAN: This is Chuck Newman. I'm on the line. Martin, are you on?

MR. GARCIA: I'm here.

MR. NEWMAN: Michael Price?

MR. PRICE: Yeah, I'm here. Good morning.

MR. NEWMAN: Les Daniels?

MR. DANIELS: Yes.

MR. NEWMAN: Gary Wendt?

MR. WENDT: Here.

MR. NEWMAN: And then, Ash, I'll let you say who is on from your end. I know we have Abby from the CFO's office on. Is there anyone else on?

MR. COBB: Chuck Cobb is on.

MR. NEWMAN: Chuck Cobb. Thank you.

MR. WILSON: And Josh.

MR. NEWMAN: And Josh.

MR. WILLIAMS: Here at the SBA we have Kathy Whitehead, Lamar Taylor, Mike McCauley and John Kuczwanski.

MR. NEWMAN: And let me just say, we have two called meetings back to back, this one and one at 10:00. The game plan is to try and go through here. That's why we got as much material out as we could

in advance, so everybody would have a chance to get familiar, go through the couple of issues that we still have remaining, and then we would do an IAC meeting that Martin will chair at 10:00.

Without further ado, let me get us started. If you recall, at our last meeting, we did approve the recommendation to accept the compensation study from the consultant, Mercer. And then we asked Josh and the crew to come back to us with a recommendation related to the executive director/chief investment officer's compensation. And we have that. We'll go through that next. And then the other thing was to talk about an implementation plan, how would management propose implementing this.

So those are the two major issues we'll go through. And then if there are any other issues, we'll discuss it at the end, if that's all right. Josh, can I turn it over to you to walk us through the Mercer recommendation, unless someone has a question at this point?

MR. GARCIA: This is Martin. I do have a question. I called Ash yesterday. I thought that the minutes were inconsistent with what we decided last meeting, March 18th. Specifically, the minutes indicate that following the IAC meeting to review

the subcommittee's recommendation, the IAC members would talk with their respective trustees about it. And I recall a discussion that we decided that we would -- the subcommittee would review and evaluate and recommend (inaudible) to the trustees. I went back last night and read the transcript. And it was an issue we proposed that we would individually talk to the trustees. But then there was significant discussion by Les, Chuck Newman, Michael and myself that we would make a recommendation after we had discussion. So I disagree with --

MR. NEWMAN: Was that in the subcommittee minutes?

MR. GARCIA: Yes.

MR. NEWMAN: And so we would make a formal recommendation, not just as a part of the budget package?

MR. GARCIA: Yes. That's what we discussed at the last meeting.

MR. NEWMAN: Are there comments from any of the other members?

MR. DANIELS: I agree with him.

MR. NEWMAN: So that would be a recommendation to the IAC, which is correct in the minutes, if I understand you, Martin, and then the thing that we

need to correct is that the motion should have read, and then the IAC would make a recommendation to the trustees. Is that fair?

MR. GARCIA: Yes.

MR. NEWMAN: I don't know that we need to make any motions to change that and correct it. And then I guess, Martin, actually, if for some reason down the road we decide that that recommendation comes in a different format (inaudible), but at this point it will be a full recommendation. Okay? All right. So that will stand corrected. Thank you, Martin.

MR. COLLINS: Peter Collins joined. I'm sorry I'm late. I had a little technical difficulty.

MR. NEWMAN: Hey, Peter. You don't need to join this one. But you're more than welcome to stay on. This is the compensation subcommittee.

MR. COLLINS: I just figured I'd come up to speed on everything as much as I could.

MR. NEWMAN: You're more than welcome. Josh, do you want to go ahead? Well, I'll just introduce Peter to everyone. He's going to be our newest member of the IAC. Do you want to go ahead and walk us through the recommendation for the ED/CIO, please, Josh?

MR. WILSON: Sure. If I can direct everyone to

1 a memo dated April 23rd from me to the chairman of
2 the compensation subcommittee, Chuck Newman.
3 Essentially, as you know, because you've been
4 intimately involved, Mercer has been conducting a
5 study since about August of 2012 to ascertain the
6 competitiveness of the compensation program compared
7 to other comparable organizations. We've been
8 through all the different machinations, but let me
9 just sort of take you to the salient points here.
10 As it relates to the executive director/CIO,
11 Ash Williams, we found that when we looked at the --
12 we agreed that the appropriate peer group for that
13 role is the CIOs of the five largest public pension
14 funds in the United States. When we look at what
15 those base salaries are for those individuals, they
16 range from 300,000 to 480,000 per year. The median
17 is 410. They all receive incentive awards -- or,
18 sorry, four of the five of those individuals receive
19 incentive awards. So the total compensation range
20 for those five CIOs goes from 300,000 to 876,000 to
21 a median of about 534,000.
22 At present, Mr. Williams is to have a salary of
23 325,000, the same salary he was recruited at in
24 2008. It hasn't changed since then. I think the
25 performance, both quantitatively and qualitatively,

1 has been very good since that 2008 period. We
2 looked at some of the accomplishments, both sort of
3 numerical and otherwise in the memo. I don't think
4 I need to spend time on that. But essentially the
5 upshot is, we feel it would be appropriate to raise
6 Mr. Williams' salary to be comparable with the
7 median of that top five peer group. So that's a
8 salary of 410,000 per year, as opposed to his
9 current salary of 325.
10 And in addition, as we talked about with the
11 incentive plan, we recommend that Mr. Williams be
12 eligible for that plan, have a target of 35 percent
13 of base salary that has both a maximum and a
14 minimum, depending on the performance that we talked
15 about before.
16 We feel that the addition or the increase in
17 salary plus the adoption of the new incentive
18 targets for Mr. Williams would make him competitive
19 with the market and helps align with the various
20 stakeholders of the SBA and would obviously be
21 motivating for Mr. Williams.
22 MR. NEWMAN: Can I ask one question on that?
23 This would be raises in compliance with the
24 implementation plan that we're putting in, but would
25 it be all at one time?

1 MR. WILSON: Well, I think that's going to be a
2 decision for the committee, for both the
3 compensation committee and the IAC, on to the
4 trustees. From our point of view, he is
5 significantly below market. And as performance has
6 been very, very good, I would recommend doing as
7 much as is feasible as quickly as possible, but
8 understand that sometimes a phasing approach has to
9 be done.
10 MR. NEWMAN: Why don't we save my question then
11 for the implementation plan. Do you want to discuss
12 the discretionary component, and then we'll
13 discuss --
14 MR. WILSON: Sure. So there's going to be a
15 discretionary component to the plan. And I think
16 this is where the compensation subcommittee and the
17 IAC are going to have a lot of discretion to make
18 their mark and to really evaluate non-quantifiable
19 performance. I would recommend keeping this very
20 simple. I've seen some forms that are -- or some
21 valuation processes, I should say, that are very
22 complicated and get into the minutiae, and I don't
23 think that's what I would recommend. I would sort
24 of recommend keeping it at a high level, things like
25 investment strategy, so it could hit on some of the

1 issues raised at prior compensation committee
2 meetings, like asset allocation. It could hit on
3 personnel decisions; are we able to retain and
4 attract top candidates, are we developing candidates
5 appropriately.
6 One of the categories could be interaction with
7 either the IAC or the trustees or both. You know,
8 is that appropriate, is that being done in ways that
9 you feel is in the best interest of the
10 organization. So I recommend those types of high
11 level categories. And in thinking about a process
12 for the evaluations, you probably need a third party
13 to collect them and aggregate them and send them to
14 probably the chairman of the committee to make a
15 recommendation, just given how the Sunshine Laws
16 apply.
17 MR. WENDT: This is Gary Wendt. Almost the
18 only question that I had about it is that, with the
19 exception of Ash, there was no mention at all of the
20 bonus program for other employees. I know we had
21 charts on that earlier. I had hoped that we would
22 be able to have Ash give us an outline of how he
23 intended to implement that. So please let me know
24 why that isn't in here.
25 MR. WILLIAMS: Gary, this is Ash. I think we

can cover that, and we do have materials in, talking about how things would be implemented, with the various histograms, et cetera, and we can walk you through that when we come to the implementation phase discussion.

MR. NEWMAN: Gary, can we just hold that until that phase?

MR. WENDT: That's fine.

MR. NEWMAN: Thank you. All right. Is there any discussion regarding the recommendation from Mercer on the base pay or the discretionary component?

MR. COBB: I have a question. This is Chuck Cobb.

MR. NEWMAN: Go ahead, Chuck.

MR. COBB: I have a question on the discretionary portion. I pushed unsuccessfully the concept of peer review or peer measurement, which I think is an important criteria for Ash. How are we doing in our investment performance compared to our peers. And so we have agreed that most is going to be focused on benchmarks, but we sort of lost the concept of peer review, how we're doing compared to CalPERS and other state pension plans.

So I guess my question to Mercer is, why have

we lost that concept, and is that wise?

MR. WILSON: I think it was -- from a financial standpoint, I think the difficulty was trying to -- you do different things, so it's not necessarily the most appropriate benchmark. I think it's a reasonable qualitative sort of large bucket to consider. I'm not exactly sure the mechanics you would go through to do that, given that your asset allocation is going to be very different. It's based on where you're coming from and a variety of other factors.

But if you wanted to sort of look at that as one of the qualitative factors, you certainly could. I think this is where, in my opinion, the committee really has the opportunity to make their mark and say, this is how we want to evaluate Ash on the non-financial side of it.

Ambassador Cobb, if that's something that's important to the committee, I don't see why that couldn't be one of the criteria.

MR. COBB: Well, then I guess my question, Mr. Chairman, is to you and the rest of the committee. During the discussion, Will and I were the only two pushing the importance of peer comparison. Does the rest of the committee think

that's important? And I guess I also have a question to Ash. Ash, are you comfortable with one of the criteria being comparison of peers?

MR. WILLIAMS: Well --

MR. NEWMAN: Ash, let me respond first, if I could. That's part of this whole discretionary component. There were several conversations, and I think Martin brought some up also, and we had others that felt the way he did, that we could make as part of this discretionary component, and I think if we will be involved in establishing those criteria, and you'll see I think in the implementation plan, that at a meeting we will say, this is what it is for next year, which will give us some time between now and then to think about it and then have a full discussion on it as to what criteria goes in there.

We could make the whole thing tied to just one thing if we wanted. We have that flexibility in the discretionary component. Ash, go ahead.

MR. WILLIAMS: I think my answer would be generally, yes, I'm fine with that. The key would be the point Josh made, which is you have to have context. We put in all of our quarterly reports that Hewitt EnnisKnupp does comparisons to the various fund universes, funds generally and large

funds that are peers to the SBA and look at their relative performance.

The other thing to keep in mind, though, is simply looking at that performance and treating it as an apples to apples doesn't necessarily hold up because different funds have got different funding levels, different legal constraints, different risk preferences and tolerances, et cetera. So there are pretty significant differences among funds.

And I think the right way to do it would probably be to look at that as an input but then, based on our interaction with one another, evaluate how you feel about the propriety of our allocation process to what our needs are, what -- constrained by Florida law, et cetera, and go on that basis. But, sure, I think our organization will stand toe to toe with anybody.

MR. GARCIA: And this is Martin. To follow up to Ambassador Cobb's comment, I strongly feel, in fact in a memo that I sent to the IAC on agenda items, that's an item that I think we should agenda for hearing, specifically when you identify issues that are relative to the benchmarks that would be as it relates to peer performance. I strongly (inaudible).

1 MR. NEWMAN: I believe that given that and --
2 we will see that as a component or the component for
3 the discretionary. But I think we can -- we have
4 time to make that final decision and lay out how
5 that works, if we just agree that the IAC will be
6 the one that's working together with the -- or the
7 subcommittee, working together with the IAC, will
8 lay out that discretionary component.
9 MR. WENDT: This is Gary Wendt. I agree with
10 the ambassador's thought on that. But I think we've
11 been dancing around the question that we started at
12 the beginning. And I don't want to be confused
13 about this. In the material that was sent to us,
14 there is absolutely nothing about the bonus plan
15 except that Ash would get 35 percent or he would be
16 eligible for 35 percent. Am I incorrect about that?
17 MR. NEWMAN: I think we adopted everything at
18 our last meeting as it relates to everyone else.
19 And in the --
20 MR. WENDT: The implementation of the plan and
21 how the targets are going to be set and that kind of
22 stuff is something that I have been concerned about
23 since the very beginning, and I have received
24 nothing. Perhaps I don't deserve to have it. I
25 think we have to be involved certainly with setting

1 the items that will go into Ash's, and then in
2 general the items that will go into the rest of it
3 (inaudible).
4 MR. PRICE: It's Michael. I agree with Gary.
5 MR. GARCIA: This is Martin. I do, too.
6 MR. WILLIAMS: Mr. Chairman, may I offer an
7 insight here?
8 MR. NEWMAN: Sure.
9 MR. WILLIAMS: I don't disagree with that
10 either, and that I think is consistent with where
11 we're headed. What we're trying to do at this point
12 is complete the one piece that hasn't been spoken
13 to, which is the executive director piece, then go
14 forward into the regular budget process, conduct an
15 iterative discussion with the trustees, which will
16 then lead to what the budget is, which will then
17 lead to what the pool is, and then we get into the
18 detail of, okay, how you do the allocation.
19 The exercise we've been through since our last
20 meeting was to, as you've seen in your materials,
21 was to come up with an entire new pay structure for
22 the SBA, to go through each and every position at
23 the SBA and evaluate both the capabilities of those
24 individuals and other aspects of their employment as
25 it would relate to where they would fit into various

levels within each of those positions, then to cost all that out and prepare a graphics displaying how moves would relate primarily to basis but also ultimate target compensation.

Obviously, it's up to the trustees, in the final measure, how far we go in that direction, if anywhere. So I think that's where we're going. There's not any attempt at all to avoid your question, Gary, or not have you fully involved. I fully believe that the credibility of this exercise over time will be largely dependent on the involvement and embrace of the IAC and its compensation subcommittee. So I think everybody is comfortable with that, and there's no denial of it. We're just not there yet in terms of the detail of the incentive piece implementation.

MR. WENDT: We intend to put the incentive piece in at the beginning of this next fiscal year, correct?

MR. WILLIAMS: Assuming this plan is approved and we go forward with it, the period that incentive comp would begin to be part of the equation would commence on 1 July '13. It would end the following June 30th and would then be subject to audited numbers coming back. So before there are any awards

made under this program, a year-plus would elapse. And even then, in the first year of awards, keep in mind we set this up so there's basically a two-year payout, so that we have a retention element of the incentive structure. So the --

MR. WENDT: I am familiar with all of that. We've done that in the past. But I do think that we should have some input into the way the criteria are set for the people in this plan. I don't mean minutiae. I mean, is it going to be 20 percent judgment and 80 percent basis point increase over the GNP or whatever. I just think we ought to have input into that. And I've asked for this a couple of times.

MR. NEWMAN: What did we approve at the last meeting that had the whole plan in it? I thought we had set ranges for different levels.

MR. WENDT: That's to the percentages, Chuck. Certain people with certain goals get a certain minimum, or minimum, maximum and everything. It doesn't say whether it's going to be all objective or all subjective or what part is based on performance of the portfolio. We don't have any of that information. In my opinion, (inaudible) the execution of this is going to be as important as

1 putting it in.
2 MR. WILLIAMS: I agree with you. And just to
3 be clear, again, what we've done, we're taking this
4 a step at a time. And the part that's germane today
5 and we need to get handled first is the base
6 component. That's what we've spent the past however
7 many weeks since the last meeting working on. The
8 next piece will be that same level of detail,
9 position-by-position work, and aggregation up back
10 to a total organization level, of the criteria and
11 everything else. And of course you'll be involved
12 in that. We're just not there yet.
13 MR. GARCIA: Look, I have these same questions.
14 And I called Ash yesterday, and frankly, in the
15 conversation I told him, I don't know why we're
16 having a meeting, because there's not sufficient
17 specifics in terms of this comp plan. Not only just
18 what Gary is talking about, but I want to know how
19 much overall we're proposing compensation be raised
20 in 2013, '14 and '15.
21 The only specificity that we've dealt with in
22 terms of specific numbers overall was the incentive
23 comp plan. And we approved about 1.8 million bucks
24 based on a methodology. But other than that, for
25 me, there's not sufficient specifics for me to make

1 a recommendation to the trustees.
2 MR. NEWMAN: So you want detail on the comments
3 that talk about overall target salaries for all SBA
4 employees that exceed the current level generating a
5 compensation cap of 2.3 million and then, as we talk
6 down here, that we'll put part in the first year and
7 part in the second year? You want more than that?
8 MR. GARCIA: Well, I didn't understand.
9 MR. NEWMAN: And I think maybe, if we walk
10 through the implementation plan, that will be
11 clearer.
12 MR. GARCIA: I've got some questions, though,
13 on Josh's report, before we get to that.
14 MR. NEWMAN: Okay. Let's see if we can resolve
15 that one first.
16 MR. GARCIA: Josh, you have certain performance
17 numbers in these recommendations to us.
18 MR. WILSON: Yes.
19 MR. GARCIA: Where did you get that
20 information?
21 MR. WILSON: From management, from SBA
22 management.
23 MR. GARCIA: Do you have a document that was
24 provided to you relative to that?
25 MR. WILSON: I do not.

MR. GARCIA: I find that troubling. Did you perceive that you were hired to do a performance review of Ash?

MR. WILSON: No. We were hired to understand where the salary for the SBA employees are, and then we were more recently asked to make a recommendation. So in making that recommendation, we worked with management to understand what's been accomplished in the last five years, and we were provided with this data. I trust management. I have no reason not to. And that's why it's in here.

MR. GARCIA: So is the specific recommendation that you're making about Ash's comp, is it performance related?

MR. WILSON: It assumes good performance. We are not evaluating his performance, but we are saying, we assume his performance meets expectations, and therefore it should be at the median of the appropriate peer group.

MR. GARCIA: So if someone disagreed with your assessment of performance, would your recommendation that you're making to us be different?

MR. WILSON: Yeah. If you said his performance has been absolutely subpar, then I could see a very good reason for not trying to bring him to the

median. If you said it's been fantastic and outstanding and no one is better, then perhaps it should be at the maximum.

MR. GARCIA: Well, I don't know how we can accept Josh's recommendation, since it is performance based, unless we do a performance review of Ash. What I thought Mercer was being hired to do was to provide us with market data information so that we could do a comparative analysis as to how our people, and specifically Ash, are being paid relative to others.

But nowhere along the way did I think that we were doing a performance review. And if Josh's recommendation is predicated on some performance, then I don't think we can accept his recommendation.

MR. NEWMAN: I think if -- we didn't ask them to do a performance review. I don't see this as a performance review. What he's saying is that these are what we've done over the past five years. Now, if we don't believe the numbers, we can go back and check the numbers.

But I think the trustees have to decide whether they're going to retain Ash or not. And I would assume -- and I haven't been involved in that process -- but over the past five years, that

1 somebody has looked at that and agreed that he's
2 performing or not. And we wouldn't -- I mean, to
3 me, he wouldn't be in the position if he was subpar.
4 MR. GARCIA: Well, I don't disagree with that,
5 but this is a public document.
6 MR. DANIELS: Martin, this is Les. I think my
7 recollection is what we asked them to do is come
8 back to us what a recommendation of what the
9 appropriate salary range would be. And I think
10 that's what they're coming back with, is an
11 appropriate range. We could adjust it if our view
12 of performance is higher or lower than the average.
13 But I think we wanted them to come back with what an
14 average level of compensation would be, and I think
15 that's what they've done.
16 MR. GARCIA: And I agree with that. Where I
17 got confused is when Josh said that the
18 recommendation was predicated on the performance. I
19 think it would be inappropriate for this record to
20 reflect that we're doing a performance review or
21 that these numbers, which I've never seen, in terms
22 of what the performance has been on certain
23 things (inaudible).
24 MR. DANIELS: I understood that to be in
25 connection with this being an average range where it

1 is, that the performance has been okay. It's not
2 saying (inaudible) performance. It's just saying
3 done pretty good.
4 MR. COLLINS: This is Peter Collins. Can I ask
5 a question of Josh, if you don't mind?
6 MR. NEWMAN: Sure.
7 MR. COLLINS: So, Josh, I mean, did you assume
8 that you were doing a peer review, or you were just
9 going out and looking at a peer group of pension
10 plans and trying to gauge where the salary range
11 was? You didn't think that you were doing a peer
12 review on Ash, right?
13 MR. WILSON: The initial objective was to do
14 essentially, if you will, a peer review on everyone,
15 understanding we defined the universe --
16 MR. NEWMAN: Wait, wait. You're saying
17 performance review; is that right, Peter?
18 MR. COLLINS: Right. Not a peer review but a
19 performance review of Ash, like Martin was talking
20 about.
21 MR. WILSON: Absolutely not. That is not
22 within the purview of our study.
23 MR. COLLINS: So you just came back and said,
24 hey, here's the range, here's the median. And you
25 just assumed for yourself that you would say, hey,

1 the median is about what it should be.
2 MR. WILSON: Right. We said the median is 410,
3 and then we --
4 MR. COLLINS: You didn't say Ash is average, so
5 we're going to give him 410, right?
6 MR. WILSON: No. We said, actually, that
7 moving into 410 would be appropriate, based on the
8 fact that that's the median of the group and, as
9 noted above, his performance seems to be good.
10 MR. COLLINS: I got you.
11 MR. NEWMAN: So Martin, hopefully, we're clear.
12 It's just saying that it's not based on a
13 performance review. It is just based on where we
14 are in the marketplace and based on the fact that
15 the returns appear to be, from what we've been
16 given, adequate to good. And, you know, we've got a
17 long way to get to the 410.
18 MR. COLLINS: Chuck, this is Peter again. I
19 just wanted to go back to Martin, based on my
20 question. I think that what he's asking or the
21 things that he's talking about are great. I think
22 there should be a review. But I think, if you look
23 at the performance, per Josh, relative to the
24 universe and what the range is, I think that he's
25 made a good recommendation. But I don't disagree

1 with Martin. I think there should be some review.
2 And maybe that gets into what Ambassador Cobb was
3 talking about, and Gary, relative to the incentive
4 compensation. And maybe it more properly belongs in
5 that conversation. I'm not sure.
6 MR. NEWMAN: There will have to be a review
7 going forward.
8 MR. GARCIA: Just for clarification, I accept
9 the data and the recommendation. I just wanted to
10 make sure that it was independent of any performance
11 or peer review. What I interpreted we were doing is
12 merely looking at what Ash is getting paid relative
13 to the market.
14 MR. NEWMAN: Perfect. I think we're all in
15 agreement then. I think we're all on the same page
16 now, Martin, and you did clarify that. If that's
17 the case, are there any other questions about the
18 plan or the recommendation from Mercer? Because I'd
19 like to get into the implementation plan. Can we
20 have a --
21 MR. WENDT: Is this just we're talking about
22 Ash now?
23 MR. NEWMAN: Yes. Can I have a recommendation
24 to accept this?
25 MR. DANIELS: I move that. Les Daniels.

MR. NEWMAN: Is there a second?

MR. PRICE: Second.

MR. GARCIA: Can I ask a question? What specifically are we accepting?

MR. NEWMAN: We're accepting the recommendation -- basically, it's the memo that Josh wrote to me, that recommendation, that we would work to move Ash's salary to the median. We'll talk about timing and the implementation plan, and that we would be involved in a discretionary component that would be established through the subcommittee and the IAC each year.

MR. GARCIA: I would accept it if Josh will remove from his recommendation any performance information, because I don't want to mislead someone that we've done a performance evaluation.

MR. WILSON: Mr. Chairman, I'm happy to do that, at your direction.

MR. NEWMAN: I guess, Martin, I have trouble figuring out where the performance reference is.

MR. GARCIA: Well, in the third paragraph, it says -- it cites certain performance numbers, which I've never seen. And then he talks about qualitative accomplishments, which I'm not aware of. And then he says that based on his performance, that

this comp, with the bonus incentive, is appropriate. It's the third and fourth paragraphs of his memo.

MR. WILSON: As Mr. Collins noted earlier, that 410 is supported first of all by the data, and then the performance is sort of added in there to say, there's no reason why 410 would be inappropriate. So in removing the performance element, the data stands on its own to say median of the peer group is 410,000, and the incumbent has been here for five years.

MR. NEWMAN: Okay. Let's just do that and take out anything that cites any numbers. Is everybody in agreement with that? And we'll have Josh reissue this without the paragraphs that indicate any type of performance. All in favor?

(Ayes)

MR. NEWMAN: Motion passes.

MR. WENDT: What will be the implementation date?

MR. NEWMAN: Well, let's go into implementation now. Ash, do you want to cover that whole thing?

MR. WENDT: I was just talking about Ash.

MR. NEWMAN: That's part of it, I think. But go ahead.

MR. WILLIAMS: All right. So let's go to the

1 part of your materials that has the little
2 introduction paragraph. Compensation Program
3 Implementation is the heading. And this just recaps
4 basically what I said.
5 MR. NEWMAN: This is the eight-page document we
6 sent out, right?
7 MR. WILLIAMS: Correct.
8 MR. NEWMAN: Go ahead.
9 MR. WILLIAMS: So basically what we've done is
10 we started from the position that Mercer had given
11 us, the basic information about our overall comp
12 levels being below competitive market levels. Just
13 to recap, for most of the positions, we were using
14 percentiles from relevant markets. For key
15 investment and leadership roles, we specifically
16 target targeted the 50th percentile of the five
17 largest public pension funds.
18 To the degree we could not get specific
19 detailed information from those five funds for a
20 position, we used the 75th percentile of the broader
21 public pension fund universe, which includes a lot
22 of smaller funds, but still we had to have something
23 if we couldn't get the specifics from the five big
24 ones.
25 We then went through the exercise described

1 earlier this morning, where we looked at every one
2 of the positions, created a multi-step approach,
3 which I'll now walk you through. If we flip to page
4 two, the first thing we did was work with Mercer.
5 And let me say, when I say "we," the we on our side
6 is primarily Kathy Whitehead, and we owe her a
7 terrific gratitude because she's been on this very
8 heavily for a long, long time, working with Josh and
9 his team at Mercer.
10 The first thing to do was develop a pay
11 structure, which is done and is set out for you on
12 page two, showing 17 grades of basic pay and five
13 for portfolio managers, which is investment
14 professionals basically. So these 22 ranges or 22
15 grades, each have three different ranges within
16 them; a midpoint, which is what would be seen as
17 comp for someone who is fully proficient in the
18 skills of that job; a minimum, which would be
19 20 percent below the midpoint, and the minimum would
20 be sort of a learning or skills attainment level.
21 So, for example, if someone was promoted into a
22 new role and they were still learning its content
23 and mastering its skills, they would be in the
24 minimum category, and they could then progress into
25 the midpoint over time.

1 The maximum category would be reserved for
2 people who are perceived to be role models in that
3 position and have mastered all the skills, show
4 clear leadership, unique skills, talents, et cetera.
5 Having established those positions and
6 ranges -- and these are all based on the comparables
7 out there in the marketplace, dominated by those
8 five largest public pension funds -- the next
9 exercise was to go through all of our positions and
10 assign them to various pay grades based on the
11 nature of the position and the skills of the
12 incumbent in that position. And this was done
13 interactively with basically all of the supervisory
14 team here at the board.
15 And it was an iterative process as well. Some
16 of the positions we have, particularly those in
17 places like the Hurricane Catastrophe Fund, which is
18 a set of functions that don't have easily identified
19 analogues elsewhere around the country, required a
20 little bit of head-scratching to get the job done.
21 But we were able to do it with Mercer's help.
22 Then once we did that, we looked, moving on to
23 page four, at the appropriate placement of each
24 individual within those pay grades based on the
25 individual incumbent's skills, performance,

1 experience, et cetera, in those particular jobs.
2 Then we looked at the gap between the compensation
3 that the position titles or the position and pay
4 grade suggest is appropriate for that position and
5 based on where the individual's skills are relative
6 to where their current comp is.
7 That yielded the aggregate, feeling that we had
8 a gap in aggregate of about $2.3 million, or about
9 15.6 percent of current salaries. So that tees up
10 the aggregate challenge that you're trying to cure,
11 that we are trying to cure in this exercise.
12 Moving on, on item four on page four, we looked
13 at implementation strategy and determined --
14 obviously, this will be up to the trustees in the
15 final decision. But our thinking would be that we
16 could phase over a period of time adjustments in the
17 base and also phase over a period of time the
18 incentive. And the incentive comp has a certain
19 natural phasing to it, because it wouldn't even go
20 into effect, if adopted in the current year's budget
21 or the next fiscal year's budget, it would not start
22 working until July 1 of 2013 and would be measurable
23 a year thereafter and payable over the successive
24 two years following that period. So really you're
25 looking three years out for a total implementation

of all of this.

But basically what we thought we would try and target as an initial starting point would be in the '13-'14 budget, which is the one we'll be taking to the trustees within the next 60 days or so, we would probably -- and we would, I say "probably" because before we submit budgets, I work with the individual offices and make sure that they understand what's in the proposal and that they're comfortable with it. We don't want to take something forward that's not going to be credible and reasonable in the eyes of the trustees. So all of this is asterisked with that qualification.

But our thinking was we would try and address a material percentage of the gap in base salaries in the upcoming budget, which would aggregate to about $1.6 million, and then cover the remaining 650,000 of that $2.3 million gap in the subsequent fiscal year, together with 50 percent of the incentive award, which would be about 1.1 million.

So, basically, what you would have would be a budget increment in that second year of 1.75 million above the '13-'14 level, which would take you to the full incentive award of 2.2 million.

We then, in item five, looked at another

detail, and that is, not all of the SBA units are under the same budget. The Hurricane Catastrophe Fund and the office of defined contributions, which is the DC side of the pension system, or the Florida Retirement System, I should say, actually have their own budgets. So their changes would be dealt with within their budgets. And the core expenses relating to the defined benefit side of the Florida Retirement System, which is of course where the vast majority of the investment professionals are, would be in the main SBA budget.

Our expectation would be, moving on to page five, we do not contemplate any change in the fees that we charge. Our view is, we made adjustments to those fees last year, and we're going to stay within them. We have seen growth in assets in part because of investment performance, in part because of market movement. We've seen assets increase pretty significantly. That is a benefit because of the way we operate as a basis points on assets under management sort of a structure.

So we have incremental fee revenue, looking forward, of approximately 2.25 million due to increases in assets, which is helpful in this whole situation. Also, just so you understand,

1 mechanically, the way we work, the State Board of
2 Administration has what's known as an administrative
3 trust fund, where we're fully self-funding in terms
4 of fees on assets under management. And these are
5 all netted off against the net performance fees we
6 report publicly. So none of this would have any
7 bearing on our investment performance.
8 But we have an administrative trust fund that
9 we commonly try and keep at a level of roughly one
10 year's entire operating overhead. The reason we do
11 that is that once we set the budget through the
12 trustees, if there were some violent market downturn
13 that caused AUM to decrease, which in turn caused
14 our revenues to decrease, we need a buffer to get to
15 the next budget or let markets rebound, as they tend
16 to over time, and that's why we have the
17 administrative fund.
18 So to the extent there was any short-term
19 variance between expenditures and the budget agreed,
20 the administrative trust fund is there as a buffer
21 to deal with it. And by way of history, during the
22 period in the immediate aftermath of the downturn of
23 2008, we actually did draw down the administrative
24 trust fund for a period of successive years. We
25 then recalibrated fees last year, and we're building

1 the fund back up now and have built it back up over
2 the past year, so it's healthy.
3 But basically any expenses that are on-budget
4 expenses of the SBA are handled through that fund.
5 It's a zero sum game. To the extent anything is
6 budgeted and is not expended, it remains in the
7 administrative trust fund and is an asset of the SBA
8 and ultimately the Florida Retirement System.
9 I think it should also be noted that the
10 aggregate budget, which is a little north of
11 $30 million, probably 35, 36, will be the current
12 total number, is a fraction of the aggregate
13 overhead of the board, because if you take into
14 consideration outside manager fees, custody fees,
15 legal fees, audit fees, et cetera, all of those are
16 netted off against the individual asset holdings and
17 reflected in investment performance. But those
18 numbers in aggregate dwarf the numbers that are the
19 on-budget numbers, just to provide perspective.
20 If we then move forward -- let me stop there
21 and see if you have any questions, or we can move
22 into the graphics that explain the implementation
23 phase. All right. If I may, Mr. Chairman, I'll
24 move on into the graphics.
25 MR. NEWMAN: Please do.

1 MR. WILLIAMS: Thank you. On page six we see,
2 in chart one, salary competitiveness in the current
3 situation. And what we have here is a series of
4 zones that show the number of people whose base
5 salaries are below grade minimum or are at the
6 earliest phase of the competitive range versus a
7 very tiny number that are above maximum, two
8 individuals. So that gives you a sense of where
9 we're starting. Any questions on that graph?
10 All right. Moving forward to page seven, we
11 look at how our workforce would look and our salary
12 distribution would look if we achieve the targets
13 that Mercer has identified for us to reach the 50th
14 percentile or the median of the five largest peer
15 public funds in the United States. And as you can
16 see, it's quite a material change from the chart on
17 page seven. We have a lot of individuals shifted
18 into the competitive range, either in the mid-zone
19 or the exemplary zone of the competitive range.
20 The reason for the proportion in that exemplary
21 zone is that we're fortunate to have a number of
22 investment professionals who have been with us for a
23 long time, who do have extraordinary skills, and we
24 believe are well qualified to be at that point in
25 the competitive range. You also see that there's a

1 significant decrease in the number of people that
2 are below grade minimums, so we would eliminate a
3 significant part of that retention risk by reducing
4 the number of people that are below minimums and
5 compensate them more reasonably, based on what our
6 peer funds are doing around the country.
7 Questions there? All right. Moving on to page
8 eight, we give a sense, by fiscal years, of the
9 employees that would fall in various zones. So if
10 we look at chart three, the progress toward target
11 salaries and the percentage of employees by the
12 salary ranges, you can see now we have a very large
13 number, a very large percentage who are below the
14 minimum. In fiscal '13-'14, that number drops very
15 dramatically and in '14-'15 is virtually invisible,
16 which would show what we're trying to do, which is
17 eliminate folks that are severely below the minimum
18 or below the minimums at all.
19 Then if you move forward and you look at the
20 people that are within a range of 80 to 90 percent
21 of the salary target zones, that improves over time,
22 and you can see the breakdowns in the different
23 fiscal years. So as we would phase in the changes
24 in base pay over the next -- over this coming year
25 and the year after and then start bringing in, in

subsequent years, the incentive, that would improve. I think the primary focus here, Kathy, is base pay; is it not?

MS. WHITEHEAD: This is just base pay.

MR. WILLIAMS: Yeah, this is just base pay, so strike what I said about incentive. So does that make sense to everybody? All right. Good. So then if we ask the question, all right, so if you're going to make these changes and eliminate the positions that are below the minimums and therefore posing material human capital risk and get the other adjustments made to get the bases where they ought to be, what is the implication of that for raises for people, in terms of the percentage of raises for different people?

And with this graphic at the bottom of page eight, with the red bars, the percentages at the top are percentages of employees, and the numbers at the bottom are the magnitude of the ranges of raises. And what you'll note that I think is interesting is there are no changes in base that would represent raises greater than 20 percent.

The tallest bar here is raises of 10 to 15 percent, and then we have about a fifth that are 15 to 20 percent, and the rest are distributed

largely evenly between raises of zero to 10 percent. So when you consider that there have not been systematic pay grade changes in many years at the State Board, I don't think these numbers would come across as crazy for moves that would be made over time.

So that's what we have on the base salaries. And then, as I said earlier -- and this goes directly to Gary's point -- the focus from here would be on how we design the incentive piece of this. That's considerably further in the future, obviously. But we would go to work on that next, come up with criteria for the nonquantitative component of that for various positions and work with you to come up with a system overall that you think reflects the appropriate criteria.

So let me stop there and see if you have questions or what discussion there may be.

MR. NEWMAN: Questions? Comments? I have one question, Ash, on the budget for incentives. And maybe we ought to just wait until you come back with that, because we say we're budgeting the max. Is that just to cover us?

MR. WILLIAMS: Yes. And that's why I framed it up the way I did, with the explanation of how the

1 administrative services trust fund works. It's also
2 important to note that the SBA has an incentive comp
3 structure that's been in place for a number of
4 years. It was suspended when I arrived, for two
5 reasons. Number one, it was, in my judgment, not
6 the best way to allocate participation in the plan
7 among positions. Number two, we had certain
8 positions that were really critical positions that
9 posed high levels of risk for incumbents departing.
10 And in my judgment, it was more important to
11 move aggressively on a small number of really
12 critical people than it was to honor a system that
13 included, I want to say in all about 35 different
14 positions and various degrees of incentive, but
15 didn't necessarily hit any of them hard enough to
16 really address retention risk.
17 So what we did was we took the amount of money
18 that would have otherwise been budgeted for the
19 incentive comp, asked the trustees to put that in a
20 strategic recruitment and retention pool, which was
21 the structure originally created by General Milligan
22 when he was here as acting executive director, and
23 to then let the executive director have authority to
24 use those funds.
25 That is the way we have handled this over the

1 past several years, pending completion of a fulsome
2 review of our comp and design of what we believe to
3 be an appropriately professional and objective
4 combination of base and incentive comp that is
5 competitive in the marketplace and rational in its
6 design. And that's what we're progressing toward
7 now.
8 So that long answer is a long way of saying yes
9 to your question, Chuck. You have to budget for the
10 full amount of the potential liability. If it's
11 called, because performance is good, number one,
12 which enables and funds the incentive comp, and
13 number two, people meet both their objective and
14 subjective criteria for eligibility, then it would
15 get paid out.
16 If either or both of those things don't take
17 place, then you don't need what you budgeted. It
18 remains in the administrative trust fund and
19 continues to be an asset of the SBA.
20 MR. WILSON: And if I could add, this is Josh,
21 one just general world question. The budgeting at a
22 maximum is the way most companies do it. And I
23 think, when Martin referred to it, he said they
24 approved 1.8 million, which is the maximum, so
25 that's generally the way companies do it.

1 MR. COBB: This is Chuck Cobb again. I have
2 kind of a macro question here. And since I'm not on
3 the committee, I maybe have missed an important
4 thing we were deciding. But it was my understanding
5 that the philosophy of where we were going was there
6 was a total agreement by everybody that we were --
7 that our people were undercompensated and that we
8 had to make adjustments to deal with the market, but
9 that what we were going to do, as I understood it,
10 we were going to have an incentive plan that was
11 going to get us competitive.
12 And so what has been presented by Ash, as I
13 understand it, Ash, is these are all salary
14 adjustments. This doesn't say anything about an
15 incentive plan, which we're now going to layer on
16 top of this. So it seems to me that before we can
17 approve or your committee can approve this, we have
18 to know what the incentive, the estimated incentive
19 amounts are going to be in addition to these salary
20 adjustments, and how does that put us in the
21 marketplace.
22 MR. WILLIAMS: Fair enough.
23 MR. NEWMAN: Josh, do you want to respond to
24 that?
25 MR. WILSON: Sure. Ambassador Cobb, at the

1 last meeting -- I forget my dates. I think it was
2 the end of February. We actually put in there for
3 the top ten or so positions at SBA, what it would
4 look like, what the future would look like absent a
5 salary increase. So what we did is we projected the
6 adoption of the bonus with the current salaries.
7 And if you recall, it was I think on page ten
8 of the report, but essentially without salary
9 increases, the incentive didn't get folks even close
10 to their competitive ranges that the IAC and the
11 comp committee were looking for.
12 So my view of it is that when we add in the
13 salary increases, you have to -- in other words, you
14 have to add in the salary increases, or the
15 incentive plan alone would have to be so leveraged
16 in order to get people to the same total
17 compensation that it would be probably -- it would
18 probably increase the risk profile, which I don't
19 think you want to do.
20 So, in my opinion, the way to do this is
21 through a combination of salary increase and
22 incentive plan adoption at reasonable levels.
23 MR. NEWMAN: And I believe that's what we
24 started with, that we would look at both -- in fact,
25 we said we would look at how we are competitively to

1 see if we even needed an incentive plan. But we
2 would look at base, we would look at incentive,
3 which is what we've done. And I think the issue
4 we're having here is we have -- as Ash said, we now
5 need to do the incentive plan, to come back with it.
6 MR. GARCIA: Well, I've got some questions.
7 The graphic analysis that's been presented to us,
8 was that something that was done by Mercer?
9 MR. WILLIAMS: We did most of that work here,
10 Martin.
11 MR. GARCIA: And very frankly, I am having a
12 little bit of trouble understanding the graphic
13 analysis, but let me articulate what I think we've
14 done, and tell me if I'm on point or not. And I
15 went back last night and read the presentation that
16 Mercer has given us, which indicated that at certain
17 individual levels, that our people are
18 undercompensated relative to the market. And I
19 think all of us accept that proposition.
20 And what I perceive this analysis is doing is
21 saying that $2.3 million in salary comp will bring
22 us to market, from a salary perspective. Is that
23 what this analysis is saying, for the overall
24 organization?
25 MR. NEWMAN: And that's for base pay.

1 MR. GARCIA: For base pay. Is that correct?
2 MR. WILLIAMS: Yes.
3 MR. GARCIA: I don't -- I mean, I tried to
4 connect the dots in terms of taking the Mercer
5 material that we've been provided in the
6 subcommittee exercise and tried to connect that to
7 $2.3 million, and it's hard for me to do that. It
8 may just be my ignorance. But the other thing that
9 I thought we were going to do in terms of the plan
10 is, assuming the 2.3 does indeed bring us up to
11 market, is I thought we were going to get a
12 presentation on how that 2.3 would be allocated, so
13 as to enhance performance from a salary basis. And
14 then I thought we were going to get a presentation
15 on how the 1.8, which is over and above the 2.3,
16 would be integrated so as to enhance performance.
17 So if indeed this analysis confirms that
18 $2.3 million will bring us up to market, then what I
19 think we need to see is a specific plan on how the
20 2.3 and the 1.8 is going to be allocated so as to
21 make us better performers overall. And those are
22 the specifics that I think we're lacking.
23 MR. NEWMAN: And I guess the thing is how much
24 detail we want as a committee. I see that we came
25 up to the 2.3 by putting the target ranges together

1 based on market, and then we took each individual,
2 and that being management of the SBA, said where do
3 they fall in this range, where should they fall in
4 this range, based on performance, based on how long
5 they've been in the position, those type things, and
6 they assigned all of that, and that's how they came
7 up with the 2.3, is what I would assume.
8 MR. WILLIAMS: Correct.
9 MR. PRICE: It's Michael. Can I just put a
10 point in? I think the number is the ammunition
11 we're giving Ash to make the right personnel
12 decisions that will then yield better performance.
13 I don't think our numbers or allocation of numbers
14 will change performance. I think it's his guidance
15 of the whole crew down there that's going to do it.
16 We just want to make sure he doesn't lose people and
17 have excess turnover, which is typical of these
18 places.
19 MR. COLLINS: This is Peter. Martin, are you
20 saying that you want to understand for each person
21 how much is coming -- how much of a base increase
22 they're getting and how much of a bonus, potential
23 bonus they could get?
24 MR. GARCIA: No, not specifically as to a
25 person, but an allocation presentation to the

1 various areas. For example, are 80 percent of the
2 salary increases going directly to the legal
3 department or the compliance department or to the --
4 MR. COLLINS: It better not be.
5 MR. GARCIA: -- or to those who have
6 discretionary decisions over where the capital gets
7 allocated.
8 MR. COLLINS: So you want sort of an asset
9 allocation of pay increase across the different
10 segments of the board.
11 MR. GARCIA: What is important in my opinion,
12 as a board and working with the CEO, is to get the
13 CEO's thinking in terms of his or her priorities on
14 how they allocate comp in terms of achieving outcome
15 and the objectives of the organization that the
16 board would like.
17 MR. COLLINS: I don't disagree with you, but I
18 would tell you that probably Ash is laser-focused on
19 that. But I think that he probably thinks about
20 that on an individual basis as well, obviously, as
21 he should. I'm just asking, do you want to know, as
22 a board member, how much he's going to give to fixed
23 income or how much he's going to give to emerging
24 markets? I'm just trying to figure out what it is
25 you want, to see if I agree with that. I sort of

agree with your thought process. I just don't know if I'd go as far as you're talking about going.

MR. GARCIA: Well, I'd like to see something. Okay? I want something more than an analysis that says that our overall SBA is undercompensated on a base basis by 2.3 million, and they deserve another $1.8 million incentive comp. I want to see more specifics than what has been presented. So we can debate whether there's enough specifics or not. I don't have enough for me to approve it at this stage.

MR. COLLINS: So I guess, I'm just going back to the question. I don't disagree with your thought process. I'm just trying to figure out what kind of specifics you want, so if we ask Ash to give us something, he knows exactly what is expected of him. So if you just say, I want more specifics, I would just say specifically what? I mean, give Ash some guidance.

MR. WENDT: Gary Wendt again. Perhaps if I ask the question that I think Martin is after in a little different way and then got Ash's response to it, we may have the answer to what we're looking for here. I thought the graph was very good. I even understood it, which as you know is unusual.

MR. WILLIAMS: Gary, we can't hear you. Can you speak up?

MR. WENDT: I even understood the graphs, Ash. So, anyway, but as I look at the top of page eight, I see the green items there are two years and three months out. Is it my understanding that you will attempt, over the next two and a half years, to bring your compensation to, by employee, up to those levels, where you have what is known as the bell curve effect?

MR. WILLIAMS: Correct.

MR. WENDT: Is that your intention, or do you have another implementation plan?

MR. WILLIAMS: That is our intention.

MR. WENDT: So that the number of people to be affected then would be seen on the sheet that Diane sent us this morning and the percentage raises given and bonus eligible and non-eligible.

MR. WILLIAMS: Yes, that's correct. And we developed that sheet in large ways informed by your suggestion early on, if you'll remember.

MR. WENDT: I think that's the plan, Martin. I think the plan is to take a look at each person and then over time have a -- what's the word -- have a group of 138, 194 employees that are in that bell

1 curve of 35 percent being on target, I guess it is,
2 and 16 percent being below, and 16 percent way
3 above. Anyway, I thought that was enough. In my
4 opinion, that was enough to say, okay, Ash, now
5 here's the money, go work.
6 MR. NEWMAN: And I would agree with you, Gary.
7 And maybe what we need, Martin, is if you want to
8 get individually with them or with Mercer or with
9 the management, I'm comfortable with what I've seen
10 personally.
11 MR. WILLIAMS: And we're happy to provide
12 whatever level of detail to any member of the IAC
13 they would like at any time. The work we've done on
14 this is extensive. It will continue to be extensive
15 going forward. And we appreciate your help with
16 this, and we'll give you whatever you want. And
17 that includes coming to you wherever you are and
18 sitting down with you and walking you through
19 materials or doing it here or whatever you'd like.
20 MR. GARCIA: How about my questions concerning
21 the incentive comp component?
22 MR. NEWMAN: I think we need to let Ash and
23 them come back with that plan. Is that what we're
24 talking about, Martin? Where are we going and how
25 that's going to work and how that's going to

1 influence behavior? And come back with a plan
2 similar to this that shows us -- and when we do
3 that, Ash, I think we want it, as Martin is saying,
4 you know, who's getting the bigger incentives, is it
5 the portfolio managers, that type of thing.
6 MR. WILLIAMS: Correct. And it should be
7 noted, too, that not everybody is going to be
8 eligible for the incentive program here. So a
9 significant part of what we're doing with the base
10 adjustments is actually focused on individuals who
11 will never be eligible for the incentive comp. So
12 it makes sense, I think, that in the front end of
13 this exercise we're dealing with people who don't
14 have that potentially in their future at all, and
15 therefore it's more relevant that an adjustment get
16 made on their base.
17 But we can break this down to whatever level of
18 detail any individual wants. And probably, given
19 the way different people have different preferences
20 for consuming information, the easiest way to do
21 that is one on one offline from the meeting.
22 MR. GARCIA: I'm just used to seeing a comp
23 plan where you see the whole picture, you see where
24 the base is being allocated relative to the
25 incentive. And I can see a situation where it's

1 hard to come up with qualitative assessments of
2 people in compliance and legal and accounting and
3 all those places, so they therefore get a larger
4 base comp increase, whereas the people that have
5 discretionary decisions over the allocation of the
6 capital would be more incentive comp compensated.
7 And so to me I think we've got to see the whole
8 plan. At some point Ash has got to present a plan
9 that gets approved in the budget. It just seems to
10 me we ought to look at that plan, see what we think
11 of it.
12 MR. WILLIAMS: Well, I think at the last
13 meeting -- this is Ash again. I think at the last
14 meeting we did break down various positions in terms
15 of what was included and what wasn't and the various
16 threshold incentives, et cetera. Remember we had
17 the four tiers, et cetera. But, again, we can break
18 it down for you by department, by investment,
19 non-investment, et cetera. It's all there.
20 MR. COLLINS: Ash, this is Peter. So I guess I
21 now think I realize where Martin is going. So when
22 you present your budget -- I'm a new guy, right, so
23 I don't know. So when you present your budget, do
24 you present it to the IAC?
25 MR. WILLIAMS: No. Generally, the pattern on

1 the budget has been that we develop the budget and
2 go through an iterative process with the trustees'
3 offices, where we go around, brief each of the three
4 offices individually, get a sense of their
5 preferences or things that they would like to see
6 changed.
7 We go back, and we make incremental adjustments
8 and keep going through that iterative process until
9 we have a consensus document. We then put that on
10 an agenda in a public meeting, and the trustees
11 adopt it.
12 MR. COLLINS: So I guess what -- the concept on
13 the table, as I understand it, is a pretty big jump
14 in terms of salary, in terms of the way you're going
15 to compensate people, in terms of culture, et
16 cetera. So I think what Martin is saying -- and I'm
17 certainly not opposed to this -- is when you put
18 your budget together and the new comp and the bonus
19 plan is a component of that, can you come back to us
20 and just give us, maybe in a memo form, maybe in a
21 discussion -- maybe in a discussion is better
22 actually -- a general, not being too specific,
23 because Martin, I think, we could ask for details
24 all day long and nothing will get accomplished
25 because they'll be doing reports for us. But in

1 general let's have a discussion about, okay, here's
2 the way we see this implementation working from a
3 base salary allocation, from a bonus pool
4 allocation, and here's how I, Ash Williams, think of
5 it as CEO/CIO of the SBA, here's my view on
6 compensation across the SBA, and have a discussion
7 about it.
8 And beyond that, I don't know what we're
9 entitled to, but I think we should understand where
10 you're coming from and what you're thinking.
11 MR. WILLIAMS: I agree. I think the IAC has a
12 terrific stake in this whole thing. After all, this
13 initiative came from the IAC. So I couldn't agree
14 more, and we can walk you through that completely
15 going forward.
16 MR. COLLINS: And I think Martin is right. I
17 mean, this is a big step, and so, you know, not that
18 we're even going to review it every year, but
19 certainly for the first time, to say, hey, yeah, we
20 looked at it, we went to the mat in terms of
21 details, and we looked at everything, and we feel
22 comfortable with this. And so I think Martin is
23 probably rightfully so asking for that.
24 MR. WILLIAMS: I think that's fair, and I think
25 the trustees will appreciate it.

1 MR. COLLINS: Martin, I don't know, I may not
2 have asked for enough, in your mind, but that's what
3 I'd be comfortable with.
4 MR. GARCIA: You're more articulate in stating
5 my position than I am. Thank you.
6 MR. COLLINS: We just -- we come at the same
7 idea from two different paths.
8 MR. NEWMAN: Ash, do you understand what
9 they're asking for?
10 MR. WILLIAMS: I think I do. I was just going
11 to try and summarize it to make sure that we're all
12 on the same page. Here's the way I would summarize
13 it. We're going to be working in the immediate
14 future on how the incentive piece of this would
15 work. We've focused to date on the base piece.
16 That's what we've brought you today because that's
17 the more immediate deadline to deal with
18 budget-wise. And the budget is what's driving our
19 whole time frame here because the fiscal year ends
20 June 30.
21 So we will go to work on the next phase of
22 this, which would be the incentive piece. We will
23 also go to work on the process with the trustees on
24 the budget, and we'll report back to you in terms --
25 I'm trying to figure out how to do this -- between

now and when the budget gets adopted. If you want to schedule a workshop or something of that nature, I mean, I just don't know.

MR. COLLINS: I'd be comfortable with a discussion, and maybe it's just those people that are interested in it or they're interested in the details dial in and we have a discussion about it. I don't think it needs to be a formal agenda item. I think we just want to know.

MR. NEWMAN: I think we have to make sure we're following all of the sunshine rules.

MR. COLLINS: Right. You've got to notice it and have a --

MR. NEWMAN: One of the things I think that may be helpful to at least put to bed the base is a follow-up schedule or memo where we take -- you know the individuals, you know how it's getting broken out, and you just put that in the four or five categories that make sense to you, that are the managers, the portfolio managers, or this much of the 2.3 is going there, this much is going to compliance, you know, if there's four or five different categories, the way you guys think, that we could at least see that.

And then we can say -- if Martin says, I still

need some more detail, then we'll look from there, on the base. And then incentive, we need at least that also. And we may need even a little more on the portfolio managers, but we're only talking 56 people there.

MR. WILLIAMS: And I would submit to you, the incentive is really well over the horizon at this point. There's nothing in the '13-'14 budget relating to incentive because there won't be any payouts during that period.

MR. WENDT: You will be setting the -- you have to set the target now. I know you aren't paying out for a couple of years but --

MR. NEWMAN: And people are waiting to hear where this is going. Let's get it done.

MR. WILLIAMS: Right. And on that subject, by the way, it's 20 minutes after 10:00. We had noticed an IAC meeting for 10:00. So if we want to extend the comp subcommittee meeting, I guess we could, or if we want to move into the IAC, if there are any other items that need to be closed out at the comp subcommittee level --

MR. NEWMAN: I think the implementation plan was for our information more than to approve it. Is that correct, or does anyone feel differently about

that? Maybe we should -- do we want to go ahead and approve what we have for base pay, subject to the follow-up of the schedule that we set, that we just talked about, the details?

MR. COLLINS: I think you should probably approve it, given as much time as you've spent on it.

MR. NEWMAN: Yeah, I think we should, too, instead of come back and start over. Then can I get someone to make a motion to that effect?

MR. GARCIA: Here's what I'm -- I'm willing to make a motion, because my fellow committee members understand the graphic analysis better than I do, that our SBA employees are under-market in terms of base comp to the tune of $2.3 million.

MR. NEWMAN: Okay.

MR. COLLINS: Is that a motion?

MR. GARCIA: That's all I'm willing -- that's as far as I'm willing to go from this analysis. I'm not willing to accept any other implementation of what's been presented to us, without seeing more specifics.

MR. COLLINS: Well, I think the -- okay, look, I'm the newest guy, I'm going to shut up.

MR. NEWMAN: Well, I'm not, and we've spent a

lot of time on this. Martin, I don't understand what else we need to do. I mean, they've come up with an implementation plan that says how we're going to close this gap over the next couple of years.

MR. GARCIA: I accept that, too. I accept the terms of that.

MR. NEWMAN: Okay. That's all I'm looking for.

MR. GARCIA: I accept that, too. I'm sorry.

MR. NEWMAN: I thought you didn't want to include that. But then we will go further, Martin, and get more information. And then when we get the -- and then, Ash, you will work on the incentive part. We'll plan a longer meeting for the incentive part. And then we will come back, and we would like more detail on that by the different categories.

MR. WILLIAMS: That works. And on the incentive timing, are you anticipating trying to do that before the current year budget?

MR. GARCIA: Let me give you my -- I don't think that I'm asking anything burdensome, because my perception is that before you can present your budget to the trustees, you have to come up with a specific plan anyway. And what I'm asking for is for you to present to us what that plan is. I don't

1 think I'm asking you to do anything that you
2 otherwise don't have to do in order to get your
3 budget approved.
4 MR. WILLIAMS: You're correct, but the budget
5 this year does not include any money for incentive.
6 That's my point. We're working the detail on the
7 base, because that's what's up in the current
8 budget. And keep in mind this all predicated on the
9 analysis Mercer did that said the comp is so far out
10 of whack, you need to adjust both base and
11 incentive. Neither one by itself does the job.
12 The first piece is the base piece because the
13 incentive piece, by definition, accrues over time
14 and has to be earned and may or may not be earned
15 based on investment performance, number one. And
16 number two, you have a lot of people who will not be
17 eligible for the incentive piece. So, again, it
18 makes sense to address base pay first. So the
19 current year budget contemplates only base pay.
20 MR. NEWMAN: We've already resolved that.
21 We've had enough meetings and we've approved both
22 parts. I think what Martin is saying is, let's pass
23 this motion that we agree with the process we're
24 going through. Y'all have done a good job
25 identifying this. We want you, when you do your

1 budget, to come back and let us take a look at it.
2 I personally don't want to get into individuals. I
3 don't know them.
4 MR. COLLINS: Well, I just don't know that
5 that's our job either, is it, to get into
6 individually?
7 MR. NEWMAN: No.
8 MR. COLLINS: That's Ash's job.
9 MR. NEWMAN: Right. But let's get that
10 information, as an information to us. If we see
11 anything that looks out of line, then we will
12 discuss that. But in the meantime, you can do your
13 budget. And then you tell us when you have the
14 implementation plan ready for the incentive plan,
15 and we'll set up another conference call at that
16 point, unless it coincides with when we're going to
17 have a meeting anyway. Is that fair?
18 MR. WILLIAMS: That's fine with me.
19 MR. COLLINS: Mr. Chairman, this is Peter.
20 This is, again, my first call, but it's kind of
21 difficult being on a call when it just seems like
22 people aren't agreeing on something that you all
23 have been talking about for a long, long time. And
24 so, as the new guy, I'm just concerned. I'm like,
25 well, what am I getting myself into?

1 My question is, I think we need to come out of
2 this call today with a very good understanding of
3 what Martin wants and whether we're going to give
4 Martin what he wants or whether we're not going to
5 give Martin what he wants, because we've got to move
6 forward, right? And the only way to do that is to
7 answer a question, if it's been asked, if we can
8 answer it.
9 So I'm still not sure what he wants really, and
10 I think we're setting Ash and other people up to
11 fail if they can't deliver on something that we
12 don't know exactly what he wants. You know, the
13 last comment was akin to sort of wanting an advance
14 copy of the budget. But I think he wants more
15 detail than that. So I'm not sure what he wants.
16 But whatever he wants, if we can give it to him,
17 let's give it to him, so he can't just keep saying,
18 oh, I don't have the information. So can we get a
19 real clear understanding of what he wants?
20 MR. NEWMAN: Martin can have anything he wants.
21 What I'm hearing is that other members are not as
22 concerned with some of the things. And Martin has
23 that right to have Ash come down and meet with him
24 and walk through every single person if he wants.
25 And I would suggest that Martin and Ash talk and

1 make sure that he sees any detail he wants, and any
2 other member that wants any more detail, other than
3 what we describe by the categories. And then we
4 would look at the budget.
5 MR. GARCIA: I want what Peter articulated
6 earlier. I want to see the whole comp plan in terms
7 of where base and incentive go, not specifically as
8 to who he's compensating. I don't want to get into
9 that. We, appropriately, shouldn't get into that.
10 But I want to see the overall plan.
11 MR. COLLINS: But, Martin, wouldn't you
12 agree -- this is Peter. Wouldn't you agree that
13 it's important that we do the base, and it's
14 important that we have an incentive comp plan? And
15 we can approve those, right, while at the same time
16 asking Ash to share with us his methodology for
17 implementing that. I think they're two mutually
18 exclusive decisions. If every decision waits on the
19 next decision, then no decision gets made.
20 So the first mutually exclusive decision is,
21 hey, we've got to increase the base. We've got to
22 have an incentive compensation plan. Everybody
23 agrees on that and says yes. The next question is,
24 okay, well, how are we going to implement that,
25 right?

1 And so then what you're asking for, is you're
2 saying, hey, I'm not opposed to the base, I'm not
3 opposed to the incentive. But before you implement
4 it, I want to see how you're going to implement it.
5 Is that fair?
6 MR. GARCIA: We have concluded that base and
7 incentive, that there's $4.1 million that we think
8 can be allocated, 2.3 the base, 1.8 the incentive
9 comp.
10 MR. COLLINS: Right.
11 MR. GARCIA: And I don't think that you can --
12 I've never been in a situation where you make
13 decisions on base comp without making also decisions
14 on incentive comp. I think they're connected at the
15 hip.
16 MR. COLLINS: Well, I think as a concept of
17 compensation they're connected, but the timing of
18 them is probably never connected, right, solely,
19 because one is based on a position, the other is
20 based on performance in that position. And
21 performance in that position is judged at a
22 different time than the hire is made.
23 MR. GARCIA: And, look, if I'm the only person
24 with these views, then I'm the only person with
25 these views. I don't want to be a pest.

1 MR. COLLINS: No, no. As I said before, I'd
2 like to know how Ash views his different components.
3 But I fully believe that Ash will -- is focused on
4 it, from my conversations. You know, I got all this
5 comp stuff that you all have been working on, and I
6 had a long conversation with Ash about it. So we've
7 talked about it. So I do know he's laser-focused on
8 it. And I think you're okay to ask for information.
9 I just -- I want to make sure that Ash has the tools
10 to go forward and say, hey, okay, we're going to do
11 this, and then I'm going to come back to these guys
12 and tell them how we're going to do it. But I don't
13 think --
14 MR. NEWMAN: I think we've done that to the
15 point that now, if we need -- if someone needs
16 additional information, we look at the additional
17 information. But I think they have done that. They
18 have built these numbers individual by individual.
19 It's just a matter of, whatever member wants to look
20 at that, whether it's in a category, which we could
21 easily do a summary of by category, or if someone
22 wants to even see a category and, say, gee, I want
23 to know how this works for each one of these, they
24 can talk to Ash or Kathy and go through it.
25 The information exists on base now. And let's

1 wait on the incentive plan. We've already agreed we
2 need one. Let's let them come back with this level
3 of detail, this level of presentation with more
4 detail on the 56 positions that are entitled to
5 incentives, and show how that breaks out by the
6 portfolio managers, by the others, and at that time
7 have Ash make a presentation on his overall
8 philosophy on how he sees compensation work. That
9 would be at our next meeting, which the timing will
10 either be -- if necessary, we would do it before our
11 next IAC meeting.
12 I don't think it would be necessary, if we just
13 approve what we've got now, because they could go
14 ahead and do their budget. And that's what Martin
15 has said, that he agrees with at least the 2.3 on
16 the base.
17 MR. COLLINS: So prior to me interjecting, Mr.
18 Chairman, you were trying to get to a motion, right?
19 MR. NEWMAN: Yes.
20 MR. COLLINS: The earlier motion.
21 MR. NEWMAN: The one Martin just made.
22 MR. COLLINS: To approve --
23 MR. NEWMAN: That our staff is under base
24 compensation to the tune of $2.3 million and that we
25 will accept the implementation plan, as detailed in

1 the package that was sent to us -- and they'll word
2 this. You guys can pull out of the transcript
3 exactly what Martin said, if you would, please.
4 Just make sure that we've covered everything with
5 that. And that would be it, at this point.
6 Following that -- and this isn't part of the
7 motion. This is just what's going to happen. We've
8 asked them to share the information in more detail
9 with any member that wants that and to come back to
10 us with a summary of the different categories as
11 they see, you know, how they run their -- how they
12 run the SBA, portfolio managers, senior management,
13 whatever categories they call it, show how that
14 spreads across there.
15 And then we would look at the details in the
16 budget. If anyone wants to see that, we would then
17 share that detail, whether it -- we can decide
18 whether we do it in the next meeting or whether we
19 just send it around. But that's not part of the
20 motion.
21 MR. WENDT: It's Gary Wendt. So is the motion
22 simply that we agree that our people are underpaid?
23 MR. NEWMAN: Underpaid and that we agree with
24 this implementation plan, as to how we get to the
25 2.3, where we put it into the budget starting in the

fiscal years that they laid out, to move to the graph that you so eloquently described, and that's what we would -- that's all the motion is.

MR. WENDT: I'll second that.

MR. NEWMAN: Thank you. All in favor? Any other comments? All in favor.

(Ayes)

MR. NEWMAN: Are there any -- we will wait to establish our next meeting date, depending on how things go from here as far as getting the implementation plan together, because as Ash said, it doesn't have to be in the budget now, but we want to get it done as soon as we can as part of this overall process.

Are there any comments or questions from the audience? Then I'd ask for a motion to adjourn. Anybody?

MR. DANIELS: Are we going right into the next --

MR. NEWMAN: Yeah. Let's adjourn this and then let Martin -- I wanted to adjourn this meeting and let Martin call the IAC meeting.

MR. DANIELS: Okay. Motion to adjourn.

MR. NEWMAN: Second. All in favor?

(Ayes)

MR. NEWMAN: Okay. It's yours, Martin.

(Whereupon, the subcommittee meeting was concluded at 10:35 a.m.)

* * *

MR. GARCIA: Okay. We'll call the IAC meeting to order. Let's take a roll call. Les is on. Michael is on. Michael, are you on?

MR. PRICE: I'm here.

MR. GARCIA: Will, are you on? Will Harrell, are you on? Peter?

MR. HARRELL: Sorry about that. This is Will. I had mute on, and I forgot I had mute on, but I'm here.

MR. COLLINS: He's screaming at the phone, yes, yes, I'm here, I'm here. Peter Collins, I'm here.

MR. GARCIA: Ambassador Cobb?

MR. COBB: Yes, sir.

MR. GARCIA: Gary Wendt?

MR. WENDT: Yes, sir.

MR. GARCIA: I think that's -- of course, Chuck Newman is on. Have I missed anybody? Okay. Well, I think all of you -- Will, were you listening in?

MR. HARRELL: I caught basically since 10:00, so I've caught the last 35 minutes.

MR. NEWMAN: So you caught the motion.

1 MR. GARCIA: Is there anybody who didn't hear
2 most of the subcommittee meeting? Well, then I'm
3 going to turn it over to Chuck. I don't think
4 there's much more to do, in terms of presenting what
5 we've done, because I think most everybody has been
6 on the call.
7 MR. NEWMAN: I would just say that we propose
8 two motions from the subcommittee to the IAC, the
9 first being to accept the recommendation from the
10 Mercer group, which states -- it just says that
11 based on information available to us against large
12 peers, that being the five largest, that the
13 ED/CIO's compensation is below comp. And based on
14 that, we should move him to a median of 410,000.
15 That will be handled as part of the implementation
16 plan that we will approve in a minute. And that the
17 discretionary component of that would be discussed
18 and developed by the subcommittee, compensation
19 subcommittee, and presented to the IAC for their
20 review, change and approval, and that it would
21 include -- it very likely would include such things
22 as peer review, allocation, and then a qualitative
23 component.
24 That was the first motion we passed. And that
25 was -- and I don't know, Martin, if you wanted to

1 address those one at a time, or do you want me to go
2 through the second one and then see if we can
3 approve them at the IAC?
4 MR. GARCIA: I think you're doing a great job.
5 Whatever you --
6 MR. NEWMAN: Okay. The second had to do with
7 the implementation plan. And under that we agreed
8 that we would accept management's recommendation on
9 implementation for the base pay, which shows that we
10 are underpaid by about $2.3 million. This gap would
11 be addressed over the next couple of years through
12 the budget process. And I think that's it.
13 And that, you know -- and everybody heard the
14 end, the rest. What we're going to do is get more
15 information, and then management will come back with
16 an incentive plan implementation, which will be more
17 detail and the categories of where the money is
18 actually being allocated. Did I miss anything?
19 MR. WENDT: Great job.
20 MR. NEWMAN: Martin, do we need to approve
21 those two recommendations at the IAC?
22 MR. GARCIA: (Inaudible) I'll accept -- well,
23 no, I think we probably would need a motion.
24 MR. NEWMAN: To accept the whole --
25 MR. GARCIA: Yeah.

MR. COLLINS: So moved.

MR. HARRELL: Second.

MR. GARCIA: What is the motion?

MR. NEWMAN: I think we could just repeat -- could we just repeat the two motions we just made at the subcommittee as the motion for the IAC?

MR. COLLINS: Yeah, I thought you were just doing the same exact motion.

MR. NEWMAN: Yeah, it would be the same language.

MR. GARCIA: Are there members who weren't on the call the whole time for the subcommittee that feel comfortable with that or need further explanation?

MR. HARRELL: I'm fine. This is Will.

MR. COBB: This is Chuck Cobb again. I'd like to address the motion. I'm going to vote for it, with a degree of a little bit of concern, and I want to express my concern. And I sort of did this when we approved the conceptual bonus plan at the last meeting.

Philosophically, I guess I agree that we are about $4 million short of total compensation for our team. And for a $130 billion organization, managing $130 billion, $4 million is really not a number of

great consequence. Ash, what percent is the 4 million of both the 2.3 adjustment and the 1.8 bonus plan? That $4 million is what percentage of our total salary, total compensation package? It's less than 10 percent; is that right?

MR. WILLIAMS: Yes, that's right. I think it's probably between six and seven, is my guess.

MR. COBB: And so in my judgment, that is a very reasonable adjustment that we should make. And so, therefore, I voted for both of these plans. My personal preference would have been for the full $4 million to have been an incentive based. And, in fact, I understood early on it was going to be totally incentive based. But I missed one of the meetings or one of the charts, and that's my fault that I missed it, but I did miss it, because I really thought we were all on incentive. But --

MR. NEWMAN: Ambassador, I think there are only 56 people out of the 194 that are incentive based. So all of those others would not have been affected.

MR. COBB: Okay. So maybe I would have, if I'd been in the loop, I would have argued for the incentive people to have their adjustment all in incentive and the non-incentive people to have it in salary adjustment. I don't know what I would have

1 argued. But, look, we are where we are, and who
2 could be so (inaudible). And so we've come up with
3 over half, which is what I'm a little uncomfortable
4 with, but we've come up with over half of the
5 adjustments in salary adjustments and less than half
6 in incentives. So I'm supporting that, but with a
7 degree of uncomfortableness.
8 And then lastly, which I've argued before, I
9 would have preferred to have a higher percentage of
10 the incentive based on actual results, actual
11 performance rather than benchmark performance, or a
12 higher percentage of the incentive based on peer
13 review performance, which is a relative actual
14 performance. But I'm comfortable where we are with
15 those two comments of a little bit of
16 uncomfortableness. So therefore I'm going to vote
17 for it.
18 MR. GARCIA: Well, Ambassador, I think that
19 there's plenty of room for you to get your desired
20 objectives on peer review and benchmarks. One of
21 the things that we discussed at the subcommittee
22 meeting, and it was discussed by several members, is
23 that we're very interested in seeing how the comp
24 plan is going to look and how it's going to be
25 benchmarked and how -- you know, what Ash is

1 thinking. That's really important, I think for all
2 of us, to see Ash's thinking on how he's going to
3 incentivize his employees. So I think we can get
4 the latter part of your desired information, and I'm
5 optimistic that it will look great.
6 MR. COLLINS: Yeah, I think that that's what
7 the second half of our conversation was about,
8 right, Martin? I mean, just seeing the
9 implementation of it and what Ash is valuing by
10 looking at where he's spending his money.
11 MR. GARCIA: Right.
12 MR. WENDT: It's Gary Wendt. I have a comment
13 to make also. I'm uncomfortable with something, and
14 it's something that I brought up at the very
15 beginning of this whole process. If you look at the
16 sheet that Diane sent out today, I think we need to
17 understand the math. I think I understand it. But
18 it shows the, under average percent comp increase,
19 ex-bonus, it shows percentages for various groups.
20 All of those percentages are much higher than
21 six percent. So unless you're including in total
22 comp benefits and things, it's clear that the raises
23 that are going to be given, on average, to implement
24 this plan are much higher than six percent.
25 So the concern I have is not one for us. I

mean, we're doing our job as best we can. But I suspect the trustees are going to have a little bit of a problem with understanding why these compensation levels are being raised, when I suspect no other department of the government is getting the raises, and therefore we go back to the need to have this done correctly.

MR. GARCIA: Well, Gary, the six percent is on the overall operating budget. The actual percentage on increases on current comp is about 30 percent, 15.6 percent for salaries and about another 15 percent for incentive comp, so actually it's 30.

MR. WENDT: The sheet we got this morning just has salaries. I'm aware of that. But I think Ambassador Cobb had reached the conclusion that this 2.3 million that we're adding on, plus the 1.8 if we did add it on, would be about six percent. It's much higher than that.

MR. GARCIA: Okay. So we have a motion. Did we get a second?

MR. NEWMAN: I'll second it.

MR. GARCIA: All in favor indicate by voting aye.

(Ayes)

MR. GARCIA: Any opposed? The motion passes

unanimously. I guess, is there any other new business, old business, anything that the IAC would like to discuss on this subject or any other subjects? Hearing none, is there a motion to adjourn?

MR. NEWMAN: So moved.

MR. GARCIA: Before we adjourn, I do want to thank Chuck Newman, because he has spent an inordinate amount of time on this. He's been incredibly patient, particularly with me. I very much appreciate that. And I want to commend you for all your hard work. Is there any other new or old business that anyone would like to discuss?

MR. NEWMAN: Martin, let me just say thank you. And it's also been a lesson for me. When you're the one that knows more about it and you've been digging through it and all of that, I hope I haven't come across as being intolerant or anything, because I know what we're talking about because I've been through it a lot more in the detail than you guys have. That's all. But thank you.

MR. COLLINS: Mr. Chairman, the only thing I'd like to -- this is Peter. I'd like to say hello to everybody and just tell you that I'll endeavor to talk less at future meetings.

MR. NEWMAN: We enjoy hearing from you. And, Peter, we certainly intend to introduce you at our next fully constituted meeting, and we're going to have another new member at that time. So I look forward to making that introduction. Thank you very much for participating in this call as well.

MR. COLLINS: Thank you.

MR. NEWMAN: And thank you, Kathy, for doing all this work, and Mercer for the fine work you all have done.

MR. GARCIA: If there's nothing else, we'll stand adjourned. Thank you all very much.

(Whereupon, the IAC meeting was concluded at 10:45 a.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 79, 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 7th day of May 2013.

_____

JO LANGSTON
Registered Professional Reporter

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
CHAIR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Board of Trustees

From: Mark Peterson, Chairman
Participant Local Government Advisory Council (PLGAC)

Date: June 3, 2013

Subject: Quarterly Update – Florida PRIME™

The Participant Local Government Advisory Council (the "Council") last met on March 27, 2013 and is scheduled to meet again on June 24, 2013. Over the prior quarter, the Council continued to oversee the operations and investment management of Florida PRIME™ and Fund B, reviewing several issues as well as the current market environment for Fund B securities.

CASH FLOWS / PERFORMANCE

- Over the quarter ending March 31, 2013, participant deposits totaled $3.13 billion; participant withdrawals totaled $3.14 billion; transfers from Fund B totaled $11.4 million, for a net increase of approximately $5.6 million.
- Fiscal year-to-date, Florida PRIME™ has increased by approximately $1.73 billion.
- During the 1st quarter, Florida PRIME™ delivered an aggregate $5.46 million in investment earnings.
- Performance of Florida PRIME™ has been strong over short and long-term time periods. For the period ending March, 2013, Florida PRIME™ generated *excess* returns (performance above the pool's benchmark) of approximately 15 basis points (0.15 percent, annualized) over the last three months, 19 basis points (0.19 percent) over the last 12 months, and 17 basis points (0.17 percent) over the last 36 months.

POOL CHARACTERISTICS

- As of March 30, 2013, the total market value of Florida PRIME™ was $8.48 billion.
- As of March 30, 2013, the investment pool had a 7 Day SEC Yield equal to 0.22 percent, a Weighted Average Maturity (WAM) equal to 41.1 days, and a Weighted Average Life (WAL or Spread WAM) equal to 88.3 days.

FUND B

- Fund B continues to pay principal and interest, with cumulative distributions to participants of approximately $1.77 billion through the March 2013 monthly distribution, with remaining principal owed to participants equal to approximately $235 million.
- As of March 30, 2013, 88.3 percent of the original principal in Fund B has been returned to participants.
- As the U.S. residential housing market continues to improve, the fundamentals of non-agency residential mortgage-backed-securities (RMBS) held within Fund B continued to strengthen throughout the quarter, raising the underlying value of collateral assets. As a result, the fund's investment manager has begun to liquidate significant portions of the underlying collateral on an opportunistic basis.
- As of March 30, 2013, the estimated liquidation value of Fund B securities was equal to 104.6 percent of remaining participant principal positions.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
CHAIR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

Date: June 3, 2013

To: Board of Trustees

From: Kimberly Ferrell, Audit Committee Chair

Subject: Quarterly Audit Committee Report

The State Board of Administration (SBA) Audit Committee met on April 4, 2013 and June 3, 2013. The following were the results of those meetings:

I. External Audit

A. We approved the engagement of Ernst & Young to perform the follow-up of the recommendations related to the network security assessment.

B. We discussed the results of the following audits/assessments:
   1. Ernst & Young's financial statement audits of the SBA's 26 wholly-owned companies and 13 joint ventures with December 31, 2012 year-end
   2. Ernst & Young's network security assessment follow-up
   3. KPMG's examination of Paragon Strategic Solutions, Inc.'s description of its Florida Hurricane Catastrophe Fund (FHCF) Administrative Services system for processing of FHCF's transactions throughout the period March 1, 2012 to February 28, 2013, the suitability of the design, and the operating effectiveness of controls (aka as SSAE 16). Paragon is a service provider of FHCF
   4. Crowe Horwath's financial statement audits of SBA's four special purpose entities

C. We also reviewed the related network security assessment report, audited financial statements, reports on agreed upon procedures, tax compliance, internal control over financial reporting, and compliance with debt covenants.

   All of the audited financial statements received an unqualified or clean opinion. The agreed upon procedures did not disclose major findings.

D. We discussed the potential impact of non-audit services performed and those that will be performed by Ernst & Young, the SBA main external auditors, to Ernst & Young's independence. Ernst & Young advised the Committee that Ernst & Young's independence is not and will not be impaired by performing the following non-audit services:
   1. Internal audit testing performed for a joint venture partner of the SBA
   2. Global tax agent and consulting services for the SBA

3. Education advice and financial planning services for FRS employees as part of the MyFRS Financial Guidance Program

II. Internal Audit

A. We reviewed and approved the Office of Internal Audit (OIA) budget and Annual Audit Plan for the fiscal year 2013-14.

B. We reviewed the following OIA reports:
   1. Settlement of Margin Calls Operational Audit
   2. Securities Class Actions Operational Audit
   3. Fiscal Year 2012-13 Third Quarter Follow-up Audit which included prior recommendations from four reports:
      a. OIA's Accounting Reconciliations Operational Audit
      b. OIA's Private Equity Operational Audit
      c. Auditor General's SBA Local Government Surplus Funds Trust Fund Financial Audit, and
      d. OPPAGA's Florida Growth Fund Investments Have Increased and Recipients Report Employment Growth and Expanded Business Activities.

C. We also received a progress report from the Chief Audit Executive (CAE) related to OIA Annual Audit Plan for the fiscal year 2012-2013, 74 engagements that are currently in progress, 78 external auditors' reports reviewed by the OIA before the reports were finalized, status of Categories A and B recommendations, OIA implementation of an electronic workpaper system, and the status of the professional development conference of the Association of Public Pension Fund Auditors OIA will host in Orlando, Florida in November 2013.

D. Open Recommendations
The tables below summarize the progress made on open recommendations as of May 31, 2013. Additional details related to open recommendations are presented in Appendices 1, 2, and 3.

CATEGORY "A" RECOMMENDATIONS

	As of 1/31/2013	Changes from 1/31 to 5/31	As of 5/31/2013
Total Number of Recommendations	437	9	446
Closed Recommendations	(402)	(22)	(424)
Open Recommendations	35	(13)	**22**

CATEGORY "B" RECOMMENDATIONS

	As of 1/31/2013	Changes from 1/31 to 5/31	As of 5/31/2013
Total Number of Recommendations	143	0	143
Closed Recommendations	(109)	(24)	(133)
Open Recommendations	34	(24)	**10**

Breakdown of Category B Open Recommendations:	As of 1/31/2013	Changes from 1/31 to 5/31	As of 5/31/2013
Not yet implemented	11	(4)	7
Partially implemented and the remainder is in progress	3	0	3
Implemented, per SBA Management	20	(20)	0
Open Recommendations	34	(24)	**10**

Category "A" refers to recommendations made either by internal or external auditors. OIA monitors and performs follow-up procedures on these recommendations in accordance with the *IIA Standard* 2500.A1.[1] In certain cases, follow-up procedures are performed by external auditors.

