

**MINUTES
INVESTMENT ADVISORY COUNCIL
MARCH 3, 2010**

A meeting of the Investment Advisory Council (IAC) was held on Wednesday, March 3, 2010, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida.

Members Present: Robert Konrad Chairman
Rob Gidel
David Grain
John Jaeb
Beth McCague

Member Absent: John Hill, Vice Chairman

CALL TO ORDER/APPROVAL OF MINUTES

Mr. Robert Konrad, Chair, called the meeting to order at 1:10 PM. Mr. Konrad requested a motion to approve the minutes of the December 3, 2009, IAC meeting. Mr. Gidel made the motion to approve the minutes; seconded by Ms. McCague; approved without objection. Mr. John Hill was elected to serve as Chair and Mr. Rob Gidel as Vice Chair for the term of March 2010 to March 2011. The officers were approved without objection.

OPENING REMARKS

Mr. Ash Williams, Executive Director and Chief Investment Officer, reported that the FRS Pension Plan Trust Fund's fiscal year-to-date performance was 16.4 percent, which is 71 basis points ahead of target. He previewed the asset liability effort; the current legislative session and gave a brief update on the Florida Growth Fund.

PERFORMANCE AND MAJOR INITIATIVES UPDATE

Mr. Kevin SigRist, Deputy Executive Director, reported that the SBA's disciplined approach to investing and rebalancing to maintain an elevated allocation to equities has paid off for the pension fund. Other assets, particularly short-term portfolios, have recovered or continue on the path to recovery. In the pension plan, the SBA held its own against the benchmarks on a one- and three-year basis and stayed well ahead on the five- and 10-year benchmarks. The two main CAT Fund accounts are ahead of the benchmark for all periods. Mr. SigRist reported that the fixed income asset class is beating the benchmark by about 800 basis points, recapturing a fair amount of underperformance experienced in 2008 and early 2009. Mr. SigRist said there has been significant progress in talks with Cambridge on how the SBA might utilize hedge funds to complement the strategic investments portfolio. He said that Cambridge agrees with the SBA that leverage is not a good strategy. Instead, the goal will be to have a value-oriented program and one with a high degree of transparency. In closing, he asked Jim Treanor to provide an update on the Florida Growth Fund Co-Investments and Partnerships. Mr. Treanor commented the pipeline of potential investments is very healthy. Mr. Gidel praised Hamilton Lane for their work and broad presence in Florida.

PENSION PLAN REVIEW

Mr. Steve Cummings and Mr. Mike Sebastian, EnnisKnupp + Associates, presented a performance review of the FRS Pension Plan which covered investment returns and TUCS peer universe comparisons. Steve Cummings and Mike Sebastian discussed FRS Pension Plan performance at the total fund level and at the asset class level relative to predefined benchmarks and peers.

ASSET LIABILITY STUDY

Mr. Rowland Davis, EnnisKnupp + Associates, presented his asset/liability study of the FRS Pension Plan. Included in the presentation were the asset/liability modeling process, economic/capital market assumptions and simulations, projected ranges of funded ratios and contribution rates, risk-reward analysis of various policy mixes of risky and non-risky assets and the impact of various asset mixes on long-term economic costs. Mr. Davis went over the results of the 2007 asset/liability study and asset allocation and compared the results to the current study. Also, Mr. Davis noted that the current allocation to “risky” assets of 71 percent (i.e., risk-reward analysis) is about right, and that the comfort range may be between 61 percent and 81 percent. Additional analysis by Mr. Davis included sources and uses of liquidity, liquidity analysis, an increase to the cash allocation from one percent to three percent and the impact of closing the plan to new entrants and how it would affect asset allocation.

PRELIMINARY ASSET ALLOCATION STUDY

Mr. Mike Sebastian, EnnisKnupp+ Associates, presented a mix of different asset allocation scenarios for the risky and non-risky asset buckets based upon risk and return goals. Included in the presentation were the asset allocation scenario modeling process, capital market and investment assumptions. Mr. Sebastian went over the historical evolution of the FRS Pension Plan’s asset allocation and investment strategies and compared the FRS Pension Plan’s asset allocation to various peers, including, Greenwich, Cost Effectiveness Measurement, Trust Universe Comparison Services and RV Kuhns. A comparison of various scenarios was made by Mr. Sebastian, which included the current asset allocation policy, Strategic Investments near term, Strategic Investments full exposure, Alternative Portfolio and Universal Asset Allocation.

SBA BUSINESS MODEL STRUCTURAL REVIEW: INTERNAL, EXTERNAL, ACTIVE, PASSIVE & OTHER TOPICS

Mr. Kevin SigRist described the process and need for obtaining IAC and consultants’ input on the SBA business models. Mr. SigRist referenced the memo distributed to IAC members and consultants providing background data and soliciting thoughts and proposals regarding various business model topics including: active vs. passive management, internal vs. external management, types of risk-taking and various alternative approaches to conducting business. The input will be consolidated and reviewed at the June 2010 meeting. There was a general discussion of possible advantages and disadvantages of various options particularly related to risk budgets and how we should address risk.

AUDIENCE COMMENTS/2010 SCHEDULED MEETINGS/CLOSING REMARKS

There were no comments from the audience. The June meeting (Joint IAC/PLGAC) will be scheduled in conjunction the Trustees meeting and a final date will be confirmed with the members. The meeting was adjourned at 4:10 P.M.

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