

MEETING OF THE STATE BOARD OF ADMINISTRATION

**GOVERNOR SCOTT AS CHAIRMAN
CHIEF FINANCIAL OFFICER ATWATER AS TREASURER
ATTORNEY GENERAL BONDI AS SECRETARY**

NOVEMBER 19, 2013

AGENDA

- ITEM 1. REQUEST APPROVAL OF THE MINUTES OF THE SEPTEMBER 24, 2013, AND OCTOBER 10, 2013, MEETINGS.**

(See Attachments 1A and 1B)

ACTION REQUIRED

- ITEM 2. REQUEST APPROVAL OF A FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING \$28,000,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (REEF CLUB APARTMENTS).**

(See Attachment 2A)

ACTION REQUIRED

- ITEM 3. REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENTS TO RULES 19-11.002, F.A.C. (BENEFICIARY DESIGNATIONS AND DISTRIBUTIONS FOR FLORIDA RETIREMENT SYSTEM [FRS] INVESTMENT PLAN), 19-11.006 (ENROLLMENT PROCEDURES FOR NEW HIRES), RULE 19-11.007 (SECOND ELECTION ENROLLMENT PROCEDURES FOR THE FRS RETIREMENT PROGRAMS) AND 19-11.012, F.A.C. (ROLLOVERS OR PLAN TO PLAN TRANSFERS TO OR FROM THE FRS INVESTMENT PLAN) IN RULE CHAPTER 19-11, F.A.C. AND TO FILE THE RULES FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THESE RULES.**

(See Attachments 3A through 3C)

ACTION REQUIRED

- ITEM 4. A. REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENTS TO RULE 19-7.002, F.A.C. (INVESTMENT POLICY GUIDELINES) FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND AND FUND B SURPLUS FUNDS TRUST FUND, AND TO FILE THE RULE FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THIS RULE.**

(See Attachments 4A.1 through 4A.4)

ACTION REQUIRED

- B. REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENT TO RULE 19-7.014, F.A.C. (NUMBER OF ACCOUNTS) RELATED TO THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND AND TO FILE THE RULE FOR REPEAL IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THIS RULE.**

(See Attachments 4B.1)

ACTION REQUIRED

STATE OF FLORIDA

IN RE: MEETING OF THE GOVERNOR AND
CABINET

CABINET MEMBERS: GOVERNOR RICK SCOTT
ATTORNEY GENERAL PAM BONDI
CHIEF FINANCIAL OFFICER
JEFF ATWATER
COMMISSIONER OF AGRICULTURE
ADAM PUTNAM

DATE: TUESDAY, SEPTEMBER 24, 2013

TIME: COMMENCED AT: 9:00 A.M.
CONCLUDED AT: 1:00 P.M.

LOCATION: CABINET MEETING ROOM
LOWER LEVEL, THE CAPITOL
TALLAHASSEE, FLORIDA

REPORTED BY: NANCY S. METZKE, RPR, FPR
COURT REPORTER

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* * * *

1 CFO ATWATER: Second.

2 GOVERNOR SCOTT: Any comments or objections?

3 (NO RESPONSE).

4 GOVERNOR SCOTT: Hearing none, the motion
5 carries.

6 DIRECTOR WATKINS: Thank you, sir.

7 GOVERNOR SCOTT: Thank you, Ben.

8 ATTORNEY GENERAL BONDI: Governor, while we're
9 doing this, can I -- I had stepped out of the room.
10 I just want to make it that my votes were
11 affirmative on the OFR Items 1, 2, and 3; and on
12 the revenue items 1, 2, 3, 4, and 5. That's how I
13 would have voted. Thank you.

14 GOVERNOR SCOTT: Thank you.

15 Now I'd like to recognize Executive Director
16 Ash Williams with the State Board of
17 Administration. Good afternoon.

18 DIRECTOR WILLIAMS: Good afternoon, Governor,
19 Trustees. It is, in fact, afternoon.

20 To open up with the usual update on the fund's
21 status, as of last night's close, calendar
22 year-to-date, Florida Retirement System Trust Fund
23 is up 11.67%. That's 77 basis points ahead of
24 target, leaving us a balance with \$139.1 billion.

25 GOVERNOR SCOTT: How much?

1 DIRECTOR WILLIAMS: 139.1 billion. That's
2 ten and a half billion ahead of where we started
3 the calendar year net of distributions of roughly
4 five to 600 million a month.

5 Unless there are any questions on that, why
6 don't we go through our normal agenda, and then
7 we'll do the quarterly reports.

8 Item 1, request approval of the minutes of our
9 August 6, 2013, meeting.

10 GOVERNOR SCOTT: Is there a motion to approve?

11 ATTORNEY GENERAL BONDI: So move.

12 GOVERNOR SCOTT: Is there a second?

13 CFO ATWATER: Second.

14 GOVERNOR SCOTT: Any comments or objections?

15 (NO RESPONSE).

16 GOVERNOR SCOTT: Hearing none, the motion
17 carries.

18 DIRECTOR WILLIAMS: Thank you.

19 Item 2, request approval of fiscal sufficiency
20 of an amount not exceeding \$150 million, State
21 Florida, Department of Transportation Seaport
22 Investment Program Revenue Bonds, series 2013.
23 This item and Item 3 are both paired to resolutions
24 on the Bond Finance --

25 GOVERNOR SCOTT: We're doing 2 and 3 at the

1 same time?

2 DIRECTOR WILLIAMS: Yep.

3 GOVERNOR SCOTT: All right. Is there a motion
4 to approve?

5 ATTORNEY GENERAL BONDI: So moved.

6 GOVERNOR SCOTT: Is there a second?

7 CFO ATWATER: Second.

8 GOVERNOR SCOTT: Okay. The motion carries.

9 DIRECTOR WILLIAMS: Thank you. Was that
10 Items 2 and 3?

11 GOVERNOR SCOTT: Yes.

12 DIRECTOR WILLIAMS: Thank you.

13 Item 4, request approval of changes to the
14 Investment Policy Statement for the Florida
15 Retirement System Investment Plan. What this
16 relates to is the creation of a brokerage window
17 within the defined contribution pension plan.

18 I must draw your attention to and apologize
19 for an error in the way we've got this item in
20 here. In the second paragraph, we make a statement
21 at the 23 September Investment Advisory Council,
22 members unanimously agreed to direct staff, that's
23 incorrect. The vote was not unanimous, but we did
24 receive the direction from the IAC, the approval of
25 the IAC.

1 But at any rate, what this does is create an
2 opportunity for participants in the defined
3 contribution pension system to buy individual
4 stocks or mutual funds through a brokerage window
5 that we would create and maintain for their benefit
6 and allow them to access those funds and execute
7 trades at very low cost.

