

MEETING OF THE STATE BOARD OF ADMINISTRATION

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

FEBRUARY 6, 2014

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AGENDA

ITEM 1. REQUEST APPROVAL OF THE MINUTES OF THE NOVEMBER 19, 2013 AND DECEMBER 10, 2013 MEETINGS.

(See Attachments 1A and 1B)

ACTION REQUIRED

ITEM 2. REQUEST APPROVAL OF CHANGES TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM INVESTMENT PLAN, AS REQUIRED UNDER S. 121.4501(14), F.S.

The Investment Policy Statement, required pursuant to s. 121.4501, F.S., is the principal vehicle through which the Trustees establish an investment objective(s), asset allocation and address associated policy issues for the FRS Investment Plan.

At the December 9, 2013 Investment Advisory Council meeting, the members unanimously agreed to direct staff to amend the Investment Policy Statement for the FRS Investment Plan to close the three current Balanced Funds and replace them with a suite of 10 Target Date Funds that could provide members a one stop investment alternative that would change asset allocation over their career without them having to do the reallocation. Additionally, some current active funds will be combined into fund of funds offerings and a new real asset fund is being added to the fund offerings. All fund changes will be effective July 1, 2014.

(See Attachments 2A and 2B)

ACTION REQUIRED

ITEM 3. REQUEST APPROVAL OF THE REVISIONS TO THE INVESTMENT POLICY STATEMENT FOR THE FLORIDA RETIREMENT SYSTEM PENSION PLAN AS REQUIRED UNDER S. 215.475(2), F.S.

The Investment Policy Statement, required pursuant to s. 215.475, is the principal vehicle through which the Trustees establish an investment objective(s), asset allocation, and address associated policy issues for the FRS Pension Plan.

The Investment Advisory Council unanimously approved the proposed asset allocation changes which reduce and reallocate the Fixed Income target allocation and policy ranges on January 22, 2014.

(See Attachments 3A and 3B)

ACTION REQUIRED

ITEM 4. REQUEST APPROVAL TO FILE FOR NOTICE, AMENDMENTS TO RULES 19-11.001, 19-11.004, 19-11.005 AND THE CREATION OF NEW RULE 19-11.013 IN RULE CHAPTER 19-11, F.A.C. (PROCEDURES FOR THE FRS INVESTMENT PLAN), AND FURTHER TO FILE THE RULES FOR ADOPTION, IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THESE RULES.

Amendments are being proposed to Rules 19-11.001, 19-11.004 and 19-11.005, F.A.C., to reflect the addition of a self-directed brokerage account (“SDBA”) as an additional investment option for members of the Florida Retirement System (“FRS”) Investment Plan. Rule 19-11.001 will define what is meant by a SDBA. Rule 19-11.004 is being amended to state that the excessive trading policies applicable to the FRS Investment Plan primary funds are not applicable to funds that a member has in a SDBA, and to emphasize that funds in the SDBA may be subject to their own excessive trading policies. Rule 19-11.005 is amended to state that the complaint procedures applicable to the FRS Investment plan primary funds do not apply to funds placed in the SDBA. New Rule 19-11.013, F.A.C., is being added to detail information applicable to the SDBA, including participation requirements, enrollment procedures, responsibilities of participants in the SDBA, the types of available investments, applicable fees, the types of statements that will be issued, and complaint procedures. The amendments serve as informational updates. No legislative ratification is required.

(See Attachments 4A and 4B)

ACTION REQUIRED

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STATE OF FLORIDA

IN RE: MEETING OF THE GOVERNOR AND
CABINET

_____ /

CABINET MEMBERS: GOVERNOR RICK SCOTT
ATTORNEY GENERAL PAM BONDI
CHIEF FINANCIAL OFFICER JEFF
ATWATER
COMMISSIONER OF AGRICULTURE
ADAM PUTNAM

DATE: TUESDAY, NOVEMBER 19, 2013

LOCATION: CABINET MEETING ROOM
LOWER LEVEL, THE CAPITOL
TALLAHASSEE, FLORIDA

REPORTED BY: NANCY S. METZKE, RPR, FPR
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STATE BOARD OF ADMINISTRATION

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3 GOVERNOR SCOTT: Now I'd like to recognize
4 Executive Director Ash Williams with the State
5 Board of Administration.

6 Good morning.

7 EXECUTIVE DIRECTOR WILLIAMS: Good morning,
8 Governor, Cabinet Members.

9 An update on the Fund, as usual, to open, as
10 of last night's close, the Florida Retirement
11 System Trust Fund calendar year to date is up
12 15.11 percent. That's 99 basis points ahead of
13 target and leaves us with a balance of
14 \$142.5 billion net of distributions today.

15 GOVERNOR SCOTT: Congratulations.

16 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

17 Item 1, request approval of the minutes of the
18 September 24 and October 10 meeting.

19 GOVERNOR SCOTT: Is there a motion to approve?

20 CFO ATWATER: So move.

21 GOVERNOR SCOTT: Is there a second?

22 ATTORNEY GENERAL BONDI: Second.

23 GOVERNOR SCOTT: Moved and seconded. Show the
24 minutes approved without objection.

25 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

1 Item 2, request approval of a fiscal
2 determination in connection with the issuance of an
3 amount not exceeding \$28 million Florida Housing
4 Finance Corporation, multifamily mortgage revenue
5 bonds. This is for the acquisition and rehab of a
6 building in Osceola County and would not be an
7 obligation for the full faith and credit of the
8 State of Florida.

9 GOVERNOR SCOTT: Is there a motion to approve?

10 ATTORNEY GENERAL BONDI: So move.

11 GOVERNOR SCOTT: Is there a second?

12 CFO ATWATER: Second.

13 GOVERNOR SCOTT: Any comments or objections?

14 (NO RESPONSE).

15 GOVERNOR SCOTT: Hearing none, the motion
16 carries.

17 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

18 Item 3, request approval to file for notice
19 amendments to Rules 19-11.002, Florida
20 Administrative Code. This has to do with
21 beneficiary designations and distributions for the
22 Florida Retirement System; and Rule 19-11.007,
23 second election and rule procedures and some
24 planned transfer rules. These, essentially, just
25 increase transparency within our retirement plan

1 offerings.

2 GOVERNOR SCOTT: Is there a motion to approve?

3 ATTORNEY GENERAL BONDI: So moved.

4 GOVERNOR SCOTT: Is there a second?

5 CFO ATWATER: Second.

6 GOVERNOR SCOTT: Any comments or objections?

7 (NO RESPONSE).

8 GOVERNOR SCOTT: Hearing none, the motion
9 carries.

10 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

11 Item 4 is in two parts. Part A, request
12 approval to file for notice amendments to
13 Rule 19-7.002, Florida Administrative Code. These
14 are the investment policy guidelines for Florida
15 Prime. Statutes require they be readopted every
16 year, and there are no substantive changes in the
17 guidelines.

18 Request approval.

19 GOVERNOR SCOTT: Is there a motion to approve?

20 ATTORNEY GENERAL BONDI: So moved.

21 GOVERNOR SCOTT: Is there a second?

22 CFO ATWATER: Second.

23 GOVERNOR SCOTT: Any comments or objections?

24 (NO RESPONSE).

25 GOVERNOR SCOTT: Hearing none, the motion

1 carries.

2 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

3 Item 4B, request approval for a notice,
4 amendment to Rule 19-7.014, Florida Administrative
5 Code. This relates to a current limitation on
6 the number of accounts that clients of Florida
7 Prime can have. It gives us a little more
8 flexibility to meet client needs and does not
9 generate any cost or issues for anyone; it's an
10 efficiency matter.

11 Request approval.

12 GOVERNOR SCOTT: Is there a motion to approve?

13 CFO ATWATER: So moved.

14 GOVERNOR SCOTT: Is there a second?

15 ATTORNEY GENERAL BONDI: Second.

16 GOVERNOR SCOTT: Any comments or objections?

17 (NO RESPONSE).

18 GOVERNOR SCOTT: Hearing none, the motion
19 carries.

20 DIRECTOR WILLIAMS: Thank you.

21 GOVERNOR SCOTT: Thanks, Ash.

22 Congratulations. What, 142 billion? That's great.

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STATE OF FLORIDA

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STATE BOARD OF ADMINISTRATION

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3 GOVERNOR SCOTT: Now I'd like to recognize
4 Executive Director Ash Williams with the State
5 Board of Administration to present his agenda.

6 Good morning.

7 EXECUTIVE DIRECTOR WILLIAMS: Good morning,
8 Governor, Trustees. As usual, we'll open with a
9 little update. As of last night's close, the
10 Florida Retirement System Trust Fund is up 14.9
11 percent calendar year to date. That's 72 basis
12 points ahead of target. It leaves us with a
13 balance of \$141.6 billion. That's \$13 billion
14 ahead of where we were on 1, January, 2013, net of
15 distributions which averages, you know, roughly
16 \$600 million monthly.

17 GOVERNOR SCOTT: Congratulations.

18 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

19 Items 1, 2, and 3 correspond to Items 3, 4,
20 and 5 on the Division of Bond Finance agenda.
21 They're all refunding bonds respectfully for the
22 Florida Lottery, the Florida Forever program, and
23 the Board of Education Capital Outlay program.

24 If it would suit your pleasure, we could move
25 those en masse.

1 GOVERNOR SCOTT: Sure. Is there a motion to
2 approve?

3 CFO ATWATER: So moved.

4 GOVERNOR SCOTT: Is there a second?

5 ATTORNEY GENERAL BONDI: Second.

6 GOVERNOR SCOTT: Any comments or objections?

7 (NO RESPONSE).

8 GOVERNOR SCOTT: Hearing none, the three
9 motions carry, Items 1, 2, and 3.

10 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

11 Items 4 and 5 are both from the Florida
12 Housing Finance Corporation. Item 4 is a fiscal
13 determination for mortgage revenue bonds that the
14 proceeds of which will be used to create affordable
15 mortgages. The principal and interest on the bonds
16 will be serviced by the principal and interest
17 payments on the mortgages themselves and secured by
18 the real estate underlying the mortgages.

19 Request approval.

20 GOVERNOR SCOTT: All right. We're doing both
21 4 and 5 together. Do 4 and 5 together?

22 EXECUTIVE DIRECTOR WILLIAMS: Yes, we can, and
23 Item 5 is not a mortgage bond. That is -- those
24 are revenue bonds. They are mortgage revenue
25 bonds, I apologize. Those are to refurbish an

1 elderly housing unit in Miami/Dade County.

2 GOVERNOR SCOTT: Sure. Is there a motion to
3 approve Items 4 and 5?

4 GENERAL BONDI: So moved.

5 GOVERNOR SCOTT: Is there a second?

6 CFO ATWATER: Second.

7 GOVERNOR SCOTT: Any comments or objections?

8 (NO RESPONSE).

9 GOVERNOR SCOTT: Hearing none, the motion
10 carries.

11 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

12 Item 6, request approval of the quarterly
13 report required by the Protecting Florida's
14 Investments Act. The report is in your background
15 materials under Tab 6. And the movement was fairly
16 modest during the period of review.

17 With regard to Iran, there was one company
18 added to the scrutinized list and two removed from
19 the continued observation list. With Sudan, there
20 was one added to the scrutinized and one removed
21 from continued observation.

22 GOVERNOR SCOTT: All right. Is there a motion
23 to approve?

24 GENERAL BONDI: So move.

25 GOVERNOR SCOTT: Is there a second?

1 CFO ATWATER: Second.

2 ATTORNEY GENERAL BONDI: Governor, may I just
3 say something on that? I'm sorry.

4 GOVERNOR SCOTT: Go ahead.

5 ATTORNEY GENERAL BONDI: We've been working
6 closely with the counsel general from Israel on
7 this issue, I think we all have. And, Ash, thank
8 you for --

9 DIRECTOR WILLIAMS: Certainly.

10 ATTORNEY GENERAL BONDI: I know that's very,
11 very important to them; and thank you for
12 scrutinizing.

13 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

14 Item 7, request approval of a draft letter to
15 the Joint Legislative Auditing Committee affirming
16 that the SBA Trustees have reviewed and approved
17 the monthly Florida Prime and Fund B management
18 summary reports and actions taken, if any, to
19 address any material impacts. There have been no
20 material impacts.

21 GOVERNOR SCOTT: All right. Is there a motion
22 to approve?

23 ATTORNEY GENERAL BONDI: So move.

24 CFO ATWATER: Second.

25 GOVERNOR SCOTT: Any comments or objections?

1 (NO RESPONSE) .

2 GOVERNOR SCOTT: Hearing none, the motion
3 carries.

4 DIRECTOR WILLIAMS: Thank you.

5 GOVERNOR SCOTT: And the last motion carried
6 also.

7 DIRECTOR WILLIAMS: Let's then move into our
8 quarterly reports for the State Board of
9 Administration. And on the front end, we are
10 fortunate to have with us today two representatives
11 from our Investment Advisory Council, Chairman
12 Martin Garcia; and IAC member and Compensation
13 Committee Chair, Chuck Newman. We also have with
14 us Ms. Kimberly Farrell, who is Chairman of the
15 Audit Committee. Mark Peterson, who is Chairman of
16 the Participant Local Government Advisory Council,
17 which relates to Florida Prime, is not with us
18 today but has submitted a written report.

19 Chairman Garcia, I believe, was going to speak
20 to the IAC's progress. We had a lengthy and very
21 productive meeting yesterday.

22 GOVERNOR SCOTT: Good morning.

23 MR. GARCIA: Good morning. Thank you, Ash.

24 Governor Scott, General Bondi, CFO Atwater, my
25 report will be very brief. I'm proud to report to

1 you that after a day-long workshop and three
2 day-long meetings that your IAC has come to a
3 recommendation on your asset allocation scheme.

4 As you know, the asset allocation plan is the
5 most important recommendation that we make in terms
6 of performance. It typically accounts for about
7 90 percent of the performance in the retirement
8 fund, so it's a really important decision.

9 There was a lot of analytics, a lot of time,
10 and a lot of dedication to it. I can tell you that
11 the IAC is very proud of the recommendation that
12 we're going to make to the Trustees. I know Ash is
13 proud of it, and I hope that you all will be proud
14 of it.

15 You will receive the detailed plan at your
16 Cabinet Meeting in January, and unless y'all have
17 any questions, that concludes my report.

18 GOVERNOR SCOTT: All right. Thank you.

19 Any questions?

20 CFO ATWATER: Thank you for doing it.

21 GOVERNOR SCOTT: Thanks for your service.

22 MR. GARCIA: Thank you.

23 ATTORNEY GENERAL BONDI: Thank you.

24 EXECUTIVE DIRECTOR WILLIAMS: Thank you,
25 Mr. Chairman.

1 And we have the report from the Audit
2 Committee here. Kim Farrell is with us if you'd
3 like an update from the Audit Committee.

4 GOVERNOR SCOTT: Absolutely.

5 Good morning.

6 MS. FARRELL: Good morning, Governor,
7 Trustees.

8 There's a detailed report contained in your
9 packet. It's found behind Tab Number 8, the third
10 green divider.

11 There are currently 47 engagements that are
12 ongoing in connection with the SBA. I will spare
13 you from those details and just give you a very
14 high level overview of the last quarter.

15 During the quarter, there were seven financial
16 statement audits that were completed; of all of
17 those, those did include the Florida Retirement
18 Investment Trust Fund and also the Investment Plan
19 Trust Fund. For those seven reports, all of those
20 received an unmodified opinion.

21 Now also in other engagements, the agreed-upon
22 procedures, internal control, tax compliance, debt
23 compliance, none of those resulted in any major
24 findings. Internal audit activities are on track.
25 There were three internal audit reports issued

1 during the quarter. There's a total of 33 open
2 recommendations.

3 In enterprise risk management and compliance
4 area, there were no material compliance exceptions
5 reported. And finally, there's no reason to
6 believe that these very favorable results will not
7 continue in the current quarter. So that is all I
8 have for you unless you have questions for me.

9 GOVERNOR SCOTT: Are there any questions?

10 CFO ATWATER: No.

11 GOVERNOR SCOTT: Thank you.

12 MS. FARRELL: Thank you.

13 EXECUTIVE DIRECTOR WILLIAMS: Thank you, Madam
14 Chairman.

15 Again, I'd like to thank the members of all of
16 our -- both of our advisory bodies and the Audit
17 Committee. We work very closely with them.
18 They're very engaged, and they do a terrific job.

19 Moving on with the quarterly reports, we also
20 have the usual staples including the general
21 counsel's report. I don't think there's anything
22 of materiality there that we should go into.

23 Two other major reports that I think are
24 worthy of a look, first, we have the annual
25 corporate governance report. Given that we are now

1 voting proxies globally, the amount of activity in
2 that area has gone up dramatically. It's a very,
3 very significant undertaking.