Category "B" refers to recommendations made by 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[2]. Please note that the *IIA Standard* does **not** require the CAE to establish a follow-up process for consulting engagements, but the OIA does take into account the disposition of these recommendations when performing a risk assessment for purposes of establishing the nature, timing, and scope of audit engagements involving the affected areas.

Of the 10 open items in Category "B", seven are reported as not yet implemented (NYI) and three are partially implemented. Six of the seven NYI recommendations came from the work conducted by Crowe Horwath and their follow-up on governance work conducted by Deloitte. These items will be part of a distinct follow up progress activity by the SBA's Chief Risk & Compliance Officer (CRCO), discussed below. The other NYI recommendation pertains to work done by BDA Global in 2010. The SBA engaged BDA Global to conduct a review to determine if its Continuity of Operations Program provides reasonable assurance that the SBA has the ability to timely recover from a major disruption or disaster and continue critical business

[1] *Standard 2500.A1- The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*

[2] *Standard 2500.C1-The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.*

functions as defined by the goals of the program. The three recommendations that are reported as partially implemented refer to the governance work done by Deloitte in 2009.

III. Enterprise Risk Management and Compliance

A. Compliance Activities
As part of the continuous compliance program, the CRCO reported no material compliance exceptions were discovered which required escalation to the Executive Director & CIO during the period February 26, 2013 through June 5, 2013.

B. Progress on the implementation of Crowe Horwath's recommendations
Of the 63 Crowe Horwath recommendations, six remain open at the time of this report. Progress is being made as planned, with implementation expected by June 30, 2013 for five of the recommendations, and December 31, 2013 for the remaining recommendation.

C. Risk Management Activities
Risk Management staff continues to be actively engaged in documenting the system of internal controls to mitigate risks across the organization. Efforts have focused on identifying both preventative and detective controls and key risk indicators for monitoring and reporting.

Risk Management staff participated in a number of meetings and planning sessions with senior staff and Hewitt Ennis Knupp on asset liability issues and potential changes to the FRS Pension Plan's Investment Policy Statement.

With the implementation of Barra total fund risk system, a new summarized quarterly Enterprise Risk Management report has been developed for distribution to the Trustees, Investment Advisory Council, and Audit Committee. This report includes relevant statistics from the risk model as well as other risk indicator metrics for the organization. Efforts will be ongoing to refine visibility into risks faced by the SBA.

IV. Other Audit Committee Initiative - OIA and Enterprise Risk Management (ERM) Collaboration

At the Committee's request, OIA and ERM developed a plan to increase their risk assessment collaboration. To the extent practicable and allowed by the audit standards, OIA and RMC will work closely to share results of risk assessments, review risk management issues and concerns, assess risk responses, and ensure relevant risk information is communicated to relevant parties.

The first joint risk assessment questionnaire was released in March 2013, and the joint risk assessment was completed in May 2013. OIA and ERM will meet quarterly to share information and review emerging risks.

APPENDIX 1
STATUS OF CATEGORY "A" RECOMMENDATIONS
AS OF 5/31/2013

1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating: High	Medium	Low	Total	%
2007	1	0	0	1	4.5%
2012	4	0	2	6	27.3%
2013	6	4	5	15	68.2%
	13	4	7	**22**	100%
	50%	18%	32%		

2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating: High	Medium	Low	Total	Status: NYI	PIRP	OTV	Total	%
Test of the SBA Disaster Recovery Plan (OIA)	7/31/2007	1			1	1			1	4.5%
Defined Contribution Programs Operational Audit (OIA)	6/15/2012	2			2		2		2	9.1%
Accounting Reconciliations Operational Audit (OIA)	9/14/2012			1	1	1			1	4.5%
Private Equity Operational Audit (OIA)	10/25/2012	2		1	3	1		2	3	13.7%
Florida Growth Fund Investments Have Increased & Recipients Report Employment Growth (OPPAGA)	1/9/2013			1	1		1		1	4.5%
Fund B Surplus Funds Trust Fund Operational Audit (Auditor General)	1/18/2013			1	1	1			1	4.5%
Securities Class Actions Operational Audit (OIA)	2/1/2013	4	1		5	1		4	5	22.8%
Settlement of Margin Calls Operational Audit (OIA)	5/15/2013	1	3		4	4			4	18.2%
Information Technology Operational Audit of the SBA Selected Financial Systems (Auditor General)	5/21/2013			3	3			3	3	13.7%
Securities Class Actions Operational Audit (OIA)	5/23/2013	1			1	1			1	4.5%
		11	4	7	**22**	10	3	9	**22**	100%

Category A - **Recommendations were made by either by internal or external auditors. The Office of Internal Audit (OIA) monitors and performs follow-up procedures on these recommendations in accordance with the IIA Standard 2500. A.1**

NYI - **Not Yet Implemented**

PIRP - **Partially Implemented and the Remainder is in Progress**

OTV - **OIA to Verify**

APPENDIX 2
STATUS OF CATEGORY "B" RECOMMENDATIONS
AS OF 5/31/2013

1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating: High	Medium	Low	Total	%
2009	1	1	1	3	30%
2010	1	0	0	1	10%
2011	0	6	0	6	60%
	2	7	1	**10**	100%
	20%	70%	10%		

2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating: High	Medium	Low	Total	Status: NYI	PIRP	Total	%
Compliance Program Assessment Phase 1 – Strategic Analysis – Investment Management Compliance Program Review (Deloitte & Touche)	1/15/2009		1	1	2		2	2	20%
Compliance Program Assessment Phase 2: Governance Structure and Compliance Department Implementation (Deloitte)	6/16/2009	1			1		1	1	10%
COOP Assessment (BDA Global)	8/23/2010	1			1	1		1	10%
Evaluation and Recommendations Related to the Compliance Program (Crowe Horwath)	10/21/2011		6		6	6		6	60%
		2	7	1	**10**	7	3	**10**	100%

Category B - **Recommendations are made by the non-investment consultants and cover areas related to risk management, internal controls, compliance, ethics, special investigations, etc. The OIA monitors the disposition of recommendations in accordance with the IIA Standard 2500.C1.**

- **The Office of Internal Audit does not perform any follow-up procedures on the Category B recommendations.**

NYI - **Not Yet Implemented**
PIRP - **Partially Implemented and the Remainder is in Progress**
IMP - **Implemented,** as represented by SBA management

APPENDIX 3
STATUS OF ALL RECOMMENDATIONS (CATEGORIES A & B COMBINED)
AS OF 5/31/2013

1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating: High	Medium	Low	Total	%
2007	1	0	0	1	3.1%
2009	1	1	1	3	9.4%
2010	1	0	0	1	3.1%
2011	0	6	0	6	18.8%
2012	4	0	2	6	18.8%
2013	6	4	5	15	46.8%
	13	11	8	**32**	100%
	41%	34%	25%		

2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating: High	Medium	Low	Total	Status: NYI	PIRP	OTV	Total	%
Test of the SBA Disaster Recovery Plan (OIA)	7/31/2007	1			1	1			1	3.1%
Compliance Program Assessment Phase 1 – Strategic Analysis – Investment Management Compliance Program Review (Deloitte &Touche)	1/15/2009		1	1	2		2		2	6.3%
Compliance Program Assessment Phase 2: Governance Structure and Compliance Department Implementation (Deloitte & Touche)	6/16/2009	1			1		1		1	3.1%
COOP Assessment (BDA Global)	8/23/2010	1			1	1			1	3.1%
Evaluation and Recommendations Related to the Compliance Program (Crowe Horwath)	10/21/2011		6		6	6			6	18.8%
Defined Contribution Programs Operational Audit (OIA)	6/15/2012	2			2		2		2	6.3%
Accounting Reconciliations Operational Audit (OIA)	9/14/2012			1	1	1			1	3.1%
Private Equity Operational Audit (OIA)	10/25/2012	2		1	3	1		2	3	9.4%
Florida Growth Fund Investments Have Increased & Recipients Report Employment Growth (OPPAGA)	1/9/2013			1	1		1		1	3.1%
Fund B Surplus Funds Trust Fund Operational Audit (Auditor General)	1/18/2013			1	1	1			1	3.1%
Securities Class Actions Operational Audit (OIA)	2/1/2013	4	1		5	1		4	5	15.6%
Settlement of Margin Calls Operational Audit (OIA)	5/15/2013	1	3		4	4			4	12.5%
Information Technology Operational Audit of the SBA Selected Financial Systems (Auditor General)	5/21/2013			3	3			3	3	9.4%
Securities Class Actions Operational Audit (OIA)	5/23/2013	1			1	1			1	3.1%
		13	11	8	**32**	17	6	9	**32**	**100%**

NYI - Not Yet Implemented
PIRP - Partially Implemented and the Remainder is in Progress
OTV - OIA to Verify

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER
AS TREASURER

PAM BONDI
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ash Williams

From: Michael McCauley

Date: June 4, 2013

Subject: Board of Trustees Meeting – Standing Report / Investment Programs & Governance

---

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The SBA's Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) met last on March 28, 2012 and is scheduled to meet next on June 20, 2013. The Proxy Committee continues to discuss ongoing governance issues including the volume and trends for recent proxy votes, significant proxy votes, corporate governance investment factors, major regulatory developments and individual company research related to the Protecting Florida's Investments Act (PFIA).

GLOBAL EQUITY PROXY VOTING

For the trailing twelve months ending on March 31, 2013, the SBA executed 9,534 votes on public company proxies covering 85,408 individual voting items, including director elections, audit firm ratifications, executive compensation plans, mergers, acquisitions, and other management and shareowner proposals. The SBA voted "for" 80.2 percent of all executed proxy votes. The table below provides major statistics on the SBA's proxy voting activities through the last 12 months ending March 31, 2013:

Votes in Favor of Directors **80.9%** (FY2012=77.0%)	**Votes with Management** **80.2%** (FY2012=78.2%)
Votes in Favor of Auditors **92.7%** (FY2012=91.3%)	**Total Ballot Items Voted** **85,408** (FY2012=84,881)
Votes in Favor of All Governance Proposals **52.7%** (FY2012=66.7%)	**Total Proxies Voted** **9,534** (FY2012=9,420)

For the trailing twelve months ending on March 31, 2013, the SBA cast proxy votes in 78 countries, with the top 10 countries comprised of the United States (2,853 votes), Japan (1,174), Hong Kong (610), United Kingdom (455), Canada (410), South Korea (348), Taiwan (334), India (299), Australia (284), and Brazil (249).

SHAREOWNER ACTIVISM IN 2013

Dissident shareowners have experienced high levels of voting support during 2013, either winning campaigns outright or achieving settlements with target boards to nominate their own directors. Dissident shareowners traditionally pursue proxy contests whereby alternative slates of director candidates are proposed for election to the board. In

addition to board elections, dissident shareowners often advocate making changes to a firm's capital structure, business strategies, and/or corporate governance practices. According to the FactSet Research Sharkwatch service, there have been 23 dissident wins (counting settlements as wins) through May 10, 2013. Through the same date last year, only 13 dissidents had been successful. For the entire 2012 calendar year, dissidents successfully nominated directors at 28 U.S. incorporated companies.

REGIONAL MARKET FOCUS—JAPAN & SOUTH KOREA

At the company level, there have been notable corporate governance improvements at several Japanese firms. Notably, in early March, Toyota Motor Co. appointed their first ever outside directors, three in total including one foreigner. Hitachi moved to a majority outside board, with seven outsiders and six insiders. Two of Hitachi's three new outsiders are non-Japanese. Voting levels are beginning to shift incrementally as well, with Canon experiencing a strong shareowner vote against its Chairman & CEO, with votes in favor dropping to 72 percent from their traditional 90 percent and above levels for other candidates. As well, Institutional Shareholder Services (ISS) has amended its voting recommendations to clients advising votes against board members if an individual company has no outside directors at all. This new policy stance is likely to influence how some foreign shareowners approach voting during the Japanese proxy season in late June.

In South Korea, during the peak annual meeting season earlier this year, some major deficiencies in Korea's proxy-voting regime became apparent. Several companies asked investors to approve unaudited annual financial statements, which is not uncommon since Korean regulations require the release of audited financials only 7 days before a shareowner meeting. This practice creates a significant mismatch between audited financial information provided to investors and those contained in the proxy materials. Another issue of concern has been the "bundling" of resolutions, especially on director elections. Several votes against a particular director candidate or low dividends were defeated because of bundling at Hyundai Mobis and Gwangju Shinsegae.

REGULATORY DEVELOPMENTS & OTHER COMMENTARY

In March, voters in Switzerland passed a referendum on executive pay and corporate governance covering Swiss public companies. The passed referendum provides: 1) binding annual say on pay vote on the aggregate amount of compensation paid to supervisory board members (the functional equivalent of a U.S. corporate board of directors), executive board members (members drawn from senior management) and advisory board members; 2) annual election of directors including the right to elect the chair of the supervisory board, each member of the supervisory board and of the supervisory board's compensation committee; and 3) pension funds voting requirement and related disclosure of voting on annual say on pay and director elections. Future legislation within the next year is expected to fine tune the elements of the referendum.

In late March, the U.S. Chamber of Commerce released principles covering proxy advisory firms. The Chamber's principles titled, "Best Practices and Core Principles for the Development, Dispensation, and Receipt of Proxy Advice" seek to improve corporate governance by advocating proxy advisory firms be free of conflicts of interest, issue accurate research reports, produce vote recommendations tied to shareowner value, and communicate more effectively with issuers.

On March 18, 2013, the SBA submitted a comment letter to a consultation initiated by the Cayman Islands Monetary Authority (CIMA) on its corporate governance guidelines. SBA staff viewed CIMA's proposed restrictions to the Statement of Guidance (SOG) as appropriate. The comment letter supported the approach to develop core principles coupled with disclosure, rather than mandatory requirements, especially given the diversity of domiciled entities in the Cayman Islands (many alternatives funds including hedge funds). SBA staff indicated that a 'one-size-fits-all' approach to restrictions would not be conducive to the industry, while at the same time supporting more detailed guidelines that are recommended but not mandated. Several issues could benefit from greater detail, including requiring a delineation of the specific functions of the board. CIMA sought feedback on proposals ranging from registering directors to placing limits on the number of boards on which a director may serve.

2013 GLOBAL ENGAGEMENT

SBA staff continued to implement the 2013 work plan on corporate engagement aimed at improving the governance practices of approximately 13 companies (both U.S. and Non-U.S. firms). For the April 29th Petrobras special shareowner meeting, the SBA voted to elect several minority shareowner-nominated director candidates for the positions of members of the board of directors and fiscal board (Conselho Fiscal, or Audit Committee). The governance structure of Petrobras specifically designates board positions for the purpose of representing minority investors on the board and the Conselho Fiscal. Prior to the vote and following extensive dialogue with leading investors and advisory groups, Petrobras became the first Brazilian company to publicly disclose the names of minority shareowner nominees for election to its board. The following candidates were elected to be representatives of minority shareholders in Petrobras´ Board of Directors and Audit Committee: 1) Mauro Gentile Rodrigues da Cunha, CEO of Associação de Investidores no Mercado de Capitais (Brazilian Association of Capital Market Investors) – AMEC (Association of Capital Markets Investors) was elected to represent minority shareholders on the company´s Board of Directors; 2) Walter Luis Bernardes Albertoni, attorney and AMEC´s legal advisor, was elected to represent preferred shareowners on the company's Audit Committee. His deputy will be professor Roberto Lamb, from the Federal University of the State of Rio Grande do Sul – UFRGS; and 3) Reginaldo Alexandre, Apimec Nacional´s CEO, was elected to the position of audit advisor to represent ordinary minority shareholders. His deputy will be Mr. Mario Cordeiro Filho, former controller at CCR. According to the state-owned company, the nominees were appointed by a group of shareowners representing at least 0.5 percent of the company's capital and had the support of domestic and foreign shareowners representing approximately 1.5 billion shares. The vote is precedent setting, as it was the first time foreign shareowners have been able to nominally exercise their minority shareowner voting rights within the company´s capital structure. Brazilian securities law reserves board seats for minority owners at controlled companies, but the government has historically supported director nominees with state affiliations. Until the Brazilian Securities and Exchange Commission (the CVM) signaled concern earlier in the year, many Brazilian companies had historically refused to disclose the names of minority director candidates. Another government controlled firm, Electrobras, had a similar experience with two minority candidates winning board seats at its April 30th annual shareowner meeting.

On the domestic side, the SBA continued its partnership with the Harvard Law School's Shareholder Rights Project (SRP), submitting shareowner proposals at a half-dozen U.S. companies for the 2013 proxy season. The shareowner proposals urge a repeal of the companies' classified board structure and a transition to annual director elections. To date, the shareowner proposal submitted at Huntsman Corporation received 59.0 percent of all voted shares (excluding broker non-votes) and the proposal submitted at NCR Corporation received 79.8 percent of all voted shares (excluding broker non-votes). The only remaining company, Netflix, Inc., has their annual meeting scheduled on June 7, 2013. Among the three companies previously agreeing to implement annual elections, each placed a management-sponsored proposal on the ballot during their 2013 annual shareowner meetings. All three proposals received supermajority levels of support by investors—when excluding broker non-votes, Manpower, Inc. received 99.5 percent support, NII Holdings, Inc. received 99.7 percent support, and SPX Corporation received 94.9 percent. However, due to an 80 percent supermajority bylaw requirement at SPX Corporation, their management-sponsored proposal did not meet the legal threshold for shareowner approval. SPX Corporation's bylaw requires that at least 80 percent of the firm's outstanding shares approve any such amendment to its bylaws, and according to the company the proposal received support from 78 percent of all outstanding shares and was, therefore, not approved.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 Hermitage Boulevard-Suite 100
Tallahassee, Florida 32308
(850) 488-4406

Post Office Box 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER
AS TREASURER

PAM BONDI
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Maureen M. Hazen, General Counsel Maureen M. Hazen

Date: June 3, 2013

Subject: Office of General Counsel: Standing Report to Trustees
For Period February 27, 2013 – May 31, 2013

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 25 new agreements – including 3 private equity investments, 3 strategic investments and 1 real estate appraisal management agreement; (ii) 103 contract amendments, addenda or renewals; and (iii) 2 contract terminations.

SBA Litigation.

(a) Passive. As of May 31, 2013, the SBA was monitoring (as an actual or putative passive member of the class) 390 securities class actions. From February 1, 2013 through April 30, 2013[1], the SBA collected recoveries in the amount of $1,452,547.43 as a passive member in 38 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 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. Pursuant to the Court master scheduling order, the Court has stayed all answer and motion filing deadlines pending resolution of similar issues in a parallel class case.

[1] As of the date of this report, recoveries made in May, 2013 were not yet available.

(ii) *In re Lyondell* Litigation. On January 17, 2012, the SBA was served a complaint (along with other defendants) filed in the U.S. Bankruptcy Court, Southern District of New York alleging damages for fraudulent conveyance and seeking the return of proceeds received by all defendant investors that tendered stock in a leveraged merger of Lyondell Chemical Company (which subsequently declared bankruptcy). The SBA received approximately $32 million in connection with stock tendered in the leveraged merger. On March 12, 2012, the SBA filed a Joinder to existing Motions to Dismiss. The Court has yet to rule on the Motions.

(iii) Other Matters. (a) During the period covered by this report, the parties settled all claims in connection with the case styled *Abu Dhabi Commercial Bank v. Morgan Stanley & Co.* (Cheyne Litigation). (b) In addition, the General Counsel's Office continued to work with the Attorney General's Office in connection with the Qui Tam filed against BNY Mellon, to pursue settlement discussions in the Pfizer opt-out and to manage and monitor other litigation that the SBA believes will not have a material impact on the SBA's financial statements.

(c) FRS Investment Plan. During the period from February 27, 2013 through May 31, 2013, 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 five (5) Final Orders, received notice of filing of six (6) new cases (two of which were subsequently withdrawn), and continued to litigate seven (7) cases that were pending during the periods covered by previous reports, including defending one (1) appellate case.

Other Matters.

(a) Public Records Requests. During the period covered by this report, the General Counsel's Office received 30 new public records requests and provided responses to 33 requests. As of the date of this report, the General Counsel's Office continues to work on 11 open requests.

(b) SBA Rules.

(i) During the period covered by this report, the General Counsel's Office continued to work on proposed amendments to Rule Chapter 19-3 and 19-4, F.A.C. and anticipates presenting these amendments at a future Trustees' meeting.

(ii) In March, 2013, SBA staff drafted amendments to Rule Chapter 19-5, Rules and Regulations Governing the Procedures for Issuance of Bonds at an Interest Rate in Excess of Legal Limitation. The proposed amendments are designed to update provisions for clarification, delete unnecessary rules and consolidate information as reported to the Legislature in the SBA's 2012-2013 Annual Regulatory Plan. The last amendments made to Rule Chapter 19-5 occurred in 1996. To make the rules more user-friendly, SBA staff drafted the amendments to consolidate, through amendment and repeal, all of the relevant provisions in Rule Chapter 19-5 into Rule 19-5.001 and to memorialize the informal review process conducted by the SBA's Executive Director & CIO after receipt of an application from a governmental unit requesting authority to sell bonds at an interest rate in excess of the maximum set by law. This makes the review process transparent for entities making the request and helps to avoid claims of abuse of discretion. In addition, the proposed amendments update certain provisions to clarify further that the review process does not differ depending on the amount of interest being requested and that the authorization to issue bonds at an interest rate in excess of the legal limitation expires 180 days after the authorization has been given. These proposed amendments have been approved by the Joint Administrative Procedures Committee, and rulemaking will commence shortly.

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER
AS TREASURER

PAM BONDI
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

DATE: June 3, 2013

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

During the period March 1, 2013 to June 3, 2013, one instance was reported to the Inspector General concerning non-compliance with the SBA gift policy. The violation was unintentional and self-reported by the employee, and the provider was reimbursed for the gift in accordance with the 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. Subsequently, principles have been developed to cover investment consultants. 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 and fixed income investment managers, broker-dealers, and investment consultants.

The IPP certifications for the equity, fixed income and real estate investment managers were disseminated in late January 2013. All of the investment managers completed and returned their IPP certification forms for the 2012 reporting period. An analysis of the 2012 certifications indicated full compliance with the IPP's by most of the investment

managers. For the others, explanations were provided supporting that the managers are in compliance with the spirit of the IPP's.

Certification forms for broker-dealers were disseminated to the applicable firms in late April 2013. The majority of the certifications have been completed and returned, and the compliance results for all of the broker-dealers will be included in the next Trustee's report.

Investment Advisory Council Disclosures

As required by Chapter 215.444, Florida Statues, all current IAC members have completed their annual Conflict Disclosure Statement.

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 as part of the SBA Internal Control and Fraud Policy.

To date, no reports or tips have been received by the Hotline for 2013.

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. All SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics for the year ending December 31, 2011, as well as all new employees hired during 2012. Disclosure Forms for 2012 were recently submitted to all affected employees, and are due to the Commission by July 1, 2013.

Review of Travel Processes and Procedures

For the 2012-13 fiscal year, Strategic Objective 12-04 was established by the SBA to evaluate the efficiency of key processes and allocation of resources across department and business functions. As part of SO 12-04, the SBA's travel process/procedures were identified as an area for evaluation. As previously reported, a work group was established, with the Inspector General taking the lead role for the group. The work group's goal was to identify any inefficient processes related to employee travel and to make any necessary recommendations to management to improve the process. As a result, an electronic version of the SBA's Travel Authorization Form is currently being tested to determine if efficiencies can be achieved. The Form was developed by the SBA's IT section, and utilizes SharePoint for routing of the approval process.

cc: Ash Williams

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

RICK SCOTT
GOVERNOR
AS CHAIRMAN

JEFF ATWATER
CHIEF FINANCIAL OFFICER
AS TREASURER

PAM BONDI
ATTORNEY GENERAL
AS SECRETARY

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

DATE: June 5, 2013

TO: Ash Williams

FROM: Eric Nelson

SUBJECT: Trustee Update – June 2013

Attached is a new consolidated quarterly "Enterprise Risk Management and Compliance Report" as of March 31, 2013 for distribution to the Trustees, Investment Advisory Council and Audit Committee. This report combines previously separately reported compliance activities/metrics with relevant statistics from the BarraOne risk model as well as other risk metrics for the organization. Efforts will be ongoing to refine visibility into risks faced by the SBA and enhancements will be ongoing for the next several quarters as the risk reporting process matures.

The following is a brief status report of Risk Management and Compliance activities and initiatives completed or in progress during the period 2/26/13 through 6/5/13:

- As part of the continuous compliance program, no material compliance exceptions were discovered which required escalation to the Executive Director & CIO during the period 2/26/13 through 6/5/13.

- Of the sixty-three initial Crowe Horwath recommendations, six remain open at the time of this report. Progress is being made as planned, with implementation expected by 6/30/13 for five of the recommendations, and 12/31/13 for the remaining recommendation.

- Risk Management staff conducted their annual risk assessment process in conjunction with the Office of Internal Audit for the first time. The joint risk assessment was designed to eliminate redundancies within the process as the Office of Internal Audit conducts annual risk assessments to derive an annual audit plan. Collaborative activities included risk survey and companion materials development, follow-up meetings with survey respondents to discuss responses, and coordinated meetings between the Office of Internal Audit and Risk Management and Compliance to discuss results of risk assessments and impact on planned activities of both units.

- The refresh of the SBA's Strategic Plan began with a quarterly meeting on 3/28 with senior management to obtain status updates on initiatives/projects and to identify new priorities. Planning sessions were also conducted with Senior Investment Officers and Senior Operating Officers. An updated Strategic Plan is expected to be published by July 31, 2013.

- Business continuity planning was active during the quarter with a sub-group of management meeting several times. Efforts focused on relocating the SBA's alternate work group (people) site from Marianna, Florida to the Summit East office complex on the east side of Tallahassee. Business continuity testing was also a top priority as both employee telework testing and systems failover tests were conducted. Finally, a new Executive Director level policy "Business Continuity" was drafted and is in the staffing process.

- Risk Management staff participated in a number of meetings and planning sessions with senior staff and Hewitt Ennis Knupp on asset liability issues and potential changes to the FRS Pension Plan's Investment Policy Statement.

- Three business process efficiency and effectiveness evaluation initiatives are under way and include:

  -Contract management
  -Real Estate Principal Investment portfolio
  -Travel process

- Risk Management staff met with Global Equity staff several times to address and evaluate risks associated with a proposed new investment program concerning an active foreign currency management program.

- Risk Management staff renegotiated a $100k per year reduction in managed services fees for the BarraOne total fund risk management system.

- Risk Management staff hosted an enterprise risk management benchmarking roundtable on 3/25/13 through 3/27/13 at the Hermitage Centre, with number of large pension funds in attendance, including Texas Teachers, CalPERS, CalSTRS, New York State Teachers Retirement System, New York City Teachers Retirement System, Ontario Teachers, State of Wisconsin, and Washington State Investment Board. The two and a half day session provided outstanding opportunities for risk management professionals from large institutional investment funds to share processes, risk assessment methodologies, reporting templates, challenges, opportunities, etc.

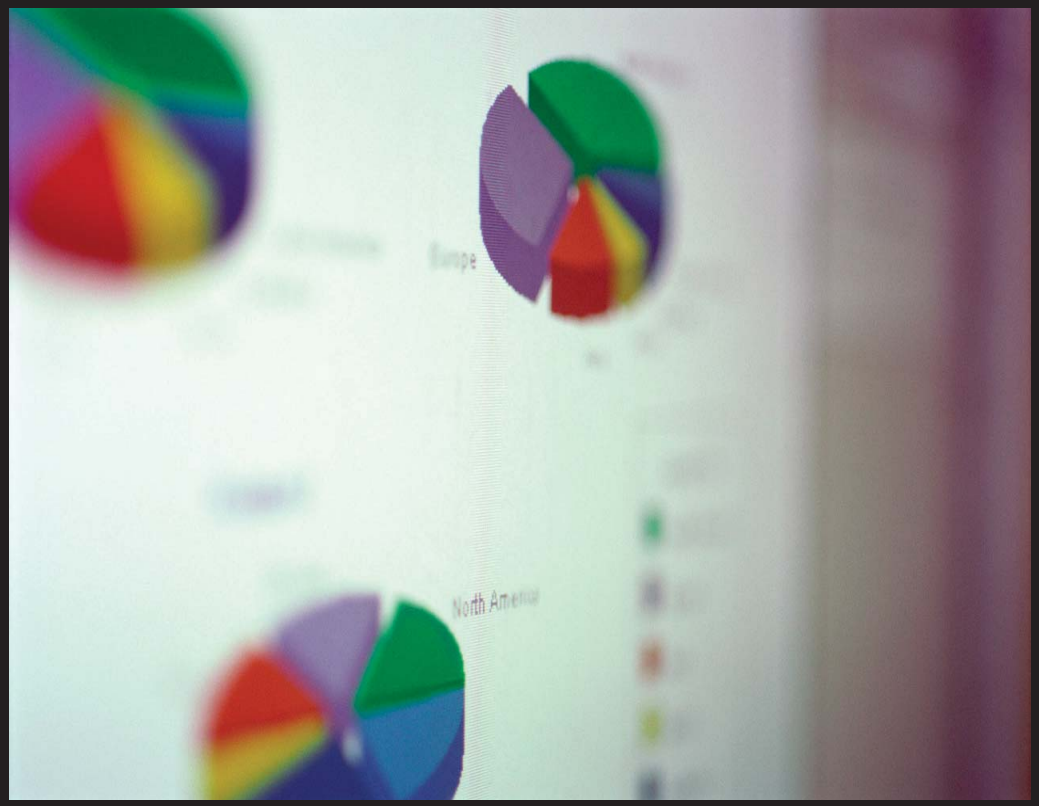
- Audit Committee member Rolf Engmann arranged for a risk management benchmarking visit by SBA staff to Florida Blue's headquarters in Jacksonville, Florida on 4/15/13. The SBA's Chief Risk & Compliance Officer, the Director of Enterprise Risk Management and the Chief Audit Executive met with Florida Blue's Chief Audit Executive and Director of Business Risk Solutions for a very productive two way exchange of risk management practices.

- The Chief Risk & Compliance Officer (in conjunction with the SBA's Inspector General and the Chief Audit Executive) met with the Trustee's cabinet aides on 5/16/13 to provide orientation on the SBA's risk management, compliance, internal control and audit activities.

- Risk Management staff continues to be actively engaged in documenting the system of internal controls to mitigate risks across the organization. Efforts have focused on identifying both preventative and detective controls and key risk indicators for monitoring and reporting.

On a belated note, our own Director of Enterprise Risk Management, Karen Chandler, received the SBA's Employee of the Year award for calendar year 2012.

E



ENTERPRISE RISK MANAGEMENT & COMPLIANCE REPORT

1st Quarter 2013

SBA FLORIDA

Prepared by RMC as of 5/21/13

CONTENTS

ENTERPRISE RISK MANAGEMENT RESIDUAL RISK SUMMARY
Page 3

INVESTMENT MANAGEMENT RISK
Pages 4 - 10

GOVERNANCE/ MANAGEMENT RISK
Page 10

COMPLIANCE RISK
Pages 11-12

FRAUD/MISCONDUCT/ INTERNAL CONTROLS RISK
Page 12

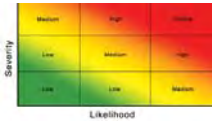
SERVICE PROVIDER RISK
Page 13

OPERATIONAL RISK
Page 14

HUMAN CAPITAL RISK
Page 14

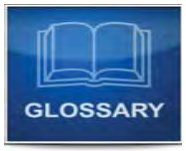
SECURITY RISK
Page 15

KEY NEAR TERM PROJECTS
Page 16



RISK ASSESSMENT RESULTS
Pages 17 - 19

RISK MANAGEMENT & COMPLIANCE ORGANIZATIONAL STRUCTURE
Page 20



GLOSSARY
Page 21

APPENDIX
Page 22

SBA ENTERPRISE RISK MANAGEMENT RESIDUAL RISK SUMMARY FY 2012 - 2013

Residual Risk Level

Low | Moderate | High | Low Moderate | High Moderate

1. Investment Management Risk

1.A. Policy Risk
- 1.A.i. Investment Policy Design Risk
- 1.A.ii. Investment Objective Risk
- 1.A.iii. Capital Market Assumption Risk
- 1.A.iv. Liability Risk

1.B. Implementation Risk
- 1.B.i. Strategic Risk
- 1.B.ii. Portfolio Under Performance Risk
- 1.B.iii. Trading Risk
- 1.B.iv. Asset Transition Risk
- 1.B.v. Model Risk
- 1.B.vi. Due Diligence Risk

1.B. Implementation Risk (cont.)
- 1.B.vii. Leverage Risk
- 1.B.viii. Aggregate Issuer/Counterparty Credit Risk

1.C. Inherent Risk
- 1.C.i. Market/Systematic Risk - Credit Risk
- 1.C.i.a. Credit Risk
- 1.C.1.b. Interest Rate Risk
- 1.C.i.c. Inflation Risk
- 1.C.i.d. Liquidity Risk
- 1.C.i.e. Currency Risk
- 1.C.i.f. Systemic Risk

1.C.ii. Idiosyncratic /Unsystematic Risk

2. Governance/Management Risk
- 2.A. Resource Allocation Risk
- 2.B. Governance Policy Design Risk
- 2.C. Fiduciary/Ethics Risk
- 2.D. Management Execution Risk

3. Communication/Public Affairs/ Reputational Risk

4. Legislative/Political Risk

5. Compliance Risk
- 5.A. Laws, Rules & Regulations
- 5.B. SBA Policies
- 5.C. Investment Policy Guidelines
- 5.D. Contractual Agreements

6. Fraud/Misconduct/Internal Controls Risk
- 6.A. Internal Staff
- 6.B. Service Providers
- 6.C. External Parties

7. Service Provider Risk
- 7.A. Financial Condition
- 7.B. Service Level Quality
- 7.C. Key Personnel
- 7.D. Premature/Unexpected Service Termination

8. Client Relationship Risk
- 8.A. Service Delivery
- 8.B. Education
- 8.C. Communication/Reporting
- 8.D. Allocation of Investment Opportunities

9. Operational Risk
- 9.A. Cash Management
- 9.B. Trade Settlement
- 9.C. Transaction Processing
  - 9.C.i. Incoming/Outgoing Wire Processing
  - 9.C.ii. Check Processing/Disbursement
  - 9.C.iii. Client Deposit/Redemption Processing
  - 9.C.iv. Corporate Actions and Income Collections Processing
- 9.D. Asset Reconciliation

9. Operational Risk (cont.)
- 9.E. Accounting and Financial Reporting
- 9.F. Valuation
- 9.G. Performance Measurement
- 9.H. Internal System Reliability/ Electronic Data Integrity Risk
- 9.I. FHCF/DC Program-Specific Risks
- 9.J. Proxy Voting
- 9.K. External Corporate Governance

10. Human Capital Risk
- 10.A. Recruitment and Retention
- 10.B. Training and Development
- 10.C. Key Person/Succession

11. Security Risk
- 11.A. Physical Security
  - 11.A.i. Employee Security
  - 11.A.ii. Facility Security
- 11.B. Network/System Security
- 11.C. Information Security & Records Management

12. Business Continuity / Infrastructure Risk
- 12.A. Facilities
- 12.B. Communication Systems
- 12.C. Data/System Recovery
- 12.D. Process Recovery

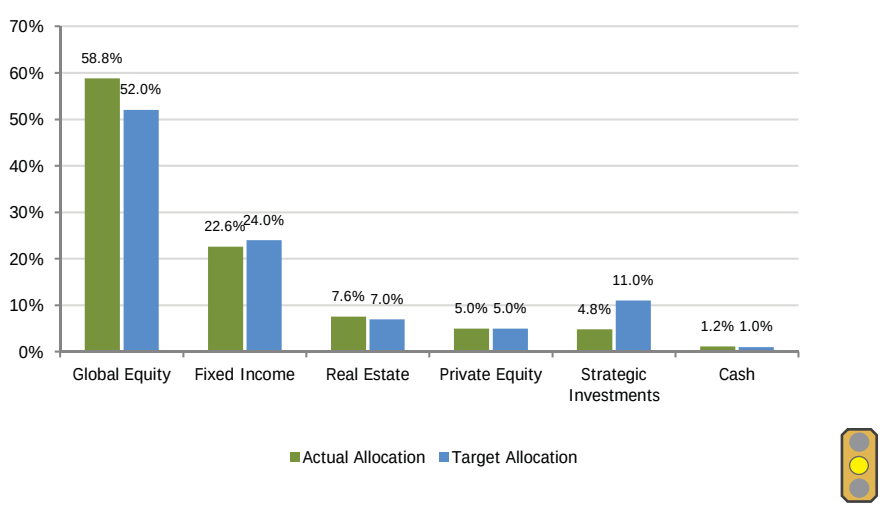
13. Legal Risk
- 13.A. Contract Development

13.B. Legal Advisory

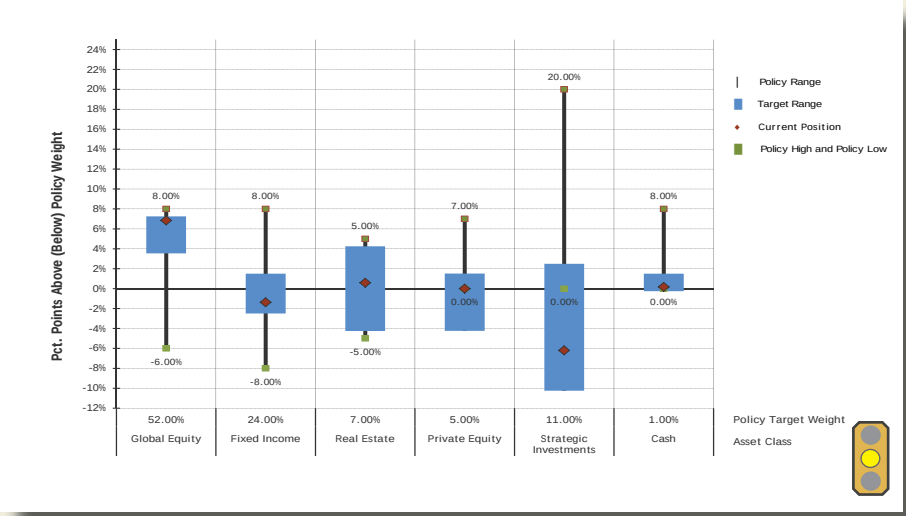
13.C. Litigation

INVESTMENT MANAGEMENT RISK
ASSET ALLOCATION AND INVESTMENT PERFORMANCE AS OF MARCH 31, 2013

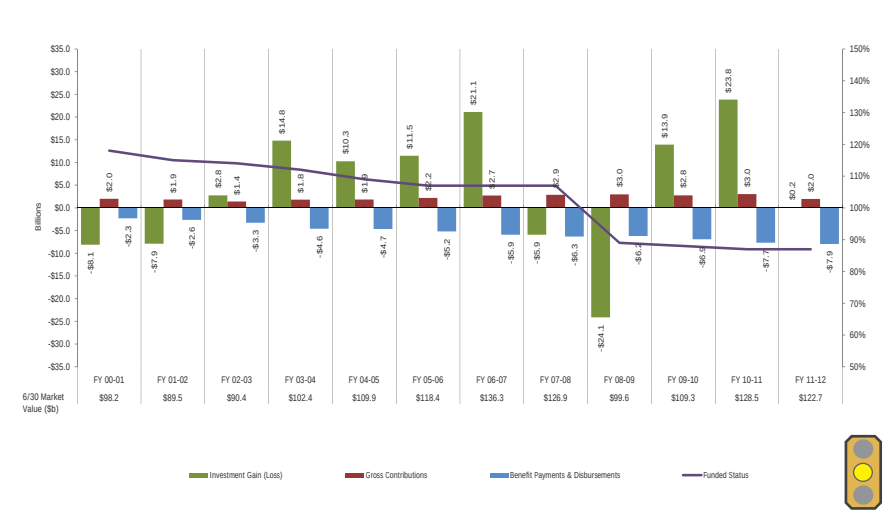
ASSET CLASS ALLOCATION VS. TARGET ALLOCATION UNDER EXPANDED LEGISLATIVE AUTHORITY



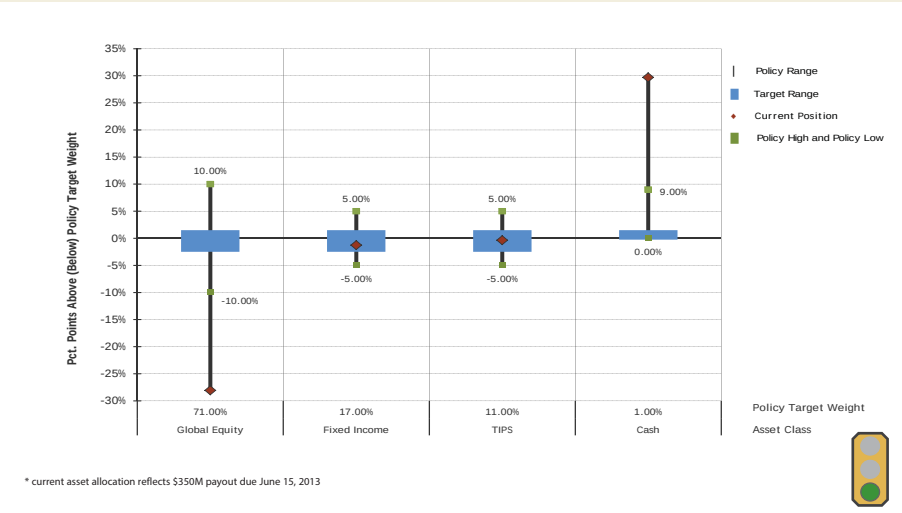
FRS ASSET ALLOCATION



FRS PENSION PLAN CASH FLOWS AND FUNDED STATUS



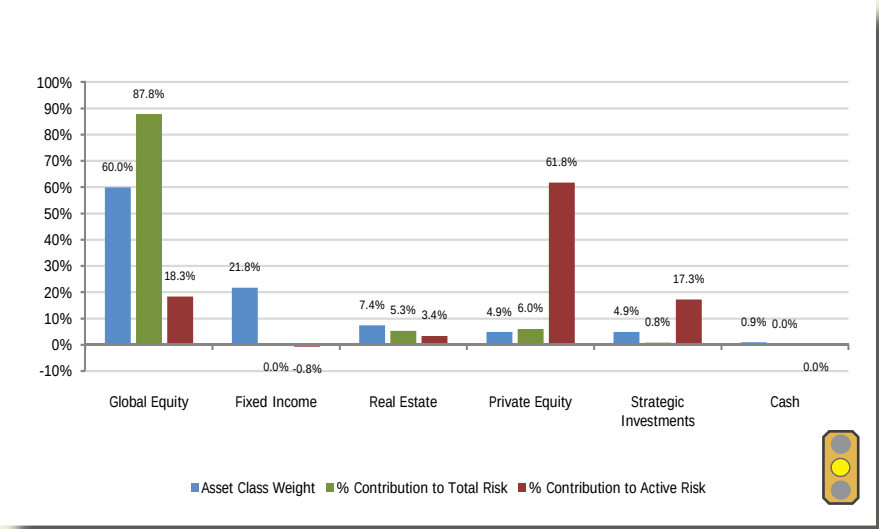
LCEF ASSET ALLOCATION



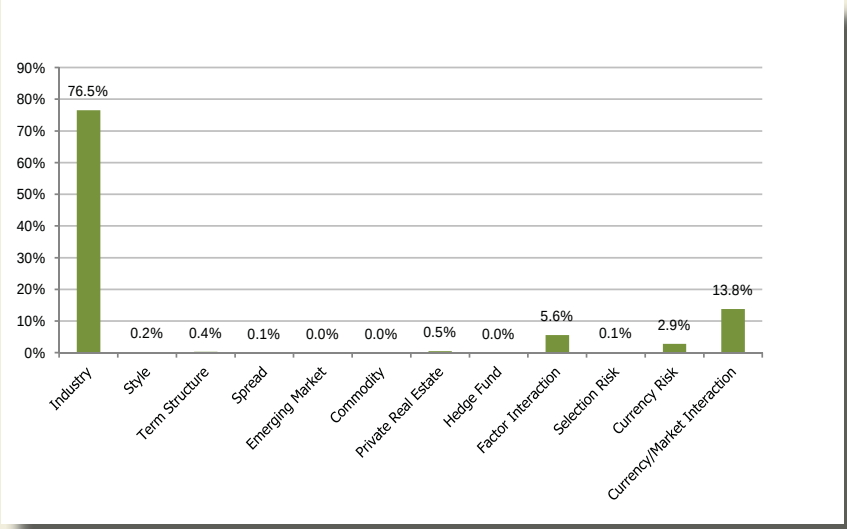
* current asset allocation reflects $350M payout due June 15, 2013

BARRAONE TOTAL FUND RISK MODEL INVESTMENT RISK MEASURES AS OF MARCH 31, 2013

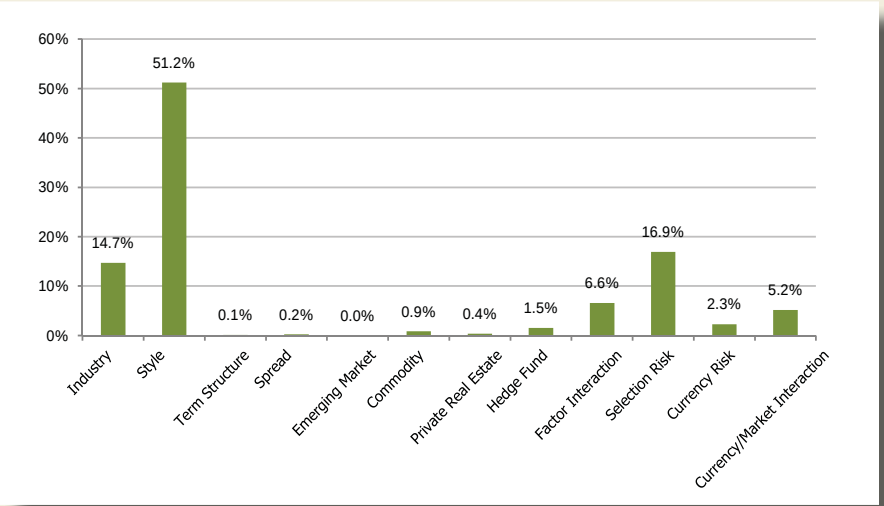
ASSET CLASS ALLOCATION VS CONTRIBUTION TO PREDICTED TOTAL AND ACTIVE RISK



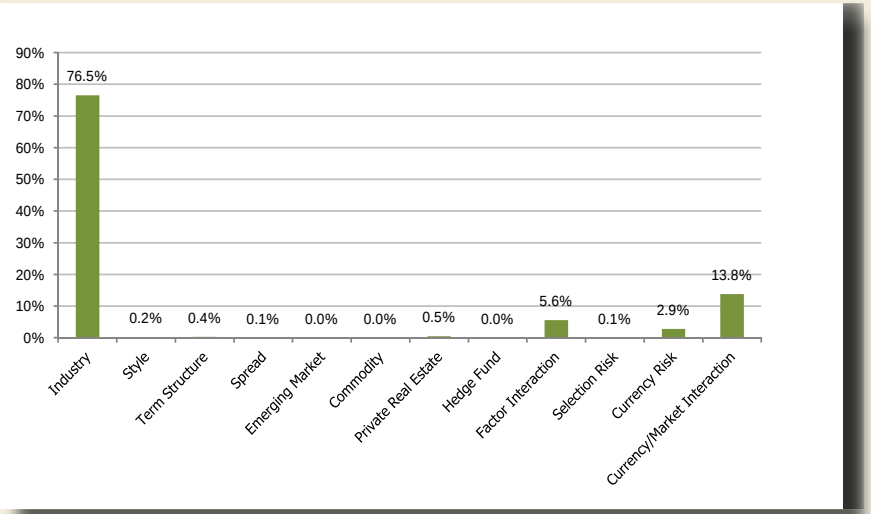
CONTRIBUTION TO TOTAL RISK BY FACTOR DECOMPOSITION



CONTRIBUTION TO ACTIVE RISK BY FACTOR DECOMPOSITION



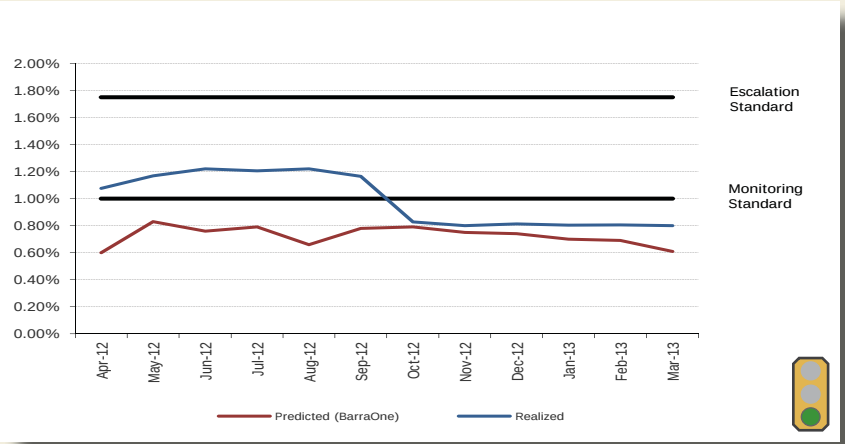
ACTIVE RISK STYLE FACTOR EXPOSURE



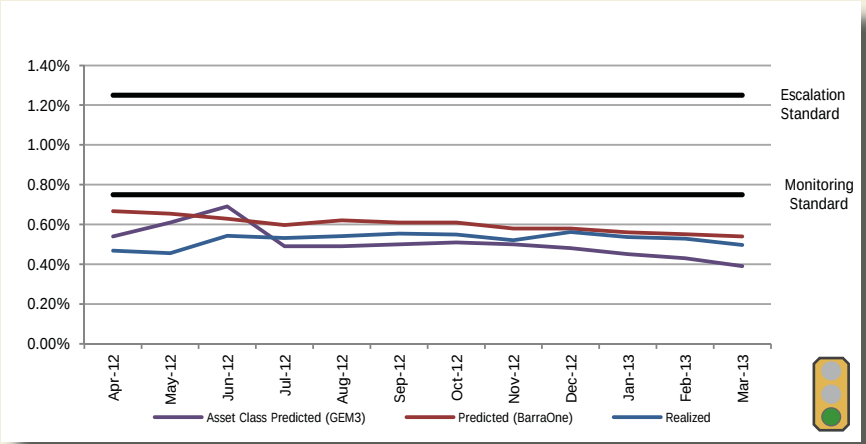
INVESTMENT MANAGEMENT RISK

ROLLING 12 MONTH BARRAONE TOTAL FUND RISK MODEL PREDICTED AND REALIZED ACTIVE RISK AS OF MARCH 31, 2013

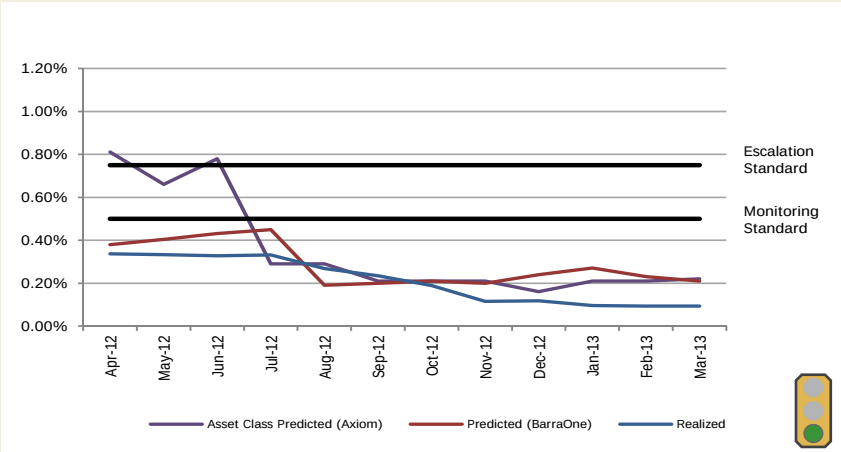
TOTAL PLAN ACTIVE RISK



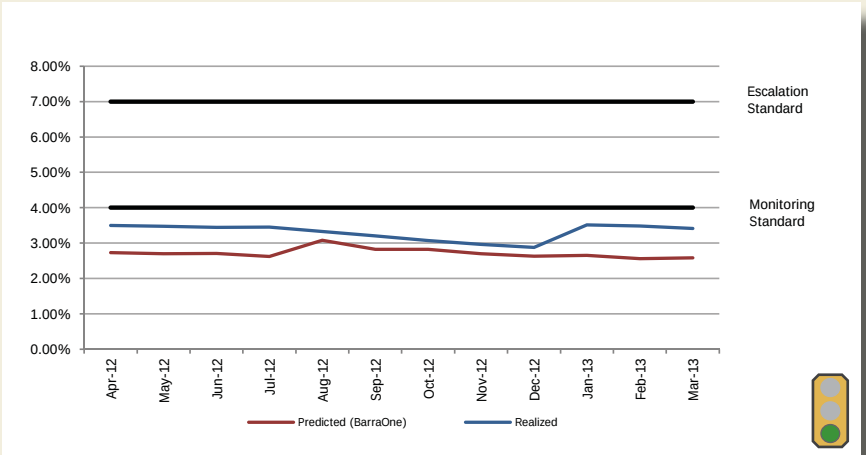
GLOBAL EQUITY ACTIVE RISK



FIXED INCOME ACTIVE RISK



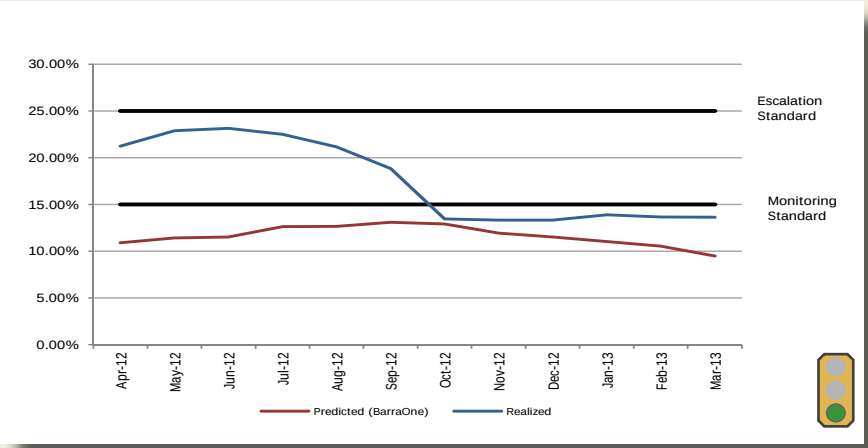
REAL ESTATE ACTIVE RISK



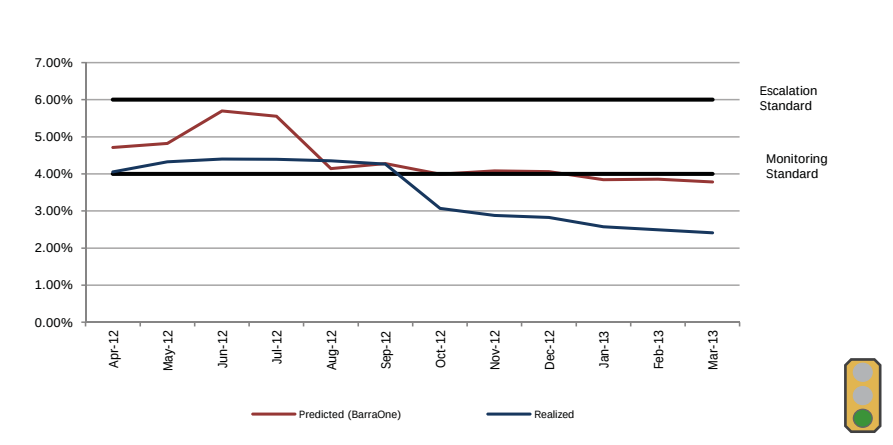
INVESTMENT MANAGEMENT RISK

ROLLING 12 MONTH BARRAONE TOTAL FUND RISK MODEL PREDICTED AND REALIZED ACTIVE RISK AS OF MARCH 31, 2013 (CONT.)

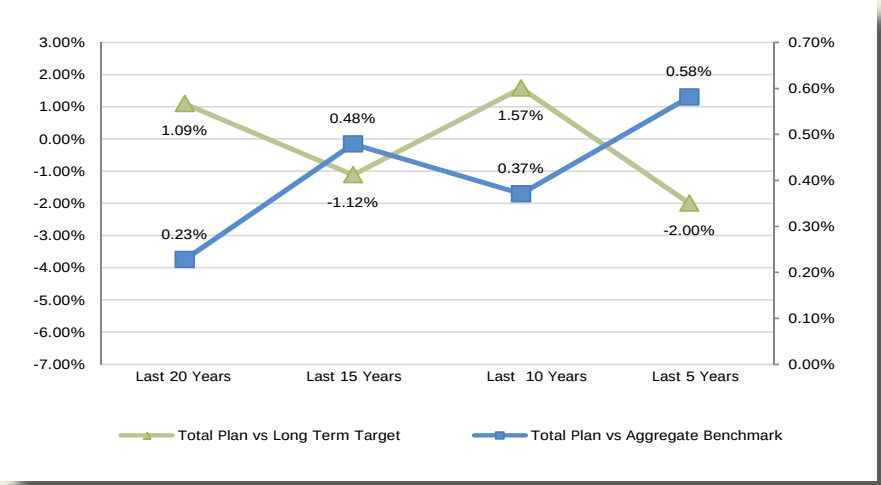
PRIVATE EQUITY ACTIVE RISK



STRATEGIC INVESTMENTS ACTIVE RISK



FRS PENSION PLAN PERFORMANCE VERSUS LONG TERM TARGET AND AGGREGATE BENCHMARK

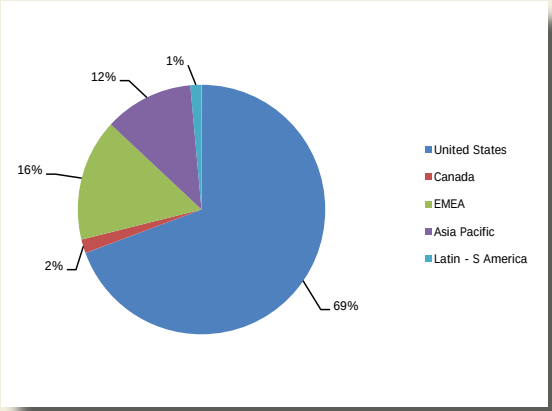


ONE YEAR ASSET CLASS KEY PERFORMANCE AND RISK MEASURES RANKING

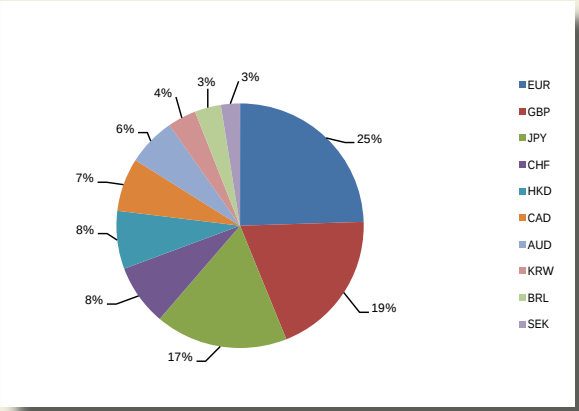
Actual Return	Active Return	Realized Total Risk	Predicted Total Risk	Realized Active Risk	Predicted Active Risk
Real Estate 14.68%	Strategic Investments 5.30%	Global Equity Comp History 12.25%	Global Equity 17.07%	Private Equity 13.64%	Private Equity 9.50%
Strategic Investments 13.86%	Real Estate 3.83%	Total Fund Asset Allocation 7.53%	Private Equity 16.92%	Real Estate 3.41%	Strategic Investments 3.78%
Global Equity Comp History 12.46%	Global Equity Comp History 1.36%	Total Fund 6.82%	Real Estate 12.79%	Strategic Investments 2.41%	Real Estate 2.58%
Private Equity 11.14%	Fixed Income 1.33%	Private Equity 4.10%	Total Fund 11.59%	Total Fund 0.80%	Total Fund .61%
Total Fund 10.87%	Total Fund 1.26%	Real Estate 3.73%	Fixed Income 3.44%	Global Equity Comp History 0.52%	Global Equity .54%
Total Fund Asset Allocation 9.52%	Cash ex STIPFRS 0.25%	Fixed Income 2.00%	Strategic Investments 3.06%	Fixed Income 0.34%	Fixed Income .21%
Fixed Income 5.10%	Total Fund Asset Allocation -0.10%	Strategic Investments 1.43%	Cash 0.01%	Total Fund Asset Allocation 0.10%	Cash 0.01%
Cash ex STIPFRS 0.31%	Private Equity -6.73	Cash ex STIPFRS 0.01%	Total Fund Asset Allocation NA	Cash ex STIPFRS 0.01%	Total Fund Asset Allocation NA

INVESTMENT MANAGEMENT RISK
CURRENCY EXPOSURE AS OF MARCH 31, 2013 (BARRAONE TOTAL FUND RISK SYSTEM)

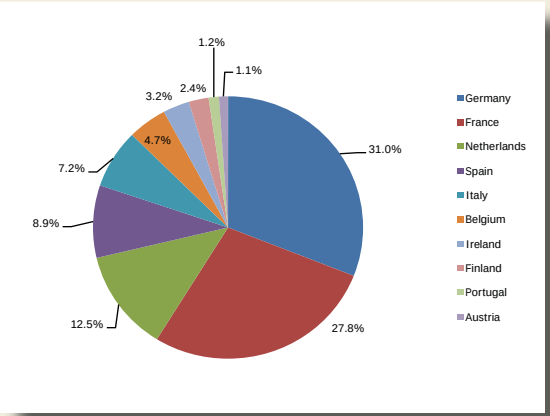
CURRENCY EXPOSURE BY REGION



NON DOLLAR CURRENCY EXPOSURE



EURO BY COUNTRY OF EXPOSURE



FRS PENSION PLAN STRESS TESTING RESULTS AS OF MARCH 31, 2013 (BARRAONE TOTAL FUND RISK SYSTEM)

HISTORICAL SCENARIOS

Scenario	Initial Market Value	
	$132,077,121,603	
	Final Market Value	Value at Risk
1972-1974 Oil Crisis	$99,420,986,632	$32,656,134,971
2001 Dot-com Slowdown	$103,768,526,499	$28,308,595,104
2008 Credit Crisis	$97,065,025,540	$35,012,096,063

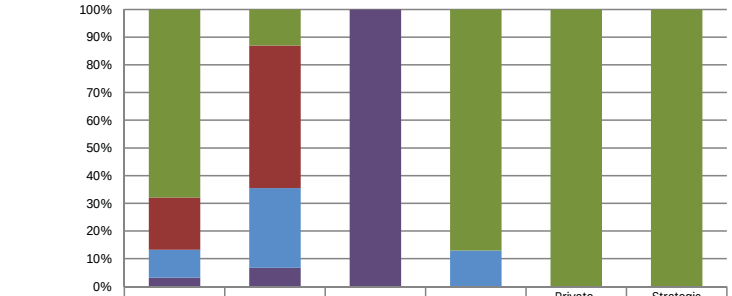
**SEE APPENDIX ON LAST PAGE FOR MORE INFORMATION REGARDING THESE SCENARIOS

VALUE AT RISK

Portfolio	Initial Market Value	
	$132,077,121,603	
	Final Market Value	Value at Risk
84% Confidence (1 Standard Deviation) One Month	$127,578,476,602	$4,498,645,002
84% Confidence (1 Standard Deviation) One Year	$116,851,766,455	$15,225,355,148
95% Confidence (1.64 Standard Deviation) One Month	$124,636,270,975	$7,440,850,628
95% Confidence (1.64 Standard Deviation) One Year	$106,893,886,709	$25,183,234,894

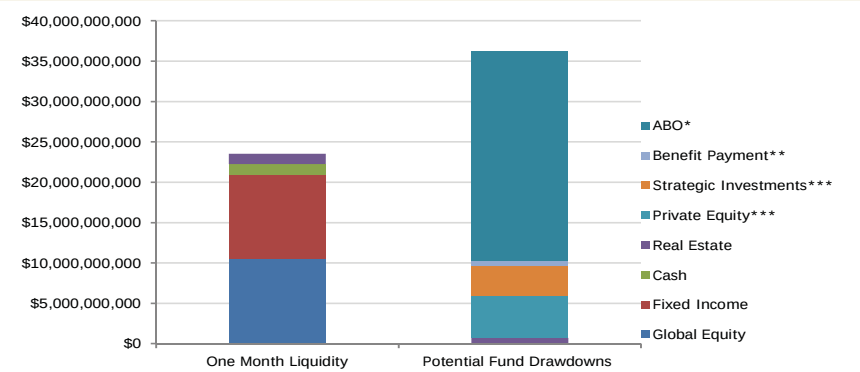
INVESTMENT MANAGEMENT RISK
LIQUIDITY MEASURES AS OF MARCH 31, 2013

FRS PENSION PLAN PROJECTED LIQUIDATION TIME FRAME BY ASSET CLASS



	Global Equity	Fixed Income	Cash	Real Estate	Private Equity	Strategic Investments
One Year or More	53,890,298,909	3,859,762,738		8,765,721,037	6,653,205,206	6,465,500,406
One Quarter	15,000,000,000	15,205,768,343				
One Month	8,000,000,000	8,500,000,000		1,305,239,469		
One Week	2,500,000,000	2,000,000,000	1,239,235,343			

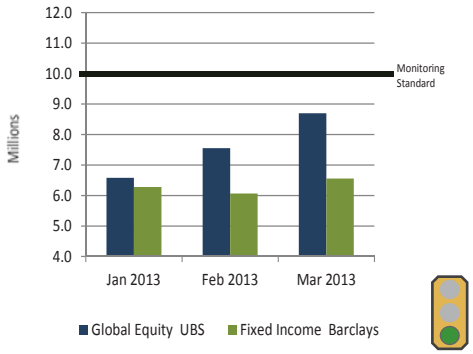
FRS PENSION PLAN PROJECTED ONE MONTH LIQUIDITY VS MAXIMUM POTENTIAL DRAWDOWNS



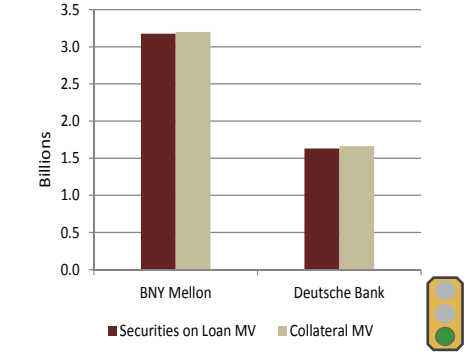
*Accumulated Benefit Obligation for vested partiipants is based on actuarial valuation as of July 1, 2012
**Benefit Payments represent highest monthly payout recorded over the previous 12 month period
***Unfunded capital commitments as of March 31, 2013

COUNTERPARTY EXPOSURE AS OF MARCH 31, 2013

EXCESS FUTURES COLLATERAL



SECURITIES LENDING



TOP EXPOSURES

Class B

Long Exposure by Market Value (Millions)

Banc of America Sec LLC, Charlotte	16.9
Wells Fargo	3.7
Deutsche Bank	.9
Bank of America NA	.6
BNP	.5

Long Exposure by Notional Amounts (Milions)

Banc of America Sec LLC, Charlotte	16.9
KeyCorp	2.1

Class D

Long Exposure by Market Value (Millions)

Citi Group	.4

Long Exposure by Notional Amounts (Millions)

Blackrock	76.5
Citi Group	7.5

For the quarter ending March 31, 2013:

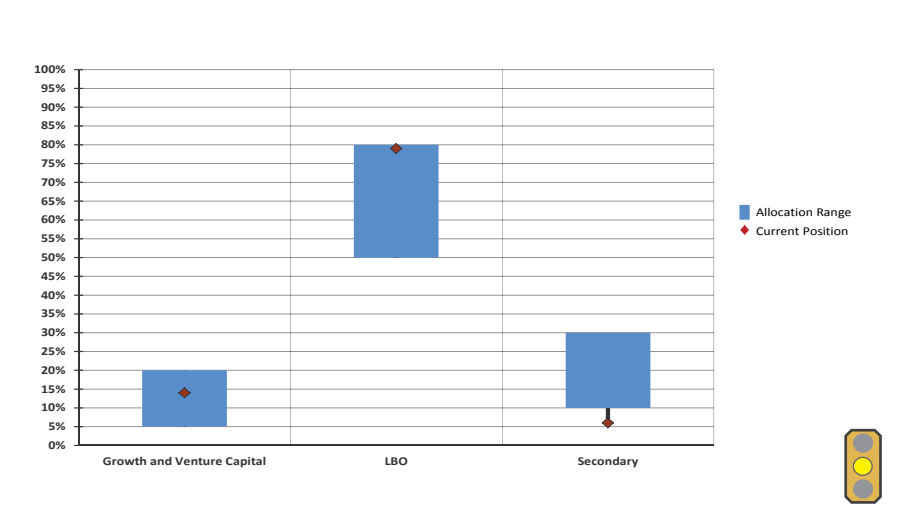
- Trading Counterparty Management:
  - Asset class trading volumes within monitoring standard
  - Global Equity quarterly trade cost analysis performed and reviewed on 3/11/13

INVESTMENT MANAGEMENT RISK

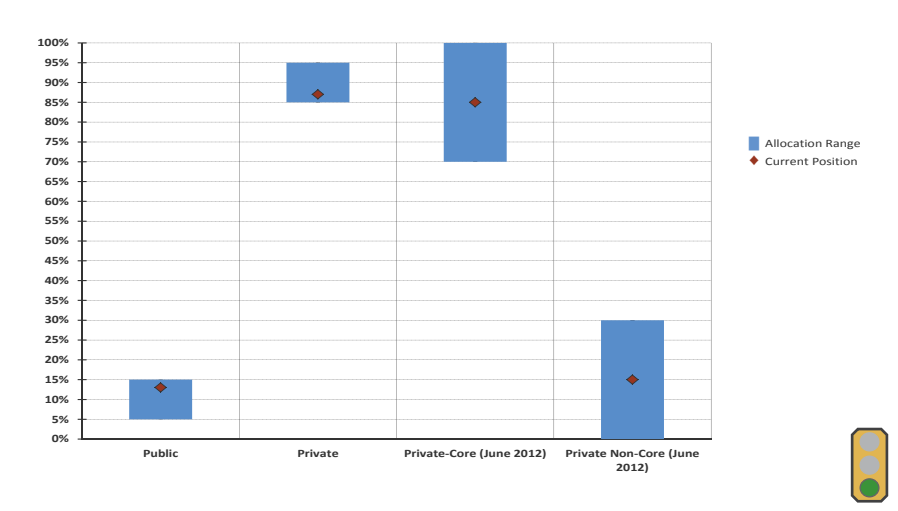
For the quarter ending March 31, 2013:

- Rebalancing and Liquidity Assessments
  - All funds currently within policy operating ranges
- Risk Budget
  - Aggregate active investment risks (sources, levels and trends) reviewed by Senior Investment Group
- Leverage Usage
  - Reviewed direct-owned real estate loan-to-value exposures as of 12/31/12 - within investment portfolio guidelines
- Derivative Instruments Usage
  - Reviewed counterparty risk exposures - within historically normal ranges

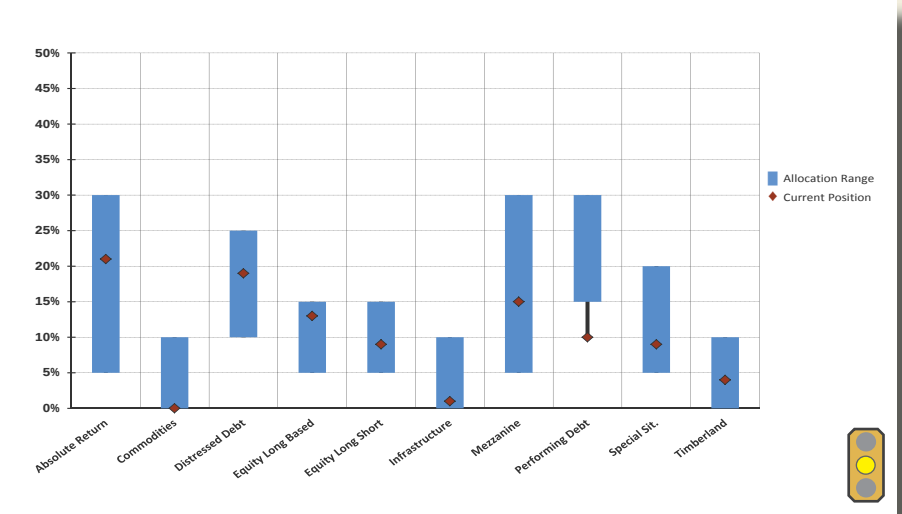
PRIVATE EQUITY INTRA-ASSET ALLOCATION RANGES AS OF MARCH 31, 2013



REAL ESTATE INTRA-ASSET ALLOCATION RANGES AS OF MARCH 31, 2013

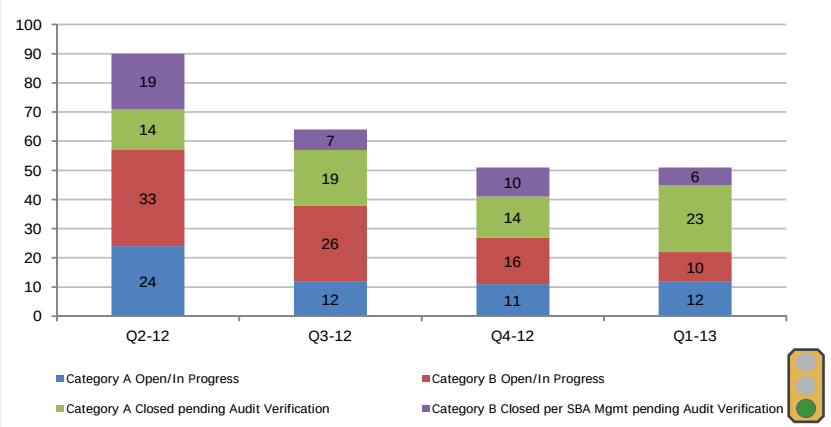


STRATEGIC INVESTMENTS INTRA-ASSET ALLOCATION RANGES AS OF MARCH 31, 2013



GOVERNANCE/MANAGEMENT RISK

AUDIT (CATEGORY A) AND CONSULTANT (CATEGORY B) RECOMMENDATIONS FY TO 3/31/13

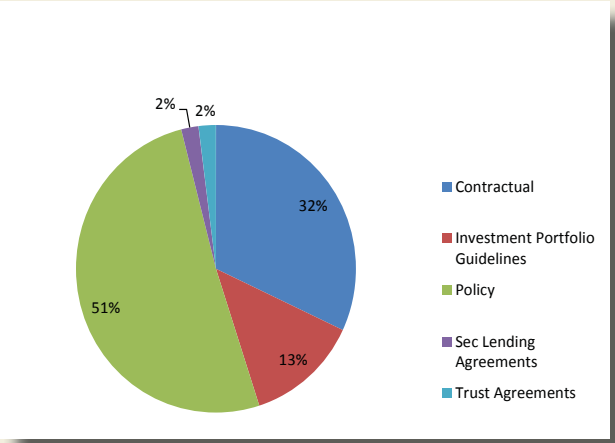


For the quarter ending March 31, 2013:

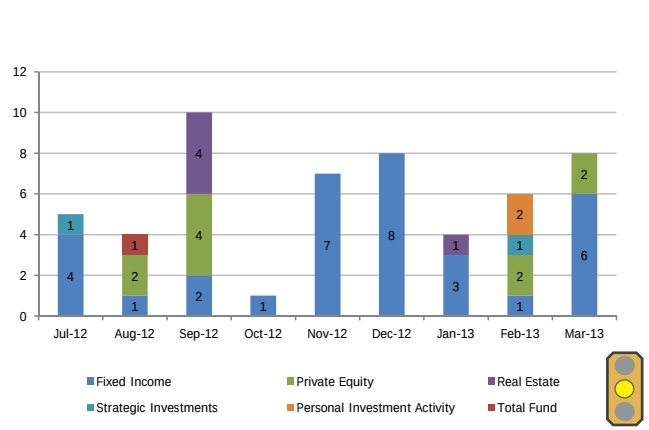
- All Conflict of Interest Certifications executed
- Private Market Real Estate Investment Advisors and Pooled Fund Managers Annual Statements of Compliance received and reviewed
- All Governance and Oversight meetings held as required during the quarter with the following exceptions:
  - Total Fund and IT Steering Group did not meet during the quarter

COMPLIANCE RISK
COMPLIANCE EXCEPTIONS

COMPLIANCE EXCEPTIONS BY CATEGORY FY TO 3/31/2013



COMPLIANCE EXCEPTIONS BY ASSET CLASS FY TO 3/31/13



For the quarter ending March 31, 2013:

Investment Portfolio Guidelines Compliance
- FRS: Global Equity and REIT Portfolios - No material compliance violations through 2/28/13
- Fixed Income & High Yield Portfolios - No material compliance violations through 3/31/13
- Private Market Asset Classes - No material compliance violations as of 12/31/12 (one quarter lag)

Other Non-FRS Mandates/Trust Funds
- No material violations through 3/31/13

Internal Trading Policy
- Nine exceptions reported to the Fixed Income Oversight Group during the quarter - all exceptions addressed

COMPLIANCE RISK

For the quarter ending March 31, 2013:

- Chapter 215.47, F.S. - Investments:
  - All investments statutorily permitted and within statutory limits
- Protecting Florida's Investment Act Compliance (Iran/Sudan):
  - No violations reported (latest quarterly report approved by Trustees on 3/19/13)
- SEC Form 13F - Institutional investment managers that have discretion over $100 million in Section 13(f) securities:
  - All securities reported to the SEC

- External Investment Manager and Private Acquisition:
  - Checklists completed for all new managers and funds
  - Placement Agent disclosures received and reviewed
- FRS Pension Plan
  - Asset Allocation within specified ranges
- Lawton Chiles Endowment Fund
  - Asset Allocation within specified ranges
- Florida PRIME
  - Portfolio securities and transactions in compliance with Investment Policy Statement
  - Federated conducted monthly stress tests - results reported to the Investment Oversight Group on 2/27/13
  - Daily NAV and other high risk ranked parameters independently verified and in compliance

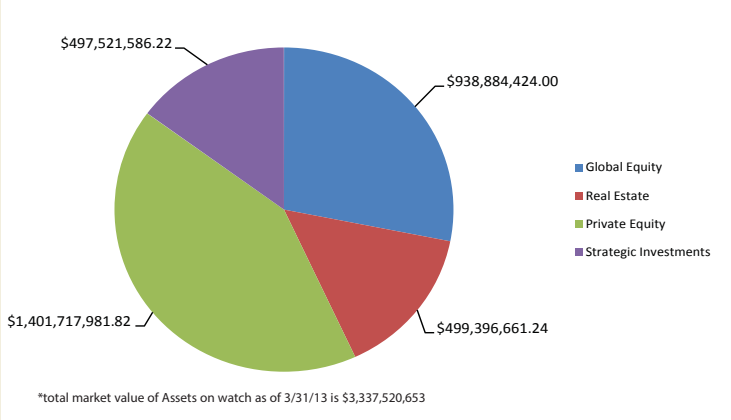
FRAUD/MISCONDUCT/INTERNAL CONTROLS RISK

For the quarter ending March 31, 2013:

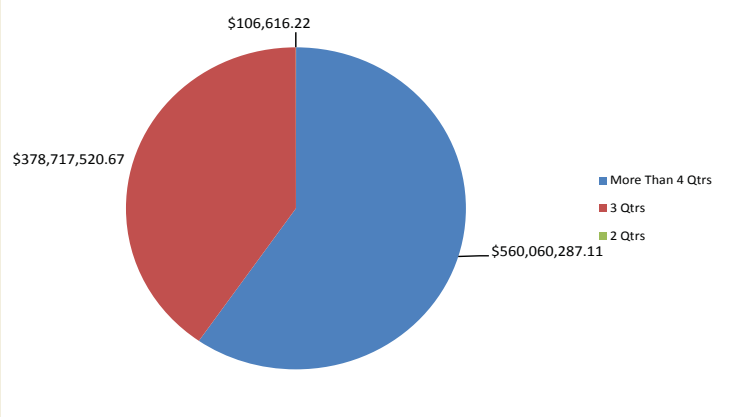
- Insider Trading - No violations reported
- Personal Investment Activity Policy - 2 minor violations during the quarter. CRCO sent cautionary email to employee
- No Fraud Hotline calls this quarter
- No active investigations this quarter per Inspector General

FRS PENSION PLAN WATCHLIST ASSETS

CURRENT ALLOCATION OF FRS PENSION PLAN WATCHLIST ASSETS



AGING OF FRS PENSION PLAN WATCHLIST ASSETS

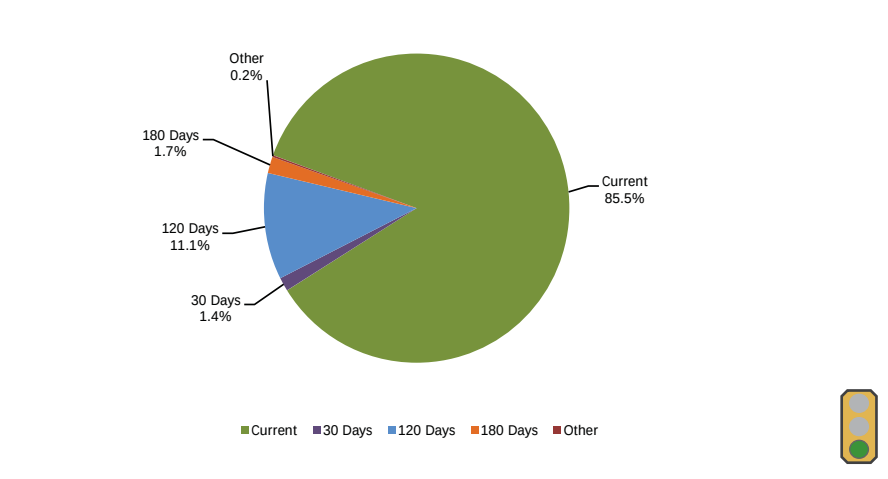


For the quarter ending March 31, 2013:

- Defined Contribution Investment Plan Education, Investment Plan Administrator and Bundled Provider requirements in compliance.

