

**QUARTERLY MEETING OF THE STATE BOARD OF ADMINISTRATION**

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

**JUNE 26, 2012**

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**Item 1. REQUEST APPROVAL OF THE MINUTES OF THE APRIL 24, 2012 MEETING.**

**(See Attachment 1-A)**

**ACTION REQUIRED**

**Item 2. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$630,000,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY REFUNDING BONDS, 2012 SERIES (TO BE DETERMINED).**

**(See Attachment 2-A)**

**ACTION REQUIRED**

**Item 3. REQUEST APPROVAL OF A FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$50,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF FLORIDA STUDENT ACTIVITY REVENUE BONDS, SERIES (TO BE DETERMINED).**

**(See Attachment 3-A)**

**ACTION REQUIRED**

**Item 4. QUARTERLY REPORTS PURSUANT TO 215.44 (2)(e), FLORIDA STATUTES**

- Executive Director & CIO Introductory Remarks and Standing Reports – *Ash Williams*
- Major Mandates Investment Performance Reports as of March 31, 2012 –  
*Mike Sebastian & Kristen Doyle – Hewitt EnnisKnupp*
  - Florida Retirement System Pension Plan (DB)
  - Florida Retirement System Investment Plan (DC)
  - Florida PRIME (Local Government Surplus Funds Trust Fund) and Fund B
  - Florida Hurricane Catastrophe Fund (FHCF)

**(See Attachments 4-A through 4-H)**

**INFORMATION/DISCUSSION ITEMS**

- Item 5. UPDATE ON FLORIDA GROWTH FUND**  
*Mario Giannini and Michael Koenig – Hamilton Lane*

(See Attachment 5-A)

**INFORMATION/DISCUSSION ITEM**

- Item 6. REQUEST APPROVAL OF A DRAFT LETTER TO THE JOINT LEGISLATIVE AUDITING COMMITTEE FOR ANNUAL CERTIFICATION OF LEGAL COMPLIANCE AND BEST INVESTMENT PRACTICES FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS “FLORIDA PRIME”), AS REQUIRED UNDER s. 218.405 (3), F.S.**

Lewis, Longman & Walker, P.A. independently performed the statutory compliance review and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 25, 2012.

Hewitt EnnisKnupp independently performed a comprehensive review of the various aspects of the Local Government Investment Pool to determine whether the management and operations are in line with best practices and will present their findings to the Investment Advisory Council and Participant Local Government Advisory Council at their joint session on June 25, 2012.

(See Attachments 6-A through 6-C)

**ACTION REQUIRED**

- Item 7. REQUEST APPROVAL OF INVESTMENT POLICY STATEMENTS FOR THE LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND (NOW KNOWN AS “FLORIDA PRIME”), AS REQUIRED UNDER s. 218.409(2)(d), F.S. AND FOR THE FUND B SURPLUS FUNDS TRUST FUND AS REQUIRED UNDER s. 218.421(2)(c), F.S.**

The Investment Policy Guidelines for the Local Government Surplus Funds Trust Fund must be annually reviewed by the Investment Advisory Council and the Participant Local Government Advisory Council, and reviewed and approved by the Trustees. The last review and approval of the Local Government Surplus Funds Trust Fund Investment Policy Guidelines by the Trustees was on June 16, 2011.

(See Attachments 7-A through 7-C)

**ACTION REQUIRED**

- Item 8. REQUEST APPROVAL OF SBA QUARTERLY REPORT REQUIRED BY THE PROTECTING FLORIDA’S INVESTMENTS ACT (PFIA).**

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

(See Attachment 8-A)

**ACTION REQUIRED**

**Quarterly Meeting of the State Board of Administration**

**June 26, 2012**

**Page 3**

- Item 9.        REQUEST APPROVAL OF THE STATE BOARD OF ADMINISTRATION'S PROPOSED BUDGETS FOR FISCAL YEAR 2012-2013: (1) STATE BOARD OF ADMINISTRATION; (2) FRS INVESTMENT PLAN; (3) FLORIDA HURRICANE CATASTROPHE FUND; (4) DIVISION OF BOND FINANCE; AND (5) FLORIDA PREPAID COLLEGE BOARD.**

**(See Attachment 9-A)**

**ACTION REQUIRED**

T H E   C A B I N E T  
S T A T E   O F   F L O R I D A

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Representing:

DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES  
STATE BOARD OF ADMINISTRATION  
FINANCIAL SERVICES COMMISSION, FINANCIAL REGULATION  
FLORIDA DEPARTMENT OF LAW ENFORCEMENT  
DEPARTMENT OF VETERANS' AFFAIRS  
ADMINISTRATION COMMISSION  
FLORIDA LAND AND WATER ADJUDICATORY COMMISSION  
BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND

The above agencies came to be heard before  
THE FLORIDA CABINET, the Honorable Governor Scott  
presiding, in the Cabinet Meeting Room, LL-03, The  
Capitol, Tallahassee, Florida, on Tuesday, April 24,  
2012, commencing at approximately 9:06 a.m.

Reported by:

MARY ALLEN NEEL  
Registered Professional Reporter  
Florida Professional Reporter  
Notary Public

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

## APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT  
Governor

PAM BONDI  
Attorney General

JEFF ATWATER  
Chief Financial Officer

ADAM PUTNAM  
Commissioner of Agriculture

\* \* \*

I N D E X

PAROLE QUALIFICATIONS COMMITTEE APPOINTMENTS

ITEM	ACTION	PAGE
--	Approved	5

DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES  
(Presented by JULIE JONES)

ITEM	ACTION	PAGE
1	Approved	6
2	Discussed	6
3	Approved	10
4	Approved	11
5	Discussed	11

STATE BOARD OF ADMINISTRATION  
(Presented by ASH WILLIAMS)

ITEM	ACTION	PAGE
1	Approved	21
2	Approved	21
3	Approved	23
4	Approved	24
5	Approved	25

FINANCIAL SERVICES COMMISSION, FINANCIAL REGULATION  
(Presented by BRUCE KUHSE)

ITEM	ACTION	PAGE
1	Approved	28
2	Approved	29
3	Approved	30

FLORIDA DEPARTMENT OF LAW ENFORCEMENT  
(Presented by MARK ZADRA)

ITEM	ACTION	PAGE
1	Approved	31
2	Discussed	31
3	Approved	38
4	Approved	39

CONTINUED INDEXDEPARTMENT OF VETERANS' AFFAIRS  
(Presented by MIKE PENDERGAST)

ITEM	ACTION	PAGE
1	Approved	46
2	Discussed	46

ADMINISTRATION COMMISSION  
(Presented by PHILLIP MILLER)

ITEM	ACTION	PAGE
1	Approved	50
2	Approved	56
3	Approved	57

FLORIDA LAND AND WATER ADJUDICATORY COMMISSION  
(Presented by PHILLIP MILLER)

ITEM	ACTION	PAGE
1	Approved	58
2	Approved	60

BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND  
(Presented by HERSCHEL VINYARD)

ITEM	ACTION	PAGE
1	Approved	61
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3	Approved	63

CERTIFICATE OF REPORTER	64
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1           GOVERNOR SCOTT: All right. Next I would like  
2           to recognize Ash Williams with the State Board Of  
3           Administration. Good morning.

4           MR. WILLIAMS: Good morning, Governor and  
5           Trustees.

6           First, by way of an update on how the fund is  
7           doing, as of Friday's close, fiscal year to date,  
8           the fund is up 1.41 percent.

9           GOVERNOR SCOTT: For the fiscal year?

10          MR. WILLIAMS: Yes, that's fiscal year.

11          GOVERNOR SCOTT: Since last July 1st?

12          MR. WILLIAMS: Correct. That's 41 basis  
13          points ahead of target. Taking it the other way,  
14          calendar year to date -- I always give you the  
15          longer data series. Calendar year to date is 7.43  
16          percent, which just illustrates the way these  
17          things --

18          GOVERNOR SCOTT: So we're down the first six  
19          months, and we made money the last four, whatever?

20          MR. WILLIAMS: Correct, correct.

21          GOVERNOR SCOTT: And Europe is going to do  
22          what?

23          MR. WILLIAMS: Well, Spain is more interesting  
24          than Greece these days. I would say stay tuned on  
25          that one. Not a great picture for long-term

1 solutions at this point.

2 GOVERNOR SCOTT: And what do you think is  
3 going happen if Sarkozy loses in France?

4 MR. WILLIAMS: Well, as I understand from the  
5 news coverage, his opponent is more or less a  
6 socialist, which doesn't bode well for austerity  
7 and responsibility. So we'll see. France is a  
8 huge economy in Europe, obviously.

9 GOVERNOR SCOTT: And Germany is going to run  
10 everything?

11 MR. WILLIAMS: Interestingly, Germany is the  
12 strongest economy in the European Union. It is  
13 seen as the bellwether of responsibility. Germany  
14 itself exceeds the debt-to-GDP limit set up in the  
15 founding documents of the European Union by  
16 arguably a material amount, so we shall see.

17 GOVERNOR SCOTT: Okay.

18 MR. WILLIAMS: Item 1. Request approval of  
19 the minutes of the March 20 meeting.

20 GOVERNOR SCOTT: Is there a motion to approve  
21 Item 1?

22 CFO ATWATER: So moved.

23 GOVERNOR SCOTT: Is there a second?

24 ATTORNEY GENERAL BONDI: Second.

25 GOVERNOR SCOTT: Moved and seconded. Show it

1 approved without objection.

2 MR. WILLIAMS: Thank you. Item 2. Request  
3 approval of a draft letter to the Joint Legislative  
4 Auditing Committee affirming that the SBA Trustees  
5 have reviewed and approved the monthly Florida  
6 PRIME and Fund B management summary reports and  
7 actions taken, if any, to address any material  
8 impacts. There were no material impacts.

9 GOVERNOR SCOTT: Is there a motion to approve  
10 this item?

11 CFO ATWATER: So moved.

12 GOVERNOR SCOTT: Is there a second?

13 ATTORNEY GENERAL BONDI: Second.

14 GOVERNOR SCOTT: Moved and seconded. Show it  
15 approved without objection.

16 MR. WILLIAMS: Thank you. Item 3. Request  
17 approval of the 2012/13 Florida Hurricane  
18 Catastrophe Fund premium formula and proposed  
19 2012/13 rates.

20 Essentially what we have here is a process  
21 that has been followed from the inception of the  
22 Cat Fund, and I guess it was last modified with the  
23 creation of the advisory council and modeling  
24 commissions back in the mid '90s. But essentially  
25 we have a process here that is designed to use the

1 best analytical capability available today to  
2 anticipate what our loss exposures could be, and  
3 then to, using that analysis, put it into a formula  
4 using an independent actuary.

5 Modelers are approved by an independent and  
6 highly qualified modeling commission in accordance  
7 with statute. Then the formula itself is approved  
8 by the Florida Hurricane Catastrophe Fund Advisory  
9 Council, another independent, highly qualified body  
10 including representatives of industry, et cetera,  
11 also meeting in public. And the independent  
12 actuary we have with us today, Andy Rapoport from  
13 Paragon.

14 I would say the general direction we continue  
15 to move with the Cat Fund is one of less reliance  
16 on debt and more reliance on current assets. We  
17 come into this rating reason in the strongest  
18 position the Cat Fund has been in from a cash  
19 perspective, and will be stronger still presuming  
20 this formula is adopted.

21 And we continue to follow the formula set  
22 forth in the glide path legislation in 2009, which  
23 again reduces the temporary increased coverage  
24 layer, increases its costs over time, which is  
25 designed to drive insurance companies away from the

1           Cat Fund and toward the private sector, and also to  
2           continue building up cash consistent with the rapid  
3           cash buildup factors of that legislation.

4           So that is the formula. Request approval.

5           GOVERNOR SCOTT: And we hope for no  
6           hurricanes; right?

7           MR. WILLIAMS: That's always a good thing,  
8           yes.

9           GOVERNOR SCOTT: Is there a motion to approve?

10          ATTORNEY GENERAL BONDI: So moved.

11          GOVERNOR SCOTT: Is there a second?

12          CFO ATWATER: Second.

13          GOVERNOR SCOTT: Moved and seconded. Show it  
14          approved without objection.

15          MR. WILLIAMS: Thank you. Item 4. Request  
16          approval to file a notice of proposed rule for the  
17          reimbursement premium formula. This goes along  
18          with the prior item.

19          I would like to make one clarification. To  
20          the extent a hearing is requested, the date for  
21          that hearing will be May 29. In the preliminary  
22          documents we had anticipated a date of May 23. The  
23          correct -- or 23 April. The correct date would be  
24          May 29th.

25          GOVERNOR SCOTT: Okay. Is there a motion to

1 approve?

2 ATTORNEY GENERAL BONDI: So moved.

3 GOVERNOR SCOTT: Is there a second?

4 CFO ATWATER: Second.

5 GOVERNOR SCOTT: Moved and seconded. Show it  
6 approved without objection.

7 MR. WILLIAMS: Thank you. Item 5. Request  
8 approval to file for notice the following rule  
9 amendments pertaining to the Florida Retirement  
10 System Investment Plan and to file all the rules,  
11 along with any incorporated documents, for adoption  
12 if no member of the public timely requests a rule  
13 hearing.

14 This looks very voluminous. In fact, what  
15 this is is the closure of the statutorily directed  
16 biennial review of administrative rules in which we  
17 have consolidated rules that were duplicative,  
18 we've clarified language where appropriate, and  
19 stricken obsolete rules where appropriate. There  
20 are not substantive changes contained in these  
21 changes recommended today. Request approval.

22 GOVERNOR SCOTT: Is there a motion to approve?

23 CFO ATWATER: So moved.

24 GOVERNOR SCOTT: Is there a second?

25 ATTORNEY GENERAL BONDI: Second.

1           GOVERNOR SCOTT: Moved and seconded. Show it  
2 approved without objection.

3           MR. WILLIAMS: Thank you.

4           GOVERNOR SCOTT: Hey, Ash, could I ask you a  
5 question? On the Cat Fund, the insurance  
6 companies, they're informed that at present the Cat  
7 Fund might not have enough cash to fulfill its  
8 obligations to the insurance they're buying; is  
9 that right?

10          MR. WILLIAMS: If you look solely at cash, as  
11 I understood the background, the amount of cash  
12 that's on hand would be sufficient to cover a storm  
13 probability up to a likelihood of about -- well,  
14 let me put it the other way. The probability of  
15 storm coming along that would exhaust the cash on  
16 hand resources is about 5-1/2 percent, so less than  
17 6 percent, roughly a 20-year storm event, 19- to  
18 20-year storm event.

19          If the Cat Fund goes to borrowing -- and in  
20 its history going back to '93, it has only had to  
21 borrow on a post-event basis once in the wake of  
22 the '04-05 storms. If it did go into the markets  
23 to borrow, it would have the ability to borrow over  
24 potentially a protracted period of time. You don't  
25 have to go in and do a single issuance all at once,

1           because the claims don't come in all at once. As  
2           we've seen, unfortunately, claims can come in for a  
3           lengthy period of time after a storm event, so  
4           you're not tied to a single window of opportunity  
5           in the market.

6           It is a correct statement to say that the Cat  
7           Fund does not have enough cash in the bank today to  
8           pay all of its claims out of cash. But the balance  
9           on that is, the mechanism that the Legislature in  
10          its wisdom established with the Cat Fund's creation  
11          in '93 was to try and balance -- create a mechanism  
12          that would provide stability to the reinsurance and  
13          primary insurance markets while optimizing the cost  
14          to consumers.

15          And you could have an all-cash model. This  
16          premium would look very different if that was the  
17          case. And to date, it has worked reasonably well.  
18          What we all believe, I think, is that the direction  
19          we want to go is to have less reliance on debt so  
20          we have less exposure to volatile credit markets  
21          that, as we saw in 2008, can actually close for  
22          periods of time. We don't want exposure to that  
23          risk. We want to have minimal exposure to that  
24          risk. So the direction we're moving with the Cat  
25          Fund is to have more cash and less reliance on debt

1           over time.

2                   GOVERNOR SCOTT: All right. Thank you.

3                   MR. WILLIAMS: Thank you.

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**End of Section**

**STATE BOARD OF ADMINISTRATION  
1801 HERMITAGE BOULEVARD  
TALLAHASSEE, FLORIDA 32308**

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**TO:** Ash Williams  
**FROM:** Robert Copeland  
**SUBJECT:** Fiscal Sufficiency  
**DATE:** June 13, 2012

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**APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$630,000,000  
STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC  
EDUCATION CAPITAL OUTLAY REFUNDING BONDS, 2012 SERIES (TO BE DETERMINED):**

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State Board of Education, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$630,000,000 Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the outstanding 2001 Series I, 2001 Series J, 2002 Series D and 2003 Series B Public Education Capital Outlay Bonds, and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended. The Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992, and the Fifty-third Supplemental Authorizing Resolution and a sale resolution adopted by the State Board of Education on May 10, 2012.

The State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2012 Series B. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$580,000,000 Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined) (the "2012 Series Refunding Bonds") at its January 18, 2012, meeting, of which \$104,905,000 remains unissued. The proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay Bonds Series 1985, as to lien on and source and security for payment from the Gross Receipts Taxes. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2012 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2012 Series Refunding Bonds when and if issued.

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

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

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION  
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING  
\$630,000,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF  
EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY REFUNDING BONDS,  
2012 SERIES (TO BE DETERMINED)**

**WHEREAS**, the State Board of Education of Florida proposes to issue an amount not exceeding \$630,000,000 Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the outstanding 2001 Series I, 2001 Series J, 2002 Series D and 2003 Series B Public Education Capital Outlay Bonds, and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended; and,

**WHEREAS**, the Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992, and the Fifty-third Supplemental Authorizing Resolution and a sale resolution adopted by the State Board of Education on May 10, 2012; and,

**WHEREAS**, the proposed Bonds shall be secured by a lien upon the Gross Receipts Taxes which are required to be deposited in the Public Education Capital Outlay and Debt Service Trust Fund administered by the State Board of Education of Florida (the "Gross Receipts Taxes"), and the Bonds are additionally secured by a pledge of the full faith and credit of the State of Florida; and,

**WHEREAS**, the State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2012 Series B; and,

**WHEREAS**, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued; and,

**WHEREAS**, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$580,000,000 Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined) (the "2012 Series Refunding Bonds") at its January 18, 2012, meeting, of which \$104,905,000 remains unissued; and,

**WHEREAS**, the proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay Bonds, Series 1985, as to lien on and source and security for payment from the Gross Receipts Taxes; and,

**WHEREAS**, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2012 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2012 Series Refunding Bonds when and if issued; and,

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

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

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

**BE IT RESOLVED**, by the State Board of Administration of Florida, a constitutional body as described in Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, that the proposal of the State Board of Education of Florida to issue an amount not exceeding \$630,000,000 Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined), is hereby approved as to fiscal sufficiency.

**ADOPTED** June 26, 2012



**J. BEN WATKINS III**  
DIRECTOR

STATE OF FLORIDA  
**DIVISION OF BOND FINANCE**  
OF THE STATE BOARD OF ADMINISTRATION

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**RICK SCOTT**  
GOVERNOR  
AS CHAIRMAN

**PAM BONDI**  
ATTORNEY GENERAL

**JEFF ATWATER**  
CHIEF FINANCIAL OFFICER

**ADAM H. PUTNAM**  
COMMISSIONER OF AGRICULTURE

June 8, 2012

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

RE: Not Exceeding \$630,000,000 State of Florida, Full Faith and Credit, State Board of Education Public Education Capital Outlay Refunding Bonds, 2012 Series (to be determined)

Dear Mr. Williams:

In compliance with Section 215.73, Florida Statutes, the Division of Bond Finance requests State Board of Administration approval as to fiscal sufficiency for the above referenced bond issue. We request fiscal sufficiency approval at your board meeting of June 26, 2012.

The bonds will be payable from gross receipts taxes and are additionally secured by the full faith and credit of the State of Florida. The bonds will be junior and subordinate to the previously issued State of Florida, Full Faith and Credit, State Board of Education Public Education Capital Outlay Bonds Series 1985 and on a parity with the previously issued 1996 Series B through 2012 Series B Bonds; the remaining \$239,225,000 2009 Series (to be determined) refunding bonds approved for fiscal sufficiency on September 15, 2009, when and if issued; and the remaining \$104,905,000 2012 Series (to be determined) refunding bonds approved for fiscal sufficiency January 18, 2012, when and if issued.

The proposed bonds will be issued to refund all or a portion of the outstanding 2001 Series I, 2001 Series J, 2002 Series D and 2003 Series B Public Education Capital Outlay Bonds and to pay costs associated with the issuance and sale of the proposed bonds. The bonds will only be issued if there is a savings.

Enclosed for your review are the following:

Enclosure 1: An estimated coverage table based upon the average annual gross receipts taxes collected during the most recent 24 months. Coverage is based on existing program debt service, but does not include the potential savings from the proposed \$630,000,000 refunding bonds, the previously approved remaining \$104,905,000 2012 Series refunding bonds, or the previously approved remaining \$239,225,000 2009 Series refunding bonds;

- Enclosure 2: An estimated savings schedule for the proposed refunding bonds;
- Enclosure 3: A letter from Yiwen Yu of the Office of Economic and Demographic Research showing the most recent 24 months historical collections of the gross receipts taxes. This information was used in the preparation of the coverage table provided as Enclosure 1; and
- Enclosure 4: The gross receipts tax estimates from the January 2012 Revenue Estimating Conference.
- Enclosure 5: The Fifty-third Supplemental Authorizing Resolution adopted by the State Board of Education on May 10, 2012, authorizing the issuance of not to exceed \$630, 000,000 Refunding Bonds; and
- Enclosure 6: The sale resolution adopted by the State Board of Education on May 10, 2012.

The bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992, and the Fifty-third Supplemental Authorizing Resolution and a sale resolution adopted by the State Board of Education on May 10, 2012.

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

Very truly yours,



J. Ben Watkins III  
Director

JBW:kb

Enclosures

cc: Anthony Doheny  
Robert Copeland

**State of Florida, Full Faith and Credit  
State Board of Education Public Education Capital Outlay Bonds**

**Estimated Coverage Table**

<b>Fiscal Year</b>	<b>Gross Receipts Taxes<sup>1</sup></b>	<b>Series 1985<sup>2</sup></b>	<b>1996 Series B Through 2012 Series B<sup>2</sup></b>	<b>Total Outstanding Issues</b>	<b>Subsidy<sup>3</sup></b>	<b>Total Net Debt Service</b>	<b>Estimated Coverage<sup>4</sup></b>
2012	\$ 1,058,138,060	\$11,743,788	963,222,351	\$974,966,138	(12,676,457)	\$962,289,681	1.0996
2013	1,058,138,060	9,941,288	953,376,947	963,318,235	(12,676,457)	\$950,641,778	1.1131
2014	1,058,138,060	-	941,293,660	941,293,660	(12,676,457)	\$928,617,203	1.1395
2015	1,058,138,060	-	921,004,710	921,004,710	(12,676,457)	\$908,328,253	1.1649
2016	1,058,138,060	-	921,011,029	921,011,029	(12,629,522)	\$908,381,507	1.1649
2017	1,058,138,060	-	922,197,430	922,197,430	(12,576,780)	\$909,620,650	1.1633
2018	1,058,138,060	-	898,591,990	898,591,990	(12,516,566)	\$886,075,424	1.1942
2019	1,058,138,060	-	911,380,171	911,380,171	(12,372,708)	\$899,007,463	1.1770
2020	1,058,138,060	-	905,333,043	905,333,043	(12,108,670)	\$893,224,372	1.1846
2021	1,058,138,060	-	927,249,337	927,249,337	(11,752,118)	\$915,497,219	1.1558
2022	1,058,138,060	-	934,799,538	934,799,538	(11,375,236)	\$923,424,301	1.1459
2023	1,058,138,060	-	904,815,781	904,815,781	(10,975,697)	\$893,840,084	1.1838
2024	1,058,138,060	-	809,064,886	809,064,886	(10,550,950)	\$798,513,936	1.3251
2025	1,058,138,060	-	748,698,439	748,698,439	(10,103,673)	\$738,594,766	1.4326
2026	1,058,138,060	-	600,549,360	600,549,360	(9,623,568)	\$590,925,792	1.7906
2027	1,058,138,060	-	569,669,608	569,669,608	(9,120,732)	\$560,548,875	1.8877
2028	1,058,138,060	-	539,688,615	539,688,615	(8,586,631)	\$531,101,985	1.9923
2029	1,058,138,060	-	508,836,680	508,836,680	(8,027,736)	\$500,808,944	2.1129
2030	1,058,138,060	-	483,927,065	483,927,065	(7,441,255)	\$476,485,810	2.2207
2031	1,058,138,060	-	460,571,836	460,571,836	(6,825,999)	\$453,745,837	2.3320
2032	1,058,138,060	-	439,797,178	439,797,178	(6,179,159)	\$433,618,019	2.4403
2033	1,058,138,060	-	395,647,880	395,647,880	(5,507,864)	\$390,140,016	2.7122
2034	1,058,138,060	-	348,950,156	348,950,156	(4,811,301)	\$344,138,855	3.0747
2035	1,058,138,060	-	322,548,301	322,548,301	(4,088,353)	\$318,459,949	3.3227
2036	1,058,138,060	-	282,630,174	282,630,174	(3,338,210)	\$279,291,964	3.7886
2037	1,058,138,060	-	235,995,141	235,995,141	(2,550,034)	\$233,445,108	4.5327
2038	1,058,138,060	-	147,027,781	147,027,781	(1,731,643)	\$145,296,139	7.2826
2039	1,058,138,060	-	84,008,124	84,008,124	(882,111)	\$83,126,013	12.7293
2040	1,058,138,060	-	38,563,450	38,563,450		\$38,563,450	27.4389
2041	1,058,138,060	-	4,641,000	4,641,000		\$4,641,000	227.9979
		\$ 21,685,075	\$18,125,091,659	\$ 18,146,776,734	\$ (246,382,343)	\$ 17,900,394,391	

<sup>(1)</sup> Pursuant to Section 215.61(3), Florida Statutes, debt service cannot exceed 90% of the average annual revenue collected for the tax periods during the 24 months immediately preceding the most recent collection date. The amount shown is the twelve-month average collections for the appropriate tax periods.  
Source: Office of Economic & Demographic Research.

<sup>(2)</sup> The Public Education Capital Outlay Bonds, Series 1985 (the "Prior Lien Obligations") are secured by a first lien upon the gross receipts taxes. All subsequently issued bonds and the bonds which have not yet been issued, have a parity lien on the gross receipts taxes which is junior and subordinate to that of the Prior Lien Obligations.

<sup>(3)</sup> Federal subsidy payments for Build America Bonds 2006 Series G, 2007 Series G, 2008 Series D and 2009 Series F.

<sup>(4)</sup> Estimated Coverage based on Total Net Debt Service.

**End of Section**

**STATE BOARD OF ADMINISTRATION  
1801 HERMITAGE BOULEVARD  
TALLAHASSEE, FLORIDA 32308**

---

**TO:** Ash Williams  
**FROM:** Robert Copeland  
**SUBJECT:** Fiscal Sufficiency  
**DATE:** June 13, 2012

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**APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$50,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS, UNIVERSITY OF FLORIDA STUDENT ACTIVITY REVENUE BONDS, SERIES (TO BE DETERMINED):**

The Division of Bond Finance of the State Board of Administration (the "Division") has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$50,000,000 State of Florida, Board of Governors, University of Florida Student Activity Revenue Bonds, Series (to be determined) (the "Bonds"), for the purpose of financing the expansion of the J. Wayne Reitz Union on the main campus of the University of Florida, funding a reserve account (if necessary) and paying costs associated with the issuance and sale of the Bonds.

The Bonds will be issued pursuant to the Authorizing Resolution and a sale resolution, both of which are anticipated to be adopted by the Governor and Cabinet on June 26, 2012 (together, the "Resolution"). The principal of and interest due on the Bonds shall be secured by student activity and service fee revenues, as described in the Resolution.

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

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

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION  
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT  
EXCEEDING \$50,000,000 STATE OF FLORIDA, BOARD OF GOVERNORS,  
UNIVERSITY OF FLORIDA STUDENT ACTIVITY  
REVENUE BONDS, SERIES (TO BE DETERMINED)**

**WHEREAS**, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding \$50,000,000 State of Florida, Board of Governors, University of Florida Student Activity Revenue Bonds, Series (to be determined) (the "Bonds"), for the purpose of financing the expansion of the J. Wayne Reitz Union on the main campus of the University of Florida, funding a reserve account (if necessary) and paying costs associated with the issuance and sale of the Bonds; and,

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

**WHEREAS**, the Bonds will be issued pursuant to the Authorizing Resolution and a sale resolution, both of which are anticipated to be adopted by the Governor and Cabinet on June 26, 2012 (together, the "Resolution"); and,

**WHEREAS**, the principal of and interest due on the Bonds shall be secured by student activity and service fee revenues, as described in the Resolution; and,

**WHEREAS**, the Bonds do not constitute an obligation, either general or special, of the State of Florida or any of its units of local government and shall not be a debt of the State or of any unit of local government, and neither the State nor any unit of local government shall be liable thereon; and,

**WHEREAS**, the University of Florida shall not have the power to pledge the credit, the revenues, or the taxing power of the State or of any unit of local government, and neither the credit, the revenues, nor the taxing power of the State or of any unit of local government shall be deemed to be pledged to the payment of the Bonds; and,

**WHEREAS**, the proceeds of the Bonds shall be and constitute trust funds and shall be used and applied solely in the manner and for the purposes provided in the Resolution; and,

**WHEREAS**, the estimate of funds pledged to the issue indicates that in no State fiscal year will the debt service requirements of the Bonds exceed the Pledged Revenues available for payment of such debt service requirements and that in no State fiscal year will the moneys pledged for the debt service requirements be less than the required coverage amount; and,

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

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

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

**BE IT RESOLVED**, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding \$50,000,000 State of Florida, Board of Governors, University of Florida Student Activity Revenue Bonds, Series (to be determined) for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

**ADOPTED** June 26, 2012



**J. BEN WATKINS III**  
DIRECTOR

STATE OF FLORIDA

**DIVISION OF BOND FINANCE**  
OF THE STATE BOARD OF ADMINISTRATION

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

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**RICK SCOTT**  
GOVERNOR  
AS CHAIRMAN

**PAM BONDI**  
ATTORNEY GENERAL  
AS SECRETARY

**JEFF ATWATER**  
CHIEF FINANCIAL OFFICER  
AS TREASURER

**ADAM H. PUTNAM**  
COMMISSIONER OF AGRICULTURE

June 8, 2012

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

RE: Not Exceeding \$50,000,000 State of Florida, Board of Governors,  
University of Florida Student Activity Revenue Bonds, Series (to be determined)

Dear Mr. Williams:

In compliance with Section 215.73, Florida Statutes, the Division of Bond Finance requests State Board of Administration approval as to fiscal sufficiency for the above referenced bond issue. We request such approval at your board meeting of June 26, 2012.

The proposed bonds will be secured by Student Activity and Service Fee revenues. Student Activity and Service Fees are assessed to all students at the University of Florida on a per credit hour basis.

The proposed bonds will be issued to finance the expansion of the J. Wayne Reitz Union on the main campus of the University of Florida, to fund a reserve account, if necessary, and to pay costs associated with the issuance and sale of the bonds.

Enclosed for your review are the following:

Enclosure 1: an estimated coverage table; and,

Enclosure 2: an estimated debt service schedule for the proposed bonds.

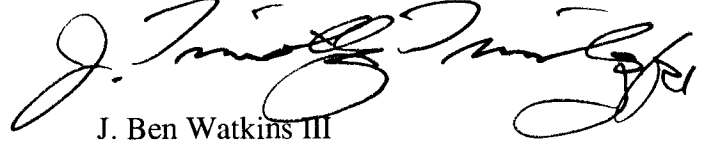
The Authorizing Resolution will be provided as soon as it is available. It is anticipated that the Authorizing Resolution and the Sale Resolution will be adopted by the Governor and Cabinet on June 26, 2012.

June 8, 2012

Page Two

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

Sincerely,

A handwritten signature in black ink, appearing to read "J. Ben Watkins III". The signature is fluid and cursive, with a large loop at the end.

J. Ben Watkins III  
Director

JBW:kb

Enclosures

cc: Anthony Doheny  
Robert Copeland

**STATE OF FLORIDA, BOARD OF GOVERNORS  
UNIVERSITY OF FLORIDA  
STUDENT ACTIVITY REVENUE BONDS, SERIES (to be determined)  
FISCAL SUFFICIENCY REQUEST FOR NOT EXCEEDING \$50,000,000  
ESTIMATED DEBT SERVICE COVERAGE**

Year Ending 30-Jun	Student Credit Hours <sup>(1)</sup>	Activity & Service Fee per credit hour <sup>(2)</sup>	Pledged Revenues <sup>(3)</sup>	Proposed Bonds Estimated Debt Service			Coverage
				Principal	Interest	Total <sup>(4)</sup>	
<u>Historical</u>							
2007	1,347,650	\$9.27	\$12,492,716	-	-	-	-
2008	1,352,764	9.74	13,175,921	-	-	-	-
2009	1,309,813	10.16	13,307,700	-	-	-	-
2010	1,312,818	10.53	13,823,974	-	-	-	-
2011	1,269,871	13.94	17,702,002	-	-	-	-
<u>Projected</u>							
2012	1,300,000	\$14.55	\$18,915,000	-	-	-	-
2013	1,300,000	15.28	19,864,000	\$1,760,000	\$1,038,766	2,798,766	7.10
2014	1,300,000	16.04	20,852,000	2,125,000	1,235,962	3,360,962	6.20
2015	1,300,000	16.84	21,892,000	2,140,000	1,223,425	3,363,425	6.51
2016	1,300,000	17.69	22,997,000	2,155,000	1,204,807	3,359,807	6.84
2017	1,300,000	17.69	22,997,000	2,180,000	1,183,041	3,363,041	6.84
2018	1,300,000	17.69	22,997,000	2,205,000	1,155,573	3,360,573	6.84
2019	1,300,000	17.69	22,997,000	2,240,000	1,120,293	3,360,293	6.84
2020	1,300,000	17.69	22,997,000	2,285,000	1,077,061	3,362,061	6.84
2021	1,300,000	17.69	22,997,000	2,335,000	1,026,563	3,361,563	6.84
2022	1,300,000	17.69	22,997,000	2,390,000	970,523	3,360,523	6.84
2023	1,300,000	17.69	22,997,000	2,455,000	908,383	3,363,383	6.84
2024	1,300,000	17.69	22,997,000	2,520,000	841,607	3,361,607	6.84
2025	1,300,000	17.69	22,997,000	2,595,000	768,779	3,363,779	6.84
2026	1,300,000	17.69	22,997,000	2,670,000	690,150	3,360,150	6.84
2027	1,300,000	17.69	22,997,000	2,755,000	606,846	3,361,846	6.84
2028	1,300,000	17.69	22,997,000	2,840,000	518,686	3,358,686	6.85
2029	1,300,000	17.69	22,997,000	2,935,000	425,818	3,360,818	6.84
2030	1,300,000	17.69	22,997,000	3,035,000	327,789	3,362,789	6.84
2031	1,300,000	17.69	22,997,000	3,135,000	224,296	3,359,296	6.85
2032	1,300,000	17.69	22,997,000	<u>3,245,000</u>	<u>115,198</u>	<u>3,360,198</u>	6.84
				\$50,000,000	\$16,663,561	\$66,663,561	

<sup>(1)</sup> Student credit hour information provided by the University. For Fiscal Years 2011-12 through 2015-16, the University has assumed no growth in the number of student credit hours. The student Activity and Service Fee is assessed to all students on a per credit hour basis.

<sup>(2)</sup> The University projects that the Activity and Service Fee will increase approximately 5% annually over the next five fiscal years.

<sup>(3)</sup> Pledged Revenues consist of gross revenues derived from the Student Activity and Service Fee pursuant to Section 1009.24(9)&(10), Florida Statutes.

Historical and projected revenue information provided by the University.

<sup>(4)</sup> Debt Service was estimated using current market interest rates. Pursuant to Chapter 2012-134, Laws of Florida, annual debt service may not exceed \$3.5 million

**End of Section**

**MINUTES  
INVESTMENT ADVISORY COUNCIL  
MARCH 19, 2012**

A meeting of the Investment Advisory Council (IAC) was held on Monday, March 19, 2012, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida.

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

Member Absent:     Michael Price

**WELCOME/CALL TO ORDER/APPROVAL OF MINUTES/ELECTION OF OFFICERS**

Mr. Gidel opened the meeting, introducing members present, including Mr. Will Harrell the IAC's newest member. Mr. Gidel requested a motion to approve the minutes of the December 5, 2011 meeting, the January 20, 2012 conference call, as well as amended minutes for the September 19, 2011 meetings. Mr. Daniels made the motion to approve the minutes; seconded by Mr. Newman; approved without objection.

Mr. Gidel requested approval from the Council to make a recommendation to the governor to sign legislation expanding the SBA's authority to invest in alternative investments. No objection from the Council was voiced.

Mr. Gidel mentioned the legislature approved the increase to alternative investments and the bill will be presented to the governor. He also mentioned the Trustees reappointed Ash Williams since the last IAC meeting.

Mr. Gidel recapped the January 20, 2012 meeting which addressed recommendations of the Crowe Horwath audit, and thanked Mr. Rolf Engmann for his service and assistance on the Audit Committee. Moving to new business, a motion was made to request the Trustees' approval for the IAC to move forward with a formal compensation review and report back to the Trustees. After discussion, the motion passed unanimously.

Mr. David Grain was elected to serve as Chair and Mr. Martin Garcia as Vice Chair for the term of March 2012 to March 2013.

## **Investment Advisory Council Meeting – Minutes**

**March 19, 2012**

**Page 2**

### **OPENING REMARKS/REPORTS**

Mr. Williams thanked Mr. Gidel for his service, and welcomed the newly elected Chairman David Grain. Mr. Williams also mentioned the nomination and pending approval of Mr. Chuck Cobb, who is up for consideration by the Trustees. Mr. Engmann was also thanked for his service on the Audit Committee.