4 And Mike McCauley, who leads the corporate
5 governance effort for us, is with us today if
6 you have any questions for him. We, I think,
7 have established, largely because of Mike's
8 initiatives, a reputation worldwide as a leader
9 in corporate governance and a policy innovator in
10 that area.

11 We also have the chief risk and compliance
12 officer's quarterly report which, as usual,
13 summarizes all of our risk exposures and whether
14 they're within bounds or not. They are. Eric
15 Nelson who is in that important responsibility is
16 with us today and can respond to any questions you
17 may have.

18 And I think that pretty well covers the key
19 parts of the reports that we would normally touch
20 on. So if it meets your pleasure, we can go ahead
21 and take a quick look at the performance of the
22 major mandates. And before I jump into this, I'd
23 like to recognize Mike Sebastian who is with us
24 today from Hewitt EnnisKnupp. I'll go ahead and
25 walk us through the performance information, but we

1 won't be seeing Mike in the future, and it's not
2 because he doesn't want to buy a house in Florida,
3 I want to be very clear.

4 GOVERNOR SCOTT: Got tired of answering the
5 question, huh?

6 EXECUTIVE DIRECTOR WILLIAMS: No, he's
7 actually just been singled out for an extraordinary
8 honor that I wanted to share with you, Trustees;
9 and that is, Hewitt EnnisKnupp, which is the
10 largest financial advisory firm in the world, of
11 which Mike has been a principal for a number of
12 years, and they have a global clientele, has
13 recently decided to create what they're calling
14 the Global Center for Innovation that will be the
15 interface for their clients to access cutting edge
16 investment techniques, financial management
17 techniques, control techniques, et cetera.

18 And given the global distribution of their
19 clientele, the most logical headquarters for this
20 institution is Singapore. And of the entire
21 firmament of Hewitt EnnisKnupp professionals,
22 Mr. Sebastian has been chosen to head that up.
23 So he will be soon moving to Singapore and will not
24 be able to join us for future meetings except when
25 visiting, to shop for houses probably.

1 Kristen Doyle who has been working with Mike
2 on the account in the recent past will continue on
3 our account, and Mr. Steve Cummings who is the
4 chief executive of Hewitt EnnisKnupp will come back
5 to the account for the immediate future and go from
6 there.

7 And there's a wonderful circularity to this,
8 because when we first hired Hewitt EnnisKnupp,
9 which was then EnnisKnupp and Associates back in
10 1993, Richard Ennis was still the chief executive,
11 was the founder of the firm. Steve Cummings was a
12 junior consultant who was the second banana on
13 the State Board of Administration's account. He
14 rose up and is now chief executive of Hewitt
15 EnnisKnupp globally. And the fact that he's coming
16 back after however many years, 20 years I think, is
17 very nice.

18 GOVERNOR SCOTT: Congratulations.

19 EXECUTIVE DIRECTOR WILLIAMS: So we
20 congratulate Mike and wish him well.

21 (APPLAUSE).

22 EXECUTIVE DIRECTOR WILLIAMS: All right. So
23 moving into the major mandate review, I'm just
24 going to get organized here.

25 Okay. If we look at our major mandates for

1 Q-3, all major mandates outperformed their
2 respective benchmarks over all the longer time
3 periods through 30, September. The pension plan
4 outperformed its benchmark during the third quarter
5 and over trailing 1, 3, 5, 10, and 15-year time
6 periods. Global equity was the primary source of
7 value added. Fixed income, real estate, and
8 strategic investments have also added value.

9 In addition, over the trailing one-year
10 period, the pension plan's return ranked in the top
11 fifth percentile of the Tux top 10 defined benefit
12 plan universe -- that's our peer group
13 nationally -- and ranked in the top half of the
14 universe over the trailing 3, 5, and 10-year
15 periods.

16 The investment plan, the defined contribution
17 side of our system, has also outperformed its total
18 plan aggregate benchmark during the third quarter
19 and over all trailing periods. Likewise, the
20 Lawton Chiles Endowment Fund outperformed its
21 benchmark or met it over all trailing periods. And
22 both the Cat Fund and Florida Prime have continued
23 to outperform their benchmarks.

24 Okay. Looking in a little further detail at
25 the pension plan, pension plan assets -- and keep

1 in mind, the numbers I opened with are through last
2 night's close. These numbers are as of 30,
3 September, so it's a slightly different set of
4 numbers. But as of September 30, the pension plan
5 assets were \$138 billion, which is a \$5.6 billion
6 increase from the beginning of the year -- or I'm
7 sorry, from the prior quarter, net of
8 distributions; outperformed benchmarks over the
9 trailing 1, 3, 5, 10, and 15-year period. And
10 also, relative to the absolute nominal rate of
11 return, outperformed over the 15-year period --
12 underperformed over the 15-year period but
13 outperformed over trailing 1, 3, 5, 10, 20, and
14 25-year periods.

15 The reason that 15-year period is significant
16 is it includes the two biggest drawdowns in the
17 equity markets in modern history, the dot com bust
18 and the great financial crisis of 2008. And as
19 time goes by, absent another major drawdown that's
20 disruptive to return patterns, those returns will
21 come back, and I think we will probably start
22 outperforming for all periods over a period of
23 time.

24 If we make a couple of general observations
25 about the Fund, basically we are very disciplined

1 in the way the public market asset classes are run,
2 they're all run on quantitative bench --
3 quantitative not only benchmarks, but risk budgets
4 as well, and monitored with great frequency to
5 ensure we stay within those risk budgets and don't
6 have any unexplained variance from where we want to
7 be with our investment portfolios.

8 In addition, we're well diversified across
9 market caps, regions, credit quality, duration, and
10 security types. And then in the private market
11 asset classes, we're diversified across vintage
12 years, geography, property type, investment vehicle
13 types and strategy.

14 Allocation we touched on. We pay very close
15 attention to asset allocation, and with the IAC's
16 help, we are in the process of coming forward to
17 you for subsequent approval of an investment policy
18 statement that will embrace a new asset allocation
19 that's slightly more aggressive than the one we
20 have but still very efficient in the way it takes
21 risks and gives us the desired five-percent real
22 return that we seek in our modeling over a 15-year
23 forward looking period.

24 We'll skip a couple of slides here. All
25 right, this is an interesting slide. This simply

1 shows graphically the Fund's performance, which is
2 the tan bars, relative to benchmark and the
3 absolute nominal return target over a series of
4 periods. And this just illustrates that for all of
5 the periods measured in the intermediate and
6 short-term, other than the 15-year, we are ahead of
7 all of our targets. And on the 15-year, we lag
8 slightly both the absolute nominal return target
9 and -- but we still exceeded the benchmark.

10 Likewise, if we go to longer periods -- and
11 really, when you're thinking about pension funds,
12 it's the longer time periods that matter most. So
13 if you look at the 20, 25, and 30-year periods and
14 refine your comparisons simply to the absolute
15 nominal rate of return, which is most relevant
16 because it takes out the distortion of inflation,
17 you can see we substantially outperformed the
18 required level of achievement during all of those
19 periods.

20 If we look at how the Florida State Board of
21 Administration's allocation compares to our peer
22 group of other large funds -- and we've touched on
23 this before so I won't elaborate on it -- the
24 primary difference is that we have substantially
25 more global equity exposure and less alternative

1 investment exposure, which in this context means
2 the sum of private equity and alternatives, what we
3 call strategic investments, would be summed with
4 private equity to approximate what we call
5 alternatives elsewhere.

6 I'm going to jump forward several slides. We
7 have data that we get regularly from a firm called
8 CEM that tracks major pension funds across North
9 America and looks at both peer groups which are --
10 a peer group, which is to say other very large
11 funds, and public funds generally, and pension
12 funds generally. And there are a couple of things
13 that I think are distinguishing that I wanted to
14 share with you this morning.

15 The first of these is if we look at the net
16 value added comparison, that is, the value added in
17 management of funds relative to what the benchmarks
18 are and what the returns would be if you simply
19 managed the assets passively, you would get exactly
20 what the benchmark would offer you. And if we look
21 at a trailing five-year period at what our total
22 Florida Retirement System performance is compared
23 to our peer universe, you see a fairly spectacular
24 gap here. We're in the first percentile, which is
25 to say there aren't any -- there is not anyone who

1 is adding more value than we have on a trailing
2 five-year basis.

3 Now what's interesting about that is when you
4 look at where we are in terms of our costs, there's
5 a rather striking comparison there as well; and
6 that is, when we look at our total costs on a
7 trailing one-year basis -- take the bar on the
8 left, we're the blue spot on the bottom, and the
9 green triangle is our peers -- we're in the zero
10 percentile; nobody has lower costs than we do. So
11 we're simultaneously providing the highest level of
12 value added, and we're not simply one of the lowest
13 cost producers. As we normally say, we are now the
14 lowest cost producer, which I think is generally a
15 good place to be in any sort of competitive
16 circumstance. So we're very pleased with that.

17 And at the same time, while our costs are
18 down, as you can see from this graphic, what we're
19 showing you is that we not only have lower costs
20 but we have positive value added. So we're not
21 cheap and inferior; we're cheap and superior, which
22 is good.

23 That really sums it up for what I wanted to
24 cover on the pension plan; and if we look over to
25 the investment plan or the defined contribution

1 side of the system, a couple of key things here:
2 First of all, we outperformed the benchmark over a
3 trailing 1, 3, 5, and 10-year periods. Performance
4 has been strong relative to the underlying fund
5 options.

6 Second, the expense ratio continues to be low.
7 Again, good value add by being a lower cost
8 provider of services. Management fees are
9 substantially lower than the median as represented
10 by Morning Star's mutual fund universe. We use our
11 scale to capture economic benefit for participants
12 in the defined contribution plan.

13 Also, Hewitt found that we offer an
14 appropriate number of fund options that cover the
15 risk and return spectrum; and we, with the IAC's
16 help yesterday, reviewed some changes we're going
17 to implement going forward where we will add a
18 series of target date funds which will make it easy
19 for participants to have their investment
20 allocations adjusted more or less automatically
21 reflecting their age. And that's a preference that
22 came out overwhelmingly in focus group interviews
23 we did with beneficiaries, and it's also very
24 consistent with best practice that we're seeing in
25 the industry.

1 If we look for a moment at total investment
2 plan returns and costs, I would direct your eye to
3 the -- on the upper box here to the top line and
4 the bottom line. And what you'll see here is over
5 1, 3, 5 and 10-year periods, if you drop down to
6 the bottom line there, the investment plan versus
7 total plan aggregate benchmark, there's a positive
8 spread for all of those periods, which is right
9 where you want to be. And likewise, if you come
10 down to the second box and compare us to our peers
11 over -- and you look at our five-year net value
12 added and our expense ratio, both I think are quite
13 positive.

14 If we move on to the Cat Fund -- and the Cat
15 Fund, of course, is very, very focused on liquidity
16 and safety in its investments, so not a
17 particularly exciting portfolio. That's just
18 one where you want the trains to be on time and
19 where they're supposed to be and not try anything
20 clever.

21 Basically on both an absolute and a relative
22 basis, returns have been strong over both short and
23 long-term periods. The Fund is well diversified
24 across appropriate issues in the short-term bond
25 market, and the funds are invested in very short

1 high quality bonds to minimize both interest and
2 credit rate risks.

3 And here we show graphically what the
4 performance of the Fund has been. And if you look
5 at this top graph, you can see 1, 3, 5, and 10-year
6 periods with out-performance in all periods.
7 Again, right where we want to be.

8 And if we jump forward to the Lawton Chiles
9 Endowment, the objective here is to preserve the
10 real value of the net contributed principal and
11 provide annual cash flows for appropriations. The
12 investments are well diversified across various
13 asset classes, including global equity, fixed
14 income, inflation index bonds, or TIPS, and cash
15 assets were 554.8 million as of 30, September, '13.
16 And the return has outperformed that relative to
17 its target -- outperformed its target over the
18 trailing 1, 3, 5, and 10-year periods. A graphic
19 of that is right here. It's quite clear.

20 Moving on to Florida Prime and Fund B, I think
21 two key things here: First of all, just to
22 restate, the purpose of Florida Prime as laid out
23 in Florida Statutes in our investing, our
24 objectives are safety, liquidity, and competitive
25 returns, in that order; and that's exactly what the

1 Fund is set up to provide and I think is providing.

2 We now have over 850 clients in Florida Prime.
3 The scale of the Fund has bounced back very
4 dramatically from the dark days of '08, and it is
5 now outperforming its benchmarks for all trailing
6 periods, even when we look all the way back to
7 January of '96. So we're very pleased with that.

8 We are also, by far and away, the low-cost
9 provider in the market. If you can see this
10 graphic, this is a scatter plot of other investment
11 firms. All those navy blue dots are other
12 investment firms, and you can see that they are --
13 the green box to the upper left is Florida Prime,
14 and the way to look at -- interpret this graph is
15 annualized standard deviation increases left to
16 right. Think of that as an analog for risk. And
17 return is from the bottom to the top.

18 So as you move northwest in this graphic,
19 you're getting more return but counter intuitively
20 less risk. Look at the distance between Florida
21 Prime and everybody else, it's a fairly
22 breathtaking gap; and the reason is we're the
23 low-cost provider. Nobody can touch us because
24 we're tax exempt; we don't have to do marketing;
25 and we run very, very efficiently in scale.

1 Then if we look at Fund B, we're particularly
2 pleased with this. Fund B is the pool of
3 securities that became illiquid during the fourth
4 quarter of 2007 and at the time were feared to be
5 potentially lost. Since that time, we have
6 systematically been doing two things: Clipping
7 coupons on current pay asset-backed securities; and
8 secondly, managing the portfolio to capture a
9 return of principal as rapidly as we can.

10 And during the past couple of years, market
11 preferences for risk taking have come up pretty
12 dramatically, and we have fed some of those
13 securities judiciously into those risk appetites in
14 the market. And as a consequence of that activity,
15 we've now refunded in cash to the original Pool B
16 participants 95.3 percent of the value of the
17 original securities that became illiquid.

18 And when I first came back in year end '08,
19 the drum beat I was hearing was that money was
20 feared lost and gone forever. And we looked at it
21 and said: This is going to take a while, but
22 you're going to be fine. And between the market
23 value of the securities we have now, the cash we've
24 distributed, and the ongoing coupon streams we
25 have, I can confidently say nobody is going to lose

1 a dime on this exercise, which is very good and
2 we're pleased to see it wrap up.

3 So that is it for the quarterly presentations.
4 I'm happy to answer any questions you may have.

5 GOVERNOR SCOTT: Great job, Ash.

6 EXECUTIVE DIRECTOR WILLIAMS: Thank you.

7 GOVERNOR SCOTT: Did you have any bad news?

8 EXECUTIVE DIRECTOR WILLIAMS: No.

9 All right. So we have one more item on
10 today's agenda, which is Item 9; and we don't want
11 any bad news here either I might add. This is the
12 annual required reaffirmation of the Executive
13 Director. The background materials for this item
14 include a revised position description that's
15 current with existing statute, also reflects
16 changes we've made to the pay grades at the FSU --
17 at the State Board of Administration net of the
18 work that the Investment Advisory Council did with
19 Mercer.

20 During an extensive set of public hearings
21 they did on compensation at the Board, we've redone
22 our entire comp structure. So we've reflected the
23 appropriate new pay grade range and put a current
24 salary point in the document that's consistent with
25 the IAC and the comp committee's recommendations

1 which, in turn, were consistent with the Mercer's
2 recs, based on market data, background material
3 that was in the SBA budget materials back in June,
4 and also in the IAC materials for meetings they had
5 going back as far as I believe March of this year
6 are all there for reference. We would request
7 reaffirmation, I guess is the right term.

8 GOVERNOR SCOTT: All right. Are there any
9 questions or comments?

10 (NO RESPONSE).

11 GOVERNOR SCOTT: Ash, you're doing a great
12 job.

13 DIRECTOR WILLIAMS: Thank you.

14 GOVERNOR SCOTT: I just want to thank you for
15 all of your hard work. You have a great team.
16 You're getting very good results. The compensation
17 level that's proposed is appropriate. I just want
18 to compliment you, and you've just done a great
19 job.

20 You know, there are so many people that are
21 retired in our state that are relying on that
22 pension plan, and there are so many people that are
23 planning to retire based on that pension plan, and
24 you're doing a good job and you're a great
25 fiduciary, so I just want to thank you very much.

1 EXECUTIVE DIRECTOR WILLIAMS: You're welcome.
2 Thank you for the opportunity to serve. It is an
3 honor, and we do have a terrific team. We have
4 terrific trustees and terrific advisory bodies, and
5 that's what makes it all work.