8 GOVERNOR SCOTT: Okay. Let's do five also.
9 We'll just vote together.

10 DIRECTOR WILLIAMS: All right. Five is
11 unrelated. That's a change to the investment
12 policy --

13 GOVERNOR SCOTT: Lawton Chiles, right?

14 DIRECTOR WILLIAMS: Yes.

15 GOVERNOR SCOTT: Okay. Let's go ahead and do
16 4 then. Is there a motion to approve?

17 CFO ATWATER: So move.

18 GOVERNOR SCOTT: Is there a second?

19 ATTORNEY GENERAL BONDI: Second.

20 GOVERNOR SCOTT: Hearing none, the motion
21 carries.

22 DIRECTOR WILLIAMS: Thank you. Do we do 5
23 separately, or did we --

24 GOVERNOR SCOTT: Yeah, we just did -- yeah,
25 let's go ahead and do 5 now.

1 DIRECTOR WILLIAMS: Okay. Item 5 is a
2 revision to the investment policy statement for the
3 Lawton Chiles Endowment Fund. This will keep us --
4 ensure that we stay within bounds of the statutory
5 limit of no more than 35 percent of the holdings in
6 any portfolio being non U.S. securities. The issue
7 we had there was a consequence of the legislature
8 taking a very large amount of the aggregate asset
9 holdings of the Lawton Chiles Endowment out in
10 cash, which left us with a very large global equity
11 position, and roughly half of any global equity
12 benchmark is XUS.

13 So what we're doing here is changing that
14 benchmark to one where we have a hardwired
15 agreement that we will have 55 percent of the MSC,
16 that's Morgan Stanley Capital International
17 Investable Index US, and 45 percent of that index
18 XUS. And when you consider the weight of global
19 equity and aggregate, those changes ensure that we
20 stay within bounds going forward.

21 Request approval.

22 GOVERNOR SCOTT: All right. Is there a
23 motion?

24 CFO ATWATER: So move.

25 GOVERNOR SCOTT: All right. Is there a

1 second?

2 ATTORNEY GENERAL BONDI: Second.

3 GOVERNOR SCOTT: Any comments or objections?

4 (NO RESPONSE) .

5 GOVERNOR SCOTT: Hearing none, the motion
6 carries.

7 DIRECTOR WILLIAMS: Thank you. Item 6,
8 request approval of a draft letter to the Joint
9 Legislative Auditing Committee affirming that the
10 SBA trustees have reviewed and approved the monthly
11 Florida PRIME and Fund B management summary
12 reports, actions taken, if any, to address any
13 material impacts. There have been no material
14 impacts.

15 GOVERNOR SCOTT: Is there a motion to approve?

16 ATTORNEY GENERAL BONDI: So moved.

17 GOVERNOR SCOTT: Is there a second?

18 CFO ATWATER: Second.

19 GOVERNOR SCOTT: Any comments or objections?

20 (NO RESPONSE) .

21 GOVERNOR SCOTT: Hearing none, the motion
22 carries.

23 DIRECTOR WILLIAMS: Thank you.

24 Item 7, request approval of the SBA's
25 quarterly report required by the Protecting

1 Florida's Investments Act. And in this area, we
2 have very little motion.

3 In the area of Sudan, we had three companies
4 added to the scrutinized list, one removed, no
5 change on the examined list.

6 With regard to Iran, we added two to the
7 scrutinized list and also added two to the examined
8 list.

9 Request approval.

10 GOVERNOR SCOTT: All right. Is there a motion
11 to approve?

12 ATTORNEY GENERAL BONDI: So move.

13 GOVERNOR SCOTT: Is there a second?

14 CFO ATWATER: Second.

15 GOVERNOR SCOTT: Any comments or objections?

16 (NO RESPONSE).

17 GOVERNOR SCOTT: Hearing none, the motion
18 carries.

19 DIRECTOR WILLIAMS: Thank you.

20 Item 8 is our quarterly report section, and we
21 have with us today the Chairman of the Investment
22 Advisory Council, Mr. Martin Garcia. We also have
23 Kimberly Farrell, Chairman of the Audit Committee.
24 I think in respect to their time, I'd like to ask
25 Mr. Garcia to come up and deliver the IAC report,

1 and then I'll let Ms. Farrell do the Audit
2 Committee, and I'll proceed with the other reports.

3 GOVERNOR SCOTT: Okay.

4 MR. GARCIA: Thank you, Ash. Governor Scott,
5 General Bondi, CFO Atwater --

6 GOVERNOR SCOTT: Can you hold just for a
7 second?

8 ATTORNEY GENERAL BONDI: I just wanted to say,
9 you know, we were speaking earlier, Governor and
10 the CFO, how people like Dottie Berger,
11 Steve Halverson, Dwayne, Stanley Tate, John Kirtley
12 have done so much. And, Martin, you're one of
13 those people. Mr. Garcia, as chairman of the IAC,
14 you don't need this job. Well, you don't get paid
15 for this job, that's for sure.

16 But I know personally this man puts in
17 countless hours looking after our pension funds,
18 and thank you so much. I just want everyone to
19 realize your dedication and service to our
20 community and our State. Thank you, Mr. Garcia.

21 MR. GARCIA: Well, thank you, General Bondi.
22 It is my pleasure --

23 GOVERNOR SCOTT: It's not the only free thing
24 he does too.

25 ATTORNEY GENERAL BONDI: Thank you, Governor.

1 That's right.

2 MR. GARCIA: And I'm not running for anything.

3 ATTORNEY GENERAL BONDI: That's right.

4 MR. GARCIA: It's certainly my pleasure. I
5 know that the Governor and the General and the CFO
6 see this as a very important function. It
7 certainly deals with a lot of resources. It serves
8 a very important population of our State:
9 Firefighters, teachers, police officers, and all of
10 our public employees. So it's a very important
11 function, and I'm deeply honored to be involved in
12 this function.

13 I want to briefly report to you the work of
14 the IAC because the IAC has now spent four meetings
15 on what I think is the most important function that
16 we serve you all as trustees in our advisory role;
17 and that is, making a recommendation to you as to
18 the asset allocation plan. Ninety percent of our
19 performance in the plan comes from decisions on how
20 to allocate within asset -- between asset classes
21 as opposed to within asset classes.

22 And in March, at the March meeting, we had a
23 workshop on this subject. In June we met, in
24 August we met, and we met yesterday at an extended
25 meeting, and we're still not through in terms of

1 the recommendations we're going to make to you.

2 So let me give you just a brief history. In
3 June, Ash and his team recommended to the IAC that
4 we reduce the duration of our fixed income
5 portfolio and, correspondingly, adjust the
6 benchmark for that. And the IAC adopted that but
7 wanted to go further, and specifically moved that
8 we increase the global equity allocation range from
9 60% on the high side to 65%. And the IAC further
10 wanted to hear more about the opportunities and
11 recommendations from the SBA on how to reduce our
12 fixed income portfolio, the allocation to fixed
13 income.

14 And so at the conclusion of that meeting, we
15 asked the SBA, Ash's team, to present to us
16 yesterday recommendations on reducing the fixed
17 income allocation. And the recommendations that we
18 received yesterday were to reduce fixed income, the
19 target, by 3%, and reallocate the private equity
20 real estate in strategic investments.