Mr. Williams introduced Ken Chambers, the SBA's new Inspector General, as well as Steve Spook, SIO-Real Estate, Trent Webster, SIO-Strategic Investments and Private Equity, and John Bradley, Director of Private Equity

Mr. Williams provided a financial update of the FRS Pension Plan, and then proceeded to mention several awards received by the SBA including: *P&I Magazine*, award for the education component for the defined contribution plan, a Davis Productivity Award by the Hurricane Catastrophe Fund, and national runner-up from *Alternatives Investment Magazine* for the alternative investment program being one of the most creative in government.

Mr. Williams then provided an update on the legislative session including the increase in allocation to alternative investments, and that no changes were made to address concerns over the strength of the CAT Fund.

### **MAJOR MANDATE PERFORMANCE REVIEWS**

Mr. Mike Sebastian, Hewitt EnnisKnupp opened the presentation of the quarterly report on major mandates managed by the SBA, including performance of the Pension Plan, Investment Plan, CAT Fund, Lawton Chiles Endowment Fund, and Florida PRIME.

Ms. Kristen Doyle, Hewitt EnnisKnupp made brief comments on the market environment since the last meeting.

Mr. Sebastian then moved forward with the presentation on the FRS Pension Plan, including performance, benchmarks, actuarial assumed rate of return and absolute nominal rate of return. Data comparing peer group performance was presented.

Ms. Doyle presented performance data for the FRS Investment Plan, including performance, benchmarks, peer comparisons, fund options, trends in participant investment elections, and costs. Questions were posed and answered.

Ms. Doyle briefly presented information related to the Florida Hurricane Catastrophe Fund, including performance, benchmarks, and investment guidelines.

Ms. Doyle then turned to the Lawton Chiles Endowment Fund, where Ms. Doyle presentation target allocations, performance, and benchmarks. Mr. Kevin SigRist mentioned that the legislature appropriated \$350 million from the fund, payable in 2013, and recapped previous extraordinary withdrawals made by the legislature in the past. Questions were posed and answered.

Ms. Doyle concluded her remarks with a quick update on Florida PRIME and Fund B including performance, benchmarks, and portfolio composition. Questions were posed and answered. Ms. Doyle finished her presentation with comments on investment guidelines and status of transfers from Fund B.

## **ASSET-LIABILITY AND ASSET ALLOCATION REVIEW**

Mr. Rowland Davis and Mr. Mike Sebastian, both from Hewitt EnnisKnupp, presented the Asset-Liability and Asset Allocation Review of the FRS Pension Plan. Mr. Davis began by sharing some background on the 2010 Asset-Liability Review. He stated that the recommendations from the prior review are still solid and that this year's study is primarily informational in nature. Mr. Davis discussed basic pension finance concepts, the different models used for public and corporate pension plans, the asset-liability modeling process, economic/capital market assumptions and simulations, projected ranges of funded ratios and contribution rates. Mr. Davis compared the range of funded ratio results from the 2010 and 2012 Asset-Liability Reviews and noted that this year's review shows a downward sloping funded ratio trend for the lower percentile ranges. The downward sloping funded ratio trend is the result of funding policy and actuarial methodology. Afterwards, Mr. Davis discussed the long-term risk reward analysis and the impact of various asset mixes on long-term economic costs. The long-term measures suggest a possible increase in risky asset exposure; however, the result may be temporary due to the extremely low returns on fixed income. Mr. Davis also presented a short-term risk analysis (funded ratio shortfall probability) which suggests that increasing the exposure to risky assets may put the plan in a position from which it may not recover and that addressing this risk through higher allocations to diversifying strategies should be considered. Additional discussion by Mr. Davis included the impact of deferred pension funding, the impact of changing the actuarial assumption from 7.75% to 7.25%, revised funding cost methodology, the impact of closing the Pension Plan, liquidity analysis and liquidity options. Mr. Sebastian presented a series of different asset allocation scenarios to highlight the impact of diversifying strategies on various performance measures. Mr. Sebastian discussed the long-term economic costs and funded ratio shortfall risk for each of the scenarios. He presented the different scenarios for future consideration and did not make a specific recommendation.

## **STRATEGIC INVESTMENTS PROGRAM REVIEW**

Mr. SigRist provided an overview of the Strategic Investments asset class, including the history and objectives of the asset class, the policy allocations – both transitional and expanded authority – 2011-2012 work plan, and benchmarks utilized.

Mr. SigRist also discussed the various sub strategies within the asset class such as debt-oriented funds, distressed debt, mezzanine, real estate debt, hedge funds, infrastructure, timberland, commodities, etc. The presentation then transitioned to a review of performance and benchmarks for the varying strategies. Questions were posed and answered.

Mr. Jim Mnookin, Cambridge Associates, provided an overview of the firm, services provided and benefits of hedge fund investing including historic performance.

Mr. Andre Mehta, Cambridge Associates, then provided an overview of the SBA's hedge fund program including the investment process and monitoring. The presentation focused on the three categories of hedge funds invested in by the SBA, including multi-strategy, credit opportunity and long-short equity. Questions were posed and answered. Mr. Mehta presented allocations and exposure among managers in the category and performance versus benchmark. Questions were again posed and answered. Mr. Mehta then presented on the current work being performed on behalf of the SBA to include narrowing the universe of hedge funds to those that would be most appropriate within the

## **Investment Advisory Council Meeting – Minutes**

**March 19, 2012**

**Page 4**

SBA's overall plan. Questions were again posed and answered. Mr. Mehta concluded his comments with a market outlook and answered questions from the IAC.

### **PROPOSED RULES FOR 2012 CORPORATE GOVERNANCE PRINCIPLES & PROXY VOTING GUIDELINES**

Mr. Michael McCauley, Senior Officer Investment Programs and Governance, began with an overview of the SBA's Corporate Governance function. Questions were posed and answered.

Mr. McCauley discussed independent directors and boards, as well as qualifications for both in relations to improving shareholder value. Additional comments were provided surrounding external auditor ratification and executive compensation. Statistics were then shared regarding past SBA proxy voting, as well as transparency related to the SBA's proxy voting.

Mr. McCauley discussed how the SBA utilized various proxy advisors and the process surrounding proxy voting. He noted the recent development of proxy access and the significant improvement in shareowner rights they represent. Finally, Mr. McCauley discussed two material changes to the SBA's voting guidelines and the IAC briefly discussed corporate governance activities.

### **AUDIENCE COMMENTS/2012 MEETINGS/CLOSING REMARKS/ADJOURN**

The meeting was turned over to Mr. David Grain by Mr. Robert Gidel. After a brief discussion among IAC members, Mr. Grain closed the meeting after receiving no comments from the audience and directing members to the upcoming meeting schedule provided in the meeting materials.

The next meeting will be the Joint IAC/PLGAC meeting on June 25, 2012. The meeting ended at 5:40 P.M.

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



## STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD  
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RICK SCOTT  
GOVERNOR  
AS CHAIRMAN  
JEFF ATWATER  
CHIEF FINANCIAL OFFICER  
AS TREASURER  
PAM BONDI  
ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO

## MEMORANDUM

**To:** Board of Trustees  
**From:** Daniel Wolfson, Chairman  
Participant Local Government Advisory Council (PLGAC)  
**Date:** June 8, 2012  
**Subject:** Quarterly Update – Florida PRIME

---

The Participant Local Government Advisory Council (the "Council") last met on March 8, 2012 and is scheduled to meet next on June 25, 2012. The Council continues to oversee the operations and investment management of Florida PRIME.

### CASH FLOWS / PERFORMANCE

- Over the quarter ending March 31, 2011, participant deposits totaled \$2.9 billion; participant withdrawals totaled \$3.5 billion, for a net decrease of approximately \$0.5 billion.
- During the 1<sup>st</sup> quarter, Florida PRIME delivered an aggregate \$6.6 million in investment earnings.
- Performance of Florida PRIME has been strong over short and long-term time periods. For the period ending March 31, 2012, Florida PRIME generated excess returns (performance above the pool's benchmark) of approximately 23 basis points (0.23%, annualized) over the last three months, and 19 basis points (0.19%) over the last 12 months.

### POOL CHARACTERISTICS

- As of March 31, 2012, the total market value of Florida PRIME was \$7.3 billion, an increase of 7% since the end of fiscal year 2011.
- As of March 31, 2012, the investment pool had a 7 Day SEC Yield equal to 0.33%, a Weighted Average Maturity (WAM) equal to 33.5 days, and a Weighted Average Life (WAL or Spread WAM) equal to 52.5 days.

### PARTICIPANT COMMUNICATIONS & SERVICES

- In early April, the SBA rolled out a new Learning Management System (LMS) for Florida PRIME participants, offering an array of accounting and investment courses online.

### SBA FEE CHANGE

- At the March 2012 PLGAC quarterly meeting, Council members discussed and approved a proposed increase in the amount charged by the SBA. After the SBA fee increase becomes effective on July 1, 2012, the actual total Florida PRIME expenses will equal approximately 2.9 basis points (depending upon assets under management at the time). The total fees effective July 1, 2012 are approximately 16 percent higher than the current total fee.
- Florida PRIME is by far the lowest-cost government investment pool statewide, with the next lowest pool charging close to 10 times Florida PRIME's fees.
- According to the most recent iMoneyNet report on local government investment pools ("LGIPs") published in late 2011, the average total cost for all types of government pools equaled 13.55 basis points. For those LGIPs classified as money market funds, the average fee equaled 14.39 basis points. These fee levels are

commensurate with other statewide LGIPs available to local governments in Florida, which range in total costs from approximately 15 to 25 basis points.

- According to iMoneyNet fee data through the fourth quarter of 2011, the average fee level for the “Prime Institutional” category of money market funds equaled 21 basis points. As the most comparable cohort to Florida PRIME, such fee levels are equal to roughly 10 times the total charge paid by Florida PRIME participants.
- The issue of cost recovery and the SBA’s administrative charges have been discussed by the Participant Local Government Advisory Council (PLGAC) at numerous meetings, beginning in mid 2009 (in the context of the SBA’s overall budget discussion), and also at prior Joint PLGAC/IAC meetings. Most recently, during the PLGAC meetings of November 16, 2011 and March 8, 2012, Council members discussed at length the adequacy and level of the SBA’s administrative and oversight fees. At the March 8, 2012 meeting, the PLGAC unanimously approved the proposed increase from 0.6 to 1.0 basis point.
- As of March 30, 2012, the median account balance in Florida PRIME equaled \$92,776. Using the median account value, a participant is charged approximately \$23.19 annually under the current fee structure – and after July 1, 2012, the median account will pay \$26.91 (an incremental change of \$3.71 annually). The incremental fee change each investor will pay after July 1, 2012 can be calculated by multiplying the value of the participant’s account value by 0.00004.

#### **FUND B**

- Fund B continues to pay principal and interest, with cumulative distributions to participants of \$1,703,525,000 through the March 2012 monthly distribution.
- As of March 31, 2012, 85.3 percent of the original principal in Fund B has been returned to participants.



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GOVERNOR  
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AS TREASURER  
PAM BONDI  
ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO**

Date: June 8, 2012  
To: Board of Trustees  
From: Rodolfo Engmann, Audit Committee Chair  
Subject: Quarterly Audit Committee Report

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The State Board of Administration (SBA) Audit Committee met on March 12, 2012 and May 14, 2012. Following were the results of those Audit Committee meetings and audit activities during the past three months.

**I. External Audit**

We discussed the results of the following audits:

1. Ernst & Young's financial statement audits of the SBA's 24 wholly-owned companies and joint ventures with December 31, 2011 year-end. We also reviewed the related financial statements, and reports on agreed upon procedures reports, tax compliance, internal control over financial reporting, and compliance with debt agreements.
2. Crowe Horwath's financial statement audits of the SBA's four special purpose entities.
3. KPMG's Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This is an examination of Paragon Strategic Solutions Inc.'s description of its Florida Hurricane Catastrophe Fund (FHCF) administrative services system for processing FHCF transactions and the suitability of the design and operating effectiveness of controls.

There were neither adverse opinions nor items for management's attention as a result of the aforementioned work. The agreed upon procedures did not disclose major findings.

**II. SBA Internal Audit**

We reviewed the third quarter follow-up audit report which included prior recommendations from five reports:

1. Office of Internal Audit (OIA) Fixed Income Operational Audit - Trading Activities,
2. OIA Fixed Income Operational Audit – Securities Lending,
3. OIA Financial Reporting Process,
4. Clifton Gunderson Investment Compliance Performance Report Follow-up, and
5. OIA Accounts Payable Operational Audit.

The Chief Audit Executive (CAE) provided a report on progress related to the OIA Annual Audit Plan (AAP) for the fiscal year 2011-2012 and an update on the status of Categories A and B

recommendations. The CAE also presented for our approval the proposed OIA budget for the fiscal year 2012-2013. We approved the proposed budget of approximately \$1 million, \$420,000 of which is for the financial statement audit of Florida Retirement System Trust Fund and other external audit projects of the Audit Committee. The OIA has six full-time employees.

### III. Open Recommendations

The tables below summarize the progress made on open recommendations as of May 31, 2012. Additional details related to open recommendations are presented in Appendices 1, 2, and 3.

#### CATEGORY "A" RECOMMENDATIONS

	As of 2/29/2012	Changes from 2/29 to 5/31	As of 5/31/2012
Total Number of Recommendations	379	5	384
Closed Recommendations	(313)	(38)	(351)
<b>Open Recommendations</b>	<b>66</b>	<b>(33)</b>	<b>33</b>

#### CATEGORY "B" RECOMMENDATIONS

	As of 2/29/2012	Changes from 2/29 to 5/31	As of 5/31/2012
Total Number of Recommendations	143	0	143
Closed Recommendations	(36)	0	(36)
<b>Open Recommendations</b>	<b>107</b>	<b>0</b>	<b>107</b>

#### Breakdown of Category "B" Open Recommendations:

	As of 2/29/2012	Changes from 2/29 to 5/31	As of 5/31/2012
Not yet implemented	65	(16)	49
Partially implemented and the remainder is in progress	14	(2)	12
Implemented, per SBA Management	28	18	46
<b>Open Recommendations</b>	<b>107</b>	<b>0</b>	<b>107</b>

Category "A" refers to recommendations made either by internal or external auditors. OIA monitors and performs follow-up procedures on these recommendations in accordance with the *IIA Standard 2500.A1*.<sup>1</sup> In certain cases, follow-up procedures are performed by external auditors.

Category "B" refers to recommendations made by consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery

<sup>1</sup> *Standard 2500.A1- The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*

preparedness program, etc. The OIA monitors the disposition of these recommendations in accordance with the *IIA Standard* 2500.C1<sup>2</sup>. Please note that the *IIA Standard* does **not** require the CAE to establish a follow-up process for consulting engagements, but the OIA does take into account the disposition of these recommendations when performing a risk assessment for purposes of establishing the nature, timing, and scope of audit engagements involving the affected areas. Category B recommendations reported as “implemented by SBA Management” may move to “closed” recommendations based on the results of the OIA annual risk assessment.

Of the 107 open items in Category “B”, 49 are reported as not yet implemented. Forty-five (45) of the 49 not yet implemented recommendations came from the work conducted by Crowe Horwath and their follow-up of governance work conducted by Deloitte. These items will be part of a distinct follow up progress by the Chief Risk and Compliance Officer (CRCO). The remaining four open items pertain to work done by BDA Global in 2010 and Deloitte in 2009/10. The SBA engaged BDA Global in 2010 to conduct a review to determine if its Continuity of Operations Program provides reasonable assurance that the SBA has the ability to timely recover from a major disruption or disaster and continue critical business functions as defined by the goals of the program.

#### IV. Enterprise Risk Management and Compliance

##### Enterprise Risk Management

Significant work was completed on the risk management plan by compiling an exhaustive list of SBA business unit projects/initiatives and subsequently mapping these to potential risks mitigated utilizing the SBA’s risk management framework. RMC staff also gathered information from SBA management (from mid-level through senior management) regarding the top five (5) strategic risks facing the SBA. This information was compiled and presented to senior management at the strategic planning session on May 31st, where discussions focused on identifying the appropriate objectives to respond to risks facing the SBA. Once the new set of strategic objectives is finalized (anticipated July completion), they will be mapped to the SBA’s risk framework and included as part of the SBA’s risk management plan.

The implementation of the BarraOne total fund risk system continues as planned, with material active participation by internal staff and Barra personnel. Unfortunately, implementation has been slowed somewhat due to staff turnover at Barra. Sample reports with actual SBA data have been received and are being reviewed and evaluated by asset class staff, the Deputy Executive Director and RMC staff. Barra personnel were onsite for two days in late May to discuss report output at the asset class level and total fund level, as well as ongoing proxy/benchmark issues.

Additional risk management projects included process mapping and documenting fixed income trading processes in conjunction with the Deputy Executive Director’s request to provide feedback on a proposed re-organization of the asset class, as well as working with asset class staff and the Deputy Executive Director to finalize the SBA’s trading counterparty addition, deletion and annual evaluation process and documenting the process through development of flowcharts, procedures and forms.

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<sup>2</sup> *Standard 2500.C1-The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.*

#### Crowe Horwath Recommendations

Primary work associated with the outstanding Crowe Horwath recommendations focused on the evaluation of an automated compliance system and development of a compliance program self assessment process and report. RMC staff attended several meetings/demos and a web-ex for the Charles River systems compliance module to evaluate for potential utilization in internally managed global equity and fixed income portfolios. The evaluation of the Charles River product was prompted by the fact that the Global Equity asset class has selected Charles River for their new order management systems and is currently in the contracting phase. RMC staff prepared a write-up on how the Charles River compliance system can be utilized for certain pre-trade and post-trade compliance checks and a final procurement decision will be made next fiscal year. The Director of External Investment Manager Oversight began compiling data/information for the current fiscal year to be included in the SBA's first compliance program self assessment. RMC staff also obtained compliance program self assessment reports from 15 of our external investment managers to benchmark against for structure and content. The anticipated completion date for the first self assessment is July 31, 2012 for FY 2011/12.

## APPENDIX 1

### STATUS OF CATEGORY "A" RECOMMENDATIONS AS OF 5/31/12

#### 1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating				%
	High	Medium	Low	Total	
2007	1	0	0	1	3.0%
2010	4	6	0	10	30.3%
2011	9	3	5	17	51.5%
2012	2	2	1	5	15.2%
	16	11	6	33	
	48%	33%	18%		

#### 2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating				Status				%
		High	Medium	Low	Total	NYI	PIRP	OTV	Total	
Disaster Recovery Plan	7/31/2007	1			1	1			1	3.0%
Financial Reporting	6/9/2010	3			3	1		2	3	9.1%
Real Estate 3 <sup>rd</sup> Follow-up	8/23/2010	1			1		1		1	3.0%
EY – Fiscal Year 2009-10 FRS Audit	12/17/2010		6		6	5		1	6	18.2%
Real Estate 4 <sup>th</sup> Follow-up	7/13/2011	8			8	4		4	8	24.2%
EY SBA Network Security Assessment	9/27/2011		1	1	2	2			2	6.1%
EY SBA Security Assessments	9/29/2011	1	2	4	7	4		3	7	21.2%
EY SBA Security Assessment – Follow-up	5/9/2012	2	2	1	5			5	5	15.2%
		16	11	6	33	17	1	15	33	

#### 3. DEFINITIONS

- Category A** - Recommendations made either by internal or external auditors. OIA monitors and performs follow-up procedures on these recommendations in accordance with the *IIA Standard 2500. A.1*<sup>3</sup>. In certain cases, follow-up procedures are performed by external auditors.
- NYI** - Not Yet Implemented
- PIRP** - Partially Implemented and the Remainder is in Progress
- OTV** - OIA To Verify

<sup>3</sup> Standard 2500.A1- The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

## APPENDIX 2

### STATUS OF CATEGORY "B" RECOMMENDATIONS AS OF 5/31/12

#### 1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating				%
	High	Medium	Low	Total	
2009	5	4	7	16	15.0%
2010	18	9	1	28	26.1%
2011	2	38	23	63	58.9%
	25 23%	51 48%	31 29%	<b>107</b>	

#### 2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating				Status				%
		High	Medium	Low	Total	NYI	PIRP	IMP	Total	
Deloitte & Touche Phase I	1/15/2009	3	4	7	14		11	3	14	13.1%
Deloitte & Touche Phase II	6/16/2009	2			2	1	1		2	1.9%
Deloitte & Touche Phase III	3/11/2010		9	1	10	1		9	10	9.3%
BDA Global - Disaster Recovery	8/23/2010	18			18	2		16	18	16.8%
Crowe Horwath - Compliance Review	10/21/2011	2	38	23	63	45		18	63	58.9%
		25	51	31	<b>107</b>	49	12	46	<b>107</b>	

#### 3. DEFINITIONS

- Category B** - Recommendations made by consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery preparedness program, etc. OIA monitors the disposition of these recommendations in accordance with the *IIA Standard 2500.C1*.<sup>4</sup>
- NYI** - Not Yet Implemented
- PIRP** - Partially Implemented and the Remainder is in Progress
- IMP** - Implemented, as represented by SBA management

<sup>4</sup> Standard 2500.C1-The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## APPENDIX 3

### STATUS OF ALL RECOMMENDATIONS (CATEGORIES A & B COMBINED) AS OF 5/31/2012

#### 1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating				%
	High	Medium	Low	Total	
2007	1	0	0	1	0.7%
2009	5	4	7	16	11.4%
2010	22	15	1	38	27.1%
2011	11	41	28	80	57.1%
2012	2	2	1	5	3.7%
	41	62	37	140	
	29%	44%	26%		

#### 2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating				Status					%
		High	Medium	Low	Total	NYI	PIRP	OTV	IMP	Total	
Disaster Recovery Plan	7/31/2007	1			1	1				1	0.7%
Deloitte & Touche Phase I	1/15/2009	3	4	7	14		11		3	14	10.0%
Deloitte & Touche Phase II	6/16/2009	2			2	1	1			2	1.4%
Deloitte & Touche Phase III	3/11/2010		9	1	10	1			9	10	7.1%
Financial Reporting	6/9/2010	3			3	1		2		3	2.1%
BDA Global – Disaster Recovery	8/23/2010	18			18	2			16	18	12.9%
Real Estate 3 <sup>rd</sup> Follow-up	8/23/2010	1			1		1			1	0.7%
EY – Fiscal Year 2009-10 FRS Audit	12/17/2010		6		6	5		1		6	4.3%
Real Estate 4 <sup>th</sup> Follow-up	7/13/2011	8			8	4		4		8	5.7%
EY SBA Network Security Assessment	9/27/2011		1	1	2	2				2	1.4%
EY SBA Security Assessments	9/29/2011	1	2	4	7	4		3		7	5.0%
Crowe Horwath – Compliance Review	10/21/2011	2	38	23	63	45			18	63	45.0%
EY SBA Security – Follow-up	5/9/2012	2	2	1	5			5		5	3.7%
		41	62	37	140	66	13	15	46	140	

#### 3. DEFINITIONS

- NYI** - Not Yet Implemented  
**PIRP** - Partially Implemented and the Remainder is in Progress  
**OTV** - OIA To Verify  
**IMP** - Implemented, as represented by SBA management



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AS SECRETARY**  
**ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO**

## **MEMORANDUM**

**To:** Ash Williams  
**From:** Michael McCauley  
**Date:** June 8, 2012  
**Subject:** Board of Trustees Meeting – Standing Report / Investment Programs & Governance

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### **CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP**

The SBA's Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) met last on March 29, 2012 and is scheduled to meet next on June 20, 2012. The Proxy Committee continues to discuss ongoing governance issues including the volume and trends for recent proxy votes, governance factors within global equity markets, regulatory developments and company research tied to the Protecting Florida's Investments Act (PFIA).

### **GLOBAL EQUITY PROXY VOTING**

During the trailing 12 months ending March 31, 2012, the SBA executed 8,402 votes on public company proxies covering 75,790 individual voting items, including director elections, audit firm ratifications, executive compensation plans, mergers, acquisitions, and other management and shareowner proposals. The SBA voted "for" 73.4 percent of all executed proxy votes and voted "for" management-recommended votes 75.7 percent of the time. The table below provides major statistics on the SBA's proxy voting activities through the last 12 months ending March 31, 2012:

<b>Votes in Favor of Directors</b> 77.6% (FY2011=76.7%)	<b>Votes with Management</b> 75.7% (FY2011=78.9%)
<b>Votes in Favor of Auditors</b> 88.3% (FY2011=90.0%)	<b>Total Ballot Items Voted</b> 75,790 (FY2011=56,536)
<b>Votes in Favor of All Governance Proposals</b> 67.2% (FY2011=71%)	<b>Total Proxies Voted</b> 8,402 (FY2011=6,138)

The increase in the volume of proxy votes from fiscal year-over-year is related to the SBA's expansion of internal voting activities covering the majority of externally-managed global portfolios.

### **ADVISORY VOTE ON EXECUTIVE COMPENSATION (SAY-ON-PAY)**

As of May 23, 2012, 28 companies have failed to win majority shareowner support for their executive compensation plans. Of the 1,214 companies where say-on-pay (SOP) came to a vote, 73 percent of the proposals passed with more than 90 percent shareowner approval, according to an analysis by Semler Brossy Consulting Group. That compares with 72 percent of say-on-pay proposals for all of 2011. Similarly, to date, 92 percent of say-on-pay proposals passed with more than 70 percent shareowner support verses 93 percent passage for all of the 2011 proxy season.

According to an analysis conducted by Skadden, Arps, Slate, Meagher & Flom, at the companies that had pay packages that did not receive majority support, the key reasons for shareowner discontent were a pay-for-performance

disconnect and very low total shareowner returns over the past year. Conversely, companies that had received low levels of support for their pay in 2011 increased vote support significantly in 2012 by making changes that improved the pay-for-performance connection.

Seven Standard & Poor's-500 companies have failed to receive majority support for their executive-pay plans, including: Citigroup, Cooper Industries, International Game Technology, Mylan, NRG Energy, Pitney Bowes, and Simon Property Group. The most notable instance was Citigroup Inc., which proposed paying CEO Vikram Pandit \$15 million despite company shares declining by more than 40 percent. The SBA voted against all of these executive compensation proposals.

Factoring into shareowners' advisory votes on executive compensation has been numerous disputes between publicly held companies and Institutional Shareholder Services (ISS) over how peer groups should be chosen for the purposes of setting executive pay. A new study by the Semler Brossy Consulting Group found that 52 companies have filed proxy supplements contesting ISS recommendations on their pay practices already this proxy season -- an increase from 27 at this point last year. Among the early supplementary filings, more than two dozen have involved disputes about peer groups versus just seven a year ago. "Companies have been using peer groups as benchmarks for what they pay at least since the 1980s," the publication notes. "The groups often include companies they compete with for business and talent, as well as those of similar size." During discussions with companies this year, SBA staff has encountered peer group design as a common concern. The SBA's utilization of three different models for analyzing compensation (i.e., ISS, Glass, Lewis & Co., and Farient Advisors) has helped staff to identify the individual strengths and weaknesses of individual company practices and compensation plan design features.

While various pay components appeared to have factored into shareowners' decisions on how to vote on executive compensation, the overall magnitude of pay seems to be a major consideration for shareowners generally, according to the chart below from an ISS report, "Parsing the Vote: CEO Pay Characteristics Relative to Shareholder Dissent."

Average Annual Total Direct CEO Compensation, 2008-2010		
	Firms where 2011 SOP result was less than 70% support	Firms where 2011 SOP result was more than 95% support
S&P 500	\$19.2 million	\$9.4 million
S&P MidCap	\$8.1 million	\$4.2 million
S&P SmallCap	\$3.6 million	\$2.2 million

## PROXY ACCESS

Due to the D.C. Court of Appeals ruling against the SEC's proxy access rule that would have given major shareowners the right to nominate directors, proxy access proposals have been a major focus this proxy season. While these proposals continue to make headlines, shareowner support has been modest. To date, voting results are available for the following five proposals:

- Charles Schwab - submitted by Norges Bank Investment Management, binding proposal would allow shareowners holding a 1 percent stake for one year access to the company proxy to nominate directors. It received 31 percent of the votes cast.
- Ferro - submitted by Ken Steiner, non-binding proposal would allow shareowners with a 1 percent stake for two years access to the company proxy to nominate directors. It received 13.5 percent of the votes cast.
- KSW - submitted by Daniel Rudewicz, binding proposal would allow shareowners holding a 2 percent stake for one year access to the company proxy to nominate directors. It received 21 percent of the votes cast.
- Wells Fargo - submitted by Norges Bank Investment Management, binding proposal would allow shareowners holding a 1 percent stake for one year access to the company proxy to nominate directors. It received 32.5 percent of the votes cast.

- Nabors Industries - submitted by public funds CalSTRS, NYC, NC, IL, CT, non-binding proposal would allow shareowners holding a 3 percent stake for three years access to the company proxy to nominate directors. It was the first shareowner proposal on proxy access in 2012 to receive a majority of the votes cast.

Overall, proxy access proposals at nine companies are slated to go to a vote this year. Proponents had submitted 23 proposals, but 10 were either omitted by the company after receiving SEC permission to do so or were withdrawn after the company agreed to adopt governance reforms. Two are pending with late meeting dates.

#### **REGULATORY DEVELOPMENTS & OTHER COMMENTARY**

On January 19th, the SBA cosigned a letter of complaint with a group of international institutional shareowners to Brazilian company Petroleo Brasileiro SA (Petrobras) regarding its board's nomination process of a minority shareowner representative without the consultation of minority shareowners.

On March 7th, SBA staff co-signed a letter to the SEC regarding the application of Regulation Fair Disclosure ("Reg FD"), advocating for a safe harbor provision covering normal communications between investors and corporations.

On April 17th, SBA staff co-signed a letter to French company Carrefour expressing the need for a more effective board oversight structure recommending the separation of the functions of chairman and chief executive officer.

#### **SHAREOWNER ACTIVISM**

The SBA, in partnership with The Council of Institutional Investors (CII) and five other pension fund members, supported a "vote no" campaign against the two directors that were up for reelection at the real estate investment trust, Hospitality Properties Trust (HPT), headquartered in Newton, Mass. The member funds agreed to the "vote no" campaign after a lengthy engagement process with HPT. In a letter on Dec. 5, 2011, CII expressed concerns that HPT has not acted on majority-supported shareowner proposals to declassify the board. These resolutions received 90 percent support in 2010 and 88 percent support in 2011. The letter urged HPT to repeal its classified board structure and appoint an independent chair. Following an April 17 teleconference with the company, the member funds agreed that the firm had not responded to their concerns and that further action was warranted. On April 26, the six funds including the California Public Employees' Retirement System, California State Teachers' Retirement System, North Carolina Retirement Systems, Ohio Public Employees Retirement System, the Public Employees' Retirement Association of Colorado, and the SBA sent a solicitation letter to the company's shareowners.

At the May 15, 2012 annual meeting, Mr. Adam D. Portnoy was re-elected as a Group II Managing Trustee, receiving 53 percent of all shares voted. Dr. Bruce M. Gans received 42 percent of the shares voted, which was less than the majority of shares required to be re-elected as an Independent Trustee. As a result, Dr. Gans resigned from the Board. The Board determined that the insufficient vote for Dr. Gans appeared not to be directed at any personal failings of Dr. Gans, but rather to be the result of a policy position taken by the Board in opposition to CalPERS's shareowner proposal to de-stagger the board. In a press release, the company stated that the "Board requested that Dr. Gans accept appointment to the vacancy created by his resignation." Dr. Gans subsequently accepted appointment as a Group II Independent Trustee.

On May 15, 2012, follow up letters were sent to the managing trustee of HPT and to the largest shareowners to express concerns that even though the company has majority voting embedded in its bylaws, a trustee failed to receive the required majority support and still continues to represent shareowners.

#### **DIVESTMENT UPDATE**

After deliberation at an April 30<sup>th</sup> meeting of the SBA's Corporate Governance & Proxy Voting Oversight Group, effective May 1st, Total SA and ENI SpA, and their affiliates, were removed from the SBA's list of Scrutinized Companies with Activities in the Iran Petroleum Energy Sector. These companies were removed due to recent discussions held with the U.S. State Department (Iran Desk), confirming each firm's written commitment and subsequent actions to date aimed at terminating and winding down their scrutinized business operations in Iran. The companies that were removed intra-quarter from the SBA's Prohibited List as part of the Protecting Florida's Investments Act (PFIA) include: Total SA, Rosier SA, Total Capital, Total Gabon, Total Kenya Ltd, Total (Nigeria) PLC, ENI SpA, and Snam Rete Gas.



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EXECUTIVE DIRECTOR & CIO

## MEMORANDUM

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**To:** Ashbel C. Williams, Executive Director & CIO  
**From:** Maureen M. Hazen, General Counsel *Maureen M. Hazen*  
**Date:** June 7, 2012  
**Subject:** Office of General Counsel: Standing Report to Trustees  
For Period March 1, 2012 – May 31, 2012

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### SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 41 new agreements – including 1 clearing agreement for Fixed Income, 3 private equity investments, 4 real estate investments, 4 strategic investments and 1 new investment management agreement for Global Equity; and (ii) 88 contract amendments, addenda or renewals.

### SBA Litigation.

(a) Passive. As of May 31, 2012, the SBA was a putative, passive member of the class in 593 active and open securities class actions. From March 1, 2012 through May 31, 2012<sup>1</sup>, the SBA collected recoveries in the amount of \$2,483,041.02 as a passive member in 30 securities class actions.

(b) Active. (i) Abu Dhabi Commercial Bank v. Morgan Stanley & Co. (Cheyne Litigation). During the period covered by this report, the Court considered the Motions to Dismiss filed by the Defendants. On May 4, 2012, the Court granted the motions to dismiss the negligence, breach of fiduciary and aiding and abetting claims and denied the motions to dismiss the negligent misrepresentation claims under New York common law. The SBA will continue to conduct and participate in discovery in the litigation.

(ii) AIG Opt-Out Litigation. During the period covered by this report, the SBA settled its state law claims against the last remaining defendant in the AIG opt-out case in exchange for

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<sup>1</sup> The portion of recoveries attributable to the month of May are preliminary.

\$500,000 and the right to file a claim in the class action. Other than filing claims and collecting recoveries as a passive member of the AIG class case, this matter is now closed.

(iii) *In re Lyondell* Litigation. On January 17, 2012, the SBA was served a complaint (along with other defendants) filed in the U.S. Bankruptcy Court, Southern District of New York alleging damages for intentional and constructive fraudulent transfers under applicable state law and seeking the return of proceeds received by all defendants that tendered stock in a leveraged merger of Lyondell Chemical Company (which subsequently declared bankruptcy). The SBA received approximately \$32 million in connection with stock tendered in the leveraged merger. On March 12, 2012, the SBA filed a Joinder to existing Motions to Dismiss. The Court has yet to rule on the Motions.

(iv) *Williams v. Scott* (FRS Contribution Litigation). On June 20, 2011, various plaintiffs filed a complaint against the Trustees and the Secretary of DMS challenging the constitutionality of Senate Bill 2100 (the legislation mandating the deduction of 3% of employees' salaries for contribution into the Florida Retirement System). On March 6, 2012, the trial court ruled the law unconstitutional as to its application to employees who were members of the FRS prior to July 1, 2011. The Appellants appealed the ruling to the First District Court of Appeal, which certified the case as presenting issues of great public importance. The Florida Supreme Court accepted jurisdiction. The Appellants' initial brief is due on June 8, 2012, and the Court has scheduled oral argument for September 5, 2012.

(c) FRS Investment Plan. During the period from March 1, 2012 through May 31, 2012, the General Counsel's Office monitored and/or managed the following cases for the Florida Retirement System Investment Plan. The SBA issued one (1) Final Order, received notice of filing of five (5) new cases, continued to litigate eleven (11) cases that were pending during the periods covered by previous reports, including defending two (2) appellate cases.

### **Other Matters.**

(a) Public Records Requests. During the period covered by this report, the General Counsel's Office received 30 new public records requests, continued to work on 4 open requests and provided responses to 26 requests.

(b) SBA Rules. (i) The repeal of Rule 19-7.001 (Purpose) and the adoption of Rule 19-7.002, F.A.C., the Investment Policy Guidelines for the Local Government Surplus Funds Trust Fund and the Fund B Surplus Funds Trust Fund became effective on April 11, 2012. (ii) On April 24, 2012, the Trustees approved the filing for notice, and if no rule hearing was requested for adoption, of the following rules amendments: (A) Rule 19-9.001, the Investment Policy Statement for the FRS Investment Plan, (B) Rule Chapters 19-11 and 19-12 regarding procedures and definitions in connection with the administration of the FRS Investment Plan, (C) Rule Chapter 19-13 to update roles and responsibilities of various persons with respect to the FRS, and (D) Rule 19-14.001, the most recent version of the Investment Policy Statement on Support of Certain Non-FRS Defined Contribution Programs. Because the SBA did not receive any request for rule hearing, SBA staff contemplate these rules will become effective in July. (iii) In previous periods, the SBA reviewed 53 existing SBA departmental rules (i.e. not involving the FRS Investment Plan or Florida PRIME) and identified several that warrant changes and/or clarification. During the period covered by this report, SBA staff continued to work on this rule re-write project.



**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

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(850) 488-4406**

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GOVERNOR  
AS CHAIRMAN  
JEFF ATWATER  
CHIEF FINANCIAL OFFICER  
AS TREASURER  
PAM BONDI  
ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO**

**MEMORANDUM**

**DATE:** June 8, 2012  
**TO:** Board of Trustees  
**FROM:** Ken Chambers, Inspector General  
**SUBJECT:** Report on SBA Inspector General Activities

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I am pleased to present my first report to the Board of Trustees since my appointment on February 13, 2012. The SBA Inspector General (IG) is responsible for serving as the organization's ethics officer; conducting internal investigations; overseeing investment protection principles (IPP) compliance; and handling special projects as directed by the Executive Director.

