Agenda
Investment Advisory Council (IAC)

Tuesday, September 29, 2020, 1:00 P.M.*

Hermitage Room, First Floor
1801 Hermitage Blvd., Tallahassee, FL 32308

1:00 – 1:05 P.M.	**1. Welcome/Call to Order/Approval of Minutes** *(See Attachments 1A – 1B)* **(Action Required)**	*Vinny Olmstead, Chair*
1:05 – 1:15 P.M.	**2. Opening Remarks/Reports** *(See Attachments 2A – 2E)*	*Ash Williams* *Executive Director & CIO*
1:15 – 2:15 P.M.	**3. Asset Liability Review** *(See Attachment 3)*	*Aon* *Phil Kivarkis* *Kristen Doyle*
2:15 – 3:15 P.M.	**4. Global Equity Asset Class Review** *(See Attachments 4A – 4B)*	*Tim Taylor, SIO* *Meghan Brown, Senior Portfolio Manager* *Dustin Heintz, Senior Portfolio Manager* *Mercer* *Jay Love*

3:15 – 3:45 P.M.	**5. SIO Updates** **DC Programs Update** **Investment Programs & Governance Office Update** *(See Attachments 5A – 5F)*	*Katy Wojciechowski, SIO Fixed Income* *Steve Spook, SIO Real Estate* *John Bradley, SIO Private Equity* *Trent Webster, SIO Strategic Investments* *Daniel Beard, Chief Defined Contribution Programs* *Michael McCauley, Investment Programs & Governance Officer*
3:45 – 4:00 P.M.	**6. Major Mandate Performance Review** *(See Attachment 6)*	*Aon* *Kristen Doyle* *Katie Comstock*
4:00 – 4:15 P.M.	**7. IAC Compensation Subcommittee Update** *(See Attachment 7)* **(Action Required)**	*Vinny Olmstead, Chair*
4:15 – 4:25 P.M.	**8. Audience Comments/December Meeting Date/Proposed 2021 Meeting Dates/Closing Remarks/ Adjourn** *(See Attachments 8A – 8B)*	*Vinny Olmstead, Chair*

***All agenda item times are subject to change.**

MINUTES
INVESTMENT ADVISORY COUNCIL
June 30, 2020

A meeting of the Investment Advisory Council (IAC) was held on Tuesday, June 30, 2020, via GoToMeeting, from the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the June 30, 2020 meeting is hereby incorporated into these minutes by this reference.

Members Present:	**Vinny Olmstead, Chair** **Peter Jones, Vice Chair** **Tere Canida** **Chuck Cobb** **Peter Collins** **John Goetz** **Bobby Jones** **Pat Neal** **Gary Wendt**
SBA Employees:	**Ash Williams, Executive Director/CIO** **Alison Romano** **Michael McCauley** **John Bradley** **Wes Bradle** **Daniel Beard** **Mini Watson** **Walter Kelleher** **Tim Taylor** **Katy Wojciechowski** **Steve Spook** **Trent Webster** **John Benton** **John Kuczwanski**
Consultants:	**Kristen Doyle, Aon** **Katie Comstock, Aon** **Glenn Thomas, Lewis, Longman and Walker** **Amy Michaliszyn, Federated Hermes** **Paige Wilhelm, Federated Hermes** **Luke Raffa, Federated Hermes** **Sheila Ryan, Cambridge Associates**

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES

Mr. Vinny Olmstead, Chair, called the meeting to order at 1:06 P.M. Mr. Pat Neal made a motion to approve the minutes of the March 31, 2020 IAC meeting. Mr. Bobby Jones seconded the motion. The vote was unanimous; the minutes were approved.

OPENING REMARKS/REPORTS

Mr. Ash Williams, Executive Director/Chief Investment Officer, provided a brief summary on the performance of the Florida Retirement System Trust Fund, stating that the fund has a balance of $159.8 billion, which is 59 basis points ahead of target and $3.4 billion below where it started the fiscal year (net of distributions in excess of $6 billion). He stated that the recent rebalancing and raising of liquidity have worked out well and that, on the whole, the SBA is pleased with performance. Mr. Williams added that the control environment has been very sound. He also commented that risk has increased materially over the past quarter across the board in the asset classes and on a total fund basis and that it is a function of the volatility that is out in the underlying market. Mr. Williams answered a question on performance from Mr. Chuck Cobb.

Ms. Alison Romano, Deputy Chief Investment Officer, discussed the SBA's recent decisions regarding liquidity and asset allocation. She highlighted what the SBA has been doing on the investment side to navigate the current challenging markets, and she emphasized that the SBA is being opportunistic.

FLORIDA PRIME REVIEW

Mr. Glenn Thomas, Lewis, Longman and Walker, presented his statutory compliance review. He indicated that Florida PRIME is in compliance with the legal requirements of Sections 218.40 through 218.412, Florida Statutes, and that the time period covered by his review was May 16, 2019 through May 15, 2020.

Ms. Kristen Doyle, Aon, told IAC members that, based on Aon's review, Florida PRIME is being managed in a manner that is consistent with best practices and in the best interest of participants.

Ms. Katie Comstock, Aon, discussed the recent participant survey, stating that overall responses had been very positive across the board. She added that, from an investment perspective, the portfolio has continued to preserve capital and to provide participants with their liquidity needs without disruption during the COVID-19 pandemic. Ms. Comstock also discussed the business case review that is underway, part of the Florida PRIME Strategic Plan, and she provided a tentative timeline for the review.

Ms. Amy Michaliszyn, Federated Hermes, discussed communication with participants during the pandemic lockdown, outlining two specific conference calls, as well as outbound communications, phone conversations and summary messages. She introduced Mr. Luke Raffa, Federated Hermes, who will be attending meetings and conferences in Florida on behalf of Federated Hermes when it becomes possible to hold in-person meetings again.

Ms. Paige Wilhelm, Federated Hermes, began her presentation with a review of the previous year. She also discussed rates, asset trends, portfolio characteristics, performance and stress testing results.

Mr. Michael McCauley, Senior Officer – Investment Programs & Governance, stated that Florida PRIME is a well-run program. He thanked Federated Hermes for their management of the portfolio, and he thanked the SBA staff who work on the pool.

Ms. Michaliszyn stated that participants have continued to choose Florida PRIME for CARES assets.

Mr. Williams clarified that the IAC members would need to vote on the Florida PRIME Investment Policy Statement. Mr. Neal moved that the Investment Policy Statement be approved; Ms. Tere Canida seconded the motion. The vote was unanimous; the Florida PRIME Investment Policy Statement was approved.

Questions from IAC members during the Florida PRIME review were answered by Ms. Comstock, Mr. McCauley, Mr. Williams and Ms. Wilhelm.

PRIVATE EQUITY ASSET CLASS REVIEW

Mr. John Bradley, Senior Investment Officer – Private Equity, provided a detailed presentation on the Private Equity asset class including target and actual allocation, goals and objectives, benchmarks and staffing. He discussed the asset class investment process that includes an annual investment plan, sourcing, due diligence and monitoring. Mr. Bradley also discussed the overall performance of the asset class as well as cash flow. He detailed current allocations to the four sub-strategies in the portfolio and provided the target allocations for each one. Mr. Bradley described the composition of the portfolio at year-end, also providing the largest exposures by general partner, a geographic breakdown and sector exposure. He concluded his presentation by highlighting a few of the sectors within their portfolio and discussing the impact that the COVID crisis has had on some of their portfolio companies.

Mr. Wes Bradle, Senior Portfolio Manager – Private Equity, provided details of the asset class sub-strategies including buyouts, venture capital, distressed/turnarounds, and secondary funds.

Ms. Sheila Ryan, Cambridge Associates, reported that the Private Equity asset class portfolio has consistently outperformed relative to peers. She spoke about the current environment, specifically commitments that have been made to a manager but the capital has not been called down yet. Ms. Ryan presented private equity returns over different time periods and showed how public markets have performed relative to private markets.

IAC members asked a number of questions during the Private Equity asset class review. Their questions were answered by Mr. Bradley, Mr. Bradle and Mr. Williams.

DEFINED CONTRIBUTION PROGRAM REVIEW

Mr. Daniel Beard, Chief – Defined Contribution Programs, provided an overview of the FRS Pension Plan and the FRS Investment Plan, including the choice period. He also discussed day-to-day administration and governance as well as employers and members.

Ms. Mini Watson, Director of Administration, provided statistics on assets under management, distributions and member count. She described the roles of the FRS Investment Plan service providers (Alight Solutions and BNY Mellon), provided choice statistics and discussed an increase in membership. Ms. Watson explained that Florida Statutes allow Investment Plan members to submit complaints.

Mr. Walter Kelleher, Director of Educational Services, provided details on the Financial Guidance Program, including its vendors (Ernst & Young, GuidedChoice, Alight Communications, and MetLife), number of calls, workshops, website hits and website chats. He discussed annuities that had been purchased over the last 12 months. Mr. Kelleher explained that they have initiated surveys of active/default electors and have started an annual survey of participating employers. He stated that LexisNexis has been added to tighten security of MyFRS.com, and there is a contract with Experian to provide breach response services to the SBA, including the FRS data. Mr. Kelleher also discussed an upcoming FRS seminar that will be a joint workshop from the Division of Retirement and the SBA.

Mr. Beard concluded his presentation with details on available fund options, discussing current options as well as those that will be effective July 1, 2020. He referred to a slide showing the assets under management by asset class. Mr. Beard showed the current makeup of their funds and explained the changes that would be taking effect. He concluded with details on asset class performance and their initiatives for the next fiscal year.

Ms. Doyle discussed two key principles relating to a defined contribution investment structure: streamlining investment options and facilitating smart decisions.

Ms. Comstock provided details on target date funds and the self-directed brokerage window. She concluded her presentation by stating that the FRS Investment Plan's structure continues to be in line with best practices and that it offers a best-in-class investment plan to the participants.

During the Defined Contribution Program review, IAC members' questions were answered by Mr. Beard, Ms. Doyle and Ms. Comstock.

SIO ASSET CLASS UPDATES

The Senior Investment Officers of Global Equity, Fixed Income, Real Estate and Strategic Investments provided an update on the performance of their respective asset classes over the last quarter and trailing time periods, and they discussed general market conditions as well as effects from the ongoing pandemic. The asset class SIOs, Ms. Doyle and Mr. Williams responded to questions from IAC members.

REVIEW CHANGES TO FLORIDA RETIREMENT SYSTEM PENSION PLAN INVESTMENT POLICY STATEMENT

Mr. Williams stated that Governor DeSantis had recently signed the Florida budget and that it included full funding as actuarially indicated for the normal cost of the Florida Retirement System and the full actuarially indicated contribution to the unfunded liability. He thanked the Governor, and he thanked the IAC members who had previously written to the Trustees concerning the issue.

Responding to a question from Mr. Gary Wendt, Mr. Williams explained that there was a small change on the cash benchmark in the FRS Pension Plan Investment Policy Statement that was going to be voted on by the Investment Advisory Council. Mr. Peter Jones made a motion to approve the Pension Plan Investment Policy Statement as amended. Mr. Bobby Jones and Ms. Canida seconded the motion. The vote was unanimous, and the revised Pension Plan Investment Policy Statement was approved.

MAJOR MANDATE REVIEW

Ms. Doyle provided an overview of the performance of the Pension Plan, the Investment Plan, the Florida Hurricane Catastrophe Fund and the Lawton Chiles Endowment Fund.

AUDIENCE COMMENTS/2020 SCHEDULED MEETINGS/CLOSING REMARKS/ADJOURN

There were no comments or questions from the audience. Mr. John Goetz and Mr. Bobby Jones each made a motion to adjourn; the motions were seconded by Mr. Neal. After a unanimous vote, the meeting adjourned at 5:12 P.M.

Vinny Olmstead, Chair

8/26/20

Date

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

TUESDAY, JUNE 30, 2020
1:06 P.M. - 5:12 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

Stenographically Reported By:

JO LANGSTON, RPR

Job No.: 109863

APPEARANCES
(Participants appearing via GoToMeeting)

IAC MEMBERS:

VINNY OLMSTEAD
BOBBY JONES
CHUCK COBB
GARY WENDT
JOHN GOETZ
PAT NEAL
PETER COLLINS
PETER JONES
TERE CANIDA

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR AND CIO
MIKE McCAULEY
JOHN BRADLEY
WES BRADLE
DANIEL BEARD
MINI WATSON
WALTER KELLEHER
TIM TAYLOR
ALISON ROMANO
KATY WOJCIECHOWSKI
STEVE SPOOK
TRENT WEBSTER
JOHN BENTON
JOHN KUCZWANSKI

CONSULTANTS:

KRISTEN DOYLE - (Aon)
KATIE COMSTOCK - (Aon)
GLENN THOMAS - (Lewis, Longman and Walker)
AMY MICHALISZYN - (Federated Hermes)
PAIGE WILHELM - (Federated Hermes)
LUKE RAFFA - (Federated Hermes)
SHEILA RYAN - (Cambridge Associates)

INVESTMENT ADVISORY COUNCIL MEETING

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MR. OLMSTEAD: I'd like to call the meeting to order. Welcome to the COVID world of board meetings on a Zoom or GoToMeeting. My name is Vinny Olmstead, and I'm honored to be the IAC chair for the State Board for the next year. I want to thank everybody, staff, et cetera, for virtually attending this meeting. It's a full meeting. We look forward to hearing what's happening.

Although we aren't in person, the staff of the IAC has been doing a great job getting us set up and set up the best experience possible, so many hours of preparation. Thank you to those folks behind the scenes that made this happen. I even heard they were trying to send chocolate chip cookies that they usually stack in the back of the room to our houses but weren't able to get that done. I have my own stash.

A couple of just logistical things. I'd ask my colleagues and all other speakers or presenters to keep the computer on mute unless you have a question. When you do have a question, please say your name first. It's

easier in this environment to have those logistics going on. It's easier for the court reporter.

Also I wanted to thank our former chair, Mr. Bobby Jones, who just did an excellent job over the past year. It was quite the honor serving as vice chair. He's diligent and committed, just a great all-around guy and committed to this board, and I really want to thank him.

MR. BOBBY JONES: Thank you, Vinny.

MR. OLMSTEAD: So first piece of business here, I'll assume that the board members have had the opportunity to review the minutes of the March 31, 2020, board meeting. And if there are no corrections, I would entertain the approval of those minutes.

MR. NEAL: So move. Pat Neal.

MR. BOBBY JONES: Second. Bobby Jones.

MR. OLMSTEAD: All in favor?

(Ayes)

MR. OLMSTEAD: Opposed? There we have it. All right. As noted, a big agenda today. So let's start out with the comments and outlook from our executive director and chief investment officer, Ash Williams. Ash.

MR. WILLIAMS: Thank you, Mr. Chairman. So you'll remember at our last meeting, we were early on in the COVID market changes. And we sort of suspended our base agenda and went forward with a summary on asset class and total fund basis of what we were doing to preserve several very important things; number one, to keep all of our folks safe and their families safe. Number two, on the fund side, to make sure that we preserved liquidity that would be sufficient, number one, to meet our obligations, number two, to meet any rebalancing requirements that we deemed appropriate, number three, to fund any opportunistic things that might come along, and go from there.

So over the course of today's meeting, you will hear about our progress in all of those areas. Let me back up and hit performance, which I should have done at the outset. As of last night's close, fiscal year to date, the fund is up, this is estimated gross, 2.48 percent. That's 59 basis points ahead of target. The fund itself has a balance -- the Florida Retirement System Trust Fund has a balance of

$159.8 billion. That's 3.4 billion below where it started the fiscal year at 1 July 2019, net of distributions in excess of $6 billion, net distributions for benefit payments.

Clearly, the thing we're wrestling with at this point, we've done a couple of rebalancings, and Alison Romano is going to give you a little more color on how and when we did those in just a moment. But I think in retrospect, when I look back at when we chose to rebalance, how we chose to rebalance, which is to say more weight on active than passive management, and also when we chose to raise liquidity and how we chose to raise it, in retrospect, we've been some combination of lucky and smart. And what the ratio is between those two is irrelevant at this point, but it's all worked out pretty well.

And I think the central dilemma that we're all wrestling with now is, given the way the markets ran, which seemed to price in a Goldilocks environment where somehow the world had become a safer place and projected earnings forward could be discerned with some degree of clarity and, given the level of interest rates, some generous multiple could be attached to them to justify the valuations we now have, we've instead seen the reality that COVID didn't go anywhere. What changed was society's method of coping with it. And when people came out of hiding and began socializing and began getting together again and traveling and whatnot, there's been a resurgence.

Now, what we all don't know today is how long does this resurgence go, when does a vaccine come out, when do treatments come out, when do other things change that might have bearing on all of this. And just within the past hour, I saw something come across the CNN wire that said a new virus has appeared in China that is believed to be potentially the next pandemic. So in the classic sense of just when you thought it was safe to go back in the water, somebody is cuing up the Jaws theme.

So with that, I would say other key things that are important, our performance obviously is ahead of benchmark, with some leakage in there -- and we always make this clear -- in the form of private market assets that are not marked to market fully. So this is going to rattle around some. There will be changes in these numbers.

But on the whole, we're pleased with where the performance is.

And I think the other thing that's very worthy of note -- and you'll see this in the different components of today's agenda -- is the control environment has been very sound. If you look at the report from the audit committee, the Office of Internal Audit, the chief risk and compliance officer, the inspector general -- who did I leave out here? Anybody? I think that's everybody. In every single case you'll see the control environment is totally solid and there are no material incidents or noncompliance issues anywhere.

Likewise, this is the month of June, when we do the annual review, the outside reviews of Florida PRIME to ensure, first, compliance with all applicable laws and statutes. That's done by the Lewis Longman law firm. And they have again certified full compliance this year, as they have in all prior years.

Second, Aon does a review of the compliance of Florida PRIME with best practice and the suitability of its investment policy statement, both of which, again, are solid and don't require changes. So I guess what I would tell you there is not only is the performance environment working, of equal importance, particularly in a public setting, the control environment is fully functional and effective as well.

Lastly I would note -- and this is more an internal matter than anything else, and frankly I think it's more technical than anything else. We track risk statistics on our portfolios and active risk in particular. And what we have seen is, across the board in the asset classes and on a total fund basis, risk has come up materially over the past quarter.

That is not indicative of some change in risk profile choice on the part of the investment team at the SBA. It's a function of the volatility that's out there in the underlying market. So I don't think it's a particular cause for concern. And if we want to talk about that further at some point today, we could.

With that, let me stop there and see if anyone has any questions. And if so, I'm happy to answer them. Otherwise, I'd like to see if Alison Romano, deputy chief investment officer, would like to add some color and detail to my

very broad framing comments about the investment side of things.

MR. COBB: This is Chuck Cobb, Ash. Could I ask a question on big picture? So -- and it relates to performance. And so I'd like to call everybody's attention to page 12, tab 8 on the Aon report. And it shows that we were the last of the major pension funds as of March 31st.

Now, I understand we maybe have improved since March 31st, but that is -- that's the lowest relative performance I have seen with us with the other major pension funds. Can you address that? And isn't that somewhat of concern? It could be mentioned and shouldn't it have been mentioned in our big -- in your big picture report?

MR. WILLIAMS: Perhaps it should. There's a very simple answer to this, Ambassador, and it's a good catch on your part, because that's certainly an anomalous posture for us to be in. Notice that's period ending 3/31. So what you've got in that period was the huge downdraft of the last two weeks of March in the U.S. equity and global equity markets and none of the stratospheric rebound in April.

We have higher equity exposure than most of our peers. And as a consequence of that, we're like the little girl with the curl. When the equity markets are good, we're really terrific. And when they're bad, we're really awful. And they were really awful. If you'll remember, that last two weeks in March were the biggest drop I think since the Great Depression in U.S. equity markets. And that's what you're seeing here.

I think if you built in -- and Aon could shed more light on this, I'm sure. But if you built in the rebound that we saw in April, which was as aggressive of a rebound as the decline was an aggressive decline, I think you would see this normalize very substantially.

I don't think that our peer group suddenly got aggressively smarter and strategically better than we are. And by the same token, I don't think we got dumb overnight. I think this is a short-term noise phenomenon and not something I'd be overly concerned with longer term.

MR. COBB: Thank you.

MR. WILLIAMS: Certainly. Alison, you might want to shed light on that as well as part of your commentary.

MS. ROMANO: Sure. Those were precisely the comments I was going to make on performance. Today I'm going to talk a little bit about the details behind the asset allocation liquidity decisions that we've made over the past several months, as well as talk about our approach to investing in these challenging markets. And for anybody that's just dialed in on the phone, I'm not going through specific slides.

The two takeaways from this discussion is, one, in asset allocation, our approach is to apply our judgment and overlay that over longstanding, well-thought-out policies to asset allocation. And, two, with regard to investing, we are opportunistic within the asset classes but avoid becoming outsized -- in an outsized fashion being tactical at the total fund level.

So first to talk about liquidity and asset allocation. To frame the conversation, let's go through what our tools are in the tool kit. First we have the guardrails. So we have a target allocation to all of our asset classes. When we move a certain percent away from that allocation, it triggers a rebalance.

How do we rebalance or raise liquidity? We can use cash. We can sell assets in fixed income or global equities, or we can utilize our fixed income and global equity liquidity portfolios, which we set up in 2015. And these are predominantly future-based portfolios that get exposure to portions of the equity and fixed income markets.

So those are the tools in the tool kit. As any good handyman would know, you need to pick the right tools for any given job. And that was our approach in March when the markets moved significantly. To review what we discussed in the last IAC call, as the equity markets were going down significantly, we were having challenges in the fixed income market in liquidity.

And as the markets were moving very fast, we used the judgment across the asset classes to say let's widen those guardrails a little bit out from the norm. That said, we continued to stick with our discipline, and when we hit that widened guardrail, we decided to rebalance.

How did we do that? We used the liquidity portfolios that we had in place to very quickly move money to get equity exposure in one tranche

and followed that up with a second tranche the following week.

That enabled us to get the exposure but gave then our equity team time to ultimately invest directly with active managers. It also gave fixed income time to then find their spots in the market where they wouldn't put pressure on pricing and selling and fully replenished that liquidity portfolio.

So taking this all together, that put us in a great position. We ended up rebalancing, as Ash mentioned earlier, pretty much at the bottom of the market. And over time our equity exposure grew, such that by May, equities was the asset class that was providing some of the liquidity needs.

We haven't had to do any asset allocation since then, but moving forward from what we discussed at the IAC meeting, we have had to raise quite a bit of liquidity, in fact about $3 billion April through June.

So where are we applying our judgment again? In June, the beginning of the month, we looked at equity markets, we looked at fixed income markets. And while valuations -- the markets continued to go up on the equity side, risk continued to increase, public health risk, economic risk, et cetera.

But we knew we had a big liquidity bill coming. So what did we do? Three things. One, we decided to raise the liquidity from global equity a little bit early. This reduced equity market risk and it also separated us out from the risk of the Russell rebalance, which we do every year at the end of June.

Secondly, we moved some money from global equity liquidity to fixed income liquidity. And, again, this provided us some additional flexibility should at any point we need liquidity for the fixed income markets if equity markets decline. We also enhanced the allocation to the fixed income liquidity portfolio, providing further flexibility.

Now, the Fed has stepped in and done a lot to support the fixed income market to maintain liquidity. And we don't expect any dramatic shifts, but having this additional lever to pull we thought was prudent.

So that's what we've done and will continue to do. We expect to continue to have liquidity

draws or liquidity needs as our private asset classes put money to work and we raise funds for capital calls. So that's our approach, again, to liquidity and asset allocation.

Now let me highlight what we're doing on the investment side to navigate these challenging markets. First I think it's worth mentioning that we live in a new world that many of you live in, we work from home. And what does that mean for us?

Well, as a direct result of significant investment and time that we put into our technology and in hiring and retaining high caliber staff, we've hit the ground running and are firing on all cylinders. And in talking to people across the board, what I would say, in some respects, we might even be more focused now, knowing what our mission is, focusing on investments and managing risk and doing that effectively from home.

And I would just say from a personal perspective, anecdotally, I think our level of communication with our partners maybe has even increased, as they've gone above and beyond to make sure that they're maintaining communication and providing us access to webinars and conferences with experts from their organizations and leading experts across the world.

So that's a good backdrop to talk about now what actually we're doing. And I frame it in three ways. One, there's things that we've done over the long-term to position us well during this period of volatility. There's things we're doing today to evaluate risk, and there's things that we're looking at for the future in terms of opportunity.

So looking longer term and looking backward, there are a number of trends in the marketplace that we've discussed that were accelerated with this pandemic, things like the demise of brick and mortar retail, the prevalence of technology across multiple sectors and an investor preference for growth in a lower growth, lower rate environment. Again, long-term trends that we were positioned for. We could not have predicted COVID and the impact on the market, but we were well-positioned.

And just to provide a few examples, so our private equity group has higher exposure to technology and growth. And that we expect to

fare well during this environment. Our real estate group has down-weighted exposure to retail, an area that may be challenged in this environment. And our strategic group has been prudently patient in investing their capital, so they now have dry powder with this dislocation to be able to put money to work.

So that's where we were. Now where are we today? Well, as Ash mentioned, there's been a lot of volatility in the public markets, and it's unclear where valuations will come out on the private markets. So our teams have been very active in engaging in dialogue with our partners to understand where those risks are.

This includes everything from, say, real estate talking to partners about rent collections across various sub-segments, to PE trying to categorize all the holdings and identify which subsectors are most at risk given the COVID situation. And John will go into quite a bit of detail later in this discussion on that. So while there is risk in the portfolio, that long-term positioning in the current evaluation of what we have is helping mitigate some of that risk.

Now, going forward, we are being opportunistic, and there are opportunities. As you all know, in periods of dislocation, opportunity is created, and we're taking advantage of that in all of our asset classes. So for instance, global equities, they may lean more heavily on their active managers to navigate through the environment. Fixed income can take advantage of their core-plus managers, who have flexibility to find that opportunity.

As an example, strategic is finding opportunity in short, medium and long-term in private credit and distressed debt. Private equity, because their approach has been aligned with some of these long-term trends, can continue to push forward on their existing pipeline, which stands to benefit from this environment.

And then finally real estate, because they are both in private markets and in public markets, can assess the opportunity across both and take advantage of any dislocations.

So as you can see, you know, again, we couldn't predict COVID, but we are being systematic in our long-term structuring and how we're identifying risk and opportunity and

implementing that within each of the asset classes. And each of the SIOs, when they go through their discussion, will hit on that in quite a bit more detail, but we really wanted to provide you-all with that overarching view.

Those are my comments. I just wanted to open it up for any questions. Otherwise, we can continue.

MR. OLMSTEAD: Okay. Vinny Olmstead here. Alison, thank you very much. And, yes, I think you teed up the SIOs very well. So we'll look forward to delving into some additional questions, conversation there. But before that, I think Ash teed up the Florida PRIME review, and we'll kick off our next section with, I think, Glenn Thomas initially. I don't know if we're having technical difficulties or if Glenn is there. I know that we have Aon teed up after that.

MR. KUCZWANSKI: Glenn, if you can unmute your phone, that would be great.

MR. THOMAS: Hello. Can you hear me?

MR. OLMSTEAD: Yes.

MR. THOMAS: Can you hear me now?

MR. OLMSTEAD: Yes, Glenn, we can hear you.

Go ahead.

MR. THOMAS: Okay. Thank you. Glenn Thomas with Lewis, Longman & Walker, and I'll be brief. As requested, I conducted my review of Florida PRIME for compliance with the legal requirements under Part IV of Chapter 218 Florida Statutes. Based on my review, which included interviews with SBA employees and review of documents provided by SBA and other materials that are posted on the website, I concluded that Florida PRIME is in compliance with the requirements of Section 218.40 through 218.412 Florida Statutes for the time period of May 16th, 2019, through May 15th, 2020.

You have my written report, which is at tab 3-A. If there are any questions, I would be happy to answer them.

MR. OLMSTEAD: Okay. Sounds like there are no questions for Glenn, so let's transition over to the professionals from Aon.

MS. DOYLE: I apologize. I was unmuting. This is Kristen Doyle. Great to be with you-all this afternoon. So as many of you know, we review the Florida PRIME, as Ash had noted in his opening comments, for compliance with best

practices on an annual basis. And actually, if you can believe it, I was looking back, this is actually our 12th report. And our conclusion, as it has been consistently in the past, is that the Florida PRIME is being managed in a manner consistent with best practices and in the best interest of participants.

So today we only have just a few items that my colleague Katie Comstock will go into in more detail. And these are just a few components that are key to the ongoing monitoring and maintenance of the pool. So with that, I'm going to turn it over to Katie to summarize the key pieces of the longer report. Katie?

MS. COMSTOCK: Great. Thank you, Kristen. Good afternoon, everyone. I'm trying to flip the slides ahead. I don't know if it's working, so I'm looking at slide -- the contents first. So as Kristen mentioned, we cover a few topics here. I will only cover or highlight a few of them in this year's annual review. There we go. Thank you.

So just quickly on the participant survey, as you-all likely know, a survey goes out to the participant base on an annual basis (inaudible) offering, and to get any feedback on how they are faring with Florida PRIME. And consistent with previous results, the overall responses have been very positive across the board. A summarizing statistic is that 90 percent of respondents are very or extremely likely to recommend Florida PRIME to other governmental entities or peers.

MR. KUCZWANSKI: Katie, this is John. I'll take over if you're having difficulty. Just tell me which slide you want to go to.

MS. COMSTOCK: Okay. Thank you. So the next -- if you want to flip ahead to page -- the next slide. The two things that we wanted to highlight out of this year's review is -- and Ash kind of highlighted this at the beginning -- was how Florida PRIME fared through the roller coaster that has been 2020 thus far.

And given what seems to be a distant past in '08, '09 and everything that Florida PRIME and the management of Florida SBA and Federated has done in terms of risk management, the creation of the PLGAC and that it has been recently phased out, we wanted to provide you-all with an update on how the program fared during this time.

And to put it in the short, extremely well,

without disruption, as Ash mentioned. First, from an investment perspective, the portfolio continues to meet its long-term objective, primarily to preserve capital, the assets in the fund, and importantly, to provide participants with their liquidity needs.

And Federated was actually very proactive in this sense in increasing the weekly liquidity of the portfolio in anticipation of potentially a greater level of withdrawals as things are going (inaudible) in March and April. I believe the assets actually ended up increasing during this time period due to some contributions, but the proactiveness and the awareness of the participants' needs speaks to the level of risk management and awareness that Florida PRIME has.

Then importantly, from an administration and a servicing perspective, Florida PRIME also continued without hiccup, as COVID-19 has not only impacted the financial markets, it has impacted everyone personally, working from home, taking care of family and friends. And the program was able to continue without disruption, normal business -- has normal business operation hours, no disruption to functionality, transactions, accessing liquidity, accessing the personnel in client service.

And in fact, Federated and the SBA have been more communicative with participants, hosting live calls to address questions and concerns, posting various communications on the website and direct mailings. And so everything that has been done speaks to the overall risk management and the governance structure that has been put in place. And so we're pleased and happy to report that Florida PRIME has been conducted very seamlessly through this whole pandemic thus far.

If you want to flip ahead to the next page. The second topic we just wanted to provide a quick update on is the business case review. And this, you may recall, last year, Florida PRIME, part of the strategic plan over the next five years was to review the overall administration and management of Florida PRIME, including the investment perspective, which is managed by Federated, as well as the administrative part, which is conducted by the SBA.

And that includes administration, participant and fund accounting, client service and risk management and compliance, and to

evaluate if there are areas that it could be handled more efficiently, and considering both insourcing and outsourcing options as well as any hybrid solutions as well.

And so since that time, Florida PRIME, the SBA review team has done a lot of information gathering, looking at what are the offerings that are available out there, what do peers do and how that has worked for their pools, and then also has kicked off an internal risk assessment that's intended to highlight and identify the areas of Florida PRIME that pose the greatest and least amount of risk to the Florida SBA, and so that will help prioritize this overall review.

And so this has helped the review team focus on areas where efficiencies may be -- may be enhanced and areas where things are working very well and it may not make sense to make a change.

And so flipping to the next page, to get a sense of where we are and where this review -- the tentative timeline. A request for information is being developed, and a lot of the information that was gathered over the previous month has helped develop the questions and identify the areas where more information is needed. And that's intended to be sent out by the end of the summer.

End of the fall, the internal risk assessment is intended to be wrapped up, and we'll also receive back the RFIs to review and follow up with any questions. And then the goal by the end of next spring is to have reviewed in full this business case review and to be able to present any findings or potential recommended changes.

And the goal here is to just identify if there's any ways that the overall program management can be enhanced, keeping in mind the participants' and potential participants' best needs and interests. That includes potential changes, but it also includes managing the status quo. And as you've seen, the way that Florida PRIME is currently being managed has worked and has worked very well.

I would also note that the participant survey was sent out right after and during all of this market volatility, and for the responses to be, you know, extremely positive and without a disruption or negative response is also a testament to how well Florida PRIME is being

managed currently.

And so with that, I'll pause to see if there are any questions, but that wraps up our best practices review this year.

MR. OLMSTEAD: Katie, Vinny Olmstead here. Just a quick question. It looks like the -- and maybe we'll get to this in a second. But it looks like the assets increased fairly significantly in the last -- you know, end of the year, beginning of the year. Is that a typical seasonal phenomenon?

MS. COMSTOCK: Mike may be better posed to answer this question. There are seasonal phenomena. I think there were some contributions that came in. I don't know if Mike or if Federated has the details there.

MR. OLMSTEAD: Okay. Maybe if the Federated team, who is teed up next, can just address it when they go through their portfolio review, that would be great. Any other questions for Kristen or Katie? Okay. Great. Let's move on to Federated.

MS. COMSTOCK: Thank you.

MS. MICHALISZYN: Good afternoon, ladies and gentlemen. How are you? Thanks for having us today. Mike -- if Mike McCauley is there, should I wait for Mike to make some comments, as has been the pattern, or should I just proceed with our marketing update?

MR. KUCZWANSKI: Mike, if you could turn on your camera -- you're web-based -- that would be great.

MS. MICHALISZYN: There he is. Mike, did you have any introductory remarks before I launch into some of the communications that we've done? Mike, I think you're still muted.

MR. OLMSTEAD: Mike, we're not hearing you. I don't know if you want to give us a thumbs up or a thumbs down. Can you hear us? You can hear us, but we can't hear you. Okay. So why don't you try to dial in? We'll fill you in in a second. And, Amy and Paige, maybe you guys can kick it off, and we'll have Mike do some closing comments versus initiating the comments.

MS. MICHALISZYN: Sure. That will work. I know he might want to touch on some high points with regard to the survey and some of the participant communications from the office there in the SBA.

But let me just say, I won't steal any of

Paige's thunder. I'm on -- within our section, I'm looking at page 3. She will cover the rates. You will see, though, just in brief, that participants had access to very attractive rates relative to Fed funds, despite the fact that yields were coming down in the COVID environment.

And in the context of all of the market volatility, the facilities that were set up by the Fed, the confusion that ensued in people's minds with all of this happening, we went into high gear, in collaboration with Mike and others at the SBA.

You know, we really wanted to make sure that we communicated, striking the balance, making sure we had the appropriate content and frequency of messaging, because I think you've heard me say it a couple of times in the past, you know, managing money, aside from getting the decisions right every day, is a lot about managing expectations. And so we were very committed to that.

In the course of time, when lockdown was most prevalent, we conducted two different calls with participants. One was on March 17th. One was on April 28th. The first call, we had 119 participants. The second one, we had 85.

In the course of that time, we also had some outbound communications with participants, particularly from those who dialed in. We thought they might be amenable to more conversation. And so we had roughly 50 conversations with people, just to make sure they were comfortable and that we answered questions and anticipated questions correctly.

So aside from those phone conversations, we did many, many messages, and Mike would affirm, sometimes several times a day, at least once a week, summary messages for each month, just making sure that every time there was news, we bolstered that news and put it into perspective for the participants in a context that was relevant to Florida PRIME.

So we continue that kind of engagement with the participants. We think the best clients are the ones who are most educated, and certainly we want the Florida PRIME participants to (inaudible).

I would also say that -- if you just flip the page to page 6 in our section, conferences have been off the table, as you can imagine.

Ordinarily, we at Federated Hermes sponsor and attend all of these conferences in representation of Florida PRIME.

Those have not been able to continue, and so this is all the more reason why email communication, website postings are all the more important, because it's a primary point of touch and it's helping to make up the difference when we don't have face time with our participants.

To that end, I've just recently introduced a new resource to Florida PRIME. And the gentleman to whom I'm about to refer is sitting in listening today. His name is Luke Raffa. And Luke works with me in the institutional business development group at Federated Hermes.

He's covering the southeast territory, and he's moving to Florida. And so Luke is going to take on the role of, when we get back into some new level of normalcy, attending all of these meetings on our behalf, reaching out to participants appropriately.

Luke has a wealth of experience with pools such as this because he was living in Massachusetts, Boston, to be specific, and he was working with us on the Massachusetts pool that we managed. And so in the context of Luke's move, this is a great new role for him, and it brings some field experience to bear on behalf of Florida PRIME.

So those are really my primary remarks. I'm happy to vet any questions if you'd like to talk further. Anything else?

MR. COBB: Mr. Chairman, I have a question. My question is, what are our all-in costs in Florida PRIME? This is a very cost-sensitive business, and I don't know whether we have both our corporate costs and our consultants. I don't know what our fee measurement is, but what kind of fee measurement do we have and how does that stand up in a basis point (inaudible) compared to other managers?

MR. McCAULEY: I just tried to dial back in. Can you hear me?

MR. WILLIAMS: You're good. Go ahead.

MS. MICHALISZYN: Yes.

MR. McCAULEY: I caught the tail end of that question, about how do Florida PRIME fees compare to other competing funds. Is that the question?

MR. WILLIAMS: And what are they in basis points in aggregate.

MR. McCAULEY: They're approximately 3 basis points. They do or can and do fluctuate month to month based on the actual charges. We disclose that every month in the monthly summary report. But they're approximately 3 basis points. It will scale depending on the size of the fund naturally.

And that compares very favorably to other not only statewide local government investment pools but other registered money market funds that are available nationally. Those are -- typically, the statewide funds are on the order of 15 to 25 basis points, and some of the registered money funds can be 20 to 40 basis points or higher in some cases.

So it's a fraction, small fraction of the -- comparing those funds to us, very attractive. And that just underscores the yield levels, too. So what we don't charge in investment fees goes right back to participants' accounts in a higher yield.

MR. COBB: And that includes all our consultants?

MR. McCAULEY: Yes. That is an all-in fee structure. Again, we detail every fee that is charged to a participant's account every month down to the penny, kind of line-item it out, show exactly what they're paying. There's no kind of indirect fees. There are no hidden fees. They're all disclosed and direct.

There are some that are variable that may go up or down, depending on the number of transactions and the like. But there's both fixed and variable charges. Those are all disclosed. It's a very cost-effective plan, which is one of the main reasons it's so attractive.

MR. OLMSTEAD: Okay. Thanks, Ambassador, for the question. Is Paige up here?

MS. WILHELM: Can you hear me?

MR. OLMSTEAD: Now we can.

MS. WILHELM: Okay. I have this on the phone, too, so if you hear an echo, let me know and I'll hang up the phone. If you don't mind, if somebody can do the slides, my slides start in Federated's section, which is section 3, and then the first page that I'm going to speak to is page 8.

This is really just the year in review. And recall that we are going to talk about 2019 into

2020, so if you just allow me a minute or two. You know, in a normal time period, without COVID, 2019 was a kind of interesting year for money market interest rates. So let's just review where things stood.

We started the year at an interest rate environment that was in the 2 percent. And clients loved that. The participants loved that. We were getting lots of money into the pool throughout the year. And somebody asked about assets. I believe we reached higher highs during 2019.

And we do have -- typically, during the summer months we see money flow out of the pool. And then when tax season happens in Florida and you start to collect local property taxes, November through February, that's when we see the peak. And we'll see that in a minute on a graph for the assets.

But 2019 was pretty interesting. As I mentioned, we started the year at a 2 percent rate environment. And the markets were pretty crazy. There were falling -- despite falling rates, we had political and economic uncertainties which were kind of atypical for the year. We opened with a government shutdown at the beginning of 2019. We also had the U.S. and Chinese trade negotiations.

And then we had a shift in Federal Reserve interest rate policy. At the end of 2018 the Fed had continued to raise rates, and we stood at a Fed funds target of 2.25 to 2.5 percent. So finally people were earning some income for their cash investments.

But after that rising rate environment, the Fed did an about-face in March of 2019 and took all rate hikes kind of off the table. They didn't change rates at that time, but their commentary at the Fed meetings led the markets to believe that they were going to be on hold for an extended period of time.

As we saw the year play out, we then started to see the U.S. economy start to downshift after that Fed meeting. We saw the trade talks between the U.S. and China start to break down, and we saw the Treasury yield curve versus LIBOR rates start to invert. Typically that's a sign of recession coming in the U.S. And people were afraid that that's what was going to happen and that the Fed was going to have to cut rates

dramatically.

However, what the Fed did in the summer, July, they began to cut interest rates. They wanted to get ahead of the recession fears. So they cut rates three times during 2019, in July, September and October, and they took the Fed funds target rate down to 1.50 to 1.75 percent.

That actually kind of helped the markets out. The market started to give up on the idea of a recession coming in 2020. The labor market started to strengthen. We started to see more robust consumer spending, and things were looking good at the end of 2019 as we slipped into 2020, and everyone pretty much felt that the Fed would keep rates where they were at that 1.50 to 1.75 rate into the new year.

Unfortunately, we all know what happened with COVID. That had an extreme effect on every single market, as was mentioned earlier, but especially on the short-term money market. And at the beginning of March of this year, we saw the Fed cut rates by 50 basis points, and that was followed up almost immediately on March 15th by the cut of 100 basis points, taking the Fed funds rate back down to that zero to .25 range, which unfortunately we lived through for about ten years after the 2008 financial crisis.

Lots of things were happening that caused the Fed to cut rates. This event was not like a 2008 credit event. This was a liquidity event. As COVID was unfolding, people needed liquidity. And the easiest thing for them to sell were their Treasury and agency securities, long-term Treasury and agency securities. And that created turmoil in the market. The Treasury markets and the longer term agency markets were in turmoil during the first two weeks of March.

That's why the Fed cut rates by 100 basis points and started to announce that they would do additional quantitative easing. They started to buy boatloads of mortgage-backed and Treasury securities. And that started to stabilize the Treasury market. Unfortunately, it didn't stabilize the prime market, which were the securities that we invest in for Florida PRIME. Remember, we buy commercial paper, bank CDs, asset-backed commercial paper.

Once the Fed cut rates on Sunday, the 15th by 100 basis points, you would have expected that this paper that we buy for this pool would have

also dropped by 100 basis points, but it didn't. Spreads widened out dramatically. We were seeing commercial paper levels at 2 percent, 3 percent, 4 percent handles during that week of March 15th, which was unprecedented. That is not what you would have expected. And that was all due to the liquidity issues in the market, not credit events.

So this is the first week that you started to see the Fed introduce other facilities. They started with a money market lending facility. They also introduced the commercial paper funding facility and the primary dealer credit facility. All of these facilities were designed for the Fed Bank of Boston to take short-term securities on their balance sheets.

As prime money market and pool investors, we did not have an outlet to sell securities to the market to meet redemptions, so the Fed had to step in to take the place of the brokers to meet those liquidity requirements. So the MMLF, which was started on March 23rd, was very similar to the asset-backed lending facility that we saw during the 2008 crisis, if anybody recalls that. So it was easy for the Fed to dust off that paperwork and get that facility up and running within a week's time.

We all know there's been tons of other facilities that have been introduced by the Fed and U.S. Treasury, and they're taking a longer time to get up and running. The main street lending facility has been in the works for months to give loans to medium and small size businesses, and that's still not up and running yet.

So it was very helpful that we had an example to look back to to help the money market industry. So once that facility was put in place, we started to see rates come back down to what we would think more normal levels would be in a zero to .25 rate environment. We started to see the yields for commercial paper and asset-backed CP start to decline, and there was two-way traffic. You could buy and sell securities again over the course of the next couple of weeks.

The money market lending facility was strictly available for 2a-7 money market funds. So Florida PRIME and other state pools could not participate in it, but because the money funds

could, it had the benefit of making the market start to function more normally, which helped Florida PRIME.

And at that time, we didn't see lots of redemptions in the pool. As Amy was mentioning, this was a time when we were in contact with the clients on a regular basis. Everybody was kind of in that panic mode, waiting to see what was going to happen. But luckily we also saw CARES money start to come to the table, and a lot of the municipalities and school districts and people around the country, not just in Florida, started to see their money come from the U.S. government via the CARES packages, and some of that money has flowed into Florida PRIME.

Maybe for a quick second I will just talk about what our expectation is for rates right now. And it might help to look actually two slides forward, on page 10. And this is the LIBOR yield curve. And it kind of helps explain in a picture form what I was just saying. The line at the top of the screen in dark blue, that's where the LIBOR curve was on June 30th of 2019. As you can see, it was trading in the 2 percent handle, 2.4 percent in the one month area, down to about 2.20 in the one year area.

Then you can see the gold line and then the medium blue line. The medium blue line is the end of December of 2019. And you can see every time the Fed cut rates, they cut by 75 basis points, you can see that yield curve line shifting.

Then we get into March of 2020, and that's the line in the middle of the page. It's kind of a light green color. This is right after the Fed cut rates. You can see how even though the Fed funds target range was at zero to .25, you can see how elevated the LIBOR rates were. They were still at 1 percent, up to about a 1.40. Once again kind of -- LIBOR is indicative of where we're seeing commercial paper and bank CDs trade. That's why that line remained so high on March 31st, even though the Fed had cut rates.

But now the bottom line is June 4th, and that black line is where our yield curve stands today. So Fed funds target is zero to .25. We can invest anywhere between call it 15 basis points in the one month area out to around 40 to 45 basis points in the one year area.

So that curve has remained pretty steady.

We are expecting that that's where it will remain for the rest of the year. We don't think that the Fed is going to raise rates anytime soon. Obviously, everything is going to be dependent on COVID, do we get a second wave, how quickly does the economy reopen. We all know that we reopened in certain parts, and now some of us are stepping back and closing things down again. So it's all going to be very dependent on what happens with the virus.

But that just means that the Fed will be in play, holding short-term rates at the zero to .25 range for an extended period of time, and they will keep the facilities in place and open in case they are needed. They will also continue with their quantitative easing program.

There's been lots of discussions in the press and from clients about what do we think about negative interest rates, will the Fed take rates to a negative level. And the answer to that is no. Chairman Powell, as well as various Fed governors, have publicly stated that they have no desire to take rates negative. That's a failed experiment in Europe and in Japan, so we do not think that will happen here. But we do believe that the facilities that are in place will continue, and you will start to see the unwind of those facilities before you see the Fed start to raise rates.

Now, do we think it's a zero rate environment like it was after the 2008 financial crisis? No, we don't. That lasted for ten years. We think that this time the low rate environment could be counted maybe in quarters as opposed to years, though it could be into 2022 that we will still continue to see this low rate environment, but looking at the bottom of that page, a positively sloped curve, just a lot lower than anybody -- any of us would have expected at the beginning of the year.

Let's talk about the pool now itself, and the next slide is the asset trend for the year. And you can see how, in the beginning of November, we start to see assets flow into the pool, and then as we get into the end of February, we start to see money leave. And we usually hit a lull in assets around that September, October time period. This is a typical pattern for, you know, years of Florida PRIME, and that's just an example of it in 2019

into 2020.

The next page, slide 12, is just the portfolio characteristics. You can all see the monthly holdings and the monthly newsletters about the portfolio on the Florida PRIME website, but this is a snapshot of where the pool stood at the end of March.

We did -- we continue to invest in the same security types that we always have. So you see asset-backed commercial paper, bank CDs, corporate commercial paper, as well as repo in the portfolio. You also note the floating rate securities. We have that broken out there. You can see asset-backed commercial paper, fixed and floating.

One of the things that we are doing recently is reducing the amount of floating rate paper that we own in the portfolio. In the current rate environment, fixed rate paper is a lot more attractive than floating rate securities. And the floating rate position has come down from about 24 percent to about 18 percent. We're letting that just unwind naturally as securities mature, and we're choosing to not add to that floating rate sector right now.

One of the other things that was mentioned earlier too is, throughout the COVID crisis, we have had lots of communication with the participants like we always do, but because of the CARES money and because of different participants maybe not having a very good idea of when they're going to need that cash, we have increased the weekly liquidity in the portfolio. We target around 40 percent of the pool to be held in weekly liquid securities, and we're maintaining that until we see how things start to play out as 2020 unfolds.

The other sections of this report are just the standard information about the securities, what are our top holdings. The most attractive paper we've seen really over the past year and even into 2020 is bank and commercial paper issuance from our Japanese, Canadian and Australian issuers that are on our approved list. So you continue to see the highest exposures in those countries.

You can see that reflected in the top ten holdings. The Japanese banks and some of the Australian and Canadian banks are really the highest yielding paper out there, and all names

that are very strong that our credit analysts are comfortable with.

Down at the bottom of the page, just a reminder that the pool is rated AAA by Standard & Poor's and, as such, has to maintain at least 50 percent in paper that is rated A-1+ on a short-term basis. You can see it was at 62 percent at the end of the month.

And you can see the breakdown of the portfolio by maturity. Remember, we can only buy securities out 397 days as a maximum maturity. And the weighted average maturity was 39 days at the end of the month and 73 days for the weighted average life. That takes into account the legal final maturity of the floating rate instruments.

So let's look at performance for a minute. There are two pages in here, one for the performance at the end of March, and then we've given you the update for the performance at the end of April, too. And I also have a page for May. I don't know if that was handed out to the board or not. But during the month of March, we beat the index by 6 basis points. That started to improve during April, where the pool beat the index by 10 basis points. And if you have the

May numbers there, we're actually beating the index by 25 basis points for the month of May. So the performance of the pool versus the benchmark has been improving throughout the past couple of months despite the virus.

Today, you can see at the end there of April, it looks like the yield was 95 basis points. Remember, that was still when rates were kind of elevated for commercial paper and bank CDs. Today the yield of the portfolio is down to 47 basis points. So it's still a little bit high because about 18 percent of the portfolio is still invested in securities that yield between 1 and 2 percent. But as those securities mature off, we're going to be reinvesting at that lower yield curve that I showed you on the graph.

And then finally I'm just going to end with the stress testing results. This is where we look at the price, the one dollar price of the fund as well as the liquidity in the portfolio and make sure that the portfolio is structured so that we're always maintaining a stable NAV, a stable one dollar price, and have enough liquidity for the participants.

I will tell you that one of the things that

we changed in light of the COVID situation is in the next page, which is the footnotes, and under the green footnote for credit event, typically we were stressing the European bank exposure in previous years for where we felt there was the most risk in the portfolio.

This year we started to stress all of the bank holdings that we own, whether they're domestic -- or, I'm sorry, whether they're from the UK or from Europe. We were also stressing any oil company exposure we have, because recall oil prices plummeted to about $15 a barrel at various points in time throughout 2020. And then we stressed travel and leisure exposure that we might have had.

So we're stressing a much bigger portion of the portfolio. It's about 57 percent of all the securities we own we were stressing to a spread widening of about 50 basis points. And just as a reminder, you might think, well, why didn't you stress things like airlines or energy type companies. Those types of companies are not on the approved list. They are not rated high enough to be issuers that we would invest in in the pool, so that's why you don't see those listed there.

But I guess the bottom line here on the stress testing results is that at the end of March, the pool could withstand 40 percent redemption all in one day and a stress of 50 basis point increase in interest rates, which we don't think that's going to happen, a credit event stress for that 57 percent of the portfolio's securities widening by 50 basis points and for the floating rate instruments that we own, which were about 28 percent in March, to widen out by 50 basis points. And the price, the one dollar price of the fund would stay at a dollar, and we would have enough money to meet the redemptions of the participants.

Thank you for indulging me there. I know that's a lot of information. And if there's not any questions, I can turn it back over to Ash.

MS. CANIDA: Chairman, I have a question. This is Tere Canida. Can you hear me?

MS. WILHELM: Yes.

MS. CANIDA: Okay. Paige, I know that you said that you don't anticipate negative rates, but have you guys done some case studies and stress testing in case this does happen?

MS. WILHELM: Yes, we have. But the one thing to remember for, you know, a pool like this is that when interest rates fall, the price goes up. So if interest rates were to fall any lower, the price, the one dollar price would continue to move up. So really, from an interest rate standpoint, what you're more concerned with is interest rates going up, which could cause that NAV, that price to drop.

MR. OLMSTEAD: Mike, did you want to make any other comments?

MR. COLLINS: Mr. Chairman, this is Peter Collins.

MR. OLMSTEAD: Welcome.

MR. COLLINS: Mr. Chairman, this is Peter Collins. I'm on the call. Sorry I'm late.

MR. OLMSTEAD: No worries. Glad to have you. Mike, I didn't know if you wanted to make any comments because we couldn't hear you earlier or --

MR. McCAULEY: Just maybe one last comment just to underscore just kind of the theme that Aon and Federated have already stated. The pool has withstood not just the last few months very well but really the last several years. And on a fiscal year basis, we're approximately 1.8 billion higher. We haven't really kind of gotten the final numbers for today at the end of the fiscal year, but the last several days have been positive.

So I would expect we're going to end up with a year-over-year growth rate of a little under $2 billion, which is very good. And that's on the heels of the last two or three years roughly being in the same position. So it's just, you know, kind of a kudos to Federated's management of the portfolio and all the SBA staff that work on the pool, financial operations, accounting, et cetera.

I mean, it's just a very well-run program and well-liked by the participants and really offers them -- you know, from a tax-paying perspective, offers a very, very attractive investment program for local governments throughout the state. That's all I had.

MS. MICHALISZYN: And that growth is amid COVID, when money would typically be flowing out, and we've seen a little bit of the seasonal outflow, but we see some CARES money coming in. And I think what we have to remember collectively

is people still have a choice, and they've continued to choose Florida PRIME for those CARES assets. So that really shows up on page 11. I don't know if we hit that really hard when we covered that page, but you can see the March '19 through March '20 and then May '20, and it shows higher lows for sure.

MR. OLMSTEAD: Well, it looks to me that we are beating benchmark. We have 743 happy participants, and we're up significantly year over year. So congratulations to all those involved.

If there aren't any other questions on Florida PRIME, we can segue over to Mr. John Bradley. And we're a few minutes behind, so I'm sure John can talk fairly quickly, although this is a meaty and fun subject right now. But let's talk private equity.

MR. WILLIAMS: Mr. Chairman?

MR. OLMSTEAD: Yes, sir.

MR. WILLIAMS: One sec, if we could. I believe -- and, Mike, confirm if I'm wrong here. I believe that we need to vote on the investment policy statement for Florida PRIME, which is part of the annual certification of the propriety of the investment policy, and this would be consistent with the recommendation that Aon made earlier.

MR. NEAL: So moved. This is Pat Neal.

MS. CANIDA: Second.

MR. OLMSTEAD: All in favor?

(Ayes)

MR. OLMSTEAD: Opposed? We're good. Thanks for inserting yourself there, Ash. I was on the second page, ready for John. We are not hearing you, John.

MR. WILLIAMS: We need audio for Mr. Bradley.

MR. OLMSTEAD: We see your lips moving, but no words.

MR. WILLIAMS: It's actually one of the better speeches I've heard you make, but . . .

MR. KUCZWANSKI: John, if you're using a phone, you may need to call back in. Mike was having an issue as well.

MR. WILLIAMS: Thanks, John.

MR. BRADLEY: How about now?

MR. WILLIAMS: Good. Roll it.

MR. BRADLEY: Can you hear me? Great. Thank you. And, John, I can't turn the slides,

so you might need to click through them for me.

MR. KUCZWANSKI: There's a slight delay, but you did move it.

MR. BRADLEY: Okay. I'll get the hang of this here. Good afternoon, everyone. I'm John Bradley, senior investment officer, private equity. And it's my pleasure to present the private equity asset class today in this GoToMeeting format. GoToMeeting is in fact one of our private equity portfolio companies, so it's great to see us using it today for our first virtual IAC meeting.

Also joining me today live from their homes is Wes Bradle, Wes is a senior portfolio manager in our asset class, and Sheila Ryan. Sheila is a member of our consultant team at Cambridge Associates and joins us from Boston. So we will hear from Wes and Sheila here in a few minutes.

So with that, we'll jump right in. Here's the agenda and what we plan on covering today. I'm going to quickly take us through the policy and process sections and really focus my time on the overall portfolio, its performance, composition and exposures.

I would note for everyone our data is as of

12/31, as we are just now receiving and finalizing the last of our 3/31 financials, but wherever possible I will speak to what we have seen as of late, particularly as it relates to the impact of the coronavirus. Wes is then going to take over and walk us through our four main sub-strategy groups within the portfolio, and then Sheila will wrap it up with a few slides and comments.

John, the deck is not moving, but -- there we go. The private equity asset class, we have a target allocation of 6 percent of the total fund, with a targeted allocation range of 2 to 9 percent. As of the end of May, our allocation stood at approximately 7.8 percent. As of close of business yesterday, our allocation was approximately 7.4 percent.

Moving to the next slide, here we see our goals and objectives. They are to create a portfolio that outperforms our benchmarks, to avoid concentrated exposure to any particular vintage year, manager, strategy or geography, and to focus on keeping the number of managers in the portfolio low, so to invest with conviction and to invest with discipline.

Moving to the next slide, our asset class has two benchmarks. Our primary benchmark is the global equity benchmark, which is the MSCI ACWI IMI plus a 300 basis point premium. This is an opportunity cost benchmark, and it measures the decision to allocate to private equity.

Our secondary benchmark is a peer benchmark. It's the Cambridge Associates Global Private Equity and Venture Capital Index, and measures our effectiveness in selecting managers, so are we selecting top funds, is our process working.

Moving to the next slide. Our asset class has a staff of six. We have three senior portfolio managers, one portfolio manager, a senior analyst and myself as SIO. Cambridge Associates, as I mentioned, is our asset class consultant. They provide support and assistance with our program, including things such as market research, operational due diligence, help sourcing new fund ideas. And then also in addition to the diligence our SBA PE team does, Cambridge does their own independent due diligence on every fund we invest in.

We can move forward. We have four components to our investment process. I will walk us through each of these on the following slides. Next slide, please. So first is the creation of our annual investment plan. Our aim here is to focus our efforts and our resources on areas of need within the portfolio or the most attractive areas within our markets.

We use a number of tools when putting this together each year, including our portfolio construction model, our heat map, where we're ranking areas by attractiveness and exposure, a focus list of GPs coming back to market and a multi-day on-site with Cambridge Associates. Move to the next slide.

MR. OLMSTEAD: Hey, John, just a quick question. This is Vinny Olmstead. So if I compared this year versus last year, it seems like a little bit of a de-emphasis on Asia and a little bit of an increased emphasis on growth equity. Is that a fair characterization of the sort of -- the little bit of a shift in the strategy?

MR. BRADLEY: That's correct, yeah. And so, you know, our growth portfolio continues to do well. We think growth will continue to do well coming out of this crisis, so that was moved up.

And then Asia really just represented a little bit of a decrease in the attractiveness of the largest market, China, just given a lot of the political discussions and trade war. And so that fell a bit in our priority list.

MR. OLMSTEAD: Thanks for the context.

MR. BRADLEY: Okay. So this slide -- John, we'll go back one -- covers sourcing. So sourcing is very important for our asset class. Aside from re-ups with our existing GPs -- John, go back. Yeah. Keep going. One more. So aside from re-ups with our existing GPs, we are constantly trying to identify and ultimately gain access to top GPs around the globe.

And while it takes years to build these relationships, this funnel shows the work that goes into finding what was for us four new GP commitments for 2019. And so we reviewed over 200 funds. We moved 24 of those funds to diligence and ultimately approved and made commitments to four GPs that were new to our program. We also made commitments to 19 GPs that were existing in our program, so a total of 23 funds we made commitments to during the year, four of which were new that we had never invested with.

Next slide. So we have a very fulsome and process-oriented due diligence process. Our goal here is to be consistent in the application of this process across every single fund we review. So from the initial screening and fund review to the signing of legal documents and closing, the process and, importantly, the stages of our process are consistent.

And that consistency, coupled with an SBA PE team that's been stable and invested through multiple cycles, should produce above-average results. And fortunately, that's what we've achieved so far.

Next slide, please. Here we see the stages in our due diligence process. At each stage in this process, as we work our way down to an approval memo, a recommendation to invest, our team debates and decides whether or not an opportunity merits moving on.

Most funds don't make it past the preliminary diligence phase. Those that do move to our full diligence, where we produce what we refer to as an interim diligence summary and then on to an approval memo. I would say getting to

these final stages takes on average about three months.

Go to the next slide, John. We use a number of tools to get to this decision, including a 112-question DDQ, as well as a quantitative data request that collects 71 data points on each company in previous funds. These tools and importantly the standardization of these tools gives us a consistent framework when considering new investments.