21 And it was interesting because it was a split
22 vote on the IAC. There were four members of the
23 IAC in favor of the recommendation and four
24 opposed. We had one missing IAC member and,
25 therefore, we had a split of the vote.

1 The four that opposed the recommendation would
2 like to see further reductions in our fixed income
3 allocation because of the risk and all the
4 commentary in terms of the long-term risk of fixed
5 income today. And so what we've asked Ash and his
6 team to do at the next meeting in December is to
7 make a recommendation to the IAC on changes to
8 ranges in all asset classes and new targets or
9 proposed targets to achieve the objectives of some
10 of the IAC members in terms of reducing this fixed
11 income exposure.

12 And so that concludes my report. If you have
13 any questions, I'd be more than happy to answer
14 them.

15 GOVERNOR SCOTT: Thank you very much.

16 MR. GARCIA: Thank you.

17 DIRECTOR WILLIAMS: Thank you.

18 Audit Committee Chair Farrell.

19 GOVERNOR SCOTT: Good afternoon.

20 MS. FARRELL: Good afternoon, Governor,
21 Trustees.

22 Overall, everything is well in the audit area.
23 There were a total of 60 external audits that were
24 reviewed during the quarter. There are currently
25 37 engagements that are ongoing. For all of those,

1 there were no major findings to report, and all of
2 the financial audits resulted in an unqualified
3 opinion.

4 There are currently only 30 open
5 recommendations, which is a net decrease of two
6 from the prior quarter. There is a detailed report
7 contained in your binder on all of these items. So
8 unless you have any questions for me, that's all I
9 have for you.

10 GOVERNOR SCOTT: Any questions?

11 (NO RESPONSE).

12 GOVERNOR SCOTT: Thank you very much.

13 MS. FARRELL: Thank you.

14 DIRECTOR WILLIAMS: Thank you.

15 I think that report is particularly important
16 from the standpoint that we talk a lot about
17 returns; but the nature of our business,
18 institutional investing, on this scale is as much
19 about risk as it is anything else, and part of the
20 governance structure that we have here at the
21 State Board that is laudable is the quality of the
22 control and independent oversight we have. And our
23 Audit Committee works closely with our Chief Audit
24 Executive, our Chief Risk and Compliance Officer,
25 our Inspector General, our Chief Operating and

1 Chief Financial Officer to keep all of these trains
2 running on time.

3 And think about what you just heard: Sixty
4 different audits reviewed in a single quarter is
5 what we heard, thirty-seven simultaneous audit
6 operations going on. That's as much as any major
7 corporation in this country. And the fact that
8 they all came up clean should tell you something
9 and I hope helps you sleep at night.

10 Our other outside advisory body, the
11 participant Local Government Advisory Council,
12 Mark Peterson, chair of that group, is unable to be
13 with us today. His report is in the book.

14 I would just highlight it by saying, the
15 Council met on September 6th. The Florida PRIME is
16 currently at \$7.28 billion, it's well ahead of
17 target. And for all periods measured back to its
18 inception, it continues to lead all of its
19 competing products in the Florida market.

20 And with regard to Pool B, which is the assets
21 that became illiquid in 2007, we've now returned in
22 cash to the original participant investors
23 approximately 94% of that money. And as of
24 June 30, the estimated liquidation value of the
25 remaining Pool B assets is 113.4% of those original

1 investments.

2 So for those who thought there were going to
3 be significant losses from Pool B, that hopefully
4 is good news. And meanwhile, the existing
5 securities, the remaining securities continue to
6 pay, and we continue to distribute those flows to
7 the investment owners monthly.

8 In addition, we were able to accelerate the
9 repatriation of assets out of Pool B back to the
10 original investors by doing a number of asset sales
11 when it was our judgment, working with our outside
12 advisor in that area, Apollo, that there were
13 particularly robust credit markets back in the
14 period of April, May, June.

15 You may recall that people were really getting
16 frisky about taking risk again and buying all kinds
17 of assets with credit issues relating -- or
18 surrounding them. We thought that was an ideal
19 time to sell some of the assets we had, and we did
20 so. And in retrospect, given where the market has
21 gone since, we're not market timers; but suffice it
22 to say, the advice we were given and followed on
23 harvesting value was just about perfect. So we're
24 glad to have that.

25 I would also say to IAC Chairman Garcia's

1 points, we're always wrestling with how to do
2 things better, how to take risk more intelligently,
3 and how to do so within the constraints of the
4 Florida Statutes. As we said a minute ago, we have
5 limitations on what we can do in XUS equities. We
6 also have limitations on what we can do in
7 alternatives.

8 And in many cases, a lot of what I would
9 consider the smartest institutions in the world
10 invest in those areas at higher levels than we can.
11 So part of the discussion here could eventually be
12 what our lawful authority is; and that, of course,
13 is something we'll all reason together on and take
14 your direction on.

15 So with that, the other reports, our usual
16 standing reports from staff, including legal, chief
17 risk and compliance, inspector general, corporate
18 governance, et cetera, are all in the book.
19 There's nothing in the form of an exception or
20 anything you should worry about in any of those.
21 All of the principals and writers of those reports
22 are here today and can answer questions if you have
23 any.

24 Unless there are any questions, I would
25 suggest we go on to Mike Sebastian from

1 Hewitt Ennis Knupp and let him go through the major
2 mandate performance.

3 GOVERNOR SCOTT: Okay. Thank you.

4 DIRECTOR WILLIAMS: Mike.

5 GOVERNOR SCOTT: Good afternoon.

6 MR. SEBASTIAN: Good afternoon. Thank you,
7 Governor Scott, Attorney General Bondi, CFO
8 Atwater.

9 Governor Scott, I want to congratulate you on
10 the birth of your grandson, Sebastian. I love the
11 name.

12 GOVERNOR SCOTT: Thank you.

13 MR. SEBASTIAN: I will keep this report at a
14 high level. There's a great amount of detail in
15 your materials that goes into further analytics on
16 any one of the particular mandates, but these
17 reports tend to be considerably easier when
18 performance is good, and it is.

19 So I'm here to report that all of the major
20 mandates outperformed their performance benchmarks
21 over all trailing periods that we track in the
22 report. Specifically, the DB pension plan
23 outperformed its performance benchmark over the
24 second quarter in 1-, 3-, 3-, 5-, 10-, and 15-year
25 time periods. And relative to the peer group that

1 we use, which is the top ten largest pension funds
2 in the United States, it ranked in the top fifth
3 percentile over the 1- and 10-year periods and
4 above median over the trailing three- and five-year
5 periods.

6 The investment plan, the DC plan, also
7 outperformed its aggregate benchmark, which is the
8 rollup of the benchmarks for each one of the
9 options that are available to participants. The
10 Lawton Chiles Endowment Fund outperformed its
11 benchmark over all trailing periods. And the Cat
12 Operating Fund and Florida PRIME, which you heard a
13 little bit from Ash about the latter, both of those
14 are benchmarked against short-term bond indexes,
15 and both of them outperformed over short and long
16 time periods.