**Ethics and Training**

- Mandatory ethics training and certification of compliance are required for all SBA employees on an annual basis. The training covers gifts, conflicts of interest, financial disclosure, outside employment, lobbyist/principal restrictions, honorarium related events, etc. In addition to ethics training, mandatory training is annually required for all employees in the areas of sexual harassment, public records and sunshine law, and information systems security. Certain "Affected Employees" are also required to participate in annual training on insider trading and personal investment activities. All SBA employees have completed their required training courses for this year.
- During the period February 13, 2012 to June 6, 2012, three instances were reported to the Inspector General concerning non-compliance with the SBA gift policy. In each case, the violation was unintentional and self-reported by the employee, and the provider was reimbursed for the gift in accordance with the policy.

**Investment Protection Principles Compliance**

In September 2002, the Trustees of the SBA adopted Investment Protection Principles (IPPs) for broker-dealers and investment managers in the wake of Wall Street scandals involving tainted equity research and conflicts of interest. Subsequently, principles have been developed to cover investment consultants. The IPPs are geared toward promoting independence, transparency and regulatory compliance, and adherence to the highest standards of ethics and professionalism. On

an annual basis, written certification is required from equity and fixed income investment managers, broker-dealers, and investment consultants.

For the 2011 reporting period, all of the equity and fixed income investment managers completed and returned their IPP certification forms. An analysis of the 2011 certifications indicated full compliance with the IPP's by most of the equity and fixed income managers. For the others, explanations were provided supporting that the managers are in compliance with the spirit of the IPP's.

Certification forms for broker-dealers were recently disseminated to the applicable firms, and the compliance results will be included in the next Trustee's report. As previously reported by SBA Risk Management and Compliance, Consultant Independence and Disclosure Certifications for 2011 were received from all consultants, indicating full compliance with the principles.

#### Investment Advisory Council Disclosures

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

#### SBA Fraud Hotline

Since July 2006, The Network Inc. has been the independent provider of SBA Fraud Hotline services. Through an 800 number, SBA employees may anonymously report tips or information related to fraud, theft, or financial misconduct. The telephone number and information is prominently displayed on the SBA intranet home page. Additionally, the hotline information is available on the SBA internet site as part of the SBA Internal Control and Fraud Policy.

To date, no reports or tips have been received by the Hotline for 2012.

#### Internal Investigations

During the period February 13, 2012 to June 6, 2012, one internal investigation was initiated and completed by the Inspector General. The investigation concerned an allegation of employee misconduct (non-compliance with SBA policies). While the investigation concluded the employee violated SBA policies, it should be noted that these policy violations had no adverse effect on SBA's operations or fiduciary responsibilities, and did not involve any fraudulent activity.



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ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO**

**MEMORANDUM**

**DATE:** June 8, 2012  
**TO:** Ash Williams  
**FROM:** Eric Nelson  
**SUBJECT:** Trustee Update – June 2012

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Attached is Risk Management and Compliance's quarterly summarized compliance report as of March 31, 2012 for transmission to the Trustees, Investment Advisory Council and Audit Committee. Where possible, compliance data being reported on is the most currently available information as of the date of this memorandum.

Additionally, the following is a brief status report of Risk Management and Compliance activities and initiatives completed or in progress during the period 3/5/12 through 6/8/12:

- Implementation work continues on the BarraOne total fund risk system with active participation by internal staff and Barra personnel. Unfortunately, implementation has been slowed somewhat due to staff turnover at Barra. Sample reports with actual SBA data have been received and are being reviewed and evaluated by asset class staff. Barra personnel were onsite for two days in late May to discuss report output and proxy/benchmark issues.
- The strategic planning process continued with a senior management meeting conducted in May to address strategic risks identified by SBA management, review proposed objectives and to determine next steps in the process. The next session is scheduled for mid-June to begin clarifying and prioritizing goals and objectives.
- Initiated work on annual risk management plan by compiling exhaustive list of SBA business unit projects/initiatives and subsequently mapping to potential risks mitigated utilizing the SBA's risk management framework. Will also utilize information from ongoing strategic planning process to identify risk mitigation/management impact of strategic objectives.

- Initiated assessment of Charles River systems compliance module to utilize for internally managed global equity and fixed income portfolios. This evaluation was prompted by the procurement of a new order management system in the Global Equity asset class as well as a recommendation put forth by Crowe Horwath during their compliance program evaluation. Staff has prepared a write-up on how product can be utilized for certain pre-trade and post trade compliance checks. Final procurement decision will be made next fiscal year.
- Provided information to Hewitt EnnisKnupp (as part of their annual best practice review) pertaining to a proposed change in the SBA's internal compliance program for the Florida PRIME fund. Compliance staff have recommended reducing the frequency of portfolio guideline compliance checks to quarterly rather than monthly.
- Began work on documenting fixed income trading processes in conjunction with the Deputy Executive Director's request to provide feedback on a proposed re-organization of the asset class. Compliance staff is working on process mapping both long-term and short-term trade processes to evaluate opportunities for control enhancements.
- Risk Management and Compliance staff worked with asset class staff and the Deputy Executive Director to finalize the SBA's trading counterparty addition, deletion and annual evaluation process, and documented the process through development of flowcharts, procedures and forms.
- Met with the SBA's newly appointed Inspector General to discuss the SBA's enterprise risk management program, including risk framework and assignment of risk ownership, risk assessment tools utilized and outputs of process.

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## SBA Risk Management and Compliance

Compliance Report for Quarter Ended March 31, 2012



A. STATUTORY / REGULATORY COMPLIANCE		STATUS
1	Chapter 215.47, F.S. - Investments	All investments statutorily permitted All investments within statutory limits
2	2012 Florida Legislative Regulatory Update	Regulatory updates reviewed and evaluated. Two bills require testing by Compliance in FY 2012-13, and two will be monitored by the affected business units
3	Quarterly Report to Joint Legislative Auditing Committee on Florida PRIME and Fund B	Monthly Florida PRIME reports for quarter ending 3/31/12 reviewed and approved by SBA Trustees and sent to JLAC on 4/24/12
4	Protecting Florida's Investment Act Compliance (Iran/Sudan)	No violations reported - latest quarterly report approved by Trustees on 3/20/12
5	Free Cuba Act of 1993 (Chapter 215.471, F.S.)	No restricted securities identified as of 3/31/12 - no compliance violations
6	Northern Ireland (Chapter 121.153, F.S.)	No restricted securities identified as of 3/31/12 - no compliance violations
7	SEC Form 13F - Institutional investment managers that have discretion over \$100 million in Section 13(f) securities	All securities reported to the SEC
8	SEC Form 13H - Large Trader Registration	No changes to report for the quarter
9	CFTC Form 40 - Statement of Reporting Trader	No reporting required for the quarter
10	FINRA Rule 2111 - Institutional Suitability Certificate	Two Institutional Suitability Certificates were filed during the quarter (Dealogic & IPREO certifying account exercises independent judgment)
11	Basket Clause Securities	No proposed plans for such investments were reported to the IAC
B. INVESTMENT POLICY STATEMENTS APPROVED BY TRUSTEES		STATUS
1	FRS Pension Plan	Asset allocation within specified ranges Performance measured to approved benchmarks
2	FRS Investment Plan	Education requirements in compliance Investment Plan Administrator and Bundled Provider requirements in compliance Performance measured to approved benchmarks
3	Lawton Chiles Endowment Fund	Asset allocation within specified ranges Performance measured to approved benchmarks
4	Florida PRIME	Portfolio securities and transactions in compliance with Investment Policy Statement Federated conducted monthly stress tests - results reported to the Investment Oversight Group on 5/17/12 Daily NAV and other high risk ranked parameters independently verified and in compliance
5	Fund B Surplus Fund	Securities and transactions independently reviewed and all principal and interest payments distributed to participants net of fees
C. ETHICS / CONFLICTS OF INTEREST		STATUS
1	Insider Trading Policy	No compliance violations reported
2	Personal Investment Activity Policy	All personal investment holdings reports received for new employees One minor personal trading violation detected on 5/15/12 - CRCO sent cautionary e-mail to employee and supervisor
3	Conflict of Interest Certification - SBA Employees participating in selection process for external investment manager or private market investments	All certifications executed
4	Fiduciary Training	Six of the nine IAC members completed the online fiduciary training as of 6/8/12

# SBA Risk Management and Compliance

Compliance Report for Quarter Ended March 31, 2012



D. GOVERNANCE AND POLICY OVERSIGHT		STATUS
1	Governance and Oversight Group Meetings	All internal governance oversight group meetings conducted as specified in policy
2	Investment Portfolio Guidelines Compliance (# of portfolios) FRS: Global Equity and REIT Portfolios (70) Fixed Income & High Yield Portfolios (21)  Private Market Asset Classes (10) Other Non-FRS mandates / Trust Funds (30)	No material compliance violations through 3/31/12 One item escalated to the Executive Director - Royal Bank of Scotland downgraded to below investment grade - Executive Director affirmed recommendation of Investment Oversight Group to retain in portfolio No material compliance violations as of 12/31/11 (one quarter lag) No material compliance violations through 3/31/12
3	External Investment Manager and Private Market Investment Acquisition	Acquisition checklists completed for all new managers and funds Placement Agent disclosures received and reviewed on all new investments and amended contracts with economic impact
4	External Investment Manager and Private and Public Market Investment Retention and Termination	No External Investment Managers terminated during the quarter
5	Internal Trading Policy	Nineteen exceptions reported to the Fixed Income Investment Oversight Group during the quarter - all exceptions addressed and policy modified to resolve timing issues associated with input of newly issued securities
6	Derivative Instruments Usage	Verified usage permitted by policy Reviewed counterparty risk exposures - within historically normal ranges
7	Leverage Usage	Reviewed direct-owned real estate loan-to-value exposures as of 12/31/11 - within investment portfolio guidelines
8	Trading Counterparty Management	Approved broker dealer lists updated as of 4/17/12 ANZ Securities, Inc. and Guzman & Company were added in April 2012 for Fixed Income Asset class trading volumes within monitoring standards except for Global Equity where Deutsche Bank slightly exceeded the 20% monitoring threshold Global Equity quarterly trade cost analysis performed and reviewed on 5/22/12
9	Rebalancing and Liquidity Assessments	All funds currently within policy operating ranges
10	Risk Budget	Aggregate active investment risks (sources, levels and trends) reviewed by Senior Investment Group as of 5/17/12
11	New Investment Vehicles and Programs	No new investment vehicles approved during the quarter
12	Securities Lending	No material compliance violations
13	Investment Valuation	All direct-owned real estate properties externally appraised within last 12 months (unless newly acquired or in the process of being sold)  Public Market Securities: 100.0% (valued as of 3/30/12) Real Estate: 99.6% (valued as of 12/31/11 or later) Private Equity: 99.3% (valued as of 12/31/11 or later) Strategic Investments: 100.0% (valued as of 12/31/11 or later)
14	Private Market Allocation Policies	Real Estate: within intra-asset class allocation ranges Private Equity: certain categories outside intra-asset class operating ranges - DED notified Strategic Investments: certain categories outside intra-asset class operating ranges - DED notified
15	Performance Measurement	All calculations performed in compliance with policy
16	Procurement	3 ITN's in progress, two carried forward, and one new CAT Fund ITN



# State Board of Administration of Florida

## Major Mandate Review First Quarter 2012

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# Table of Contents

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1. Executive Summary
  - Market Update
  - Major Mandate Review
2. Pension Plan Review
3. Investment Plan Review
4. CAT Fund Review
5. Lawton Chiles Endowment Fund Review
6. Florida PRIME and Fund B Review
7. Appendix
  - Pension Plan Performance Report
  - Investment Plan Performance Report
  - Lawton Chiles Endowment Fund Performance Report

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# Executive Summary

First Quarter 2012

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## Executive Summary

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- The major mandates outperformed their respective benchmarks over all longer time periods through March 2012 with the exception of the CAT Operating Fund. The CAT Operating Fund slightly underperformed its benchmark over the five-year period.
- The Pension Plan exceeded the return of the Performance Benchmark mainly due to strong performance from Global Equity.
- Within the TUCS Top Ten Defined Benefit Plan universe, the Pension Plan significantly outperformed the median plan and ranked in the top quartile over the trailing three-year period.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over all longer time periods, suggesting strong relative performance of the underlying fund options in which participants are invested.
- Overall, younger participants in the FRS Investment Plan are investing at higher levels of equity and older participants at a higher level of bonds and cash. However, over the past year, participant behavior has trended toward moving out of equity funds and into lower risk options like bonds and cash due in part to high volatility within the capital markets.
- The Lawton Chiles Endowment Fund outperformed its benchmark for the one-year period, mainly due to strong outperformance by the Foreign Equity asset class.
- Absolute yields on the CAT Fund and Florida PRIME remain muted during this period of low interest rates.

# State Board of Administration of Florida Florida Retirement System

Pension Plan Review  
First Quarter 2012

**Hewitt**ennisknupp

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# Executive Summary

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- The Fund assets total \$126.5 billion as of March 31, 2012, which represents an \$8.3 billion increase since last quarter.
- The Pension Plan outperformed its Performance Benchmark over all time periods analyzed
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan underperformed over the trailing one-, five-, and ten-year periods, but outperformed over all longer time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
  - Public market asset class investments do not significantly deviate from their broad market based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
  - Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, and investment strategy.
  - Asset allocation is monitored on a daily basis to ensure the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Hewitt EnnisKnupp and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

# FRS Change in Market Value

## Periods Ending 3/31/2012

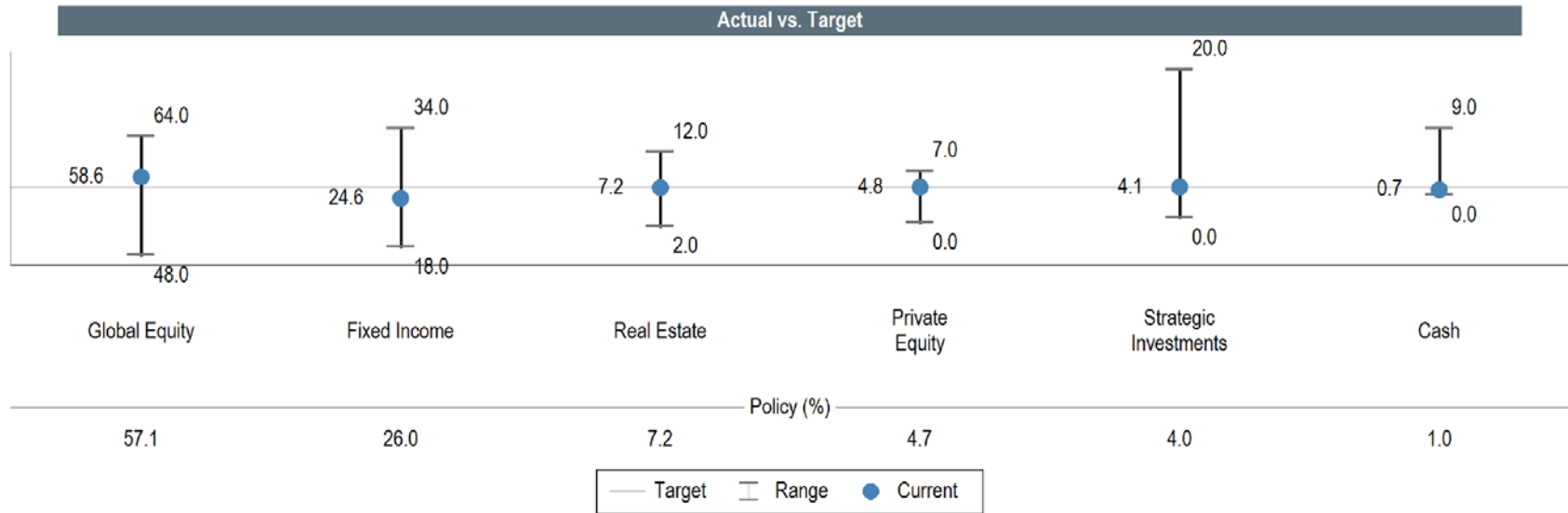
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Summary of Cash Flows		
	First Quarter	Fiscal YTD*
<b>Beginning Market Value</b>	\$118,235,090,454	\$128,532,863,218
<b>+/- Net Contributions/(Withdrawals)</b>	(\$1,408,768,908)	(\$4,518,931,915)
<b>Investment Earnings</b>	\$9,712,076,381	(\$2,524,466,624)
<b>= Ending Market Value</b>	\$126,538,397,927	\$126,538,397,927
<b>Net Change</b>	\$8,303,307,473	(\$1,994,465,291)

\*Period July 2011 – March 2012

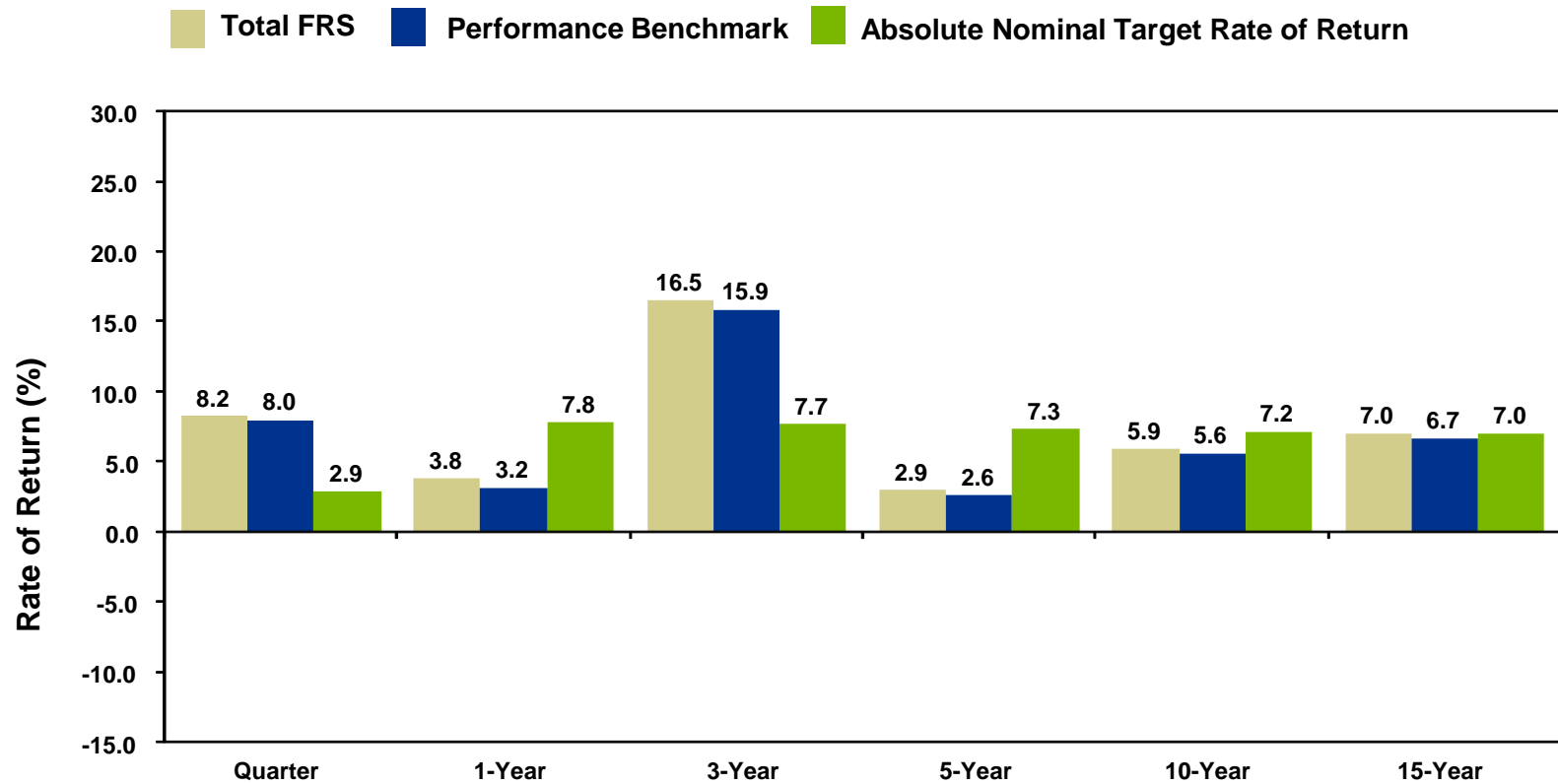
# Asset Allocation as of 3/31/2012

## Total Fund Assets = \$126.5 Billion



# FRS Investment Results

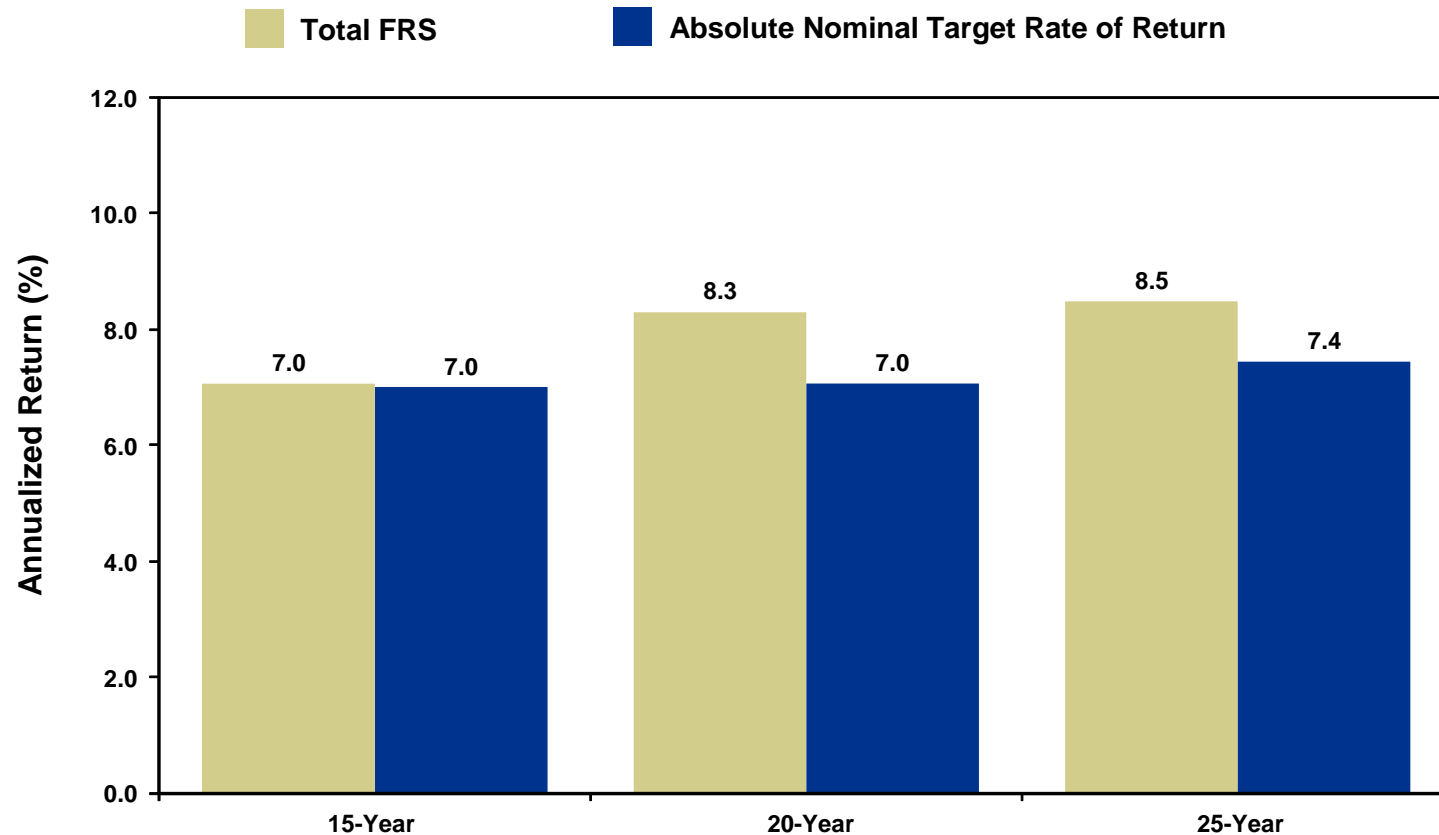
## Periods Ending 3/31/2012



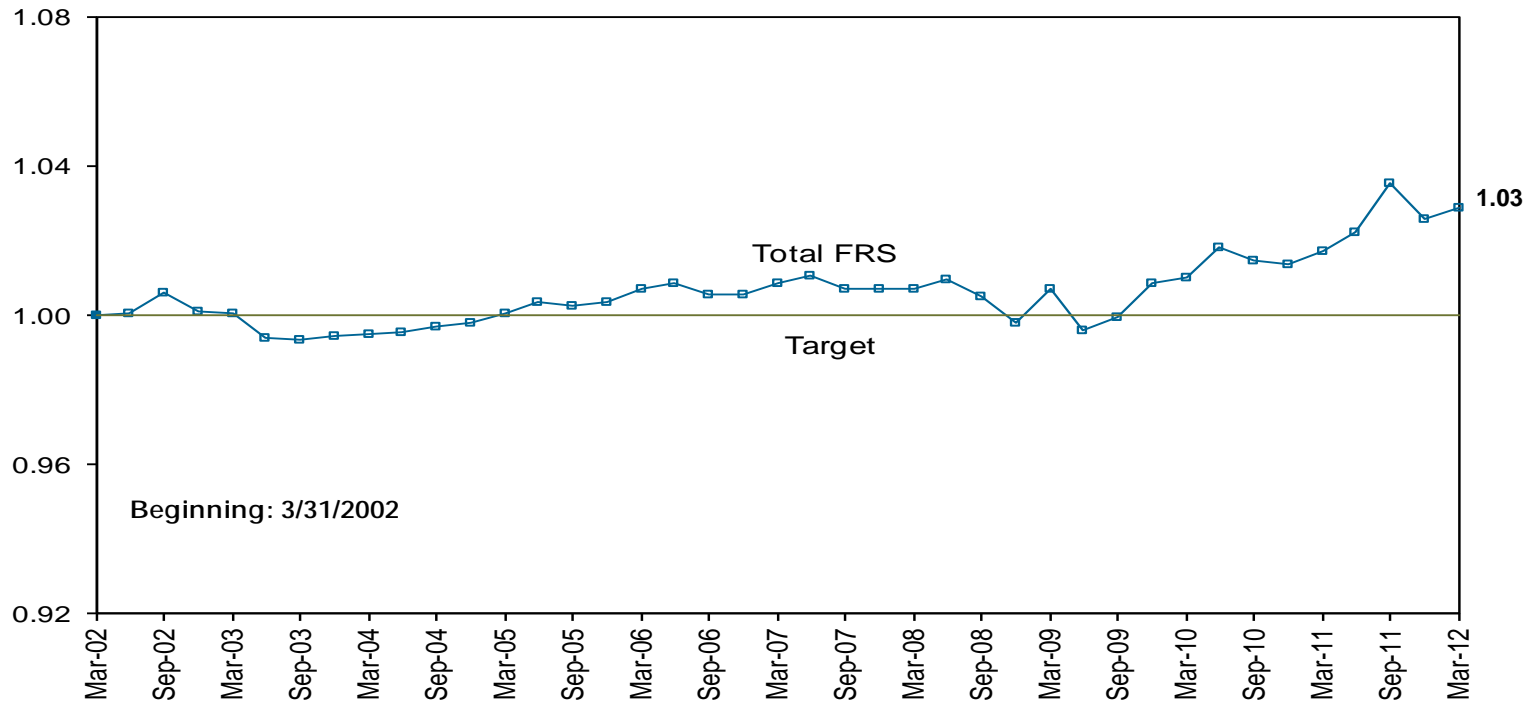
# FRS Investment Results

## Periods Ending 3/31/2012

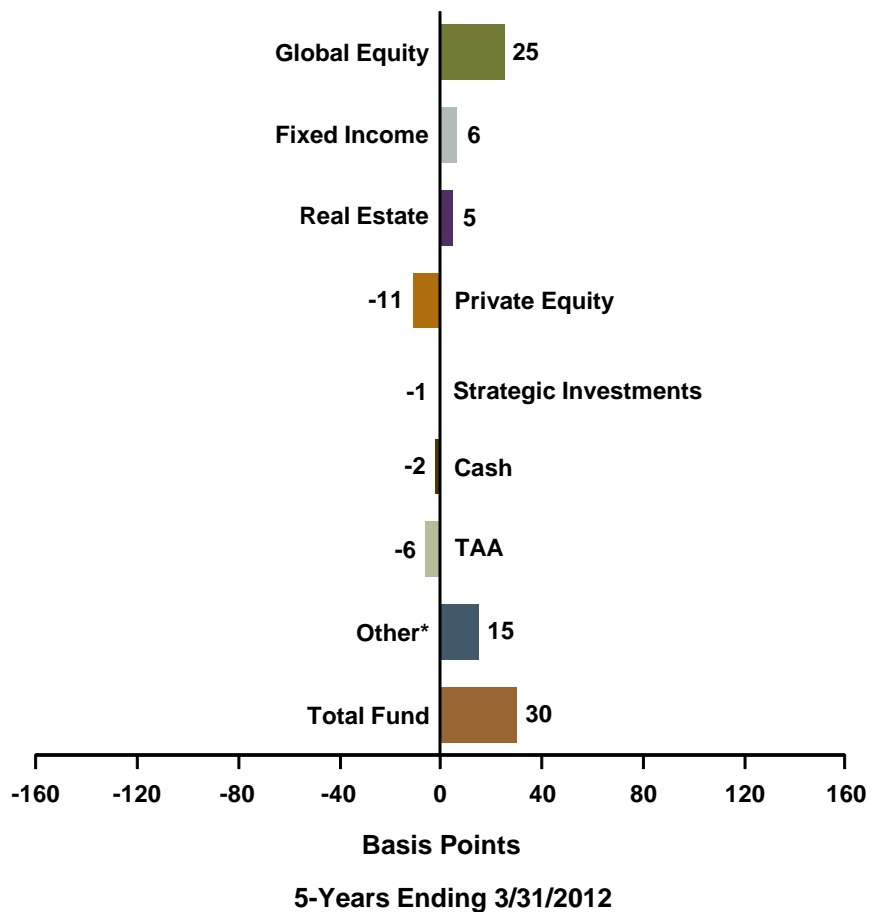
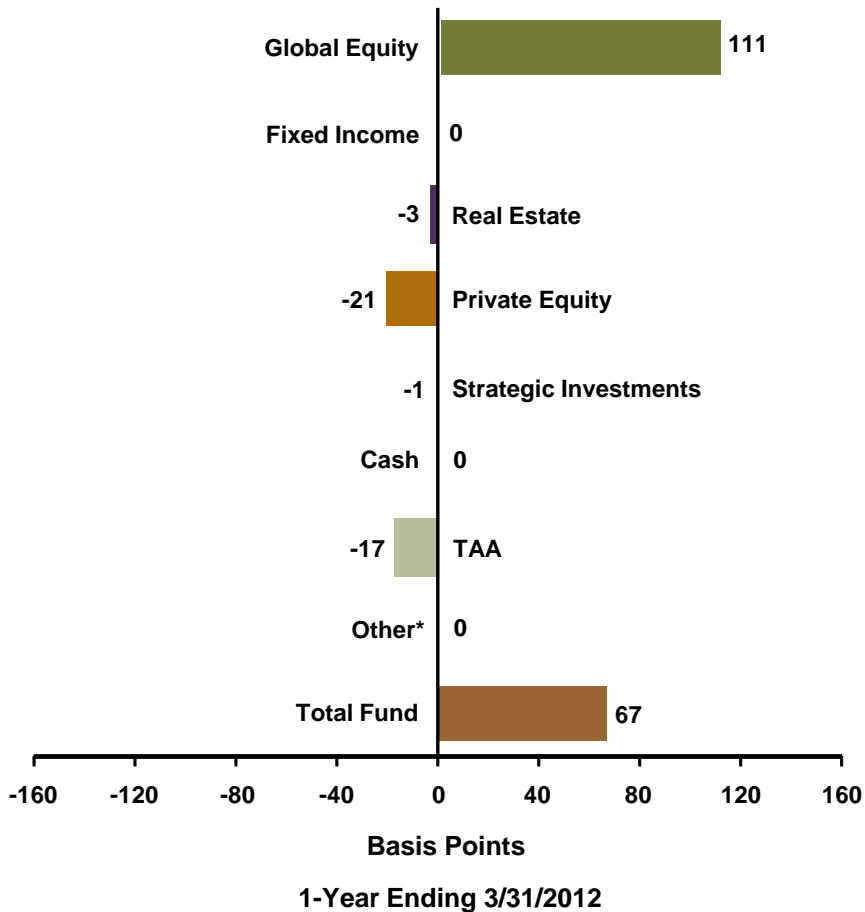
### Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective



# Total FRS Cumulative Relative Performance 10 Years Ending 3/31/2012



# Total FRS Attribution Analysis

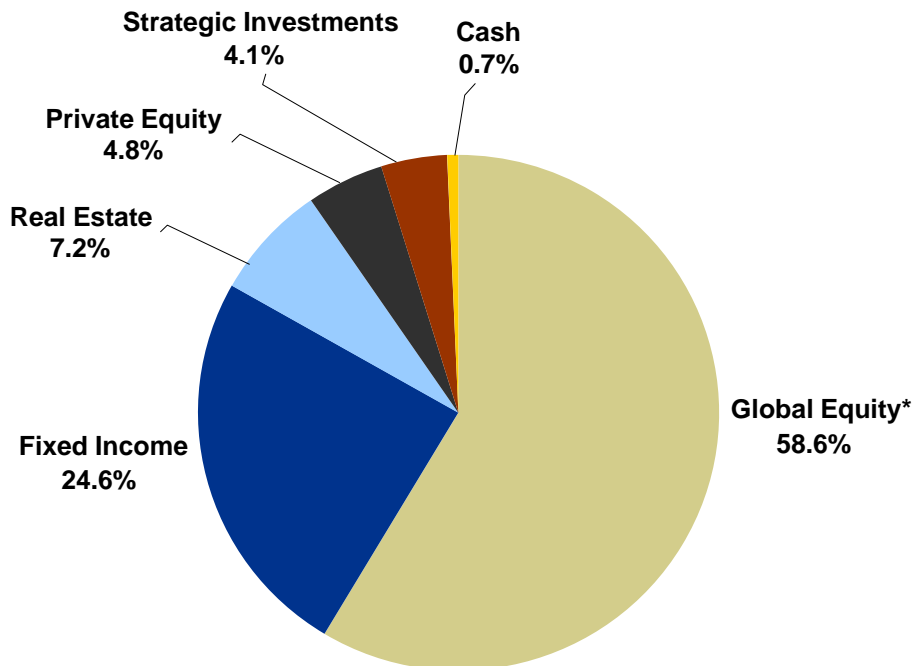


\*Other includes legacy accounts, securities lending, and unexplained differences due to methodology.

# Comparison of Asset Allocation As of 3/31/2012

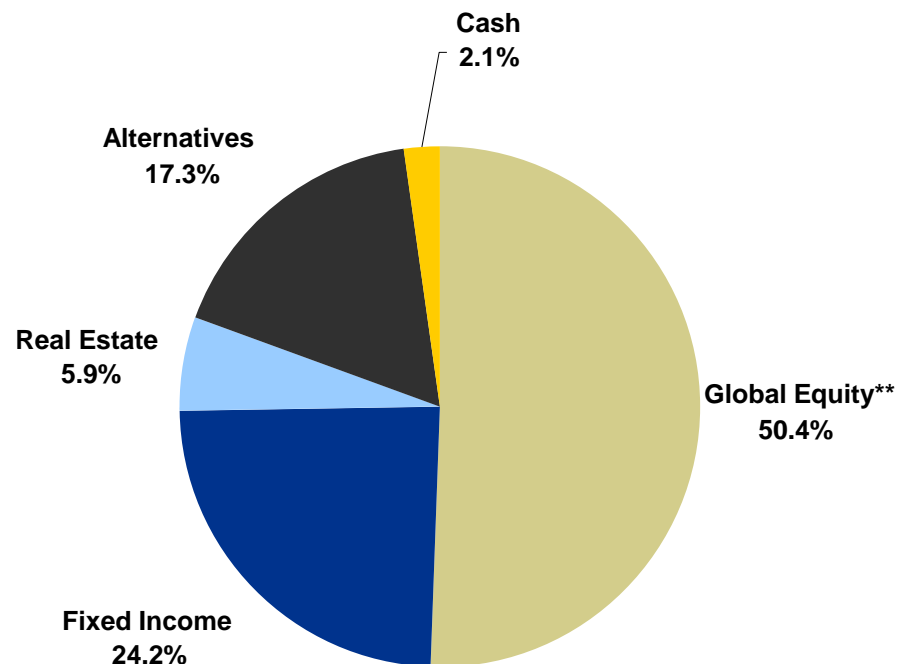
## FRS Pension Plan vs. Top Ten Defined Benefit Plans

FRS TOTAL FUND



\*Global Equity Allocation: 26.1% Domestic Equities; 29.6% Foreign Equities; 2.8% Global Equities. Percentages are of the Total FRS Fund.