Next slide, please. Here we have some examples of our portfolio monitoring efforts. I won't read them but will note that we are very, very active with our funds.

You can move to the next slide, John. So I'm now going to shift my focus to the overall performance of the asset class. And as I mentioned earlier, Wes will walk us through the subcomponents and their performance in a moment.

But overall, since inception, our PE program has committed over $28 billion to 273 funds. Our cumulative paid-in capital is 21.6 billion. And we have received distributions back from our funds of 21.9 billion, which gives the program a DPI or a distributed to paid-in capital ratio of

1x. And so this 1x DPI is a milestone for any PE program, and it's definitely something that we're proud of.

Our program has 12.8 billion in remaining value, which gives us a TVPI or total value to paid-in multiple of 1.6x and value creation in dollar terms that's $13.1 billion.

Next slide, please. Asset class performance as of 12/31 is seen here. The portfolio had a very strong one year return of almost 19 percent. Although it trailed our benchmark return of a whopping 29 percent, we are outperforming the benchmark over longer time periods, which is a much more meaningful measure for our asset class.

As I mentioned, we are receiving the last of our Q1 financial statements and finalizing performance as we speak. Preliminary observations look like our PE portfolio will be down somewhere in the range of 9 to 10 percent during the quarter, which compares very favorably versus our primary benchmark, which was down about 20 percent.

We can go to the next slide. Here we see performance of our program by vintage year. The benchmark we use here is our secondary or peer

benchmark. And so this gives us a sense of the performance of the GPs that we invested in in a given vintage year versus the universe of GPs that rates funds in that vintage year.

The green bar represents our IRR, and the blue squares, the corresponding Cambridge benchmark return. I believe we have done a great job as a team in selecting managers. We have outperformed our benchmark in 18 out of 21 years, or an 86 percent success rate.

Next slide, please. And so this slide covers our cash flow. We continue to see strong distributions from our program, as we ended 2019 with positive net cash flow. This was the sixth year out of the last seven where that was the case. And at the moment, 2020 is continuing this trend.

I think it's interesting in that, similar to what we witnessed in 2009, our contributions have decreased by about 60 percent since the stay-at-home orders were given and the U.S. went into lockdown. So new PE deal flow had all but stopped. However, what's different this time is our distributions have actually increased by approximately 15 percent.

A majority of this increase in distributions has come from the sale of publicly traded shares, and the selling of publicly traded shares has been very strong over the last few weeks. And so if there are any questions as to how our private equity GPs feel about public market valuations, this is probably as strong of a signal as I can think of.

Next slide, please. Here we see our current allocations to our four sub-strategies in the portfolio, as well as our targets, which can be seen in the red column. The blue column shows our current allocation as of 12/31, and the total exposure column, which is the green column, will add our unfunded commitments to our current NAV and gives us an idea as to where our allocations might be headed.

This green column really gives you a good sense as to where we've been building our dry powder. And I would say, while we had no idea that the world would experience a global pandemic, we had begun shifting some of our allocation to our distressed and secondary sub-strategies. So, in fact, today almost a third of our dry powder sits in distressed and

secondary strategies, both strategies that tend to outperform in times of volatility and dislocation. And so we like how that's positioned.

Next chart, please. Here's another look at the composition of the portfolio at year end. We have 204 funds managed by 67 GPs. Forty-eight of those GPs we consider core or GPs that we will continue to invest with going forward. And then on the bottom of the slide, we have the geographic and sector breakdown of those 48 core GPs.

Next slide, please. This slide shows our largest exposures by GP. So 63 percent of our portfolio NAV is concentrated in these 15 firms. Our largest partner is Lexington Partners at 11 percent of the portfolio, and the majority of that is coming from our co-investment program, which Lexington manages.

Go to the next slide, John. Here we see our geographic breakdown. Our portfolio remains overweight North America. We are continuing to source and build relationships in Europe and Asia and do expect to add exposure to these geographies over time.

Next slide, please. Next is our sector exposure, which is shown here versus our Cambridge peer benchmark and our public market benchmark. Of note is that we continue to have an overweight to the tech sector. This overweight has served us well through the market downturn created by the COVID crisis.

As of March, our GPs focused on the tech sector. Their Q1 performance, they were down on average only about 5 percent. And so they greatly outperformed the market. I also think that this overweight will continue to be advantageous to our portfolio as economies recover and consumers and businesses look to use new technology in ever new ways and at an increased rate.

Next slide, please. So this slide, this slide highlights a few sectors within our portfolio and looked at the impact that the COVID crisis had on our portfolio companies. As Alison mentioned earlier, you know, when the crisis began, we went through a fairly large effort, with the help of our GPs, where we looked at every company in our portfolio, which numbered over 2,000, and did a red, yellow, green analysis

relative to the impact the COVID crisis had on their business.

As states and communities have begun to open back up and get somewhat back to normal routine, we have seen recovery across our portfolio, but this analysis, which was done in the peak of the crisis, gives us a really good sense as to where challenges existed in the portfolio and, in the reverse, where some real bright spots existed.

I think the real value here is looking at the relative percentages in the green and red categories. And I would note for everyone that being in the high impact category does not necessarily mean that the GP will lose the company. It really just signifies a much higher chance of underperformance, a much more acute impact from the COVID crisis and much more work to do for the GP to stabilize the business and ultimately get back to a successful outcome.

And so to look at some of these sectors, I'll start with energy, it should come as no surprise, from looking at that sector, that a large portion of that portfolio is in the high impact category. Oil prices have recovered quite a bit. They were in the high teens when this analysis was done, to the high thirties today. But the challenges in this portfolio are many. We have a neutral weighting versus the benchmark here, but we do expect some underperformance in our energy book.

As you might expect, our tech and health care portfolios are in much better shape. It's a great anecdote for the market today, but our largest tech position in the high impact category recently had a very successful IPO. And so it just really highlights how quickly things have recovered, at least in the financial markets.

Our consumer portfolio is mixed, so our faster growing, direct to consumer, think e-commerce businesses, they've done really well. Most have -- and many have gained market share. While our slower growing, brick and mortar retailers, anything having to do with travel or live events, those companies have struggled and continue to struggle and remain in bad shape.

On an overall basis, the positives in our portfolio, as you go through this analysis, the positives and the neutrals outweigh the high impact, which we think should put us in a good position versus our peers and definitely versus

our benchmark.

And so we can move to the next slide. And that's all I had for now. I will turn it over to Wes. Wes will take us through each sub-strategy within the portfolio, and then we will hand it over to Sheila from Cambridge for some closing comments.

MR. BRADLE: Great. Thanks, John. Ash, can you hear me?

MR. WILLIAMS: Yes. All good. Well done, John. Thank you. Wes, fire away.

MR. BRADLE: Perfect. So good afternoon. My name is Wes Bradle. I'm a senior portfolio manager on the private equity team, and today I'm going to highlight our sub-strategy exposure and the performance of each sub-strategy.

So this slide on page 25 shows our target sub-strategy buyout allocation by size. And on the right side you'll notice that 75 percent of our buyout portfolio target is to small and middle market funds. And the reason for this overweight is that studies have shown that small and middle market funds have a greater potential to outperform and a lower correlation with public markets.

Next slide. All right. So in order to implement these sub-strategy allocation targets, it requires a greater number of small and middle market buyout firms, which you can see in the middle and right-hand columns on page 26.

We manage our buyout portfolio a little bit like the farm system in major league baseball. So as smaller managers in the portfolio experience success, they raise larger funds that eventually become middle market firms. They demonstrate success in the middle market. They raise larger funds and eventually move into the large cap space.

So for example, on the left column, under large cap buyout, you'll see the last firm listed is a technology-focused firm named Thoma Bravo. And we invested $50 million in Thoma Bravo in 2008 when their buyout fund was $800 million. We invested with additional funds as they moved into the middle market. And then in 2018 we invested $150 million in Thoma Bravo's buyout fund that was $12.5 billion.

Since that time we've backfilled our small and middle market exposure with other technology-focused buyout funds like Rubicon and

Accel KKR, who you see on the far right side of the page. And if these groups outperform, we'll continue to back them as they grow in size.

Next slide, please. All right. In terms of sector exposure, as John mentioned, information technology is by far the largest exposure within buyouts at 48 percent. This has been the case for multiple years, as technology has outperformed the broader market.

And, look, our team has debated this overweight multiple times. I feel like more times than I can count. And we've debated, you know, whether we should commit less capital to this sector, but we continue to remain overweight for two reasons. The first one is we just feel like there are secular tailwinds in IT, as businesses and consumers migrate from offline to online. And these tailwinds are expected to continue, even maybe strengthen due to what we've seen with COVID-19.

And then second, technology now cuts across every sector. So for example, Autotrader, is it a media company or a technology company? Is Amazon a retailer or is it a technology company?

And so because of that, we think that our technology exposure match should be overstated if you were to reclassify some of these technology companies based on their end market sector exposure. So this would be things like travel, leisure, energy or financial services.

I'd also note on this slide, in terms of geographic exposure, North America remains our largest geography at 71 percent. But as John mentioned, we continue to focus on expanding the portfolio into Europe and Asia to better match the benchmark.

Next slide, please. Okay. So slide 28 highlights what a few of our buyout firms have done during the coronavirus pandemic. As you can see, they've taken advantage of market dislocation and leveraged their relationship in order to invest in high quality companies as downside protected security.

One investment I'd highlight on here is the investment Charlesbank made in Wayfair in April of 2020. And, look, all this information is public, so just in case anyone was wondering. But the convertible senior notes that Charlesbank invested in, they have a 2.5 percent interest rate, and they convert into Wayfair shares at

$72 a share, and today the stock trades at almost $200 a share. So, I mean, it's all on paper, but it looks like a great outcome for them so far.

Next slide. So slide 29 shows the performance of our buyout portfolio, which remains strong. It's outperformed the benchmark over all time horizons and has outperformed the public markets by 530 basis points.

Next slide. Moving on to venture capital on slide 30. So as you probably expect, there's a large overweight to technology within venture capital, which is fairly evenly split between enterprise and consumer.

You'll notice on the bottom right hand of the page, the chart highlights the fact that more than 50 percent of our venture portfolio is in early stage companies, where we continue to see innovation across a host of -- actually, it's really every sector, there seems to be some type of innovation going on, and we think that's going to continue.

Next slide, please. So in terms of performance, our venture portfolio continues to outperform the benchmark on a one, three, five and ten year basis. It does underperform the

S&P 500 IT Index by 350 basis points. And the reason for this is that the index is dominated by large companies like Microsoft and Apple, as well as fast-growing companies like Nvidia and PayPal.

And just to put things in perspective, over the past five years, Microsoft has generated a 33 percent annualized return. Nvidia has generated a 58 percent annualized rate of return, and PayPal has generated a 22 percent annualized rate of return. I think Apple is in the low twenties as well.

So obviously these returns are quite difficult to compete with. That being said, a few of our venture-backed companies have IPOed recently, and they've outperformed the public markets. One of those I think we have a million and a half dollars of cost in, and today it's returned close to an 80x, 80x, and it has doubled since it IPOed, so -- and, again, it IPOed right before coronavirus. But, you know, things are looking good in terms of what lies ahead for our venture portfolio.

Next slide, please. Slide 32 highlights our distressed portfolio. As a reminder, the focus of this strategy is to take control positions in

companies and fix them. So whether that's buying companies out of bankruptcy or buying them from a distressed seller, many of our distressed and turnaround firms create value through operational improvement, balance sheet restructurings or both. And as you might expect, the portfolio is currently weighted toward sectors that are challenged, those sectors like industrial and consumer retail.

Next slide. In terms of performance, our distressed/turnaround portfolio continues to outperform the benchmark on a one, three, five and ten year basis. It's also outperformed the public market equivalent by more than 1100 basis points. Our funds in this strategy could be very active in the next 6 to 12 months, maybe even 18 months, as coronavirus disruption leads to a wave of bankruptcies and restructurings.

And we actually heard recently that the number of global corporate defaults in 2020 has already surpassed all corporate defaults in 2019. So if that's any indication of what lies ahead, our distressed and turnaround portfolio should be pretty active going forward.

Next slide. The last sub-strategy I'd

highlight is our secondary portfolio, which is on page 34. It's concentrated in two large relationships. And while this part of the market has been pretty competitive over the last few years, we've leveraged our relationship with Lexington to coinvest alongside them in numerous secondary transactions, which has allowed us to tactically increase our exposure to high quality private equity funds at attractive prices, which we think is going to hold up really well in the current environment where we've seen more volatility and some lower quality portfolios have issues.

Next slide, please. And then in terms of our performance, our secondary portfolio has performed in line with the benchmark on a five and ten year basis. It's also outperformed the public market equivalent by 680 basis points.

Now, you'll see here the one and three year returns are lagging the benchmark. And this is driven by some underperforming older funds that should hopefully roll off over the next few years. And then there's also a bit of a reporting lag. Our two relationships have very large portfolios. I spoke with both of them, and

they both had a material uplift in Q4. But because of the lag, some of that didn't get captured in these numbers. And both of them, I believe, are reporting one year returns of around 13 percent. So, yeah, I think we'll see that one year number pick up.

But, you know, this is something we'll continue to monitor to make sure this isn't a long-term trend. In addition, as John mentioned earlier, our secondary funds may be active over the next 6 to 12 months, if we see limited partners have liquidity issues and a need to sell.

And so with that, I'm happy to answer any questions. And if not, I'll turn it over to Sheila Ryan with Cambridge Associates.

MS. CANIDA: Chairman, this is Tere Canida. Wes, have you seen, you know, since COVID, that industry purchase models have compressed, or given the volatility, is it too early to tell?

MR. BRADLE: Are you talking about in terms of secondaries?

MS. CANIDA: Yes.

MR. BRADLE: I mean, yeah. I mean, across really the portfolio, processes basically, as of

March, maybe end of April, there are a few things that closed, but then everything just basically got delayed. And so the only people who were selling in April, May and June, you know, were people who are distressed. And I think we saw a little bit of distressed, but then once public markets rebounded, that took a lot of pressure off of people.

So, you know, we'll see longer term. You know, there may be -- we'll see what happens with the health care systems, endowments of health care systems, if they have issues. Middle Eastern investors who have a lot of exposure to oil, they may have some liquidity issues and need to sell. But we haven't seen a lot of pickup lately, but we're hopeful that we may see something in the next -- like I said, maybe the next 6 to 12 months. John, I don't know if there's anything else you'd add.

MR. BRADLEY: No. I think you said it perfectly. I think on the buy side, when we talk to our funds, there's really this sense of waiting for 6/30 valuations to come out to really get a good sense of, you know, where these portfolios should be priced for an appropriate

return. So we would think it will pick up in the next six to nine months, but it will be fairly slow and low volume until then.

MS. CANIDA: Thank you.

MR. OLMSTEAD: Wes and John, Vinny Olmstead here. Two quick questions. And thank you, Tere, for that question. You probably don't have the answer ubiquitously but more anecdotally. Are your funds seeing any change in valuation and are they seeing any impact on the ability to lever?

Those two trends were getting -- again, they seem to be hot. Valuations seem to be getting pretty frothy out there. Leverage seems to be heading up to six and seven. I didn't know if you see any changes in your investments or anecdotally from some of the companies that you're working with.

MR. BRADLEY: On the valuation front, I'd say not yet, or at least, you know -- or on the GP side, you know, we think GPs have said, hey, valuations are getting cooled down. Obviously there's a lot of uncertainty in the market. There's a lot of uncertainty as to what revenue and EBITDA might look like in these companies going forward. On the seller side, you get that normal situation where the seller's expectations really haven't adjusted yet, and so there's still a pretty sizable bid-ask spread in the valuation side.

On the financing side, you know, things are getting financed. Banks are still out there. They're putting leverage and giving loans to these companies. What we've heard anecdotally, though, is, you know, if it was -- you could lever seven to five times, you know, at the beginning of this year. That's probably pulled back two turns. So that's probably a five to four times leverage.

And then covenants, you know, off of really what were zero covenants, covenants have started to come back in. But what we've heard is that the financing market still remains open and it's still attractive for deals that can get done.

MR. BRADLE: And, Vinny, if you remember that earlier slide of recent activity you saw, a lot of our firms, you couldn't get -- you couldn't get leverage in April and May, so they went in the public markets and did a lot of really interesting things, which in hindsight it looks like we're going to have great returns

there.

But now public markets have rebounded, and so there's a question of, you know, you can get some leverage but, you know, not what you're used to. And so we haven't seen a ton of activity, I would say, in the last month.

And I think now, to John's point, banks are starting to reopen, and it seems like there's going to be more to do but, you know, does anyone want to sell off of, you know, a low EBITDA number which they think is going to come back in the next six months.

So it may be a little bit like coming out of the crisis in '09, where it takes three to six months for the market to ramp back up in activity. But I think we'll see that happen again eventually.

MR. OLMSTEAD: Thanks, Wes.

MR. GOETZ: Mr. Chairman, this is John Goetz. Do we -- I know debt -- the leverage had trended up over the years. Do we have a feel where, if you look at this portfolio as a whole, where the leverage is today?

MR. BRADLEY: Yes. Let me pull that up for you. So we -- you know, and a few metrics there.

Overall portfolio leverage within our portfolio sits at 3.4x. So that's a total debt to EBITDA number. If we compare that, we've gone through and we do this on a regular basis and compare it to just different benchmarks.

If we compare it to the Russell 3000, so just the broader U.S. public market, that's about 50 percent higher. So the Russell 3000 sits at about 2.2 when we did the analysis, versus the Russell 2000, which is the small cap benchmark, which is probably much more indicative of what our portfolio looks like from a size perspective. Our portfolio is actually 16 percent less leveraged than the overall Russell 2000, which sits at 4x.

We also -- it would be a good follow-on question, but we stripped out financials from that, as they tend to be the most highly levered companies in the public markets, and we're about leveraged the same as the Russell 2000. And so I think the difference there was a 9 percent difference.

And so the portfolio, it's higher levered, as you would expect in a private equity portfolio, but it's not to the tune of two, three

times levered. It's about 56 percent leveraged, if you looked at it against the Russell 3, and then about the same as the Russell 2 if you exclude financials from there.

MR. GOETZ: Thank you.

MR. KUCZWANSKI: Sheila, this is John Kuczwanski. Could you turn on your webcam? You're using a web-based service instead of the app, and I can't control that. Thank you.

MS. RYAN: Good. Does that work? Yeah. Looks like we're on.

MR. KUCZWANSKI: Thank you.

MS. RYAN: Okay. Looks like we're on. Hold on. Let me just get back here. I think I clicked a couple of slides by accident. It was working a second ago. Hold on. Let me try it again. If not, John, I'm going to ask you to move to slide 7 for me. Great, perfect.

Yeah, I'm skipping over a few of the performance slides because Wes really already spoke to those, but I did want to focus on this one because it's a little bit different from some of the information that was previously described. And this is performance relative to the other clients that we work with on their private investment portfolios.

And you can see the sample size there on the bottom. So depending on the time period, it's between 400 and 500-plus portfolios that we're comparing the performance of the SBA's PI portfolio.

And you'll see, over three, five and ten years, it's top quartile performance relative to our other clients. The one year number is second, but it's still probably pretty early for that number, and we typically like to look at it over longer periods of time. So I think the three, five and ten year numbers are probably better to look at anyway. So I just wanted to mention that really great performance certainly across a peer -- you know, 500 peer portfolios.

John, could you move to slide or page 14 of this deck? There you go. Great. Thanks. Now, this is showing exposure over time within the private portfolio. And the blue is buyouts, and the green there in the middle is venture capital. And what really jumped out at me is, when we look at an institution of the size and scale of the State Board, you know, it's typically very challenging to get meaningful venture capital

exposure, because the funds are fairly small, access is pretty constrained, but it's sort of impressive, the scale and ability to really grow that venture capital exposure.

And as Wes alluded to earlier, that exposure is generating some very nice results, 22.5 percent net IRR for one year and 18.2 percent for three years, outperforming the buyouts by anywhere from, you know, 1 to 400 basis points. So kudos to the team for really chipping away and building out that venture exposure, which is not easy to do.

I'm then going to turn to slide 17. And there's a couple of slides here I wanted to talk to about the current environment, and the reason being is that there's a lot going on, and the SBA has about 7 billion in unfunded commitments right now. So these are -- this is commitments that have been made to a manager but the capital hasn't been called down yet.

And so the next couple of slides looks at what is the environment for investing this capital, given what's going on with the dislocation. So there's a couple of slides here. The first slide here is showing where we are over time, and so the blue line is showing the kind of timeline, so to speak, of the global financial crisis.

So there was a meaningful percentage change, down to almost 30 percent over the first sort of seven to eight quarters. And during the tech bubble, it took -- it was more like a 12-quarter period of time.

So on a relative basis, we are still kind of early days. As John mentioned, the Q1 marks were down about 9 to 10 percent. Q2 marks, it's just the end of Q2 right now, so we're probably not going to get those marks for six weeks or so. And we would expect there to be a meaningful decline based on the Q2 marks. But it's still early, and really time will tell. But that's okay.

So if we go to the next slide, I want to ground folks here that the X axis -- we're all used to looking at an X axis grounded at a zero percent IRR. This one is actually grounded at a 20 percent IRR. So you need to sort of visually make that adjustment in your mind.

And what we're showing you here is private equity returns over sort of different time

periods. And you'll see on the right the global financial crisis in that sort of late '08, '09 time period. The funds that -- the sort of vintage year funds for those -- for the '08 and '09 time periods performed extremely well, exceeding 20 percent net IRR.

The same thing held true for the 2001 vintage funds, basically reaching the 20 percent IRR. So the point being is that capital being deployed at this point in the cycle historically has generated attractive returns.

The next slide is more data to support that. This is looking at multiple of invested capital for buyouts and venture capital and then capital loss ratios. So you'll see in the orange, that's the recessionary periods. The multiples are higher than in a pre-recessionary period, and the capital loss ratios on the right are lower. So just more data supporting that this is an attractive time to be deploying capital.

And then the next slide is just talking about how public markets performed relative to private markets. You'll see the S&P 500 there in the orange and how, during the global financial crisis, markets sold off there pretty steeply, and then comparing that to private equity and venture capital, private equity experiencing a meaningful downdraft but obviously not as much as public markets, and then venture capital being even that much less impacted because these are younger, growing companies with not much EBITDA or revenue to be impacted by.

Is there one more slide or is that -- I think that was it, right? Oh, yeah. There's just additional slides here. This is contributions and distributions during the global financial crisis and other periods of time. You'll see there, John already mentioned about contributions are way off.

So, anyway, those were just a few comments I wanted to make. I'll turn it back to Ash and others. If there's any questions, happy to answer.

MR. OLMSTEAD: Hey, Ash and John, real quick, Vinny Olmstead again. Has there been any conversation or debate -- you know, this is a pretty nice returning asset class for us -- of putting more money in or accelerating more investment into either new funds or your current partnerships?

MR. WILLIAMS: John, I'll give a high level on that one, and then you can come in. I would say John has been very, very focused on repositioning where the private equity book is, and he's been very selective about which GPs we have re-upped with and which we have increased scale with and which we have chosen not to re-up with. And I think that activity, in and of itself, has been very effective in improving the value proposition for our private equity investment book.

Beyond that, have we considered increasing the allocation to private equity as some of our peers have done, or in my mind, an even more radical idea, have we thought about levering up our existing private equity exposure or other parts of our portfolio?

The answer to both of those for the time being is no. And the reason is that our aggregate risk assets are already relatively high compared to those of our peers, and we're in process now of doing a very extensive review of where we are actuarially on the fund and thinking about ramifications of our funding ratio, recent market performance, low interest rates, et cetera, on where we are going forward.

And what we don't want to do is increase risk in the portfolio in a way that we potentially increase the downside risk of a short-term downdraft in a market shock to the portfolio and the related contribution shock that that could generate. That's kind of a big picture on it. John, what did I miss?

MR. BRADLEY: No. I think you said it perfectly. I guess the only other thing I would add, Mr. Chairman, too, is that we are limited statutorily in our allocation to alternative assets, which would include both our private equity asset class as well as our strategic investment asset class.

So when we think of the allocation there, I think the cap is 20 percent. We also have to think through the strategic asset class, their opportunities and their allocation as well.

MR. OLMSTEAD: And we look at your peer -- your peer group seems to be -- have a higher exposure to that alternative bucket?

MR. BRADLEY: That would be correct, yeah. I think there are a few of our larger peers that are similar to where we are, but probably more

than 50 percent are higher. I think it's typical to see allocations in the 10 to 12 percent amongst our larger peers.

MR. COLLINS: Mr. Chairman, Peter Collins. Do you think that there's going to be an opportunity like '08, '9 and '10 for secondaries, or is this -- because this is more in venture, then there's just not going to be that need for liquidity by a lot of limited partners and there may not be as much opportunity? What's your thought about the secondary side of it?

MR. BRADLEY: I think we think we will see -- it will be a busy secondary market environment. We think it's going to -- it's going to take a bit, as we said. People will want to see 6/30 financials. They'll want to see where these portfolios are marked.

And while we might not see the depths of distress that we saw in 2008, 2009, I think since then, LPs -- and we are one of them. Right? We've sold over, I think, 4 or $5 billion worth of assets over the last couple of years. LPs are much more active repositioning their portfolio, taking things to market.

And so what I think we will see is, as

markets recover, people might step back and say, am I positioned where I want to be? If not, let's go access the secondary market. I think the more people that do that, the more supply that's out there, I think that pushes prices down. And for people like us that might have some dry powder there, that could possibly be a good thing. And I think we do think that opportunity will realize.

MR. BRADLE: Yeah. Peter, maybe what's a little different this time is that in '08, '09, almost everyone had liquidity issues, from high net worth, pensions, governmental funding, banks, everyone, whereas this time around, you know, it feels like there may be pockets of liquidity.

So if you have a bunch of energy exposure, or again maybe if you had exposure to your hospital system and you're much more focused on just making sure you manage COVID-19 and not managing -- not managing, but you're less focused on making new investments, there may be some things to do there. But it seems a little more idiosyncratic this time than it did in '08 and '09.

MR. COLLINS: Thanks.

MR. OLMSTEAD: Okay. Great. Thanks to both of you for that presentation and for the great results. It will be interesting to see how the second quarter bears out, but super job there. Appreciate that.

I think the next subject is defined contribution. Unless you have any other comments before that, Ash, we can move over to Daniel.

MR. WILLIAMS: No. I'm fine. Go on to Mr. Beard. Thank you.

MR. BEARD: Thank you. Can everybody hear me?

MR. WILLIAMS: Yes, sir.

MR. BEARD: Okay. Thank you. John, if you could go to our first slide, please. It's not letting me move the slides. Thank you. A bit too far. Okay. Good afternoon, everybody. So today we're going to do a little deeper dive into the Florida Retirement System investment plan. We'll give you a little more detail, a little more data, a little more information on our service providers.

Along with me presenting today will be Mini Watson, she's our director of administration, and Walter Kelleher, who is our director of educational services.

So the Florida Retirement System is made up of two plans, the pension plan and the investment plan. The pension plan is a traditional defined benefit plan. That plan has been around since 1970. And then in 2000, the legislature passed a law and created the defined contribution plan, or what we call the FRS investment plan. The first members enrolled in the investment plan in July of 2002.

You see there our assets were 10 billion. That was as of March 31. However, as of yesterday's market close, we were at 10.6 billion. That does not include the self-directed brokerage account. If you add that in, then we would actually be slightly or about even with where we were last fiscal year, which was 11.2 billion.

We go to our next slide. So all new employees, all new hires in the Florida Retirement System, they have to choose between the pension plan and the investment plan. They have approximately the last business day after -- they have eight months after their hire month to make their choice.

If they don't make a choice by the end of that period, they will default into the investment plan, and that counts as one of their choices. All employees have two choices, one they have to use when they're first hired and then a second one that they can use any time during their working career.

The only employees or new hires that do not default into the investment plan would be those who we consider our first responders. We call them special risk. That's your firefighters, policemen, correctional officers. They all, if they don't make an active choice, they will default into the pension plan.

The Division of Retirement, which is part of the Department of Management Services, they're responsible for the day-to-day administration of the pension plan. The State Board of Administration is responsible for the day-to-day administration of the investment plan. And that's all major components, such as record-keeping, custodian services, et cetera.

We go to our next slide, governance of the investment plan. So, again, the legislature passed a law in 2000 which mandated the establishment of a defined contribution plan. It also stated that the State Board of Administration, the trustees, would be the responsible governing entity of that plan.

John, if you could go to the next slide for me, please. Thank you. The executive director and chief investment officer, he was -- he or she, in this case it's he, Ash -- was delegated authority by the trustees to oversee the implementation and ongoing oversight of the investment plan. And then the deputy executive director and the deputy chief investment officer, they provide guidance and input on investment plan activities.

Next slide, please. The chief of defined contribution programs, that's my role, is delegated authority by the executive director and CIO to oversee administrative duties and the overall contract management of all the service providers. And then the Investment Advisory Council, which is this governing body, you have a role as well, and that role is defined by statutes, as you see there.

The next slide provides the organizational chart. As you can see, I report directly to Ash.

I also have four direct reports to me. Mini Watson, who I already mentioned. There's Allison Olson, who is our director of policy, risk management and compliance. There's Stephen Tabb, who is our director of investment management, so he oversees all the interaction with our investment managers. And then Walter Kelleher, who I mentioned, as our director of educational services.

We also have two other employees, Cindy Morea. Cindy Morea is our fiscal analyst. She ensures that all our bills are paid on time, and then she tracks our spending compared to our budget. And then Ruthie Bianco, she assists Allison with the complaints and compliance.

On the next slide, the Florida Retirement System, there are approximately about 980 participating employers in the Florida Retirement System. As of -- you see the membership as of March 31. However, as of May 31, we have approximately 239,000 members who are in the investment plan. That includes 170,000 which are active. And then in the pension plan there's currently 484,000 active members as of May 31st.

Next I'll turn it over to Mini Watson, and she's going to go through some of the plan administration. Mini, we can't hear you. John, if you can put up Mini's slides, I'll go through them until she can join in.

MR. COLLINS: She looks like she's intently trying something.

MR. BEARD: I'll go ahead and -- Mini, are you there yet?

MR. KUCZWANSKI: Give me a moment. I had an issue with PowerPoint shutting down. I'm pulling it right back up.

MR. BEARD: Okay. Thank you.

MS. WATSON: Can you hear me?

MR. BEARD: Yes, we can hear you now.

MS. WATSON: All right. John, are you ready?

MR. KUCZWANSKI: I am ready. Do you have control of it? If not, just let me know and I will help you along.

MS. WATSON: I don't think it's letting me move it, so if you'll just move to -- yeah. So, again, my name is Mini Watson, and I'm the director of administration over the defined contribution program. We're just going to go over a little bit of the administration part of

the investment plan.

This is a snapshot of the investment plan as of March 31st. As Dan stated, our assets are around currently 11.2. Here it shows, as of March 31st, distributions of 13.9. Actually, as of today, it's 14.1 billion. Our member count as of today is 238,815, and then to update, the number for retirees is 149,406.

If you'll go to the next slide, our major providers under the investment plan would be Alight Solutions, and they are our record keeper and our choice provider, and they also oversee the self-directed brokerage account. We have BNY Mellon, which is the investment plan custodian, and they oversee the benefit disbursements and then the custody over separate accounts.

And then as Dan mentioned, we have the Division of Retirement. They are the pension plan administrators. They also are the record keeper of the retirement payroll reporting, the health insurance subsidy program, and then they oversee the disability and in-line-of-duty death benefits for the investment plan members.

So the next slide just shows a little bit about choice. Dan mentioned before that the default is currently the investment plan. It rolled out in -- as the default, it changed in 2018. These statistics are through March. Just to bring it up to speed, as of today, the current default rate would be pension plan default at 6 percent, active pension plan elections, 26 percent. Active investment plan elections, meaning a member must make an election, is 17 percent, and then the default rate to the investment plan is at 50 percent.

So on the next slide is our plan growth. It has grown over the years. And currently, as we mentioned, we have right at 239,000 members. One of the reasons for the growth is the current default being the investment plan.

Then, as we mentioned, for the administrative providers, Alight Solutions is the record keeper. They process and they post the contributions to the investment plan members' accounts. Here are some stats about what they provide, personalized communications and telephone calls. To bring up the telephone calls, as of today, we have had just over 85,000 telephone calls received at Alight Solutions. BNY Mellon distributes the checks and the

disbursements, and they currently have our assets under management, which was 11.2 billion.

We do have a process by law. The statutes allow members to submit complaints if they were to have a complaint for a vendor or provider. Most of the time the complaints are complaints about the law. So a lot of times there are things that the law just does not allow. This is a recap of the reasons that members may file complaints and the amounts that we've had to date. And I'm going to pass it over to Walter.

MR. KELLEHER: Thank you, Mini. My name is Walter Kelleher. I'm the director of educational services at the State Board. I oversee the financial guidance program, some of the vendors that we have under contract. And those vendors include Ernst & Young, EY. So they're the financial planners for the program. So any FRS member in the pension plan or the investment plan can call in and ask any financial question that they have. They can also do planning for retirement, et cetera.

We also have a contract with GuidedChoice. They provide an online personal adviser service for members, can assist investment plan members in choosing the products, the investment products, can also assist pension plan members on how to allocate money on outside investments, for example, a deferred comp plan or if they have an IRA, et cetera.

We also have a contract with Alight Communications to provide printing. They also conduct focus groups for us. They also do an online tool that we have to assist members making a first and second election. We also have a contract with MetLife, and they provide annuities for investment plan members. They offer fixed annuities and deferred lifetime annuities.

Next slide, please. So the financial guidance program is the overarching education program for MyFRS, and that includes telephone that's available to members, MyFRS.com, print, videos, workshops, webcasts.

Next slide, please. This is a sample of some chats that we've had. So, for example, last year EY fielded over 300,000 calls. We did 531 workshops all over the state, from Pensacola to Key West. The attendance at the financial workshops were around 23,000. Websites get hit tremendously, 2.7 million hits last year. And

then website chats, which is a feature that we've been rolling out pretty strongly, that's gone up. You can see the numbers have gone up way, way -- really large on that. So they're up 63 percent from the previous year.

Another thing that we've done, as I mentioned, MetLife provides -- if you could go back to that slide one second. Thank you. Down in the bottom box, we talked about the annuities that were purchased. The last 12 months, 19 annuities purchased, 4.3 million. Since inception, we've had 143 annuities purchased for 19.2 million.

Next slide, please. Some highlights that we've done. We've initiated surveys of active/default electors; why are they making the election, why are they defaulting. And we've also started an annual survey of participating employers; what are we doing right, what can we improve.

Another thing that we've done is we've added LexisNexis security to MyFRS.com to tighten up the security on the site. We've also got under contract Experian to provide breach response services to the SBA, including obviously the FRS data. We also are going to be starting July 1st an FRS seminar, which is kind of a joint workshop that will be available from the Division of Retirement and the State Board of Administration.

And next we will have Dan come up to provide an overview of the investment plan fund options.

MR. BEARD: Thank you, Walter. So if we go to the next slide, what this slide is, is these are our current funds. I'm really not going to touch on it because, as some of you may remember, back in March, Aon did a review of their structure review, and when they did that, they highlighted some of the changes they had recommended to our fund. So what you see here on this slide is really just funds as of today. But as of July 1, this all changes.

We go to the next slide. This slide is what the funds will be at as of July 1. So we'll go from 11 white label funds down to 9. And we'll go from 11 target date funds down to 10. And we have the fees that are listed there.

If you compare this to the previous slide, you will notice that some of the fees do go down, either -- you know, mainly due to the

restructuring of some of the managers within the funds, and there were a few of them that we also had some fee reductions. So this will be the new fund lineup starting July 1.

We go to the next slide. This is our makeup of our assets under management by asset class. Again, this is as of March 31. More than likely -- actually, those percentages are probably very close to what they would be today. Again, close to -- almost half our assets are in the retirement date fund. Again, that's because that is the default fund for the investment plan. And then the rest are spread out among the different asset classes.

We go to the next slide. Again, what this shows -- and I'm not going to really go into a lot of detail because, again, this is changing as of July 1. But this is the current makeup of our funds. So all our funds, except for maybe two of them or three of them, are multi-manager funds. So this is the makeup of three of the funds on this slide.

And then if we go to the next slide, we have the makeup of the current FRS large cap stock fund and the small-mid cap stock fund. I will point out that those two funds are actually being merged together -- that was one of Aon's recommendations -- into an FRS U.S. stock fund. So those managers all will be merged into one.

Then the next slide is just breaking out where the money is within the retirement date funds. So you can see which one has most of the assets. And then the next slide that you see is all our retirement date funds or custom target date funds. They're made up of our underlying managers. So every year we do what we call -- we have Aon go in, look at our target date funds, determine if we need to change any of the allocations. And what you see here is, based on their recommendations, the allocations that will be effective July 1. So some slight changes.

Also, we removed one of the managers out of the target date funds and replaced them. That would be we removed American Beacon and replaced them with T. Rowe Price. And then I think we added one other manager in there. All that was based on feedback we got back from Aon, just to make the target date funds more -- better returns for our membership.

We go to our next slide. The next slide is

our asset class performance. What I'll just point out here, this is as of March 31. If you look at fiscal year to date, it was minus 10.27 percent. As of market close last night, we were in the positive 1.86 percent. So it really was helped by April and then by part of May, turned that negative into a positive.

And then the next slide, these are initiatives for the next coming fiscal year. I've touched on some of them as far as the investment option. We're going to roll down our RDF, retirement date fund glide path allocations. That is effective July 1, 2020.

The other thing we're going to do with the retirement date funds is, the 2015 retirement date fund is going to be rolled into the retirement fund. The allocation for both of those funds would be exactly the same, so we're rolling that down.

The other thing we're going to do -- and we've already started that actually as of market close tonight and then into tomorrow and market close tomorrow -- is we're going to implement Aon Investment's investment plan structure review. So we'll also start that.

One thing I will point out is, one of the things Aon asked is that we explore looking at offering a stable value fund instead of a money market fund. So we'll take the next fiscal year. We'll look at that, and we'll make a decision on whether a stable value fund meets our needs and we can fit it into the investment plan and that we're comfortable with it and whether we should replace the money market fund.

Some plan administration initiatives. We're going to continue to enhance the security. We're going to start collecting mobile phone numbers, introduce multi-factor authentication. We're also going to roll out our updated education materials. One of the things we are changing starting July 1 is the hours for the MyFRS financial guidance line. That's the toll-free number that all FRS members can call into. As of today, that line is available from 9:00 a.m. to 8:00 p.m. So we're going to, starting tomorrow, change those hours to 8:00 a.m. to 6:00 p.m.

A couple of reasons we made those changes. One is that it aligns with the Division of Retirement's call center, which starts taking calls at 8:00 a.m. The other thing is, about a

year or so ago, we asked Alight and we asked EY to track calls they received after 5:00 p.m., between the 5:00 p.m. and 8:00 p.m. hour. And what we found was that they got very little calls, probably about 3 percent, 4 percent calls during those hours.

So we took two hours away from the afternoon. We added an hour to the early morning. One of the things it does do for us is it actually factors in some cost savings, some significant cost savings for us, by just adjusting those hours.

Then the other thing we're going to implement is enhanced member service. We're going to start showing the estimated monthly income that a member's balance would generate on their quarterly statements. And also, when someone requests an online distribution, we're going to also provide some text around what it would be if they decided to annuitize a part of that.

And then the last thing we're going to do is we're going to continue to enhance our online presence with our enrollment forms. Currently we have online and paper. So we want to go more to an online presence, making it easier for the members to fill those forms out online and submit them right online. Less paper that the investment plan administrator has to handle. Also it's less paper that they have to handle on their end.

Next slide, please. So that concludes our presentation. We welcome any questions you may have.

MR. COLLINS: I don't have any questions, Mr. Chairman. I just want to commend Daniel and the team. They do a phenomenal job, you know, with not a lot of resources, and it's a heck of a service to the employees of the State, and you guys are doing a great job.

MR. BEARD: Thank you.

MR. OLMSTEAD: I'll recognize, yeah, just the number of phone calls and interactions is impressive, so --

MR. COLLINS: Unbelievable.

MR. OLMSTEAD: It really is. So we have I think Aon. Is Aon up? I guess are Kristen and Katie back on?

MS. DOYLE: Yes, we're here.

MR. OLMSTEAD: Good. Thanks again, Daniel.

MS. DOYLE: Okay. Thank you. So we just have a couple of things to cover on the investment plan. As Dan mentioned, typically on an annual basis we do a little bit of a deeper dive of the FRS investment plan than we do at the other quarterly meetings, where we simply just provide an overview of top line performance, and we usually do that at the June meeting.

So because we did the deep dive structural review at the end of 2019, early 2020, and we provided some of those -- some of that analysis at the March meeting, we thought let's not repeat what we talked about in March, but instead, while we focused on in March the analysis of the core lineup and the recommendations that we had for the SBA in that particular part of the investment program, we thought we would spend a little bit of time on a few additional items of interest, including target date funds and the self brokerage window, two very important components of the FRS investment plan.

So before we dive into those two particular components, I did want to start with the slide that John has up here on the screen. We always want to start with this slide, and many of you that have been around have seen it before. This is really just a reminder of what's most important when structuring a defined contribution plan. This is really the foundation of its success and is definitely relevant to what Katie will discuss in a few minutes around target date funds and self brokerage.

So obviously, because you have individual participants making individual investment decisions, streamlining the program by using the tools like target date funds, like low passive options, like white label funds, these are ways that you can keep some of the governance in place, especially with like white label and target date funds, right, where you're taking some of the decision-making away from participants that just don't necessarily have the knowledge or the ability to make the right decisions around asset allocations or individual managers, and you have the SBA making those decisions on behalf of participants, and then you're giving them a range of tiered options that then allows them to pick whether they just want you to do it for them, whether they want a low cost option or whether they want to pick across

different asset categories.

And structuring the program in this way leads to what you can see, which is what's most important, which is facilitating smart decisions on behalf of participants, and that, as we all know and we see data on it, have a real impact on participants' performance over time.

So if you can go to the next slide, please. I'm not sure if it's moving forward, but basically the next slide just -- here we go, okay -- is just summarizing some of the conclusions that we made during the last meeting.

So, again, I'm not going to go over these necessarily in a lot of detail. But just as a reminder, I mean, our overall observations have been pretty consistent over the last couple of years, where we've done a deeper dive into the program, which is that the core lineup is streamlined. You have diversified asset classes available to your participants. You have both active and passive, and you span the risk-return spectrum.

So participants have an ability, if they want, to take more risk or to take less risk, depending on their circumstances and their overall risk tolerance. You definitely -- the program definitely covers relevant asset classes and investment options.

Another thing that I wanted to point out, again, around being streamlined is, just because you're streamlined and have a low cost structure doesn't mean you can't be sophisticated. So the sophistication comes in the white label funds, as well as the custom target date funds that you offer participants.

And then we did have a couple of recommendations that Dan had already summarized, so I won't re-summarize those. But they were relative to combining some of the funds in the core lineup. And then if you go to the next slide, please, John, this just gives a view of sort of the tiered approach that I had mentioned, what we're going to focus on today, which is what we call Tier 1 and Tier 4.

And we really take an objective-based approach to thinking about the different types of fund options that are available in the program, and you can see that on the bottom left. And basically the conclusion is that across the program, the SBA is offering options that meet

all of the key objectives that we would want a participant to have access to. And that is clearly articulated there. So again -- and we went through that in detail in March.

So with that high-level overview, if anyone has any questions in general about the overall structure of the program, happy to answer those questions, but we did want to spend some time talking about target date funds, trends in that space, how the SBA compares, and then also similarly with the self-directed brokerage window.

It sounds like maybe there aren't any questions, but, again, interrupt us as we go along. Katie, I'm going to kick it over to you.

MS. COMSTOCK: Great. Thanks, Kristen. So I'm going to start with the target date funds. I'm on slide 9. I'm trying to get there. As you all know, the target date funds in the FRS investment plan are the default option. And this is our preferred approach as well as a best practice within the industry.

And the reason for that is that these are professionally managed portfolios. The asset allocation, the risk level and the implementation of the target date funds are managed by professionals and are specific to the age-appropriate fund. And this is largely a "set it and forget it" type strategy, and that's the most appropriate approach for the average participant in a defined contribution plan.

And I think we finally landed on the page that I wanted to speak to. It looks like the chart got a little bit disoriented, but the key message here is that target date funds have become an extremely important tier or asset class, if you want to call them that.

The growth in asset class -- the growth in assets invested in target date funds has been exponential over the past ten-plus years. In 2008 roughly 7 percent of assets were invested. In 2020 we're looking at an average of 42 percent of plan assets, and roughly 85 percent of survey participants have exposure to a target date fund.

Now, that's a lagging indicator of where the suite of options are. A leading indicator is where plan contributions are going. And you may not be able to see it here, but in 2008 roughly 13 percent of plan contributions were going into target date funds, and now that's jumped up to

63 percent. So not only are we seeing a significant level of assets and participants invested now, but we expect that trend to continue.

The other thing I want to mention is that participants are more and more using the target date funds appropriately. Historically more so we saw participants having exposure to two or more target date funds, which somewhat defeats the purpose and the goal of what they're intended for. And now the chart on the right shows that more participants have exposure to only one target date fund, which is the intended use for these. So all in all, a very important tier to focus on, which the SBA has done.

And if you flip ahead to page 10, here we're going to highlight the differences in the benefits of an off-the-shelf offering and a custom target date, which is a target date fund suite of products, which is what the SBA does. And on the left-hand column here are the key factors that we look at when evaluating both off-the-shelf and custom target date funds.

Just to quickly touch on these, glide path refers to the level of risk and how that risk and asset allocation changes as participants near retirement. Asset class diversification refers to the types of asset classes and the allocation across the suite. Implementation refers to the types and the numbers of strategies, including the allocation between active and passive. Manager selection is just finding the appropriate managers to manage the assets for the various strategies. And then the fees, making sure that what is being paid is appropriate for what is being delivered.

And, broadly, what a custom target date fund suite allows the SBA to do is to field the best practices across these factors and give the SBA control to customize the various aspects of a target date suite to the plan demographics and to your participants' needs.

And so lastly what I want to do is highlight how the SBA has done this across the custom target date fund suite. And I'll point out a few things there where I think that Florida SBA has truly taken advantage of being able to offer a custom solution.

One is asset class diversification. Here the SBA uses a significant amount of diversifying

asset classes and very thoughtfully. And one of the most recent allocations that were made were to private real estate within the custom target date funds. That's not something that we see in off-the-shelf offerings. And this offers a diversified source of return, a level of income and a true benefit to the participants.

The other thing -- I'll just pause. I'm also trying to get to the next page. I don't know, John, if you want to flip me there. But the other aspect that I think that the SBA has benefited from is manager selection. Thank you.

Florida SBA has an open architecture approach, which means that managers included in the target date funds can come from anywhere, can truly be best in class and are not limited to a certain service provider or a management company. And that's a benefit, as well, obviously, to participants. And then lastly and not any less important are the fees. SBA is able to use its scale to drive fees lower for participants across the suite of offerings.

And so, you know, this is a very important asset class. The Florida SBA has about 45 percent of the assets in the plan invested in the suite of custom target date funds. That's about $4.5 billion. And ending -- and this is at the end of the first quarter. And we expect this trend to continue. And so the focus and the diligence on these custom solutions that are continuously reviewed are a true benefit to the participants in the plan.

MR. PETER JONES: Mr. Chairman, may I ask a question, please? This is Peter Jones. I'm just curious. On the glide path, how do you determine what is the appropriate glide path for the -- for this plan?

MS. COMSTOCK: There are a host of factors that go into determining the glide path, and it looks at various characteristics of your participant base, comfort of risk level as well as access to various asset allocations. And I believe this is reviewed on an annual basis to determine what is appropriate for your specific participant base.

MR. PETER JONES: So does the glide path go to retirement or through retirement? I'm just curious. Or does it vary by date?

MS. DOYLE: Can't hear you, Katie.

MS. COMSTOCK: Actually, I don't have that.

Dan, do you have that answer, or Kristen?

MR. BEARD: I believe it goes to retirement, up to retirement. And it does vary by date, because we do have -- as, again, the glide path shifts over time. We do have a retirement fund, FRS retirement fund, which is supposed to be set up for people who have retired. But up until that point, it's just -- it just shifts every year based on as the age shifts.

MR. PETER JONES: Okay. Thank you very much.

MS. COMSTOCK: I will move on to the brokerage window, if there are no other questions on the custom target date funds. So this is another level of sophistication and essentially a plan enhancement, as we view it. But a self-directed brokerage window, taking a step back, is essentially a separate brokerage account that is offered through the investment plan. And it allows greater investment flexibility for those who want it, to either express views not available within the core lineup.

The fees associated with a brokerage window are borne only by the participants that decide to use it. There is separate reporting, and there is a host of communication on the appropriateness for participants, on who -- on I guess the risks and the benefits of using the brokerage window when participants go to evaluate it. We do view this as supplemental and can be beneficial to investment plans, as it does provide additional flexibility for those who want it.

On the next page we do look at some of the advantages and the considerations when evaluating whether a self-directed brokerage window is appropriate. And largely the reasons to offer are some of the things that I just mentioned, is that it provides additional choice, more flexibility to investments. But it does so without overly burdening other participants.

It has to be elected, and there's no extra burden in terms of fees on other participants who may not be interested or may not have the investment savviness. And so generally, providing this additional flexibility can increase participant satisfaction with the investment plan.

Now, there are obviously some considerations in offering this. And they largely fall under the camp of losing some of the ability to guide

or to help participants with their retirement portfolios. Once participants are in the self-directed brokerage window, the SBA loses the oversight, and so they may be susceptible to creating portfolios that have an inappropriate risk level or an unintended risk level for the average participant.

There's also typically higher fees to get in, transaction costs and investment management fees, and that's also a consideration when thinking about offering a brokerage window.

Now, some of these risks or these considerations can be mitigated and are, and that largely comes through communications not only on the risks and what the brokerage window is intended for, but also communicating on how the -- how beneficial the core lineup and what the core lineup offers, including the target date funds. And the streamlined structure that the SBA offers is a way to mitigate some participants unintentionally allocating when they should not be into the self-directed brokerage window.

Now, this has also been a growing area. It somewhat has plateaued. We see roughly about 40 percent of plans offering a brokerage window.

This increased but, as I mentioned, somewhat has plateaued around this area. The Florida SBA opened up the brokerage account in 2014, and at the end of the first quarter, there was about $665 million invested, which is about 6.7 percent of the plan's assets. And if you look at the chart on the right, you can see that's a little bit higher -- at the higher end of what we typically see. So it is being utilized by your plan, by your plan participants.

And so just I guess broadly, we do think that this is a -- can be an attractive offering. It can increase participant satisfaction, and it just needs to be monitored and communicated appropriately to ensure that participants or to help participants use it in the best manner.

Are there any questions on the self-directed brokerage window? Maybe just add what you heard Kristen say and we also reiterated this at the last meeting, that overall the plan's structure continues to be in line with best practices and offering a best-in-class investment plan to the participants.

MS. DOYLE: Yeah, and, you know -- oh, sorry, Peter. Go ahead.

MR. COLLINS: Yeah. On the self-directed brokerage window, do we keep stats on how these portfolios are performing, or do we just not really care if they're being self-directed?

MR. BEARD: Yes. This is Dan. So we don't keep track on the performance of the self-directed brokerage account, because this really is -- what we try to tell members is it's for a sophisticated investor. That's not always the case, because we have run across cases where they've been talked into going into the self-directed brokerage account. But we don't track that. Again, we do put out lots of literature saying things they should be careful about, but we don't track their portfolio.

MR. COLLINS: Okay. Sorry, Kristen.

MS. DOYLE: Oh, no, that's okay. I wanted to circle back on the other Peter's question earlier around the custom glide paths. And Katie mentioned different risk tolerances. So the off-the-shelf target date funds consider sort of averages across a large defined contribution population.

And so when you customize a target date fund, what you do instead is you look at your --

obviously your demographic, your population. Specifically you look at lifetimes, average retirement ages, whether they have other DB plan benefits. So a really good example of that is the thrift savings plan, which is, you know, the large federal defined contribution plan. Most participants in that plan have a DB plan. So that makes an impact on what your equity exposure is, for example, over the life of the glide path.

And so it's kind of -- contribution patterns and risk tolerance, all of those things are the different components that we use to construct the custom glide path. Sorry I didn't jump in when the question was originally asked.

MR. PETER JONES: Okay. Thank you for that.

MR. OLMSTEAD: All right. If there are no other questions on defined contribution, let's move over to the SIOs. Thank you for that insightful section there. And I believe Tim Taylor is up first.

MR. TAYLOR: Hello, everybody. I hope -- can anybody hear me?

MR. WILLIAMS: We can indeed.

MR. TAYLOR: Excellent. Or as Bruce Springsteen would say, Is there anybody out

there? And there is. Good. What I thought I would do before covering Q1 in detail, well, in some detail, is provide an update for the year and through the end of this month, just to let you-all know how global equity has been doing.

So as of last Friday's close, the S&P 500 index was down 6 percent year to date. At the beginning of the year, you may remember that there were concerns about the strength of the global economy, U.S.-China trade relations and valuation levels of equity markets particularly with respect to U.S. large cap growth stocks. These U.S. large cap growth stocks had become dominant in many indices used to measure market performance.

Based on these concerns that existed as 2020 began, a fall of 6 percent in the S&P 500 year to date would be reasonably expected, if economic growth disappointed, if investors grew cautious of valuations and sold the priced to perfection stock, if they announced poor earnings.

But as we know, 2020 has been rocked by a global pandemic that has brought entire countries and major economies to a standstill. Some companies lost all revenues virtually overnight;

airlines, cruise operators, restaurants. A 6 percent decline year to date in the market is not just reasonable, it's somewhat extraordinary and amazing, to be honest. Continuing jobless claims in the U.S. were less than 2 million in January this year. They were 25 million last month, 2 million to 25 million continuing jobless claims.

Unprecedented monetary and fiscal measures around the world have stabilized markets, and a flood of money seeking returns in a low yielding, low interest rate environment has propelled markets, equity markets from their March lows. The phrase "Don't fight the Fed" is more relevant today than ever.

Now, to be fair, there are green sprouts of optimism as economies have slowly reopened and unemployment numbers have stopped getting worse, maybe even a little bit better and surprising at times. However, there does seem to be a disconnect between surging equity markets and a world still largely locked down, experiencing rapidly rising COVID-19 infections and earnings that are expected to fall dramatically over the rest of the year compared to 2019.

In Q1, we outperformed by 27 basis points as the markets dropped, plunged 22 percent. I'll talk about that in a moment. As markets have recovered lost ground during Q2, we have achieved positive alpha as well, roughly 17 basis points above the benchmark's return of approximately 19 percent now. I think last we looked, the market was up today.

Beginning in late May and continuing into part of June, there was a strong rotation to value, a very strong rotation to value; in particular, very cyclically driven securities, as economies and countries began to reopen. But this rotation was short-lived. Once again, growth, quality, stability assumed market leadership. And those have really been the areas that have been outperforming year to date.

So a short version of what I just said is we did preserve capital modestly as the markets plummeted in Q1. As the markets have rebounded fairly strongly in Q2 through last night, we've added value as well. So we feel pretty good about that.

Now, if I may, let me jump into comments for Q1. I'm certainly open to any questions anybody would have. And I don't want to -- we usually have -- we always have some very good slides to share with you-all. And these slides have been prepared by two of the very talented people in global equity, Denise Hale and Ted Nation. And I wanted to make sure I mentioned that. Two of the very many talented people we have in Global Equity, all working remotely, all still getting the job done and adding value in this challenging environment.

So in the first quarter of 2020, the global pandemic prompted lockdowns around the world, leading governments and central banks to unleash unprecedented levels of monetary and fiscal stimulus. Equity markets plunged 22 percent. Sectors, on the lower left-hand side, you can see fell anywhere from 12 to 40 percent. So it wasn't indiscriminate. There was discrimination in the markets in Q1, fairly noticeable.

Defensive, low vol, quality and growth stocks continued to relatively lead the market in the selloff. And, remember, these are the stocks that were doing well leading into the pandemic. They continued to do well and are still doing well as we speak today. Health care, consumer

staples, IT held up best. The most cyclically sensitive sectors aggressively fell, energy, financials and materials.

And if we could go to the next slide please, John. And this shows that during Q1, as I said earlier, we preserved a modest amount of capital. We outperformed by 27 basis points. We do remain above the benchmark over all periods ending in Q1, inclusive of the one year period, which we're showing 65 basis points of positive alpha.

Last quarter's IAC meeting, during last quarter's IAC meeting, I mentioned that some consistent factors in global equity's structure had generally proved beneficial during periods of crisis like we had or we're having. Some of those things, better quality than the benchmark, an underweight to energy, an underweight to financials, in particular banks.

If you look at the graph on the lower left, it shows you that as markets accelerated their decline in Q1, global equity's excess return actually pushed higher. And I think -- well, I know that's evidence of some of those consistent tilts, biases that we retain in global equity.

Next slide, please, John. The following

slide presents -- this slide presents historical performance numbers of our active aggregates, along with some commentary related to Q1 performance. Two of our three largest aggregates provided positive active returns in Q1, foreign developed large cap right there at the top, and you can see it's 21 percent of our asset class. It was bolstered by defensive, quality and growth-oriented managers.

Dedicated global, 8 percent of our asset class, benefited from low beta, quality, momentum and some large cap biases. And that aggregate currently is designed to provide some preservation of capital and to be a little lower beta, and it did do that for us in Q1.

You'll see emerging markets underperformed. That was a little bit of a surprise because we are quality focused in there, for what it's worth. We dug into that, and it was mainly driven by stock selection, India and Mexico and Brazil and in particular banks within those countries.

The bottom line was China was the big performer, outperformer in Q1. China held up very well, while almost everything else sold off.

So a lot of what -- if you weren't in China, you probably were going to underperform in Q1. Next page, John, please.

MR. OLMSTEAD: Hey, Tim, can I ask a quick question? When you look at just the U.S. large cap and that excess return seemed to be fairly negative, any commentary on that, or am I reading it wrong? Is there something that we should know there?

MR. TAYLOR: No, you're not reading it wrong at all. And we have had a great deal of debate. And we could maybe -- John, if you could push back one slide to that. That is an area, U.S. large cap, it shows 5 percent at the end of March. You're not reading it wrong. That is an area that has been very, very much challenged for a long time.

What has happened a lot is that growth has outperformed. Large cap has outperformed. And by and large, those managers we have in that space have a valuation element or a deep valuation element. That has hurt. That has proved to be a headwind. And so they've been hurt on that.

That tide or that rotation has not turned.

When I mention in late May, early June that there was a very good rotation into value, those managers started doing a little bit better, but it was short-lived.

So you're not reading it wrong. I will say, one of the things we've done is we've lowered our allocation to those. It's a group of four managers, and we've lowered that allocation. It says 5 percent here. It's closer to 4 percent now. And it continues to be a big discussion among the team. At some point -- and I've said this at the IAC in the past. When market leadership changes, those funds, those strategies should start outperforming. I'd be surprised if they don't. Market leadership, though, has not changed.

And so I do understand why they've underperformed. I'm not happy they've underperformed. We do understand why they've underperformed. The valuation spreads between growth and value, I think maybe we talked about it last time. They were -- it was very large going into the pandemic. The pandemic exacerbated it so much more, to unbelievably historical levels. There could be some mean

reversion that we would benefit from.

But again -- so you're not reading it wrong, and it's probably one of our most discussed groups of managers among staff. We've been able to outperform overall because we -- it's a tough space. U.S. large cap active is a tough space. The outperformance of other groups have been able to offset their underperformance. We've kept them modestly sized and actually sized them down a little bit more. But that's a tough area, and it's an area we very well could make some changes in the future.

So I hope that's responsive to the question. I didn't mean to skip over it at all. That's a tough area. It has been. It continues to be a tough area. Even in Q2 they've had a tough time.

MR. OLMSTEAD: Thank you.

MR. TAYLOR: Next page, just very briefly. This shows the strong rebound in equity markets since hitting their lows in mid to late March. As I said, the flood of monetary and fiscal measures into the global economy has ensured liquidity and eased concerns prompted by the coronavirus. Combined with the reopening of markets, this has spurred equity returns.

Performance in June is also positive. Although, maybe more than once now in the month of June, we've been reminded of how fragile the markets are. And we had maybe a couple of weeks ago a day where everything went down 4 to 5 percent all in one day.

So we're seeing higher volatility. Volatility levels do remain high. If you look at the VIX index, it's come down from very, very high levels earlier in the year, but relative to history, the VIX is still really high or, well, pretty high.

The last page of what I'd like to present today is to give you an update on the initiatives within our group. We did complete funding of two new emerging market managers in the first quarter. This added capacity in our emerging markets aggregate. Several existing strategies in that space are closed. We were able to add some good managers there. And at the same time, we also enhanced our liquidity profile. I'll talk about liquidity here in just a moment.