17 And that's the high level summary. I'd be
18 pleased to take any questions or go into further
19 detail.

20 GOVERNOR SCOTT: Anybody have any questions?

21 (NO RESPONSE).

22 GOVERNOR SCOTT: Thank you very much.

23 DIRECTOR WILLIAMS: I think we're good, unless
24 you have any questions.

25 GOVERNOR SCOTT: Thanks, Ash. You've got a

1 great team. Thanks for everybody that's involved.

2 And this concludes our Cabinet meeting. Our
3 next meeting will be Thursday, October 10, at
4 9 a.m.

5 We are adjourned. Have a great day.

6 (WHEREUPON, THE MEETING WAS ADJOURNED) .

7
8
9 * * * *

1 STATE OF FLORIDA
2
34 IN RE: MEETING OF THE GOVERNOR AND
5 CABINET
6
7
89 CABINET MEMBERS: GOVERNOR RICK SCOTT
10 ATTORNEY GENERAL PAM BONDI
11 CHIEF FINANCIAL OFFICER JEFF
12 ATWATER
COMMISSIONER OF AGRICULTURE
ADAM PUTNAM13 DATE: THURSDAY, OCTOBER 10, 2013
1415 TIME: COMMENCED AT: 9:00 A.M.
CONCLUDED AT: 11:30 A.M.
1617 LOCATION: CABINET MEETING ROOM
18 LOWER LEVEL, THE CAPITOL
TALLAHASSEE, FLORIDA19 REPORTED BY: NANCY S. METZKE, RPR, FPR
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* * * *

1 and a half million dollars in refunding bonds to
2 reduce the interest rate on outstanding bonds and
3 reduce the debt service requirements on the bonds.

4 GOVERNOR SCOTT: All right. Is there a
5 motion to approve?

6 ATTORNEY GENERAL BONDI: So moved.

7 GOVERNOR SCOTT: Is there a second?

8 COMMISSIONER PUTNAM: Second.

9 GOVERNOR SCOTT: Any comments or objections?

10 (NO RESPONSE).

11 GOVERNOR SCOTT: Hearing none, the motion
12 carries.

13 Thank you, Ben.

14 DIRECTOR WATKINS: Thank you, sir.

15 GOVERNOR SCOTT: Now I'd like to recognize
16 Executive Director Ash Williams with the State
17 Board of Administration.

18 Good morning, Ash.

19 DIRECTOR WILLIAMS: Good morning, Governor,
20 Cabinet Members.

21 An update on the fund, as usual, to open,
22 calendar year-to-date as of the close on October 8,
23 the Florida Retirement Trust Fund is up
24 10.52 percent year-to-date. That's 81 basis points
25 ahead of target with a balance of \$137.1 billion.

1 That's eight and a half billion dollars more than
2 we started the calendar year with net of
3 distributions.

4 Item 1, request approval of the minutes of the
5 August 20, 2013, meeting.

6 ATTORNEY GENERAL BONDI: So moved.

7 GOVERNOR SCOTT: Is there a motion to approve?

8 ATTORNEY GENERAL BONDI: So moved.

9 GOVERNOR SCOTT: Is there a second?

10 CFO ATWATER: Second.

11 GOVERNOR SCOTT: Moved and seconded. Show the
12 resolution approved without objection.

13 DIRECTOR WILLIAMS: Thank you.

14 Items 2 and 3 are the fiscal sufficiencies
15 respectfully for the University of Florida dorm
16 revenue and dorm refinancing bonds that
17 Director Watkins just brought to you.

18 GOVERNOR SCOTT: Is there a motion to approve?

19 CFO ATWATER: So moved.

20 GOVERNOR SCOTT: Is there a second?

21 ATTORNEY GENERAL BONDI: Second.

22 GOVERNOR SCOTT: Any comments or objections?

23 (NO RESPONSE) .

24 GOVERNOR SCOTT: Hearing none, the motion
25 carries.

1 DIRECTOR WILLIAMS: So that would cover Items
2 2 and 3, just to be clear, correct?

3 GOVERNOR SCOTT: Right.

4 DIRECTOR WILLIAMS: Thank you.

5 Item 4, request approval of and authority to
6 file a notice of proposed rule for Rule 19-8.010,
7 Florida Administrative Code. This is the Florida
8 Hurricane Catastrophe Fund reimbursement contract
9 for the storm season starting June 1, 2014. We're
10 required by law to have this rule adopted no later
11 than February 1 of '14. So getting it rolling now
12 gives us plenty of time.

13 GOVERNOR SCOTT: Is there a motion to approve?

14 CFO ATWATER: So moved.

15 GOVERNOR SCOTT: Is there a second?

16 ATTORNEY GENERAL BONDI: Second.

17 GOVERNOR SCOTT: Any comments or objections?

18 (NO RESPONSE).


19 GOVERNOR SCOTT: Hearing none, the motion
20 carries.

21 Thank you, Ash.

22 DIRECTOR WILLIAMS: Thank you very much.

23 GOVERNOR SCOTT: Now I'd like to recognize
24 Executive Director Mark Kruse with the Florida Land
25 and Water Adjudicatory Commission.

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland 
SUBJECT: Fiscal Determination
DATE: November 6, 2013

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING \$28,000,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (REEF CLUB APARTMENTS)

The Florida Housing Finance Corporation has submitted for approval as to fiscal determination a proposal to issue an amount not exceeding \$28,000,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of financing the acquisition and rehabilitation of a multifamily rental development located in Osceola County, Florida (Reef Club Apartments). The Bonds shall be payable as to principal, premium (if any), and interest solely out of revenues and other amounts pledged therefor, and shall not be secured by the full faith and credit of the State of Florida.

RECOMMENDATION: It is recommended that, pursuant to the fiscal determination requirements of Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, and in reliance upon information provided by the Florida Housing Finance Corporation, the Board find and determine that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements. The Board does not assume any responsibility for, and makes no warranty (express or implied) with respect to any aspect of this bond issue.