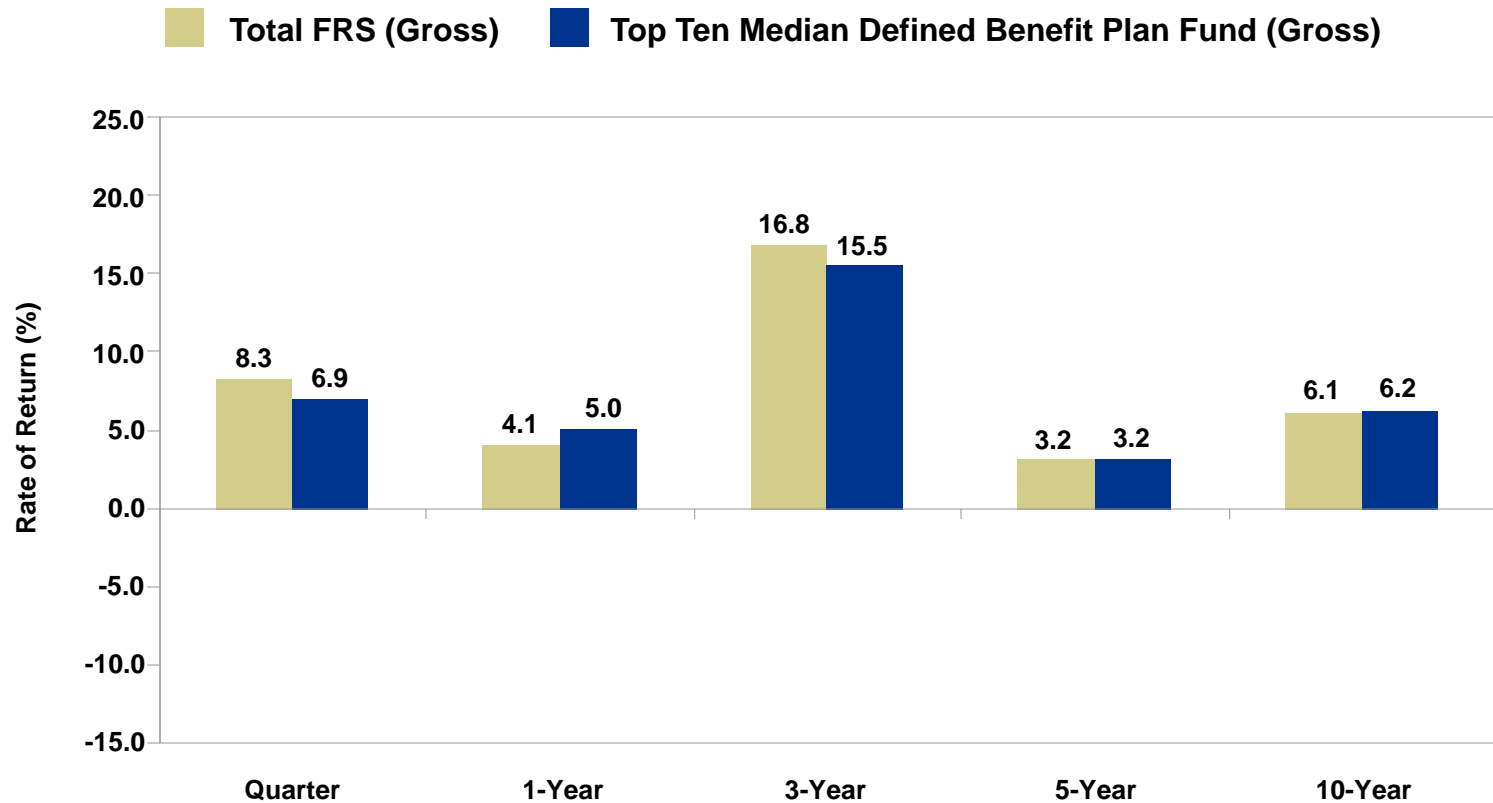
TUCS TOP TEN



\*\*Global Equity Allocation: 28.9% Domestic Equities; 21.5% Foreign Equities.

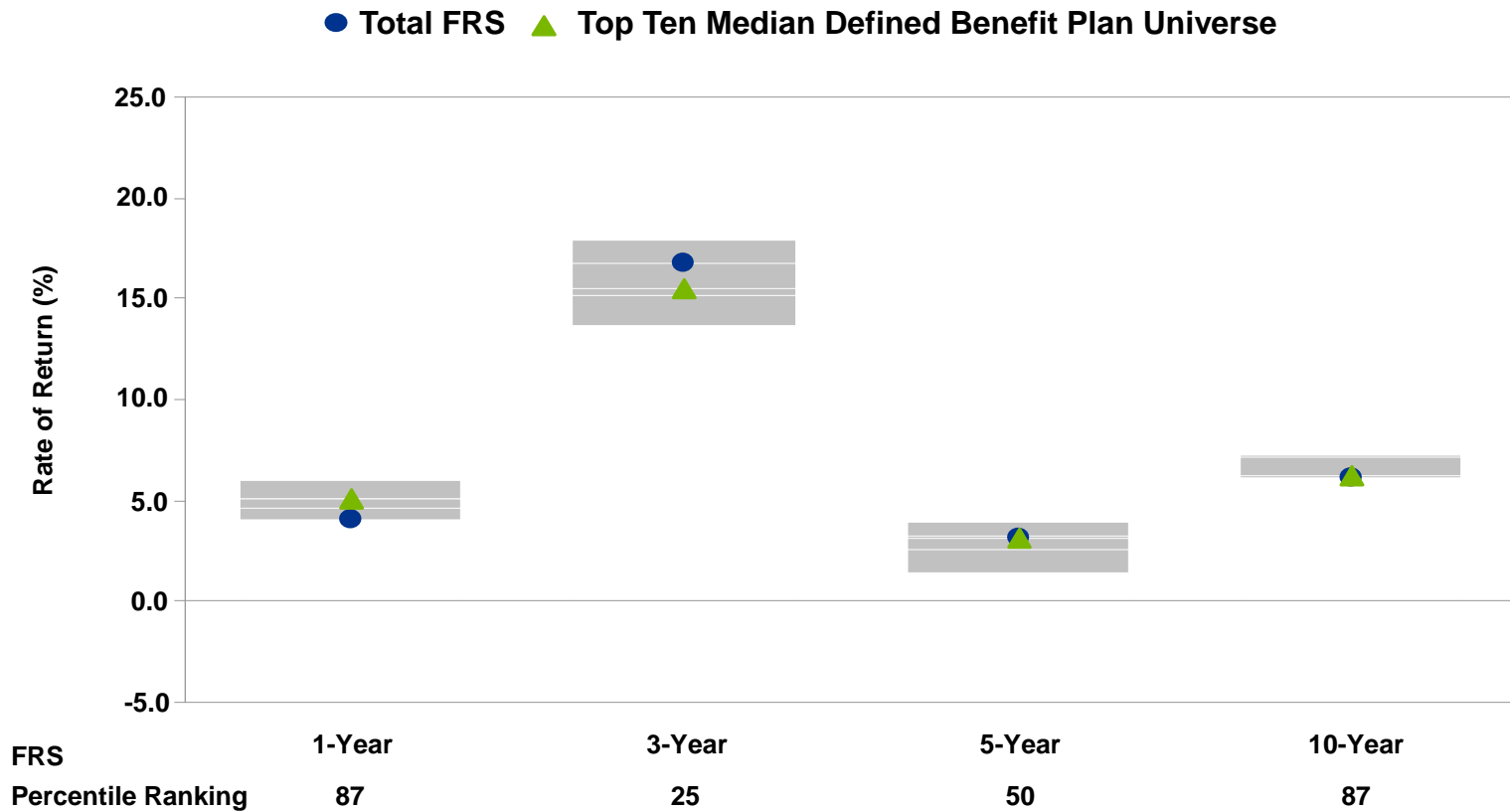
Note: The TUCS Top Ten Universe includes \$1.1 trillion in total assets. The median fund size was \$109.9 billion and the average fund size was \$109.6 billion.

# FRS Results Relative to TUCS Top Ten Defined Benefit Plans Periods Ending 3/31/2012



Note: The TUCS Top Ten Universe includes \$1.1 trillion in total assets. The median fund size was \$109.9 billion and the average fund size was \$109.6 billion.

# Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS) Periods Ending 3/31/2012



Note: The TUCS Top Ten Universe includes \$1.1 trillion in total assets. The median fund size was \$109.9 billion and the average fund size was \$109.6 billion.

# State Board of Administration of Florida Florida Retirement System

Investment Plan Review  
First Quarter 2012

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## Executive Summary

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- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over all time periods analyzed. This suggests strong relative performance of the underlying fund options in which participants are investing.
- The expense ratio for the FRS Investment Plan is low compared to a defined contribution peer group and is significantly lower than the average corporate and public defined benefit plan.
- Management fees are lower than the median as represented by Morningstar's mutual fund universe for every investment category.
- The FRS Investment Plan offers an appropriate number of fund options that span the risk and return spectrum.
- The Investment Policy Statement is revisited periodically to ensure the structure and guidelines of the FRS Investment Plan are appropriate, taking into consideration the FRS Investment Plan's goals and objectives.

# Total Investment Plan Returns

## Periods Ending 3/31/2012

	One-Year	Three-Year	Five-Year
<b>FRS Investment Plan</b>	<b>3.7%</b>	<b>13.9%</b>	<b>2.7%</b>
<i>Total Plan Aggregate Benchmark*</i>	3.6	13.3	1.9
<i>FRS Investment Plan vs. Total Plan Aggregate Benchmark</i>	0.2	0.6	0.8

## Periods Ending 12/31/2010

	Five-Year Average Return	Five-Year Gross Value Added
<b>FRS Investment Plan</b>	<b>4.0%</b>	<b>1.0%</b>
<i>U.S. Median**</i>	3.8	0.5
<i>FRS Investment Plan vs. U.S. Median</i>	0.2	0.5

\*Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.

\*\*Based on the CEM 2010 Survey that included 152 U.S. defined contribution plans with aggregate assets totaling \$929 billion. The median DC plan in the universe has \$2.3 billion in assets and the average DC plan has \$6.1 billion in assets.

## FRS Investment Plan Costs

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<b>FRS Investment Plan Expense Ratio*</b>	<b>0.23%</b>
<b>Peer DC Plan Expense Ratio*</b>	<b>0.27%</b>

<b>DB Plan Investment Management Fees</b>	
<b>Corporate**</b>	<b>0.50%</b>
<b>Public Funds***</b>	<b>0.46%</b>

\*Source: CEM Benchmarking 2010 Report – Custom Peer Group for FSBA of 20 DC plans including corporate and public plans with assets between \$1.9 - \$12.4 billion.

\*\*Source: Greenwich Associates 2010 Survey – Average fee of 80 corporate funds each with over \$5 billion under management.

\*\*\*Source: Greenwich Associates 2010 Survey – Average fee of 69 public funds each with over \$5 billion under management.

## FRS Investment Plan Costs (cont.)

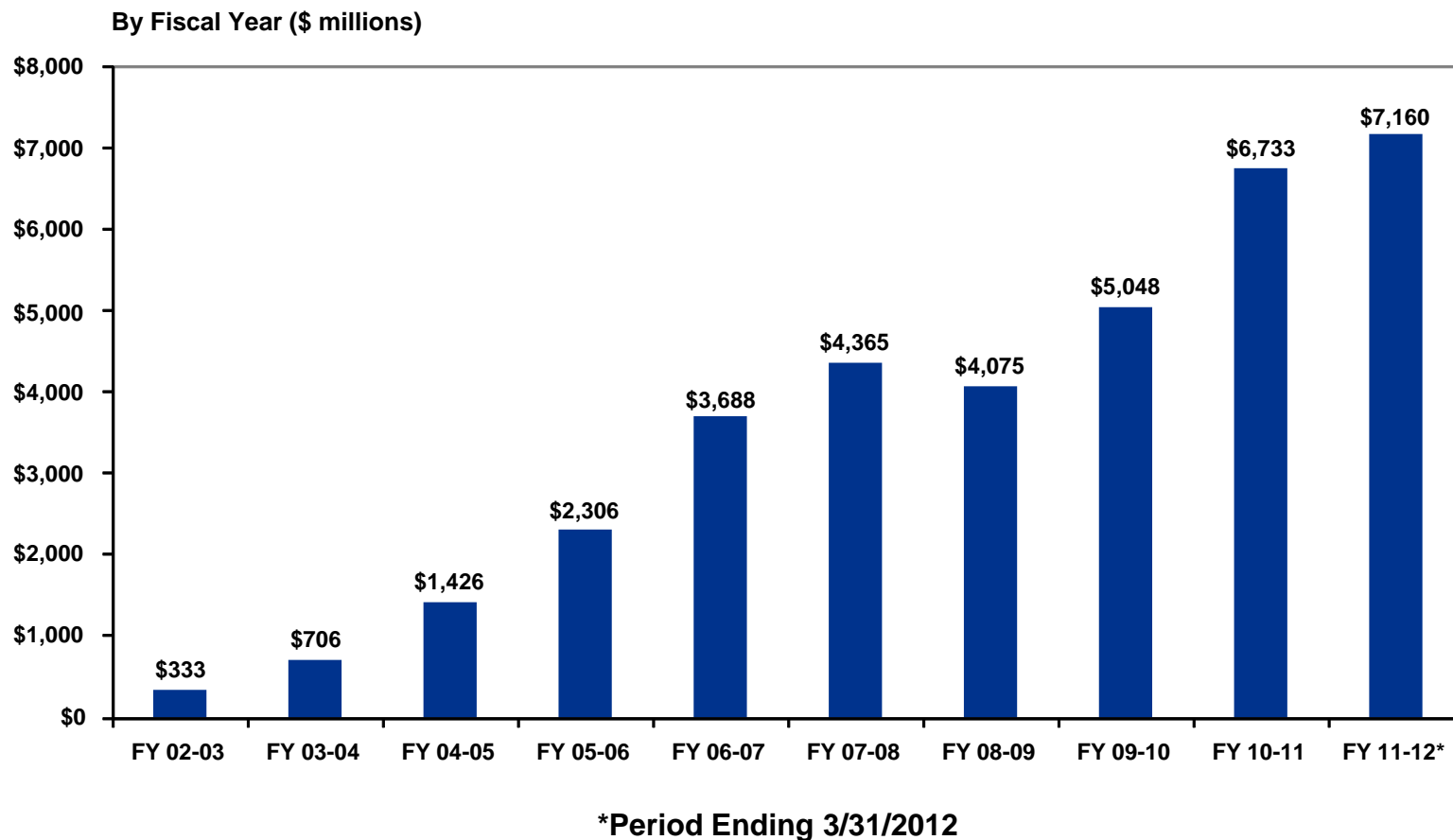
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Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity Fund	0.25%	0.86%
Mid Cap Equity Fund	0.56%	0.98%
Small Cap Equity Fund	0.88%	1.07%
International Equity Fund	0.38%	1.05%
Diversified Bond Fund	0.27%	0.55%
Balanced Fund	0.05%	0.89%
Money Market	0.06%	0.27%

\*Average Fee if Multiple Products in Category as of 3/31/2012.

\*\*Source: Morningstar as of 3/31/2012.

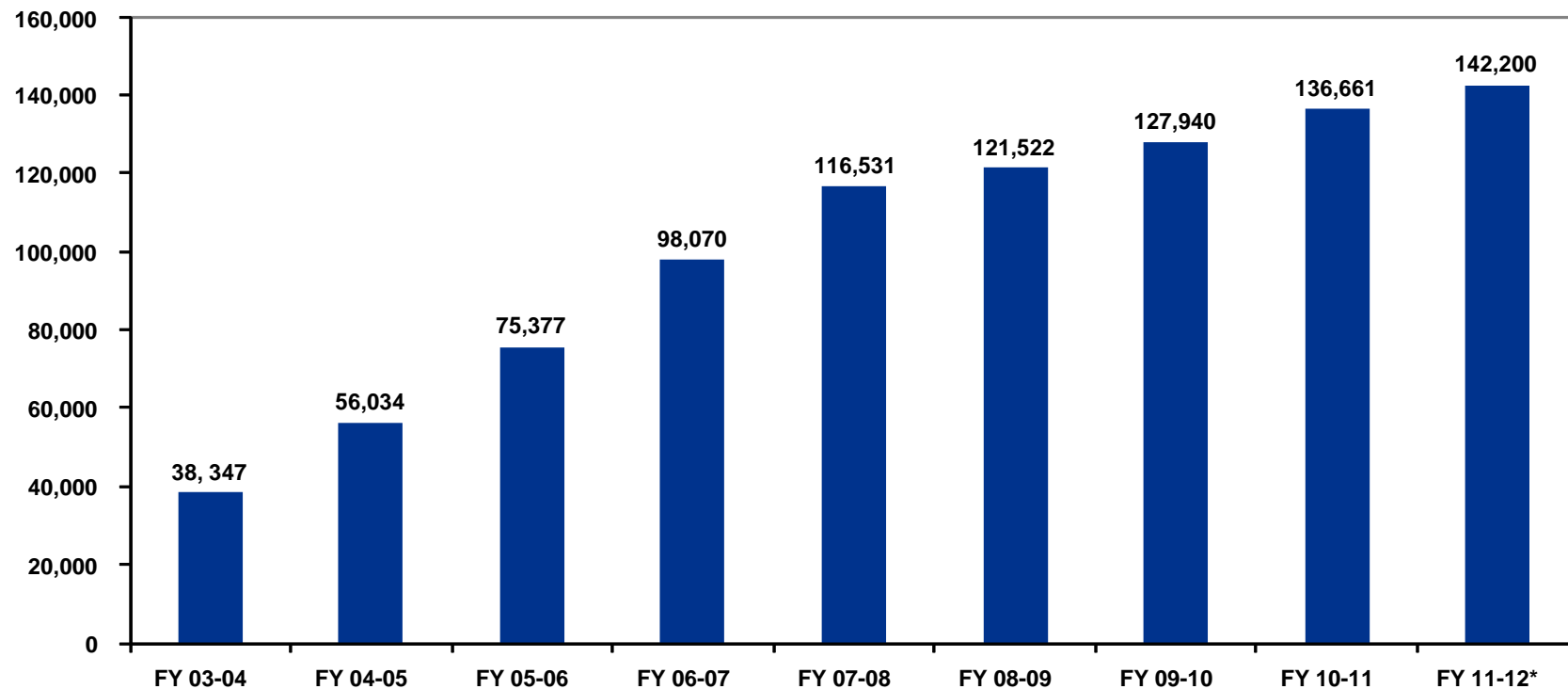
# Investment Plan Fiscal Year End Assets Under Management



Source: Investment Plan Administrator

# Investment Plan Membership

By Fiscal Year



\*Period Ending 3/31/2012

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# State Board of Administration of Florida CAT Fund Review

First Quarter 2012

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*An Aon Company*

# Florida Hurricane Catastrophe Fund Background

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- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.
- The State Board of Administration of Florida (SBA) manages five FHCF accounts, the CAT Fund (Operating Fund), the CAT 2006 A Fund (Post-Event Tax-Exempt Revenue Bonds), the CAT 2007 A Fund (Pre-Event Floating Rate Taxable Notes), the CAT 2008 A Fund (Post-Event Tax-Exempt Revenue Bonds), and the CAT 2010 A Fund (Post-Event Tax-Exempt Revenue Bonds).
- Both the CAT Fund (Operating Fund) and the CAT 2007 A Fund are internally managed portfolios benchmarked to a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Net Index.
- The CAT 2006 A Fund, the CAT 2008 A Fund and the CAT 2010 A Fund are invested in State and Local Government Series (SLGS) securities.
- As of March 31, 2012, the total value of all FHCF accounts was \$11.8 billion.

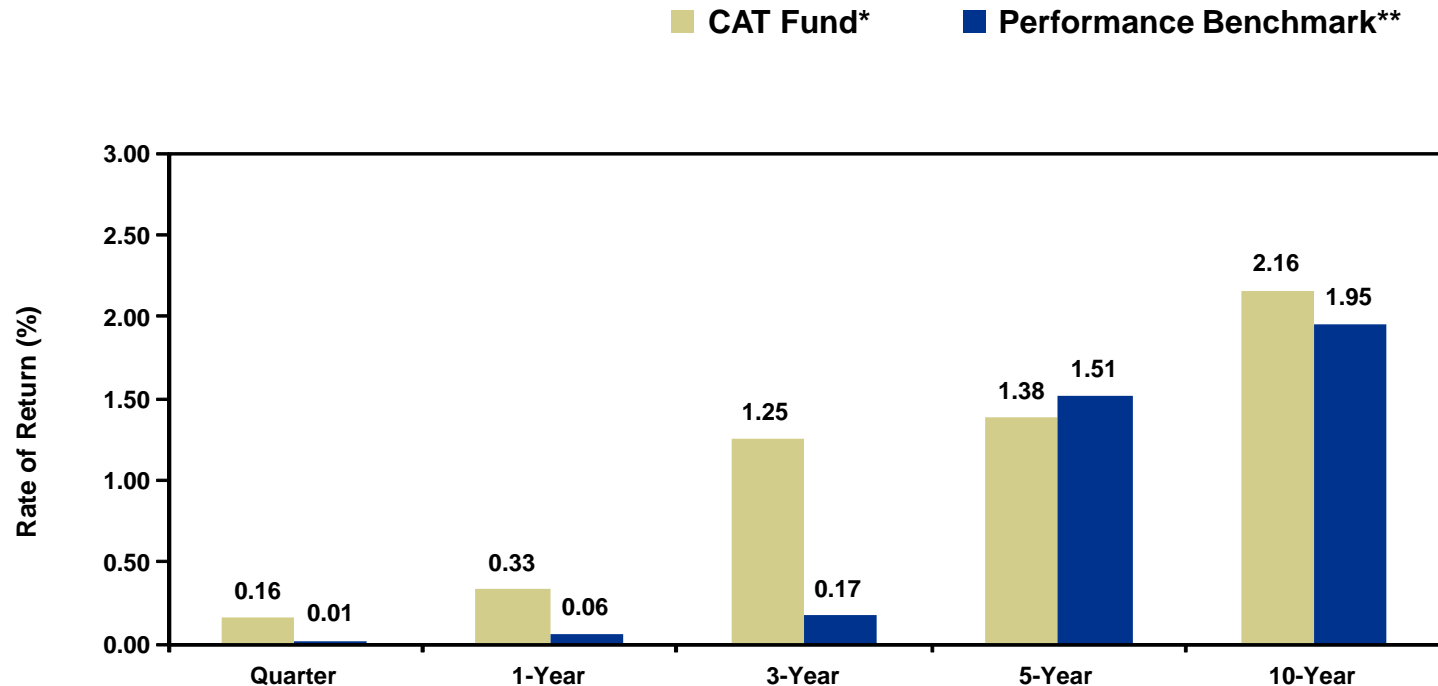
## Executive Summary

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- Performance of the CAT Fund on both an absolute and relative basis has been strong over short- and long-term time periods. The CAT Fund did underperform over the five-year period mostly due to poor performance during the 2008 credit crisis.
- The CAT Fund is adequately diversified across issuers within the short-term bond market.
- The Investment Policy Statement appropriately constrains the CAT Fund to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Adequate liquidity exists to address the cash flow obligations of the CAT Fund.
- The Investment Policy Statement is revisited periodically to ensure the structure and guidelines of the CAT Fund are appropriate, taking into consideration the CAT Fund's goals and objectives.

# CAT Fund Investment Results

## Periods Ending 3/31/2012



\*CAT Fund: Beginning March 2008, the returns for the CAT Fund reflect marked-to-market returns. Prior to that time, cost-based returns are used.

\*\*Performance Benchmark: The CAT Fund was benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month LIBOR. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Gross Index. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Net Index.

# CAT Fund Characteristics

## Period Ending 3/31/2012

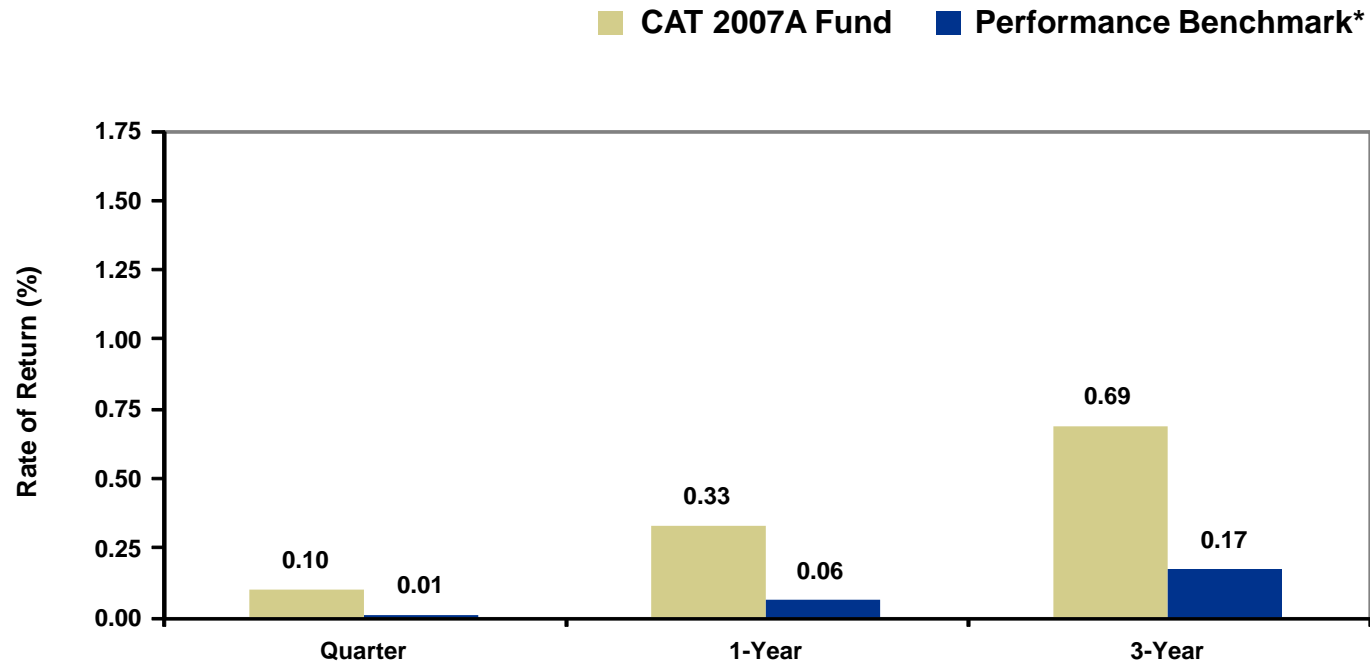
<b>Effective Maturity Schedule</b>	
Overnight - 14 Days	31.0%
15 - 30 Days	5.3%
31 - 60 Days	8.2%
61 - 90 Days	6.2%
91 - 120 Days	10.0%
121 - 150 Days	3.2%
151 - 180 Days	2.7%
181 - 210 Days	3.5%
211 - 240 Days	3.2%
241 - 270 Days	3.7%
271 - 300 Days	6.0%
301 - 365 Days	5.6%
366 - 732 Days	4.2%
733 - 1,098 Days	6.0%
1,099 - 1,875 Days	1.1%
<b>Total % of Portfolio:</b>	<b>100.0%</b>

<b>S &amp; P Credit Quality Composition</b>	
AAA	50.2%
AA	8.2%
A	40.5%
BBB	0.0%
Non-Investment Grade	1.1%
<b>Total % of Portfolio:</b>	<b>100.0%</b>

# CAT 2007 A Fund Investment Results

## Periods Ending 3/31/2012

---



\*Performance Benchmark: The CAT 2007 A Fund was benchmarked to the Merrill Lynch 1-Month LIBOR from March 2008 to December 2009. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Gross Index. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Fund Net Index.

# CAT 2007 A Fund Characteristics

## Period Ending 3/31/2012

<b>Effective Maturity Schedule</b>	
Overnight - 14 Days	16.6%
15 - 30 Days	6.1%
31 - 60 Days	7.8%
61 - 90 Days	7.1%
91 - 120 Days	10.8%
121 - 150 Days	14.5%
151 - 180 Days	21.9%
181 - 210 Days	12.7%
211 - 240 Days	0.0%
241 - 270 Days	0.0%
271 - 300 Days	0.0%
301 - 365 Days	0.9%
366 - 732 Days	0.8%
733 - 1,098 Days	0.9%
1,099 - 1,875 Days	0.0%
<b>Total % of Portfolio:</b>	<b>100.0%</b>

<b>S &amp; P Credit Quality Composition</b>	
AAA	50.2%
AA	11.4%
A	38.4%
BBB	0.0%
Non-Investment Grade	0.0%
<b>Total % of Portfolio:</b>	<b>100.0%</b>

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# State Board of Administration of Florida Lawton Chiles Endowment Fund Review

First Quarter 2012

**Hewitt**ennisknupp

*An Aon Company*

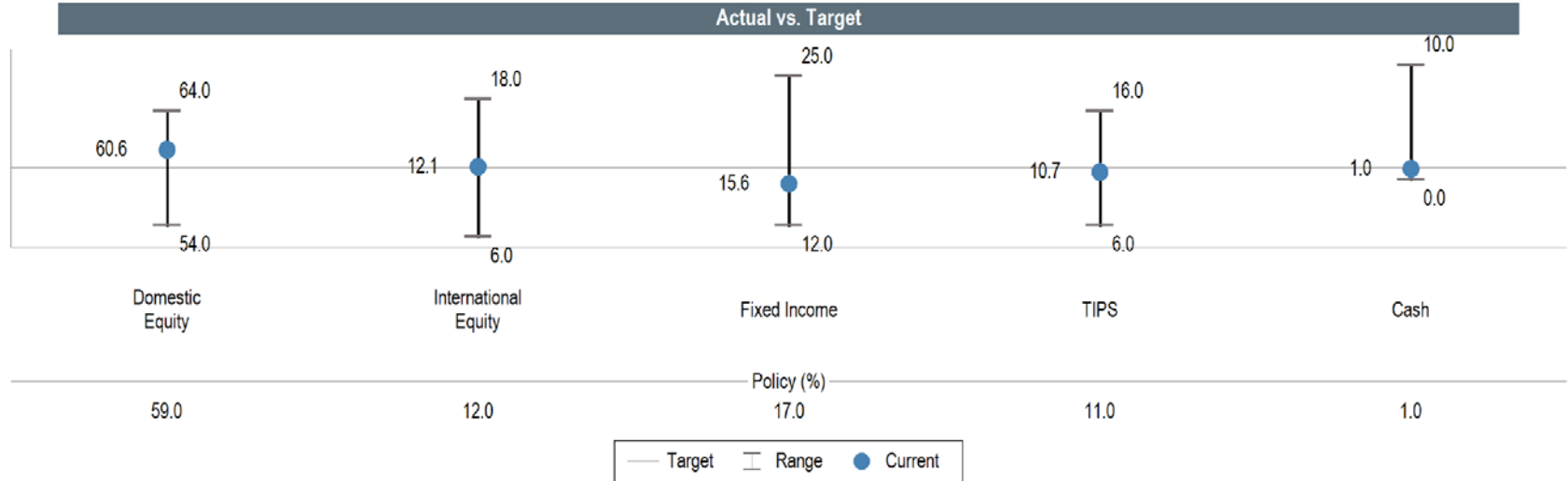
## Executive Summary

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- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs, and research related to tobacco use.
  - Investment objective is to preserve the real value of the net contributed principal and provide annual cash flows for appropriation.
  - The Endowment's investments are diversified across various asset classes including domestic equity, foreign equity, fixed income, inflation-indexed bonds (TIPS), and cash.
- The Endowment assets totaled \$793.9 million as of March 31, 2012.
  - At quarter-end, the Endowment's actual allocations were very close to the policy target.
- Over all time periods, the Endowment outperformed its Target.

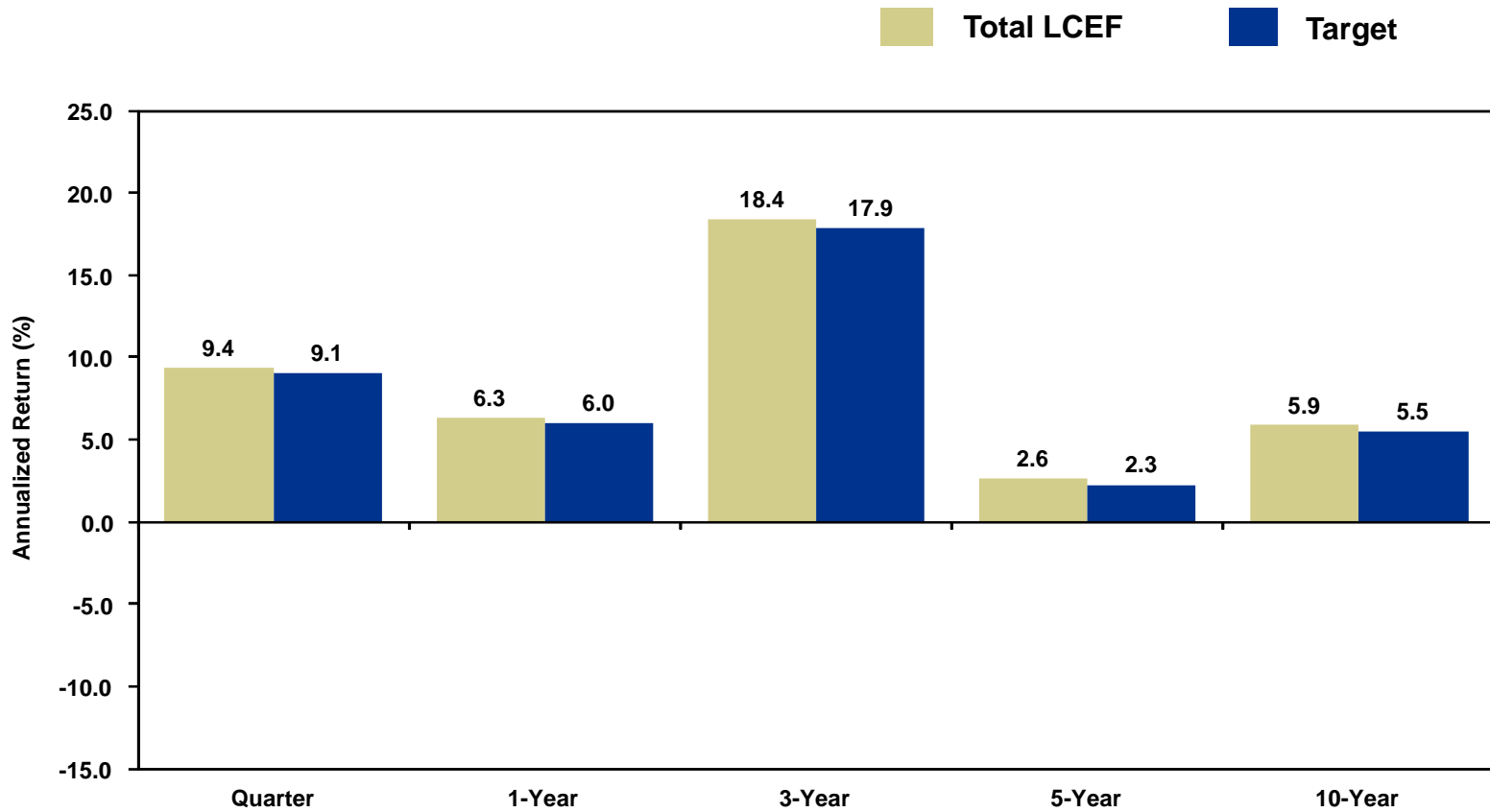
# LCEF Asset Allocation as of 3/31/2012

## Total Fund Assets = \$793.9 Million

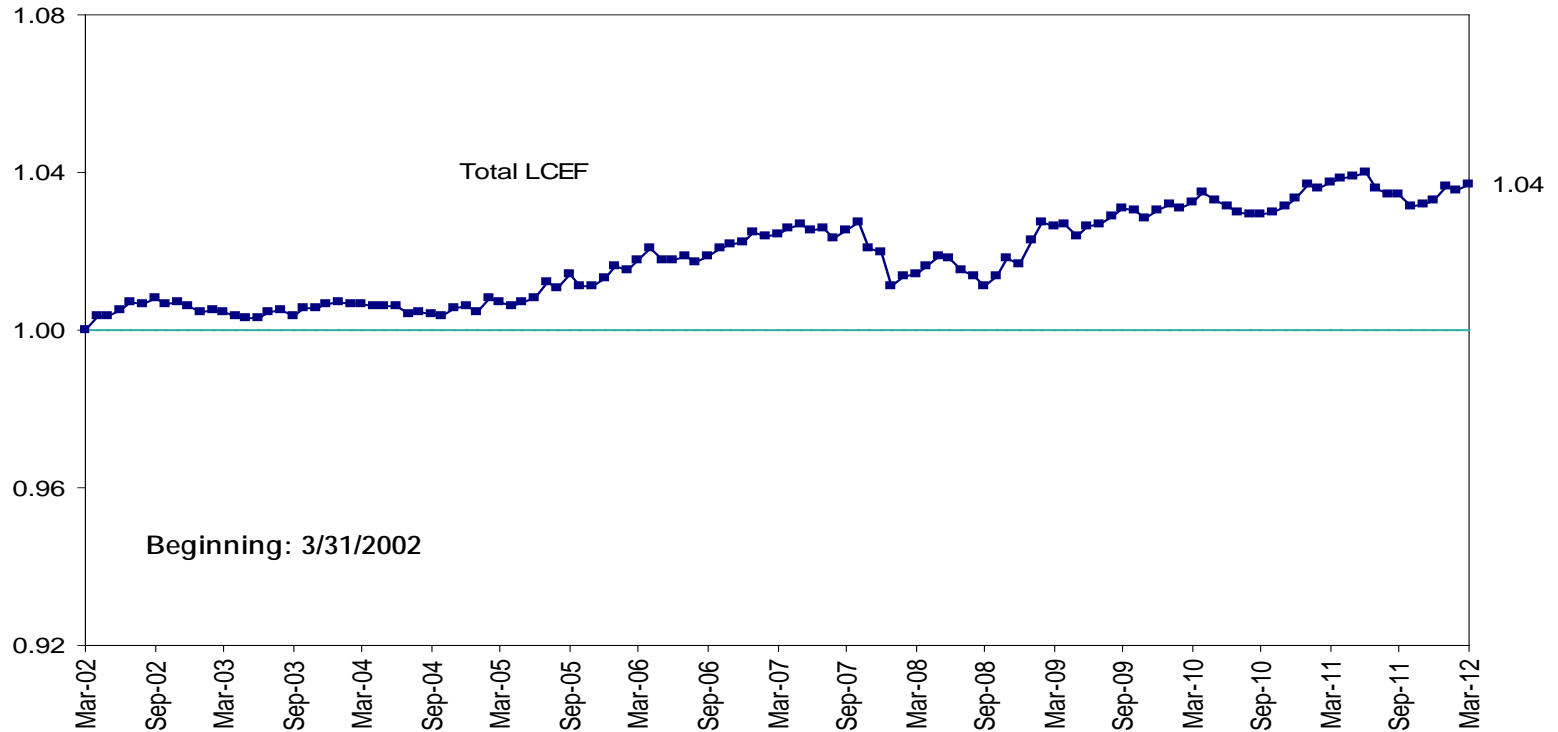


# LCEF Investment Results

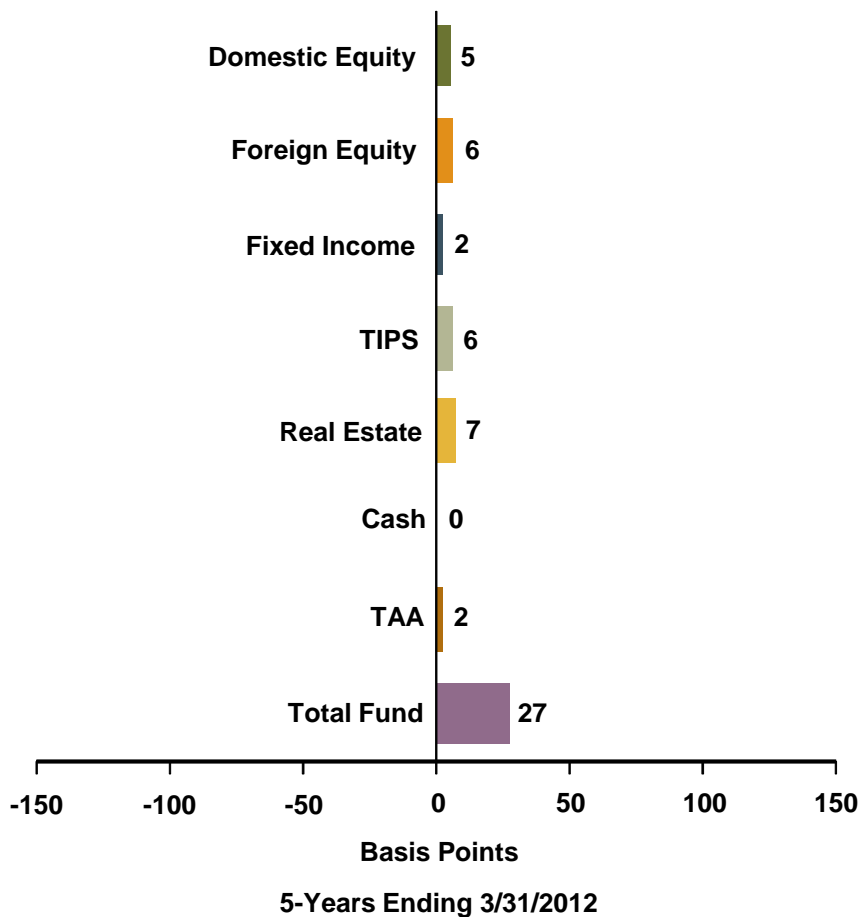
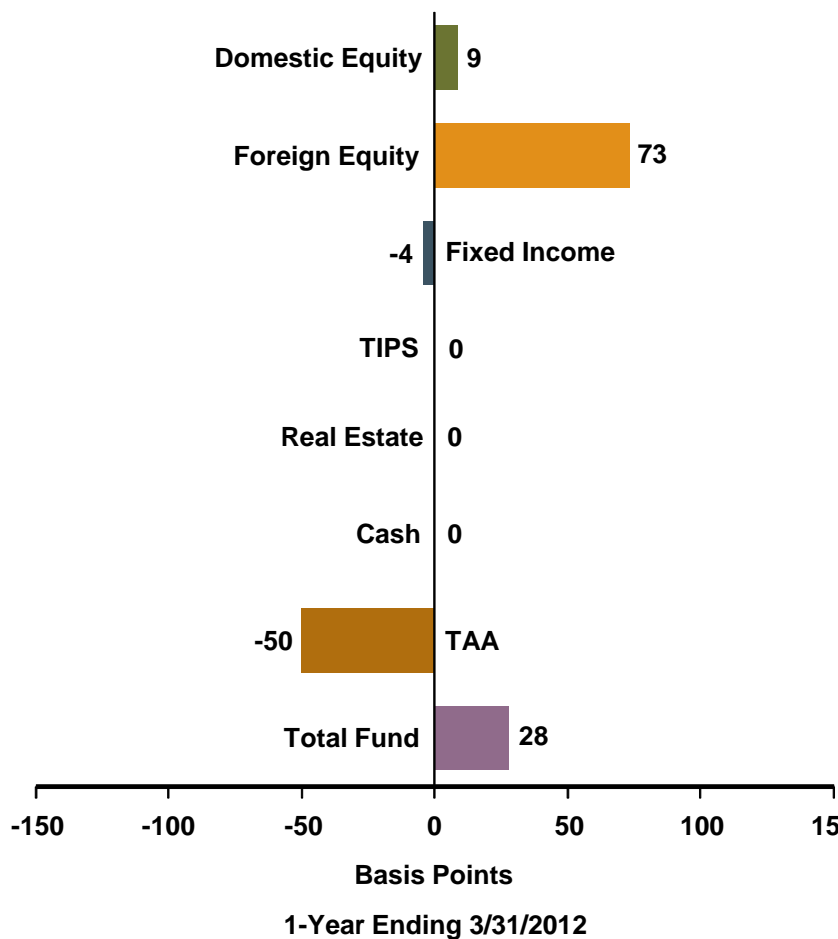
## Periods Ending 3/31/2012