We have continued to identify and selectively review non-traditional opportunistic type strategies that can add value and/or

diversify global equity and try to build on some past successes that we've had; for example, in currency and in U.S. micro cap.

And finally -- and, again, I'm open for any questions. The market strength -- and Alison mentioned this very early in the meeting. The market strength has caused global equity to once again be called upon to provide liquidity to support benefit payments and other initiatives. In both May and in June we raised almost $1 billion each of those months.

So that's quite amazing, that we're back in the business of providing liquidity, based on the strength of the markets, and also remember that we added, as it mentions on the page, a little over a billion to global equity, and it turns out to be a really good time in March and early into April over a couple of weeks.

So thank you-all very much. Those are the comments I've prepared. I'm happy to answer any questions.

MR. WENDT: Gary Wendt has a question.

MR. TAYLOR: Yes, sir.

MR. WENDT: Are you doing anything different to protect yourself on the downside? And if so, what, and if not, why?

MR. TAYLOR: Sure. We are doing some -- Mr. Wendt, we're doing some things a little different to protect us on the downside. And remember my comments and the things we do are always going to be in the context of a risk budget of 75 basis points. We're charged, as you know, to provide the beta of the global equity markets to the FRS so that it meets its asset allocation goals. However, we are given, around that target, 75 basis points of a risk budget.

And before I talk a little bit about what we've done, we have seen our active risk, predicted active risk levels increase. We were looking at a predicted tracking error of anywhere from 45 to 50 basis points pre-pandemic. Without doing much structurally, any meaningful structural changes, our active risk now predicted is 85 or 90 basis points. So you can see, without doing anything to the structure of meaning, our active risk levels have essentially doubled. So that's something to keep in mind.

I think one thing, Mr. Wendt, what we have done, we will always have a diversified group of active managers in every space, in U.S., in

non-U.S. and emerging, U.S. small cap and in international. We'll always have a diversified group. We'll have growth managers. We'll have value managers. We'll have core. We'll have growth at a reasonable price. We'll have deep value. The whole range. We're always going to have -- try to have a diversified group of managers.

What I will say we have done is we've started to emphasize a little bit more quality, and quality defined by low levels of leverage, predictable revenues, predictable profits, stronger companies, because we think the -- and growth-oriented companies, companies that are -- and you hate to use the word benefiting from the pandemic, but they are providing services that people are consuming on a much broader scale during the pandemic.

If you think of delivery services, Amazon, whoever else, the demand for these services -- what people expected the demand to be in ten years has come to fruition now or in the next year or two. Phenomenal. And these are disrupters. So those fall into the growth bucket.

So I will say, Mr. Wendt, one thing we have done, because we think this is a very challenging environment we're entering into, is we have biased ourselves a little bit more towards higher quality companies that will weather the storm better through lower levels of debt, through business models that their products are being -- they're being demanded even in greater force now. And we have gone more against companies, perhaps maybe deep value, more cyclical.

That's not saying we don't have it in our portfolio. We absolutely do and we always will. But I mentioned earlier where we downsized some of the U.S. large cap active. Well, that's one area where we actually took some deep value off of our exposure so that we could emphasize higher quality.

But, again, we're not a hedge fund in global equity. These are modest changes. We're always going to maintain a very well-diversified asset class. So we have done some, Mr. Wendt, and all within our -- in our risk budget.

MR. WENDT: Thank you.

MR. COBB: Vinny, this is Chuck Cobb. Can I ask a question?

MR. OLMSTEAD: Of course, Ambassador.

MR. COBB: Great. So, Tim, first a question and then maybe a comment. It's my understanding that you try to keep our mix between U.S. domestic and international similar to the MSCI All World Index, which I think right now is about 54 percent U.S., 46 international. And so that's my first question.

My second question is, I assume that 46 percent, if I'm right, that we're about 46 percent international, I assume that 46 percent is high compared to our ten peers that we referred to earlier that we had tracked. So if that is -- that's my second question.

And if that's true, then my third observation, which is a question, I assume that our overemphasized in value has hurt our performance, along with our maybe overemphasized -- excuse me. I misspoke. Our overemphasized with 46 percent international has hurt our performance vis-a-vis the ten other big funds. And so I'm not sure you have said that. So maybe I don't understand it right.

And I guess my comment about all that is, that seems to me a very thoughtful, sophisticated strategy, to have 46 percent international. And I don't see why we would want to change that, because it seems to me it's still the best value in the market today. That's about four questions all together.

MR. TAYLOR: Okay. Well, thank you. I'll see if I can answer each one of them. Ambassador, yes, you're correct. One of the things we do strive, in terms of controlling our risk budget, is we will generally be very, very close to our target, which is the MSCI ACWI IMI, one reason being we're not experts on, for example -- we're not going to say we're experts, we're going to overweight emerging markets. We're just not going to do that right now. We're going to look a lot like our target.

Now, within the sub-aggregates of that target, we absolutely will make some decisions to structure particular managers in a certain way, whether we want a growth bias there, whether we want a value bias. Generally, though, we're always going to have a little bit of both. So the answer to your first question is, yes, we do try to maintain that.

Relative to peers, perhaps Aon later or now

can comment on how we've done relative to peers. I think they'll do a review of us relative to peers. I will say that we're one of the -- I believe, among our peers, we not only have more equity, but we do have more non-U.S. equity. So I think you are correct.

And in 2010 there was a decision made to eliminate our home country bias, the idea that the pension investor usually has more money invested in their home country than anywhere else in the rest of the world. And that's not just the United States. That's perhaps other countries as well. But we addressed that home country bias and we invested in the truly -- took on a truly global target. And so what that does, that opens up additional investment opportunity for you because, again, you go outside of your home country.

So that has helped us and hurt us at times relative to peers, because I do think we are different relative to peers. We do have higher equity overall. I believe -- and correct me if I'm wrong, with those consultants on the phone. I also believe, relative to our peers, we have more non-U.S. exposure.

MS. DOYLE: Tim?
MR. TAYLOR: Go ahead, please. Yes.
MS. DOYLE: This is Kristen. Yeah, I was going to address this during the major mandate review, but since we're talking about it now, it probably makes sense to just do it now.
So there's definitely been a trend over the past ten years among your peers to move closer to a more market weight in global equity, but I would say the SBA moved more quickly than peers and moved all the way to those global equity weights as you described.
So when we look at the top ten peers -- now, again, it's a very small sample size, but there is a difference between -- so the SBA, as you mentioned, is about 55/46, or whatever, 44. Peers are about 63/36. So, again, they do generally still on average tend to have a bit of a home country bias.
So that does impact performance, and it certainly, you know, impacts performance relative to peers in particular because of the strong returns that we've seen just over and over again over the last ten years from the U.S.
MR. COBB: Thank you. So my last question

is, why not -- so that worked against us last year, but why not stay the course, because it might return to the mean?
MR. TAYLOR: If I may, I'll -- this is Tim Taylor again. I think the idea of staying the course is, we are long-term investors, and there are times when things will work for us, times when things will not work for us.
I think over the long-term we maintain a disciplined asset allocation strategy. And within global equity, as part of that -- excuse me -- as part of that asset allocation strategy, maintaining a relatively constant weight to global equity, rebalancing, being disciplined about rebalancing when there is opportunity, maintaining exposure to that global equity return within a modest risk budget and adding value where we can add value above that to meet our objectives even more, I think that's -- to answer your question, I think, if you try then to start interjecting tactical moves on a more short-term basis, that does compromise your long-term objective and your ability to meet your long-term objective.
Ambassador, I hope that's responsive. But I

view that as we're going to -- we've maintained our weights relative to the target. We're not experts as to what's going to outperform this year or next, and therefore we're going to maintain our weights relative to that target but then try to add value in a modest way around that target.

MR. COBB: Thank you.

MR. GOETZ: Mr. Chairman, this is John Goetz. If I could just ask another question or make a point. First of all, Tim, supporting you in that long-term orientation, right. In working for many clients like the State of Florida around the world, it is the people who move too quickly in reaction to events, just like they do at the consumer level, that diminish returns. So staying the course, Tim, you're saying it exactly right.

But I did want to make two comments. One is, on the risk budget -- and, Ash, you said it earlier. Clearly the volatility we saw in the month of March was exceptional. The only time we had volatility at that level was the Great Depression, obviously conveying uncertainty.

However, if you look at that level of

volatility and then conclude that risks have gone up, that's -- that, I think, overall probably isn't justified, as we see these volatility numbers already coming down.

So I wouldn't draw the conclusion, Tim -- I don't think you have -- that because the risk metrics have soared up, that that means you should lower the risk of the portfolio. Same long-term concept there. I just wanted to say that.

One last thing on the international versus domestic. Clearly, in working with a couple of other clients of ours, I just want to offer to the board, people have looked at this in getting -- in reducing emerging markets or international just at the time the spreads there are the widest they've been in a long time.

So, Tim, just want to support you, too, in saying staying the course there in the international markets, where valuations are better and the dollar has been historically strong, so that has favored the U.S. as well. Who knows going forward on that. So just supporting you in your comments there, Tim.

MR. TAYLOR: Thank you very much. I

appreciate that.

MR. COLLINS: I have one more question for you, if I could, Mr. Chairman.

MR. OLMSTEAD: Yeah. Please, Peter, let's make this the last one because we are falling behind on the schedule.

MR. COLLINS: So I agree with all the comments, those that Ambassador Cobb made and that John Goetz made. But I do think that it's different when you get a little bit more granular, whether it's value or growth or certainly emerging managers when you're going international.

Tim, how do you look at value and growth international any different than you look at value and growth in the U.S., say going forward in the next two or three years, and are you going to make any changes style-wise relative to that?

MR. TAYLOR: I would say I don't -- I don't look at it particularly differently. I think we have to focus on the major things that can move growth, the major things that can cause value to do well and -- the major things. So if you think, well, what type of environment does value -- what type of environment do we have to

have to have value do well. And, Mr. Chairman, I know we want to move along in your agenda, so I'll try to be brief.

MR. COLLINS: And if you want to respond offline, Tim, that's fine with me. I mean, if you just want to respond offline, that's great.

MR. TAYLOR: What I'll say is, for value to do well, you need a strong -- not particularly strong but at least economic growth and perhaps rising -- a surprising economic growth. A positive yield curve might help as well. Interest rates rising might help, for banks in particular.

So you need some things that are going to -- you only have to wonder are we going to get those things, are we going to get strong economic growth or even modest economic growth. We'll probably get modest, but it's going to be modest and it's going to be for a long while. I mean, the economy in many cases and companies are being kept on life support. They would go out of business without the support.

Interest rates, are they -- I don't think interest rates are looking to move up sharply. Perhaps inflation will raise its ugly head, but -- so I don't look at it differently. I think those factors that drive value, quote, unquote, value in the U.S. are the same factors that are going to drive non-U.S. value.

For example, European banks, so much there relies on interest rates and those economies and the people, the businesses they're lending to. How are they going to come through this challenge here?

Thank you very much. I appreciate the question. It's a good question.

MR. OLMSTEAD: All right. Great. Katy.

MR. WILLIAMS: Katy, have we lost you? No audio.

MR. KUCZWANSKI: Katy, if you called in on your phone, you may need to call in again. Some people were having the issue. I apologize, but it makes no sense to me.

MR. WILLIAMS: I'm just using the computer audio, and it's probably working better than any of you would prefer.

MS. WOJCIECHOWSKI: Can you hear me? How about now?

MR. OLMSTEAD: Welcome.

MR. KUCZWANSKI: We can hear you.

MS. WOJCIECHOWSKI: Perfect. Thanks, guys. I'm so sorry about that. I had no reason to believe that you couldn't hear me before. Good thing I -- I could have been talking the whole time.

MR. WILLIAMS: (Inaudible). Come on, we know it, stagecraft. Go ahead.

MS. WOJCIECHOWSKI: So good afternoon, everyone. Happy last day of the fiscal year. As we sat here, we just did our last trade for the year, so it's in the books, for good or for bad. So as of yesterday, I think it's for good, but you never know. So first page -- and, John, I don't know if I have control. So try it. Yeah.

Much has been said about what has happened in the last quarter by many and probably said better than I could say it, so I will try very hard not to be redundant. March was an abysmal quarter, where correlations went to one. Everything just sucked, to use a technical term. The Fed stepped in. The world is all right again, or not. But the world is all right again at least for us for the moment.

So our -- at the time, it was one of those times where you're like, thank goodness we had a good plan. Thank goodness we stuck to the plan. We completely drained or almost completely drained the fixed income liquidity portfolio, to the tune of 1.2 billion, and used that -- because at the time, spreads had blown out so wide and we were fundamentally still comfortable with our investments, it made sense to drain the liquidity portfolio, which was totally in government assets, so government-guaranteed Treasuries assets, and use the cash instead to keep invested in our fixed income spread products and watch spreads return.

And they have indeed returned. We had a very good second quarter, have recovered all of the losses and then some. Tim mentioned the VIX index and how it has spiked and not completely come back down. The MOVE has spiked, had spiked equally in March and April, very quickly spiked.

And then the Fed stepped in and just flooded the world with liquidity, as did every central bank. And the MOVE index is now below -- which is the fixed income volatility index, and is now below average level, so will continue to be probably for the foreseeable future.

The Fed has said repeatedly, Powell repeated

it today, they are -- their foot is on the gas fully and no thoughts that it will be coming off. As he said last week in his testimony -- I think it was last week -- they're not even thinking about thinking about raising rates. So sorry, Tim, I can't provide higher rates for you near future.

What that has done though this year is the intermediate agg through yesterday, our returns on an absolute basis was 6.75. The agg year to date was 8.72. And that's year to date. The one year return for the full agg, which we don't have as our benchmark -- and I'll get to that in one second -- was 10.45.

So you talk about fixed income, low yielding environment. How could we possibly make returns? But we actually did make returns. What that does though is, going forward, presents an interesting problem. The ten year is now yielding 6.62, I think it is. Yeah, 6.62 as of right now. The credit OAS on our benchmark is only 1.22, so you can't earn a lot over that. The OAS on our total benchmark is like 62 basis points. Not a lot of opportunity. So I'm sorry, I can't -- I don't think we're going to get 6.75. The Fed has said they're not going for negative rates.

One quick chart I want to show you is benchmark returns. And thank you, John, for putting it there. So we have given up quite a bit of intermediate agg to agg in nominal terms, and we've said that every year. It is true on a risk-adjusted basis and, especially in the past quarter, have contributed more to that. You will see the risk-adjusted returns for the intermediate agg are better.

And we did that with purpose. We didn't just step out of risk and move away. We put it in different areas (inaudible), in Trent's area specifically, in strategic investments. So it has been a good decision, I think, in the overall portfolio.

So, John, if you could just flip forward to the next one real quickly, or I'll try it. Thanks. So this just highlights what I said before about the massive volatility in March and Fed intervention. They have bought a broad swath. They now own about 40 percent, I think somebody said today. They're the fifth largest holder of LTD. So the Fed is now the investor of every sector, including some high yield, in the

market in the United States.

So while we don't necessarily love spread assets, we believe there will be hiccups, the world is not completely right, but you can't fight the Fed to that tune. So we are still overweight spread products. Our outlook is to tread carefully.

We do expect more bankruptcies. We have seen bankruptcies. We all have seen bankruptcies in the news lately. We expect more bankruptcies to come, specific to travel and leisure and retail and things like that. And some of that is -- you know, maybe it was clearing out underbrush. And so we've tried to look at things that we thought were growth areas, like Tim said, just how can we improve our portfolio for the future.

We do think there will be lower recoveries, by the way, on some of the bankruptcies. So while in the past, you know, we've seen bankruptcies but pretty high recoveries, we're thinking worse recoveries, like in the 20, 25 percent recovery rate. And it may not be the sectors we thought a year ago that we would have been saying, energy, things like that. It might be retail, travel and leisure, more in that vein.

And we've pulled forward a lot of disruptions, I think. Just like the Zoom meeting. Who ever thought we would be doing this remotely, for a full quarter for Pete's sake?

So, John, if you could just flip forward to, I think it's my last slide, for me, if you don't mind. J.K., can you do that for me? I'll speak to it. So still overweight spread products, and then at the very end, you'll see the projects that we are looking on. So we've added -- in the first quarter we added a full agg versus short credits manager, kind of a barbell between two managers, kind of our first foray into non-intermediate agg.

And that will be, we think, very additive. They have good returns so far. Had a very rough March and April, but thank goodness, that was the time they were just getting ginned up and inducted. So we will expand on that.

We have been looking at emerging markets but very hesitant in that area. IMF has pumped a lot of money into them recently, but that could be an area of trouble for us going forward, so we will see how that works. And we're continuing to

expand probably in the short duration and the -- our active portfolio. We are -- just the fact that we drained our liquidity portfolio increased our active exposure in March and helped us recover into year end. So looking like a good year end.

And I think I've said enough. If you have any questions, otherwise I'm going to hand it over to Trent, because I know we're behind. Oh, Steve, actually.

MR. OLMSTEAD: No questions. Steve, you're up.

MR. SPOOK: Good afternoon. Can everybody hear me?

MR. OLMSTEAD: Yes.

MR. WILLIAMS: We can.

MR. SPOOK: Okay. Well, thank you, Mr. Chairman. And, you know, it was only about three months ago I was sitting here talking to y'all. We were only a few weeks into the coronavirus crisis. And, you know, I can't say that I had a lot of answers back then, only a few weeks into it, a lot of questions. Everything was moving pretty fast, except real estate. Real estate never moves fast, other than the REIT market.

Here we are exactly three months later, end of Q2. And, you know, while I can't say I have all the answers, I think I have a much better feeling as to where our portfolio is and where the real estate market is, at least directionally.

So I'm going to start off by just going pretty quickly through the prepared slides that y'all have in your package, and then I'll jump over into some comments on what we're seeing in the market with COVID.

So the numbers that we have, since real estate is pretty much looking in the rearview mirror, are 12/31/2019 numbers. You'll see at that time we were at 9.2 percent, real estate was, of the total fund. Our target allocation is 10 percent. And as of the close of business yesterday, we're at about 9.8 percent.

MR. KUCZWANSKI: Steve, this is John. Can you turn on your webcam?

MR. SPOOK: Better? All right. John, I don't have control of the slides, so if you can handle the slides. Next slide, please. The next two slides are on leverage. I know that leverage

is a subject that this body is interested in, so I've taken to putting some leverage slides in there when we do our presentations.

So you can see we still are fairly conservative when it comes to leverage, 30 percent private market leverage. Principal investments, which is the only part of the portfolio that we completely control leverage in, it's our direct-owned portfolio, we're at 25 percent.

And next slide, John. The next slide is a little more detail on principal investments, the direct-owned portfolio. I give some detail on fixed versus floating rate. The vast majority of our debt is fixed rate. Weighted average cost of debt, you can see the fixed rate is 3.19, which historically, I think, is pretty good.

But to put that into context, we are currently in the market with one of our multifamily assets. We're looking for under 50 percent leverage, and we are getting quotes in the seven year range of around 2.5 percent. That's the lowest I've ever seen rates since I've been in the business.

So given that, we are likely to take on as much debt as we can prudently and given our policy limits. Having said that, leverage is not available to everybody in the marketplace in the COVID world. Lenders are being extremely selective. They are looking for low loan to values. They're looking for property types that they view as having a better future. For instance, if you're out there looking for leverage on a retail asset over 50 percent, good luck.

And then we've also got on that slide our debt maturity schedule and our principal investments loan to value over the last five years, and you can see the trend is generally upwards.

John, next slide, please. So here's total real estate portfolio performance. Strong over all periods, one year, three year, five year. Next slide is principal investments performance. Next slide, John, please. And, again, one year and five year we have outperformance in principal investments. The three year is almost even but slight underperformance. And that is really attributable to the J curve on some of our development in assets.

Next slide, John. The externally managed portfolio is our pooled funds and our REITs, strong outperformance there, as you can see. In our pooled funds is where we do do most of our value add and opportunistic investing.

Next slide, John. So you can see we're well-diversified across property types. Again, we are heavier than the index by a fair amount in the other property types. And most of that is agriculture, self storage. We, as you know, also have medical office building, but that's included in office, and student housing, which is included in the -- in the index is part of apartments. And next slide, John. Geographic diversification --

MR. COLLINS: Can I ask a question right there, Steve, if you don't mind?

MR. SPOOK: Sure.

MR. COLLINS: Can you go back to that slide, the one before that? Just two quick questions. Well, the one might not be quick. But relative to office, what are your thoughts on that going forward? I mean, here we are, like Katy said, you know, a quarter into -- or you said, a quarter into it. Maybe we'll do two or three quarters. And most of us are sitting in our home. I think Ash is in his office, but most of us are sitting in our homes. Vinny, you might be in your office.

But there's -- it's one of those things where, by force, we're being forced to use technology, and we're realizing, hey, this isn't so bad and it can be done, and maybe we have 20 percent or 30 percent or 40 percent too much office space.

On the other hand, I've talked to office owners and they say, well, we're getting -- now we're going away from the big open areas and we're going back to the individual offices. Office space isn't going away, it's just going to change.

As you look at your office portfolio, who are you talking to? Where do you think that goes in terms of capacity in three or five years?

MR. SPOOK: Well, Peter, I was hoping you had that answer.

MR. COLLINS: I don't.

MR. SPOOK: You know, I'll give it a shot. I mean, you know, the future of office is -- it's being discussed by lots of parties in real

estate, so I'm not surprised I got that question from you.

So you've got kind of two opposing forces here at work. As you mentioned, you know, there is a densification over the last several years that's been taking place with less and less per square feet per employee. So a lot of that is the hoteling concept, you know, people come into work, they don't have any set office, they just sit down, plug in their laptop and go. So that has been contributing to lowering demand for office, you know, at the margins anyway.

Then COVID comes along and we've got this grand experiment of working from home. And, you know, it's a grand experiment, but I can speak for the board. It's worked very well for us. And everybody I speak to, at least in the real estate industry, is saying the same thing. It's worked very well.

So we all hear that, you know, companies are thinking, well, we can save money. Let's have our employees work from home. I think that's -- that's something that has yet to play out. I've got a good situation at home. I've got a home office set up. I don't have little kids running around underfoot.

That's not necessarily the case with a lot of people out there. They've got kids at home or they live in an apartment or they live in an apartment in New York City, so it's not a big apartment. It's just not a pleasant work experience. So I'm not sure that it's going to be that big a movement. Although, even on the margins, if it works, it's going to have an effect on office.

But going back to the densification theme, you know, I think this COVID thing has got a lot of people looking back and going, do we really want to be crowded into our offices, with this, you know, dense new hotel type of environment.

We're already seeing in the marketplace, in talking to brokers, leasing brokers and such, that is not what users are going to be looking for in the future. Is that a long-term trend? That's hard to tell. But at least in the near-term, I think that new leases are going to be folks looking for more square feet so they can social distance their workers and take into account this virus issue.

So you've got two opposing forces there.

One calls for more densification. One calls for less densification. It's going to be interesting. Then you also have -- you know, traditional thinking used to be you want to be near transit nodes for office; live, work, play type environments.

I think, you know, at least in the short-term, people are going to be scared to take mass transit. So that could be a force working against, say, urban offices versus suburban offices. Suburban offices have now been a favorite for a long time and may be in the short-term going forward, as people would prefer to drive to work as opposed to sitting on a crowded subway car. Anyway, that's a long way of saying it's a complicated answer. Did that help, Peter?

All right. John, if you could go forward a couple of slides then to the geographic diversification. Next slide. No. One back. So we are diversified geographically there. You can see that we are heavier in the "other" category than the index, and that would be our international exposure.

Next slide, John. And here we've got

transactions. Basically, it says since the last IAC report. These are our 2019 transactions. On the acquisition side, you can see we were not very active. I think that was reflective, before COVID, of what we considered to be pretty rich pricing. I'll get into it in a little bit, where I think that pricing is not going to be quite as rich going forward. But pretty much our only acquisitions were bolt-ons to existing programs that we had, so a small self storage asset and an agriculture asset adding on to our existing portfolio.

The disposition front, we had some pretty good activity there, a large industrial portfolio in Denver, Colorado, a multifamily deal that we developed in midtown Atlanta and together with our partner decided now is a good time to sell it when it was stabilized, so we did very well on that.

The senior housing is really just continuing our efforts to exit that space in the direct-owned space. We're going to continue to play in that space, but only through the commingled funds. And medical office, we disposed of a small condominium asset that came

along with a larger portfolio that we bought previously.

Under the externally managed, you see REITs, a new mandate of 400 million. So early on into the crisis, we saw what was happening with REITs, with -- they were down sharply. They're still down pretty sharply compared to the broader equity markets. The S&P is down about 7 percent today, I think, or year to date, and REITs are still down about 21 percent. So we thought that was a good place to take advantage of some dislocations between the private and the public markets, with the underlying assets of the REITs, in our opinion, being unfairly punished.

So we put forth 400 million in new mandates with two of our existing four separate account managers. Those are in concentrated, high conviction strategies. So -- and that is in addition to our existing 10 percent allocation to REITs.

So now -- now I'm done with the slides. If we could just take a quick look at what we're seeing in the land of COVID and its effects. I think Alison, early on in this call, mentioned that one of the things we're looking at is rent collections. And we do that in good times and in bad. We've always done that, but it's particularly informative in today's environment.

So the numbers I'm going to spell out are collections from the beginning of May. For the rest of this week, we'll be collecting June rents, and that should be very telling. But going into the crisis, I would have expected I would be pretty disappointed in what rent collections were looking like at this point in the crisis. And most industry observers, I think, would have thought the same thing. However, we're pretty happy with what we're seeing.

Overall, the portfolio is seeing 84 percent rent collections. There's wide dispersion between the property types as to what kind of collections we're seeing. And then even within the property types, there's wide dispersion. So between the different kinds of retail, you're going to see malls being far worse than, you know, grocery anchored, for instance.

But multifamily in our portfolio, we're seeing 95 percent collections. Industrial, 81 percent. And that's even a little bit skewed

toward the negative side. A couple of assets that we have that are smaller and more local tenants, great assets, but they just can suffer a little bit more as to their ability to pay rent while they're shut down.

Office, 90 percent collections. Medical office buildings, 89 percent. It would be higher except -- you know, we saw, you know, a lot of our tenants had to shut down due to elective surgeries being put on hold. We expect those are going to bounce back extremely strong. Retail, no surprise, 48 percent, by far the worst property type. Having said that, 48 percent in our portfolio is pretty good to what we're seeing in the marketplace, which is more in the thirties. And I can attribute that to, one, the high quality of our retail portfolio and, two, we have no malls in our direct-owned portfolio, malls being the worst category in retail.

Self storage, 99 percent collections. Student housing is probably the biggest surprise, given that universities shut down, but we're at 92 percent collections. And that's probably because parents are co-signing on the loans, not on the loans, on the leases. So pretty good news there.

It will be interesting to see, as we continue on through the summer, to see if that trend in good collections continues. You know, some of the government programs, the PPP, are going to start to run off, and I think we're going to see some of those collections go down going forward.

The collections that we aren't making are -- generally we're in discussions with our property managers, with tenants for rent relief. On the multifamily side, we are tending to give rent relief only in the form of rent deferments and then amortizing whatever is deferred over the remainder of the lease or adding a couple months onto the lease.

The same thing on the commercial side, except we do expect, as we go forward, that we're going to have to entertain more requests for rent forgiveness, particularly in the smaller retail tenants and in particular in the food and beverage industry.

So we're going to have to make a choice of we'll forgive, you know, one, two, three months rent, however much it's going to be. Every case

is going to be an individual negotiation. We can forgive that for a tenant that we think is going to survive if they can get some help.

Or, you know, the alternative is, you know, stick to our guns. They go out of business. Then we've got leasing -- I mean tenant improvements to pay to get a new tenant in there. If it is a restaurant tenant, it's going to tend to be a space that is more suited to restaurants or food and beverage, and we can't foresee any new food and beverage establishments opening up for the next year or two. So I think it's going to be in our best interest to work with tenants going forward.

So what do we see valuations doing? Since the crisis began, the transaction market has pretty much dried up. There are very, very few transactions, substantial bid-ask spreads between buyers and sellers. And, you know, given that appraisers for the most part are looking to market comps, sales comps and the market for their valuation inputs, they're having a difficult time, at least as far as the capital market assumptions.

So what we're seeing is, is appraisers

really aren't touching discount rates or cap rates in Q1 or even the appraisals that they are getting ready to put out for Q2. And instead, all they're really doing is playing with a shorter term cash flow assumption, such as occupancy rates, rental growth rates and lease downtimes.

So the result is, you know, Q1, maybe 1, 2 percent valuation declines. Q2, we would pretty much expect no more than 1 to 2 percent valuation -- other than retail, of course, but pretty much every other property type, very little value declines.

We do know, just from the few transactions that we are seeing out there in the market, that really price corrections are greater than what we're going to see in the valuations.

So, you know, just from being in the market ourselves and talking to our peers and talking to our appraisal administrator and seeing, you know, some surveys of surveying market participants, we have an idea of where values are going.

So, for instance, multifamily, we think by the time Q2 numbers are in, we're going to see a total decline of 5, 6 percent. Office, in the

range of 9, 10 percent. And, again, there's going to be wide dispersion within property types, such as office, suburban, you know, CBD, et cetera.

Industrial, for the most part we think it's going to be flat, maybe slightly negative, maybe slightly positive, but industrial is pretty much a darling, given the e-commerce trends that we're seeing out there. And retail, probably seeing valuation declines of 15 percent or more for retail.

So having knowledge that short-term performance in real estate is likely to be affected, you know, what do we see for the longer term? Well, this time, going into this crisis, unlike the GFC, real estate did not lead the way into this crisis. We weren't over-leveraged. We weren't over-supplied. And currently, given the situation that we're in, we think that the slower to longer environment that we're in is going to be very supportive of real estate values.

And that's pretty much what we're seeing. If I can answer any questions, I'm happy to.

MR. COLLINS: Did we get to exit our student housing portfolio fully, or were we in the midst of that, Steve?

MR. SPOOK: No. Peter, I think you're confusing the student housing exit with the senior housing exit. Senior housing is what we're looking to --

MR. COLLINS: Sorry. You're right.

MR. SPOOK: Okay. So, now, we still have our senior housing --

MR. WILLIAMS: May have been (inaudible).

MR. COLLINS: How much student housing do we have?

MR. SPOOK: Student housing? We have somewhere around 300 million equity.

MR. COLLINS: You know, it's interesting. I've got -- I'll have three at school in the fall, and all my friends and I feel the same way. I just don't -- I think that we're going to send them back. Whether we send them back and go -- and they sit in their apartment and do their classes online, we're sending them back. So I don't think the student housing is going to be as bad as people think. It won't be great, but it's not going to be as bad as people think.

MR. SPOOK: I think the jury is still out on that. I think you're right. Students want to go

back. If you would ask your three children are they tired of being at home with Dad, I think we know the answer, that they definitely want to go back.

MR. COLLINS: Is Dad tired of having them home with him? Yes.

MR. SPOOK: All right. So, you know, even to the extent -- and we're hearing all kinds of stories. We are hearing most universities are going to be open. Although, with the surge that we're seeing, I don't know if that's going to continue. But for now, what I'm hearing is that most universities are going to be open, although maybe half the classes are going to be online, and you're going to have labs and such that are going to be in person. But I think there's a good number of students that are still going to want to go back. So that's a good sign for student housing.

On the other hand, a big question mark is the foreign students. There's a great fear that a lot of these foreign students are not going to come back in the short-term. And so, you know, if we're looking on the margins, you know, say 10 percent of students don't come back, that can have a big effect on supply in a market.

So while I'm happy with the collections, while I'm happy with the fact that universities still appear like they're going to be open, I think there's a lot yet to play out. Most people can be back, but on the margins, it's going to affect your ability to raise rents or, you know, fill your student housing projects with students.

MS. CANIDA: This is Tere. I have a quick question. Is it too early to tell what the long-term trends in retail -- I mean, do you think at some point there will be opportunities there as a contrarian investor?

MR. SPOOK: I think there's a lot of people out there that think there's a long-term -- there's an opportunity as contrarian investors. I personally -- it's a falling knife, trying to catch a falling knife. So we are exposed to retail. Are we looking at least in the next couple of years, until we see kind of where things shake out or -- we don't really see the opportunity right now. At least it's not in enough focus for us to act on it.

MS. CANIDA: Okay. My second question, you talked a little bit about the investments you've

made recently in the REITs. Can you talk a little bit about the areas? You said there were concentrated, more concentrated investments.

MR. SPOOK: So our typical REIT separate accounts has probably between 80 and 120 names in it. We've got four separate accounts. That's 10 percent of the total portfolio. So what we're looking at here. And we gave these -- this $400 million allocation to two existing REIT managers.

And each of them are looking to build portfolios or have built portfolios. They're more concentrated in the, say, 30- to 40-name range, higher quality balance sheets, a good amount of cash on hand. What you're looking for is the ability to make it through this crisis and not necessarily betting on the sectors that are the most beat up.

So it might be tempting to go all in on hotels and malls because those are down 50, 60 percent, but that's not really the strategy here. The strategy here is higher quality, more conviction, less (inaudible). Does that help?

MS. CANIDA: Okay, yeah. Thank you.

MR. OLMSTEAD: All right. If there are no further questions, let's move on to our last SIO, which is Trent Webster on strategic investments.

MR. WILLIAMS: No audio, Trent.

MR. KUCZWANSKI: Trent, if you called in on the phone, on a phone instead of the computer, you may have to dial in again as well. I apologize.

MR. WEBSTER: Hi. Can you hear me now? We're on. Awesome. All right. So I know that we're way behind time for our schedule here, so I'll try and be as efficient as possible with my presentation. For the individuals who are newer on the IAC, this portfolio is a breakdown of our sub-strategies across all the different alternative investment sub-asset strategies that we can invest in.

The blue area of the graph is debt. The maroon-ish area is equity. Green is real assets. Purple is diversifying strategies, which are strategies which are uncorrelated or lowly correlated to equity and credit markets. And then the orange area is what we call flexible mandates.

And so long-time members of the IAC will know that we have spent the last five years

talking up the purple part of the graph. And it is now, as of March 31st, was the largest allocation at 26 percent. I would expect over the next three to five years that that allocation will fall a bit and that our debt investments will begin to rise once again.

John, can you please go forward one? So this is our performance. Our performance in the first quarter looked super awesome. Unfortunately, that's super defective. We have issues similar to the other alternative asset classes and private markets where there's lags. Our lags tend to be more sporadic and so -- this is due mostly because of the lags in the marks in the reporting.

When we do this for the second quarter, you'll see something very much in -- it will be very much in reverse, where we've significantly underperformed for the quarter. So we always tell people not to look too hard at our near-term performance. Instead, look at it over the long-term.

John, could you go forward one, please? So our cash flow -- we've actually been cash flow positive for the fiscal year as of the end of the third fiscal year quarter. We will be negative, cash flow negative for the full year, as we've been putting out a fair amount of money this quarter.

But what you'll see there is that when we sent this out, we had 20 funds totaling $3.75 billion in the pipeline. That's been a dramatic increase from where we were when we did this a quarter or two ago.

John, could you go forward one, please? And this is what our pipeline looks like. At the time, we had 20 funds. Fifteen were debt. Eight were distressed. But most of these funds, we'll be able to, in one way or another, take advantage of some of the dislocations that we've been seeing in the private credit markets.

And, John, can you go forward one, please? And the investment themes here is that we -- all distressed, all the time. We think it will probably be the largest distressed cycle we've ever seen. The risk asset markets, not just stocks but also high yield and leveraged loan markets, are pricing in a fairly benign outcome. We think that it's probably overdone. We'll see. You know, this is a humbling business.

But we think that there's probably going to be somewhere in the order of 3 to $400 billion in corporate bankruptcies. It will probably go higher if you include some of the stuff in real estate. And with some of the dislocations in structured credit, we think it's going to be a very good time to be investing in stressed and distressed assets.

And if you go forward one more, you can see this is our timeline. This currently was about $4 billion in potential commitments. About a billion of this was already in the pipeline before COVID hit, and then we've moved fairly quickly to identify targets and identify potential investments.

All the funds have something a little different about them. Some are more corporate. Some are large markets. Some are, you know, mid market. Some are smaller. Some are more real estate oriented. Some are more commodity oriented. Some are more in Europe. But we think it will be a very busy year.

We actually closed on one about an hour ago. And for this fiscal year, we've allocated more than -- we've committed more than $3.5 billion, which was our busiest fiscal year on record. We expect next year to be our busiest or to be as busy, if not busier, for fiscal year 2021.

For us, we think it's a very interesting opportunity, and so we've pivoted pretty hard towards the distressed opportunity, and we think that we should make some very good returns from this opportunity over the next several years. That's all I had. Are there any questions?

MR. OLMSTEAD: Very efficient, Trent. One quick question. As you're looking at these opportunities, are these repeat or folks you've been -- I don't know what happens in your space here. But are there a bunch of distressed funds that are coming out of nowhere, or are these folks that have been in the distressed space for a long time or ones that we have invested in previously? Any just quick color commentary on that?

MR. WEBSTER: Yeah. That's an excellent question, Vinny. So when COVID hit, the practical realities of not being able to get onto a plane created some restrictions on how we were able to approach this.

And so we classified all funds as one of

three tiers. The first tier were funds that we had invested with in the past and knew well. The second tier were funds that we knew well but didn't invest with them in the past. So we'd been on site with them multiple times. We'd had multiple calls. They may have been into our office. Those were our tier two managers. And then our tier three managers are managers whom we had not -- we didn't know that well.

So we focused on our first two tier -- the first two tiers, so managers whom we've re-upped with and then managers whom we knew well but had not invested with. And so that's where we focused on. Once we can get back onto planes, there will be other opportunities that we'll be able to take a look at. But right now we focused on those areas, with firms that we know pretty well.

MR. OLMSTEAD: Other questions for Trent? Seems like he's in inning number two to an interesting time here. Okay. With that, I'm going to cede it over to Ash, who has a couple of items, including the review of the FRS policy statement.

MR. WILLIAMS: Yeah. Well, let's do that

first. Actually, we might have already done that. Well, no, I guess we didn't. Yeah. Let's go ahead and approve the pension plan IPS, if we could. And this basically is just clarifying where we are and getting everything current, and then -- unless anybody has questions from what's in the materials.

The other thing I wanted to mention is a news item that I should have mentioned earlier, which is we had some very important news yesterday. There are three variables in making pension funds healthy. The first and most important of those and the one that's most commonly not (inaudible) is responsible funding. And Florida has a very good history in that area.

And yesterday the governor signed the Florida budget and released his line-item vetoes. And included in that budget was full funding as actuarially indicated for the normal cost of the Florida Retirement System and the full actuarially indicated contribution to the unfunded liability.

So I think that's worthy of note, and I want to thank the governor and recognize him for his leadership in that area.

MR. BOBBY JONES: And, Mr. Chairman, this is Bobby Jones. I would like to also second that motion. And, again, this helps keep our bonds AAA rated in the state of Florida, helps us do a lot of things for not only the CAT Fund, for so many other areas. And, again, this is so important, so thank you for mentioning that, Ash.

MR. WILLIAMS: And the IAC helped with it, of course, because you got involved in it, took it up in a public meeting and sent a message, literally a written message to the trustees, which I think was very helpful.

MR. BOBBY JONES: Well, thank you.

MR. OLMSTEAD: Great. Okay. So, Ash, I assume it's appropriate to sort of make a -- does someone make a motion on the policy statement?

MR. WILLIAMS: On item 7?

MR. OLMSTEAD: Yes.

MR. WILLIAMS: Yes.

MR. WENDT: I have a question. This is Gary Wendt with a quick -- with not a quick question, I suppose. But are there any changes?

MR. WILLIAMS: Yeah. There's a small change on the cash benchmark. I wouldn't characterize it as anything of materiality.

MR. WENDT: And that's the only thing. So we're approving the same thing we've always approved.

MR. WILLIAMS: Yes, sir.

MR. WENDT: Thank you.

MR. PETER JONES: This is Peter Jones. So moved.

MR. BOBBY JONES: Second.

MS. CANIDA: Second. Tere Canida.

MR. OLMSTEAD: Okay. All in favor?

(Ayes)

MR. OLMSTEAD: Opposed? So moved.

MR. WILLIAMS: Thank you.

MR. OLMSTEAD: Okay. Next up, Kristen and Katie on the major mandate review.

MS. DOYLE: Okay. Thank you very much. And again, since we are over time and a lot of this information has been covered already today, I'm just going to hit a few slides. So, John, because I have control, I might just try it and see if I can get it to work so that I'm not -- we're not trying to guess which slide I'm heading to. So, okay, I think I'm moving it. Okay. It's working.

So we already talked pretty extensively

about the performance of the pension plan. We talked about the absolute performance, down 11.7 percent for the quarter. But I think what's noteworthy here -- and you're going to see this somewhat consistently across the mandates, and we've seen this historically (inaudible). Even in periods of time when we've seen down markets, we see the FRS and the other mandates fare very -- fairly well through those periods in terms of outperforming their performance benchmarks.

So you can see the outperformance there relative to the performance benchmark for the quarter, which is the blue bar. So the performance benchmark was down 14.3 percent, a 300 basis point outperformance over the one year period, and then over the other periods, consistent outperformance of the pension plan relative to the blue bar and in many instances the green bar, which I think is also important.

So moving to the next slide, this is the absolute nominal target rate of return. So this is the long-term benchmark that we look at over many, many years, longest trailing periods that we have.

We can see an underperformance there over the last 20 years. And, intuitively, this is because that 20 year period unfortunately has included, still includes three periods of drastic underperformance in the equity markets. And so that has an impact on the FRS portfolio relative to an absolute nominal target rate of return, which by the way, is inflation plus 4 percent right now.

But over long periods of time, we see consistent outperformance. And I actually went back and looked at what the last 20 years trailing return was relative to the absolute nominal target rate of return when we reviewed this last quarter. And the underperformance was about a percent, and now it's about 1.7 percent. So you can see the impact that downturn in March had on this trailing return, and it's pretty dramatic.

We have also already talked about performance relative to peers. So I wasn't going to talk about that. Sorry. I meant to go back one slide. But this is the slide that just illustrates what we've already talked about, which is the FRS -- a higher allocation to

equities versus the peer group. And then in the tiny, tiny footnote, you can see again the higher allocation to non-U.S. equities within that global equity bucket relative to peers as well. And that's going to primarily be the impact here.

We've also -- the constituents in the universe can move around a little bit, but we do see one or two corporate plans that are very, very large that pop into this universe of top ten largest defined benefit plans. And so when that happens, that also has an impact because, as we know, corporate defined benefit plans are generally allocated very differently to a public pension plan, given the regulatory environment within which they exist. And, sorry, I should probably unpack that a little bit. So higher allocation to long bonds, lower allocation to equities, which in this environment obviously would have fared very well.

Let me move on to the last couple of major mandates. And, again, in the interest of time, I'm going to go through this quickly. Stop me if you have questions. So the DC plan, you've already seen performance for this, but continues to perform well relative to the benchmark, which is the underlying performance of the individual mandates. So, collectively, those mandates continue to outperform their benchmarks.

The CAT Fund, if you remember, is now broken into two categories, the operating liquidity fund and the operating claims paying fund, and again continue to keep pace with the benchmarks selected for those two particular components.

And then lastly is Lawton Chiles. So Lawton Chiles had some negative performance to it. It was down about 16 percent for the quarter. One year period, down 7.7 percent. There's one active manager in that portfolio, asset equity manager, that underperformed its benchmark. So that's why you see some underperformance, but over the long-term, continued outperformance for that program.

And then the last mandate is the Florida PRIME, but you've heard so much about that, I'm not going to spend a lot of time on it. But, again, continued strong performance from that mandate as well. Happy to answer any questions.

MR. OLMSTEAD: Okay.

MS. DOYLE: Thank you.

MR. OLMSTEAD: I think we're getting to the

end here. Are there any audience comments? I'll take that -- I will take that as a no.

MR. KUCZWANSKI: Mr. Chairman, no, there are no comments. This is John Kuczwanski.

MR. OLMSTEAD: Thank you, John. That's great. So a couple of quick things here. I think the next board meeting is September 29th, hopefully in person, so hopefully with some good banter about college football season or something to bring some levity.

And I just want to say to staff, great job in putting this together. There were a few minor glitches, but if you haven't watched the Saturday Night Live skit on Zoom church, watch it. It's very funny and a lot of comical things happening in their Zoom approach. But with that, do we have a motion to adjourn?

MR. GOETZ: So moved.

MR. BOBBY JONES: So moved.

MR. NEAL: Second.

MR. OLMSTEAD: All in favor?

(Ayes)

MR. OLMSTEAD: All right. Thanks, everyone.

(Thereupon, the meeting concluded at 5:12 p.m.)

COURT CERTIFICATE

STATE OF FLORIDA
COUNTY OF LEON

I, JO LANGSTON, RPR, certify that I was authorized to and did stenographically report the foregoing proceedings, and that the transcript is a true and complete record of my stenographic notes.

Dated this 20th day of July 2020.

Jo Langston

JO LANGSTON, RPR

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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POST OFFICE BOX 13300
32317-3300

Date:	August 3, 2020
To:	Board of Trustees
From:	Mark Thompson, Audit Committee Chair
Subject:	Quarterly Audit Committee Report

The State Board of Administration's Audit Committee met on August 3, 2020. Please see the attached agenda for the items discussed. Also please see the attached Office of Internal Audit Quarterly Report presented to the Audit Committee at the meeting.

STATE BOARD OF ADMINISTRATION
Audit Committee Meeting
Agenda
August 3, 2020
9:30 A.M. – Noon

1. Call to Order

2. Approval of the closed and open meeting minutes from April 27, 2020

3. SBA Executive Director & CIO status report
   - SBA Update: investment performance, risks, opportunities and challenges

4. Chief Risk & Compliance Officer Quarterly Report

5. Annual review of the charters
   a. Audit Committee
   b. Office of Internal Audit

6. Office of Internal Audit Quarterly Report

7. Office of Internal Audit Annual Audit Plan for FY 2020-2021

8. Office of Inspector General Quarterly Report

9. Other items of interest

10. Closing remarks of the Audit Committee Chair and Members

11. Adjournment

Office of Internal Audit (OIA) Quarterly Report to the Audit Committee

August 3, 2020

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	• Details of open items – Audit Projects	10
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	• Quality Self-Assessment Report	18
Other FY 2019-20 Metrics for OIA	• Budget to Actual Comparison FY 2019-20	20
	• Professional Staff Training FY 2019-20	21
	• Results of Client Survey FY 2019-20	22-24
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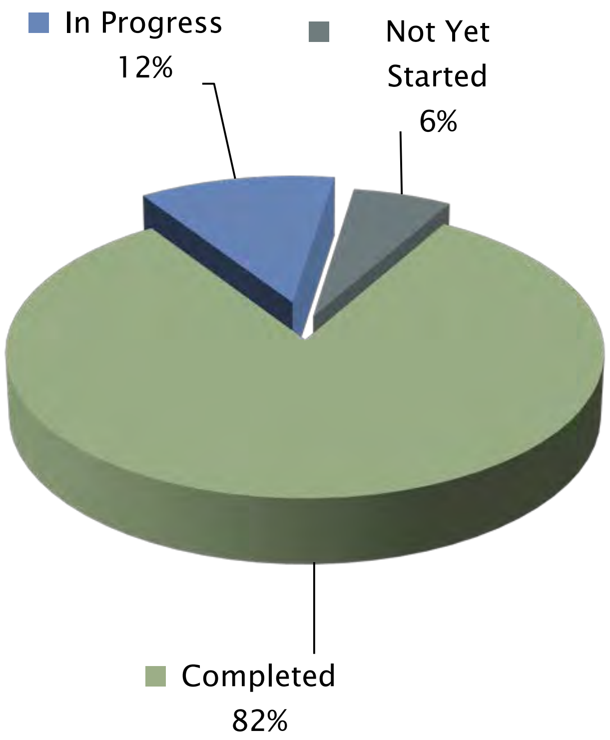
Appendix	Open Audit Recommendations and Action Plans	Appendix A
	Procure to Pay Operational Audit Report	Appendix B
	Quality Self-Assessment Report	Appendix C

Status of the FY 2019-20 Annual Audit Plan

Status of the FY 2019-20 Annual Audit Plan

Internal Audit and Advisory Engagements



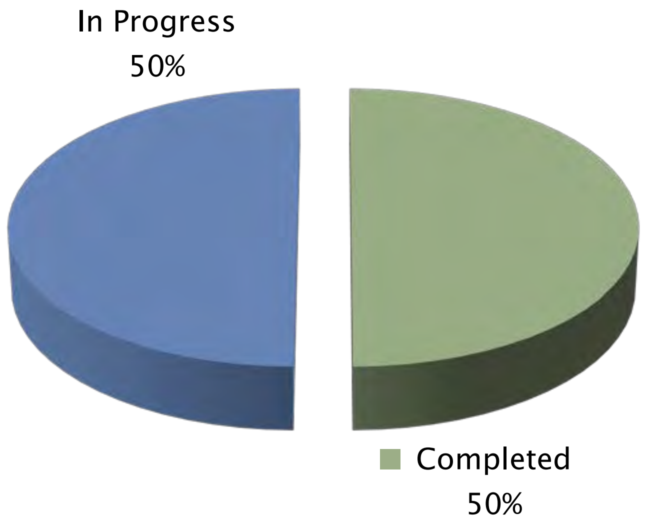
Highlighted: Completed since prior quarterly report.

Projects Status	Type	Planned Timing
Completed		
FHCF ACH Process Flow Update	OIA Advisory	Q1
Continuous Monitoring - Accounts Payable	Continuous Monitoring	Q1
Continuous Monitoring - P-cards and Travel	Continuous Monitoring	Q1
Strategic Investments	OIA Operational Audit	Carryover
Periodic Follow-up Audit	OIA Follow-up Audit	Q1
Continuous Monitoring – Procurement	Continuous Monitoring	Q2
FHCF Tableau Assistance	OIA Advisory	Q1-Q3
Enterprise-wide KRI Collaboration	OIA Advisory	Q1-Q3
CIS CSC Framework Gap Assessment	OIA Advisory	Q1-Q3
Procure to Pay Operational Audit	OIA Audit	Q2-Q3
Proxy Voting Data Analytics - Phase 2	OIA Advisory	Q2-Q3
Continuous Monitoring – General	Continuous Monitoring	
Data Analytics – Strategy	Continuous Monitoring	Ongoing
Action Plan Monitoring	Project Management	
In Progress		
Periodic Follow-up Audit	OIA Follow-up Audit	Q2-Q3
Real Estate - Direct Owned	OIA Operational Audit	Q2-Q4
Not Started		
Continuous Monitoring - Trade Activity	Continuous Monitoring	Q1
~~Logical Physical Access Control~~ *	~~OIA Operational Audit~~	~~FY19-20~~
~~Network and Application Change Control~~ *	~~OIA Operational Audit~~	~~FY19-20~~

* These projects were canceled due to the audits performed by the Auditor General and the Crowe financial statement audits covered these topics.

Status of the FY 2019-20 Annual Audit Plan

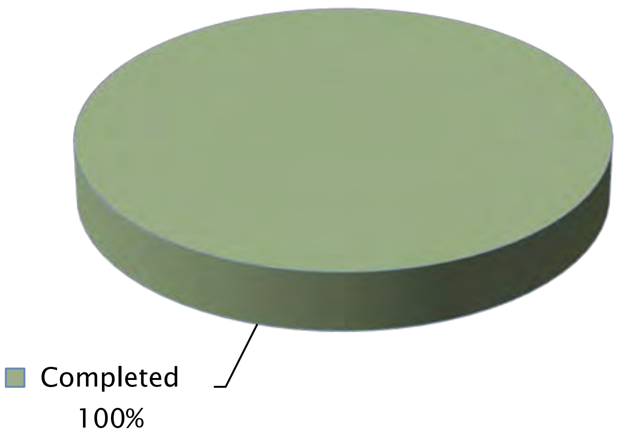
External Engagement Oversight



Project Status	Service Provider	Type	Planned Timing
Completed			
Network Security, outsourced	BDO	External IT Audit	Q1/Q2
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY18-19	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY18-19	Q1/Q2
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit for FY18-19	Q1/Q2
Florida PRIME	Auditor General	External Financial Statement Audit for FY18-19	Q1/Q2
Part of the Statewide CAFR	Auditor General	External Financial Statement Audit for FY18-19	Q2/Q3
Florida Growth Fund Initiative	OPPAGA	External Review	Q1/Q2
In Progress			
AG PRIME and ITGC Operational Audit	Auditor General	External Operational Audit	Q2/Q3
AG Operational Audit	Auditor General	External Operational Audit	Q3/Q4
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY19-20	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY19-20	Q1/Q2
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit for FY19-20	Q1/Q2
Florida PRIME	Auditor General	External Financial Statement Audit for FY19-20	Q1/Q2
Part of the Statewide CAFR	Auditor General	External Financial Statement Audit for FY19-20	Q2/Q3
Not Started			
None			

Status of the FY 2019-20 Annual Audit Plan

Special Projects, Risk Assessments, and Other Activities



Highlighted: Completed since prior quarterly report.

Project Status	Type	Planned Timing
Completed		
Assistance with Aladdin Implementation	OIA Special Projects	Carryover
Integrated Risk Management Solution Implementation	OIA Special Projects	Q1-Q3
Robotics Process Automation Assistance	OIA Special Projects	Q1-Q4
Annual Quality Assessment Review - Self-Assessment	OIA Quality Assurance	Q4
Annual Risk Assessment	OIA Risk Assessment	Q4
Annual Audit Plan	OIA Risk Assessment	Q4
Data Analytics Tools Enhancements - Tableau	OIA Special Projects	Ongoing
Complimentary User Entity Control Testing Validation	OIA Special Projects	
Special requests from SBA management and/or Audit Committee	OIA Special Projects	
WorkSmart Portal Enhancements	OIA Special Projects	
Audit Committee Related Activities	OIA Audit Committee	
OIA process improvement initiatives, including QAR identified initiatives	OIA Quality Assurance	
Ongoing/In Progress		
None		
Not Yet Started		
None		

OIA Projects Completed and Status of Management Action Plans/Recommendations

Procurement to Pay Operational Audit

Our risk-based audit assessed the existence, adequacy/effectiveness, and efficiency of internal controls over the SBA's procure to pay (P2P) process for the period July 1, 2019 through March 31, 2020. In certain cases, we reviewed information subsequent to our cut-off date to provide updated information. During this assessment, we evaluated internal controls for the following processes: solicitation, vendor selection, management and approval of requisitions, management and approval of purchase orders, receipt of goods, and accounts payable procedures for issuance of payments to its vendors.

The SBA implemented P2P functionality within PeopleSoft Financials (PSF) in April 2018 with a subsequent upgrade in January 2020, as part of SBA's effort to automate processes and facilitate reporting and streamlining procurement to receipt to payment processes. We documented our understanding of systems, data feeds and various processes and assessed 111 key controls for control effectiveness. *For the full report, please see Appendix B.*

Legend for Control Effectiveness Rating	# of Key Controls
Effective	88
Improvement Needed	17
Not Effective	6
Total Key Controls	111

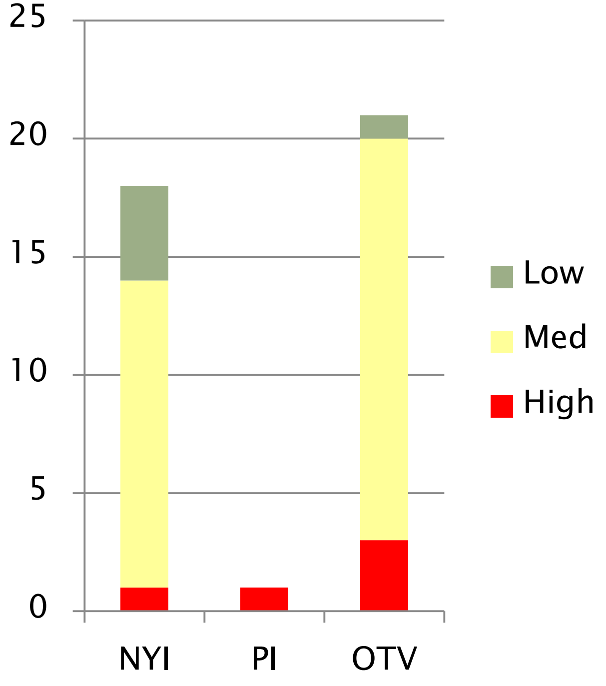
Observations in the Report:		Status of Action Plan:
18	Medium	Target completion date for medium risk observations is in FY 2020-21. For some corrective action was taken prior to the issuance of the report
4	Low	The observations are related to creating workflows, availability of functionalities within PSF, and audit logging. Target completion date for low risk observations is in FY 2020-21
22	**Total Observations**	

New/Closed Action Plans & Recommendations

Audit and Advisory Engagements

# of Recs	Source	
New action plans and recommendations:		
21	Procure to Pay Operational Audit (See Appendix B)	
21	Total action plans/recommendations added to the database	
Closed action plans and recommendations:		
(5)	Procure to Pay Operational Audit	Closed prior to issuance (See Appendix B)
(3)	Performance and Risk Analytics Operational Audit	To be reported in OIA's next periodic follow-up report
(36)	Funston GRC Assessment	Closed after consideration during the Annual Risk Assessment for FY 2020-21
(7)	Review Critical Financial Reporting Spreadsheets	
(51)	Total action plans/recommendations closed in the database	
(30)	Total change for both audit and advisory action plans/recommendations	

Status of Management Action Plans–Audits



For details, see Appendix A.

		Risk Rating				Status			
Report Title	Report Date	High	Med	Low	**Total**	NYI	PIRP	OTV	**Total**
Fixed Income Trading Activities Operational Audit	1/29/2016		1		**1**			1	**1**
Global Equity Internal Trading Operational Audit	1/18/2017	1			**1**		1		**1**
Internally Managed Derivatives Operational Audit	3/31/2017	1	1		**2**			2	**2**
AG - Operational Audit 2017	11/13/2017		1	1	**2**			2	**2**
AG - IT Operational Audit 2017	4/5/2017		9		**9**			9	**9**
Incentive Compensation Program Operational Audit Report	4/10/2018		2	1	**3**	1		2	**3**
Externally Managed Derivatives Operational Audit	10/31/2018	1	1		**2**			2	**2**
Performance & Risk Analytics Operational Audit	2/21/2019		2		**2**			2	**2**
Strategic Investments Operational Audit	8/19/2019	2			**2**	1		1	**2**
Procure to Pay Operational Audit	6/30/2020		13	3	**16**	16			**16**
		5	30	5	40	18	1	21	40
		13%	75%	13%		45%	3%	53%	

Legend:
NYI - Not Yet Implemented
PIRP - Partially Implemented and the Remainder is in Progress
OTV - OIA to Verify

Management Action Plans relating to findings from audits performed by internal or external auditors. The OIA monitors and performs follow-up procedures on the management action plans in accordance with the IIA Standard 2500. A1. In certain cases, follow-up procedures are performed by external auditors.

Status of Recommendations – Advisory Projects

Report Title	Report Date	Status: NYI	PI	IMP	Total
Governance, Risk Management, and Compliance Assessment (Funston)[1]	1/15/2018	7	19		26
Network Security Assessment 2018 (BDO)[2]	11/15/2018	5			**5**
BDO Security Assessment 2019[2]	11/21/2019	103		1	**104**
CIS CSC Framework Gap Assessment Advisory[1]	3/19/2020	20			**20**
		135	19	1	**155**

Legend:
NYI - Not yet implemented
PI - Partially Implemented, as represented by SBA management
IMP - Implemented, as represented by SBA management
PIRN - Partially Implemented, as represented by SBA management, and the remainder will not be implemented
NA - Not accepted by SBA management

Advisory Recommendations made by OIA or external consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery preparedness program, etc. The OIA monitors the disposition of these recommendations in accordance with the IIA Standard 2500.C1.

[1]At the advice of the Audit Committee, the OIA closes Advisory Recommendations that management represented as “complete” once the OIA has considered those in the annual risk assessment.

[2]Recommendations will be reviewed for remediation and closure by BDO as part of the 2019 Network Security Assessment.

Data Analytics

OIA Data Analytics Strategic Goals

1. Risk Assessments	2. Engagement Planning and Execution	3. Continuous Monitoring or Auditing
A. Use data analytics to identify high risk areas to include in OIA's annual audit plan B. Develop continuous monitoring of key risk indicators to determine if changes to the annual audit plan are needed (continuous risk assessment)	~~A. Identify which audits would benefit from data analytics~~ ~~B. Identify high risk areas to focus OIA's audit scope and selections~~ ~~C. Identify controls that can be tested using data analytics and develop test scripts to execute tests~~ ~~D. Identify analytics used during an audit that may be expanded to continuous monitoring for the First Line of Defense~~ A. Utilize existing continuous analytics across the program to further support engagement planning and execution	A. Continue to support sustainability of continuous analytics through additional automation, live connections, and support of SBA's use of Tableau Server and data governance ~~B. Establish metrics/analytics within the program that provide value and insight for the client~~ ~~C. Effective communication with IT to obtain and automate the data~~ B. Continue to evaluate critical success factors for the program to improve the quality and use of OIA's continuous monitoring and data analytics. C. Evaluate the potential use of Robotics Process Automation for continuous audit projects.