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA
MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE
OF AN AMOUNT NOT EXCEEDING \$28,000,000 FLORIDA HOUSING FINANCE
CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS,
(SERIES TO BE DESIGNATED) (REEF CLUB APARTMENTS)**

WHEREAS, the Florida Housing Finance Corporation (the "Corporation") proposes to issue an amount not exceeding \$28,000,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of financing the acquisition and rehabilitation of a multifamily rental development located in Osceola County, Florida (Reef Club Apartments); and,

WHEREAS, the Corporation has requested the State Board of Administration of Florida to make the fiscal determination required by Section 420.509, Florida Statutes, as stated in Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended (the "Florida Constitution"); and,

WHEREAS, the Bonds shall be secured by a Trust Indenture; and,

WHEREAS, in accordance with Section 420.509, Florida Statutes, the principal of and all interest and any premium on the Bonds shall be payable solely out of revenues and other amounts pledged therefor, as described in the Trust Indenture and other required documents, and shall not be secured by the full faith and credit of the State of Florida; and,

WHEREAS, the cash flow analysis furnished by the Corporation shows that in no State fiscal year will the debt service requirements of the Bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements; and,

WHEREAS, the Corporation has furnished sufficient information to enable the State Board of Administration of Florida to fulfill its duties pursuant to Section 420.509(2), Florida Statutes; and,

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

WHEREAS, the Board's determination pursuant to Section 16(c) of Article VII of the Florida Constitution and Section 420.509(2), Florida Statutes, is limited to a review of the matters essential to making such determination and the Board does not approve or disapprove of the Bonds as investments and has not passed upon the accuracy or adequacy of the Trust Indenture or any other required documents; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body described in Section 4 of Article IV of the Florida Constitution, that in connection with the issuance of the Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (Reef Club Apartments), in an amount not exceeding \$28,000,000, for the uses and purposes hereinabove set forth, it makes the fiscal determination required by Section 420.509, Florida Statutes.

Accordingly, as required by Section 16(c) of Article VII of the Florida Constitution, the Board finds and determines that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues, as defined in Section 420.503, Florida Statutes and described in the Trust Indenture, which are available for payment of such debt service requirements.

ADOPTED November 19, 2013

October 30, 2013

VIA HAND DELIVERY

Mr. Ash Williams
Executive Director/Chief Investment Officer
State Board of Administration
P.O. Box 13300
Tallahassee, Florida 32317-3300

RE: FHFC Multifamily Mortgage Revenue Bonds
Not to Exceed \$28,000,000 Tax-Exempt Bonds
Reef Club Apartments

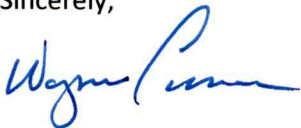
Dear Mr. Williams:

On behalf of Florida Housing Finance Corporation ("Florida Housing or "FHFC"), I am submitting a cash flow analysis for the approval of fiscal determination of the above-referenced bond issue prepared by the Bond Underwriter, RBC Capital Markets, LLC. Florida Housing endorses this analysis and believes it will show sufficient coverage.

This bond issue is recommended to be a negotiated sale. We request that this item be placed on the agenda for approval at the State Board of Administration's November 19, 2013 Cabinet meeting, due to financing and closing schedules. The Final Authorizing Resolutions will be provided after FHFC's November 1, 2013 Board Meeting.

Should you or your staff have any questions or concerns with respect to this transaction, please feel free to call me at (850) 488-4197. Thank you for your consideration.

Sincerely,



Wayne Conner
Director of Multifamily Bonds

WC/jg

Enclosures

Rick Scott, Governor

Board of Directors: Leonard Tylka, Chairman • Bill Killingsworth, Florida Department of Economic Opportunity
Mary L. Demetree • Ray Dubuque • John David Hawthorne Jr. • Brian Katz • Natacha Munilla • Bernard "Barney" Smith
Executive Director: Stephen P. Auger

Principal Amount of Bonds Issued: \$ 28,000,000
Interest Rate: 0.650%
Assumed Initial Deposit to the Bond Fund: \$ 273,000.00
Assumed US Treasury Investment: US Treasury Obligations

Cash Flow Report

Date	Funds Available to Pay Debt Service (1)				Debt Service And Fees Payable			Remaining Assets	Princ. & Intr. Debt Coverage Ratio (DCR) (2)
	Cumulative Funds on Deposit Collateral Fund	Cumulative Funds on Deposit In the Bond Fund	Earnings On Investments at 0.00%	Total Assets On Deposit In Indenture	Interest Due On Bonds	Principal Due On Bonds	Debt Service And Fees Payable	Balance Remaining In Accounts	P&I Debt Coverage Ratio (DCR)
11/20/2013	\$ 28,000,000.00	\$ 273,000.00	\$ -	\$ 28,273,000.00	\$ 88,472.22	\$ -	\$ -	\$ 28,273,000.00	
5/15/2014	\$ 28,000,000.00	\$ 273,000.00	\$ -	\$ 28,273,000.00	\$ 91,000.00	\$ -	\$ 88,472.22	\$ 28,184,527.78	319.5692
11/15/2014	\$ 28,000,000.00	\$ 184,527.78	\$ -	\$ 28,184,527.78	\$ 91,000.00	\$ -	\$ 91,000.00	\$ 28,093,527.78	310.6923
5/15/2015	\$ 28,000,000.00	\$ 93,527.78	\$ -	\$ 28,093,527.78	\$ 270,472.22	\$ 28,000,000.00	\$ 28,091,000.00	\$ 2,527.78	1.0033
Total					\$ 270,472.22	\$ 28,000,000.00	\$ 28,270,472.22		

Notes:

(1) At the bond closing cash proceeds from the FINMA Loan and other sources will be deposited with the Trustee as pledged assets to fully collateralize the repayment of the Bonds as well as the payment of future anticipated debt service through to maturity.

(2) The DCR is provided to demonstrate the overall coverage of pledged assets against the total amount due at each Semi-Annual Bond Debt Service payment and upon final maturity when principal is due.



**STATE BOARD OF ADMINISTRATION
OF FLORIDA**

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32317-3300

RICK SCOTT
GOVERNOR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Ruth A. Smith, Assistant General Counsel

Subject: Agenda Item for the November 19, 2013 Cabinet Meeting: Proposed Amendments to Rules 19-11.002, 19-11.006, 19-11.007 and 19-11.012, F.A.C

Request Approval to File the Rules for Notice and For Adoption/Repeal if No Member of the Public Timely Requests a Rule Hearing

Date: October 18, 2013

ACTION REQUESTED:

REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENTS TO RULES 19-11.002, F.A.C. (BENEFICIARY DESIGNATIONS AND DISTRIBUTIONS FOR FRS INVESTMENT PLAN), 19-11.006 (ENROLLMENT PROCEDURES FOR NEW HIRES), RULE 19-11.007 (SECOND ELECTION ENROLLMENT PROCEDURES FOR THE FRS RETIREMENT PROGRAMS) AND 19-11.012, F.A.C. (ROLLOVERS OR PLAN TO PLAN TRANSFERS TO OR FROM THE FRS INVESTMENT PLAN) IN RULE CHAPTER 19-11, F.A.C. AND TO FILE THE RULES FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THESE RULES.

