

Summary Overview of the State Board of Administration of Florida



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INTRODUCTION

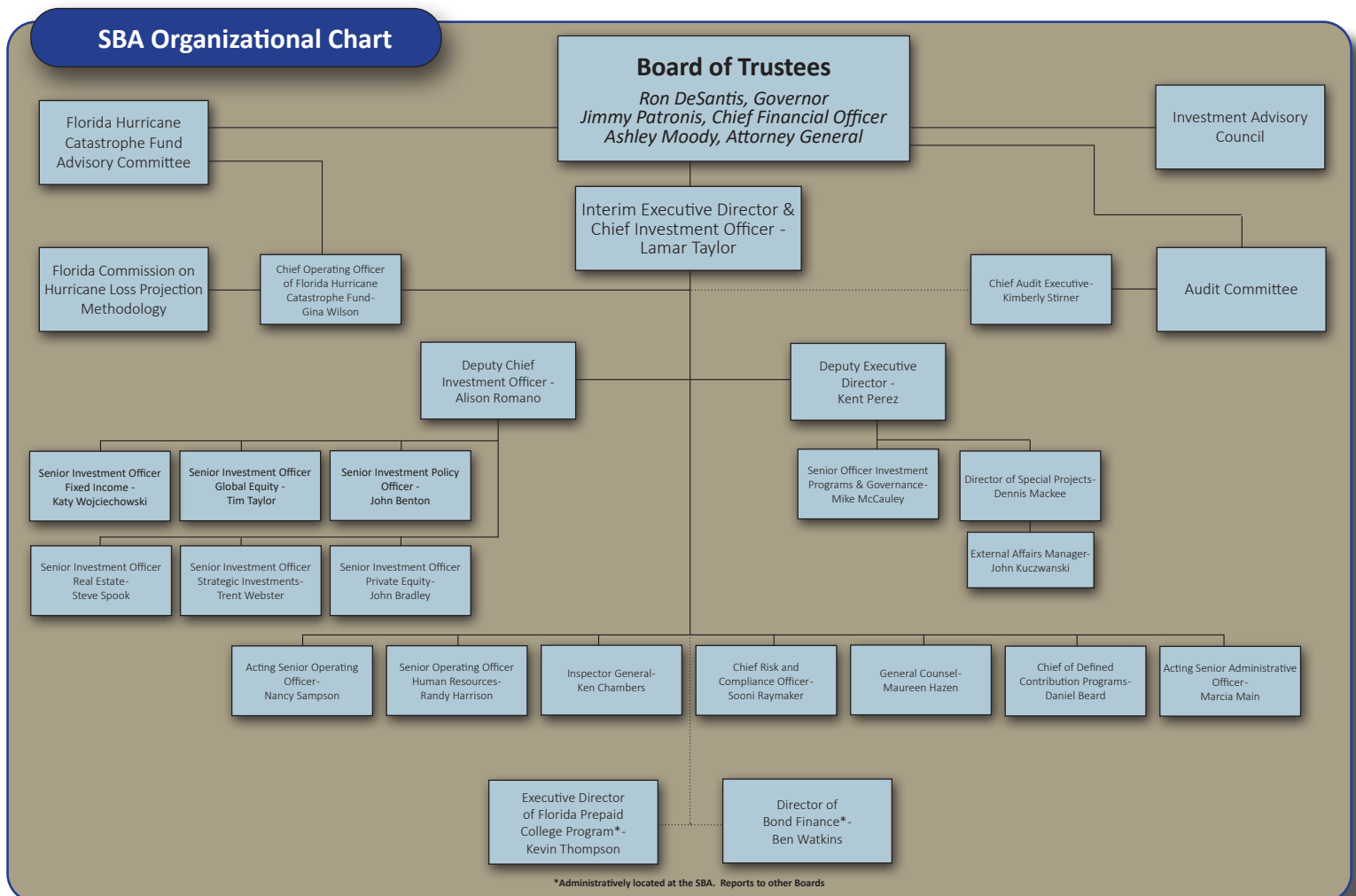
The State Board of Administration (SBA) is a state constitutionally created investment management organization and is governed by a three-member Board of Trustees (Trustees), comprised of the state’s highest elected officials; the Governor as Chair, the Chief Financial Officer, and the Attorney General. The Trustees, by law, have ultimate oversight. They delegate authority to the Executive Director & Chief Investment Officer by administrative rule to provide the strategic direction and execution of the day-to-day operations. The Executive Director & CIO manages more than 200 professional investment and administrative support staff.