Key:
~~Completed~~
Updated an existing goal or added a new goal to support further program growth

OIA Data Analytics Maturity Model & Progress

Key accomplishments since August 2019

- Further incorporated the CRISP-DM analytics framework into practice
- Continued to enhance continuous monitoring projects for improved analytics and dashboards and increased the use of Tableau Server capabilities
- Added live connections in data extraction and achieved reduction in manual procedures for analytics processes in order to increase long term sustainability
- Began identifying key risk indicators that we could use to support a continuous risk assessment
- Developed and applied metrics to measure the success of the program

Level 5: Integrated with "data-driven" GRC processes

Level 4: "Data-driven" approach

Level 3: Managed and integrated into processes

OIA

Level 2: Repeatable analytics

Level 1: Ad hoc occasional use

Increasing value to the organization

Increasingly automated, well managed and integrated

Key goals/actions to move to the next level

- Continue to refine the strategic goals and actions to achieve the strategy statement
- Refine and add metrics to measure the success of the program
- Continue research and development of the continuous risk assessment by adding key risk indicators into a continuous analysis
- Continue to enhance automation in continuous monitoring projects
- Determine areas where RPA could potentially facilitate continuous auditing and communicate to SBA's Center of Excellence
- Encourage the use of data analytics within other GRC departments

Last updated for Audit Committee meeting on 8/3/20

Proxy Voting Data Analytics – Phase 2

The Investment Programs and Governance (IP&G) department engaged the OIA to assist in updating and developing additional ongoing data analytics for proxy voting. Our phase-II primary objectives were as follows:

1. Identify required additional data and adjustments to current dashboards.
2. Update the current dashboards to incorporate updates identified by IP&G.
3. Streamline data cleaning and connection process for more efficient and effective updating, viewing and distribution of the dashboards on an ongoing basis.

The OIA completed this engagement and provided Tableau dashboards, along with related guidance, to IP&G. The dashboards included various analytics and interactive options, including an summary for votes and issues, trend and statistics for individual markets, dynamic issue detailed analysis, and more. The public proxy voting analysis was published on the SBA website: [Governance – Historical Proxy Voting]

Quality Assurance and Improvement Program (QAIP)

QAIP Program

- The Standards issued by The IIA require that an internal audit department maintain a QAIP.
- The OIA's QAIP contains:
  - Internal assessments that include both ongoing monitoring and periodic assessment.

Ongoing Monitoring	Periodic Assessment
• Progress tracking of Annual Audit Plan • Supervisory review of work papers • Maintenance of recommendations/action plans and status • Maintenance of OIA procedures manual • Engagement-specific QA assessments and related verifications • Completion of required continuing professional education	• Annual internal quality assurance self-assessment for years when an external assessment is not performed. The results are presented in this report. • Annual review of OIA Charter

- External assessments conducted every five years, under the direction of the Audit Committee, by a qualified, independent reviewer.
- Governance, Risk Management and Compliance (GRC) assessment conducted periodically includes OIA in the scope of assessment.

OIA's Quality Assessment Results

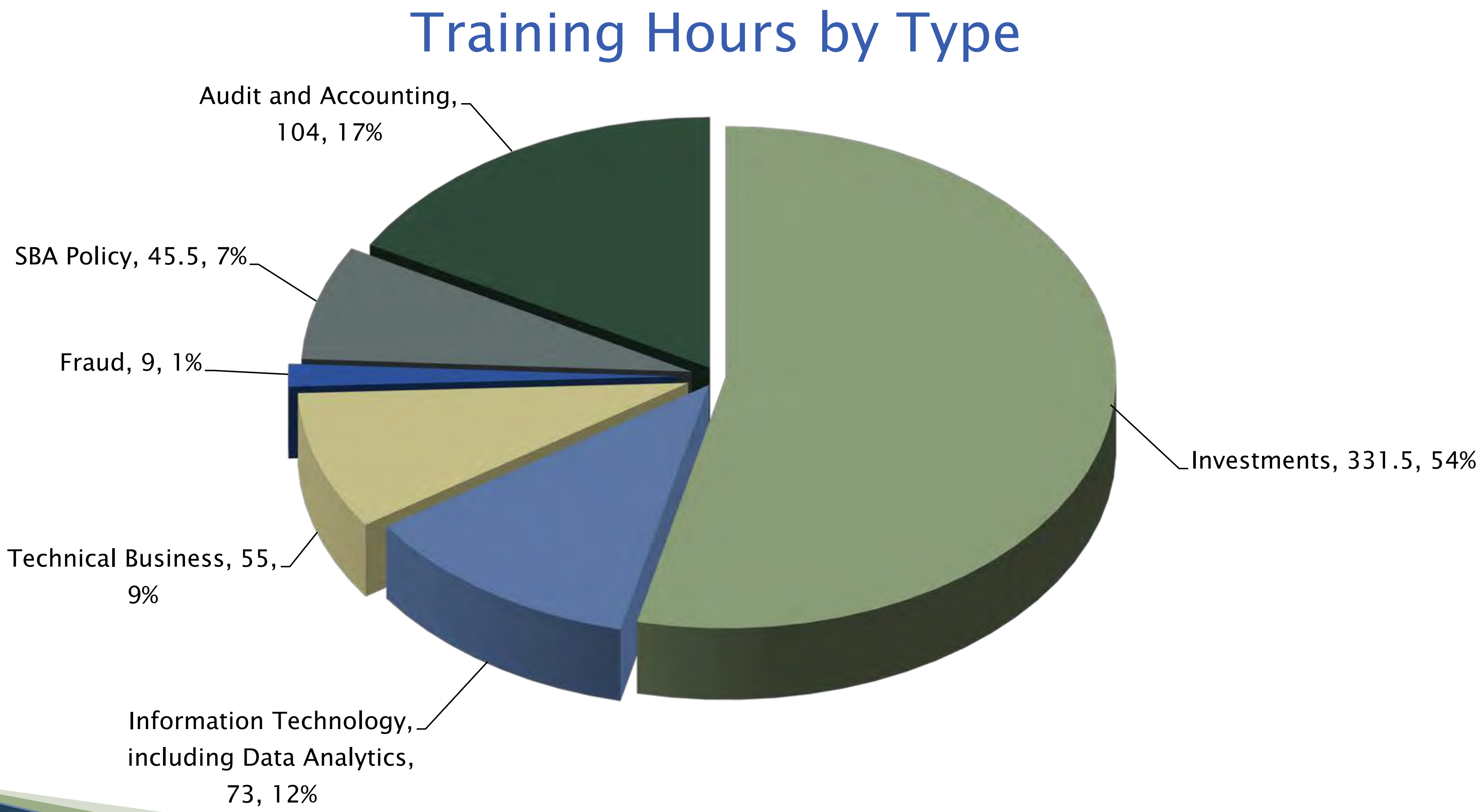
		GC	PC	DNC	NA
OVERALL		X			
ATTRIBUTE STANDARDS		X			
1000	**Purpose, Authority, and Responsibility**	X			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the *Standards* in the Internal Audit Charter	X			
1100	**Independence and Objectivity**	X			
1110	Organizational Independence	X			
1111	Direct Interaction with the Board	X			
1120	Individual Objectivity	X			
1130	Impairments to Independence or Objectivity	X			
1200	**Proficiency and Due Professional Care**	X			
1210	Proficiency	X			
1220	Due Professional Care	X			
1230	Continuing Professional Development	X			
1300	**Quality Assurance and Improvement Program**	X			
1310	Requirements of the Quality Assurance and Improvement Program	X			
1311	Internal Assessments	X			
1312	External Assessments	X			
1320	Reporting on the Quality Assurance and Improvement Program	X			
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	X			
1322	Disclosure of Nonconformance				X
PERFORMANCE STANDARDS		X			
2000	**Managing the Internal Audit Activity**	X			
2010	Planning	X			
2020	Communication and Approval	X			
2030	Resource Management	X			
2040	Policies and Procedures	X			
2050	Coordination	X			
2060	Reporting to Senior Management and the Board	X			
2070	External Service Provider and Organizational Responsibility for Internal Auditing				X
2100	**Nature of Work**	X			
2110	Governance	X			
2120	Risk Management	X			
2130	Control	X			
2200	**Engagement Planning**	X			
2201	Planning Considerations	X			
2210	Engagement Objectives	X			
2220	Engagement Scope	X			
2230	Engagement Resource Allocation	X			
2240	Engagement Work Programs	X			
	Performing the Engagement	X			
2310	Identifying Information	X			
2320	Analysis and Evaluation	X			
2330	Documenting Information	X			
2340	Engagement Supervision	X			
2400	**Communicating Results**	X			
2410	Criteria for Communicating	X			
2420	Quality of Communications	X			
2421	Errors and Omissions				X
2430	Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X			
2431	Engagement Disclosure of Nonconformance				X
2440	Disseminating Results	X			
2450	Overall Opinions	X			
2500	**Monitoring Progress**	X			
2600	**Communicating the Acceptance of Risks**	X			
IIA CODE OF ETHICS		X			
DEFINITION OF INTERNAL AUDITING		X			

FY 2019-20 OIA Metrics

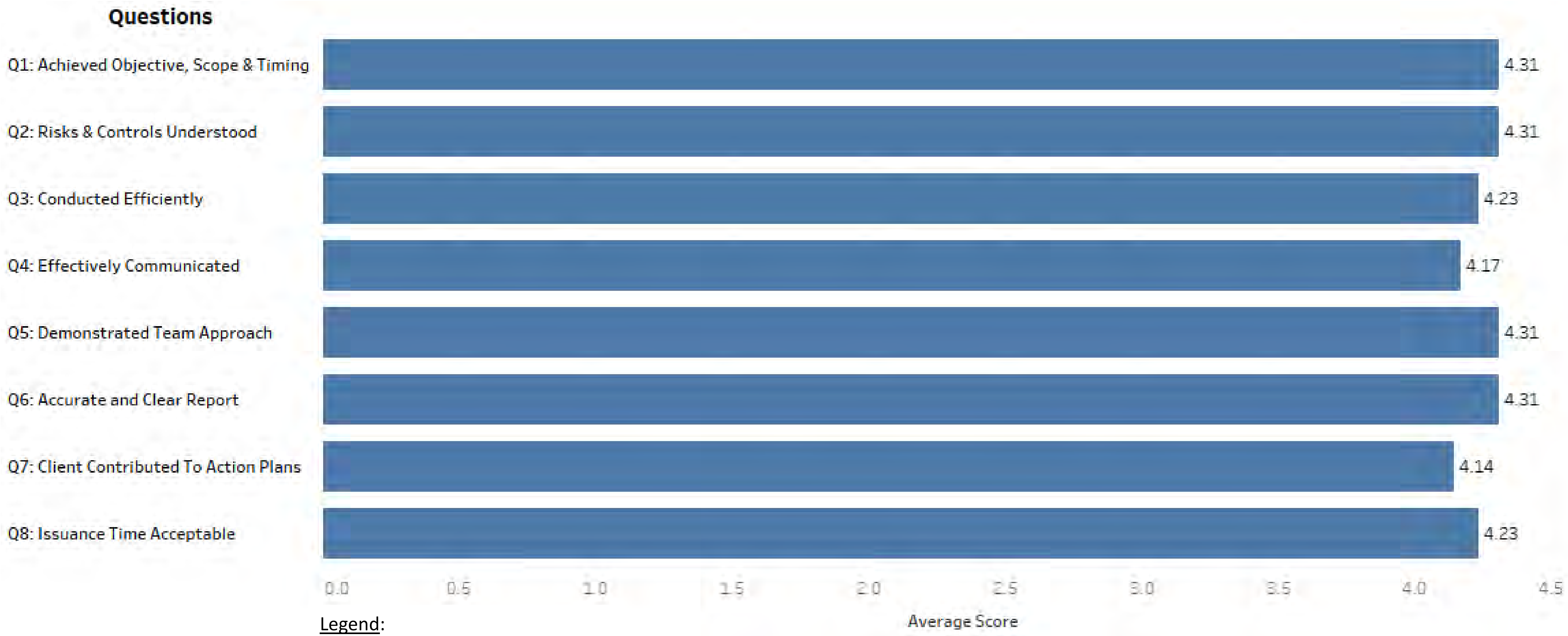
Budget to Actual Comparison FY 2019-20

Category	Budget	Percent	Actual	Percent	Budget to Actual Over / Under	Explanation for any difference greater than 1%
Audit/Advisory Projects	4,474	35.94%	5,289	43.08%	-7.14%	Additional hours needed for advisory projects: KRI advisory and the Security Framework Advisory.
Oversight of External Auditors	471	3.78%	557	4.54%	-0.76%	
Special Projects	1,135	9.12%	1,010	8.23%	0.89%	
Risk Assessment	446	3.58%	211	1.72%	1.86%	Additional hours were incurred in July 2020 for the risk assessment to use the new Logic Manager tool.
Audit Committee Related Activities	312	2.51%	216	1.76%	0.75%	
Leave & Holidays	2,929	23.53%	2,297	18.71%	4.82%	The leave available for annual and sick leave was not taken during the year.
Continuing Education	926	7.44%	1,088	8.86%	-1.42%	Identified additional training needs during the year and working from home the team was able to take additional virtual trainings without travel.
Quality Assessment Review	159	1.28%	33	0.27%	1.01%	Additional hours were incurred in July 2020 for the QAR.
Administrative	1,596	12.82%	1,576	12.84%	-0.02%	
Total	**12,448**	**100%**	**12,277**	**100%**		

Professional Staff Training FY 2018-19

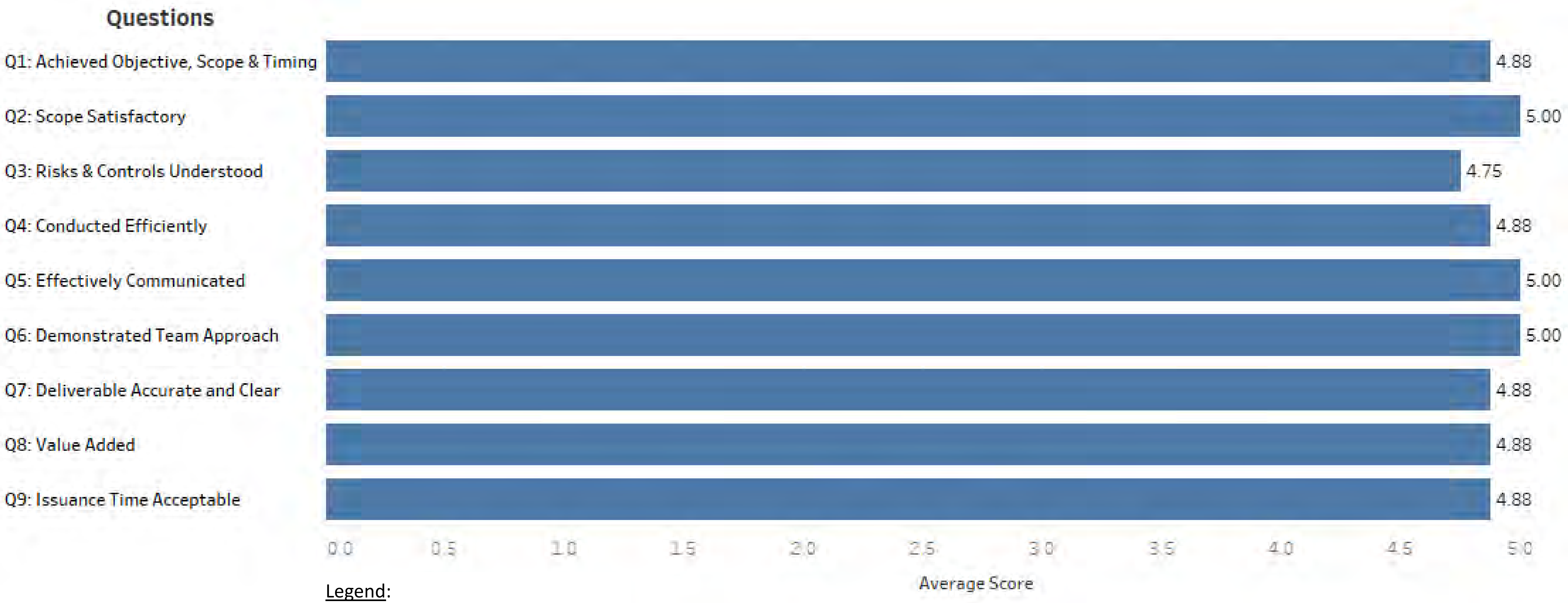


2019-20 Client Survey Results: Audit



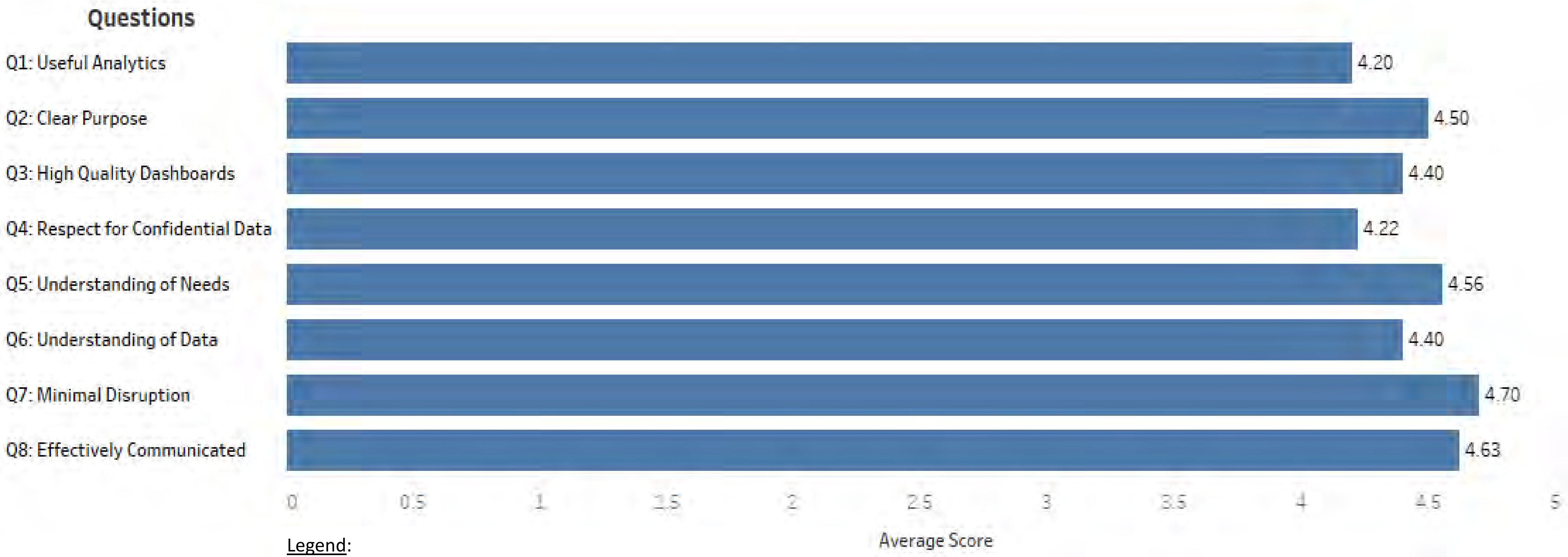
Legend:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

2019-20 Client Survey Results: Advisory



Legend:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

2019-20 Client Survey Results: Data Analytics



<u>Legend</u>:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

Note: Surveys for all continuous analytics are sent annually in December. Continuous analytics that were put into production after completion of the annual survey will be reflected in the following year survey results.

Other OIA Activities

Proposed OIA Department Goals FY 20-21

TOPIC	ACTIVITIES
INTERNAL AUDIT PROCESSES	Data Analytics: Use for continuous risk assessment, engagement planning, continuous monitoring and auditing, and evaluate the potential use of robotics process automation for audit projects. (Process improvement from QA Self-Assessment)
	OIA Procedures Manual: Perform annual review of the manual and add the following items identified during the QA Self-Assessment: Add remote auditing procedures due to COVID-19, update the risk assessment methodology with the use of Logic Manager, update the monitoring of audit recommendations using Logic Manager.
	Engage consultants (co-source or outsource) to assist with high risk areas relating to investments and IT audits.
	Update Internal Controls Risk Assessment template to include the alignment of engagement risks for each objective with the SBA's ERM risks.
	Update the audit program template to add results of control testing in Logic Manager and to send the client engagement survey after report issuance. (Process Improvement from QA Self-Assessment).
	Take the initiative to develop a formalized SBA data analytics workgroup.
	Update the pipeline of projects within the Annual Audit Plan on at least a quarterly basis.
USE OF TECHNOLOGY	Continue to increase automation of continuous data analytics where possible and support the SBA's use of Tableau Server and data governance.
	Request IT manpower resources (Approximately 4 weeks of assistance from applications staff) for the activities related to IIAMS and Tableau.
PEOPLE	Develop a training plan based on knowledge gaps for each member of the OIA to close those gaps.
	Have at least one team building event during the fiscal year to enhance the team.
	Continue to participate in the internship program.
	Develop a more formal competency framework using The IIA's Global Competency Framework for knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. (Process Improvement from QA Self-Assessment)

Other Items for Discussion

- 2020 Audit Committee Meeting Dates
  - Monday, November 30
- Proposed dates for Audit Committee meetings in 2021
  - February 22, 2021
  - May 24 or June 7, 2021 (Memorial Day is May 31)
  - August 30, 2021
  - November 29 or December 6, 2021 (Thanksgiving is November 25)

Questions/Comments

OFFICE OF INTERNAL AUDIT

OIA

SBA FLORIDA

STATE BOARD OF ADMINISTRATION

STATE BOARD OF ADMINISTRATION
OF FLORIDA

1801 HERMITAGE BOULEVARD, SUITE 100
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

MEMORANDUM

To: Ash Williams
From: Michael McCauley
Date: September 3, 2020
Subject: Quarterly Standing Report - Investment Programs & Governance

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GLOBAL PROXY VOTING & OPERATIONS

During the second quarter of 2020 SBA staff cast votes at 6,476 companies worldwide, voting on ballot items including director elections, audit firm ratification, executive compensation plans, mergers & acquisitions, and a variety of other management and shareowner proposals. These votes involved 72,390 distinct voting items—voting 80.6% "For'' and 16.6% "Against/Withheld", with the remaining 2.8% involving abstentions. The table below provides the SBA's global voting breakdown across all major proposal categories during the second quarter of 2020.

Proxy Voting Summary

	For		Against & Withhold		Abstain		Other Votes	
Issue Code Category	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..
Audit/Financials	11,417	96.6%	160	1.4%	95	0.8%	141	1.2%
Board Related	32,273	80.5%	6,914	17.3%	538	1.3%	347	0.9%
Capital Management	3,948	73.7%	1,254	23.4%	46	0.9%	110	2.1%
Changes to Company Statutes	2,658	85.7%	342	11.0%	85	2.7%	17	0.5%
Compensation	5,141	63.2%	2,587	31.8%	26	0.3%	384	4.7%
M&A	374	95.7%	9	2.3%	8	2.0%		
Meeting Administration	1,216	80.5%	167	11.1%			128	8.5%
Other	881	73.0%	211	17.5%	96	8.0%	19	1.6%
SHP: Compensation	34	64.2%	19	35.8%				
SHP: Environment	27	37.5%	39	54.2%			6	8.3%
SHP: Governance	258	49.0%	247	46.9%	10	1.9%	12	2.3%
SHP: Misc			4	100.0%				
SHP: Social	87	61.3%	55	38.7%				
Grand Total	58,314	80.6%	12,008	16.6%	904	1.2%	1,164	1.6%

Of all votes cast, 17.3% percent were "Against" the management-recommended vote. SBA proxy voting was conducted across 73 countries, with the top five countries comprised of the United States (2,181 votes), Japan (1,051), China (653), India (28), and South Korea (13).

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on June 11, 2020, and the Committee will meet next on September 28, 2020. The Proxy Committee continues to review ongoing governance issues including the volume and trends for recent SBA proxy votes, company-specific voting scenarios, corporate governance policies, governance-related investment factors, major regulatory developments and individual company research related to the Protecting Florida's Investments Act (PFIA) and other statutory investment requirements related to Israel and Venezuela.

KEY VOTES

Netflix— At the June 4, 2020 annual meeting, the SBA abstained from supporting the three directors up for re-election due to a continued failure to implement numerous proposals that were supported by a substantial majority of shareowners. Netflix decided not to implement a 2019 shareowner proposal to eliminate supermajority voting that was approved by 87% of votes cast. For the 2020 annual meeting, results showed that one director received greater than majority opposition, and for the 2019 AGM there were four directors that received over 50% opposition by shareowners. None of the four directors were removed from the board, again raising concerns that the company is unresponsive to shareowner input.

Amazon— At the May 27, 2020 Amazon AGM, the SBA supported all directors with the exception of one member of the audit committee who did not meet the criteria of being fully independent (immediate family member was employed by the company). There were a large number of shareowner proposals at this year's annual meeting (12 in all), with the SBA supporting ten and voting against two. Final vote results showed no shareowner proposals receiving majority support but seven received over 30% support levels. The SBA considered reputational effects, potential increased regulation, and the need for increased disclosure in supporting shareowner proposals

- to assess Amazon's customer due diligence with respect to customer privacy, use of company products that record customer activity such as Ring, Echo, and cloud based services
- to encourage additional reporting on processes to address hate speech and sale of offensive products on company sites
- report on median gender and racial pay equity and promotions
- provide increased lobbying activity and expenditure disclosure

Amyris Inc—the May 29, 2020 annual meeting of Amyris, an industrial biotech firm, provided some examples of governance shortcomings in the small cap sector. The SBA withheld support for three of four directors due to insufficient board independence, low attendance at board meetings, failure to provide more than two members of the audit committee, and material weakness identified in accounting controls and procedures. In addition, votes were cast against the advisory vote on executive compensation and the requested approval of the 2020 equity incentive plan. In particular, the new equity incentive plan requested new shares representing a potential shareowner value transfer to management of 63%, vs a more typical benchmark of 5%. This represents full dilution of approximately 35% vs a GICS median dilution of 8.7% and GICS 75th percentile dilution of 11.8%.

Nevertheless, final vote results showed 90% shareowner support for the equity plan and over 90% support for all directors.

ACTIVE OWNERSHIP & CORPORATE ENGAGEMENT

The SBA actively engages portfolio companies throughout the year, addressing corporate governance concerns and seeking opportunities to improve alignment with the interests of our beneficiaries. From late June 2020 through early September 2020, SBA staff conducted engagement meetings with several companies owned within Florida Retirement System (FRS) portfolios, including Hightech Payment Systems (engaged with a large investor of the company), WalMart, and Dick's Sporting Goods.

LEADERSHIP & SPEAKING EVENTS

Staff periodically participates in investor and corporate governance conferences. Typically, these events include significant involvement by corporate directors, senior members of management, and other key investor or regulatory stakeholders. The following items detail involvement at events that occurred recently:

- In July, SBA staff was appointed to the Oversight Committee of the Best Practices Principles Group (BPPG), which is a group formed by the global proxy voting research industry. Both Glass Lewis & Co. and Institutional Shareholder Services (ISS), used by the SBA to analyze and vote on proxy issues, are members of the BPPG. The Oversight Committee will review BPPG members' disclosures surrounding research methodology, service delivery, and operational performance. The BPPG website can be found at: https://bppgrp.info/

NOTABLE RESEARCH & GOVERNANCE TRENDS

Covid 19 and Poison Pills—numerous companies have adopted new or amended shareholder rights plans (aka "Poison Pills") during 2020, many with features that have historically been opposed by investors. Through the end of June, firms implemented 55 plans, more than three times the total plans adopted over the last three years. Most of the plans contained more restrictive features, such as "dead-hand" revocation rights whereby only incumbent directors can remove the pill, trigger thresholds below 20% (largely considered a market standard), and some provide passive investors the ability to own a larger proportion of shares compared to activist shareowners. Market pundits predict that shareowners will be increasingly critical of such features, especially when the pills are changed without investor approval. Only 14 poison pills of 104 adopted between 2013 and 2019 had separate triggers for passive and activist investors, typically based on their Schedule 13G filing exemption. Analysis from the Council of Institutional Investors (CII) indicates eight of the plans include language designed to prevent investors from acting in concert, either through direct meetings and communications, the accumulation of shares beyond a trigger threshold or change of control.

New SEC Proxy Advisor Regulation Amendments—on July 22, 2020, the U.S. Securities and Exchange Commission adopted final rules, Exemptions from the Proxy Rules for Proxy Voting Advice, SEC. Rel. 34-89732, in a 3-1 vote. The SEC action was designed to, "enhance transparency, improve disclosures, and increase confidence in the proxy process." The Commission made supplementary guidance to the Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisers, Release No. IA-5325 (Aug. 21, 2019), 84 FR 47420 (Sept. 10, 2019), regarding how the fiduciary duty and rule 206(4)-6 under the Investment Advisers Act of 1940 relate to an investment adviser's proxy voting on behalf of clients. The final rules did not contain a controversial feature initially proposed that would have required proxy advisors to provide their recommendations to companies for feedback prior to release to investor clients. However, proxy advisors will now be required to give companies access to their reports at the same time as clients, as well as include any corporate responses. The new rules also treat proxy advice as a solicitation, subjecting proxy advisors to rules involving soliciting votes, such as the disclosure of material information about analytical methodology, sources of information, and conflicts of interest.

Although the new requirements are principles-based, they are very likely to change the relationship between companies, shareowners, and proxy advisors, although to what extent is uncertain at this time. One result may be that investors vote closer to the date of the annual meeting, reducing the visibility of voting patterns for corporations. Institutional Shareholder Services (ISS), one of the two largest proxy advisors in the U.S., has filed a lawsuit challenging the SEC's authority. Proxy advisors will have to establish new procedures and disclosure by December 2021, ahead of the 2022 proxy season.

In separate rulemaking, the Commission voted 3-1 approving new guidance on "robo-voting." An estimated 10% of global asset managers conduct proxy voting based solely on a proxy advisor's analysis and recommendations. Typically, a manager will maintain automated voting procedures with a proxy advisor to pre-populate voting ballots with voting recommendations to be voted by default. The SEC's latest guidance directs investors to review and disclose their procedures for making voting decisions based on this approach, within a fiduciary perspective and using all potential sources of information. Of particular concern to some Commissioners were scenarios in which an issuer made additional filings after a proxy advisor's research was published but robo-voting had already been conducted. One Commissioner was critical of the proposal, stating "the final rules and guidance introduce uncertainty and delays, force proxy advisers to convey management views, and effectively require consideration of those views before voting occurs."

DOL Proposal on ESG Investments—on August 31, 2020, the Department of Labor (DOL) unveiled a proposal to add new language requiring ERISA plan fiduciaries to both private defined benefit and defined contribution retirement funds to select investments based on financial considerations relevant to the risk-adjusted economic value of a particular investment or investment course of action. The DOL release states investors should, "refrain from spending workers' retirement savings to research and vote on matters that are not expected to have an economic impact on the plan." The proposal would amend a regulation dating back to 1979 to specify that when voting proxies (and with other shareowner rights) plan fiduciaries must consider factors that may affect the value of the plan's investment and not subordinate the interest of participants and beneficiaries to unrelated objectives. The amended regulation was primarily a response to significant changes in the way ERISA plans invest and considering recent actions by the SEC related to the proxy voting process and treatment of proxy research.

The DOL noted that many investors misunderstood the requirements of the 1988 "Avon Letter," as well as subsequent guidance, resulting in the perception that all proxies must be voted under all circumstances to fulfill obligations under ERISA. The DOL also noted plan fiduciaries may be using external proxy research without the commensurate procedures to ensure that such research is impartial and rigorous, which may not be compliant with the ERISA standards of fiduciary care and loyalty. The DOL outlined general duties for fiduciaries to vote a proxy when it is determined that the matter being voted upon would have an economic impact on the plan's investment. The list of fiduciary obligations when making proxy voting decisions now includes:

1. Act solely in accordance with the economic interest of the plan and its participants and beneficiaries considering only factors that they prudently determine will affect the economic value of the plan's investment;

2. Consider the likely impact on the investment performance of the plan based on such factors as the size of the plan's holdings in the issuer relative to the total investment assets of the plan, the plan's percentage ownership of the issuer, and the costs involved;

3. Not subordinate the interests of the participants and beneficiaries in their retirement income or financial benefits under the plan to any non-pecuniary objective, or sacrifice investment return or take on additional investment risk to promote goals unrelated to the financial interests of the plan's participants and beneficiaries or the purposes of the plan;

4. Investigate material facts that form the basis for any proxy vote or other exercise of shareholder rights;

5. Maintain records on proxy voting activities and other exercises of shareholder rights, including records that demonstrate the basis for proxy votes and exercises of shareholder rights; and

6. Exercise prudence and diligence in the selection and monitoring of persons selected to advise or otherwise assist with exercises of shareholder rights.

The proposal specifies that Interpretive Bulletin (IB) 2016-01 no longer represents the view of the department regarding the proper interpretation of ERISA with respect to the exercise of shareholder rights by fiduciaries. IB 2016-01 will be superseded once the final rule is adopted.

A group of investment organizations including Morningstar, Ceres, and the US Social Investment Forum, analyzed the comments received to date and found more than 90% of the respondents to the DOL's proposal indicate they are opposed to the changes—with only a single comment received supporting the new language. Large asset managers including BlackRock, Fidelity Investments, State Street Global Advisors, T. Rowe Price, and the Vanguard Group each submitted comments in opposition to the DOL proposal. According to US SIF statistics, professionally-managed assets utilizing one or more sustainable investment strategies grew by 38% from 2016-2018, with total assets more than $12 trillion.

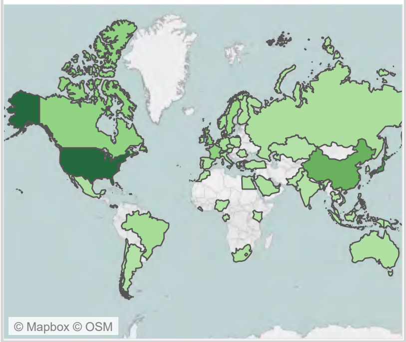
SBA Proxy Voting Overview | Period: 4/1/2020 to 6/30/2020 Vote Status: All

6,476 Meetings	18,474 Ballot	72,390 Votes	6,002 Companies	73 Countries	67 Portfolios

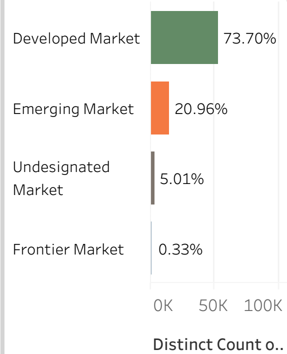
6,243 Proxy Paper ID

Map of Proposal

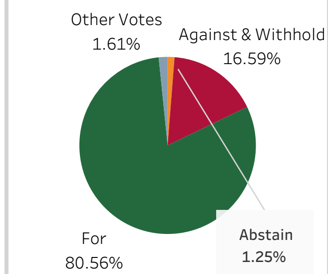
(Click on map to filter other charts)



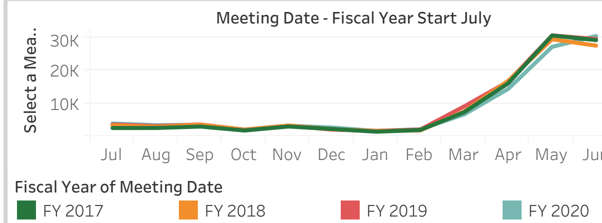
Market



Vote Decision (All)



of Individual Proposals By Month with Year over Year Comparison (All)



Select a Measure

- # of Individual Proposals
- # of Individual Ballots

- Set a Period

4/1/2020 to 6/30/2020

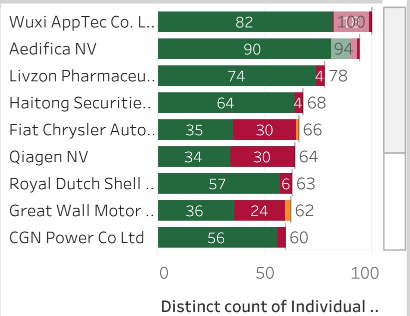
- Fiscal Year

- [x] FY 2017
- [x] FY 2018
- [x] FY 2019
- [x] FY 2020

- Vote Status

- [x] NotCounted
- [x] Take No Action
- [x] Unvoted
- [x] Voted

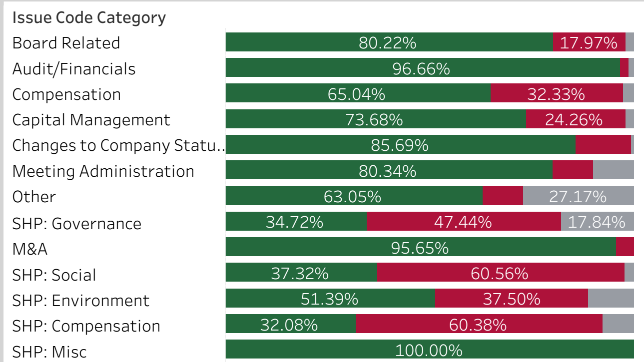
Top 15 Issuers (All)



Top N Issuer 15

Vote Decisi.. For Against & .. A..

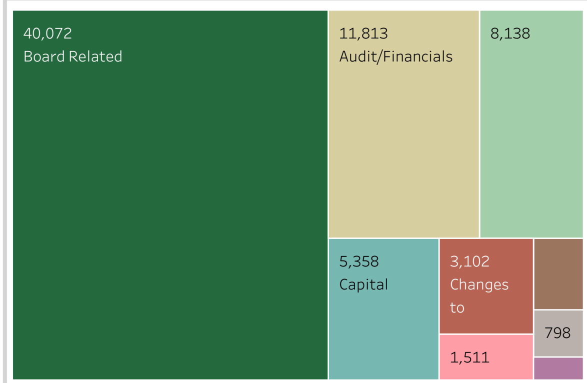
Support for Management (Country: All)



Legend With Management Against Management Other

Treemap of Issues (Country: All)

Click on a box to drill down to issue description



Voting Statistics

Note: The calculation for change since previous fiscal year uses the most recent date and compares to prior fiscal year. The last fiscal year displayed may not yet include all quarters.

View Trend.. Quarter

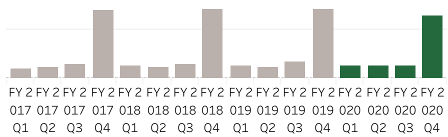
Fiscal Year FY 2020

Meeting Da.. 4/1/2020 to 6/30/2020

Meeting | FY 2020

10,412

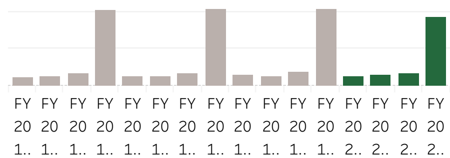
▼-8.73% yoy



Ballot | FY 2020

27,215

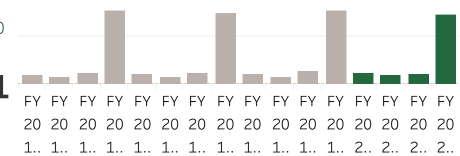
▼-7.37% yoy



Vote | FY 2020

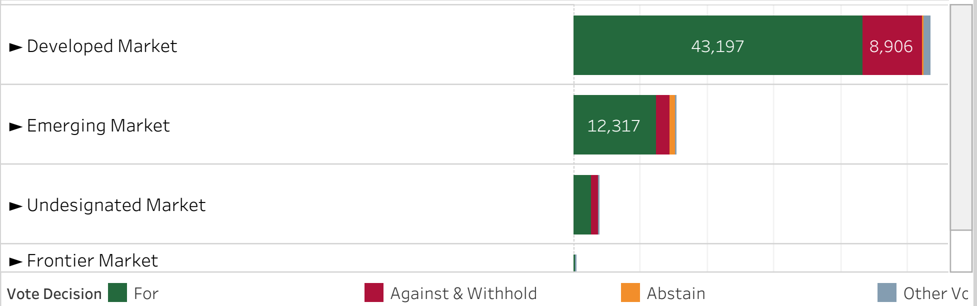
101,801

▼-5.60% yoy



of Vote by Market Category (FY 2020)

Click to expand



Vote Decision by Region (FY 2020)

The color indicates the percentage of votes for that row

Region	For	Against & With..	Abstain	Other Votes	Grand Total
Canada & United States	17,637	4,735	104	223	22,699
Europe	15,447	2,187	272	859	18,765
Asia ex-Japan	10,512	1,983	221	9	12,725
Japan	10,040	1,675			11,715
Latin America & Caribbe..	3,090	1,221	215	38	4,564
MENA	878	92	89	35	1,094
Africa	[illegible]	[illegible]	[illegible]		[illegible]

Issuer: None Vote Information (FY 2020)

Hover over on vote decision to view details

Vote Decisions by Issue (FY 2020)

The color indicates the percentage of votes for that row

Issue Code Category	For	Against & Wit..	Abstain	Other Votes	Grand Total
Board Related	32,273	6,914	538	347	40,072
Audit/Financials	11,417	160	95	141	11,813
Compensation	5,141	2,587	26	384	8,138
Capital Management	3,948	1,254	46	110	5,358
Changes to Company Statutes	2,658	342	85	17	3,102
Meeting Administration	1,216	167		128	1,511
Other	881	211	96	19	1,207
SHP: Governance	258	247	10	12	527
M&A	[illegible]	[illegible]	[illegible]		[illegible]

Contested Votes

Drill-down of Contested Votes by Issuer

Click a company below for further drill-down & meeting details.

Issuer Name	Meeting Date	Distinct count of Individ..
EQT Corp	7/10/2019	21
Verso Corp	1/31/2020	17
TEGNA Inc	4/30/2020	15
Gamestop Corporation	6/12/2020	12
GCP Applied Technologies Inc	5/28/2020	11
Mack-Cali Realty Corp.	6/10/2020	10
Progenics Pharmaceuticals, Inc.	7/11/2019	9
Brookdale Senior Living Inc	10/29/2019	7
Farmer Bros. Co.	12/10/2019	7
Enzo Biochem, Inc.	2/25/2020	6
Argo Group International Holdin..	12/20/2019	1
Occidental Petroleum Corp.	10/22/2019	1

0 10 20

Distinct count of Individ..

Vote Decision
- Abstain
- Withhold
- Against
- For

With or Against Management
All Votes for Company/Date Selected: All

Issue Code Category	With Management	Against Management
Board Related	78.57%	21.43%
SHP: Governance		100.00%
Compensation	23.08%	76.92%
Audit/Financials	30.00%	70.00%
Changes to Company Stat..	30.00%	70.00%
SHP: Misc		100.00%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

% of Individual Proposals

None

Meeting Date: None
Record Date: None
Region: None
Country: None

Meeting Type: None
Proxy Contest: None
Agenda Type: None
Number of Proposals: None

Detailed Vote Information (None)

With Or Against Management
- Against Management
- With Management

Ballot Vote Status
- [ ] NotCounted
- [ ] Take No Action
- [ ] Unvoted
- [x] Voted

Meeting Date
7/1/2019 to 6/30/2020

Fiscal Year
- [x] FY 2017
- [x] FY 2018
- [x] FY 2019
- [x] FY 2020

Agenda Type
- [x] Mgmt
- [x] Opp

Proponent
- [x] Management
- [x] ShareHolder

# of Individual Meetings Per Country Over Time

	FY 2017		FY 2018		FY 2019		FY 2020	
Country of Origin	Select a Me..	% Differen..	Select a Me..	% Differen..	Select a Me..	% Differen..	Select a Me..	% Differen..
United States	2,796		2,854	2.07%	2,875	0.74%	2,778	-3.37%
Japan	1,310		1,354	3.36%	1,386	2.36%	1,298	-6.35%
China	258		359	39.15%	571	59.05%	1,246	118.21%
India	512		582	13.67%	649	11.51%	542	-16.49%
Korea, Republic of	382		492	28.80%	599	21.75%	320	-46.58%
Taiwan	444		523	17.79%	521	-0.38%	253	-51.44%
United Kingdom	423		419	-0.95%	411	-1.91%	406	-1.22%
Canada	487		338	-30.60%	336	-0.59%	289	-13.99%
Cayman Islands	317		358	12.93%	337	-5.87%	257	-23.74%
Brazil	271		311	14.76%	302	-2.89%	192	-36.42%
Australia	252		251	-0.40%	257	2.39%	240	-6.61%
Bermuda	252		284	12.70%	258	-9.15%	193	-25.19%
France	183		176	-3.83%	164	-6.82%	150	-8.54%
Malaysia	180		210	16.67%	188	-10.48%	85	-54.79%
Hong Kong	164		151	-7.93%	165	9.27%	125	-24.24%
Germany	144		166	15.28%	161	-3.01%	115	-28.57%
Sweden	141		134	-4.96%	139	3.73%	155	11.51%
Indonesia	158		156	-1.27%	189	21.15%	64	-66.14%
Singapore	151		153	1.32%	118	-22.88%	131	11.02%
Israel	125		135	8.00%	128	-5.19%	126	-1.56%
Switzerland	116		123	6.03%	121	-1.63%	124	2.48%
South Africa	119		118	-0.84%	126	6.78%	111	-11.90%
Italy	102		110	7.84%	102	-7.27%	102	0.00%
Netherlands	100		101	1.00%	100	-0.99%	90	-10.00%
Mexico	100		106	6.00%	103	-2.83%	71	-31.07%
Belgium	60		63	5.00%	71	12.70%	77	8.45%
Spain	83		68	-18.07%	63	-7.35%	47	-25.40%
Thailand	67		81	20.90%	85	4.94%	25	-70.59%
Poland	61		74	21.31%	67	-9.46%	39	-41.79%
Philippines	51		61	19.61%	69	13.11%	38	-44.93%
Turkey	62		63	1.61%	54	-14.29%	40	-25.93%
Denmark	46		52	13.04%	47	-9.62%	52	10.64%
Finland	52		47	-9.62%	49	4.26%	44	-10.20%
Ireland	49		42	-14.29%	44	4.76%	46	4.55%
Russian Federation	29		29	0.00%	50	72.41%	50	0.00%
Chile	40		43	7.50%	42	-2.33%	31	-26.19%
Luxembourg	33		36	9.09%	41	13.89%	44	7.32%
New Zealand	42		35	-16.67%	30	-14.29%	31	3.33%
Greece	25		21	-16.00%	33	57.14%	42	27.27%
Austria	25		31	24.00%	28	-9.68%	14	-50.00%
Jersey	22		24	9.09%	24	0.00%	20	-16.67%
Egypt	3		16	433.33%	30	87.50%	20	-33.33%
Romania	19		25	31.58%	18	-28.00%	4	-77.78%
United Arab Emirat..	11		20	81.82%	19	-5.00%	15	-21.05%
Norway	1		49	4,800.00%	9	-81.63%	1	-88.89%
Marshall Islands	14		17	21.43%	13	-23.53%	15	15.38%

# of Individual Meetings Per Country Over Time

	FY 2017		FY 2018		FY 2019		FY 2020	
Country of Origin	Select a Me..	% Differen..	Select a Me..	% Differen..	Select a Me..	% Differen..	Select a Me..	% Differen..
Portugal	17		11	-35.29%	13	18.18%	16	23.08%
Nigeria	14		16	14.29%	10	-37.50%	8	-20.00%
Saudi Arabia							43	
Pakistan	14		10	-28.57%	10	0.00%	6	-40.00%
Colombia	11		8	-27.27%	10	25.00%	7	-30.00%
Virgin Islands (Briti..	6		10	66.67%	9	-10.00%	8	-11.11%
Argentina	6		16	166.67%	5	-68.75%	3	-40.00%
ISLE OF MAN	7		11	57.14%	4	-63.64%	6	50.00%
Unknown Country	6		10	66.67%	6	-40.00%	6	0.00%
Kuwait	8		8	0.00%	8	0.00%	3	-62.50%
Vietnam	1		3	200.00%	11	266.67%	11	0.00%
Bangladesh	6		8	33.33%	5	-37.50%	5	0.00%
Sri Lanka	8		6	-25.00%	5	-16.67%	4	-20.00%
Cyprus	7		4	-42.86%	5	25.00%	6	20.00%
Puerto Rico	5		5	0.00%	5	0.00%	5	0.00%
Czech Republic	4		2	-50.00%	5	150.00%	4	-20.00%
Guernsey	3		5	66.67%	3	-40.00%	2	-33.33%
Hungary	4		5	25.00%	4	-20.00%		-100.00%
Kenya	4		4	0.00%	2	-50.00%	2	0.00%
Panama	3		3	0.00%	4	33.33%	2	-50.00%
Croatia (local name..	4		2	-50.00%	2	0.00%	1	-50.00%
Peru	3		2	-33.33%	3	50.00%	1	-66.67%
Liechtenstein	2		2	0.00%	2	0.00%	2	0.00%
Bahamas	1		2	100.00%	2	0.00%	2	0.00%
Malta	2		1	-50.00%	1	0.00%	3	200.00%
Kazakhstan	2		1	-50.00%	2	100.00%	1	-50.00%
Mauritius	1		2	100.00%	1	-50.00%	2	100.00%
Oman	3		1	-66.67%	2	100.00%		-100.00%
Morocco			1		2	100.00%	2	0.00%
Papua New Guinea	1		1	0.00%	2	100.00%	1	-50.00%
Gabon	1		1	0.00%	1	0.00%	1	0.00%
Liberia	1		1	0.00%	1	0.00%	1	0.00%
Zimbabwe	2			-100.00%			2	
Ghana	1		1	0.00%	1	0.00%		-100.00%
Qatar	3			-100.00%				
Bahrain					2			-100.00%
Gibraltar	1		1	0.00%		-100.00%		
Netherlands Antilles	1			-100.00%	1			-100.00%
Costa Rica							1	
Faroe Islands			1			-100.00%		
Grand Total	10,445		11,026	5.56%	11,341	2.86%	10,325	-8.96%

Statistics and Overview

Individual Meetings	6,476
Individual Ballots	18,474
Individual Proposals	72,390
Percent Votes "For"	80.6%
Percent Votes "Against"/"Withhold"	16.6%
Percent Votes Not Voted	1.4%
Percent Ballots Not Voted	0.6%
Proxy Paper ID	6,243
Issue Descriptions	265
Companies	6,002
Portfolios	67
Country of Origin	73
Percent Votes Against Management Recommendat..	17.3%
Percent Votes in Favor of Directors	80.8%
Percent Votes in Favor of Auditors	98.9%
Percent Votes in Favor of Merger/Acquisition Items	96.8%
Percent Votes in Favor of Compensation Items	63.2%
Percent Votes in Favor of SHP Governance Issues	49.0%
Percent Votes in Favor of SHP Environmental Issues	37.5%

Top 5 Countries by # of Individual Proposals

Country of Origin	
United States	19,828
Japan	11,715
China	8,193
United Kingdom	3,737
Canada	2,871

Select a Measure
# of Individual Proposals

Top N Countries
5

Proxy Voting Summary

	For		Against & Withhold		Abstain		Other Votes	
Issue Code Category	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..
Audit/Financials	11,417	96.6%	160	1.4%	95	0.8%	141	1.2%
Board Related	32,273	80.5%	6,914	17.3%	538	1.3%	347	0.9%
Capital Management	3,948	73.7%	1,254	23.4%	46	0.9%	110	2.1%
Changes to Company Statutes	2,658	85.7%	342	11.0%	85	2.7%	17	0.5%
Compensation	5,141	63.2%	2,587	31.8%	26	0.3%	384	4.7%
M&A	374	95.7%	9	2.3%	8	2.0%		
Meeting Administration	1,216	80.5%	167	11.1%			128	8.5%
Other	881	73.0%	211	17.5%	96	8.0%	19	1.6%
SHP: Compensation	34	64.2%	19	35.8%				
SHP: Environment	27	37.5%	39	54.2%			6	8.3%
SHP: Governance	258	49.0%	247	46.9%	10	1.9%	12	2.3%
SHP: Misc			4	100.0%				
SHP: Social	87	61.3%	55	38.7%				
Grand Total	58,314	80.6%	12,008	16.6%	904	1.2%	1,164	1.6%

Vote Decision
- ✔ Null
- ✔ 1 Year
- ✔ 3 Years
- ✔ Abstain
- ✔ Against
- ✔ For
- ✔ Mixed
- ✔ Take No Action
- ✔ Unvoted
- ✔ Withhold

Meeting Date
4/1/2020 to 6/30/2020

Fiscal Year
- ✔ FY 2017
- ✔ FY 2018
- ✔ FY 2019
- ✔ FY 2020

Ballot Vote Status
All

Region
All

Country of Origin
All

Meeting Level
All

Meeting Type
All

Percent Changes from Previous Fiscal Year

Note: The calculation for change since previous fiscal year uses the most recent date and compares to prior fiscal year.
The last fiscal year displayed may not yet include all quarters.

	FY 2017	FY 2018	FY 2019	FY 2020
% Difference in Proxies from the Previous FY		5.70%	3.55%	-9.12%
% Difference in Individual Meetings from the Previous FY		4.61%	3.25%	-8.73%
% Difference in Individual Proposals from the Previous FY		0.36%	5.09%	-5.60%
% Difference in Votes in Favor of Directors from the Previous FY		-0.87%	-0.28%	2.39%
% Difference in Votes in Favor of Auditors from the Previous FY		0.23%	0.31%	0.23%
% Difference in Votes in Favor of Merger/Acquisition Items from the Previous FY		-10.33%	15.94%	-1.42%
% Difference in Votes in Favor of Compensation Items from the Previous FY		7.95%	0.05%	1.31%
% Difference in Votes in Favor of SHP Governance Issues from the Previous FY		42.82%	2.19%	-8.70%
% Difference in Votes in Favor of SHP Environmental Issues from the Previous FY		-7.81%	-20.83%	-9.34%
% Difference in Votes in Favor of SHP Social Issues from the Previous FY		70.24%	26.07%	0.22%
% Difference in Votes in Favor of All SHP Issues from the Previous FY		40.21%	4.57%	-5.86%
% Difference in Votes "For" from the Previous FY		1.76%	-0.39%	1.97%
% Difference in Votes "Against"/"Withhold" from the Previous FY		-0.64%	-1.61%	-6.07%

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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POST OFFICE BOX 13300
32317-3300

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Maureen M. Hazen, General Counsel *Maureen M. Hazen*

Date: September 2, 2020

Subject: Office of General Counsel: Standing Report
For Period June 1, 2020 – August 31, 2020

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 23 new agreements – including 5 Private Equity transactions, 8 Strategic Investments, 1 new Investment Management Agreement for Global Equity and 1 new Investment Management Agreement for Real Estate; (ii) 81 contract amendments, addenda or renewals; and (iii) 1 contract termination.

SBA Litigation.

(a) Passive. As of August 31, 2020 the SBA was monitoring (as an actual or putative passive member of the class) 657 securities class actions. During the period from May 1, 2020 through July 31, 2020, the SBA collected recoveries in the amount of $5,859,124.55 as a passive member in 20 securities class actions.

(b) Active.

In re Tribune Litigation. On January 24, 2012, the SBA was served a complaint (along with other defendants) now pending in the U.S. Bankruptcy Court, Southern District of New York by the Official Committee of Unsecured Creditors of the Tribune Company alleging damages for fraudulent conveyance and requesting the return of proceeds received by all defendant investors in a leveraged buy-out of the Tribune Company (which subsequently declared bankruptcy). Pursuant to a plan approved in the bankruptcy proceeding, the claim was transferred to the U.S. District Court, Southern District of New York (the "Court") and consolidated with additional parallel cases for multi-district litigation. The SBA received approximately $11 million in connection with this leveraged buy-out. Several amended complaints have been filed in the action in which the SBA was originally served in January, 2012 (the "FitzSimons Action"). In early 2017, the Court dismissed the intentional fraudulent transfer count (the only claim applicable to the SBA), and the SBA (and other defendants) are monitoring for a possible appeal. The Plaintiffs extended a settlement offer in 2019 which the SBA rejected.

(ii) *Valeant* Opt-Out Action. During a previous period, the OGC recommended to the Trustees and you that the SBA file the opt-out with the group of plaintiffs being represented by Bernstein Litowitz. The SBA may have incurred more than $62 million in recoverable damages. The Trustees approved filing of the action on November 6, 2017, and the SBA subsequently filed the Complaint. On November 29, 2017, the Court issued a stay in discovery in the case pending the conclusion of the trial in the criminal case filed by the U.S. Department of Justice. In January 2018, the criminal trial concluded with a conviction, and the stay has been lifted. The SBA recently filed its Initial Disclosures for purposes of commencing discovery. On January 28, 2019, the parties participated in a mediation but did not reach a resolution. The SBA is currently working on its objection to the document request and its response to a document request. In addition, in recent months, the class case settled in principal, and such settlement is pending before the Court. As a result, the OGC anticipates more activity on the SBA's individual action in the future.

(iii) LIBOR Litigation. The Attorney General's Office has commenced an investigation against several banks with respect to the alleged manipulation of LIBOR. The OGC and other SBA staff (e.g. Fixed Income, Financial Operations and Accounting) have been working with the Attorney General's Office since September, 2012. Since then, the Attorney General (representing the SBA) and the class counsel has settled the case with Barclays Bank, Citibank, Deutsche Bank and UBS, and the SBA has recovered approximately $25,000,000 in settlement proceeds.

(c) FRS Investment Plan. During the period covered by this report, the General Counsel's Office monitored and/or managed the following cases for the Florida Retirement System Investment Plan (the "Investment Plan"). The SBA issued 3 Final Orders, received notice of filing of 7 new cases, and continued to litigate 14 cases (including 2 appellate) that were pending during the periods covered by previous reports.

Other Matters.

(a) Public Records. During the period covered by this report, the General Counsel's Office received 25 new public records requests and provided responses to 18 requests. As of August 31, 2020, the General Counsel's Office continues to work on 15 open requests.

(b) SBA Rule Activities. During the period covered by this report, there has been no rules activity.

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MEMORANDUM

DATE: September 1, 2020

TO: Board of Trustees

FROM: Ken Chambers, Inspector General KC

SUBJECT: Quarterly Report on SBA Inspector General Activities

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The SBA Inspector General (IG) is responsible for serving as the organization's ethics officer; conducting internal investigations; overseeing Investment Protection Principles (IPPs) compliance; and handling special projects as directed by the Executive Director & CIO.

Ethics and Training

- Mandatory ethics training and certification of compliance are required for all SBA employees on an annual basis. The on-line training covers gifts, conflicts of interest, financial disclosure, outside employment, lobbyist/principal restrictions, honorarium related events, etc. In addition to ethics training, mandatory training is required annually for all employees in the areas of harassment prevention, personal investment activity, insider trading, incident management framework, and use of information technology resources. For 2020, employees are also required to complete training courses for public records, confidential information and the Sunshine Law (these courses are required every other year). The deadline for completing the courses was June 30, 2020, and all SBA employees are in compliance. New employees are required to take all of the mandatory training courses (which also includes a fiduciary responsibility course) within 30 days of their start date. In addition to the annual mandatory training classes, employees are also required to complete quarterly on-line training courses concerning cyber security awareness.

- During the period from June 5, 2020 to September 1, 2020, no instances were reported to the Inspector General concerning non-compliance with the SBA gift policy.

Investment Protection Principles Compliance

In September 2002, the Trustees of the SBA adopted IPPs for broker-dealers and investment managers in the wake of Wall Street scandals involving tainted equity research and conflicts of interest. The IPPs are geared toward promoting independence, transparency and regulatory compliance, and adherence to the highest standards of ethics and professionalism. On an annual basis, written certification is required from equity, fixed income and real estate investment managers, and broker-dealers. Additionally, annual certifications have been developed for the investment services related consulting firms engaged by the SBA. These consulting firms are required to certify their compliance with certain independence and disclosure principles.

The compliance results for the consultants and investment managers were reported in the previous quarterly report.

Certification forms for broker-dealers were disseminated to the applicable firms in April 2020. All of the broker-dealers completed and returned their IPP certification forms for the 2019 reporting period. An analysis of the 2019 certifications indicated full compliance with the IPPs by the broker-dealers.

SBA Fraud Hotline

Since July 2006, Navex Global has been the independent provider of SBA Fraud Hotline services. Through an 800 number, SBA employees, service providers, and others may anonymously report tips or information related to fraud, theft, or financial misconduct. The telephone number and information is prominently displayed on the SBA intranet home page. Additionally, the hotline information is available on the SBA internet site as part of the SBA contact page. Navex Global recently upgraded the hotline service to their new Ethicspoint system, which also provides online reporting.

During the quarter, one complaint was received by the Hotline. However, the complaint concerned an issue that was not applicable to the SBA.