Revisions have been made to FRS Investment Plan Election and Second Election Enrollment Forms to provide additional disclosures relating to the FRS Pension Plan funded status, to set forth the current eight year vesting requirement of the FRS Pension Plan, and to indicate the potential variability of contribution amounts that are required to be made to the FRS. In addition, certain editorial changes have been made to the forms to delete duplicate language and improve readability. The main revisions that have been made to the applicable forms involve the addition of the following language:

- a. "The FRS Pension Plan is a defined benefit plan, which will provide you with benefit payments at retirement if you meet certain criteria. As of the most recent actuarial valuation date, the FRS actuarial liability exceeded

the actuarial value of its assets yielding an unfunded actuarial liability. This liability may increase or decrease in the future. The Legislature may increase or decrease the amount that you and your employer contribute to this plan to keep it actuarially funded.”

and

- b. “You understand that the FRS Investment Plan is a defined contribution plan in which the Florida Legislature can increase or decrease the amount that you and your employer contribute to your account.”

As a result of these revisions, changes are required to be made to Rules 19-11.002, 19-11.006, and 19-11.007, F.A.C., in order for the rules to make correct references to the updated versions of forms.

In addition, Rule 19-11.012 is being expanded to provide information that may be useful to FRS Investment Plan members to clarify the circumstances under which rollovers cannot be accepted by the FRS Investment Plan. This additional information also is useful in the administration of the FRS Investment plan.

The proposed rule amendments do not impose any burdens on businesses; they do not restrict entry into a profession; they have no impact on the availability of services to the public; they have no impact on job retention; they do not impose any restrictions on employment seekers; and they do not impose any costs. No legislative ratification is required.

Attachments: Proposed Amendments to Rules 19-11.002, 19-11.006, 19-11.007, and 19-11.012- Redline Version

Proposed Amendments to Rules 19-11.002, 19-11.006, 19-11.007, and 19-11.012- Final Version

19-11.002 Beneficiary Designations and Distributions for FRS Investment Plan.

(1) through (3) No change.

(4)(a) If the FRS Investment Plan member enrolls in the FRS Investment Plan using the EZ Retirement Plan Enrollment Form for Regular, Special Risk and Special Risk Administrative Support Class Employees, Form ELE-1-EZ, rev. 10/13 ~~07/12~~, the General Retirement Plan Enrollment Form for Regular Special Risk and Special Risk Administrative Support Class Employees, Form ELE-1, rev. 10/13 ~~10/12~~, which are adopted and incorporated by reference in subsection 19-11.006(2), F.A.C., or the 2nd Election EZ Retirement Plan Enrollment Form, Form ELE-2-EZ, rev. 10/13 ~~07/12~~, or the 2nd Election Retirement Plan Enrollment Form, Form ELE-2, rev. 10/13 ~~10/12~~, which are adopted and incorporated by reference in subsection 19-11.007(3), F.A.C., the member agrees to the beneficiary designation contained in Section 121.4501(20), F.S., unless the member submits a beneficiary designation as provided in subsection (2) herein.

(4)(b) through (17) No Change.

Rulemaking Authority 121.4501(8) FS. Law Implemented 121.091(5)(j), (8), 121.4501(20), 121.591(3), 732.802 FS. History—New 10-21-04, Amended 3-9-06, 11-26-07, 12-8-08, 1-7-10, 8-7-11, 7-12-12, 12-16-12, 10-15-13,_____.

19-11.006 Enrollment Procedures for New Hires.

(1) No change

(2) Specific Enrollment Procedures.

(a) through (b) No change.

(c) The SBA has designed the forms set forth below for ease of use for employees in the several membership classes of the Florida Retirement System. As an alternative, an employee not wishing to use the forms may provide the same information requested by the forms available for use for the appropriate membership class in a separate document. Employees may determine their membership class by contacting the agency's human resources office. The forms available are: an EZ Retirement Plan Enrollment Form, Form ELE-1-EZ, rev. 10/13 ~~07-12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-3317> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01829>, which is only for regular, special risk, and special risk administrative support class employees; a General Retirement Plan Enrollment Form, Form ELE-1, rev. 10/13 ~~10-12~~ <http://www.flrules.org/Gateway/reference.asp?No=Ref-03318> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01817> for regular, special risk, and special risk administrative support class employees; an Elected Officers' Class Retirement Plan Form, Form EOC-1, rev. 10/13 ~~10/12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-03321> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01819>; a Community College Optional Retirement Program (CCORP) Enrollment Form, Form OCC-1, rev. 10/13 ~~10-12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-3324> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01820>; a State University System Optional Retirement Program (SUSORP) Retirement Plan Enrollment Form, Form ORP-16, rev. 10/13 ~~10-12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-03325> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01822>; a State Senior Management Service Employees Retirement Plan Enrollment Form, Form SMS-1, Rev. 10/13 ~~10-12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-3322> <http://www.flrules.org/Gateway/reference.asp?No=Ref-01823>; and a Local Senior Management Service Employees Retirement Plan Enrollment Form, Form SMS-3, rev. 10/13 ~~10-12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref->

~~03323~~ <http://www.flrules.org/Gateway/reference.asp?No=Ref 01824>. All of the preceding forms are hereby adopted and incorporated by this reference.

1. All enrollment forms can be obtained at the sources listed in paragraph (1)(f), above.

2. Only members of the regular, special risk, and special risk administrative support classes of employees may use the EZ form, "EZ Retirement Plan Enrollment Form for Regular, Special Risk and Special Risk Administrative Support Class Employees," Form ELE-1-EZ. If an employee chooses to use the EZ form, only limited information (i.e., name, plan choice, social security number and signature) is required. The FRS Select Moderate Balanced Fund is the only initial investment option (although that investment option may be changed by the member once the account is funded). Beneficiary designations may be made as set forth in Rule 19-11.002, F.A.C.

(2)(d)1 through (3). No change.

Rulemaking Authority 121.4501(3)(c)4., (8)(a) FS. Law Implemented 121.051, 121.055, 121.35, 121.4501(2), (3), (4), (5), (6), (8), (15), 121.73, 121.74, 121.78, 215.44(8)(b), 1012.875(3) FS. History--New 10-21-04, Amended 3-9-06, 10-25-07, 12-8-08, 5-19-09, 2-4-10, 7-12-12, 12-16-12, _____.

19-11.007 Second Election Enrollment Procedures for the FRS Retirement Programs.

(1) through (2) No change.

(3) General Procedures.

(a) All members who wish to change their FRS retirement plan using their 2nd election must use a 2nd election enrollment form or, if moving from the FRS Pension Plan to the FRS Investment Plan or FRS Investment Plan Hybrid Option, may do so online by accessing the Second Choice Service at MyFRS.com. There are two types of enrollment forms. The "2nd Election Retirement Plan Enrollment Form" Form ELE-2, rev. ~~10/13~~ ~~04~~ ~~12~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-03319> ~~http://www.flrules.org/Gateway/reference.asp?No=Ref 01068~~, which is hereby adopted and incorporated by reference. This form allows the member to select different investment fund options if the member is changing from the FRS Pension Plan to either the FRS Investment Plan or the FRS Investment Plan Hybrid Option. Alternatively, the member can complete the "2nd Election EZ Retirement Plan Enrollment Form," Form ELE-2EZ, rev. ~~10/13~~ ~~07/11~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-03320> ~~http://www.flrules.org/Gateway/reference.asp?No=Ref 01069~~, which is hereby adopted and incorporated by reference. By completing this form, the member is choosing to have the employer and employee contributions and any transfers from the FRS Pension Plan invested in the FRS Select Moderate Balanced Fund. The member may change the investment selection at any time after the FRS Investment Plan or the FRS Investment Plan Hybrid Option account is activated. Activation occurs when contributions are deposited to the member's FRS Investment Plan account.