OPERATIONAL RISK

FRS PENSION PLAN ASSET VALUATION AGING

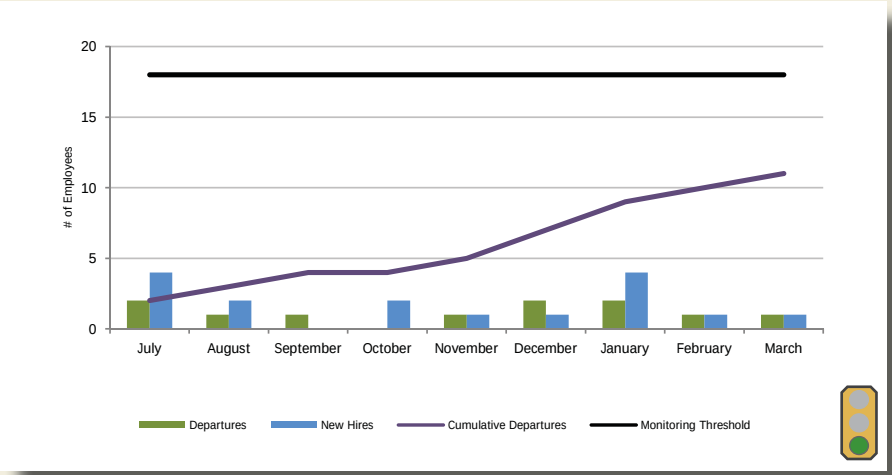


For the quarter ending March 31, 2013:

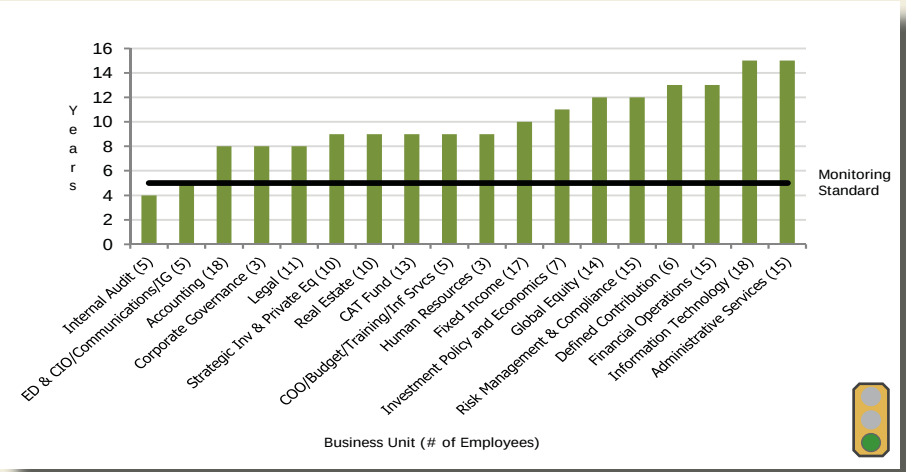
- Investment Valuation
  - All direct-owned real estate properties externally appraised within last 12 months (unless newly acquired, in foreclosure, or in the process of being sold)
- Performance Measurement
  - All calculations performed in compliance with policy

HUMAN CAPITAL RISK

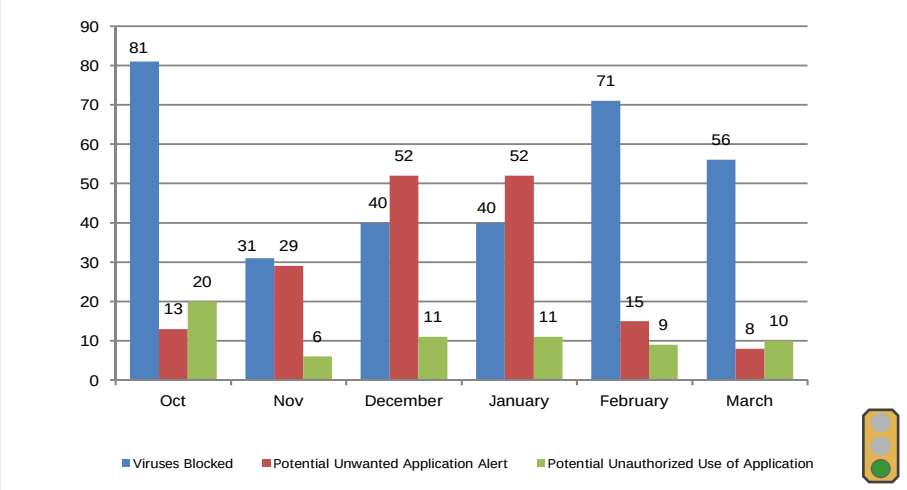
HIRING ACTIVITY FISCAL YEAR TO DATE



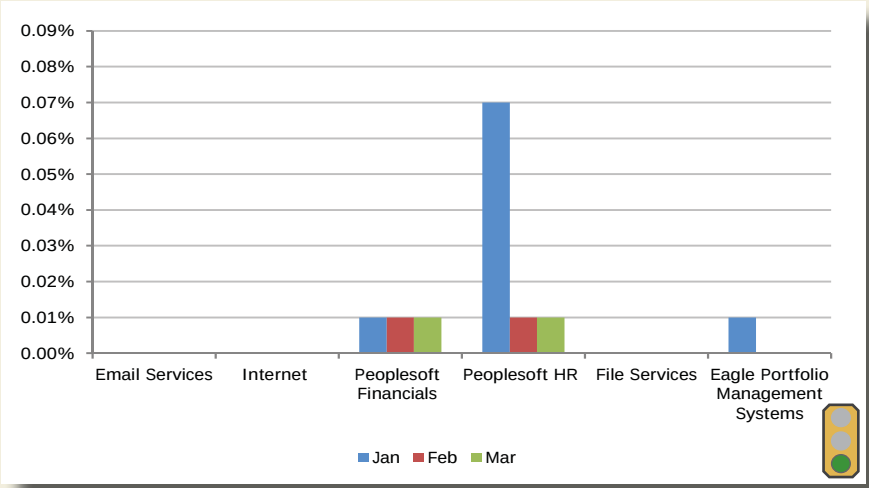
AVERAGE YEARS OF SBA SERVICE BY BUSINESS UNIT



WORKSTATION SECURITY EVENTS AND ALERTS



CRITICAL SYSTEM DOWNTIME

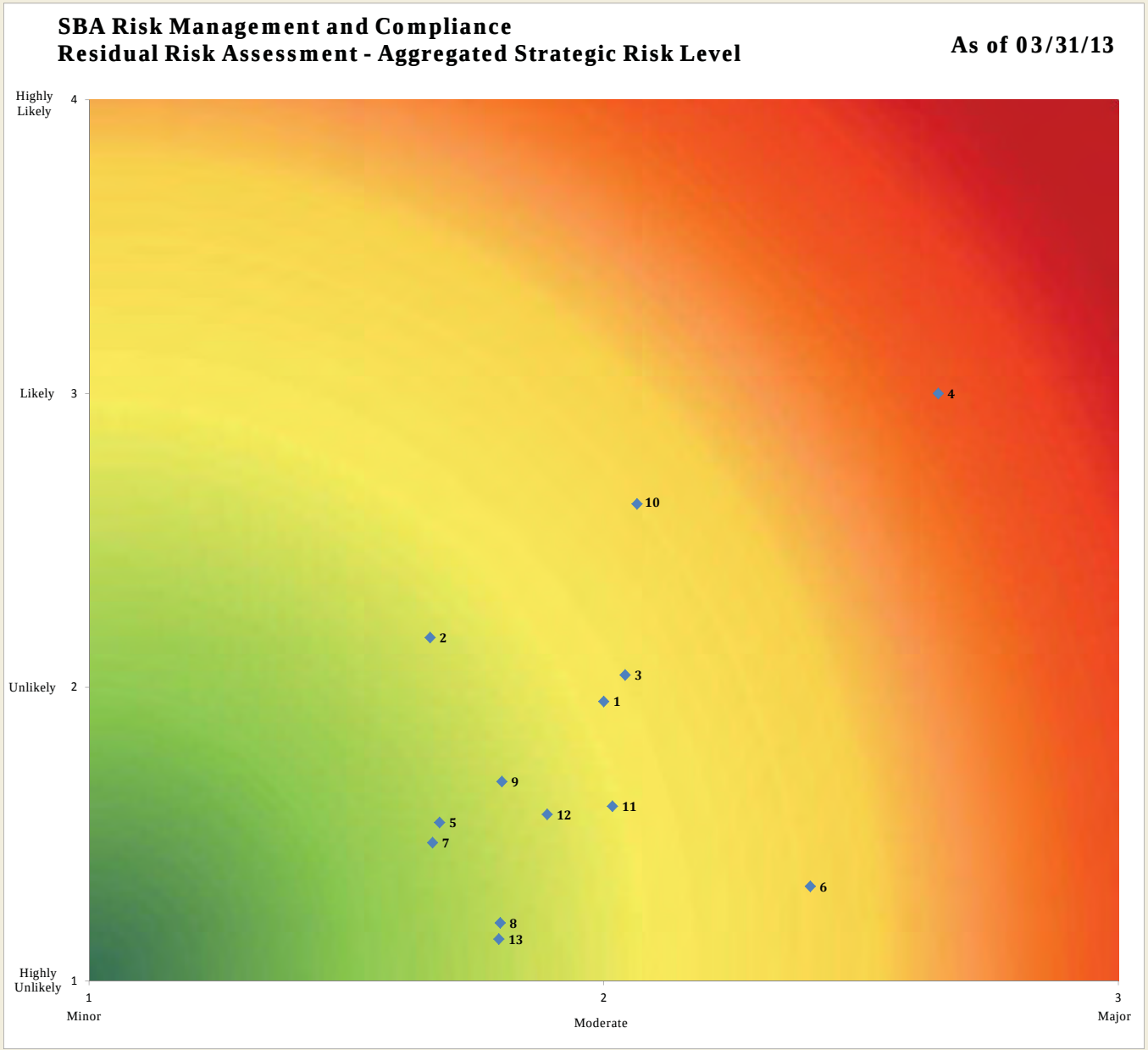


KEY NEAR TERM PROJECTS

- Liquidity Management Study
- Implementation of Charles River Compliance System
- OMGEO Upgrade for Trade Settlement Processing
- Asset Liability Review
- Expand Disaster Recovery Testing
- Implementation of Foreign Currency Overlay Program
- Prepare for Centralized Clearing of OTC Derivatives
- Evaluate Solutions for Contract Management System
- Business Model Review of Real Estate Principle Investments Portfolio

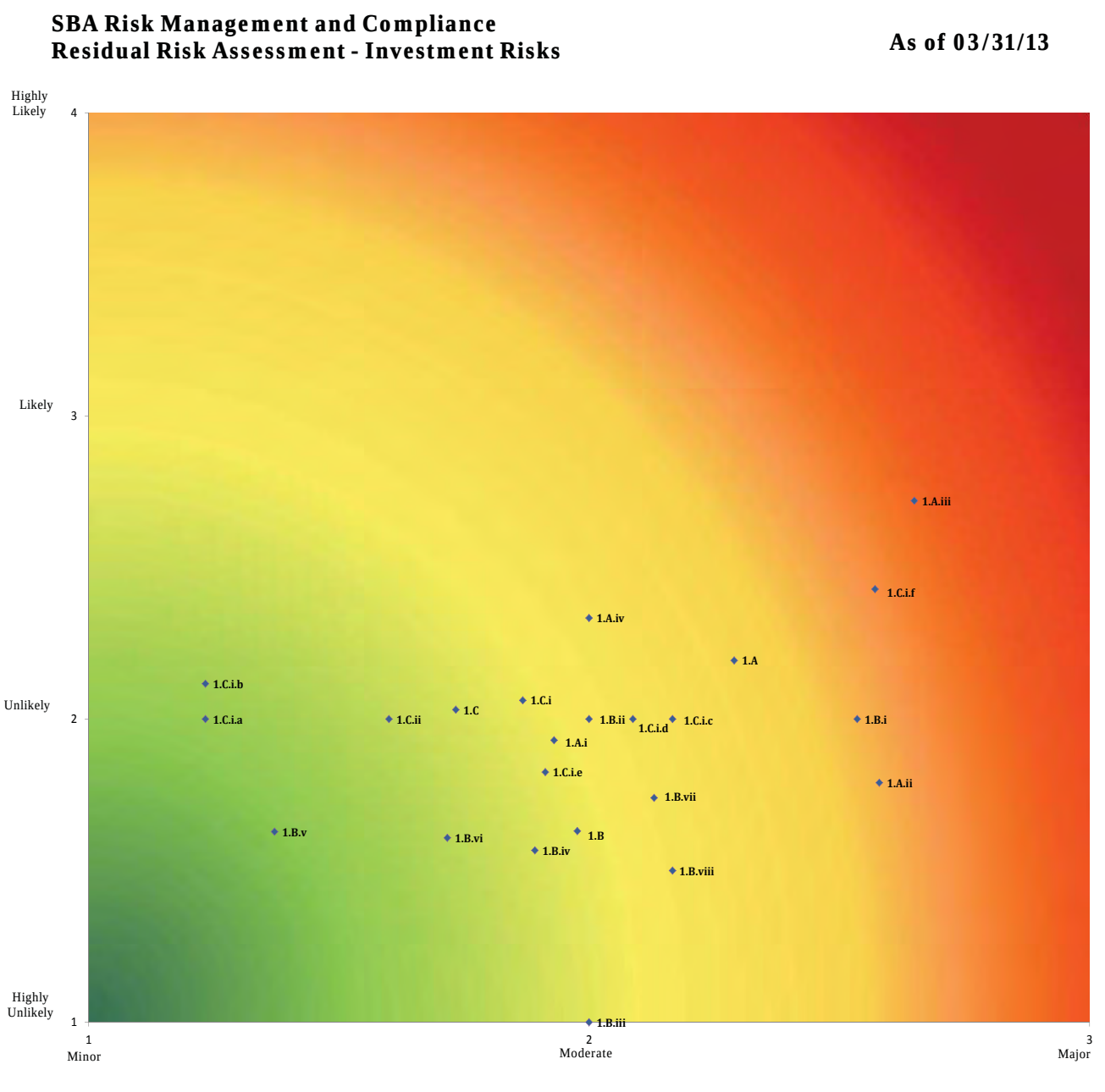
RISK ASSESSMENT RESULTS

Risk Assessments are performed semi-annually as of March 31st and September 30th.



1 Investment Management Risk
2 Governance/Management Risk
3 Communication/Public Affairs/Reputational Risk
4 Legislative/Political Risk
5 Compliance Risk
6 Fraud/ Misconduct/ Internal Controls Risk
7 Service Provider Risk
8 Client Relationship Risk
9 Operational Risk
10 Human Capital Risk
11 Security Risk
12 Business Continuity/Infrastructure Risk
13 Legal Risk

RISK ASSESSMENT RESULTS

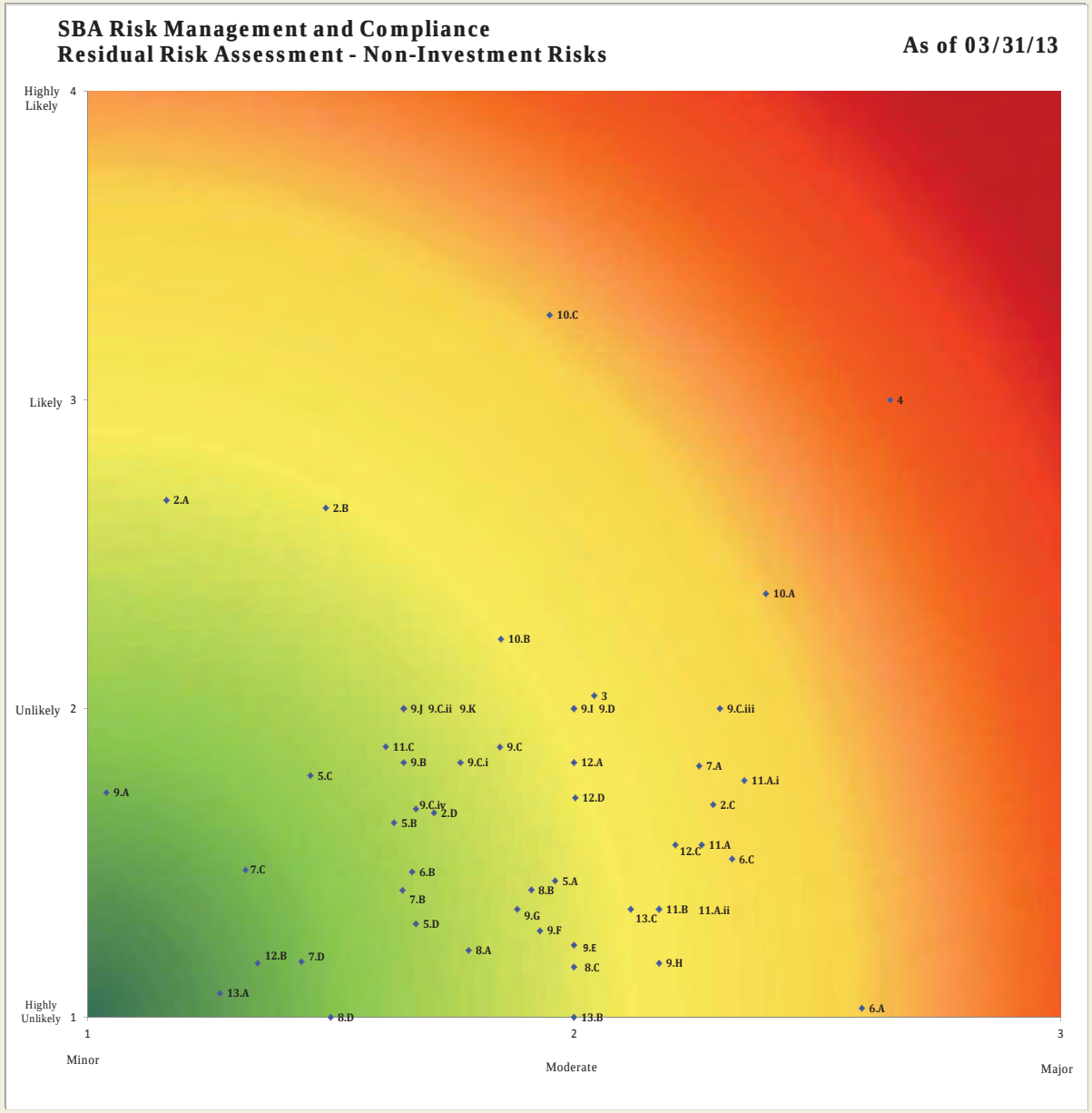


1.A. Policy Risk
- 1.A.i. Policy Risk-Policy Design Risk
- 1.A.ii. Policy Risk-Investment Objective Risk
- 1.A.iii. Policy Risk-Capital Market Assumption Risk
- 1.A.iv. Policy Risk-Liability Risk

1.B. Implementation Risk
- 1.B.i. Implementation Risk-Strategic Risk
- 1.B.ii. Implementation Risk-Portfolio Under Performance Risk
- 1.B.iii. Implementation Risk-Trading Risk
- 1.B.iv. Implementation Risk-Asset Transition Risk
- 1.B.v. Implementation Risk-Model Risk
- 1.B.vi. Implementation Risk-Due Diligence Risk
- 1.B.vii. Implementation Risk-Leverage Risk
- 1.B.viii. Implementation Risk-Agg Issuer/Counterparty Credit Risk

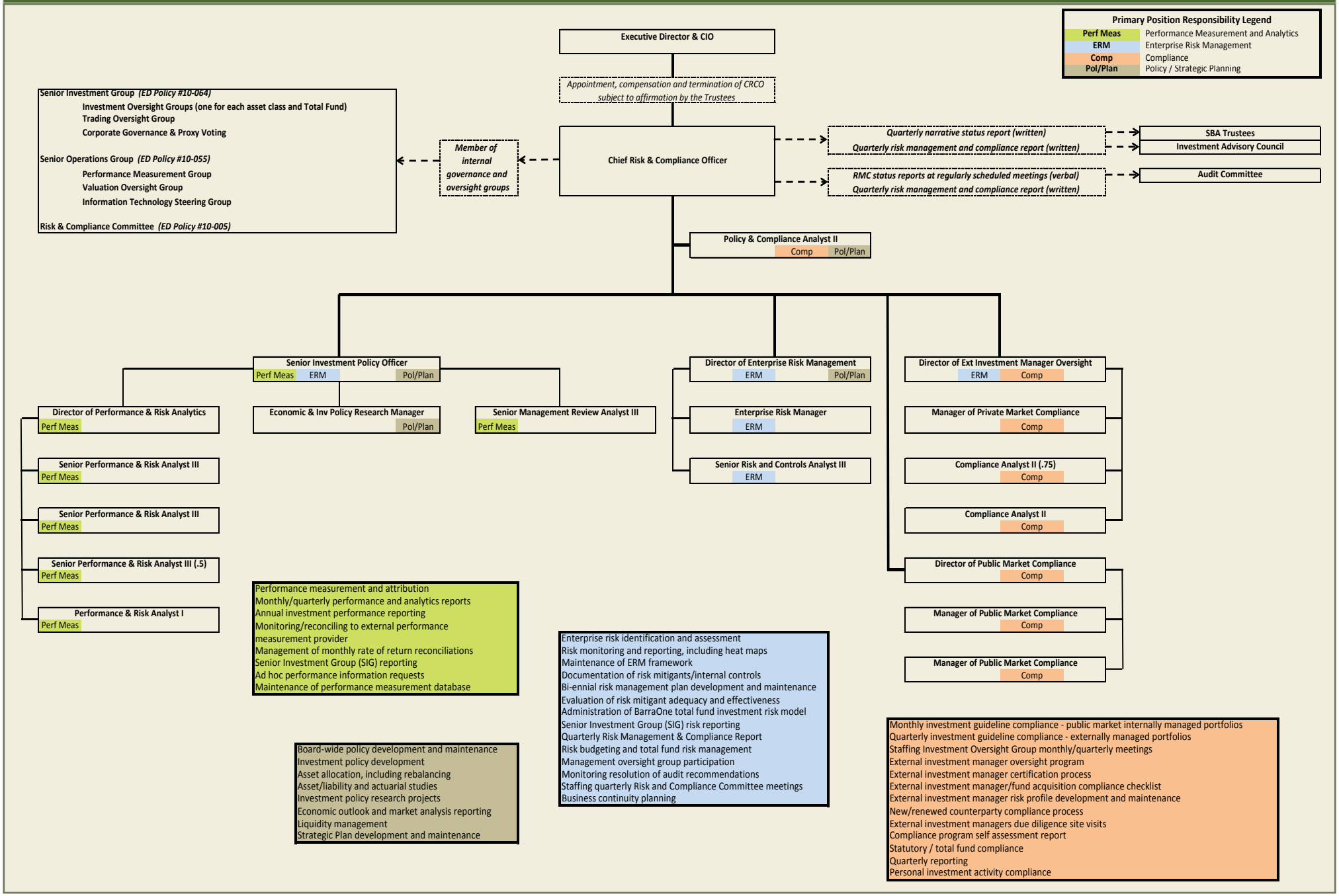
1.C. Inherent Risk
- 1.C.i. Inherent Risk-Market/Systematic Risk
  - 1.C.i.a. Credit Risk
  - 1.C.i.b. Interest Rate Risk
  - 1.C.i.c. Inflation Risk
  - 1.C.i.d. Liquidity Risk
  - 1.C.i.e. Currency Risk
  - 1.C.i.f. Systemic Risk
- 1.C.ii. Inherent Risk-Idiosyncratic/Unsystematic Risk

RISK ASSESSMENT RESULTS



2. Governance/Management Risk
2.A. Governance/Management Risk-Resource Allocation Risk
2.B. Governance/Management Risk-Governance Policy Design Risk
2.C. Governance/Management Risk-Fiduciary/Ethics Risk
2.D. Governance/Management Risk-Management Execution Risk
3. Communication/Public Affairs/Reputational Risk
4. Legislative/Political Risk
5.A. Compliance Risk-Laws, Rules, & Regulations
5.B. Compliance Risk-SBA Policies
5.C. Compliance Risk-Investment Policy Guidelines
5.D. Compliance Risk-Contractual Agreements
6.A. Fraud/Misconduct/Internal Controls Risk-Internal Staff
6.B. Fraud/Misconduct/Internal Controls Risk-Service Providers
6.C. Fraud/Misconduct/Internal Controls Risk-External Parties
7.A.Service Provider Risk-Financial Condition
7.B. Service Provider Risk-Service Level Quality
7.C. Service Provider Risk-Key Personnel
7.D. Service Provider Risk-Premature/Unexpected Service Termination
8.A. Client Relationship Risk-Service Delivery
8.B. Client Relationship Risk-Education
8.C. Client Relationship Risk-Communication/Reporting
8.D. Client Relationship Risk-Allocation of Investment Opportunities
9.A. Operational Risk-Cash Management
9.B. Operational Risk-Trade Settlement
9.C. Operational Risk-Transaction Processing
9.C.i. Incoming/Outgoing Wire Processing
9.C.ii. Check Processing/Disbursement
9.C.iii. Redemption Processing
9.C.iv. Corporate Action & Income Collections Processing
9.D. Operational Risk-Asset Reconciliation
9.E. Operational Risk-Accounting and Financial Reporting
9.F. Operational Risk-Valuation
9.G. Operational Risk-Performance Measurement
9.H. Operational Risk-Int System Reliability/E - Data Integrity Risk
9.I. Operational Risk-FHCF/DC Program-Specific Risks
9.J. Operational Risk-Proxy Voting
9.K. Operational Risk-External Corporate Governance
10.A. Human Capital Risk-Recruitment and Retention
10.B. Human Capital Risk-Training and Development
10.C.Human Capital Risk-Key Person/Succession
11.A. Security Risk-Physical Security
11.A.i. Employee Security
11.A.ii. Facility Security
11.B. Security Risk-Network/System Security
11.C. Security Risk-Information Security & Records Management
12.A. Business Continuity/Infrastructure Risk-Facilities
12.B. Business Continuity/Infrastructure Risk-Communication Systems
12.C. Business Continuity/Infrastructure Risk-Data/System Recovery
12.D. Business Continuity/Infrastructure Risk-Process Recovery
13.A. Legal Risk-Contract Development
13.B. Legal Risk-Legal Advisory
13.C. Legal Risk-Litigation

RISK MANAGEMENT & COMPLIANCE DEPARTMENT ORGANIZATIONAL STRUCTURE AS OF 5/01/13



GLOSSARY

Actual Return - the portfolio performance return actually earned

Active Return - actual portfolio return minus the benchmark return

Class B Exposure - securities with contractual settlement dates more than 5 business days after trade date

Class D Exposure - over the counter derivative transactions, including credit default swaps, interest rate swaps, total return swaps and combinations thereof

Funded Status - comparison of the FRS Pension Plan projected assets to its liabilities

Long Term Target - FRS Pension Plan performance target which is calculated by adding the monthly percentage change in the Consumer Price Index to the real return rate of 5%

Realized Total Risk - standard deviation of actual returns

Realized Active Risk - standard deviation of active returns

Total Fund Aggregate Benchmark - sum of the products of asset class target benchmarks at their respective asset class weights

Watch List - defines the qualitative and quantitative conditions that will cause the SBA to formally evaulate the continued retention of an Investment Manager

BARRA ONE

Currency Risk - risk arising from holdings in assets that are denominated in currencies other than the numeraire currency; a measure of exchange rates and short-term interest rates

Currency/Market Interaction - the correlation between local market and currency bets; a measure of diversification

Emerging Market - spread associated with bonds issued in an external currency by an emerging market sovereign or by a company domiciled in an emerging market country

Factor Interaction - the measure of covariance among risk factors

Hedge Fund - a measure of risk correlated to characteristics of certain hedge fund styles

Industry - risk due to exposure to specific industries

Momentum - sustained relative performance and its effect on risk

Private Real Estate - risk attributable to property type and location factors

Predicted Total Risk - asset class active exposure multiplied by the volatility and correlation

Risk Factors - a characteristic shared by a group of securities that influences the volatility of returns which is used to determine correlations between assets

Selection Risk - risk that is specific to an asset and is uncorrelated (or negligibly correlated) with the risks of other assets; non-factor component of risk

Size - systematic return and risk differences between large-cap and small-cap stocks

Spread - risk due to exposure to spread movements, a risk factor that captures typical movements in term structure spreads

Style - risk factor that characterizes equity's fundamental or market-based characteristics such as Size, Value, Momentum and Volatility

Term Structure - risk due to exposure to term structure movements

Trading Activity - measures the relative activity of a firm's shares in the market

Value - distinguishes between value stocks and growth stocks using the ratio of book-value of equity to market capitalization

Volatility - captures security price changes using measures of standard deviation over long term historical periods and high-low cumulative range of prices over the last 12 months

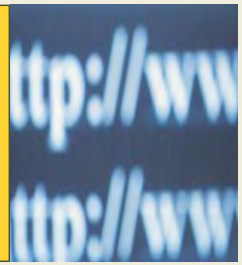
APPENDIX
STRESS TESTING SCENARIOS

BarraOne stress testing scenarios are constructed by applying schocks to equity prices, interest rates, foreign exchange rates, credit spreads and commodity prices that mimic actual movements during the period covered by the chosen scenario or constructed based on possible outcomes in the event that a hypothetical event were to actually take place.

OIL CRISIS

The Oil Crisis scenario is based on market conditions experienced during December 1972 - September 1974. The shocks applied in this scenario are a 26% average decrease in global stocks, 263% average increase in copper, silver and crude oil, and an increase in near term US Treasury interest rates

2001 DOT-COM SLOWDOWN



The Dot-com slowdown scenario is based on actual market conditions during March 2001 - October 2002. The shocks applied are an average decrease in global equity prices of 19.82%, a decline in foreign exchange rates of 6.64%, a decrease in commodity prices of 3.85%, 290 basis point increase in credit spreads and a 5% decrease in near term US Treasury interest rates while longer term rates are not subject to a material change.

2008 CREDIT CRISIS

The 2008 Credit Crisis scenario is based on actual market conditions during September 2008 - November 2008. The shocks applied are a 35% decrease in equity prices, 11% decrease in foreign exchange rates, 33% commodity price decline, a widening of credit spreads of 121 basis points and a decrease in short term and long term interest rates.

THIS PAGE LEFT INTENTIONALLY BLANK

STATE BOARD OF ADMINISTRATION

1801 HERMITAGE BLVD, STE 100
TALLAHASSEE, FL 32308
(850) 488-4406
www.sbafla.com

State Board of Administration of Florida

Major Mandate Review
First Quarter 2013

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

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 and Fund B Review
7. Appendix

(This page left blank intentionally)

Executive Summary

First Quarter 2013

Hewitt ennisknupp

An Aon Company

Executive Summary

- The major mandates outperformed their respective benchmarks over all longer time periods through March 31, 2013.
- The Pension Plan outperformed its Performance Benchmark during the first quarter and over the trailing one-, three-, five-, ten- and fifteen-year time periods.
  - Global Equity, and specifically Foreign Equities, has been the main source of value added over the trailing one- and five-year time periods. Fixed Income, Real Estate and Strategic Investments have also added value.
- The Pension Plan ranked in the top quartile of the TUCS Top Ten Defined Benefit Plan universe over the trailing one- and ten-year periods and ranked in the top half of the universe over the trailing five-year period.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark during the first quarter and over all trailing periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark over all trailing periods, primarily due to strong public equity performance.
- The CAT Funds and Florida PRIME continued to outperform their respective benchmarks over both short and long time periods.

State Board of Administration of Florida
Florida Retirement System

Pension Plan Review

First Quarter 2013

Hewitt ennisknupp

An Aon Company

Executive Summary

- The Pension Plan assets totaled $133.7 billion as of March 31, 2013 which represents a $5.0 billion increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed 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 five- and fifteen-year periods, but has outperformed over the trailing one-, three-, ten-, twenty- and twenty five-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 the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Hewitt EnnisKnupp 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.

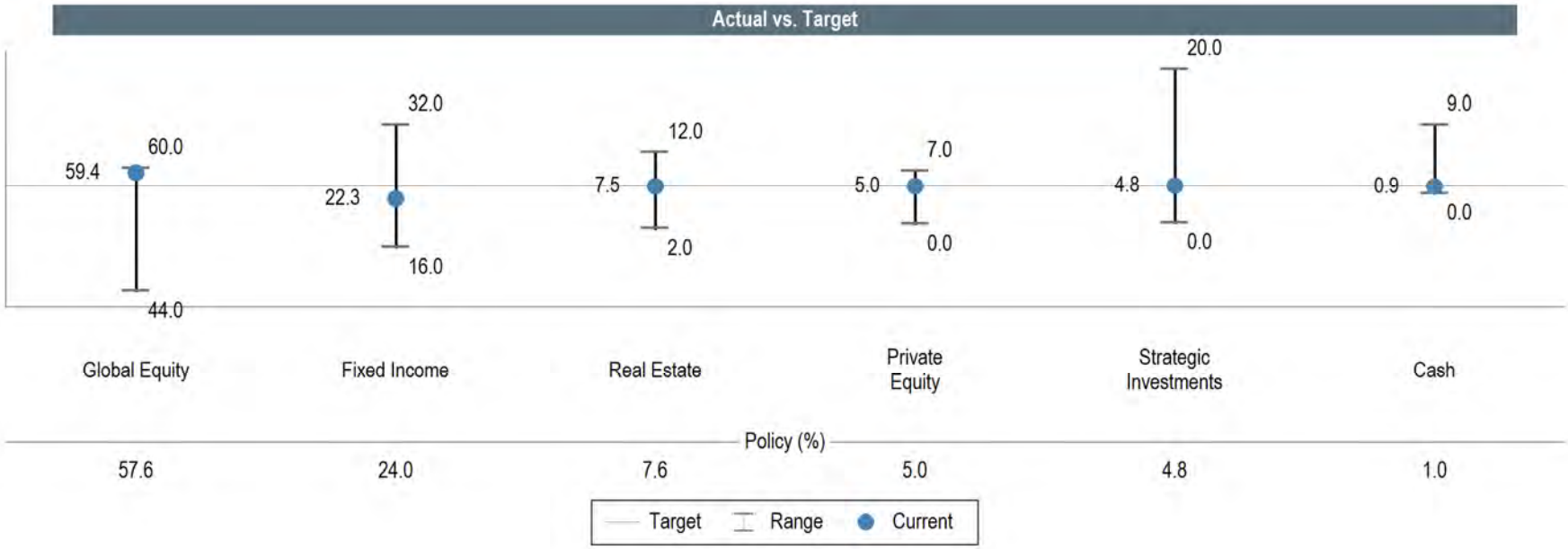
FRS Pension Plan Change in Market Value
Periods Ending 3/31/2013

Summary of Cash Flows		
	First Quarter	**Fiscal YTD***
Beginning Market Value	$128,614,037,816	$122,745,973,551
+/- Net Contributions/(Withdrawals)	($1,539,133,242)	($4,715,116,797)
Investment Earnings	$6,575,726,424	$15,619,774,244
= Ending Market Value	$133,650,630,998	$133,650,630,998
Net Change	$5,036,593,182	$10,904,657,447

*Period July 2012 – March 2013

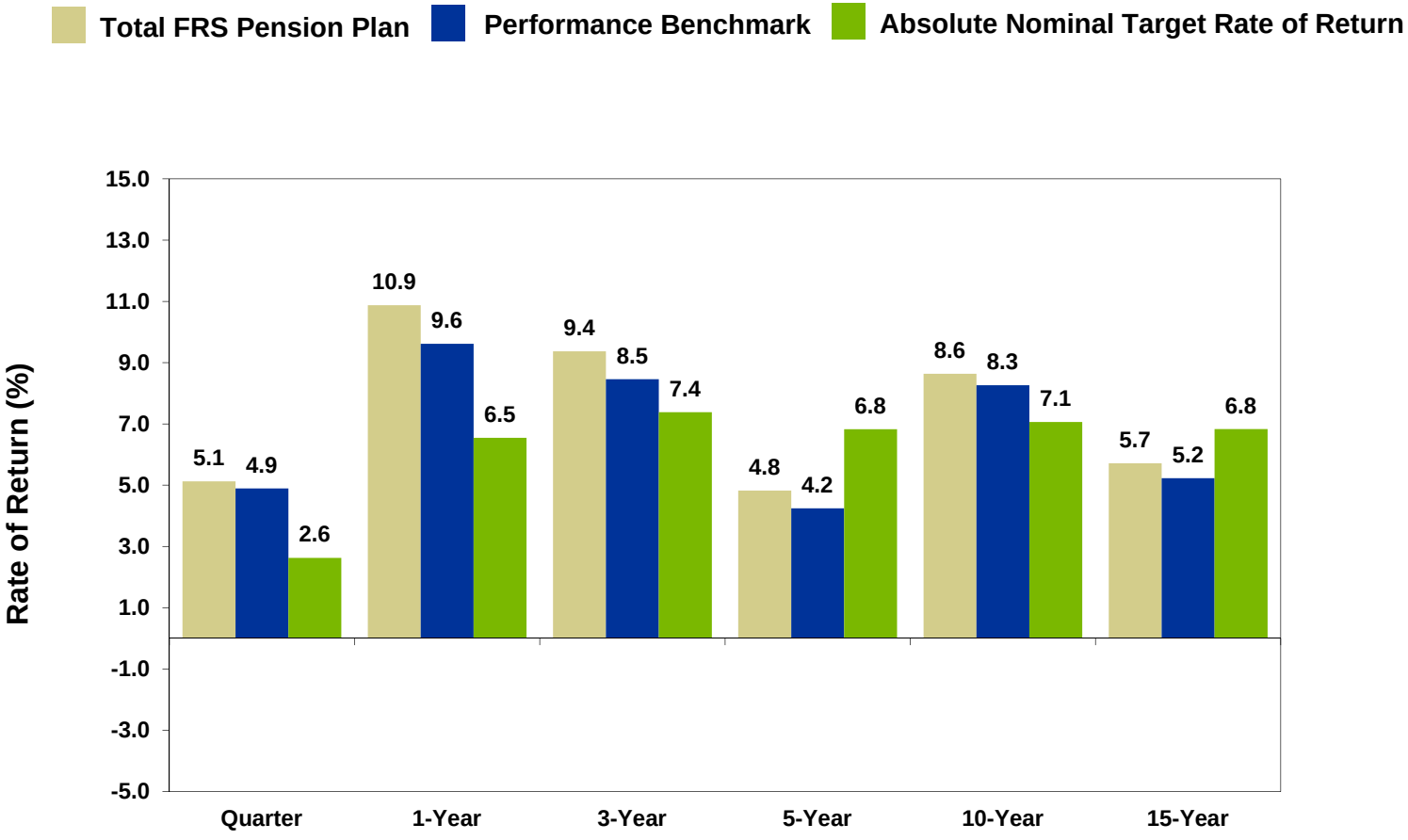
Hewitt ennisknupp
An Aon Company

Asset Allocation as of 3/31/2013
Total Fund Assets = $133.7 Billion



Hewitt ennisknupp
An Aon Company

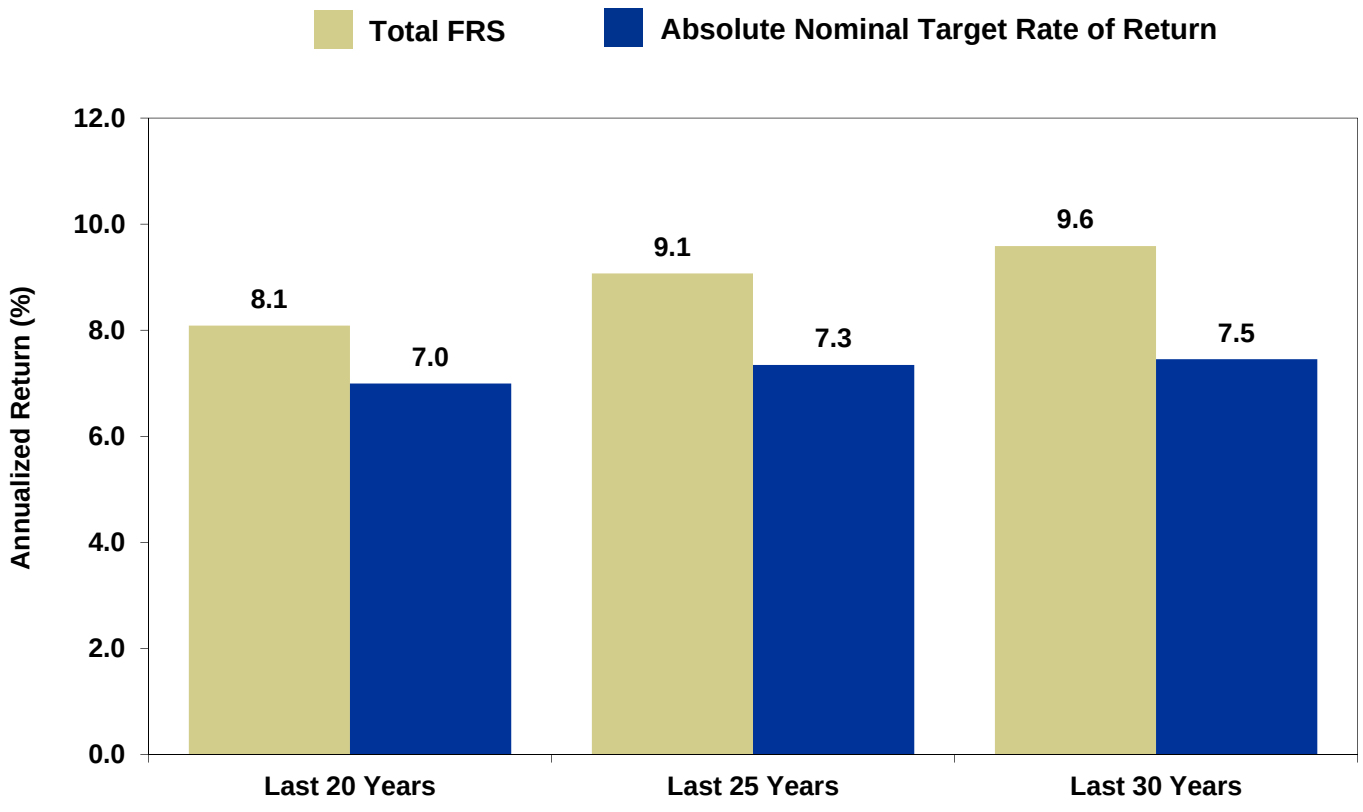
FRS Pension Plan Investment Results
Periods Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

FRS Pension Plan Investment Results
Periods Ending 3/31/2013

Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective

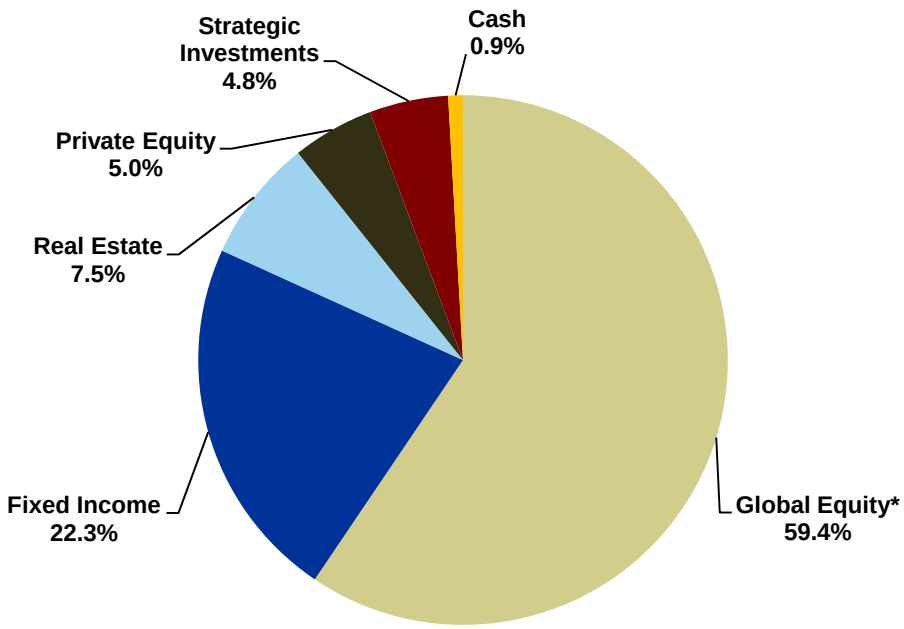


Hewitt ennisknupp
An Aon Company

Comparison of Asset Allocation
As of 3/31/2013

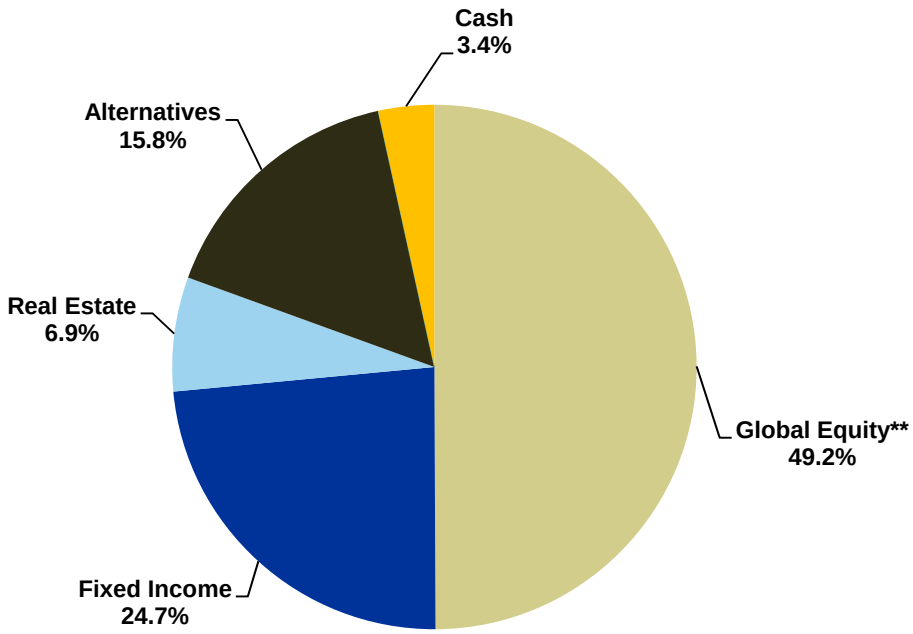
FRS Pension Plan vs. Top Ten Defined Benefit Plans

FRS TOTAL FUND



*Global Equity Allocation: 26.9% Domestic Equities; 29.4% Foreign Equities;3.1% Global Equities. Percentages are of the Total FRS Fund.

TUCS TOP TEN

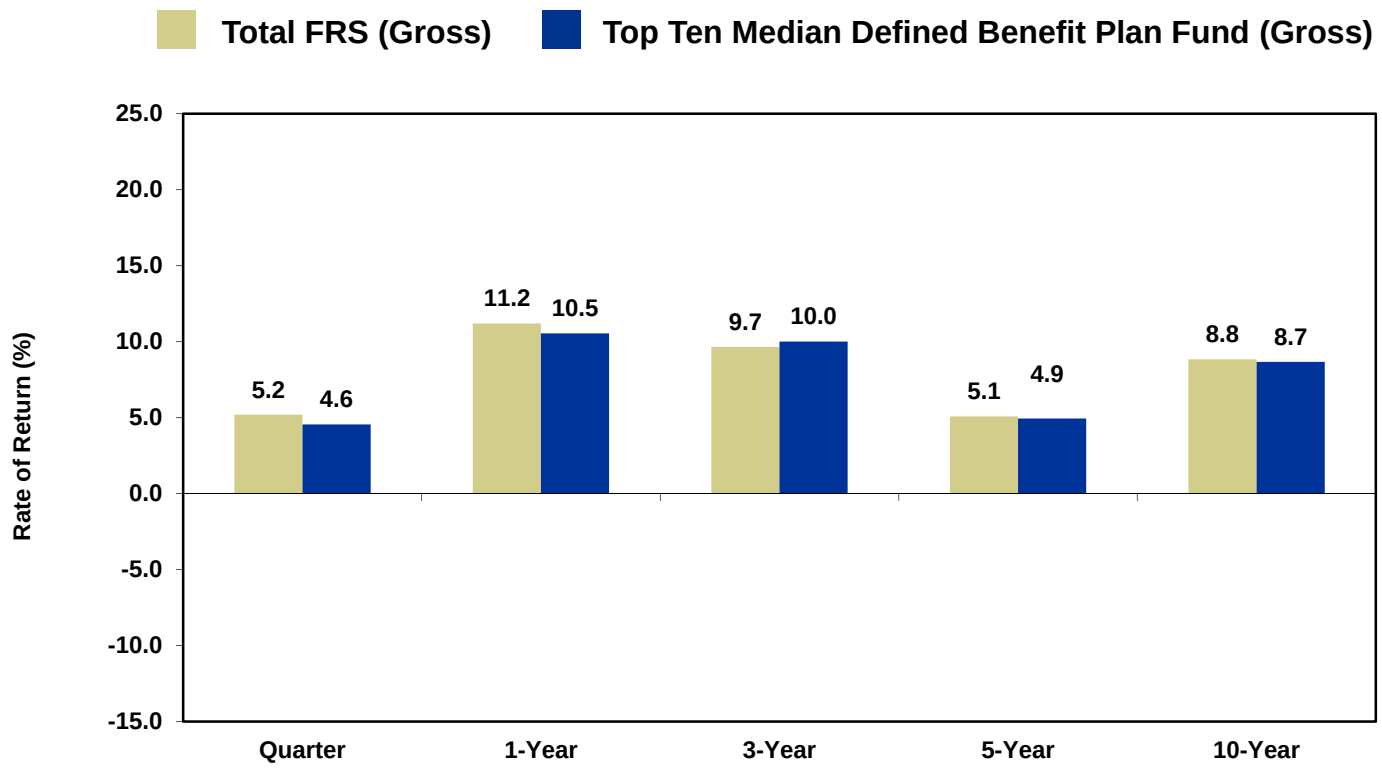


**Global Equity Allocation: 30.1% Domestic Equities; 19.1% Foreign Equities.

Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

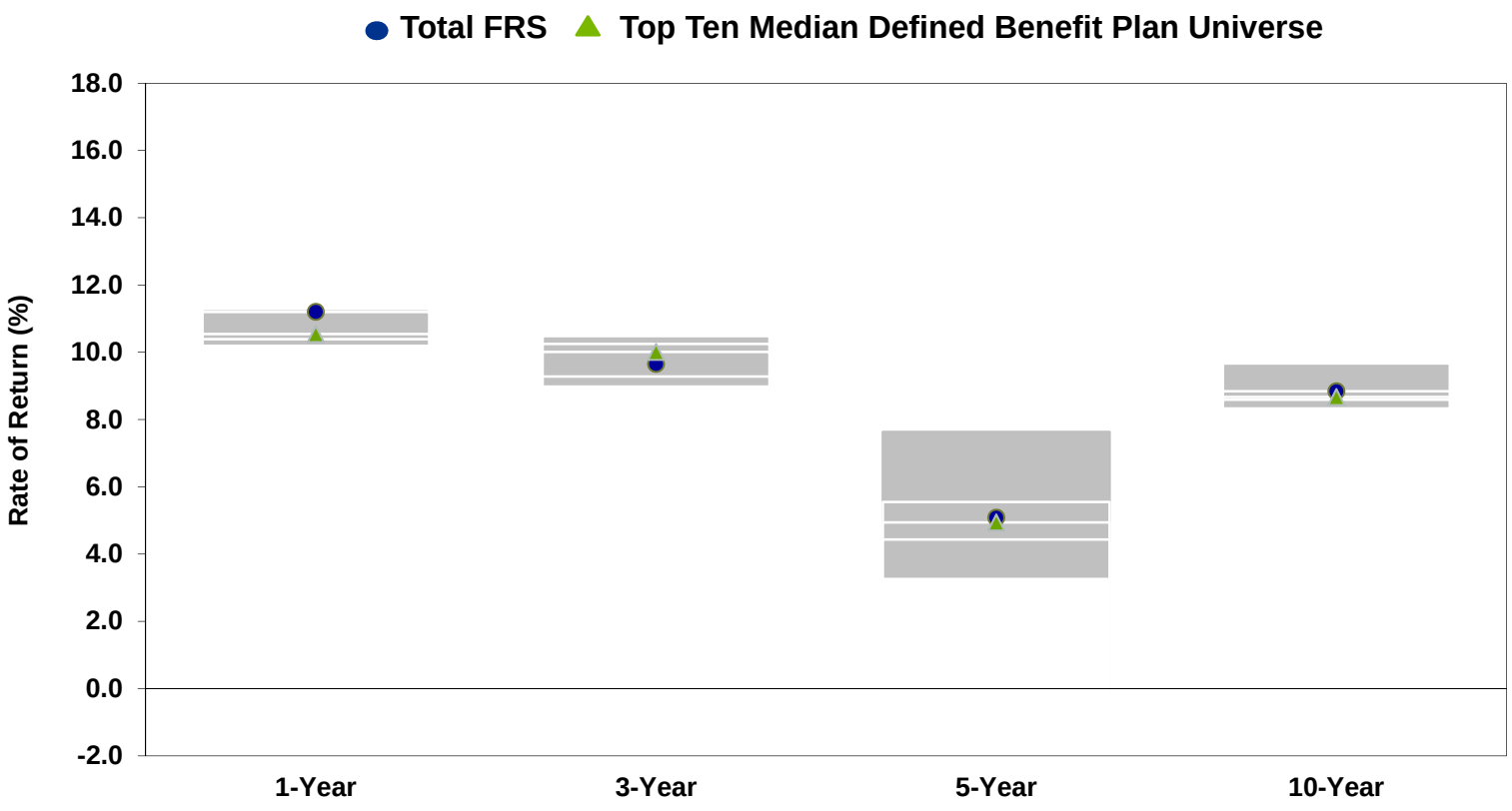
FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 3/31/2013



Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)
Periods Ending 3/31/2013



	1-Year	3-Year	5-Year	10-Year
FRS Percentile Ranking	25	62	37	25

Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

State Board of Administration of Florida
Florida Retirement System

Investment Plan Review
First Quarter 2013

Hewitt ennisknupp
An Aon Company

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 Investment Plan Expense Ratio for the FRS Investment Plan is lower, on average, when compared to a defined contribution peer group and is significantly lower than the average corporate and public defined benefit plan.

- 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 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 3/31/2013

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	**8.3%**	**7.6%**	**4.3%**	**7.5%**
*Total Plan Aggregate Benchmark**	8.2	7.4	3.8	7.1
FRS Investment Plan vs. Total Plan Aggregate Benchmark	0.1	0.2	0.5	0.4

Periods Ending 12/31/2011***

	Five-Year Average Return	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	**1.75%**	**0.69%**	**0.22%**
Peer Group	1.78**	0.12**	0.24***
FRS Investment Plan vs. Peer Group	-0.03	0.57	-0.02

*Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
**Represents the U.S. Median plan return based on the CEM 2011 Survey (most recent available) that included 166 U.S. defined contribution plans with aggregate assets totaling $1,017 billion. The median DC plan in the universe has $2.5 billion in assets and the average DC plan has $6.1 billion in assets.
***Source: CEM Benchmarking 2011 Report (most recent available) – Custom Peer Group for FSBA of 19 DC plans including corporate and public plans with assets between $2.0 - $12.6 billion.
Note: The CEM 2012 Survey is expected to be available late summer 2013.

(This page left blank intentionally)

State Board of Administration of Florida
CAT Fund Review

First Quarter 2013

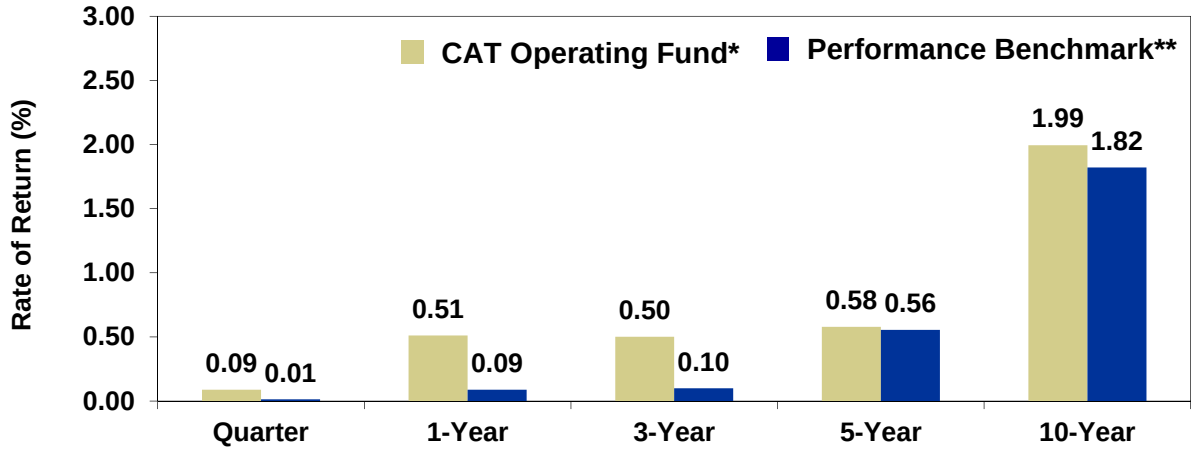
Hewitt ennisknupp

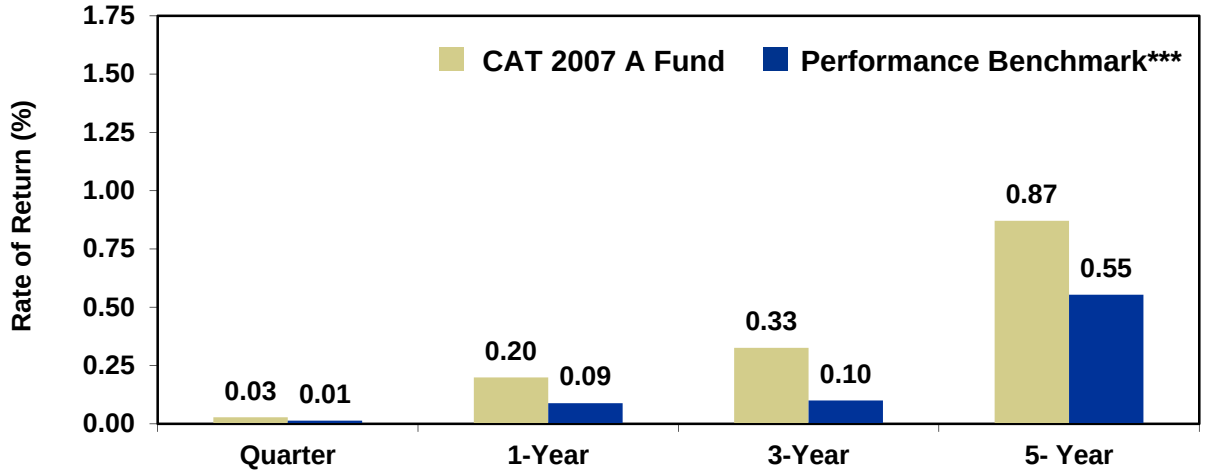
An Aon Company

Executive Summary

- Performance of the CAT Funds on both an absolute and relative basis has been strong over short- and long-term 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 3/31/2013





*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. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
***Performance Benchmark: The CAT 2007 A Fund was benchmarked to the Merrill Lynch 1-Month LIBOR from March 2008 to December 2009. 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. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.

(This page left blank intentionally)

State Board of Administration of Florida
Lawton Chiles Endowment Fund Review

First Quarter 2013

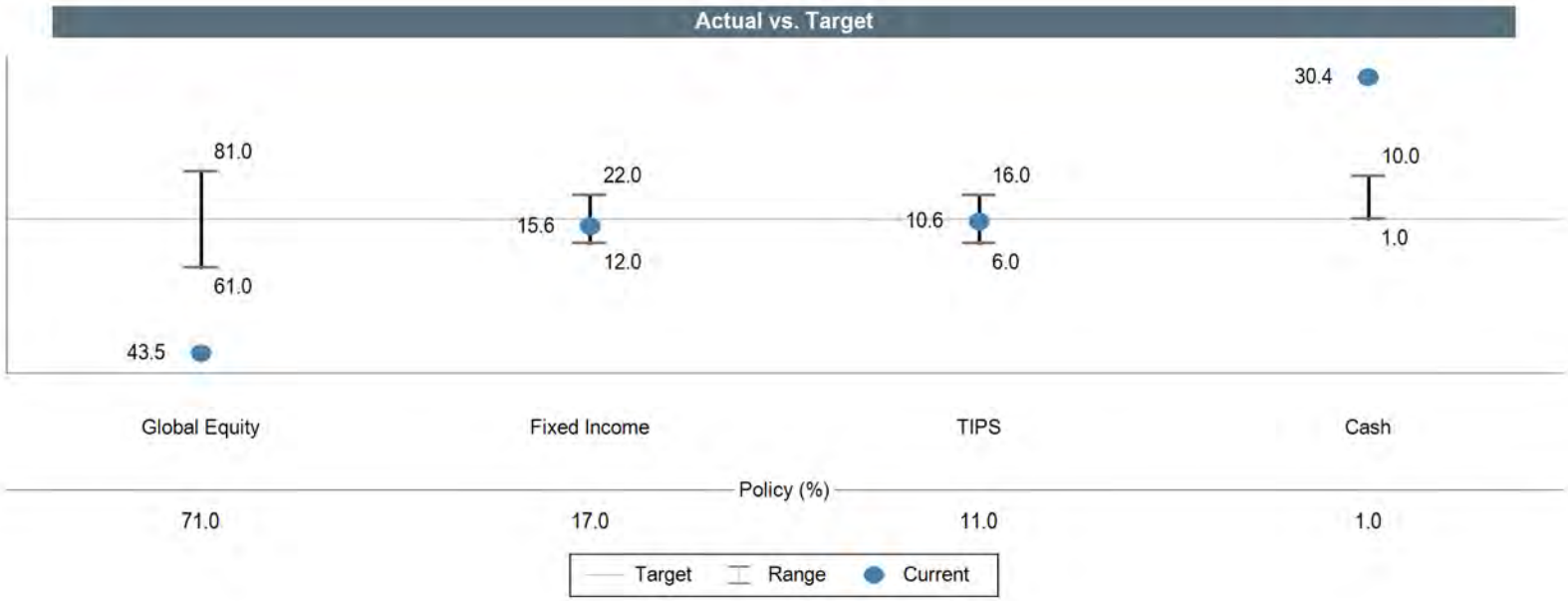
Hewitt ennisknupp

An Aon Company

Executive Summary

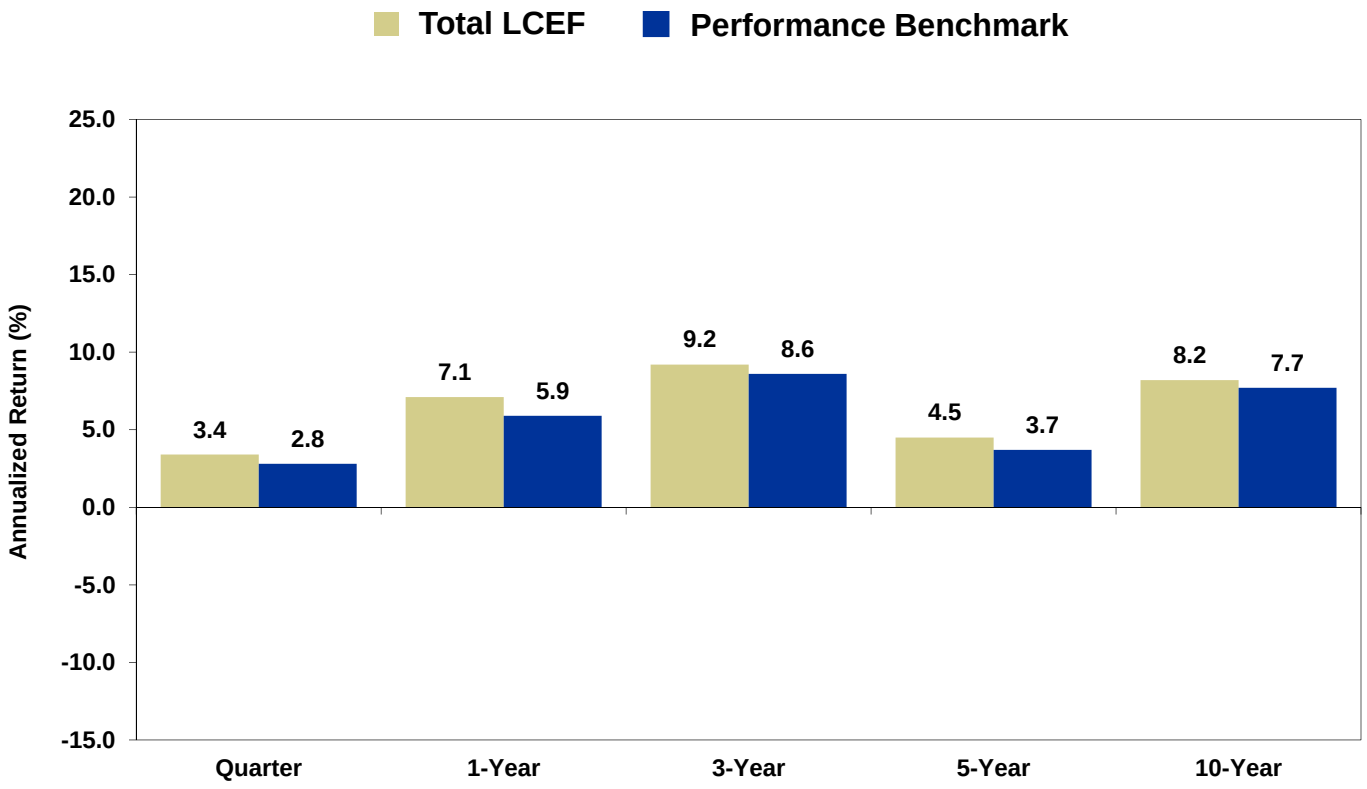
- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
  - The investment objective is to preserve the real value of the net contributed principal and provide 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 $850.1 million as of March 31, 2013.
- The Endowment's return outperformed that of its Target over the trailing one-, three-, five- and ten-year time periods.

Asset Allocation as of 3/31/2013
Total LCEF Assets = $850.1 Million



Note: In anticipation of an extraordinary payout expected in June 2013, the Endowment currently has a large cash balance. Per the LCEF Investment Policy Statement, this allows for the suspension of normal asset allocation procedures. In particular, policy weights become equal to month-end actual weights, and policy ranges are not applicable. Once the mandated payout has been made, target allocations and policy ranges will revert to the values above.

LCEF Investment Results
Periods Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

State Board of Administration of Florida
Florida PRIME and Fund B Review

First Quarter 2013

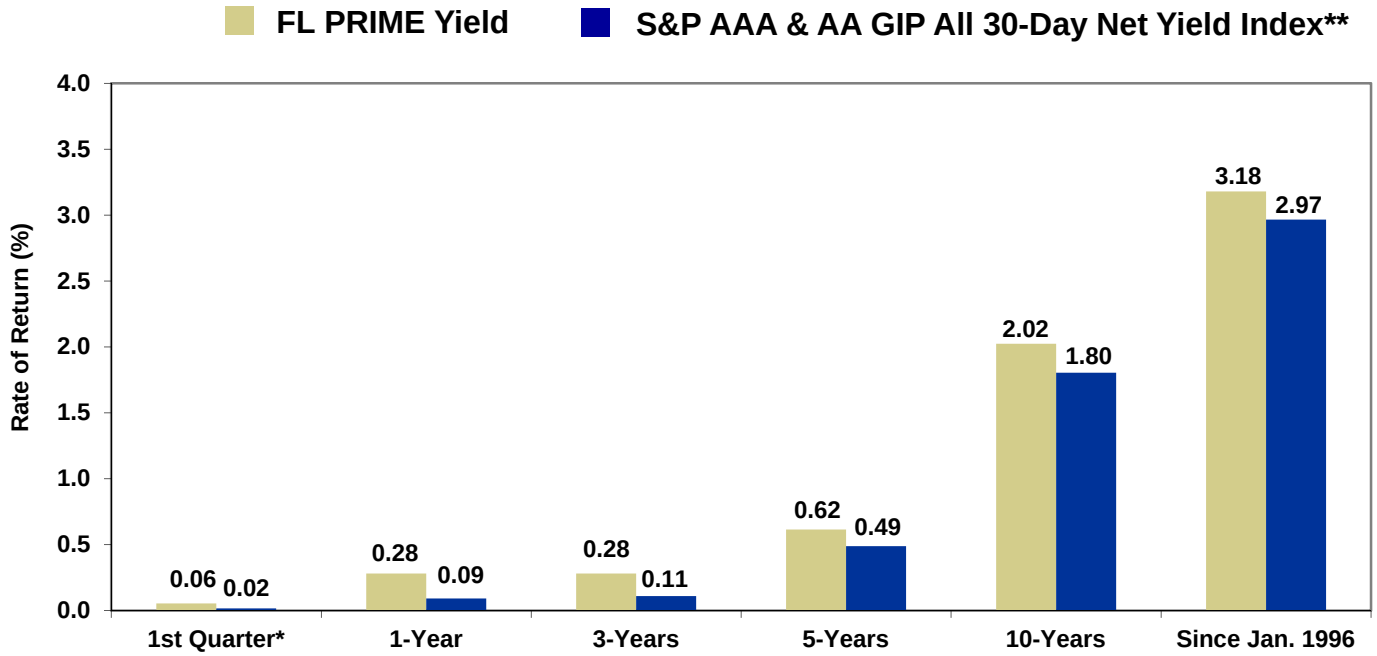
Hewitt ennisknupp

An Aon Company

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 on both an absolute and relative basis has been strong over short- and long-term time periods.
- As of March 31, 2013, the total market value of Florida PRIME was $8.48 billion.
- Hewitt EnnisKnupp, 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.

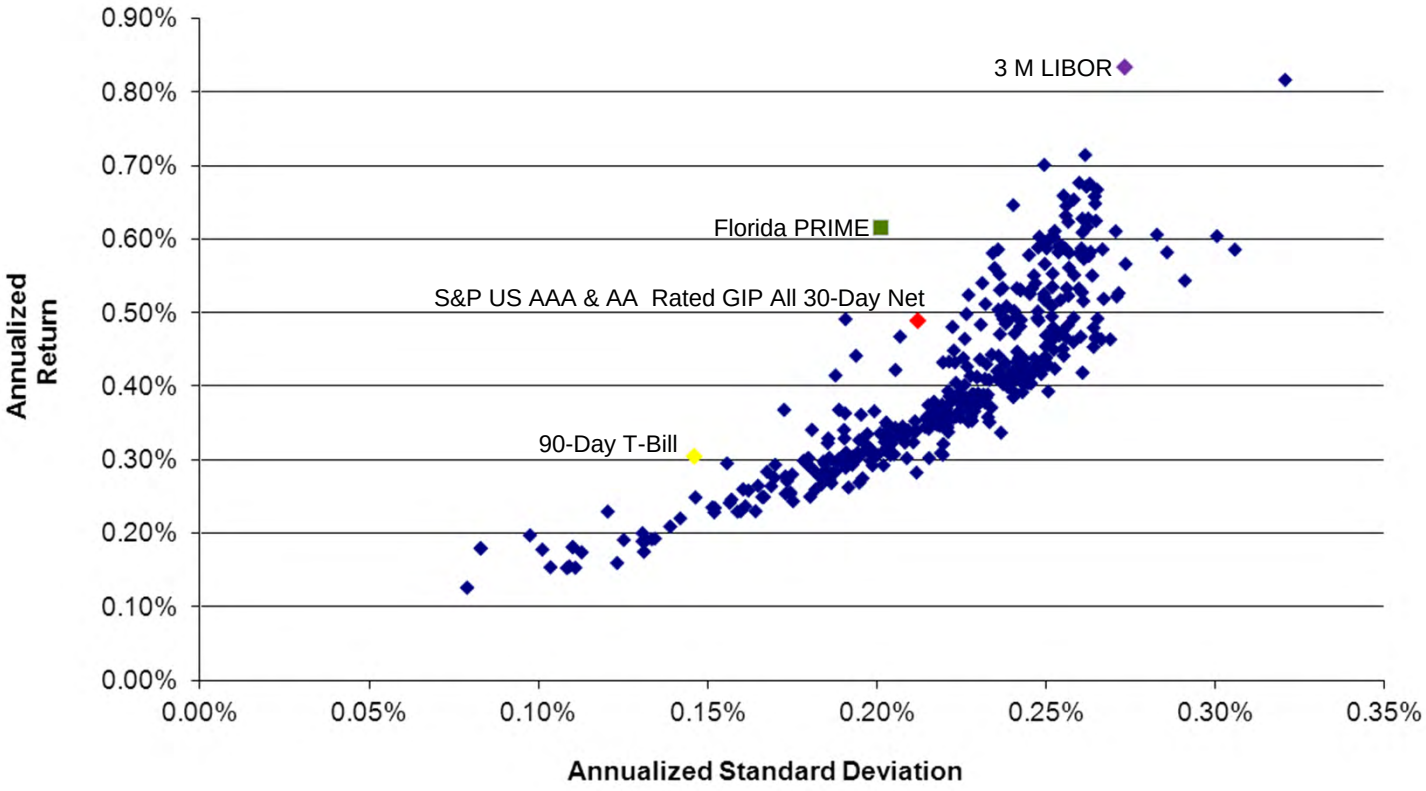
Florida PRIME Investment Results
Periods Ending 3/31/2013



*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

Hewitt ennisknupp
An Aon Company

Florida PRIME Risk vs. Return
5 Years Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

Fund B Change in Market Value
Period Ending 3/31/2013

Cash Flows as of 3/31/2013	First Quarter	Fiscal YTD*
Opening Balance	$242,818,032	$231,848,908
Participant Distributions	($11,390,000)	($42,130,000)
Expenses Paid	($6,363)	($17,208)
Price Change	$14,989,374	$56,709,343
Closing Balance	$246,411,043	$246,411,043
Change	**$3,593,011**	**$14,562,135**

*Period July 2012 – March 2013

- As of March 2013, 88.3% of the original principal in Fund B has been returned to participants.

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

Appendix

Hewitt ennisknupp

An Aon Company

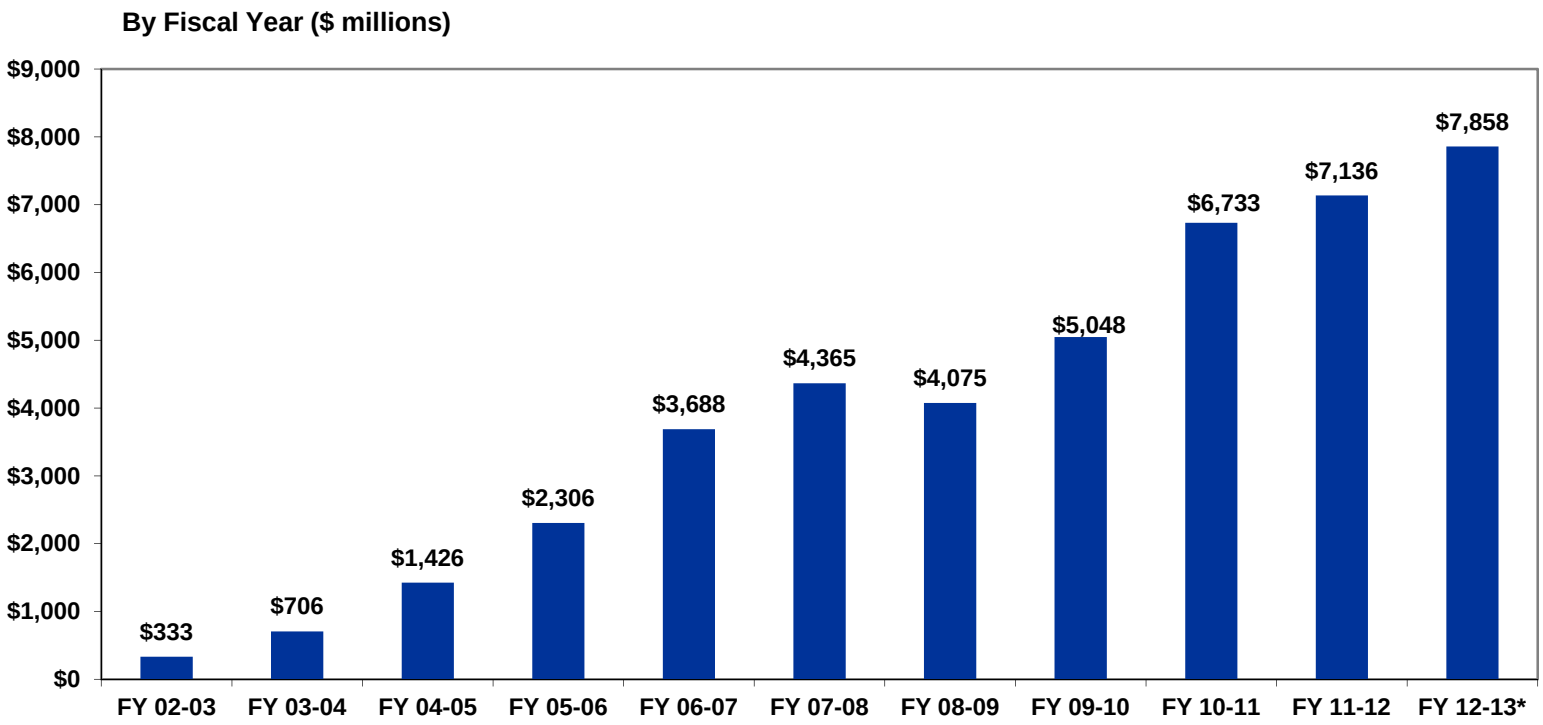
FRS Investment Plan Costs

Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity	0.34%	0.83%
Mid Cap Equity	0.37%	0.96%
Small Cap Equity	0.89%	1.05%
International Equity	0.40%	1.04%
Diversified Bonds	0.28%	0.55%
Balanced Funds	0.05%	0.92%
Money Market	0.06%	0.24%

*Average fee if multiple products in category as of 3/31/2013.

