



Lawton Chiles Endowment Fund

Overview and Investment Objective

Created by the Florida Legislature in 1999, the purpose of the Lawton Chiles Endowment Fund (LCEF) is to invest a portion of the state's tobacco settlement monies to provide a perpetual source of enhanced funding for health maintenance and research programs related to tobacco use. The SBA has the statutory authority and responsibility for the investment of LCEF assets, subject to certain investment limitations and consistent with an Investment Policy Statement approved by the SBA Trustees.

Capital Preservation Objective

Florida law specifies that the LCEF shall be managed in perpetuity, with an investment objective of long-term preservation of the real value of the principal. The law further requires a specified regular annual cash outflow for appropriation, as nonrecurring revenue.

Shortly after the LCEF was initially funded, the stock market experienced a severe downturn that eroded the balance of the fund and placed attainment of the statutory objective at risk. In February 2003, the Trustees approved changes to the Investment Policy Statement with the goal of improving the prospects for long-term solvency of the Fund and increasing future payouts, given the fact that additional contributions from tobacco settlement monies were not expected.

The changes, effective July 1, 2003, replaced the previous fixed annuity payout structure with a participating annuity structure. Under the new structure, 75% of the regular annual cash outflow is based on the prior year inflation-adjusted payout; the remaining 25% is based on a factor designed to increase the probability of preserving the inflation-adjusted value of contributed capital over a 30-year horizon.

The SBA seeks to accomplish the investment objectives for the Chiles Endowment by:

- Providing a regular cash flow for legislative appropriation, as non-recurring revenue
- Managing the probability of maintaining the real value of any original principal investments in the Endowment by the Legislature at the end of a 30-year planning horizon
- Utilizing a broad range of diversified investments
- Investing in assets with sufficiently high investment return to generate growth of real principal and cash flows, such as equity assets and inflation indexed bonds
- Directing the management of asset classes in a way that will maximize the likelihood of achieving the investment objective while minimizing risk
- Setting permissible shares of the total portfolio's value for each Asset Class
- Establishing portfolio benchmarks