Financial Disclosure Forms

The Commission on Ethics requires certain state employees and officials who meet the reporting requirement to file an annual Financial Disclosure Form. The Financial Disclosure Forms for the year ending December 31, 2019 were due by July 1, 2020. All SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics.

cc: Ash Williams

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MEMORANDUM

DATE: September 2, 2020

TO: Ash Williams, Executive Director & CIO

FROM: Sooni Raymaker, Chief Risk & Compliance Officer SR

SUBJECT: Trustees Report – September 2020

The role of the Risk Management and Compliance (RMC) unit is to assist the Executive Director & CIO in maintaining an appropriate and effective risk management and compliance program to identify, monitor and mitigate key investment and operational risks. RMC plays a critical role in developing and enhancing the enterprise-wide system of internal controls. RMC proactively works with the Executive Director & CIO and designees to ensure issues are promptly and thoroughly addressed by management.

SBA senior management has created a culture of risk management and compliance through the governance structure, allocation of budgetary resources, policies, and associated training and awareness. Management is committed to ethical practices and to serving the best interests of the SBA's clients.

Included below is a brief status report of RMC activities and initiatives completed or in progress from June 2020 to the current period. The RMC team has been working remotely due to COVID 19 since mid-March 2020. All RMC activities, reviews, controls and processes are continuing to operate effectively and as expected during this time of remote work.

Compliance Exceptions
No material compliance exceptions were reported during the period.

Enterprise Risk Management (ERM)
The quarterly Risk & Compliance Committee (RCC) was conducted telephonically on August 20, 2020. The RCC was given an update of 3rd Party Risk Management and communication with various vendors regarding continuation of service in the remote work environment due to COVID 19. SBA 3rd party vendors include operational vendors, investment managers and trading counterparties. The meeting also included an overview of the forthcoming revisions to the SBA investment managers operational due diligence questionnaire and annual certifications to include inquiries into discrimination policy and procedures and diversity and inclusion initiatives or programs. The RCC also reviewed compliance exceptions by type and personal investment activity over the past quarter. Updates were also provided related to External Manager

Operational Risk Oversight and Trading and Investment Oversight, and plans for the upcoming enterprise risk assessment.

Trading Counterparty Management

The annual trading counterparty renewal process is expected to be complete September 30, 2020. In light of the recent investment manager best practices review with respect to trading counterparty management and the current remote work environment, a trading counterparty operational risk questionnaire will be sent to all current counterparties as part of the annual review.

External Manager Operational Due Diligence (ODD)

During the period, the ODD team reviewed and commented on 23 consultant operational due diligence reports on alternative investment managers as part of the investment approval process which represents over $3 billion in potential investments. The ODD team conducted three desk reviews on external managers and noted areas of operational considerations. Follow-up onsite reviews have been postponed until travel is resumed. The ODD team also participated in the virtual manager interviews conducted by Global Equity for the International Small Cap manager search.

The ODD team telephonically conducted their quarterly meeting with all asset classes and provided an update on status of manager reviews. The meeting also included a discussion on security awareness and reporting protocol of cybersecurity issues affecting investment managers based on the recent July 10, 2020 SEC Alert – Cybersecurity-Ransomware.

The ODD team continues to develop a dynamic risk assessment and risk ranking of all SBA external managers based on criteria such as Organization, Oversight, Compliance, Violations, and Service Providers. The team is also in the process of receiving and reviewing the 2019 Annual Certifications using the Florida Asset Manager Evaluation (FLAME) system.

Public Market Compliance (PMC)

The BlackRock Aladdin compliance system project is nearing completion as only a few rules remain that require further review. The Florida PRIME review is now beginning to be performed on a daily basis using Aladdin reporting. During this testing period, PMC will continue to manually perform the monthly compliance reviews until there is a determination on which system is the most accurate and efficient process for monitoring the high and low risk parameters.

PMC is working with the SBA Center of Excellence to implement a robotic process automation (RPA) of the Aladdin reporting process. The process is currently in the documentation stage of development. The automation effort is to save staff time in downloading and saving the daily compliance reports from the BlackRock Aladdin compliance system.

PMC continues to update the compliance rules matrix for new and revised IPG’s, Schedule B’s, and Policies. PMC is in the process of risk ranking each rule within the matrix.

Performance and Risk Analytics (PRA)
The PRA database management team continues to improve the current performance dashboard by incorporating additional functionality for smaller asset composites and additional risk statistics across asset classes. The team also continues to create models to ensure data accuracy and reconcile monthly and quarterly performance data. The team is also reviewing Tableau and Power BI to migrate On-Demand reports and reconciliation files

Policy Activity and Regulatory Monitoring
During the period, revisions were made to the SBA's Equal Employment Opportunity policy, resulting in corresponding updates to the Recruitment, Selection and Appointments, Harassment Prevention, and Complaints policies. Several other operational policies were updated to strengthen controls and reflect current information.

The SBA Regulatory and Collateral Management Working Group, which routinely monitors regulatory activity for potential impacts to the SBA, continues to review and keep current on the planned transition of the financial markets away from the London Interbank Offered Rate (LIBOR) and other IBOR's as benchmark reference rates, in favor of alternative, overnight risk-free rates by the end of 2021. The working group has worked with affected business units and the custodian bank to evaluate SBA exposures to LIBOR-based securities. The SBA continues to monitor guidance on LIBOR issues from industry groups, particularly that provided by the International Swaps and Derivatives Association (ISDA). Additionally, the working group continues to monitor the phased-in implementation of regulatory margin requirements for non-centrally cleared derivatives transactions, which the last phase deadline is September 1, 2021. The SBA is currently not in scope for compliance with the margin rules due to its current trading volume thresholds.

Personal Investment Activity
During the period, there were 86 requests for pre-clearance by SBA employees, with one of those requests requiring additional analysis due to the updated $20,000k/5% ownership threshold reporting requirement that became effective in February 2019. All requests were approved. There were no new employees with accounts to report during the period.

Pension Asset-Liability Study: Initial Results

Florida State Board of Administration
August 2020

Investment advice and consulting services provided by Aon Investments USA Inc.

Aon
Empower Results®

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  - Asset-Liability Profile
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  - Portfolio Analysis
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  - Liquidity Analysis
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Executive Summary

Challenges for Public Pension Plan Sponsors

Challenges

Challenging Financial Situation

- Plan is 85.5% funded ratio as of the starting point of our analysis
- High required contributions at a time when governmental revenues may be strained

Uncertainty Lies Ahead

- Wide range of future outcomes
- Expect a rocky road rather than a smooth line

Portfolio Construction

- Diversify portfolio to counteract future uncertainty
- Consider illiquid alternatives to capture additional diversification and return premium, if Plan's liquidity is manageable

Evaluate Financial Impacts

- How do different portfolios impact key financial measures such as funded ratio and contribution rates?
- Sequence of future returns is important when the Plan is underfunded

Scope of Project

- Annual Asset-Liability Management (ALM) review and update
  - 30 year asset-liability projection analysis
  - Review stochastic risk/reward results
  - Review multiple portfolio strategies
  - Conduct liquidity analysis

Executive Summary

Investment Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- The equity risk premium is 5.15% in this 2020 Asset-Liability Study, compared to 3.88% from 2019; the change is driven by lower fixed income returns year-over-year
- Asset returns (6.46%) are not expected to keep pace with the actuarial assumed rate of return (7.20%)

Asset-Liability Projection Analysis

- Longer time horizons are expected to reward higher levels of risk; shorter time horizons are not
- The funded ratio is expected to remain relatively flat over the course of the projection period in our central expectation (50th percentile outcome)
- Higher return-seeking strategies result in increased projected funded ratio projections, but with greater risk than the current portfolio; lower return-seeking portfolios do the opposite
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

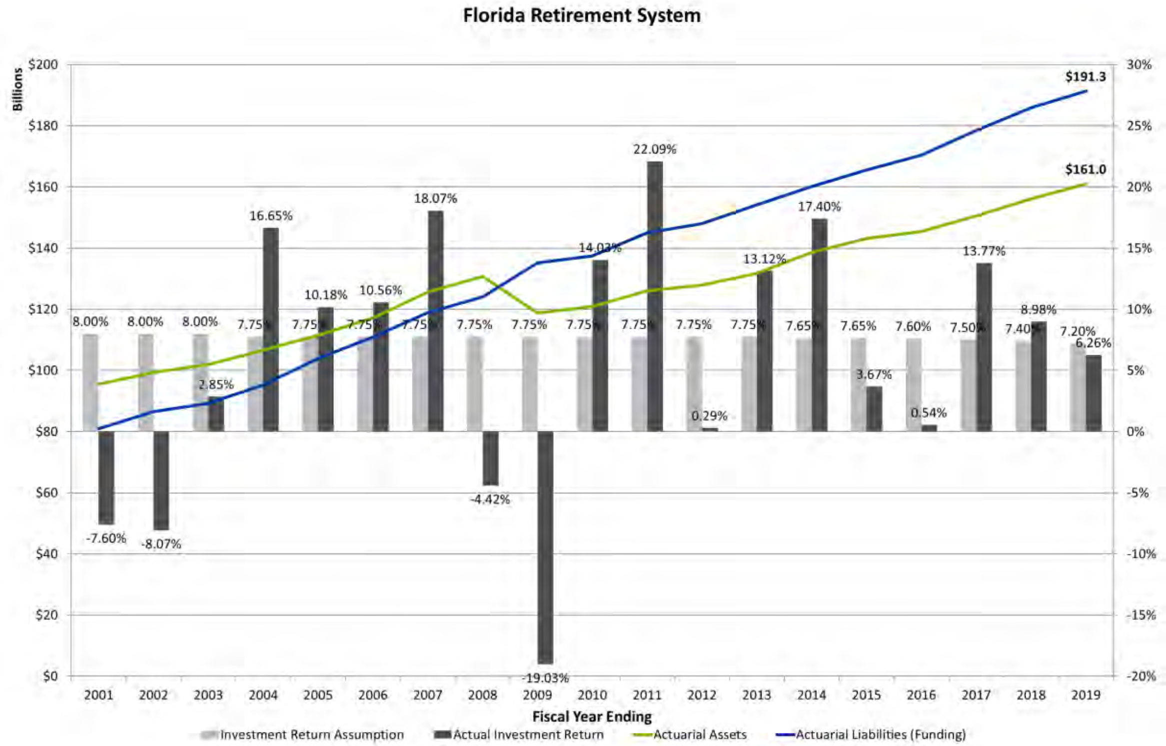
Liquidity Analysis

- The current portfolio is projected to have sufficient liquidity in the modeled Base, Recession, Black Skies scenarios

Analysis

- Asset-Liability Profile

Florida Retirement System (FRS)
Historical Information



Key Takeaways:

- **Blue line** represents the actuarial liabilities over time
  - Adding to the increase in liability has been the decrease in the assumed investment return in recent years (**light gray bar**)
- **Green line** represents the actuarial value of plan assets over time
  - Assets reflect smoothing parameters to the actual return on assets (**dark gray bar**)

Sources: Public Plans Data (publicplansdata.org) as of July 2020

Asset-Liability Profile as of July 1, 2019

Asset-Liability Snapshot as of 7/1/2019		
Metric ($, Billions)	**Value**	**Fund %**
Market Value of Assets	$163.6	85.5%
Actuarial Value of Assets	$161.0	84.1%
Liability Metrics		
Actuarial Liability (AL) - Funding	$191.3[1]	

Key Takeaways:

- Pension plan is 85.5% funded on a market value of assets basis as of July 1, 2019
- Asset allocation is 81% return-seeking assets with 19% risk-reducing/safety assets to withstand stressed markets
- Asset hurdle rate of 10.01%, via cash funding and investment returns, needed to maintain or improve actuarial funded status

Asset-Liability Growth Metrics			
Metric ($, Billions)	**Value**	**% Liability**	**% Assets**
AL Discount Cost	$13.8	7.20%	8.42%
AL Normal Cost	$2.6	1.36%	1.59%
Total Liability Hurdle Rate	**$16.4**	**8.56%**	**10.01%**
Expected Return on Assets[2]	$10.6	5.53%	6.46%
Total Contributions	$3.9	2.03%	2.38%
Total Exp. Asset Growth	**$14.5**	**7.56%**	**8.84%**
Hurdle Rate Shortfall/(Surplus)	**$1.9**	**1.00%**	**1.17%**
Est. Benefit Payments	$10.7	5.61%	6.56%

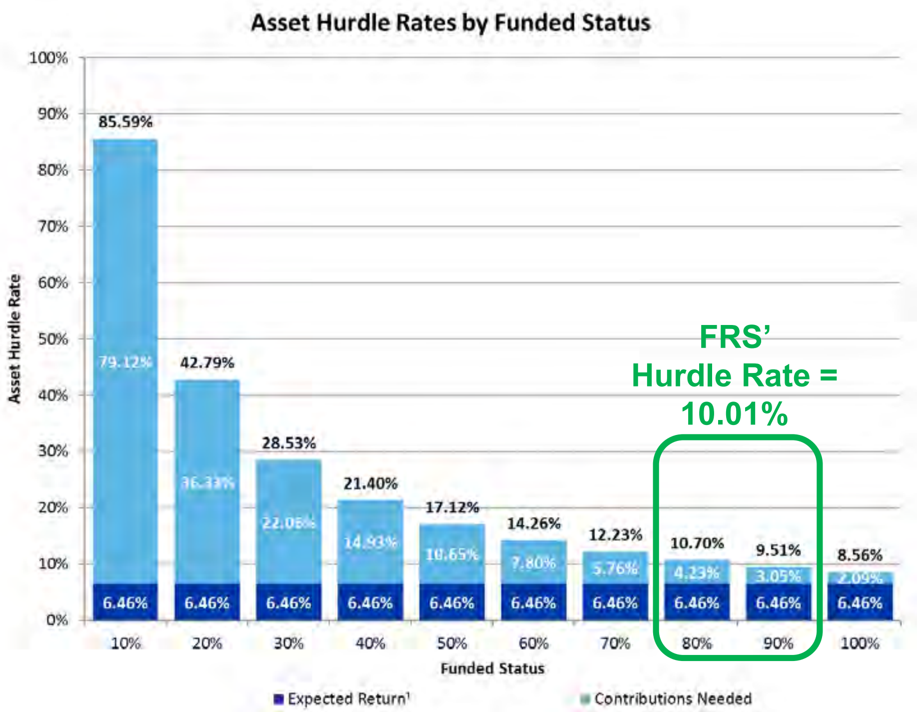
Target Asset Allocation as of 7/1/2019		
Metric ($, Billions)	**Value**	**Alloc %**
Return-Seeking		
- Global Equity	$86.7	53%
- Private Equity	$9.8	6%
- Real Estate	$16.4	10%
- Strategic Allocation	$19.6	12%
- Total	$132.5	81%
Risk-Reducing		
- Cash & Short Duration Fixed Income	$1.6	1%
- Intermediate Duration Fixed Income	$29.4	18%
- Total	$31.1	19%
Total	$163.6	100%

1 Based on a 7.20% discount rate consistent with the July 1, 2019 valuation results.

2 Expected returns are using customized Aon Investments' Q3 2020 Capital Market Assumptions. Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See capital market assumptions disclosure pages in Appendix.

Asset Hurdle Rates

- **Asset Hurdle Rate** is the required rate of asset growth needed to keep pace with the growth of the Plan liabilities
  - Assets must grow at this rate or more in order to maintain or reduce the existing funding shortfall
- Assets can grow via:
  - Investment performance, and/or
  - Funding contributions
- Asset hurdle rates decline as the funded status increases, as shown in the chart to the right
- This analysis assumes funding which is sufficient to cover the asset hurdle rates over time



[1] Expected returns are using customized Aon Investments' Q3 2020 Capital Market Assumptions. Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See capital market assumptions disclosure pages in Appendix.

Analysis

- SBA Approach to Assumption Development

SBA Approach to Assumption Development

Overview

The SBA approach averages the global equity risk premiums[1] from three investment advisors (Aon Investments, Mercer, and Wilshire)

- Callan was previously included in the averaging but removed starting in 2019 because its capital market assumption date did not coincide with the same timeframe as the other consultants and the asset-liability study; Callan only updates their capital market assumptions once a year while the other consultants update quarterly

Building block approach is used

- Price inflation and fixed income returns reflect market conditions and yields
- For all other asset classes ("risk assets"), a risk premium is added to fixed income returns

Average risk premium is used to scale Aon Investments' expected returns for the "risk assets"

[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

SBA Approach to Assumption Development

Equity Risk Premium[1]

The SBA averages the global equity risk premiums from three consulting firms[2] and then uses that average risk premium to scale Aon Investments' expected returns for the "risk assets"

2020 Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return) = 5.15%

	Aon Investments	Mercer	Wilshire	Callan[2]	Average
2020 Assumptions (15-year geometric average expected returns)					
- As of Date	June 2020	July 2020	June 2020		
- Global Equity	7.10%	6.50%	6.45%	N/A	6.68%
- Core U.S. Bonds	1.60%	1.73%	1.25%	N/A	1.53%
- Global Equity Risk Premium	5.50%	4.77%	5.20%	N/A	5.15%
2019 Global Equity Risk Premium	4.55%	3.70%	3.40%	N/A	3.88%
Change 2020 vs. 2019	0.95%	1.07%	1.80%	N/A	1.27%
Prior Years:					
- 2018 (based on Global ERP)	4.10%	3.53%	2.90%	3.93%	3.62%
- 2017 (based on Global ERP)	3.75%	4.13%	3.05%	3.93%	3.72%
- 2016 (based on Global ERP)	3.70%	4.40%	3.20%	4.45%	3.94%

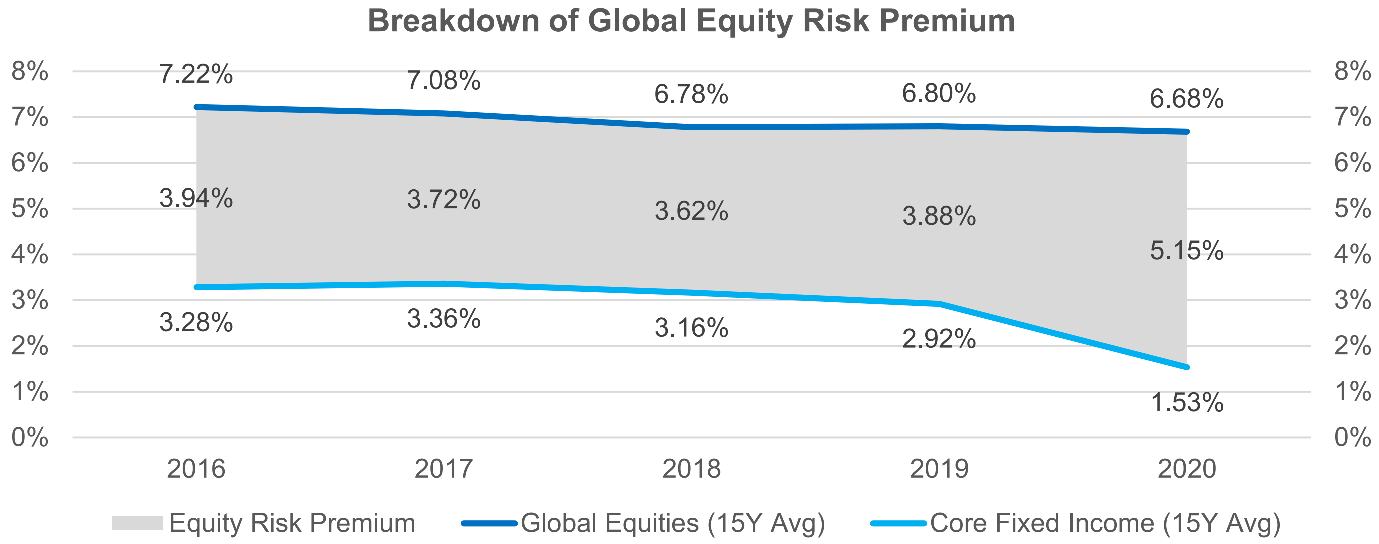
[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk.
[2] Callan was previously included in the averaging but removed starting in 2019 because its capital market assumption date did not coincide with the same timeframe as the other consultants and the asset-liability study; Callan only updates their capital market assumptions once a year while the other consultants update quarterly
Calculations may not sum to total due to rounding

SBA Approach to Assumption Development

Breakdown of Equity Risk Premium (ERP) Assumption[1]

The increase in the 2020 equity risk premium was primarily driven by lower fixed income returns

- Below is a 5 year historical look at the breakdown of the global equity risk premium

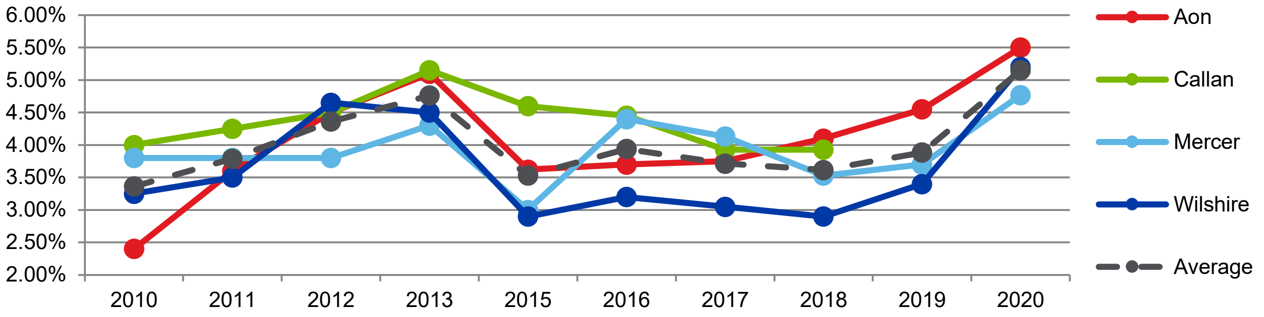


[1]Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

SBA Approach to Assumption Development

Historical Equity Risk Premium (ERP) Assumption[1]

Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return)



Equity Risk Premium[2]	**Asset-Liability Study/Update[3]**									
	2010	*2011*	*2012*	*2013*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
Aon	2.40%	3.60%	4.50%	5.10%	3.62%	3.70%	3.75%	4.10%	4.55%	**5.50%**
Callan	4.00%	4.25%	4.50%	5.15%	4.60%	4.45%	3.93%	3.93%		
Mercer	3.80%	3.80%	3.80%	4.30%	3.00%	4.40%	4.13%	3.53%	3.70%	4.77%
Wilshire	3.25%	3.50%	4.65%	4.50%	2.90%	3.20%	3.05%	2.90%	3.40%	5.20%
Average	3.36%	3.79%	4.36%	4.76%	3.53%	3.94%	3.72%	3.62%	3.88%	**5.15%**

Aon Investments' capital market assumptions for risk assets will be scaled by **-35bps**

[1]Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns
[2]Global equity risk premium used starting in 2016; prior years were based on U.S. equity risk premiums
[3]An asset-liability study was not completed in 2014

Analysis

- Portfolio Analysis

Spectrum of Aon Model Portfolios

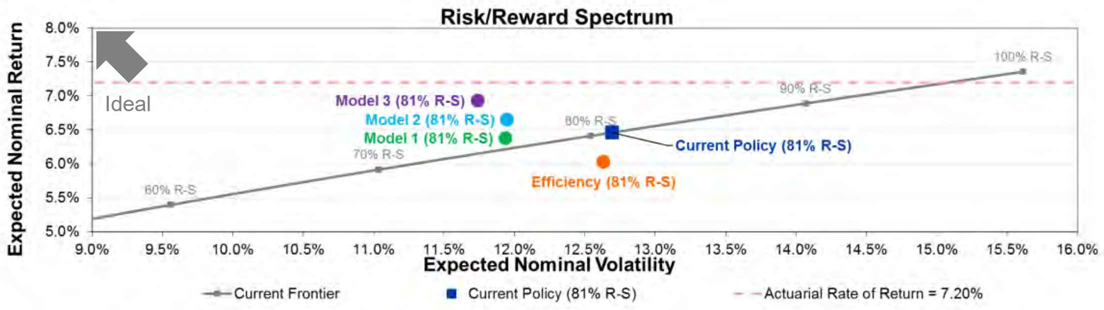
Aon's Model Portfolios reflect Aon's best ideas for a *typical* U.S. public defined benefit plan across a range of circumstances noted below

- Intended as a *starting point* for asset allocation analysis and decision-making and to be customized based on client-specific needs and circumstances

	Efficiency	Model 1	Model 2	Model 3 *(Opportunity)*
Complexity	Simple			Complex
Costs	Low Cost			Higher Cost
Resources	Light Resources			Deep Resources
Governance	Modest Governance			Strong Governance
Liquidity	More Liquid			Less Liquid

Investment Analysis

Current Frontier



Key Takeaways:

- The current portfolio is well-diversified
  - Return-seeking assets are broadly diversified
  - Safety asset allocation should withstand stressed markets

				Return-Seeking Assets								Risk-Reducing / Safety Assets				
	Expected Nominal Return[1]	Expected Nominal Volatility	Sharpe Ratio	Global Equity	Private Equity	Liquid Alts	Strategic Allocation[2]	Multi Asset Credit	Private Debt	Real Estate	Infra-structure	Cash & Short Duration Bonds	Core Bonds	Interm. Duration Gov't Bonds	Interm. Duration Credit	Market-Duration (5-Yr) Non-Govt Bonds
Current Policy (81% R-S)	**6.46%**	**12.69%**	**0.423**	**53%**	**6%**	**0%**	**12%**	**0%**	**0%**	**10%**	**0%**	**1%**	**0%**	**9%**	**9%**	**0%**
Efficiency (81% R-S)	**6.03%**	**12.63%**	**0.390**	**61%**	**0%**	**0%**	**0%**	**8%**	**0%**	**12%**	**0%**	**1%**	**18%**	**0%**	**0%**	**0%**
Model 1 (81% R-S)	**6.38%**	**11.94%**	**0.442**	**51%**	**5%**	**10%**	**0%**	**5%**	**0%**	**10%**	**0%**	**1%**	**13%**	**0%**	**0%**	**5%**
Model 2 (81% R-S)	**6.65%**	**11.95%**	**0.465**	**46%**	**10%**	**10%**	**0%**	**3%**	**3%**	**8%**	**3%**	**1%**	**13%**	**0%**	**0%**	**5%**
Model 3 (81% R-S)	**6.93%**	**11.74%**	**0.497**	**35%**	**15%**	**10%**	**0%**	**0%**	**5%**	**10%**	**5%**	**1%**	**13%**	**0%**	**0%**	**5%**
Current Frontier																
60% Return-Seeking	5.40%	9.56%	0.450	39%	4%	0%	9%	0%	0%	7%	0%	1%	0%	20%	20%	0%
70% Return-Seeking	5.92%	11.04%	0.437	46%	5%	0%	10%	0%	0%	9%	0%	1%	0%	15%	15%	0%
80% Return-Seeking	6.42%	12.54%	0.424	52%	6%	0%	12%	0%	0%	10%	0%	1%	0%	10%	10%	0%
90% Return-Seeking	6.89%	14.07%	0.412	59%	7%	0%	13%	0%	0%	11%	0%	1%	0%	5%	5%	0%
100% Return-Seeking	7.36%	15.61%	0.401	65%	7%	0%	15%	0%	0%	12%	0%	0%	0%	0%	0%	0%

[1] Expected return assumptions are based upon the Aon Investments capital market assumptions adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-35bps adjustment)

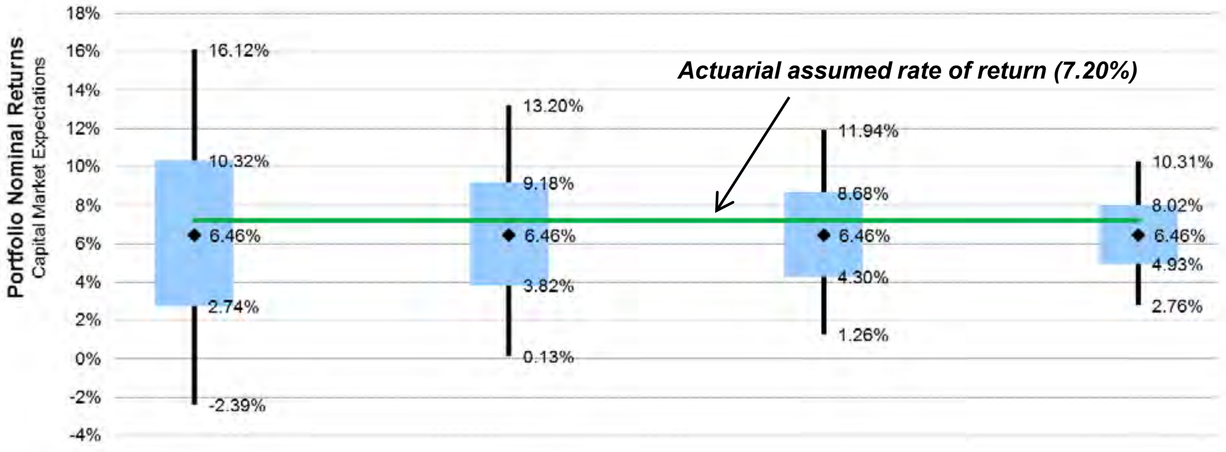
[2] Strategic assumption breakdown is found in the Appendix

[3] Current Real Estate assumption was modeled as 76.50% Core Real Estate / 13.50% Non-Core Real Estate / 10.00% REITs

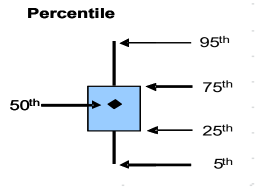
Percentages in table may not sum to 100% due to rounding

Investment Analysis

Range of Nominal Returns

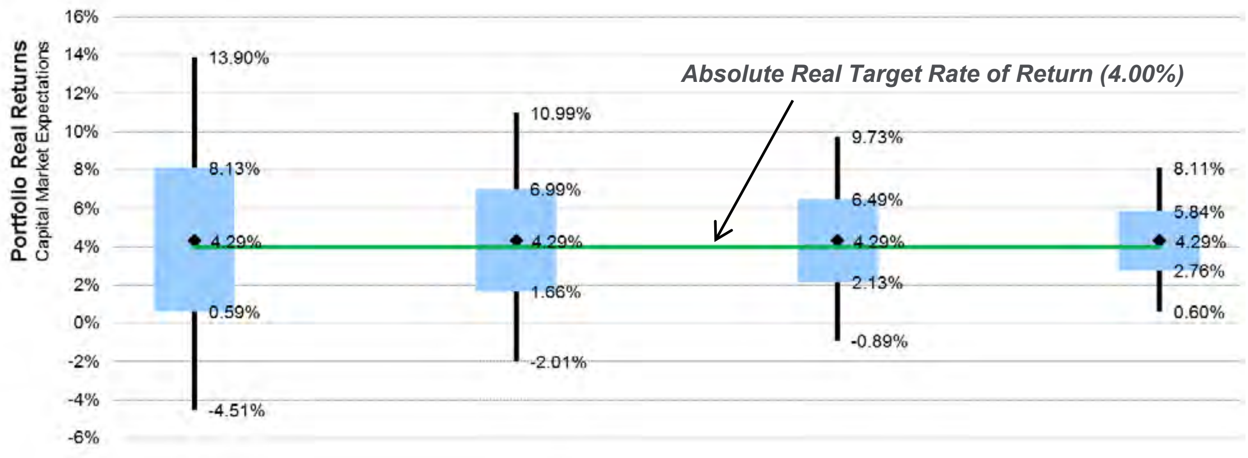


Percentile	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5th	-2.39%	0.13%	1.26%	1.26%
25th	2.74%	3.82%	4.30%	4.30%
50th	6.46%	6.46%	6.46%	6.46%
75th	10.32%	9.18%	8.68%	8.68%
95th	16.12%	13.20%	11.94%	11.94%

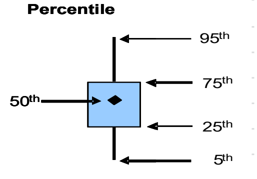


Note: Returns based on Aon Investments' 30 Year Capital Market Assumptions as of June 30, 2020 adjusted for the average global equity risk premium

Investment Analysis
Range of Real Returns



Percentile	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5th	-4.51%	-2.01%	-0.89%	0.60%
25th	0.59%	1.66%	2.13%	2.76%
50th	4.29%	4.29%	4.29%	4.29%
75th	8.13%	6.99%	6.49%	5.84%
95th	13.90%	10.99%	9.73%	8.11%



Note: Returns based on Aon Investments' 30 Year Capital Market Assumptions as of June 30, 2020 adjusted for the average global equity risk premium

Analysis

- Asset-Liability Projection Analysis

Asset-Liability Simulation Overview

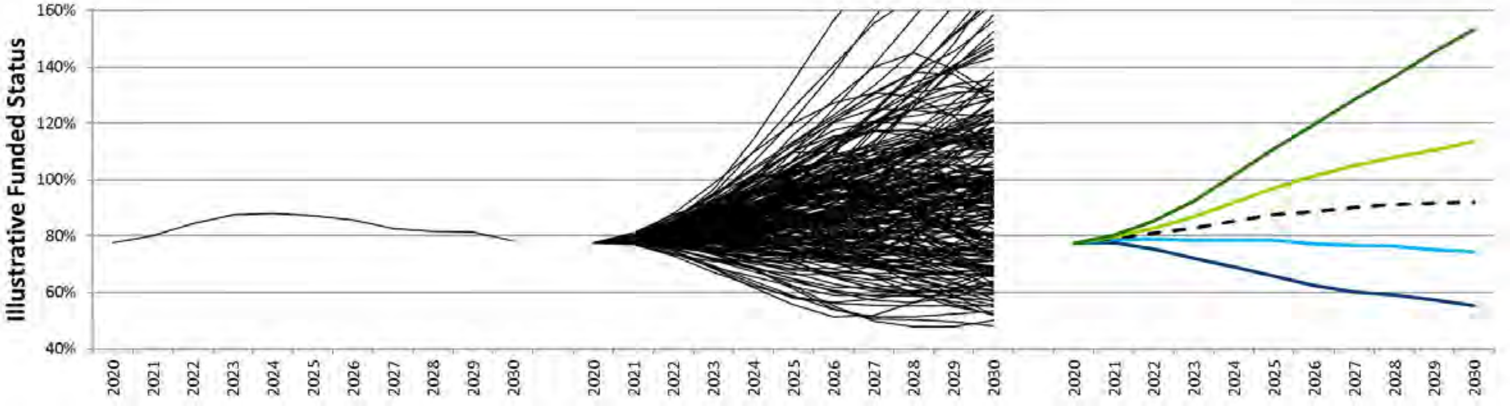
Thousands of simulations plotted in one graph would be impossible to interpret

Instead, we rank the simulations at each point over the future

This produces a distribution of outcomes illustrating the degree of uncertainty of a plan's financial position over the projection period

Different investment strategies will produce different distributions of outcomes

Single simulation ➡ **Many simulations** ➡ **Distribution of Outcomes**



* The path of a given scenario will follow a much less smooth pattern than the distribution suggests, as illustrated above

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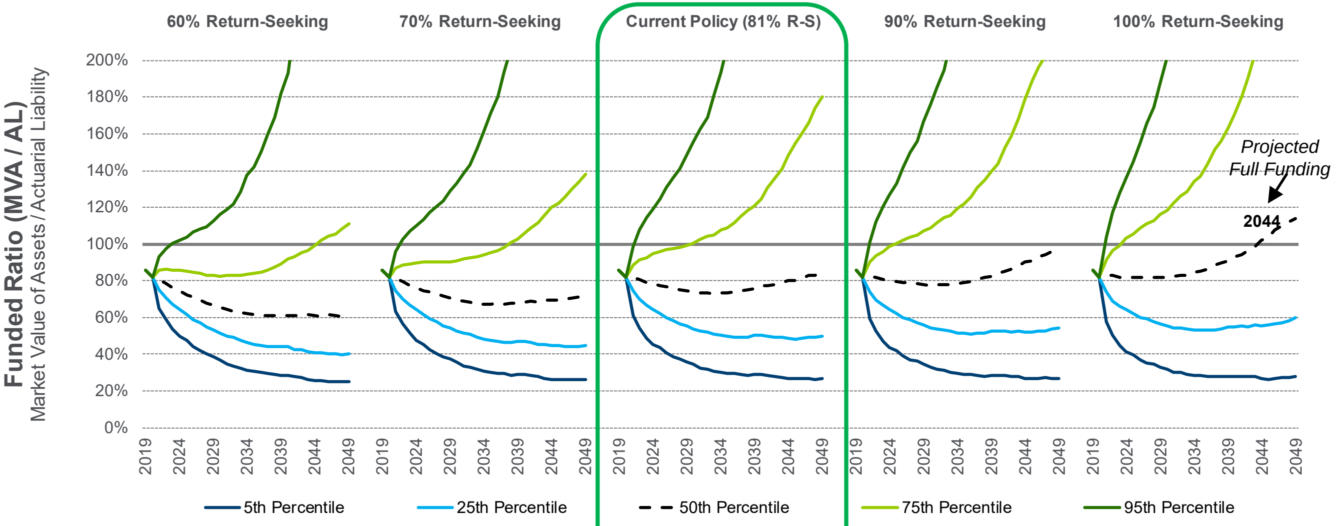
Asset-Liability Projection Analysis

Market Value of Assets / Actuarial Liability Funded Ratio



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049
5th Percentile	38%	29%	25%	37%	29%	26%	36%	29%	27%	35%	28%	27%	33%	28%	28%
25th Percentile	53%	44%	40%	54%	47%	45%	55%	50%	50%	56%	53%	54%	56%	55%	60%
50th Percentile	67%	61%	61%	70%	68%	72%	74%	75%	85%	78%	83%	98%	82%	91%	114%
75th Percentile	83%	89%	111%	90%	103%	138%	99%	121%	180%	107%	140%	>200%	116%	163%	>200%
95th Percentile	113%	182%	>200%	129%	>200%	>200%	149%	>200%	>200%	167%	>200%	>200%	188%	>200%	>200%
Probability > 100%	14%	23%	30%	20%	27%	39%	25%	36%	46%	31%	42%	50%	37%	47%	56%

Key Takeaways:

- Under the Current Policy (81% R-S), the funded ratio is expected to decline in the near-term before increasing later in the period in the central expectation (50th percentile outcome)
- Higher return-seeking allocations will increase the central trendline of funded ratio, albeit with greater downside risk
- Downside risk (5th percentile outcomes) illustrates a small likelihood of significant funded ratio deterioration over the projection period

* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied

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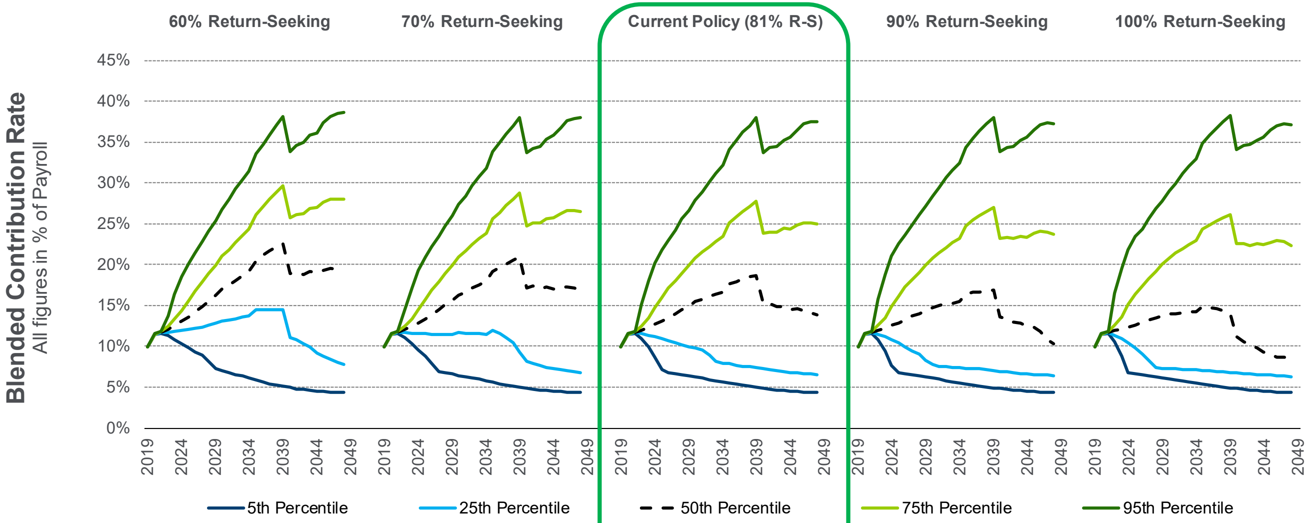
Asset-Liability Projection Analysis

Employer Contribution Rate (“Blended Rate”)



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2028	2038	2048	2028	2038	2048	2028	2038	2048	2028	2038	2048	2028	2038	2048
5th Percentile	8%	5%	4%	7%	5%	4%	6%	5%	4%	6%	5%	4%	6%	5%	4%
25th Percentile	13%	14%	8%	11%	10%	7%	10%	8%	7%	9%	7%	6%	7%	7%	6%
50th Percentile	16%	22%	19%	15%	21%	17%	14%	18%	14%	14%	17%	10%	13%	14%	9%
75th Percentile	19%	29%	28%	19%	28%	27%	19%	27%	25%	19%	27%	24%	19%	26%	22%
95th Percentile	24%	37%	39%	25%	37%	38%	26%	37%	37%	26%	37%	37%	27%	37%	37%
Probability > 15%	55%	73%	59%	50%	64%	55%	47%	58%	47%	45%	55%	41%	43%	49%	38%

* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied

Key Takeaways:

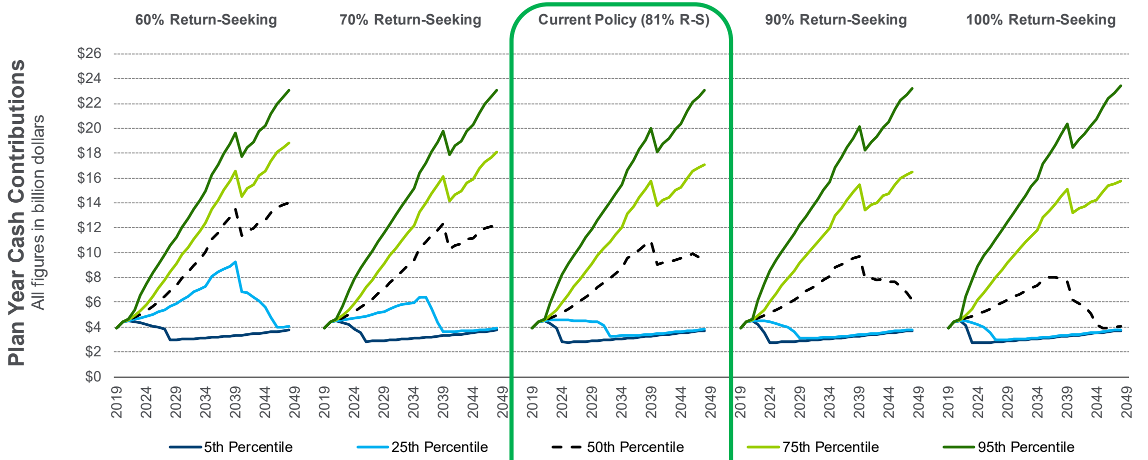
- Employer contribution rate is expected to increase to 19% over the next two decades
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes
- 95th percentile results show potential contribution rates in excess of 30% over the next two decades, albeit with low likelihoods

Note: Payroll is estimated to be $26.5B for Normal Cost purposes and $37.0B for UAL purposes as of 7/1/2019

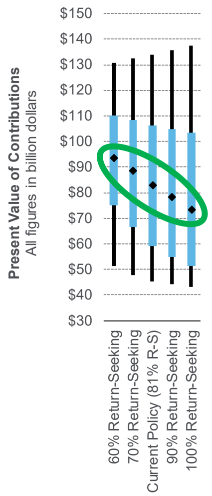
AON
Empower Results®

Asset-Liability Projection Analysis

Total Contributions Amounts (Employer + Employee)



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2028	2038	2048	2028	2038	2048	2028	2038	2048	2028	2038	2048	2028	2038	2048
5th Percentile	$2.99	$3.28	$3.75	$2.88	$3.25	$3.74	$2.85	$3.23	$3.73	$2.84	$3.23	$3.72	$2.84	$3.22	$3.72
25th Percentile	$5.64	$8.88	$4.05	$5.14	$4.38	$3.89	$4.51	$3.39	$3.83	$3.60	$3.33	$3.80	$2.96	$3.30	$3.79
50th Percentile	$6.92	$12.80	$14.01	$6.68	$11.83	$12.11	$6.42	$10.65	$9.45	$6.19	$9.52	$6.20	$5.95	$7.90	$4.03
75th Percentile	$8.42	$15.75	$18.84	$8.43	$15.44	$18.06	$8.48	$15.10	$17.09	$8.53	$14.85	$16.51	$8.60	$14.49	$15.73
95th Percentile	$10.53	$18.76	$23.09	$10.86	$18.87	$23.04	$11.21	$19.07	$23.06	$11.50	$19.21	$23.19	$11.80	$19.45	$23.40



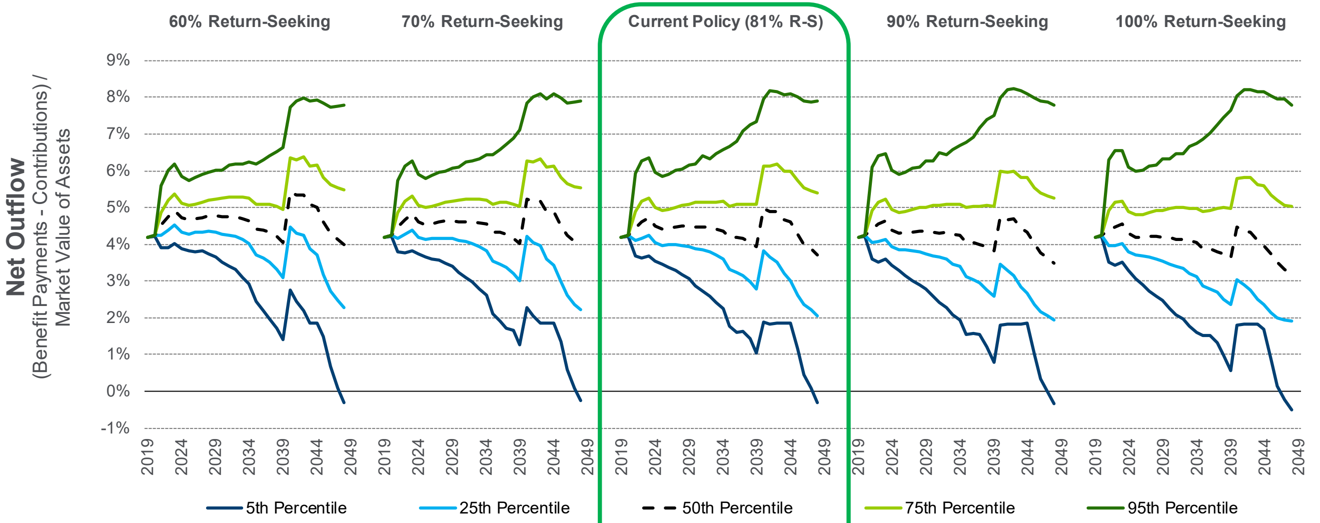
Key Takeaways:

- Total contribution amounts are expected to increase over the next two decades and decrease once amortization bases are fully recognized
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes

* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Net Outflow Analysis: (Benefit Payments less Contributions) / Market Value of Assets



Key Takeaways:

- Net outflows are expected to remain in the 3-5% range over the projection period
- Net outflows of 10%+ can put stress on fund liquidity over time; however, it is not likely over the projection period

Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	**2028**	**2038**	**2048**	**2028**	**2038**	**2048**	**2028**	**2038**	**2048**	**2028**	**2038**	**2048**	**2028**	**2038**	**2048**
5th Percentile	3.8%	1.7%	-0.3%	3.5%	1.7%	-0.2%	3.2%	1.4%	-0.3%	2.9%	1.2%	-0.3%	2.6%	1.0%	-0.5%
25th Percentile	4.3%	3.3%	2.3%	4.2%	3.2%	2.2%	4.0%	3.0%	2.1%	3.8%	2.8%	1.9%	3.6%	2.5%	1.9%
50th Percentile	4.8%	4.2%	4.0%	4.6%	4.2%	4.0%	4.5%	4.0%	3.7%	4.4%	3.9%	3.5%	4.2%	3.7%	3.2%
75th Percentile	5.2%	5.0%	5.5%	5.1%	5.1%	5.5%	5.1%	5.1%	5.4%	5.0%	5.1%	5.3%	4.9%	5.0%	5.0%
95th Percentile	6.0%	6.5%	7.8%	6.0%	6.9%	7.9%	6.0%	7.3%	7.9%	6.1%	7.4%	7.8%	6.2%	7.4%	7.8%
Probability > 10%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	1%

* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Economic Cost Analysis over a 2, 5, 10, and 15-Year Horizon

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 7.50%, $billions

Key Takeaways:

- Short time horizons (2 years) show largely horizontal economic cost curves – i.e., added risk does not result in a significant expected reward/economic cost reduction
- Longer time horizons (15 years) show largely vertical economic cost curves – i.e., added risk does result in a significant expected reward/economic cost reduction

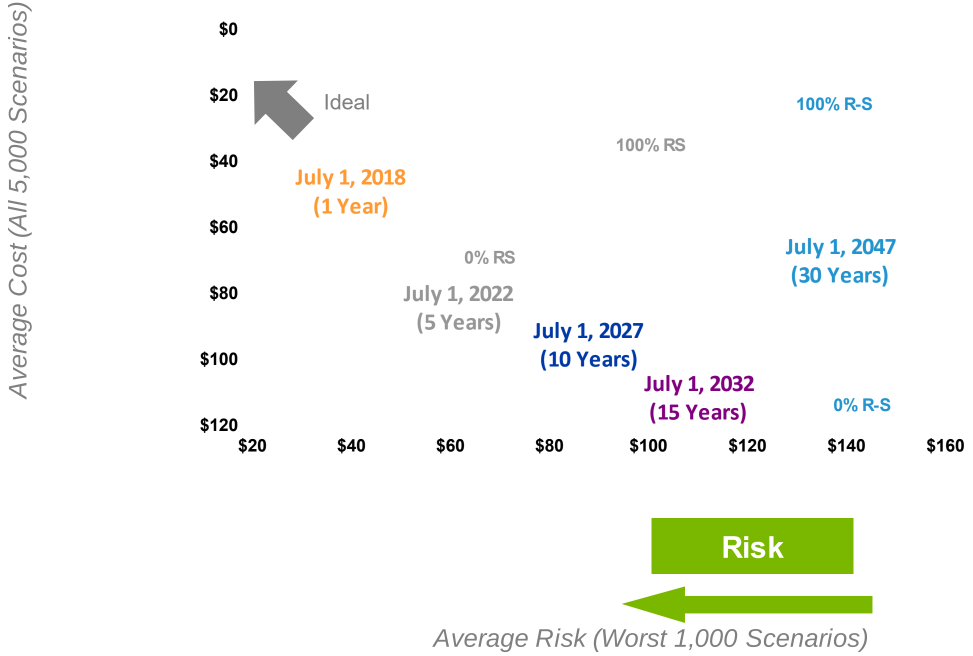
* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied
Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Risk-Reward Analysis

Sensitivity to Equity Risk Premium Assumption

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 7.50%, $billions



Observation:

- The dashed lines illustrate how the Economic Cost curve shifts under alternative equity risk premium assumptions over a 5 and 15-year time horizon.

* Projections assume constant 7.20% discount rate for pension liabilities for all investment policies studied
Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

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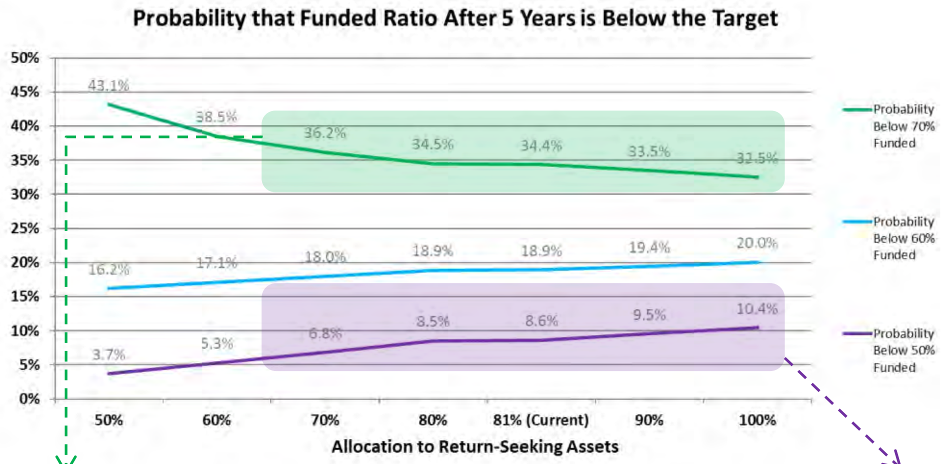
Short-Term Funded Ratio Shortfall Analysis
(Based on Market Value of Assets)

FRS' funded ratio based on the current allocation projects to the following outcomes after 5 years:

- 34.4% probability of being below **70%** funded
- 18.9% probability of being below **60%** funded
- 8.6% probability of being below **50%** funded



70% Funded Status

- Dialing up the risk to 90% return-seeking assets will decrease this probability of falling below 70% funded to 33.5%
- Dialing down risk to 70% return-seeking assets will increase the probability to 36.2%

50% Funded Status

- Dialing up the risk to 90% return-seeking assets will increase this probability of falling below 50% funded to 9.5%
- Dialing down risk to 70% return-seeking assets will decrease the probability to 6.8%

Analysis

- Liquidity Analysis

Liquidity Analysis | Background

- FRS' liquidity analysis is performed under its **Current Policy (81% R-S)** portfolio
  - Intended as a stress-testing model, incorporating the profile of the liabilities as well as expected future contributions
  - Uses different scenarios for economic environments and other relevant events
  - Shows how the portfolio's liquidity profile could evolve with a given investment strategy

- We categorized investments by liquidity into five buckets
  - ***Liquid (Risk-Reducing Assets):*** less than 3 months needed for return of capital (e.g. publicly traded securities)
  - ***Liquid (Return-Seeking Assets):*** less than 3 months needed for return of capital (e.g. publicly traded securities)
  - ***Quasi-Liquid:*** Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Black Skies scenario (e.g. many hedge funds, core real estate)
  - ***Illiquid: Potential lock-up of 5–10 years***, depending on economic environment (e.g. closed-ended real estate)
  - ***Illiquid: Potential lock-up of 10+ years*** (e.g. typical private equity)

- This is intended to be a <u>conservative</u> approximation of the actual liquidity properties of the assets

- Not surprisingly, varying economic scenarios would lead FRS' percentage allocation to alternative assets to differ from its targets due to liquidity differences in asset classes

Liquidity Analysis | Overview

Asset Allocation and Liquidity Category (Current Policy)

	Asset Class	Target Asset Allocation				
		Liquid	*Quasi-Liquid*	*Illiquid 5-10 Years*	*Illiquid 10+ Years*	*Total*
Return-Seeking	Global Equity	53.00%				53.00%
	Private Equity				6.00%	6.00%
	Real Estate	1.00%	7.65%	1.35%		10.00%
	Strategic Allocation		6.00%	6.00%		12.00%
	Subtotal	54.00%	13.65%	7.35%	6.00%	**81.00%**
Risk-Reducing/ Safety	Intermediate Duration Fixed Income	18.00%				18.00%
	Cash	1.00%				1.00%
	Subtotal	19.00%	0.00%	0.00%	0.00%	19.00%
	Total	73.00%	13.65%	7.35%	6.00%	**100.00%**

27% illiquid assets

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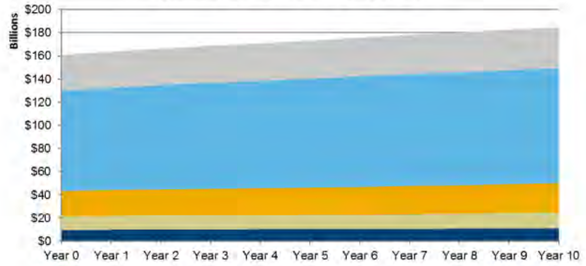
Liquidity Analysis | Summary of Results

Current Policy (Assuming Full Actuarial Contributions)

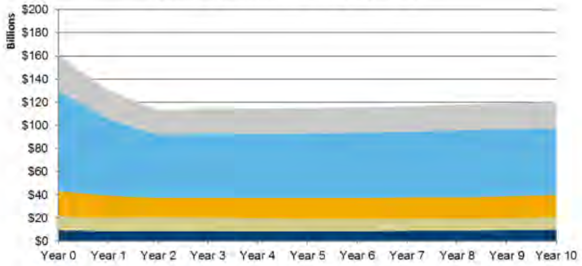
■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)

Base Case	Recession	Black Skies

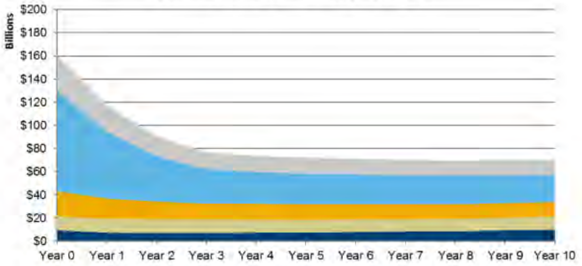
Scenario: Base Case - FRS (in Dollars)



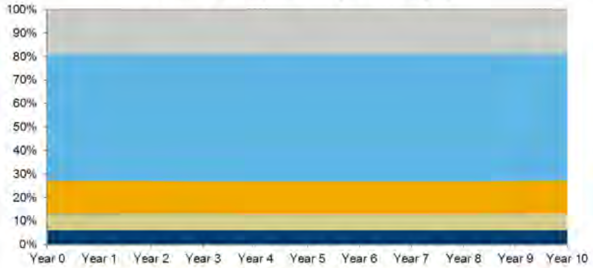
Scenario: Recession - FRS (in Dollars)



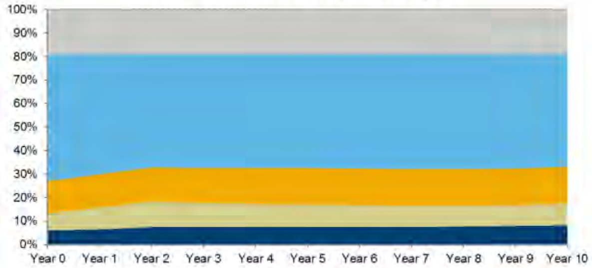
Scenario: Black Skies - FRS (in Dollars)



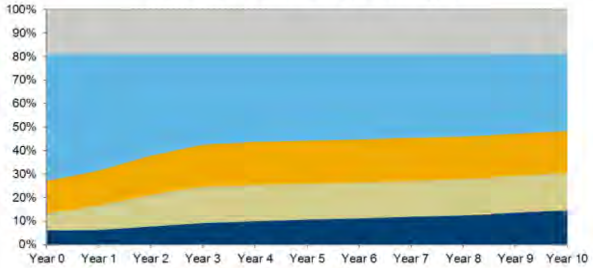
Scenario: Base Case - FRS (in Percentages)



Scenario: Recession - FRS (in Percentages)



Scenario: Black Skies - FRS (in Percentages)



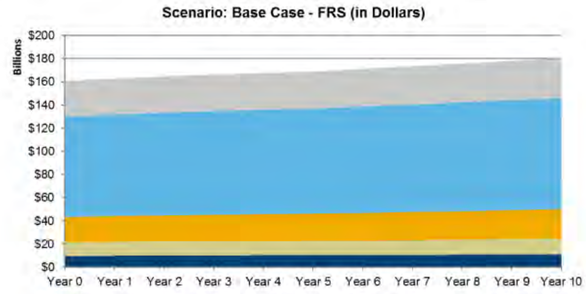
Note: Year 0 represents a starting point of June 30, 2020

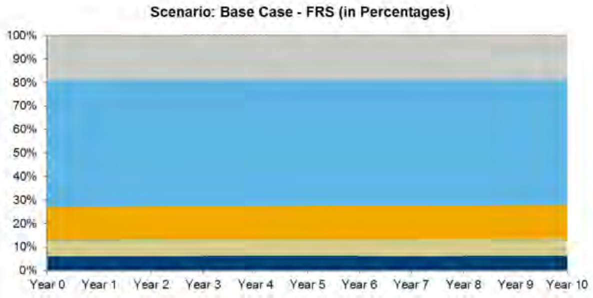
Liquidity Analysis | Summary of Results

Current Policy (5 Years of 80% Actuarial Contributions)

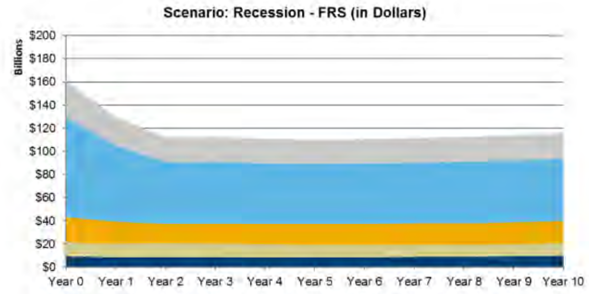
■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)