The SBA is an apolitical organization with a professional investment management staff with a strong record of delivering positive risk-adjusted returns on investments. The SBA is required to invest assets and discharge its duties in accordance with Florida law and in compliance with fiduciary standards of care. Under state law, the SBA and its staff are obliged to:

- Make sound investment management decisions that are solely in the interest of beneficiaries and investment clients.
- Make investment decisions from the perspective of subject-matter experts acting under the highest standards of professionalism and care, not merely as well-intentioned persons acting in good faith.

As a fiduciary, the SBA manages assets and provides administrative services that maximize the return on investments while prudently managing risk, controlling costs and providing appropriate diversification. SBA’s financial performance is numerically measured and statistically evaluated against accepted industry benchmarks, making it easy to assess success and maintain accountability.

The SBA combines the best private sector and government oversight structures including external advisory bodies, an independent audit committee, an internal chief risk and compliance officer, internal audit capability, and an inspector general.



COUNCILS, ADVISORY BOARDS, AND COMMISSIONS

The Trustees appoint volunteers to several statutory oversight entities who have specific knowledge and expertise relevant to SBA duties.

Investment Advisory Council (IAC) - The IAC provides independent policy oversight of SBA's funds and major investment responsibilities, meets at least quarterly to discuss general policies, and the appropriateness of investment strategy and policy for achieving long-term objectives. The Board of Trustees appoints nine members to serve on the IAC. Members are appointed for four-year terms, subject to senate confirmation, pursuant to Section 215.444(2), Florida Statutes.

Audit Committee (AC) - The AC assists the Trustees in fulfilling their oversight responsibilities. Three members are appointed and serve four-year terms, and meet at least quarterly. The AC provides independent oversight in the areas of financial reporting, internal controls and risks assessment, audit processes, and compliance with laws, rules, and regulations.

Florida Hurricane Catastrophe Fund Advisory Council - The Council provides the Trustees with information and advice with its duties related to the Florida Hurricane Catastrophe Fund (FHCF). The Trustees appoint a nine-member advisory council that consists of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers, and three consumers.

Florida Commission on Hurricane Loss Projection Methodology - The Commission is a panel of experts to provide actuarially sophisticated guidelines and standards for the projection of hurricane losses. The Commission consists of 12 appointed members.

RESPONSIBILITIES

The SBA provides a variety of investment services to state and local government entities in Florida and has a history of generating excellent returns relative to risk.

The SBA manages more than 30 funds, some established as direct requirements of Florida Law and others developed as client-initiated trust agreements, with an AUM of approximately \$245 Billion. The primary funds managed by the SBA are:

- Florida Retirement System Pension Plan, accounting for approximately 80 percent of all assets under management.
- Florida Retirement System Investment Plan, one of the nation's largest defined contribution plans.
- Florida PRIME provides eligible participants a safe, liquid, cost effective investment vehicle for their surplus funds.
- Florida Hurricane Catastrophe Fund, and the associated State Board of Administration Finance Corporation\

Additionally, the SBA has important responsibilities that do not directly involve pension asset management. These roles include:

