

**MINUTES  
INVESTMENT ADVISORY COUNCIL  
DECEMBER 3, 2009**

A meeting of the Investment Advisory Council (IAC) was held on Thursday, December 3, 2009, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida.

**Members Present:** Robert Konrad Chairman  
John Hill, Vice Chairman  
Rob Gidel  
David Grain  
Beth McCague

**Member Absent:** John Jaeb

**CALL TO ORDER/APPROVAL OF MINUTES**

Mr. Robert Konrad, Chair, called the meeting to order at 9:07 A.M. Mr. Konrad requested a motion to approve the minutes of the September 24, 2009, IAC meeting. Mr. Gidel made the motion to approve the minutes; seconded by Ms. McCague; approved without objection.

**OPENING REMARKS**

Mr. Ash Williams, Executive Director and Chief Investment Officer, reported that the FRS Trust Fund has increased 19.4 percent or \$15.5 billion since calendar year-end 2008 and was 43 basis points ahead of target. He said the SBA has benefitted from its disciplined strategy, including rewriting dozens of policies that had the effect of better managing risk exposure. He said that the SBA continued to take steps in other areas such as transparency and client communication.

**INVESTMENT ADVISORY COUNCIL ROLES AND RESPONSIBILITIES**

Mr. Tom Beenck, General Counsel, reviewed the legal responsibilities of the IAC fiduciary standards, the Florida Sunshine Law, public records laws, and conflict of interest requirements. In particular, he reminded members that they must avoid discussions among themselves on the telephone, or by email, on anything that is outside the open meeting on a topic that will go before the IAC as a matter of business.

Mr. Bruce Meeks, Inspector General, covered the Code of Ethics for public officers and state employees codified in Chapter 112, Part III of Florida Statutes. He explained IAC members are public officers and, therefore, subject to the Code of Ethics for public officers. He said IAC members, however, are not required to file financial disclosure forms because their role is solely advisory in nature.

**SBA GOVERNANCE**

CFO Alex Sink explained her three proposals for reform to strengthen the oversight of investments in the state pension fund and suggested that IAC members continue discussions after she left the meeting.

#### **PERFORMANCE AND MAJOR INITIATIVES UPDATE**

Mr. Kevin SigRist gave a brief update on performance across the major SBA mandates. SBA had generally seen improving performance versus benchmarks for the FRS Pension Plan. He said that strategic investments performed strongest among asset classes on an absolute basis, up 23 percent. Mr. SigRist warned that the SBA will continue to see issues with specific individual investments in real estate, particularly in the commercial area, and in private equity. He pointed out that the SBA has relatively small commitments in those areas compared to its peers. In addition, he said that the local government investment pool, Florida PRIME, continues to outperform its benchmark, given the low yield environment and low costs.

Mr. SigRist also gave an update on the 2010 asset liability study, Strategic Investments activity, recent investment policy reviews, enterprise risk management & compliance, securities lending transition, audits, prime broker and a review of opportunities and trends in Florida real estate. Mr. SigRist said that the final actuarial valuation study from Milliman showed that actuarial liabilities jumped significantly due to new assumptions. He said that the FRS is about 89 percent funded, which is considered strong versus peers and given market circumstances. He noted that Cambridge Associates has been selected as the SBA's consultant on hedge funds and how institutional-quality hedge funds may be utilized within strategic investments. Jim Treanor provided an update on the Florida Growth Fund.

#### **INVESTMENT PLAN REVIEW**

Mr. Mike Sebastian and Mr. Steve Cummings, EnnisKnupp + Associates, gave a semi-annual update on the performance of the FRS Investment Plan which covered investment returns, benchmark returns, peer performance and cost comparisons for the total plan and investment options for period ending June 30, 2009. They also presented statistics on asset and population growth.

#### **BALANCED FUNDS AND LIFECYCLE/TARGET DATE FUNDS**

Mr. Kevin SigRist addressed Ms. Beth McCague's request to revisit the issue of balanced funds versus target date funds from the September 24, 2009, meeting. He indicated that staff and consultants' comprehensive analysis of the investment product lineup shows no need to make changes. The sentiment of the Investment Advisory Council was that target date funds should be considered in the future depending on any actions taken in the upcoming legislative session to change the FRS default option.

#### **LAWTON CHILES ENDOWMENT FUND, CAMP POOL, HIS, AND CAT FUND INVESTMENT PERFORMANCE REVIEWS**

Mr. Mike Sebastian, EnnisKnupp + Associates, presented a performance review of the Lawton Chiles Endowment Fund, CAMP Pool, HIS and CAT Fund. The performance review included a brief description of the purpose of each fund, its investment return and benchmark return for period ending June 30, 2009. Also, the review covered the credit quality, maturity profile, and security types for short-term funds such as the CAT Fund, CAMP-MM, and HIS.

**SHORT-TERM FIXED INCOME INVESTMENT POLICY UPDATE**

**Mr. Kevin SigRist discussed the Investment Portfolio Guidelines and changes recommended for several short-term fixed income portfolios: FRS Short-Term Investments Pool and FRS-STIP Reserve; Florida Hurricane Catastrophe Fund and Florida Hurricane Catastrophe Fund Finance Corporation (Pre-Event Liquidity Fund); FRS Retiree Health Insurance Subsidy Fund; and FRS Investment Plan FRS Select Yield Plus Money Market Fund.**

**DISCUSSION OF SBA GOVERNANCE PROPOSALS**

**Mr. Ash Williams said that the SBA is seeking to implement external commercial audit, where appropriate, and possibly pursue a SAS 70 Audit for the SBA. He said that Ennis Knupp + Associates has made recommendations for Trustee and Council members regarding fiduciary training, which would be graduated based on each person's previous knowledge base. Council members discussed the role of the IAC under different governance structures and the need for more communication between IAC members and the Trustees.**

**AUDIENCE COMMENTS/2010 SCHEDULED MEETINGS**

**Mr. Larry Carmichael from the Retired Educators, Ms. Joan King, FEA – Retired, and Mr. Doug Martin from the American Federation of State, County and Municipal Employees (AFSCME), representing the state career service workers, along with city, county, and other public employee workers, made comments on CFO Sink's proposed changes in SBA's governance structure.**

**There was a brief discussion of the 2010 meeting schedule and the meeting was adjourned at 12:34 PM.**

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