6 GOVERNOR SCOTT: All right. Is there a
7 motion to reaffirm Ash Williams as the Executive
8 Director of the SBA and with the change in
9 compensation?

10 CFO ATWATER: So move.

11 ATTORNEY GENERAL BONDI: Second.

12 GOVERNOR SCOTT: All right. Any comments or
13 objections?

14 (NO RESPONSE).

15 GOVERNOR SCOTT: Hearing none, the
16 reaffirmation is approved.

17 Congratulations, Ash.

18 ATTORNEY GENERAL BONDI: Wait, hold on, guys.
19 Hold on one second.

20 Governor, we have members of the National
21 Guard here, and they've patiently been sitting here
22 watching. May we take a picture with them?

23 GOVERNOR SCOTT: Absolutely.

24 ATTORNEY GENERAL BONDI: Thank you.

25 GOVERNOR SCOTT: This concludes our Cabinet

1 meeting. Our next meeting will be Wednesday,
2 January 22nd at 9 a.m. We are adjourned.

3 (WHEREUPON, THE MEETING WAS ADJOURNED) .
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FLORIDA RETIREMENT SYSTEM

Investment Plan Investment Policy Statement

I. PURPOSE

The Florida Retirement System Investment Plan Investment Policy Statement (IPS) serves as the primary statement of Trustee policy regarding their statutory responsibilities and authority to establish and operate an optional defined contribution retirement program for members of the Florida Retirement System. The IPS shall serve as a guiding document pertaining to investment matters with respect to the Investment Plan. The Trustees will strive to make investment decisions consistent with this IPS. Section 121.4501(14), Florida Statutes, directs the Trustees of the State Board of Administration to approve the IPS. The IPS will be reviewed annually and will be revised or supplemented as policies are changed or developed.

II. DEFINITIONS

- A. **Member** – An employee who enrolls in the Florida Retirement System Investment Plan , a member-directed 401(a) program, in lieu of participation in the defined benefit program of the Florida Retirement System, a terminated Deferred Retirement Option Program (DROP) member as described in section 121.4501(21), Florida Statutes, or an alternate payee of a member or employee.
- B. **Investment Product** – The result of a process that forms portfolios from securities and financial instruments in order to produce investment returns.
- C. **Investment Manager** – A private sector company that provides one or more investment products.
- D. **Investment Funds** – One of the investment options that may be chosen by participants. A Fund may be an aggregate of one or more investment products.
- E. **Bundled Provider** - A private sector company that offers investment products, combined with recordkeeping and trading services, which are designed to meet individualized needs and requirements of plan participants, so as to afford value to participants not available through individual investment product.
- F. **Passively Managed Option** – An investment management strategy that intends to produce the same level and pattern of financial returns generated by a market benchmark index.
- G. **Actively Managed Option** – An investment management strategy that relies on security return predictions in an effort to out-perform the financial returns generated by a market benchmark index.
- H. **Performance Benchmark** – A market benchmark index that serves as the performance measurement criterion for investment options.
- I. **Investment Plan Administrator or Recordkeeper** – A private sector company that provides administrative services, including individual and collective recordkeeping and accounting, IRC

limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions.

- J. **Self-Directed Brokerage Account** – An alternative method for Investment Plan members to select various investments options otherwise not available in the Investment Plan.
- K. **Self-Direct Brokerage Account Provider** – A private sector company that provides access to a Self-Directed Brokerage Account to members of the FRS Investment Plan.

III. OVERVIEW OF THE INVESTMENT PLAN AND STATE BOARD OF ADMINISTRATION

- A. The Investment Plan is a member-directed 401(a) program selected by employees in lieu of participation in the defined benefit program of the Florida Retirement System. Investment Plan benefits accrue in individual accounts that are member-directed, portable and funded by employee and employer contributions and earnings. In accordance with Section 121.4501(15)(b), Florida Statutes, members and beneficiaries bear the investment risks and reap the rewards that result when they exercise control over investments in their accounts. Fluctuations in investment returns directly affect members' benefits.
- B. The State Board of Administration (Board), Division of Retirement and affected employers administer the Investment Plan. The Board designs educational services to assist employers, eligible employees, members and beneficiaries. The State Legislature has the responsibility for setting contribution levels and providing statutory guidance for the administration of the Investment Plan.

IV. THE BOARD

- A. The Board consists of the Governor, as Chairman, the Chief Financial Officer, ~~as Treasurer~~, and the Attorney General, ~~as Secretary~~. The Board shall establish an optional defined contribution retirement program for members of the Florida Retirement System and make a broad range of investment options, covering most major market segments, available to members. The Board makes the final determination as to whether any investment manager or product, third-party administrator, education vendor or advice vendor shall be approved for the Plan.
- B. The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Section 121.4501(15)(a), Florida Statutes.
- C. The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the Investment Plan. The Board appoints a nine-member Investment Advisory Council (IAC). The IAC reviews the IPS and any proposed changes prior to its presentation to the Board of Trustees. The Council presents the results of its review to the Board of Trustees prior to the Trustees' final approval of the statement or any changes.

V. THE EXECUTIVE DIRECTOR

- A. The Executive Director is responsible for managing and directing administrative, personnel, budgeting and investment-related functions, including the hiring and termination of investment managers, bundled providers and products.
- B. The Executive Director is responsible for developing specific investment objectives and policy guidelines for investment options. The Executive Director is responsible for developing policies and procedures for selecting, evaluating, and monitoring the performance of investment managers and products to which employees may direct retirement contributions under the Investment Plan, and providing the Board with monthly and quarterly reports of investment activities.
- C. The Executive Director is responsible for maintaining diversified investment options, and maximizing returns with respect to the performance benchmarks of individual investment options, consistent with appropriate risk constraints. Each investment option will avoid excessive risk and have a prudent degree of diversification relative to its broad market performance benchmark. 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.

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 cause a regular review, documentation and formal escalation of compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

- D. The Executive Director shall adopt policies and procedures designed to prevent excessive member trading between investment options from negatively impacting other members.

- E. The Executive Director is responsible for periodically reviewing this IPS and recommending changes to the Board of Trustees when appropriate.

VI. INVESTMENT OBJECTIVES

- A. The Investment Plan shall seek to achieve the following long-term objectives:

- 1) Offer a diversified mix of low-cost investment options that span the risk-return spectrum and give members the opportunity to accumulate retirement benefits.
- 2) Offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees that seek to achieve or exceed the returns on comparable market benchmark indices.
- 3) Offer members meaningful, independent control over the assets in their account with the opportunity to:
 - a) Obtain sufficient information about the plan and investment alternatives to make informed investment decisions;
 - b) Direct contributions and account balances between approved investment options with a frequency that is appropriate in light of the market volatility of the investment options;
 - c) Direct contributions and account balances between approved investment options without the limitation of fees or charges; and
 - d) Remove accrued benefits from the plan without undue delay or penalties, subject to the contract and all applicable laws governing the operation of the Plan.

VII. MEMBER CONTROL AND PLAN FIDUCIARY LIABILITY

- A. This IPS is structured to be consistent with the Legislature's intent to assign liability for members' investment losses to members and provide a safe harbor for Plan fiduciaries.
- B. In Sections 121.4501(8)(b)2. and 121.4501(15)(b), Florida law incorporates the federal law concept of participant control, established by regulations of the U.S. Department of Labor under section 404(c) of the Employee Retirement Income Security Act of 1974. The Investment Plan shall incorporate these concepts by providing Plan participants the opportunity to give investment instructions and obtain sufficient information to make informed investment decisions. The Investment Plan shall, in accordance with the 404(c) regulations and Florida law, provide members an opportunity to choose from a broad range of investment alternatives.
- C. If a member or beneficiary of the Investment Plan exercises control over the assets in his or her account, pursuant to section 404(c) regulations and all applicable laws governing the operation of the Plan, no Plan fiduciary shall be liable for any loss to a member's or beneficiary's account which results from such member's or beneficiary's exercise of control.
- D. The default option for FRS Investment Plan members that fail to make a selection of investment options shall be the Target Date Fund (TDF) that matches the year closest to the year each

individual member reaches the normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statutes~~the Moderate-Balanced Fund~~, which otherwise meets the requirements of a qualified default investment alternative pursuant to regulations issued by the U.S. Department of Labor. The default option for FRS Pension Plan DROP participants who rollover funds from their DROP account to the Investment Plan as permitted by section 121.4501(21), Florida Statutes, and fail to make a selection of investment options shall be the FRS Retirement Income Select Money Market Fund.

VIII. MEMBER EDUCATION AND INVESTMENT ADVICE

- A. The education component of the Investment Plan shall be designed by the Board to assist employers, eligible employees, members, and beneficiaries in order to maintain compliance with section 404(c) regulations and to assist employees in their choice of defined benefit or defined contribution retirement programs. Educational services include, but are not limited to, disseminating educational materials; providing retirement planning education; explaining the differences between the defined benefit retirement plan and the defined contribution retirement plan; and offering financial planning guidance on matters such as investment diversification, investment risks, investment costs, and asset allocation. The following items must be made available to members in sufficient time to allow them an opportunity to make informed decisions:
- A description of all investment funds offered as an investment option under the Investment Plan including: general investment objectives, risk and return characteristics, and type and diversification of assets, but excluding any investment instruments made available through a self-directed brokerage account.
 - An explanation of how to give investment instructions and any limits or restrictions on giving instructions.
 - A description of any transaction fees or expenses that are charged to the member's account in connection with purchases or sales of an investment fund.
 - Investment summary fund profiles as defined at Sections 121.4501(15)(c), excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - Descriptions of the annual operating expenses for each investment alternative, such as investment management fees, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - The value of shares of all investment funds and a quarterly member statement that accounts for contributions, investment earnings, fees, penalties, or other deductions, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - Information concerning the past investment performance of each investment fund, net of expenses, and relative to appropriate market indices, excluding the prospectus

or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.

- B. Consistent with Sections 121.4501(8)(b)1. and 121.4501(10)(b), Florida Statutes, the education component shall provide system members with impartial and balanced information about the Plan and investment choices. In addition, the approved education organization shall not be an approved investment provider or be affiliated with an approved investment provider. Educational materials shall be prepared under the assumption that the employee is an unsophisticated investor and all educational materials, including those distributed by bundled providers, shall be approved by the Board prior to dissemination. Members shall have the opportunity to choose from different levels of education services, as well as a variety of delivery methods and media. All educational services offered by investment product providers shall be provided on a fee-for-service basis.
- C. The Board shall contract for the provision of low-cost investment advice to members that is supplemental to educational services and that is paid for by those receiving the advice. Investment advice shall consist of impartial and balanced recommendations about investment choices consistent with Rule 19-13.004, FAC. Members shall have the opportunity to choose from different levels of customized investment advisory services, as well as a variety of delivery methods and media.
- D. Bundled provider(s) selected to provide investment products for Investment Plan members shall not provide any member education services aimed at influencing the choice between the defined benefit and defined contribution plans of the Florida Retirement System. This education program will only be provided by the neutral education vendor hired to do so by the Board.

IX. ROLES OF THE INVESTMENT PLAN ADMINISTRATOR AND BUNDLED PROVIDERS

- A. The Board selects a single private party to serve as the administrator for the Investment Plan. The Board makes the final determination as to whether any administrator shall be approved for the Plan. Administrative services such as individual and collective recordkeeping and accounting, IRC limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions shall be provided by the single administrator selected by the Board. The SBA retains the right to delineate through the contract the specific administrative services to be provided by the Bundled Provider. The SBA also retains the right, consistent with Section 121.4501(8)(a)1., Florida Statutes, to enter into a contract with the Division of Retirement for certain administrative services.
- B. Bundled provider(s) selected to provide investment products to members will provide administrative services that are uniquely relevant to the bundled provider mandate. The SBA shall specify the administrative services to be provided by the single administrator and the bundled provider in the solicitation documents and contracts for services.

X. INVESTMENT OPTIONS AND PERFORMANCE BENCHMARKS

- A. The authorized categories of Investment Plan investment options are segmented into tiers, with each designed to meet the varying needs of different members as shown in IPS-Table 1. The

Investment Plan investment options are contained in IPS-Table 2~~are contained in IPS Table 1.~~ The default option for members that fail to make a selection of investment options shall be the Target Date Fund (TDF) that matches the year closest to the year each individual member reaches the normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statute~~the Moderate-Balanced Fund.~~ The investment options can be constructed under a multiple manager framework of two or more investment managers, however, [The number of investment options shall not exceed the “Maximum Number of Options” listed in IPS-Table 2~~1~~ for each category, except to the extent that:

- 1) Multiple investment options within the same category are simultaneously offered to facilitate a transitional mapping of contributions and account balances from a terminating option;
- 2) An investment option is temporarily closed to new contributions and account balance transfers.

IPS-Table 1: Authorized Investment Categories

| <u>Tier</u> | <u>Philosophy</u> |
|---|---|
| <u>Tier I- Asset Allocation-Target Date Funds</u> | <u>Allows members to choose a diversified investment portfolio that best fits their career time horizon until anticipated retirement date. TDFs seek growth of assets in earlier years of employment and gradually shift to income oriented options at retirement. Designed for members with little investment knowledge who want a professionally managed asset allocation with little input from the member. These options will be comprised of underlying investments in the Investment Plan’s Tier II and Tier III Core Options</u> |
| <u>Tier II- Passively-Managed Core Options</u> | <u>Allows members who wish some control over major investment category shifts to create their own portfolios based on broad, low-cost index funds that best fit their time horizon, risk tolerance and investment goals.</u> |
| <u>Tier III- Actively –Managed Core Options</u> | <u>Allows members who wish more control over all key investment allocation decisions to create their own portfolios based on investment options from active managers who seek returns above a performance benchmark and that members believe best fit their time horizon, risk tolerance and investment goals.</u> |
| <u>Tier IV- Retirement Annuity Options</u> | <u>Allows members leaving FRS employment a means by which they can create an income distribution of their accumulated assets that can last over their remaining lifetimes.</u> |
| <u>Tier V- Self- Directed Brokerage Account</u> | <u>Allows members interested in investments outside of Tiers I, II and III the opportunity to invest in a broad array of mutual funds, stocks, US Treasuries and other investment alternatives based on their time horizon, risk tolerance, investment goals and/or preferences.</u> |

IPS-Table 24: Authorized Investment Options ~~Categories and~~ Representative Performance Benchmarks, ~~and~~ Retiree Annuities and Self Directed Brokerage Account

| Investment Option Categories | Maximum Number of Options | Representative Performance Benchmarks |
|--|----------------------------------|---|
| <u>Tier I: Target Date Funds</u> | | |
| <u>Core Investment Options</u> | | |
| A series of asset allocation funds structured in 5-year increments along a “glidepath” as demonstrated in IPS Chart 1 below. | 10 | <u>Weighted Average of each Constituent Fund’s Benchmarks</u> |
| Inflation Protected Bond | 1 | Barclays Capital U.S. Treasury Inflation Note Index |
| U.S. Bond | 2 | Barclays Capital Aggregate Bond Index |
| U.S. Core Stock | 2 | Russell 3000 Index |
| U.S. Small/Mid Stock | 2 | Russell 2000 Index |
| Foreign Stock | 2 | MSCI World, excluding U.S., Index |
| <u>Tier II: Passively Managed Core</u> | | |
| <u>Options</u> | | |
| Enhanced U.S. Bond Index Fund | 1 | Barclays Aggregate Bond Index-Weighted Average of Constituent Fund Benchmarks per Table 2 |
| Conservative Balanced Fund | | |
| Stock Market Index Fund | 1 | Russell 3000 Index-Weighted Average of Constituent Fund Benchmarks per Table 2 |
| Moderate Balanced Fund | | |
| Foreign Stock Index Fund | 1 | MSCI All Country World Index ex U.S. IMI Index-Weighted Average of Constituent Fund Benchmarks per Table 2 |
| Aggressive Balanced Fund | | |
| <u>Tier III: Actively-Managed Core</u> | | |
| <u>Options</u> | | |
| Money Market Fund | 1 | iMoneyNet Money Funds Index(Net of Fees) Russell 1000 Value Index |
| U.S. Large Value Stock | | |
| Real Assets Fund-U.S. Large Growth Stock | 1 | TBD Russell 1000 Growth Index |
| Intermediate Bond Fund | 1 | Barclays Intermediate Aggregate Bond Index Russell 2000 Value Index |
| U.S. Small/Mid Value Stock | | |
| Core Plus Fixed Income Fund-U.S. Small/Mid | 1 | Barclays Aggregate Bond Index Russell 2000 Growth Index |

| | | |
|------------------------------------|---|---|
| Growth Stock | | |
| US Large Cap Equity | 1 | Russell 1000 Index MSCI World Index |
| Fund Global Stock | | |
| US Small/Mid Cap | 1 | Russell 2500 Index Barelays Capital Intermediate Aggregate Bond |
| Equity Fund U.S. | | Index |
| Short/Intermediate Bond | | |
| International Equity | 1 | MSCI All Country World Index ex US Index |
| Fund | | |
| Global Equity Fund | 1 | MSCI All Country World Index Barelays Capital High Yield Index |
| High Yield Bond | | |