- Providing personalized retirement planning and financial counseling support to members of the Florida Retirement System through the MyFRS Financial Guidance Program.
- Administering the Florida Hurricane Catastrophe Fund and its associated programs.
- Serving as an investment consultant to retirement programs administered by other state agencies, including the State of Florida Deferred Compensation Program and the State University System Optional Retirement Program.
- Managing the corporate affairs of the Inland Protection Financing Corp., a public-private entity created to raise funds to pay reimbursement claims for pollution cleanup.
- Managing the corporate affairs of the Florida Water Pollution Control Financing Corp., which is the state's revolving fund set up to finance clean water initiatives for local government water and wastewater systems.
- Administering debt service funds for bonds issued according to the State Bond Act, which allows the Division of Bond Finance to issue tax exempt bonds to provide capital financing for state and selected government agencies.
- Independently assess and opine on the adequacy of revenue and cash flows to cover principle and interest on Florida sovereign and agency debt.

The SBA also serves as escrow agent for state bonds.

- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Program

BUDGET AND COSTS MANAGED CONSERVATIVELY

The SBA manages its budget conservatively while recognizing that the agency needs sufficient resources to be successful. By virtue of the size of its operations, the SBA has the potential to capture significant scale economies and aggressively seeks to do so. The budget is set annually by the Trustees. The management fee charged is 3.25 basis points on most funds under management for administrative overhead, which equates to less than 4/100 of one percent. Florida PRIME charges 1 basis point. The SBA's all-in cost are consistently among the lowest of our peers.

FRS PENSION PLAN

The FRS Pension Plan, also known as the Defined Benefit Plan, is the fifth largest public retirement plan in the U.S. The Pension Plan serves a working and retired membership base of approximately one million public employees.

The SBA's commitment to maximizing returns over the long-term, subject to risk considerations, is vital to ensuring the FRS Pension Plan continues to help participating retirees meet their financial goals and assure all plan participants that their retirement funds are invested prudently.

The FRS Pension Plan's long-term financial health rests on three pillars: solid long-term investment performance, receipt of actuarially required annual contributions, and a responsible benefit package. Of those three pillars, the SBA is responsible for one component – solid long-term investment performance. The legislature determines plan structure, benefit levels, and funding; the Department of Management Services, Division of Retirement administers the program. History has shown this partnership to be productive with approximately \$2 of every \$3 dollars paid to a retiree today coming from investment gains, not from taxpayers.

The SBA's investment policy objective for the FRS Pension Plan portfolio is to provide investment returns sufficient for the Plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keep costs at a reasonable level, given actuarially required contributions. The investment objective is derived from an actuarial analysis of expected benefit growth, contribution levels, market performance, and a risk tolerance for the fund.

Benefits are determined using a formula based on years of service and salary while working for an FRS employer.

FRS PENSION PLAN ASSET CLASSES

A fund's exposure to various major asset types or asset classes is known as its asset allocation. Because the vast majority of the return and risks of a diversified investment portfolio is attributable to its asset allocation, determining the proper allocation is the most fundamental way in which an investor pursues investment objectives. The FRS Pension Plan Trust Fund invests in the following asset classes:

- **Global Equity:** Asset class consisting principally of equities of companies located in the United States and internationally.
- **Fixed Income:** Asset class consisting principally of investment grade bonds.
- **Real Estate:** Asset class consisting principally of direct-owned real properties, real estate-based joint ventures, open-end and closed-end funds, and publicly traded real estate securities (e.g., Real Estate Investment Trusts).
- **Private Equity:** Asset class consisting principally of equity investments in non-publicly traded entities through limited partnerships.
- **Strategic Investments:** Asset class established to potentially contain a variety of portfolios which represent asset types or strategies not suitable for inclusion in other asset classes (e.g. Hedge Funds, Private Debt, Infrastructure, and Timberland).
- **Cash Equivalents:** Asset class consisting principally of short-term securities, have high credit quality and liquidity.

FRS PENSION PLAN ASSET ALLOCATION

The SBA has a history of making periodic adjustments to its asset allocation to ensure our strategy is appropriate for the long-term health of the pension system. Asset class performance is measured in accordance with a broad market index appropriate to the asset class.