**Source: Morningstar as of 3/31/2013.

Investment Plan Fiscal Year End Assets Under Management

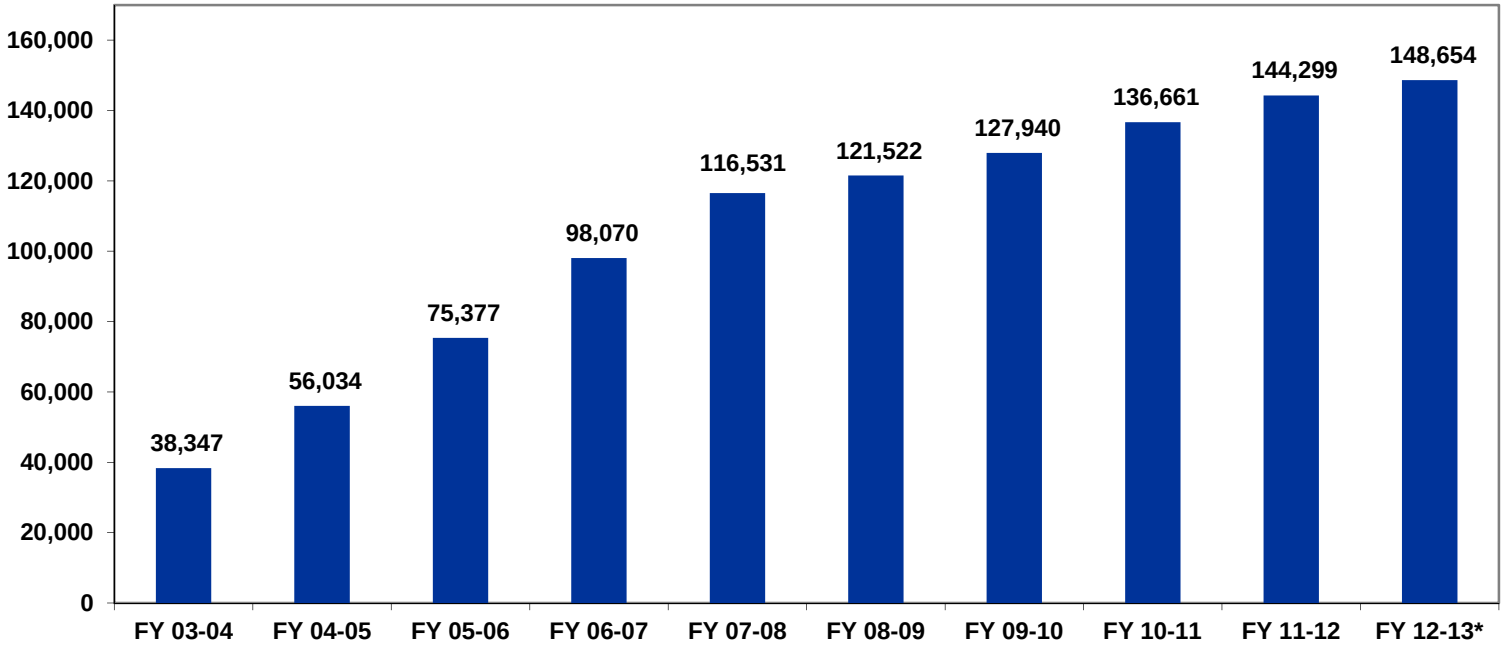


***Period Ending 3/31/2013**

Source: Investment Plan Administrator

Hewitt ennisknupp
An Aon Company

Investment Plan Membership



***Period Ending 3/31/2013**

Source: Investment Plan Administrator

Hewitt ennisknupp
An Aon Company

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.
- The State Board of Administration of Florida (SBA) manages five FHCF accounts, the CAT Fund (Operating Fund), the CAT 2006 A Fund (Post-Event Tax-Exempt Revenue Bonds), the CAT 2007 A Fund (Pre-Event Floating Rate Taxable Notes), the CAT 2008 A Fund (Post-Event Tax-Exempt Revenue Bonds), and the CAT 2010 A Fund (Post-Event Tax-Exempt Revenue Bonds).
- Both the CAT Fund (Operating Fund) and the CAT 2007 A Fund are internally managed portfolios benchmarked to a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
- The CAT 2006 A Fund, the CAT 2008 A Fund and the CAT 2010 A Fund are invested in State and Local Government Series (SLGS) securities.
- As of March 31, 2013, the total value of all FHCF accounts was $8.5 billion.

CAT Operating Fund Characteristics
Period Ending 3/31/2013

Effective Maturity Schedule	
O/N* - 14 Days	23.9%
15 - 30 Days	15.7
31 - 60 Days	6.8
61 - 90 Days	7.5
91 - 120 Days	5.0
121 - 150 Days	6.0
151 - 180 Days	4.6
181 - 210 Days	1.7
211 - 240 Days	3.4
241 - 270 Days	3.7
271 - 300 Days	1.6
301 - 365 Days	2.0
366 - 732 Days	13.3
733 - 1,098 Days	4.1
1,099 - 1,875 Days	0.6
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
AAA	52.8%
AA	9.8
A	36.8
BBB	0.0
Non-Investment Grade	0.6
Total % of Portfolio:	**100.0%**

*O/N stands for overnight.

Hewitt ennisknupp
An Aon Company

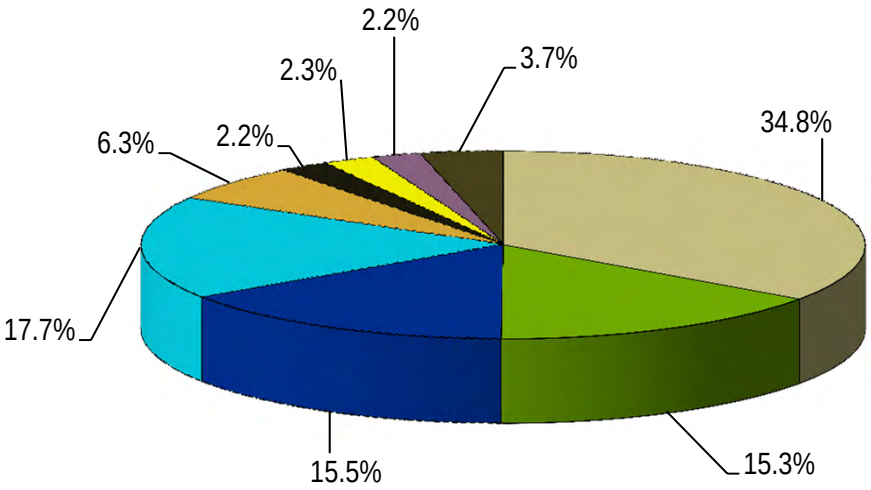
Florida PRIME Characteristics
Quarter Ending 3/31/2013

Cash Flows as of 3/31/2013	First Quarter	Fiscal YTD*
Opening Balance	$8,476,195,715	$6,752,444,139
Participant Deposits	$3,132,232,137	$12,217,819,557
Transfers from Fund B	$11,390,000	$42,130,000
Gross Earnings	$5,460,620	$16,118,336
Participant Withdrawals	($3,142,773,600)	($10,545,021,356)
Fees	($640,809)	($1,626,615)
Closing Balance (3/31/2013)	$8,481,864,061	$8,481,864,061
Change	**$5,668,346**	**$1,729,419,922**

*Period July 2012 – March 2013

Florida PRIME Characteristics
Quarter Ending 3/31/2013

Portfolio Composition



- Bank Instrument - Fixed
- Repurchase Agreements
- Corporate Commercial Paper - Fixed
- Bank Instrument - Floating
- Mutual Funds - Money Market
- Asset-Backed Commercial Paper - Fixed
- Corporate Notes - Floating
- Asset-Backed Commercial Paper - Floating
- Corporate Commercial Paper - Floating

Hewitt ennisknupp
An Aon Company

Florida PRIME Characteristics
Period Ending 3/31/2013

Effective Maturity Schedule	
1-7 Days	40.1%
8-30 Days	22.4
31-90 Days	26.4
91-180 Days	10.0
181+ Days	1.1
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
A-1+	62.0%
A-1	38.0
Total % of Portfolio:	**100.0%**

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

State Board of Administration of Florida

Major Mandate Review
First Quarter 2013

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

Hewitt ennisknupp
An Aon Company

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 and Fund B Review
7. Appendix

(This page left blank intentionally)

Executive Summary

First Quarter 2013

Hewitt ennisknupp
An Aon Company

Executive Summary

- The major mandates outperformed their respective benchmarks over all longer time periods through March 31, 2013.
- The Pension Plan outperformed its Performance Benchmark during the first quarter and over the trailing one-, three-, five-, ten- and fifteen-year time periods.
  - Global Equity, and specifically Foreign Equities, has been the main source of value added over the trailing one- and five-year time periods. Fixed Income, Real Estate and Strategic Investments have also added value.
- The Pension Plan ranked in the top quartile of the TUCS Top Ten Defined Benefit Plan universe over the trailing one- and ten-year periods and ranked in the top half of the universe over the trailing five-year period.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark during the first quarter and over all trailing periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark over all trailing periods, primarily due to strong public equity performance.
- The CAT Funds and Florida PRIME continued to outperform their respective benchmarks over both short and long time periods.

Hewitt ennisknupp
An Aon Company

State Board of Administration of Florida
Florida Retirement System

Pension Plan Review
First Quarter 2013

Hewitt ennisknupp
An Aon Company

Executive Summary

- The Pension Plan assets totaled $133.7 billion as of March 31, 2013 which represents a $5.0 billion increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed 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 five- and fifteen-year periods, but has outperformed over the trailing one-, three-, ten-, twenty- and twenty five-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 the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Hewitt EnnisKnupp 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.

Hewitt ennisknupp
An Aon Company

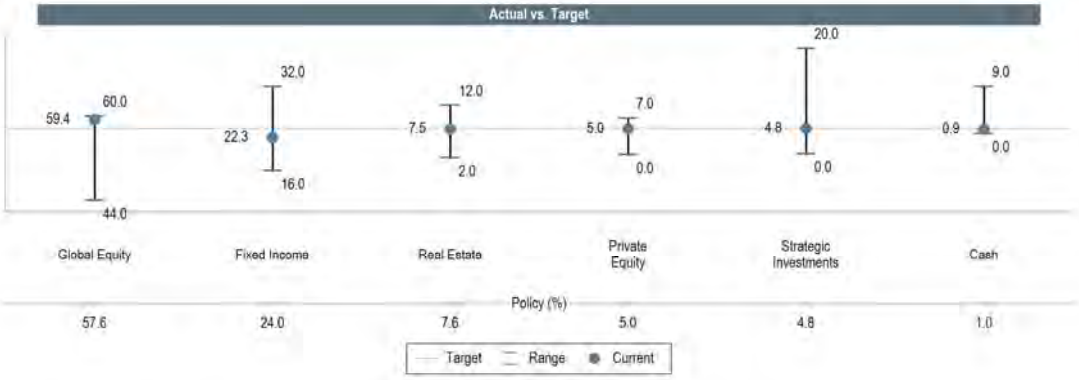
FRS Pension Plan Change in Market Value
Periods Ending 3/31/2013

Summary of Cash Flows		
	First Quarter	**Fiscal YTD***
Beginning Market Value	$128,614,037,816	$122,745,973,551
+/- Net Contributions/(Withdrawals)	($1,539,133,242)	($4,715,116,797)
Investment Earnings	$6,575,726,424	$15,619,774,244
= Ending Market Value	$133,650,630,998	$133,650,630,998
Net Change	$5,036,593,182	$10,904,657,447

*Period July 2012 – March 2013

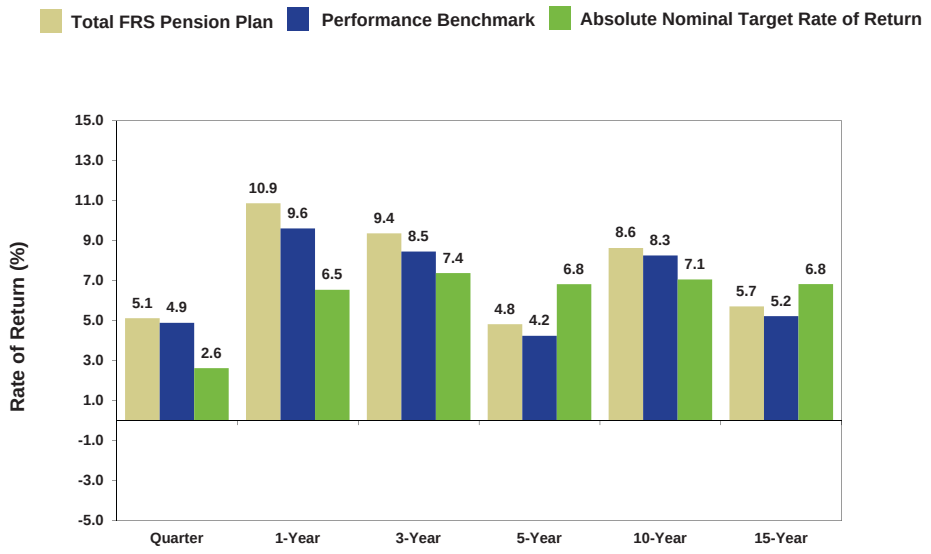
Hewitt ennisknupp
An Aon Company

Asset Allocation as of 3/31/2013
Total Fund Assets = $133.7 Billion



Hewitt ennisknupp
An Aon Company

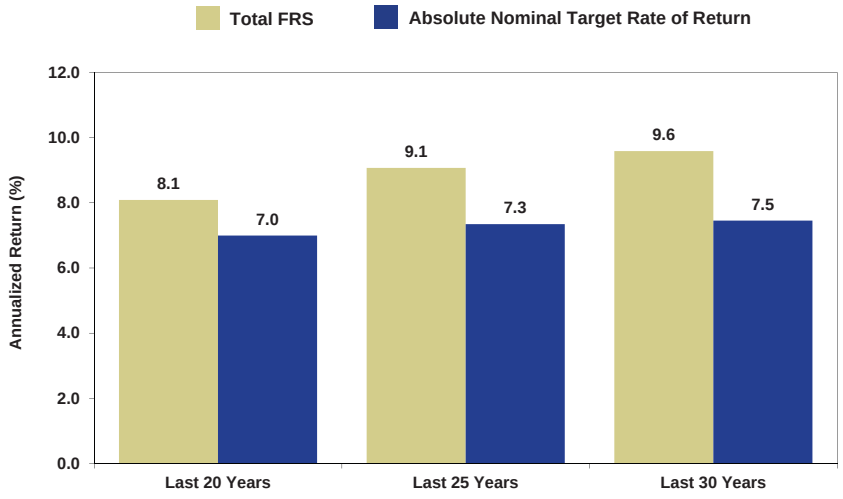
FRS Pension Plan Investment Results
Periods Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

FRS Pension Plan Investment Results
Periods Ending 3/31/2013

Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective

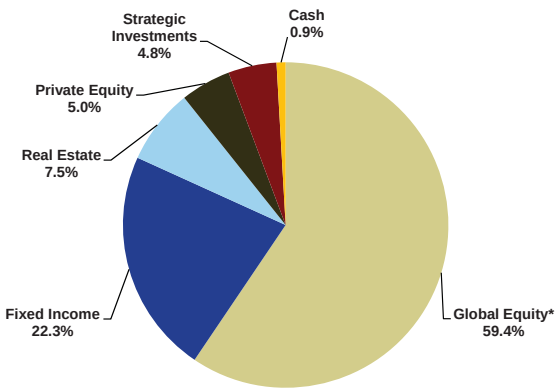


Hewitt ennisknupp
An Aon Company

Comparison of Asset Allocation
As of 3/31/2013

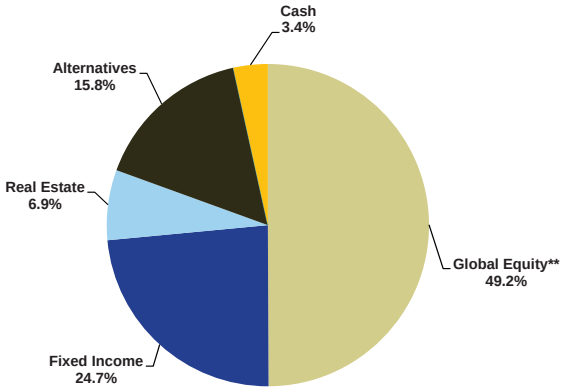
FRS Pension Plan vs. Top Ten Defined Benefit Plans

FRS TOTAL FUND



*Global Equity Allocation: 26.9% Domestic Equities; 29.4% Foreign Equities;3.1% Global Equities. Percentages are of the Total FRS Fund.

TUCS TOP TEN

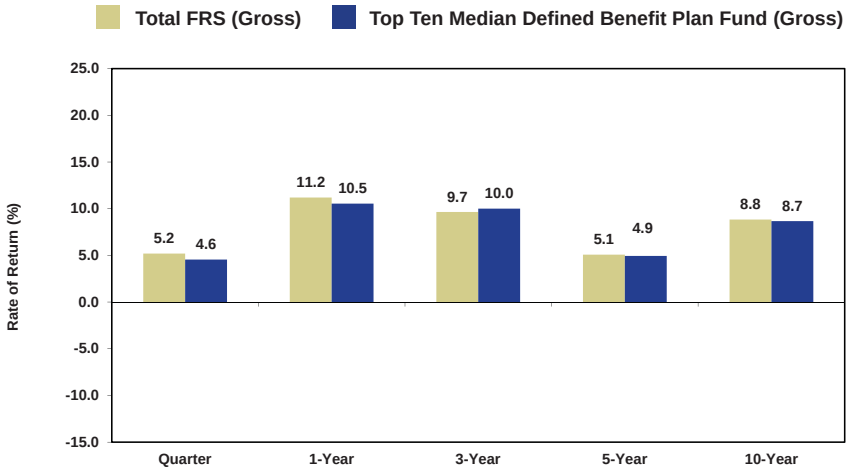


**Global Equity Allocation: 30.1% Domestic Equities; 19.1% Foreign Equities.

Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

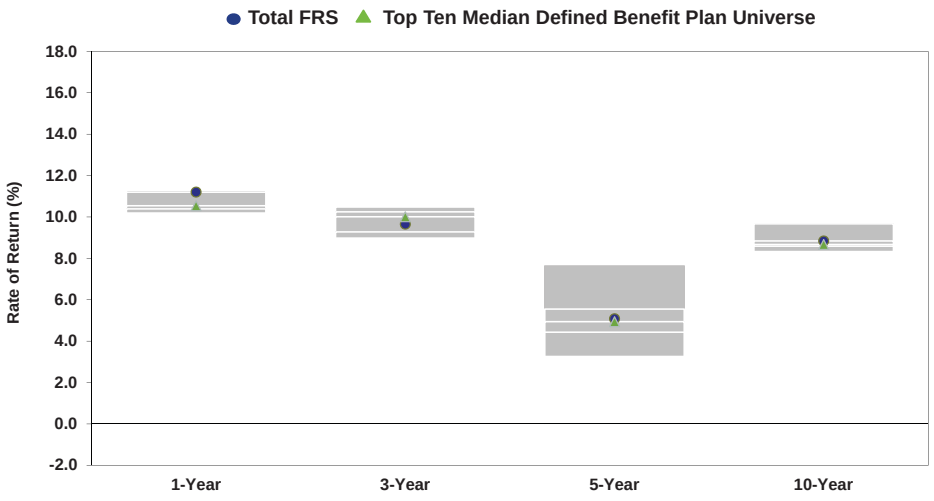
FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 3/31/2013



Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)
Periods Ending 3/31/2013



	1-Year	3-Year	5-Year	10-Year
FRS Percentile Ranking	25	62	37	25

Note: The TUCS Top Ten Universe includes $1,162.1 billion in total assets. The median fund size was $117.5 billion and the average fund size was $116.2 billion.

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

State Board of Administration of Florida
Florida Retirement System

Investment Plan Review
First Quarter 2013

Hewitt ennisknupp
An Aon Company

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 Investment Plan Expense Ratio for the FRS Investment Plan is lower, on average, when compared to a defined contribution peer group and is significantly lower than the average corporate and public defined benefit plan.
- 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 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 3/31/2013

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	**8.3%**	**7.6%**	**4.3%**	**7.5%**
*Total Plan Aggregate Benchmark**	8.2	7.4	3.8	7.1
FRS Investment Plan vs. Total Plan Aggregate Benchmark	0.1	0.2	0.5	0.4

Periods Ending 12/31/2011***

	Five-Year Average Return	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	**1.75%**	**0.69%**	**0.22%**
Peer Group	1.78**	0.12**	0.24***
FRS Investment Plan vs. Peer Group	-0.03	0.57	-0.02

*Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
**Represents the U.S. Median plan return based on the CEM 2011 Survey (most recent available) that included 166 U.S. defined contribution plans with aggregate assets totaling $1,017 billion. The median DC plan in the universe has $2.5 billion in assets and the average DC plan has $6.1 billion in assets.
***Source: CEM Benchmarking 2011 Report (most recent available) – Custom Peer Group for FSBA of 19 DC plans including corporate and public plans with assets between $2.0 - $12.6 billion.
Note: The CEM 2012 Survey is expected to be available late summer 2013.

(This page left blank intentionally)

State Board of Administration of Florida
CAT Fund Review

First Quarter 2013

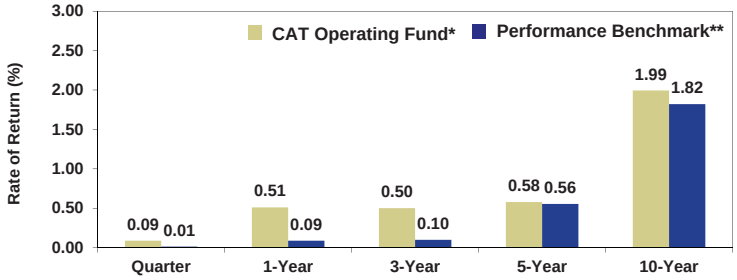
Hewitt ennisknupp
An Aon Company

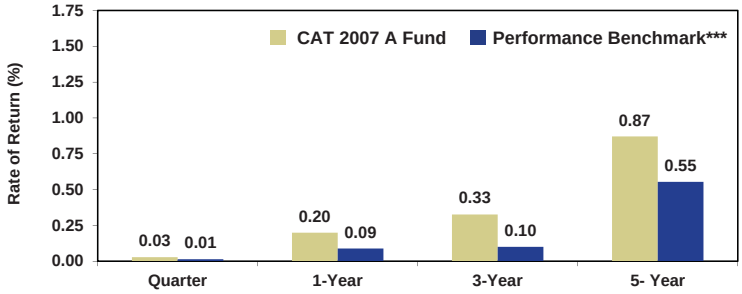
Executive Summary

- Performance of the CAT Funds on both an absolute and relative basis has been strong over short- and long-term 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.

Hewitt ennisknupp
An Aon Company

CAT Funds Investment Results
Periods Ending 3/31/2013





*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. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
***Performance Benchmark: The CAT 2007 A Fund was benchmarked to the Merrill Lynch 1-Month LIBOR from March 2008 to December 2009. 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. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.

Hewitt ennisknupp
An Aon Company

(This page left blank intentionally)

Hewitt ennisknupp
An Aon Company

State Board of Administration of Florida
Lawton Chiles Endowment Fund Review

First Quarter 2013

Hewitt ennisknupp
An Aon Company

Executive Summary

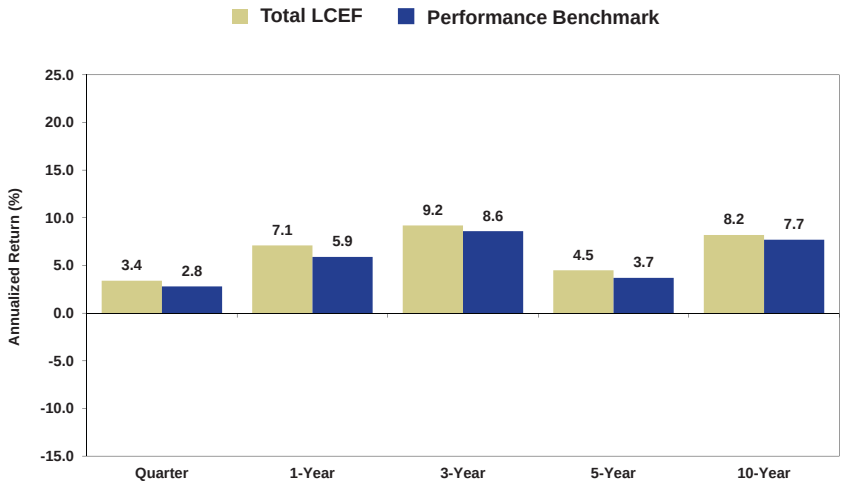
- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
  - The investment objective is to preserve the real value of the net contributed principal and provide 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 $850.1 million as of March 31, 2013.
- The Endowment's return outperformed that of its Target over the trailing one-, three-, five- and ten-year time periods.

Hewitt ennisknupp
An Aon Company

Asset Allocation as of 3/31/2013
Total LCEF Assets = $850.1 Million

Note: In anticipation of an extraordinary payout expected in June 2013, the Endowment currently has a large cash balance. Per the LCEF Investment Policy Statement, this allows for the suspension of normal asset allocation procedures. In particular, policy weights become equal to month-end actual weights, and policy ranges are not applicable. Once the mandated payout has been made, target allocations and policy ranges will revert to the values above.

LCEF Investment Results
Periods Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

State Board of Administration of Florida
Florida PRIME and Fund B Review

First Quarter 2013

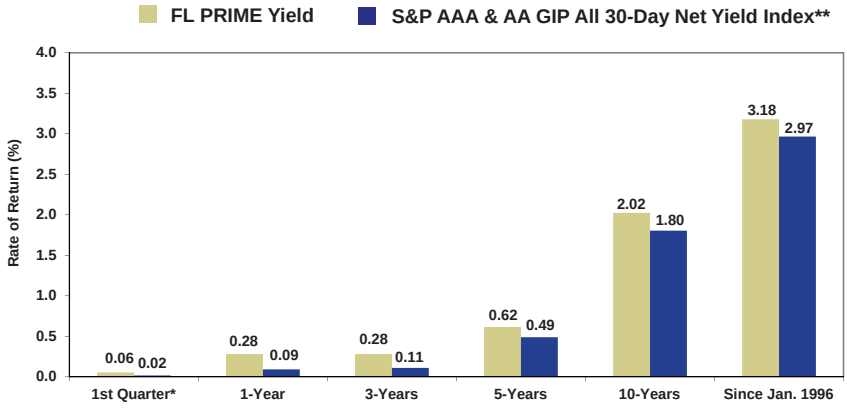
Hewitt ennisknupp
An Aon Company

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 on both an absolute and relative basis has been strong over short- and long-term time periods.
- As of March 31, 2013, the total market value of Florida PRIME was $8.48 billion.
- Hewitt EnnisKnupp, 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.

Hewitt ennisknupp
An Aon Company

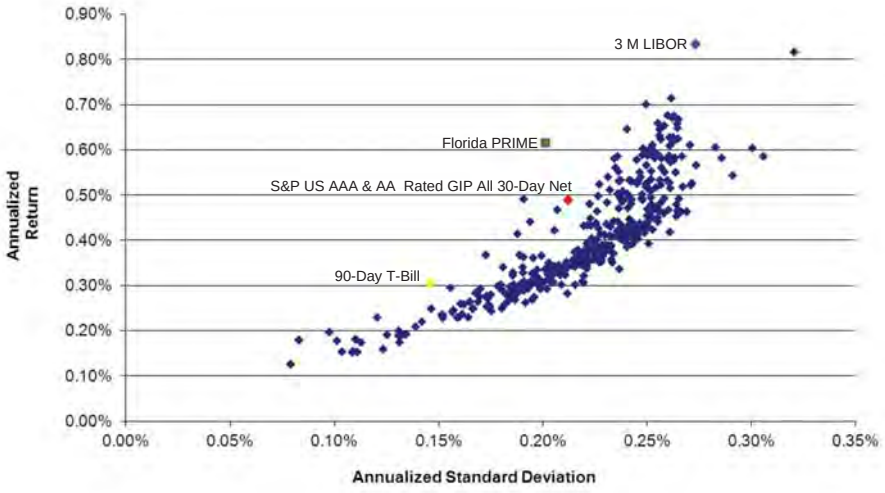
Florida PRIME Investment Results
Periods Ending 3/31/2013



*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

Hewitt ennisknupp
An Aon Company

Florida PRIME Risk vs. Return
5 Years Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

Fund B Change in Market Value
Period Ending 3/31/2013

Cash Flows as of 3/31/2013	First Quarter	Fiscal YTD*
Opening Balance	$242,818,032	$231,848,908
Participant Distributions	($11,390,000)	($42,130,000)
Expenses Paid	($6,363)	($17,208)
Price Change	$14,989,374	$56,709,343
Closing Balance	$246,411,043	$246,411,043
Change	**$3,593,011**	**$14,562,135**

*Period July 2012 – March 2013

- As of March 2013, 88.3% of the original principal in Fund B has been returned to participants.

(This page left blank intentionally)

Appendix

Hewitt ennisknupp
An Aon Company

FRS Investment Plan Costs

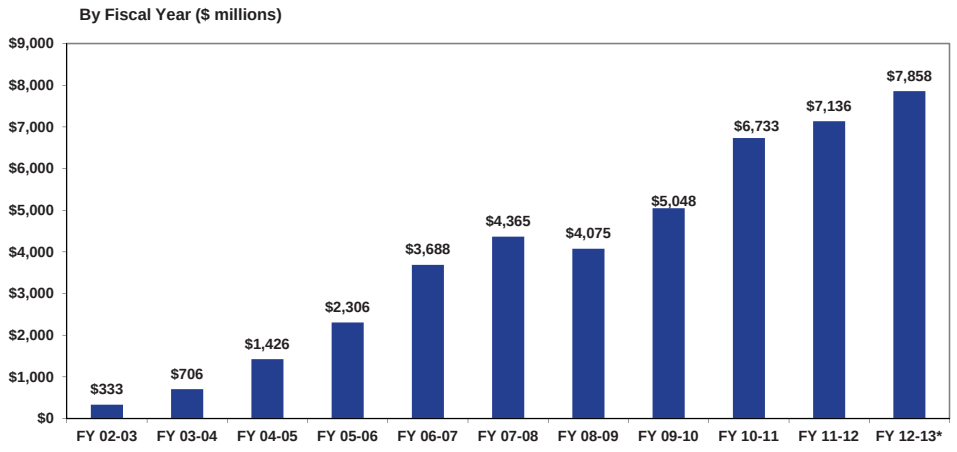
Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity	0.34%	0.83%
Mid Cap Equity	0.37%	0.96%
Small Cap Equity	0.89%	1.05%
International Equity	0.40%	1.04%
Diversified Bonds	0.28%	0.55%
Balanced Funds	0.05%	0.92%
Money Market	0.06%	0.24%

*Average fee if multiple products in category as of 3/31/2013.

**Source: Morningstar as of 3/31/2013.

Hewitt ennisknupp
An Aon Company

Investment Plan Fiscal Year End Assets Under Management

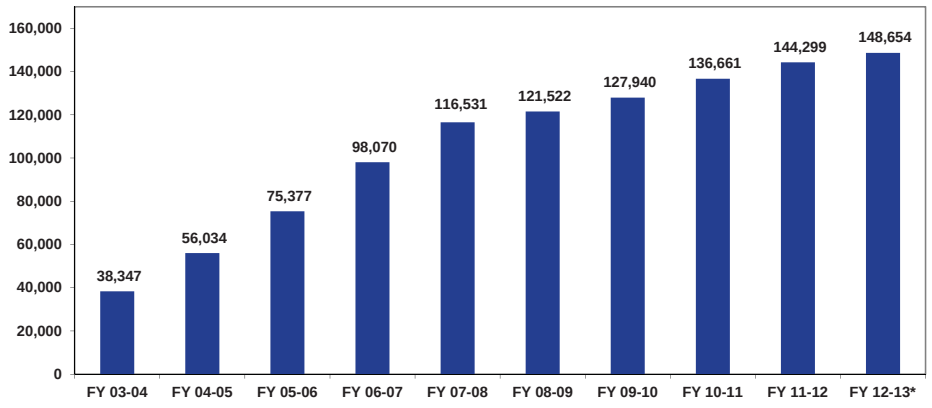


***Period Ending 3/31/2013**

Source: Investment Plan Administrator

Hewitt ennisknupp
An Aon Company

Investment Plan Membership



***Period Ending 3/31/2013**

Source: Investment Plan Administrator

Hewitt ennisknupp
An Aon Company

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.
- The State Board of Administration of Florida (SBA) manages five FHCF accounts, the CAT Fund (Operating Fund), the CAT 2006 A Fund (Post-Event Tax-Exempt Revenue Bonds), the CAT 2007 A Fund (Pre-Event Floating Rate Taxable Notes), the CAT 2008 A Fund (Post-Event Tax-Exempt Revenue Bonds), and the CAT 2010 A Fund (Post-Event Tax-Exempt Revenue Bonds).
- Both the CAT Fund (Operating Fund) and the CAT 2007 A Fund are internally managed portfolios benchmarked to a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
- The CAT 2006 A Fund, the CAT 2008 A Fund and the CAT 2010 A Fund are invested in State and Local Government Series (SLGS) securities.
- As of March 31, 2013, the total value of all FHCF accounts was $8.5 billion.

CAT Operating Fund Characteristics
Period Ending 3/31/2013

Effective Maturity Schedule	
O/N* - 14 Days	23.9%
15 - 30 Days	15.7
31 - 60 Days	6.8
61 - 90 Days	7.5
91 - 120 Days	5.0
121 - 150 Days	6.0
151 - 180 Days	4.6
181 - 210 Days	1.7
211 - 240 Days	3.4
241 - 270 Days	3.7
271 - 300 Days	1.6
301 - 365 Days	2.0
366 - 732 Days	13.3
733 - 1,098 Days	4.1
1,099 - 1,875 Days	0.6
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
AAA	52.8%
AA	9.8
A	36.8
BBB	0.0
Non-Investment Grade	0.6
Total % of Portfolio:	**100.0%**

*O/N stands for overnight.

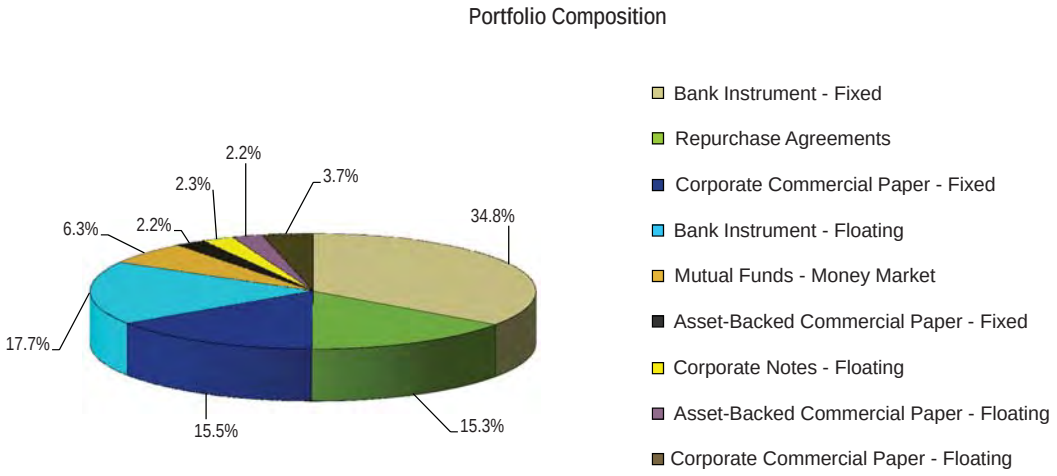
Florida PRIME Characteristics
Quarter Ending 3/31/2013

Cash Flows as of 3/31/2013	First Quarter	Fiscal YTD*
Opening Balance	$8,476,195,715	$6,752,444,139
Participant Deposits	$3,132,232,137	$12,217,819,557
Transfers from Fund B	$11,390,000	$42,130,000
Gross Earnings	$5,460,620	$16,118,336
Participant Withdrawals	($3,142,773,600)	($10,545,021,356)
Fees	($640,809)	($1,626,615)
Closing Balance (3/31/2013)	$8,481,864,061	$8,481,864,061
Change	**$5,668,346**	**$1,729,419,922**

*Period July 2012 – March 2013

Hewitt ennisknupp
An Aon Company

Florida PRIME Characteristics
Quarter Ending 3/31/2013



Hewitt ennisknupp
An Aon Company

Florida PRIME Characteristics
Period Ending 3/31/2013

Effective Maturity Schedule	
1-7 Days	40.1%
8-30 Days	22.4
31-90 Days	26.4
91-180 Days	10.0
181+ Days	1.1
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
A-1+	62.0%
A-1	38.0
Total % of Portfolio:	**100.0%**

(This page left blank intentionally)

Hewitt ennisknupp

An Aon Company

State Board of Administration of Florida

FRS Pension Plan

First Quarter 2013

Hewitt EnnisKnupp, Inc.
10 South Riverside Plaza, Suite 1600
Chicago, IL 60606
phone: 1-312-715-1700
fax: 1-312-715-1952
www.hewittennisknupp.com

CONTENTS

1 Market Environment
17 Total Fund
29 Global Equity
31 Domestic Equities
37 Foreign Equities
43 Global Equities
47 Fixed Income
53 Private Equity
63 Real Estate
71 Strategic Investments
79 Cash
83 Appendix

(This page left blank intentionally)

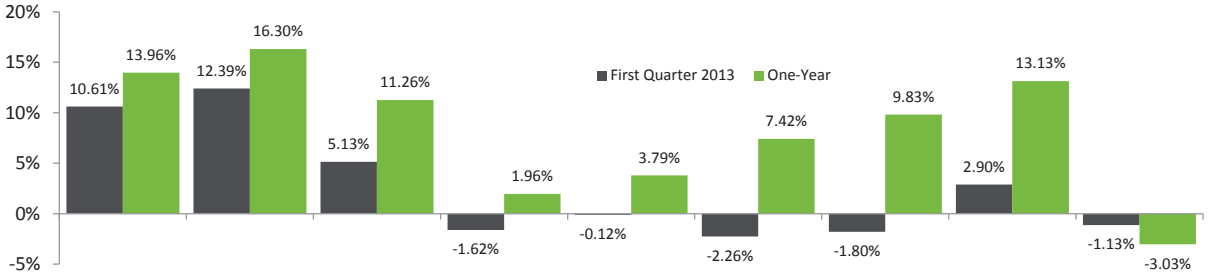
Market Environment

First Quarter 2013

Hewitt ennisknupp
An Aon Company

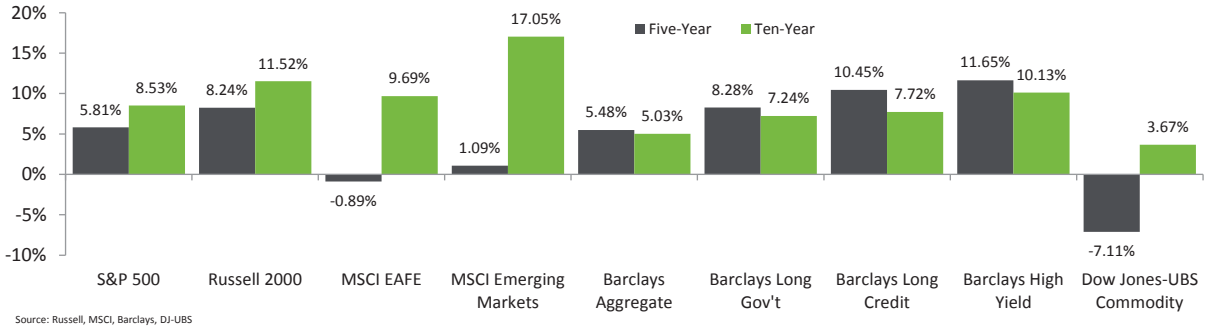
Market Highlights

SHORT TERM RETURNS
AS OF 03/31/2013



Source: Russell, MSCI, Barclays, DJ-UBS

LONG TERM ANNUALIZED RETURNS
AS OF 03/31/2013



Source: Russell, MSCI, Barclays, DJ-UBS

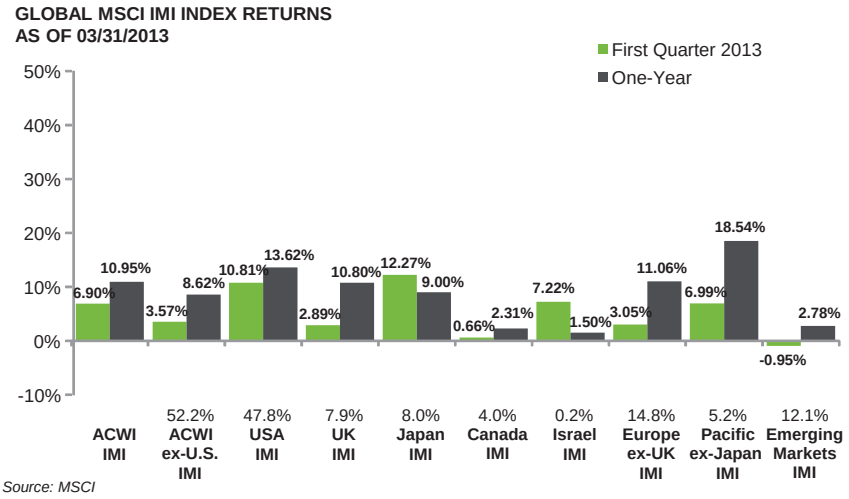
Hewitt ennisknupp
An Aon Company

Market Highlights

Returns of the Major Capital Markets					
		Periods Ending 3/31/2013			
	First Quarter	1-Year	3-Year	5-Year	10-Year
Domestic Stock Indices					
Dow Jones U.S. Total Stock Market Index	11.1%	14.5%	13.1%	6.5%	9.4%
Russell 3000 Index	11.1%	14.6%	13.0%	6.3%	9.2%
S&P 500 Index	10.6%	14.0%	12.7%	5.8%	8.5%
Russell 2000 Index	12.4%	16.3%	13.5%	8.2%	11.5%
Global Stock Indices					
MSCI All Country World IMI Index	6.9%	11.0%	8.1%	2.6%	9.9%
MSCI All Country World ex-U.S. IMI Index	3.6%	8.6%	4.7%	0.0%	11.3%
MSCI EAFE Index	5.1%	11.3%	5.0%	-0.9%	9.7%
MSCI Emerging Markets Index	-1.6%	2.0%	3.3%	1.1%	17.1%
Domestic/Foreign Bond Indices					
Barclays Aggregate Bond Index	-0.1%	3.8%	5.5%	5.5%	5.0%
Barclays Long Gov't Index	-2.3%	7.4%	12.4%	8.3%	7.2%
Barclays Long Credit Index	-1.8%	9.8%	12.1%	10.5%	7.7%
Barclays Long Gov't/Credit Index	-2.0%	8.9%	12.3%	9.6%	7.5%
SSB Non-U.S. WGBI Index	-3.8%	-2.2%	3.3%	2.3%	5.6%

Hewitt ennisknupp
An Aon Company

Global Equity Markets



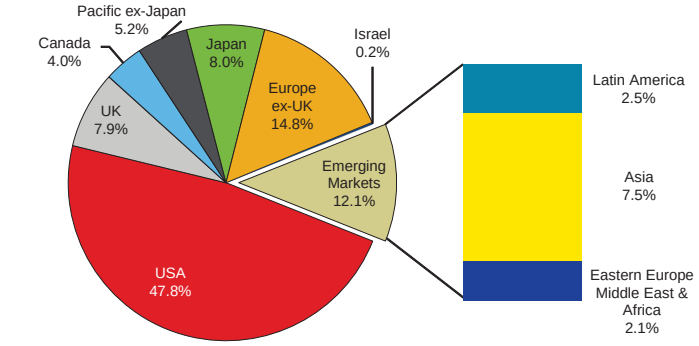
Source: MSCI

- Equity markets posted positive returns during the quarter despite Eurozone worries resulting from an Italian election in which no party claimed a majority, corruption allegations in Spain, and a Cypriot bailout. Equity markets were pushed higher by positive U.S. economic data and the U.S. fiscal cliff deal that was reached at the beginning of the quarter.
- Japan proved to be the best performing region as investors were pleased with the Prime Minister's ongoing pressure to increase the money supply. The worst performing region was Emerging Markets.

Hewitt ennisknupp
An Aon Company

Global Equity Markets

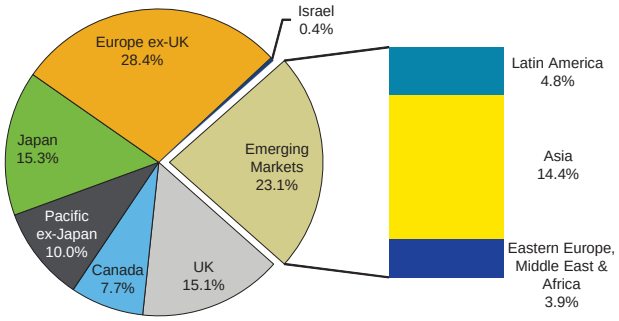
MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 03/31/2013



Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 03/31/2013

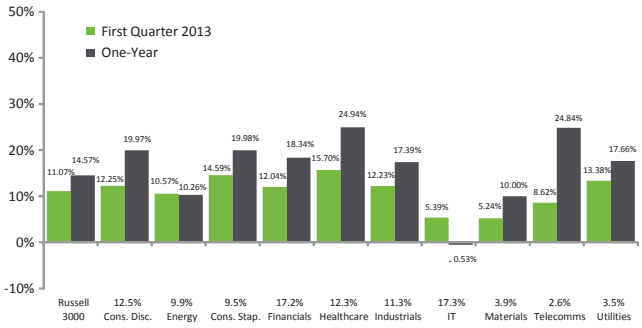


Source: MSCI

Hewitt ennisknupp
An Aon Company

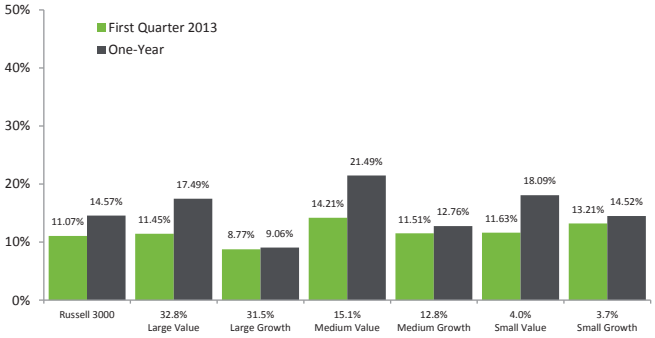
U.S. Equity Markets

RUSSELL GICS SECTOR RETURNS
AS OF 03/31/2013



Source: Russell Indexes

RUSSELL STYLE RETURNS
AS OF 03/31/2013



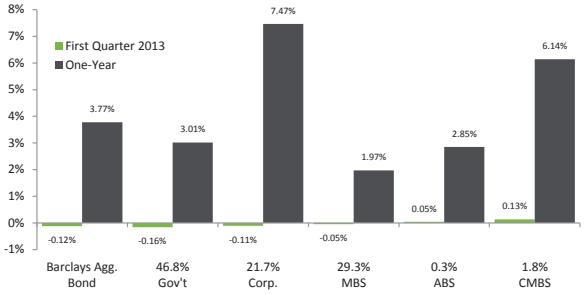
Source: Russell Indexes

- 2013 started strong for U.S. equities as Congress acted to delay negotiations regarding the debt ceiling. The rally continued through the second half of the quarter as fourth quarter earnings proved to be strong with roughly three-fourths of companies meeting or beating expectations.
- The Russell 3000 rose 11.07% during the quarter and returned 14.57% over the one-year period.
- The Healthcare, Utilities, Consumer Discretionary, and Industrial sectors were the best performing sectors during the fourth quarter, posting returns of 15.70%, 13.38%, 12.25%, and 12.23%, respectively. The Information Technology and Materials sectors were the worst performing areas, producing returns of 5.39% and 5.24%, respectively, during the first quarter.
- Overall, mid cap outperformed both small cap and large cap during the first quarter. Value outperformed growth in the large and mid cap sectors but growth prevailed amongst small cap stocks during the quarter.

Hewitt ennisknupp
An Aon Company

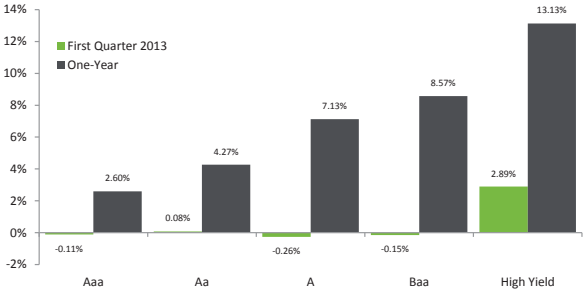
U.S. Fixed Income Markets

BARCLAYS AGGREGATE RETURNS BY SECTOR AS OF 03/31/2013



Source: Barclays Live

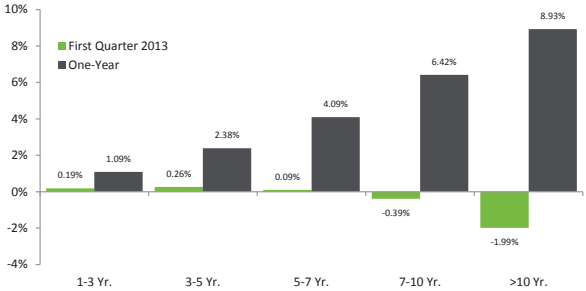
BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 03/31/2013



Source: Barclays Live

- The Barclays Aggregate Bond Index returned -0.12% in the first quarter.
- Commercial mortgage-backed securities and asset-backed securities were the strongest performing sectors, returning 0.13% and 0.05%, respectively, over the course of the first quarter.
- In the investment grade market, higher quality bonds outperformed lower quality bonds during the first quarter.
- High yield bonds outperformed investment grade bonds as investors sought yield in a low interest rate environment.
- From a maturity perspective, shorter term bonds outperformed, with the 1-3 yr. and 3-5 yr. posting positive returns of 0.19% and 0.26%, respectively, during the first quarter.

BARCLAYS AGGREGATE RETURNS BY MATURITY AS OF 03/31/2013

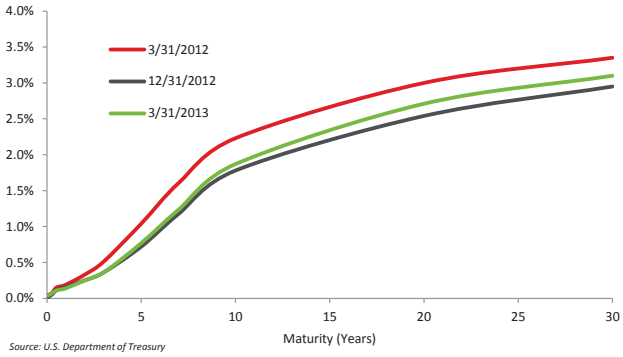


Source: Barclays Live

Hewitt ennisknupp
An Aon Company

U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

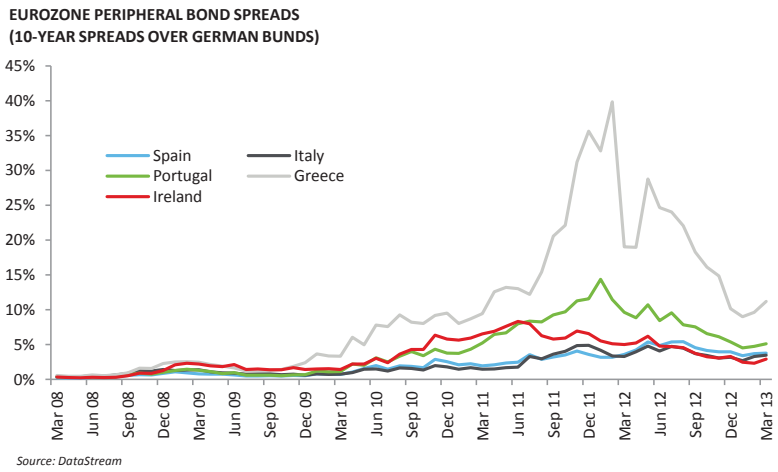
U.S. 10-YEAR TREASURY AND TIPS YIELDS

Source: U.S. Department of Treasury

- The Treasury yield curve steepened during the quarter; both the intermediate (1 to 10 years) and the long-term segments of the yield curve rose.
- The 10-year U.S. Treasury yield ended the quarter at a yield of 1.87%, roughly 9 basis points higher than its level at the beginning of the quarter.
- 10-year TIPS yields remained in negative territory, but rose by 3 basis points to -0.64% over the quarter.

Hewitt ennisknupp
An Aon Company

European Fixed Income Markets



Source: DataStream

- Cyprus was one of the focal points of the Eurozone debt crisis during the quarter as issues arose around the terms of the losses that depositors should face in the country's bailout. By the end of the quarter, Cyprus re-opened its banks after accepting €10 billion of financial aid under the condition that Cypriot bank depositors with deposits over €100,000 would bear significant losses.

Hewitt ennisknupp
An Aon Company

Credit Spreads

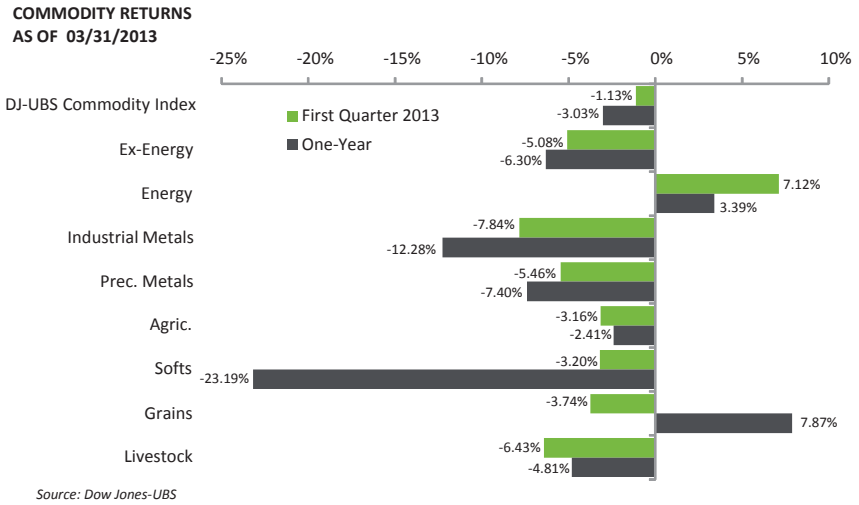
Spread (bps)	3/31/2013	12/31/2012	3/31/2012	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	56	53	64	2	-8
Long Gov't	4	4	5	0	-1
Long Credit	183	180	198	3	-15
Long Gov't/Credit	113	109	114	3	-1
MBS	58	50	52	8	6
CMBS	133	124	221	9	-89
ABS	49	43	65	6	-16
Corporate	139	141	176	-2	-37
High Yield	457	511	576	-54	-119
Global Emerging Markets	287	293	359	-6	-72

Source: Barclays Live

- Credit spreads rose modestly across most markets during the quarter with the exceptions of Long Government, Corporate, High Yield, and Global Emerging Markets.
- The High Yield segment experienced the largest drop in spreads during both the quarter and the one-year period.
- Credit spreads across most segments as of March 31, 2013 were lower relative to a year prior with the exception of MBS, which rose by 6 bps.

Hewitt ennisknupp
An Aon Company

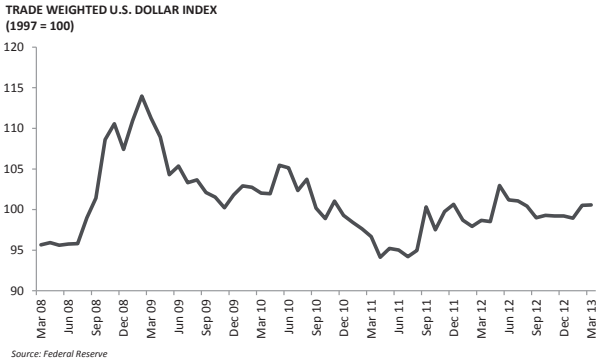
Commodities

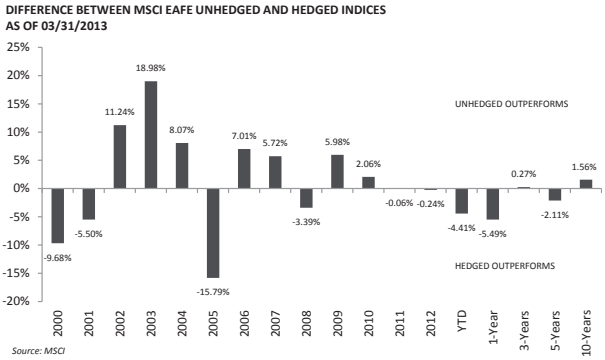


- Driven by negative returns across most market sectors, the Dow Jones-UBS Commodity Index decreased by 1.13% during the first quarter.
- The strongest and only positive performing segment of the market was Energy with a return of 7.12% during the quarter.
- Industrial Metals and Livestock were the worst performing sectors of the market during the first quarter with returns of -7.84% and -6.43%, respectively.

Hewitt ennisknupp
An Aon Company

Currency

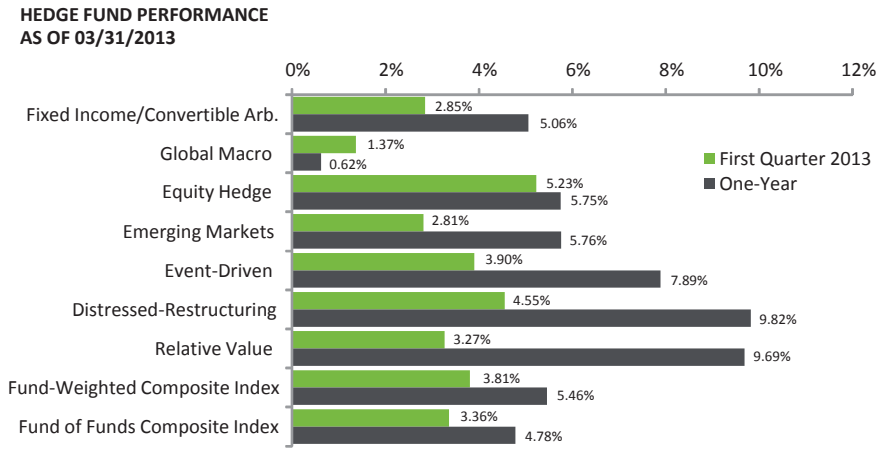




- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar appreciated during the quarter and the 1-year period.
- The MSCI EAFE Unhedged Index significantly underperformed the MSCI EAFE 100% Hedged Index during the year-to-date period reflecting the appreciation of the U.S. dollar. The Unhedged index underperformed the Hedged index during the trailing 1- and 5-year periods.

Hewitt ennisknupp
An Aon Company

Hedge Fund Markets Overview



Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.

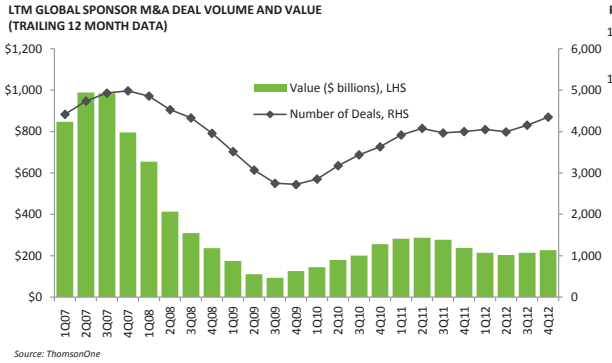
Source: HFR

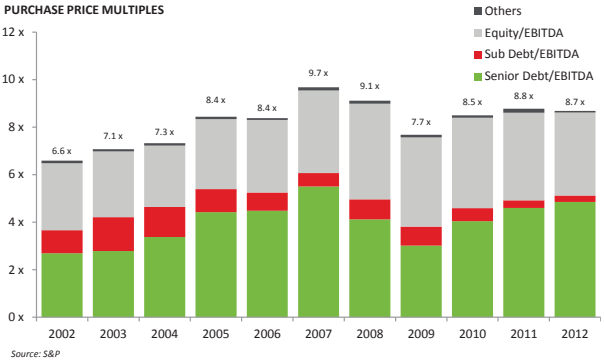
- All major hedge fund strategies types posted positive returns in the first quarter and 1-year period. The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 3.87% and 3.46%, respectively, during the first quarter.

- Equity Hedge and Distressed-Restructuring strategies were the strongest performers during the quarter gaining 5.29% and 4.37%, respectively.

Hewitt ennisknupp
An Aon Company

Private Equity Market Overview – Q4 2012

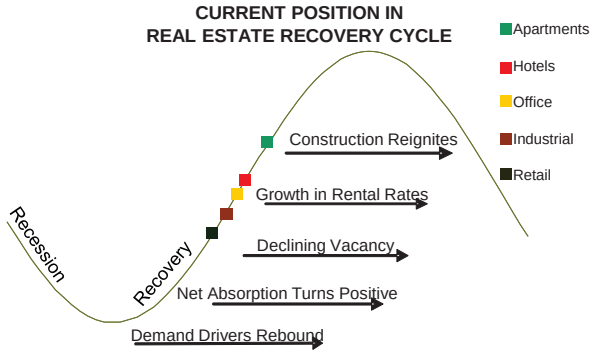




- **Fundraising:** $265 billion was raised in 2012, which is flat with 2011. This is a healthy but not excessive level and is well below the peak pre-crisis levels ($490B). Dry powder available to invest is significant ($789B) but decreasing and resides primarily within large cap and mega funds.
- **Buyout:** The number and value of deals completed is trending up but is 33.5% below the 10-year average. Some mega deals are getting done although small and middle market deals comprise the bulk of the number of deals. Purchase price multiples remained relatively steady for the last three years; European and US large cap prices are above their 10-year average while middle market is at its 10-year average. Europe activity remains slow due to economic uncertainty.
- **Venture capital:** $25.5 billion was invested in new deals, lagging the solid $29 billion in 2011. Pre money valuations stabilized with the exception of series B valuations which increased 34% to levels not seen since 2007. Exit activity was slightly lower than 2011 due to reduced M&A activity and poor performance of consumer technology IPOs.
- **Mezzanine:** U.S. mezzanine lenders are getting squeezed out of larger transactions due to robust and less expensive high yield market. In smaller deals, mezzanine is facing competition from senior lenders who are beginning to provide higher levels of leverage.
- **Distressed Debt:** Investment activity remains low due to high refinance activity and continued low high yield default rates; looking forward to 2013-2014, attractive opportunities exist primarily in mid to lower cap market and in Europe where bulk of troubled situations have yet to be resolved.
- **Secondaries:** $20 billion raised which is the highest level since 2008. $24 billion of deals was completed, the second highest level for this strategy. Purchase prices for buyout funds increased to 90% of value due to improving valuations, increased expected liquidity and higher levels of capital raised. Venture pricing fell to 69% of value, but is largely contingent on the specific fund being priced. Solid activity expected in 2013 but smaller transactions and lesser quality assets.
- **Infrastructure:** $23.2 billion raised, 5% greater than 2011. Infrastructure debt funds are being raised to replace the void left by the banks. Activity plateaued at lower levels due to debt availability and increased regulation in Europe.

Hewitt ennisknupp
An Aon Company

U.S. Commercial Real Estate Markets



2013 U.S. Real Estate Outlook:

- U.S. economy expected to remain in slow-growth mode for much of 2013, though still strong enough to support continued measured improvements in real estate fundamentals
- New supply expected to become more noticeable in 2013, first in apartments with some uptick in industrial as well; other new property type deliveries are still well restrained
- Current low interest rate environment continues to support price recovery/growth
  - Relative value of Real Estate versus other asset classes remains attractive
- Core rebound is mature and returns are expected to continue to moderate (consensus NPI forecast range is 6–9%...generally in line with long-term average)
  - Still solid investment option for long-term investors seeking diversification and yield
  - Consider debt plays as a substitute for Core returns (also good alternative for fixed income)
- Non Core opportunities remain in the sector's sweet spot, with above average return potential
  - Distress, recapitalization, lease up, repositioning, even some development attractive
- Headwinds remain, both domestic and global, thus do not discount the potential for above average volatility in the sector to continue

Hewitt ennisknupp
An Aon Company

(This page is left blank intentionally)

Hewitt ennisknupp
An Aon Company

Total Fund

Total Fund | As of March 31, 2013 | $133,650.6 Million and 100.0% of Fund

Highlights

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.
- Hewitt EnnisKnupp and SBA staff revisits 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

- Over the trailing one-, three-, five- and ten-year periods, the Total Fund outperformed the Performance Benchmark. During the first quarter, the Fund returned 5.1% and outperformed its Benchmark by 0.2 percentage points.

Asset Allocation

- The Fund assets total $133.7 billion as of March 31, 2013, which represents a $5.0 billion increase since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges at quarter-end.
- The Fund was overweight to global equity with corresponding marginal underweights to fixed income, real estate and cash at quarter end.

Plan Summary

Summary of Cash Flows

Sources of Portfolio Growth	First Quarter	Fiscal YTD*
Beginning Market Value	$128,614,037,816	$122,745,973,551
Net Additions/Withdrawals	($1,539,133,242)	($4,715,116,797)
Investment Earnings	$6,575,726,424	$15,619,774,244
Ending Market Value	$133,650,630,998	$133,650,630,998

*Period July 2012 - March 2013

Plan Performance

Benchmark: Performance Benchmark

Trailing Period Performance

	Market Value ($)	% of Portfolio	Policy %	2013 Q1 (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank
						Ending March 31, 2013							
Total Fund	**133,650,630,998**	**100.0**	**100.0**	**5.1**	**35**	**10.9**	**26**	**9.4**	**46**	**4.8**	**44**	**8.6**	**31**
Performance Benchmark				*4.9*	*42*	*9.6*	*63*	*8.5*	*73*	*4.2*	*70*	*8.3*	*41*
Absolute Nominal Target Rate of Return				*2.6*	*92*	*6.5*	*98*	*7.4*	*92*	*6.8*	*5*	*7.1*	*82*
Global Equity*	**79,390,298,969**	**59.4**	**57.6**	**7.5**	**--**	**12.5**	**--**	**9.5**	**--**	**4.0**	**--**	**9.2**	**--**
Asset Class Target				*7.0*	*--*	*11.1*	*--*	*8.1*	*--*	*3.0*	*--*	*8.8*	*--*
Domestic Equities	**35,975,335,114**	**26.9**	**--**	**11.1**	**56**	**14.2**	**49**	**13.3**	**27**	**6.6**	**30**	**9.2**	**38**
Asset Class Target				*11.1*	*58*	*14.6*	*41*	*13.0*	*33*	*6.3*	*38*	*9.2*	*38*
Foreign Equities	**39,339,409,662**	**29.4**	**--**	**4.4**	**41**	**10.8**	**26**	**6.8**	**13**	**1.6**	**10**	**12.0**	**13**
Asset Class Target				*3.7*	*68*	*8.8*	*70*	*4.7*	*78*	*0.0*	*54*	*11.1*	*44*
Global Equities	**4,075,024,308**	**3.0**	**--**	**8.3**	**--**	**13.4**	**--**	**8.4**	**--**	**1.9**	**--**	**--**	**--**
Benchmark				*7.4*	*--*	*11.5*	*--*	*8.3*	*--*	*2.5*	*--*	*--*	*--*
Fixed Income	**29,830,333,184**	**22.3**	**24.0**	**0.1**	**69**	**5.1**	**66**	**6.7**	**56**	**6.5**	**46**	**5.6**	**54**
Asset Class Target				*-0.1*	*90*	*3.8*	*91*	*5.5*	*87*	*5.5*	*84*	*5.2*	*72*
Private Equity	**6,653,205,206**	**5.0**	**5.0**	**2.2**	**--**	**11.1**	**--**	**11.7**	**--**	**4.4**	**--**	**7.8**	**--**
Asset Class Target				*12.2*	*--*	*17.6*	*--*	*16.0*	*--*	*10.2*	*--*	*13.2*	*--*
*Secondary Target***				*3.2*	*--*	*13.0*	*--*	*14.6*	*--*	*5.7*	*--*	*14.7*	*--*
Real Estate	**10,070,960,505**	**7.5**	**7.6**	**5.9**	**1**	**14.7**	**1**	**14.9**	**12**	**1.1**	**1**	**8.8**	**13**
Asset Class Target				*2.5*	*56*	*10.8*	*51*	*13.8*	*34*	*-0.4*	*10*	*4.5*	*97*
Strategic Investments	**6,465,500,406**	**4.8**	**4.8**	**3.5**	**--**	**13.9**	**--**	**9.8**	**--**	**2.7**	**--**	**--**	**--**
Short-Term Target				*2.8*	*--*	*8.6*	*--*	*5.7*	*--*	*1.3*	*--*	*--*	*--*
Cash	**1,240,332,728**	**0.9**	**1.0**	**0.1**	**--**	**0.3**	**--**	**0.3**	**--**	**-0.5**	**--**	**1.1**	**--**
iMoneyNet First Tier Institutional Money Market Funds Net Index				*0.0*	*--*	*0.1*	*--*	*0.1*	*--*	*0.6*	*--*	*2.0*	*--*

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.

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

Calendar Year Performance

	2012 (%)	Rank	2011 (%)	Rank	2010 (%)	Rank	2009 (%)	Rank	2008 (%)	Rank	2007 (%)	Rank	2006 (%)	Rank	2005 (%)	Rank	2004 (%)	Rank	2003 (%)	Rank
Total Fund	**14.2**	**14**	**-0.5**	**71**	**13.5**	**37**	**20.8**	**36**	**-26.7**	**49**	**9.1**	**28**	**14.6**	**33**	**7.8**	**40**	**12.0**	**47**	**23.8**	**40**
Performance Benchmark	*12.8*	*56*	*-1.2*	*84*	*12.9*	*52*	*19.5*	*46*	*-26.1*	*47*	*8.9*	*32*	*14.4*	*38*	*7.3*	*62*	*11.5*	*54*	*24.5*	*28*
Absolute Nominal Target Rate of Return	*6.8*	*98*	*8.1*	*4*	*6.6*	*98*	*7.9*	*99*	*5.1*	*1*	*8.9*	*33*	*6.6*	*96*	*7.6*	*47*	*7.4*	*96*	*6.1*	*98*
Global Equity*	**17.8**	**--**	**-6.5**	**--**	**15.9**	**--**	**33.7**	**--**	**-39.9**	**--**	**8.4**	**--**	**17.5**	**--**	**8.6**	**--**	**14.4**	**--**	**32.3**	**--**
Asset Class Target	*16.5*	*--*	*-7.9*	*--*	*15.1*	*--*	*33.8*	*--*	*-40.4*	*--*	*8.5*	*--*	*18.4*	*--*	*8.7*	*--*	*14.1*	*--*	*33.2*	*--*
Domestic Equities	**16.3**	**50**	**1.6**	**21**	**17.2**	**65**	**28.8**	**46**	**-37.4**	**48**	**5.3**	**52**	**14.7**	**61**	**6.3**	**76**	**12.3**	**44**	**30.2**	**72**
Asset Class Target	*16.4*	*41*	*1.0*	*30*	*16.9*	*70*	*28.3*	*55*	*-37.3*	*45*	*5.1*	*53*	*15.7*	*40*	*6.1*	*88*	*11.9*	*68*	*31.1*	*68*
Foreign Equities	**19.3**	**27**	**-12.9**	**45**	**15.2**	**7**	**42.7**	**9**	**-44.4**	**37**	**16.1**	**39**	**26.4**	**31**	**16.1**	**46**	**21.3**	**29**	**39.8**	**28**
Asset Class Target	*17.2*	*84*	*-14.6*	*80*	*13.0*	*41*	*43.7*	*8*	*-46.1*	*78*	*16.4*	*30*	*26.7*	*28*	*16.6*	*39*	*20.9*	*32*	*40.8*	*17*
Global Equities	**15.6**	**--**	**-5.7**	**--**	**10.4**	**--**	**32.8**	**--**	**-41.8**	**--**	**10.2**	**--**	**20.0**	**--**	**9.4**	**--**	**15.4**	**--**	**--**	**--**
Benchmark	*16.0*	*--*	*-6.7*	*--*	*13.1*	*--*	*34.6*	*--*	*-42.1*	*--*	*11.8*	*--*	*21.1*	*--*	*11.3*	*--*	*16.4*	*--*	*--*	*--*
Fixed Income	**6.4**	**61**	**7.6**	**45**	**9.2**	**34**	**14.4**	**46**	**-3.9**	**43**	**6.7**	**29**	**4.7**	**39**	**2.8**	**28**	**5.0**	**51**	**6.0**	**56**
Asset Class Target	*4.2*	*89*	*7.8*	*38*	*6.5*	*92*	*5.9*	*91*	*5.2*	*9*	*7.2*	*21*	*4.7*	*38*	*2.5*	*45*	*4.7*	*67*	*5.1*	*67*
Private Equity	**12.4**	**--**	**8.0**	**--**	**18.6**	**--**	**-12.1**	**--**	**-4.3**	**--**	**16.5**	**--**	**12.2**	**--**	**12.9**	**--**	**0.6**	**--**	**10.3**	**--**
Asset Class Target	*19.4*	*--*	*4.0*	*--*	*19.9*	*--*	*32.8*	*--*	*-32.8*	*--*	*9.6*	*--*	*20.2*	*--*	*10.6*	*--*	*16.5*	*--*	*33.8*	*--*
*Secondary Target***	*14.8*	*--*	*14.6*	*--*	*17.4*	*--*	*-9.7*	*--*	*-5.2*	*--*	*30.0*	*--*	*22.5*	*--*	*36.4*	*--*	*19.2*	*--*	*11.7*	*--*
Real Estate	**14.4**	**7**	**14.5**	**18**	**5.1**	**70**	**-22.8**	**30**	**-1.5**	**28**	**13.6**	**43**	**22.5**	**6**	**17.2**	**85**	**17.4**	**22**	**12.2**	**28**
Asset Class Target	*12.2*	*23*	*15.3*	*12*	*8.8*	*61*	*-29.7*	*63*	*-1.1*	*23*	*12.1*	*68*	*6.5*	*95*	*8.8*	*99*	*7.8*	*99*	*11.6*	*31*
Strategic Investments	**15.2**	**--**	**5.5**	**--**	**8.9**	**--**	**22.0**	**--**	**-37.4**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Short-Term Target	*9.1*	*--*	*4.2*	*--*	*3.5*	*--*	*20.8*	*--*	*-33.6*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*
Cash	**0.3**	**--**	**0.3**	**--**	**0.4**	**--**	**1.7**	**--**	**-5.8**	**--**	**4.1**	**--**	**5.1**	**--**	**3.4**	**--**	**1.4**	**--**	**1.2**	**--**
iMoneyNet First Tier Institutional Money Market Funds Net Index	*0.1*	*--*	*0.1*	*--*	*0.2*	*--*	*0.7*	*--*	*3.0*	*--*	*5.4*	*--*	*5.1*	*--*	*3.4*	*--*	*1.4*	*--*	*1.1*	*--*

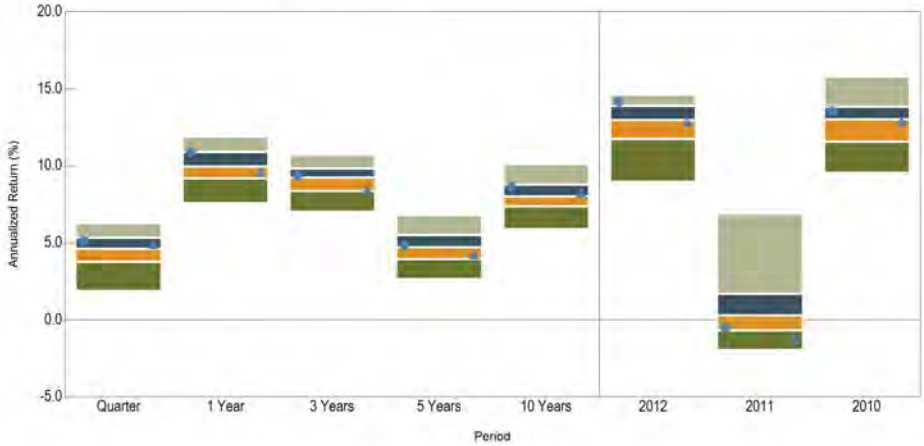
* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

Universe Comparison

Benchmark: Performance Benchmark

Universe: Public Funds >$1B Net

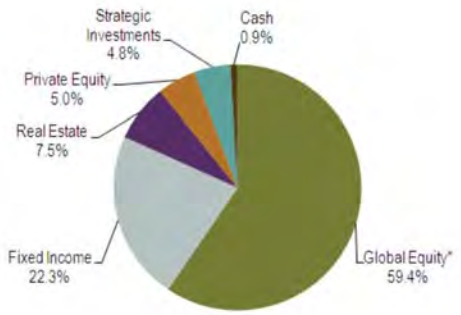


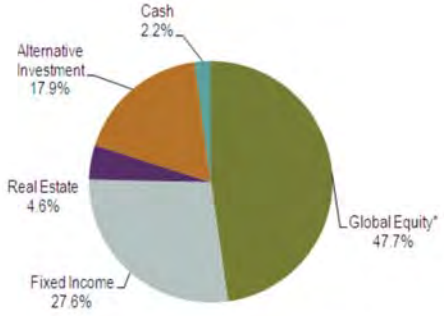
	Return (Rank)																			
5th Percentile	6.3		11.9		10.7		6.8		10.1		14.6		6.9		15.8	
25th Percentile	5.3		10.9		9.8		5.5		8.8		13.9		1.7		13.8	
Median	4.6		10.0		9.2		4.7		8.0		13.0		0.3		13.0	
75th Percentile	3.8		9.2		8.4		4.0		7.4		11.8		-0.7		11.6	
95th Percentile	1.9		7.6		7.0		2.7		5.9		9.0		-2.0		9.6	
# of Portfolios	68		66		65		64		57		65		72		67	
● **Total Fund**	5.1	(35)	10.9	(26)	9.4	(46)	4.8	(44)	8.6	(31)	14.2	(14)	-0.5	(71)	13.5	(37)
▲ **Performance Benchmark**	4.9	(42)	9.6	(63)	8.5	(73)	4.2	(70)	8.3	(41)	12.8	(56)	-1.2	(84)	12.9	(52)

Universe Asset Allocation Comparison

Benchmark: Performance Benchmark

Universe: Public Funds >$1B Net





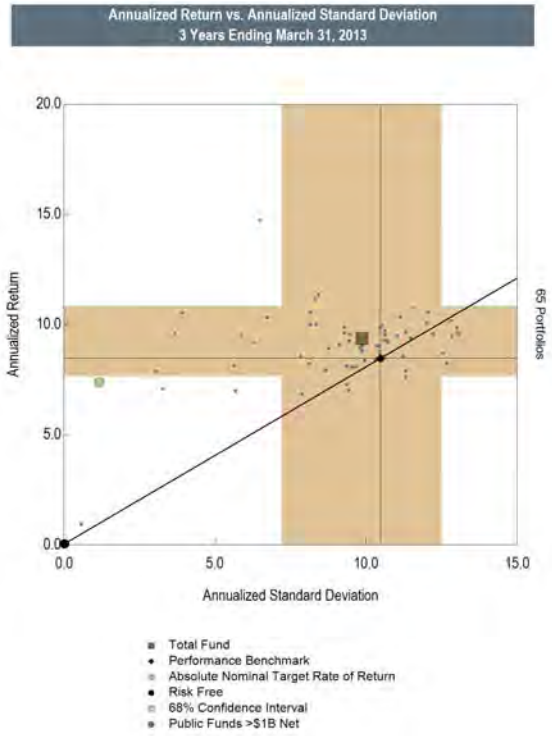
*Global Equity Allocation: 26.9% Domestic Equities; 29.4% Foreign Equities; 3.1% Global Equities. Percentages are of the Total FRS Fund.

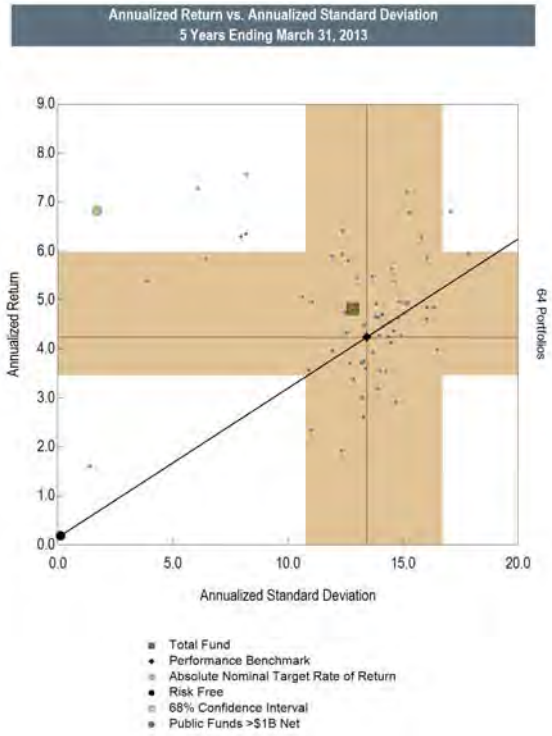
**Global Equity Allocation: 28.8% Domestic Equities; 18.9% Foreign Equities.