Tier IV: Retiree Annuity Options (Section 121.591(1)(c), Florida Statutes)
Immediate and Deferred Not Specified by the Executive Director
Annuities Applicable

Tier V: Self-Directed Not Not applicable
Brokerage Account Applicable

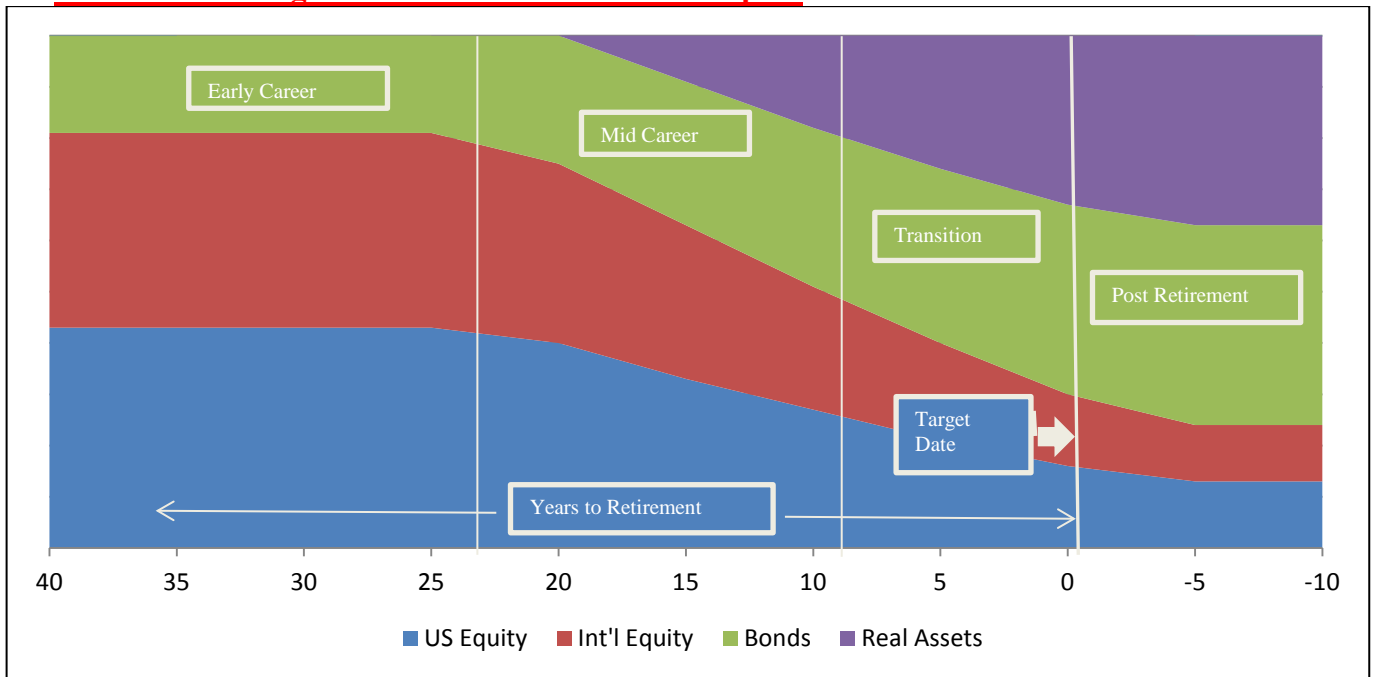
-
- B. Investment options and investment products (i.e., that support Investment Funds that are composed of an aggregate of one or more investment products) may be provided by investment managers or bundled providers. Pursuant to Section 121.4501(9)(a), Florida Statutes, the Board shall select one or more providers who offer multiple investment products when such an approach is determined by the Board to afford value to members otherwise not available through individual investment products.
- C. Investment options may have performance benchmarks other than the “Representative Performance Benchmarks” listed in IPS-Table ~~2~~¹, but any alternative performance benchmark must be identified in the investment guidelines required under Section XI of this IPS and provide substantial coverage of the financial market segment defined by the corresponding Representative Performance Benchmark.
- D. ~~Target Date Balance~~ funds are only available as a weighted average of Tier ~~II~~ and III options. The Board shall establish procedures for initiating rebalancings per approved investment guidelines.
- E. With IAC review and input, the Executive Director shall periodically recommend changes to the authorized investment option categories in IPS-Tables ~~1~~ ¹ and ~~2~~ ², as modifications are appropriate. Any recommended modifications must be justified in terms of the incremental costs and benefits provided to members.

XI. GENERAL INVESTMENT OPTION GUIDELINES

- A. The Executive Director is responsible for developing specific investment policies and guidelines for investment options, which reflect the goals and objectives of this IPS. In doing so, he is authorized to exercise and perform all duties set forth in Section 121.4501(9), Florida Statutes, except as limited by this IPS or Board Rules. General guidelines are as follows:

1) The Target Date funds are diversified portfolios designed to provide members with professionally managed investment vehicles that can grow assets over their career. The funds seek favorable long-term returns through investments in the Tier II and III Options according to the “glidepath” allocation levels identified in IPS-Chart 1. Asset allocations will generally be held within 5 percentage points of the optimal shares for their respective allocation target, but short-term deviations may occur. Optimized asset allocations for the target date funds shall be established using methodology consistent with the guidance rendered by the Investment Plan’s investment consultant and education/advice providers.

IPS-Chart 1: Target Date Investment Funds Glidepath



2) 1) The Money Market fund seeks high current income consistent with liquidity and capital preservation. The fund will be actively managed and will primarily invest in high quality, liquid, short-term instruments to control credit risk and interest rate sensitivity. The fund’s sensitivity to interest rate changes will approximate that of the performance benchmark.

3) 2) The U.S. Fixed Income Bond funds seek high current income consistent with capital appreciation. The funds may be passively or actively managed and will primarily invest in securities contained in the benchmark, although other fixed income instruments which fit the funds’ objectives may be selectively used to generate excess return, such as non-investment grade securities or securities issued by foreign entities. The funds’ sensitivity to interest rate changes will closely approximate that of the performance benchmark.

4) 3) The U.S. Equity Large Stock funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark. Other securities which fit the funds’ objectives may be selectively used to

generate excess return. The funds' investment process will not have a persistent bias toward the selection of securities that are predominantly in the growth or value style categories.

~~5) 4) The Foreign Equity Stock funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark, although other securities which fit the funds' objectives may be selectively used to generate excess return, such as equity securities issued by corporations domiciled in emerging economies.~~

~~5) The Balanced Investment funds are diversified balanced portfolios designed to provide participants with pre-packaged asset allocation vehicles. The funds seek favorable long-term returns through investments in the Tier I and III Options according to the risk levels identified in IPS Table 2. Asset allocations will generally be held within 5 percentage points of the optimal shares for their respective risk target, but short-term deviations may occur. Optimized asset allocations for the balanced funds shall be established using methodology consistent with the guidance rendered by the Investment Plan's education/advice vendor.~~

IPS-Table 2: Target Risk Levels of Balanced Investment Funds

| | Conservative Balanced Fund | Moderate Balanced Fund | Aggressive Balanced Fund |
|--|---|---|--|
| All asset classes shall be included for optimization of each balanced fund to the risk levels indicated. Actual Tier I and III investment funds included in the balanced funds and their respective weightings shall be reported to the Trustees and communicated to members. | A risk level equivalent to that of an all bond portfolio | A risk level equivalent to that of the average U.S. investor | A risk level approximately mid-way between that of an all equity portfolio and the Moderate Balanced Fund |

~~6) The Real Assets Inflation Protected Bond fund seeks long-term real total returns to preserve that keep pace with inflation in order to protect the future purchasing power of accumulated member benefits. The fund will ~~may~~ be ~~passively or~~ actively managed and will primarily invest in a diversified array of assets that may act as a hedge against inflationary pressures including, but not limited to, the U.S. Treasury's inflation-indexed securities, commodities, real estate investment trusts and other securities. The fund's sensitivity to interest rate changes and inflation will closely approximate that of the performance benchmark.~~

~~7) The Global Equity fund seeks capital appreciation and current income. The fund may be passively or actively managed and will primarily invest in equities contained in the benchmark, including equities domiciled in the United States, other developed and emerging economies although other securities which fit the funds' objectives may be selectively used to generate~~

~~excess returns. The High Yield Bond fund seeks high current income consistent with capital appreciation. The fund will be actively managed and will primarily invest in non-investment grade securities contained in the benchmark, although other fixed income instruments which fit the funds' objective may be selectively used to generate excess return, such as non-rated securities or securities issued by foreign entities. The fund's sensitivity to interest rate changes will closely approximate that of the performance benchmark.~~

~~8) The U.S. Large Value Stock fund seeks capital appreciation, and to a lesser degree, current income. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by lower price to book ratios and lower projected earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.~~

~~9) The U.S. Small/Mid Stock funds seek capital appreciation. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark, although other securities which fit the funds' objectives may be selectively used to generate excess return. The funds' investment process will not have a persistent bias toward the selection of securities that are predominantly in the growth or value style categories.~~

~~10) The U.S. Large Growth Stock fund seeks capital appreciation. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by higher price to book ratios and projected higher earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.~~

~~11) The U.S. Small/Mid Value Stock fund seeks capital appreciation, and to a lesser degree, current income. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by lower price to book ratios and lower projected earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.~~

~~12) The U.S. Small/Mid Growth Stock fund seeks capital appreciation. The fund will be actively managed and will primarily invest in equities contained in the benchmark, generally characterized by higher price to book ratios and projected higher earnings growth than the overall U.S. equity market averages. Other securities which fit the funds' objectives may be selectively used to generate excess return.~~

~~8)(13)~~ Each investment option must:

- ~~(a)~~ Have a prudent degree of diversification relative to its performance benchmark;
- ~~(b)~~ Be readily transferable from one Investment Plan account to another Investment Plan investment option or to ~~a~~ private-sector or public-sector defined contribution plan accounts and self-directed individual retirement accounts;

- (c) Allow transfers of members' balances into and out of the option at least daily, subject to the excessive trading policies of the providers and/or the SBA;
- (d) Have no surrender fees or deferred loads/charges;
- (e) Have no fees or charges for insurance features (e.g. mortality and expense risk charges);
- (f) To the extent allowed by law, notwithstanding failure to meet one or more of the IPS Section XI(~~813~~)(b),(c)-(f) requirements, an option may be authorized if: (i) it produces significant and demonstrable incremental retirement benefits relative to other comparable products in the market place and comparable Tier I, Tier II, or Tier III options; and (ii) the incremental benefits are sufficient to offset all associated fees, charges and the expected economic cost of the variance(s) with the IPS Section XI(~~813~~)(b),(c)-(f) requirements. Comparability shall be based on the option's underlying investments within the broad categories of Money Market, U.S Fixed Income, U.S. Equities and Foreign Equities.

9) (~~14~~) The investment product supporting any annuity option offered in Tier IV must have a prudent degree of diversification relative to its performance benchmark and, where applicable, providers shall have high independent ratings for financial strength and stability. Tier IV options may include allocated or unallocated immediate annuities with combinations of some of the following features:

- (a) Single or flexible premium.
- (b) Life or fixed period payouts.
- (c) Single or joint life (survivors with an insurable interest).
- (d) Complete or partial survivor benefits.
- (e) Cash refund, installment refund or period certain features.
- (f) Variable or fixed payments, non-participating, or income payable features.
- (g) Deferred payments.

B. The long-term performance of each actively managed investment option is expected to exceed the returns on their performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns on the performance benchmark, net of all fees and charges. Investment managers are authorized to prudently use options, futures, notional principal contracts or securities lending arrangements, in accordance with the fiduciary standards of care, as contained in Section 121.4501(15)(a), Florida Statutes, investment guidelines and related policies.

XII. INVESTMENT MANAGER SELECTION AND MONITORING GUIDELINES

A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of investment managers, bundled providers and products, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9)(c), Florida Statutes.

When the Executive Director decides to terminate an investment fund in the Investment Plan, members will be granted an opportunity to direct their assets to other Investment Plan investment fund options prior to the investment fund termination. Assets that are not directed by members will be transferred or “mapped” to the investment fund(s) that the Executive Director deems appropriate. The mapping factors that the Executive Director will consider include, but are not limited to, alignment of investment fund type (e.g., asset class, capitalization and style) and investment strategy (e.g., objectives, market focus, and implementation tactics).

- B. In the selection of investment managers, investment products or bundled providers, consideration shall be given to their effectiveness in minimizing the direct and indirect costs of transferring the total present value of accumulated benefit obligations for existing employees that choose membership in the Investment Plan from the defined benefit trust to the Investment Plan trust.
- C. In the selection and monitoring of products from bundled providers, each proposed product will be evaluated on a stand-alone basis, pursuant to the requirement in Section 121.4501(9)(c)9., Florida Statutes. The cost-effectiveness of the levels of non-investment services supporting the products will also be evaluated relative to their benefits.
- D. In the selection, retention and termination of bundled providers and their proposed products and services, value, as that term is used in Section 121.4501(9)(a), Florida Statutes, shall be evaluated based on the value added to the process of accumulating retirement benefits for members. This evaluation shall consider the following factors in arriving at any staff recommendation:
 - 1) Additional products or services that are not otherwise available to the members within the Plan;
 - 2) The type and quality of investment products offered;
 - 3) The type and quality of non-investment services offered; and
 - 4) Other significant elements that provide value to members, consistent with the mandates of Section 121.4501, Florida Statutes.
- E. On at least an annual basis, a review will be conducted of the performance of each approved investment manager and product and related organizational factors to ensure continued compliance with established selection, performance and termination criteria, Board policy and procedures and all contractual provisions. The performance and termination criteria for each provider and investment product will be reflected in each employment contract.
- F. In addition to reviewing the performance of the Investment Plan’s investment managers/options, the Executive Director will periodically review all costs associated with the management of the Investment Plan’s investment options, including:
 - 1) Expense ratios of each investment option against the appropriate peer group; and
 - 2) Costs to administer the Plan, including recordkeeping, account settlement (participant balance with that of investment), allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

XIII. SELF-DIRECTED BROKERAGE ACCOUNT (SDBA) PROVIDER SELECTION AND MONITORING GUIDELINES

- A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of a SDBA Provider and shall manage the contractual relationship in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9) (c), Florida Statutes.
- B. The SDBA shall be offered as a service to Investment Plan members to enable members to select investments otherwise not offered in the Plan.
- C. In selecting the SDBA Provider, the Executive Director shall consider the following:
 - 1) Financial strength and stability as evidenced by the highest ratings assigned by nationally recognized rating services when comparing proposed providers that are so rated.
 - 2) Reasonableness of fees compared to other providers taking into consideration the quantity and quality of services being offered.
 - 3) Compliance with the Internal Revenue Code and all applicable federal and state securities laws.
 - 4) The methods available to members to interact with the provider; the means by which members may access account information, direct investment of funds, transfer funds, and to receive funds prospectuses and related investment materials as mandated by state and federal regulations.
 - 5) Ability to provide prompt, efficient and accurate responses to participant directions, as well as providing confirmations and quarterly account statements in a timely fashion.
 - 6) Process by which assets are invested, as well as any waiting periods when the monies are transferred.
 - 7) Organizational factors, including, but not limited to, financial solvency, organizational depth, and experience in providing self-directed brokerage account services to public defined contribution plans.
 - 8) The self-directed brokerage account available under the most beneficial terms available to any customer.
 - 9) The provider will agree not to sell or distribute member lists generated through services rendered to the investment plan.
 - 10) The provider, as well as any of its related entities, may not offer any proprietary products as investment alternatives in the self-directed brokerage account.