Maintaining an exact asset allocation is difficult given the dynamic nature of markets and security prices. Sophisticated investors typically determine reasonable bounds above and below their desired asset allocation, known as their target or policy allocation, within which they accept deviations from the target. When allocations become significantly out of sync, the SBA will realign the weighting within its portfolio of assets. This “rebalancing” involves periodically buying or selling assets in a portfolio to maintain the original desired level of asset allocation or asset mix.

FRS PENSION PLAN DIVERSIFICATION

A thoughtfully constructed portfolio will diversify across a sufficiently broad range of investments so that the portfolio has a high probability of meeting the investment objective, notwithstanding the wide distribution of performance, often associated with individual investments. In other words, some individual investments may be poor performers, but in a highly diversified portfolio, their overall impact on the portfolio will often be offset by other investments that, at the time, are better performers.

FRS PENSION PLAN FUND PERFORMANCE

The investment objective for the FRS Pension Plan Trust Fund is to earn on average, over the long-term, a compounded rate of return of four percent plus inflation per annum. The SBA routinely conducts asset-liability studies to determine the appropriate investment strategy that carefully considers ways to manage risk while seeking to obtain required returns. The Pension Plan’s investment portfolio is not constructed to meet one-year or short-term return goals. It continues to exceed over the long-term (periods 20 years and greater) the 6.8 percent actuarial assumed rate of return currently set by the Florida Retirement System Actuarial Assumption Estimating Conference and used by the Florida Legislature to set the annual employer contribution rates for the Pension Plan.

The FRS Pension Plan Trust Fund is not immune to short-term market volatility, but over the long-term, the fund has produced steady positive results. History shows that while the magnitude and duration of bear markets vary, there is always a recovery. However, it is responsible to periodically review the return assumption in light of ongoing deleveraging and the modest recovery of economic growth.

FRS INVESTMENT PLAN OVERVIEW

The Florida Retirement System (FRS) Investment Plan was established by the 2000 Florida Legislature to provide Florida's public employees with a portable, flexible alternative to the FRS' traditional defined benefit plan. The Investment Plan is a defined contribution plan, in which employee and employer contributions are defined by law, but ultimate benefits for any member depend in part on the performance of investment funds.

The Investment Plan is designed to serve employees who might find the Investment Plan appealing if they do not expect to work at least 8 years and for employees that want greater control over their retirement plan.

The Investment Plan contributions are directed to individual member accounts, and members allocate their contributions and account balance among a diverse offering of 19 funds, including 9 funds spread across five asset classes, and 10 retirement date funds that are mixtures of various asset classes. A Self-Directed Brokerage Account is also available.

Investment Plan retirement benefits equal the value of a member's account balance at termination. Unlike the Pension Plan, there is no fixed benefit at retirement. However, guaranteed lifetime payment options can be purchased.

Since opening its first member account in July 2002, the Investment Plan has become one of the largest public-sector defined contribution retirement plans in the U.S.

The Executive Director and Chief Investment Officer of the State Board of Administration is responsible for administering the program including selecting, evaluating, and monitoring performance of the investment options, always with a focus on maximizing returns within appropriate risk constraints.

The SBA follows Florida Statute fiduciary standards of care in managing the Investment Plan's options. The Investment Advisory Council provides independent oversight of the Plan's general objectives, policies, and strategies.

FLORIDA PRIME™

Florida PRIME™ provides eligible participants a cost-effective investment vehicle for their surplus funds. Its investment strategy emphasizes, in order of importance, preservation of capital, liquidity, and competitive yield. Florida PRIME™ is managed by an industry leader in professional money management, maintains conservative investment policies, a Standard & Poor's AAA(m) rating, has enhanced transparency, and extensive governance oversight.

Florida PRIME™ invests exclusively in short-term, high-quality fixed income securities in the highest short-term rating category by one or more nationally recognized rating entity. The Fund seeks to maintain a \$1.00 value and a weighted average maturity of 60 days or less, with the maximum maturity of any investment limited to 397 days.