# LCEF Cumulative Relative Performance 10 Years Ending 3/31/2012



# LCEF Attribution Analysis



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# State Board of Administration of Florida Florida PRIME and Fund B Review

First Quarter 2012

**Hewitt**ennisknupp

*An Aon Company*

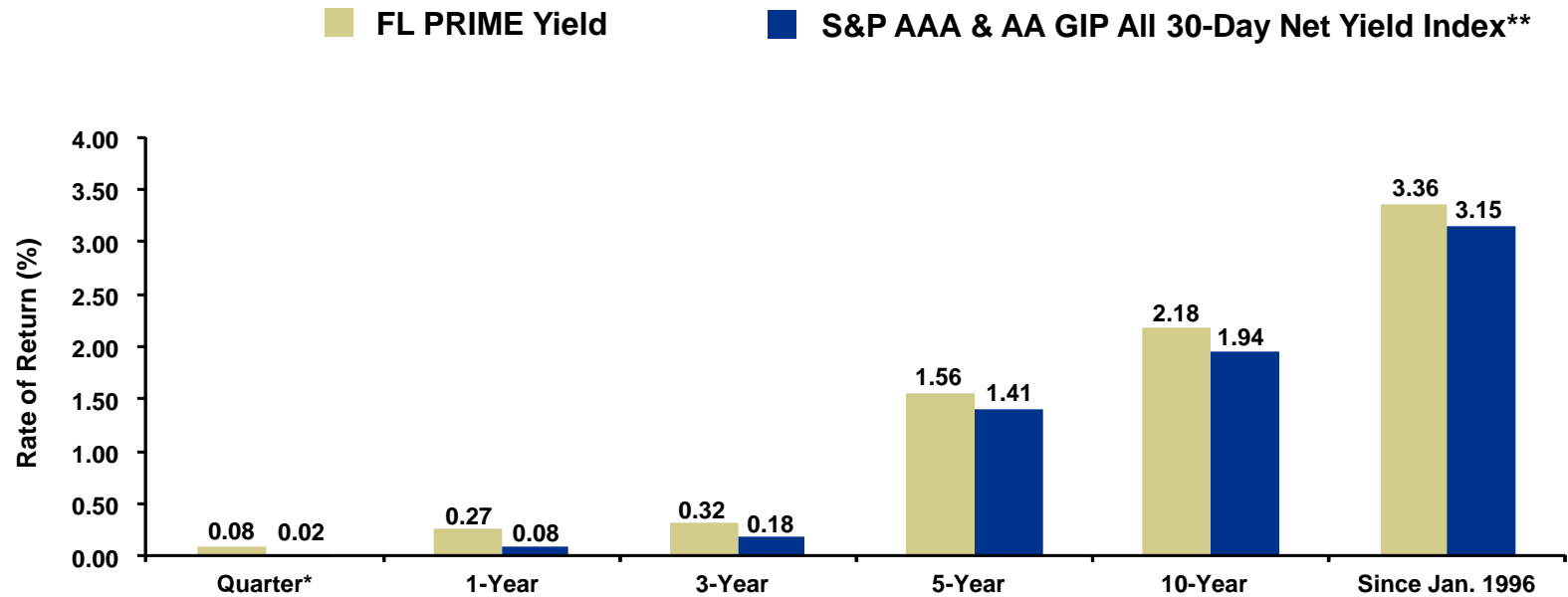
## Executive Summary

---

- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately diversified across issuers within the short-term bond market and adequate liquidity exists to address the cash flow obligations of Florida PRIME.
- Performance of Florida PRIME on both an absolute and relative basis has been strong over short- and long-term time periods.
- As of March 31, 2012, the total market value of Florida PRIME was \$7.29 billion.
- Hewitt EnnisKnupp, in conjunction with SBA staff, compiles an annual best practices report that includes a full review of the Investment Policy Statement, operational items, and investment structure for Florida PRIME.

# Florida PRIME Investment Results

## Periods Ending 3/31/2012



\*Returns less than one year are not annualized.

\*\*S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

## Florida PRIME Characteristics

### Periods Ending 3/31/2012

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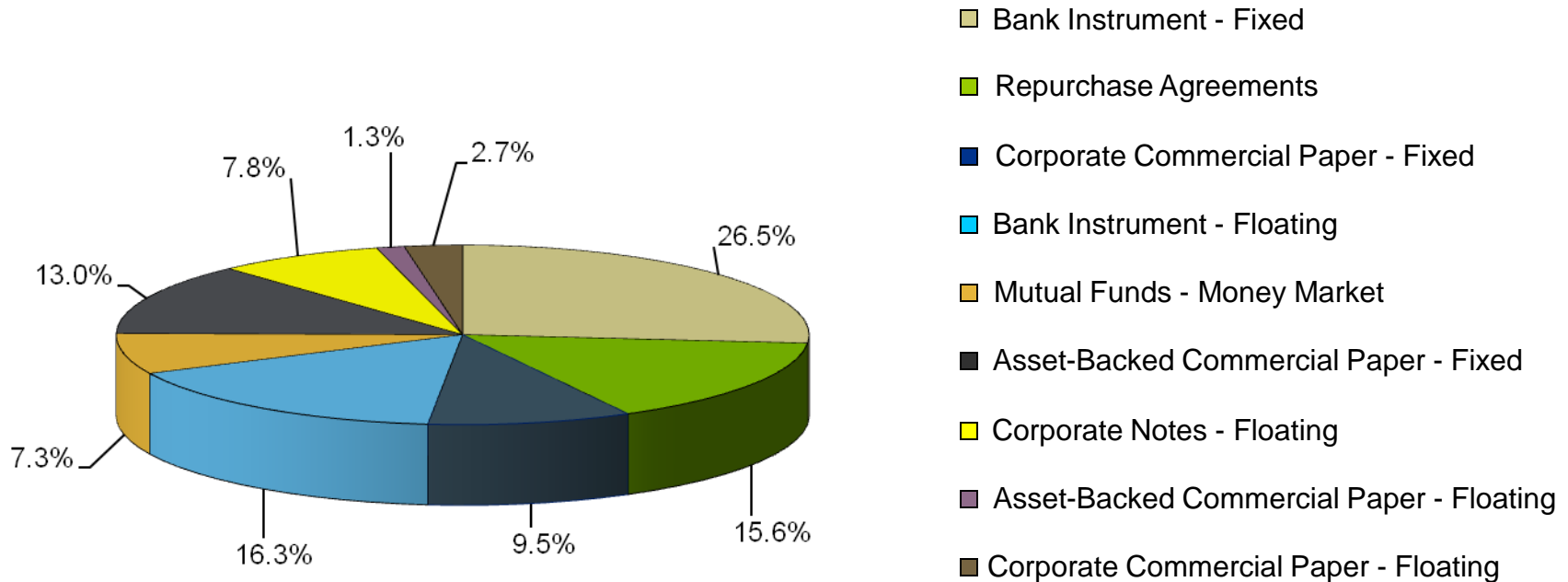
<b>Cash Flows as of 3/31/2012</b>	<b>First Quarter</b>	<b>Fiscal YTD*</b>
Opening Balance	\$7,783,094,067	\$6,823,921,541
Participant Deposits	\$2,943,448,485	\$12,357,401,201
Transfers from Fund B	\$11,450,000	\$39,575,000
Gross Earnings	\$6,624,722	\$15,401,878
Participant Withdrawals	(\$3,451,788,256)	(\$11,942,656,460)
Fees	(\$481,473)	(\$1,295,613)
Closing Balance (3/31/2012)	\$7,292,347,546	\$7,292,347,546
<b>Change</b>	<b>(\$490,746,521)</b>	<b>\$468,426,005</b>

\*Period July 2011 – March 2012

# Florida PRIME Characteristics

## Quarter Ending 3/31/2012

### Portfolio Composition



## Florida PRIME Characteristics

### Period Ending 3/31/2012

---

Effective Maturity Schedule	
1-7 days	35.6%
8-30 days	27.9
31-90 days	31.2
91-180 days	3.2
181+ days	2.1
<b>Total % of Portfolio:</b>	<b>100.0%</b>

S & P Credit Quality Composition	
A-1+	59.7%
A-1	40.3
<b>Total % of Portfolio:</b>	<b>100.0%</b>

## Fund B Change in Market Value Period Ending 3/31/2012

---

Cash Flows as of 3/31/2012	First Quarter	Fiscal YTD*
Opening Balance	\$234,687,836	\$263,794,745
Participant Distributions	(\$11,450,000)	(\$39,575,000)
Expenses Paid	(\$86,390)	(\$224,585)
Price Change	\$20,141,542	\$19,297,828
Closing Balance	\$243,292,988	\$243,292,988
<b>Change</b>	<b>(\$8,605,152)</b>	<b>(\$20,501,757)</b>

\*Period July 2011 – March 2012

- As of March 2012, 85.3% of the original principal in Fund B has been returned to participants.

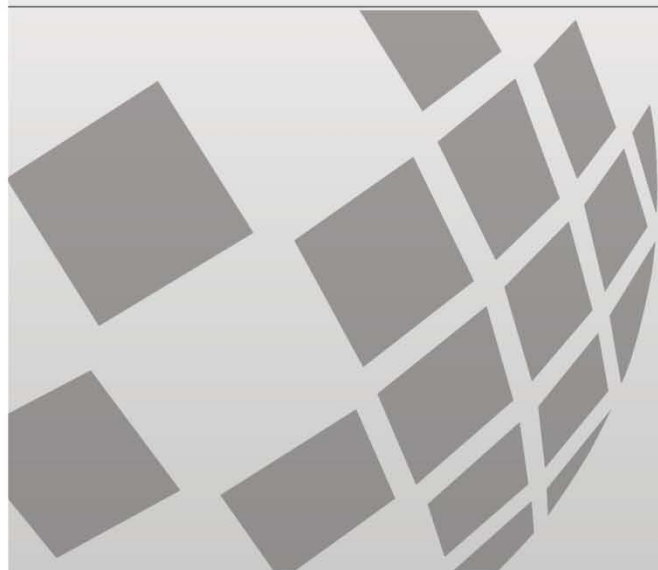
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**End of Section**



Hamilton Lane



# Florida State Board of Administration

Florida Growth Fund Review

June 2012

## Hamilton Lane in 2011

Independent Firm Dedicated to Private Equity for Over 20 Years

People

More than 170 global employees and significant employee ownership.

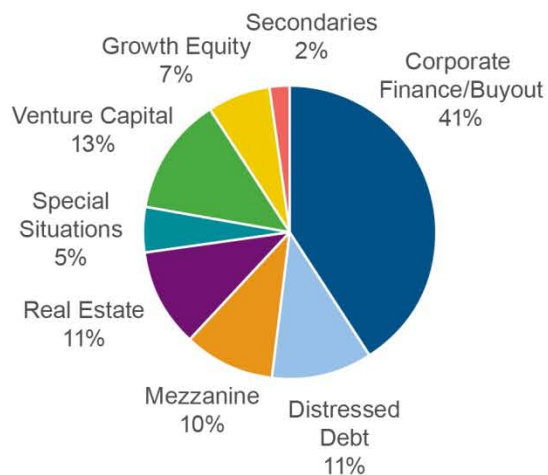
Offices

Currently operating 11 offices around the world  
Rio de Janeiro most recently added

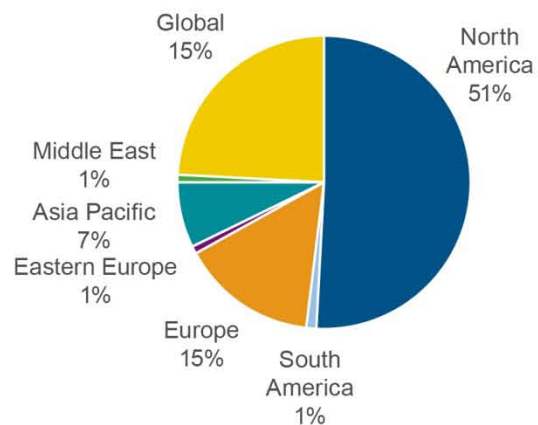
## Deal Flow: Seeing the Market

PPMs Screened	589
GP Meetings	382
Site Visits	83

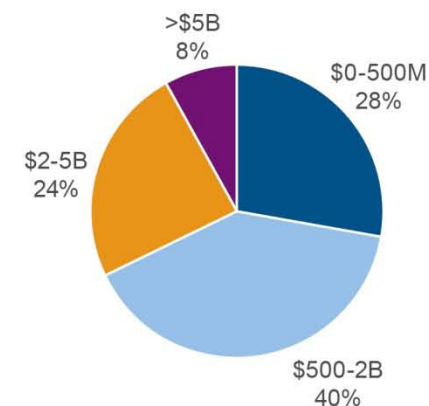
## Site Visits by Strategy



## Site Visits by Region



## Site Visits by Fund Size



## Florida Private Equity Portfolio

Established, well-diversified private equity program

- \$16 billion committed over 20+ years
- Balanced, prudent exposure to 11 key industries, and more than 25 countries around the world

Strong performance over multiple time frames

- Since-inception IRR: 7.2% (4.3%, Pre-asset class creation, 12.2% Post-asset class creation)

Florida SBA is seen as a partner of choice in the private equity community

- 65 core relationships with consistent, high-quality general partners

## Florida Growth Fund Portfolio

The current Florida Growth Fund ("FGF") portfolio consists of a mix of co-investment and primary fund investments within the Venture Capital, Growth Equity and SMID strategies, aligned with the mandate objectives and investment guidelines

Florida Growth Fund Tranche I is fully allocated, and has a since-inception IRR of 25.4% and a multiple of 1.3x through December 31, 2011

FGF investments represent a broad cross-section of Florida companies and industries

Network development and involvement in the Florida business community remain focus areas for the Florida Growth Fund



## Florida Growth Fund Update

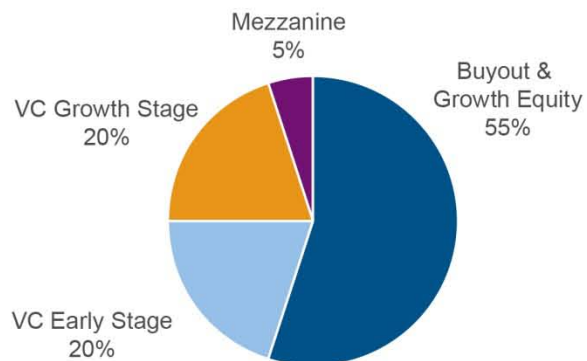
Florida Growth Fund Investment Summary December 31, 2011			
USD in Millions	Co-Investments	Partnerships	Total
Number of Investments	15	7	22
Commitments	\$95.4	\$83.9	\$179.3
Paid In	93.6	18.9	112.5
Distributions	4.6	2.4	7.0
Market Value	117.3	20.9	138.2
<b>IRR</b>	<b>26.18%</b>	<b>21.25%</b>	<b>25.40%</b>
<b>Total Value Multiple</b>	<b>1.3x</b>	<b>1.2x</b>	<b>1.3x</b>

- Florida Growth Fund Tranche I is fully allocated, and has a since-inception IRR of 25.40% through December 31, 2011
- Subsequent to December 2011, FGF made two new co-investments totaling \$9.0 million and follow-on investments of \$2.5 million in existing co-investment commitments. On the partnership front, FGF added 3 new partnerships totaling \$32.5 million

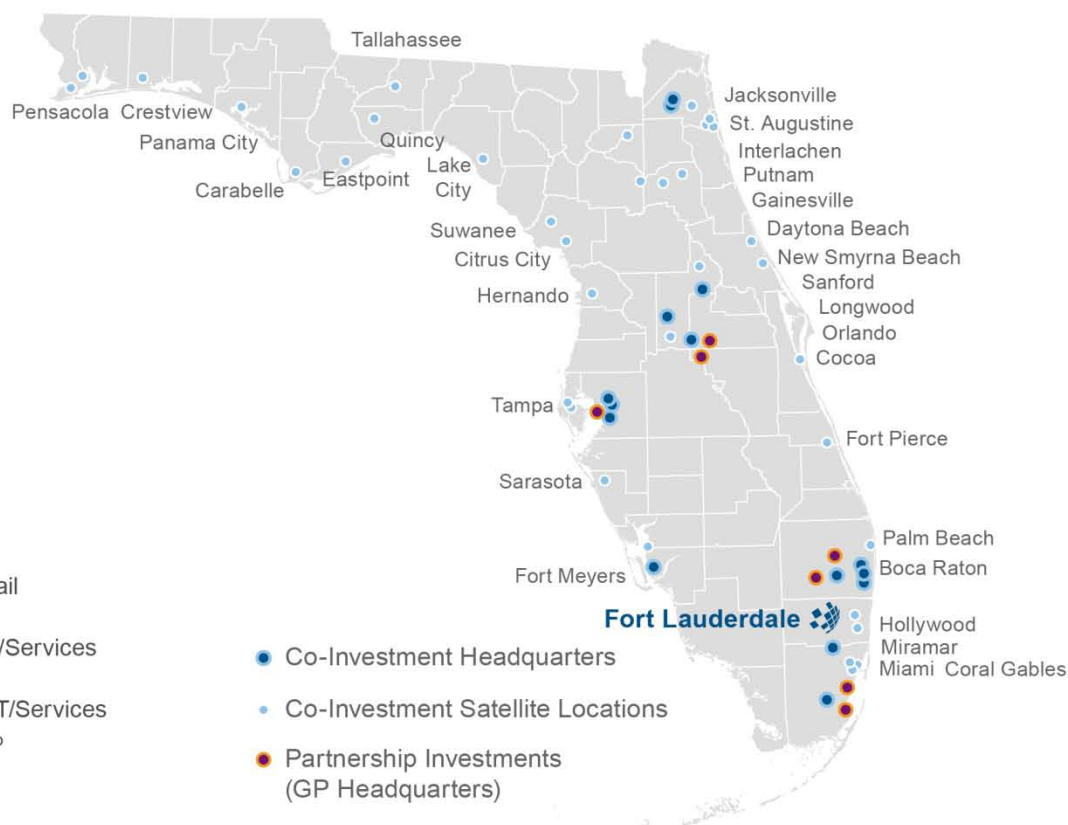
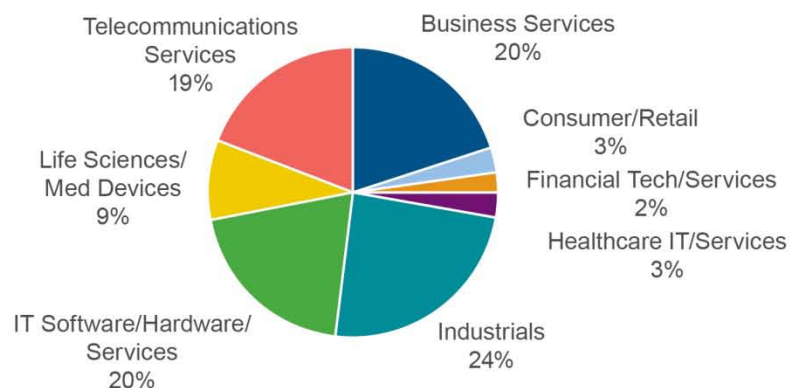
**In September 2011, Florida SBA approved Florida Growth Fund Tranche II, allocating an additional \$250 million**

Note: The IRR net of Hamilton Lane fee is 18.32%

## By Strategy\*



## By Industry\*\*



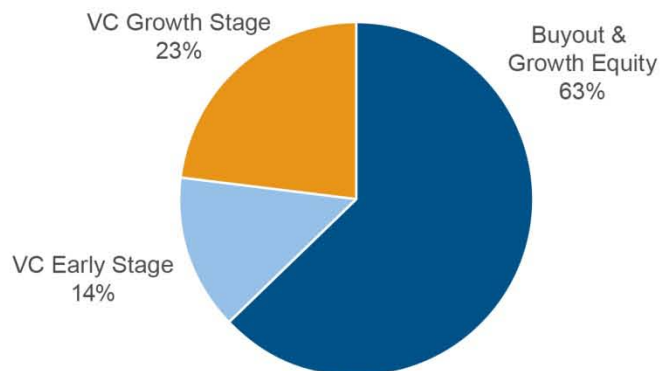
As of December 31, 2011

\*Total Exposure (market value + unfunded commitments) used to determine strategic diversification

\*\*Exposed market value of underlying holdings used to determine Industry diversification

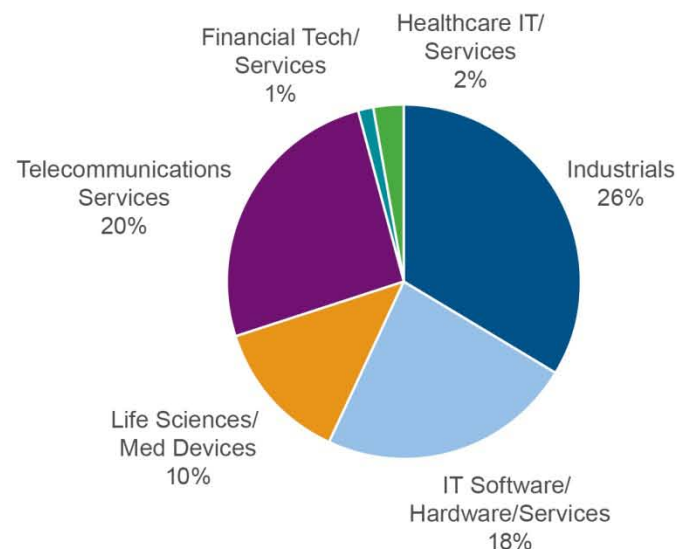
## 15 Investments; \$95.4 Million in total commitments

### By Strategy\*



- Focus on partnering with managers with top quartile performance and sector expertise

### By Industry\*\*



- Industry diversification represented by growth sectors including Information Technology, Healthcare IT/ Life Sciences and Industrials/ Business Services

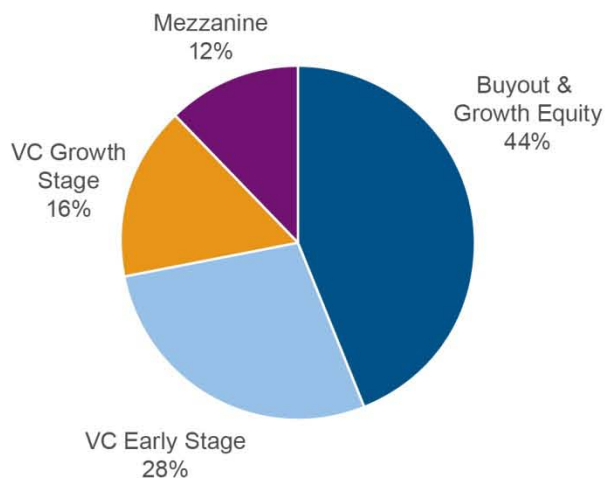
As of December 31, 2011

\*Total Exposure (market value + unfunded commitments) used to determine strategic diversification

\*\*Exposed market value of underlying holdings used to determine Industry diversification, not including reserve capital

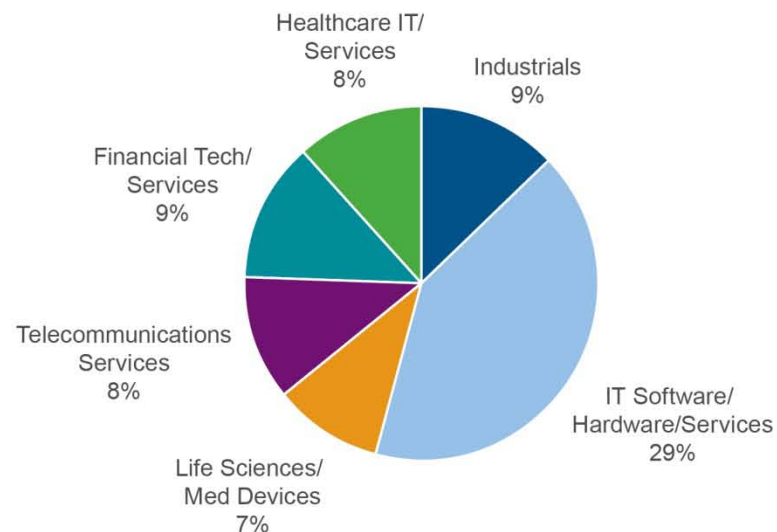
## 7 partnership investments; \$83.9 in total commitments

### By Strategy\*



- Partnership investments spread across six GP relationships
- Side car vehicles established with four<sup>1</sup> partnership investments to increase Florida concentration

### By Industry\*\*



- All fund managers have a significant presence within the state, with new Florida offices opened by three<sup>1</sup> managers

As of December 31, 2011

\*Total Exposure (market value + unfunded commitments) used to determine strategic diversification

\*\*Exposed market value of underlying holdings used to determine Industry diversification

<sup>1</sup> As of May 2012

## Staying active within the Florida Venture community and the state in general...

### Examples include:

- **Speaking Engagements**

- Association of Corporate Council
- ACG Conference
- Southern Capital Conference
- Bio-Florida 13th Annual Conference
- Miami Finance Forum
- Florida Venture Capital Conference
- Southeast Venture Conference

- **Board representation**

- Advisory board seats on all primary partnerships
- Six board seats/observer rights for co-investments
- Florida Institute for the Commercialization of Public Research
- I2 Capital Acceleration Program - Judge
- Miami Finance Forum
- Florida Venture Forum



**End of Section**



**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

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

**POST OFFICE BOX 13300  
32317-3300**

**RICK SCOTT  
GOVERNOR  
AS CHAIRMAN  
JEFF ATWATER  
CHIEF FINANCIAL OFFICER  
AS TREASURER  
PAM BONDI  
ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO**

June 26, 2012

Honorable Debbie Mayfield  
Alternating Chair  
Joint Legislative Auditing Committee  
317 House Office Bldg.  
402 S. Monroe Street  
Tallahassee, Florida 32399

Honorable Jim Norman  
Alternating Chair  
Joint Legislative Auditing Committee  
214 Senate Office Bldg.  
404 S. Monroe Street  
Tallahassee, Florida 32399

Dear Representative Mayfield and Senator Norman:

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

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

Please contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink, reading "Ashbel C. Williams".

Ashbel C. Williams  
Executive Director & CIO

ACW/db

Attachments

cc: Honorable Larry Ahern  
Honorable Daphne Campbell  
Honorable Jeff Clemens  
Honorable Bryan Nelson  
Honorable Kenneth Roberson  
Honorable Arthenia Joyner  
Honorable Evelyn Lynn  
Honorable Maria Lorts Sachs  
Honorable Stephen Wise  
Ms. Kathy Dubose, Director



REPLY TO: TALLAHASSEE

May 30, 2012

**By Hand Delivery**

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

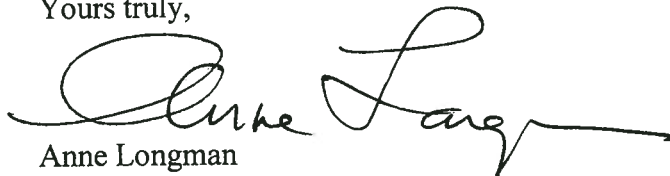
Re: Local Government Surplus Funds Trust Fund—Statutory Compliance Review

Dear Ms. Hazen:

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

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

Yours truly,



Anne Longman

AL/es

Enclosure

---

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1001 Third Avenue West  
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Suite 150  
Jacksonville, Florida 32202

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TALLAHASSEE  
315 South Calhoun Street  
Suite 830  
Tallahassee, Florida 32301

p | 850-222-5702 • f | 850-224-9242

WEST PALM BEACH  
515 North Flagler Drive  
Suite 1500  
West Palm Beach, Florida 33401

p | 561-640-0820 • f | 561-640-8202



Reply to: Tallahassee

June 1, 2012

## **LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND STATUTORY COMPLIANCE REVIEW**

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

### **THE STATUTE**

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

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

This is the fourth annual review of the Fund under section 218.405(3). There have been no substantive changes to the statute since last year's review. Minor changes to section 215.44, Florida Statutes by Chapter 2011-100, Laws of Florida (Exhibit A) clarify that the Fund may accept monies from a qualified entity without a trust agreement if required enrollment materials are completed.

### **SCOPE OF REVIEW**

This review addresses the first part of the annual certification and examines whether the Trust Fund, defined at section 218.403(9) as "the pooled investment fund created by s. 218.405 and known as the Local Government Surplus Fund Trust Fund," is "in compliance with the

---

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June 1, 2011

Page -2-

requirements of this part.” “This part” refers to Part IV of Chapter 218, Florida Statutes, which includes sections 218.40 – 218.422, Florida Statutes.

The scope of this review is sections 218.40 – 218.415, Florida Statutes for the time period May 30, 2011 through May 31, 2012. The remainder of Part IV, Chapter 218 covers the Fund B Surplus Funds Trust Fund, which is not within the scope of this review.

## PURPOSE

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

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

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

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

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

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

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

## CREATION, OBJECTIVES

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

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

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

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

## RULES

Both sections 218.405(4) and 218.412 make rulemaking to administer the Trust Fund permissive rather than mandatory. The Board has adopted rules for the Fund at Chapter 19-7, Florida Administrative Code. The majority of these rules were enacted in 1982, with substantial revisions in 2002 and 2010. Effective April 11, 2012, pursuant to Executive Order 11-01, the former purpose statement at 19-7.001 was eliminated as duplicative, unnecessary or unduly burdensome. Rule 19-7.002 was amended this same date to adopt the current Investment Policy Statements for the Fund (Exhibit B) and for Fund B and to give website references for them.

## HOW THE TRUST FUND INTERACTS WITH LOCAL GOVERNMENT AUTHORITIES

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

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

June 1, 2011

Page -4-

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

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

All materials are provided at the Board's web site: [www.sbafla.com](http://www.sbafla.com) at the Florida PRIME link, or directly at [www.sbafla.com/prime](http://www.sbafla.com/prime), and any amendments to the educational materials are noticed on the website. Portions of the enrollment materials were amended and posted to the website on June 28, 2011, including the New Participant Enrollment Guide, the current Investment Policy Statement and the Earnings Allocation formula. These materials track the specific statutory information required by section 218.407(1).

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

- (a) The local government official, who may be the chief financial or administrative officer of the local government, or
- (b) An independent trustee holding funds on behalf of the unit of local government, responsible for deposit and withdrawal of such funds.

Attached Exhibit C lists all open accounts now in the Trust Fund, the inception date of each, and indicates, based on staff review, the following:

- Whether a resolution or letter authorizing investment of the local government surplus funds in the Trust Fund is on file.

The column heading on Exhibit C reads Resolution/Letter, in recognition that not all entities authorized to invest in the Fund have the power to pass resolutions (see Statutory Compliance Review, June 1, 2010, for analysis). The resolution is required to name the local government official or the independent trustee responsible for deposit and withdrawal of funds. Some of the resolutions and letters on file identify the responsible local official by title rather than by individual name.

- Whether the disclosure statement required by section 218.407(1)(g) has been provided for signature by the appropriate local government official, and whether a signed acceptance of this disclosure statement is on file.

Although the contents of this disclosure statement are not specified by the statute, because it is the last in the statutory list of items required to be provided by the Board to potential participants, it appears to be a statement that the specified materials have been received and therefore “disclosed” to the local government. The enrollment materials include a form Disclosure Statement which acknowledges receipt and review of all pertinent enrollment materials. Exhibit C includes a number of new accounts for existing participants for which the disclosure statement was not required. This was based on the fact that a participating entity already had one or more accounts and thus was deemed to be aware of all existing requirements, terms and conditions. While these existing participants are clearly charged with such knowledge by their continued interaction with the Fund, I recommend going forward that a participant without a disclosure statement on file opening a new account be requested to fill out and return the standard disclosure. Staff has concluded it will request a disclosure statement of any present participant which does not have one, regardless of the length of its participation, and will be moving forward with this project in the coming months.

In last year’s review, Exhibit C included a number of new participants in the Fund which were part of the Commingled Asset Management Program Money Market (CAMPMM) fund, an investment vehicle similar in structure and investment objective to Florida PRIME. The CAMPMM was closed effective June 30, 2011.

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

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

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in accord with best investment practices (and in accord with the current Investment Policy Statement).

#### ADMINISTRATION OF THE TRUST FUND, ADVISORY COUNCIL

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

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

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

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

The Board administers the Trust Fund on behalf of the participants and handles accounting, statements, monthly reporting and compiling and maintaining enrollment materials. Federated, a professional money management firm contracted by the Board, invests the Trust Fund funds in accordance with the written Investment Policy Statement, interacts with participants to answer inquiries and facilitates Standard and Poor's ratings. BNY Mellon acts as custodian of all assets of the Fund and processes all trades made by Federated. BNY Mellon also does valuation and pricing for the Fund. The Investment Policy Statement has been updated and approved by the Trustees, and was effective July 1, 2011.