- D. The Executive Director shall regularly monitor the selected provider to ascertain whether there is continued compliance with established selection criteria, board policy and procedures, state and federal regulations, and any contractual provisions.
- E. The Executive Director shall ensure that the SDBA Provider will include access to investment instruments offered through the self-directed brokerage account by providing connectivity with the following:
- 1) Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange.
 - 2) Exchange Traded Funds (except for leveraged Exchange Traded Funds).
 - 3) Mutual Funds not offered in the investment plan.
- F. The Executive Director shall ensure that the self-directed brokerage account accessibility does not include the following as investment alternatives:
- 1) Illiquid investments;
 - 2) Over the Counter Bulletin Board (OTCBB) securities;
 - 3) Pink Sheet® (PS) securities;
 - 4) Leveraged Exchange Traded Funds;
 - 5) Direct Ownership of Foreign Securities;
 - 6) Derivatives, including, but not limited to futures and options contracts on securities, market indexes, and commodities;
 - 7) Buying/Trading on Margin;
 - 8) Limited Partnership Interests;
 - 9) Investment Plan products;
 - 10) Any investment that would jeopardize the investment plan's tax qualified status.
- GF. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that an Investment Plan member may participate in the self-directed brokerage account, if the member:
- 1) Maintains a minimum balance of \$5,000 in the products offered under the investment plan;
 - 2) Makes a minimum initial transfer of funds into the self-directed brokerage account of \$1,000;

- 3) Makes subsequent transfers of funds into the self-directed brokerage account in amounts of \$1,000 or greater;
- 4) Pays all trading fees, commissions, administrative fees and any other expenses associated with participating in the self-directed brokerage account;
- 5) Does not violate any trading restrictions established by the provider, the investment plan, or state or federal law.

HG. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that employer contributions and employee contributions shall be initially deposited into member's Investment Plan account and will then be made available for transfer to the member's SDBA.

IH. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator that distributions will not be processed directly from member's assets in the SDBA. Assets must first be transferred to Investment Plan products. A member can request a distribution from the Investment Plan once the transfer of the assets from the SDBA to the member's Investment Plan account and all Investment Plan distribution requirements are met.

IJ. The Executive Director shall ensure that any member participating in the SDBA will be provided, at minimum, a quarterly statement that meets Financial Industry Regulatory Authority (FINRA) requirements which details member investments in the SDBA. The statement shall include, but is not limited to, member specific accounting of the investment instruments selected by a member, the net gains and losses, and buy/sell transactions. Additionally, a confirmation of trade statement will be sent for each transaction and all fees, charges, penalties and deductions associated with each transaction are netted in the trade and reflected in the transaction confirmation.

KJ. The Executive Director shall develop appropriate communications to members participating in the SDBA that will notify members that the Board is not responsible for managing the SDBA beyond administrative requirements as established between the Board and SDBA Provider. As such, investment alternatives available through the SDBA have not been subjected to any selection process, are not monitored by the Board, require investment expertise to prudently buy, manage and/or dispose of, and have a risk of substantial loss. The communication shall also notify members that they are responsible for any and all administrative, investment, and trading fees associated with participating in the SDBA.

LK. The Executive Director shall ensure that the provider will deliver a prospectus or other information for the underlying investments available through the self-directed brokerage account as provided in Section 121.4501(15)(c)(1) and (2) and in compliance with Federal laws.

XIV. REPORTING

- A. The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the Investment Plan by the Board's independent performance evaluation consultant.
- B. The following formal periodic reports to the Board shall be the responsibility of the Executive Director: an annual investment report, an annual financial report and a monthly performance report.

XV. IMPLEMENTATION SCHEDULE

This IPS is effective upon approval of the Board.

FLORIDA RETIREMENT SYSTEM

Investment Plan Investment Policy Statement

I. PURPOSE

The Florida Retirement System Investment Plan Investment Policy Statement (IPS) serves as the primary statement of Trustee policy regarding their statutory responsibilities and authority to establish and operate an optional defined contribution retirement program for members of the Florida Retirement System. The IPS shall serve as a guiding document pertaining to investment matters with respect to the Investment Plan. The Trustees will strive to make investment decisions consistent with this IPS. Section 121.4501(14), Florida Statutes, directs the Trustees of the State Board of Administration to approve the IPS. The IPS will be reviewed annually and will be revised or supplemented as policies are changed or developed.

II. DEFINITIONS

- A. **Member** – An employee who enrolls in the Florida Retirement System Investment Plan , a member-directed 401(a) program, in lieu of participation in the defined benefit program of the Florida Retirement System, a terminated Deferred Retirement Option Program (DROP) member as described in section 121.4501(21), Florida Statutes, or an alternate payee of a member or employee.
- B. **Investment Product** – The result of a process that forms portfolios from securities and financial instruments in order to produce investment returns.
- C. **Investment Manager** – A private sector company that provides one or more investment products.
- D. **Investment Funds** – One of the investment options that may be chosen by participants. A Fund may be an aggregate of one or more investment products.
- E. **Bundled Provider** - A private sector company that offers investment products, combined with recordkeeping and trading services, which are designed to meet individualized needs and requirements of plan participants, so as to afford value to participants not available through individual investment product.
- F. **Passively Managed Option** – An investment management strategy that intends to produce the same level and pattern of financial returns generated by a market benchmark index.
- G. **Actively Managed Option** – An investment management strategy that relies on security return predictions in an effort to out-perform the financial returns generated by a market benchmark index.
- H. **Performance Benchmark** – A market benchmark index that serves as the performance measurement criterion for investment options.
- I. **Investment Plan Administrator or Recordkeeper** – A private sector company that provides administrative services, including individual and collective recordkeeping and accounting, IRC

limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions.

- J. **Self-Directed Brokerage Account** – An alternative method for Investment Plan members to select various investments options otherwise not available in the Investment Plan.
- K. **Self-Direct Brokerage Account Provider** – A private sector company that provides access to a Self-Directed Brokerage Account to members of the FRS Investment Plan.

III. OVERVIEW OF THE INVESTMENT PLAN AND STATE BOARD OF ADMINISTRATION

- A. The Investment Plan is a member-directed 401(a) program selected by employees in lieu of participation in the defined benefit program of the Florida Retirement System. Investment Plan benefits accrue in individual accounts that are member-directed, portable and funded by employee and employer contributions and earnings. In accordance with Section 121.4501(15)(b), Florida Statutes, members and beneficiaries bear the investment risks and reap the rewards that result when they exercise control over investments in their accounts. Fluctuations in investment returns directly affect members' benefits.
- B. The State Board of Administration (Board), Division of Retirement and affected employers administer the Investment Plan. The Board designs educational services to assist employers, eligible employees, members and beneficiaries. The State Legislature has the responsibility for setting contribution levels and providing statutory guidance for the administration of the Investment Plan.

IV. THE BOARD

- A. The Board consists of the Governor, as Chairman, the Chief Financial Officer and the Attorney General. The Board shall establish an optional defined contribution retirement program for members of the Florida Retirement System and make a broad range of investment options, covering most major market segments, available to members. The Board makes the final determination as to whether any investment manager or product, third-party administrator, education vendor or advice vendor shall be approved for the Plan.
- B. The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Section 121.4501(15)(a), Florida Statutes.
- C. The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the Investment Plan. The Board appoints a nine-member Investment Advisory Council (IAC). The IAC reviews the IPS and any proposed changes prior to its presentation to the Board of Trustees. The Council presents the results of its review to the Board of Trustees prior to the Trustees' final approval of the statement or any changes.

V. THE EXECUTIVE DIRECTOR

- A. The Executive Director is responsible for managing and directing administrative, personnel, budgeting and investment-related functions, including the hiring and termination of investment managers, bundled providers and products.
- B. The Executive Director is responsible for developing specific investment objectives and policy guidelines for investment options. The Executive Director is responsible for developing policies and procedures for selecting, evaluating, and monitoring the performance of investment managers and products to which employees may direct retirement contributions under the Investment Plan, and providing the Board with monthly and quarterly reports of investment activities.
- C. The Executive Director is responsible for maintaining diversified investment options, and maximizing returns with respect to the performance benchmarks of individual investment options, consistent with appropriate risk constraints. Each investment option will avoid excessive risk and have a prudent degree of diversification relative to its broad market performance benchmark. 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.

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 cause a regular review, documentation and formal escalation of compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

- D. The Executive Director shall adopt policies and procedures designed to prevent excessive member trading between investment options from negatively impacting other members.
- E. The Executive Director is responsible for periodically reviewing this IPS and recommending changes to the Board of Trustees when appropriate.

VI. INVESTMENT OBJECTIVES

A. The Investment Plan shall seek to achieve the following long-term objectives:

- 1) Offer a diversified mix of low-cost investment options that span the risk-return spectrum and give members the opportunity to accumulate retirement benefits.
- 2) Offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees that seek to achieve or exceed the returns on comparable market benchmark indices.
- 3) Offer members meaningful, independent control over the assets in their account with the opportunity to:
 - a) Obtain sufficient information about the plan and investment alternatives to make informed investment decisions;
 - b) Direct contributions and account balances between approved investment options with a frequency that is appropriate in light of the market volatility of the investment options;
 - c) Direct contributions and account balances between approved investment options without the limitation of fees or charges; and
 - d) Remove accrued benefits from the plan without undue delay or penalties, subject to the contract and all applicable laws governing the operation of the Plan.

VII. MEMBER CONTROL AND PLAN FIDUCIARY LIABILITY

- A. This IPS is structured to be consistent with the Legislature's intent to assign liability for members' investment losses to members and provide a safe harbor for Plan fiduciaries.
- B. In Sections 121.4501(8)(b)2. and 121.4501(15)(b), Florida law incorporates the federal law concept of participant control, established by regulations of the U.S. Department of Labor under section 404(c) of the Employee Retirement Income Security Act of 1974. The Investment Plan shall incorporate these concepts by providing Plan participants the opportunity to give investment instructions and obtain sufficient information to make informed investment decisions. The Investment Plan shall, in accordance with the 404(c) regulations and Florida law, provide members an opportunity to choose from a broad range of investment alternatives.
- C. If a member or beneficiary of the Investment Plan exercises control over the assets in his or her account, pursuant to section 404(c) regulations and all applicable laws governing the operation of the Plan, no Plan fiduciary shall be liable for any loss to a member's or beneficiary's account which results from such member's or beneficiary's exercise of control.
- D. The default option for FRS Investment Plan members that fail to make a selection of investment options shall be a the Target Date Fund (TDF) that matches the year closest to the year each individual member reaches the normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statutes, which otherwise meets the requirements of a qualified default investment alternative pursuant to regulations issued by the U.S. Department of Labor. The default option for FRS Pension Plan DROP participants who rollover funds from their DROP

account to the Investment Plan as permitted by section 121.4501(21), Florida Statutes, and fail to make a selection of investment options shall be the FRS Retirement Income Fund.

VIII. MEMBER EDUCATION AND INVESTMENT ADVICE

- A. The education component of the Investment Plan shall be designed by the Board to assist employers, eligible employees, members, and beneficiaries in order to maintain compliance with section 404(c) regulations and to assist employees in their choice of defined benefit or defined contribution retirement programs. Educational services include, but are not limited to, disseminating educational materials; providing retirement planning education; explaining the differences between the defined benefit retirement plan and the defined contribution retirement plan; and offering financial planning guidance on matters such as investment diversification, investment risks, investment costs, and asset allocation. The following items must be made available to members in sufficient time to allow them an opportunity to make informed decisions:
- A description of all investment funds offered as an investment option under the Investment Plan including: general investment objectives, risk and return characteristics, and type and diversification of assets, but excluding any investment instruments made available through a self-directed brokerage account.
 - An explanation of how to give investment instructions and any limits or restrictions on giving instructions.
 - A description of any transaction fees or expenses that are charged to the member's account in connection with purchases or sales of an investment fund.
 - Investment summary fund profiles as defined at Sections 121.4501(15)(c), excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - Descriptions of the annual operating expenses for each investment alternative, such as investment management fees, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - The value of shares of all investment funds and a quarterly member statement that accounts for contributions, investment earnings, fees, penalties, or other deductions, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
 - Information concerning the past investment performance of each investment fund, net of expenses, and relative to appropriate market indices, excluding the prospectus or other information for the underlying investment instruments available through the self-directed brokerage account provided by the Plan.
- B. Consistent with Sections 121.4501(8)(b)1. and 121.4501(10)(b), Florida Statutes, the education component shall provide system members with impartial and balanced information about the Plan and investment choices. In addition, the approved education organization shall not be an approved

investment provider or be affiliated with an approved investment provider. Educational materials shall be prepared under the assumption that the employee is an unsophisticated investor and all educational materials, including those distributed by bundled providers, shall be approved by the Board prior to dissemination. Members shall have the opportunity to choose from different levels of education services, as well as a variety of delivery methods and media. All educational services offered by investment product providers shall be provided on a fee-for-service basis.

- C. The Board shall contract for the provision of low-cost investment advice to members that is supplemental to educational services and that is paid for by those receiving the advice. Investment advice shall consist of impartial and balanced recommendations about investment choices consistent with Rule 19-13.004, FAC. Members shall have the opportunity to choose from different levels of customized investment advisory services, as well as a variety of delivery methods and media.
- D. Bundled provider(s) selected to provide investment products for Investment Plan members shall not provide any member education services aimed at influencing the choice between the defined benefit and defined contribution plans of the Florida Retirement System. This education program will only be provided by the neutral education vendor hired to do so by the Board.

IX. ROLES OF THE INVESTMENT PLAN ADMINISTRATOR AND BUNDLED PROVIDERS

- A. The Board selects a single private party to serve as the administrator for the Investment Plan. The Board makes the final determination as to whether any administrator shall be approved for the Plan. Administrative services such as individual and collective recordkeeping and accounting, IRC limit monitoring, enrollment, beneficiary designation and changes, disbursement of monies, and other centralized administrative functions shall be provided by the single administrator selected by the Board. The SBA retains the right to delineate through the contract the specific administrative services to be provided by the Bundled Provider. The SBA also retains the right, consistent with Section 121.4501(8)(a)1., Florida Statutes, to enter into a contract with the Division of Retirement for certain administrative services.
- B. Bundled provider(s) selected to provide investment products to members will provide administrative services that are uniquely relevant to the bundled provider mandate. The SBA shall specify the administrative services to be provided by the single administrator and the bundled provider in the solicitation documents and contracts for services.

X. INVESTMENT OPTIONS AND PERFORMANCE BENCHMARKS

- A. The authorized categories of Investment Plan investment options are segmented into tiers, with each designed to meet the varying needs of different members as shown in IPS-Table 1. The Investment Plan investment options are contained in IPS-Table 2. The default option for members that fail to make a selection of investment options shall be the Target Date Fund (TDF) that matches the year closest to the year each individual member reaches the normal retirement age for the Florida Retirement System as defined in Section 121.021(29) Florida Statutes. The investment options can be constructed under a multiple manager framework of two or more investment managers, however, the number of investment options shall not exceed the "Maximum Number of Options" listed in IPS-Table 2 for each category, except to the extent that:

- 1) Multiple investment options within the same category are simultaneously offered to facilitate a transitional mapping of contributions and account balances from a terminating option;
- 2) An investment option is temporarily closed to new contributions and account balance transfers.