Risk Profile

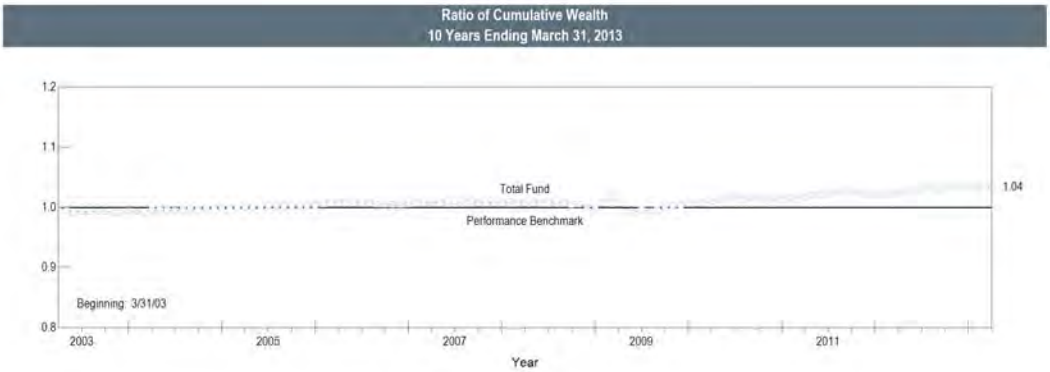
Benchmark: Performance Benchmark

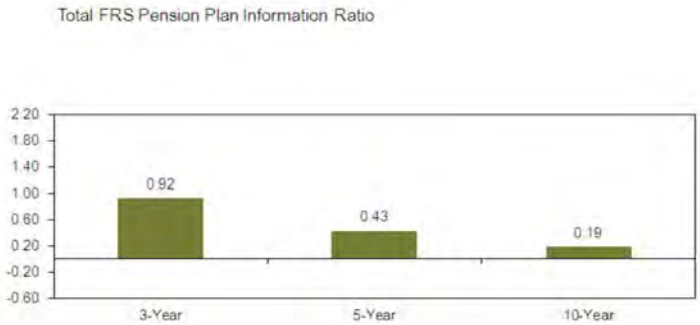
Universe: Public Funds >$1B Net



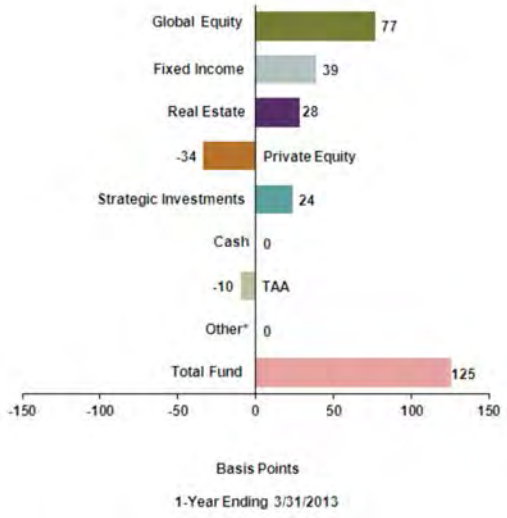


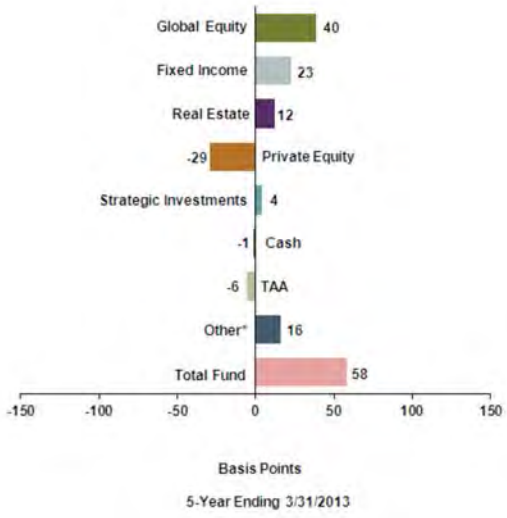
Attribution





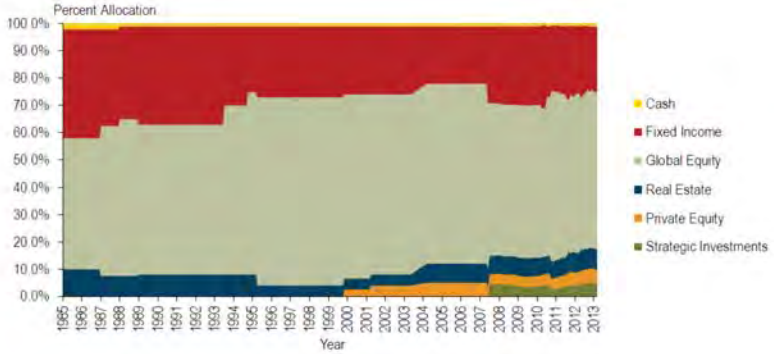
Attribution





*Other includes legacy accounts, securities lending, and unexplained differences due to methodology.

Asset Allocation

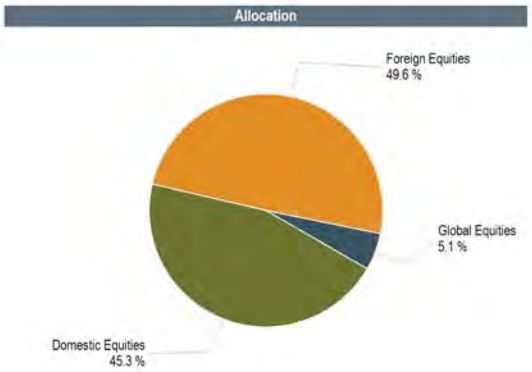


Global Equity

Global Equity* | As of March 31, 2013 | $79,390.3 Million and 59.4% of Fund

Overview

Benchmark: Asset Class Target



* 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.

Note: The current Global Equity benchmark, the Asset Class Target, is a custom version of the MSCI ACWI IMI which excludes companies divested under provisions of the Protecting Florida's Investment Act (PFIA). Prior to July 2010, the asset class benchmark is a weighted average of the underlying Domestic Equities', Foriegn Equities' and Global Equities' historical benchmarks.

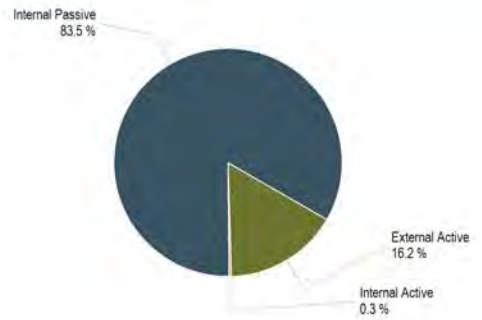
Domestic Equities

Domestic Equities | As of March 31, 2013 | $35,975.3 Million and 26.9% of Fund

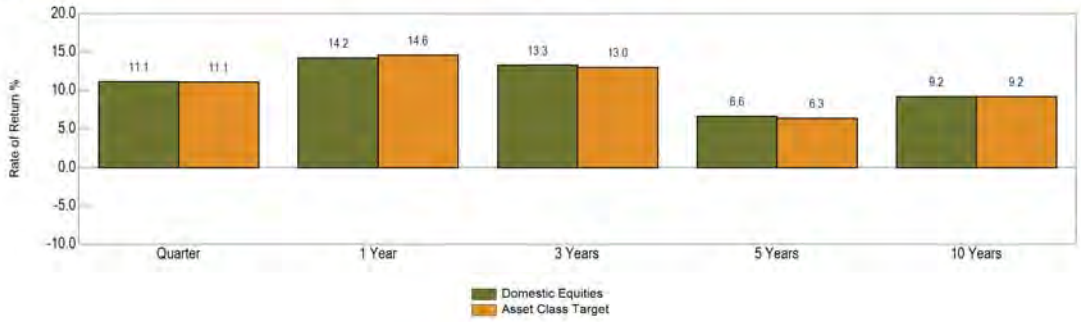
Overview

Benchmark: Asset Class Target

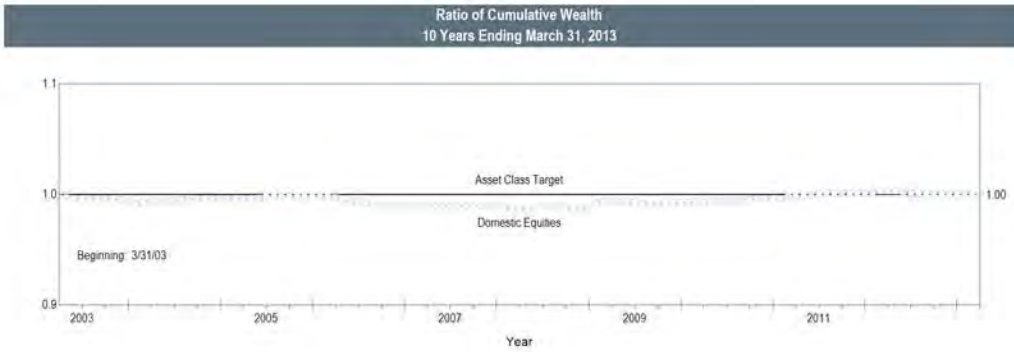
Current Allocation



Return Summary



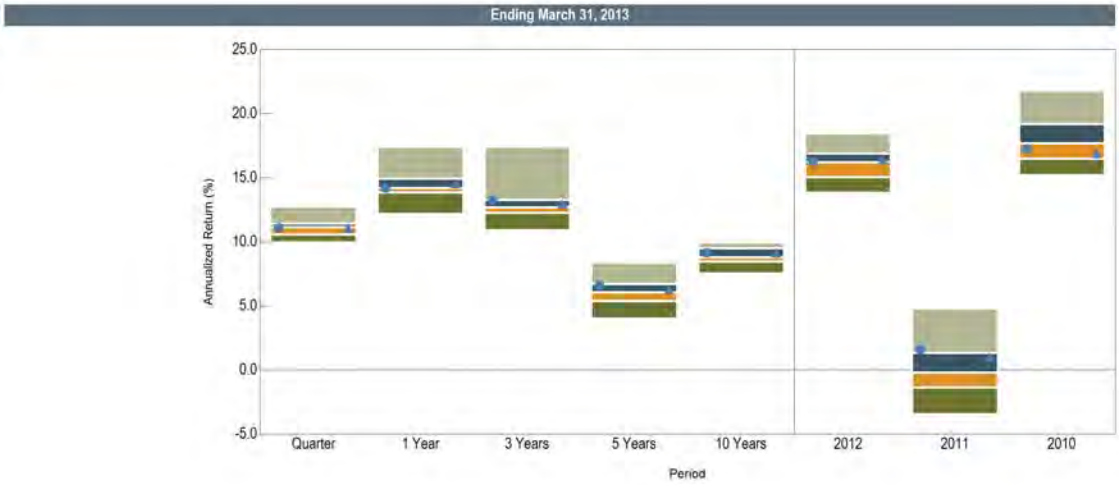
Overview



Universe Comparison

Benchmark: Asset Class Target

Universe: Public Funds >$1B - US Eq Net

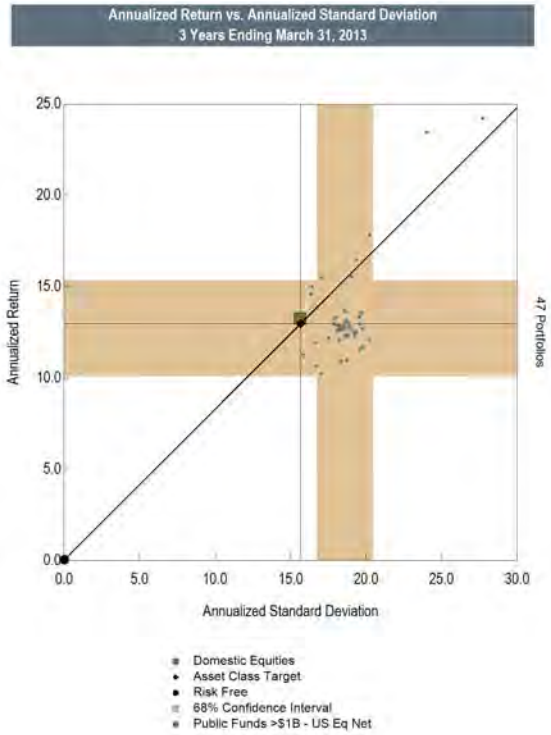


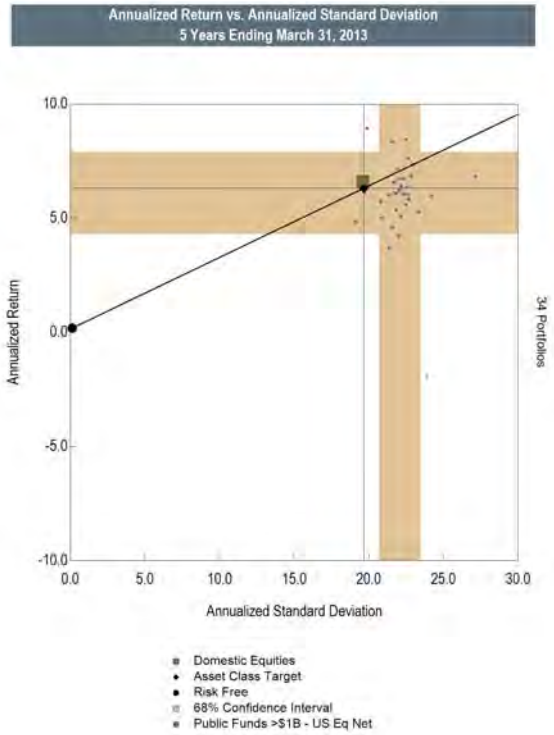
	Return (Rank)															
5th Percentile	12.8		17.4		17.4		8.4		10.0		18.4		4.8		21.8	
25th Percentile	11.4		14.9		13.3		6.7		9.5		16.9		1.4		19.2	
Median	11.2		14.2		12.7		6.1		8.8		16.3		-0.2		17.7	
75th Percentile	10.6		13.9		12.3		5.4		8.5		15.1		-1.3		16.5	
95th Percentile	10.0		12.2		10.9		4.0		7.6		13.9		-3.4		15.2	
# of Portfolios	51		50		47		34		18		48		51		46	
● Domestic Equities	11.1	(56)	14.2	(49)	13.3	(27)	6.6	(30)	9.2	(38)	16.3	(50)	1.6	(21)	17.2	(65)
▲ Asset Class Target	11.1	(58)	14.6	(41)	13.0	(33)	6.3	(38)	9.2	(38)	16.4	(41)	1.0	(30)	16.9	(70)

Risk Profile

Benchmark: Asset Class Target

Universe: Public Funds >$1B - US Eq Net





(This page left blank intentionally)

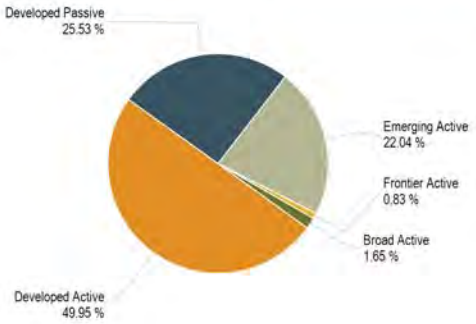
Foreign Equities

Foreign Equities | As of March 31, 2013 | $39,339.4 Million and 29.4% of Fund

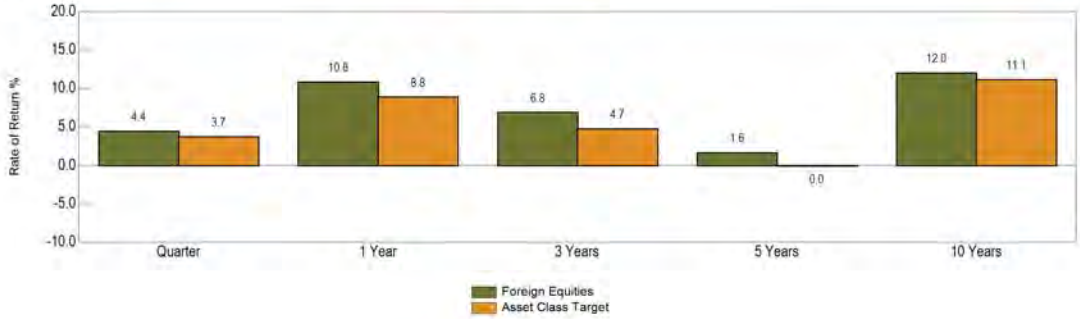
Overview

Benchmark: Asset Class Target

Current Allocation

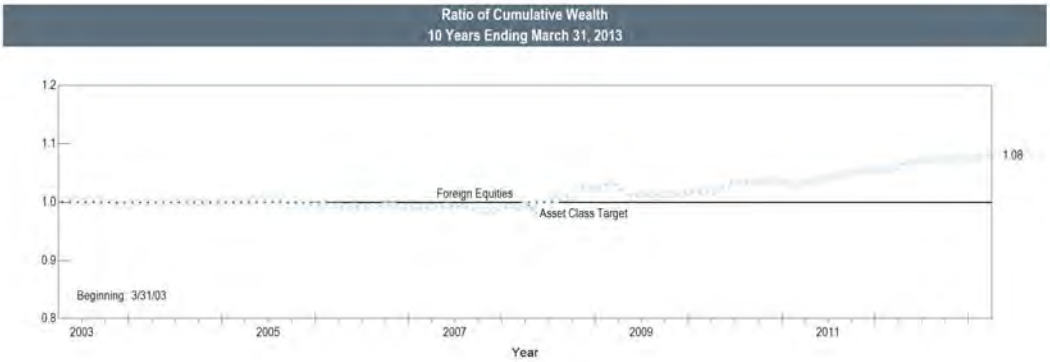


Return Summary



Overview

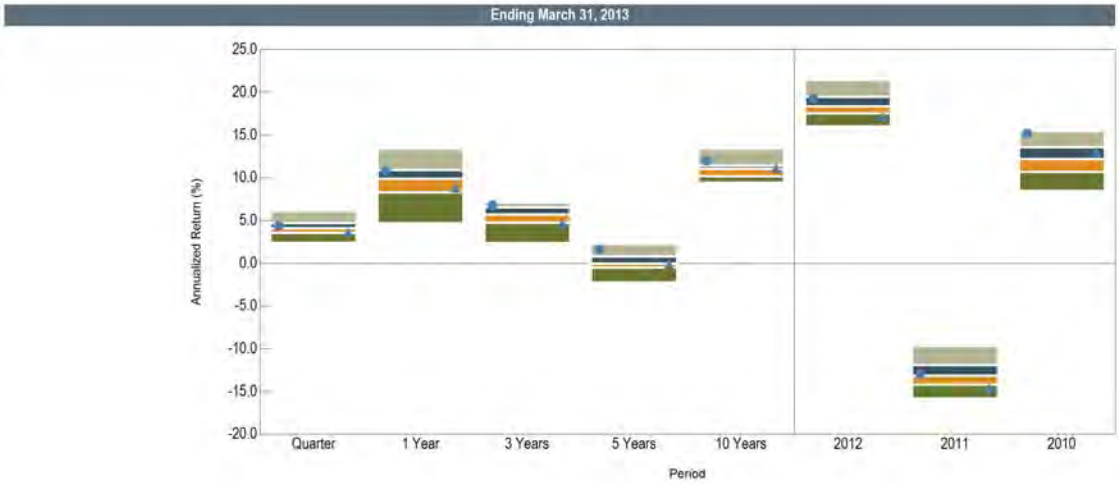
Benchmark: Asset Class Target



Universe Comparison

Benchmark: Asset Class Target

Universe: Public Funds >$1B - Non-US Eq Net

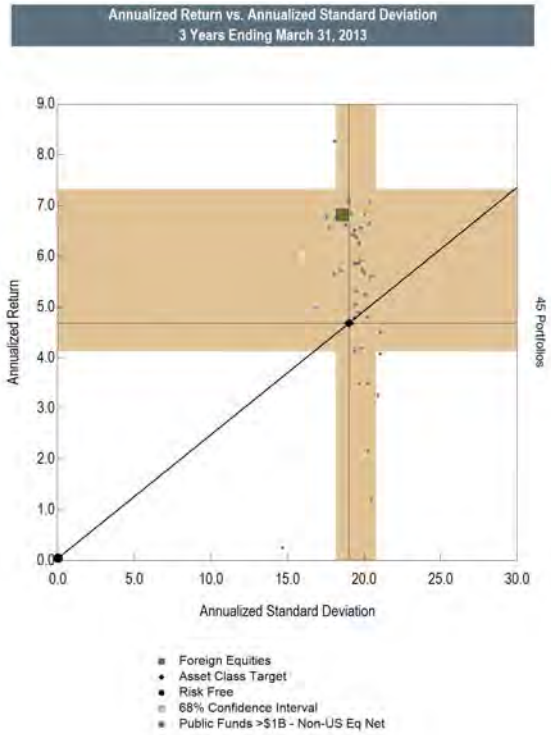


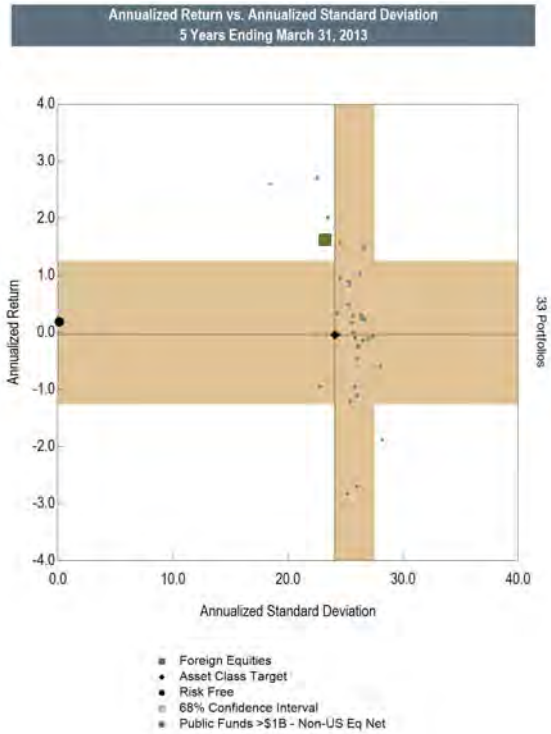
	Return (Rank)															
5th Percentile	6.1		13.4		7.1		2.2		13.4		21.5		-9.7		15.5	
25th Percentile	4.7		10.9		6.6		0.8		11.4		19.5		-11.9		13.6	
Median	4.1		9.9		5.7		0.0		11.1		18.4		-13.1		12.2	
75th Percentile	3.6		8.3		4.8		-0.5		10.2		17.6		-14.2		10.7	
95th Percentile	2.4		4.7		2.4		-2.2		9.5		16.1		-15.8		8.5	
# of Portfolios	49		46		45		33		19		41		45		40	
● Foreign Equities	4.4	(41)	10.8	(26)	6.8	(13)	1.6	(10)	12.0	(13)	19.3	(27)	-12.9	(45)	15.2	(7)
▲ Asset Class Target	3.7	(68)	8.8	(70)	4.7	(78)	0.0	(54)	11.1	(44)	17.2	(84)	-14.6	(80)	13.0	(41)

Risk Profile

Benchmark: Asset Class Target

Universe: Public Funds >$1B - Non-US Eq Net





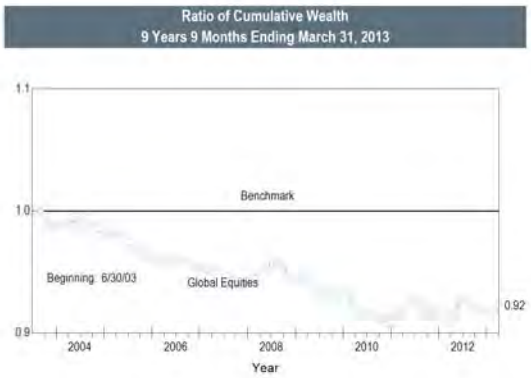
(This page left blank intentionally)

Global Equities

Global Equities | As of March 31, 2013 | $4,075.0 Million and 3.0% of Fund

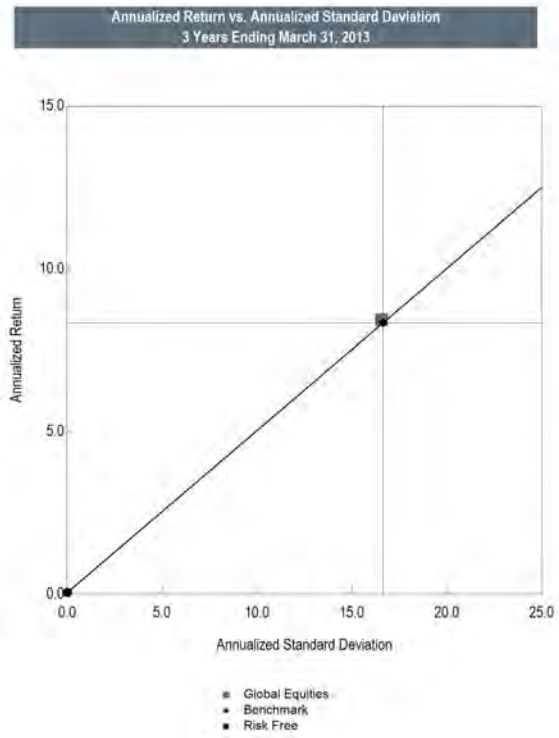
Overview

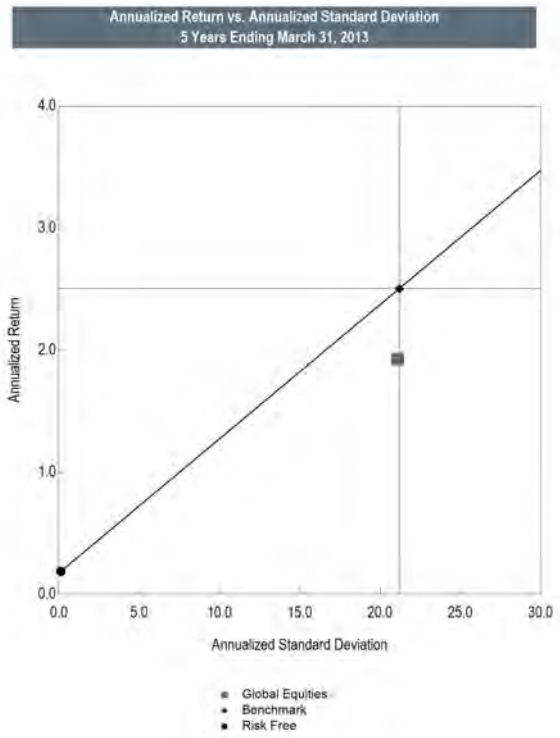
Benchmark: Aggregate Benchmark



Risk Profile

Benchmark: Aggregate Benchmark





(This page left blank intentionally)

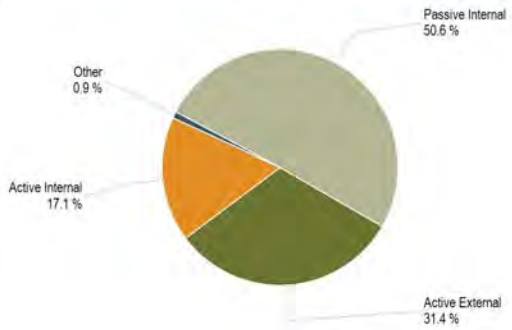
Fixed Income

Fixed Income | As of March 31, 2013 | $29,830.3 Million and 22.3% of Fund

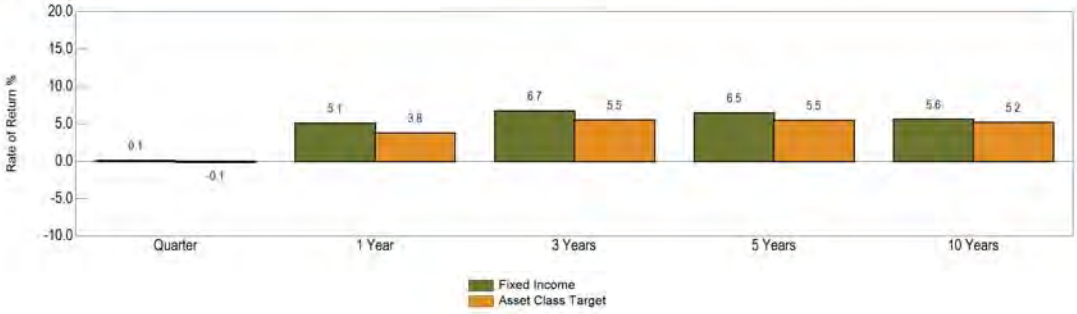
Overview

Benchmark: Asset Class Target

Current Allocation

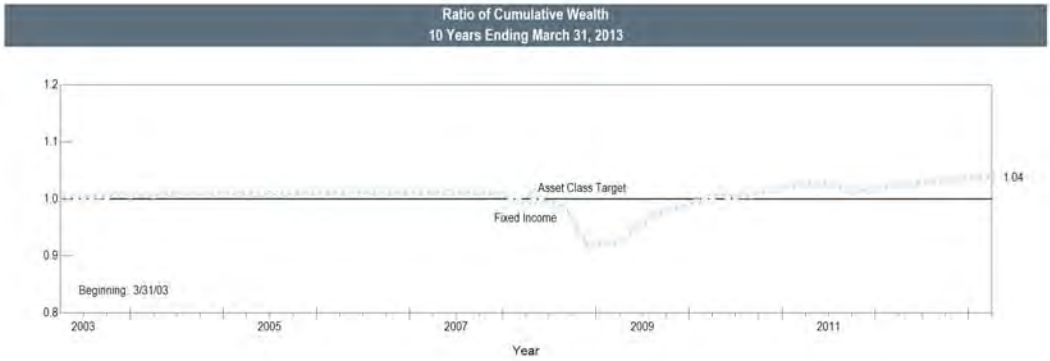


Return Summary



Overview

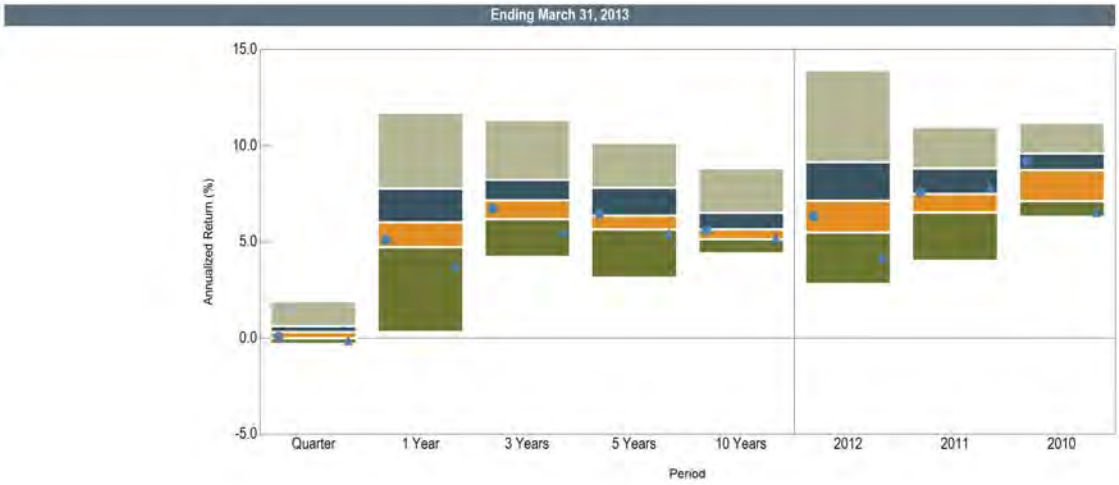
Benchmark: Asset Class Target



Universe Comparison

Benchmark: Asset Class Target

Universe: Public Funds >$1B - US FI Net

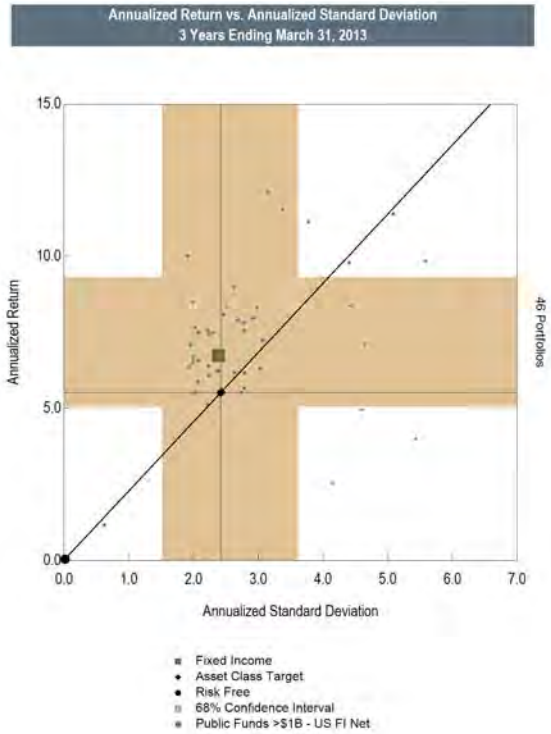


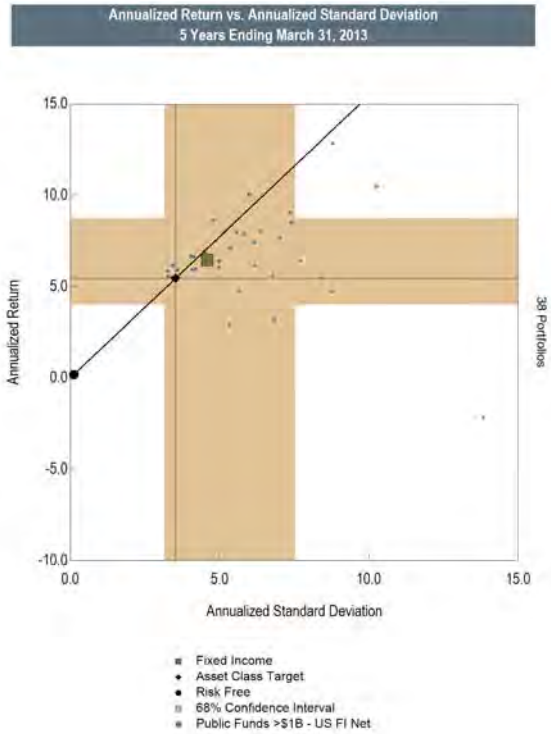
	Return (Rank)															
5th Percentile	1.9		11.7		11.3		10.1		8.8		13.9		11.0		11.2	
25th Percentile	0.6		7.8		8.2		7.8		6.5		9.2		8.8		9.6	
Median	0.3		6.0		7.2		6.4		5.7		7.2		7.5		8.8	
75th Percentile	0.0		4.7		6.2		5.7		5.2		5.5		6.5		7.1	
95th Percentile	-0.3		0.3		4.2		3.2		4.4		2.8		4.0		6.3	
# of Portfolios	52		51		46		38		22		48		51		47	
● Fixed Income	0.1	(69)	5.1	(66)	6.7	(56)	6.5	(46)	5.6	(54)	6.4	(61)	7.6	(45)	9.2	(34)
▲ Asset Class Target	-0.1	(90)	3.8	(91)	5.5	(87)	5.5	(84)	5.2	(72)	4.2	(89)	7.8	(38)	6.5	(92)

Risk Profile

Benchmark: Asset Class Target

Universe: Public Funds >$1B - US FI Net

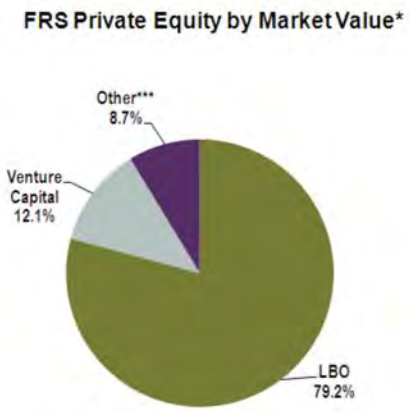


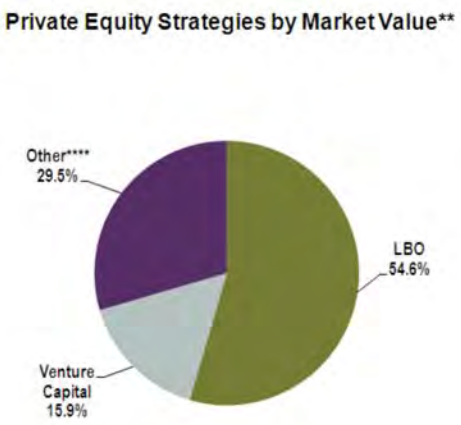


(This page left blank intentionally)

Private Equity

Overview





* Allocation data is as of December 31, 2012.

**Allocation data is as of June 30, 2012, from the Prequin database.

** Other for the FRS Private Equity consists of Growth Capital, Secondary and PE Cash.

*** Other for the Venture Economics consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations.

Preqin universe is comprised of 6,200 private equity funds representing $3.2 trillion.

Private Equity | As of March 31, 2013 | $6,653.2 Million and 5.0% of Fund

Time-Weighted Investment Results

Benchmark: Asset Class Target

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

Private Equity Legacy | As of March 31, 2013 | $224.9 Million and 0.2% of Fund

Time-Weighted Investment Results

Benchmark: Asset Class Target

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

Private Equity Post Asset Class | As of March 31, 2013 | $6,377.0 Million and 4.8% of Fund

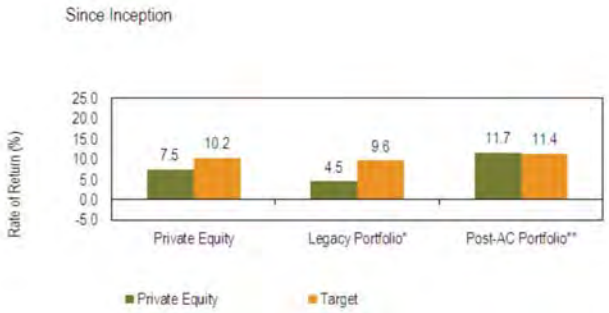
Time-Weighted Investment Results

Benchmark: Asset Class Target

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

Private Equity | As of March 31, 2013 | $6,653.2 Million and 5.0% of Fund

Dollar-Weighted Investment Results



* 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.

Private Equity Dollar-Weighted Performance
Cumulative Performance Measures Since Inception Through March 31, 2013

Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Corporate Partners	CLOSED	N/A	-$133,709,385	$0	N/A
Liberty Partners I, L.P.	CLOSED	N/A	-$267,090,548	$0	N/A
Thomas H. Lee Equity Fund IV, L.P.	CLOSED	N/A	$12,688,674	$0	N/A
TSG Capital Fund III, L.P.	CLOSED	N/A	$46,347,448	$72,830	N/A
Ripplewood Partners I, L.P.	CLOSED	N/A	-$75,695,566	$0	N/A
Liberty Partners IV, L.P.	CLOSED	N/A	$66,000,789	$0	N/A
Liberty Partners II, L.P.	18.76	$659,789,821	-$228,634,277	$1,900,000	10.8%
Cypress Equity Group Trust Fund	17.56	$15,000,000	-$10,438,965	$496,231	16.3%
Centre Capital Investors II, L.P.	17.22	$200,000,000	$50,090,328	$208,190	-4.2%
Liberty Partners III, L.P.	16.76	$506,208,481	-$440,193	$3,000,000	0.2%
Carlyle Partners II, L.P.	16.56	$200,000,000	-$282,775,120	$1,717,431	20.0%
Hicks, Muse, Tate & Furst Fund III, L.P.	16.07	$200,000,000	$23,251,221	$20,609,733	-0.2%
Lexington Co-Investment Partners, L.P.	15.22	$500,000,000	-$140,291,972	$9,083,035	5.6%
Apollo Investment Fund IV, L.P.	14.78	$250,000,000	-$165,947,082	$3,407,190	8.5%
Chartwell Capital Investors II, L.P.	14.46	$50,000,000	-$12,534,408	$9,468,392	5.4%
Hicks, Muse, Tate & Furst Fund IV, L.P.	14.33	$400,000,000	$141,908,790	$9,157,845	-7.3%
Liberty Partners V, L.P.	14.10	$329,664,359	-$46,877,952	$5,100,000	2.8%
Green Equity Investors III, L.P.	14.05	$60,000,000	-$65,616,553	$5,579,646	21.4%
Willis Stein & Partners II, L.P.	13.99	$40,000,000	$16,660,823	$1	-9.6%
Carlyle Partners III, L.P.	12.59	$200,000,000	-$253,740,243	$837,692	22.9%
Willis Stein & Partners III, L.P.	12.32	$100,000,000	$8,169,799	$4,358,613	-0.7%
Ripplewood Partners II, L.P.	12.10	$100,000,000	$17,696,433	$40,615,481	5.6%
Lexington Capital Partners IV, L.P.	11.96	$200,000,000	-$133,341,902	$14,893,195	19.4%
Apollo Investment Fund V, L.P.	11.88	$150,000,000	-$185,992,959	$42,640,335	37.2%
Thomas H. Lee Equity Fund V, L.P.	11.75	$50,000,000	-$25,108,616	$6,530,795	13.2%
Hicks, Muse, Tate & Furst Fund V, L.P.	11.40	$25,000,000	-$19,388,114	$1,111,397	19.6%
Liberty Partners VI, L.P.	11.21	$595,484,687	$291,916,667	$123,837,720	-6.1%
Lexington Capital Partners V, L.P.	10.64	$100,000,000	-$43,226,648	$20,901,934	19.1%
Lexington Co-Investment Partners II, L.P.	10.52	$500,000,000	-$403,265,734	$150,606,839	24.8%
Wellspring Capital Partners III, L.P.	9.89	$50,000,000	-$57,690,347	$866,522	27.3%
Green Equity Investors IV, L.P.	9.58	$100,000,000	$30,881,258	$126,969,524	12.1%
Top Tier Venture Capital II	9.51	$120,000,000	$51,516,141	$73,682,422	3.1%
Gores Capital Partners I, L.P.	9.19	$50,000,000	-$7,281,207	$21,059,561	13.6%
Platinum Equity Capital Partners I, L.P.	9.14	$50,000,000	-$50,152,872	$18,586,192	58.8%

Private Equity Dollar-Weighted Performance (continued)
Cumulative Performance Measures Since Inception Through March 31, 2013

Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Pantheon Venture Partners II, L.P.	9.13	$100,000,000	$61,547,500	$81,323,098	5.2%
FS Equity Partners V, L.P.	8.92	$50,000,000	-$29,779,700	$12,636,798	16.2%
TPG Partners IV, L.P.	8.84	$50,000,000	-$12,360,382	$27,538,324	14.9%
GS Partners Ventures, LLC	8.76	$200,000,000	$142,259,540	$177,293,884	4.2%
Kelso Investment Associates VII, L.P.	8.75	$50,000,000	-$2,611,093	$29,296,293	12.2%
Fairview Ventures Fund II, L.P.	8.75	$50,000,000	$37,915,920	$35,055,258	-1.3%
Hellman & Friedman Capital Partners V, L.P.	8.31	$75,000,000	-$63,784,416	$34,919,672	27.2%
Kohlberg Investors V, L.P.	8.26	$45,000,000	$22,046,338	$30,760,450	4.0%
New Mountain Partners II, L.P.	8.22	$50,000,000	-$13,890,859	$21,034,741	12.8%
Top Tier Venture Capital III	7.97	$75,000,000	$51,324,172	$60,769,627	3.3%
Carlyle Partners IV, L.P.	7.93	$75,000,000	-$7,604,530	$48,497,385	11.6%
Warburg Pincus Private Equity IX, L.P.	7.58	$75,000,000	$4,203,548	$52,141,413	9.8%
Pomona Capital VI, L.P.	7.54	$50,000,000	$18,657,285	$30,310,602	5.4%
Lexington Co-Investment Partners 2005, L.P.	7.54	$500,000,000	$305,632,903	$334,592,741	1.3%
Liberty Partners VII, L.P.	7.43	$290,808,542	$54,324,458	$31,233,083	-4.5%
Lexington Capital Partners VI-B, L.P.	7.32	$100,000,000	$41,125,654	$60,027,929	5.1%
Apollo Investment Fund VI, L.P.	7.32	$200,000,000	$109,629,099	$192,873,503	7.9%
Wellspring Capital Partners IV, L.P.	7.18	$75,000,000	$19,121,920	$45,796,376	7.7%
Blackstone Capital Partners V, L.P.	7.05	$150,000,000	$110,060,839	$128,041,177	2.6%
TowerBrook Investors II, L.P.	7.00	$75,000,000	$12,437,659	$42,521,347	9.4%
Thoma Cressey Fund VIII, L.P.	6.99	$50,000,000	-$2,483,484	$50,724,511	15.7%
TPG Partners V, L.P.	6.76	$100,000,000	$69,716,550	$61,498,878	-2.0%
Fairview Ventures Fund III, L.P.	6.76	$75,000,000	$47,338,625	$59,536,037	7.4%
Lindsay Goldberg & Bessemer II, L.P.	6.63	$100,000,000	$34,374,947	$75,732,106	8.8%
Permira IV, L.P.	6.63	€ 50,000,000	$40,805,632	$53,419,174	4.7%
Grove Street Partners Buyouts, LLC	6.51	$150,000,000	$68,689,094	$91,869,314	6.7%
Thomas H. Lee Equity Fund VI, L.P.	6.38	$75,000,000	$52,008,365	$62,689,528	3.8%
First Reserve Fund XI, L.P.	6.38	$100,000,000	$69,133,139	$79,841,972	2.8%
3i Europartners Vb L.P.	6.38	€ 59,000,000	$62,199,623	$39,161,642	-10.0%
RCP Advisors Fund IV, LLC	6.26	$50,000,000	$22,882,693	$36,687,889	8.6%
Hellman & Friedman Capital Partners VI, L.P.	6.20	$100,000,000	$31,359,044	$57,729,021	6.8%
Providence Equity Partners VI, L.P.	6.05	$50,000,000	$35,845,834	$43,976,628	4.5%
Carlyle Partners Europe III	6.03	€ 49,000,000	$45,283,751	$48,848,051	2.0%
Green Equity Investors V, L.P.	5.92	$100,000,000	$36,379,950	$81,243,907	16.4%
Gores Capital Partners II, L.P.	5.69	$50,000,000	$15,571,046	$36,289,542	13.2%
New Mountain Partners III, L.P.	5.65	$100,000,000	$72,014,318	$89,078,178	7.9%
Carlyle Partners V, L.P.	5.51	$200,000,000	$108,278,227	$157,843,582	9.8%
Kohlberg Investors VI, L.P.	5.47	$50,000,000	$8,889,048	$31,320,072	16.1%

Private Equity Dollar-Weighted Performance (continued)
Cumulative Performance Measures Since Inception Through March 31, 2013

Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Apollo Investment Fund VII, L.P.	5.46	$200,000,000	$61,297,062	$155,535,194	21.5%
Platinum Equity Capital Partners II, L.P.	5.46	$75,000,000	$31,747,749	$65,373,202	15.0%
Kelso Investment Associates VIII, L.P.	5.46	$100,000,000	$61,512,309	$61,701,857	0.1%
RCP Advisors, LLC (Fund V)	5.40	$50,000,000	$26,699,242	$33,547,255	7.2%
Warburg Pincus X	5.36	$150,000,000	$118,378,242	$142,671,577	5.1%
Top Tier Venture Capital IV	5.15	$100,000,000	$72,262,410	$87,564,580	7.7%
TPG Partners VI, L.P.	4.96	$200,000,000	$121,423,386	$143,894,114	7.0%
PAI Europe V	4.88	€ 27,500,000	$31,536,416	$31,696,482	0.2%
Pomona Capital VII, L.P.	4.77	$50,000,000	$20,660,752	$28,130,389	7.8%
GS Partners Ventures II, LLC	4.76	$200,000,000	$102,996,712	$114,214,374	5.9%
Advent International GPE VI	4.73	$58,000,000	$44,763,276	$64,059,449	14.3%
Thoma Bravo Fund IX	4.71	$50,000,000	$6,752,945	$56,496,669	37.3%
TowerBrook Investors III, L.P.	4.71	$150,000,000	$68,009,013	$98,702,935	14.3%
CVC European Equity Partners V	4.71	€ 70,000,000	$43,226,987	$62,229,044	10.7%
Lindsay Goldberg III	4.71	$100,000,000	$51,755,425	$52,580,496	0.9%
KKR European Fund III	4.60	€ 40,000,000	$36,282,961	$37,407,262	1.4%
Ares Corporate Opportunities Fund III	4.52	$100,000,000	$28,220,929	$76,197,013	23.1%
RCP Advisors, LLC (Fund VI)	4.49	$50,000,000	$25,909,142	$25,814,823	-0.2%
Blackstone Capital Partners VI	4.40	$200,000,000	$49,147,129	$51,733,746	5.7%
Cressey & Company Fund IV	4.40	$50,000,000	$25,012,941	$26,079,132	2.0%
First Reserve Fund XII	4.38	$200,000,000	$148,853,733	$161,092,996	2.8%
Carlyle Asia Growth Partners IV	4.29	$75,000,000	$40,480,129	$40,581,934	0.1%
Charterhouse Capital Partners IX	3.93	€ 70,000,000	$38,412,136	$44,991,218	7.0%
Top Tier Special Opportunities Fund	3.85	$12,450,000	$11,117,865	$10,479,486	-2.2%
Riverside Capital Appreciation Fund V	3.79	$75,000,000	$45,993,990	$56,528,805	7.7%
FS Equity Partners VI	3.68	$75,000,000	$44,874,450	$52,467,200	7.5%
Energy Capital Partners II	3.67	$100,000,000	$60,197,850	$73,680,648	10.9%
KPS Special Situations Fund III	3.52	$50,000,000	$19,573,937	$23,947,668	9.9%
Gores Capital Partners III, L.P.	3.50	$125,000,000	$70,411,802	$66,904,302	-4.0%
Charlesbank Equity Fund VII, L.P.	3.44	$75,000,000	$31,948,816	$37,049,386	8.5%
Lexington Capital Partners VII	3.33	$200,000,000	$88,749,156	$116,747,680	14.8%
3i Growth Capital Fund	3.02	€ 40,000,000	$29,907,758	$24,151,046	-7.8%
Riverside Europe Fund IV, L.P.	2.79	€ 40,000,000	$43,852,885	$39,943,700	-5.4%
TA XI	2.67	$100,000,000	$46,000,000	$52,701,595	8.8%

Private Equity Dollar-Weighted Performance (continued)
Cumulative Performance Measures Since Inception Through March 31, 2013

Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Snow Phipps II, L.P.	2.64	$50,000,000	$20,883,765	$22,227,390	4.6%
Pantheon Global Secondary Fund IV, L.P.	2.61	$100,000,000	$36,862,499	$50,038,780	21.7%
JH Whitney VII	2.47	$75,000,000	$28,531,592	$29,193,120	1.7%
Trident V	2.42	$75,000,000	$34,193,258	$33,952,887	-0.5%
RCP Fund VII	2.33	$50,000,000	$16,499,995	$14,095,140	-15.2%
EnerVest Energy XII-A	2.26	$60,000,000	$55,186,014	$55,564,126	0.6%
EnCap Energy Capital Fund VIII	2.12	$75,000,000	$27,619,758	$32,468,797	16.2%
Cortec Group V	1.95	$50,000,000	$17,385,656	$19,124,042	13.8%
Montagu Private Equity Fund IV	1.85	€ 40,000,000	$16,900,838	$15,484,511	-9.2%
Wellspring Capital Partners V	1.75	$150,000,000	$39,665,005	$33,556,292	-14.3%
GS Partners Buyouts II	1.69	$200,000,000	$31,989,404	$30,682,235	-5.6%
Fairview Special Opportunities Fund	1.67	$150,000,000	$22,840,634	$21,362,404	-8.8%
ABRY Partners VII	1.64	$75,000,000	$47,787,490	$50,059,395	6.4%
Hellman & Friedman Capital Partners VII, L.P.	1.64	$200,000,000	$53,780,881	$48,226,252	-8.0%
Berkshire Fund VIII	1.60	$60,000,000	$9,283,722	$8,524,606	-9.1%
BC European Capital IX	1.53	€ 70,000,000	$26,631,202	$27,440,452	3.7%
Strategic Investors Fund V-A	1.50	$125,000,000	$23,016,012	$22,256,077	-3.4%
Francisco Partners III	1.43	$75,000,000	$29,812,500	$28,867,703	-3.3%
TPG Growth II	1.27	$100,000,000	$16,287,126	$13,916,182	-21.6%
TrueBridge/FLSBA Special Purpose, LLC	1.20	$50,000,000	$12,225,000	$12,007,096	-3.2%
TrueBridge - Kauffman Fellows Endowment Fund II	1.20	$100,000,000	$43,988,514	$42,364,037	-4.4%
Lexington Co-Investment Partners 2005 II (Pool III)	1.13	$500,000,000	$126,188,736	$121,320,833	-6.3%
Platinum Equity Capital Partners III	1.01	$200,000,000	$43,987,039	$39,528,593	-7.7%
Denham Commodity Partners Fund VI	1.00	$100,000,000	$14,965,316	$12,720,682	-27.1%
Thoma Bravo Fund X	0.99	$100,000,000	$56,738,572	$62,120,044	*
Providence Equity Partners VII	0.89	$150,000,000	$11,202,734	$11,748,979	*
Warburg Pincus Private Equity XI	0.85	$200,000,000	$43,321,585	$41,576,056	*
AXA Secondary Fund V	0.80	$100,000,000	$42,633,902	$56,327,828	*
Summit Partners Growth Equity Fund VII-A	0.80	$60,000,000	$8,750,000	$8,233,038	*
RCP Fund VIII	0.75	$50,000,000	$5,035,131	$4,738,021	*
Strategic Investors Fund V-A Opportunity, L.P.	0.70	$50,000,000	$7,506,961	$7,416,939	*
Green Equity Investors VI	0.42	$200,000,000	$18,755,897	$18,398,742	*
Ares Corporate Opportunites Fund IV, L.P.	0.40	$200,000,000	$7,564,075	$6,225,202	*
Apax VIII	0.42	$157,584,000	$9,458,804	$8,871,130	*
Advent International GPE VII	0.32	€ 80,000,000	$22,497,677	$20,986,832	*
Silver Lake Partners IV, L.P.	0.00	$100,000,000	$48,854	$0	*
EnCap Energy Capital Fund IX, L.P.	0.23	$75,000,000	$871,729	$217,900	*
GS Partners Ventures III, LLC	**	$150,000,000	$1,839,908	$1,653,196	**
Carlyle Partners VI, L.P.	**	$200,000,000	$59,885	$0	**
Liberty Partners Group II	**	$12,625,000	$646,731	$121	**
EnerVest Energy Institutional Fund XIII-A, L.P.	**	$100,000,000	$26,850	$0	**
Lexington Middle Market Investors III	**	$100,000,000	$56,538	$0	**
Private Equity Aggregate			**$2,607,927,291**	**$6,601,845,396**	**7.5%**

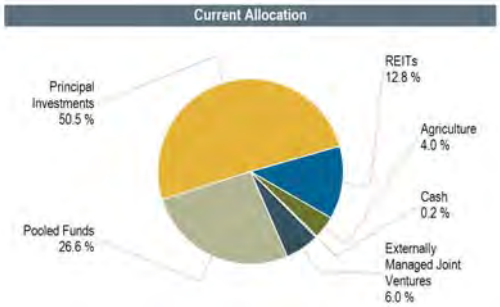
*IRR returns less than one year are not reported.

**Account has not been funded. Net Paid in Capital indicates fees paid.

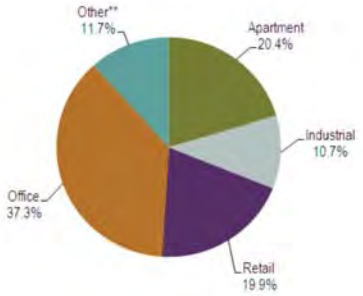
Real Estate

Real Estate | As of March 31, 2013 | $10,071.0 Million and 7.5% of Fund

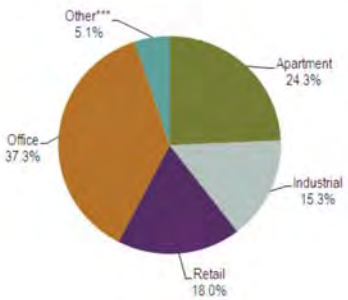
Overview



FRS*



NFI-ODCE Index*



*Property Allocation data is as of December 31, 2012. 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.

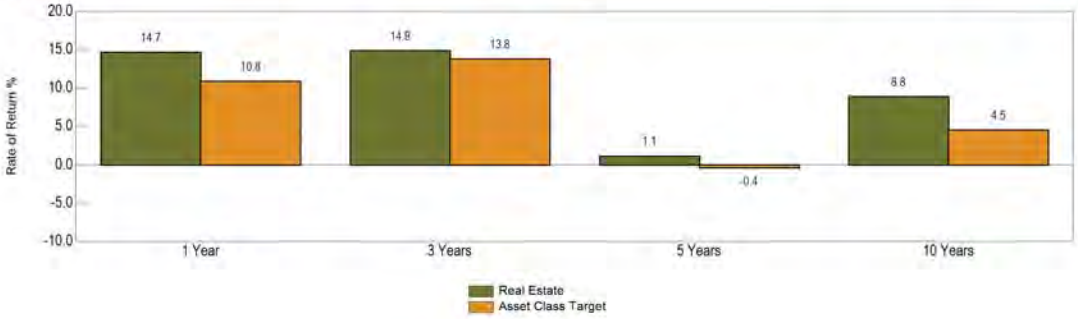
***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Health Care, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

Real Estate | As of March 31, 2013 | $10,071.0 Million and 7.5% of Fund

Overview

Benchmark: Asset Class Target

Return Summary



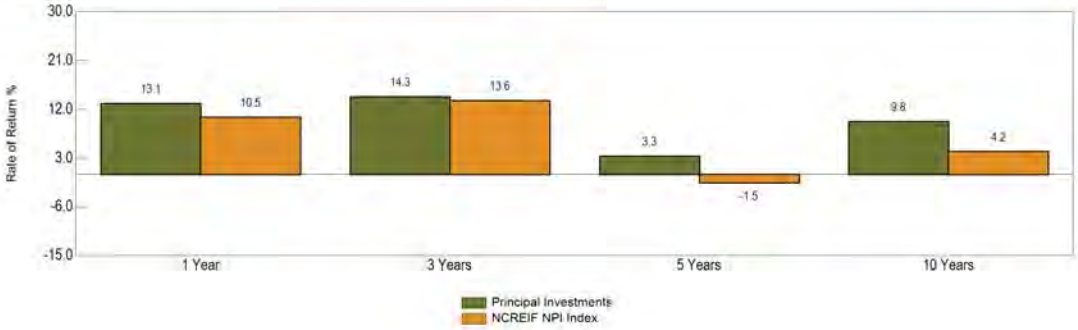
Quarterly Excess Performance

Principal Investments | As of March 31, 2013 | $5,083.3 Million and 3.8% of Fund

Principal Investments

Benchmark: NCREIF NPI Index

Return Summary



Quarterly Excess Performance

Pooled Funds | As of March 31, 2013 | $2,676.2 Million and 2.0% of Fund

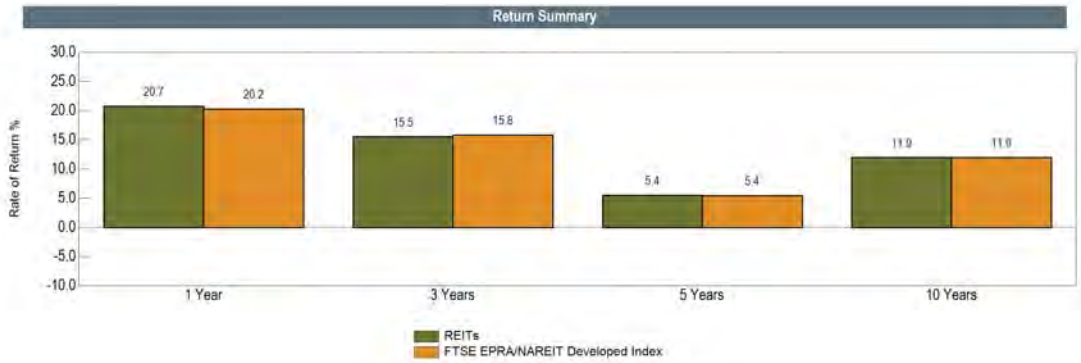
Pooled Funds

Benchmark: NFI-ODCE Index Net of Fees

REITs | As of March 31, 2013 | $1,284.5 Million and 1.0% of Fund

REITs

Benchmark: FTSE EPRA/NAREIT Developed Index



Real Estate Pooled Funds Time-Weighted Performance
Performance Measures Through March 31, 2013

Name	Inception Date	Commitment	Net Asset Value	Since Inception Managed Return
Pooled Funds				
Beacon Capital SP Fund VI	Sep-07	$100,000,000	$33,739,788	-17.4%
Black Rock Granite Fund	Sep-03	$150,000,000	$46,731,441	2.2%
Blackrock Retail Opportunity Fund	Nov-07	$60,000,000	$15,441,082	-34.3%
Blackstone RE Partners VII	May-12	$300,000,000	$144,003,645	20.3%
Blackstone Real Estate Partners VI	Oct-07	$200,000,000	$237,917,305	1.7%
Brookfield-Fairfield US Multi	Sep-12	$50,000,000	$37,463,494	8.0%
Carlyle Realty Partners VI	Feb-12	$83,000,000	$29,125,990	11.9%
Diamond Property Fund	Aug-06	$100,000,000	$40,637,804	-12.3%
Enhanced Property Fund	May-07	$100,000,000	$58,132,742	-4.2%
Hines US Office Value Added Fund II	Sep-07	$135,437,699	$53,392,999	-25.4%
JP Morgan Pooled Fund	Sep-03	$250,000,000	$300,504,968	7.1%
JP Morgan Special Situation Fund	Jan-08	$150,000,000	$114,958,811	-4.8%
Prime Property Fund	Jun-06	$250,000,000	$262,665,821	3.4%
Principal Financial Group Pooled Fund	Oct-03	$175,000,000	$225,128,350	5.4%
Prudential PRISA	Apr-05	$250,000,000	$241,117,626	3.2%
Prudential PRISA Fund II	Sep-07	$145,000,000	$129,582,353	-4.0%
Prudential PRISA III	Jan-08	$150,000,000	$161,510,858	-7.0%
Rockpoint RE Fund IV	Jan-13	$100,000,000	$7,217,902	32.6%
Rockpoint Real Estate Fund III, L.P.	Jan-08	$100,000,000	$75,426,887	-58.0%
RREEF America REIT Pooled Fund	Jul-03	$250,000,000	$223,010,368	5.1%
UBS Pooled Fund	Jul-03	$200,000,000	$227,869,720	6.4%
Total Pooled Funds		**$3,298,437,699**	**$2,665,579,955**	**3.0%**

(This page left blank intentionally)

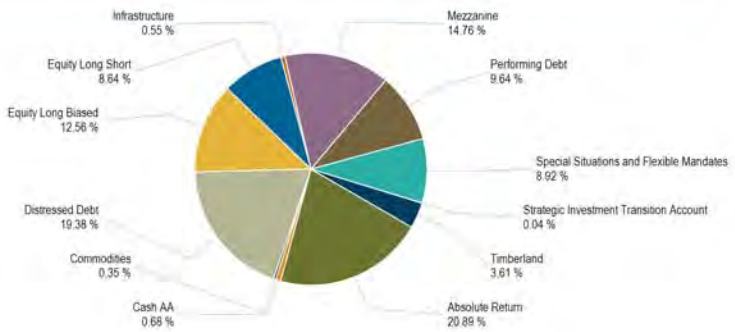
Strategic Investments

Strategic Investments | As of March 31, 2013 | $6,465.5 Million and 4.8% of Fund

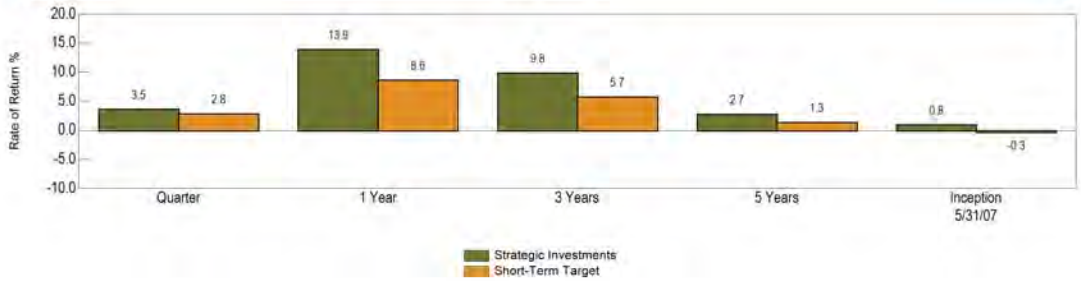
Overview

Benchmark: Short-Term Target

Current Allocation



Return Summary

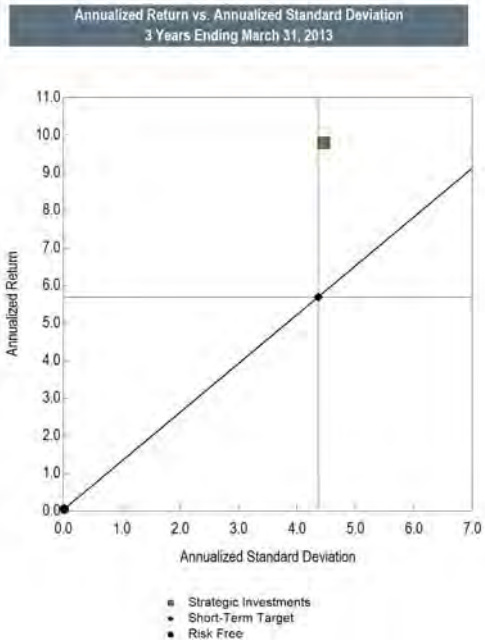


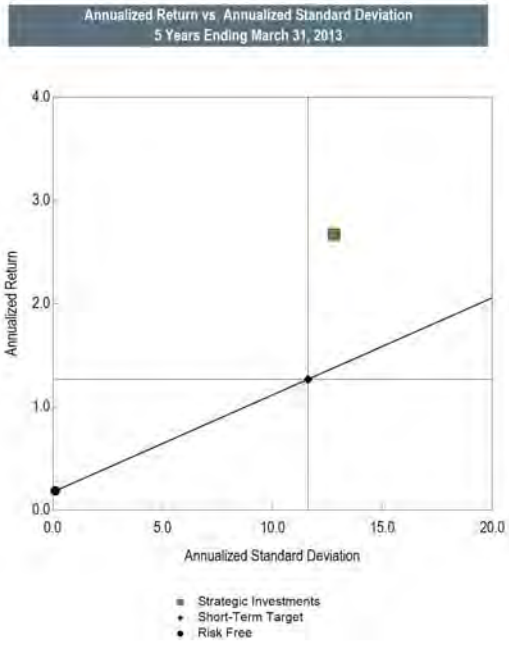
Overview

Benchmark: Short-Term Target

Risk Profile

Benchmark: Short-Term Target





Strategic Investments Value-Added Returns

For Time Periods Ending March 2013

Style/Manager	Commitment	1 Year			3 Year			5 Year			Since Inception		
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added
Performing Debt													
Senior Loans:													
ABRY Advanced Securities Fund II	$150,000,000	39.50%	6.59%	32.90%							9.17%	6.63%	2.54%
Apollo Credit Liquidity Fund	$238,233,051	32.25%	6.59%	25.65%	17.68%	7.05%	10.63%	13.53%	6.76%	6.77%	12.84%	6.87%	5.98%
Audax Credit Opportunities	$200,000,000	6.53%	6.59%	-0.06%							6.42%	7.01%	-0.59%
Blackstone Credit Liquidity Partners, L.P.	$250,000,000	18.87%	6.59%	12.28%	23.63%	7.05%	16.58%	11.48%	6.76%	4.72%	10.90%	6.87%	4.03%
Providence TMT Debt Opportunity Fund II, L.P.	$100,000,000	17.75%	6.59%	11.16%							7.50%	7.18%	0.32%
Providence TMT Special Situation Fund	$150,000,000	20.42%	6.59%	13.82%	12.12%	7.05%	5.07%				11.27%	6.72%	4.55%
TAC 2007 (TPG Credit Fund)	$321,326,676	25.14%	6.59%	18.54%	5.34%	7.05%	-1.71%	3.88%	6.76%	-2.87%	3.54%	6.87%	-3.33%
Absolute Return													
Multi-strategy Hedge Funds:													
Gruss Global Investors Fund	$200,000,000	3.11%	10.13%	-7.02%							2.24%	2.28%	-0.04%
Mason Capital Fund	$200,000,000	0.94%	10.13%	-9.19%							3.45%	1.15%	2.31%
OZ Domestic Partners II, L.P.	$150,000,000										9.42%	11.24%	-1.82%
Taconic Opportunity Fund	$150,000,000	10.15%	10.13%	0.02%							4.39%	0.96%	3.42%
York Capital Management L.P.	$150,000,000										10.11%	11.24%	-1.13%
Opportunistic Debt Hedge Funds:													
Anchorage Capital Fund	$150,000,000	13.14%	10.82%	2.32%							11.21%	10.96%	0.25%
King Street Capital Fund	$200,000,000	10.47%	10.82%	-0.36%							3.62%	4.40%	-0.78%
Distressed Debt													
Corporate Securities/Structured Products:													
ABRY Advanced Securities Fund	$150,000,000	48.92%	6.59%	42.32%	19.97%	7.05%	12.92%				20.22%	6.00%	14.22%
Blackstone/GSO Capital Solutions Fund	$100,000,000	14.91%	6.59%	8.32%							14.10%	7.12%	6.98%
CVI Credit Value Fund A	$100,000,000	32.61%	6.59%	26.01%							18.47%	7.31%	11.16%
CVI Credit Value Fund II A, L.P.	$200,000,000										0.00%	0.69%	-0.69%
Goldman Sachs Distressed Opportunities, L.P.	$150,000,000	-5.71%	6.59%	-12.30%	0.22%	7.05%	-6.83%	-5.58%	6.76%	-12.34%	0.67%	9.10%	-8.43%
Oaktree Opportunities Fund VIII, L.P.	$100,000,000	16.82%	6.59%	10.22%							8.78%	7.00%	1.78%
Oaktree Opportunities Fund VIIIb, L.P.	$50,000,000	10.67%	6.59%	4.08%							3.51%	6.22%	-2.71%
Oaktree Opportunity Fund IX	$100,000,000												
OCM Opportunities Fund VIIb	$50,000,000	26.85%	6.59%	20.26%	14.21%	7.05%	7.16%	12.91%	6.76%	6.15%	11.86%	3.81%	8.05%
PCG Special Situations Partners, L.P.	$150,000,000	11.04%	6.59%	4.44%	4.37%	7.05%	-2.67%	-1.02%	6.76%	-7.78%	6.19%	9.76%	-3.58%
Special Situation Partners II	$100,000,000	19.37%	6.59%	12.77%	15.37%	7.05%	8.33%	8.24%	6.76%	1.48%	5.21%	4.68%	0.53%
Varde Fund X, L.P.	$100,000,000	14.29%	6.59%	7.69%							7.67%	7.09%	0.57%
Wayzata Opportunities Fund II	$50,000,000	13.69%	6.59%	7.10%	15.91%	7.05%	8.86%	13.85%	6.76%	7.09%	13.14%	4.74%	8.41%
Wayzata Opportunities Fund III, LP	$150,000,000										-8.40%	0.69%	-9.09%
Real Estate Distressed Debt:													
Bayview Opportunity Master Fund II b	$100,000,000	22.59%	6.59%	16.00%							11.21%	7.01%	4.20%
Bayview Opportunity Fund IIIb	$150,000,000												
Colony Distressed Credit Fund II	$75,000,000	12.80%	6.59%	6.20%							7.47%	6.08%	1.39%
Morgan Stanley Mezzanine Partners Pooled Fund	$177,500,000	-12.46%	6.59%	-19.05%	-5.16%	7.05%	-12.21%	-23.18%	6.76%	-29.94%	-22.21%	6.87%	-29.08%
Square Mile Partners III	$100,000,000	15.40%	6.59%	8.80%	14.15%	7.05%	7.10%				4.73%	6.95%	-2.22%
Tricon IX	$105,000,000	13.00%	6.59%	6.40%	9.03%	7.05%	1.98%				8.48%	6.18%	2.31%
Tricon XI A, L.P.	$100,000,000										-1.76%	2.88%	-4.65%

Strategic Investments Value-Added Returns (continued)

For Time Periods Ending March 2013

Style/Manager	Commitment	1 Year			3 Year			5 Year			Since Inception		
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added
Mezzanine													
Corporate Mezzanine:													
ABRY Senior Equity III, L.P.	$60,000,000	18.85%	6.59%	12.26%							11.06%	7.12%	3.94%
ABRY Senior Equity IV, L.P.	$100,000,000										1.88%	0.78%	1.10%
Carlyle Mezzanine Partners II, L.P.	$150,000,000	11.00%	6.59%	4.40%	4.64%	7.05%	-2.41%				5.25%	6.10%	-0.86%
Crescent Mezzanine Partners VI	$150,000,000										0.00%	3.42%	-3.42%
Falcon Strategic Partners III	$75,000,000	11.38%	6.59%	4.79%	15.61%	7.05%	8.56%				15.09%	7.05%	8.04%
Falcon Strategic Partners IV	$100,000,000										-3.53%	0.84%	-4.38%
GSO Capital Opportunities Fund	$200,000,000	17.79%	6.59%	11.19%	21.32%	7.05%	14.27%				16.53%	6.10%	10.42%
GSO Capital Opportunities Fund II	$150,000,000	26.68%	6.59%	20.08%							21.63%	6.08%	15.56%
Levine Leichtman Capital Partners IV	$100,000,000	27.36%	6.59%	20.76%	27.86%	7.05%	20.82%				28.80%	6.96%	21.84%
TCW Crescent Mezzanine Partners V	$150,000,000	12.18%	6.59%	5.59%	9.84%	7.05%	2.79%				8.39%	6.18%	2.22%
VSS Structured Capital II	$75,000,000	25.75%	6.59%	19.15%	14.00%	7.05%	6.95%				3.65%	7.08%	-3.43%
Real Estate Mezzanine:													
Blackrock Carbon Capital III	$100,000,000	12.26%	6.59%	5.66%	9.86%	7.05%	2.82%				7.38%	6.95%	0.42%
Principal RE Debt (SBAF Mortgage Fund)	$300,000,000	10.63%	6.59%	4.03%	6.08%	7.05%	-0.97%				4.36%	6.93%	-2.57%
Equity Long/Short													
Highline Capital Partners	$150,000,000	6.26%	6.10%	0.16%							3.31%	1.52%	1.79%
Scopia PX LLC	$100,000,000										2.47%	6.59%	-4.12%
Scout Capital Partners II LP	$200,000,000										9.06%	6.76%	2.29%
Three Bridges Europe Fund LP	$75,000,000												
Equity Long Biased													
Activist Equity:													
Cevian Capital II	$100,000,000	9.37%	10.56%	-1.18%	15.04%	4.80%	10.23%				15.04%	4.80%	10.23%
KV Partners	$250,000,000	-0.49%	10.59%	-11.09%							-7.73%	7.37%	-15.10%
P2 Capital Fund	$100,000,000	20.74%	16.30%	4.43%							17.68%	16.24%	1.44%
Starboard Value and Opportunity Fund	$125,000,000	14.20%	16.30%	-2.11%							13.81%	8.06%	5.75%
GP Investments:													
Blackstone Unit Trusts		22.86%	14.56%	8.30%	13.29%	12.97%	0.32%	8.26%	6.32%	1.94%	-3.08%	3.32%	-6.39%
Lexington GP Holdings	$41,250,000	7.92%	6.59%	1.32%							26.35%	6.99%	19.36%
Providence Equity Global Group	$75,000,000										1.78%	3.42%	-1.65%

Strategic Investments Value-Added Returns (continued)

For Time Periods Ending March 2013

Style/Manager	Commitment	1 Year			3 Year			5 Year			Since Inception		
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added
Timberland													
Boston Timber Opportunities	$300,000,000										8.36%	8.32%	0.04%
Jackson Timberland Opportunities	$150,000,000										-0.75%	7.49%	-8.24%
Infrastructure													
Global Infrastructure Partners II, L.P.	$150,000,000										15.34%	3.15%	12.19%
Commodities													
RK Mine Finance Fund II LP	$100,000,000										-2.86%	1.93%	-4.79%
Special Situations and Flexible Mandates													
Special Situations:													
Airline Credit Opportunities II	$75,000,000	11.45%	6.59%	4.85%							12.85%	7.31%	5.54%
Flexible Mandates:													
CVI Global Value Fund A-Class P	$250,000,000	23.00%	6.59%	16.41%	18.87%	7.05%	11.83%				20.55%	6.18%	14.38%
Florida Growth Fund	$250,000,000	8.55%	6.59%	1.96%	6.35%	7.05%	-0.70%				-1.08%	7.01%	-8.10%
Florida Growth Fund Tranche II	$250,000,000										-5.31%	4.49%	-9.80%
GI Partners III	$100,000,000	21.32%	6.59%	14.73%	15.18%	7.05%	8.13%				10.71%	6.95%	3.75%
Cash													
Strategic Investments Cash		0.31%	0.06%	0.25%	0.33%	0.09%	0.24%	-0.49%	0.59%	-1.08%	-0.29%	0.76%	-1.05%
Strategic Investments		**13.86%**	**8.57%**	**5.30%**	**9.79%**	**5.69%**	**4.10%**	**2.67%**	**1.27%**	**1.40%**	**0.85%**	**-0.27%**	**1.12%**

Value-Added returns are managed returns minus benchmark returns.

Terminated portfolios are not shown individually but are included in the aggregate.