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

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

The Board has developed a process and document to be used by professional money manager Federated to certify that it is in compliance with statutory ethics requirements. Exhibit D is the executed 2011 Compliance Certification. .

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

The Board intranet home page includes an employee toll-free fraud hotline number which allows all employees to anonymously report any concerns with regard to any aspect of Board functions, including the Trust Fund. This number also is provided in all contracts with external service providers, in order to reach any potential problems in these relationships. The hotline, operated by an independent company, is available 24 hours a day, 7 days a week. The Board Inspector

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General receives any reports from the hotline and copies these to the Chief Risk and Compliance Officer.

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

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

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

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

The above safeguards assure that the administration of the Trust Fund is in accordance with stringent standards of disclosure designed to prevent the loss of funds from fraud, error, misrepresentation, market changes or imprudent actions by the Board or a money manager, and in some aspects exceed what is required by statute.

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

As set out above, the Investment Policy Statement was amended, endorsed by the Investment Advisory Council and the Participant Local Government Advisory Council and approved by the Trustees to be effective July 1, 2011.

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

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

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

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

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

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

(6)(a) The board or a professional money management firm shall provide a report, at a minimum monthly or upon the occurrence of a material event, to every participant having a beneficial interest in the trust fund, the board's executive

director, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The report shall include:

1. Reports of any material impacts on the trust fund and any actions or escalations taken by staff to address such impacts. The trustees shall provide quarterly a report to the Joint Legislative Auditing Committee that the trustees have reviewed and approved the monthly reports and actions taken, if any, to address any impacts.

2. A management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary shall be prepared in a manner that will allow anyone to ascertain whether investment activities during the reporting period have conformed to investment policies. Such reporting shall be in conformance with best market practices. The board or a professional money management firm shall furnish upon request the details of an investment transaction to any participant, the trustees, the Investment Advisory Council, and the Participant Local Government Advisory Council.

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

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

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

The market value of the Fund portfolio is calculated daily by BNY Mellon and posted on the website within two days. The Information Statement and Operating Procedures, also posted to the website, sets out the operating procedures for the Fund, including hours of operation, holidays and timing of transactions. These procedures are transparent and appear to ensure, to the extent possible, that disadvantages do not occur to parties making deposits or withdrawals on particular days, as each participant has equal access to the transaction system. A statement of the

market value and amortized cost of the portfolio is available at all times to participants on the website, and participants receive monthly individual account statements.

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

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

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

Additional materials are available on the Trust Fund website, are provided through the monthly reports, and are available at periodic Federated and Board conference call meetings open to all participants. At these meetings, participants are able to talk with representatives of Federated, the Board Executive Director and Board staff representing various areas of expertise. In addition, Federated attends a number of participant association meetings to provide information about the Fund.

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

Cost amounts are shown in the monthly reports. The above statutory requirement, which was present in the law before the 2008 revisions, is still potentially problematic: If fund investment values were to decline sufficiently in a given month, there would be no interest from which to pay costs and fees, and the literal requirements of this provision could not be met within a given month. Interest earnings are distributed monthly to participants, and interest has not been used for any other purpose.

(8)(a) The principal, and any part thereof, of each and every account constituting the trust fund shall be subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action shall be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures prior to the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.

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

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

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

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

The Auditor General annual financial audit of the Trust Fund, Report No.2012-066, for the fiscal year ended June 30, 2011 was completed in December, 2011, provided to all Fund participants that same month, and is attached as Exhibit E. The Trustees reported to the Joint Legislative Auditing Committee on March 20, 2012 and certified that the annual audit did not disclose any

material deficiencies in internal control over financial reporting that were considered to be material weaknesses.

(10)(a) There is created a six-member Participant Local Government Advisory Council for the purposes of regularly reviewing the administration of the trust fund and making recommendations regarding such administration to the trustees. The members of the council shall be appointed by the board and subject to confirmation by the Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the dealings of the trust fund. Each member shall serve a 4-year term. Any vacancy shall be filled for the remainder of the unexpired term. The council shall annually elect a chair and vice chair from within its membership. A member may not serve consecutive terms as chair or vice chair.

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

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

The first Biennial Report of the PLGAC was issued in February 2011. This is an interim year with the next biennial report due in 2013.

#### AUTHORIZATION TO PROVIDE ASSISTANCE

##### **218.411 Authorization for state technical and advisory assistance.**

(1) The board is authorized, upon request, to assist local governments in investing funds that are temporarily in excess of operating needs by:

(a) Explaining investment opportunities to such local governments through publication and other appropriate means.

(b) Acquainting such local governments with the state's practice and experience in investing short-term funds.

(c) Providing, in cooperation with the Department of Community Affairs, technical assistance to local governments in investment of surplus funds.

(2) The board may establish fees to cover the cost of such services, which shall be paid by the unit of local government requesting such service. Such fees shall

be deposited to the credit of the appropriation or appropriations from which the costs of providing the services have been paid or are to be charged.

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

**218.412 Rulemaking authority.—**

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

As noted above, the Board has adopted amended rules for the administration of the Fund at Chapter 19-7, Florida Administrative Code.

**OTHER SECTIONS OF PART IV, CHAPTER 218, FLORIDA STATUTES**

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

## CHAPTER 2011-100

### House Bill No. 7155

An act relating to state financial matters; amending s. 215.44, F.S.; revising provisions which authorize the State Board of Administration to invest specified funds pursuant to the enrollment requirements of a local government investment authority; authorizing the board to invest specified funds in the Local Government Surplus Funds Trust Fund without a trust agreement upon completion of enrollment materials provided by the board; providing that investments made by the board under a trust agreement are subject only to the restrictions and limitations contained in the trust agreement; amending s. 215.4755, F.S.; correcting a cross-reference; clarifying provisions with respect to an investment adviser's or manager's code of ethics; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Subsections (1) and (3) of section 215.44, Florida Statutes, are amended to read:

215.44 Board of Administration; powers and duties in relation to investment of trust funds.—

(1) Except when otherwise specifically provided by the State Constitution and subject to any limitations of the trust agreement relating to a trust fund, the Board of Administration, sometimes referred to in this chapter as "board" or "Trustees of the State Board of Administration," composed of the Governor as chair, the Chief Financial Officer, and the Attorney General, shall invest all the funds in the System Trust Fund, as defined in s. 121.021(36), and all other funds specifically required by law to be invested by the board pursuant to ss. 215.44-215.53 to the fullest extent that is consistent with the cash requirements, trust agreement, and investment objectives of the fund. Notwithstanding any other law to the contrary, the State Board of Administration may invest any funds of any state agency, any state university or college, any unit of local government, or any direct-support organization thereof pursuant to the terms of a trust agreement with the head of the state agency or the governing body of the state university or college, unit of local government, or direct-support organization thereof, ~~or pursuant to the enrollment requirements stated in s. 218.407~~, and may invest such funds in the Local Government Surplus Funds Trust Fund created by s. 218.405 without a trust agreement upon completion of enrollment materials provided by the board. The board shall approve the undertaking of investments subject to a trust agreement before execution of such trust agreement by the State Board of Administration. The funds and the earnings therefrom are exempt from the service charge imposed by s. 215.20. As used in this subsection, the term "state agency" has the same meaning as that provided in s. 216.011, and the terms "governing body" and

“unit of local government” have the same meaning as that provided in s. 218.403.

(3) Notwithstanding any law to the contrary, all investments made by the State Board of Administration pursuant to ss. 215.44-215.53 shall be subject to the restrictions and limitations contained in s. 215.47, except that investments made by the State Board of Administration under a trust agreement pursuant to subsection (1) shall be subject only to the restrictions and limitations contained in the trust agreement.

Section 2. Subsections (1) and (2) of section 215.4755, Florida Statutes, are amended to read:

215.4755 Certification and disclosure requirements for investment advisers and managers.—

(1) An investment adviser or manager who has discretionary investment authority for direct holdings and who is retained as provided in s. 215.44(2)(b)(e) shall agree pursuant to contract to annually certify in writing to the board that:

(a) All investment decisions made on behalf of the trust funds and the board are made in the best interests of the trust funds and the board and not made in a manner to the advantage of such investment adviser or manager, other persons, or clients to the detriment of the trust funds and the board.

(b) Appropriate policies, procedures, or other safeguards have been adopted and implemented to ensure that relationships with any affiliated persons or entities do not adversely influence the investment decisions made on behalf of the trust funds and the board.

(c) A written code of ethics, conduct, or other set of standards, which governs the professional behavior and expectations of owners, general partners, directors or managers, officers, and employees of the investment adviser or manager, has been adopted and implemented and is effectively monitored and enforced. The investment advisers’ and managers’ code of ethics shall require that:

1. Officers and employees involved in the investment process refrain from personal business activity that could conflict with the proper execution and management of the investment program over which the investment adviser or manager has discretionary investment authority or that could impair their ability to make impartial decisions with respect to such investment program; and

2. Officers and employees refrain from undertaking personal investment transactions with the same individual employee at a broker-dealer firm with whom business is conducted on behalf of the board.

(d) The investment adviser or manager has proactively and promptly disclosed to the board, notwithstanding subsection (2), any known

circumstances or situations that a prudent person could expect to create an actual or, potential, ~~or perceived~~ conflict of interest, including specifically:

1. Any material interests in or with financial institutions with which officers and employees conduct business on behalf of the trust funds and the board; and

2. Any personal financial or investment positions of the investment adviser or manager that could be related to the performance of an investment program over which the investment adviser or manager has discretionary investment authority on behalf of the board.

(2) At the board's request, an investment adviser or manager who has discretionary investment authority over direct holdings and who is retained as provided in s. 215.44(2)(b)(~~e~~) shall disclose in writing to the board:

(a) Any nonconfidential, nonproprietary information or reports to substantiate the certifications required under subsection (1).

(b) All direct or indirect pecuniary interests that the investment adviser or manager has in or with any party to a transaction with the board, if the transaction is related to any discretionary investment authority that the investment adviser or manager exercises on behalf of the board.

Section 3. This act shall take effect July 1, 2011.

Approved by the Governor May 31, 2011.

Filed in Office Secretary of State May 31, 2011.

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

***I. Purpose and Scope***

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

The Investment Manager will exercise reasonable care to (i) maintain a dollar weighted average maturity ("DWAM") of 60 days or less; and (ii) maintain a weighted average life (WAL) of 120 days or less. 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 120-day WAL limitation could serve to limit 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, except 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 the diversification, maturity and credit quality conditions imposed by Rule 2a-7 under the 1940 Act; with the requirements imposed by any NRSRO that rates Florida PRIME to ensure that it maintains a AAAM rating (or the equivalent); and with the investment limitations imposed by Section 215.47, Florida Statutes.

The Investment Manager generally will comply with the following diversification limitations that are additional to those set forth in Rule 2a-7. First, at least 50% of Florida PRIME assets will be invested in securities rated "A-1+" or those deemed to be of comparable credit quality thereto by the Investment Manager (i.e., so long as such deeming is consistent with the

requirements of the NRSRO's AAAM (or equivalent) rating criteria), subject to Section 215.47(1)(j), Florida Statutes. The Investment Manager will document each instance in which a security is deemed to be of comparable credit quality and its basis for such a determination. Second, exposure to any single non-governmental issuer will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of Florida PRIME assets.

### ***VII. Portfolio Securities and Special Transactions***

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

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

Special transactions are transactions into which Florida PRIME may enter, including repurchase agreements and delayed delivery transactions.

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

### ***VIII. Risks Associated with Florida PRIME***

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

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

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

### *Interest Rate Risks*

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

### *Credit Risks*

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

### *Liquidity Risks*

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

### *Concentration Risks*

A substantial part of Florida PRIME may be comprised of securities issued by companies in the financial services industry or companies with similar characteristics; or securities credit enhanced by banks or companies with similar characteristics. As a result, Florida PRIME may be more susceptible to any economic, business, political 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 Levels Risk*

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

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

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

## ***IX. Controls and Escalation Procedures***

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

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

communicate both amortized cost price and mark to market price, so that the SBA and the Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA.

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

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

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.

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 periodically 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**

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

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

Repurchase agreements are subject to credit risks.

### **Delayed Delivery Transactions**

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

### **Asset Coverage**

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



**STATE BOARD OF ADMINISTRATION (SBA)  
Federated LGIP Ethics Principles  
2011 Compliance Certification**

Federated Investor's Inc. ("Federated") has adopted, and monitors and enforces, a written code of ethics, conduct or other set of standards (the "Federated Standards") which govern the professional behavior and expectations of Federated employees and officers. Federated shall take all reasonable action to ensure that Federated employees and officers involved in the management of assets of the Florida Local Government Surplus Funds Trust Fund (the "trust fund") shall act in accordance with the Federated Standards.

In addition, Federated shall take all reasonable action to ensure that its employees and officers involved in the management of assets of the trust fund comply with the requirements of Sections 218.409(2)(b), Florida Statutes. Specifically, such Federated employees and officers shall refrain from personal business activity that could conflict with their proper execution and management of the trust fund investment program or that could impair their ability to make impartial decisions on behalf of the SBA in the management of assets of the trust fund, including but not limited to, refraining from undertaking personal investment transactions with the same individuals with whom they conduct business while acting on behalf of the SBA in the management of assets of the trust fund. Further, Federated shall take action to ensure that its employees and officers involved in the management of assets of the trust fund shall promptly disclose to Federated, who shall promptly disclose to the SBA Chief Risk and Compliance Officer: (1) any material interests in financial institutions with which they conduct business on behalf of the trust fund, and (2) any personal financial or investment positions (including but not limited to short positions or derivatives) that could be related to the performance of the trust fund investment portfolio managed by such employees or officers.

Federated Investor's Inc. agrees to proactively and promptly disclose to the SBA any known circumstances or situations that, in our best judgment, may create an actual, potential or perceived conflict of interest related to our management of the LGIP. In instances where we are unsure whether to disclose or not, and in borderline circumstances or situations, we agree to err on the side of proactive and prompt disclosure.

We agree, upon request from the SBA Director of External Investment Manager Oversight, to provide the SBA with non-confidential, non-proprietary information or reports to substantiate the representations made herein.

We certify that the statements and indications above are true and accurate, and this compliance certification is signed by our firm's chief executive officer, or other appropriate senior officer or partner (i.e., a person with authority specifically and directly delegated to him or her by the CEO for this purpose).

  
Signature

January 30, 2012  
Date

Brian P. Bouda

Print Name

Chief Compliance Officer

Title

Federated Investors, Inc.

Name of the Firm



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (Florida PRIME), as of and for the fiscal year ended June 30, 2011, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered SBA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies,

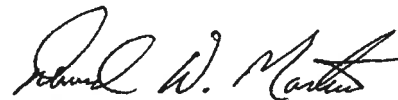
significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Florida PRIME's financial statements are free of material misstatement, we performed tests of SBA's compliance with certain provisions of laws, rules, regulations, contracts, and policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and applicable management and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,



David W. Martin, CPA  
December 21, 2011

# ***Florida PRIME Best Practices Review***

Florida State Board of Administration (SBA)

***June 2012***

**Hewitt EnnisKnupp, An Aon Company**

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# Executive Summary

Hewitt EnnisKnupp (HEK) completed the Best Practices Review of Florida PRIME, and based on this report, we continue to believe that the pool is being managed according to best practices. In this report, we review the most recent enhancements made for participants invested in Florida PRIME, compare the structure and procedures of Florida PRIME to peer products, review the compliance procedures of Florida PRIME, and provide an update on the most recent discussions surrounding potential new 2a-7 Rules and discuss any potential effects on Florida PRIME. In addition, we provide a summary of the 2012 participant survey results. The 2011 Best Practices Review did not result in any actionable recommendations for the past year for us to review; therefore, we begin with a summary of our current recommendations.

## *Recommendations*

- Review the independent compliance verification process completed by SBA Staff and consider reducing the frequency from monthly to quarterly.
- Continue to stay apprised of the 2a-7 reform discussions and keep participant needs and best interests at the forefront of any contemplated policy or guideline changes.

## *2012 Participant Survey Results*

The SBA conducts a survey of Florida PRIME participants every year to gain a better understanding of overall investor satisfaction, gauge interest in various enhancements contemplated for Florida PRIME, and obtain information on investors' usage of the website and other resources. The 2012 survey attracted 177 respondents, representing an approximate 21% response rate which is slightly higher than was achieved for the 2011 survey.

A diversified group of governmental units responded to the survey, ranging from colleges and universities, constitutional officers, counties, municipalities, school boards, and school districts. Roughly 72% of respondents indicated that they employ less than 1,000 employees. Over 70% of the respondents indicated that they utilize the Florida PRIME website at least once a month, with the primary reasons being to access account balances and statements, making transactions and, to a lesser extent, obtaining yield information and accessing the Monthly Summary Reports. An impressive 96% of respondents rated the Florida PRIME website as very useful, and over half find its functionality very easy to use. The survey revealed that the SBA Florida PRIME service representatives are called or emailed fairly infrequently; however, when utilized, a large majority of respondents found them to be very helpful, knowledgeable, and responsive. Respondents also noted that they find the monthly reports (account statements, summary reports, and eNotices) very or somewhat useful. The survey also indicated that roughly half of respondents utilized an SEC-registered money market fund in the past twelve months in addition to the Florida PRIME. In the Peer Comparison section of this report, we compare and contrast the Florida PRIME with other short-term investment vehicles that act as alternatives for Florida PRIME participants.

## Participant Enhancements

SBA Staff has consistently been committed to enhancing the Florida PRIME participant experience over the past several years. Improvements made to the Florida PRIME website including greater accessibility, navigation, and functionality have been the primary focus in the recent past. Staff utilizes a recently developed online tracking tool and the annual participant survey to continue to monitor and identify participant needs and behaviors.

In response to feedback received from previous participant surveys, SBA created a customized training portal for Florida PRIME participants. The new Florida PRIME Education Center was launched in April 2012 and is conveniently accessible through the Florida PRIME website. The Education Center utilizes two well-established online training development organizations, Intuition and Bisk Education, each of which offer over 300 financial courses. The available courses cover a wide variety of relevant investment and financial topics including, but not limited to, accounting, alternative assets, corporate governance, custody, derivatives, economics, fixed income, interest rates, risk, and trade processing. Many of the courses have the extra benefit of fulfilling continuing education units (CEUs) and continuing professional education (CPE) requirements for Certified Public Accountants. These training programs are offered only to current participants. The programs have various levels and associated costs to accommodate different participant needs. Additionally, the cost is borne solely by those participating in a course in order to maintain the low cost of the pool for other participants.

A second significant enhancement over the past year was the implementation of the “Go Green” initiative that began late in 2011. Under this initiative, participants are able to opt out of receiving hard copies of monthly account statements and can now access them online. Participants benefit from the increased flexibility and ease of accessing their specific information. This enhancement not only increases efficiencies for participants and the SBA Staff, but is also a cost conscious and socially responsible initiative.

Furthermore, as Florida PRIME’s investment manager, Federated continues to keep itself in front of participants with appropriate updates and remains very responsive to participant needs. Federated also holds multiple conferences throughout the year and will attend a total of 11 different conferences around Florida in order to communicate the investment opportunity and services Florida PRIME provides to local governments.

### *Conclusion*

We note the SBA’s diligent efforts over the past four years to enhance the services, delivery of information, and level of transparency provided to Florida PRIME participants. Through the participant survey, the SBA has listened to its participants before adding additional services or enhancements. This has helped to ensure that services provided are those that are most important to participants and will create efficiencies for participants on a daily basis.

## Comparison with Peer Funds

Similar to the evaluation we conducted in 2009, we compare the structure and practices of Florida PRIME to peer pools serving the short-term investment needs of state and local agencies and other public entities in the United States. We make the following broad observations about the characteristics of Florida PRIME. In general, we find that Florida PRIME is comparable or compares favorably to peers in nearly all areas.

- *Common Structure:* Florida PRIME is structured as a money market fund, the most common structure used among its peers.
- *Risk-Controlled Investment Objective:* Similar to a majority of peers, Florida PRIME operates as a “2a-7-like” fund and is not registered with the SEC as a money market mutual fund. Florida PRIME’s investment guidelines mimic the 2a-7 rules and prioritize safety, liquidity, and competitive returns with minimal risks.
- *Highest Credit Rating:* Florida PRIME holds the highest money market fund rating from S&P, an AAAm principal stability fund rating, which is consistent with a large majority of peers. A very small minority of pools are rated by more than one agency.
- *Low Fees:* Florida PRIME’s total effective fee is below both the average of the total universe surveyed, as well as below the average fee for pools with similar structures.
- *Low Investment Returns:* Relative to peers surveyed, Florida PRIME’s 12-month total return falls at the lower end of the range of returns, which can be expected given the pool’s conservative positioning illustrated by its extremely low weighted average maturity of 31 days.
- *Reasonable Benchmark:* While there is no universally accepted practice for benchmarking, the S&P Rated GIP All/30-Day Net of Fees Index that Florida PRIME utilizes is a commonly used benchmark.
- *Use of a Common External Adviser:* Over half of the pools surveyed utilize external advisers to handle investment decisions. Florida PRIME employs Federated Investment Management’s services. Federated is experienced in the local government investment pool (LGIP) business and advises other similar large pools, namely TexPool and TexPool Prime.
- *Commonly-Used Custodian:* BNY Mellon, a commonly used custodian among peer funds, acts as Florida PRIME’s custodian.

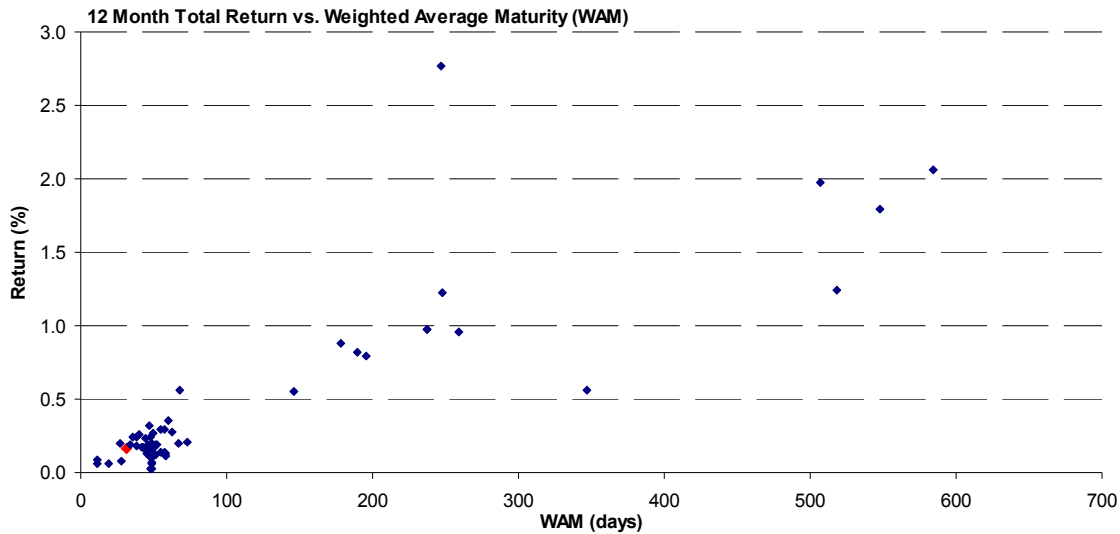
In the table below, we show the top 25 largest local government investment pools in the country by assets under management. As of December 2010, Florida PRIME was the seventh largest pool. The fund's total effective fee of 3.6 basis points (bps) is among the lowest of the group, which ranges from 0.7–22.0 bps. Since this report was produced, the SBA increased administrative and oversight fees from 0.6 to 1.0 bps, raising Florida PRIME's total fee by 0.4 bps but keeping the portfolio's fees competitive with peers. We support this increase, as well as SBA's efforts in improving efficiencies and keeping costs to participants as low as possible. Florida PRIME's 0.16% 12-month total return is among the lowest of the group, attributable to the pool's absolute and relatively low weighted average maturity of 31 days.

Name of Pool <sup>1</sup>	State	Assets (\$ mm)	12 Mo. TR (%)	Total Fee (bps)	WAM (days)	Pool Category <sup>2</sup>
Local Agency Investment Fund	CA	23,251	--	1.19	--	Ultrashort
TexPool	TX	16,988	0.19	4.73	34	MMF
Utah Public Treasurers Investment Fund	UT	10,623	0.56	0.72	68	MMF
Georgia Fund 1	GA	9,729	0.19	3.30	46	MMF
Local Government Investment Pool	WA	8,937	0.29	0.80	55	MMF
Mass Municipal Depository Trust-Cash Portfolio	MA	8,338	0.32	9.00	47	MMF
<b>Florida PRIME</b>	<b>FL</b>	<b>7,267</b>	<b>0.16</b>	<b>3.60</b>	<b>31</b>	<b>MMF</b>
San Diego County Treasurer's Pooled Money Fund	CA	6,728	0.45	13.00	--	Ultrashort
(Riverside) Treasurer's Pooled Investment Fund	CA	6,447	--	--	427	
Local Government Investment Pool/State Pooled Investment Fund	TN	5,912	0.29	5.00	--	MMF
TexSTAR Cash Reserve Fund	TX	5,593	0.18	5.00	38	MMF
The Illinois Funds – Money Market Fund	IL	5,460	0.14	8.00	--	MMF
LGIP/Oregon Short-Term Fund	OR	5,442	0.88	3.60	178	Ultrashort
State Treasurer's Short-Term Investment Fund	CT	5,081	0.34	2.50	--	MMF
San Bernardino County Investment Pool	CA	4,960	0.93	5.00	--	Enhanced Cash
NC Capital Management Trust: Cash Portfolio	NC	4,884	0.14	22.00	57	MMF
King County Investment Pool	WA	4,713	0.96	1.16	259	Ultrashort
State Treasury Asset Reserve of Ohio	OH	4,530	0.11	8.40	58	MMF
PFM Funds: Prime Series/SNAP Fund	VA	3,535	0.27	9.00	50	MMF
Commonwealth of Virginia LGIP	VA	3,466	0.24	4.00	51	MMF
Maryland Local Government Investment Pool	MD	3,441	0.19	2.77	--	MMF
Colotrust PLUS+	CO	3,375	0.21	15.80	46	MMF
Lone Star Government Overnight Fund	TX	3,372	0.18	6.00	682	MMF
Orange County Extended Fund	CA	2,800	--	10.00	43	Ultrashort
West Virginia Consolidation Fund-WV MM Pool	WV	2,908	0.17	7.73	--	MMF

<sup>1</sup>Data provided by iMoneyNet Special Report: Government Investment Pools: Investment Strategies, Facts, Figures, and Trends; December 2011

<sup>2</sup> iMoney defines as follows: MMFs - stable \$1 NAV with max WAM of 60 days; Ultrashort - variable NAV with investment horizon from 1-3 years; Enhanced Cash pool - variable NAV with duration of one year or shorter.

In the chart below, we plot 12-month total returns against the weighted average maturity (WAM) for the pools included in the iMoneyNet survey. The chart illustrates the positive relationship between WAM and total return. Relative to the sample set from the iMoneyNet survey, Florida PRIME (plotted in red) had one of the lowest WAM, and accordingly, among the lowest 12-month return, which is consistent with the relationship shown below.



While it is important and informational to compare Florida PRIME to other local government investment pools nationwide, it is also prudent to review the short-term investment solutions that serve as direct alternatives for Florida PRIME's current and potential participants. These alternative options include other short-term funds within the state of Florida and registered institutional money market funds.

As shown in the table below, relative to the three alternative stable NAV products offered in Florida, Florida PRIME is the largest fund according to assets and number of investors, and is offered at the lowest total fee. Similarly, Florida PRIME compares favorably to a universe of money market funds provided by Morningstar. The Morningstar universe is comprised of 144 money market funds with an average 12 month total return of 0.05% and a median annual fee of 27 basis points.

<b>Florida Peer Funds (Data as of 12/31/2011)</b>	<b>Assets (\$ b)</b>	<b>Number of Investors</b>	<b>Total Fee (bps)</b>	<b>Pool Category</b>	<b>Investment Manager</b>
Florida PRIME	7.80	840	2.5	2a-7 Like	Federated Investors
Florida Trust (Day to day Fund)	0.65	12	11.0	Non-2a-7	Payden & Rygel
Florida Education Investment Fund (FEITF)	0.40	n/a	16.5	2a-7 Like	PFM Asset Management
Florida Surplus Asset Fund Trust (FLSAFE)	0.14	25	23.0	Non-2a-7	Prudent Man Advisors

# Compliance Review

As part of the 2011 Best Practices Review, we examined and assessed the procedures Florida PRIME has in place to ensure compliance with its Investment Policy Statement (IPS). Florida PRIME's IPS states that the Florida PRIME portfolio "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."

As Florida PRIME's investment manager, Federated has the ultimate responsibility for ensuring the portfolio is in compliance with the IPS at all times. Accordingly, Federated has implemented thorough procedures and tests which are reported to the SBA on multiple frequencies. Additionally, Standard & Poor's provides independent surveillance on the portfolio and reports to the SBA on a regular basis. Furthermore, the SBA has established additional procedures and checks to verify that Florida PRIME meets the terms and parameters outlined in the IPS.

Below we highlight the compliance procedures carried out by S&P, Federated, and SBA Staff. We find the multiple practices executed by the three entities to be very thorough and note that there have not been any breaches of the parameters set out in the IPS by Federated in over 3 years, demonstrating the effectiveness of the processes in place. Given Federated's proven ability to adequately manage, and also monitor, within the SBA's guidelines, we recommend maintaining the procedures in place by Federated and S&P, and recommend that the SBA consider scaling back the frequency of their independent reviews from monthly to quarterly. In the following paragraphs we detail the procedures currently in place.

## Standard & Poor's Surveillance

The SBA utilizes S&P to rate the creditworthiness of Florida PRIME. S&P receives weekly portfolio data from Federated to perform its own independent analysis of the creditworthiness of investments and counterparties, the market price exposure of investments, portfolio liquidity, and the ability to maintain a stable net asset value (NAV). The SBA also receives the weekly reports from Federated, which includes the portfolio data used to carry out the analysis. Additionally, S&P performs a separate and independent evaluation of Federated on an annual basis.

## Federated Investors Compliance Procedures

Federated is responsible for ensuring that Florida PRIME is in compliance with the IPS at all times. Federated has established multiple procedures at different frequencies (daily, monthly, quarterly and annually), outlined below, to ensure compliance of the portfolio.

*Daily* – Federated monitors Florida PRIME on a daily basis to ensure compliance with the requirements outlined in the IPS. Any violations of the criteria are required to be reported to the SBA within 24 hours of identification.

*Monthly* – Prior to the tenth business day after month-end, Federated delivers a Compliance Report to SBA's Director of Public Market Compliance. The report includes a list of 24 compliance parameters that are tested at month-end and given a status of either pass or fail. This checklist and the status results are also posted to Florida PRIME website every month.

*Quarterly* – Federated conducts monthly stress tests on the portfolio which are reported to the SBA every quarter. Should the need arise; Federated will conduct the stress tests on a more frequent basis or as requested. The stress tests, at a minimum, must assess changes in short-term interest rates, increases in net shareholder redemptions, downgrades or defaults and changes between a benchmark overnight interest rate, and the interest rates on securities held by the portfolio.

*Annually* – At a minimum of once a year, Federated provides the SBA with their updated compliance procedures and an assessment of Florida PRIME's ability to withstand events reasonably likely to occur in the coming year.

#### SBA Staff

Pursuant to the IPS, the Fixed Income Investment Oversight Group (FI-IOG) was created to review compliance exceptions that may have a material impact on trust funds and client portfolios, including those of Florida PRIME. The FI-IOG includes the following senior professionals:

- Director of Public Market Compliance                      - Chief Risk & Compliance Officer
- Deputy Executive Director                                      - Director of External Investment Oversight
- Senior Investment Officer of Fixed Income                - Director of Enterprise Risk Management

The FI-IOG holds required monthly meetings, along with ad-hoc meetings as needed, to review compliance exceptions as discovered by the Director of Public Market Compliance or reported by Federated, to develop action plans, and to escalate necessary recommendations for consideration by the Executive Director & CIO.

The risk parameters outlined in the IPS are ranked by the FI-IOG as either high or low with respect to the level of risk associated with a potential breach of the respective parameter. Currently there are ten parameters ranked as "high risk." At a minimum of a monthly basis, the Director of Public Market Compliance independently verifies the risk parameters labeled as "high risk," as well as the parameters with a status of "fail" on the Federated Compliance Report, utilizing the underlying detailed reports on each parameter. It should be noted that SBA staff is unable to verify certain compliance parameters that involve guidelines written as "time of purchase" constraints in the IPS. This is due to the fact that SBA does not have real time access to Federated trading data. Rather, SBA utilizes month-end holdings to run these compliance tests, which is an approximation at best. If discrepancies are found and follow-up action is deemed necessary, the Federated Compliance Examiner is notified and the status of each follow-up item is reported at the FI-IOG monthly meetings. According to FI-IOG meeting minutes, there

have not been any material discrepancies between SBA's findings and Federated's since the risk ranked independent verification process has been in place, nor a status of "fail" for any guidelines over the past 3 years. The FI-IOG is also responsible for reviewing, at least annually, the high/low rankings of the parameters and the frequency of SBA's independent verification.

In addition to verifying the Compliance Report, the Director of Public Market Compliance also reviews transaction data on a monthly basis to verify that all transactions executed during the month were permitted under the IPS. Finally, the Auditor General conducts an annual financial audit of Florida PRIME, which includes testing for compliance with the IPS.

#### Onsite Due Diligence

In June 2011, the SBA conducted an onsite due diligence visit to Federated's offices. The onsite visit evaluated the following areas and capabilities: the organization, portfolio management, trading, operations, compliance, legal, and risk management. Following the meeting, the SBA rated Federated as above average and concluded that they have a very robust compliance and risk management system in place to safeguard SBA's investments. Furthermore, HEK staff also completed an onsite visit to Federated's offices within the last 2 years. We find that their processes and procedures to be extensive and deem them highly capable of maintaining Florida PRIME in compliance with the Investment Policy Statement.

#### *Recommendation*

We recommend the SBA review its independent verification process and consider reducing the frequency of the verifications from monthly to quarterly. Federated has established thorough compliance procedures and consistent and frequent reporting practices for Florida PRIME. There has not been a breach of any guideline listed in the IPS for over 3 years, demonstrating Federated's ability to keep Florida PRIME in compliance with the IPS and the effectiveness of their compliance procedures. Additionally, both SBA Staff and HEK have verified and vetted these procedures and have full confidence in Federated's ability to safeguard Florida PRIME's assets. Furthermore, S&P conducts independent analyses of Florida PRIME on a weekly basis, as well as an annual independent review of Federated. For these reasons, we recommend the SBA consider decreasing the frequency of Staff's independent reviews from monthly to quarterly.

# SEC Rule 2a-7 Reform Update

In accordance with Florida PRIME's "2a-7 like" investment guidelines, the SBA has stayed current in managing Florida PRIME in accordance with the latest reforms and best practices as set forth by the U.S. Securities and Exchange Commission (SEC) for registered 2a-7 money market funds (MMFs). Since the SEC approved the new 2a-7 regulations in January 2010, the SBA has implemented nine of ten major recommendations to Florida PRIME. Below we review the most recent proposals for reform by the SEC and the potential impact on Florida PRIME and its participants.

## *Potential Additional Money Market Fund Reforms*

The outcome of the extensive discussions surrounding additional MMF regulations remains highly uncertain as many industry participants hold strong opposing views. Regulators are pursuing additional reforms with the objective of further protecting the industry and the broader economy from another potential run on MMFs, as experienced in 2008. Many others in the industry disagree with the SEC and believe the 2010 adopted reforms are sufficient and suggest the extra costs associated with the additional proposals outweigh the incremental benefits.

Most recently, there are three main proposals being discussed throughout the industry as the most serious contenders for potential additional regulations.

## Floating Net Asset Value

Possibly the most discussed and controversial proposed reform for MMFs is to float the NAV. Proponents of this potential option argue that a floating NAV would provide investors with a better understanding of the risks associated with MMFs by allowing them to see the true and fluctuating market value of their investment. Supporters also believe that in the event of a market crisis, floating the NAV would reduce the likelihood of a run on MMFs. They contend that investors would think twice about redeeming their money because they will receive the true value of their shares regardless of when they redeem.

This suggested reform has met consistently strong opposition from a multitude of industry participants. Many have noted that a stable \$1.00 NAV has been a trademark of MMFs and possibly the feature investors value the most. The main argument has been that by switching to a floating NAV, MMFs would lose possibly their most valued attribute and potentially cause investors to look elsewhere for comparable vehicles. The potential for the MMF industry to significantly contract would have implications on the financial industry as a whole given the level of short-term funding that these investment portfolios provide.

## Capital Buffers

A second proposed reform is to implement capital requirements for MMFs. Capital solutions to the reform debate have been discussed in multiple different structures, varying by form, source, amount, etc. of the capital requirement. However it is structured, the capital buffer would serve as

a cushion in times of stress to help absorb losses in the event of a run. A benefit of this reform is that capital requirements would be fairly easy to implement, reducing the interruption to the industry. Additionally, the structure the capital requirement could take is fairly flexible, allowing MMF managers to proceed in a way that best suits their particular fund and investors.

While some participants view the flexibility associated with this reform as a positive, others note the challenges it brings. The multiple structures the capital buffers could adopt may become too complicated and confusing for investors. Other challenges include the potential lengthy time to accumulate the capital, implications to tax and accounting practices, and the fit within current amortized cost valuation regulations.

#### Redemption Restrictions

The third proposal is to create redemption restrictions. Similar to capital buffers, there are many ways redemption restrictions can be implemented, such as imposing redemption fees, requiring minimum account balances, or imposing stand-by redemption gates with an automatic trigger, among others. Whichever form is proposed, the basic objective is to create a disincentive for investors to rapidly make withdrawals in times of market stress.