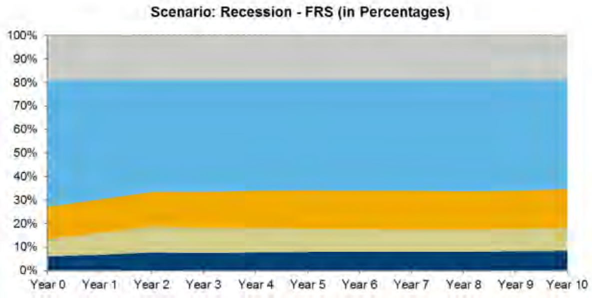
Base Case



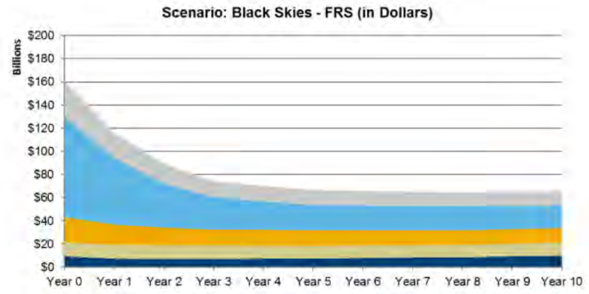


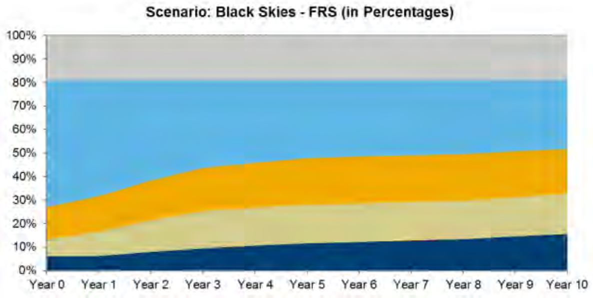
Recession





Black Skies

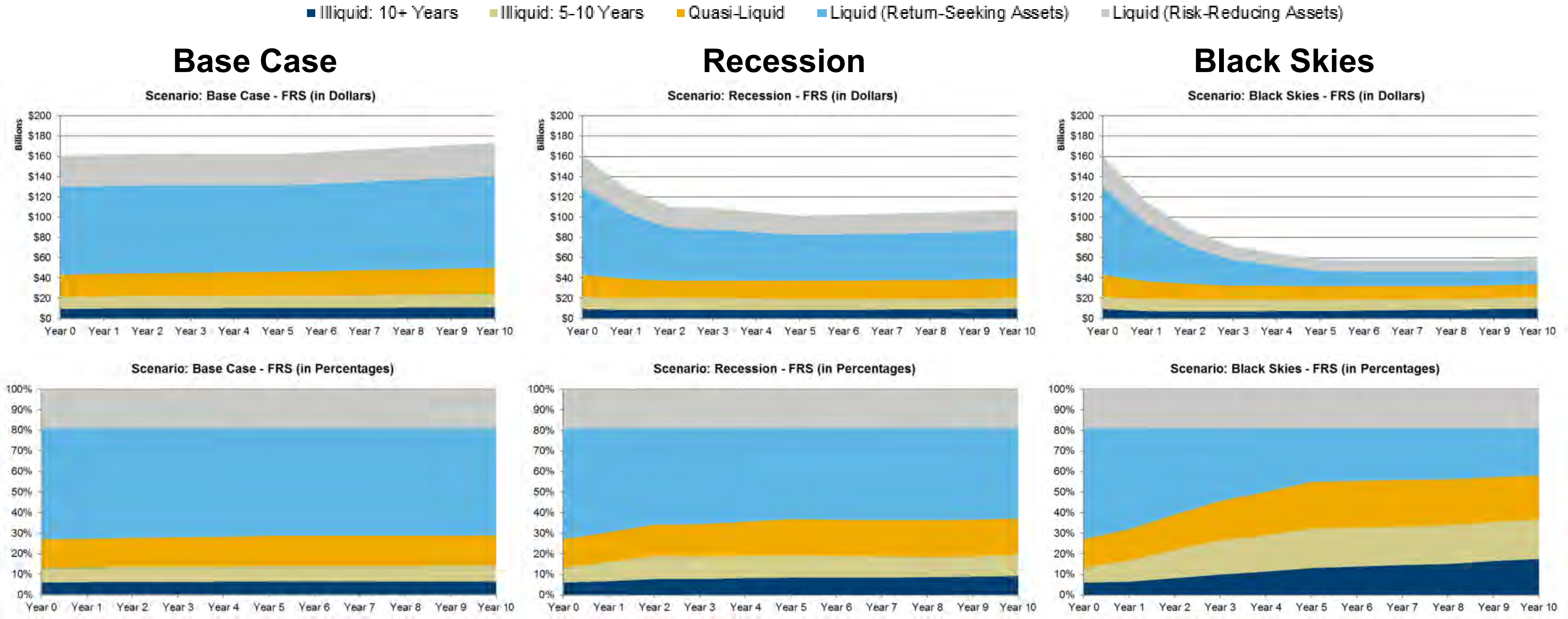




Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis | Summary of Results

Current Policy (5 Years of 50% Actuarial Contributions)



Note: Year 0 represents a starting point of June 30, 2020

Conclusions

FRS has sufficient liquidity in the modeled Base Case, Recession, and Black Skies scenarios

- The total illiquid and quasi-liquid assets can be maintained near the target allocation with no cash flow problems
- In pessimistic scenarios, the allocation could drift enough from the target allocation that FRS may want to rebalance

This analysis is highly sensitive to the assumed contributions

- If FRS receives less contributions than assumed, especially in a Black Skies environment, then illiquid investments drift even further from target and the potential for liquidity issues increases

Analysis

- Public Pension Peer Comparison

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Public Pension Peer Comparison

FRS' Asset Allocation versus Public Peers

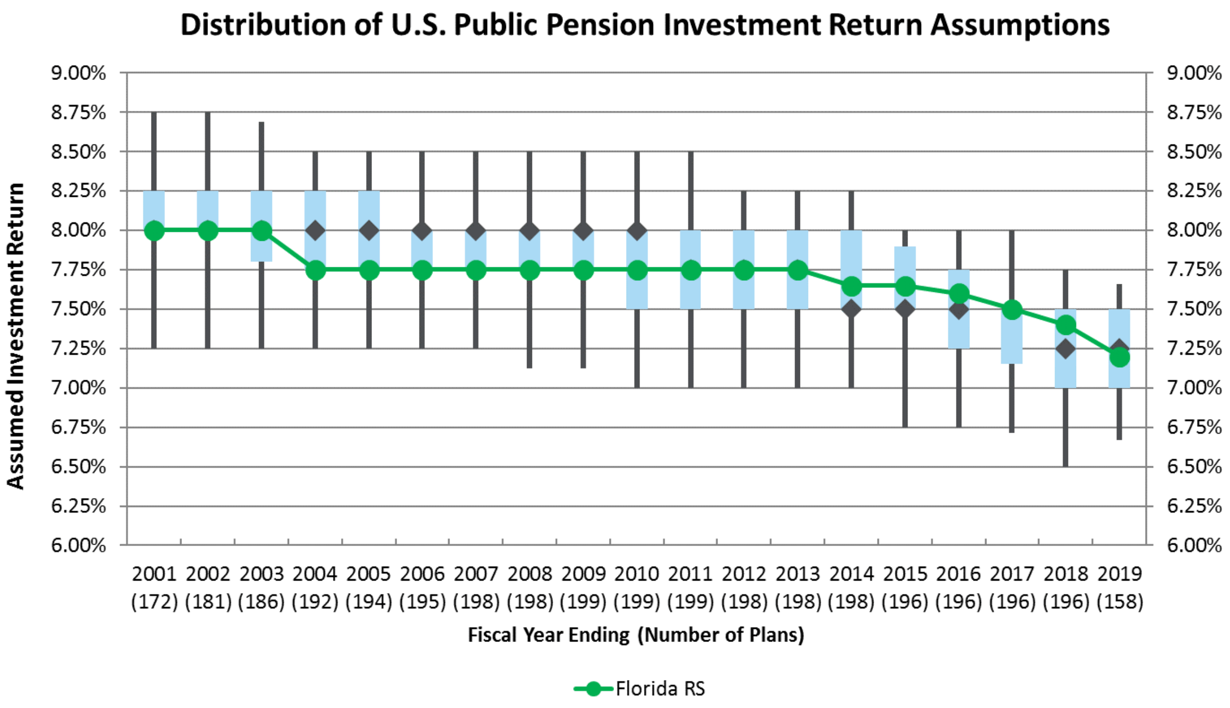
Asset Allocation	FRS	Public Pension Plans (>$5B)*	Total Public Pension Universe*	Wilshire Report on State Retirement Systems **
Equity Exposure				
Global Equity	53.0%	8.6%	8.0%	
Total U.S. Equity	0.0%	20.8%	21.9%	29.3%
Total Int'l Equity	0.0%	16.5%	16.9%	18.3%
Private Markets	6.0%	11.1%	10.3%	10.2%
Total Equity	***59.0%***	***57.0%***	***57.1%***	***57.8%***
Fixed Income Exposure				
U.S. Fixed Income	18.0%	14.6%	15.6%	
High Yield Bonds / Bank Loans	0.0%			
Private Debt	0.0%	1.6%	1.6%	
International / Global Fixed Income	0.0%	4.2%	4.0%	
Emerging Market Debt	0.0%	2.0%	2.0%	
Inflation Protected	0.0%			
Total Fixed Income	***18.0%***	***22.4%***	***23.2%***	***23.7%***
Real Asset Exposure				
Infrastructure	0.0%	1.3%	1.3%	
Commodities	0.0%	1.1%	1.1%	
Real Estate	10.0%	7.3%	6.6%	
Total Real Assets	***10.0%***	***9.7%***	***9.0%***	***12.9%***
Hedge Funds / Opportunistic	12.0%	4.7%	4.6%	
Multi-Asset / Risk Parity	0.0%	2.9%	3.0%	
Money Market / Cash	1.0%	1.6%	1.5%	
Leverage	0.0%			
Other	0.0%	1.6%	1.8%	5.6%
Net Other	***13.0%***	***10.8%***	***10.9%***	***5.6%***
Total	***100%***	***100%***	***100%***	***100%***

* Source: "2019 U.S. Institutional Market Trends", Greenwich Associates

** Source: "2019 Report on State Retirement Systems: Funding Levels and Asset Allocation", Wilshire Consulting

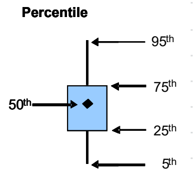
Florida Retirement System (FRS)

Expected Return Assumption versus Peers[1]



Key Takeaways:

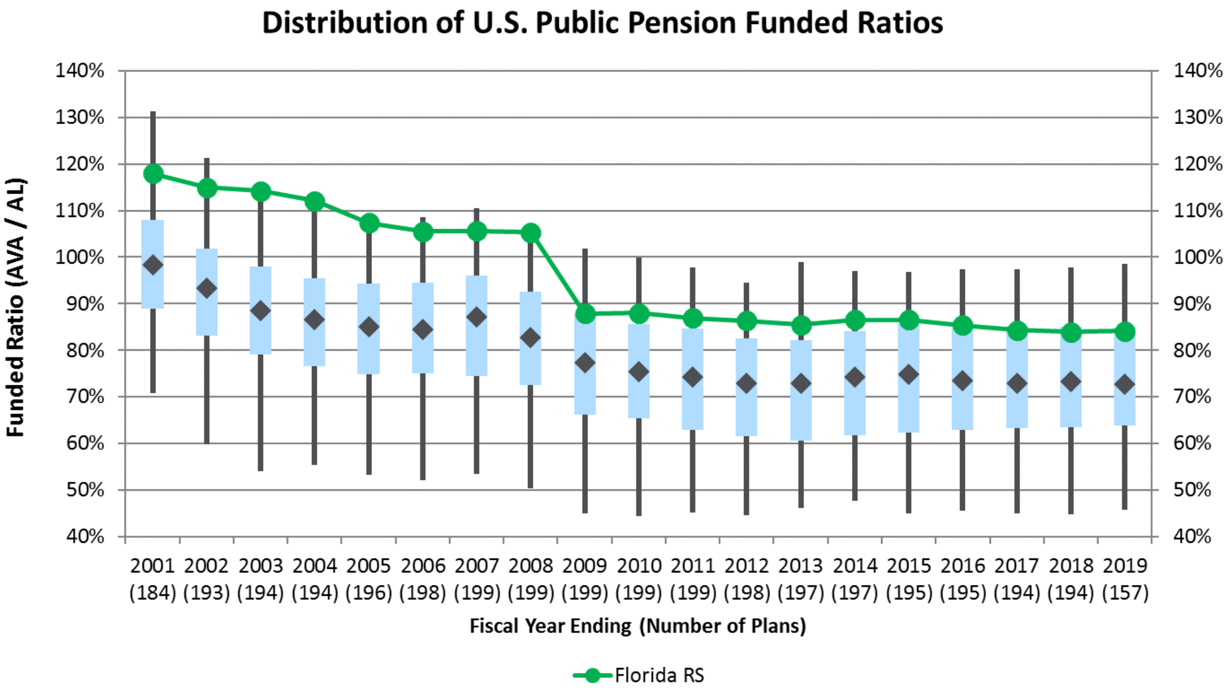
- Median actuarial assumption for investment return has declined from 8.00% in 2001-2010 to 7.25% based on the latest survey data
- FRS' assumption for FYE 2019 (7.20%) fell just below the 50th percentile relative to its peers
- If FRS exceeds (or falls short of) the actuarial return assumption, lower (or higher) funding will be needed in future years



Sources: Public Plans Data (publicplansdata.org) as of July 2020; Expected Returns are the assumptions made by the plans included in the data set.
[1] Peers defined as public funds published within publicplansdata.org as of July 2020; Number of plans per year are shown in parentheses

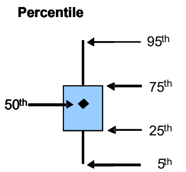
Florida Retirement System (FRS)

Funded Ratio (Based on Actuarial Value of Assets) versus Peers[1]



Key Takeaways:

- The median funded ratio as of FYE 2019 was 73% based on the latest survey data
- FRS' FYE 2019 funded ratio (84%) fell just below the 75th percentile relative to its peers

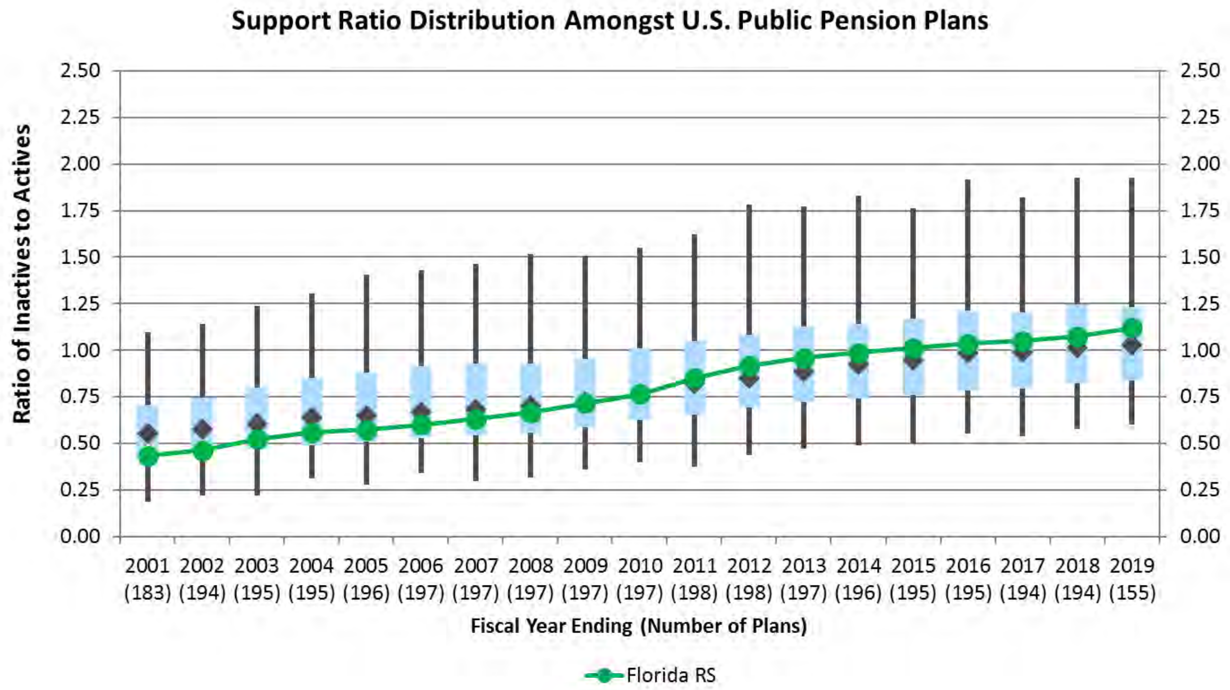


Sources: Public Plans Data (publicplansdata.org) as of July 2020; Expected Returns are the assumptions made by the plans included in the data set.

[1] Peers defined as public funds published within publicplansdata.org as of July 2020; Number of plans per year are shown in parentheses

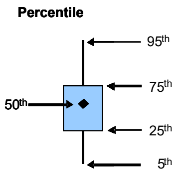
Florida Retirement System (FRS)

Support Ratio versus Peers[1]



Key Takeaways:

- "Support Ratio" defined as the ratio of inactive participants to active participants
- The ability for new hires to elect the Investment Plan has subdued the increase in active employees, increasing the Support Ratio over time

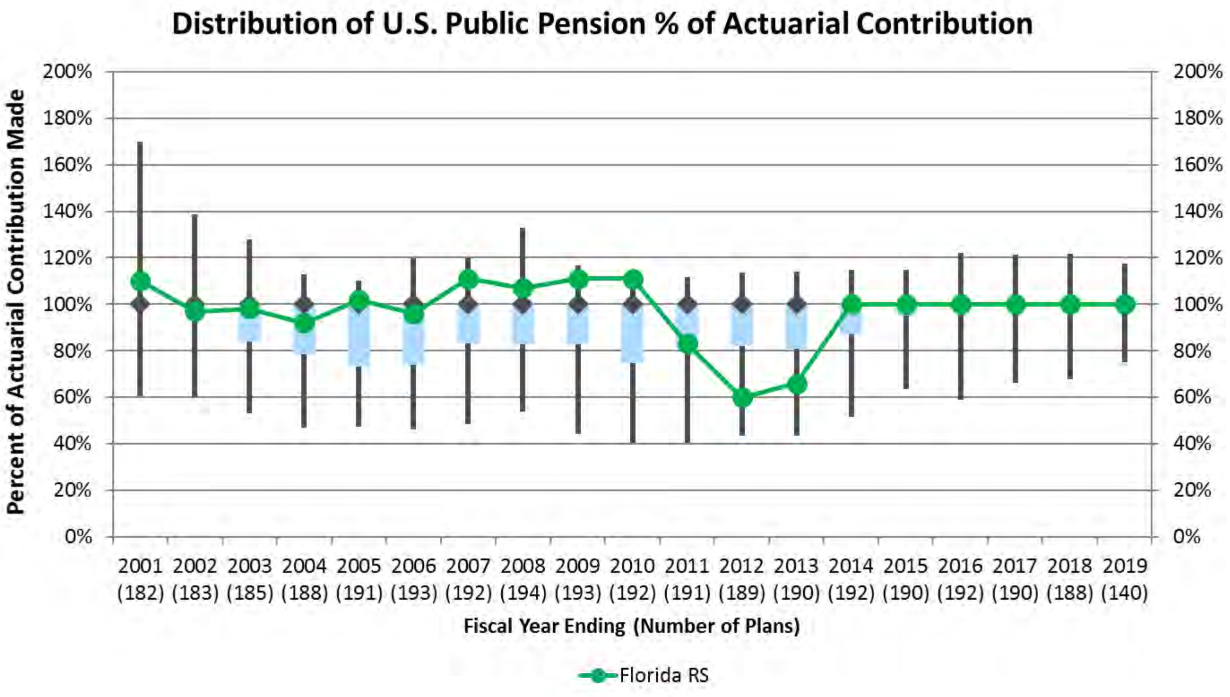


Sources: Public Plans Data (publicplansdata.org) as of July 2020; Expected Returns are the assumptions made by the plans included in the data set.

[1] Peers defined as public funds published within publicplansdata.org as of July 2020; Number of plans per year are shown in parentheses

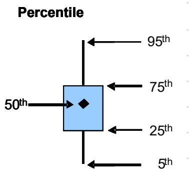
Florida Retirement System (FRS)

Percentage of Actuarial Contribution Made versus Peers[1]



Key Takeaways:

- Median contributions of plans within the data, as a percentage of the actuarial amount, have been approximately 100% since FYE 2001
- FRS has made at least the full actuarial contribution in the last 6 fiscal years



Sources: Public Plans Data (publicplansdata.org) as of July 2020

[1] Peers defined as public funds published within publicplansdata.org as of July 2020; Number of plans per year are shown in parentheses

Summary & Conclusions

Summary of Results

All Scenarios $ billions	30-year Present Value of Gross Contributions (Employee + Employer)		30-year Ending Funded Ratio (MVA / AL)	
	Expected[1]	Downside[2]	Expected[1]	Downside[3]
Current Policy (81% R-S)	**$82.9**	**$133.9**	**85%**	**27%**
0% Return-Seeking	$122.7	$129.0	28%	18%
10% Return-Seeking	$117.9	$126.5	30%	19%
20% Return-Seeking	$112.9	$126.2	34%	21%
30% Return-Seeking	$108.0	$126.9	39%	22%
40% Return-Seeking	$103.2	$127.9	45%	23%
50% Return-Seeking	$98.5	$129.1	53%	24%
60% Return-Seeking	$93.7	$130.9	61%	25%
70% Return-Seeking	$88.6	$132.4	72%	26%
80% Return-Seeking	$83.4	$133.7	83%	27%
90% Return-Seeking	$78.4	$135.5	98%	27%
100% Return-Seeking	$73.6	$137.4	114%	28%

Key Observations:

- The funded ratio is expected to remain relatively flat over the projection period under the Current Policy
- Employer contribution rate is expected to grow over the near-term before eventually declining
- Adjusting the return-seeking vs. risk-reducing allocation will exhibit standard risk/reward trade-off of expected costs and risks – longer time horizons will incentivize higher allocations to return-seeking assets

[1] Expected = 50th percentile outcome or central expectation across all 5,000 simulations
[2] Downside = 95th percentile outcome across all 5,000 simulations
[3] Downside = 5th percentile outcome across all 5,000 simulations

Summary and Conclusions

Investment Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- The equity risk premium is 5.15% in this 2020 Asset-Liability Study, compared to 3.88% from 2019; the change is driven by lower fixed income returns year-over-year
- Asset returns (6.46%) are not expected to keep pace with the actuarial assumed rate of return (7.20%)

Asset-Liability Projection Analysis

- Longer time horizons are expected to reward higher levels of risk; shorter time horizons are not
- The funded ratio is expected to remain relatively flat over the course of the projection period in our central expectation (50^{th} percentile outcome)
- Higher return-seeking strategies result in increased projected funded ratio projections, but with greater risk than the current portfolio; lower return-seeking portfolios do the opposite
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

Liquidity Analysis

- The current portfolio is projected to have sufficient liquidity in the modeled Base, Recession, Black Skies scenarios

Appendix

- Assumptions & Methods

Actuarial Assumptions and Methods

- Based on actuarial valuation and projections provided by the plan actuary as of July 1, 2019
- Actuarial Assumptions
  - Valuation Rate of Interest = 7.20%
  - Inflation = 2.60%
  - Payroll Growth = 3.25%
  - Actuarial Value of Assets: reflects a five-year averaging methodology where 20% of the difference between the actual market value and the expected actuarial value of assets is immediately recognized but restricted to a 20% corridor around the Market Value of Assets
  - All other assumptions as documented in the Actuarial Valuation Report as of July 1, 2019 unless noted otherwise
- Actuarially Determined Contribution Calculation = Normal Cost plus a level percent amortization of the unfunded liability using a 3.25% salary scale
  - New amortization bases are established each year, creating a layered 30-year amortization base

Actuarial Assumptions and Methods (continued)

- Blended Contribution Rate = projected combined amount that would be contributed for both the FRS Pension Plan and the FRS Investment Plan based on the total projected payroll for both plans
  - FRS Investment Plan employer rate is assumed to remain level at 4.83%
- Employee contribution rate is assumed to remain level at 3.00%
- Projection assumptions:
  - Future benefit payments and payroll projections (used for GASB 67 purposes) were supplied by the plan actuary and used in our analysis
  - Per Staff request, 30% of new entrants are assumed to elect the pension plan with 90% of Special Risk new entrants electing the pension plan and approximately 21% of new entrants from other groups electing the pension plan
  - Actual asset experience was factored in using an asset value of $160.7 billion as of June 30, 2020

Actuarial Assumptions and Methods (continued)

Blended Contribution Rate

- Combined projected contributions for both the FRS Pension Plan and the FRS Investment Plan as percentage of total system payroll
  – Blended Employer Contribution Rate is less than Pension Plan Employer Contribution Rate since UAL amortization is divided by total payroll rather than pension only payroll

Penson Plan Employer Normal Cost Rate[1] + UAL Contribution Rate = **Pension Plan Employer Contribution Rate**

Blended Employer Normal Cost Rate

$$\frac{\underbrace{(\text{Employer Normal Cost Rate}^{1} \times \text{Payroll})}_{\text{Pension Plan}} + \underbrace{(\text{Employer Rates} \times \text{Payroll})}_{\text{Investment Plan}}}{\text{Total System Payroll}}$$

\+

Blended UAL Contribution Rate

$$\frac{\underbrace{(\text{UAL Rate} \times \text{UAL Payroll})}_{\text{Pension Plan}}}{\text{Total System Payroll}}$$

= **Blended Employer Contribution Rate**

[1] Net of expected employee contribution rate of 3.00%

Capital Market Assumption Methodology

- The Aon Asset Model and Economic Scenario Generator (ESG) creates 5,000 simulations of key economic variables and total returns.
- We believe the model is complete and consistent. All the major markets and asset classes are modeled within a consistent framework allowing for the interactions between them to be properly taken into account.
- It is arbitrage free and captures the fact that extreme market events do occur more frequently than would be predicted by simpler statistical models.
- The ESG models the full yield curve as this allows for accurate treatment of liabilities and realistic modeling of the future distribution of interest rates and inflation. This allows us to assess the sensitivities of assets and liabilities to changes in interest and inflation rates.
- The model is calibrated to Aon's globally-consistent Capital Market assumptions every quarter.
- Nominal and real government interest rates are projected using an extended two factor Black-Karasinki model and a 2 factor Vasicek model respectively. The models are mean reverting starting with current yield curves and reverting towards our long-term fair values over the very long-term.
- Credit spreads are modeled stochastically using a Markov based model to determine the probabilities of transition between various credit rating and default, and a stochastic parameter reflecting the level of risk aversion in the market.
- Return seeking assets (including equities) are modeled using an individual asset class model with its own returns and volatilities but no correlations to other asset classes, and exposure to 6 other economic models to gain the correct correlation structures between returns for each asset class.

Custom FRS Capital Market Assumptions—Q3 2020[1]

		Expected Real Return[1]	Expected Nominal Return[1]	Expected Nominal Volatility
	Equity			
1	Global Equity IMI	4.8%	7.0%	18.5%
	Fixed Income			
2	Cash (Gov't)	-1.0%	1.1%	2.0%
3	Intermediate Gov't Bonds (4-Year Duration)	-0.8%	1.3%	3.5%
4	Intermediate Corporate Bonds (4-Year Duration)	0.2%	2.3%	5.0%
	Alternatives			
5	Strategic Allocation (Custom)[2]	5.1%	7.3%	9.0%
6	Real Estate (Custom)[3]	3.7%	5.9%	15.5%
7	Private Equity	6.9%	9.1%	25.0%
	Inflation			
8	Inflation	0.0%	2.1%	1.5%

[1] Expected return assumptions are based upon the Aon Investments' capital market assumptions adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-35bps adjustment)

[2] Strategic assumption breakdown is found on the next page

[3] Real Estate assumption was modeled as follows:

- 76.50% Core Real Estate
- 13.50% Non-Core Real Estate
- 10.00% REITs

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FRS Capital Market Assumptions—Q3 2020

Strategic Investment Allocation

The Strategic Investment allocation was modeled as follows, per Staff input:

Capital Market Assumption	% of Total Asset Allocation	% of Strategic Investment
Commodities	0.36%	3.00%
Global Public Equities	1.20%	10.00%
Hedge Funds - Buy List (Diversified Portfolio of Direct HFs)	1.44%	12.00%
Hedge Funds -- CTAs (Buy List)	0.72%	6.00%
Hedge Funds -- Distressed Debt (Buy List)	0.36%	3.00%
Hedge Funds -- Equity Long/Short (Buy List)	0.24%	2.00%
Hedge Funds -- Event Driven (Buy List)	0.12%	1.00%
Hedge Funds -- Global Macro (Buy List)	0.36%	3.00%
Infrastructure	1.44%	12.00%
Insurance-Linked Securities (Catastrophe Bonds)	0.96%	8.00%
Non-Core RE	0.30%	2.50%
Private Debt -- Commercial Mortgages	0.30%	2.50%
Private Debt -- Direct Lending	0.84%	7.00%
Private Equity	0.60%	5.00%
Private Equity -- Distressed Debt	1.80%	15.00%
Private Equity -- Mezzanine	0.60%	5.00%
Timberland	0.36%	3.00%
Total	**12.00%**	**100.00%**

Aon Investments’ Capital Market Assumptions—Q3 2020

	Nominal Correlations	1	2	3	4	5	6	7	8
1	Global Equity IMI	**1.00**	0.08	-0.06	0.08	0.88	0.46	0.67	0.07
2	Cash (Gov't)	0.08	**1.00**	0.61	0.46	0.14	0.14	0.08	0.57
3	Intermediate Gov't Bonds (4-Year Duration)	-0.06	0.61	**1.00**	0.75	-0.06	0.03	-0.05	0.26
4	Intermediate Corporate Bonds (4-Year Duration)	0.08	0.46	0.75	**1.00**	0.21	0.09	0.07	0.20
5	Strategic Allocation (Custom)	0.88	0.14	-0.06	0.21	**1.00**	0.47	0.69	0.14
6	Real Estate (Custom)	0.46	0.14	0.03	0.09	0.47	**1.00**	0.37	0.09
7	Private Equity	0.67	0.08	-0.05	0.07	0.69	0.37	**1.00**	0.06
8	Inflation	0.07	0.57	0.26	0.20	0.14	0.09	0.06	**1.00**

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the second quarter of 2020. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment.

Inflation – Expected Level (2.1%)

Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.1% during the next 30 years.

Real Returns for Asset Classes

Fixed Income

- **Cash (-1.0%)** – Over the long run, we expect the real yield on cash and money market instruments to produce a real return of -1.0% in a moderate to low-inflationary environment.
- **TIPS (-0.1%)** – We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about -0.1%.
- **Core Fixed Income (i.e., Market Duration) (-0.1%)** – We expect intermediate duration Treasuries to produce a real return of about -0.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.7%, resulting in a long-term real return of -0.1%.
- **Long Duration Bonds – Government and Credit (0.1%)** – We expect Treasuries with a duration comparable to the Long Government Credit Index to produce a real return of -0.5%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.6%, resulting in an expected real return of 0.1%.

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Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

- **Long Duration Bonds – Credit (0.6%)** – We expect Treasuries with a duration comparable to the Long Credit Index to produce a real return of -0.5%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 1.1%, resulting in an expected real return of 0.6%.
- **Long Duration Bonds – Government (-0.5%)** – We expect Treasuries with a duration of ~12 years to produce a real return of -0.5% during the next 30 years.
- **High Yield Bonds (2.0%)** – We expect intermediate duration Treasuries to produce a real return of about -0.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 2.8%, resulting in an expected real return of 2.0%.
- **Bank Loans (2.2%)** – We expect LIBOR to produce a real return of about -0.7%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.9%, resulting in an expected real return of 2.2%.
- **Non-US Developed Bonds: 50% Hedged (-0.4%) –** We forecast real returns for non-US developed market bonds to be -0.4% over a 30-year period after adjusting for a 50% currency hedge. We assume a blend of one-third investment grade corporate bonds and two-thirds government bonds. We also produce assumptions for 0% hedged and 100% hedged non-US developed bonds.
- **Emerging Market Bonds (Sovereign; USD) (1.9%) –** We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 1.9% over a 30-year period.
- **Emerging Market Bonds (Corporate; USD) (1.4%) –** We forecast real returns for emerging market corporate bonds denominated in US dollars to be 1.4% over a 30-year period.
- **Emerging Market Bonds (Sovereign; Local) (1.6%)** – We forecast real returns for emerging market sovereign bonds denominated in local currency to be 1.6% over a 30-year period.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

- **Multi Asset Credit (MAC) (2.8%) –** We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 2.1% plus 0.7% from alpha (net of fees) over a 30-year period.
- **Private Debt-Direct Lending (3.7%) –** The base building block is bank loans 2.2% + spread 1.5% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the cost of financing at LIBOR + 1.4%.

Equities

- **Large Cap U.S. Equity (4.3%)** – This assumption is based on our 30-year outlook for large cap U.S. company dividends and real earnings growth. Adjustments are made for valuations as needed.
- **Small Cap U.S. Equity (4.8%)** – Adding a 0.5% return premium for small cap U.S. equity over large cap U.S. equity results in an expected real return of 4.8%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. equity versus large cap U.S. equity, and is also justified by historical data. In recent years, higher small cap valuations relative large cap equity has reduced the small cap premium.
- **Global Equity (Developed & Emerging Markets) (5.2%)** – We employ a building block process similar to the U.S. equity model using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 5.2% for global equity.
- **International (Non-U.S.) Equity, Developed Markets (5.3%)** – We employ a building block process similar to the U.S. equity model using the non-U.S. developed equity markets that comprise the MSCI EAFE Index.
- **Emerging Market Stocks (5.9%)** - We employ a building block process similar to the U.S. equity model using the non-U.S. emerging equity markets that comprise the MSCI Emerging Markets Index.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

- **Equity Risk Insurance Premium Strategies-High Beta (4.1%) –** We expect real returns from 50% equity + 50% cash beta of 2.0% plus 2.1% insurance risk premium over the next 30 years.

Alternative Asset Classes

- **Hedge Fund-of-Funds Universe (1.2%)** – The generic category "hedge funds" encompasses a wide range of strategies accessed through "fund-of-funds" vehicles. We also assume the ***median*** manager is selected and also allow for the additional costs associated with Fund-of-Funds management. A top-tier portfolio of funds (hedge fund-of-funds buy-list) could add an additional 1.2% in return at similar volatility based on alpha, lower fees and better risk management.
- **Hedge Fund-of-Funds Buy List (2.4%)** – The generic category of top-tier "hedge funds" encompasses a wide range of strategies accessed through "fund-of-funds" vehicles. We assume additional costs associated with Funds-of-Funds management. To use this category the funds must be buy rated or we advise on manager selection.
- **Broad Hedge Funds Universe (2.5%)** – Represents a diversified portfolio of direct hedge fund investments. This investment will tend to be less diversified than a typical "fund-of-funds" strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure.
- **Broad Hedge Funds Buy List (3.8%)** – Represents a diversified portfolio of top-tier direct hedge fund investments. This investment will tend to be less diversified than a typical "fund-of-funds" strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure. To use this category the funds must be buy rated or we advise on manager selection.
- **Core Real Estate (3.5%)** -- Our real return assumption for core real estate is based a gross income of about 3.8%, management fees of roughly 1%, and future capital appreciation near the rate of inflation during the next 30 years. We assume a portfolio of equity real estate holdings that is diversified by property and by geographic region.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

- **Non-Core Real Estate (5.5%)** -- Core real estate is levered approximately 100% as the base building block for this assumption. We subtract financing costs for the leverage and 2% management costs. We also assume nominal alpha of 3%. We assume a 50/50 mix of value-add and opportunistic investments.
- **U.S. REITs (4.0%)** – Our real return assumption for U.S. REITs is based on income of about 4.0% and future capital appreciation near the rate of inflation during the next 30 years. REITs are a sub-set of U.S. small/mid cap equity universe.
- **Commodities (1.4%)** – Our commodity assumption is for a diversified portfolio of commodity futures contracts. Commodity futures returns are composed of three parts: spot price appreciation, collateral return, and roll return (positive or negative change implied by the shape of the future curve). We believe that spot prices will converge with CPI over the long run (i.e., 2.1%). Collateral is assumed to be LIBOR cash (-0.7%). Also, we believe the roll effect will be near zero, resulting in a real return of about 1.4% for commodities.
- **Private Equity (7.2%)** – Our private equity assumption reflects a diversified fund of funds with exposure to buyouts, venture capital, distressed debt, and mezzanine debt.
- **Infrastructure (6.1%)** – Our infrastructure assumption is formulated using a cash flow based approach that projects cash flows (on a diversified portfolio of assets) over a 30-year period. Income and capital growth as well as gearing levels, debt costs and terms, relevant tax and management expenses are all taken into consideration. Our approach produces an expected real return of 6.1% for infrastructure.
- **Equity Risk Insurance Premium Strategies-Low Beta (2.4%) –** We assume real returns from cash of -1.0% + 3.4% from alpha.
- **Alternative Risk Premia (ARP) (3.2%) –** Real return target LIBOR -0.7% plus 3.9% alpha (net of fees)

Explanation of Capital Market Assumptions—Q3 2020 (30 Years)

Volatility / Correlation Assumptions

Assumed volatilities are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), we “de-smooth” historical returns before calculating volatilities. Importantly, we consider expected volatility trends in the future – in recent years we assumed the re-emergence of an economic cycle and a loss of confidence in central bankers would lead to an increase in volatility. Correlation assumptions are generally similar to actual historical results; however, we do make adjustments to reflect our forward-looking views as well as current market fundamentals.

Appendix

- 2020 Horizon Survey of Capital Market Assumptions

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2020 Horizon Survey Results

What is the Horizon Survey?

Since 2010, Horizon Actuarial Services, LLC has conducted a capital market assumption survey of investment firms to aid in determining reasonable assumptions for a pension plan's expected return on assets

- While Aon does not seek to change our approach based on how we stack up to peers, it is a helpful double-check to make sure we are not too far off from others in the industry

How does Aon compare to the 2020 survey results?

2020 Aon Investments' 10-year forecast assumptions (as of March 31, 2020)

- *Equities:* Non-US equities tend to be **higher** relative to the survey's median level
- *Fixed Income:* generally **mixed** relative to the survey's median level
- *Alternatives:* Infrastructure and Private Debt tend to be **higher** relative to the survey's median level

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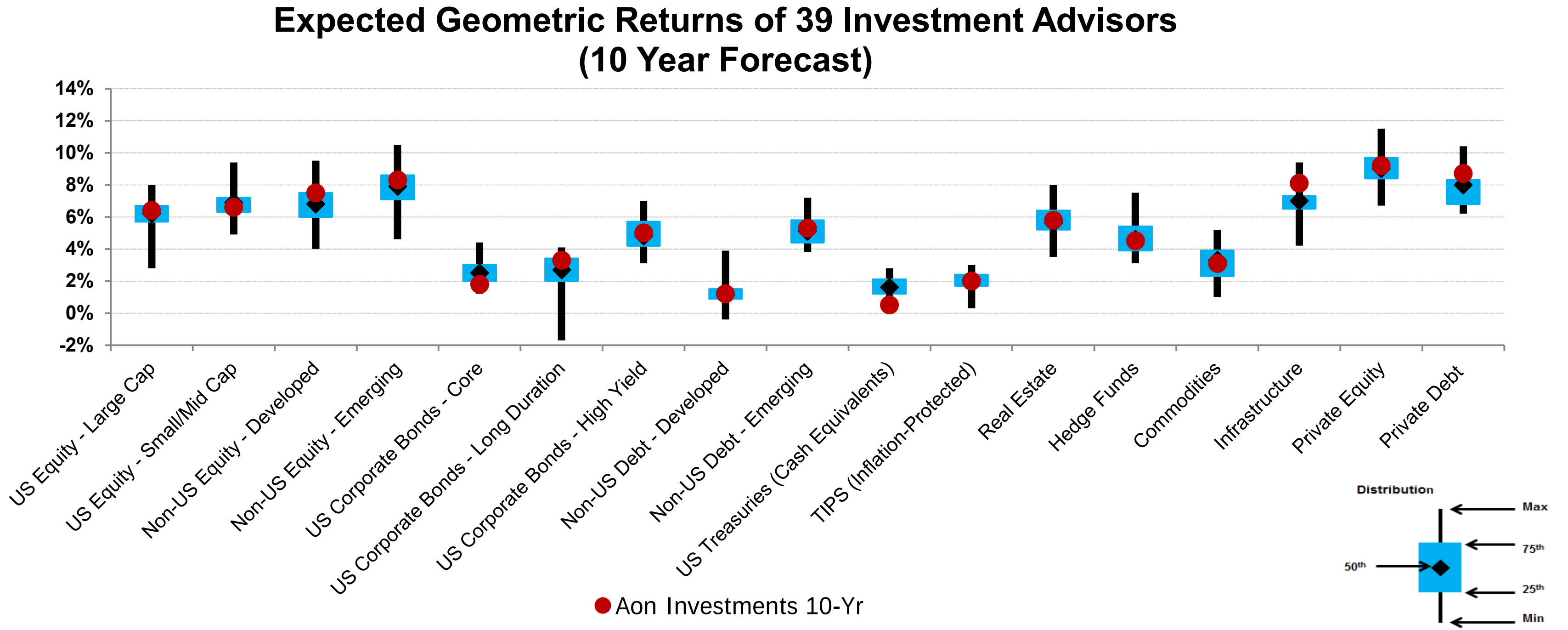
Aon Investments' Capital Market Assumptions vs. Horizon Survey



SOURCE: Horizon Actuarial Solutions, LLC survey of 2020 capital market assumptions from 39 independent investment advisors
Expected returns of the survey are annualized over 10-years (geometric).
Aon Investments' expected returns are annualized over 10-years as of 2Q 2020 (3/31/2020)

Aon Investments vs. Peers (2020 Horizon Survey)—10-Year Forecast

Asset Class	Horizon Survey 10 Year Horizon Expected Return	Horizon Survey 10 Year Horizon Expected Risk	Aon Investments 10 Year Forecasts Expected Return	Aon Investments 10 Year Forecasts Expected Risk	Difference Aon Investments- Horizon Survey
US Equity - Large Cap	6.2%	16.2%	6.4%	17.0%	0.2%
US Equity - Small/Mid Cap	6.9%	20.2%	6.6%	23.0%	-0.3%
Non-US Equity - Developed	6.8%	18.1%	7.5%	20.0%	0.7%
Non-US Equity - Emerging	7.9%	24.2%	8.3%	27.0%	0.4%
US Fixed Income - Core	2.5%	5.5%	1.8%	4.0%	-0.7%
US Fixed Income - Long Duration Corp	2.7%	10.2%	3.3%	11.5%	0.6%
US Fixed Income - High Yield	4.8%	9.8%	5.0%	12.0%	0.2%
Non-US Fixed Income - Developed	1.1%	7.0%	1.2%	5.5%	0.1%
Non-US Fixed Income - Emerging	5.1%	11.0%	5.3%	13.0%	0.2%
Treasuries (Cash Equivalents)	1.6%	1.8%	0.5%	1.0%	-1.1%
TIPS (Inflation-Protected)	2.1%	6.1%	2.0%	4.5%	-0.1%
Real Estate	5.6%	16.8%	5.8%	15.0%	0.2%
Hedge Funds	4.6%	8.0%	4.5%	9.0%	-0.1%
Commodities	3.3%	17.6%	3.1%	17.0%	-0.2%
Infrastructure	7.0%	14.6%	8.1%	14.5%	1.1%
Private Equity	9.0%	22.0%	9.2%	25.0%	0.2%
Private Debt	8.0%	12.1%	8.7%	16.0%	0.7%
Inflation	2.0%	1.7%	2.1%	1.0%	0.1%

Notes (Horizon Survey):

Source: Horizon Actuarial survey of 2020 capital market assumptions from 39 independent investment advisors

Expected returns are median annualized (geometric).

Notes (Aon Investments' Forecasts):

Aon Investments' Forecasts are for Q2 2020

- US Equity - Small/Mid Cap forecasts represents Aon Investments' forecasts for US Small Cap
- US Fixed Income - Long Duration forecasts represents Aon Investments' forecasts for Long Duration Credit
- Non-US Fixed Income - Developed forecasts represents Aon Investments' forecasts for Non-US Fixed Income - Developed (50% Hedged)
- Non-US Fixed Income - Emerging forecasts represents Aon Investments' forecasts for Emerging Market Bonds - Sovereign USD
- Real Estate forecasts represents Aon Investments' forecasts for Core Real Estate
- Hedge Funds forecasts represents Aon Investments' forecasts for Direct Hedge Funds (Universe)

Leading Methodologies & Reasons for Differences

Leading Methodologies

- Building Block
- Global Capital Asset Pricing Model (Global CAPM)
- Surveys
- Historical data (as a guide to future)
- Black-Litterman (combination of building block and CAPM)

Reasons for Differences

- Methodology
- Time Horizon
- Arithmetic vs. Geometric forecasts*
- Alpha (active management)*
- Inflation
- Investment Fees*
- Asset class definition

* While some firms in the Horizon survey responded with arithmetic forecasts, the results have been converted to geometric forecasts for comparison purposes. Additionally, the return expectations included in the Horizon survey are generally market returns that do not reflect active management. Returns for asset classes where passive investments are not available (e.g., hedge funds and private equity) are net of fees.

Appendix

- Liquidity Analysis Detail

Aon
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Background

Aon Investments’ Approach to Analyzing Liquidity Risk from Alternatives

- Intended as a stress-testing model
- Develops multi-year projections of assets and spending needs
- Uses different scenarios for economic environments and other relevant events
- Shows how the portfolio’s liquidity profile could evolve with a given investment strategy
- Incorporates the profile of the liabilities as well as expected future contributions

Background
Process Inputs and Outputs

Background

Modeling Parameters – Degrees of Illiquidity

We categorized investments by liquidity into five buckets

- **Liquid (Risk-Reducing Assets):** less than 3 months needed for return of capital (e.g., publicly traded securities)
- **Liquid (Return-Seeking Assets):** less than 3 months needed for return of capital (e.g., publicly traded securities)
- **Quasi-Liquid:** Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Black Skies scenario (e.g., many hedge funds, core real estate)
- **Illiquid: Potential lock-up of 5–10 years**, depending on economic environment (e.g., closed-ended real estate)
- **Illiquid: Potential lock-up of 10+ years** (e.g., typical private equity)

This is intended to be a *conservative* approximation of the actual liquidity properties of the assets

We started with the Current Policy allocation, then see how the actual allocations would change in different economic scenarios, continuing new commitments to private assets, as expected.

Assumptions

- Starting assets based on the reported June 30, 2020 ($160.7 billion)
- The plan's contribution policy is actuarially based, leveraging the 2020 asset-liability study for projection analysis
- Assumes the portfolio starts at the target asset allocation levels for illiquid assets, maintaining close to the Current Policy portfolio targets over the next 10 years

Background
Economic Scenarios

Base Case Scenario

- Markets perform consistent with Aon's Capital Market Assumptions (~50th percentile)

Recession Scenario

- Somewhat pessimistic outlook for the markets (~95th percentile)
- Return-seeking assets decline in the first two years with a modest rebound in later years

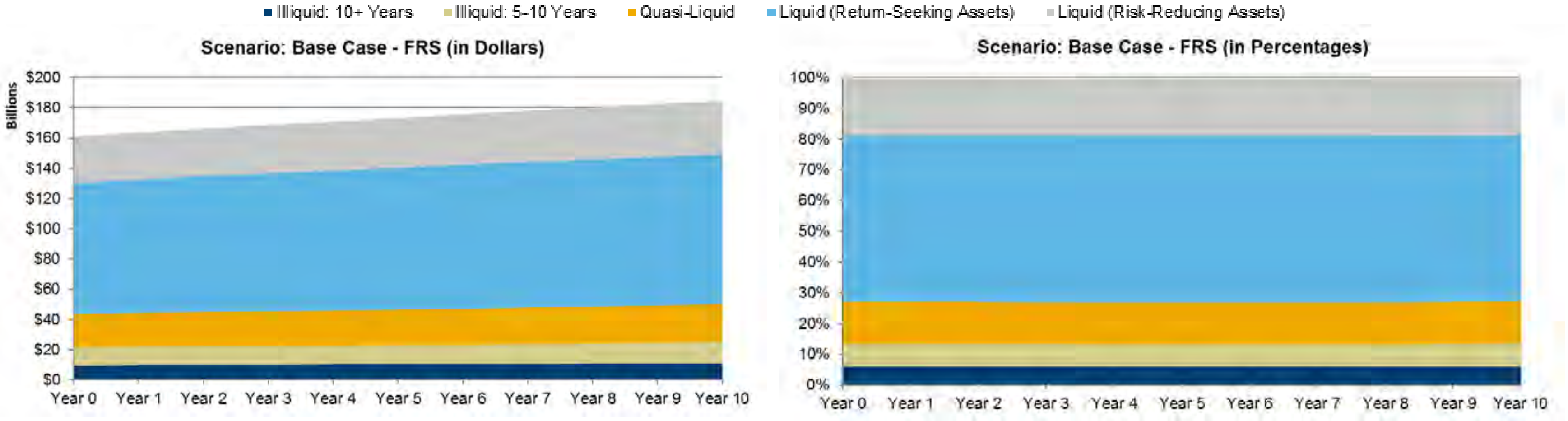
Black Skies Scenario

- Very pessimistic outlook for markets (~99th percentile)
- Return-seeking assets decline significantly
- The value of public equities declines approximately 50% over three years, without an immediate rebound

Liquidity Analysis: Base Case Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to stay near 27% of the Plan and can be maintained near the target with no cash flow problems

Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis: Base Case Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Base Case scenario

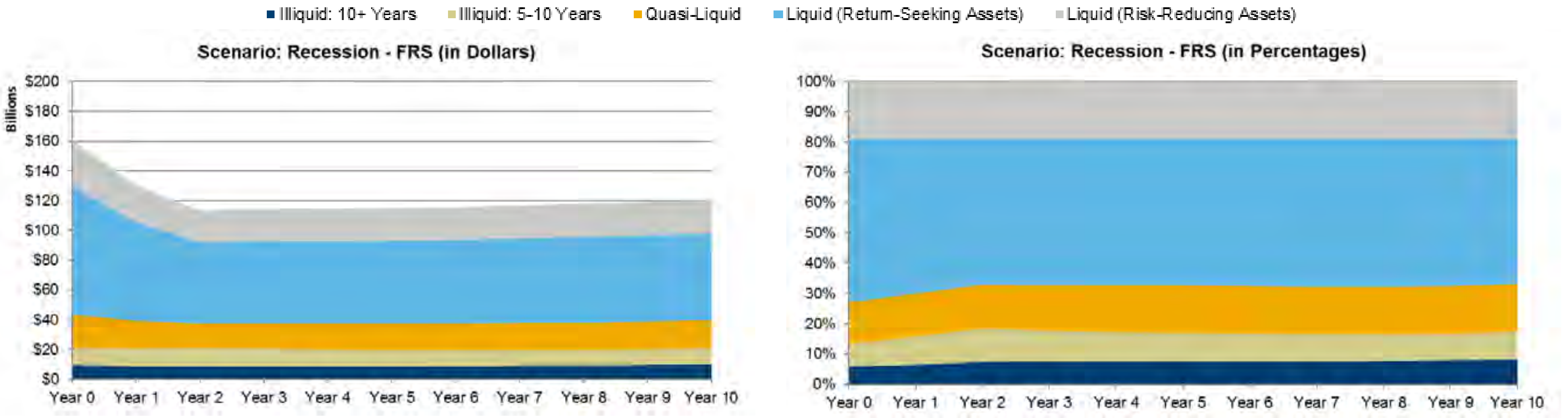
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	54	54	54	54	54	54	54	54	54
Total Liquid	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**
Quasi-Liquid	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Illiquid: 5-10 Year Lock-up	7	7	7	7	7	7	7	7	7	7	7
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Recession Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 33% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis: Recession Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Recession scenario

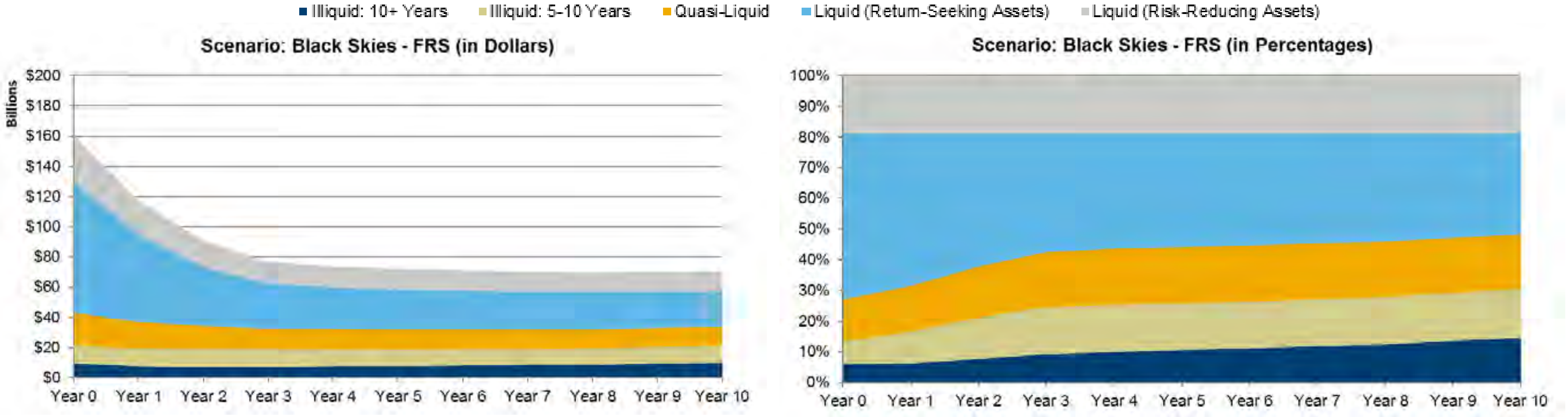
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	51	48	48	48	48	49	49	49	48	48
Total Liquid	**73%**	**70%**	**67%**	**67%**	**67%**	**67%**	**68%**	**68%**	**68%**	**67%**	**67%**
Quasi-Liquid	14%	14%	15%	15%	15%	16%	16%	16%	16%	16%	16%
Illiquid: 5-10 Year Lock-up	7	9	11	10	10	10	9	9	9	9	9
Illiquid: 10+ Year Lock-up	6	7	8	7	7	8	8	8	8	8	8
Total Quasi + Illiquid	**27%**	**30%**	**33%**	**33%**	**33%**	**33%**	**32%**	**32%**	**32%**	**33%**	**33%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Black Skies Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Black Skies economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 48% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis: Black Skies Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

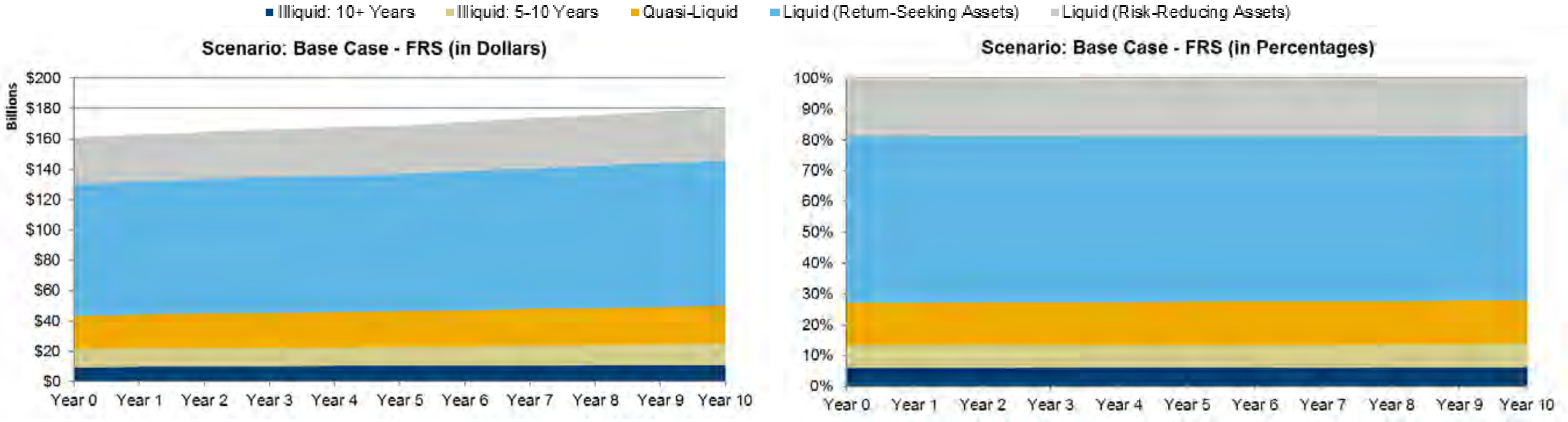
The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Black Skies scenario

Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	49	43	38	37	37	36	36	35	34	33
Total Liquid	**73%**	**68%**	**62%**	**57%**	**56%**	**56%**	**55%**	**55%**	**54%**	**53%**	**52%**
Quasi-Liquid	14%	15%	17%	18%	18%	18%	18%	18%	18%	18%	18%
Illiquid: 5-10 Year Lock-up	7	10	13	15	15	15	15	15	15	16	16
Illiquid: 10+ Year Lock-up	6	6	8	9	10	11	11	12	12	14	15
Total Quasi + Illiquid	**27%**	**32%**	**38%**	**43%**	**44%**	**44%**	**45%**	**45%**	**46%**	**47%**	**48%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Base Case Economic Scenario
Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to reach as high as 28% of the Plan and can be maintained near the target with no cash flow problems

Note: Year 0 represents a starting point of June 30, 2020

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Liquidity Analysis: Base Case Economic Scenario (continued)

Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Base Case scenario

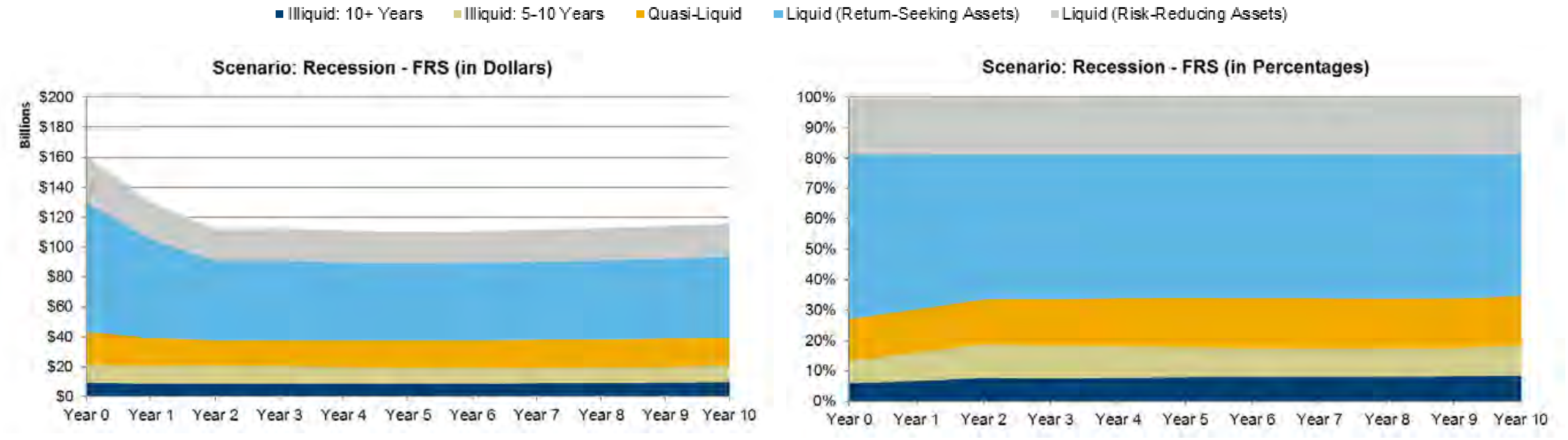
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	54	54	54	54	54	54	53	53	53
Total Liquid	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**72%**	**72%**	**72%**
Quasi-Liquid	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Illiquid: 5-10 Year Lock-up	7	7	7	7	7	7	7	7	7	8	8
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**28%**	**28%**	**28%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Recession Economic Scenario

Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 35% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2020

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Liquidity Analysis: Recession Economic Scenario (continued)

Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Recession scenario

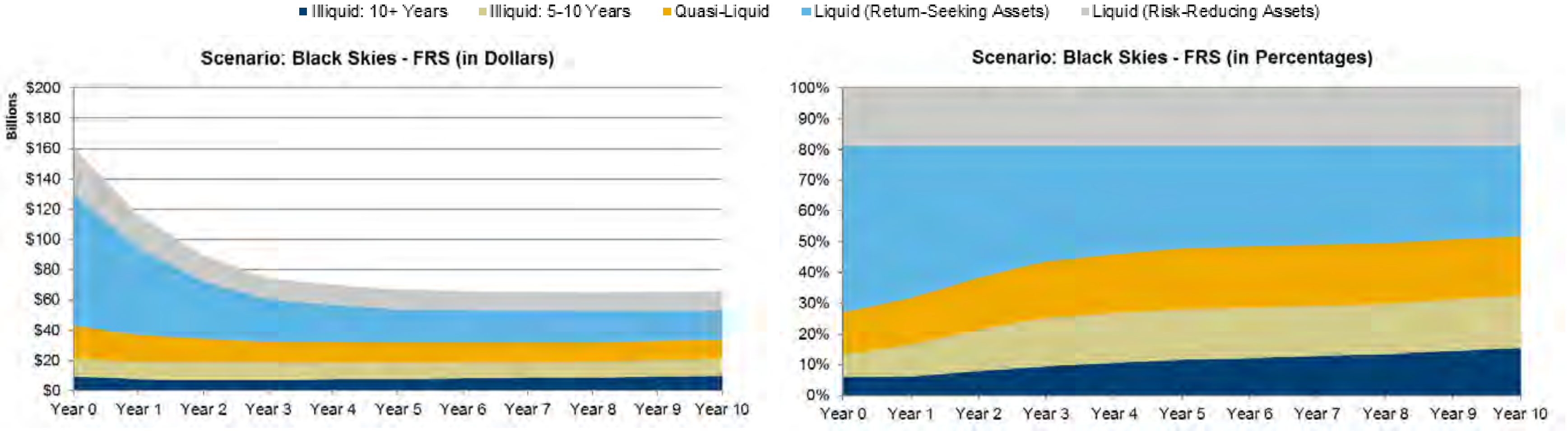
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	51	48	48	47	47	47	47	47	47	46
Total Liquid	**73%**	**70%**	**67%**	**67%**	**66%**	**66%**	**66%**	**66%**	**66%**	**66%**	**65%**
Quasi-Liquid	14%	14%	15%	15%	16%	16%	16%	16%	16%	16%	16%
Illiquid: 5-10 Year Lock-up	7	9	11	11	10	10	10	9	9	9	10
Illiquid: 10+ Year Lock-up	6	7	8	8	8	8	8	8	8	8	9
Total Quasi + Illiquid	**27%**	**30%**	**33%**	**33%**	**34%**	**34%**	**34%**	**34%**	**34%**	**34%**	**35%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Black Skies Economic Scenario

Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Black Skies economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 52% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis: Black Skies Economic Scenario (continued)

Current Policy (5 Years of 80% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Black Skies scenario

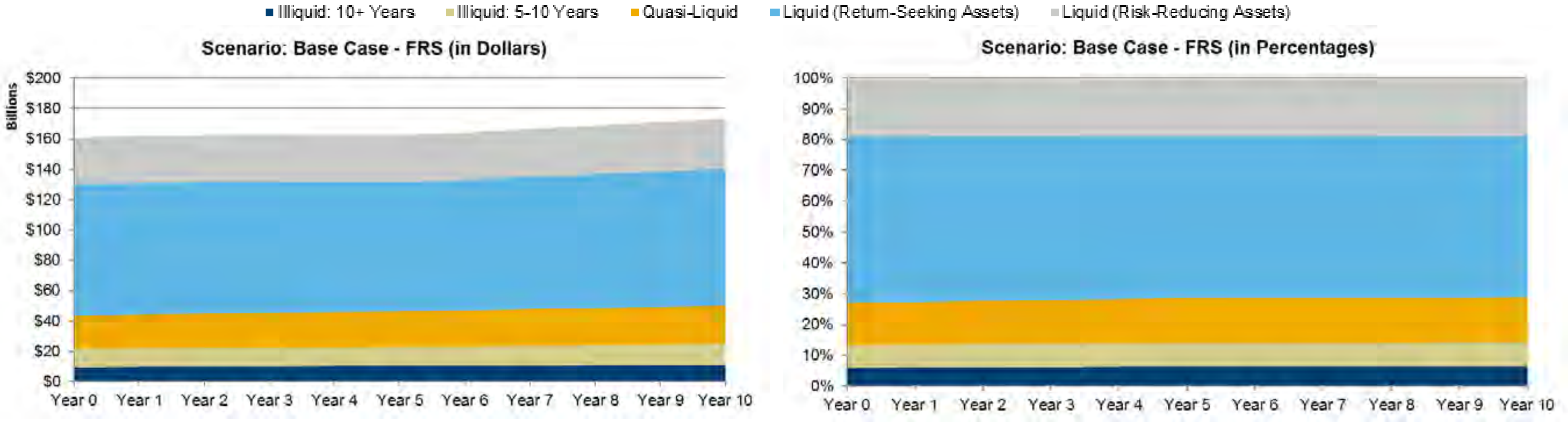
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	49	43	37	35	33	33	32	32	30	29
Total Liquid	**73%**	**68%**	**62%**	**56%**	**54%**	**52%**	**52%**	**51%**	**51%**	**49%**	**48%**
Quasi-Liquid	14%	15%	17%	18%	19%	20%	20%	20%	20%	19%	19%
Illiquid: 5-10 Year Lock-up	7	10	13	16	16	17	16	16	17	17	17
Illiquid: 10+ Year Lock-up	6	6	8	10	11	12	12	13	13	15	16
Total Quasi + Illiquid	**27%**	**32%**	**38%**	**44%**	**46%**	**48%**	**48%**	**49%**	**49%**	**51%**	**52%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Base Case Economic Scenario

Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to reach as high as 29% of the Plan and can be maintained near the target with no cash flow problems

Note: Year 0 represents a starting point of June 30, 2020

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Liquidity Analysis: Base Case Economic Scenario (continued)
Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Base Case scenario

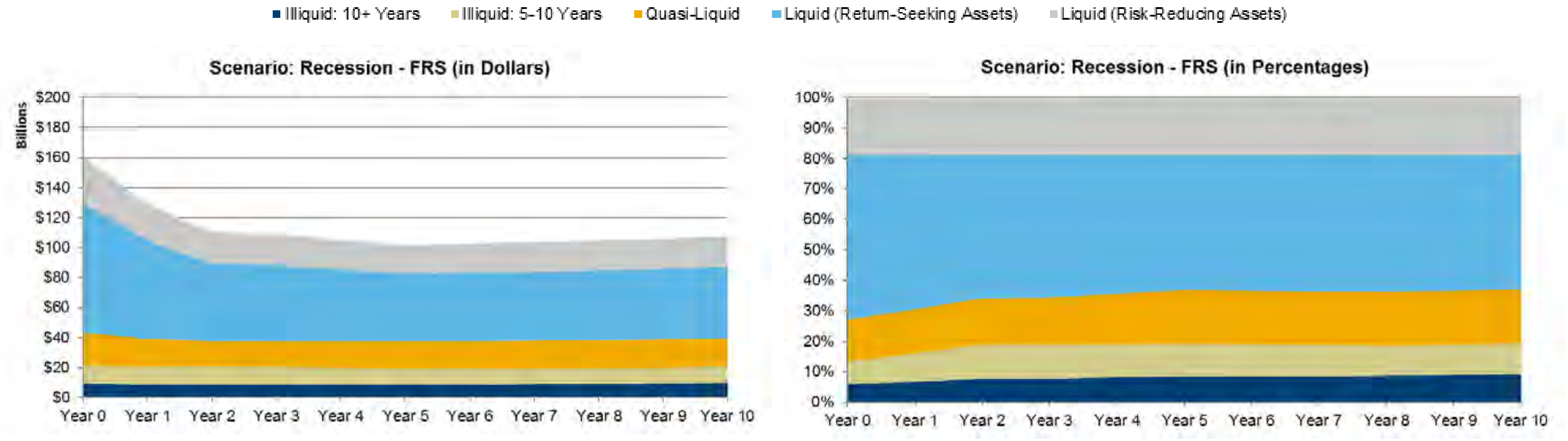
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	53	53	53	52	52	52	52	52	52
Total Liquid	**73%**	**73%**	**72%**	**72%**	**72%**	**71%**	**71%**	**71%**	**71%**	**71%**	**71%**
Quasi-Liquid	14%	14%	14%	14%	14%	15%	15%	15%	15%	15%	15%
Illiquid: 5-10 Year Lock-up	7	7	7	7	8	8	8	8	8	8	8
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	**27%**	**27%**	**28%**	**28%**	**28%**	**29%**	**29%**	**29%**	**29%**	**29%**	**29%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Recession Economic Scenario

Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 37% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2020

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Liquidity Analysis: Recession Economic Scenario (continued)

Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Recession scenario

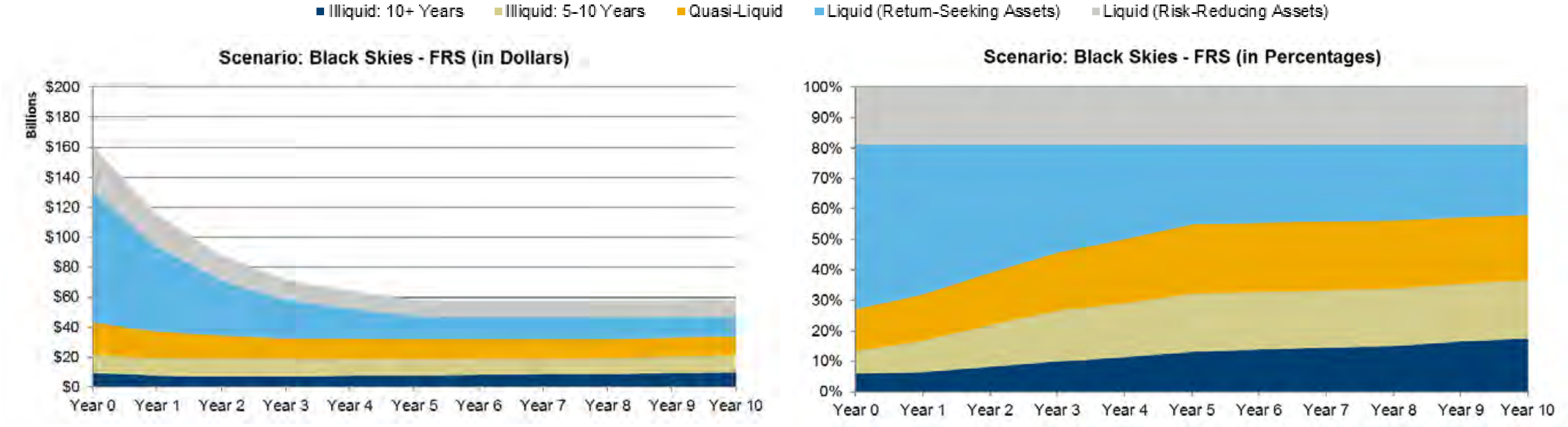
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	51	47	46	45	44	44	45	45	44	44
Total Liquid	**73%**	**70%**	**66%**	**65%**	**64%**	**63%**	**63%**	**64%**	**64%**	**63%**	**63%**
Quasi-Liquid	14%	14%	15%	16%	17%	18%	18%	18%	18%	18%	18%
Illiquid: 5-10 Year Lock-up	7	9	11	11	11	11	10	10	10	10	10
Illiquid: 10+ Year Lock-up	6	7	8	8	8	8	9	9	9	9	9
Total Quasi + Illiquid	**27%**	**30%**	**34%**	**35%**	**36%**	**37%**	**37%**	**36%**	**36%**	**37%**	**37%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Black Skies Economic Scenario

Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Black Skies economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 58% of the Plan due to the shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2020

Liquidity Analysis: Black Skies Economic Scenario (continued)

Current Policy (5 Years of 50% Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in a Black Skies scenario

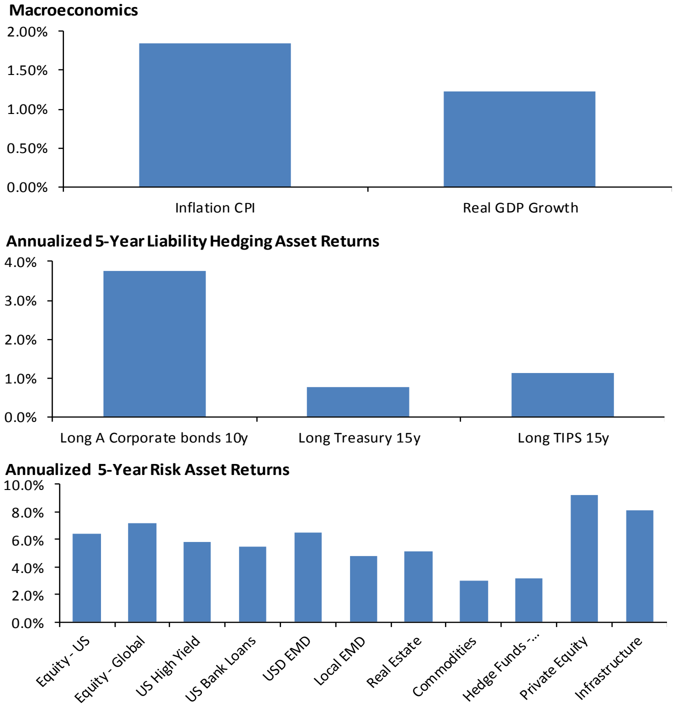
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	49	42	35	31	26	25	25	25	24	23
Total Liquid	**73%**	**68%**	**61%**	**54%**	**50%**	**45%**	**44%**	**44%**	**44%**	**43%**	**42%**
Quasi-Liquid	14%	15%	17%	19%	21%	23%	23%	23%	22%	22%	22%
Illiquid: 5-10 Year Lock-up	7	10	14	17	18	19	19	19	19	19	19
Illiquid: 10+ Year Lock-up	6	6	8	10	11	13	14	15	15	16	17
Total Quasi + Illiquid	**27%**	**32%**	**39%**	**46%**	**50%**	**55%**	**56%**	**56%**	**56%**	**57%**	**58%**

Note: Year 0 represents a starting point of June 30, 2020; Percentages may not sum to 100% due to rounding

Base Case Scenario
Description

World events unfold in a fashion consistent with our Capital Market Assumptions and yields are based on median ESGs

- Yield and bond return series reflect our average estimates. These estimates represent our benchmark view.
- The pace of US economic growth moderates over the first few years, growing below its long-term trend growth rate. The moderation reflects the fading of previous fiscal stimulus and increased bilateral tariffs between the US and China.
- In later years, the US economy strengthens, eventually growing in line with the long-term trend growth rate, supported by accommodative monetary policy.
- Consumer price inflation, measured by the Consumer Price Index, remains modestly above 2% over the next five years, supported by global growth prospects.
- Government and corporate bond yields gradually rise. Robust profit margins sustain stable corporate spreads.
- Risk asset returns are in line with our long term assumptions.



Returns from 31 March 2020
Source: Aon
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Base Case Scenario
Data Table

BASE CASE SCENARIO

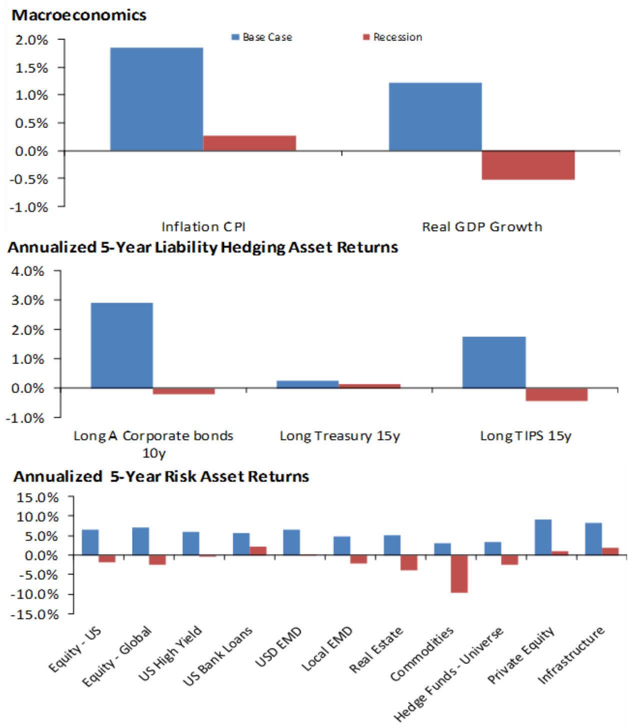
	Year 0	1	2	3	4	5	6	7	8	9	10
Yields (BOY)											
Treasury yield 5y	0.5%	0.6%	0.6%	0.7%	0.7%	0.8%	0.8%	0.9%	0.9%	0.8%	0.7%
Long Treasury yield 15y	1.1%	1.1%	1.2%	1.2%	1.3%	1.3%	1.4%	1.5%	1.5%	1.5%	1.5%
TIPS yield 5y	0.1%	-0.3%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.1%	0.2%	0.5%
Long TIPS yield 15y	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%
Breakeven price inflation 15y	1.0%	1.2%	1.2%	1.1%	1.0%	1.0%	1.1%	1.0%	1.0%	1.0%	0.9%
A Corporate bond yield 5y	2.8%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.4%	2.3%	2.2%
Long A Corporate bond yield 10y	3.2%	3.2%	3.2%	3.2%	3.1%	3.1%	3.1%	3.0%	3.0%	3.0%	3.1%
A Corporate spread 5y	2.3%	2.1%	1.9%	1.8%	1.8%	1.8%	1.7%	1.6%	1.6%	1.5%	1.5%
Long A Corporate spread 10y	2.3%	2.2%	2.2%	2.1%	2.1%	2.1%	2.0%	1.9%	1.9%	1.8%	1.8%
Expected nominal return on assets											
Equity - US		6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Equity - Global		7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
A Corporate bonds 5y		4.4%	4.0%	4.0%	3.7%	3.4%	2.8%	3.0%	2.7%	3.1%	2.9%
Long A Corporate bonds 10y		3.6%	3.6%	4.0%	4.0%	3.7%	3.7%	3.7%	3.4%	3.9%	3.6%
Treasury 5y		1.0%	1.0%	1.1%	1.2%	1.2%	0.7%	0.7%	1.0%	1.2%	1.2%
Long Treasury 15y		0.7%	0.7%	0.7%	1.0%	0.7%	1.0%	1.4%	1.8%	1.8%	1.5%
TIPS 5y		3.1%	1.9%	1.5%	2.2%	2.5%	1.9%	1.9%	1.7%	1.5%	1.5%
Long TIPS 15y		2.5%	1.2%	0.4%	0.7%	0.9%	1.7%	1.6%	1.5%	1.3%	1.2%
US High Yield		6.5%	5.8%	5.8%	5.6%	5.3%	5.0%	4.7%	5.1%	4.9%	4.6%
Bank Loans		5.4%	5.6%	5.5%	5.5%	5.5%	5.6%	5.6%	5.5%	5.6%	5.6%
USD Emerging Market Debt		7.4%	6.6%	6.4%	6.3%	5.8%	5.5%	5.3%	5.4%	5.6%	5.6%
Local Emerging Market Debt		5.0%	4.9%	5.0%	4.8%	4.5%	4.4%	3.9%	4.4%	3.9%	4.6%
Real Estate		5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Commodities		3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Hedge Funds - FoHF - Universe		3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Private Equity		9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Infrastructure - US		8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%
Cash		0.2%	0.1%	0.3%	0.6%	0.4%	0.3%	0.3%	0.6%	0.7%	0.7%
CPI		1.3%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Scenario information as of March 31, 2020

Recession Scenario
Description

The US economy slips back into recession in 2020

- Global growth is much slower than under the base case scenario.
- The US experiences a deep recession in 2020, due to subdued global growth.
- Inflation turns slightly negative in 2020. However, the period of deflation is short lived and inflation starts to rise in later years as an economic recovery begins to establish itself.
- Treasury yields fall while TIPS yields remain at low levels as the US enters recession. Yields rise in later years as a recovery gets underway.
- Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Most risk assets make losses in the first two years but rebound in later years as the economy recovers.



Returns from 31 March 2020
Source: Aon
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Recession Scenario

Data Table

RECESSION SCENARIO

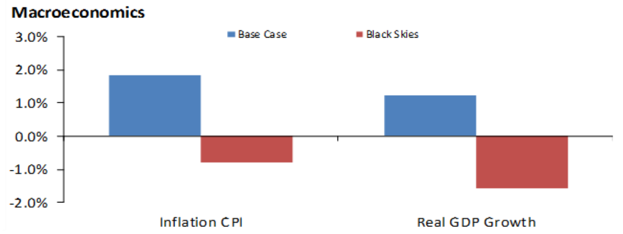
Year	0	1	2	3	4	5	6	7	8	9	10
Yields (BOY)											
Treasury yield 5y	0.5%	-0.3%	-0.4%	0.0%	0.4%	0.9%	1.2%	1.3%	1.4%	1.5%	1.5%
Long Treasury yield 15y	1.1%	0.6%	0.4%	0.6%	0.9%	1.4%	1.6%	1.8%	1.9%	2.0%	2.1%
TIPS yield 5y	0.1%	-1.0%	-1.1%	-1.0%	-0.6%	-0.3%	-0.4%	-0.3%	-0.1%	0.2%	0.4%
Long TIPS yield 15y	0.0%	-0.4%	-0.5%	-0.4%	-0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.5%
Breakeven price inflation 15y	1.0%	1.0%	0.9%	1.0%	1.0%	1.2%	1.3%	1.4%	1.5%	1.5%	1.5%
A Corporate bond yield 5y	2.8%	3.9%	4.3%	4.3%	4.3%	4.3%	4.3%	4.2%	4.1%	3.9%	3.8%
Long A Corporate bond yield 10y	3.2%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.4%	4.4%
A Corporate spread 5y	2.3%	4.2%	4.7%	4.3%	3.9%	3.3%	3.1%	2.9%	2.7%	2.4%	2.2%
Long A Corporate spread 10y	2.3%	3.9%	4.4%	4.2%	3.9%	3.4%	3.1%	2.9%	2.8%	2.6%	2.4%
Expected nominal return on assets											
Equity - US		-18.0%	-10.0%	10.7%	5.8%	5.8%	5.8%	5.9%	5.9%	6.0%	6.1%
Equity - Global		-20.7%	-11.5%	11.6%	6.1%	6.1%	6.2%	6.3%	6.4%	6.5%	6.7%
A Corporate bonds 5y		-1.4%	1.3%	3.4%	3.8%	4.0%	3.8%	3.9%	4.0%	4.2%	4.2%
Long A Corporate bonds 10y		-5.5%	-1.7%	1.9%	2.1%	2.3%	3.3%	3.5%	3.8%	4.2%	4.1%
Treasury 5y		4.7%	0.6%	-1.3%	-1.1%	-0.9%	0.5%	0.8%	1.1%	1.4%	1.5%
Long Treasury 15y		9.2%	2.8%	-1.5%	-3.3%	-5.9%	-1.1%	-0.7%	-0.3%	0.3%	0.3%
TIPS 5y		3.5%	0.1%	-0.6%	-1.0%	-0.1%	1.7%	1.7%	1.5%	1.4%	1.4%
Long TIPS 15y		5.3%	1.1%	-1.0%	-4.0%	-3.3%	0.3%	0.3%	0.3%	0.3%	0.5%
US High Yield		-11.2%	-5.9%	8.2%	4.8%	4.6%	4.3%	4.1%	4.5%	4.4%	4.3%
Bank Loans		-4.7%	-1.1%	6.7%	5.0%	5.0%	5.2%	5.2%	5.1%	5.3%	5.3%
USD Emerging Market Debt		-12.7%	-6.0%	9.8%	6.2%	6.0%	5.6%	5.4%	5.6%	5.7%	5.7%
Local Emerging Market Debt		-17.4%	-9.2%	8.7%	4.8%	4.7%	4.6%	4.0%	4.6%	4.1%	4.7%
Real Estate		-13.0%	-7.9%	-2.8%	0.7%	4.6%	4.6%	4.7%	4.7%	4.8%	4.9%
Commodities		-29.2%	-23.3%	5.7%	2.3%	2.3%	2.3%	2.4%	2.5%	2.6%	2.7%
Hedge Funds - FoHF - Universe		-14.8%	-9.5%	6.0%	4.9%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Private Equity		-18.0%	-5.5%	14.0%	9.2%	9.4%	9.4%	9.4%	9.4%	9.4%	9.3%
Infrastructure - US		-4.6%	-0.2%	3.3%	4.1%	7.7%	7.7%	7.8%	7.8%	7.8%	7.9%
Cash		0.2%	0.0%	0.0%	0.5%	0.6%	0.6%	0.7%	1.1%	1.4%	1.6%
CPI		-1.2%	0.1%	0.5%	0.8%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%

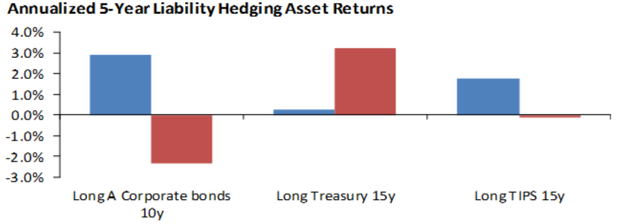
Scenario information as of March 31, 2020

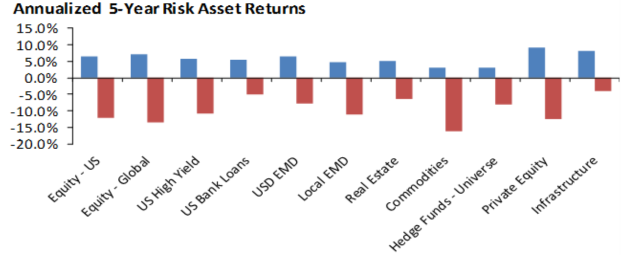
Black Skies Scenario
Description

A deep recession followed by a longer period of stagnant growth

- A confluence of factors, including falling oil prices, economic weakness in developed and emerging market economies and severe levels of financial distress (due to high debt levels and political crisis) lead to a global recession followed by stagnation.
- The US experiences a protracted deep recession.
- Inflation is pushed into negative territory in 2020 and remains there in 2021, while continued sluggish growth over the following years means that inflation stays close to zero.
- Treasury yields fall and remain at low levels as the US enters recession.
- Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Risk assets make losses in the first few years. There is no pronounced bounce in growth and the economic situation remains poor for a long time, which weighs on returns in later years.







Returns from 31 March 2020
Source: Aon
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Black Skies Scenario
Data Table

BLACK SKIES SCENARIO

Year	0	1	2	3	4	5	6	7	8	9	10
Yields (BOY)											
Treasury yield 5y	0.5%	-0.7%	-0.7%	-0.6%	-0.6%	-0.4%	0.0%	0.3%	0.5%	0.7%	0.9%
Long Treasury yield 15y	1.1%	0.1%	-0.1%	-0.1%	0.0%	0.2%	0.5%	0.8%	1.0%	1.2%	1.5%
TIPS yield 5y	0.1%	-1.1%	-1.2%	-1.2%	-1.2%	-1.1%	-1.1%	-0.9%	-0.7%	-0.3%	0.0%
Long TIPS yield 15y	0.0%	-0.6%	-0.7%	-0.6%	-0.5%	-0.3%	-0.2%	-0.1%	0.0%	0.2%	0.3%
Breakeven price inflation 15y	1.0%	0.7%	0.7%	0.6%	0.5%	0.6%	0.7%	0.9%	1.0%	1.1%	1.2%
A Corporate bond yield 5y	2.8%	4.4%	5.2%	5.0%	4.7%	4.3%	4.3%	4.3%	4.1%	4.0%	3.8%
Long A Corporate bond yield 10y	3.2%	4.4%	5.0%	4.9%	4.7%	4.4%	4.4%	4.4%	4.4%	4.3%	4.3%
A Corporate spread 5y	2.3%	5.2%	5.9%	5.7%	5.3%	4.8%	4.4%	4.0%	3.6%	3.3%	2.9%
Long A Corporate spread 10y	2.3%	4.7%	5.4%	5.3%	5.0%	4.5%	4.2%	3.9%	3.6%	3.3%	3.0%
Expected nominal return on assets											
Equity - US		-28.8%	-20.8%	-11.5%	2.6%	2.6%	3.0%	3.4%	3.8%	4.1%	4.5%
Equity - Global		-31.6%	-22.9%	-12.5%	2.7%	2.7%	3.2%	3.6%	4.1%	4.5%	5.0%
A Corporate bonds 5y		-4.4%	-1.9%	2.0%	3.0%	3.2%	1.5%	1.8%	2.1%	2.5%	2.6%
Long A Corporate bonds 10y		-9.8%	-5.8%	0.4%	1.5%	2.6%	0.5%	0.9%	1.4%	2.0%	2.1%
Treasury 5y		6.4%	-0.6%	-0.7%	-0.4%	-0.8%	-1.5%	-1.1%	-0.6%	-0.2%	0.1%
Long Treasury 15y		16.4%	3.2%	0.9%	-1.0%	-2.4%	-3.6%	-3.1%	-2.6%	-2.0%	-1.9%
TIPS 5y		2.6%	-2.0%	-1.0%	-0.6%	-0.2%	0.1%	0.2%	0.1%	0.1%	0.3%
Long TIPS 15y		6.7%	0.0%	-1.8%	-2.9%	-2.2%	-1.6%	-1.4%	-1.3%	-1.2%	-0.9%
US High Yield		-25.6%	-19.0%	-10.1%	2.2%	2.0%	2.1%	2.1%	2.7%	2.9%	3.0%
Bank Loans		-15.1%	-10.3%	-4.9%	3.1%	3.2%	3.5%	3.7%	3.8%	4.2%	4.4%
USD Emerging Market Debt		-20.9%	-14.9%	-7.1%	3.5%	3.1%	3.1%	3.1%	3.6%	4.0%	4.3%
Local Emerging Market Debt		-26.5%	-19.1%	-10.1%	1.7%	1.5%	1.7%	1.5%	2.3%	2.2%	3.1%
Real Estate		-15.7%	-11.1%	-5.2%	-0.7%	1.5%	1.9%	2.3%	2.6%	3.0%	3.4%
Commodities		-38.3%	-29.9%	-5.2%	0.7%	0.7%	1.0%	1.2%	1.4%	1.7%	1.9%
Hedge Funds - FoHF - Universe		-18.7%	-13.2%	-7.3%	0.0%	0.0%	0.3%	0.6%	1.0%	1.3%	1.6%
Private Equity		-31.8%	-22.9%	-11.7%	5.0%	5.0%	5.4%	5.8%	6.3%	6.7%	7.1%
Infrastructure - US		-12.4%	-7.9%	-4.0%	1.3%	4.0%	4.4%	4.8%	5.3%	5.7%	6.1%
Cash		0.2%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.2%	0.6%	1.0%	1.3%
CPI		-2.7%	-1.6%	-0.1%	0.1%	0.3%	0.5%	0.6%	0.8%	1.0%	1.2%

Scenario information as of March 31, 2020

Appendix

- How Do Public Pensions Impact Credit Ratings?

Empower Results®

How Do Public Pensions Impact Credit Ratings?

Summary and Conclusions

Pension Impact on Credit Ratings

- Pension plans have a direct impact on the ultimate state or local credit rating
- Rating agencies are not just looking at where public pension plans stand today; they are looking at the expected future trajectory of the plan based on how it is managed

Credit Ratings and Borrowing Costs

- Taxpayers in lower credit rated jurisdictions are paying higher borrowing costs and could save money through healthier pension plan management

Call to Action

- The Big Three (Fitch, Moody's and S&P) value selecting appropriate actuarial assumptions, avoiding excessive risk taking, and developing an adequate funding policy
- While debt priorities and revenue framework to service such debt will vary on a case-by-case basis, every jurisdiction has the ability to thoughtfully develop a funding policy and set appropriate assumptions
- These initial steps will help pension stakeholders better understand the true economic costs, improve the funding outlook for public pensions, and potentially reduce borrowing costs and further taxpayer burden

How Do Public Pensions Impact Credit Ratings?

Call to Action: Plan Sponsors Have Ability to Impact Credit Rating

Below are three specific actions plan sponsors can take today to directly improve the impact a pension plan will have on the credit rating of its locality:

Action	Considerations
1. Conduct an actuarial assumption audit ▪ Review reasonability of key assumptions: – Salary scale, Mortality, Retirement rates, Turnover rates	▪ Assumptions set to plan-specific expectations will lead to lower contribution volatility ▪ Aggressive assumptions may provide short-term relief but may have long-term consequences
2. Consider adjustments to expected return assumption ▪ Adjustments should be in line with forward-looking expectations for asset returns	▪ Contributing an actuarial amount? – **Yes:** Failing to achieve target returns will necessitate increases in future contributions and make what was intended to be a smooth, budget-friendly progression of contribution increases far more volatile – **No:** The funding gap will widen and become highly volatile as contribution policy will not add enough dollars to replenish losses
3. Review the plan's funding policy ▪ Look far enough into the future to identify potential pain points	▪ Conduct "tread water"/hurdle rate analysis to ensure short-term contributions are sufficient to keep pace with growth of plan liabilities ▪ Consider asset-liability study to understand range of potential future outcomes rather than a single deterministic scenario

Appendix

- Asset-Liability Management Background

Asset-Liability Management Background

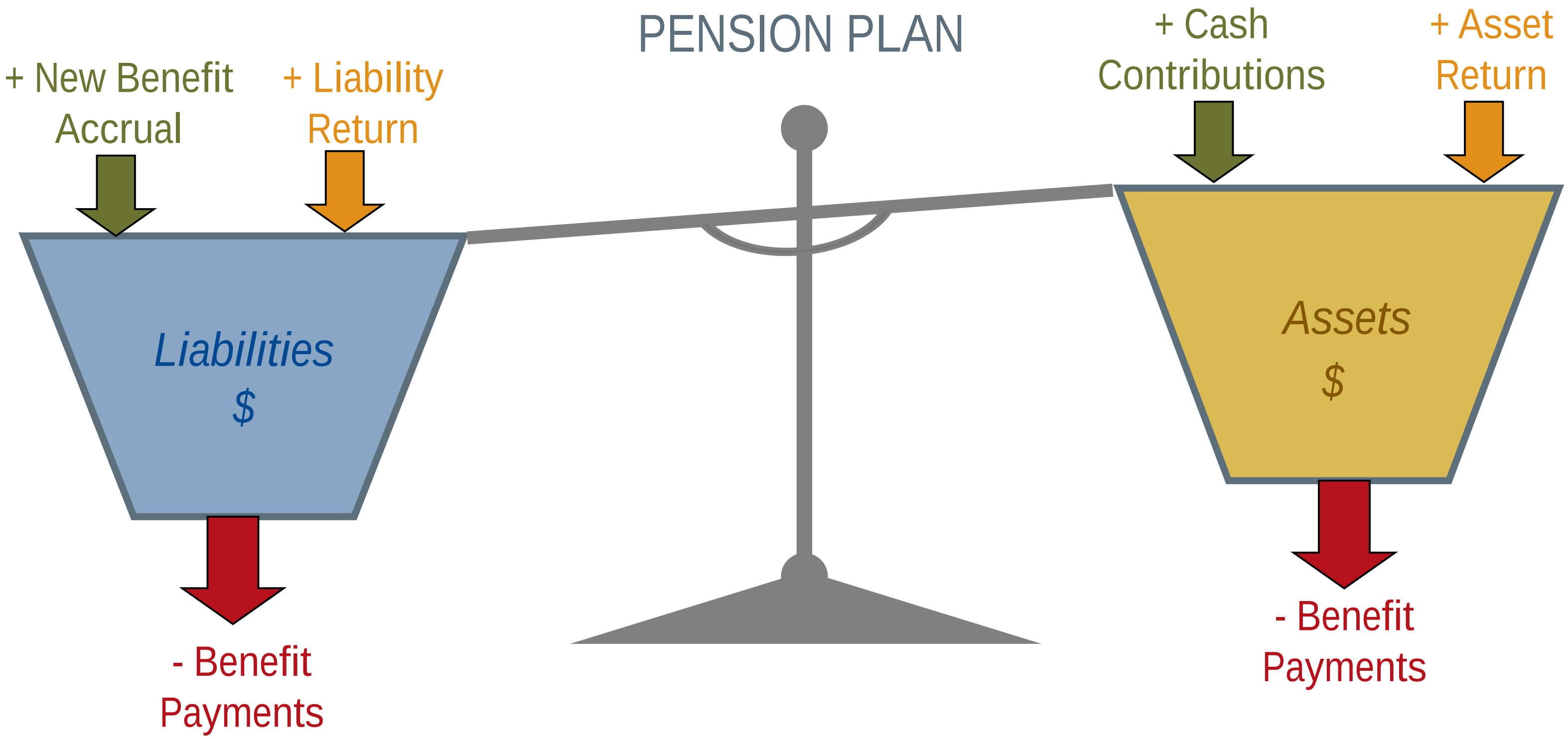
What is an Asset-Liability Study?

- Provides fiduciaries with an understanding of the dynamic relationship between plan assets and liabilities over time
- Illustrates the impact of various asset allocation targets on required contributions and funded status under a range of different macro-economic scenarios
- Identifies future trends in the financial health of the plan based on economic uncertainties that may not be evident from an actuarial valuation, which provides only a snapshot at a point in time
- Helps determine the level of risk that is appropriate in the context of the Plan’s liabilities

An asset-liability study provides the tools to align a plan’s risk taking with its liabilities

Asset-Liability Management Background

Balance of Liabilities and Assets



Asset-Liability Management Background

Overview of the Asset-Liability Study Process

Planning Discussions

Planning
- Objectives of the Study
- Modeling and Liability Assumptions

\+

Risk Tolerance
- Risk Preference
- Demographics
- Funded Status
- Business/Financial
- Industry Practices

\+

Asset-Liability Projections

Asset Modeling
- Capital Market Analysis
- Efficient Frontier Analysis
- Portfolios for Study

\+

Liability Analysis
- Cost Projections
- Funded Status
- Sensitivity Analysis

Desired Outcomes:
- **Understand the pension risk**
- **Identify optimal investment strategy**

↓

Implementation

↓

Monitoring & Execution

Asset-Liability Management Background

Modeling Process

Goals of an asset-liability study:

- Understand the pension plan's asset-liability risk, and
- Identify the optimal investment strategies

Stochastic, Monte Carlo simulation analysis used

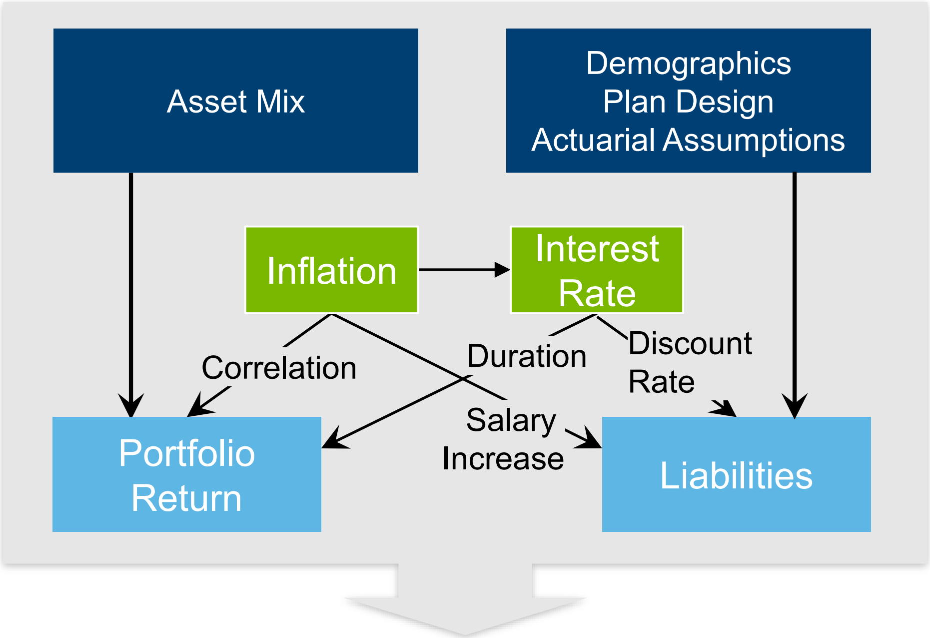
- 5,000 independent economic trials
- Building block approach
  - Starts with inflation and interest rates
  - Using a multi-factor regression analysis, other asset classes are then modeled
- Assets and liabilities are modeled over the projection period
  - Projections include contribution requirements and funded ratios

Asset-liability studies are best-suited to determine the optimal mix of return-seeking (e.g., equity) and fixed income assets for the pension fund

- Asset mix is the single most important investment decision for the plan sponsor
  - Is it worthwhile to have a more aggressive allocation in order to reduce long term cost in exchange for risk of higher costs in a bad outcome?
  - Is it worthwhile to have a more conservative allocation in order to have a more predictable cost in exchange for potentially higher average costs?

Asset-Liability Management Background

Mechanics of Asset-Liability Modeling Process



Contributions

Funded Ratio

Asset and liability modeling integrated in single platform

- Integrates impact of key economic variables

Flexibility in modeling parameters and output to client preferences

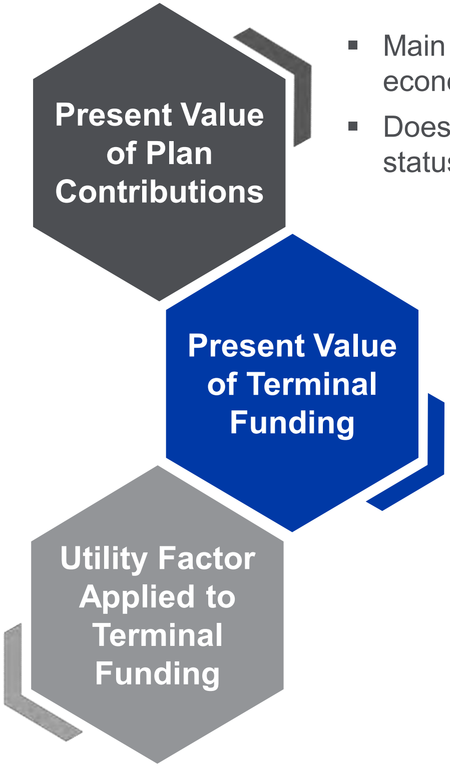
Stochastic and deterministic modeling performed

Asset-Liability Management Background
Long-Term Economic Cost of Plan

Long-Term Economic Cost =

- **Present Value of Plan Contributions +**
- **Present Value of Terminal Funding, adjusted by a utility factor**

Terminal Funding	Surplus	Shortfall
Utility Rationale	Declining value, or utility, from very high funded ratios	Increasing "pain" as unfunded amounts grow to high levels
Threshold	PVB / AL	(5 Yrs. of Benefit Payments) / AL
Utility Factor above/below threshold	50%	200%



- Main component of long-term economic cost
- Does not reflect the plan's funded status at the end of the forecast period

- Reflects the plan's funded status at the end of the forecast period
- Surplus assets are valuable as they lower future contributions
- Unfunded liabilities are costs that will be recognized in future years

Asset-Liability Management Background

Utility Factor For Terminal Funded Status

Modest deviations from 100% funding are normal, and no special adjustment is needed for these scenarios – the amount of surplus or unfunded liability can be reflected at its dollar value

As surplus amounts grow to very high levels, there is a declining value, or utility, to the surplus:

- Contributions cannot go below zero
- Long contribution holidays may create a false sense of how much the plan really costs, and lead to confusion when cost levels revert to "normal"
- Large surplus amounts can become a potential target for non-pension applications

As unfunded amounts grow to very high levels, there is an increasing amount of "pain" as contributions rise to unacceptable levels:

- May be viewed as "breaking trust" with future taxpayers
- Freezing of the pension plan becomes a possibility

Asset-Liability Management Background

Risk and Return in an Asset-Liability Context

Traditional:

- Return = Investment performance
- Risk = Annual volatility of investment gains and losses (e.g. weak/negative capital market returns)

Asset-Liability:

- Return = Potential cost reduction or funded status improvement under average economic conditions
- Risk = During the worst economic conditions, contributions need to increase or funded status declines (e.g., stocks decline, inflation/deflation shocks and/or interest rates decline)

Asset-Liability Management Background

Key Factors Affecting the Risk/Reward Trade-off

The key take-away from the A/L study is the allocation between equity (“return-seeking”) vs. fixed income (“risk-reducing”)

Major factors affecting the ultimate mix are:

- Time horizon (or amortization period of unfunded liability) to fund the liability: a longer time horizon supports more risk taking
- Characteristics of plan participants: a growing population of active participants supports more risk taking; a mature population with significant retirees might need a more conservative policy
- Funded status: a less funded plan can utilize additional returns from equity investments
- Nature of plan benefits: a pension with sensitivity to wage inflation growth can benefit from equities in the long-term; an increased need in liquidity due to significant benefit payments in the near future can have a more conservative policy

Asset-Liability Management Background
Limitations of Asset-Liability Modeling

Asset-liability studies are best-suited to determine the optimal mix of return-seeking (e.g., equity) and liability-hedging (e.g., fixed income) assets for the retirement fund

- Asset mix is the single most important investment decision for the plan sponsor
- Studies have found that more than 90% of the variability of a portfolio's return is determined by the asset allocation
- Decisions regarding how to divide allocations among various sub-categories are less important in an asset-liability context and can be addressed in the implementation phase, following the asset-liability study

Asset-liability modeling can capture the likelihood of a strategy meeting the objectives

- It does not 'predict' the future, i.e., we cannot say which of the economic scenarios will actually occur
- The results depend on the assumptions underlying the model and the structure of the model itself

There are elements that cannot be modeled and must be thought of in addition to the results of any analysis:

- E.g., idiosyncratic manager risk, liquidity requirements
- Black swans

Asset-Liability Management Background
Glossary of Terms

- **AVA** = Actuarial Value of Assets (i.e., incorporates smoothing of gains and losses)
- **Asset Growth Rate or "Hurdle Rate"** – The required rate of growth of the assets (through both contributions and investment returns) to keep pace with the growth of the liability
- **Current Frontier** – uses SBA's mix of asset classes within the Return-Seeking allocation, then dials the Return-Seeking allocation up and down from 0% to 100% to illustrate forecasted returns at various Return-Seeking / Safety Asset mixes
- **Economic Cost** – Present Value of forecasted future contributions + Funding Shortfall / (Surplus)
- **Liability Growth Rate** – the projected growth of the liability over the coming year as measured by the sum of the Normal Cost (new benefit accruals) and Interest Cost (one year of discounting)
- **MVA** = Market Value of Assets (i.e., un-smoothed / economic reality)
- **Return-Seeking Assets ("R-S")** – All non "Safety" assets
- **Safety Assets** – Assets where the primary function is risk control / downside mitigation.
- **Target Mix** – the allocation of assets between Return-Seeking Assets and Safety Assets

Appendix

- About This Material

About This Material

This material includes a summary of calculations and consulting related to the finances of Florida State Board of Administration (SBA). The following variables have been addressed:

- Contributions, Economic Cost, Funded Ratio, Liquidity, Net Outflow

This analysis is intended to assist the Investment Committee with a review of the associated issues and options, and its use may not be appropriate for other purposes. This analysis has been prepared solely for the benefit of the Investment Committee. Any further dissemination of this report is not allowed without the written consent of Aon Investments USA Inc.

Our calculations were generally based on the methodologies identified in the actuary's valuation report for SBA. We believe the methodology used in these calculations conforms to the applicable standards identified in the report.

Experience different than anticipated could have a material impact on the ultimate costs of the benefits. In addition, changes in plan provisions or applicable laws could have a significant impact on cost. Actual experience may differ from our modeling assumptions.

Our calculations were based on data provided by the plan actuary. The actuarial assumptions and methods and plan provisions reflected in these projections are the same as those used for the 2019 fiscal year actuarial valuation for SBA as noted in the actuarial report, except where noted in this report. Unless specifically noted, our calculations do not reflect any other changes or events after July 1, 2019.

In conducting these projections, we have relied on plan design, demographic and financial information provided by other parties, including the plan's actuary and plan sponsor. While we cannot verify the accuracy of all of the information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results.

These projections have been conducted in accordance with generally accepted actuarial principles and practices, including applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. The undersigned actuary is familiar with the near-term and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no colleague of Aon Investments USA Inc. providing services to SBA has any direct financial interest or indirect material interest in SBA. Thus, we believe there is no relationship existing that might affect our capacity to prepare and certify this report for SBA.

Aon Investments USA Inc.

Phil Kivarkis FSA, CFA

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Aon Investments USA Inc.
200 E. Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

Global Equity

Meghan Brown, Senior Portfolio Manager
Dustin Heintz, Senior Portfolio Manager
Tim Taylor, Senior Investment Officer

Investment Advisory Council
September 29, 2020

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Agenda

- Overview
  - Team
  - Policy and Objectives
  - What We Do to Meet Objectives
- Global Equity By the Numbers
  - Top-Down Look: Global Equity’s Role in the Total Fund
  - Delivering on Objectives & Historical Characteristics
  - Global Equity Structure Details
- Performance Review
  - Aggregate Returns
  - Active Aggregate Performance
  - External Manager Search and Selection Process
- Appendix
  - Internal Portfolio Management

Overview

Meeting Objectives: Experienced Staff with Complementary Skills

Internal Management and Trading
Samantha Kane
Jennifer Myers
Brian Staverosky
James Wells
Joe Wnuk

Risk and Analytics
Denise Hale
Ted Nation
[Open Position]

Senior Investment Officer
Tim Taylor

External Manager Oversight
Meghan Brown
Daniel Gold
Dustin Heintz
Jeff Smithson
Luke Tucker

Administration
Lisa Cheshire
Whitney Kirk

Financial Operations	Accounting	General Counsel	Risk Management & Compliance	Corporate Governance	Information Technology

Global Equity Investment Policy Statement

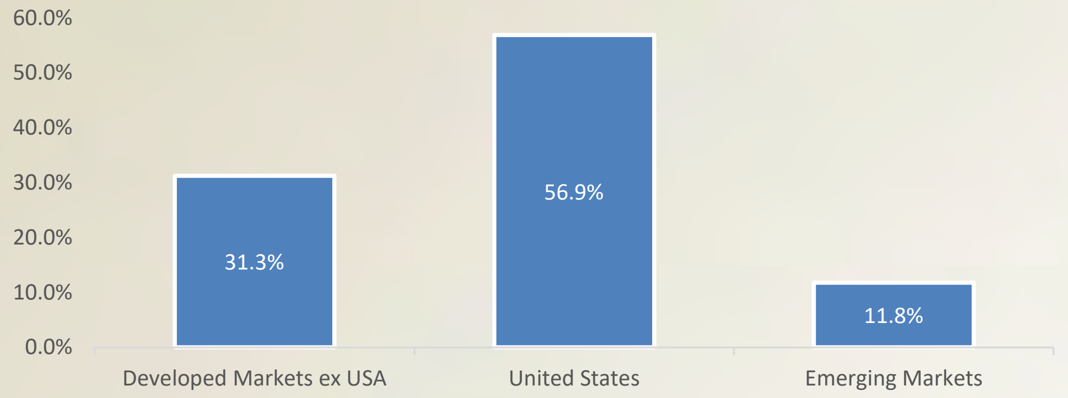
- Invest to achieve or exceed the return of the benchmark over a long period of time
  - Remain well-diversified relative to the benchmark
  - Maintain a reliance on low cost passive strategies scaled according to:
    - The degree of efficiency in underlying securities markets
    - Capacity in effective active strategies
    - Ongoing total fund liquidity requirements

Source: DB Plan Investment Policy Statement

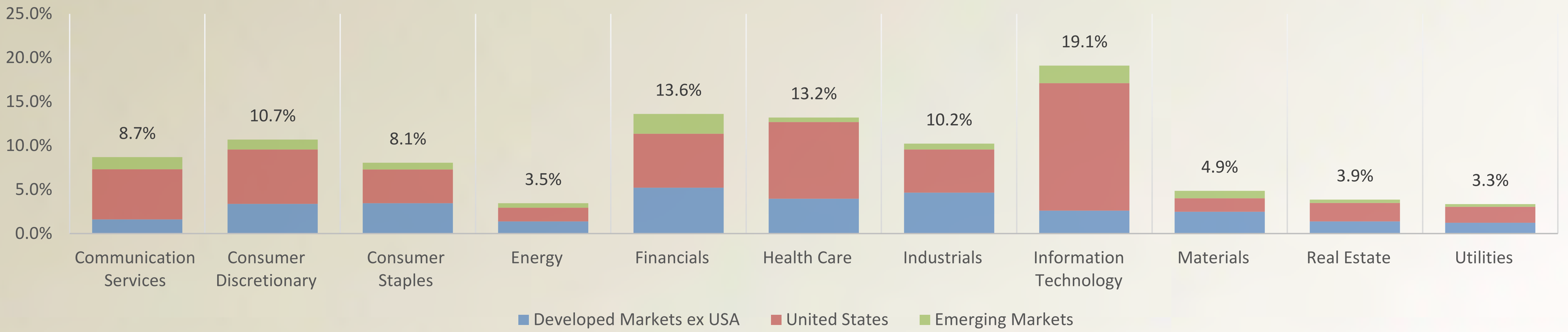
Investment Policy Benchmark

- SBA Custom MSCI All Country World Investable Market Index (MSCI ACWI IMI)
  - Large, mid and small capitalization
  - In US-dollar terms
  - Reflects provisions of Protecting Florida's Investments Act Legislation (PFIA)
  - Includes over 45 countries and over 8,700 securities

Benchmark Regional Weights (%)



Benchmark Sector Weights (%)



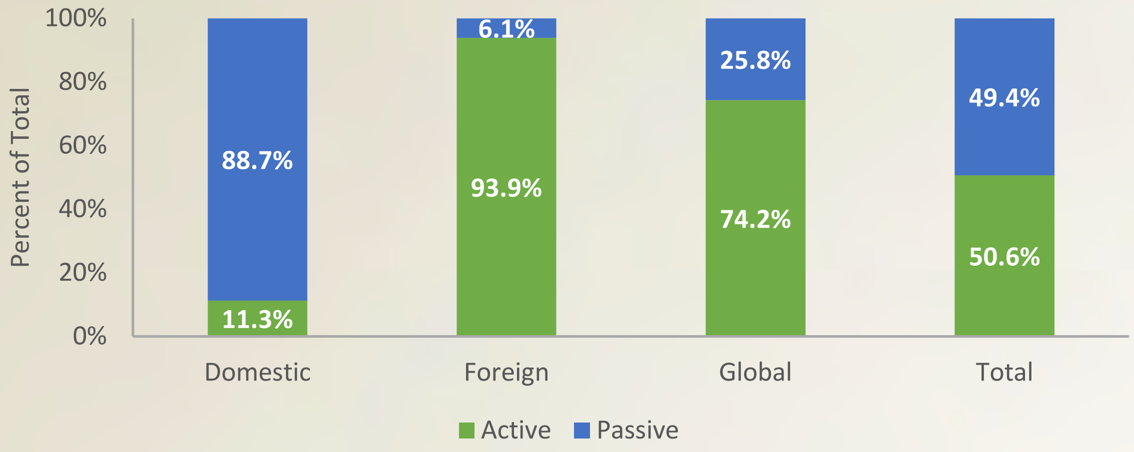
Note: Source MSCI, FactSet. As of June 30, 2020.

Investment Policy: Implementation Snapshot

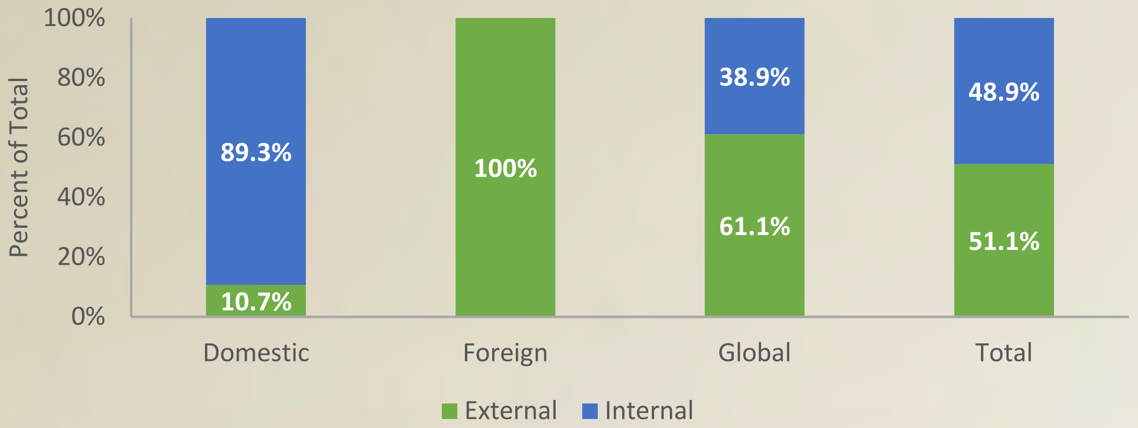
Well Diversified vs. Benchmark

- Total AUM: $86bn
- 10,000+ Securities
- 73 Countries
- 51 Currencies
- 7 Internal Strategies
- 60 Externally Managed Strategies

Invest to Achieve or Exceed Equity Benchmark



Focus on Return and Low Costs



Opportunistically Invest in Active Strategies

	Market Value	Inception
Active Currency	$2,950M Notional	2014
US Microcap	$219M	2014
Frontier	$287M	2009
Schiehallion	$253M	2019

Note: As of June 30, 2020.