(3)(b) through (4) No change.

Rulemaking Authority 121.4501(8) FS. Law Implemented 121.4501(3), (4), (8), (15)(b), (20) FS. History--New 10-21-04, Amended 3-9-06, 10-25-07, 12-8-08, 5-19-09, 1-7-10, 7-12-12, _____.

19-11.012 Rollovers or Plan to Plan Transfers to or from the FRS Investment Plan.

(1) through (6)(b) No change.

(6)(c) The Investment Plan Administrator may not accept rollovers from:

1. The former spouse of an Investment Plan member who had an account in the Investment Plan, established by terms of a qualified domestic relations order and then removed all of the funds from the account.

2. The former beneficiary of an Investment Plan member who removed all of the funds from the account.

3. Members of the FRS Pension Plan.

4. The spouse or beneficiary of a deceased FRS Pension Plan member who had a DROP accumulation in the FRS Pension Plan.

(7) through (12) No change.

Rulemaking Authority 121.4501(8), (5)(e) FS. Law Implemented 121.4501(4)(g)5., (5)(e), (21), 121.591 FS. History—New 7-12-12, Amended 10-15-13,_____.

19-11.002 Beneficiary Designations and Distributions for FRS Investment Plan.

(1) through (3) No change.

(4)(a) If the FRS Investment Plan member enrolls in the FRS Investment Plan using the EZ Retirement Plan Enrollment Form for Regular, Special Risk and Special Risk Administrative Support Class Employees, Form ELE-1-EZ, rev. 10/13, the General Retirement Plan Enrollment Form for Regular Special Risk and Special Risk Administrative Support Class Employees, Form ELE-1, rev. 10/13, which are adopted and incorporated by reference in subsection 19-11.006(2), F.A.C., or the 2nd Election EZ Retirement Plan Enrollment Form, Form ELE-2-EZ, rev. 10/13, or the 2nd Election Retirement Plan Enrollment Form, Form ELE-2, rev 10/13, which are adopted and incorporated by reference in subsection 19-11.007(3), F.A.C., the member agrees to the beneficiary designation contained in Section 121.4501(20), F.S., unless the member submits a beneficiary designation as provided in subsection (2) herein.

(4)(b) through (17) No Change.

Rulemaking Authority 121.4501(8) FS. Law Implemented 121.091(5)(j), (8), 121.4501(20), 121.591(3), 732.802 FS. History—New 10-21-04, Amended 3-9-06, 11-26-07, 12-8-08, 1-7-10, 8-7-11, 7-12-12, 12-16-12, 10-15-13,_____.

19-11.006 Enrollment Procedures for New Hires.

(1) No change

(2) Specific Enrollment Procedures.

(a) through (b) No change.

(c) The SBA has designed the forms set forth below for ease of use for employees in the several membership classes of the Florida Retirement System. As an alternative, an employee not wishing to use the forms may provide the same information requested by the forms available for use for the appropriate membership class in a separate document. Employees may determine their membership class by contacting the agency's human resources office. The forms available are: an EZ Retirement Plan Enrollment Form, Form ELE-1-EZ, rev. 10/13, , which is only for regular, special risk, and special risk administrative support class employees; a General Retirement Plan Enrollment Form, Form ELE-1, rev. 10/13, for regular, special risk, and special risk administrative support class employees; an Elected Officers' Class Retirement Plan Form, Form EOC-1, rev. 10/13, a Community College Optional Retirement Program (CCORP) Enrollment Form, Form OCC-1, rev. 10/13, a State University System Optional Retirement Program (SUSORP) Retirement Plan Enrollment Form, Form ORP-16, rev. 10/13, a State Senior Management Service Employees Retirement Plan Enrollment Form, Form SMS-1, Rev. 10/13, and a Local Senior Management Service Employees Retirement Plan Enrollment Form, Form SMS-3, rev. 10/13. All of the preceding forms are hereby adopted and incorporated by this reference.

1. All enrollment forms can be obtained at the sources listed in paragraph (1)(f), above.

2. Only members of the regular, special risk, and special risk administrative support classes of employees may use the EZ form, "EZ Retirement Plan Enrollment Form for Regular, Special Risk and Special Risk Administrative Support Class Employees," Form ELE-1-EZ. If an employee chooses to use the EZ form, only limited information (i.e., name, plan choice, social security number and signature) is required. The FRS Select Moderate Balanced Fund is the only initial investment option (although that investment option may be changed by the member once the account is funded). Beneficiary designations may be made as set forth in Rule 19-11.002, F.A.C.

(2)(d)1 through (3). No change.

Rulemaking Authority 121.4501(3)(c)4., (8)(a) FS. Law Implemented 121.051, 121.055, 121.35, 121.4501(2), (3), (4), (5), (6), (8), (15), 121.73, 121.74, 121.78, 215.44(8)(b), 1012.875(3) FS. History—New 10-21-04, Amended 3-9-06, 10-25-07, 12-8-08, 5-19-09, 2-4-10, 7-12-12, 12-16-12,_____.

19-11.007 Second Election Enrollment Procedures for the FRS Retirement Programs.

(1) through (2) No change.

(3) General Procedures.

(a) All members who wish to change their FRS retirement plan using their 2nd election must use a 2nd election enrollment form or, if moving from the FRS Pension Plan to the FRS Investment Plan or FRS Investment Plan Hybrid Option, may do so online by accessing the Second Choice Service at MyFRS.com. There are two types of enrollment forms. The "2nd Election Retirement Plan Enrollment Form" Form ELE-2, rev. 10/13, which is hereby adopted and incorporated by reference. This form allows the member to select different investment fund options if the member is changing from the FRS Pension Plan to either the FRS Investment Plan or the FRS Investment Plan Hybrid Option. Alternatively, the member can complete the "2nd Election EZ Retirement Plan Enrollment Form," Form ELE-2EZ, rev. 10/13, which is hereby adopted and incorporated by reference. By completing this form, the member is choosing to have the employer and employee contributions and any transfers from the FRS Pension Plan invested in the FRS Select Moderate Balanced Fund. The member may change the investment selection at any time after the FRS Investment Plan or the FRS Investment Plan Hybrid Option account is activated. Activation occurs when contributions are deposited to the member's FRS Investment Plan account.

(3)(b) through (4) No change.

Rulemaking Authority 121.4501(8) FS. Law Implemented 121.4501(3), (4), (8), (15)(b), (20) FS. History--New 10-21-04, Amended 3-9-06, 10-25-07, 12-8-08, 5-19-09, 1-7-10, 7-12-12, _____.