As with the other proposed reforms, many in the industry have pointed to challenges with this proposal as well. Importantly, many investors utilize MMFs for the ability to have quick access to their entire account balance due to the nature of their business. Consequently, many institutional investors' policy statements prohibit investing in funds that have redemption restrictions. For these reasons and others, many believe that redemption restrictions would actually increase the likelihood of a run. Furthermore, implementing any type of this reform would most certainly increase costs and introduce enormous operational challenges.

#### *Potential Implications for Florida PRIME*

As mentioned earlier, the above proposals are the reforms most recently being discussed for potential adoption in the near future. However, we emphasize that the situation is fluid and elusive and there is no clear indication of a probable outcome at this time. Importantly, industry participants in these discussions are fully aware of the large role MMFs play in the financial industry and the potential impact additional reforms may have on short-term funding and consequently, the economy as a whole.

While Florida PRIME has historically fully complied with the 2a-7 guidelines, the portfolio is not a registered money market fund and therefore is not obligated by law to comply with any potential additional regulations the SEC may enforce in the near future. This flexibility provides great advantage for Florida PRIME and is common among other LGIPs around the nation. As the pending reforms continue to be discussed and evaluated, we recommend the SBA focus on the needs of, and potential impact on, Florida PRIME's participants, as has been the case in the past, when determining whether any new SEC rules should be adopted by Florida PRIME.

**End of Section**



**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

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AS TREASURER  
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ATTORNEY GENERAL  
AS SECRETARY  
ASH WILLIAMS  
EXECUTIVE DIRECTOR & CIO

**To:** Ash Williams  
**CC:** Senior Investment Group  
**From:** Kevin SigRist  
**Date:** June 18, 2012  
**Subject:** Annual Approval of Florida PRIME Investment Policy Statement

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

The trustees shall ensure that the board or a professional money management firm administers the trust fund on behalf of the participants. The board or a professional money management firm shall have the power to invest such funds in accordance with a written investment policy. The investment policy shall be updated annually to conform to best investment practices. The standard of prudence to be used by investment officials shall be the fiduciary standards as set forth in s. 215.47(10), which shall be applied in the context of managing an overall portfolio. Portfolio managers acting in accordance with written procedures and an investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this part. [s. 218.409(2)(a), Florida Statutes]

The investment policy shall be reviewed and approved annually by the trustees or when market changes dictate, and in each event the investment policy shall be reviewed by the Investment Advisory Council and by the Participant Local Government Advisory Council. [s. 218.409(2)(d), Florida Statutes]

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

1. Language is being added on page 3 to incorporate a more detailed description of certain current Standard & Poor's rating criteria for money market funds related to repurchase counterparty ratings, dollar weighted average maturity, and maximum weighted average life requirements. PRIME has been in compliance with these requirements, but the applicable IPS sections addressing these requirements are expanded and clarified.

2. Language is being added on pages 7-8 to address the roles and responsibilities of the Executive Director and the Chief Risk and Compliance Officer. The additional language will conform the PRIME IPS to changes made in other SBA policy statements following the 2011 Crowe Horwath study.
3. Language is added on page 8 to facilitate a quarterly SBA compliance review, consistent with the 2012 Hewitt EnnisKnupp *Florida PRIME Best Practices Review*. Federated Investment Counseling will continue to perform daily and monthly compliance procedures. The SBA will also continue to perform daily independent market value/amortized cost monitoring and certain daily and monthly accounting reconcilements.

No changes are being proposed to the Fund B Surplus Funds Trust Fund Investment Policy Statement.

Let me know if you have any other questions.

Attachment

**End of Section**

**Investment Policy Statement**  
**Local Government Surplus Funds Trust Fund (Non-Qualified)**  
**Effective July 1, 2014<sup>2</sup>**

***I. Purpose and Scope***

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

The Investment Manager will exercise reasonable care to ~~(i)~~ maintain (i) a dollar weighted average maturity ("DWAM") of 60 days or less; and (ii) ~~maintain a maximum~~ weighted average life (WAL) within the range of 90-120 days or less, depending on the levels of exposure and ratings of certain Adjustable Rate Securities. ~~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 90-120 day WAL limitation could serve to limit Florida PRIME's ability to invest in Adjustable Rate Securities. The maximum calculated WAL limit will depend upon the percentage exposures to between 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 allowed to a shorter 90-day limit. The portfolio's maximum WAL is will be based on a weighted average of the percentage exposures to each type of floating-rate instruments.~~

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, except 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 the diversification, maturity and credit quality conditions imposed by Rule 2a-7 under the 1940 Act; with the requirements imposed by any NRSRO that rates Florida PRIME to ensure that it maintains a AAAM rating (or the equivalent); and with the investment limitations imposed by Section 215.47, Florida Statutes.

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

## ***VII. Portfolio Securities and Special Transactions***

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

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

Special transactions are transactions into which Florida PRIME may enter, including repurchase agreements and delayed delivery transactions.

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

### ***VIII. Risks Associated with Florida PRIME***

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

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

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

#### ***Interest Rate Risks***

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

#### ***Credit Risks***

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

#### ***Liquidity Risks***

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

#### ***Concentration Risks***

A substantial part of Florida PRIME may be comprised of securities issued by companies in the financial services industry or companies with similar characteristics; or securities credit enhanced by banks or companies with similar characteristics. As a result, Florida PRIME may be more susceptible to any economic, business, political 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 Levels Risk*

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

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

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

### ***IX. Controls and Escalation Procedures***

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

The SBA has engaged BNY Mellon ("Custodian") to provide asset safekeeping, custody, fund accounting and performance measurement services to Florida PRIME. The Custodian will mark to market the portfolio holdings of Florida PRIME on a daily basis and will daily communicate both amortized cost price and mark to market price, so that the SBA and the Investment Manager can monitor the deviations between the amortized cost price and market price. By contractual agreement, the Investment Manager will reconcile accounting and performance measurement reports with the Custodian on a regular basis, under the supervision of the SBA.

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

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

#### The Executive Director will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to

directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

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

The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. The SBA and the Investment Manager have an affirmative duty to immediately disclose any material impact on Florida PRIME to the participants.

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 ~~periodically~~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 involves a~~ A Repurchase agreement involves a transactions 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**

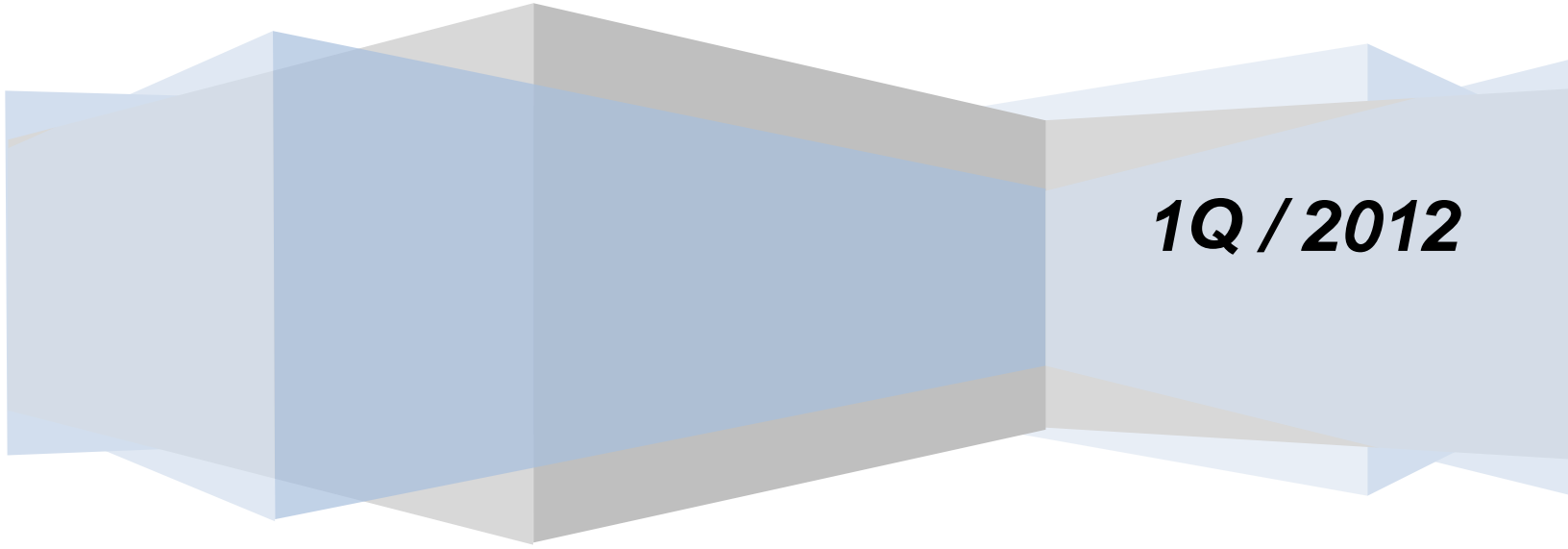
In order to secure its obligations in connection with special transactions, Florida PRIME will either own the underlying assets, enter into an offsetting transaction or set aside readily marketable securities with a value that equals or exceeds Florida PRIME’s obligations. Unless Florida PRIME has other 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.

**End of Section**

# **Protecting Florida's Investments Act (PFIA)**

## **Quarterly Report – June 26, 2012**



**1Q / 2012**

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### ***About the State Board of Administration***

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

As of March 31, 2012, the net asset value of total funds under SBA management was approximately \$159.8 billion. The FRS Pension Plan provides defined pension benefits to 1.1 million beneficiaries and retirees. The strong long-term performance of the FRS Pension Plan, the fourth-largest public pension fund in the nation, reflects our commitment to responsible fiscal management. The SBA strives to meet the highest ethical, fiduciary and professional standards while performing its mission, with a continued emphasis on keeping operating and investment management costs as low as possible for the benefit of Florida taxpayers.

We encourage you to review additional information about the SBA and FRS on our website at [www.sbafla.com](http://www.sbafla.com).

## ***Introduction***

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

### ***Primary Requirements of the PFIA***

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

1. Quarterly reporting to the Board of Trustees of every equity security in which the SBA has invested for the quarter, along with its industry category. This report is posted on the SBA website.
2. Quarterly presentation to the Trustees of a "Scrutinized Companies" list for both Sudan and Iran for their approval. Scrutinized Company lists are available on the SBA's website, along with information on the FRSTF direct and indirect holdings of Scrutinized Companies.
3. Written notice to external investment managers of all PFIA requirements. Letters request that the managers of actively managed commingled vehicles (i.e., those with FRSTF and other clients' assets) consider removing Scrutinized Companies from the product or create a similar actively managed product that excludes such companies. Similar written requests must be provided to relevant investment managers within the defined contribution plan.
4. Written notice to any company with inactive business operations in Sudan or Iran, informing the company of the PFIA and encouraging it to continue to refrain from reinitiating active business operations. Such correspondence continues semiannually.
5. Written notice to any Scrutinized Company with active business operations, informing the company of its Scrutinized Company status and that it may become subject to divestment. The written notice must inform the company of the opportunity to clarify its Sudan-related or Iran-related activities and encourage the company, within 90 days, to cease its scrutinized business operations or convert such operations to inactive status.
6. A prohibition on further investment on behalf of the FRSTF in any Scrutinized Company once the Sudan and Iran scrutinized lists have been approved by the Trustees. All publicly traded securities of Scrutinized Companies must be divested within 12 months after the company's initial (and continued) appearance on the Scrutinized Companies list. Divestment does not apply to indirect holdings in actively managed commingled investment funds—i.e., where the SBA is not the sole investor in the fund. Private equity funds are considered to be actively managed.
7. Reporting to each member of the Board of Trustees, President of the Senate, and the Speaker of the House of Representatives of Scrutinized Company lists within 30 days of creation, and public disclosure of each list.
8. Quarterly reporting of the following to each member of the Board of Trustees, the President of the Senate, the Speaker of the House of Representatives, the United States Presidential Special Envoy to Sudan, and the United States Presidential Special Envoy to Iran. The report is made publicly available and posted to the SBA's website.

- a. A summary of correspondence with engaged companies;
  - b. A listing of all investments sold, redeemed, divested, or withdrawn;
  - c. A listing of all prohibited investments;
  - d. A description of any progress related to external managers offering PFIA compliant funds; and
  - e. A list of all publicly traded securities held directly by the state.
9. Adoption and incorporation into the FRSTF Investment Policy Statement (IPS) of SBA actions taken in accordance with the PFIA. Changes to the IPS are reviewed by the Investment Advisory Council (IAC) and approved by the Trustees.
10. Relevant Sudan or Iran portions of the PFIA are discontinued if the Congress or President of the United States passes legislation, executive order, or other written certification that:
  - a. Darfur genocide has been halted for at least 12 months;
  - b. Sanctions imposed against the Government of Sudan are revoked;
  - c. Government of Sudan honors its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons;
  - d. Government of Iran has ceased to acquire weapons of mass destruction and support international terrorism;
  - e. Sanctions imposed against the government of Iran are revoked; or
  - f. Mandatory divestment of the type provided for by the PFIA interferes with the conduct of U.S. foreign policy.
11. Cessation of divestment and/or reinvestment into previously divested companies may occur if the value of all FRSTF assets under management decreases by 50 basis points (0.5%) or more as a result of divestment. If cessation of divestment is triggered, the SBA is required to provide a written report to each member of the Board of Trustees, the President of the Senate, and the Speaker of the House of Representatives prior to initial reinvestment. Such condition is required to be updated semiannually.
12. In 2009, the Florida Legislature approved a bill requiring the SBA to identify and offer, by March 1, 2010, at least one terror-free investment product for the FRS Investment Plan. The product must allocate its funds among securities not subject to divestiture, as provided in section 215.473, Florida Statutes.

### ***Definition of a Scrutinized Company***

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

#### ***Sudan:***

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

#### ***Iran:***

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

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

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

### ***SBA Scrutinized Companies Identification Methodology***

The SBA has developed two lists (the Sudan List and the Iran List) of Scrutinized Companies with active business operations. The lists are developed by principally relying on the research and findings of our "External Research Providers". Below is a brief description of our External Research Providers. MSCI has acquired and combined the operations of two of our longtime providers, RiskMetrics Group and KLD Research & Analytics, resulting in MSCI ESG Research. To maintain input from multiple consultants, we have added research from IW Financial and Jantzi-Sustainalytics.

1. **Conflict Risk Network (CRN).** CRN is a network of institutional investors, financial service providers and related stakeholders and is a project of the Genocide Intervention Network / Save Darfur Coalition (GI-NET/SDC), a non-profit organization that works to prevent and stop genocide and mass atrocities. In support of GI-NET/SDC's overall mission, CRN acts as an intermediary between the business and investment communities, engaging companies operating in GINET/SDC's Areas of Concern, including Sudan. CRN was formerly known as the Sudan Divestment Task Force (SDTF).
2. **MSCI ESG Research (MSCI).** MSCI combined, through acquisition, the resources of the RiskMetrics Group (Institutional Shareholder Services) and KLD Research & Analytics (KLD). MSCI delivers proxy voting and corporate governance analysis to institutional investors. Through its ESG Research unit, MSCI offers screening services with specific and unique components of state law pertaining to investments in sanctioned countries, including Sudan and Iran.
3. **IW Financial (IWF).** IWF is a provider of environmental, social, and governance research and consulting. IWF partners with Conflict Securities Advisory Group (CSAG) to provide clients with detailed information on the business ties of publicly traded companies in Sudan and Iran.
4. **Jantzi-Sustainalytics, Inc. (Jantzi).** Jantzi provides environmental, social and governance research and analysis, sustainability benchmarks, and investment services, and is the result of the merger between Jantzi Research, Inc. and Sustainalytics in 2009. Jantzi's company database, "Sustainalytics Global Platform," covers business operations in both Iran and Sudan.

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

Company disclosures:

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

Investment/Finance Organizations:

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

U.S Government Agencies:

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

Non-Governmental Organizations (NGOs):

- American Enterprise Institute (AEI)
- Amnesty International
- Yale University (Allard K. Lowenstein International Human Rights Project)
- Human Rights Watch

Other Sources:

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

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

1. **"Scrutinized"** — Information provided by several External Research Providers indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473 (1)(t)1., 2., or 3. [Sudan] or Section 215.473 (4)(t)1. [Iran]. Upon SBA review, no other information sources clearly contradict the conclusions of the External Research Providers.
2. **"Continued Examination"** — At least one External Research Provider indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473, (1)(t)1., 2., or 3. [Sudan] or Section 215.473, (4)(t)1. [Iran]. In other words, the External Research Providers do not agree on the status of a company and the SBA is unable to definitively categorize the company's activities as scrutinized without further research to resolve the differences. For companies classified as "Continued Examination" the SBA will begin an engagement process to clarify each firm's current business relationships.

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## ***Key Changes Since the Previous PFIA Quarterly Report***

### **Sudan**

Companies added to the Sudan Scrutinized List this quarter:

- **CNPC General Capital Ltd:** Added as a subsidiary of China National Petroleum Corporation, a state owned enterprise with scrutinized investments in Sudan.
- **Sinopec Group Overseas Development 2012 Ltd:** Added as a subsidiary of China Petrochemical Corporation (Sinopec Group), a state owned enterprise with scrutinized investments in Sudan.

Companies removed from the Sudan Scrutinized List this quarter:

- **None**

Companies added to the Sudan Continued Examination List this quarter:

- **None**

Companies removed from the Sudan Continued Examination List this quarter:

- **None**

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### **Iran**

Companies added to the Iran Scrutinized List this quarter:

- **None**

Companies removed from the Iran Scrutinized List this quarter:

*The following companies were removed on May 1, 2012 following State Department discussions and removal by research providers.*

- **ENI SpA**
- **Rosier SA**
- **Snam Rete Gas SpA**
- **Total Capital SA**
- **Total Gabon**
- **Total Kenya Limited**
- **Total Nigeria PLC**
- **Total SA**

Companies added to the Iran Continued Examination List this quarter:

- **China Communications Construction Co**
- **ENI SpA**
- **Shanghai Zhenhua Heavy Industry Co Ltd**
- **Total SA**

Companies removed from the Iran Continued Examination List this quarter:

- **Mangalore Refinery & Petrochemicals Ltd**
- **Statoil ASA (fka StatoilHydro)**

**Table 1: Scrutinized Companies with Activities in Sudan**  
**New companies on the list are shaded and in bold.**

Company	Country of Incorporation	Date of Initial Scrutinized Classification
AREF Energy Holdings Co.	Kuwait	July 28, 2009
AviChina Industry & Technology Company Limited	China	September 19, 2007
Chennai Petroleum Corp Ltd	India	September 19, 2007
China Petroleum & Chemical Corp (CPEC) Sinopec	China	September 19, 2007
China Petroleum Finance Co.	China	November 9, 2010
<b>CNPC General Capital Ltd</b>	<b>China</b>	<b>June 26, 2012</b>
CNPC HK Overseas Capital Ltd	China	June 16, 2011
Daqing Huake Group Co Ltd	China	March 25, 2008
Dongfeng Motor Group Co. Ltd.	China	July 29, 2010
Egypt Kuwait Holding Co. SAE	Kuwait	January 13, 2009
Electricity Generating Public Co	Thailand	September 19, 2007
Gas District Cooling (Putrajaya) Sdn Bhd	Malaysia	April 14, 2009
Groupe ONA (ONA SA)	Morocco	November 9, 2010
Harbin Electric Co. Ltd. (fka: Harbin Power Equipment)	China	September 19, 2007
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
Jiangxi Hongdu Aviation (aka Hongdu Aviation)	China	September 19, 2007
Jinan Diesel Engine Co. Ltd.	China	July 28, 2009
Kingdream PLC	China	April 14, 2009
KLCC Property Holdings Bhd	Malaysia	April 14, 2009
KMCOB Capital Bhd	Malaysia	September 19, 2007
Kunlun Energy Company Ltd (fka: CNPC Hong Kong Limited)	Hong Kong	September 19, 2007
Kuwait Finance House	Kuwait	April 14, 2009
Lanka IOC Ltd	India	September 19, 2007
LS Industrial Systems	South Korea	September 20, 2011
Managem SA	Morocco	November 9, 2010
Mangalore Refinery & Petrochemicals Ltd	India	September 19, 2007
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
MISC Capital Ltd.	Malaysia	April 14, 2009
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
PetroChina	China	September 19, 2007
Petrolam Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Chemicals Bhd	Malaysia	June 16, 2011
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Ranhill Bhd	Malaysia	September 16, 2008

Company	Country of Incorporation	Date of Initial Scrutinized Classification
Ranhill Power Sdn Bhd	Malaysia	September 20, 2011
Ranhill Powertron Sdn	Malaysia	April 14, 2009
Scomi Engineering Bhd	Malaysia	September 19, 2007
Scomi Group Bhd	Malaysia	September 19, 2007
Sinopec Finance	China	April 14, 2009
<b>Sinopec Group Overseas Development 2012 Ltd</b>	<b>China</b>	<b>June 26, 2012</b>
Sinopec Kantons Holdings Ltd	Bermuda	September 19, 2007
Sinopec Shanghai Petrochemical	China	September 19, 2007
Sinopec Yizheng Chemical Fibre	China	March 25, 2008
Societe Metallurgique D'imiter	Morocco	November 9, 2010
<b># of Sudan Scrutinized Companies</b>	<b>47</b>	

No companies were removed from the Scrutinized Company List for Sudan during the quarter.

**Table 2: Continued Examination Companies with Activities in Sudan***No companies were added to the list this quarter.*

Company	Country of Incorporation
Alstom	France
Alstom Projects India	India
AREF Investment Group	Kuwait
ASEC Company for Mining S.A.E.	Egypt
Bharat Heavy Electricals, Ltd.	India
Bollere Group	France
China Gezhouba Group Company Ltd	China
China North Industries Group Corp (CNGC/Norinco)	China
Dongan Motor (aka Harbin Dongan Auto Engine)	China
Drake & Scull International PJSC	United Arab Emirates
El Sewedy Cables Holding Company	Egypt
GAZ Group	Russia
Glencore International AG	Switzerland
Hafei Aviation Industry Co Ltd.	China
Infotel Broadband Services Ltd.	India
JX Holdings Inc.	Japan
Kencana Petroleum Berhad	Malaysia
KEPCO Plant Service & Engineering Co Ltd	South Korea
Korea Electric Power (KEPCO)	South Korea
Mercator Lines Limited (Mercator Lines Singapore)	India
Muhibbah Engineering Bhd	Malaysia
Nam Fatt	Malaysia
Nippo Corporation	Japan
Nippon Oil Finance	Japan
Oil India Limited	India
PetroFac	United Kingdom
PT Pertamina Persero	Indonesia
PTT Public Company Ltd.	Thailand
Reliance Industries Ltd.	India
Seadrill Ltd.	Bermuda
Sinohydro	China
Sudan Telecommunications (Sudatel)	Sudan
Total SA	France
Wartsila Oyj	Finland
Wuhan Boiler Company	China
<b># of Companies</b>	<b>35</b>

No companies were removed from the Continued Examination List for Sudan during the quarter.

**Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector***No companies were added to the list this quarter.*

Company	Country of Incorporation	Date of Initial Scrutinized Classification
China Petroleum & Chemical Corp (CPCC) Sinopec	China	September 19, 2007
China Oilfield Services Ltd	China	June 16, 2011
CNOOC Ltd	China	June 16, 2011
CNPC HK Overseas Capital Ltd	China	June 16, 2011
Daelim Industrial Co Ltd	South Korea	June 16, 2011
Gas District Cooling (Putrajaya) Sdn Bhd	Malaysia	April 14, 2009
Gazprom	Russia	September 19, 2007
Gazprom Neft	Russia	September 16, 2008
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
Kingdream PLC	China	April 14, 2009
Kunlun Energy Company Ltd. (fka: CNPC Hong Kong Limited)	Hong Kong	September 19, 2007
KLCC Property Holdings Bhd	Malaysia	April 14, 2009
Maire Technimont	Italy	December 6, 2011
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
MISC Capital Ltd.	Malaysia	April 14, 2009
Mosenergo	Russia	September 16, 2008
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
PetroChina	China	September 19, 2007
Petroleum Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Chemicals Bhd	Malaysia	June 16, 2011
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Sinopec Finance	China	April 14, 2009
Sinopec Kantons Holdings Ltd	Bermuda	September 19, 2007
Sinopec Shanghai Petrochemical	China	September 19, 2007
Sinopec Yizheng Chemical Fibre	China	March 25, 2008
<b># of Iran Scrutinized Companies</b>	<b>28</b>	

The following companies were **removed** from the Scrutinized Company List for IRAN during the quarter.

<b><i>Removed Company</i></b>	<b><i>Country of Incorporation</i></b>
<b><i>ENI SpA</i></b>	<b><i>Italy</i></b>
<b><i>Rosier SA</i></b>	<b><i>Belgium</i></b>
<b><i>Snam Rete Gas SpA</i></b>	<b><i>Italy</i></b>
<b><i>Total Capital SA</i></b>	<b><i>France</i></b>
<b><i>Total Gabon</i></b>	<b><i>Gabon</i></b>
<b><i>Total Kenya Limited</i></b>	<b><i>Kenya</i></b>
<b><i>Total Nigeria PLC</i></b>	<b><i>Nigeria</i></b>
<b><i>Total SA</i></b>	<b><i>France</i></b>

**Table 4: Continued Examination Companies with Petroleum Energy Activities in Iran***New companies on the list are shaded and in bold.*

Company	Country of Incorporation
Aker Solutions ASA (fka Aker Kvaerner ASA)	Norway
<b>China Communications Construction Co</b>	<b>China</b>
Clontarf Energy Plc (fka Persian Gold PLC)	United Kingdom
Edison Spa	Italy
<b>Eni SpA</b>	<b>Italy</b>
GAIL (India) Limited, aka GAIL Ltd.	India
GS Engineering & Construction Corp.	South Korea
GS Holdings	South Korea
Hyundai Engineering & Construction Co.	South Korea
Hyundai Heavy Industries	South Korea
INA-Industrija Nafta DD	Croatia
Liquefied Natural Gas LNG	Australia
Lukoil OAO	Russia
OMV AG	Austria
Petrofac Ltd.	United Kingdom
PTT Exploration & Production PCL	Thailand
Repsol YPF	Spain
Royal Dutch Shell PLC	United Kingdom
Saipem SpA	Italy
Sasol Ltd.	South Africa
<b>Shanghai Zhenhua Heavy Industry Co Ltd</b>	<b>China</b>
Siam Cement PCL	Thailand
Technip	France
<b>Total SA</b>	<b>France</b>
<b># of Companies</b>	<b>24</b>

The following companies were **removed** from the Continued Examination Company List for IRAN during the quarter.

Removed Company	Country of Incorporation
<b>Mangalore Refinery &amp; Petrochemicals Ltd</b>	<b>India</b>
<b>Statoil ASA (fka StatoilHydro)</b>	<b>Norway</b>

**Table 5: Correspondence & Engagement Efforts with Scrutinized Companies**

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

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

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

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

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

**Table 6: Correspondence & Engagement Efforts with Continued Examination Companies**

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

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

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

### ***Key Dates for PFIA Activities***

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

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

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

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

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

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

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

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

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

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

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

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

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

**September 19, 2007**  
**December 18, 2007**  
**March 25, 2008**  
**June 10, 2008**  
**September 16, 2008**  
**January 13, 2009**  
**April 14, 2009**  
**July 28, 2009**  
**October 27, 2009**  
**January 26, 2010**

**April 27, 2010**  
**July 29, 2010**  
**November 9, 2010**  
**February 22, 2011**  
**June 16, 2011**  
**September 20, 2011**  
**December 6, 2011**  
**March 20, 2012**  
**June 26, 2012**

### Summary of Investments Sold, Redeemed, Divested or Withdrawn

In accordance with the PFIA, the SBA must divest all holdings of any scrutinized companies within 12 months of their original appearance on the prohibited securities list. External managers are contractually responsible for administering investments in accordance with restrictions set forth by the SBA, including the prohibited securities list of the PFIA. Beginning in April 2008, the SBA developed a policy approach that directed all affected managers to sell their remaining PFIA related holdings no later than July 1, 2008, approximately three months earlier than the statutory deadline of September 18, 2008. Historical divestment transaction data is contained in prior PFIA Quarterly Reports.

Below is a table showing the aggregate amounts divested by the SBA, by company, since the PFIA's inception:

Royal Dutch Shell**	\$215,784,700.79
Total SA**	\$214,536,015.45
Petroleo Brasileiro SA (Petrobras) **	\$206,135,264.10
ENI**	\$141,403,034.78
CNOOC Ltd	\$119,194,168.79
Gazprom (a.k.a. OAO Gazprom)	\$71,275,453.14
Alstom**	\$65,897,698.67
Repsol YPF**	\$53,420,179.87
Statoil ASA** (fka: StatoilHydro)	\$46,792,677.58
China Petroleum and Chemical Corp (CPCC) Sinopec	\$38,455,440.48
PetroChina	\$25,723,158.75
Inpex Corp.**	\$24,835,110.63
MISC Bhd	\$16,448,397.44
Snam Rete Gas**	\$9,596,905.78
Lukoil OAO**	\$9,487,631.46
OMV AG **	\$8,601,977.98
Shell International Finance**	\$8,599,813.40
Wärtsilä Oyj**	\$1,797,871.96
Daelim Industrial Co Ltd	\$1,566,926.73
Petrofac Ltd **	\$1,496,881.43
The Weir Group PLC **	\$1,322,666.62
Petrobras International Finance**	\$1,148,750.00
Lundin Petroleum AB **	\$1,133,120.04
Oil & Natural Gas Corporation (ONGC)	\$945,363.83
Petrobras Energia (Participaciones) **	\$298,632.08
Dongfeng Motor Group	\$158,623.49
Electricity Generating Public Company	\$121,321.38
Gazprom Neft	\$37,892.73
** denotes companies no longer on the Prohibited Company list.	<b>\$1,286,215,679.38</b>

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

**Table 7: List of Prohibited Investments (Scrutinized Companies)***New companies on the list are shaded and in bold.*

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
AREF Energy Holdings Co.	Sudan	Kuwait	July 28, 2009	Yes
AviChina Industry & Technology Company Limited	Sudan	China	September 19, 2007	Yes
Chennai Petroleum Corp Ltd	Sudan	India	September 19, 2007	Yes
China Petroleum & Chemical Corp (CPCC) Sinopec	Sudan & Iran	China	September 19, 2007	Yes
China Oilfield Services Ltd	Iran	China	June 16, 2011	Yes
China Petroleum Finance Co.	Sudan	China	November 9, 2010	Yes
CNOOC Ltd	Iran	China	June 16, 2011	By June 15, 2012
<b>CNPC General Capital Ltd</b>	<b>Iran</b>	<b>China</b>	<b>June 26, 2012</b>	<b>Yes</b>
CNPC HK Overseas Capital Ltd	Sudan & Iran	China	June 16, 2011	Yes
Daelim Industrial Co Ltd	Iran	South Korea	June 16, 2011	Yes
Daqing Huake Group Co Ltd	Sudan	China	March 25, 2008	Yes
Dongfeng Motor Group Co. Ltd.	Sudan	China	July 29, 2010	Yes
Egypt Kuwait Holding Co. SAE	Sudan	Kuwait	January 13, 2009	Yes
Electricity Generating Public Co	Sudan	Thailand	September 19, 2007	Yes
Gas District Cooling (Putrajaya) Sdn Bhd	Sudan & Iran	Malaysia	April 14, 2009	Yes
Gazprom	Iran	Russia	September 19, 2007	Yes
Gazprom Neft	Iran	Russia	September 16, 2008	Yes
Groupe ONA (ONA SA)	Sudan	Morocco	November 9, 2010	Yes
Harbin Electric Co. Ltd. (fka: Harbin Power Equipment)	Sudan	China	September 19, 2007	Yes
Indian Oil Corp Ltd (IOCL)	Sudan & Iran	India	September 19, 2007	Yes
Jiangxi Hongdu Aviation (aka Hongdu Aviation)	Sudan	China	September 19, 2007	Yes
Jinan Diesel Engine	Sudan	China	July 28, 2009	Yes
Kingdream PLC	Sudan & Iran	China	April 14, 2009	Yes
KLCC Property Holdings Bhd	Sudan & Iran	Malaysia	April 14, 2009	Yes
KMCOB Capital Bhd	Sudan	Malaysia	September 19, 2007	Yes
Kunlun Energy Company Ltd. (fka: CNPC Hong Kong)	Sudan & Iran	Hong Kong	September 19, 2007	Yes
Kuwait Finance House	Sudan	Kuwait	April 14, 2009	Yes
Lanka IOC Ltd	Sudan	India	September 19, 2007	Yes
LS Industrial Systems	Sudan	South Korea	September 20, 2011	Yes
Managem SA	Sudan	Morocco	November 9, 2010	Yes
Mangalore Refinery & Petrochemicals Ltd	Sudan	India	September 19, 2007	Yes
Maire Tecnimont	Iran	Italy	December 6, 2011	Yes
Midciti Resources Sdn Bhd	Sudan	Malaysia	September 19, 2007	Yes
MISC Bhd	Sudan & Iran	Malaysia	September 19, 2007	Yes
MISC Capital Ltd.	Sudan & Iran	Malaysia	April 14, 2009	Yes
Mosenergo	Iran	Russia	September 16, 2008	Yes
Oil & Natural Gas Corp (ONGC)	Sudan & Iran	India	September 19, 2007	Yes
PetroChina	Sudan & Iran	China	September 19, 2007	Yes
Petroleum Nasional (Petronas)	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Capital Limited	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Chemicals Bhd	Sudan & Iran	Malaysia	June 16, 2011	Yes

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
Petronas Dagangan Bhd	Sudan & Iran	Malaysia	September 19, 2007	Yes
Petronas Gas Berhad	Sudan & Iran	Malaysia	September 19, 2007	Yes
Ranhill Bhd	Sudan	Malaysia	September 16, 2008	Yes
Ranhill Power Sdn Bhd	Sudan	Malaysia	September 20, 2011	Yes
Ranhill Powertron Sdn	Sudan	Malaysia	April 14, 2009	Yes
Scomi Engineering BHD	Sudan	Malaysia	September 19, 2007	Yes
Scomi Group Bhd	Sudan	Malaysia	September 19, 2007	Yes
Sinopec Finance	Sudan & Iran	China	April 14, 2009	Yes
<b>Sinopec Group Overseas Development 2012 Ltd</b>	<b>Iran</b>	<b>China</b>	<b>June 26, 2012</b>	<b>Yes</b>
Sinopec Kantons Holdings Ltd	Sudan & Iran	Bermuda	September 19, 2007	Yes
Sinopec Shanghai Petrochemical	Sudan & Iran	China	September 19, 2007	Yes
Sinopec Yizheng Chemical Fibre	Sudan & Iran	China	March 25, 2008	Yes
Societe Metallurgique D'imiter	Sudan	Morocco	November 9, 2010	Yes
<b># of Prohibited Investments</b>	<b>54</b>	<b>-</b>	<b>-</b>	

The following companies were removed from the Prohibited Investments List during the quarter.

Removed Company	Country of Incorporation
<i>ENI SpA</i>	<i>Italy</i>
<i>Rosier SA</i>	<i>Belgium</i>
<i>Snam Rete Gas SpA</i>	<i>Italy</i>
<i>Total Capital SA</i>	<i>France</i>
<i>Total Gabon</i>	<i>Gabon</i>
<i>Total Kenya Limited</i>	<i>Kenya</i>
<i>Total Nigeria PLC</i>	<i>Nigeria</i>
<i>Total SA</i>	<i>France</i>

**Table 8: SBA Holdings in Prohibited Investments Subject to Divestment**

As of June 7, 2012, the SBA held shares of one company on the Prohibited Investments List in accounts subject to the PFIA divestiture requirements. The SBA's remaining investment in CNOOC Ltd. consisted of 68,980 shares, down from 27,979,480 shares as of the previous PFIA report. CNOOC Ltd. was added to the Prohibited Investments List on June 16, 2011, and is subject to full divestment as of June 15, 2012. The remaining CNOOC shares are scheduled for sale prior to the June 15<sup>th</sup> deadline.

The following table summarizes the SBA's CNOOC divestment since the previous PFIA Quarterly Report.