(This page left blank intentionally)

Cash

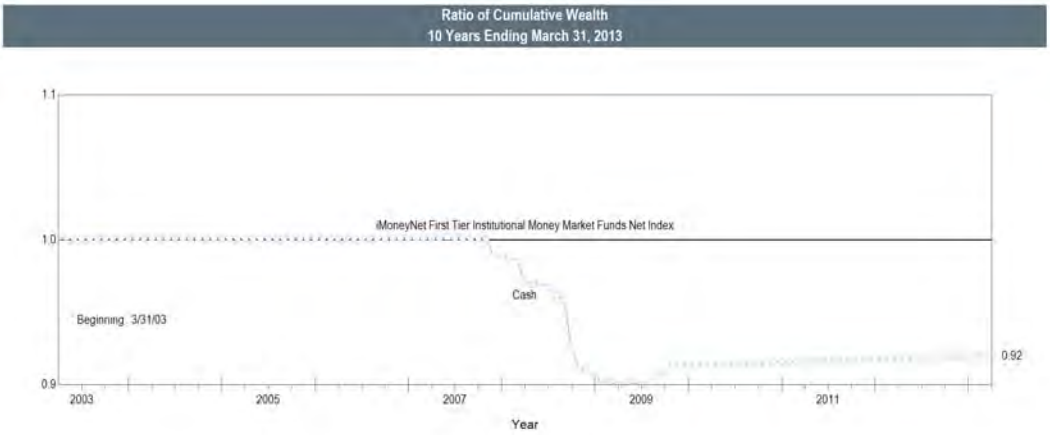
Cash | As of March 31, 2013 | $1,240.3 Million and 0.9% of Fund

Overview

Benchmark: iMoneyNet First Tier Institutional Money Market Funds Net Index

Overview

Benchmark: iMoneyNet First Tier Institutional Money Market Funds Net Index



(This page left blank intentionally)

Appendix

As of March 31, 2013

Securities Lending

FRS Pension Plan		
	Net Income	
March 2013	Fiscal Year to Date	Calendar Year to Date
$3,844,723	$28,504,972	$9,824,941
	Returns (annualized basis points)	
March 2013	Fiscal Year to Date	Calendar Year to Date
99	92	98

Appendix

Returns Of The Major Capital Markets						
	First	Annualized Periods Ending 3/31/13				
	Quarter	1-Year	3-Year	5-Year	10-Year	15-Year
Domestic Stock Indices:						
Dow Jones US Total Stock Index	11.1	14.5	13.1	6.5	9.4	4.8
S&P 500 Index	10.6	14.0	12.7	5.8	8.5	4.3
Russell 3000 Index	11.1	14.6	13.0	6.3	9.2	4.7
Russell 1000 Value Index	12.3	18.8	12.7	4.8	9.2	5.3
Russell 1000 Growth Index	9.5	10.1	13.1	7.3	8.6	3.2
Russell MidCap Value Index	14.2	21.5	15.0	8.5	12.6	8.3
Russell MidCap Growth Index	11.5	12.8	14.2	8.0	11.5	6.1
Russell 2000 Value Index	11.6	18.1	12.1	7.3	11.3	7.4
Russell 2000 Growth Index	13.2	14.5	14.7	9.0	11.6	4.1
Domestic Bond Indices:						
Barclays Capital Aggregate Index	-0.1	3.8	5.5	5.5	5.0	5.8
Barclays Capital Govt/Credit Index	-0.2	4.6	6.1	5.5	5.1	5.9
Barclays Capital Long Govt/Credit Index	-2.0	8.9	12.3	9.5	7.5	7.8
Barclays Capital 1-3 Year Govt/Credit Index	0.2	1.1	1.6	2.4	3.1	4.2
Barclays Capital U.S. MBS Index	0.0	2.0	4.2	5.2	5.0	5.7
Barclays Capital High Yield Index	2.9	13.1	11.2	11.6	10.1	7.1
Barclays Capital Universal Index	0.1	4.7	6.0	5.9	5.4	6.0
Real Estate Indices:						
NCREIF Property Index	2.6	10.5	13.3	2.3	8.5	9.1
NCREIF ODCE Index	2.4	9.7	14.0	-1.7	5.8	7.0
Dow Jones Real Estate Securities Index	7.1	13.0	16.8	5.9	12.2	9.3
FTSE NAREIT US Real Estate Index	8.1	17.1	17.7	7.1	12.6	9.5
Foreign/Global Stock Indices:						
MSCI All Country World Index	6.5	10.6	7.8	2.1	9.4	4.1
MSCI All Country World IMI	6.9	11.0	8.1	2.6	9.9	4.5
MSCI All Country World ex-U.S. Index	3.2	8.4	4.4	-0.4	10.9	4.7
MSCI All Country World ex-U.S. IMI	3.6	8.6	4.7	0.0	11.3	5.0
MSCI All Country World ex-U.S. Small Cap Index	6.5	10.5	7.0	2.5	14.3	7.4
MSCI EAFE Index	5.1	11.3	5.0	-0.9	9.7	3.8
MSCI EAFE IMI	5.5	11.5	5.4	-0.5	10.1	4.2
MSCI EAFE Index (in local currency)	9.7	16.7	4.3	0.7	7.5	2.1
MSCI Emerging Markets IMI	-1.0	2.8	3.4	1.5	17.2	7.4
Foreign Bond Indices:						
Citigroup World Gov't Bond Index	-3.8	-2.2	3.3	2.3	5.6	5.6
Citigroup Hedged World Gov't Bond Index	1.3	5.5	4.1	4.3	4.3	5.2
Cash Equivalents:						
Treasury Bills (30-Day)	0.0	0.0	0.0	0.2	1.3	2.1
Hewitt EnnisKnupp STIF Index	0.1	0.2	0.2	0.6	2.0	2.8
Inflation Index:						
Consumer Price Index	1.4	1.5	2.3	1.7	2.4	2.4

Historical Policy Allocation

	Global Equity (%)	Domestic Equity (%)	Foreign Equity (%)	Global Equity Legacy (%)	Strategic Investments (%)	Fixed Income (%)	Real Estate (%)	Private Equity (%)	High Yield (%)	Cash (%)
03/31/2013	57.6	--	--	--	4.8	24.0	7.6	5.0	--	1.0
12/31/2012	57.2	--	--	--	5.0	24.0	7.5	5.2	--	1.0
09/30/2012	57.6	--	--	--	4.7	24.0	7.6	5.2	--	1.0
06/30/2012	55.6	--	--	--	4.4	26.0	7.7	5.3	--	1.0
03/31/2012	57.1	--	--	--	4.0	26.0	7.2	4.7	--	1.0
12/31/2011	56.8	--	--	--	4.1	26.0	7.2	4.9	--	1.0
09/30/2011	57.6	--	--	--	3.7	26.0	6.9	4.7	--	1.0
06/30/2011	59.1	--	--	--	3.2	26.0	6.4	4.3	--	1.0
03/31/2011	60.0	--	--	--	2.6	26.0	6.3	4.0	--	1.0
12/31/2010	59.6	--	--	--	2.9	26.0	6.3	4.3	--	1.0
09/30/2010	58.1	--	--	--	4.2	26.0	6.5	4.2	--	1.0
06/30/2010	--	36.5	19.2	--	3.9	26.9	6.7	3.8	1.9	1.0
03/31/2010	--	36.6	19.3	--	3.7	27.0	6.7	3.9	1.9	1.0
12/31/2009	--	36.6	19.3	--	3.6	27.0	6.7	3.9	1.9	1.0
09/30/2009	--	36.7	19.3	--	3.5	27.0	6.8	3.9	1.9	1.0
06/30/2009	--	36.7	19.3	--	3.4	27.1	6.8	3.9	1.9	1.0
03/31/2009	--	36.6	19.3	--	3.6	27.0	6.8	3.9	1.9	1.0
12/31/2008	--	36.5	19.2	--	4.0	26.9	6.7	3.8	1.9	1.0
09/30/2008	--	36.4	19.1	--	4.3	26.8	6.7	3.8	1.9	1.0
06/30/2008	--	36.4	19.2	--	4.2	26.8	6.7	3.8	1.9	1.0
03/31/2008	--	36.4	19.1	--	4.5	26.7	6.7	3.8	1.8	1.0
12/31/2007	--	37.2	18.7	--	4.5	26.7	6.7	3.8	1.4	1.0
09/30/2007	--	38.1	17.8	--	4.4	26.8	6.7	3.8	1.4	1.0
06/30/2007	--	41.6	14.4	--	4.4	26.8	6.7	3.8	1.4	1.0
03/01/04 - 03/31/04	--	49.0	14.0	3.0	--	21.0	7.0	5.0	--	1.0
02/02/04 - 02/29/04	--	49.0	14.0	3.0	--	21.4	6.7	4.9	--	1.0
01/01/04 - 02/01/04	--	50.0	14.0	2.0	--	21.8	6.4	4.8	--	1.0
12/01/03 - 12/31/03	--	50.0	14.0	2.0	--	22.2	6.1	4.7	--	1.0
11/03/03 - 11/30/03	--	50.5	13.5	2.0	--	22.6	5.8	4.6	--	1.0
10/29/03 - 11/02/03	--	50.5	13.5	2.0	--	23.0	5.5	4.5	--	1.0
10/01/03 - 10/28/03	--	51.0	13.0	2.0	--	23.0	5.5	4.5	--	1.0
09/01/03 - 09/30/03	--	52.5	12.5	1.0	--	23.4	5.2	4.4	--	1.0
08/01/03 - 08/31/03	--	52.5	12.5	1.0	--	23.8	4.9	4.3	--	1.0
07/01/03 - 07/31/03	--	52.5	12.5	1.0	--	24.2	4.6	4.2	--	1.0
06/02/03 - 06/30/03	--	52.5	12.5	1.0	--	24.6	4.3	4.1	--	1.0
04/01/01 - 06/01/03	--	54.0	12.0	0.0	--	25.0	4.0	4.0	--	1.0
10/31/99 - 03/31/01	--	55.5	12.0	0.0	--	25.0	4.0	2.5	--	1.0
03/31/95 - 10/31/99	--	61.0	8.0	0.0	--	26.0	4.0	0.0	--	1.0
09/30/94 - 03/31/95	--	59.0	8.0	0.0	--	24.0	8.0	0.0	--	1.0
06/30/93 - 09/30/94	--	59.0	3.0	0.0	--	29.0	8.0	0.0	--	1.0
11/30/88 - 06/30/93	--	55.0	0.0	0.0	--	36.0	8.0	0.0	--	1.0
12/31/87 - 11/30/88	--	50.0	5.0	0.0	--	36.5	7.5	0.0	--	1.0
12/31/86 - 12/31/87	--	50.0	5.0	0.0	--	35.5	7.5	0.0	--	2.0
12/31/84 - 12/31/86	--	48.0	0.0	0.0	--	40.0	10.0	0.0	--	2.0

Total FRS Assets

Performance Benchmark - 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 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.
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 Ba/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).

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 85% of the MSCI Europe, Australasia and Far East (EAFE) Foreign Stock Index and 15% of the 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 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 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 - A combination of 90% of the NCREIF ODCE Index, net of fees, and 10% of the FTSE EPRA/NAREIT Developed Index, net of fees. Prior to July 1, 2010, it was a combination of 90% of the NCREIF ODCE Index, gross of fees, and 10% of the Dow Jones U.S. Select RESI. 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 Yield Index.

Description of Benchmarks

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 $200 million or greater. The index is a broad measure of the performance of the investment-grade U.S. fixed income market.

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 - Designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposure 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 68 total fund 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 $711.3 billion as of quarter-end and the average market value was $20.9 billion.

Domestic Equity - A universe comprised of 51 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 $179.7 billion as of quarter-end and the average market value was $5.6 billion.

Foreign Equity - A universe comprised of 49 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 $144.7 billion as of quarter-end and the average market value was $5.0 billion.

Fixed Income - A universe comprised of 52 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 $189.8 billion as of quarter-end and the average market value was $5.9 billion.

Real Estate - A universe comprised of 21 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 $31.0 billion as of quarter-end and the average market value was $2.8 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.

Risk-Return Graph - The horizontal axis, annualized standard deviation, is a statistical measure of risk, or the volatility of returns. The vertical axis is the annualized rate of return. As investors generally prefer less risk to more risk and always prefer greater returns, the upper left corner of the graph is the most attractive place to be. The line on this exhibit represents the risk and return trade-offs associated with market portfolios, or index funds.

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 - Universe Comparison - 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.

(This page left blank intentionally)

Hewitt ennisknupp

An Aon Company

State Board of Administration of Florida

FRS Investment Plan

First Quarter 2013

Hewitt EnnisKnupp, Inc.
10 South Riverside Plaza, Suite 1600
Chicago, IL 60606
phone: 1-312-715-1700
fax: 1-312-715-1952
www.hewittennisknupp.com

CONTENTS

1 FRS Investment Plan

9 Appendix

(This page left blank intentionally)

FRS Investment Plan

Trailing Period Performance

	Market Value ($)	% of Portfolio	2013 Q1 (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank
					Ending March 31, 2013							
FRS Investment Plan	**7,858,400,137**	**100.0**	**4.7**	**--**	**8.3**	**--**	**7.6**	**--**	**4.3**	**--**	**7.5**	**--**
Total Plan Aggregate Benchmark			*4.7*	--	*8.2*	--	*7.4*	--	*3.8*	--	*7.1*	--
Balanced Funds	**3,462,215,512**	**44.1**	**3.8**	**--**	**8.0**	**--**	**7.1**	**--**	**3.6**	**--**	**7.4**	**--**
FRS Select Conservative Balanced Fund	712,403,484	9.1	1.1	--	4.4	--	4.7	--	3.3	--	5.3	--
Conservative Balanced Fund Target Benchmark			*1.1*	--	*3.9*	--	*4.5*	--	*3.0*	--	*4.8*	--
FRS Select Moderate Balanced Fund	2,098,186,755	26.7	4.1	--	8.6	--	7.5	--	3.8	--	7.5	--
Moderate Balanced Fund Target Benchmark			*4.2*	--	*8.2*	--	*7.3*	--	*3.3*	--	*7.3*	--
FRS Select Aggressive Balanced Fund	651,625,273	8.3	6.0	--	10.6	--	8.4	--	3.2	--	8.4	--
Aggressive Balanced Fund Target Benchmark			*6.2*	--	*10.6*	--	*8.3*	--	*3.1*	--	*8.5*	--
Cash	**899,582,351**	**11.4**	**0.1**	**1**	**0.3**	**1**	**0.3**	**1**	**0.5**	**21**	**2.0**	**1**
FRS Select Yield Plus Money Market Active Fund	899,582,351	11.4	0.1	1	0.3	1	0.3	1	0.5	21	2.0	1
iMoneyNet 1st Tier Institutional Net Index			*0.0*	*29*	*0.1*	*28*	*0.1*	*25*	*0.6*	*10*	*2.0*	*1*
TIPS	**316,467,583**	**4.0**	**-0.3**	**--**	**5.8**	**--**	**8.7**	**--**	**6.0**	**--**	**6.4**	**--**
FRS Select TIPS Fund	316,467,583	4.0	-0.3	44	5.8	26	8.7	11	6.0	16	6.4	18
Barclays Capital US TIPS			*-0.4*	*46*	*5.7*	*31*	*8.6*	*17*	*5.9*	*24*	*6.3*	*19*
Fixed Income	**708,814,365**	**9.0**	**0.3**	**45**	**5.1**	**64**	**6.1**	**65**	**6.3**	**53**	**5.6**	**42**
FRS Select U.S. Bond Enhanced Index Fund	147,360,500	1.9	0.0	48	4.0	99	5.7	97	5.8	95	5.2	99
Barclays Aggregate Bond Index			*-0.1*	*53*	*3.8*	*99*	*5.5*	*97*	*5.5*	*96*	*5.0*	*99*
Pyramis Intermediate Duration Pool Fund	72,196,838	0.9	0.4	39	4.4	77	5.3	83	5.3	79	4.8	74
Barclays Int Aggregate			*0.2*	*65*	*3.0*	*96*	*4.6*	*94*	*4.9*	*87*	*4.7*	*78*
FRS Select High Yield Fund	162,676,856	2.1	2.2	80	10.6	84	10.1	75	--	--	--	--
Barclays Capital U.S. High Yield BA/B 1% Issuer Cap Index			*2.4*	*70*	*12.5*	*42*	*11.1*	*24*	--	--	--	--
PIMCO Total Return Fund	326,580,171	4.2	0.6	25	7.8	19	6.8	38	7.6	20	6.5	15
Barclays Aggregate Bond Index			*-0.1*	*92*	*3.8*	*85*	*5.5*	*80*	*5.5*	*76*	*5.0*	*64*

Trailing Period Performance

	Market Value ($)	% of Portfolio	2013 Q1 (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank
					Ending March 31, 2013							
Domestic Equity	**1,942,825,283**	**24.7**	**11.4**	**49**	**14.3**	**49**	**13.7**	**25**	**7.6**	**30**	**10.1**	**42**
FRS Select U.S. Stock Market Index Fund	326,628,726	4.2	11.1	31	14.6	22	13.0	14	6.4	21	9.2	26
Russell 3000 Index			*11.1*	*32*	*14.6*	*23*	*13.0*	*16*	*6.3*	*23*	*9.2*	*28*
FRS Select U.S. Large Value Stock Fund	236,186,173	3.0	12.3	23	17.1	24	12.5	26	5.4	47	--	--
Russell 1000 Value Index			*12.3*	*23*	*18.8*	*12*	*12.7*	*20*	*4.8*	*60*	--	--
QMA Mid Cap Quantitative Core Fund	351,371,892	4.5	14.3	14	20.2	15	17.0	5	10.9	7	--	--
S&P 400 MidCap			*13.5*	*23*	*17.8*	*29*	*15.1*	*17*	*9.8*	*15*	--	--
FRS Select U.S. Large Growth Stock Active Fund	107,506,712	1.4	7.5	81	5.7	77	11.5	43	7.3	20	8.1	53
Russell 1000 Growth Index			*9.5*	*26*	*10.1*	*37*	*13.1*	*18*	*7.3*	*21*	*8.6*	*39*
Pioneer Fund	137,533,170	1.8	11.5	22	11.9	76	9.1	86	3.9	81	8.2	60
S&P 500 Index			*10.6*	*48*	*14.0*	*33*	*12.7*	*23*	*5.8*	*37*	*8.5*	*41*
Fidelity Growth Company Fund	339,273,143	4.3	8.5	61	6.4	74	14.0	8	8.3	9	12.2	3
Russell 3000 Growth Index			*9.8*	*22*	*10.4*	*34*	*13.2*	*15*	*7.4*	*18*	*8.8*	*35*
American Beacon Small Cap Value Fund	148,202,764	1.9	13.7	20	17.8	41	13.2	38	9.2	40	--	--
Russell 2000 Value Index			*11.6*	*69*	*18.1*	*39*	*12.1*	*57*	*7.3*	*83*	--	--
T. Rowe Price Small Cap Stock Fund	271,600,611	3.5	12.5	48	17.0	12	17.1	19	12.7	4	12.4	24
Russell 2000 Index			*12.4*	*52*	*16.3*	*15*	*13.5*	*60*	*8.2*	*59*	*11.5*	*51*
Fidelity Low Priced Stock Fund	24,522,091	0.3	10.4	90	15.0	73	13.6	50	8.9	26	13.3	10
Russell 2500 Value Index			*13.4*	*33*	*21.2*	*18*	*14.2*	*39*	*8.8*	*28*	*12.1*	*26*
International/Global Equity	**528,495,043**	**6.7**	**4.2**	**45**	**11.1**	**40**	**6.0**	**40**	**0.9**	**27**	**10.5**	**41**
FRS Select Foreign Stock Index Fund	154,791,492	2.0	4.0	49	10.8	41	5.2	54	-0.4	48	10.2	46
MSCI World ex USA			*4.7*	*32*	*10.4*	*44*	*4.8*	*61*	*-0.7*	*55*	*10.0*	*51*
American Funds New Perspective Fund	204,520,168	2.6	6.3	70	13.0	35	9.5	32	4.5	27	11.9	16
MSCI All Country World Index Net			*6.5*	*66*	*11.0*	*57*	*8.2*	*61*	*2.1*	*70*	*8.9*	*68*
American Funds Euro-Pacific Growth Fund	169,183,383	2.2	2.9	72	9.6	49	5.1	48	1.2	15	--	--
MSCI All Country World ex-U.S. Index			*3.3*	*62*	*8.9*	*57*	*4.9*	*55*	*-0.6*	*47*	--	--

Calendar Year Performance

	2012 (%)	Rank	2011 (%)	Rank	2010 (%)	Rank	2009 (%)	Rank	2008 (%)	Rank	2007 (%)	Rank	2006 (%)	Rank	2005 (%)	Rank
FRS Investment Plan	**10.5**	**--**	**0.7**	**--**	**10.6**	**--**	**18.4**	**--**	**-23.2**	**--**	**7.8**	**--**	**12.4**	**--**	**7.4**	**--**
Total Plan Aggregate Benchmark	*9.7*	*--*	*0.9*	*--*	*10.2*	*--*	*16.8*	*--*	*-23.4*	*--*	*6.1*	*--*	*13.9*	*--*	*6.1*	*--*
Balanced Funds	**9.7**	**--**	**1.4**	**--**	**9.2**	**--**	**16.4**	**--**	**-22.8**	**--**	**7.7**	**--**	**13.9**	**--**	**6.9**	**--**
FRS Select Conservative Balanced Fund	5.2	--	3.9	--	5.3	--	9.3	--	-7.3	--	8.5	--	7.1	--	4.4	--
Conservative Balanced Fund Target Benchmark	*4.8*	*--*	*4.0*	*--*	*4.8*	*--*	*8.7*	*--*	*-8.0*	*--*	*7.6*	*--*	*6.7*	*--*	*4.0*	*--*
FRS Select Moderate Balanced Fund	10.4	--	1.2	--	10.0	--	17.2	--	-23.8	--	7.4	--	14.2	--	6.8	--
Moderate Balanced Fund Target Benchmark	*9.9*	*--*	*1.3*	*--*	*9.7*	*--*	*15.9*	*--*	*-24.5*	*--*	*7.0*	*--*	*14.7*	*--*	*6.8*	*--*
FRS Select Aggressive Balanced Fund	12.8	--	-0.9	--	11.3	--	20.9	--	-32.2	--	8.2	--	17.6	--	8.6	--
Aggressive Balanced Fund Target Benchmark	*12.5*	*--*	*-0.8*	*--*	*11.0*	*--*	*21.1*	*--*	*-32.4*	*--*	*7.5*	*--*	*18.6*	*--*	*8.5*	*--*
Cash	**0.3**	**1**	**0.2**	**1**	**0.3**	**2**	**0.3**	**41**	**2.4**	**46**	**5.4**	**2**	**5.2**	**1**	**3.5**	**1**
FRS Select Yield Plus Money Market Active Fund	0.3	1	0.2	1	0.3	2	0.3	41	2.4	46	5.4	2	5.2	1	3.5	1
iMoneyNet 1st Tier Institutional Net Index	*0.1*	*27*	*0.1*	*25*	*0.2*	*7*	*0.7*	*4*	*3.0*	*4*	*5.4*	*1*	*5.2*	*1*	*3.3*	*1*
TIPS	**7.1**	**--**	**13.6**	**--**	**6.4**	**--**	**11.3**	**--**	**-2.0**	**--**	**11.7**	**--**	**0.5**	**--**	**2.8**	**--**
FRS Select TIPS Fund	7.1	18	13.6	9	6.4	28	11.3	27	-2.0	46	11.7	19	0.5	34	2.8	22
Barclays Capital US TIPS	*7.0*	*23*	*13.6*	*9*	*6.3*	*41*	*11.4*	*26*	*-2.4*	*54*	*11.6*	*20*	*0.4*	*43*	*2.8*	*20*
Fixed Income	**6.0**	**69**	**6.7**	**53**	**7.6**	**56**	**11.7**	**59**	**1.4**	**29**	**6.9**	**16**	**4.8**	**24**	**2.7**	**13**
FRS Select U.S. Bond Enhanced Index Fund	4.4	99	7.9	75	6.7	97	6.5	59	5.9	32	7.1	18	4.3	58	2.5	57
Barclays Aggregate Bond Index	*4.2*	*99*	*7.8*	*76*	*6.5*	*97*	*5.9*	*60*	*5.2*	*33*	*7.0*	*20*	*4.3*	*57*	*2.4*	*59*
Pyramis Intermediate Duration Pool Fund	4.9	82	5.9	70	7.0	67	11.9	58	-1.7	43	6.0	42	4.8	26	2.2	48
Barclays Int Aggregate	*3.6*	*95*	*6.0*	*69*	*6.1*	*88*	*6.5*	*91*	*4.9*	*13*	*7.0*	*14*	*4.6*	*33*	*2.0*	*63*
FRS Select High Yield Fund	12.9	85	6.0	10	13.6	77	--	--	--	--	--	--	--	--	--	--
Barclays Capital U.S. High Yield BA/B 1% Issuer Cap Index	*14.7*	*58*	*6.9*	*3*	*13.9*	*65*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*	*--*
PIMCO Total Return Fund	10.2	14	4.0	91	8.7	33	13.7	48	4.7	15	8.9	2	3.9	82	2.8	11
Barclays Aggregate Bond Index	*4.2*	*86*	*7.8*	*17*	*6.5*	*81*	*5.9*	*92*	*5.2*	*10*	*7.0*	*15*	*4.3*	*44*	*2.4*	*30*

Calendar Year Performance

	2012 (%)	Rank	2011 (%)	Rank	2010 (%)	Rank	2009 (%)	Rank	2008 (%)	Rank	2007 (%)	Rank	2006 (%)	Rank	2005 (%)	Rank
Domestic Equity	**16.9**	**29**	**0.3**	**36**	**20.4**	**35**	**30.9**	**36**	**-36.5**	**40**	**5.2**	**51**	**14.1**	**64**	**8.2**	**32**
FRS Select U.S. Stock Market Index Fund	16.5	27	1.0	44	17.1	12	28.6	42	-37.2	53	5.2	60	15.7	37	6.2	52
Russell 3000 Index	*16.4*	*29*	*1.0*	*44*	*16.9*	*13*	*28.3*	*43*	*-37.3*	*56*	*5.1*	*63*	*15.7*	*34*	*6.1*	*53*
FRS Select U.S. Large Value Stock Fund	15.4	52	1.6	27	15.2	33	20.8	66	-35.2	36	--	--	--	--	--	--
Russell 1000 Value Index	*17.5*	*24*	*0.4*	*37*	*15.5*	*29*	*19.7*	*73*	*-36.8*	*57*	--	--	--	--	--	--
QMA Mid Cap Quantitative Core Fund	20.4	10	0.1	22	28.9	13	36.5	50	-36.8	27	8.3	55	11.9	53	11.6	42
S&P 400 MidCap	*17.9*	*28*	*-1.7*	*35*	*26.6*	*26*	*37.4*	*46*	*-36.2*	*25*	*8.0*	*56*	*10.3*	*63*	*12.5*	*31*
FRS Select U.S. Large Growth Stock Active Fund	16.0	42	1.2	25	13.6	70	41.5	25	-37.3	25	11.9	66	4.1	84	13.3	16
Russell 1000 Growth Index	*15.3*	*53*	*2.6*	*13*	*16.7*	*42*	*37.2*	*38*	*-38.4*	*36*	*11.8*	*66*	*9.1*	*38*	*5.3*	*70*
Pioneer Fund	10.3	93	-4.2	82	16.2	19	24.9	70	-34.1	17	5.1	64	16.9	18	6.8	42
S&P 500 Index	*16.0*	*40*	*2.1*	*22*	*15.1*	*31*	*26.5*	*54*	*-37.0*	*44*	*5.5*	*50*	*15.8*	*32*	*4.9*	*65*
Fidelity Growth Company Fund	18.8	15	0.9	26	20.8	12	41.5	25	-40.7	52	20.2	21	9.8	31	13.8	15
Russell 3000 Growth Index	*15.2*	*54*	*2.2*	*18*	*17.6*	*33*	*37.0*	*38*	*-38.4*	*36*	*11.4*	*71*	*9.5*	*35*	*5.2*	*71*
American Beacon Small Cap Value Fund	16.5	46	-4.0	52	26.2	47	35.4	31	-31.9	57	-6.4	50	14.7	73	5.8	61
Russell 2000 Value Index	*18.0*	*33*	*-5.5*	*63*	*24.5*	*72*	*20.6*	*91*	*-28.9*	*35*	*-9.8*	*79*	*23.5*	*9*	*4.7*	*74*
T. Rowe Price Small Cap Stock Fund	18.0	11	-0.1	29	32.5	21	38.5	37	-33.3	7	-1.7	90	12.8	44	8.4	37
Russell 2000 Index	*16.3*	*25*	*-4.2*	*65*	*26.9*	*57*	*27.2*	*83*	*-33.8*	*7*	*-1.6*	*90*	*18.4*	*9*	*4.6*	*71*
Fidelity Low Priced Stock Fund	18.8	25	0.2	11	21.0	74	39.4	29	-36.0	26	3.4	69	18.0	15	8.9	53
Russell 2500 Value Index	*19.2*	*22*	*-3.4*	*56*	*24.8*	*42*	*27.7*	*90*	*-32.0*	*14*	*-7.3*	*99*	*20.2*	*9*	*7.7*	*65*
International/Global Equity	**18.6**	**50**	**-11.3**	**25**	**10.1**	**63**	**34.8**	**43**	**-40.9**	**17**	**15.0**	**36**	**23.2**	**76**	**14.9**	**52**
FRS Select Foreign Stock Index Fund	17.6	66	-11.8	31	9.2	68	32.3	52	-42.5	32	12.7	49	25.8	48	14.7	55
MSCI World ex USA	*16.4*	*75*	*-12.2*	*35*	*8.9*	*70*	*33.7*	*47*	*-43.6*	*41*	*12.4*	*51*	*25.7*	*49*	*14.5*	*58*
American Funds New Perspective Fund	21.0	16	-7.4	48	13.0	49	37.7	32	-37.7	24	16.3	30	20.1	53	11.5	56
MSCI All Country World Index Net	*16.3*	*52*	*-5.5*	*36*	*11.8*	*59*	*30.0*	*60*	*-40.7*	*48*	*9.0*	*59*	*20.1*	*53*	*10.0*	*64*
American Funds Euro-Pacific Growth Fund	19.6	28	-13.3	42	9.8	62	39.6	18	-40.3	10	19.3	15	22.3	84	21.4	12
MSCI All Country World ex-U.S. Index	*17.4*	*69*	*-13.3*	*43*	*11.6*	*44*	*32.5*	*42*	*-43.1*	*39*	*11.6*	*60*	*26.9*	*27*	*14.0*	*59*

Asset Allocation

	Total Market Value	% of Portfolio	U.S. Equity	Non-U.S. Equity	Balanced	Fixed Income	TIPS	Cash
Balanced Funds								
FRS Select Conservative Balanced Fund	$712,403,484	9.1%			$712,403,484			
FRS Select Moderate Balanced Fund	$2,098,186,755	26.7%			$2,098,186,755			
FRS Select Aggressive Balanced Fund	$651,625,273	8.3%			$651,625,273			
Cash								
FRS Select Yield Plus Money Market Active Fund	$899,582,351	11.4%						$899,582,351
TIPS								
FRS Select TIPS Fund	$316,467,583	4.0%					$316,467,583	
Fixed Income								
FRS Select U.S. Bond Enhanced Index Fund	$147,360,500	1.9%				$147,360,500		
Pyramis Intermediate Duration Pool Fund	$72,196,838	0.9%				$72,196,838		
FRS Select High Yield Fund	$162,676,856	2.1%				$162,676,856		
PIMCO Total Return Fund	$326,580,171	4.2%				$326,580,171		
Domestic Equity								
FRS Select U.S. Stock Market Index Fund	$326,628,726	4.2%	$326,628,726					
FRS Select U.S. Large Value Stock Fund	$236,186,173	3.0%	$236,186,173					
QMA Mid Cap Quantitative Core Fund	$351,371,892	4.5%	$351,371,892					
FRS Select U.S. Large Growth Stock Active Fund	$107,506,712	1.4%	$107,506,712					
Pioneer Fund	$137,533,170	1.8%	$137,533,170					
Fidelity Growth Company Fund	$339,273,143	4.3%	$339,273,143					
American Beacon Small Cap Value Fund	$148,202,764	1.9%	$148,202,764					
T. Rowe Price Small Cap Stock Fund	$271,600,611	3.5%	$271,600,611					
Fidelity Low Priced Stock Fund	$24,522,091	0.3%	$24,522,091					
International/Global Equity								
FRS Select Foreign Stock Index Fund	$154,791,492	2.0%		$154,791,492				
American Funds New Perspective Fund	$204,520,168	2.6%		$204,520,168				
American Funds Euro-Pacific Growth Fund	$169,183,383	2.2%		$169,183,383				
Total	**$7,858,400,137**	**100.0%**	**$1,942,825,283**	**$528,495,043**	**$3,462,215,512**	**$708,814,365**	**$316,467,583**	**$899,582,351**
Percent of Total			24.7%	6.7%	44.1%	9.0%	4.0%	11.4%

Asset Allocation

Asset Allocation as of 3/31/2013	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	TIPS	Cash	Total	% of Total
FRS Select Conservative Balanced Fund	49,868,244	56,992,279	270,713,324	85,488,418	249,341,219	712,403,484	9.1%
FRS Select Moderate Balanced Fund	650,437,894	419,637,351	1,028,111,510			2,098,186,755	26.7%
FRS Select Aggressive Balanced Fund	293,231,373	175,938,824	182,455,076			651,625,273	8.3%
Total Balanced Funds	**$ 993,537,511**	**$ 652,568,453**	**$ 1,481,279,910**	**$ 85,488,418**	**$ 249,341,219**	**$ 3,462,215,512**	**44.1%**
FRS Select Yield Plus Money Market Active Fund					899,582,351	899,582,351	11.4%
Total Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ 899,582,351**	**$ 899,582,351**	**11.4%**
FRS Select TIPS Fund	-	-	-	316,467,583	-	316,467,583	4.0%
Total TIPS	**$ -**	**$ -**	**$ -**	**$ 316,467,583**	**$ -**	**$ 316,467,583**	**4.0%**
FRS Select U.S. Bond Enhanced Index Fund			147,360,500			147,360,500	1.9%
Pyramis Intermediate Duration Pool Fund			72,196,838			72,196,838	0.9%
FRS Select High Yield Fund			162,676,856			162,676,856	2.1%
PIMCO Total Return Fund			326,580,171			326,580,171	4.2%
Total Fixed Income	**$ -**	**$ -**	**$ 708,814,365**	**$ -**	**$ -**	**$ 708,814,365**	**9.0%**
FRS Select U.S. Stock Market Index Fund	326,628,726					326,628,726	4.2%
FRS Select U.S. Large Value Stock Fund	236,186,173					236,186,173	3.0%
QMA Mid Cap Quantitative Core Fund	351,371,892					351,371,892	4.5%
FRS Select U.S. Large Growth Stock Active Fund	107,506,712					107,506,712	1.4%
Pioneer Fund	137,533,170					137,533,170	1.8%
Fidelity Growth Company Fund	339,273,143					339,273,143	4.3%
American Beacon Small Cap Value Fund	148,202,764					148,202,764	1.9%
T. Rowe Price Small Cap Stock Fund	271,600,611					271,600,611	3.5%
Fidelity Low Priced Stock Fund	24,522,091					24,522,091	0.3%
Total Domestic Equity	**$ 1,942,825,283**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,942,825,283**	**24.7%**
FRS Select Foreign Stock Index Fund		154,791,492				154,791,492	2.0%
American Funds New Perspective Fund	84,262,309	101,646,524	-		18,611,335	204,520,168	2.6%
American Funds Euro-Pacific Growth Fund	169,183	155,648,712	1,184,284		12,181,204	169,183,383	2.2%
Total International/Global Equity	**$ 84,431,493**	**$ 412,086,728**	**$ 1,184,284**	**$ -**	**$ 30,792,539**	**$ 528,495,043**	**6.7%**
Total Portfolio	**$ 3,020,794,287**	**$ 1,064,655,181**	**$ 2,191,278,559**	**$ 401,956,001**	**$ 1,179,716,110**	**$ 7,858,400,137**	**100.0%**
Percent of Total	**38.44%**	**13.55%**	**27.88%**	**5.11%**	**15.01%**	**100.0%**	

Manager Scorecard

Statistics Summary
3 Years Ending March 31, 2013

	Annualized Return (%)	Annualized Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio	Up Market Capture Ratio (%)	Down Market Capture Ratio (%)
FRS Investment Plan	7.64%	8.27%	0.92	0.45%	0.62	102.45%	100.42%
FRS Select Conservative Balanced Fund	4.74%	2.63%	1.79	0.24%	1.06	103.90%	99.07%
FRS Select Moderate Balanced Fund	7.50%	7.59%	0.98	0.43%	0.39	100.35%	98.60%
FRS Select Aggressive Balanced Fund	8.38%	10.79%	0.77	0.68%	0.10	99.00%	98.45%
FRS Select Yield Plus Money Market Active Fund	0.26%	0.01%	22.32	0.02%	6.81	296.64%	--
FRS Select TIPS Fund	8.66%	4.31%	2.00	0.16%	0.61	100.14%	96.90%
FRS Select U.S. Bond Enhanced Index Fund	5.69%	2.44%	2.32	0.16%	1.08	101.84%	95.68%
Pyramis Intermediate Duration Pool Fund	5.35%	2.15%	2.46	0.66%	1.07	120.06%	139.35%
FRS Select High Yield Fund	10.11%	5.74%	1.76	0.79%	-1.27	92.67%	100.31%
PIMCO Total Return Fund	6.78%	3.23%	2.09	2.72%	0.46	118.02%	88.83%
FRS Select U.S. Stock Market Index Fund	13.03%	15.69%	0.83	0.07%	0.91	100.27%	99.99%
FRS Select U.S. Large Value Stock Fund	12.51%	15.69%	0.79	1.17%	-0.20	100.06%	101.07%
QMA Mid Cap Quantitative Core Fund	17.02%	18.91%	0.90	1.87%	1.02	109.41%	101.02%
FRS Select U.S. Large Growth Stock Active Fund	11.54%	16.23%	0.71	2.66%	-0.57	99.19%	106.23%
Pioneer Fund	9.09%	16.49%	0.55	2.64%	-1.36	96.16%	112.82%
Fidelity Growth Company Fund	14.02%	17.44%	0.80	3.88%	0.21	118.40%	112.54%
American Beacon Small Cap Value Fund	13.20%	20.64%	0.64	3.00%	0.36	106.85%	101.46%
T. Rowe Price Small Cap Stock Fund	17.06%	19.32%	0.88	2.46%	1.47	99.58%	88.97%
Fidelity Low Priced Stock Fund	13.61%	16.12%	0.84	5.09%	-0.11	83.30%	87.16%
FRS Select Foreign Stock Index Fund	5.16%	18.75%	0.27	1.95%	0.20	99.54%	98.67%
American Funds New Perspective Fund	9.55%	16.07%	0.59	2.52%	0.54	97.99%	93.33%
American Funds Euro-Pacific Growth Fund	5.15%	18.34%	0.28	2.68%	0.10	94.07%	95.65%

Appendix

Market Returns

	First Quarter	Annualized Periods Ending 3/31/13 1-Year	3-Year	5-Year	10-Year	15-Year
Domestic Stock Indices:						
Dow Jones US Total Stock Index	11.1	14.5	13.1	6.5	9.4	4.8
S&P 500 Index	10.6	14.0	12.7	5.8	8.5	4.3
Russell 3000 Index	11.1	14.6	13.0	6.3	9.2	4.7
Russell 1000 Value Index	12.3	18.8	12.7	4.8	9.2	5.3
Russell 1000 Growth Index	9.5	10.1	13.1	7.3	8.6	3.2
Russell MidCap Value Index	14.2	21.5	15.0	8.5	12.6	8.3
Russell MidCap Growth Index	11.5	12.8	14.2	8.0	11.5	6.1
Russell 2000 Value Index	11.6	18.1	12.1	7.3	11.3	7.4
Russell 2000 Growth Index	13.2	14.5	14.7	9.0	11.6	4.1
Domestic Bond Indices:						
Barclays Capital Aggregate Index	-0.1	3.8	5.5	5.5	5.0	5.8
Barclays Capital Govt/Credit Index	-0.2	4.6	6.1	5.5	5.1	5.9
Barclays Capital Long Govt/Credit Index	-2.0	8.9	12.3	9.5	7.5	7.8
Barclays Capital 1-3 Year Govt/Credit Index	0.2	1.1	1.6	2.4	3.1	4.2
Barclays Capital U.S. MBS Index	0.0	2.0	4.2	5.2	5.0	5.7
Barclays Capital High Yield Index	2.9	13.1	11.2	11.6	10.1	7.1
Barclays Capital Universal Index	0.1	4.7	6.0	5.9	5.4	6.0
Real Estate Indices:						
NCREIF Property Index	2.6	10.5	13.3	2.3	8.5	9.1
NCREIF ODCE Index	2.4	9.7	14.0	-1.7	5.8	7.0
Dow Jones Real Estate Securities Index	7.1	13.0	16.8	5.9	12.2	9.3
FTSE NAREIT US Real Estate Index	8.1	17.1	17.7	7.1	12.6	9.5
Foreign/Global Stock Indices:						
MSCI All Country World Index	6.5	10.6	7.8	2.1	9.4	4.1
MSCI All Country World IMI	6.9	11.0	8.1	2.6	9.9	4.5
MSCI All Country World ex-U.S. Index	3.2	8.4	4.4	-0.4	10.9	4.7
MSCI All Country World ex-U.S. IMI	3.6	8.6	4.7	0.0	11.3	5.0
MSCI All Country World ex-U.S. Small Cap Index	6.5	10.5	7.0	2.5	14.3	7.4
MSCI EAFE Index	5.1	11.3	5.0	-0.9	9.7	3.8
MSCI EAFE IMI	5.5	11.5	5.4	-0.5	10.1	4.2
MSCI EAFE Index (in local currency)	9.7	16.7	4.3	0.7	7.5	2.1
MSCI Emerging Markets IMI	-1.0	2.8	3.4	1.5	17.2	7.4
Foreign Bond Indices:						
Citigroup World Gov't Bond Index	-3.8	-2.2	3.3	2.3	5.6	5.6
Citigroup Hedged World Gov't Bond Index	1.3	5.5	4.1	4.3	4.3	5.2
Cash Equivalents:						
Treasury Bills (30-Day)	0.0	0.0	0.0	0.2	1.3	2.1
Hewitt EnnisKnupp STIF Index	0.1	0.2	0.2	0.6	2.0	2.8
Inflation Index:						
Consumer Price Index	1.4	1.5	2.3	1.7	2.4	2.4

Benchmark Descriptions

Balanced 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.

Barclays Inflation Index - Measures the performance of the U.S. Treasury Inflation-Protected Securities ("TIPS") market.

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.

Barclays U.S. High Yield BA/B 1% Issuer Cap Index - An index composed of non-investment grade corporate debt denominated in U.S. dollars. The issues have to have an outstanding par value of $150 million or greater and at least one year of maturity remaining.

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 3000 Growth Index - Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index - An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

Russell 1000 Growth Index - An index that measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher I/B/E/S growth forecasts.

Benchmark Descriptions

Russell 2000 Value Index - A capitalization-weighted index representing those companies within the Russell 2000 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.

Russell 2000 Index - An index that measures the performance of approximately 2000 small capitalization stocks.

Russell 2500 Value Index - A capitalization-weighted index representing those companies within the Russell 2500 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.

S&P 400 Mid-Cap Index - A market capitalization-weighted index of stocks in all major industries in the mid-range of the U.S. stock market.

S&P 500 Index - A capitalization-weighted stock index consisting of 500 of the largest publicly traded U.S. stocks by capitalization.

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.

MSCI All Country World Index Net - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI World ex-U.S. Index - A capitalization-weighted index of stocks representing 22 developed country stock markets, including Canada and excluding the U.S. market.

Description of Universes

FRS Select Yield Plus Money Market Active Fund - A money market universe calculated and provided by Morningstar.

FRS Select TIPS Fund - An inflation-protected bond universe calculated and provided by Morningstar.

FRS Select U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Morningstar.

Pyramis Intermediate Duration Pool Fund - A broad intermediate-term fixed income universe calculated and provided by Morningstar.

FRS Select High Yield Fund - A high yield bond fixed income universe calculated and provided by Morningstar.

PIMCO Total Return Fund - A broad intermediate-term fixed income universe calculated and provided by Morningstar.

FRS Select U.S. Stock Market Index Fund - A large-cap blend universe calculated and provided by Morningstar.

FRS Select U.S. Large Value Stock Fund - A large-cap value universe calculated and provided by Morningstar.

QMA Mid Cap Quantitative Core Fund - A mid-cap universe calculated and provided by Morningstar.

FRS Select U.S. Large Growth Stock Active Fund - A large-cap growth universe calculated and provided by Morningstar.

Pioneer Fund - A large-cap blend universe calculated and provided by Morningstar.

Fidelity Growth Company Fund - A large-cap growth universe calculated and provided by Morningstar.

American Beacon Small Cap Value Fund - A small-cap value universe calculated and provided by Morningstar.

Description of Universes

T. Rowe Price Small Cap Stock Fund - A small-cap growth universe calculated and provided by Morningstar.

Fidelity Low Priced Stock Fund - A mid-cap blend universe calculated and provided by Morningstar.

FRS Select Foreign Stock Index Fund - A foreign blend universe calculated and provided by Morningstar.

American Funds New Perspective Fund - A global stock universe calculated and provided by Morningstar.

American Funds Euro-Pacific Growth Fund - A foreign large blend universe calculated and provided by Morningstar.

Hewitt ennisknupp

An Aon Company

Lawton Chiles Endowment Fund

First Quarter 2013

Hewitt EnnisKnupp, Inc.
10 South Riverside Plaza, Suite 1600
Chicago, IL 60606
phone: 1-312-715-1700
fax: 1-312-715-1952
www.hewittennisknupp.com

CONTENTS

1	LCEF Total Fund
11	Global Equity
15	Fixed Income
19	TIPS
23	Cash Equivalents
27	Appendix

(This page left blank intentionally)

LCEF Total Fund

Plan Summary

Summary of Cash Flows

Sources of Portfolio Growth	First Quarter	Fiscal YTD*
Beginning Market Value	$821,878,917	$776,130,661
Net Additions/Withdrawals	--	$30,770
Investment Earnings	$28,220,038	$73,937,524
Ending Market Value	$850,098,955	$850,098,955

*Period July 2012 - March 2013

Plan Performance

Benchmark: Total Endowment Target

Trailing Period Performance

				Ending March 31, 2013									
	Market Value ($)	% of Portfolio	Policy %	2013 Q1 (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank
LCEF Total Fund	**850,098,955**	**100.0**	**100.0**	**3.4**	**88**	**7.1**	**94**	**9.2**	**20**	**4.5**	**22**	**8.2**	**53**
Total Endowment Target				*2.8*	*95*	*5.9*	*97*	*8.6*	*40*	*3.7*	*43*	*7.7*	*68*
Global Equity*	**369,418,055**	**43.5**	**43.5**	**8.3**	**--**	**15.4**	**--**	**12.7**	**--**	**5.7**	**--**	**9.7**	**--**
Global Equity Target				*6.9*	*--*	*13.3*	*--*	*11.2*	*--*	*4.9*	*--*	*9.4*	*--*
Fixed Income	**132,379,141**	**15.6**	**15.6**	**0.1**	**75**	**4.3**	**83**	**5.8**	**77**	**5.4**	**78**	**5.1**	**64**
Barclays Aggregate Bond Index				*-0.1*	*87*	*3.8*	*88*	*5.5*	*82*	*5.5*	*77*	*5.0*	*65*
TIPS	**89,915,283**	**10.6**	**10.6**	**-0.4**	**--**	**6.0**	**--**	**8.5**	**--**	**6.4**	**--**	**6.7**	**--**
Barclays U.S. TIPS				*-0.4*	*--*	*5.7*	*--*	*8.6*	*--*	*5.9*	*--*	*6.3*	*--*
Cash Equivalents	**258,384,946**	**30.4**	**30.4**	**0.1**	**--**	**0.8**	**--**	**1.0**	**--**	**1.1**	**--**	**2.3**	**--**
S&P US AAA & AA Rated GIP 30D Net Yield Index				*0.0*	*--*	*0.1*	*--*	*0.2*	*--*	*0.6*	*--*	*1.9*	*--*

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.

Due to the mandated payout scheduled for June 30, 2013, Target Allocations will float at the actual month-end average balances.

Calendar Year Performance

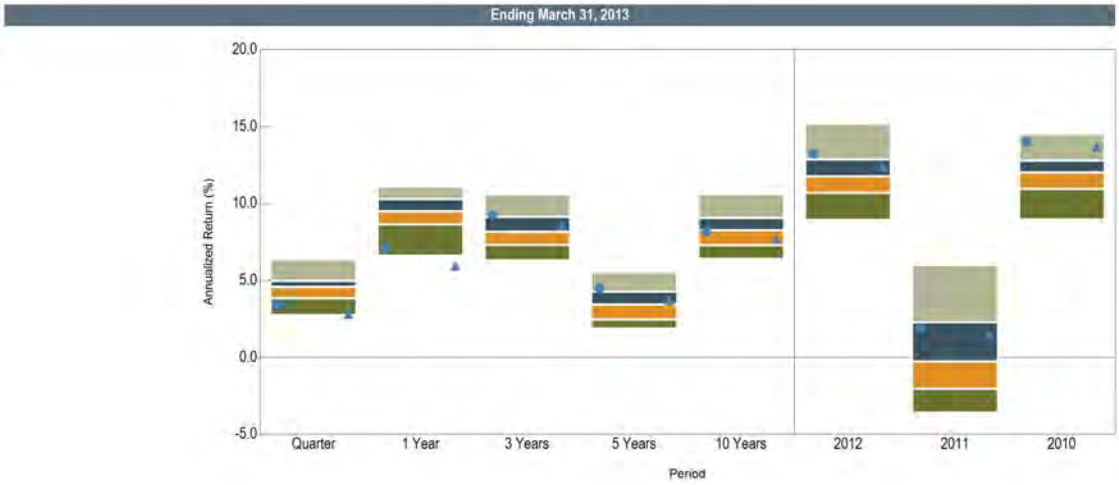
	2012 (%)	Rank	2011 (%)	Rank	2010 (%)	Rank	2009 (%)	Rank	2008 (%)	Rank	2007 (%)	Rank	2006 (%)	Rank	2005 (%)	Rank	2004 (%)	Rank	2003 (%)	Rank
LCEF Total Fund	**13.2**	**22**	**1.9**	**31**	**14.0**	**11**	**21.2**	**28**	**-29.2**	**74**	**6.3**	**92**	**15.0**	**40**	**7.4**	**69**	**12.0**	**54**	**25.0**	**25**
Total Endowment Target	*12.4*	*34*	*1.5*	*34*	*13.7*	*14*	*19.6*	*35*	*-28.9*	*74*	*6.5*	*89*	*14.0*	*52*	*6.7*	*80*	*12.1*	*51*	*24.9*	*25*
Global Equity*	**20.4**	**--**	**-1.1**	**--**	**17.0**	**--**	**30.8**	**--**	**-39.6**	**--**	**6.8**	**--**	**17.4**	**--**	**8.5**	**--**	**12.7**	**--**	**32.3**	**--**
Global Equity Target	*19.4*	*--*	*-2.2*	*--*	*16.1*	*--*	*30.5*	*--*	*-39.2*	*--*	*7.2*	*--*	*17.8*	*--*	*7.9*	*--*	*13.5*	*--*	*32.8*	*--*
Fixed Income	**4.6**	**89**	**7.6**	**32**	**7.0**	**73**	**4.6**	**85**	**5.8**	**14**	**7.3**	**43**	**4.4**	**35**	**2.7**	**24**	**4.4**	**69**	**4.1**	**90**
Barclays Aggregate Bond Index	*4.2*	*92*	*7.8*	*29*	*6.5*	*75*	*5.9*	*78*	*5.2*	*20*	*7.0*	*50*	*4.3*	*37*	*2.4*	*54*	*4.3*	*70*	*4.1*	*90*
TIPS	**7.2**	**--**	**13.6**	**--**	**6.1**	**--**	**13.3**	**--**	**-2.0**	**--**	**12.4**	**--**	**0.8**	**--**	**2.9**	**--**	**8.8**	**--**	**8.4**	**--**
Barclays U.S. TIPS	*7.0*	*--*	*13.6*	*--*	*6.3*	*--*	*11.4*	*--*	*-2.4*	*--*	*11.6*	*--*	*0.4*	*--*	*2.8*	*--*	*8.5*	*--*	*8.4*	*--*
Cash Equivalents	**1.3**	**--**	**0.1**	**--**	**2.0**	**--**	**2.6**	**--**	**0.5**	**--**	**5.4**	**--**	**5.2**	**--**	**3.3**	**--**	**1.4**	**--**	**1.2**	**--**
S&P US AAA & AA Rated GIP 30D Net Yield Index	*0.1*	*--*	*0.2*	*--*	*0.3*	*--*	*0.7*	*--*	*2.3*	*--*	*4.7*	*--*	*5.1*	*--*	*3.4*	*--*	*1.4*	*--*	*1.1*	*--*

*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.

Universe Comparison

Benchmark: Total Endowment Target

Universe: Endowments Net

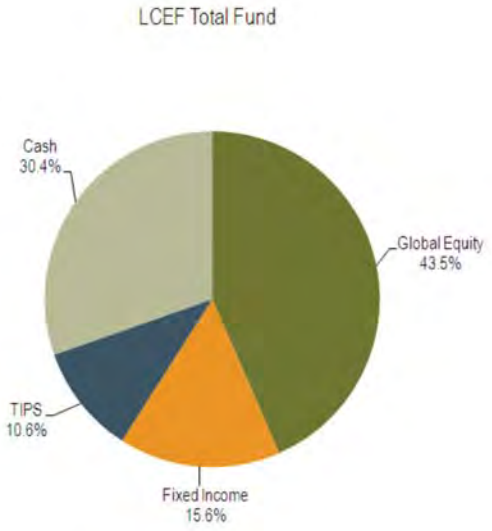


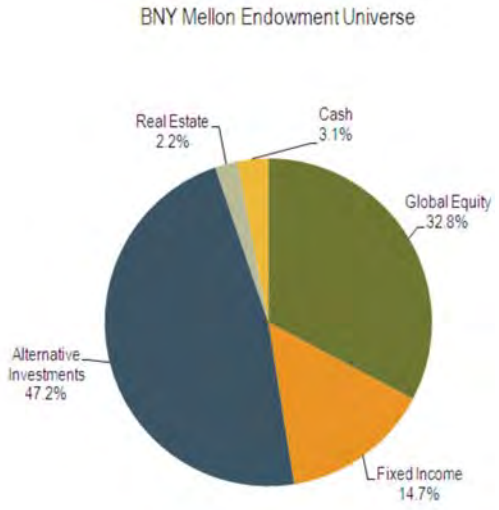
	Return (Rank)															
5th Percentile	6.4		11.1		10.6		5.5		10.6		15.2		6.0		14.5	
25th Percentile	5.0		10.3		9.2		4.3		9.1		12.9		2.3		12.8	
Median	4.6		9.5		8.2		3.5		8.3		11.8		-0.3		12.0	
75th Percentile	3.8		8.7		7.3		2.5		7.3		10.7		-2.0		11.0	
95th Percentile	2.8		6.6		6.3		1.9		6.4		8.9		-3.6		9.0	
# of Portfolios	79		77		73		69		55		77		83		78	
● **LCEF Total Fund**	3.4	(88)	7.1	(94)	9.2	(20)	4.5	(22)	8.2	(53)	13.2	(22)	1.9	(31)	14.0	(11)
▲ **Total Endowment Target**	2.8	(95)	5.9	(97)	8.6	(40)	3.7	(43)	7.7	(68)	12.4	(34)	1.5	(34)	13.7	(14)

Universe Asset Allocation Comparison

Benchmark: Total Endowment Target

Universe: Endowments Net

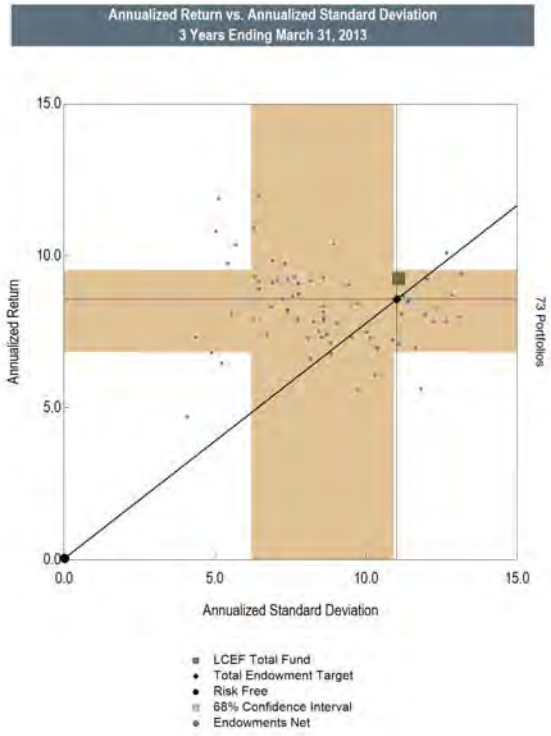


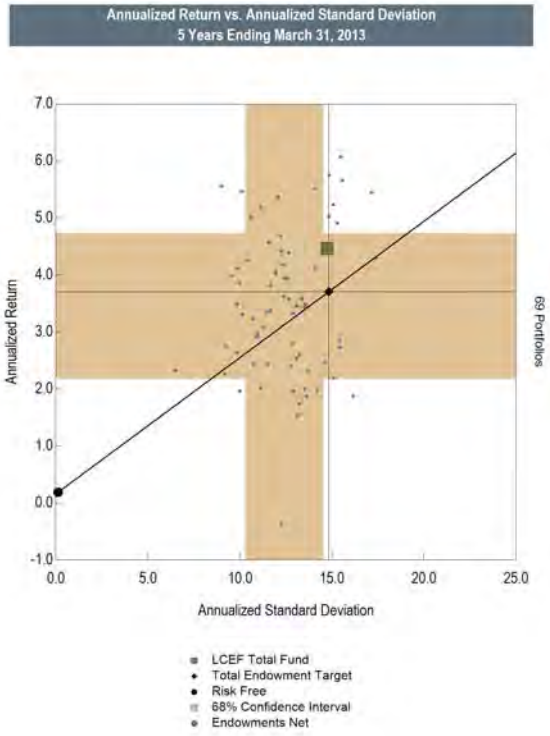


Risk Profile

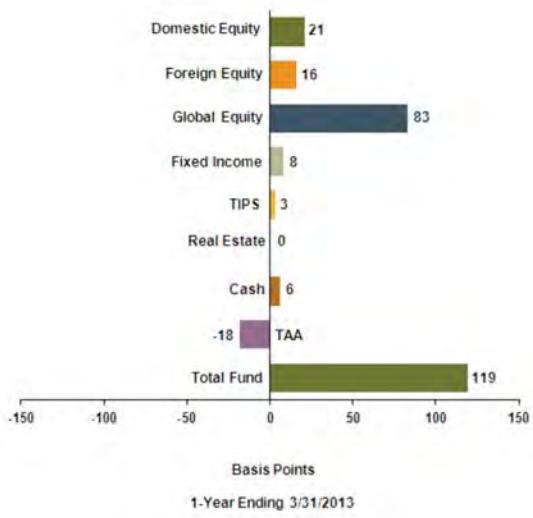
Benchmark: Total Endowment Target

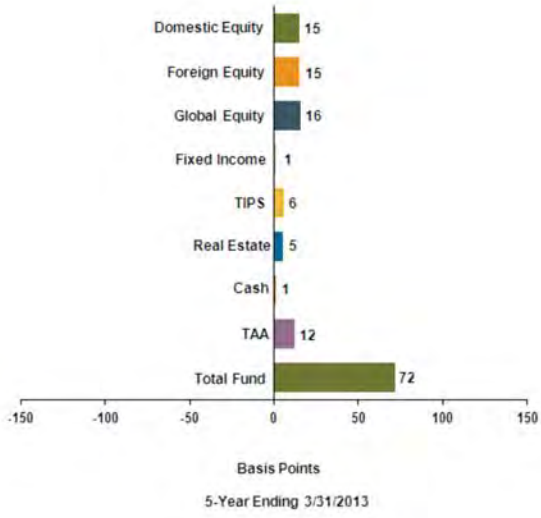
Universe: Endowments Net





Attribution





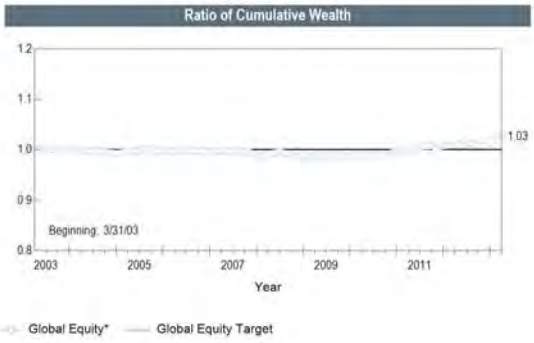
(This page left blank intentionally)

Global Equity

Global Equity* | As of March 31, 2013 | $369.4 Million and 43.5% of Fund

Overview

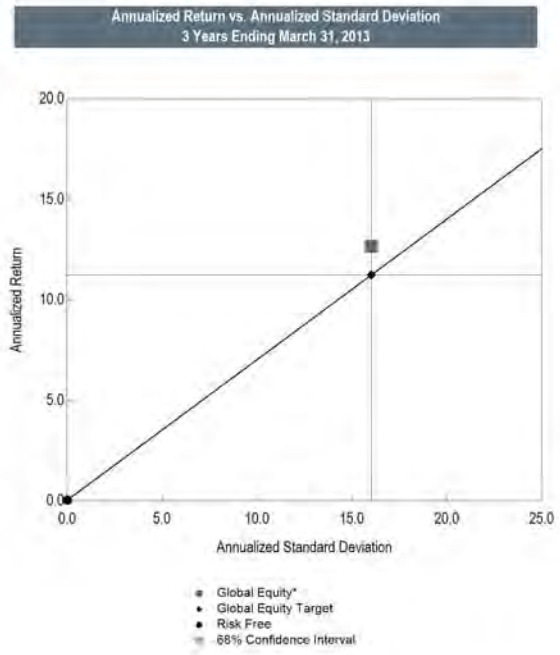
Benchmark: Global Equity Target

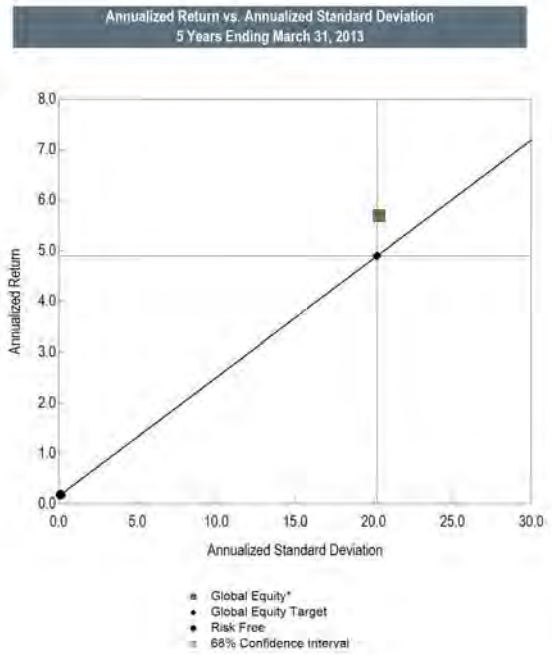


*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

Risk Profile

Benchmark: Global Equity Target





*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.

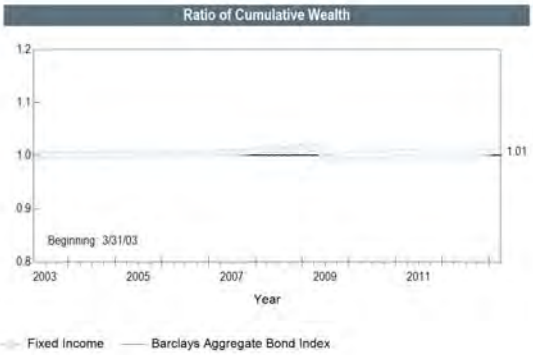
(This page left blank intentionally)

Fixed Income

Fixed Income | As of March 31, 2013 | $132.4 Million and 15.6% of Fund

Overview

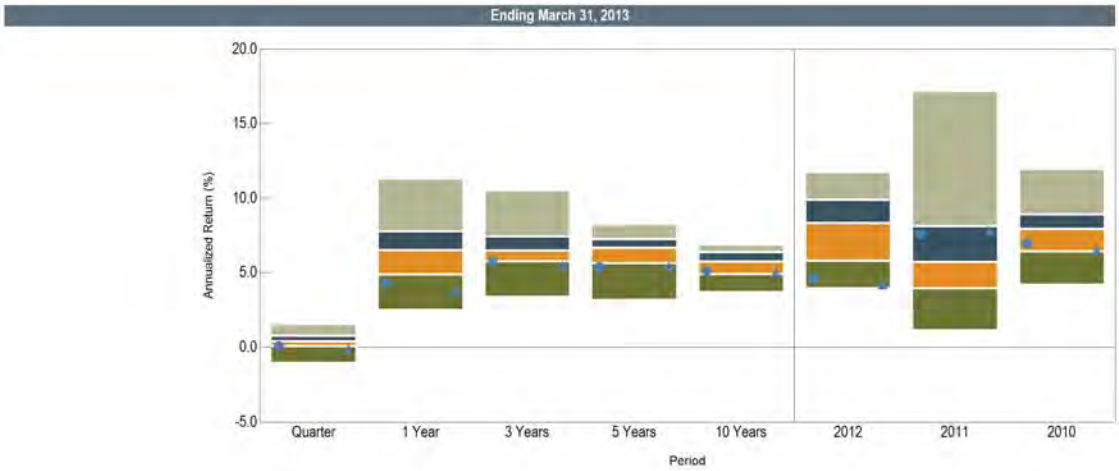
Benchmark: Barclays Aggregate Bond Index



Universe Comparison

Benchmark: Barclays Aggregate Bond Index

Universe: Endowments - US FI Net

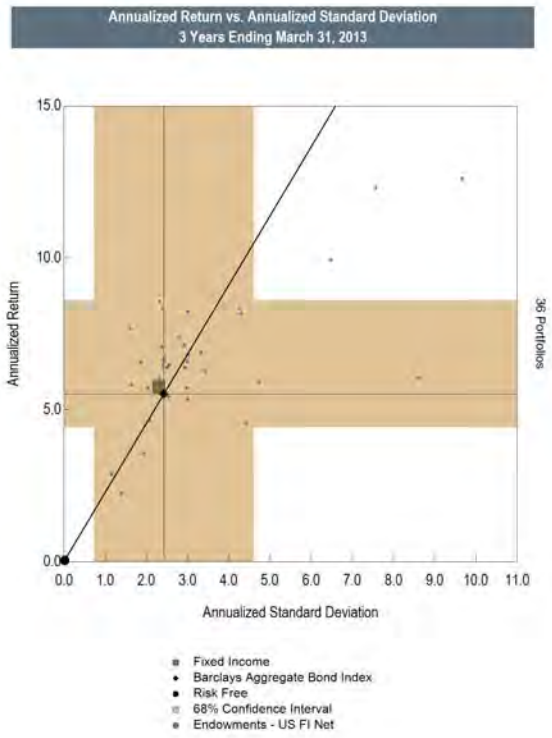


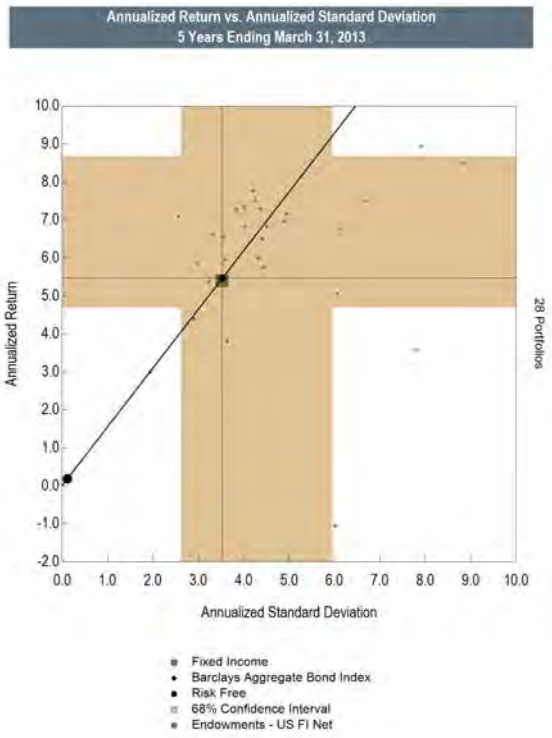
	Return (Rank)															
5th Percentile	1.5		11.3		10.5		8.2		6.9		11.7		17.2		12.0	
25th Percentile	0.8		7.8		7.5		7.3		6.4		9.9		8.1		8.9	
Median	0.4		6.5		6.5		6.7		5.8		8.4		5.7		8.0	
75th Percentile	0.1		4.9		5.8		5.7		4.9		5.8		4.0		6.4	
95th Percentile	-1.0		2.5		3.4		3.2		3.7		4.0		1.2		4.2	
# of Portfolios	52		47		36		28		21		49		49		41	
● Fixed Income	0.1	(75)	4.3	(83)	5.8	(77)	5.4	(78)	5.1	(64)	4.6	(89)	7.6	(32)	7.0	(73)
▲ Barclays Aggregate Bond Index	-0.1	(87)	3.8	(88)	5.5	(82)	5.5	(77)	5.0	(65)	4.2	(92)	7.8	(29)	6.5	(75)

Risk Profile

Benchmark: Barclays Aggregate Bond Index

Universe: Endowments - US FI Net



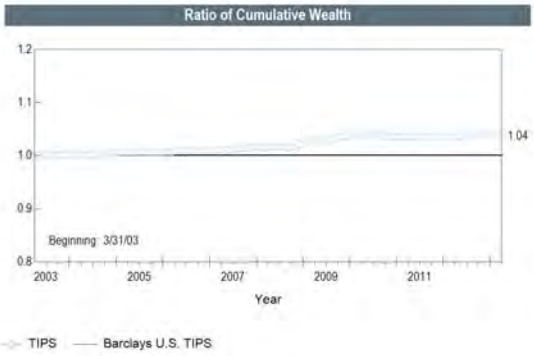


TIPS

TIPS | As of March 31, 2013 | $89.9 Million and 10.6% of Fund

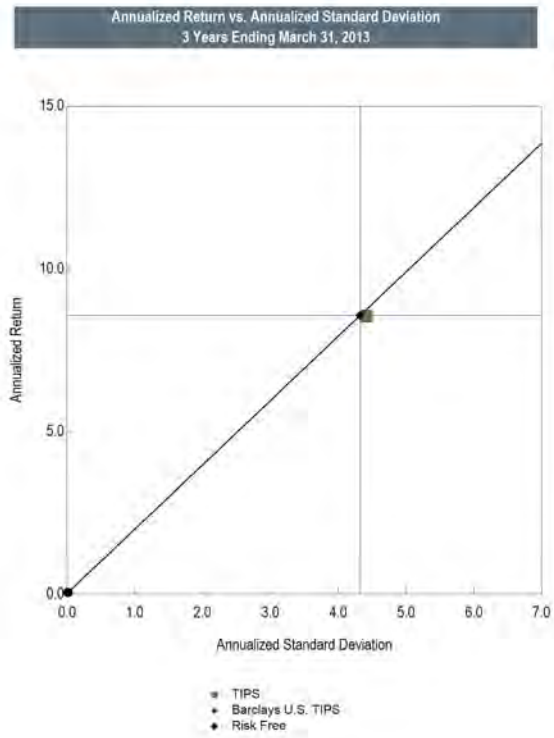
Overview

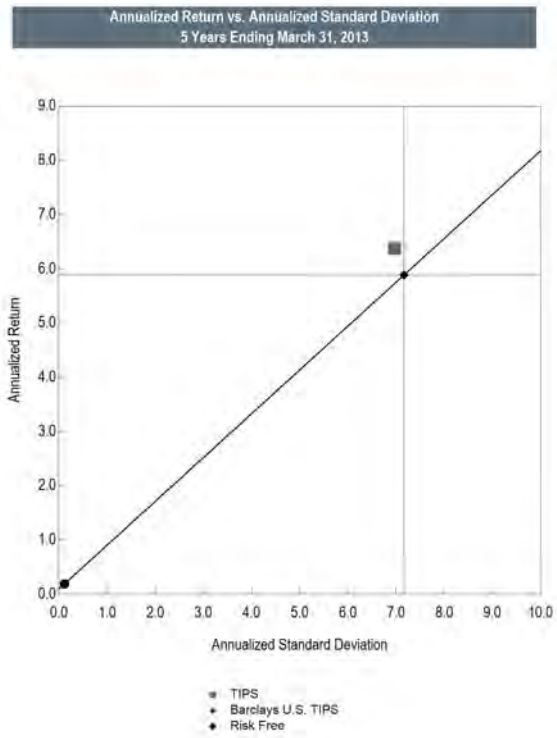
Benchmark: Barclays U.S. TIPS



Risk Profile

Benchmark: Barclays U.S. TIPS





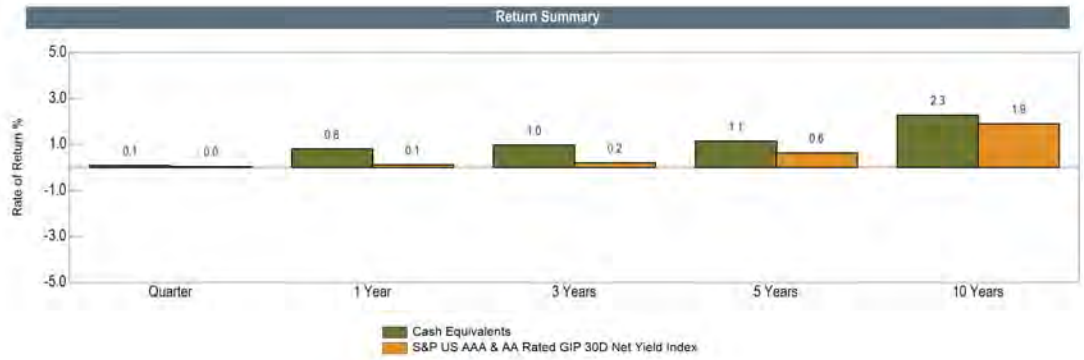
(This page left blank intentionally)

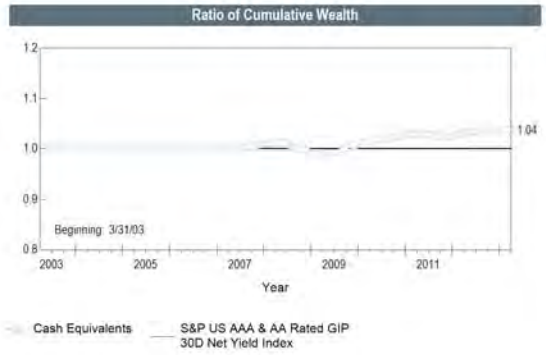
Cash Equivalents

Cash Equivalents | As of March 31, 2013 | $258.4 Million and 30.4% of Fund

Overview

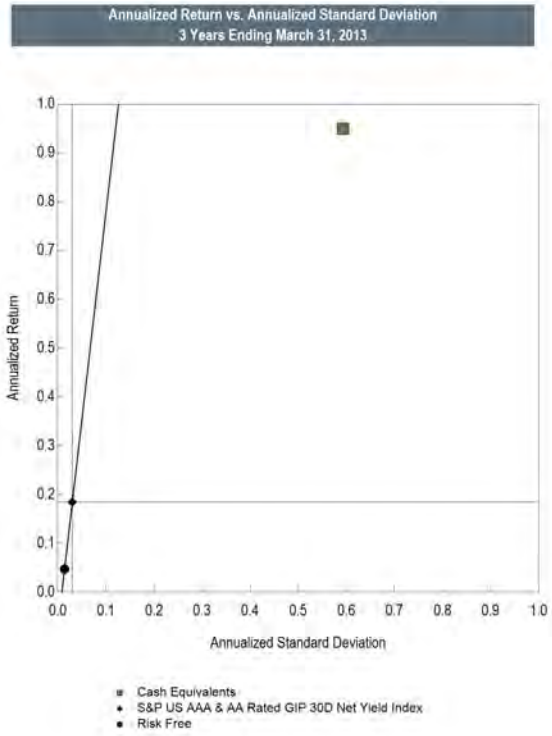
Benchmark: S&P US AAA & AA Rated GIP 30D Net Yield Index

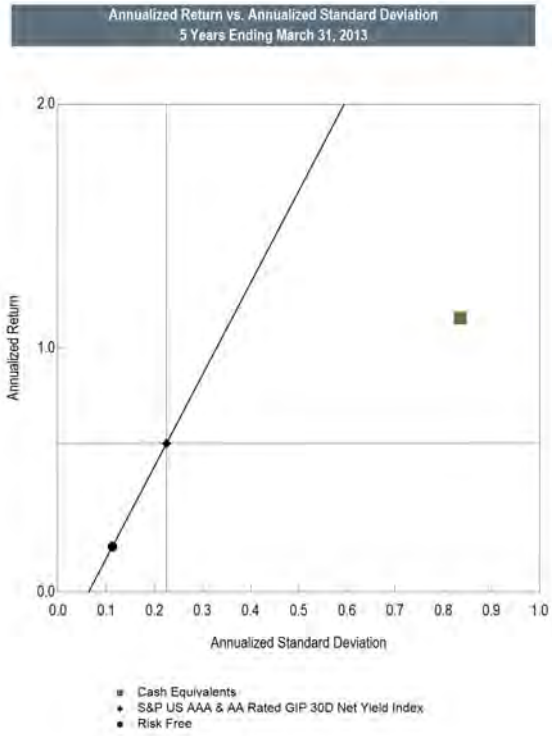




Risk Profile

Benchmark: S&P US AAA & AA Rated GIP 30D Net Yield Index





(This page left blank intentionally)

Appendix

As of March 31, 2013

Securities Lending

Lawton Chiles Endowment Fund		
	Net Income	
March 2013	Fiscal Year to Date	Calendar Year to Date
$21,693	$82,023	$44,501
	Returns (annualized basis points)	
March 2013	Fiscal Year to Date	Calendar Year to Date
160	111	140

Market Returns

	First Quarter	Annualized Periods Ending 3/31/13 1-Year	3-Year	5-Year	10-Year	15-Year
Domestic Stock Indices:						
Dow Jones US Total Stock Index	11.1	14.5	13.1	6.5	9.4	4.8
S&P 500 Index	10.6	14.0	12.7	5.8	8.5	4.3
Russell 3000 Index	11.1	14.6	13.0	6.3	9.2	4.7
Russell 1000 Value Index	12.3	18.8	12.7	4.8	9.2	5.3
Russell 1000 Growth Index	9.5	10.1	13.1	7.3	8.6	3.2
Russell MidCap Value Index	14.2	21.5	15.0	8.5	12.6	8.3
Russell MidCap Growth Index	11.5	12.8	14.2	8.0	11.5	6.1
Russell 2000 Value Index	11.6	18.1	12.1	7.3	11.3	7.4
Russell 2000 Growth Index	13.2	14.5	14.7	9.0	11.6	4.1
Domestic Bond Indices:						
Barclays Capital Aggregate Index	-0.1	3.8	5.5	5.5	5.0	5.8
Barclays Capital Govt/Credit Index	-0.2	4.6	6.1	5.5	5.1	5.9
Barclays Capital Long Govt/Credit Index	-2.0	8.9	12.3	9.5	7.5	7.8
Barclays Capital 1-3 Year Govt/Credit Index	0.2	1.1	1.6	2.4	3.1	4.2
Barclays Capital U.S. MBS Index	0.0	2.0	4.2	5.2	5.0	5.7
Barclays Capital High Yield Index	2.9	13.1	11.2	11.6	10.1	7.1
Barclays Capital Universal Index	0.1	4.7	6.0	5.9	5.4	6.0
Real Estate Indices:						
NCREIF Property Index	2.6	10.5	13.3	2.3	8.5	9.1
NCREIF ODCE Index	2.4	9.7	14.0	-1.7	5.8	7.0
Dow Jones Real Estate Securities Index	7.1	13.0	16.8	5.9	12.2	9.3
FTSE NAREIT US Real Estate Index	8.1	17.1	17.7	7.1	12.6	9.5
Foreign/Global Stock Indices:						
MSCI All Country World Index	6.5	10.6	7.8	2.1	9.4	4.1
MSCI All Country World IMI	6.9	11.0	8.1	2.6	9.9	4.5
MSCI All Country World ex-U.S. Index	3.2	8.4	4.4	-0.4	10.9	4.7
MSCI All Country World ex-U.S. IMI	3.6	8.6	4.7	0.0	11.3	5.0
MSCI All Country World ex-U.S. Small Cap Index	6.5	10.5	7.0	2.5	14.3	7.4
MSCI EAFE Index	5.1	11.3	5.0	-0.9	9.7	3.8
MSCI EAFE IMI	5.5	11.5	5.4	-0.5	10.1	4.2
MSCI EAFE Index (in local currency)	9.7	16.7	4.3	0.7	7.5	2.1
MSCI Emerging Markets IMI	-1.0	2.8	3.4	1.5	17.2	7.4
Foreign Bond Indices:						
Citigroup World Gov't Bond Index	-3.8	-2.2	3.3	2.3	5.6	5.6
Citigroup Hedged World Gov't Bond Index	1.3	5.5	4.1	4.3	4.3	5.2
Cash Equivalents:						
Treasury Bills (30-Day)	0.0	0.0	0.0	0.2	1.3	2.1
Hewitt EnnisKnupp STIF Index	0.1	0.2	0.2	0.6	2.0	2.8
Inflation Index:						
Consumer Price Index	1.4	1.5	2.3	1.7	2.4	2.4

Benchmark Descriptions

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 9/1/2012 forward, a custom version of the MSCI ACWI IMI which excludes companies that derive their revenue from sales of tobacco and tobacco related products. Prior to September 2012, the benchmark is a weighted average of both Domestic Equity's and Foreign Equity's historical benchmarks.

Total Domestic Equity

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 Equity

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.

Universe Descriptions

LCEF Total Fund
A universe comprised of 79 total endowment portfolio returns, net of fees, calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $223.0 billion as of quarter-end and the average market value was $2.4 billion.

Total Fixed Income
A universe comprised of 52 total fixed income portfolio returns, net of fees, of endowment plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $23.4 billion as of quarter-end and the average market value was $303.3 million.