The SBA has retained the services of Federated Hermes as the investment manager and has engaged BNY Mellon to provide asset safekeeping, custody services, and performance measurement services for Florida PRIME™. The SBA maintains oversight of those services through periodic assessments and contractual performance monitoring.

Florida PRIME™ is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code. The fund complies with applicable Florida law that requires numerous operational and reporting enhancements, including restating investment objectives to emphasize safety, liquidity, and competitive returns with minimization of risks.

ELIGIBLE PARTICIPANTS

Units of local government eligible to participate in Florida PRIME™ include, but are not limited to, any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, state university, state college, community college, authority, board, public corporations, or any other political subdivision or direct support organization of the state.

FEES

Florida PRIME™'s fees are the lowest of any similar government investment pool ("GIP") in the state of Florida and are generally lower than other GIPs nationwide, as well as other institutional money market products. All investors are charged a uniform rate to participate in Florida PRIME™. This charge covers the cost of investment management, record keeping, legal compliance, maintenance of a fund rating, and fiduciary oversight of the investment pool.

FLORIDA HURRICANE CATASTROPHE FUND

The Florida Hurricane Catastrophe Fund (FHCF) was created in 1993 in response to Florida's property insurance crisis resulting from Hurricane Andrew. The purpose of this state tax-exempt trust fund is to provide additional insurance capacity in the state by providing a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses.

The SBA acts as investment manager for the Fund. The SBA invests in accordance with Florida Statutes, using instruments such as certificates of deposit, commercial paper, U.S. government agency notes, U.S. Treasury bills, and others that are relatively low-risk, highly liquid fixed-maturity securities.

The FHCF protects more than just residential property owners and insurers. It protects the state economy as a whole by acting as a stabilizing force for industries in the state that drive the Florida economy: real estate, mortgage lending, home building, and allied industries. The FHCF should be viewed as a risk management tool to stabilize the economy of the state that is uniquely vulnerable to catastrophic hurricane losses.

The FHCF is funded with actuarially determined reimbursement premiums paid by residential property insurers. Although the fund is designed to be self-supporting, revenue bonds may need to be issued to pay losses that exceed the cash balance of the FHCF. The revenue stream for these bonds is a broad-based assessment on most property and casualty insurance premiums.

The legislature created this broad assessment base because every business and individual in Florida ultimately benefits from a healthy residential property market and a stable state economy. The broad-based nature of the FHCF's contingent assessment authority was also a major reason why the Internal Revenue Service determined that the FHCF is exempt from federal taxation as an integral part of state government.

TRUST SERVICES

Section 215.69, Florida Statutes, designates the State Board of Administration to administer all debt service funds for bonds issued pursuant to the State Bond Act, except as otherwise provided therein. Upon sale and delivery of any bonds by the Division of Bond Finance, the State Board of Administration is required to take over the management, control, bond trusteeship, administration, custody, and payment of all debt service or other funds or assets available for such bonds. The State Board of Administration is also required to maintain all records required for payment of debt service on outstanding bond issues.

In accordance with Section 215.80, Florida Statutes, the Board prepares annually a comprehensive report of all debt service or other sinking funds for any bonds issued by the Division and the status of all such funds and accounts. The Trust Services section, formerly known as the Debt Service section, is responsible for carrying out the responsibilities outlined in these statutes.

TRUSTEES

Governor Ron DeSantis, Chair
Chief Financial Officer Jimmy Patronis
Attorney General Ashley Moody

INTERIM EXECUTIVE DIRECTOR & CHIEF INVESTMENT OFFICER

Lamar Taylor

For more information, please visit:

- www.sbafla.com for additional information about the agency and updates on managed assets,
- www.myfrs.com for more information about the FRS Investment Plan and MyFRS Financial Guidance Program,
- www.sbafla.com/prime for Florida PRIME™, and
- www.sbafla.com/fhcf for the Florida Hurricane Catastrophe Fund.