IPS-Table 1: Authorized Investment Categories

| Tier | Philosophy |
|--|---|
| Tier I- Asset Allocation-Target Date Funds | Allow members to choose a diversified investment portfolio that best fits their career time horizon until anticipated retirement date. TDFs seek growth of assets in earlier years of employment and gradually shift to income oriented options at retirement. Designed for members with little investment knowledge who want a professionally managed asset allocation with little input from the member. These options will be comprised of underlying investments in the Investment Plan's Tier II and Tier III Core Options |
| Tier II- Passively-Managed Core Options | Allow members who wish some control over major investment category shifts to create their own portfolios based on broad, low-cost index funds that best fit their time horizon, risk tolerance and investment goals. |
| Tier III- Actively –Managed Core Options | Allow members who wish more control over all key investment allocation decisions to create their own portfolios based on investment options from active managers who seek returns above a performance benchmark and that members believe best fit their time horizon, risk tolerance and investment goals. |
| Tier IV- Retirement Annuity Options | Allow members leaving FRS employment a means by which they can create an income distribution of their accumulated assets that can last over their remaining lifetimes. |
| Tier V- Self Directed Brokerage Account | Allows members interested in investments outside of Tiers I, II and III the opportunity to invest in a broad array of mutual funds, stocks, US Treasuries and other investment alternatives based on their time horizon, risk tolerance, investment goals and/or preferences. |

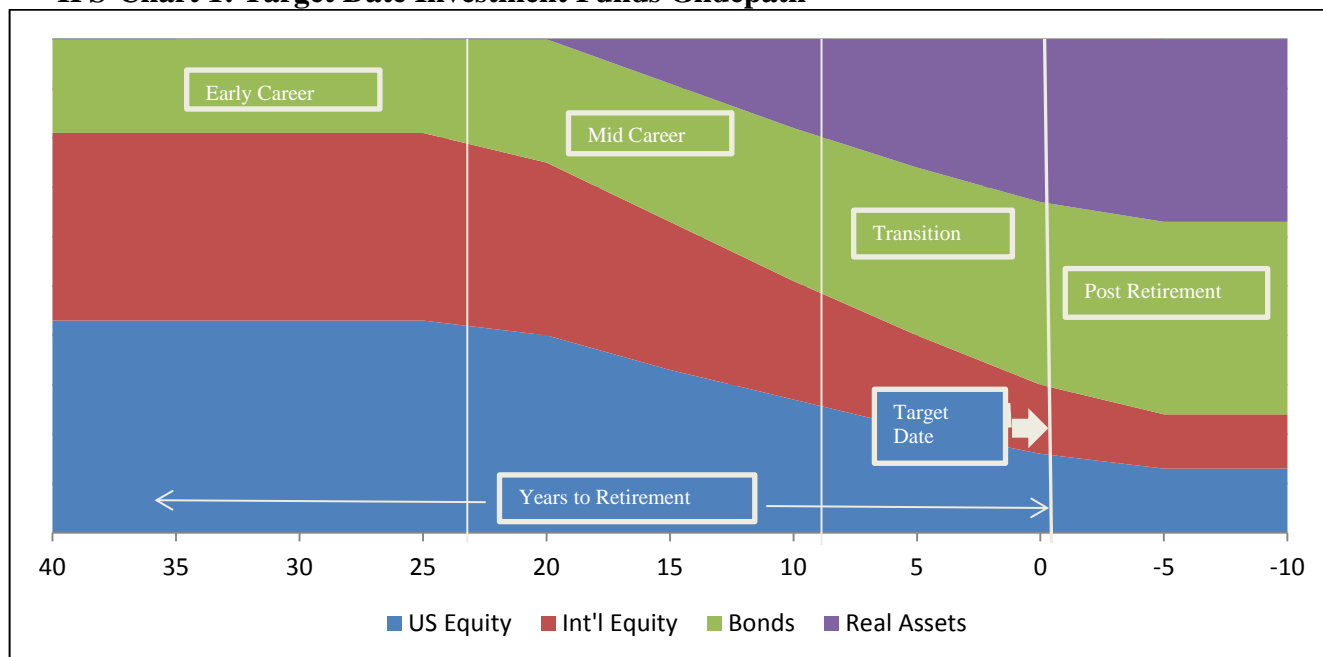
IPS-Table 2: Authorized Investment Options Representative Performance Benchmarks, Retiree Annuities and Self Directed Brokerage Account

| Investment Option Categories | Maximum Number of Options | Representative Performance Benchmarks |
|--|----------------------------------|--|
| Tier I: Target Date Funds | | |
| A series of asset allocation funds structured in 5-year increments along a “glidepath” as demonstrated in IPS Chart 1 below. | 10 | Weighted Average of each Constituent Fund’s Benchmarks |
| Tier II: Passively Managed Core Options | | |
| Enhanced U.S. Bond Index Fund | 1 | Barclays Aggregate Bond Index |
| Stock Market Index Fund | 1 | Russell 3000 Index |
| Foreign Stock Index Fund | 1 | MSCI All Country World Index ex U.S. IMI Index |
| Tier III: Actively-Managed Core Options | | |
| Money Market Fund | 1 | iMoneyNet Money Funds Index(Net of Fees) |
| Real Assets Fund | 1 | TBD |
| Intermediate Bond Fund | | Barclays Intermediate Aggregate Bond Index |
| Core Plus Fixed Income Fund | 1 | Barclays Aggregate Bond Index |
| US Large Cap Equity Fund | 1 | Russell 1000 Index |
| US Small/Mid Cap Equity Fund | 1 | Russell 2500 Index |
| International Equity Fund | 1 | MSCI All Country World Index ex US Index |
| Global Equity Fund | 1 | MSCI All Country World Index |
| Tier IV: Retiree Annuity Options | | |
| Immediate and Deferred Annuities | Not Applicable | (Section 121.591(1)(c), Florida Statutes) Specified by the Executive Director |
| Tier V: Self-Directed Brokerage Account | | |
| | Not Applicable | Not applicable |

- B. Investment options and investment products (i.e., that support Investment Funds that are composed of an aggregate of one or more investment products) may be provided by investment managers or bundled providers. Pursuant to Section 121.4501(9)(a), Florida Statutes, the Board shall select one or more providers who offer multiple investment products when such an approach is determined by the Board to afford value to members otherwise not available through individual investment products.
- C. Investment options may have performance benchmarks other than the “Representative Performance Benchmarks” listed in IPS-Table 2, but any alternative performance benchmark must be identified in the investment guidelines required under Section XI of this IPS and provide substantial coverage of the financial market segment defined by the corresponding Representative Performance Benchmark.
- D. Target Date funds are only available as a weighted average of Tier II and III options. The Board shall establish procedures for initiating rebalancings per approved investment guidelines.
- E. With IAC review and input, the Executive Director shall periodically recommend changes to the authorized investment option categories in IPS-Tables 1 and 2, as modifications are appropriate. Any recommended modifications must be justified in terms of the incremental costs and benefits provided to members.

XI. GENERAL INVESTMENT OPTION GUIDELINES

- A. The Executive Director is responsible for developing specific investment policies and guidelines for investment options, which reflect the goals and objectives of this IPS. In doing so, he is authorized to exercise and perform all duties set forth in Section 121.4501(9), Florida Statutes, except as limited by this IPS or Board Rules. General guidelines are as follows:
 - 1) The Target Date funds are diversified portfolios designed to provide members with professionally managed investment vehicles that can grow assets over their career. The funds seek favorable long-term returns through investments in the Tier II and III Options according to the “glidepath” allocation levels identified in IPS-Chart 1. Asset allocations will generally be held within 5 percentage points of the optimal shares for their respective allocation target, but short-term deviations may occur. Optimized asset allocations for the target date funds shall be established using methodology consistent with the guidance rendered by the Investment Plan’s investment consultant and education/advice providers.

IPS-Chart 1: Target Date Investment Funds Glidepath

2) The Money Market fund seeks high current income consistent with liquidity and capital preservation. The fund will be actively managed and will primarily invest in high quality, liquid, short-term instruments to control credit risk and interest rate sensitivity. The fund's sensitivity to interest rate changes will approximate that of the performance benchmark.

3) The U.S. Fixed Income funds seek high current income consistent with capital appreciation. The funds may be passively or actively managed and will primarily invest in securities contained in the benchmark, although other fixed income instruments which fit the funds' objectives may be selectively used to generate excess return, such as non-investment grade securities or securities issued by foreign entities. The funds' sensitivity to interest rate changes will closely approximate that of the performance benchmark.

4) The U.S. Equity funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark. Other securities which fit the funds' objectives may be selectively used to generate excess return. The funds' investment process will not have a persistent bias toward the selection of securities that are predominantly in the growth or value style categories.

5) The Foreign Equity funds seek capital appreciation and current income. The funds may be passively or actively managed and will primarily invest in equities contained in the benchmark, although other securities which fit the funds' objectives may be selectively used to generate excess return, such as equity securities issued by corporations domiciled in emerging economies. 6) The Real Assets fund seeks long-term real returns to preserve the future purchasing power of accumulated member benefits. The fund will be actively managed and will primarily invest in a diversified array of assets that may act as a hedge against inflationary pressures including, but not limited to, U.S. Treasury's inflation-indexed securities, commodities, real estate investment trusts

and other securities. The fund's sensitivity to interest rate changes and inflation will closely approximate that of the performance benchmark.

7) The Global Equity fund seeks capital appreciation and current income. The fund may be passively or actively managed and will primarily invest in equities contained in the benchmark, including equities domiciled in the United States, other developed and emerging economies although other securities which fit the funds' objectives may be selectively used to generate excess returns.

8) Each investment option must:

- a) Have a prudent degree of diversification relative to its performance benchmark;
- b) Be readily transferable from one Investment Plan account to another Investment Plan investment option or to private-sector or public-sector defined contribution plan accounts and self-directed individual retirement accounts;
- c) Allow transfers of members' balances into and out of the option at least daily, subject to the excessive trading policies of the providers and/or the SBA;
- d) Have no surrender fees or deferred loads/charges;
- e) Have no fees or charges for insurance features (e.g. mortality and expense risk charges);
- f) To the extent allowed by law, notwithstanding failure to meet one or more of the IPS Section XI(8)(b),(c)-(f) requirements, an option may be authorized if: (i) it produces significant and demonstrable incremental retirement benefits relative to other comparable products in the market place and comparable Tier I, Tier II, or Tier III options; and (ii) the incremental benefits are sufficient to offset all associated fees, charges and the expected economic cost of the variance(s) with the IPS Section XI(8)(b),(c)-(f) requirements. Comparability shall be based on the option's underlying investments within the broad categories of Money Market, U.S Fixed Income, U.S. Equities and Foreign Equities.

9) The investment product supporting any annuity option offered in Tier IV must have a prudent degree of diversification relative to its performance benchmark and, where applicable, providers shall have high independent ratings for financial strength and stability. Tier IV options may include allocated or unallocated immediate annuities with combinations of some of the following features:

- a) (a)Single or flexible premium.
- b) (b)Life or fixed period payouts.
- c) (c)Single or joint life (survivors with an insurable interest).
- d) (d)Complete or partial survivor benefits.
- e) (e)Cash refund, installment refund or period certain features.
- f) (f)Variable or fixed payments, non-participating, or income payable features.
- g) (g)Deferred payments.

B. The long-term performance of each actively managed investment option is expected to exceed the returns on their performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns on the performance benchmark, net of all fees and charges. Investment managers are authorized to prudently use options, futures, notional principal contracts or securities lending arrangements, in

accordance with the fiduciary standards of care, as contained in Section 121.4501(15)(a), Florida Statutes, investment guidelines and related policies.

XII. INVESTMENT MANAGER SELECTION AND MONITORING GUIDELINES

- A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of investment managers, bundled providers and products, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9)(c), Florida Statutes.

When the Executive Director decides to terminate an investment fund in the Investment Plan, members will be granted an opportunity to direct their assets to other Investment Plan investment fund options prior to the investment fund termination. Assets that are not directed by members will be transferred or “mapped” to the investment fund(s) that the Executive Director deems appropriate. The mapping factors that the Executive Director will consider include, but are not limited to, alignment of investment fund type (e.g., asset class, capitalization and style) and investment strategy (e.g., objectives, market focus, and implementation tactics).

- B. In the selection of investment managers, investment products or bundled providers, consideration shall be given to their effectiveness in minimizing the direct and indirect costs of transferring the total present value of accumulated benefit obligations for existing employees that choose membership in the Investment Plan from the defined benefit trust to the Investment Plan trust.
- C. In the selection and monitoring of products from bundled providers, each proposed product will be evaluated on a stand-alone basis, pursuant to the requirement in Section 121.4501(9)(c)9., Florida Statutes. The cost-effectiveness of the levels of non-investment services supporting the products will also be evaluated relative to their benefits.
- D. In the selection, retention and termination of bundled providers and their proposed products and services, value, as that term is used in Section 121.4501(9)(a), Florida Statutes, shall be evaluated based on the value added to the process of accumulating retirement benefits for members. This evaluation shall consider the following factors in arriving at any staff recommendation:
- 1) Additional products or services that are not otherwise available to the members within the Plan;
 - 2) The type and quality of investment products offered;
 - 3) The type and quality of non-investment services offered; and
 - 4) Other significant elements that provide value to members, consistent with the mandates of Section 121.4501, Florida Statutes.
- E. On at least an annual basis, a review will be conducted of the performance of each approved investment manager and product and related organizational factors to ensure continued compliance with established selection, performance and termination criteria, Board policy and procedures and all contractual provisions. The performance and termination criteria for each provider and investment product will be reflected in each employment contract.

- F. In addition to reviewing the performance of the Investment Plan's investment managers/options, the Executive Director will periodically review all costs associated with the management of the Investment Plan's investment options, including:
- 1) Expense ratios of each investment option against the appropriate peer group; and
 - 2) Costs to administer the Plan, including recordkeeping, account settlement (participant balance with that of investment), allocation of assets and earnings, and (when applicable) the proper use of 12b-1 fees to offset these fees.

XIII. SELF-DIRECTED BROKERAGE ACCOUNT (SDBA) PROVIDER SELECTION AND MONITORING GUIDELINES

- A. The Executive Director shall develop policies and guidelines for the selection, retention and termination of a SDBA Provider and shall manage the contractual relationship in accordance with the fiduciary responsibilities of the Board, this IPS and provisions of Section 121.4501(9) (c), Florida Statutes.
- B. The SDBA shall be offered as a service to Investment Plan members to enable members to select investments otherwise not offered in the Plan.
- C. In selecting the SDBA Provider, the Executive Director shall consider the following:
- 1) Financial strength and stability as evidenced by the highest ratings assigned by nationally recognized rating services when comparing proposed providers that are so rated.
 - 2) Reasonableness of fees compared to other providers taking into consideration the quantity and quality of services being offered.
 - 3) Compliance with the Internal Revenue Code and all applicable federal and state securities laws.
 - 4) The methods available to members to interact with the provider; the means by which members may access account information, direct investment of funds, transfer funds, and to receive funds prospectuses and related investment materials as mandated by state and federal regulations.
 - 5) Ability to provide prompt, efficient and accurate responses to participant directions, as well as providing confirmations and quarterly account statements in a timely fashion.
 - 6) Process by which assets are invested, as well as any waiting periods when the monies are transferred.
 - 7) Organizational factors, including, but not limited to, financial solvency, organizational depth, and experience in providing self-directed brokerage account services to public defined contribution plans.

- 8) The self-directed brokerage account available under the most beneficial terms available to any customer.
 - 9) The provider will agree not to sell or distribute member lists generated through services rendered to the investment plan.
 - 10) The provider, as well as any of its related entities, may not offer any proprietary products as investment alternatives in the self-directed brokerage account.
- D. The Executive Director shall regularly monitor the selected provider to ascertain whether there is continued compliance with established selection criteria, board policy and procedures, state and federal regulations, and any contractual provisions.
- E. The Executive Director shall ensure that the SDBA Provider will include access to investment instruments offered through the self-directed brokerage account by providing connectivity with the following:
- 1) Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange.
 - 2) Exchange Traded Funds (except for leveraged Exchange Traded Funds).
 - 3) Mutual Funds not offered in the investment plan.
- F. The Executive Director shall ensure that the self-directed brokerage account accessibility does not include the following as investment alternatives:
- 1) Illiquid investments;
 - 2) Over the Counter Bulletin Board (OTCBB) securities;
 - 3) Pink Sheet® (PS) securities;
 - 4) Leveraged Exchange Traded Funds;
 - 5) Direct Ownership of Foreign Securities;
 - 6) Derivatives, including, but not limited to futures and options contracts on securities, market indexes, and commodities;
 - 7) Buying/Trading on Margin;
 - 8) Limited Partnership Interests;
 - 9) Investment Plan products;
 - 10) Any investment that would jeopardize the investment plan's tax qualified status.

- G. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that an Investment Plan member may participate in the self-directed brokerage account, if the member:
- 1) Maintains a minimum balance of \$5,000 in the products offered under the investment plan;
 - 2) Makes a minimum initial transfer of funds into the self-directed brokerage account of \$1,000;
 - 3) Makes subsequent transfers of funds into the self-directed brokerage account in amounts of \$1,000 or greater;
 - 4) Pays all trading fees, commissions, administrative fees and any other expenses associated with participating in the self-directed brokerage account;
 - 5) Does not violate any trading restrictions established by the provider, the investment plan, or state or federal law.
- H. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator to ensure that employer contributions and employee contributions shall be initially deposited into member's Investment Plan account and will then be made available for transfer to the member's SDBA.
- I. The Executive Director shall establish procedures with the SDBA Provider and the Investment Plan Administrator that distributions will not be processed directly from member's assets in the SDBA. Assets must first be transferred to Investment Plan products. A member can request a distribution from the Investment Plan once the transfer of the assets from the SDBA to the member's Investment Plan account and all Investment Plan distribution requirements are met.
- J. The Executive Director shall ensure that any member participating in the SDBA will be provided, at minimum, a quarterly statement that meets Financial Industry Regulatory Authority (FINRA) requirements which details member investments in the SDBA. The statement shall include, but is not limited to, member specific accounting of the investment instruments selected by a member, the net gains and losses, and buy/sell transactions. Additionally, a confirmation of trade statement will be sent for each transaction and all fees, charges, penalties and deductions associated with each transaction are netted in the trade and reflected in the transaction confirmation.
- K. The Executive Director shall develop appropriate communications to members participating in the SDBA that will notify members that the Board is not responsible for managing the SDBA beyond administrative requirements as established between the Board and SDBA Provider. As such, investment alternatives available through the SDBA have not been subjected to any selection process, are not monitored by the Board, require investment expertise to prudently buy, manage and/or dispose of, and have a risk of substantial loss. The communication shall also notify members that they are responsible for any and all administrative, investment, and trading fees associated with participating in the SDBA.

- L. The Executive Director shall ensure that the provider will deliver a prospectus or other information for the underlying investments available through the self-directed brokerage account as provided in Section 121.4501(15)(c)(1) and (2) and in compliance with Federal laws.