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.

Risk-Return Graph - The horizontal axis, annualized standard deviation, is a statistical measure of risk, or the volatility of returns. The vertical axis is the annualized rate of return. As investors generally prefer less risk to more risk and always prefer greater returns, the upper left corner of the graph is the most attractive place to be. The line on this exhibit represents the risk and return trade-offs associated with market portfolios, or index funds.

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 - Universe Comparison - 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.

Asset Liability / Asset Allocation Review

Hewitt ennisknupp
An Aon Company

Table of Contents

Section 1	Introduction
Section 2	Review of Asset Liability Results & Asset Allocation Scenarios

Hewitt ennisknupp
An Aon Company

Introduction

Hewitt ennisknupp
An Aon Company

Introduction

Most important decision for long-term investment results is asset allocation

- Step 1: Asset Liability Study
  - Provides fiduciaries with an understanding of the dynamic relationship between plan assets and liabilities over time
  - Provides an evaluation of the impact of a Plan's level of risk on future economic cost
  - Provides the framework for stakeholders to make the first decision in setting asset allocation policy: Determine level of risk that is appropriate (i.e. split between return-seeking and risk-reducing assets) in the context of the Plan's liabilities

- Step 2: Setting Asset Allocation
  - Translate the results of the Asset/Liability study into an *actionable, strategic* asset allocation
  - Goal of Asset Allocation:
    - Efficiently and prudently implement previously established return-seeking/risk-reducing split
    - Improve results with better diversification
    - Increase risk/reward trade-off ➔ Improve cost savings (reward) and/or lower risk

Hewitt ennisknupp
An Aon Company

Setting Asset Allocation: Key Qualitative Factors

Key Drivers & Considerations:	Florida Retirement System:	
Governance: • Oversight & resources • Speed of action • (Freedom from) scrutiny	**Strategic** - Public scrutiny	**Flexible** + Skilled investment staff with discretion + Expert oversight + Ability to allocate to broad range of asset strategies
Time Horizon: • Life span • Cash flow position • Ability to access less liquid opportunities • Ability to capture illiquidity premium	**Short** - Large cash outflows - Risk of plan closing	**Long** + Open plan + Ability to tolerate some illiquidity
Portfolio Size: • Ability to diversify • Market impact • Potential for closet indexing • Fees	**Small**	**Large** + Access to skilled managers + Ability to diversify (alternatives) + Size allows fee negotiation - Large market impact - Large # of managers/strategies

Hewitt ennisknupp
An Aon Company

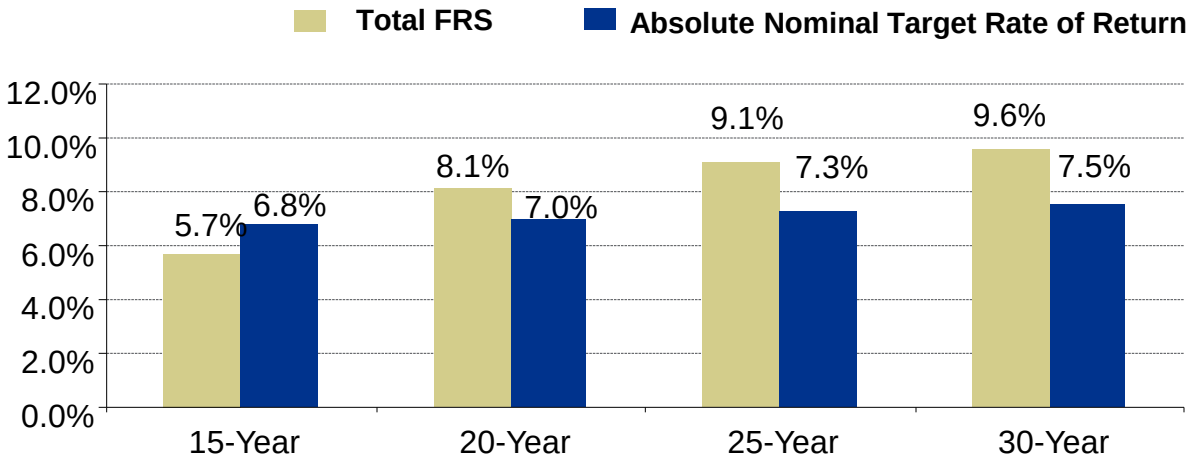
Evaluation of Asset Allocation Decisions

- Evaluating asset allocation decisions over long periods of times is challenging; however, three ways to accomplish this include:
  - Investment Objective: Performance relative to the FRS Absolute Nominal Target Rate of Return (CPI + 5%)
  - Peers: Performance relative to peers (recognizing that each plan has unique circumstances that drive differences in long-term asset allocation)
  - Opportunity Set: Performance relative to the World Market Opportunity Set

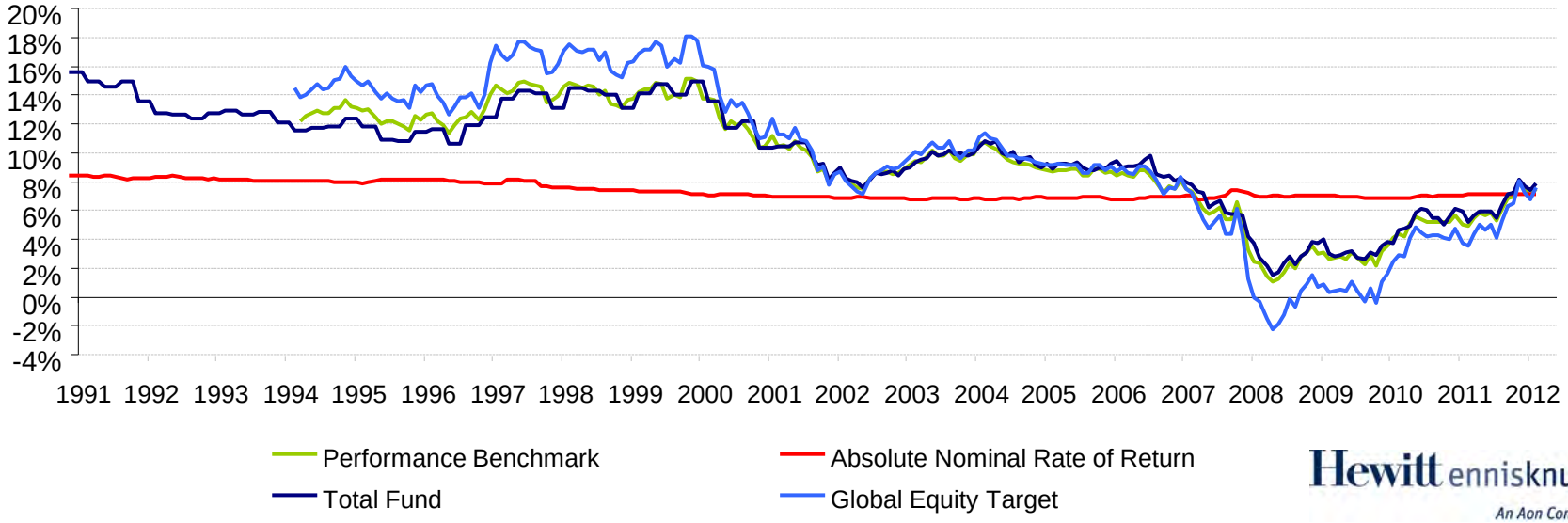
Hewitt ennisknupp
An Aon Company

Absolute Nominal Target Rate of Return

As of March 31, 2013

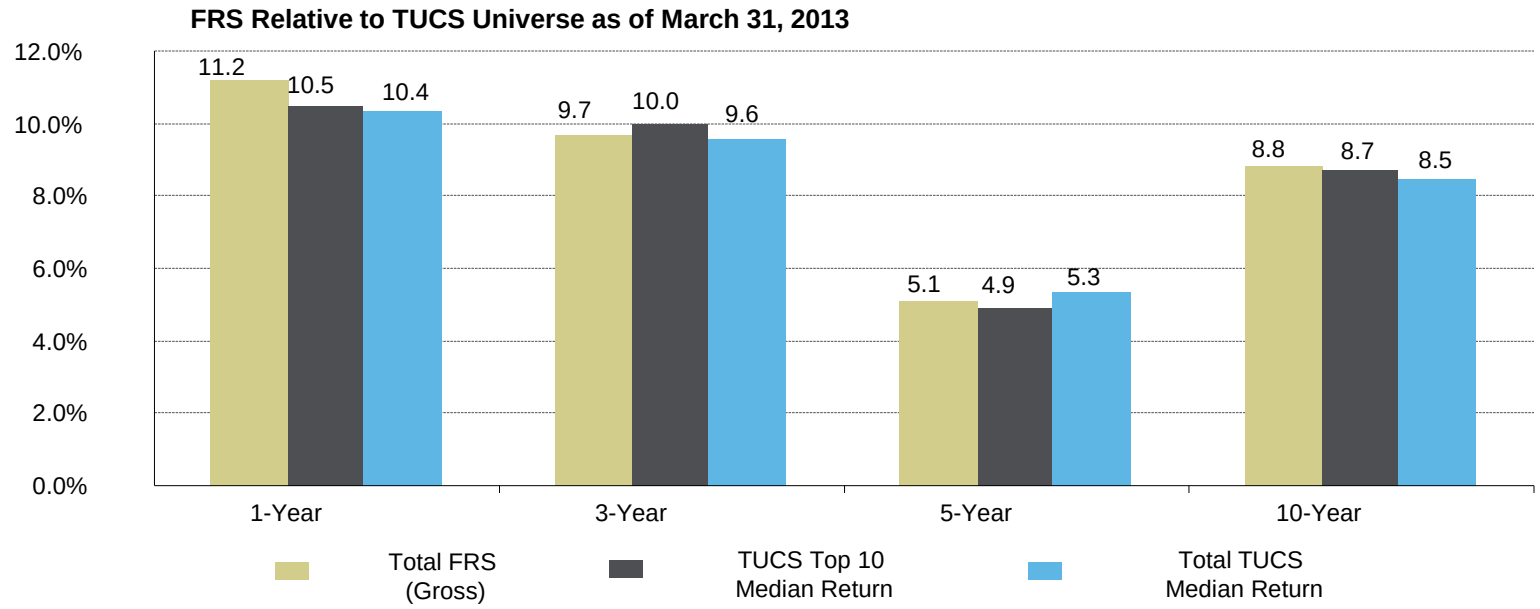


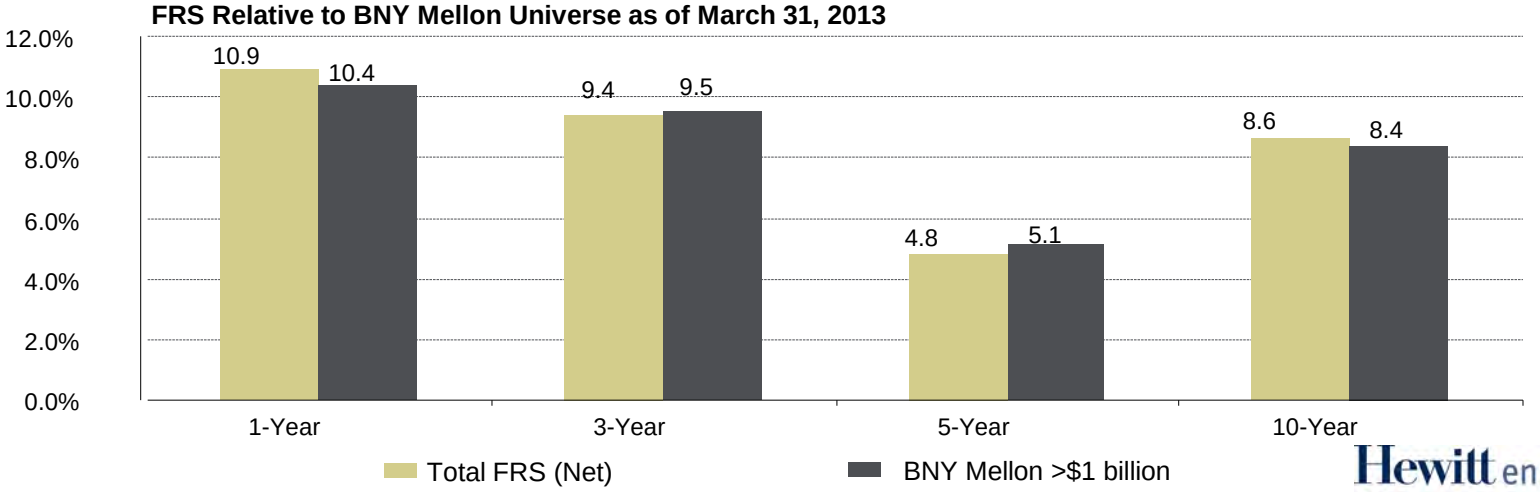
Rolling 10-Year Annualized Returns



Hewitt ennisknupp
An Aon Company

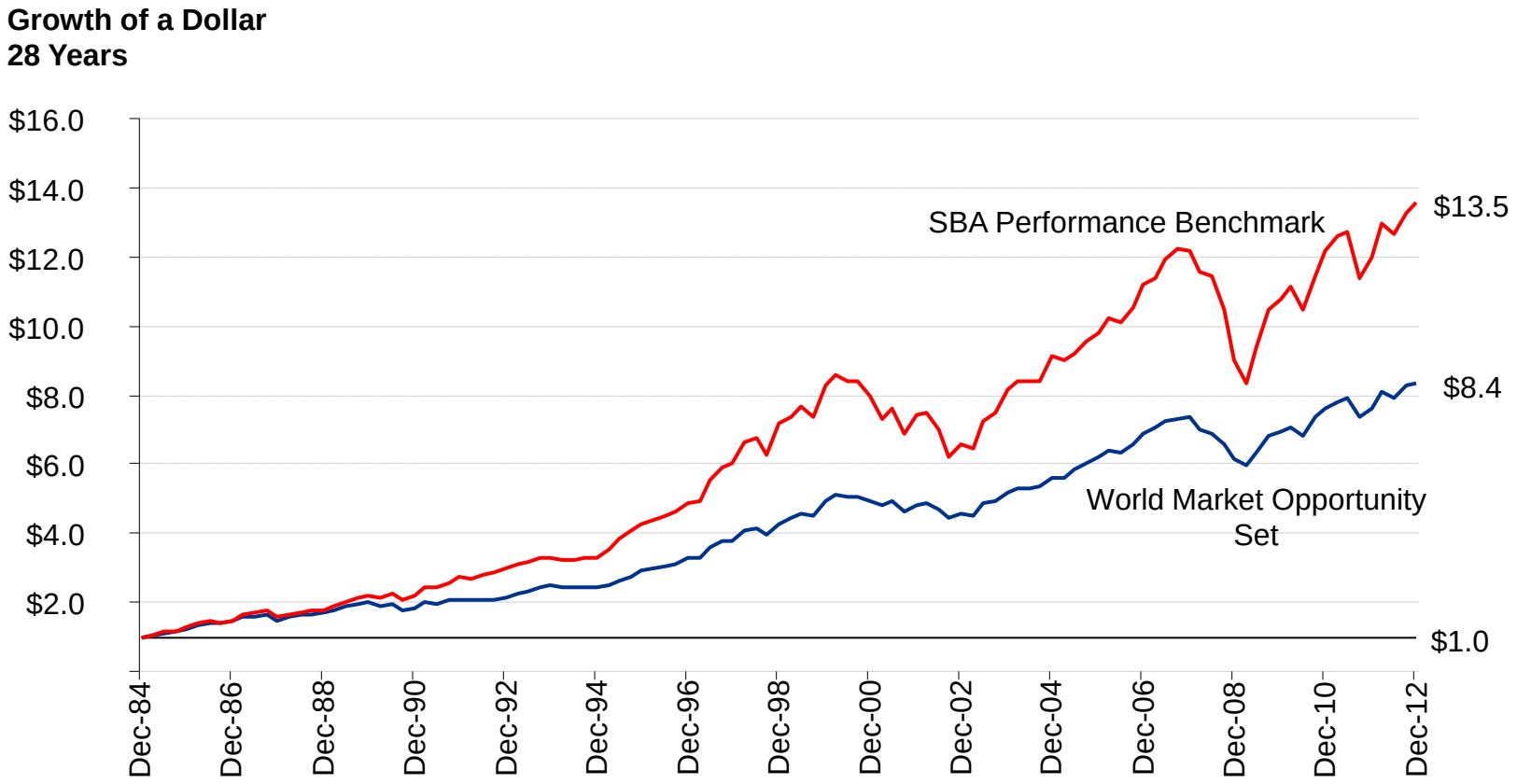
FRS Results Relative to Peer Groups





Hewitt ennisknupp
An Aon Company

World Market Opportunity Set



- The World Market Opportunity Set represents the sum total of the entire global investment opportunity set including global equities, global bonds, real estate, and alternatives

Hewitt ennisknupp
An Aon Company

Review of Asset Liability Results & Asset Allocation Scenarios

Hewitt ennisknupp
An Aon Company

Asset Liability Study: Strategic Investment Policy

- For purposes of the long-term strategic investment policy, we believe the current 75% allocation target for risk assets remains appropriate, and recommend no change.
- Basis for our view:
  - Risk-reward analysis from the asset-liability study:
    - Although the baseline results (using a 4.76% equity risk premium assumption) provide support for increasing the risk asset allocation target, we believe this is due entirely to the reduced near-term expectations for fixed income returns, i.e. it is based on a temporary condition that is likely to disappear fairly soon.
    - Long-term policy targets should not change based on temporary conditions.
    - The risk-reward analysis using a 3.76% equity risk premium supports the current 75% risk asset allocation. This equity risk premium level is above the historical average of 3.26%, and we believe this level represents a better forward-looking estimate without the temporary impact of lowered fixed income return expectations.
  - An increased allocation to risk assets would increase downside risk over the next five years.
  - Uncertainty remains regarding future changes in the FRS benefit structure. If changes are made, they almost all would point towards a possible lowering of the risk asset allocation target.
- We believe that actions to potentially mitigate the temporary fixed income return issue are best handled within the fixed income sector, either with tactical moves and/or with changes in the benchmark for the fixed income asset class.

Hewitt ennisknupp
An Aon Company

SBA Approach: Equity Risk Premium[1]

To dampen year-to-year volatility of long-term return assumptions, the SBA averages the U.S. equity risk premiums from four consulting firms and then uses that average risk premium to scale HEK's expected returns for the "Risk Assets"

2013 Average U.S. Equity Risk Premium = Average (U.S. Equity Return – U.S. Bond Return) = ***4.76%***

	Equity Risk Premium			
	2010 Asset/ Liability Study	2011 Asset/ Liability Update	2012 Asset/ Liability Update	2013 Asset/ Liability Update
HEK	2.40%	3.60%	4.50%	5.10%
Callan	4.00	4.25	4.50	5.15
Wilshire	3.25	3.50	4.65	4.50
Mercer	3.80	3.80	3.80	4.30
Average	**3.36%**	**3.79%**	**4.36%**	**4.76%**

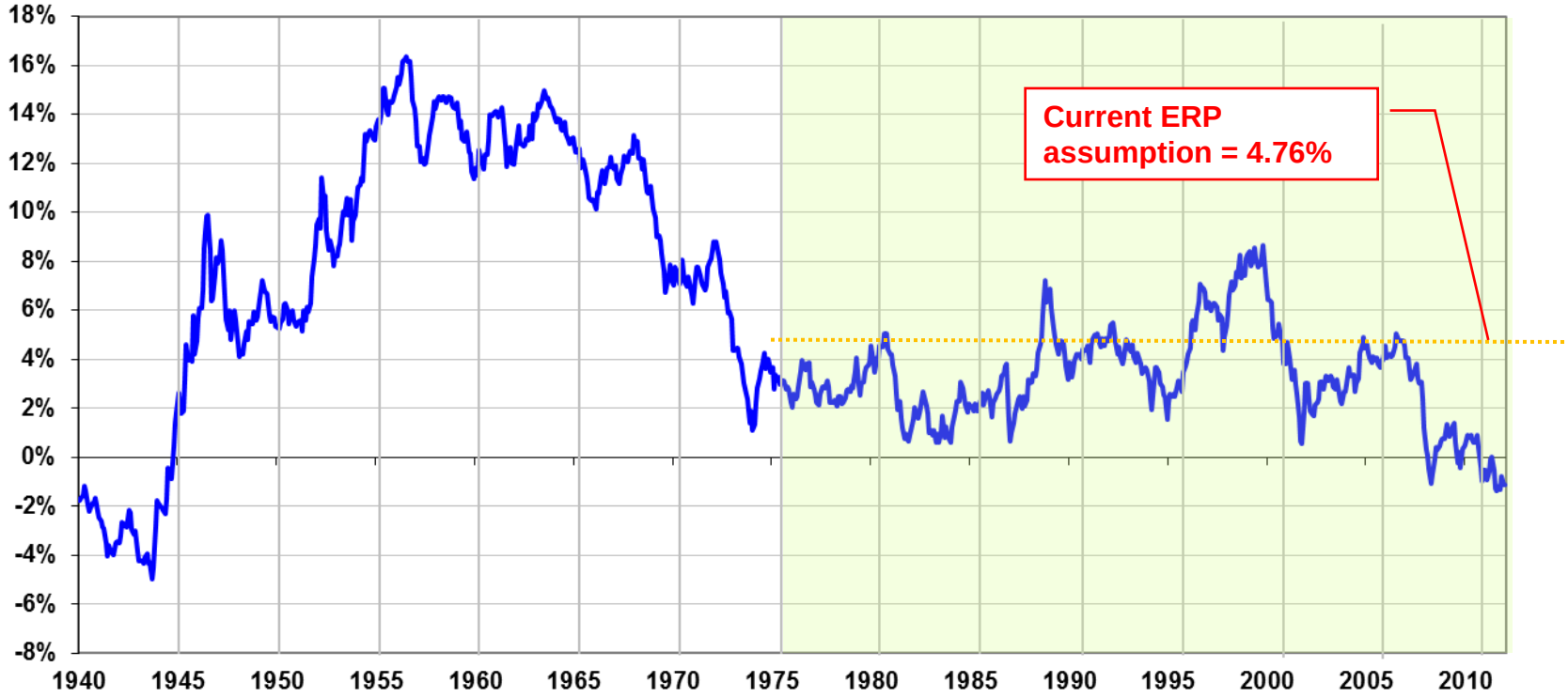
All returns are 15-year geometric average (compounded) expected returns.

[1]Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk.

Hewitt ennisknupp
An Aon Company

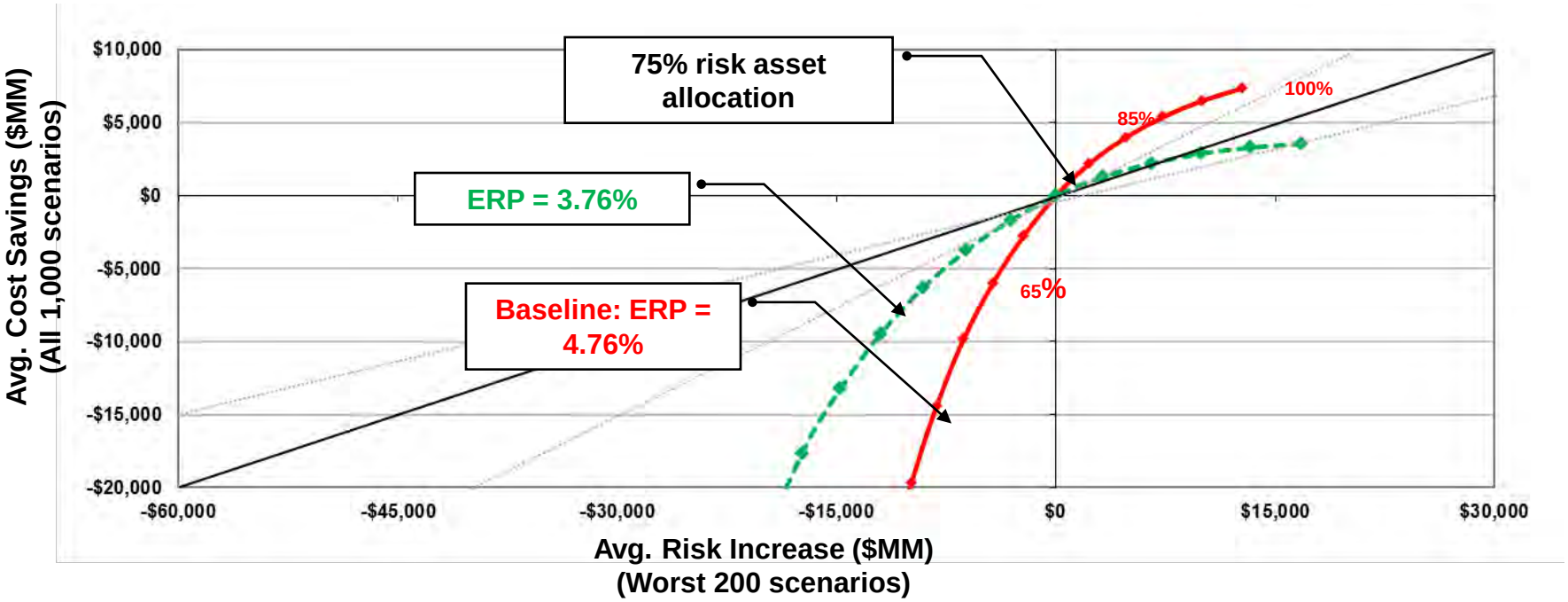
Historical and Expected Equity Risk Premium

- This graph shows the historical 15-year moving average of the U.S. equity risk premium. The shaded section captures the experience since 1960 – so basically the last 50+ years. During this period the average ERP has been 3.26%.



Hewitt ennisknupp
An Aon Company

2013 Risk-Reward Analysis:
Sensitivity to Equity Risk Premium Assumption



<u>Observation</u>: The green line above, based on a 3.76% equity risk premium assumption supports the current 75% allocation to risk assets. This puts a special focus on the fact that the current baseline equity risk premium assumption of 4.76% may be temporary, and will become lower as fixed income return expectations return to more normal levels.

Hewitt ennisknupp
An Aon Company

Why Not 100% Risk Assets?

- We acknowledge that bonds are unattractive for investors in the short-term given the extremely low yields and the risk of rising interest rates
- Each asset class in a long-term asset allocation plays a different role: downside protection, diversification, liquidity provider, return-enhancement, etc.
- Long-term investors need bonds for downside protection, liquidity, and to facilitate rebalancing in weak equity markets

- Worst Case Scenario:

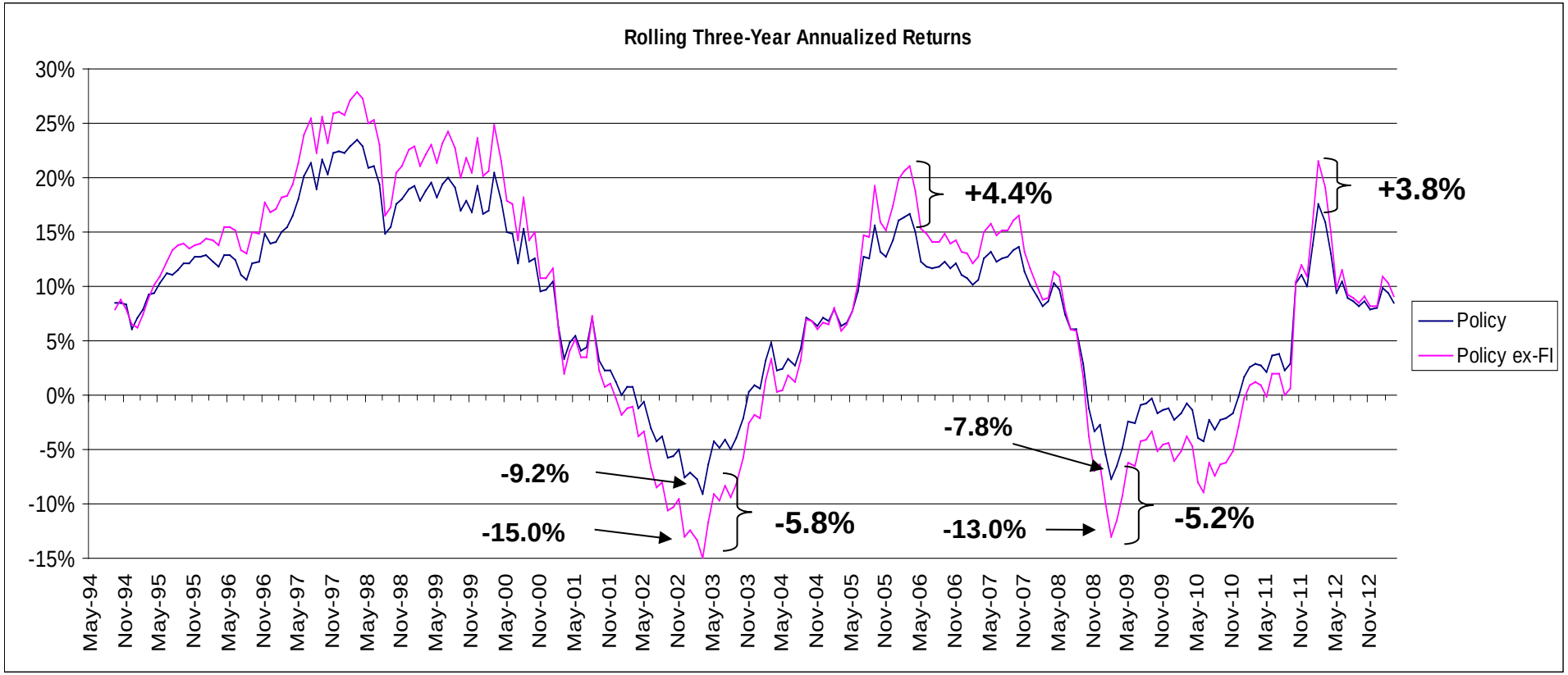
**Assume 100% invested in risky assets with a significant % in public equity

  – Public equity markets are down 30-40% (2008 Global Equity Return = -40%)
  – No ability to rebalance the portfolio
  – Have to sell stocks (cannot sell illiquid investments like real estate or private equity) at low levels to fulfill monthly benefit payments
  – Realized losses = permanent principal impairment of the pension plan

- We illustrate the historical impact of having 100% risky assets on the FRS on the following slide

Hewitt ennisknupp
An Aon Company

FRS Policy Benchmark vs. Policy Benchmark ex-Fixed Income



- The Policy Benchmark ex-Fixed Income falls more relative to the Policy Benchmark (with Fixed Income) in weak markets, but also earns a stronger return in up markets; however, the difference in return on the upside is much lower between the two policies than it is on the downside (does not make up for 100% of additional losses during weak markets)
- In calendar year 2008, the Policy Benchmark returned -26.1% and the Policy Benchmark ex-Fixed Income would have return -36.0%, which in $ terms would have been an additional $13 billion in losses for the FRS

Hewitt ennisknupp
An Aon Company

Short-Term Risk

- We can also use the AL results to explore short term risk by using a funded ratio shortfall metric, for example "What is the probability that the funded status after 5 years falls to 50% or below?"
  - With current 75% risk asset allocation — 12.1% probability
  - Shift 10% from FI to global equity — 13.8% probability
  - Shift all FI to global equity — 15.1% probability

- We can also look at specific "what if" scenarios, for example "What is the funded ratio after 5 years where risk asset returns average -5%?"
  - With current 75% risk asset allocation — 49% funded ratio (MV / AL) at 6/30/2018
  - Shift 10% from FI to global equity — 47% funded ratio (MV / AL) at 6/30/2018
  - Shift all FI to global equity — 45% funded ratio (MV / AL) at 6/30/2018

- As a point of reference:
  - In the last 87 years there have been nine 5-year episodes (separated by at least 4 years) where the average return on global equities has been below -3%
  - For these nine episodes together, the average return on global equities was -5.2%
  - For the 5 year period ending November, 2008 the average return on global equities was -9.0%

Hewitt ennisknupp
An Aon Company

Asset Allocation Recommendation

- Moving to an intermediate duration (3.5 yrs. from 5+ yrs.) within Fixed Income addresses short-term concerns about rising rates and is a better long-term strategic positioning for the asset class as an anchor to windward

Fixed Income Expanded Opportunities: Allowing the fixed income team at the SBA to invest opportunistically outside of U.S. investment grade bonds (bank loans, EMD, HY) can add return and provide more diversification

Asset Class	Expanded Authority (Current)	Intermediate Duration Fixed Income	RECOMMENDED: Intermediate Duration + Fixed Income Expanded Opportunities	Ranges
Global Equities	52%	52%	**52%**	44% - 60%
Fixed Income	24%	24%	**24%**	16% - 32%
Fixed Income Return-Seeking	Indirect Exposure (SI)	Indirect Exposure (SI)	**Opportunistic Allocation**	--
Real Estate	7%	7%	**7%**	2% - 12%
Private Equity	5%	5%	**5%**	0% - 7%
Strategic Investments (SI)	11%	11%	**11%**	0% – 20%
Cash	1%	1%	**1%**	0% - 9%
Total	100%	100%	**100%**	--
Expected Nominal Return	**7.1%**	**7.1%**	**7.1% + Incremental Return**	--
Expected Real Return	4.7%	4.6%	**4.6%+ Incremental Return**	--
Risk	13.1%	13.1%	**13.1% + Incremental Risk (Rewarded with Additional Return)**	--
Sharpe Ratio	0.385	0.382	**0.382**	--

State Board of Administration
FY 2013-14 Proposed Budget

SBA Operations

FRS Investment Plan

Florida Hurricane Catastrophe Fund

Division of Bond Finance

Florida Prepaid College Board

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

State Board of Administration

FY 2013-14 Proposed Budget

SBA Operating Budget

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

SBA Proposed Budget FY 2013-14
Asset Management

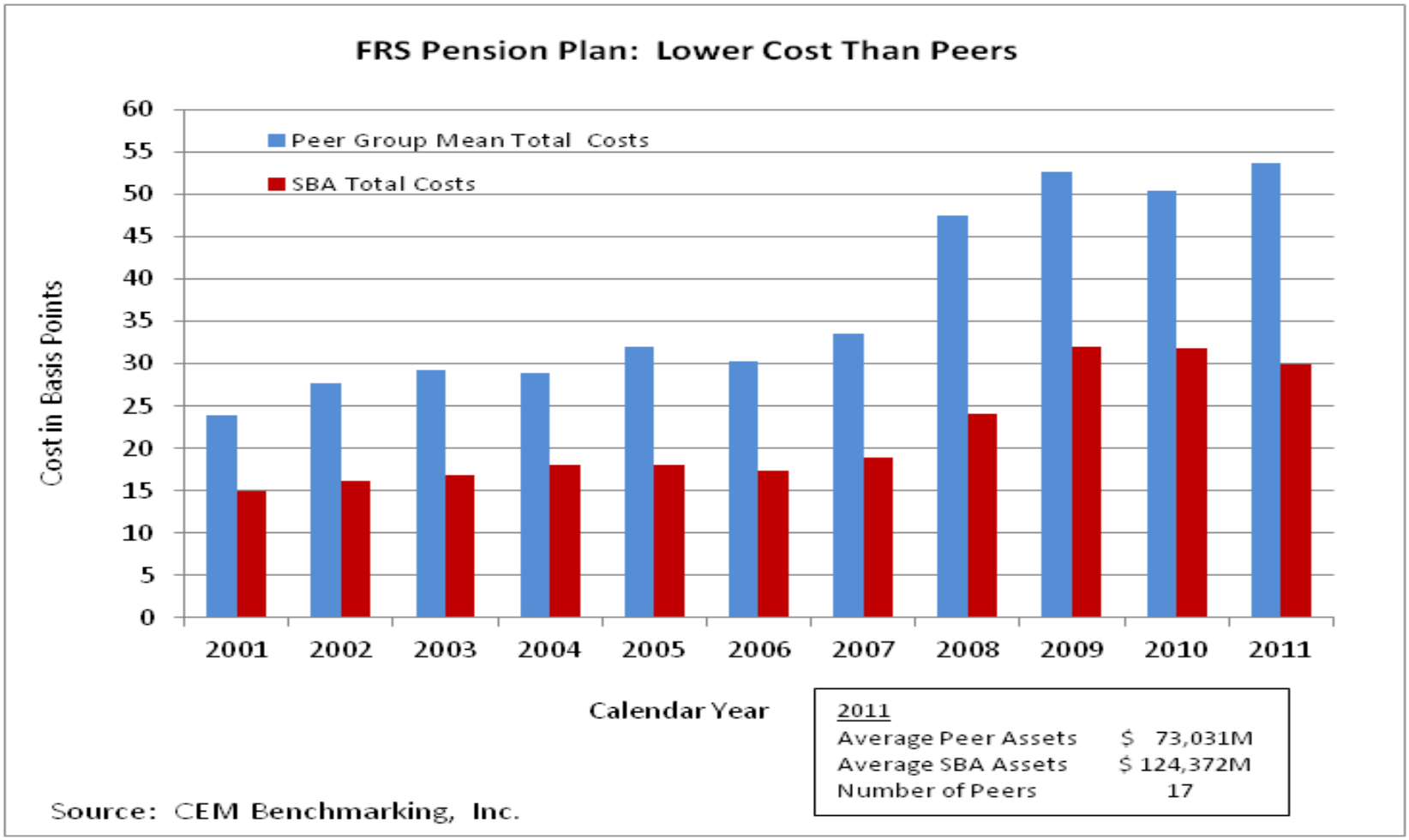
- Assets Under Management (AUM)
  - $165 billion AUM as of 3/31/13
  - $169 billion AUM (est.) as of 4/30/13
- Pension Fund net asset value has risen $52 billion since 3/9/09 bottom despite $21 billion in payouts (net of contributions), so fund return has exceeded $73 billion over last 4 years.
  - Value added by the SBA vs. its benchmark during that period was $3.5 billion
  - Performance has been above benchmark for the past 3-month, 12-month, 3-year, 5-year and 10-year periods.
- 36 Mandates

Mandate	% of Total $
FRS Pension Plan	81%
Florida PRIME	5%
34 Other Mandates	14%

SBA Proposed Budget FY 2013-14
Cost Effectiveness - Background

- Ability to manage a significant portion of assets in-house is major driver of cost effectiveness.
- SBA's total investment management costs and return are benchmarked against peers annually through CEM benchmarking study.
- Study includes both SBA budgeted costs and other investment management costs, all charged against portfolio performance.

SBA Proposed Budget FY 2013-14
Cost Lower Than Peers – CEM Study

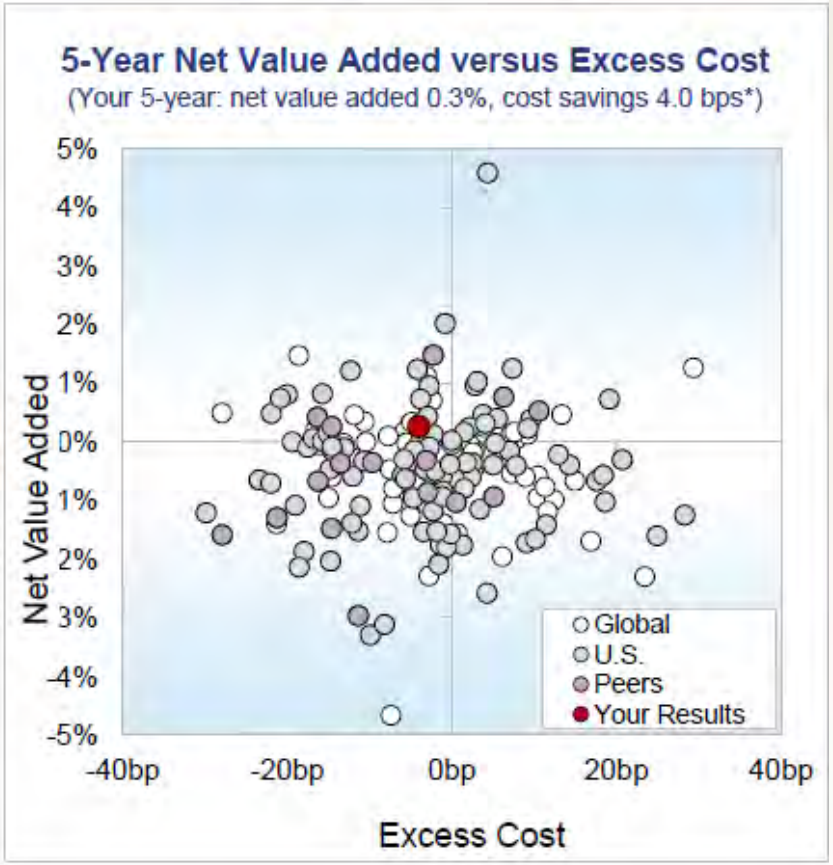


SBA Proposed Budget FY 2013-14
More Cost Effective Than Peers – CEM Study

- Key components of the investment program evaluated:
  - Value Added (Performance vs. Benchmark)
  - Risk
  - Costs

- SBA's 5-yr performance placed in most favorable quadrant

  - Positive value added at low cost



Your 5-year cost savings of 4.0 basis points is the average of your cost savings for the past 5 years.

SBA Proposed Budget FY 2013-14 Strategic Priorities

- Holistically design policy and manage assets with respect to evolving benefit reform, funding policy and liquidity needs
- Enhance value and performance of the funds on a risk adjusted basis
  - Ongoing attention to make/buy decisions and partnering with leading private sector providers to capture superior expertise and cost advantages
- Mitigate human capital risk – continued assessment of Human Resources programs and needs
- Evaluate efficiency of key processes and allocation of resources across departments and business functions
- Implement optimal technology solutions to cost effectively meet evolving business unit and enterprise wide data and systems requirements
- Enhance disaster recovery and business continuity capabilities
- Continue to develop and refine the enterprise risk management and compliance program

SBA Proposed Operating Budget FY 2013-14 Total Budget $37.2 Million

- FY12/13 budget was $34.6 million
- AUM has grown 11% this fiscal year (through 4/30/13)
- Budgeted cost per dollar under management unchanged from FY 2013
  - 2.2 bps on $169 billion projected average AUM FY14
  - 2.2 bps on $161 billion projected average AUM FY13
- Composition

Budget Category	Dollars (M)	% of Total
Salaries and Benefits	$21.2	57%
Other Personal/Contractual Services	10.2	28%
Expense	5.3	14%
Capital Outlay	0.5	1%
Total	$37.2	100%

SBA Proposed Budget FY 2013-14
Cost Drivers

- Growing number and complexity of investments – reflecting current policy to increase diversification, mitigate downside risk and more effectively compound capital overtime. Requires skilled staff and significant technology support.
- Maintenance of rigorous control environment, technological and physical infrastructure expected of a high quality institutional investment service provider.
- Legislated benefit rates/premiums
- Improving labor market for talented staff (new positions and existing staff)
- Phased implementation of compensation adjustments to reduce human capital risk, as recommended by the Investment Advisory Council (IAC)
  - Ensures alignment with interests of stakeholders
  - Linked to business strategy and key performance indicators
  - Differentiated awards that reflect employees' relative contributions
  - Includes incentive component for key positions
  - Establishes competitive objective (median of appropriate public fund peers)

SBA Proposed Budget FY 2013-14
Proposed New Positions

Requesting 3.75 new FTEs after completing an internal evaluation of staffing, including OPS utilization/funding and re-purposing all vacant positions to meet critical needs.

- Strategic Investments & Private Equity - Senior investment position to assist with managing existing relationships and developing new opportunities in the small buyout market and emerging markets.
- Investment Programs & Governance - Entry level position to assist with managing significant multiyear increase in volume and scope of corporate governance workflows, primarily related to global proxy voting.
- Global Equity – Entry level administrative position (OPS conversion) to assist senior administrative staff in coordinating the increasingly complex asset class workload (following FY2011 merger of domestic and foreign equity).
- Training & Development – Administrative position (.75 FTE and OPS conversion) to support the Training Manager in administering internal and external training, and employee development and certification programs.

SBA Proposed Budget FY 2013-14 Adjustments By Category

- **<u>Salaries $858,000</u>**
  - **$235,000 Salaries for 3.75 new positions**
  - **$623,000 for 4.25% Recruitment and Retention resources to reduce human capital risk.**
    Replaces FY2013 deployed recruitment and retention resources (3%) converted to salaries during fiscal year.
  - **Budget request includes authorization for revised incentive compensation plan, as recommended by the IAC.**
    - Funding for awards will be triggered by pension fund's outperformance v. its benchmark.
    - Initial performance measurement period will be 7/1/13-6/30/14, so authorization of plan is included in budget request although no incentive funds are required or requested in FY13/14 budget.
    - Awards from FY13/14 period will be funded in FY14/15 and FY15/16 budgets.
    - Awards, if earned, will be paid: 50% in late Fall 2014 and 50% deferred until late Fall 2015.
  - **IAC will continue to provide input and guidance for revised compensation program implementation**
  - **SBA will absorb any Leave Liability expense for retirements**

- **<u>Benefits $1.1 million</u>**
  - **Adoption of 2014 legislated benefit rates/premiums**
    - Higher FRS/HIS contribution rates account for 59% ($646,000) increase in benefits and 25% of total budgeted expense increase
    - Health insurance premium increase accounts for additional 14% ($354,000) of total budget increase
    - Without these increases the total SBA budget would have increased 4.5%

SBA Proposed Budget FY 2013-14 Adjustments By Category

- **Other Personal/Contractual Services $423,773**
  - Activity driven investment data/pricing/research services interfacing with investment systems architecture (modeling, trading, portfolio management) to manage assets $214,300
  - Software additions/replacements $109,000
  - Systems Infrastructure Review $100,000

- **Expense $51,698**
  - Contractual increase in rent and additional space and equipment to accommodate relocation of real estate investment staff.

- **Other Capital Outlay $124,674**
  - Office re-configuration construction, furniture and equipment $75,600
  - Technology hardware additions/replacements $49,100

SBA Proposed Budget FY 2013-14 Proposed Funding Plan

- F.S. 215.515 provides that operating costs of the SBA are to be paid from the funds it manages.
- Costs are recovered through assessment of a monthly fee for investment, administrative and other services provided
- No change in current fee structure
  - Florida PRIME - 1.0 bps
  - Bond Trusteeship – 1.0 bps
  - Other Assets – 2.25 bps
- To the extent actual operating costs exceed service fees, the difference will be charged to the SBA Administrative Trust Fund.
- Revenue for FY2013-14 is estimated to be $37.5M

Revenue Source	Fee Structure	Fee Base ($B)	Revenue ($M)	% of Total Revenue
FRS Pension Plan and others	2.25 bps	$159	$ 33.6	90%
PRIME	1.0 bps	$9	0.9	2%
Bond Trusteeship	1.0 bps	$22	2.1	6%
Others	Fixed Fee	N/A	0.9	2%
			$37.5	100%

SBA Budget Detail By Line Item

(Including Office of Internal Audit)

Description	Fiscal Year 2012-2013	Fiscal Year 2013-2014	% Change
FTE	186.5	190.25	
Salary & Benefits	**$19,205,631**	**$21,160,534**	**10.2%**
Salary Subtotal	**$14,741,117**	**$15,599,427**	**5.8%**
Salaries	14,248,036	14,901,117	
Recruitment & Retention	418,081	623,310	
Leave Liability Payments	0	0	
Moving Expense Stipend	75,000	75,000	
Benefit Subtotal	**$4,464,514**	**$5,561,107**	**24.6%**
Social Security	1,035,868	1,123,212	
Retirement	793,788	1,439,499	
Health Insurance	2,415,714	2,769,852	
Life insurance	10,283	10,460	
Disability Insurance	5,866	6,201	
Dental Insurance	202,995	211,883	
Other Personal/Contractual Srvcs	**$9,798,087**	**$10,221,860**	**4.3%**
Temporary Employment	221,770	213,310	
Other Contractual Services	9,576,317	10,008,550	
Expense	**$5,255,938**	**$5,307,636**	**1.0%**
Repairs & Maintenance	1,231,315	1,272,675	
Rental of Building/Equipment	1,707,343	1,768,532	
Travel	684,812	684,300	
Training	518,915	418,600	
Communications	265,221	265,221	
Freight & Postage	78,000	78,000	
Insurance & Surety Bonds	73,350	73,350	
Ofc Materials/Supplies/Equipment	352,249	399,111	
Other Charges & Obligations	262,134	267,863	
Printing	67,600	64,984	
Unemployment Compensation	15,000	15,000	
Other Capital Outlay	**$335,500**	**$460,174**	**37.2%**
Furniture/Equipment/Books	335,500	460,174	
TOTALS	**$34,595,156**	**$37,150,203**	**7.4%**

State Board of Administration
FY 2013-14 Proposed Budget

FRS Investment Plan Budget

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

FRS Investment Plan Proposed Budget Overview

- Projected Investment Plan (IP) expenses total $28.5 million for FY 2013-14.
- Proposed operating budget totals $12.3 million.
  - Funded by 3 bps of employer payroll ($8 million) and drawdown of IP Administrative Trust Fund.
- Additional $16.2 million of IRS-defined Plan expenses that are funded through Forfeiture Account (forfeitures from employee contributions to IP member accounts that do not vest).
- Forfeiture Account 6/30/14 (projected) < $1 million.
- Budgeted spending plan supported by > 1 year of reserves in the IP Administrative Trust Fund ($27.1 million est. 6/30/14).
- Employer contribution rate for funding IP Administrative Trust Fund is unchanged (3 bps) from FY 2012-13 (per legislative action).

FRS Investment Plan
Budget Detail By Line Item

Description	Fiscal Year 2012-2013	Fiscal Year 2013-2014	% Change
Salaries & Benefits (6 FTE)	**$859,940**	**$964,883**	**12.2%**
Salary Subtotal	**$679,051**	**$732,816**	**7.9%**
Salaries	632,831	651,816	
Recruitment & Retention	18,985	10,000	
Leave Liability Payments	27,235	71,000	
Benefits Subtotal	**$173,418**	**$232,067**	**33.8%**
Social Security	48,948	55,280	
Retirement	35,490	72,069	
Health Insurance	88,390	96,656	
Life insurance	330	330	
Disability Insurance	261	261	
Dental Insurance	7,471	7,471	
Other Personal/Contractual Srvcs	**$9,846,424**	**$10,963,354**	**11.3%**
Temporary Employment	20,000	15,000	
Other Contractual Services	9,826,424	10,948,354	
Expense	**$332,445**	**$403,421**	**21.3%**
Repairs & Maintenance	163,400	200,100	
Rental of Building/Equipment	43,141	45,471	
Travel	73,750	98,650	
Insurance & Surety Bonds	1,000	1,000	
Ofc Materials/Supplies/Equipment	5,200	5,700	
Other Charges & Obligations	24,954	31,500	
Printing	21,000	21,000	
Other Capital Outlay	**$13,000**	**$13,000**	**0.0%**
Furniture/Equipment/Books	13,000	13,000	
TOTALS	**$11,051,810**	**$12,344,658**	**11.7%**

NOTES:

- $1.3M (11.7%) Budget increase. Temporary in nature, primarily due to ongoing legislative requests for FRS related projects/analysis of various retirement system reforms/impacts affecting both the Pension Plan and Investment Plan for consideration (potential adoption) in future sessions. This budget increase also includes resources for multiple ITNs to competitively replace and/or acquire new IP service providers.
- Salary budget (7.9% increase) includes $71,000 in leave liability payments for 2 staff (1 retiring, and 1 entering DROP) and Recruitment & Retention resources of $10,000 (1.5% of salary) for phased implementation of a new compensation program to reduce human capital risk
- Adoption of 2014 legislated benefit rates/premiums drives benefits increase of 33.8%.
- 21.3% increase in Expense budget reflects additional costs for computer hardware and software maintenance & repair costs (MyFRS.com), and due diligence travel associated with multiple ITN objectives.

State Board of Administration

FY 2013-14 Proposed Budget

Florida Hurricane Catastrophe Fund Budget

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Florida Hurricane Catastrophe Fund Budget Detail By Line Item

Description	Fiscal Year 2012-2013	Fiscal Year 2013-2014	% Change
Salaries & Benefits (13 FTE)	**$1,361,321**	**$1,446,940**	**6.3%**
Salary Subtotal	**$1,034,514**	**$1,075,476**	**3.8%**
Salaries	983,467	1,012,971	
Recruitment & Retention	29,504	40,962	
Leave Liability Payments	21,543	21,543	
Benefit Subtotal	**$326,808**	**$371,464**	**12.0%**
Social Security	74,908	78,042	
Retirement	54,098	85,251	
Health Insurance	181,218	191,572	
Life insurance	731	731	
Disability Insurance	433	450	
Dental Insurance	15,420	15,420	
Other Personal/Contractual Srvcs	**$5,919,945**	**$5,667,642**	**-4.3%**
Temporary Employment	15,000	15,000	
Other Contractual Services	5,904,945	5,652,642	
Expense	**$350,222**	**$356,492**	**1.8%**
Repairs & Maintenance	1,000	1,000	
Rental of Building/Equipment	81,222	83,492	
Travel	230,500	230,500	
Training	8,500	12,000	
Insurance & Surety Bonds	2,000	2,000	
Ofc Materials/Supplies/Equipment	13,000	13,000	
Other Charges & Obligations	8,000	8,500	
Printing	6,000	6,000	
Other Capital Outlay	**$8,500**	**$10,000**	**17.6%**
Furniture/Equipment/Books	8,500	10,000	
TOTALS	**$7,639,988**	**$7,481,074**	**-2.1%**

NOTES:

- 2.1% Budget reduction. Primarily due to completing commutation of losses for all but two companies.
- Assumes no major storms.
- Budget is less than 1% of projected annual insurer contract premiums, which fund these expenses.
- Salary budget increase of 3.8% includes $41,000 (4%) in Recruitment & Retention resources for phased implementation of a new compensation program to reduce human capital risk.
- Adoption of 2014 legislated benefit rates/premiums drives benefits increase of 12%.
- $1,500 (17.6%) increase in Other Capital Outlay for planned replacement/upgrade of approximately half of the oldest computer workstations.

Division of Bond Finance

FY 2013-14 Proposed Budget

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Division of Bond Finance Budget Detail By Line Item

Description	Fiscal Year 2012-2013	Fiscal Year 2013-2014	% Change
Salaries & Benefits (20 FTE)	**$2,099,197**	**$2,197,014**	**4.7%**
Salary Subtotal	**$1,609,436**	**$1,632,236**	**1.4%**
Salaries	1,554,306	1,623,736	
Recruitment & Retention	46,630	0	
Leave Liability Payments	8,500	8,500	
Benefits Subtotal	**$468,644**	**$564,778**	**20.5%**
Social Security	119,072	120,730	
Retirement	85,786	134,650	
Health Insurance	262,000	286,488	
Life insurance	1,143	1,143	
Disability Insurance	642	650	
Dental Insurance	21,117	21,117	
Other Personal/Contractual Srvcs	**$2,259,624**	**$2,170,601**	**-3.9%**
Temporary Employment	30,000	30,000	
Other Contractual Services	2,229,624	2,140,601	
Expense	**$468,645**	**$453,259**	**-3.3%**
Repairs & Maintenance	8,500	8,500	
Rental of Building/Equipment	183,124	188,086	
Travel	67,000	67,000	
Communication	50,488	49,738	
Freght/Postage	32,200	21,000	
Insurance & Surety Bonds	2,123	2,154	
Ofc Materials/Supplies/Equipment	31,342	31,043	
Other Charges & Obligations	8,368	8,738	
Printing	85,500	77,000	
Other Capital Outlay	**$40,800**	**$40,800**	**0.0%**
Furniture/Equipment/Books	40,800	40,800	
TOTALS	**$4,868,266**	**$4,861,674**	**-0.1%**

NOTES:

- $6,600 (-0.1%) proposed total budget decrease for FY 2014.
- Adoption of 2014 legislated pay increases of 1.4% and benefit rates/premiums increase of 20.5%.
- The proposed budget of $4.86M is based on 21 potential bond issues, approximately the same number and projected costs, as the current year's budget.

Florida Prepaid College Board

FY 2013-14 Proposed Budget

June 25, 2013

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Florida Prepaid College Board Budget Detail By Line Item

Description	Fiscal Year 2012-2013	Fiscal Year 2013-2014	% Change
Salaries & Benefits (14 FTE)	**$1,315,096**	**$1,409,420**	**7%**
Salary Subtotal	**$999,604**	**$1,015,804**	**1.6%**
Salaries	953,045	969,245	
Leave Liability Payments	46,559	46,559	
Benefit Subtotal	**$315,493**	**$393,616**	**24.8%**
Social Security	68,197	71,525	
Retirement	51,448	87,191	
Health Insurance	177,411	215,736	
Life insurance	817	817	
Disability Insurance	383	389	
Dental Insurance	17,236	17,958	
Other Personal Services	**$15,041,582**	**$15,236,582**	**1.3%**
Temporary Employment	36,000	36,000	
Other Contractual Services	15,005,582	15,200,582	
Expense	**$269,861**	**$274,861**	**1.9%**
Repairs & Maintenance	5,000	5,000	
Rental of Building/Equipment	84,750	84,750	
Travel	30,740	30,740	
Communications	73,500	73,500	
Freight & Postage	4,705	4,705	
Insurance & Surety Bonds	10,000	15,000	
Ofc Materials/Supplies/Equipment	10,666	10,666	
Other Charges & Obligations	10,000	10,000	
Printing	40,500	40,500	
Other Capital Outlay	**$41,100**	**$41,100**	**0.0%**
Furniture/Equipment/Books	41,100	41,100	
TOTALS	**$16,667,639**	**$16,961,963**	**1.8%**

NOTES

- $294,000 (1.8%) proposed budget increase for FY 2014.
- Budget, except for $94,000 (0.57%) in pay and benefit increases, approved by the Florida Prepaid College Board on March 14, 2103.
- Adoption of 2014 legislated pay increases and benefit rates/premiums subject to Florida Prepaid College Board's approval, which will occur at the June 20, 2013 Board Meeting.

.

- $195,000 (1.30%) Other Personal Services increase reflects contractual CPI adjustment for financial audit and actuarial services, an increase in trustee fees under a new contract, and establishing consulting services for records administration projects, netted against cost savings in banking services due to reduced lockbox activity.
- $5,000 (1.9%) Expense increase in casualty insurance premiums due to General Liability Claims.

➡ APPENDIX

State Board of Administration

Authority & Governance

The original State Board of Administration (SBA) was created by statute in 1929 as the fiscal agent for counties and special road and bridge districts for the purpose of paying debt service on their bonds. The SBA was later established as a constitutional body corporate in 1942 by Section 16 of Article IX of the 1885 Constitution of the State of Florida, for the purpose of administering the Second Gas Tax for the benefit of Florida counties and county road bonds. As a result of a constitutional amendment, effective January 2003, the Governor as chairman, the Chief Financial Officer as treasurer, and the Attorney General as secretary serve as the three-member body corporate, collectively known as the Board of Trustees.

The Trustees have statutory authority to invest assets and discharge their duties in accordance with the limitations on investments as outlined in section 215.47, Florida Statutes, and in compliance with certain federal fiduciary standards of loyalty, care and prudence that are incorporated into sections 121.4501(15), 215.44(2)(a) and 215.27(10), Florida Statutes. The Trustees appoint the Executive Director & Chief Investment Officer (CIO), review his/her performance and compensation on an annual basis, establish broad policy guidelines (e.g., Investment Policy Statements) and delegate the daily administrative and investment authority to the SBA Executive Director & Chief Investment Officer, who is held to the same fiduciary standards as the Trustees. On February 9, 2012 the role of the SBA Chief Risk & Compliance Officer was codified through Investment Policy Statements approved by the Trustees. The SBA Executive Director & CIO appoints the Chief Risk & Compliance Officer, whose selection, compensation, and termination require affirmation by the Board. An Investment Advisory Council (IAC) appointed by the Trustees provides advice on investment policy and strategy, and a Participant Local Government Advisory Council (PLGAC) provides advice on the administration of Florida Prime (formerly known as the Local Government Investment Pool).

Section 215.44(2), Florida Statutes provides for an Audit Committee appointed by the Trustees to assist them in fulfilling oversight responsibilities, serving as an independent and objective party to monitor processes for financial reporting, internal controls, risk assessment, audit processes, and compliance with laws, rules, and regulations, plus directing the efforts of the Board's independent external auditors and the Board's internal audit staff. The Chief Audit Executive reports functionally to the Audit Committee and administratively to the SBA Executive Director & CIO. The SBA Executive Director & CIO authorizes salary changes for the Chief Audit Executive in consultation with the Audit Committee. In addition to the oversight of the Trustees and various advisory groups, the SBA is subject to review by the Auditor General of Florida, Office of Program Policy Analysis & Government Accountability, Office of Internal Audit, Office of Inspector General, Chief Risk & Compliance Office, and the Florida Legislature. The Florida Legislature provides for the operational flexibility required to meet the SBA's specialized responsibilities and fiduciary duties, relative to other public entities. The SBA is not funded by general revenue, has a measurable bottom line and benchmarks against which success and accountability can be assessed.

Primary Purpose

The SBA fulfills a critical role for the State of Florida as a multi-asset class investment management organization investing and safeguarding assets on behalf of trust funds and a variety of state and local government entities. The SBA manages 25 different investment funds housing the assets of 36 mandates and trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client. The SBA invests in all major public and private market asset classes, including U.S. and international stocks and bonds, inflation-protected securities, direct-owned real estate, private equity limited partnerships, and other opportunistic and strategic investments.

Major asset management responsibilities include:

- The FRS Pension Plan trust fund, one of the world's largest and financially healthiest public pension funds.
- The FRS Investment Plan, a defined contribution 401(k)-like alternative to the FRS Pension Plan (originally created under the 2000 Public Employee Optional Retirement Program [PEORP] legislation).

- Florida PRIME (formerly the Local Government Investment Pool), a money market pool with primary investment objectives, in priority order, of safety, liquidity, and competitive returns with minimization of risks. All units of local government in Florida may invest their surplus operating funds in Florida PRIME.
- Investment of the operating funds and other financial resources of the Florida Hurricane Catastrophe Fund and related entities.
- The Lawton Chiles Endowment Fund (LCEF), which originated from tobacco litigation settlement monies as a perpetual source of enhanced funding for Florida health maintenance and research programs related to tobacco use.

Additional responsibilities that do not directly involve asset management include:

- Providing retirement planning support to approximately 650,000 active members of the Florida Retirement System through the MyFRS Financial Guidance Program originating under the 2000 PEORP legislation.
- Administering the Florida Hurricane Catastrophe Fund (FHCF) and its associated programs, including the SBA Finance Corporation (formerly FHCF Finance Corporation) and the Insurance Capital Build-up Program.
- Serving as an investment consultant to retirement programs administered by other state agencies including the State of Florida Deferred Compensation Program and State University Optional Retirement Program.
- Administering all debt service funds for bonds issued pursuant to the State Bond Act, as well as serving as trustee and escrow agent for bonds issued by the Division of Bond Finance.
- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Board Programs.
- Providing administrative support to the Audit Committee, Investment Advisory Council, and Participant Local Government Advisory Council.

Operational Structure

The Executive Director & Chief Investment Officer and staff (186.5 total FTE) manage the day to day operations of the SBA. The SBA Executive Director & CIO approves compensation for all employees (unless otherwise stipulated herein) pursuant to authority granted in Florida Administrative Code Rule 19-3.016. The SBA staff consists primarily of executive, investment, financial/accounting, operational, and administrative professionals focused on safeguarding and prudently growing the assets of the FRS Pension Plan and other the assets entrusted to it over the long-term. The SBA is committed to providing superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards of care.

Budget Entities

The SBA Operating Budget includes resources to perform functional responsibilities for all but the following programs, which have their own legally required budgets and underlying funding sources:

- FRS Investment Plan
- Florida Hurricane Catastrophe Fund
- Division of Bond Finance (Reports to other Boards)
- Florida Prepaid College Board (Reports to other Boards)

FY 2013/14 Budget –Supplemental Background Information

Compensation Program

The Compensation Subcommittee and the IAC have reviewed and accepted the competitive pay study completed by its independent compensation consultants, Mercer, that shows the SBA's salary and total compensation levels, in general, are below the competitive market level. For most positions, where a comparison to financial services or general industry is appropriate, the competitive market level was defined as the 50th percentile of the relevant market. For key investment and leadership roles, the competitive market level was defined generally as the 50th percentile of the five largest U.S. public pension funds. When data for the top five funds was not available, the 75th percentile of the broader public pension fund market (which includes much smaller, less complex funds) was used as a proxy. Mercer found that the SBA's total compensation for investment and management positions generally was less competitive than for staff level positions.

Based on the information provided from Mercer and the input from Compensation Subcommittee members, on March 18, 2013 the Subcommittee recommended and the IAC approved the recommendation to the Trustees that to enable the SBA to recruit, retain and motivate qualified, high-performing staff, while improving the alignment of interests between SBA employees and stakeholders and minimizing human capital risk, the SBA will adopt a compensation policy (including revisions to the SBA's incentive compensation plan) that reflects the recommended market levels and will begin prudently implementing the policy through its normal budgeting process.

The complete March 18, 2013 report of the Compensation Subcommittee and supporting materials from the Mercer compensation study are presented in Appendix II.

At its meetings on April 29, 2013, the Compensation Subcommittee and the IAC reviewed management's implementation process and estimated costs to phase in the program over a three-year time period so that base salaries and incentive design are aligned with the compensation policy agreed upon by the Subcommittee and the IAC in March. Appendix IV provides a summary of actions taken to date and outlines the implementation plan for base pay adjustments that was reviewed and approved by the Compensation Subcommittee and the IAC on April 29.

The Subcommittee and the IAC accepted management's implementation plan for base pay, which showed that base pay adjustments totaling about $2.3 million would be addressed over the next couple of years through the budget process. The plan reviewed by the IAC called for approximately 70-75% of the base pay adjustments to be made in FY 13/14. During the budget process, the implementation plan was modified. The proposed FY 13/14 budget includes funding for recruitment and retention resources of $623,300, equal to 4.25% of salaries, to begin to address the deficiency in base pay identified in the compensation study. The budget request represents 25-30% of the $2.3 million identified deficiency in base pay.

Also on April 29, 2013, the Subcommittee and the IAC reviewed and concurred with Mercer's compensation recommendation for the ED/CIO, which the Subcommittee had requested at its March 18 meeting. The recommendation is presented in Appendix III. The IAC-approved implementation plan included an increase in the ED/CIO's base salary to the recommended competitive level over a two-year period. The SBA's proposed budget for FY13/14 includes no specific request for a salary increase for the ED/CIO.

The FY 13/14 proposed budget includes authorization for a revised incentive compensation program, as recommended by the IAC, with continued input and guidance from the IAC regarding eligible positions, participation levels, and criteria for the qualitative portion of awards. Information regarding the design of the incentive plan, as approved by the IAC on March 18, 2013, is included in Appendix II. Additional information requested by the IAC relating to allocation of the incentives to various employee categories and departments was provided early in June.

The SBA will continue to work closely with the IAC and its Compensation Subcommittee to implement the revised compensation program over time.

Florida Retirement System (FRS) Investment Plan

Authority & Governance

The 2000 Florida Legislature created the FRS Investment Plan within the Florida Retirement System (FRS). The Investment Plan (operationally referred to as the Office of Defined Contribution Programs) is administered by the State Board of Administration (SBA) and is governed by the Trustees pursuant to Section 121.4501(8), F.S. The Legislature established the Investment Plan Trust Fund in Section 121.4502, F.S.

Primary Purpose

The Office of Defined Contribution Programs serves two primary purposes for the state:

1) The FRS Investment Plan. This is an optional 401(a) defined contribution plan that employees choose in lieu of membership in the FRS Pension Plan (the traditional defined benefit plan). Investment Plan benefits accrue in individual accounts that are participant-directed, portable, and funded by employee and employer contributions and earnings. The Office of Defined Contribution Programs is also responsible for processing FRS retirement plan choice enrollments.

2) The MyFRS Financial Guidance Program. These are the educational resources that support employees' choices between retirement plans and provide almost 650,000 employees with the information necessary to make informed decisions about choices within their Plan and in preparation for retirement.

Operational Structure

The Office of Defined Contribution Programs, including FRS Investment Plan, costs are budgeted and accounted for separately from the SBA operating budget. Beginning its 11th full year of operations (including the initial choice period in FY 2002-2003), the SBA has been responsible for the day-to-day management of the Investment Plan and the MyFRS Financial Guidance Program within the Office of Defined Contribution Programs. The Office of Defined Contribution Programs is operationally supported by employer contribution rates adopted each fiscal year by the Florida Legislature and "forfeited account balances" accumulated in the Forfeiture Account. FRS Investment Plan expenses for recordkeeping, asset custody and educational services can be paid out of the Forfeiture Account, consistent with SBA policy and IRS requirements.

Under subsection 121.4501(6), Florida Statutes, balances are forfeited by members who either terminate employment and take a distribution of their vested balance (which in turn forfeits the unvested balance), terminate employment with an unvested balance and do not return to FRS employment within five years or have committed a forfeitable crime. The enacting legislation [HB 2393, found at Ch. 2000-169, Laws of Florida] required the SBA to obtain a "favorable determination letter and a favorable private letter ruling from the Internal Revenue Service." The May 4, 2001 private letter ruling requires that the use of forfeited amounts be limited to two purposes: a) Payment of plan administrative expenses; and b) Reduction of future employer contributions to the plan. The Forfeiture Account Policy (#20-1255) states the SBA will, "endeavor to annually expend the proceeds of the Forfeiture Account to pay authorized plan administrative expenses and reduce future employer contributions to the FRS Investment Plan, consistent with applicable federal and state regulation, rule and law."

The SBA has partnered with private sector service providers and the Division of Retirement for the majority of investment plan and financial guidance program functions. Six FTE, including the Senior Defined Contribution Programs Officer, are responsible for the day-to-day oversight and monitoring of the service provider relationships to ensure compliance with contractual obligations, general contract administration, management of programs subject to goals and objectives established by the Trustees, and program compliance with applicable state and federal laws.

Florida Hurricane Catastrophe Fund

Authority and Governance

The Florida Hurricane Catastrophe Fund (FHCF) is a tax-exempt trust fund created in November 1993 during a Special Session of the Legislature, in the aftermath of Hurricane Andrew. The FHCF was created in Section 215.555, Florida Statutes with the purpose of improving the availability and affordability of property insurance in Florida by providing reimbursements to insurers for a portion of their catastrophic hurricane losses. Also included in provisions of Section 215.555 is the creation of a not for profit public benefit corporation, known as the FHCF Finance Corporation (renamed to SBA Finance Corporation effective 7/1/2013), governed by the Board of Directors identified in the Articles of Incorporation. The FHCF is under the direction and control of the State Board of Administration (SBA), guided by the same trustee leadership provided from the Governor, Chief Financial Officer, and Attorney General. A nine-member Advisory Council (consisting of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers, and three consumers who are representative of other affected professions and industries) was established to provide the SBA with information and advice.

Funding for the administration of the FHCF is provided for in Section 215.555, Florida Statutes. Financing for the FHCF is obtained from a combination of three sources: 1) reimbursement premiums charged to participating insurers, 2) investment earnings, and 3) emergency assessments levied against all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2013) medical malpractice premiums. Monies in the FHCF may not be expended, loaned, or appropriated except to pay obligations of the FHCF from reimbursement contracts entered into under subsection (4), payment of debt service on revenue bonds issued under subsection (6), costs of the mitigation program under subsection (7), costs of procuring reinsurance, and costs of administration of the FHCF. The SBA invests the monies of the FHCF pursuant to Sections 215.44-215.52, Florida Statutes. Earnings from all investments are retained in the FHCF.

Primary Purpose

The purpose of the FHCF is to protect and advance the State's interest in maintaining insurance capacity in Florida. The FHCF program fulfills a unique and critical role for the state of Florida by serving as a state-administered reinsurance type of program and is mandatory for residential property insurers writing covered policies in the state of Florida. The FHCF acts in a public-private partnership type of role with insurers' which preserves the private sector's role as the primary risk bearer. Insurers who write residential property insurance on structures and contents in Florida are required to enter into a reimbursement contract with the SBA, to report their exposures, to pay premiums, and to report losses by calendar year-end or at other times as required by the SBA. The FHCF provides very economical coverage for insurers writing residential insurance in the state. The cost of FHCF coverage is significantly less than the cost of private reinsurance due to the FHCF's tax-exempt status, low administrative costs, and lack of a profit or risk-load. In the event of insufficient funds to meet obligations under the reimbursement agreements, the SBA Finance Corporation has the ability to issue tax-exempt revenue bonds. The FHCF is obligated to pay losses to participating insurers only to the extent of the FHCF's actual claims-paying capacity up to a statutory limit for any single contract year.

Operational Structure

The Chief Operating Officer of the Florida Hurricane Catastrophe Fund manages the day-to-day operations of the FHCF, assisted by staff (13 total FTE). The small FHCF staff manages substantial program responsibilities with additional support from external service providers. Responsibilities include, but are not limited to, proposing legislation; responding to legislative requests; implementing adopted legislation; rulemaking; providing information to participating insurers; conducting insurer training workshops; managing and executing the Exposure and Loss Reimbursement Examination Programs; processing and approving loss reimbursement payment requests; finalizing all claims and losses through a commutation process; determining bonding capacity; issuing tax-exempt revenue bonds; collecting emergency assessments pledged to debt service; raising capital in the financial markets to increase claims paying ability; staffing the activities of the FHCF Finance Corporation including complying with the covenants of all outstanding Bonds and Notes; preparing financial statements and revenue projections; and coordinating the activities of a number of external service providers; meeting and discussing policy issues with the FHCF Advisory Council; staffing the Florida Commission on Hurricane Loss Projection Methodology (Commission and Professional Team), which determines and develops the standards and the review process that is the basis for reviewing hurricane models used in residential ratemaking in Florida; and administering the SBA Insurance Capital Build-up Incentive Program.

Division of Bond Finance

Authority and Governance

Statutory authority for the Division of Bond Finance is provided for in the state Constitution (primarily Articles VII and XII, the State Bond Act (s.215.57-215.83, Florida Statutes), the Bond Validation Act (chapter 75, Florida Statutes) and various implementing sections of the Florida Statutes. The Division of Bond Finance (the "Division") was transferred to the State Board of Administration from the Department of General Services on July 1, 1992. The Division is organized into three sections that report to a Division Director, who in turn reports to a governing board consisting of the Governor and Cabinet. The three sections are Legal, Bond Programs, and Arbitrage Compliance.

Primary Purpose

The mission of the Division is to provide capital financing on behalf of state agencies and at the option of certain local agencies, typically by issuing tax-exempt bonds. The proceeds of these bonds are used to finance schools, state office buildings, roads, bridges, pollution control facilities, water treatment facilities, prisons and to acquire environmentally sensitive land. Additional Division responsibilities include structuring and conducting bond sales; collecting, maintaining and disseminating information on tax-exempt bonds issued by units of local government; administering the Private Activity Bond Allocation Program as required by federal law; coordinating the continuing annual disclosure of information relating to bonds that it issues; and monitoring tax-exempt securities it issues for compliance with federal arbitrage laws.

Operational Structure

The Division manages the Revenue Bond Fee and Arbitrage Compliance programs with 20 FTE, including the Division Director. Seventeen positions are allocated to the Legal and Bond Program functions within the Division, operationally supported by the Revenue Bond Fee Trust Fund. The legal staff performs a wide range of legal services for the Division, and bond program staff performs the financial and analytical services for new and refunding bond issues. Three positions are allocated to the Arbitrage section, operationally supported by the Arbitrage Compliance Trust Fund. The Arbitrage staff is responsible for monitoring bonds issued by the Division for compliance with federal arbitrage regulations in accordance with the 1986 Tax Reform Act.

Revenue for Division programs is derived from fees charged to each state or local agency requesting services related to the sale of bond issues and fees collected in relation to the Arbitrage Compliance Program. Fees are charged in accordance with a schedule of fees adopted by the Division (by resolution) as required by Florida Statutes. Fees are deposited into the Revenue Bond Fee Trust Fund to support Legal and Bond Program operations and the Arbitrage Compliance Trust Fund to support the Arbitrage Program operations.

Florida Prepaid College Board

Authority and Governance

Sections 1009.97-1009.984, Florida Statutes, establish the Florida Prepaid College Board (the "Board") as a corporate body with all the powers to administer the Stanley G. Tate Prepaid College Program and the Florida College Savings Program. For purposes of Article IV of the State Constitution, the Board is assigned to and administratively housed within the State Board of Administration (SBA), but independently exercises the powers and duties specified in the statutes.

The seven member Board is composed of the Attorney General, the Chief Financial Officer, the Chancellor of the Board of Governors, the Chancellor of the Division of Florida Colleges, or their designees, and three members appointed by the Governor. Each member appointed by the Governor serve 3-year terms and are subject to confirmation by the Senate.

Primary Purpose

The Florida Prepaid College Board is committed to helping Floridians save for future qualified higher education expenses by providing a cost-effective, financially sound Stanley G. Tate Prepaid College Plan and the Florida College Savings Program.

The Stanley G. Tate Prepaid College Plan became operational in 1988 and allows Florida families to prepay the cost for college tuition, required fees and dormitory housing for their children and grandchildren. When the families child or grandchild attends college the Board will pay the Florida public college or university the actual fees assessed by the institution at the time of admission. Should the student elect to attend a private college, attend a college out-of-state or attend an eligible technical school the Board will pay the value of the Plan at the time of admission.

The Florida College Savings Program was implemented in 2002, following federal enactment of Section 529 of the Internal Revenue Service Code. The Program allows families to defer income taxes on investment earnings and, if the earnings are used for qualified education expenses, the earnings are tax-free. Families may choose to invest in any of eleven customized investment options and decide how much and how often they want to save for college. The funds accumulated in each family's account can be used for any qualified college expense including tuition, fees, housing, books, food and even graduate or professional school, in Florida or out-of-state.

Organization Overview

The Board establishes policy and actively oversees the investment and financial performance of the programs.
The Board has authorized 14 FTE, including the Executive Director to oversee the day-to-day operations of the Board and its programs.

In order to perform its responsibilities in the most effective and efficient manner, the Board contracts with various private companies to provide professional support services for both programs, including actuarial services, investment management services, records administration services, financial services and legal services. Approximately 90% of the proposed operating budget for 2013-2014 is used to fund these services. The Board's operational costs are funded by investment earnings and fees; it does not receive State general revenue to fund its general and administrative expenses.

Annually the Board contracts with an independent actuarial firm to determine the financial condition of the Florida Prepaid College Trust Fund. Based upon key assumptions, as of June 30, 2012 the Trust Fund was determined actuarially sound by its independent actuarial firm. The expected value of assets exceeded the expected value of liabilities resulting in a 104.9% funded ratio. Key assumptions in this determination include a weighted average rate of return on total investments of 2.32% and annual tuition and required fee increases in accordance with current law.

Compensation Subcommittee Report at IAC Meeting 3/18/13

Chuck Newman, Chair: Since the IAC's last meeting in December, the Compensation Subcommittee has met three times – on February 4, February 26 and again this morning. We have reviewed and accepted the competitive pay study completed by our independent compensation consultants, Mercer, that shows the SBA's salary and total compensation levels, in general, are below the competitive market level. The competitive market level was defined generally as the 50th percentile of the five largest U.S. public pension funds. When data for the top five funds was not available, the 75th percentile of the broader public pension fund market (which includes much smaller, less complex funds) was used as a proxy. For positions where a comparison to financial services or general industry was more appropriate, the market level was defined as the 50th percentile of that market data.

In early February, Mercer presented to us its preliminary findings showing that SBA base compensation for investment positions generally fell 13-30% below the 50th percentile for the top 19 U.S. public pension funds and 40-55% below endowments and foundations. Mercer found that total cash compensation (base compensation plus incentive compensation) for SBA investment positions, generally ranked 17-40% below market for public pension funds and 60-70% below market for endowments and foundations. At that meeting we decided to compare only to the public pension funds and not to endowments and foundations.

For non-investment positions, the SBA was more competitive with pay at the staff level and less so at the management level.

Based on the information provided from Mercer and the input from Subcommittee members, the Subcommittee recommends that to help attract, motivate and reward outstanding employees, while ensuring a proper alignment of interests that prudently mitigates human capital risk, the SBA should adopt and begin implementing a compensation policy that both adjusts base pay and replaces the SBA's legacy incentive compensation plan with one that is more market competitive and better aligned with stakeholder interests. This plan will be shared with the Subcommittee prior to the budgeting process and be implemented as part of that process.