19-11.012 Rollovers or Plan to Plan Transfers to or from the FRS Investment Plan.

(1) through (6)(b) No change.

(6)(c) The Investment Plan Administrator may not accept rollovers from:

1. The former spouse of an Investment Plan member who had an account in the Investment Plan, established by terms of a qualified domestic relations order and then removed all of the funds from the account.
2. The former beneficiary of an Investment Plan member who removed all of the funds from the account.
3. Members of the FRS Pension Plan.
4. The spouse or beneficiary of a deceased FRS Pension Plan member who had a DROP accumulation in the FRS Pension Plan.

(7) through (12) No change.

Rulemaking Authority 121.4501(8), (5)(e) FS. Law Implemented 121.4501(4)(g)5., (5)(e), (21), 121.591 FS. History--New 7-12-12, Amended 10-15-13, _____.



**STATE BOARD OF ADMINISTRATION
OF FLORIDA**

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RICK SCOTT
GOVERNOR

JEFF ATWATER
CHIEF FINANCIAL OFFICER

PAM BONDI
ATTORNEY GENERAL

ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Ruth A. Smith, Assistant General Counsel

Subject: **Agenda Item for the November 19, 2013 Cabinet Meeting**
Proposed Amendments to Rule 19-7.002, (Investment Policy Guidelines) to adopt the revised Investment Policy Statements for the Local Government Surplus Funds Trust Fund and the Fund B Surplus Funds Trust Fund, and Proposed Repeal of Rule 19-7.014 (Number of Accounts)

Request Approval to File the Rules for Notice and For Adoption/Repeal if No Member of the Public Timely Requests a Rule Hearing

Date: October 18, 2013

A. RULE 19-7.002 (Investment Policy Guidelines) - ACTION REQUESTED:

REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENTS TO RULE 19-7.002, F.A.C. (INVESTMENT POLICY GUIDELINES) FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND AND FUND B SURPLUS FUNDS TRUST FUND, AND TO FILE THE RULE FOR ADOPTION IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THIS RULE.

The purpose and effect of the proposed rule amendments to Rule 19-7.002, F.A.C. will be to adopt the revised Investment Policy Statements for the Local Government Surplus Funds Trust Fund and the Fund B Surplus Funds Trust Fund. Both revisions were effective July 1, 2013. There are no significant policy issues or controversial issues connected to this rule amendment.

A rule development workshop for the amendments was offered on October 2, 2013, but the workshop was not held as it was not requested.

The proposed rule amendments do not impose any burdens on businesses; they do not restrict entry into a profession; they have no impact on the availability of services to the public; they have no impact on job retention; they do not impose any restrictions on employment seekers; and they do not impose any costs. No legislative ratification is required.

B. RULE 19-7.014 NUMBER OF ACCOUNTS) - ACTION REQUESTED:

REQUEST APPROVAL TO FILE FOR NOTICE AMENDMENTS TO RULE 19-7.014, F.A.C. (NUMBER OF ACCOUNTS) AND TO FILE THE RULE FOR REPEAL IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THIS RULE.

Section 218.409(5), Florida Statutes allows, but does not require, the SBA to establish a maximum number of accounts for participants in Florida PRIME. The current rule establishes a maximum of ten (10) accounts. However, the cap is somewhat arbitrary, and the removal of the cap would provide the SBA with greater flexibility to make decisions concerning participant accounts based on specific participant activity and needs. There are no significant policy issues or controversial issues connected to this rule repeal.

The proposed rule amendments do not impose any burdens on businesses; they do not restrict entry into a profession; they have no impact on the availability of services to the public; they have no impact on job retention; they do not impose any restrictions on employment seekers; and they do not impose any costs. No legislative ratification is required.

Attached are:

Proposed Amendments to Rule 19-7.002 (Investment Policy Guidelines), F.A.C.

Proposed Amendments to Rule 19-7.014 (Number of Accounts), F.A.C.

Investment Policy Statement Local Government Investment Pool (Non-Qualified), Effective July 1, 2013

Investment Policy Statement Fund B Surplus Funds Trust Fund (Non-Qualified), Effective July 1, 2013

19-7.002 Investment Policy Statements.

The Local Government Surplus Funds Trust Fund (Non-Qualified) Investment Policy Statement, as approved by the Trustees of the State Board of Administration on June ~~25~~ ~~46~~, ~~2013~~ ~~2011~~, and made effective July

1, ~~2013~~ ~~2011~~, [http://www.flrules.org/Gateway/reference.asp?No=Ref-](http://www.flrules.org/Gateway/reference.asp?No=Ref-03217)

~~03217~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-01000> is hereby adopted and incorporated by reference. The Fund B

Surplus Funds Trust Fund (Non-Qualified) Investment Policy Statement, as approved by the Trustees of the State Board of

Administration on June ~~25~~ ~~46~~, ~~2013~~ ~~2011~~, and made effective July

1, ~~2013~~ ~~2011~~, [http://www.flrules.org/Gateway/reference.asp?No=Ref-](http://www.flrules.org/Gateway/reference.asp?No=Ref-03218)

~~03218~~, <http://www.flrules.org/Gateway/reference.asp?No=Ref-01001>

is hereby adopted and incorporated by reference. The Investment Policy Statements may be obtained by contacting: State Board of Administration, 1801 Hermitage Blvd., Suite 100, Tallahassee, Florida 32308, Attn.: Florida PRIME ~~Local Government Investment~~

~~Pool~~ Program, or by accessing the sbafla.com website, and clicking on the Florida PRIME heading under the Funds We Manage

tab. The Investment Policy Statement for the Local Government Surplus Funds Trust Fund (Non-Qualified) can be obtained under

the Risk Management and Oversight section. The Investment Policy Statement for the Fund B Surplus Funds Trust Fund (Non-

Qualified) can be obtained under the Fund B section.

Rulemaking Authority 218.412, 218.421(1) FS. Law Implemented 218.405(1), (2), (3), (4), 218.409(2), (9), 218.415(17), 218.418, 218.421(2) FS.

History—New 12-13-09, Amended 4-11-12, _____.

**Investment Policy Statement
Local Government Surplus Funds Trust Fund (Non-Qualified)
Effective July 1, 2013**

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 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 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) the requirements imposed by any NRSRO that rates Florida PRIME to ensure that it maintains a AAAM rating (or the equivalent) and (iii) 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, 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 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 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, 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 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.

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(Non-Qualified)
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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 Law.

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, or Florida Funding II, LLC (the "Special Purpose

Entities”) that holds collateral securities as security for repayment of the Segregated 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.

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.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.

19-7.014 Number of Accounts.

~~The maximum number of accounts allowed each participant shall be ten (10).~~

Specific Authority 218.405, 218.412 FS. Law Implemented 218.409(5) FS. History—New 8-24-82, Formerly 19-7.14, Amended 12-2-93, 3-26-02.

Repealed _____.