XIV. REPORTING

- A. The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the Investment Plan by the Board's independent performance evaluation consultant.
- B. The following formal periodic reports to the Board shall be the responsibility of the Executive Director: an annual investment report, an annual financial report and a monthly performance report.

XV. IMPLEMENTATION SCHEDULE

This IPS is effective upon approval of the Board.

FLORIDA RETIREMENT SYSTEM DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.¹ For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(9), Florida Statutes.

¹ The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk whileand adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. 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(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board 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 keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 5% per annum (compounded and net of investment expenses) should be attained, consistent with the actuarial investment return assumption of 7.75%. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund’s net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio’s potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between -1.42% and 9.910.4% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -2.93.2% and 11.07%.

Table 1: Expected Risk in Target Portfolio’s Real Returns

| Time Horizon | 5 th Percentile Real Return | 10 th Percentile Real Return | 90 th Percentile Real Return | 95th Percentile Real Return |
|--------------|--|---|---|-----------------------------|
| 10 Years | -4.85.5% | -2.83.2% | 10.811.5% | 12.27% |
| 15 Years | -2.93.2% | -1.42% | 9.910.4% | 11.07% |
| 20 Years | -2.43% | -0.32% | 9.47% | 10.28% |
| 25 Years | -1.56% | 0.1% | 8.69.1% | 9.710.3% |
| 30 Years | -0.91.1% | 0.7% | 8.49.0% | 9.310.0% |

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative

values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

| Asset Class | Target Allocation | Policy Range Low | Policy Range High |
|-----------------------|-------------------|------------------|-------------------|
| Global Equity | 523% | 445% | 65% |
| Fixed Income | 2418% | 160% | 3226% |
| Real Estate | 710% | 24% | 126% |
| Private Equity | 56% | 02% | 79% |
| Strategic Investments | 1+2% | 0% | 2016% |
| Cash Equivalents | 1% | 0.75% | 95% |
| Total Fund | 100% | -- | -- |

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type.² An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions ~~minus benefit payments~~) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

² The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

Table 3: Estimated Net Cash ~~Outflow~~Flow (\$ millions/ % Fund)

| | In 5 Years | | In 10 Years | |
|-----------------------------|----------------------|----------------|------------------------|----------------|
| 10 th Percentile | \$ <u>9,4626,317</u> | <u>6.75.3%</u> | \$ <u>12,98111,200</u> | <u>7.56.3%</u> |
| 25 th Percentile | \$ <u>8,8766,189</u> | <u>6.04.7%</u> | \$ <u>11,5209,762</u> | <u>6.55.5%</u> |
| Median | \$ <u>8,1766,063</u> | <u>5.24.2%</u> | \$ <u>9,7958,674</u> | <u>5.54.8%</u> |
| 75 th Percentile | \$ <u>7,1585,925</u> | <u>4.63.8%</u> | \$ <u>7,3526,875</u> | <u>4.84.2%</u> |
| 90 th Percentile | \$ <u>5,2815,760</u> | <u>4.23.6%</u> | \$ <u>4,5474,002</u> | <u>4.23.7%</u> |

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

| Asset Class | Index |
|-----------------------|---|
| Global Equity | A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act |
| Fixed Income | The Barclays Capital U.S. Intermediate Aggregate Index |
| Real Estate | An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 90%, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10% |
| Private Equity | The Russell 3000 index return plus a fixed premium return of 300 basis points per annum |
| Strategic Investments | A weighted-average of individual portfolio level benchmark returns |
| Cash Equivalents | iMoneyNet First Tier Institutional Money Market Funds Net Index |

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for ~~Strategic Investments, Private Equity and Real Estate~~ the private market asset classes would all “float” against ~~Global Equity~~ the public market

asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2 Target Allocations

| Public Market Asset Classes | Float Allocation Limit | Private Market Asset Classes | | |
|---|------------------------|------------------------------|----------------|-----------------------|
| | | Real Estate | Private Equity | Strategic Investments |
| Global Equity | +/-7% | 50% | 100% | 75% |
| Fixed Income | N/A | 50% | 0% | 25% |
| Cash - If the total overweight or underweight that floats against Global Equity exceeds 7% (ex. total allocation to Global Equity exceeds 60%), the remaining unallocated float is assigned to Cash. | | | | |

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity and Strategic Investments asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, a fund-based private equity benchmark (e.g., from Venture Economics or Cambridge Associates).
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 5%. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
 - Financial, operational and investment expertise and resources;
 - Alignment of interests;
 - Transparency and repeatability of investment process; and
 - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the “Protecting Florida’s Investments Act.” Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective ~~upon approval of the Board March 1, 2014. However, the target index for the Fixed Income asset class indicated in Table 4 may be phased in over a 12 month period subsequent to the effective date.~~

FLORIDA RETIREMENT SYSTEM DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.¹ For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(9), Florida Statutes.

¹ The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. 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(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board 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 keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 5% per annum (compounded and net of investment expenses) should be attained, consistent with the actuarial investment return assumption of 7.75%. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is through investment directives to the Executive Director. The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund’s net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio’s potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between -1.2% and 10.4% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -3.2% and 11.7%.

Table 1: Expected Risk in Target Portfolio’s Real Returns

| Time Horizon | 5 th Percentile Real Return | 10 th Percentile Real Return | 90 th Percentile Real Return | 95th Percentile Real Return |
|--------------|--|---|---|-----------------------------|
| 10 Years | -5.5% | -3.2% | 11.5% | 12.7% |
| 15 Years | -3.2% | -1.2% | 10.4% | 11.7% |
| 20 Years | -2.3% | -0.2% | 9.7% | 10.8% |
| 25 Years | -1.6% | 0.1% | 9.1% | 10.3% |
| 30 Years | -1.1% | 0.7% | 9.0% | 10.0% |

Although the Target Portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real target rate of return in each period, but rather for doing at least as well as the market using the Target Portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative

values between asset classes. The Board establishes ranges for tactical allocations, as shown in Table 2.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

| Asset Class | Target Allocation | Policy Range Low | Policy Range High |
|-----------------------|-------------------|------------------|-------------------|
| Global Equity | 53% | 45% | 65% |
| Fixed Income | 18% | 10% | 26% |
| Real Estate | 10% | 4% | 16% |
| Private Equity | 6% | 2% | 9% |
| Strategic Investments | 12% | 0% | 16% |
| Cash Equivalents | 1% | 0.75% | 5% |
| Total Fund | 100% | -- | -- |

For purposes of determining compliance with these policy ranges, an asset class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type.² An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the FRS Portfolio will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

² The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

Table 3: Estimated Net Cash Outflow (\$ millions/ % Fund)

| | In 5 Years | | In 10 Years | |
|-----------------------------|------------|------|-------------|------|
| 10 th Percentile | \$ 6,317 | 5.3% | \$ 11,200 | 6.3% |
| 25 th Percentile | \$ 6,189 | 4.7% | \$ 9,762 | 5.5% |
| Median | \$ 6,063 | 4.2% | \$ 8,674 | 4.8% |
| 75 th Percentile | \$ 5,925 | 3.8% | \$ 6,875 | 4.2% |
| 90 th Percentile | \$ 5,760 | 3.6% | \$ 4,002 | 3.7% |

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

| Asset Class | Index |
|-----------------------|---|
| Global Equity | A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act |
| Fixed Income | The Barclays Capital U.S. Intermediate Aggregate Index |
| Real Estate | An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-ended Diversified Core Equity, NET of fees, weighted at 90%, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10% |
| Private Equity | The Russell 3000 index return plus a fixed premium return of 300 basis points per annum |
| Strategic Investments | A weighted-average of individual portfolio level benchmark returns |
| Cash Equivalents | iMoneyNet First Tier Institutional Money Market Funds Net Index |

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the private market asset classes would all “float” against the public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2 Target Allocations

| Public Market Asset Classes | Float Allocation Limit | Private Market Asset Classes | | |
|---|------------------------|------------------------------|----------------|-----------------------|
| | | Real Estate | Private Equity | Strategic Investments |
| Global Equity | +/-7% | 50% | 100% | 75% |
| Fixed Income | N/A | 50% | 0% | 25% |
| Cash - If the total overweight or underweight that floats against Global Equity exceeds 7% (ex. total allocation to Global Equity exceeds 60%), the remaining unallocated float is assigned to Cash. | | | | |

Measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity and Strategic Investments asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, a fund-based private equity benchmark (e.g., from Venture Economics or Cambridge Associates).
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 5%. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
 - Financial, operational and investment expertise and resources;
 - Alignment of interests;
 - Transparency and repeatability of investment process; and
 - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 5% annualized real rate of return, commensurate with risk.
- Diversify the FRS Pension Plan assets.
- Provide a potential hedge against inflation.
- Increase investment flexibility, across market environments, in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the “Protecting Florida’s Investments Act.” Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective March 1, 2014.



**STATE BOARD OF ADMINISTRATION
OF FLORIDA**

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CHIEF FINANCIAL OFFICER
PAM BONDI
ATTORNEY GENERAL
ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Ruth A. Smith, Assistant General Counsel

Subject: Agenda Item for the February 6, 2014 Cabinet Meeting: Proposed Amendments to Rules 19-11.001, 19-11.004, 19-11.005 and the Creation of New Rule 19-11.013- Concerning the Self-Directed Brokerage Account F.A.C

Request Approval to File the Rules for Notice and For Adoption/Repeal if No Member of the Public Timely Requests a Rule Hearing

Date: January 23, 2014

AGENDA ITEM:

ACTIONS REQUESTED:

REQUEST APPROVAL TO FILE FOR NOTICE, AMENDMENTS TO RULES 19-11.001, 19-11.004, 19-11.005 AND THE CREATION OF NEW RULE 19-11.013 IN RULE CHAPTER 19-11, F.A.C. (PROCEDURES FOR THE FRS INVESTMENT PLAN), AND FURTHER TO FILE THE RULES FOR ADOPTION, IF NO MEMBER OF THE PUBLIC TIMELY REQUESTS A RULE HEARING RELATED TO THESE RULES.

Amendments are being proposed to Rules 19-11.001, 19-11.004 and 19-11.005, F.A.C., to reflect the fact that a self-directed brokerage account (“SDBA”) is being made available as an additional investment option to members of the Florida Retirement System (“FRS”) Investment Plan. Rule 19-11.001 sets forth a definition for a SDBA and emphasizes that the SDBA is different from the primary funds available under the FRS Investment Plan. Rule 19-11.004 is being amended to state that the excessive trading policies applicable to the FRS Investment Plan primary funds are not applicable to funds that a member has in a SDBA, and to emphasize that funds in the SDBA may be subject to their own excessive trading policies. Rule 19-11.005 is amended to reflect the fact that

the complaint procedures applicable to the FRS Investment plan primary funds do not apply to funds placed in the SDBA. New Rule 19-11.013, F.A.C., is being added to detail information applicable to the SDBA, including, but not limited to, participation requirements, enrollment procedure, the responsibilities of participants in the SDBA, the types of available investments, applicable fees, the types of statements that will be issued, and complaint procedures available to SDBA participants.

The proposed amendment text is attached.

The amendments serve as informational updates. The rule amendments do not impose any burdens on businesses; they do not restrict entry into a profession; they have no impact on the availability of services to the public; they have no impact on job retention; they do not impose any restrictions on employment seekers; and they do not impose any costs. No legislative ratification is required.

Attachments: Self-Directed Brokerage Window Proposed Rule Amendments

THE PRELIMINARY TEXT OF THE PROPOSED RULE DEVELOPMENT IS:

19-11.001 Definitions

The following words and terms shall have the following meanings for purposes of Chapters 19-11 and 19-13, F.A.C.:

(1) through (31) No change.

(32) “Investment Plan primary funds” or “primary funds” shall mean investment funds offered under the Investment Plan. It does not include additional investment opportunities available under the Self Directed Brokerage Window (“SDBA”).

~~(33)(32)~~ “Limitation year” is the consecutive 12 month period of time to which Code limitations with respect to contributions and forfeitures are applied. For the FRS Investment Plan, the limitation year is the calendar year.

~~(34)(33)~~ “Market losses” shall be defined, for purposes of Section 121.78(3)(c), F.S., which states that employers shall reimburse FRS Investment Plan members for market losses resulting from late contributions, or from contribution adjustments as a result of employer errors or corrections, as the value of a member’s account that otherwise would have been realized had the employer and employee contributions and accompanying payroll data been submitted on a timely basis. “Market losses” applies only to the monthly contribution that is late, not to the member’s aggregate value in his or her Investment Plan account.

~~(35)(34)~~ “Market Timing Trade” is a member-directed series of trades with the following two characteristics:

1. At least one Roundtrip Trade within a 30-day period, and
2. The trade amount for all Roundtrip Trades is an aggregate amount of \$75,000 or more.

~~(36)(35)~~ “Member”, “FRS Investment Plan Member,” or “Investment Plan Member means an employee who elected to participate, and has an account established, in the FRS Investment Plan as a result of current or previous employment with an FRS-covered employer; a person who has been designated as an alternate payee due to a qualified domestic relations order (“QDRO”); or a designated beneficiary when a member is deceased.

~~(37)(36)~~ “Member’s account” or “member’s accounts” shall mean an Investment Plan account for an individual FRS Investment Plan member in which employer and employee contributions and, if applicable, FRS Pension Plan benefit transfers, are invested for an FRS Investment Plan member.

(38) “Primary Investment Account” or “primary account” shall mean the member’s Investment Plan account that is invested in the Investment Plan’s primary funds.

~~(39)(37)~~ “Qualified Domestic Relations Order” (“QDRO”) is a domestic relations order that has been determined to meet the FRS Investment Plan’s qualification requirements.

~~(40)(38)~~ “Required Minimum Distributions” (“RMD”) are the annual minimum distributions that must be taken by members who are age 70 1/2 or older from their qualified retirement plan accounts, including 401(k), 457, 403(b) plans and IRA accounts, when they terminate employment. The amount of an RMD in any year is based on account balances as of December 31st of the prior year. The member must have terminated all FRS covered employment in order for an RMD to be processed. Once the RMD has been calculated, the RMD will be paid to the member, even if the member returns to active FRS employment during the calendar year.

~~(41)(39)~~ “Retiree” is a member who has received a self-initiated distribution from the FRS Investment Plan.

~~(42)(40)~~ “Roundtrip Trade” occurs when a member conducts a series of at least two non-exempt transactions that include one or more transfers into an authorized investment fund and one or more transfers out of the same authorized investment fund in either order (i.e., in/out or out/in), regardless of any multiple transfers from or to other different authorized investment funds during the roundtrip. A roundtrip trade includes a trade from an Investment Plan primary fund to the SDBA and a trade from the SDBA to an Investment Plan primary fund.

~~(43)(42)~~ “SBA” means the State Board of Administration of Florida, the plan sponsor for the FRS Investment Plan.

(44) “Self-Directed Brokerage Account” or “SDBA” shall mean an account within the Investment Plan that allows a member access to additional investment opportunities that are not available in the Investment Plan primary funds.

~~(45)(44)~~ “Third Party Administrator,” “Administrator,” “Plan Administrator,” or “TPA” shall mean the Investment Plan Administrator hired by the State Board of Administration of Florida pursuant to Section 121.4501(8), F.S.

~~(46)~~(43) “True-up Amount” means the difference between the ABO calculated by using the member’s actual creditable service and the actual final average compensation as of the member’s effective date in the FRS Investment Plan and the ABO initially transferred.

Rulemaking Authority 121.78(3)(c), 121.4501(8) FS. Law Implemented 121.78, 121.4501 FS. History—New 12-8-02, Amended 3-9-06, 7-12-12, 12-16-12,_____.

19-11.004 Excessive Trading in the FRS Investment Plan.

(1) Excessive trading by Investment Plan members is prohibited. The United States Securities and Exchange Commission (SEC) has adopted Rule 22c-2. (17 CFR §270.22c-2.), regarding excessive trading for open-end mutual funds. Rule 22c-2 can be obtained by accessing the SEC website at sec.gov and clicking on the Laws and Regulations section. If the mutual funds determine that the member has engaged in excessive trading under the mutual funds’ policies, the mutual funds are entitled to impose redemption fees or prevent trading that violates the mutual funds’ excessive trading policies. It is the responsibility of the member to comply with the trading restrictions permitted by the SEC. Any applicable fees will be deducted directly from the members’ accounts. Funds within the Self-Directed Brokerage Account (“SDBA”) may have excessive trading rules that are applicable. However, these fund rules are separate and apart from the Investment Plan’s excessive trading policy.

(2) Limitations.

(a) Foreign and global stock funds are subject to a minimum holding of seven (7) calendar days following any non-exempt transfers into such funds.