In terms of incentive compensation, the Subcommittee reviewed and agreed upon the following key design elements, which were also reviewed and recommended by Mercer:

- Eligibility would be broad but limited to senior and investment-related functions, which includes about 63 positions;
- Performance measurement, standards and time period - largely quantitative based on value added to FRS Trust Fund with a minimum threshold of 5 BPS of value added established to fund any payouts under the plan and a maximum award based on 50 BPS of outperformance. Qualitative measures would be added to ensure appropriate behaviors and long-term sustainability. To recognize the importance of longer term performance, the measurement period would be a rolling 3-year period, with deferral of payments if the final year of a 3-year plan has actual negative returns. Payments would be deferred until the fund earns two quarters of actual positive returns.
- Incentive opportunity – targets ranging from 10-35% of salary depending on organizational level and criticality to the business
- Timing of payout – ½ paid at end of performance cycle; ½ after 1 year deferral

A key point relating to the incentive plan is that the overwhelming majority of the outperformance dollars are being returned to the outside stakeholders, since each basis point of outperformance represents $12.5 million of excess return for the pension fund. We've included one slide under tab 6 that shows you that, for example, at the max level of 50 bps the cost to the fund would be about 1.8 m but the return to the fund, the increase in the fund would be 625 m so almost all return goes back to fund.

The Subcommittee recommends that SBA management develop an implementation plan and timetable through the normal budget process with the Board of Trustees for addressing the deficiency in compensation – both base pay and incentives, and the associated human capital risk exposure.

The other thing we discussed was the role of the Subcommittee. We agreed we should continue to meet on an ongoing basis to review the compensation implementation plan, the compensation level of the ED/CIO, as recommended by our independent consultants, and the compensation strategy for the top investment positions.

So, given that, I have motion to propose. Based on what we agreed to this morning, **I would like to move that the IAC accept the report of the Compensation Subcommittee and recommend to the Trustees that to enable the SBA to recruit, retain and motivate qualified, high-performing staff, while improving the alignment of interests between SBA employees and stakeholders and minimizing human capital risk, the SBA would adopt and begin prudently implementing a compensation policy that reflects market levels for the top public pension funds, as documented in this study by Mercer consultants, in its budget process.**

The other thing we discussed was our next meeting which would be to review and advise on the implementation. We would do that telephonically in April. That would be followed up by an IAC telephonic meeting at which we would report the results of the April meeting and include a recommendation on the compensation of the ED/CIO.

******

At the subsequent IAC meeting on March 18, 2013, Chuck Newman reported on the Subcommittee discussions, actions, and next steps, then made the following motion on behalf of the Subcommittee. It was approved by the IAC.

> "that the IAC accept the report of the Compensation Subcommittee and recommend to the Trustees that to enable the SBA to recruit, retain and motivate qualified, high-performing staff, while improving the alignment of interests between SBA employees and stakeholders and minimizing human capital risk, the SBA would adopt and begin prudently implementing a compensation policy that reflects market levels for the top public pension funds, as documented in this study by Mercer consultants, in its budget process."

MERCER

CONSULTING. OUTSOURCING. INVESTMENTS.

State Board of Administration of Florida (SBA)

Top Executive Compensation Overview

March 18, 2013

MARSH & McLENNAN COMPANIES

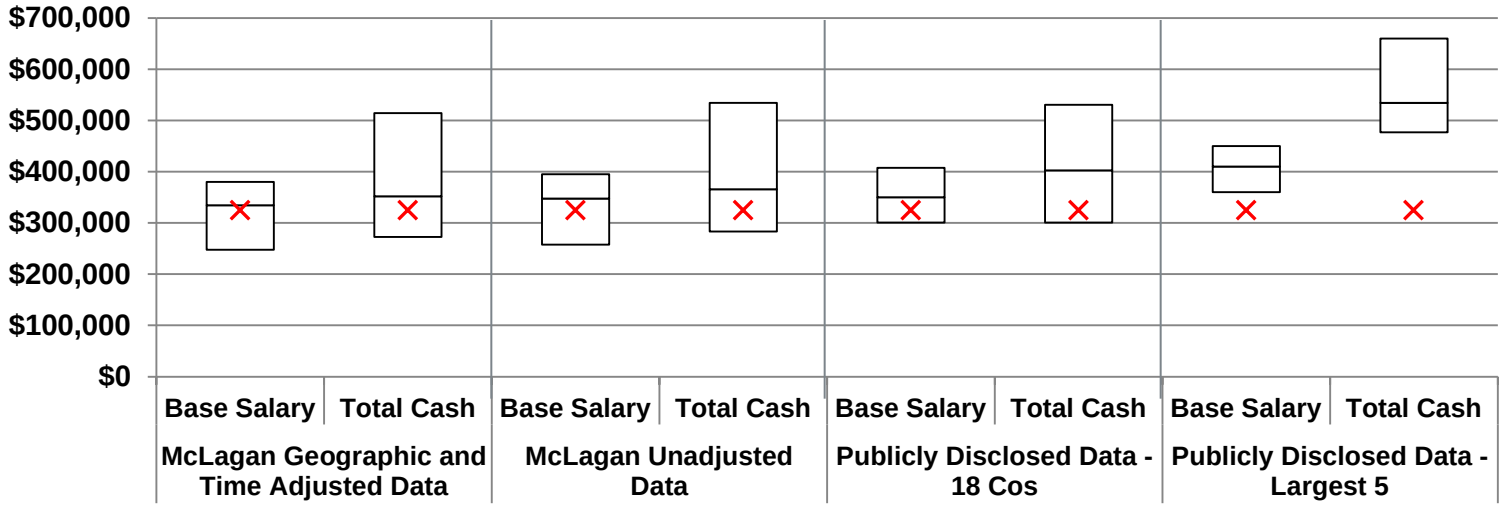
Introduction

- This report compares SBA incumbent compensation with market data for select positions:
  - Executive Director and CIO
  - Senior Investment Officers
  - Remaining executives proposed for Tier 2 incentives at SBA
- The following page outlines the market references used for each role. The remaining pages provide incumbent-specific market comparisons charts
- Given SBA's size and complexity, Mercer recommends that the SBA should target the 50th percentile of the top five largest public pension fund compensation for investment and senior executive positions
  - When data for the top five funds is not available, the 75th percentile of the broader public pension fund market can be used as a proxy
  - For positions where a comparison outside of public pension funds is appropriate, we recommend targeting the median of that market data
- Not all SBA positions will have a relevant survey benchmark comparison
  - Compensation opportunities for those positions should be determined based on internal equity considerations
- Appropriate compensation for a given incumbent will consider a variety of factors, including:
  - External market value of the job
  - Perceived value of the job to the SBA
  - Incumbent performance/contribution, key skills, and perceived value to the SBA

Market Data Survey Sources
Positions were compared to the market as referenced below

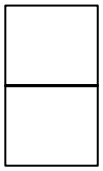
Executive	Market Reference
Executive Director & CIO	McLagan Public Pension & Custom Public Pension Research
Sr Investment Off-Fixed Income	McLagan Public Pension
Sr Investment Off-Global Equity	McLagan Public Pension
Sr Investment Off-Global Equity	McLagan Public Pension
Sr Investment Off-Real Estate	McLagan Public Pension
SIO-Strategic Inv & Pvt Equity	McLagan Public Pension
Chief Operating/Financial Officer	McLagan Public Pension / General Industry Market Composite
Deputy Executive Director	McLagan Public Pension
Chief Operating Officer, FHCF	Non-Benchmark
General Counsel	McLagan Public Pension / General Industry Market Composite
Chief Risk & Compliance Officer	McLagan Public Pension / General Industry Market Composite
Sr Investment Policy	McLagan Public Pension
Sr. DC Programs Officer	Non-Benchmark
Sr Off-Investment Prog & Governance	McLagan Public Pension

Executive Director and Chief Investment Officer
McLagan Public Pension Data and Publicly Disclosed Data



	McLagan Geographic and Time Adjusted Data		McLagan Unadjusted Data		Publicly Disclosed Data - 18 Cos		Publicly Disclosed Data - Largest 5	
	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash
75th Percentile	**$380,000**	**$514,100**	**$395,000**	**$534,400**	**$407,500**	**$530,800**	$450,000	$660,000
50th Percentile	$334,600	$351,800	$347,800	$365,800	$350,000	$402,500	**$410,000**	**$534,400**
25th Percentile	$247,900	$272,500	$257,700	$283,300	$300,900	$300,900	$360,000	$476,600
SBA Employee Compensation	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000

Note: 75th percentile of broader public pension fund market approximates 50th percentile of five largest funds and serves as proxy for jobs where data is not available for five largest funds



75th Percentile

50th Percentile

25th Percentile

SBA Employee Compensation

Executive Director and Chief Investment Officer
Public Pension Custom Research Detail

P&I Rank	Pension Fund	Name	DB AUM (Billions)	Total AUM (Billions)	Title	Year	Salary	2011 bonus	2012 bonus	Total Cash Comp
1	California Public Employees Retirement System	Joseph Dear	$ 243.2	$ 244.8	CIO	2012	$ 450,000	$ 84,375	N/A	$ 534,375
2	CALSTRS	Christopher Ailman	$ 155.4	$ 155.7	CIO	2011	$ 360,000	$ 116,604	N/A	$ 476,604
3	New York State Common Retirement Fund	Vicki Fuller	$ 150.1	$ 150.1	CIO	2012	$ 300,000	N/A	N/A	$ 300,000
5	New York City Retirement	Lawrence Schloss	$ 122.1	$ 132.1	CIO	Not a participant in McLagan Study				
6	Teachers Retirement System of Texas	T. Britton Harris	$ 112.4	$ 112.4	CIO	2012	$ 480,000	$ 396,000	N/A	$ 876,000
7	State of Wisconsin Investment Board	David Villa	$ 83.4	$ 89.0	CIO	2012	$ 410,000	N/A	$ 250,000	$ 660,000
8	New York State Teachers Retirement System	Thomas K. Lee	$ 88.6	$ 88.6	ED/CIO	2011	$ 330,800	N/A	N/A	$ 330,800
9	North Carolina Retirement System	Kevin SigRist	$ 77.1	$ 84.0	CIO	2013	$ 350,000	N/A	N/A	$ 350,000
10	Ohio Public Employees Retirement System	John Lane	$ 79.0	$ 79.6	CIO	2012	$ 340,000	N/A	N/A	$ 340,000
11	New Jersey	Tim Walsh	$ 72.1	$ 74.8	Director	Not a participant in McLagan Study				
12	Washington State Investment Board	Gary Bruebaker	$ 58.7	$ 70.3	CIO	2011	$ 303,582	N/A	N/A	$ 303,582
13	Georgia Division of Investment Services	Charles W. Cary	$ 69.1	$ 70.1	CIO	2011	$ 400,000	$ 120,000	N/A	$ 520,000
14	State Teachers Retirement System Ohio	Michael Nehf	$ 64.9	$ 65.5	ED	2008	$ 250,000	$ -	$ -	$ 250,000
15	Oregon Public Employees Retirement Fund	John Skjervem	$ 59.7	$ 61.0	CIO	2012	$ 350,000	$ 80,000	$ 105,000	$ 455,000
16	Virginia Retirement Systems	Ron Schmitz	$ 55.0	$ 56.9	CIO	2012	$ 375,000	N/A	$ 262,500	$ 637,500
17	Michigan State Retirement Systems	Jon M Braeutigam	$ 50.6	$ 55.8	CIO	2012	N/A	N/A	N/A	N/A
18	Minnesota State Board of Investments	Howard Bicker	$ 47.5	$ 52.9	ED	2012	$ 245,000	N/A	N/A	$ 245,000
19	Massachusetts Pension Reserves Investment Mgmt	Michael Trotsky	$ 50.7	$ 50.7	ED/CIO	2012	$ 295,000	N/A	N/A	$ 295,000
20	Pennsylvania Public School Employees Retirement System	Alan Van Noord	$ 49.1	$ 49.1	CIO	2009	$ 251,542			$ 251,542
25	Retirement Systems of Alabama	David Bronner	$ 28.0	$ 29.7	CEO	2013	$ 576,000	N/A	N/A	$ 576,000
31	South Carolina Retirement System	Herschel Harper	$ 25.7	$ 26.8	CIO	2012	$ 485,000			$ 485,000
4	**State Board of Administration - Florida**	**Ash Williams**	**$ 126.9**	**$ 155.6**	**ED/CIO**	**2013**	**$ 325,000**	**$ -**	**$ -**	**$ 325,000**

Notes: Salaries represent most current data available and was not aged to a common date
(1) Bonus represents most recent bonus or calculated bonus based on target percentage
AUM data as of 9/30/12 per Pensions and Investments (Feb 4, 2013 issue) plus est value of significant non-retirement funds managed
N/A - Not Available

Top 5 Peers

	Total Assets (Billions)	Salary above	Total Cash Comp
75th Percentile	*$154*	*$450,000*	*$660,000*
Median	*$141*	*$410,000*	*$534,375*
25th Percentile	*$117*	*$360,000*	*$476,604*

SBA salary and total cash compensation fall below the 25th percentile of the 5 largest funds although total AUM of $155.6B is above 75th percentile

All Funds Above

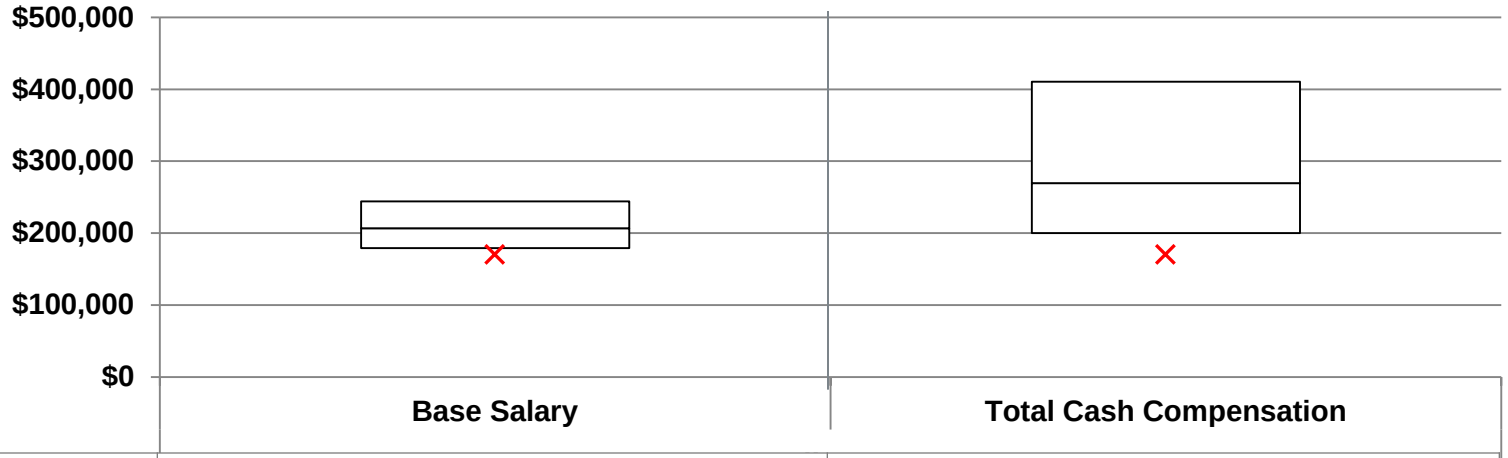
		McLagan		McLagan 2011	Mercer 2012
90th Percentile	*$150*	*$450-500,000*	*$481,500*	*$600-700,000*	*$644,250*
75th Percentile	*$89*	*$395,000*	*$407,500*	*$534,400*	*$530,781*
50th Percentile	*$70*	*$347,800*	*$350,000*	*$365,800*	*$402,500*
25th Percentile	*$56*	*$257,700*	*$300,896*	*$283,300*	*$300,896*

SBA salary and total cash compensation fall below the median of all funds although total AUM of $155.6B is above 90th percentile

All Funds Above - McLagan's CIO Match

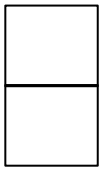
		McLagan		McLagan 2011	Mercer 2012
90th Percentile	*$150*	*$450-500,000*	*$481,500*	*$600-700,000*	*$644,250*
75th Percentile	*$89*	*$415,000*	*$407,500*	*$555,900*	*$530,781*
50th Percentile	*$70*	*$357,000*	*$350,000*	*$472,300*	*$402,500*
25th Percentile	*$56*	*$313,200*	*$300,896*	*$309,000*	*$300,896*

Senior Investment Officers
McLagan Public Pension Data



	Base Salary	Total Cash Compensation
75th Percentile	**$244,100**	**$410,500**
50th Percentile	$206,650	$269,500
25th Percentile	$179,200	$199,900
SBA Employee Compensation	$170,000	$170,000

Note: 75th percentile of broader public pension fund market approximates 50th percentile of five largest funds and serves as proxy for jobs where data is not available for five largest funds



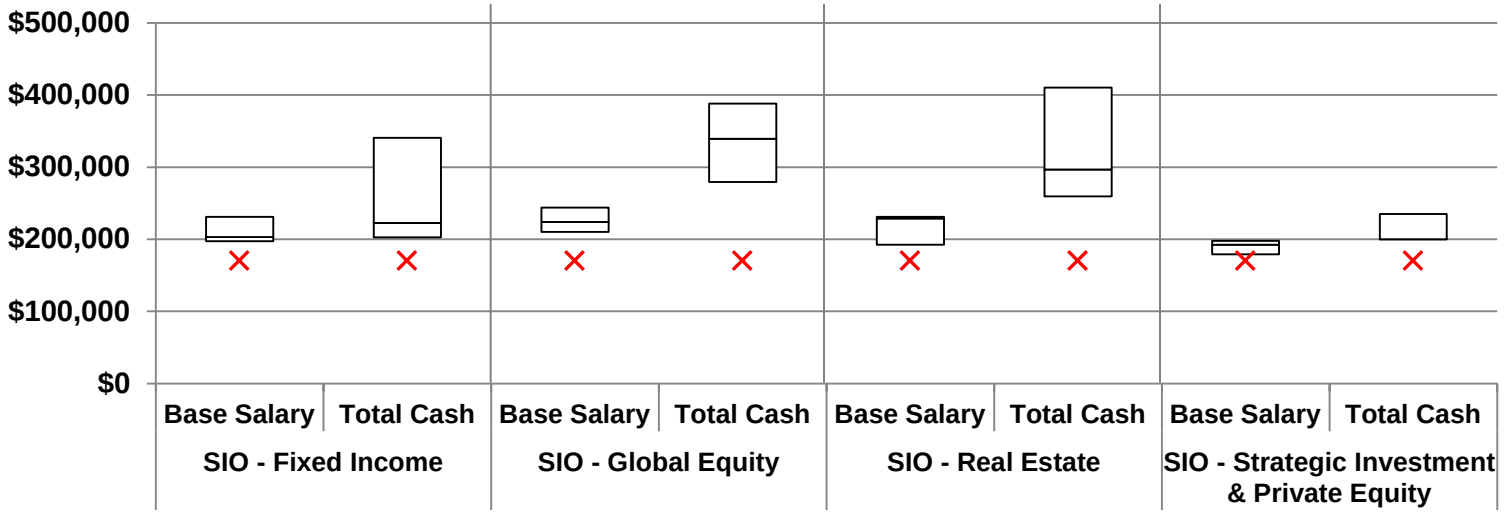
75th Percentile

50th Percentile

25th Percentile

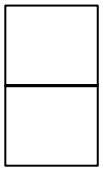
SBA Employee Compensation

Senior Investment Officers
McLagan Public Pension Data



	SIO - Fixed Income		SIO - Global Equity		SIO - Real Estate		SIO - Strategic Investment & Private Equity	
	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash
75th Percentile	**$231,100**	**$340,900**	**$244,100**	**$388,100**	**$230,900**	**$410,500**	**$197,800**	**$235,300**
50th Percentile	$203,100	$222,500	$224,200	$339,200	$229,000	$296,900	$192,400	$199,900
25th Percentile	$197,400	$202,800	$210,200	$279,600	$192,400	$259,400	$179,200	N/A
SBA Employee Compensation	$170,000	$170,000	$170,000	$170,000	$170,000	$170,000	$170,000	$170,000

Note: 75th percentile of broader public pension fund market approximates 50th percentile of five largest funds and serves as proxy for jobs where data is not available for five largest funds



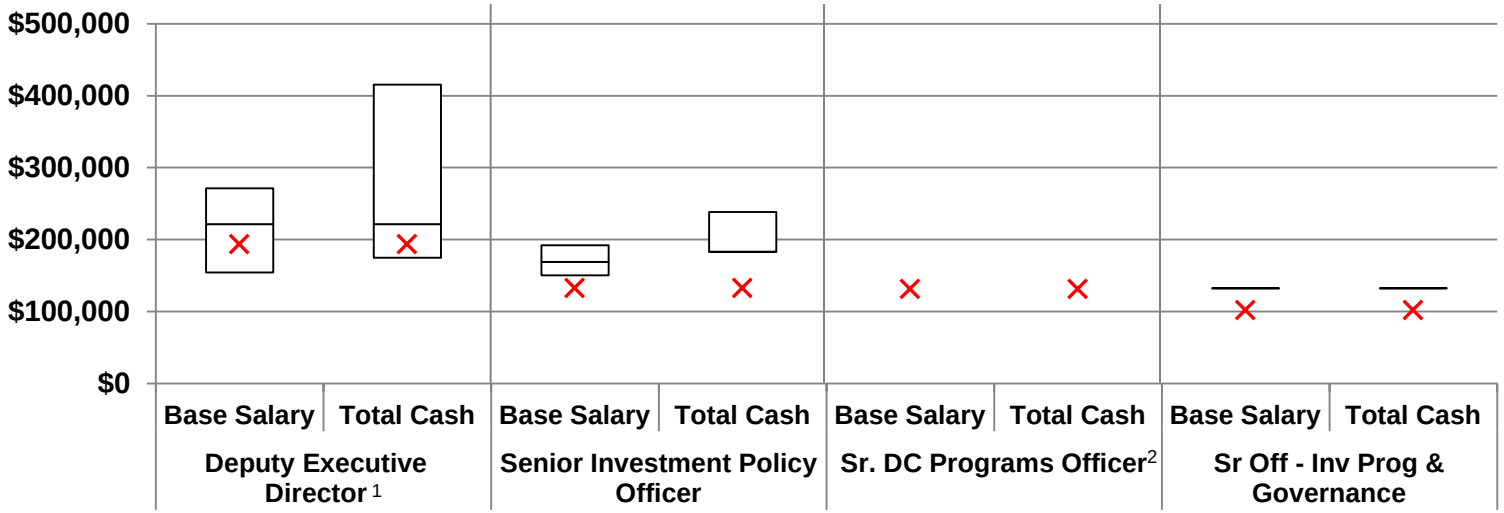
75th Percentile

50th Percentile

25th Percentile

SBA Employee Compensation

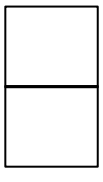
Other Executives Proposed for Tier 2 Incentives
McLagan Public Pension Data



	Deputy Executive Director[1]		Senior Investment Policy Officer		Sr. DC Programs Officer[2]		Sr Off - Inv Prog & Governance	
	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash
75th Percentile	**$271,300**	**$415,500**	**$191,900**	**$238,200**	N/A	N/A	N/A	N/A
50th Percentile	$221,400	$221,400	$168,900	$183,300	N/A	N/A	$131,800	$131,800
25th Percentile	$154,200	$174,600	$150,100	N/A	N/A	N/A	N/A	N/A
SBA Employee Compensation	$193,567	$193,567	$132,500	$132,500	$131,300	$131,300	$102,048	$102,048

Note: 75th percentile of broader public pension fund market approximates 50th percentile of five largest funds and serves as proxy for jobs where data is not available for five largest funds

1. The Deputy Executive Director reflects the prior incumbent and role, which have changed since the benchmarking process was completed. The new incumbent is paid $134,000; the new position responsibilities have not yet been benchmarked for pay.
2. The Sr. DC Programs Officer is a Non-Benchmark job, as no appropriate survey job could be found in the market for this position



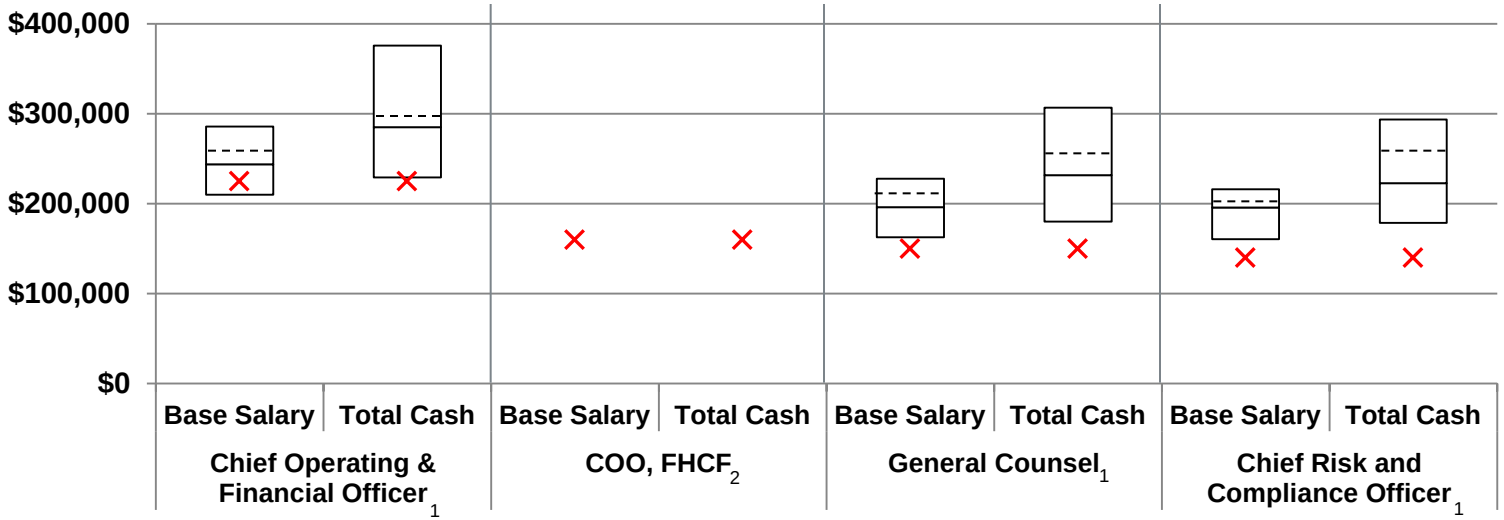
75th Percentile

50th Percentile

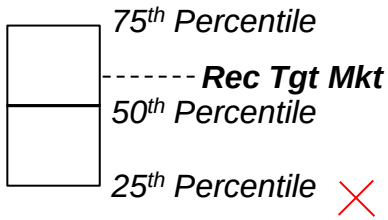
25th Percentile

SBA Employee Compensation

Other Executives Proposed for Tier 2 Incentives
McLagan Public Pension and General Industry Market Data



	Chief Operating & Financial Officer[1]		COO, FHCF[2]		General Counsel[1]		Chief Risk and Compliance Officer[1]	
	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash	Base Salary	Total Cash
75th Percentile	$280,400	$370,600	N/A	N/A	$245,500	$324,800	$211,200	$286,400
Recommended Target Market	**$253,700**	**$294,700**	N/A	N/A	**$227,100**	**$262,600**	**$200,000**	**$260,100**
50th Percentile	$239,400	$280,400	N/A	N/A	$200,500	$256,800	$191,300	$218,100
25th Percentile	$206,000	$225,400	N/A	N/A	$164,000	$180,000	$156,600	$174,500
SBA Employee Compensation	$225,000	$225,000	$160,000	$160,000	$150,000	$150,000	$140,000	$140,000



1. Market compensation data represents a equal blend of McLagan public pension data and general industry data at the respective percentiles. The Target Market represents a blend of the 50th percentile of General Industry data and the 75th percentile of McLagan data (approximates 50th percentile of five largest funds).
2. The COO, FHCF is a Non-Benchmark job, as no appropriate survey job could be found in the market for this position

MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

State Board of Administration

Incentive Plan Design

March 18th, 2013

Josh Wilson, Atlanta
Jan Olson, Chicago
Jon Mason, Atlanta

MARSH & McLENNAN COMPANIES

Table of Contents

- Plan Objectives
- Competitive Analysis – Findings
- Incentive Design Recommendation
- Comparison of Additional Alternative Performance Standards
- Proposed Incentive Eligibility, Target Incentive Levels, and Financial / Non-Financial Splits
- Financial vs Non-Financial Performance
- Impact of the Incentive Plan
- Difficulty of Goals and Historical Achievement Levels
- Incentive Recommendation: Estimated Costs
- Business Case for Additional Expense
- Deferral Mechanism
- Next Steps
- Appendix: Difficulty of Goals and Historical Achievement Levels

Plan Objectives

Design a competitive annual incentive plan that:

- Aligns employee rewards with stakeholder goals and interests
- Rewards strong performance
- Assists in attracting & retaining top talent and increases competitive positioning against outside market
- Is defensible to all stakeholders

Competitive Analysis – Findings
Investment-Related Positions

- SBA salaries are generally below median market compensation levels:
  - Base salaries: generally 13-30% below PPF and 40-55% below E/F
  - Total cash: generally 17-40% below PPF and 60-70% below E/F
- While there is some variance between positions, incentives generally were reported by 60-80% of peer group funds, particularly at the more senior levels (Portfolio Managers, Head of Asset Class, etc.)
- Average bonuses paid by other public pension funds:

– ED/CIO	50%
– Head of Asset Class	40-50%
– Senior Portfolio Manager I	40-45%
– Senior Portfolio Manager II	30-35%
– Intermediate Portfolio Manager	20-25%
– Research Analysts	10-15%

Note: amounts above reflect actual awards, not target percentages

Note: SBA's AUM exceeds the 75th percentile for the public pension peer group (is higher than all but three of the funds). As a result, 50th percentile compensation data may understate appropriate compensation levels for SBA investment staff, particularly those in leadership roles

Incentive Design Recommendation

	Legacy SBA Incentive Plan Design	Proposed SBA Incentive Plan Design
Eligibility	• 40 Investment Professionals	• Top Senior Executives and all Investment Staff (63 people)
Performance Measurement	• 100% quantitative with an employee rating of "3" required for payout • "Value added" to Florida Retirement System Trust Fund (FRSTF)	• Fund's financial outperformance relative to defined benchmark • Largely quantitative (75-90%) but with some qualitative aspects to ensure appropriate behaviors and long-term sustainability • "Value added" to Florida Retirement System Trust Fund (FRSTF)

Performance Standards	• Minimum Award at 25 value added BPS
	• Maximum Award at 51 value added BPS
		• Threshold Award at 5 BPS
		• Target award at 25 BPS outperformance relative to benchmark
		• Maximum award based on 50 BPS outperformance relative to benchmark
		• *Note: Each basis point represents $12.5 million of excess return for the Pension Fund*
		• Consideration of one of the following additional provisions:
		  • If final year of 3-year plan has actual negative returns, the payment will be deferred until the fund earns two quarters of actual positive returns
		  • 25% of the earned award will be cancelled if, over a 3-year period, the actual return does not exceed the fund's Long Term Nominal Target Rate of Return (currently 5% plus inflation)
		  – See following page for deliberations and recommendation

Incentive Opportunity	• 8% maximum award opportunity for all eligible positions	• Incentive targets range from 10-35% of salary, depending on organizational level and criticality to the business
Measurement Period/Timing of Payout	• 3 year performance period • No deferral	• 3 year (rolling) performance periods • ½ paid at end of performance cycle ½ after 1 year deferral

See following pages for more details

Comparison of Additional Alternative Performance Standards

– The table below compares the additional alternative performance standards on the basis of the overall criteria of the plan

Overall Plan Criteria	Alternative 1: Deferral of Payout Until Fund Returns are Positive	Alternative 1B: 25% Haircut if miss LT Nominal Target Return
Competitive	Earned awards are not reduced, but rather deferred More Competitive	Results in lower payouts in 40%+ of years with benchmark outperformance (See appendix) Minority practice (Ambachsteer letter of May/June 2011) Less Competitive
Reasonable and Fair	Keeps participants motivated to outperform benchmark (add value) during weak market environments Size of award not impacted by outside factors More Reasonable and Fair	Risks demoralizing participants during weak market environments, when they can add significant value to the fund Market movement is beyond control of participants Nominal Target Rate of Return is a very long term goal that cannot be fairly measured over a 3-year plan period Time lag creates incongruence between those who shape/decide asset allocation and those who would be penalized Less Reasonable and Fair
Sustainable	No immediate payout following a year of negative performance, reducing headline risk More Sustainable	Could result in a partial payout following a year of negative performance if the threshold 5 BPS of value added is reached Less Sustainable

Comparison of Additional Alternative Performance Standards

Overall Plan Criteria	Alternative 1: Deferral of Payout Until Fund Returns are Positive	Alternative 1B: 25% Haircut if miss LT Nominal Target Return
Aligns Interests of Stakeholders	Focuses participants on adding value vs. benchmark; May not focus participants sufficiently on very long term performance Payouts will be made only in periods with recent positive performance A competitive compensation program is in the interest of stakeholders Overwhelming majority of outperformance dollars are returned to outside stakeholders Well-Aligned	Participant focus is primarily on adding value vs. benchmark and to a lesser degree on achieving the Nominal Target Rate of Return over a 3-yr period Overwhelming majority of outperformance dollars are returned to outside stakeholders Reduction of payouts aligns with stakeholders Well-Aligned

– On balance, weighing the pros and cons of implementing a new incentive plan based on relative and absolute metrics, Mercer feels that SBA is best served to implementing a plan with a metric that is primarily based on relative performance and a payout deferral mechanism to recognize the importance of generating positive absolute returns.

Proposed Incentive Eligibility, Target Incentive Levels, and Financial / Non-Financial Splits

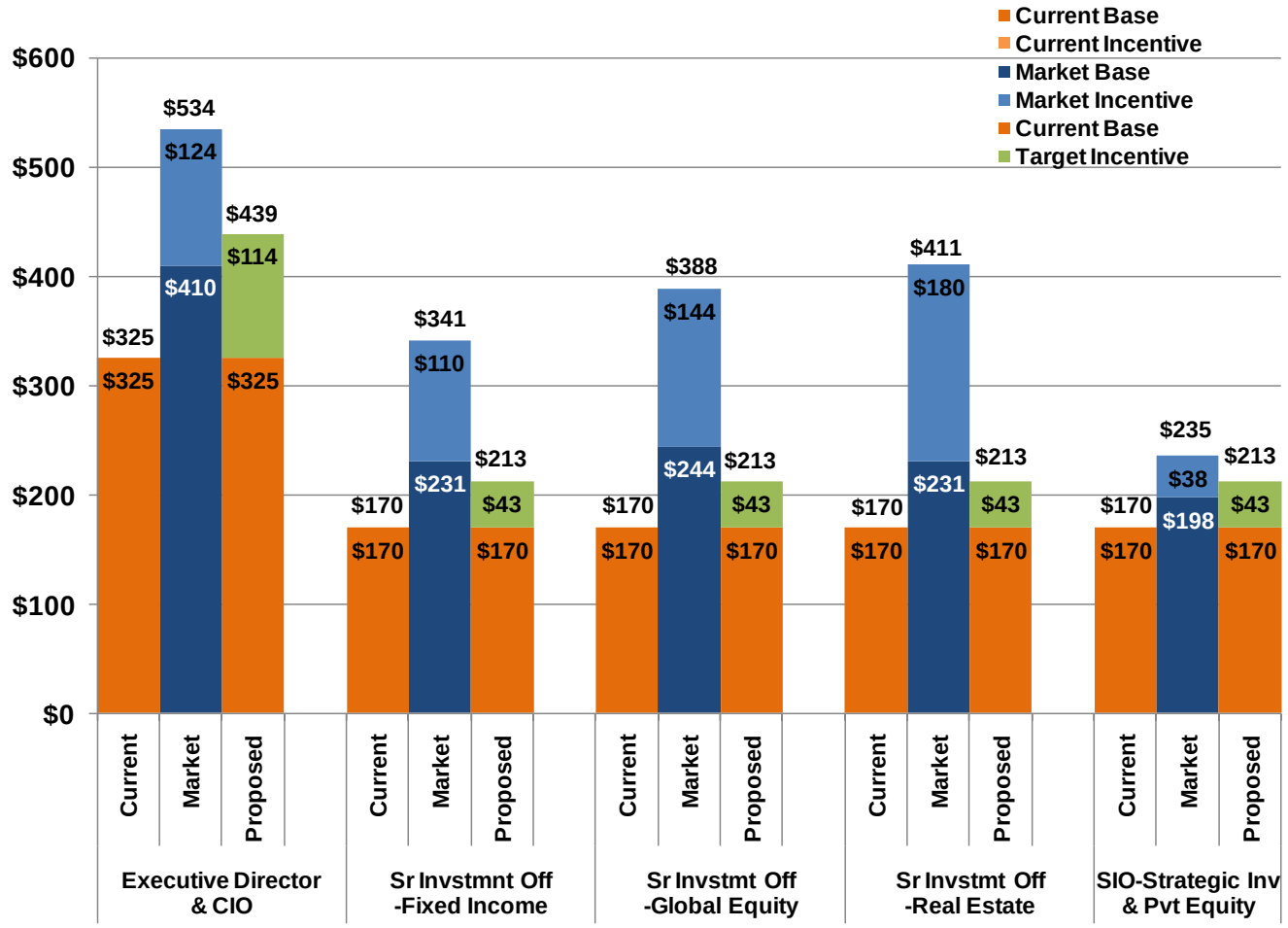
Tier	Title	# of EEs	Threshold Incentive (as a % of salary)*	Target Incentive (as a % of salary)*	Maximum Incentive (as a % of salary)*	Financial/ Non Financial
1	• Executive Director & CIO	1	17.5%	35%	52.5%	85% / 15%
2	• Deputy Executive Director • Senior Investment Officers • Chief Operating/Financial Officer • Chief Operating Officer, FHCF • Chief Risk and Compliance Officer • General Counsel • Sr. DC Programs Officer	13	12.5%	25%	37.5%	80% / 20%
3	• Investment Directors • Senior Portfolio Managers • Portfolio Managers • Other Investment Managers	37	7.5%	15%	22.5%	90% / 10%
4	• Senior Analysts • Analysts • Senior Traders • Traders	12	5%	10%	15.%	75% / 25%

Financial vs Non-Financial Performance

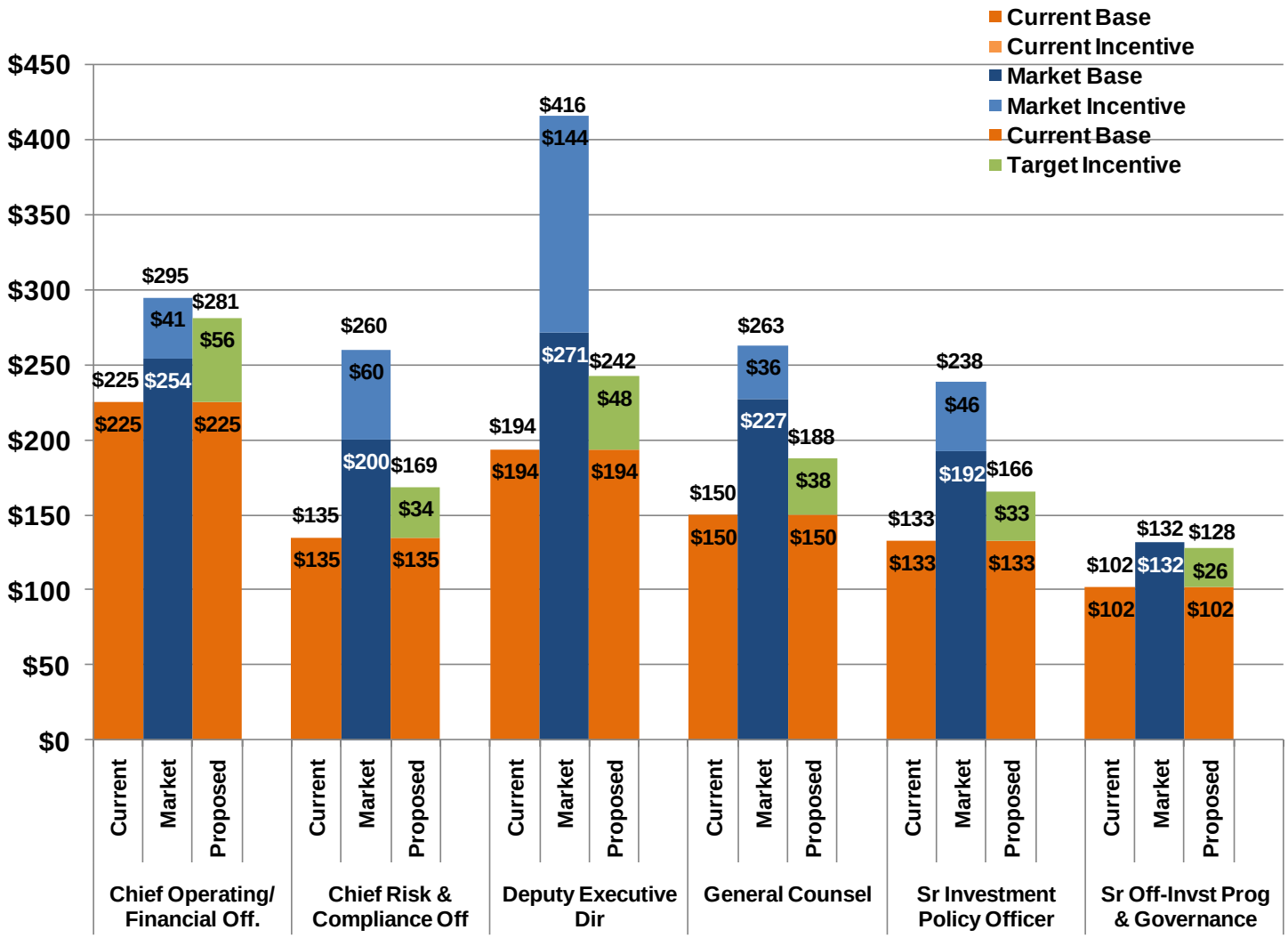
- One reason for implementing an incentive plan for pension fund management is the ability to measure performance in a concrete manner
  - Many other departments and functions of State Government are harder to assess strong performance
  - This rationale also lends credence to why the incentive plan covers investment related positions and other senior management roles rather than the whole organization
- While financial performance is critical, non-financial performance is also important to the organization. As such, Mercer recommends focusing a portion of the incentive on performance beyond the financial results. Areas for consideration include:
  - Mission (asset allocation, risk, sustainability, etc)
  - People (recruiting, retaining, training, developing, mentoring, etc)
  - Processes (new tools, methodologies, review processes, standards, etc)
  - Values (good citizen, collaborative, diversity, etc)
- For the CIO/ED, the IAC and trustees would establish the non-financial performance goals and combine the overall financial performance with performance against non-financial goals to arrive at an incentive award
- For all other SBA employees in the incentive plan, CIO/ED will be responsible for setting goals (financial and non-financial) and determining outcomes

Impact of the Incentive Plan

- One of the goals of implementing the incentive plan one of the goals is to ensure that SBA jobs are more competitive with the market. Using the market data presented to the IAC and the incentive targets proposed earlier in this presentation, the following charts have been created which show the overall cash competitiveness of the current and proposed SBA compensation programs against the market: *(note, no salary changes are incorporated in these charts)*



Impact of the Incentive Plan



DED chart reflects previous position and incumbent"

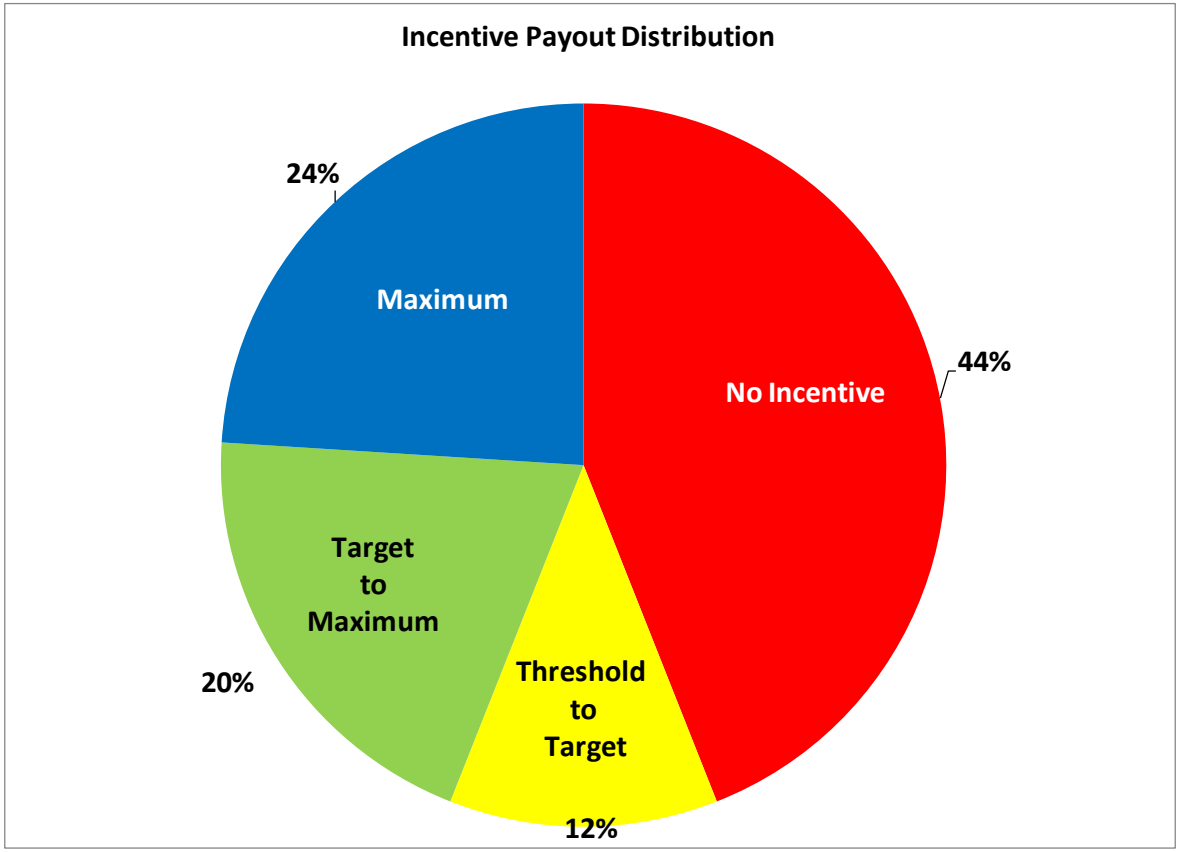
Difficulty of Goals and Historical Achievement Levels

- In establishing the performance goals for the plan, the intent is to require levels of performance that are achievable yet challenging. Ideally, the goals would rewards periods of solid performance and recognize periods where performance fails to meet expectations
- The chart below models the proposed payout levels in terms of payouts zone using the last 25 years of actual SBA total fund return information:

Date	3-yr Rolling VA	No Incentive	Threshold to Target	Target to Maximum	Maximum Incentive
6/30/2012	1.27%				
6/30/2011	0.44%				
6/30/2010	0.24%				
6/30/2009	-0.41%				
6/30/2008	0.22%				
6/30/2007	0.58%				
6/30/2006	0.54%				
6/30/2005	0.12%				
6/30/2004	-0.05%				
6/30/2003	0.43%				
6/30/2002	0.98%				
6/30/2001	1.01%				
6/30/2000	0.49%				
6/30/1999	-0.40%				
6/30/1998	-0.96%				
6/30/1997	-1.21%				
6/30/1996	-0.75%				
6/30/1995	-0.19%				
6/30/1994	0.27%				
6/30/1993	0.67%				
6/30/1992	0.25%				
6/30/1991	-0.94%				
6/30/1990	-1.55%				
6/30/1989	-3.57%				
6/30/1988	-2.56%				

Difficulty of Goals and Historical Achievement Levels

- The variability of the excess returns over the past 25 years do not translate well into a bell shaped curve with respect to an incentive plan. Instead, there are a significant number of periods where no incentive would be earned (11 out of 25 years) and a reasonable mix of years where some or all of the incentive would be earned, as shown in the graph below



Incentive Recommendation: Estimated Costs

- Our Initial recommendation includes a population of approximately 63 SBA employees
  - Current total SBA payroll is approximately $14.5 million
  - At target, the incentive pool would equal 8% of SBA total salaries
  - At maximum, the incentive pools would equal 12% of SBA total salaries

Tier	# of Employees	Total Salaries	Cost at Threshold	Cost at Target	Cost at Maximum
1	1	$325,000	$56,785	$113,750	$170,625
2	13	$2,079,415	$243,514	$487,029	$730,543
3	37	$3,362,682	$245,189	$490,378	$735,567
4	12	$600,908	$30,045	$60,091	$90,136
Total	**63**	**$6,368,005**	**$599,048**	**$1,198,097**	**$1,797,145**

Notes:

- Estimated costs reflect recommended incentive percentages applied to current base salary levels
- Increases to base salary levels (e.g., market adjustments) will increase projected costs

Business Case for Additional Expense

- The table below illustrates the required outperformance at payout level and the return of funds to the stakeholders

	Threshold	Target	Maximum
Basis Pts Outperformance	5 BPS	25 BPS	50 BPS
Total Dollars above Benchmark (assumes $125 Billion fund)	$62.5 million	$313 million	$625 million
Total Incentive Cost	$599,000	$1,198,000	$1,797,000
% of Outperformance Dollars Going to Employees	0.96%	0.38%	0.29%

- As the numbers indicate, the overwhelming majority of the outperformance dollars are being returned to the outside stakeholders.

Deferral Mechanism

- The chart below highlights the award performance periods, including the introductory periods, and the associated payouts

	2014	2015	2016	2017	2018	2019	2020	2021
Cycle 1 Performance	1 year							
Cycle 1 Payout		50% Payout	50% Payout					
Cycle 2 Performance	2 Years							
Cycle 2 Payout			50% Payout	50% Payout				
Cycle 3 Performance		3 Years						
Cycle 3 Payout				50% Payout	50% Payout			
Cycle 4 Performance			3 Years					
Cycle 4 Payout					50% Payout	50% Payout		
Cycle 5 Performance				3 Years				
Cycle 5 Payout						50% Payout	50% Payout	
Cycle 6 Performance					3 Years			
Cycle 6 Payout							50% Payout	50% Payout

Incentives paid in November, following audit of fiscal-year performance data

- The plan design accomplishes the following goals
  - Measures multi-year performance
  - Increases likelihood that plans will not be hopelessly underwater for more than 1 year
  - Aides in retention by deferring the award
- Special arrangements to be made for retirement, death and disability

Not Peer Review

Next Steps

- Gain agreement on plan design
- Introduce the plan to the full IAC
- Gain Trustee approval

Appendix

Difficulty of Goals and Historical Achievement Levels

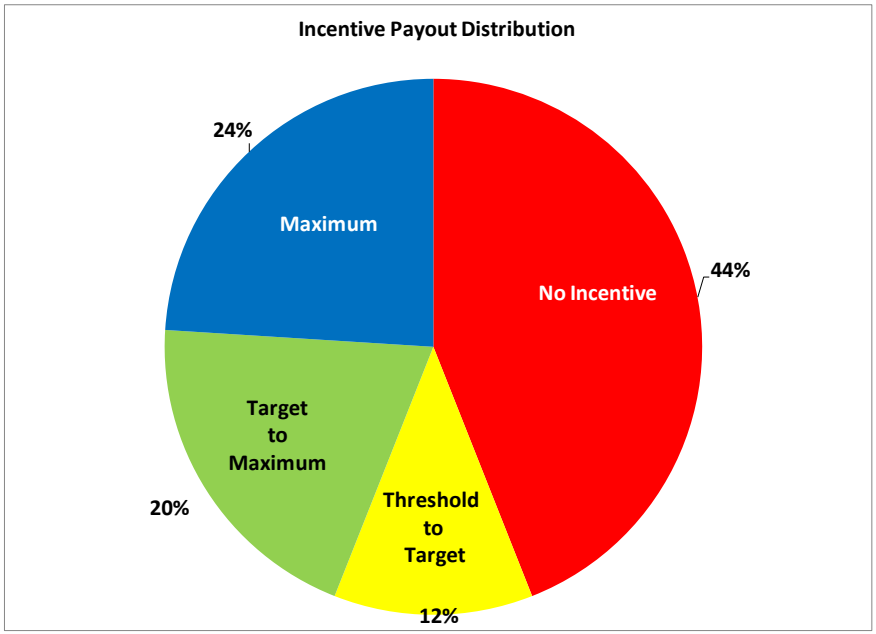
- In establishing the performance goals for the plan, the intent is to require levels of performance that are achievable yet challenging. Ideally, the goals would rewards periods of solid performance and recognize periods where performance fails to meet expectations
- The chart below models the proposed payout levels in terms of payouts zone using the last 25 years of actual SBA total fund return information:

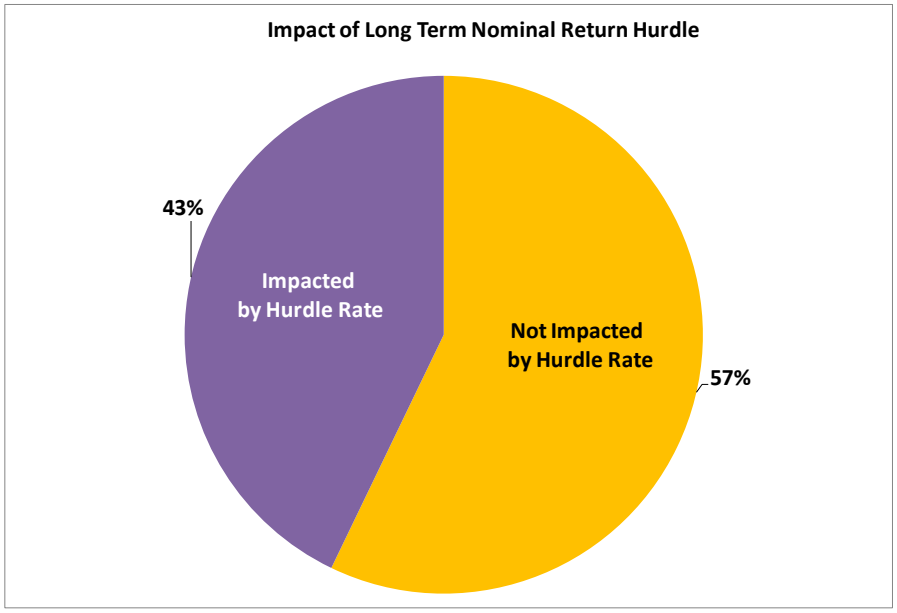
Date	3-yr Rolling VA	3-yr Rolling Return-ACTUAL	3-Yr Rolling Return-Nominal Long Term Target	Excess/ (shortfall) vs 3-Yr LT Target	No Incentive	Threshold to Target	Target to Maximum	Maximum Incentive
6/30/2012	1.27%	11.77%	7.19%	4.58%				
6/30/2011	0.44%	4.08%	6.09%	-2.02%				
6/30/2010	0.24%	-4.08%	6.59%	-10.67%				
6/30/2009	-0.41%	-2.96%	6.85%	-9.81%				
6/30/2008	0.22%	7.66%	8.54%	-0.88%				
6/30/2007	0.58%	12.88%	7.33%	5.55%				
6/30/2006	0.54%	12.42%	7.50%	4.91%				
6/30/2005	0.12%	9.74%	6.83%	2.90%				
6/30/2004	-0.05%	3.31%	6.43%	-3.11%				
6/30/2003	0.43%	-4.38%	6.52%	-10.90%				
6/30/2002	0.98%	-2.11%	7.09%	-9.20%				
6/30/2001	1.01%	5.16%	6.30%	-1.14%				
6/30/2000	0.49%	15.33%	6.86%	8.46%				
6/30/1999	-0.40%	18.99%	6.37%	12.62%				
6/30/1998	-0.96%	20.08%	7.75%	12.33%				
6/30/1997	-1.21%	18.88%	7.11%	11.77%				
6/30/1996	-0.75%	11.69%	7.18%	4.51%				
6/30/1995	-0.19%	10.99%	7.27%	3.72%				
6/30/1994	0.27%	9.70%	7.28%	2.42%				
6/30/1993	0.67%	12.73%	8.04%	4.69%				
6/30/1992	0.25%	11.26%	8.63%	2.64%				
6/30/1991	-0.94%	11.46%	9.35%	2.10%				
6/30/1990	-1.55%	8.16%	9.10%	-0.94%				
6/30/1989	-3.57%	8.04%	8.74%	-0.70%				
6/30/1988	-2.56%	11.94%	7.56%	4.39%				

Darkened colored boxes indicate where long term nominal return hurdles have not been met

Difficulty of Goals and Historical Achievement Levels

- The variability of the excess returns over the past 25 years do not translate well into a bell shaped curve with respect to an incentive plan. Instead, there are a significant number of periods where no incentive would be earned, and a reasonable mix of years where some or all of the incentive would be earned, as shown in the graph below on the left
- The graph below on the right illustrates the impact of the long term nominal return hurdle. As it shows, 43% (6 of 14) of the incentive payouts would be negatively impacted by the long term nominal return hurdle rate:





MERCER

MERCER

3560 Lenox Road, Suite 2400
Atlanta, GA 30326
josh.wilson@mercer.com
www.mercer.com

Memo

To: Chuck Newman, Chairman, Compensation Subcommittee of the Investment Advisory Council, State Board of Administration

Date: April 29, 2013

From: Josh Wilson, Partner, Mercer

Subject: Salary Recommendation for Executive Director /Chief Investment Officer (ED/CIO)

Over the last eight months, Mercer has conducted a comprehensive review of compensation for SBA employees. Mercer partnered with the SBA's Investment Advisory Council (IAC), and then its Compensation Subcommittee, to determine a compensation philosophy and establish appropriate benchmarks against which to compare current SBA pay. The results of the study are in large part complete from an aggregate standpoint. The SBA, with the concurrence of the IAC, will adopt a compensation policy (including revisions to the SBA's incentive compensation plan) that reflects market levels for the top public pension funds and will begin implementing the policy through its normal budgeting processes to close the gap between SBA salaries and competitive market salaries. This will enable the SBA to recruit, retain and motivate qualified, high-performing staff, while improving the alignment of interests between SBA employees and stakeholders and minimizing human capital risk. While SBA management, at the direction of the ED/CIO, will determine the appropriate budget requests and subsequent salary adjustments to personnel, Mercer has been asked to provide a recommendation on the salary increase for the ED/CIO.

One of the findings of the Mercer study was the base salary for the CIOs of the five largest public pension funds in the United States, ranged from $300,000 to $480,000, with a median of $410,000. This small sample included funds both larger and smaller than SBA. The tenure and prior experience of the individual incumbents varies widely among the five funds. Four of the five individuals received incentive awards, which resulted in a total compensation range for these five CIOs of $300,000 to $876,000, with a median of $534,375.

At present, the SBA ED/CIO, Mr. Ash Williams, receives a base salary of $325,000. The incumbent was recruited to the SBA in October 2008 at salary of $325,000, and his pay has not been adjusted since that time. Mr. Williams' salary is significantly below the median for similar positions at other large public funds. Mercer believes that increasing Mr. Williams' base salary to the median of the five largest US pension funds, which is $410,000 per year as noted above, is appropriate. In addition, Mercer recommends, that based on comparable positions in the

market, Mr. Williams be eligible for participation in the revised annual incentive plan at a target level of 35% of base salary per year. Inclusion in the incentive plan will further help align, retain and motivate the ED/CIO and ensure more competitiveness against the market.

If you have any questions, please do not hesitate to contact me.

Thank you

Josh

Implementation Plan for Base Pay Adjustments

Actions Taken To Date

Development of Pay Structure. Since the March 18 Compensation Subcommittee meeting, Mercer has developed a grade structure for SBA base salaries, with 22 pay grades, shown below:

SBA - Grade Structure FY13-14			
Grade	**Minimum**	**Midpoint**	**Maximum**
	$	**$**	**$**
1	22,000	27,500	33,000
2	25,300	31,600	37,900
3	29,000	36,300	43,600
4	33,400	41,700	50,000
5	38,400	48,000	57,600
6	44,200	55,200	66,200
7	50,800	63,500	76,200
8	58,400	73,000	87,600
9	68,900	86,100	103,300
10	81,300	101,600	121,900
11	95,900	119,900	143,900
12	115,100	143,900	172,700
13	138,200	172,700	207,200
14	165,800	207,200	248,600
15	198,900	248,600	298,300
16	238,600	298,300	358,000
17	328,000	410,000	492,000
PM01	70,400	88,000	105,600
PM02	81,600	102,000	122,400
PM03	104,000	130,000	156,000
PM04	132,000	165,000	198,000
PM05	176,000	220,000	264,000

The middle third of a pay grade (discussed in more detail below) can be thought of as a general market/competitive level for the skills and responsibilities of a position assigned to that pay grade. For each pay grade, Mercer defined a minimum, midpoint and maximum amount. The minimum of each grade is 80% of the midpoint and the maximum of each grade is 120% of the midpoint. Within the minimum and maximum points of a pay grade, Mercer defined three "zones" as follows:

Zone 1 – Bottom Third of Range (80% to 90% of midpoint) "Learning/Development Zone"

- Generally represents the area where most new employees are hired (since most new employees are not familiar with all the complexities of the job, they may not be expected to have fully mastered all requirements of the job).

- Also for recently promoted employees who are developing the skills and experiences necessary for competent performance.
- May also include experienced or long-term employees who are having performance problems.

Zone 2 – Middle Third of Range (90% to 110% of midpoint) "Fully Proficient Zone"

- For employees who have mastered the skills and knowledge required by the job and who continuously meet the assigned accountabilities and objectives. New hires that are well-seasoned will generally fall into this zone as well.
- An employee with a salary in this zone is paid competitively with other competent and experienced employees in other peer companies.
- Most employees can expect their salaries to move into this zone as their skills and knowledge develop to meet the full requirements of the job.

Zone 3 – Top Third of Range (110% to 120% of midpoint) "Role Model Zone"

- For employees who have mastered the job and consistently and substantially exceed target performance standards, and who, because of unique skills, talents, and experience are making a significant contribution above the expected level for the job.
- Salaries in this zone are for the sustained standout or exceptional performer, and represent pay levels well above the target market position.
- Employees paid in this zone would be considered role models for others in their job to aspire to; not all employees would expect to achieve this level.

1. Assignment of SBA Positions to Pay Grades. Mercer initially assigned each SBA position to a pay grade based on market data for that position when market data for that position was available. For example, Mercer has market data for portfolio managers. As such, SBA portfolio managers were assigned to "the market" pay grade for portfolio managers in general. Mercer did not have market data for some specific SBA positions such as the Florida Hurricane Catastrophe Fund's Chief Operating Officer. In these instances, Mercer and SBA personnel reviewed the specific position's responsibilities and assigned that SBA position to a pay grade having similar position responsibilities and for which Mercer had "market" data.

   After this initial round of pay grade assignments, SBA management reviewed the positions and corresponding assigned pay grades to determine its ability to recruit qualified staff to perform the defined work responsibilities associated with each position at its assigned pay grade. This SBA management review was an iterative process, and in some cases, position responsibilities were clarified and adjustments to pay grades (to reflect the clarified position responsibilities) were made. The goal of this process was to ensure that a pay grade assigned to a particular SBA position was neither too high nor too low, given the actual responsibilities and required skills of employees in each position. As one might expect, the process resulted in some useful clarification of position responsibilities and required skill levels.

2. Management's Assessment of Appropriate Placement within Pay Grades. Following the assignment of each position to a pay grade, every incumbent's skills, performance, and breadth and length of experience were reviewed and used to identify an appropriate placement along the continuum of pay levels within the salary range for his/her position, i.e., in which pay grade zone for a position should the incumbent fall. The effectiveness of this assessment is critical to the success and credibility of the program, and it involves highly subjective judgments. To ensure the judgments are as fair as possible, the initial zone assessments are undergoing reviews by SBA management and human resources personnel.

3. Magnitude of Compensation Gap and Estimation of Cost. Once all SBA positions had been assigned to market or estimated market pay grades, and after SBA management provided feedback regarding the pay grade zone assignments for each incumbent, SBA management was able to determine a "target salary" for each employee that corresponded to the recommended salary level within the incumbent's assigned pay grade. Overall, target

salaries for all SBA employees exceed the current SBA salaries, generating a "compensation gap" of approximately $2.3 million (15.6% of current salaries).

4. Development of Implementation Strategy. In developing a strategy to move SBA salaries to more competitive levels over time, we considered a number of factors, including the magnitude of the gap relative to our overall expense budget, our ability to fund increased compensation levels by generating additional fee revenues through growth in assets under management, and the increasing risk of losing our best staff as employment markets improve locally and in the asset management field. We also took into consideration the criticality of specific positions to the SBA and the difficulty (or ease) of replacing. Our planning horizon expanded beyond the upcoming FY13/14. Looking further down the road to FY14/15, we will need to include in that year's budget an amount equal to half of the maximum incentive awards that could be earned in FY13/14, and to include in our FY15/16 budget the maximum annual incentive award amounts. Considering all these factors, we plan to implement the overall compensation program over a three-year period. In the FY13/14 budget, we plan to request $1.6 million to cover 70-75% of the base salaries gap. The remaining $650,000 of the $2.3 million compensation gap would be requested in the following fiscal year, along with 50% of the maximum incentive award, which we estimate would be approximately $1.1 million (based on estimated future salary levels), for a total budget increment of $1.75 million, slightly larger than the request for FY13/14. In FY14/15, we would plan to budget the full potential incentive award of approximately $2.2 million.

5. Entity Expense Budgets. The cost of implementing the first-year program of compensation increases (and related costs for employee benefits that are based on salary levels) for employees of the Florida Hurricane Catastrophe Fund and the Office of Defined Contributions will be included in the budget submission for those respective entities. Likewise, first-year increases for the SBA employees will be included in the SBA's FY13/14 budget submission. Based on our preliminary analysis, we expect total SBA budgeted expenses for FY13/14 to increase by 8-9% over FY12/13.

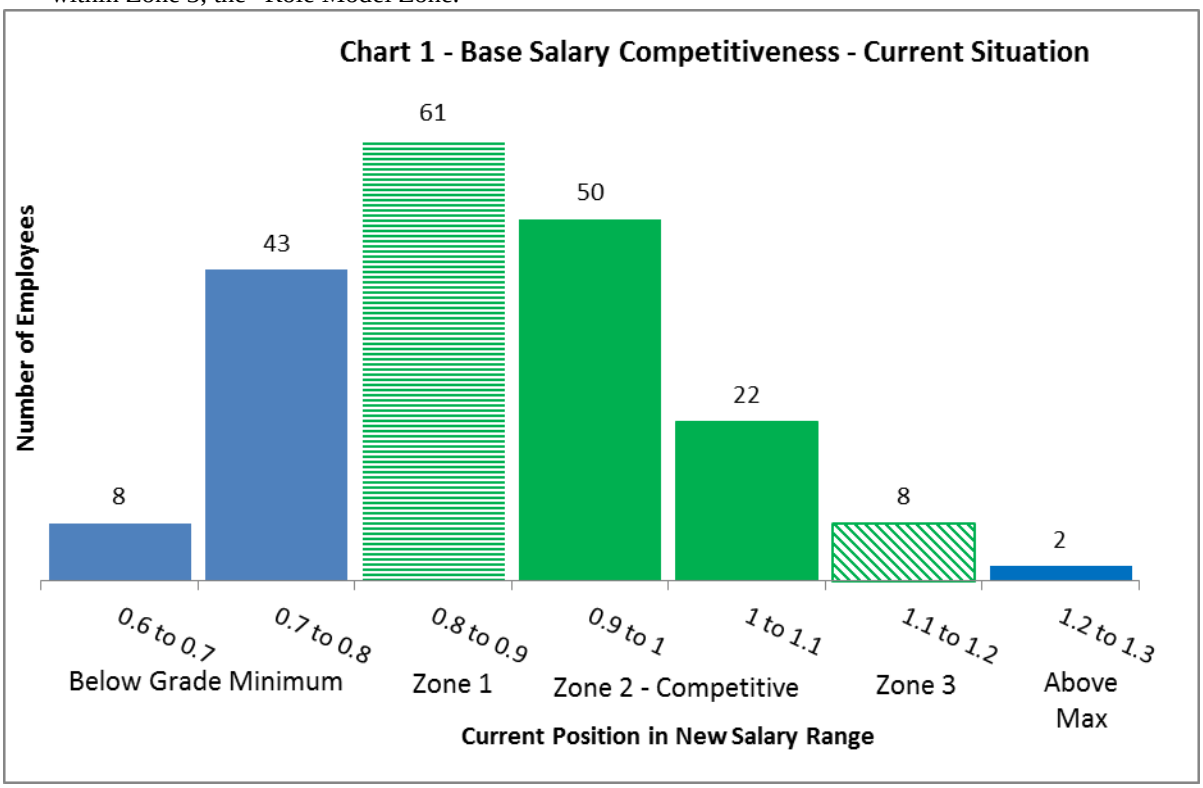
6. SBA Revenues. F.S. 215.515 provides that the operating costs of the SBA are to be paid from the funds it manages. The costs are recovered through the assessment of a monthly fee for investment, administrative and other services provided. Investment services are charged on a flat fee basis, a variable percentage charge on assets under management, or a combination of the two. Small trust funds generally pay a flat fee; the variable method is primarily utilized for larger client funds managed by the SBA and accounts for approximately 90% of the fees collected. The variable percentage charge on assets under management is 2.25 bps; for Florida PRIME, the variable percentage charge is 1.0 bps. No increase in the fee structure is proposed for FY13/14. We are planning to budget a 6% increase in fees as a result of strong investment performance experienced this fiscal year and anticipated increased contributions to the FRS Trust Fund during FY13/14. The Trust Fund AUM increased by over $7 billion between March 31, 2012 and 2013, and has grown another $1.7 billion since then (through April 26) to reach an estimated $135.4 billion. To illustrate the relationship between asset growth and SBA fee revenue, an AUM increase of $10 billion (7% of the FRS Trust Fund) translates to incremental fee revenue of $2.25 million.

7. Fund Balance. To the extent actual operating costs exceed service fees, the difference will be charged to the SBA Administrative Trust Fund, which had a balance of approximately $34 million on March 31, 2013.

8. An Appendix follows, containing tables and charts that are illustrative of the analysis we performed to develop and evaluate our planned implementation strategy. **Please note that the numbers are subject to change as we continue to review/refine the appropriate individual salary targets.**

Appendix – *Numbers Subject to Change*

Chart 1 shows the relationship of each employee's current salary to the midpoint of the new pay grade to which his/her position has been assigned. Each bar represents the number of employees whose current salary falls within the various portions of their new salary grade, in increments of 5%. The blue bars on the left side of the chart represent the number of employees whose current salaries fall below the minimum level of the new pay grades. The blue bar on the far right represents the number of employees whose current salary is above the maximum level of their new pay grade. The green bars in the middle show the number of employees whose current salaries fall within the new pay grades. The three "zones are depicted with different green patterns, with the horizontally-filled green bars showing the number of employees in Zone 1, the "Learning/Development Zone"; the solid green bars show the number of employees in Zone 2, the "Fully Proficient, or Competitive Level", and the green bars filled with a slanted pattern shows the number of employees whose current pay falls within Zone 3, the "Role Model Zone."

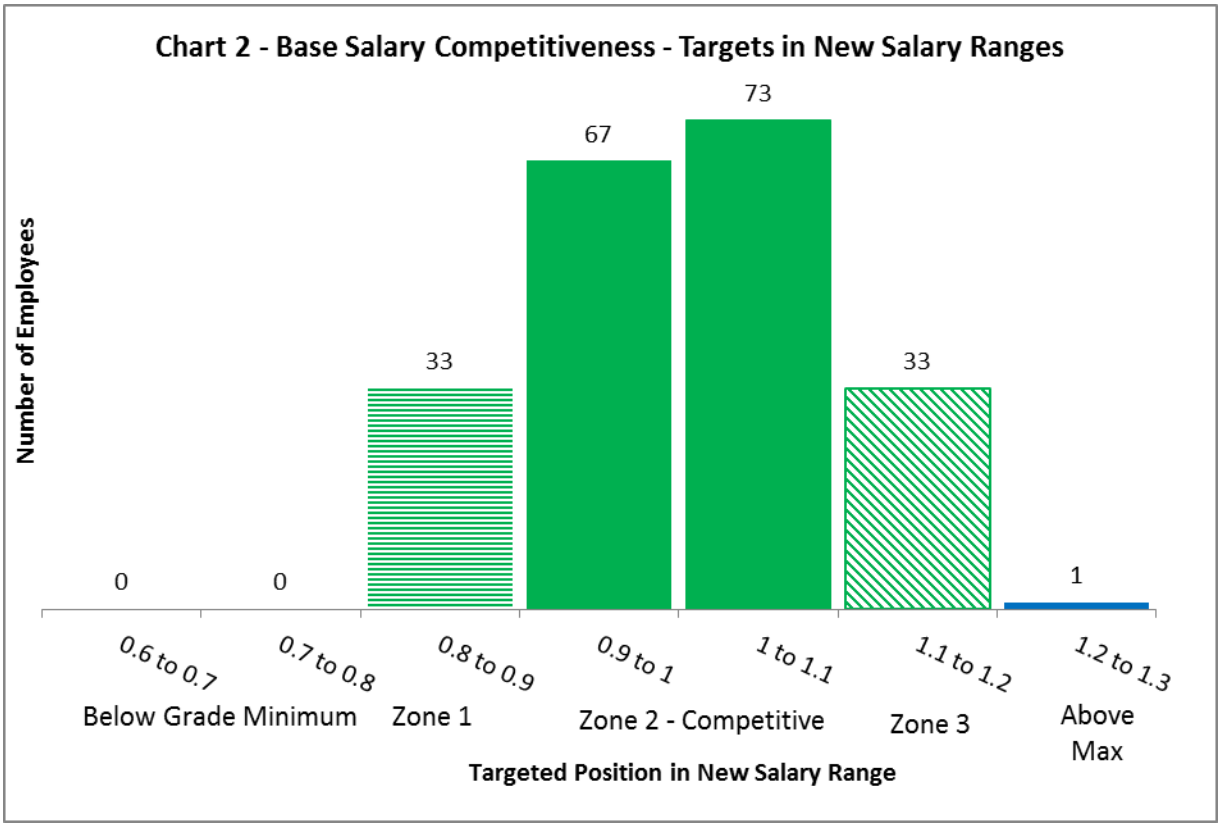


The table below summarizes the current situation, showing where in the new (competitive) salary ranges each employee's current salary would fall:

	#	%
Below Grade Minimum	51	26%
Zone 1	61	31%
Zone 2	72	37%
Zone 3	8	4%
Above Maximum	2	1%
Total	194	100%

Appendix (continued) -- ***Numbers Subject to Change***

By comparison, Chart 2 below shows similar data on a pro forma basis, if we were able to pay every employee at his/her targeted salary level, taking into consideration the employee's individual performance and experience in the position.

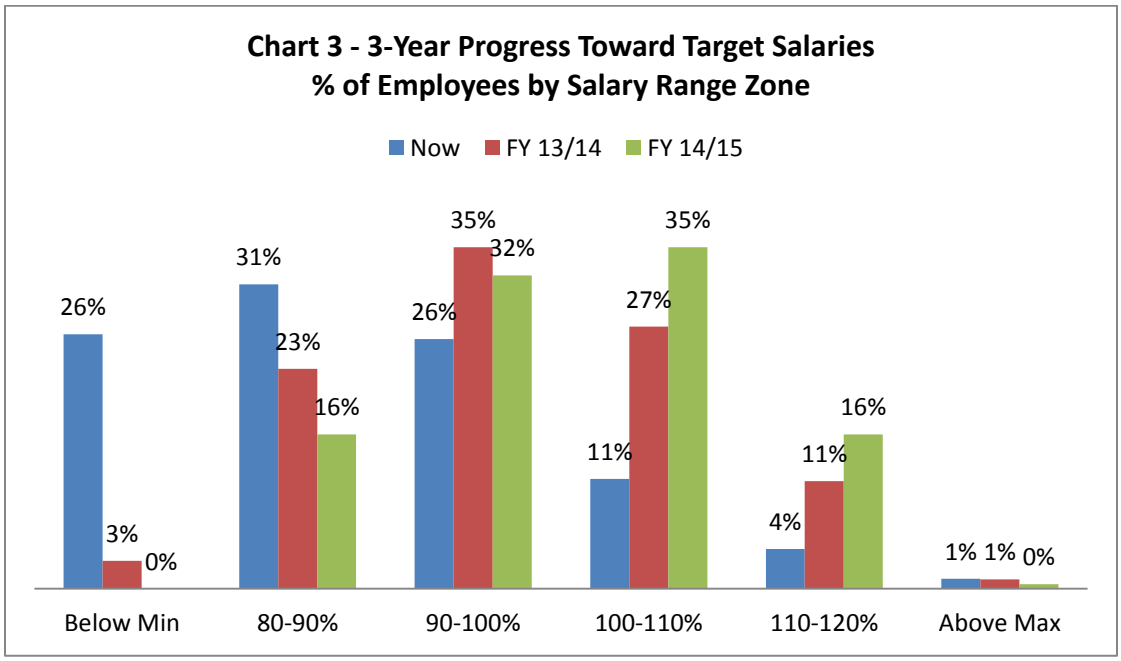
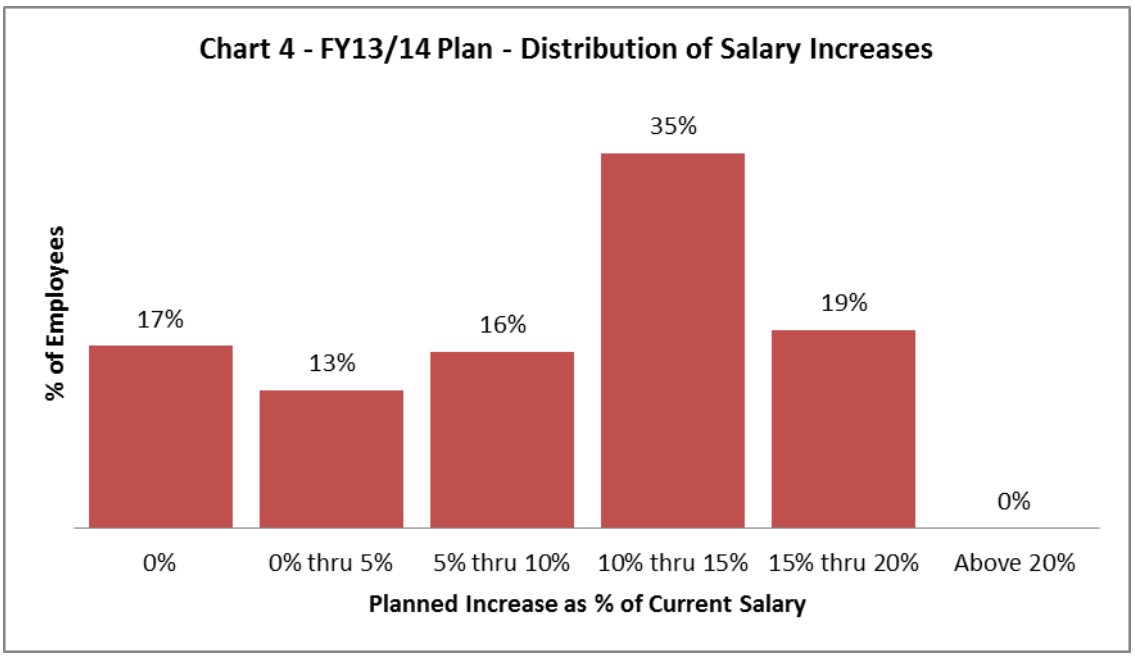


The table below summarizes the targeted placement of each employee's salary, relative to the midpoint/market value for his/her position. This summary is reassuring in that it shows that the distribution within the pay range represents an expected, normal bell curve.

	#	%
Below Grade Minimum	0	0%
Zone 1	33	16%
Zone 2	140	68%
Zone 3	33	16%
Above Maximum	1	0%
Total	207	100%

Appendix (continued) – *Numbers Subject to Change*

Chart 3 below shows by fiscal year the percentage of employees that would fall in each zone. By FY14/15, the implementation of the plan would result in a normal distribution of pay levels.



Implementation of the first year of the plan is expected to result in salary increases that would range from zero to 20%, with an average increase of 11% in FY13/14. Chart 4 shows the planned distribution of increases, displayed in increments of 5%.