Date	Company	Action	Shares	Proceeds
2/1/12 to 6/7/12	CNOOC Ltd.	Sold	27,831,500	456,114,549.48 HKD (approximately \$58.78 m)
2/1/12 to 6/7/12	CNOOC Ltd. ADRs	Sold	79,000	\$15,245,928.93

### ***Summary of Progress, SBA Investment Manager Engagement Efforts***

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

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

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

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

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

### ***Listing of All Publicly Traded Securities (Including Equity Investments)***

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

For more information, please contact:

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

or send an email to:

[pfia@sbafla.com](mailto:pfia@sbafla.com)



**End of Section**

# **State Board of Administration FY 2012-13 Proposed Budgets**

**SBA Operations  
FRS Investment Plan  
Florida Hurricane Catastrophe Fund**

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**Division of Bond Finance  
Florida Prepaid College Board**

**June 26, 2012**

# **State Board of Administration FY 2012-13 Proposed Budget**

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## **SBA Operating Budget**

**June 26, 2012**

## → SBA Proposed Budget for FY 2012-13 Background

- Assets Under Management (AUM)
  - \$158.7 billion AUM as of 3/31/12
- Pension Fund net asset value has risen \$43 billion since 3/09 bottom despite \$14 billion in payouts (net of contributions), so fund return has exceeded \$57 billion over last 3 years.
- Performance has been above benchmark for the past 3-month, 12-month, 3-year, 5-year and 10-year periods.
- 36 Mandates

Mandate	% of Total \$
FRS Pension Plan	80%
Florida PRIME	5%
34 Other Mandates	15%

## → **SBA Proposed Budget for FY 2012-13**

### **Cost Drivers**

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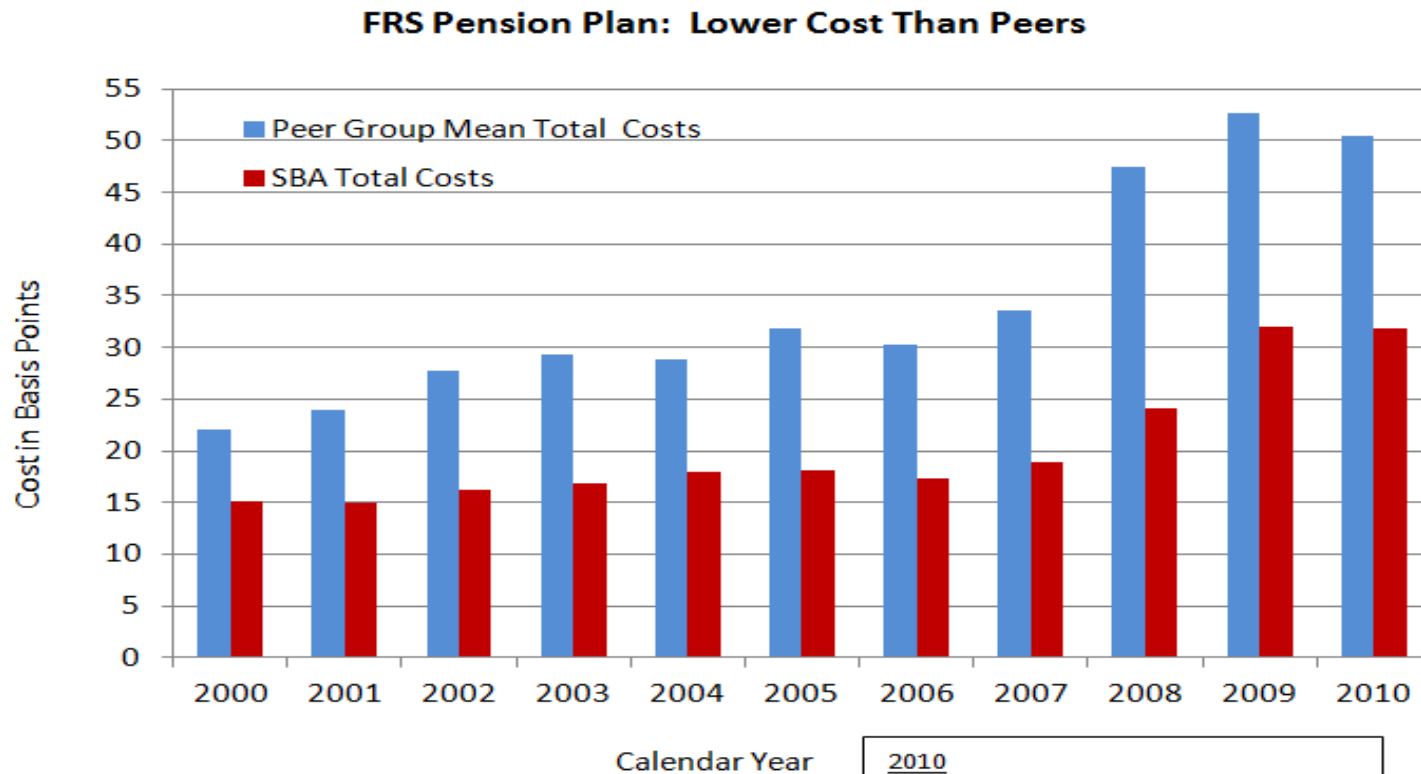
- Growing number and complexity of accounts - reflecting investment policy changes to increase diversification and better protect capital in down markets
- In-house asset management – major driver of cost effectiveness
- Maintenance of rigorous control environment and infrastructure

## → **SBA Proposed Budget for FY 2012-13** **Cost Effectiveness – Background**

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- SBA's total investment management costs and return are benchmarked against peers annually through CEM Benchmarking study
- Includes both SBA budgeted costs and direct investment management costs charged against portfolio performance

## → SBA Proposed Budget for FY 2012-13 Cost Lower Than Peers – CEM Study



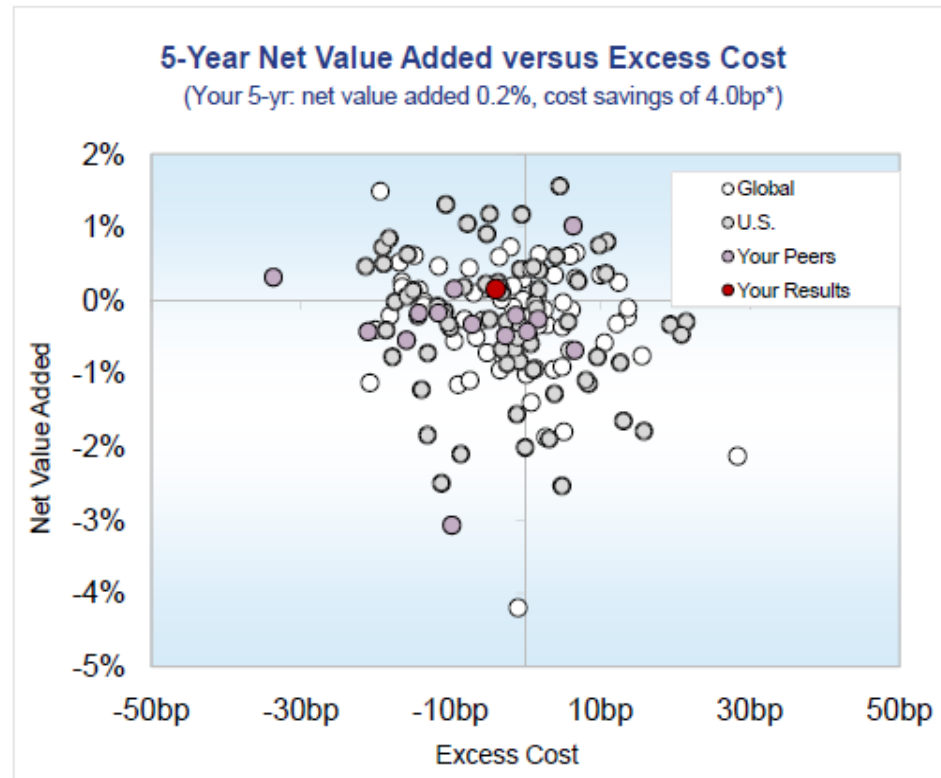
Source: CEM Benchmarking, Inc.

2010

Average Peer Assets	\$ 72,304M
Average SBA Assets	\$ 115,561M
Number of Peers	16

## → SBA Proposed Budget for FY 2012-13 More Cost Effective than Peers – CEM Study

- Key components of the investment program evaluated:
  - Value added (Performance vs. Benchmark)
  - Risk
  - Costs
- SBA's 5-yr performance placed in most favorable quadrant
  - Positive value added at low cost



\* Your 5-year net value added of 0.2% equals your 5-year 0.4% gross value added minus your 0.3% 5-year average cost.

# → SBA Proposed Operating Budget for FY 2012-13

## Total Budget \$34.6 Million

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- Composition

	% of Total \$
Salaries and Benefits	56%
Other Personal/Contractual Services	28%
Expense	15%
Capital Outlay	1%

- \$1.6 million (4.9%) increase from FY 2012 budget of \$33 million
- Budgeted cost per dollar under management unchanged from FY12
  - 2.22 bps on \$158 billion projected average AUM FY13
  - 2.22 bps on \$153 billion projected average AUM FY12

## → **SBA Proposed Budget for FY 2012-13** **Cost Drivers / Priorities**

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- Increased number of funds and direct investments (private equity, real estate, strategic investments) warrant targeted new positions
- Strategic initiatives to improve performance and efficiency and to manage risk
  - Proactively manage human capital risk (compensation, training, succession planning)
  - Improve infrastructure
    - Total fund holdings-based risk management system
    - Implement equities trading system (also enables internal management of global equities passive portfolio)
    - Enhance private market asset class operational infrastructure
    - Increase efficiency through automation, integration, streamlining processes and reducing duplication of effort and systems
  - Continue strengthening control environment and implementing audit recommendations
  - Enhance enterprise risk management and compliance

## → SBA Proposed Budget for FY 2012-13 Total \$1.6 Million Increase - By Category

- \$830,000 (4.5%) increase in Salaries and Benefits
  - 3 new positions, Internal Audit position upgrades & Certification Recognition Awards (\$312,000)
  - 3% recruitment and retention pool to reduce human capital risk (\$418,000)
    - Replaces FY 2012 deployed resources (3%) converted to salaries during fiscal year
  - Have not requested FY 2012-13 Incentive Compensation payment
    - Performance qualified for 7.16% payout, or \$400,000
    - Compensation study 2012-13 (Investment Advisory Council/Trustees)
  - Legislative benefits package (\$100,000)
  - Will absorb any Leave Liability Expense for retirements
- \$500,000 (5%) increase in Other Personal Services
  - Order Management System for trading public equities
  - CRM software to help manage private market relationships
- \$270,000 (5%) increase in Expense
  - Contractual increase in rent and additional space and equipment to efficiently accommodate investment and risk management staff growth

# → **SBA Proposed Budget for FY 2012-13**

## **Proposed New Positions**

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- Strategic Investments & Private Equity (1)
  - Private Equity Portfolio Manager for existing and expected relationships
- Real Estate (1)
  - Portfolio Manager-Principal Investments to facilitate transitioning Sr. Officers from day-to-day asset management responsibilities to focus on team-building/management, portfolio construction, and enhancing investment processes
- Information Technology (1)
  - Sr. Business Analyst to analyze/enhance cross-organizational business processes and build bench strength

# → **SBA Proposed Budget for FY 2012-13**

## **Proposed Funding Plan**

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### Background:

- F.S. 215.515 provides that the operating costs of the SBA are to be paid from the funds it manages.
- The costs are recovered through the assessment of a monthly fee for investment, administrative and other services provided. Investment services are charged on a flat fee basis, a variable percentage charge on assets under management, or a combination of the two. Small trust funds generally pay a flat fee; the variable method is primarily utilized for larger client funds managed by the SBA and accounts for approximately 85-90% of the fees collected.

## → SBA Proposed Budget for FY 2012-13 Proposed Funding Plan

- To the extent actual operating costs exceed service fees, the difference will be charged to the SBA Administrative Trust Fund.
- SBA Administrative Trust Fund has a projected 6/30/12 balance of \$31 million, a decline of \$4 million since 6/30/11.
- SBA Administrative Trust Fund targeted balance = 12 months of expense
- Balance has declined because service fee structure has not provided sufficient annual funding:
  - # months expense in Admin Trust Fund:

– 6/30/09	22 months
– 6/30/10	20 months
– 6/30/11	14 months
– 6/30/12 est.	10 months
- Revenue structure was evaluated during FY 2012-13

## → **SBA Proposed Budget for FY 2012-13** **Proposed Funding Plan**

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### Service Fee Changes for FY 2012-13:

- The variable percentage charge on assets under management, which was reduced (in steps) from 2.0 bps in FY 1998 to 1.5 bps, will be increased to 2.25 bps effective 7/1/12.
- The variable percentage charge for Florida Prime, which was reduced (in steps) from 2.0 bps in FY 1998 to 0.6 bps, will be increased to 1.0 bps effective 7/1/12. This change was reviewed with the PLGAC at its March meeting.
- Assuming no significant changes in assets under management, these fee changes will provide for a full recovery of SBA costs for FY 2013 and a 6/30/13 balance in the SBA Administrative Trust Fund that would represent 11 months of expense (\$32 M)

## → SBA Proposed Budget for FY 2012-13 Proposed Funding Plan

- Assuming assets under management (AUM) remain at current levels, revenue for FY 2012-2013 is estimated to be \$35.5M.
- FY 2012-13 Projected Revenue

Revenue Source	Fee Structure	Fee Base (\$B)	Revenue (\$ M)	% of Total Revenue
FRS Pension Plan and others	2.25 bps	\$147	\$31.4	88%
PRIME	1.0 bps	\$7.8	0.8	2%
Bond Trusteeship	1.0 bps	\$24	2.4	7%
Others	Fixed fee	N/A	<u>1.0</u>	<u>3%</u>
			\$35.5	100%

## SBA Budget Detail By Line Item (Including Office of Internal Audit)

Description	Fiscal Year 2011-2012	Fiscal Year 2012-2013	% Change
<b>FTE</b>	<b>183.5</b>	<b>186.5</b>	
<b>Salaries &amp; Benefits</b>	<b>\$18,373,726</b>	<b>\$19,205,631</b>	<b>4.5%</b>
Salaries	13,936,036	14,248,036	
Recruitment & Retention (3%)	0	418,081	
Social Security	1,035,868	1,035,868	
Retirement	748,953	793,788	
Health Insurance	2,361,366	2,415,714	
Life Insurance	10,283	10,283	
Disability Insurance	5,560	5,866	
Dental Insurance	200,660	202,995	
Moving Expense	75,000	75,000	
<b>Other Personal Services</b>	<b>\$9,173,067</b>	<b>\$9,669,575</b>	<b>5.4%</b>
Temporary Employment	209,170	209,170	
Other Contractual Services	8,963,897	9,460,405	
<b>Expense</b>	<b>\$5,000,601</b>	<b>\$5,264,450</b>	<b>5.3%</b>
Repairs & Maintenance	1,157,116	1,231,315	
Rental of Building/Equipment	1,595,753	1,707,343	
Travel	713,852	726,717	
Training	476,751	497,050	
Communications	295,650	296,686	
Freight & Postage	78,000	78,000	
Insurance & Surety Bonds	76,846	76,846	
Ofc Materials/Supplies/Equipment	286,615	317,289	
Other Charges & Obligations	237,419	250,606	
Printing	67,600	67,600	
Unemployment Compensation	15,000	15,000	
<b>Other Capital Outlay</b>	<b>\$446,000</b>	<b>\$455,500</b>	<b>2.1%</b>
Furniture/Equipment/Books	446,000	455,500	
<b>TOTALS</b>	<b>\$32,993,394</b>	<b>\$34,595,156</b>	<b>4.9%</b>

# **State Board of Administration FY 2012-13 Proposed Budget**

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## **FRS Investment Plan Budget**

**June 26, 2012**

## → **FRS Investment Plan Proposed Budget Overview**

- Projected Investment Plan (IP) expenses total \$25.5 million for FY 2012-13.
- Proposed operating budget totals \$11 million.
  - Funded by 3 bps of employer payroll (\$8 million) and \$3 million drawdown of IP Admin Trust Fund.
- Additional \$14.5 million of IRS-defined Plan expenses
  - Funded by \$9 million anticipated FY13 forfeitures from IP member accounts and \$5.5 million drawdown of Forfeiture Account.
- Forfeiture Account 6/30/13 (projected) \$5 million.
- Budgeted spending plan supported by >1 year of reserves in the IP Administrative Trust Fund (\$27.4 million est. 6/30/13).
- Employer contribution rate for funding IP Admin Trust Fund is unchanged from FY 2011-12 (per legislative action).

## → FRS Investment Plan Budget Detail By Line Item

Description	Fiscal Year 2011-2012	Fiscal Year 2012-2013	% Change
<b>Salaries &amp; Benefits (6 FTE)</b>	<b>\$840,305</b>	<b>\$859,940</b>	<b>2.3%</b>
Salaries	632,831	632,831	
Recruitment & Retention (3%)	0	18,985	
Social Security	48,948	48,948	
Retirement	34,749	35,238	
Health Insurance	88,229	88,390	
Life insurance	441	441	
Disability Insurance	402	402	
Dental Insurance	7,471	7,471	
Non-Recurring Compensation	27,235	27,235	
<b>Other Personal Services</b>	<b>\$12,856,241</b>	<b>\$9,846,424</b>	<b>-23.4%</b>
Temporary Employment	20,000	20,000	
Other Contractual Services	12,836,241	9,826,424	
<b>Expense</b>	<b>\$281,730</b>	<b>\$332,445</b>	<b>18.0%</b>
Repairs & Maintenance	113,900	163,400	
Rental of Building/Equipment	42,226	43,141	
Travel	73,750	73,750	
Insurance & Surety Bonds	1,000	1,000	
Ofc Materials/Supplies/Equipment	4,900	5,200	
Other Charges & Obligations	24,954	24,954	
Printing	21,000	21,000	
<b>Other Capital Outlay</b>	<b>\$13,000</b>	<b>\$13,000</b>	<b>0.0%</b>
Furniture/Equipment/Books	13,000	13,000	
<b>TOTALS</b>	<b>\$13,991,276</b>	<b>\$11,051,810</b>	<b>-21.0%</b>

### NOTES:

- \$2.94 million (21%) proposed budget decrease.
- 3% recruitment and retention pool to reduce human capital risk.
- Adoption of 2012 legislated benefit rates/premiums.
- 23% decrease in Other Personal Services reflects increased allocation of administrative costs to be paid from the Forfeiture Account during FY 2013.
- Expense increase of 18% reflects additional costs for computer hardware/software maintenance and repair costs to support legislative retirement system reforms.

# **State Board of Administration FY 2012-13 Proposed Budget**

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## **Florida Hurricane Catastrophe Fund Budget**

**June 26, 2012**



# **Division of Bond Finance FY 2012-13 Proposed Budget**

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**June 26, 2012**

## **Division Of Bond Finance** **Budget Detail By Line Item**

Description	Fiscal Year 2011-2012	Fiscal Year 2012-2013	% Change
<b>FTE</b>	<b>20</b>	<b>20</b>	
<b>Salaries &amp; Benefits</b>	<b>\$2,025,985</b>	<b>\$2,099,197</b>	<b>3.6%</b>
Salaries	1,554,306	1,554,306	
Recruitment & Retention (3%)	0	46,630	
Social Security	119,698	119,698	
Retirement	81,235	85,135	
Health Insurance	239,338	262,000	
Life Insurance	1,199	1,199	
Disability Insurance	647	667	
Dental Insurance	21,062	21,062	
Non-Recurring Compensation	8,500	8,500	
<b>Other Personal Services</b>	<b>\$2,141,042</b>	<b>\$2,259,624</b>	<b>5.5%</b>
Temporary Employment	87,500	30,000	
Other Contractual Services	2,053,542	2,223,286	
<b>Expense</b>	<b>\$499,434</b>	<b>\$468,645</b>	<b>-6.2%</b>
Repairs & Maintenance	8,500	8,500	
Rental of Building/Equipment	179,311	183,124	
Travel	67,000	67,000	
Communications	49,276	50,488	
Freight & Postage	32,200	32,200	
Insurance & Surety Bonds	3,000	2,123	
Ofc Materials/Supplies/Equipment	31,619	31,342	
Other Charges & Obligations	7,729	8,368	
Printing	120,800	85,500	
<b>Other Capital Outlay</b>	<b>\$40,800</b>	<b>\$40,800</b>	<b>0.0%</b>
Furniture/Equipment/Books	40,800	40,800	
<b>TOTALS</b>	<b>\$4,707,262</b>	<b>\$4,868,266</b>	<b>3.4%</b>

### NOTES:

- \$161,004 (3.42%) proposed total budget increase.
- Includes 3% recruitment and retention resource pool.
- Adoption of 2012 legislated benefit rates/premiums.
- Budget provides for an estimated 23 bond issues for FY 2012-13 totaling \$1.14 billion v. 21 bond issues during the current fiscal year.

# **Florida Prepaid College Board FY 2012-13 Proposed Budget**

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**June 26, 2012**

# → **Florida Prepaid College Board Budget Detail By Line Item**

Description	Fiscal Year 2011-2012	Fiscal Year 2012-2013	% Change
<b>Salaries &amp; Benefits (14 FTE)</b>	<b>\$1,268,538</b>	<b>\$1,268,538</b>	<b>0%</b>
Salaries	953,045	953,045	
Social Security	70,364	70,364	
Retirement	52,448	52,448	
Health Insurance	173,861	173,861	
Life insurance	1,201	1,201	
Disability Insurance	942	942	
Dental Insurance	16,677	16,677	
Non-Recurring Compensation	46,559	46,559	
<b>Other Personal Services</b>	<b>\$15,052,932</b>	<b>\$15,041,582</b>	<b>-0.1%</b>
Temporary Employment	36,000	36,000	
Other Contractual Services	15,016,932	15,005,582	
<b>Expense</b>	<b>\$269,861</b>	<b>\$269,861</b>	<b>0.0%</b>
Repairs & Maintenance	5,000	5,000	
Rental of Building/Equipment	84,750	79,500	
Travel	30,740	30,740	
Communications	73,500	73,500	
Freight & Postage	4,705	4,705	
Insurance & Surety Bonds	10,000	10,000	
Ofc Materials/Supplies/Equipment	10,666	10,666	
Other Charges & Obligations	10,000	10,000	
Printing	40,500	40,500	
<b>Other Capital Outlay</b>	<b>\$41,100</b>	<b>\$41,100</b>	<b>0.0%</b>
Furniture/Equipment/Books	41,100	41,100	
<b>TOTALS</b>	<b>\$16,632,431</b>	<b>\$16,621,081</b>	<b>-0.1%</b>

## NOTES:

- Approved by the Florida Prepaid College Board on March 14, 2012.
- \$11,350 (0.1%) proposed budget reduction due to reduced lockbox activity in banking services and a reduction in billable accounts for records administration, offset by contractual cost of living increases for financial audit and actuarial services.
- Adoption of 2012 legislated benefit rates/premiums, subsequent to Florida Prepaid College Board's approval.

# APPENDIX

## **State Board of Administration**

### **Authority & Governance**

The original State Board of Administration (SBA) was created by statute in 1929 as the fiscal agent for counties and special road and bridge districts for the purpose of paying debt service on their bonds. The SBA was later established as a constitutional body corporate in 1942 by Section 16 of Article IX of the 1885 Constitution of the State of Florida, for the purpose of administering the Second Gas Tax for the benefit of Florida counties and county road bonds. As a result of a constitutional amendment, effective January 2003, the Governor as chairman, the Chief Financial Officer as treasurer, and the Attorney General as secretary serve as the three-member body corporate, collectively known as the Board of Trustees.

The Trustees have statutory authority to invest assets and discharge their duties in accordance with the limitations on investments as outlined in section 215.47, Florida Statutes, and in compliance with certain federal fiduciary standards of loyalty, care and prudence that are incorporated into sections 121.4501(15), 215.44(2)(a) and 215.27(10), Florida Statutes. The Trustees establish broad policy guidelines (e.g., Investment Policy Statements) and delegate the daily administrative and investment authority to the SBA Executive Director & Chief Investment Officer, who is held to the same fiduciary standards as the Trustees. An Investment Advisory Council (IAC) appointed by the Trustees provides advice on investment policy and strategy, and a Participant Local Government Advisory Council (PLGAC) provides advice on the administration of Florida Prime (formerly known as the Local Government Investment Pool). Section 215.44(2), Florida Statutes provides for an Audit Committee appointed by the Trustees to assist them in fulfilling oversight responsibilities, serving as an independent and objective party to monitor processes for financial reporting, internal controls, risk assessment, audit processes, and compliance with laws, rules, and regulations, plus directing the efforts of the Board's independent external auditors and the Board's internal audit staff. In addition to the oversight of the Trustees and various advisory groups, the SBA is subject to review by the Auditor General of Florida, Office of Program Policy Analysis & Government Accountability, Office of Internal Audit, Office of Inspector General, and the Florida Legislature. The Florida Legislature provides for the operational flexibility required to meet the SBA's specialized responsibilities and fiduciary duties, relative to other public entities. The SBA is not funded by general revenue, has a measurable bottom line and benchmarks against which success and accountability can be assessed.

### **Primary Purpose**

The SBA fulfills a critical role for the State of Florida as a multi-asset class investment management organization investing and safeguarding assets on behalf of trust funds and a variety of state and local government entities. The SBA manages 25 different investment funds housing the assets of 36 mandates and trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client. The SBA invests in all major public and private market asset classes, including U.S. and international stocks and bonds, inflation-protected securities, direct-owned real estate, private equity limited partnerships, and other opportunistic and strategic investments.

### **Major asset management responsibilities include:**

- The FRS Pension Plan trust fund, one of the world's largest and financially healthiest public pension funds.
- The FRS Investment Plan, a defined contribution 401(k)-like alternative to the FRS Pension Plan (originally created under the 2000 Public Employee Optional Retirement Program [PEORP] legislation).
- Florida PRIME (formerly the Local Government Investment Pool), a money market pool with primary investment objectives, in priority order, of safety, liquidity, and competitive returns with minimization of risks. All units of local government in Florida may invest their surplus operating funds in Florida PRIME.
- The Lawton Chiles Endowment Fund (LCEF), which originated from tobacco litigation settlement monies as a perpetual source of enhanced funding for Florida health maintenance and research programs related to tobacco use.
- Investment of the operating funds and other financial resources of the Florida Hurricane Catastrophe Fund and related entities.

**Additional responsibilities that do not directly involve asset management include:**

- Providing retirement planning support to approximately 650,000 active members of the Florida Retirement System through the MyFRS Financial Guidance Program originating under the 2000 PEORP legislation.
- Administering the Florida Hurricane Catastrophe Fund (FHCF) and its associated program, including the FHCF Finance Corporation and the Insurance Capital Build-up Program.
- Serving as an investment consultant to retirement programs administered by other state agencies including the State of Florida Deferred Compensation Program and State University Optional Retirement Program.
- Administering all debt service funds for bonds issued pursuant to the State Bond Act, as well as serving as trustee and escrow agent for bonds issued by the Division of Bond Finance.
- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Board Programs.
- Providing administrative support to the Audit Committee, Investment Advisory Council, and Participant Local Government Advisory Council.

**Operational Structure**

The Executive Director & Chief Investment Officer and staff (183.5 total FTE) manage the day to day operations of the SBA. The SBA staff consists primarily of executive, investment, financial/accounting, operational, and administrative professionals focused on safeguarding and prudently growing the assets of the FRS Pension Plan and other the assets entrusted to it over the long-term. The SBA is committed to providing superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards of care.

**Budget Entities**

The SBA Operating Budget includes resources to perform functional responsibilities for all but the following programs, which have their own legally required budgets and underlying funding sources:

- FRS Investment Plan
- Florida Hurricane Catastrophe Fund
- Division of Bond Finance
- Florida Prepaid College Board

## **Florida Retirement System (FRS) Investment Plan**

### **Authority & Governance**

The 2000 Florida Legislature created the FRS Investment Plan within the Florida Retirement System (FRS). The Investment Plan (operationally referred to as the Office of Defined Contribution Programs) is administered by the State Board of Administration (SBA) and is governed by the Trustees pursuant to Section 121.4501(8), F.S. The Legislature established the Investment Plan Trust Fund in Section 121.4502, F.S.

### **Primary Purpose**

The Office of Defined Contribution Programs serves two primary purposes for the state:

- 1) The FRS Investment Plan. This is an optional 401(a) defined contribution plan that employees choose in lieu of membership in the FRS Pension Plan (the traditional defined benefit plan). Investment Plan benefits accrue in individual accounts that are participant-directed, portable, and funded by employee and employer contributions and earnings. The Office of Defined Contribution Programs is also responsible for processing FRS retirement plan choice enrollments.
- 2) The MyFRS Financial Guidance Program. These are the educational resources that support employees' choices between retirement plans and provide almost 650,000 employees with the information necessary to make informed decisions about choices within their Plan and in preparation for retirement.

### **Operational Structure**

The Office of Defined Contribution Programs, including FRS Investment Plan costs, is budgeted and accounted for separately from the SBA operating budget. Beginning its tenth full year of operations (including the initial choice period in FY 2002-2003), the SBA has been responsible for the day-to-day management of the Investment Plan and the MyFRS Financial Guidance Program within the Office of Defined Contribution Programs. The Office of Defined Contribution Programs is operationally supported by employer contribution rates adopted each fiscal year by the Florida Legislature and "forfeited account balances" accumulated in the Forfeiture Account. FRS Investment Plan expenses for recordkeeping, asset custody and educational services can be paid out of the Forfeiture Account, consistent with SBA policy and IRS requirements.

Under subsections 121.4501(6), Florida Statutes, balances are forfeited by members who either terminate employment and take a distribution of their vested balance (which in turn forfeits the unvested balance) or terminate employment with an unvested balance and do not return to FRS employment within five years. The enacting legislation [HB 2393, found at Ch. 2000-169, Laws of Florida] required the SBA to obtain a "favorable determination letter and a favorable private letter ruling from the Internal Revenue Service." The May 4, 2001 private letter ruling requires that the use of forfeited amounts be limited to two purposes: a) Payment of plan administrative expenses; and b) Reduction of future employer contributions to the plan. The Forfeiture Account Policy (#20-1255) states the SBA will, "endeavor to annually expend the proceeds of the Forfeiture Account to pay authorized plan administrative expenses and reduce future employer contributions to the FRS Investment Plan, consistent with applicable federal and state regulation, rule and law."

The SBA has partnered with external service providers for the majority of investment plan and financial guidance program functions. Daily oversight and monitoring of external relationships to ensure compliance with contractual obligations, general contract administration, management of programs subject to goals and objectives established by the Trustees, and program compliance with applicable state and federal laws is performed by 6 FTE, including the Senior Defined Contribution Programs Officer.

## **Florida Hurricane Catastrophe Fund**

### **Authority and Governance**

The Florida Hurricane Catastrophe Fund (FHCF) is a tax-exempt trust fund created in November 1993 during a Special Session of the Legislature, in the aftermath of Hurricane Andrew. The FHCF was created in Section 215.555, Florida Statutes with the purpose of improving the availability and affordability of property insurance in Florida by providing reimbursements to insurers for a portion of their catastrophic hurricane losses. Also included in provisions of Section 215.555 is the creation of a Florida public benefit, not for profit corporation known as the FHCF Finance Corporation, governed by the Board of Directors identified in the Articles of Incorporation. The FHCF is under the direction and control of the State Board of Administration (SBA), guided by the same trustee leadership provided from the Governor, Chief Financial Officer, and Attorney General. A nine-member Advisory Council (consisting of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers, and three consumers who are representative of other affected professions and industries) was established to provide the SBA with information and advice.

Funding for the administration of the FHCF is provided for in Section 215.555(3), Florida Statutes. Financing for the FHCF is obtained from a combination of three sources: 1) reimbursement premiums charged to participating insurers, 2) investment earnings, and 3) emergency assessments of 1% levied against all property and casualty lines of business in the state (policies issued or renewed on or after January 1, 2007), including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2013) medical malpractice premiums. Monies in the fund may not be expended, loaned, or appropriated except to pay obligations of the fund from reimbursement contracts entered into under subsection (4), payment of debt service on revenue bonds issued under subsection (6), costs of the mitigation program under subsection (7), costs of procuring reinsurance, and costs of administration of the fund. The SBA invests the monies of the fund pursuant to Sections 215.44-215.52, Florida Statutes. Earnings from all investments are retained in the fund.

### **Primary Purpose**

The purpose of the FHCF is to protect and advance the State's interest in maintaining insurance capacity in Florida. The FHCF program fulfills a unique and critical role for the state of Florida by serving as a state-administered reinsurance type of program and is mandatory for residential property insurers writing covered policies in the state of Florida. The FHCF supports a public-private partnership with insurers' that preserves the private sector's role as the primary risk bearer. Insurers who write residential property insurance on structures and contents in Florida are required to enter into a reimbursement contract with the SBA, to report their exposures, to pay premiums, and to report losses by calendar year-end or at other times as required by the SBA. The FHCF provides very economical coverage for insurers writing residential insurance in the state. The cost of FHCF coverage is significantly less than the cost of private reinsurance due to the FHCF's tax-exempt status, low administrative costs, and lack of a profit or risk-load. In the event of insufficient funds to meet obligations under the reimbursement agreements, the FHCF Finance Corporation has the ability to issue tax-exempt revenue bonds. The fund is obligated to pay losses to participating insurers only to the extent of the fund's actual claims-paying capacity up to a statutory limit for any single contract year.

### **Operational Structure**

The Chief Operating Officer of the Florida Hurricane Catastrophe Fund manages the day-to-day operations of the fund, assisted by staff (13 total FTE). The small FHCF staff manages substantial program responsibilities with additional support from external service providers. Responsibilities include, but are not limited to, proposing legislation; responding to legislative requests; implementing adopted legislation; rulemaking; providing information to participating insurers; conducting insurer training workshops; managing and executing the Exposure and Loss Reimbursement Examination Programs; processing and approving loss reimbursement payment requests; finalizing all claims and losses through the commutation process; determining bonding capacity; issuing tax-exempt revenue bonds; collecting emergency assessments pledged to debt service; raising capital in the financial markets to increase claims paying ability; staffing the activities of the FHCF Finance Corporation including complying with the covenants of all outstanding Bonds and Notes; preparing financial statements and revenue projections; and coordinating the activities of a number of external service providers; meeting and coordinating work of the FHCF Advisory Council; staffing the Florida Commission on Hurricane Loss Projection Methodology (Commission and Professional Team), which provides the standards and the review process that is the basis for residential ratemaking in Florida; and administering the SBA Insurance Capital Build-up Incentive Program.

## **Division of Bond Finance**

### **Authority and Governance**

Statutory authority for the Division of Bond Finance is provided for in the state Constitution (primarily Articles VII and XII, the State Bond Act (s.215.57-215.83, Florida Statutes), the Bond Validation Act (chapter 75, Florida Statutes) and various implementing sections of the Florida Statutes. The Division of Bond Finance (the “Division”) was transferred to the State Board of Administration from the Department of General Services on July 1, 1992. The Division is organized into three sections that report to a Division Director, who in turn reports to a governing board consisting of the Governor and Cabinet. The three sections are Legal, Bond Programs, and Arbitrage Compliance.

### **Primary Purpose**

The mission of the Division is to provide capital financing on behalf of state agencies and at the option of certain local agencies, typically by issuing tax-exempt bonds. The proceeds of these bonds are used to finance schools, state office buildings, roads, bridges, pollution control facilities, water treatment facilities, prisons and to acquire environmentally sensitive land. Additional Division responsibilities include structuring and conducting bond sales; collecting, maintaining and disseminating information on tax-exempt bonds issued by units of local government; administering the Private Activity Bond Allocation Program as required by federal law; coordinating the continuing annual disclosure of information relating to bonds that it issues; and monitoring tax-exempt securities it issues for compliance with federal arbitrage laws.

### **Operational Structure**

The Division manages the Revenue Bond Fee and Arbitrage Compliance programs with 20 FTE, including the Division Director. Seventeen positions are allocated to the Legal and Bond Program functions within the Division, operationally supported by the Revenue Bond Fee Trust Fund. The legal staff performs a wide range of legal services for the Division, and bond program staff performs the financial and analytical services for new and refunding bond issues. Three positions are allocated to the Arbitrage section, operationally supported by the Arbitrage Compliance Trust Fund. The Arbitrage staff is responsible for monitoring bonds issued by the Division for compliance with federal arbitrage regulations in accordance with the 1986 Tax Reform Act.

Revenue for Division programs is derived from fees charged to each state or local agency requesting services related to the sale of bond issues and fees collected in relation to the Arbitrage Compliance Program. Fees are charged in accordance with a schedule of fees adopted by the Division (by resolution) as required by Florida Statutes. Fees are deposited into the Revenue Bond Fee Trust Fund to support Legal and Bond Program operations and the Arbitrage Compliance Trust Fund to support the Arbitrage Program operations.

## **Florida Prepaid College Board**

### **Authority and Governance**

Sections 1009.97-1009.984, Florida Statutes, establish the Florida Prepaid College Board (the “Board”) as a corporate body with all the powers to administer the Stanley G. Tate Florida Prepaid College Program and the Florida College Savings Program. For purposes of Article IV of the State Constitution, the Board is assigned to and administratively housed within the State Board of Administration (SBA) but independently exercises the powers and duties specified in the statutes.

The seven-member Board is composed of the Attorney General, the Chief Financial Officer, the Chancellor of the Board of Governors, the Chancellor of the Division of Florida Colleges, or their designees, and three members appointed by the Governor. The members appointed by the Governor serve three-year terms and are subject to confirmation by the Senate.

### **Primary Purpose**

The Florida Prepaid College Board is committed to helping Floridians save for future qualified higher education expenses by providing a cost-effective, financially sound Stanley G. Tate Florida Prepaid College Program and the Florida College Savings Program.

The Stanley G. Tate Florida Prepaid College Program became operational in 1988 and allows Florida families to prepay the cost for college tuition, required fees and dormitory housing for their children and grandchildren. When a participating family’s child or grandchild attends college the Board will pay the Florida public college or university tuition and fees covered by the prepaid plan. Should the student elect to attend a private college, a college out-of-state or an eligible technical school the Board will transfer the value of the Plan to the selected school.

The Florida College Savings Program was implemented in 2002, following federal enactment of Section 529 of the Internal Revenue Code. The Program allows families to defer income taxes on investment earnings and, if the earnings are used for qualified higher education expenses, the earnings are tax-free. Families may choose to invest in any of five customized investment options and decide how much and how often they want to save for college. The funds accumulated in each family’s account can be used for any qualified college expense including tuition, fees, housing, books, food and even graduate or professional school, in Florida or out-of-state.

### **Organization Overview**

The Board establishes policy and actively oversees the investment and financial performance of the programs. The Board has authorized 14 FTE, including the Executive Director to oversee the day-to-day operations of the Board and its programs.

In order to perform its responsibilities in the most effective and efficient manner, the Board contracts with various private companies to provide professional support services for both programs, including actuarial services, investment management services, records administration services, financial services and legal services. Approximately 90% of the proposed operating budget for 2012-2013 is used to fund these services. The Board’s operational costs are funded by investment earnings and fees; it does not receive State general revenue to fund its general and administrative expenses.

Annually, the Board contracts with an independent actuarial firm to determine the financial condition of the Florida Prepaid College Trust Fund. Based upon key assumptions, as of June 30, 2011 the Trust Fund was determined actuarially sound by its independent actuarial firm. The expected value of assets exceeded the expected value of liabilities resulting in a 105.9% funded ratio. Key assumptions in this determination include a weighted average rate of return on total investments of 3.90% and annual tuition and required fee increases in accordance with current law.

**End of Section**