(b) All authorized investment funds, except for money market funds and funds within the SDBA, are subject to the following controls:

1. Members who engage in Market Timing Trades (as defined in Rule 19-11.001, F.A.C.) in authorized primary funds will receive a warning letter sent by U.S. mail. The warning letter shall notify the member that excessive trades have been identified in the member’s accounts and any additional violations will result in a direction letter.

2. Members who engage in Market Timing Trades in authorized primary funds and who have previously received a warning letter described in subparagraph 1., above, will be sent a direction letter delivered by courier. The direction letter shall require that the member shall not have access to automated online trade instructions for at least one full calendar month following the date of the direction letter for all trades involving the primary funds. The member shall be required to conduct trades involving primary funds via telephone by contacting the Investment Plan Administrator for at least one full calendar month. “One full calendar month,” in this context, means the full calendar month following the month in which the direction letter is received.

3. Members who engage in Market Timing Trades and who have previously received a direction letter, as described in subparagraph 2., above, will be sent another direction letter, delivered by courier. This direction letter shall require that the member shall not have access to automated trade instructions for at least three full calendar months following the date of the direction letter for all trades involving the primary funds. The member shall be required to conduct trades involving primary funds via telephone by contacting the Investment Plan Administrator for at least three full calendar months.

4. Members who engage in Market Timing Trades and who have previously received a direction letter as described in subparagraph 3., above, will be sent another direction letter, delivered by courier. The direction letter shall require that the member shall only be permitted to conduct trades involving primary funds via paper trading forms for at least three full calendar months following the date of the direction letter. The form to be used by the member in conducting the trades is the “Transfer Request Form, Excessive Fund Trading Violators,” Form EFTPV-1, rev. 06/10, <http://www.flrules.org/Gateway/reference.asp?No=Ref-01127>, which hereby is adopted and incorporated by this reference. The form will be sent to the member by the Plan Administrator with the direction letter. This form must be notarized and returned to the Office of Defined Contribution Programs, via US mail, certified/return receipt requested. This form cannot be used to trade in, out or within the SDBA.

5. Members who engage in Market Timing Trades and who have previously received a direction letter as described in subparagraph 4., above, will be sent another direction letter, delivered by courier. The direction letter shall require that the member shall only be permitted to conduct trades involving primary funds via paper trading forms for at least twelve full calendar months following the date of the direction letter. The form to be used by the member in conducting the trades is the “Transfer Request Form, Excessive Fund Trading Violators,” Form EFTPV-

1, rev. 06/10. This form must be notarized and returned to the Office of Defined Contribution Programs, via US mail, certified return receipt requested.

6. Members who engage in Market Timing Trades and who have previously received a direction letter as described in subparagraph 5., above, will be sent another direction letter, delivered by courier. The direction letter shall require that the member shall only be permitted to conduct trades involving primary funds via paper trading forms for the remainder of any time that any balance exists in the member's Investment Plan account following the date of the direction letter. The form to be used by the member in conducting the trades is the "Transfer Request Form, Excessive Fund Trading Violators," Form EFTPV-1, rev. 06/10. This form must be notarized and returned to the Office of Defined Contribution Programs, via US mail, certified return receipt requested.

7. Members who received direction letters and who were placed on restricted trading within their primary funds, as provided in subparagraphs 2, 3, 4, 5 and 6 of paragraph (2)(b), shall be allowed to make automated trades in, out and within the SDBA. The member must meet the requirements of the SDBA as provided in Rule 19-11.013. The member's activity within the SDBA is not subject to this policy, but will be subject to the applicable excessive trading rules and purchase restrictions of the funds in the SDBA.

(3)(a) through (g) No change.

(h) If Member A transfers \$50,000 out of Fund A and into the SDBA on January 2, and then transfers \$35,000 from the SDBA into Fund A on January 25, the transaction is a Roundtrip Trade and a Market Timing Trade because the aggregate amount of all trades into and out of Fund A exceeded \$75,000 within a 30 day period.

~~(4)~~(5) For all members, Roundtrip and Market Timing Trades are calculated using a rolling 30-calendar day time period. For example, if a trade occurs on May 15 and the following 30-calendar day period, from May 16 through June 14, includes a sufficient number of trades to fit the definition of a Market Timing Trade, this rule shall apply.

Rulemaking Authority 121.4501(8) FS. Law Implemented 121.4501(13), (14), (15) FS. History--New 10-21-04, Amended 3-9-06, 10-25-07, 12-8-08, 1-7-10, 7-12-12_____.

19-11.005 FRS Investment Plan Complaint Procedures.

(1) Request for Intervention.

(a) Any FRS Investment Plan or FRS Pension Plan member who has a complaint regarding the FRS laws, rules, plan provisions or services rendered by an Investment Plan or MyFRS Financial Guidance Program provider or one of the representatives thereof, except the SDBA, may send a written Request for Intervention to the SBA. The written Request for Intervention shall be sent:

1. By regular US mail service to:

Investment Plan Complaint Resolution
Office of Defined Contribution Programs
State Board of Administration
P.O. Box 13300
Tallahassee, FL 32317-3300

2. By e-mail: DefinedContributionPrograms@sbafla.com; or

3. By fax: (850)413-1489.

(b) through (e) No change.

(f) Complaints regarding the SDBA shall be handled in accordance with Rule 19-11.013.

(2) No Change.

Rulemaking Authority 121.4501(8) FS. Law Implemented 120.569, 120.57, 120,573, 121.4501(8)(g) FS. History-New 10-21-04, Amended 3-9-06, 11-26-07, 5-19-09, 7-12-12, 12-16-12,_____.

19-11.013 FRS Investment Plan Self-Directed Brokerage Account.

(1) An FRS Investment Plan member meeting certain criteria may transfer assets from the member's Investment Plan primary investment account to a self-directed brokerage account ("SDBA") in order to be able to access additional investment opportunities beyond the primary investment funds offered under the Investment Plan.

(a) In order to participate in the SDBA the member must:

1. Maintain a minimum balance of \$5,000 in the Investment Plan's primary investment funds. This minimum amount may be changed at any time.

2. Make initial and subsequent transfers into the SDBA of at least \$1,000. Transfer requests must be in whole dollars. Percentages are not permitted. This minimum amount is subject to change.

3. Pay all trading fees, commissions, administrative fees, and any other expenses associated with participating in the SDBA.

(b) The member must open an account with the SDBA service provider in one of two ways:

1. By accessing and completing the enrollment form online by logging on to MyFRS.com, then choosing Manage My Benefits>Manage Investments>Open Brokerage Account. The enrollment form includes both a Member Service Agreement and Memorandum of Understanding which the member must acknowledge having received and read.

2. By printing and completing a hard copy of the enrollment form, Member Service Agreement and Memorandum of Understanding. The member must return the completed enrollment form to the service provider via fax or mail. The member must acknowledge the Member Service Agreement and Memorandum of Understanding were received and read. A hard copy of the enrollment form can be printed from the Open Brokerage Account link on MyFRS.com or can be obtained from the Investment Plan Administrator.

3. The SDBA account will be established within two days of receipt of either the online or hardcopy enrollment form. Once the account is established, the member will receive a package from the SDBA service provider containing information on how to access and use the SDBA.

The SDBA account will be automatically closed if there is a zero balance for 18 consecutive months. To participate in the SDBA in the future, the member will have to open a new SDBA account.

(c) The member is subject to the following fees, transaction charges, expenses:

1. An annual administrative fee of \$25.00 (\$6.25 quarterly) for participating in the SDBA. This fee will be deducted from the member's primary investment account for each quarter the member maintains a balance in the SDBA. This fee is in addition to all applicable commissions, sales charges and transaction fees. This fee is deducted pro rata across the member's Investment Plan primary funds.

2. Any and all commissions, sales charges and transaction fees applicable to transactions executed by the member through the SDBA. The member may review all SDBA commissions and fees by accessing the FRS Investment Plan Self-Directed Brokerage Account Commission and Fee Schedule in the "Investment Funds" section on MyFRS.com.

3. Depending on the investments chosen, transaction fees, commissions or sales charges may be charged to the member's SDBA. These fees are automatically deducted from transaction proceeds or added to the purchases as they are incurred. In addition, investment management fees, 12b-1 fees, or other fees and expenses specific to individual funds may be charged to the member's SDBA. It is the member's sole responsibility to be aware of and understand the commissions and fees as described in the Commission and Fee Schedule and in the prospectus of any mutual fund.

(2)(a) The investment options offered through the SDBA have not been reviewed by the FRS for suitability for the member. The member is solely responsible for determining the appropriateness of any investments in the SDBA.

(b) The member agrees to fully indemnify and hold harmless the member's employer, the FRS, the State Board of Administration, and any and all service providers to the FRS against any claims, damages, or other possible causes of actions resulting from the member's use of the SDBA.

(c) The member is exercising control over all of the assets in the member's Investment Plan account, including the SDBA, pursuant to Section 404(c) regulations and all applicable laws governing the operation of the Investment Plan. Sections 121.4501(8)(b)2 and 121.4501(15)(b) of Florida law incorporate the federal law concept of participant control, established by regulations of the U.S. Department of Labor under Section 404(c) of the Employee Retirement Income Security Act of 1974. No program fiduciary shall be liable for any loss to the member's account which results from such exercise of control.

(d) Securities, including mutual funds, sold within the SDBA are not obligations of or insured by the FDIC or any other governmental agency. These investments are not endorsed or guaranteed by the SBA or any other plan fiduciary and are subject to risks, including possible loss of the principal amount invested. The value of a member's

investments may fluctuate so that when they are sold, they may be worth more or less than when they were purchased.

(e) The member is responsible for reviewing and understanding the trading restrictions that may apply to the SDBA investment options purchased. It is the member's responsibility to review the fund prospectus and will be subject to a mutual fund's excessive trading policy and to any redemption fees, restrictions or penalties that may apply.

(f) Investment options available within the SDBA include the following:

1. Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange
2. Exchange-Traded Funds (except for leveraged Exchange-Traded Funds)
3. Mutual funds (except for any of the Investment Plan's primary investment funds)
4. Fixed income products

(g) Investment options not permitted within the SDBA include the following:

1. Illiquid investments
2. Over-the-Counter (OTC) Bulletin Board securities
3. Pink Sheet® (PS) securities
4. Leveraged Exchange-Traded Funds
5. Direct Ownership of Foreign Securities
6. Derivatives, including, but not limited to, futures and options contracts on securities, market indexes, and commodities
7. Limited Partnerships
8. Private Placements
9. Buying or Trading on Margin
10. Investment Plan primary investment funds
11. Any investment that would jeopardize the Investment Plan's tax-qualified status

(3)(a) The member can transfer funds from the member's primary investment funds to the SDBA by logging in to MyFRS.com or by calling the Investment Plan Administrator at 1(866)446-9377, Option 4, and asking to speak to an SDBA specialist.

1. The SDBA will not accept direct contributions.
2. Transfer requests must be in whole dollars. Percentages are not permitted.
3. Transfers must be in amounts at least equal to \$1,000.
4. Transfers into the SDBA requested by 4:00 p.m. ET on regular business days are processed the same day. If a transfer is processed after 4:00 p.m. ET, it will be processed the next business day.

(b) To transfer assets from the SDBA back to the Investment Plan primary funds, the member must first liquidate investments in the SDBA and wait for the trades to settle. This process can take up to five business days to complete depending on the settlement period of the liquidated investments. Once the funds are available, the member is responsible for processing the request to transfer the funds to the member's Investment Plan primary funds.

(4)(a) The Investment Plan Administrator will include in the member's Investment Plan primary investment funds quarterly account statements the aggregate total amount invested by the member in the SDBA.

(b) The SDBA provider will provide to the member:

1. A separate quarterly statement that will itemize the brokerage transactions and show individual holdings balances as well as the total SDBA balance.
2. If the member has any activity in the SDBA, a separate monthly statement will be provided.
3. If the member has no activity in the quarter, a separate quarterly statement will be provided.
4. If the member provides the SDBA provider with an email address, the member will receive electronic statements unless the member affirmatively elects a paper format.
5. The member will also receive SDBA trade confirmations and other SDBA communications electronically.
6. The member may opt out of electronic delivery at any time by logging onto MyFRS.com and accessing the SDBA account or by calling 1(866)446-9377, Option 4, and speaking to an SDBA specialist.

(5)(a) Distributions cannot be made directly from the SDBA. A member must first transfer money in the SDBA back to the member's Investment Plan primary investment account.

(b) If the member is subject to a Required Minimum Distribution (RMD), and has insufficient funds in the member's primary account, the member will be subject to an automatic liquidation of assets by the Plan Administrator from the SDBA of an amount sufficient to cover the RMD requirements and maintain the required account balance in the primary investment funds.

(c)1. If the member is subject to qualified domestic relations orders (QDROs) by a court of competent jurisdiction, income deduction orders as provided in Section 61.1301, Florida Statutes, or a federal income tax levy, the member's SDBA balance may be subject to a partial or full liquidation to comply with the court or federally mandated levy and to ensure that at least a \$5,000 account balance in the Investment Plan primary funds is maintained.

2. In the event the member's SDBA account is subject to a lien or levy, the directions of the appropriate levying authority will be followed unless some form of release from the levying authority, or a court order staying or quashing the lien or levy is provided.

(d) A member participating in the SDBA cannot take a distribution from the member's primary account that would make the member's primary account balance fall below \$5,000. In such instance for a distribution to occur, the member first would need to liquidate sufficient SDBA funds and return the funds to the member's primary account. If such a member's primary account balance were to fall below \$5,000 due to market losses, no additional transfers into the SDBA will be allowed, and no additional distributions would be processed until the primary account balance is greater than \$5,000.

(e) A member participating in the SDBA who has requested distributions to be made on an installment basis may request to have installments established based on the total of the funds in both the member's primary account and in the member's SDBA. If a point is reached at which an additional distribution would cause the member's primary account balance to fall below \$5,000, the installments will be stopped and the member will be notified that no additional installments can be processed until the member liquidates sufficient SDBA funds to cover future distributions and maintain a \$5,000 minimum balance in the member's primary account.

(f) If the member terminates FRS employment prior to meeting the vesting requirements of the Investment Plan and has enrolled in the SDBA, the member will be required to liquidate all investments in the SDBA prior to requesting a distribution of any vested account balance. If the member requests a distribution of any portion of the vested account balance, the member will forfeit any unvested account balance and will be considered retired from the FRS. The member can reinvest in the SDBA with vested money so long as a \$5,000 minimum balance is maintained in the primary account and a minimum of \$1,000 is available to transfer to the SDBA.

(g) If the member terminates employment and has unvested money in the Investment Plan and has enrolled in the SDBA, the member's SDBA account is subject to liquidation by the Plan Administrator within four calendar months of termination and any unvested money will be moved to the Investment Plan's suspense account. The member can reinvest in the SDBA with vested money so long as a \$5,000 minimum balance is maintained in the primary account and a minimum of \$1,000 is available to transfer to the SDBA account. If the member returns to FRS-covered employment and has not taken a distribution from the Investment Plan primary account the money held in suspense will be returned to the member's primary account.

(6)(a)1. Any FRS Investment Plan member who has a complaint regarding the SDBA should call the Investment Plan Administrator at 1(866)446-9377, Option 4, and ask to speak to an SDBA specialist. If the SDBA specialist cannot resolve the complaint over the telephone, the member will be provided with instructions on how to submit a written complaint. If a written complaint is received by the SDBA provider, the SDBA provider will handle the written complaint regarding the SDBA in accordance with FINRA Rule 4530.

2. The Compliance Officer of the SDBA provider will conduct an investigation and will prepare and send the member a letter within 10 business days of receipt of the written complaint detailing the findings, any proposed resolution, and information on any next steps in resolving the complaint. Copies of the complaint and responses thereto will be provided to the SBA.

3. If a complaint is received by the SBA regarding an SDBA issue, the complaint will be forwarded to the Compliance Officer of the SDBA provider for a response.

4. The complaint process provided in Rule 19-11.005 is not applicable to any complaint regarding the SDBA.

(b) If the SDBA provider and the member cannot come to a resolution regarding the complaint the member can request arbitration as detailed in the SDBA Plan Member Agreement.

(c)1. If SDBA provider receives a written complaint that is unrelated to the SDBA, it will be sent to the Administrator and to the SBA. The SDBA provider will acknowledge receipt of the complaint to the member advising the member that the complaint has been forwarded to the appropriate party.

2. Upon receipt of the complaint unrelated to the SDBA referenced in (c)1 above, the SBA will handle the complaint in accordance with Rule 19-11.005.

Rulemaking Authority 121.4501(8), (5)(e) FS. Law Implemented 121.4501(8),(9),(10), (11), (12), (13), (14), (15) FS. History—
New _____.