Investment Policy Drives Asset Class Objectives

Objectives
Provide Beta (Equity Market Return)
Manage Costs
Diversify Alpha Sources
Maintain Low Active Risk
Be Selectively Opportunistic
Provide Liquidity

Objectives Drive What We Do

	What We Do	Pitfalls We Strive to Avoid
Provide Beta	Manage 49.4% of assets passively	Becoming an index fund
Manage Costs	Aggressively, and fairly, negotiate fees	Overpaying for non-unique alpha
Diversify Sources of Alpha	Fund strategies with varying philosophies, processes, geographic focus and sector exposures	Relying on a specific market condition or environment to drive relative performance
Maintain Low Active Risk	Focus on aggregate construction using multiple risk lenses	Taking uncompensated or concentrated risk, or not identifying a notable risk
Be Selectively Opportunistic	Invest in Currency, Frontier, US Microcap, China-A and Internal Factor Indices	Allowing scale to dampen opportunism
Provide Liquidity	Consistently raise funds with emphasis on enhancing risk/return profile and minimizing transaction costs	Sacrificing excess return potential by not funding or limiting less liquid strategies

Navigating 2020's Dynamic Market Environment

Provide Beta	• Notable increase in China weight in Emerging Markets and Global Benchmarks • Continued pressure on historical sources of value-add in passive portfolios (e.g. Sec Lending) and rising volatility on both the up- and down-sides
Manage Costs	• Industry pressure on fees have cost benefits but create manager and industry risk, particularly if combined with declining markets and poor active performance records • European regulations related to MIFID II impact many U.S. managers
Diversify Sources of Alpha	• Continuation of Growth outperformance vs. Value, accelerated by the global pandemic • Major differences in how companies are impacted by the global economic collapse brought about by measures enacted in response to COVID-19 • Low rate environment, pressure to reduce dividends, historical spreads of growth to value stocks and numerous uncertainties warrant a diversified portfolio
Maintain Low Active Risk	• Market volatility surged from historically low levels beginning early in 2020
Be Selectively Opportunistic	• Increasing challenges to traditional active management • Benchmark concentration, growth of passive and ETF industry
Provide Liquidity	• Pockets of low liquidity persist in market segments with rich alpha potential

Meeting Objectives By Navigating Dynamic Market Environments

	Recent Market Dynamics	Actions Taken in FY2020
Provide Beta	• Benchmark changes • Pressure on passive value-add sources	• Provided managers with access to China Connect, and funded two dedicated China-A funds • Continued to develop internal passive management resources
Manage Costs	• Fee pressure • Changes in European regulations	• Aggressively negotiated fees for newly funded strategies, renegotiated fees with several existing managers and enhanced internal analytics platform to evaluate fees relative to alpha sources • Lowered costs of data for internal management and funded (Aug 2019) internal US SC strategy • Actively engaged managers in dialogue on MiFiD II
Diversify Sources of Alpha	• Growth vs. Value Spread • COVID-19 shock to global markets	• Funded two new Emerging Market managers, 2 China-A funds and 1 internal US SC Growth strategy. • Modest reallocations across strategies
Maintain Low Active Risk	• Surging market volatility	• Added roughly $1.3 billion to equities in first-half of 2020 in response to dramatic selloff • Risk managed within policy bounds as active returns remained relatively constant
Be Selectively Opportunistic	• Challenges to traditional active management	• Enhanced approach and resources required to identify and evaluate equity-related, non-traditional opportunistic strategies.
Provide Liquidity	• Liquidity vs. Alpha tradeoff	• Raised $5 Billion in Fiscal Year 2020

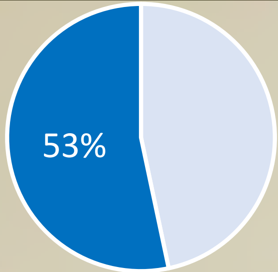
Meeting Objectives: Looking Forward

	Selected Elements of FY2020 Work Plan
Provide Beta	• Continue to strive for best execution for internal passive and active strategies and support staff development related to this important function
Manage Costs	• Further evaluate opportunities to manage strategies internally • Continue to review, negotiate and, as appropriate, renegotiate fees
Diversify Sources of Alpha	• Maintain focus on monitoring and periodically restructuring sub-aggregates as needed, identifying and monitoring external managers with excellent potential
Maintain Low Active Risk	• Enhance analytics capabilities with efficient investment in human capital and systems
Be Selectively Opportunistic	• Continue efforts to identify and review opportunistic strategies that may improve the risk/return profile of the asset class
Provide Liquidity	• Use liquidity draws to rebalance / reposition the aggregate and address structural biases • Maintain significant exposure to liquid portfolios while selectively adding to less-liquid strategies

Global Equity By The Numbers

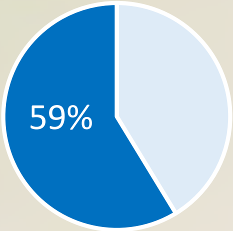
Top Down View: Global Equity’s Role in the Total Fund

% of Total FRS Assets



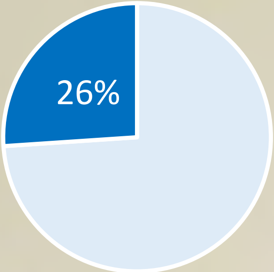
Policy Range:
45% - 75%, With 53% Target

% Contribution to Total FRS 3-Yr Absolute Return



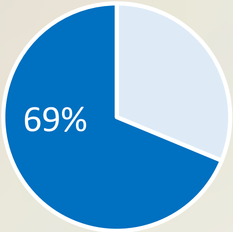
Policy Goal:
Seek Absolute Returns

% of Total FRS Assets Internally Managed by GE



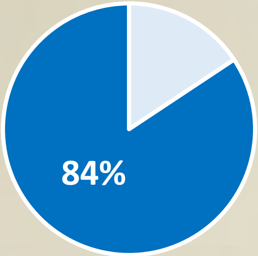
Policy Goal:
Reliance on Low Cost (Passive) Strategies

% Contribution to Total FRS 3-Year Excess Return



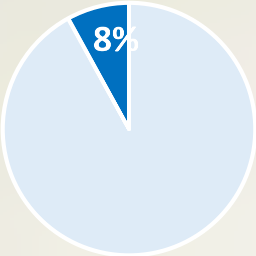
Policy Goal:
Exceed Returns of Benchmark

% of Liquidity Provided by GE in Last 3 Years



Policy Goal:
Meet Ongoing Funding Requirements
Amount Raised in 3 Years:
$17.8bn

% Contribution to Total FRS Active Risk



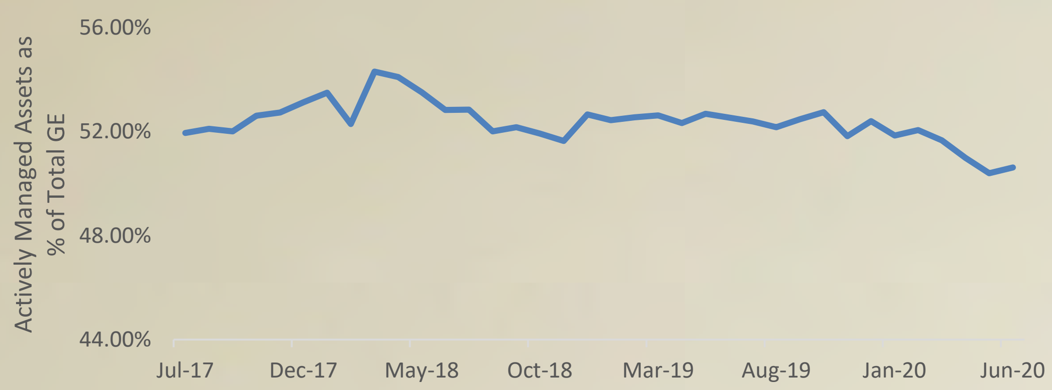
Policy Goal:
Passive with Active Risk in Less Efficient Markets

■ GE = ■ Rest of Fund

Note: As of June 30, 2020. 3 Year Returns include GE Liquidity and Cash Equitization accounts. % of Active Risk is a measure of GE contribution to total fund, based on 1 year predicted risk.

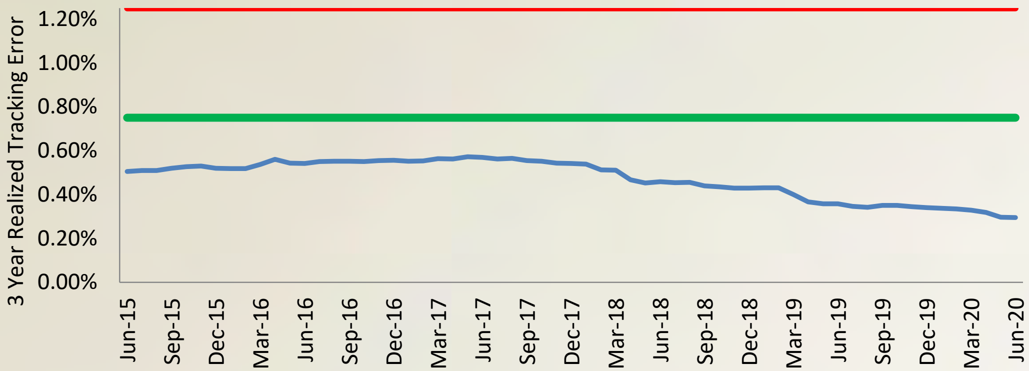
Delivering on Policy and Objectives

Provide Alpha and Beta: % Actively Managed



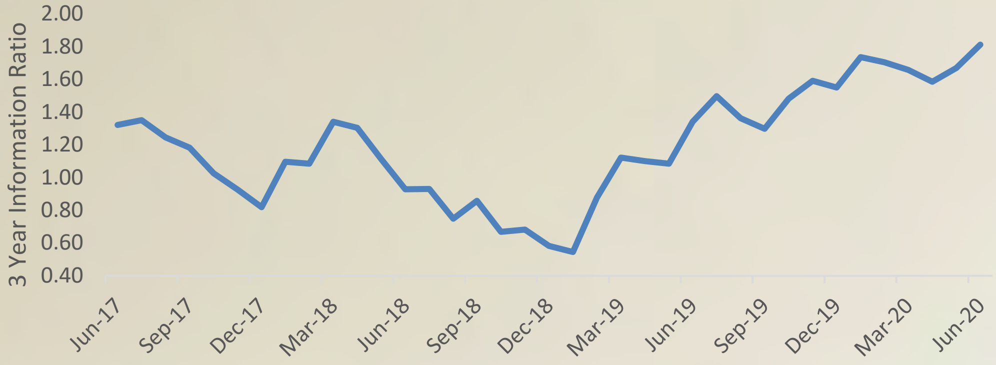
Policy Range: 47% - 57% Active
Current Aggregate Beta: 0.97

Maintain Low Active Risk: Tracking Error Over Time



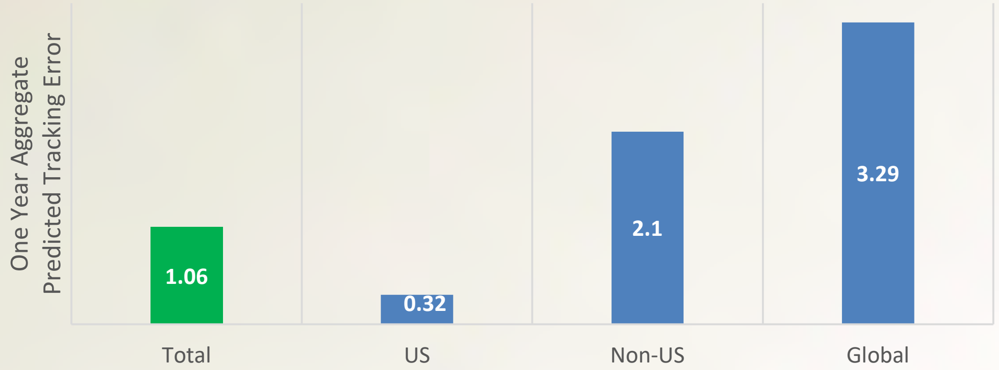
Policy: 0.75% Monitoring Standard and 1.25% Escalation Standard

Take Risk Where Rewarded: Information Ratio



Policy Risk Adjusted Return Standard (3 Year): 0.30
Current 3 Year IR: 1.67

Low Active Risk: Take Tracking Error Where Rewarded

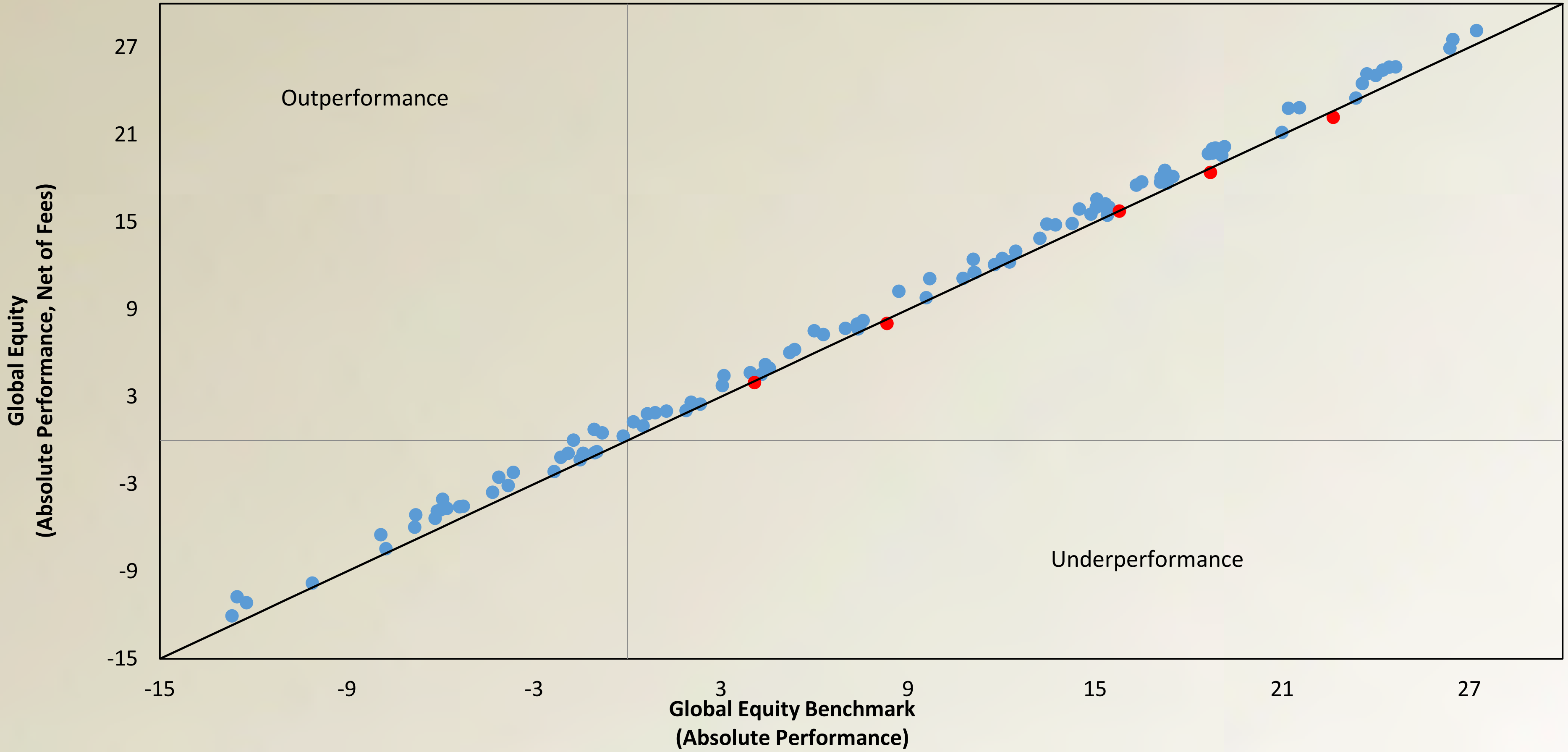


Range Predicted Tracking Error for Individual Strategies: 0.11% to 16.21%

Note: As of June 30, 2020.

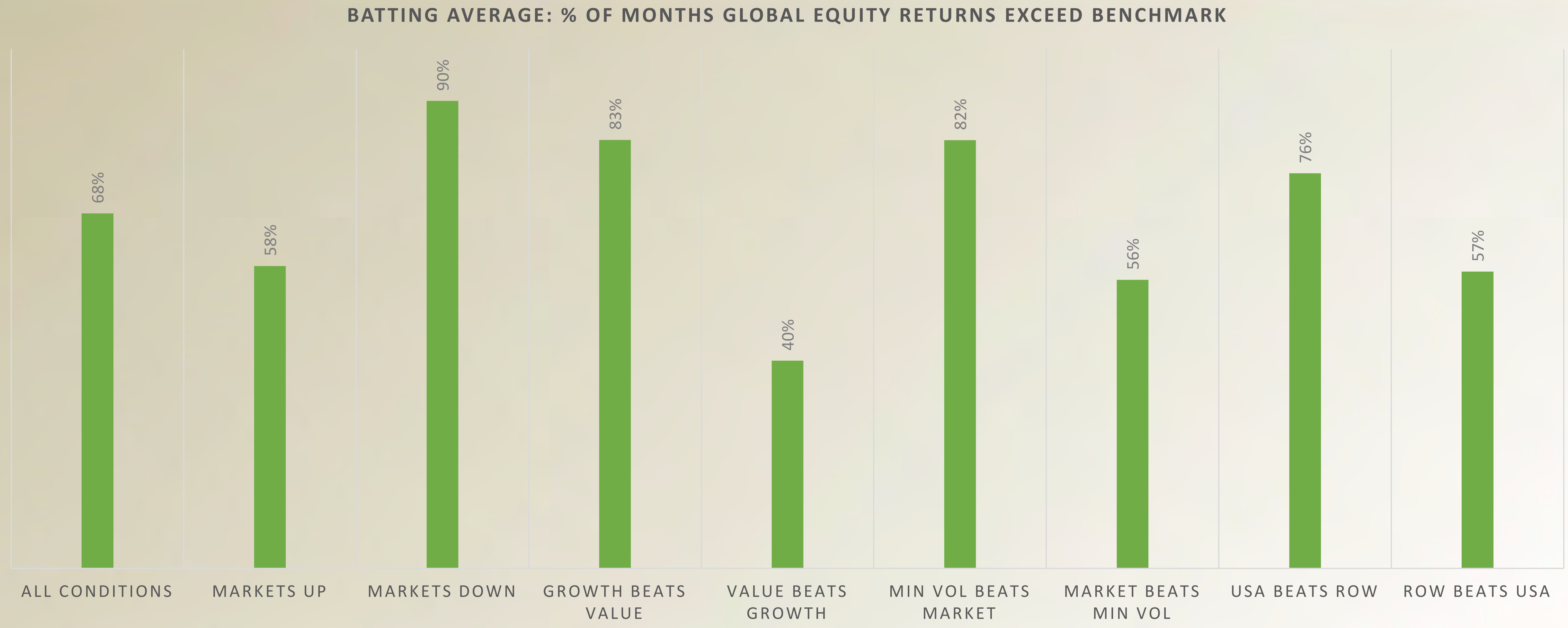
Structured for Performance Consistency

Global Equity Outperformed Benchmark, net of fees, in 103 of 108 Rolling One-Year Periods



Note: Based on official performance numbers through June 30, 2020. Inception July, 2010. Each dot represents a one year period based on rolling monthly returns.

Structured to Perform Across Market Conditions



Note: Based on Global monthly returns since 2010 inception and MSCI Indices.

Diversify Sources of Alpha and Risk: Strategy Types

Diversified for Market Conditions

Defensive Active
Low Beta
High Yield
Earnings Stability

Core Active
Multifactor Quant
Quality Emphasis
Regional Strategies

Upmarket Active
High Growth
Pro - Cyclical

Currency Overlay

Passive

Diversified by Investment Process

	Fundamental Approach			Traditional Quantitative Approach			Factor/Other
	Growth	Core	Value	Growth	Core	Value	
US LC				☑		☑	
US Small Cap	☑	☑	☑	☑	☑	☑	
Developed LC	☑	☑	☑		☑		☑
Developed SC	☑	☑	☑		☑		☑
EM & Frontier	☑	☑	☑		☑		☑
Global	☑	☑			☑		☑
Currency		☑			☑		☑

Diversify Alpha: Active Management Structure

Higher Active Exposures In Segments Where Risk Is Rewarded

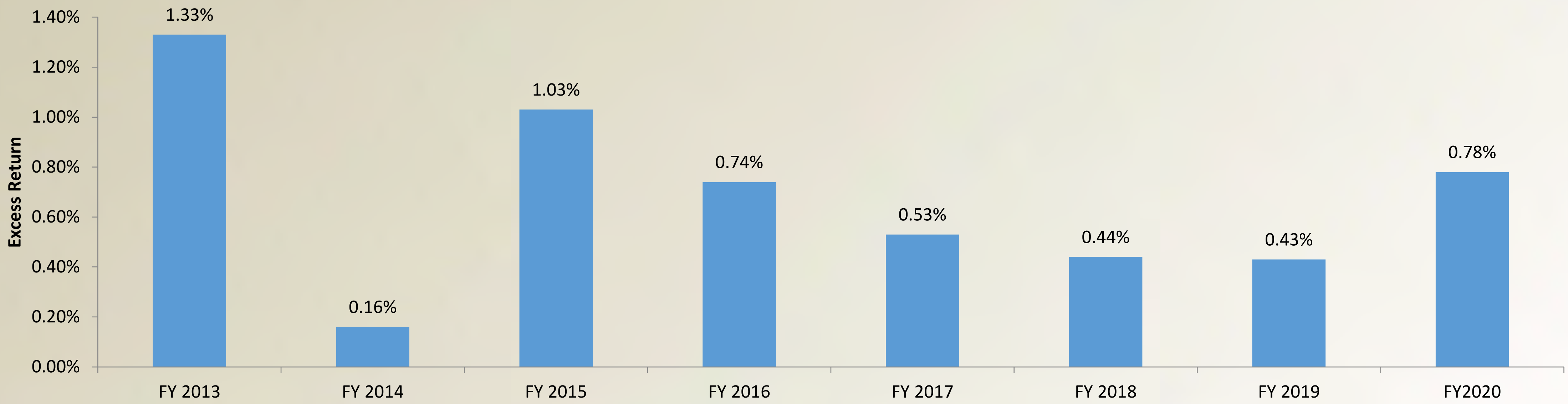
	Total AUM ($mm)	% Active	Average Active Mandate Size ($mm)	# of Active Strategies
US LC	$40,293	7.6%	$766	4
Developed LC	$20,330	89.8%	$1,659	11
Emerging	$9,418	100.0%	$628	15
Global	$8,644	74.2%	$1,283	5
Developed SC	$3,923	100.0%	$490	8
US SC	$2,532	69.4%	$160	11
Frontier	$287	100.0%	$96	3
Currency	$2,950 (Notional)	100.0%	$983	3

Note: As of June 30, 2020. US All Cap passive strategy assets allocated to the US LC and SC groups in-line with the benchmark large cap/small cap split. US SC includes microcap. Emerging includes EM SC and China A share strategies.

Performance Review

Performance: Total Global Equity

	2Q20	CYTD	1 Yr	3 Yr	5 Yr	Incept.
GE Return	20.12	-6.47	2.03	6.11	6.73	9.91
Benchmark	19.85	-7.01	1.25	5.56	6.14	9.07
Excess Return	**0.26**	**0.53**	**0.78**	**0.55**	**0.59**	**0.83**
Tracking Error				0.30	0.39	0.47
Info Ratio				1.67	1.36	1.58



Note: As of June 30, 2020. GE Inception July 2010.

Performance: Returns by Approach and Region

	Weight (% of Asset Class)	One Year Excess Return	Three Year Excess Return	Five Year Excess Return
By Approach				
Passively Managed Strategies	49.4%	-0.05%	0.06%	0.14%
Actively Managed Strategies	50.6%	1.03%	0.54%	0.51%
By Region				
US	50.0%	-0.87%	-0.30%	-0.40%
Foreign	39.6%	2.70%	1.17%	1.22%
Global	10.1%	-2.02%	-0.58%	-0.15%

Note: As of June 30, 2020.

Performance: By Active Aggregate

Key Drivers of One Year Returns

- Foreign Large Cap
  - Very successful year driven by thematic growth managers focusing on themes like disruption; these stocks accelerated their outperformance as the pandemic prompted dramatic changes to our everyday lives.
- Emerging
  - Positive exposure to growth and momentum factors boosted returns, as did stock selection in China.
- Dedicated Global
  - Market leadership continued unabated during the pandemic and normally defensive areas like dividend yield, low-volatility and utilities failed to protect.
- Foreign Small Cap
  - Exposure to value-oriented factors such as those yield-based harmed returns as did underexposure to biotech and health care.
- US Large Cap
  - Concentrated leadership continued to bedevil returns as both quality and value biases were punished while expensive, "riskier" stocks surged.
- Currency
  - Emerging Market positions notably pulled down returns particularly in the first half of calendar year 2020.
- US Small Cap
  - Value tilts proved to be an extreme headwind to performance, as did an underweight to the biotech industry.

Active Strategy Grouping	Weight (% of Asset Class)	One Year Excess Return	Three Year Excess Return	Five Year Excess Return
Foreign Developed Standard	21.3%	4.28%	2.24%	2.15%
Emerging & Frontier Markets	11.3%	2.55%	0.55%	0.96%
Dedicated Global	7.5%	-2.88%	-0.89%	-0.60%
Foreign Developed Small Cap	4.6%	-0.17%	-0.49%	-0.58%
US Large Cap	3.6%	-7.12%	-3.10%	-3.51%
Currency	3.4%	-0.46%	-0.29%	-0.05%
US Small Cap	2.0%	-0.81%	0.59%	-0.26%

Note: Currency weight based on underlying notional equity assets. Returns as of June 30, 2020.

Manager Search and Selection

Steps in Typical Manager Selection Process

1. Identify need
   - Review alpha opportunity in given market segment
   - Evaluate performance trends, risk and factor exposures of existing aggregate
2. Develop search criteria
3. Develop list of managers meeting criteria, based on:
   - Screen of external databases of investment managers
   - Prior meetings/diligence on prospective managers
   - Input from consultant
4. Send detailed questionnaire to identified managers
   - Investment questions cover process, performance attribution, risk, trading, approach to currency, and pre/post trade compliance
   - Data requested includes monthly historical returns and holdings
   - Operational diligence questions cover team, organization structure, risk/compliance capabilities, and legal topics
5. Narrow universe based on internal discussion and consultant input
   - Evaluate quality and clarity of response
   - Complete detailed analytics of manager performance
   - Run scenario analysis evaluating impact on aggregate of adding manager
   - Work with Legal and RMC (Risk, Management & Compliance) to identify potential non-investment risks

Manager Search and Selection

Steps in Typical Manager Selection Process

6. Negotiate key terms of contract and have preliminary fee discussions
7. Conduct interviews at SBA. PM attendance required.
   – 2+ hour interviews led by GE with representatives from Legal, RMC and/or SBA Executives
8. Determine manager(s) to hire based on internal discussion and consultant input
9. Contract
10. Possibly conduct onsite due diligence
11. Determine best approach to transition
12. Fund and Begin Performance Record

Thank You!

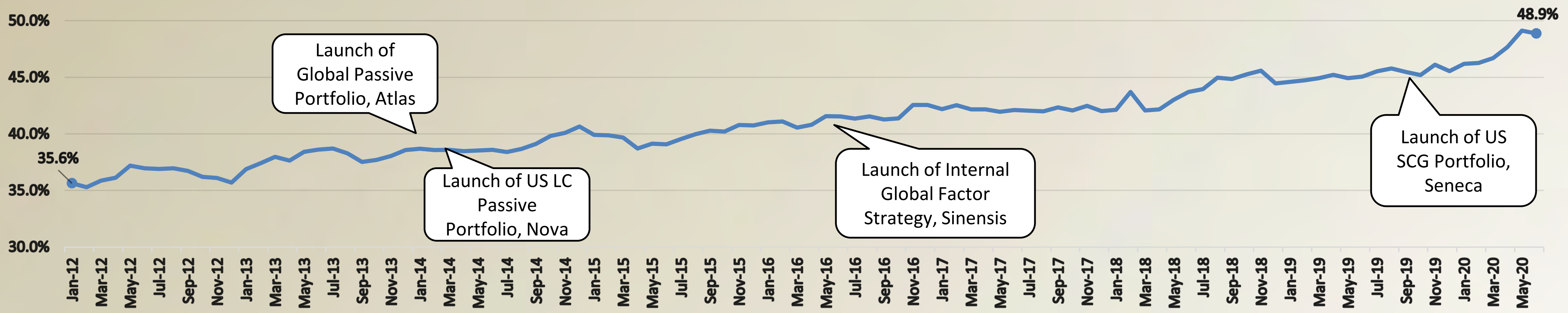
Questions?

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Appendix

Process: Internal Asset Management

% Internally Managed Assets over Time



Benefits of GE’s Internal Management Program

- Explicit cost advantage in that asset management fees are not paid to external investment firms
- Fixed cost of running passive money spread over large asset base
- Ability to leverage skills gained in directly managing money to analyze external managers
- Capability to manage equity transitions and liquidity raises
- Opportunity to support certain trading needs of other asset classes
- Ability to manage cash flows associated with Currency program

Process: Internal Asset Management

Significant Systems and Human Capital Resources Required to Operate Effectively

- Best In Class Systems
  - Portfolio optimization and risk management tools
  - Order management system (equity and FX)
  - Pre and Post Trade compliance
  - Transaction Cost Analysis tools
  - Real-time market data and research
  - Computing power to support quantitative models
  - Business continuity plan
- Experienced Staff
  - PMs able to navigate index changes, corporate actions and cash flows while managing within narrow risk budget (passive portfolios)
  - PMs with strong quantitative and programming skills able to develop alpha engine (active portfolio)
  - Able to research and identify the most promising solutions that may be internally implemented
  - Global trading expertise in equity and currency
  - Redundancy is critical
    - Departure of skilled personnel always a risk
    - Large asset management firms able to maintain deep bench of replacements – public plans find this challenging or not possible

MERCER

Florida State Board of Administration

Review of Public Equity Markets

September 2020

welcome to brighter

Agenda

- SBA’s Public Markets Investment Program
- Review of Equities
- Recent Activity
- Appendix

SBA's Public Markets Investment Program

SBA's Public Markets Investment Programs
Guiding Principles

- All asset classes shall be invested to achieve or exceed the return of 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 (Investment Policy Statement).

SBA's Global Equity Investment Program
Mercer's General Observations

- The global equity asset class is managed in a prudent, risk-controlled fashion.
- Appropriate levels of delegation are given to the staff
- FRS is a significant user of passive management (48% of Portfolio vs. 45% of peers[1])
- Active risk levels are monitored against predetermined ranges
- The Plan effectively uses internal resources to keep costs low (44% of Portfolio vs. 42% of peers[1])
- Results have been favorable over all time periods measured

[1] Source: Data as of 12/31/2018 – CEM 2019 Survey

Review of Equities
Asset Allocation – Passive versus Active

- The SBA uses more internal passive management and external active management relative to peers.

	FRS[1]	Peers
Internal Passive	43.1%	27.6%
Internal Active	1.2%	14.3%
External Passive	4.7%	17.5%
External Active	50.9%	40.6%

[1] May not add to 100% due to rounding.

Source: Data as of 12/31/2018 – CEM 2019 Survey

SBA's Public Markets Investment Programs
Guiding Principles

- In 2016, Mercer conducted a structural review of the Global Equity Asset Class and concluded Global Equity incorporates many of the best practices in institutional fund management and is appropriate given the FRS's size and negative cash flow position. Specifically, Mercer believes there are a number of key areas that should be evaluated for best practices, with some key observations for SBA:
  - Active/Passive Allocations. The SBA is utilizing active/passive management across sub-asset classes effectively.
  - Use of Internal Management. The SBA has been cost effective in their use of internal passive management within the US Equities and Dedicated Global Equities space, unlike many of their peers.
  - Active Risk Budget. The risk budgeting monitoring standards for the FRS Pension Plan for the Global Equity asset class is a monitoring standard of 0.75% and an escalation standard of 1.25% and staff has stayed well within these bounds over time.
  - Investment Manager Review. Overall we believe the sub-asset classes to be well diversified in terms of manager style and risk.
  - Benchmarking/Market-Capitalization Weighted Exposures. Except in unique circumstances, the staff has incurred very little misfit risk relative to its asset class benchmarks.
  - Potential Alpha Opportunities. The Global Equity staff continually researches and capitalizes on potential alpha opportunities which has included exposures to China A shares, frontier markets, emerging markets small cap, US microcap, and a currency overlay program
  - Performance Summary. The SBA has realized strong risk-adjusted returns historically. These strong risk-adjusted returns are attributable to the SBA's thoughtful approach to portfolio constriction through employing passive mandates in more efficient markets, allocating assets to a diversified yet high conviction active manager base, and deploying assets in higher alpha potential market segments.

Review of Equities

Review of Equities
Asset Allocation – Region

- In July 2010 the SBA consolidated its separate allocations to US and Foreign Equity asset classes into a single Global Equity asset class benchmarked to the FSB ACWI IMI ex Iran and Sudan.
- Compared to peers, the SBA has a smaller allocation dedicated global equity.

Product[1]	FRS	Large Plan Peers	US Public Plans	MSCI ACWI IMI
US Equity	48.8%	46.9%	46.5%	55%
Developed Market ex US	32.2%	29.1%	30.0%	33%
Emerging Markets	11.3%	10.1%	8.5%	11%
Global Equity[2]	7.8%	13.7%	14.0%	-
Other	0.0%	0.2%	2.0%	0.0%

[1] May not add to 100% due to rounding
[2] The lower allocation to global equities is due to a greater use of dedicated strategies.
Source: Data as of 12/31/2018 – CEM 2019 Survey

Review of Equities
Asset Allocation – Passive versus Active

- On an absolute basis, the SBA uses passive management for most of its US allocation and active management for most Non-US Equity. The majority of dedicated Global Equity mandates are fully active and all Emerging Market mandates are fully active.
- Compared to peers, the SBA uses more passive management for its US equity allocation.

Product	FRS	Peers[1]
US Equity		
Passive	84.1%	74.0%
Active	15.9%	25.9%
Developed Market ex US		
Passive	14.6%	30.9%
Active	85.4%	69.1%
Emerging Markets		
Passive	0.0%	18.1%
Active	100.0%	82.0%
Global Equity		
Passive	25.8%	29.3%
Active	74.2%	70.6%

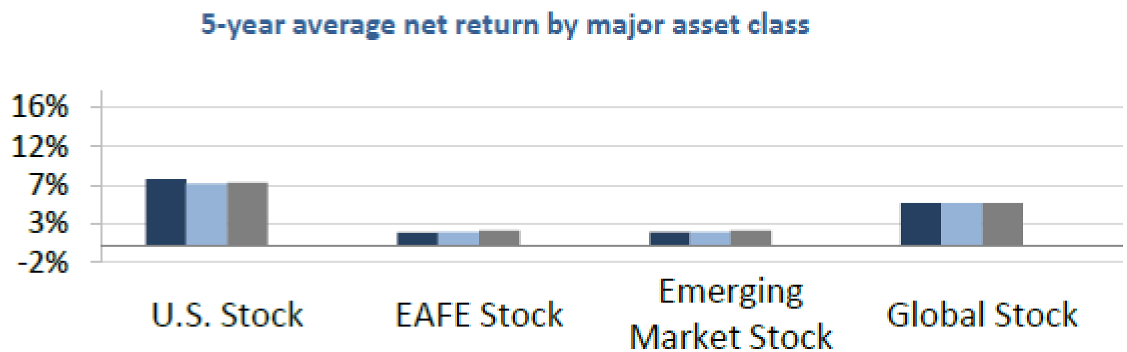
[1] May not add to 100% due to rounding

Source: Data as of 12/31/2018 – CEM 2019 Survey

Review of Equities

Performance: Global Equity versus Peers

- Relative to peers, the SBA outperformed in domestic equity but lagged in its allocation to international and emerging markets equity.
- The SBA performed in line with peers with its global equity allocation.



	U.S. Stock	EAFE Stock	Emerging Market Stock	Global Stock
Your fund	7.8%	1.5%	1.6%	5.0%
U.S. Public average	7.2%	1.6%	1.6%	5.0%
Peer average	7.4%	1.8%	1.7%	5.0%
Your % of assets	27.0%	19.3%	5.8%	4.5%

Source: Data as of 12/31/2018 – CEM 2019 Survey

Review of Equities
Fees: Global Equity versus Peers

- Relative to peers, FRS fees are cheaper in all sub-asset classes.

Product	FRS	Median Peer
US Equity		
External Active	26.1	30.5
External Passive	n/a	1.4
Developed Market ex US		
External Active	24.3	35.1
External Passive	2.6	2.6
Emerging Markets		
External Active	46.6	59.7
External Passive	n/a	7.9
Global Equity		
External Active	43.9	44.4
External Passive	n/a	n/a

Fees in basis points

Source: Data as of 12/31/2018 – CEM 2019 Survey

Review of Equities
Performance: US, Non-US, & Dedicated Global Equity

- Over the 3- and 5-year periods, the FRS US Equity allocation has delivered poor risk-adjusted returns with a negative information ratio. However, over the 3-year time period, the information ratio ranked in the top half among peers.
- Over the 3- and 5-year period, the FRS Non-US Equity portfolio has delivered attractive risk-adjusted returns with an information ratio ranking in the top decile among its peer group universe.
- Over the 3- and 5-year period, the FRS Dedicated Global Equity allocation has delivered poor risk-adjusted returns with a negative information ratio. However, over both periods the information ratio ranked in the top half among peers.

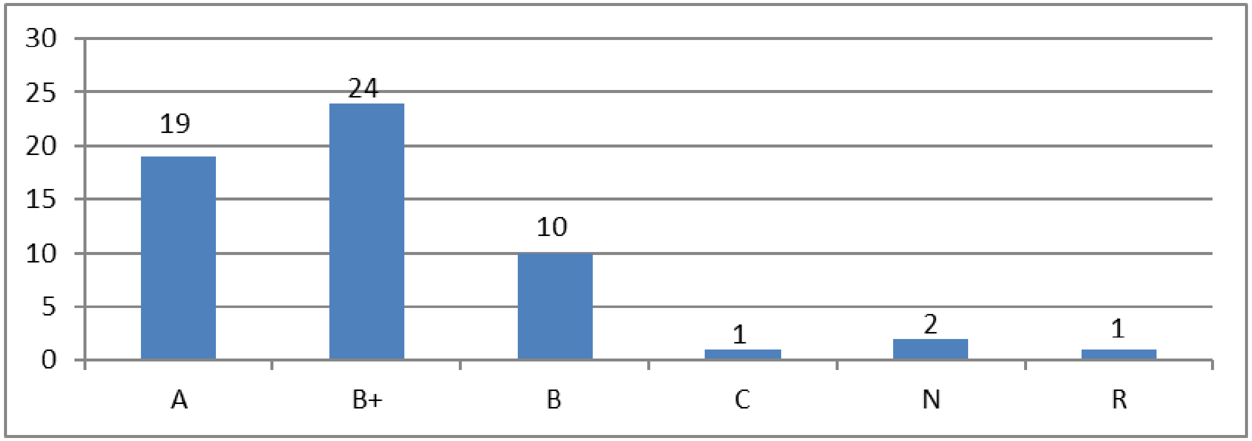
Periods Ending 6/30/2020	Year to Date Return (Rank)	1 Year Return (Rank)	3 Years Return (Rank)	5 Years Return (Rank)	Inception (April 1988) Return (Rank)
FRS US Equity [1, 2]	-4.13% (31)	5.66% (23)	9.74% (28)	9.63% (27)	10.36%
Benchmark	-3.48%	6.53%	10.04%	10.04%	10.32%
Value Added	-0.65%	-0.87%	-0.30%	-0.41%	0.04%
Information Ratio[3]	--	--	-0.79 (49)	-1.20 (88)	0.04
Tracking Error[3]	--	0.36%	0.31%	0.30%	0.79%
					Inception (October 1992) Return (Rank)
FRS Non-US Equity [2, 4]	-9.14% (33)	-1.90% (32)	2.14% (39)	3.55% (35)	6.85%
Benchmark	-11.15%	-4.61%	0.97%	2.33%	5.79%
Value Added	2.01%	2.71%	1.17%	1.22%	1.06%
Information Ratio[3]	--	--	1.52 (2)	1.49 (1)	0.73
Tracking Error[3]	--	0.75%	0.76%	0.80%	1.27%
					Inception (June 2003) Return (Rank)
FRS Dedicated Global Equity [2, 5]	-7.00% (43)	0.75% (42)	6.08% (43)	6.70% (41)	7.74%
Benchmark	-5.82%	2.77%	6.66%	6.84%	8.30%
Value Added	-1.18%	-2.02%	-0.58%	-0.14%	-0.57%
Information Ratio[3]	--	--	-0.46 (46)	-0.18 (42)	--
Tracking Error[3]	--	1.48%	1.56%	1.62%	--

[1] Compared to the Public Funds >$1B – US Equity universe; rankings are based on gross-of-fees FRS performance.
[2] Returns are shown net of fees.
[3] Calculated using monthly returns
[4] Compared to the Public Funds >$1B – Non-US Equity universe; rankings are based on gross-of-fees FRS performance.
[5] Compared to the Public Funds >$1B – Global Equity universe; rankings are based on gross-of-fees FRS performance.

Recent Activity

Mercer Research Rating Review
Breakdown of Strategies by Rating

- Of the 57 external global equity strategies in the Plan, 43 strategies, or 75%, are rated “B+” and above.
- The graph below shows the breakdown of the strategies by the Mercer Rating:



Mercer Ratings:

A = "above average" prospects of outperformance

B+ = "above average" prospects of outperformance, but there are strategies in which Mercer has greater conviction

B = "average" prospects of outperformance

C = "below average" prospects of outperformance

N = not rated

R = Mercer does not maintain formal ratings in category, but has reviewed the strategy.

Recent Activity

- International Developed Value Equity Search
- International Small Cap Equity Search
- Opportunistic Investments discussion and support
- Regularly working with staff conducting ongoing performance and manager monitoring
- Increased focus on operational due diligence
- Ongoing manager reviews

MERCER

State Board of Administration

Fixed Income Update

Katy Wojciechowski

Senior Investment Officer Fixed Income

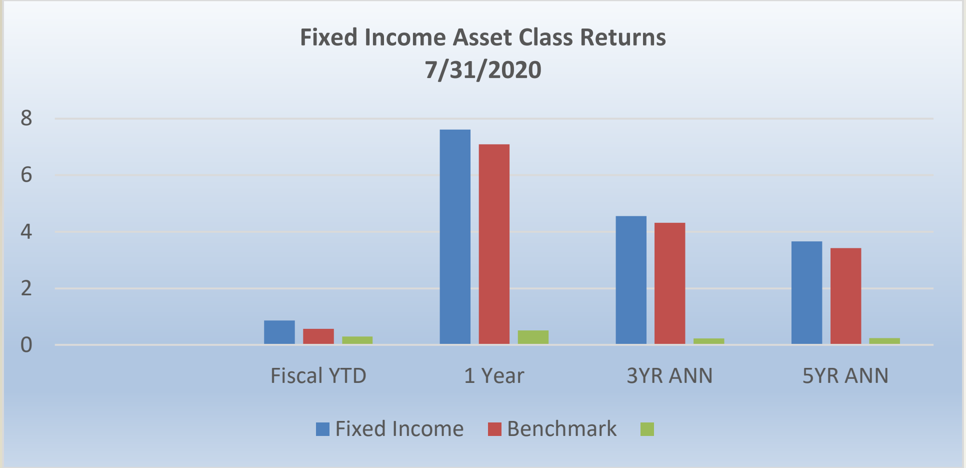
Investment Advisory Council

September 29, 2020

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

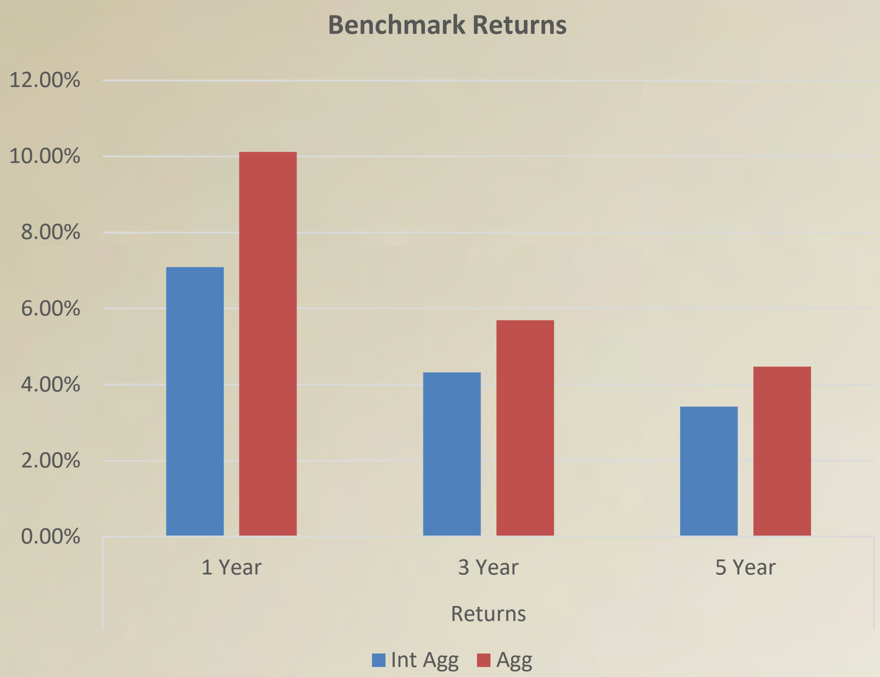
Fixed Income Review and Outlook September 2020

- 12 Month Returns for the Fixed Income benchmark – Barclays Intermediate Aggregate through 7/31/2020 were 7.61%. **Annual returns at fiscal year end 6/30 were 6.79 vs 6.60 for the benchmark – very strong comeback from prior review**.
- Annual Absolute Returns were positive for all sectors, with especially strong performance from Corporate Debt in the quarter.
  - The Feds continued backstop has continued to be a strong tailwind for spread sectors, even with record corporate issuance.
  - **Yield on the entire Benchmark is only 0.82% with a 3.42yr duration**. Yield on the broader Barclay's Aggregate is 1.57%
  - Asset class outperformed Benchmark over all time periods.



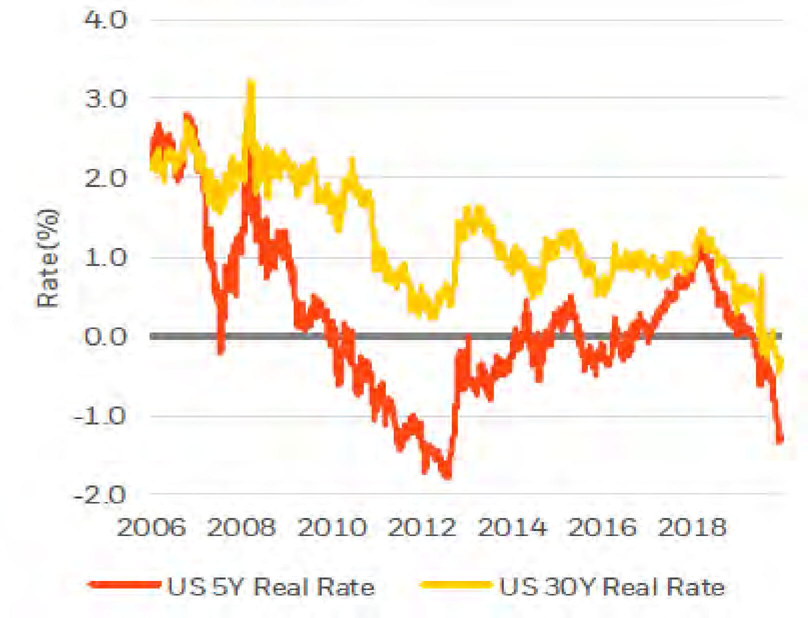
Benchmark Comparison

as of 7/31/2020

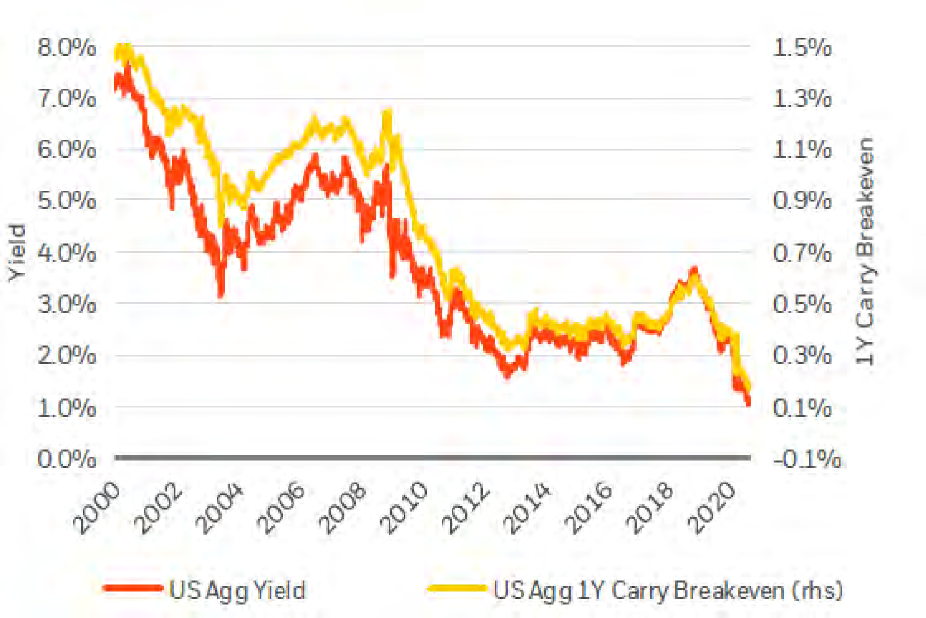


Fixed Income Review
September 2020

Real rates approaching historic levels



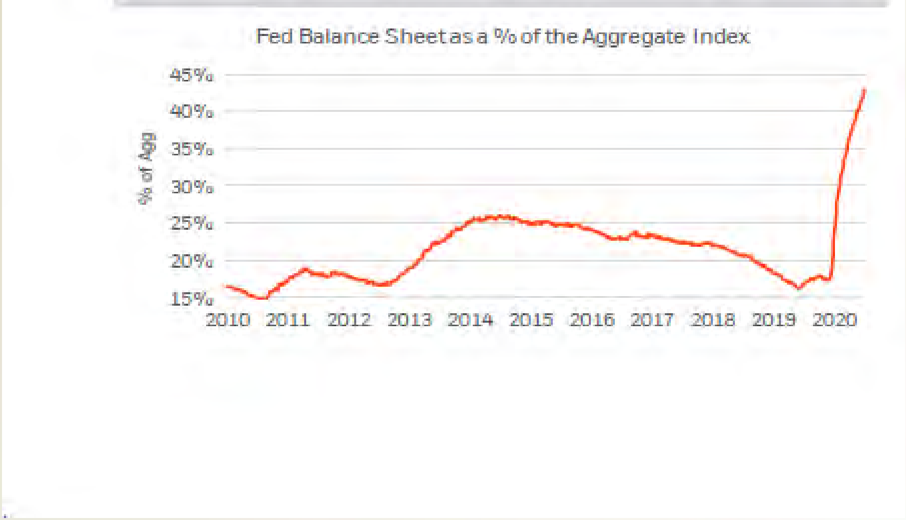
With that, a small move up in rates wipes out all of the carry for the year



Fixed Income Review
September 2020

- Bigger Picture: Global negative yielding debt stock increased over the quarter

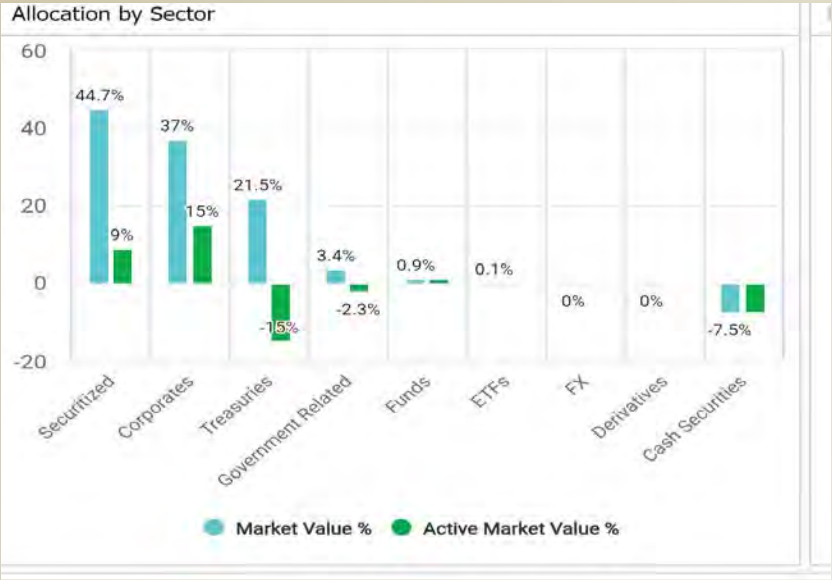
- Fed will own a very large portion of the Benchmark



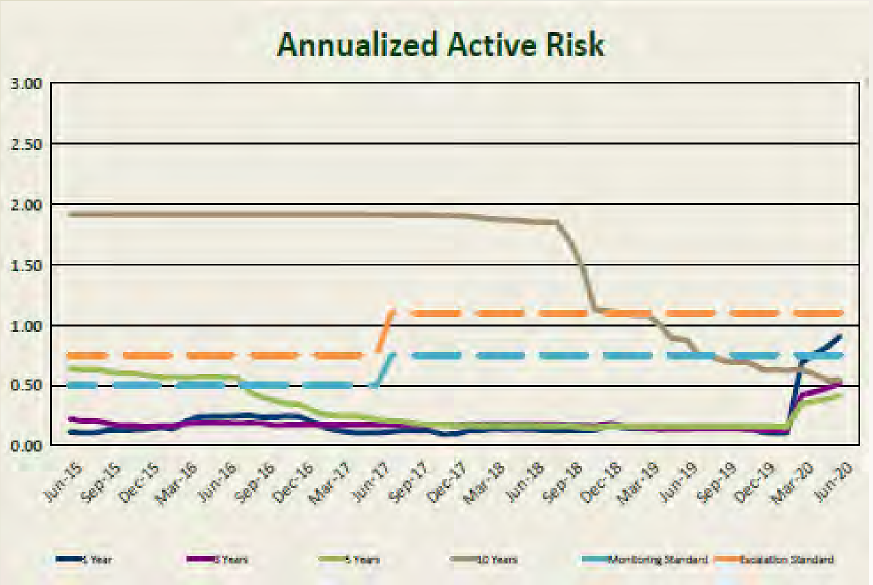
Source: Blackrock

Fixed Income Review
September 2020

- **Portfolio continues to overweight Spread Product**



- **But overall Active Risk continues contained at total allocation level**



Fixed Income Review
September 2020

Looking Forward: Pockets of Value

- Continue to maintain active allocation – Liquidity bucket has been replenished
- Add exposure to out of benchmark structured products or other in a dedicated strategy
    - ***Expanded guidelines with several managers, funded true Core Plus near beginning of increased volatility – took advantage of spread widening***
  - Consider opportunity to reduce risk to a rising rate environment within overall allocation
    - ***Short Duration Credit manager funded/transitioned Core Conservative manager to Full Aggregate Core Plus mandate – expand?***
  - Execute on tactical opportunities in out of Benchmark sectors – Core Plus opportunities
    - ***Consider non-US opportunities as well as out of benchmark securitized assets both internally and with external managers***

State Board of Administration

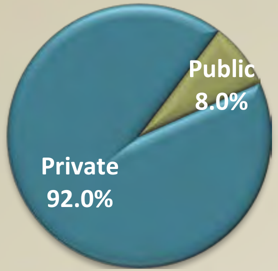
Real Estate Update

Steve Spook
Senior Investment Officer

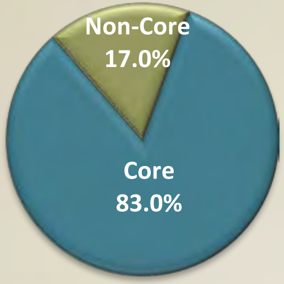
Investment Advisory Council Meeting
September 29, 2020

Real Estate Portfolio Sector Allocation
as of 3/31/2020

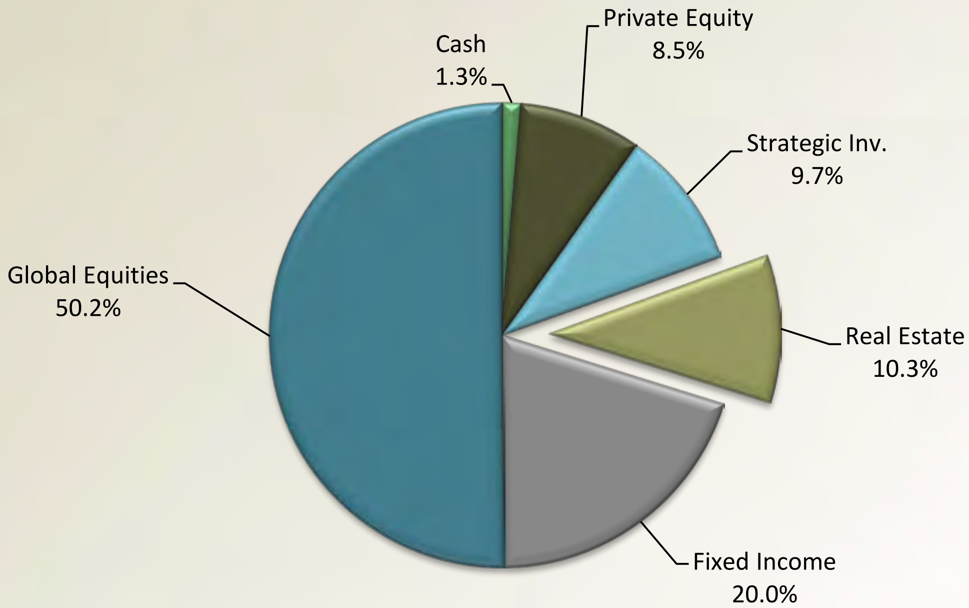
Total RE Portfolio



Private Market



Florida Retirement System Defined Benefit Fund



Source: IBP 3/31/20 Report

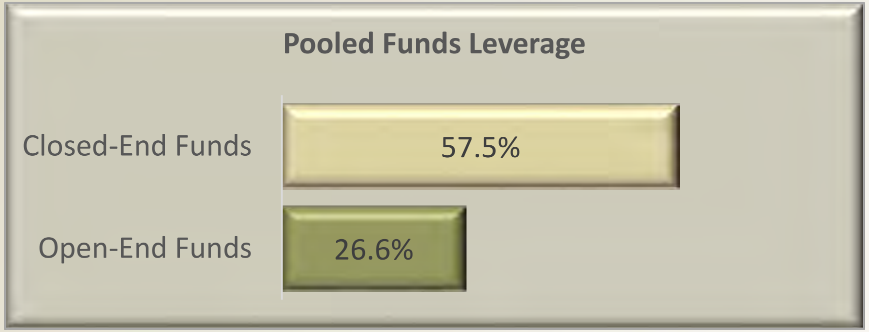
Private Market Leverage as of 3/31/2020

Private Portfolio
Market Value $19,810 M

Private Market Leverage
30.1%

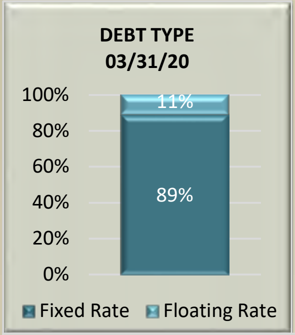
Principal Investments
24.7%

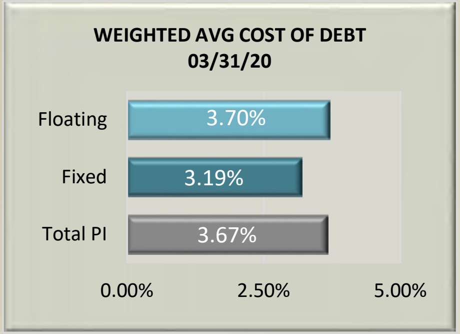
Pooled Funds
40.4%

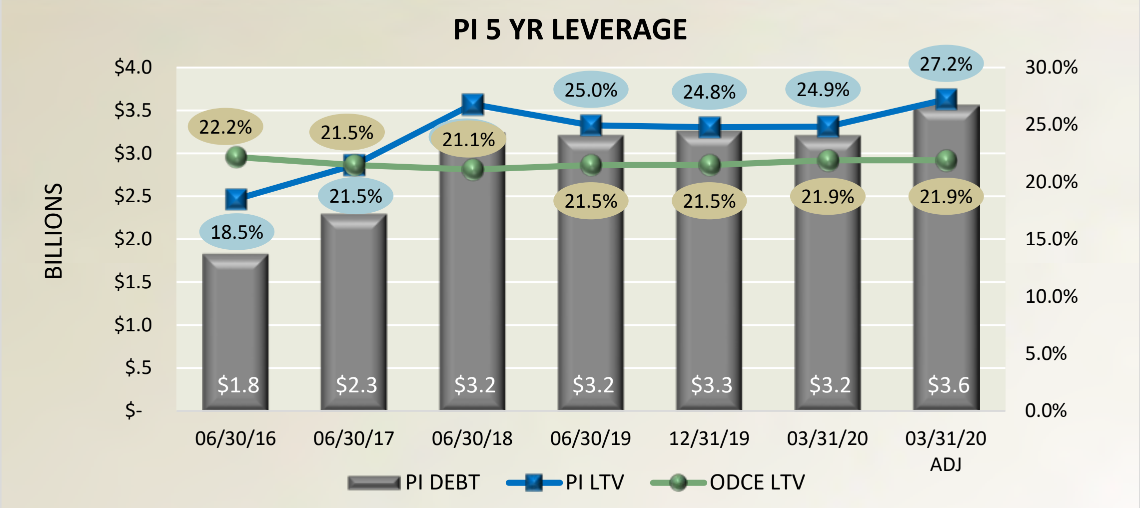


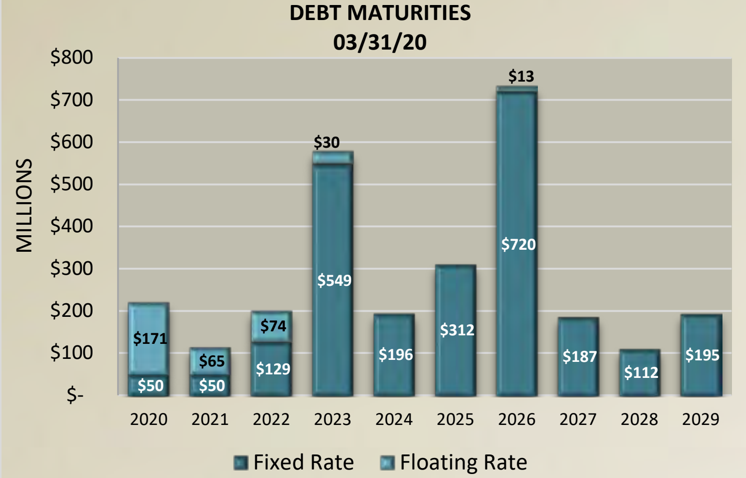
Investment Portfolio Guidelines:
- Private Market Portfolio leverage limited to 40% Loan to Value (LTV).
- Principal Investments Portfolio leverage limited to 30% Loan to Value (LTV).

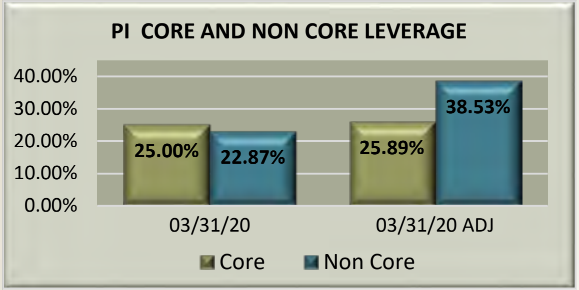
Principal Investments Leverage











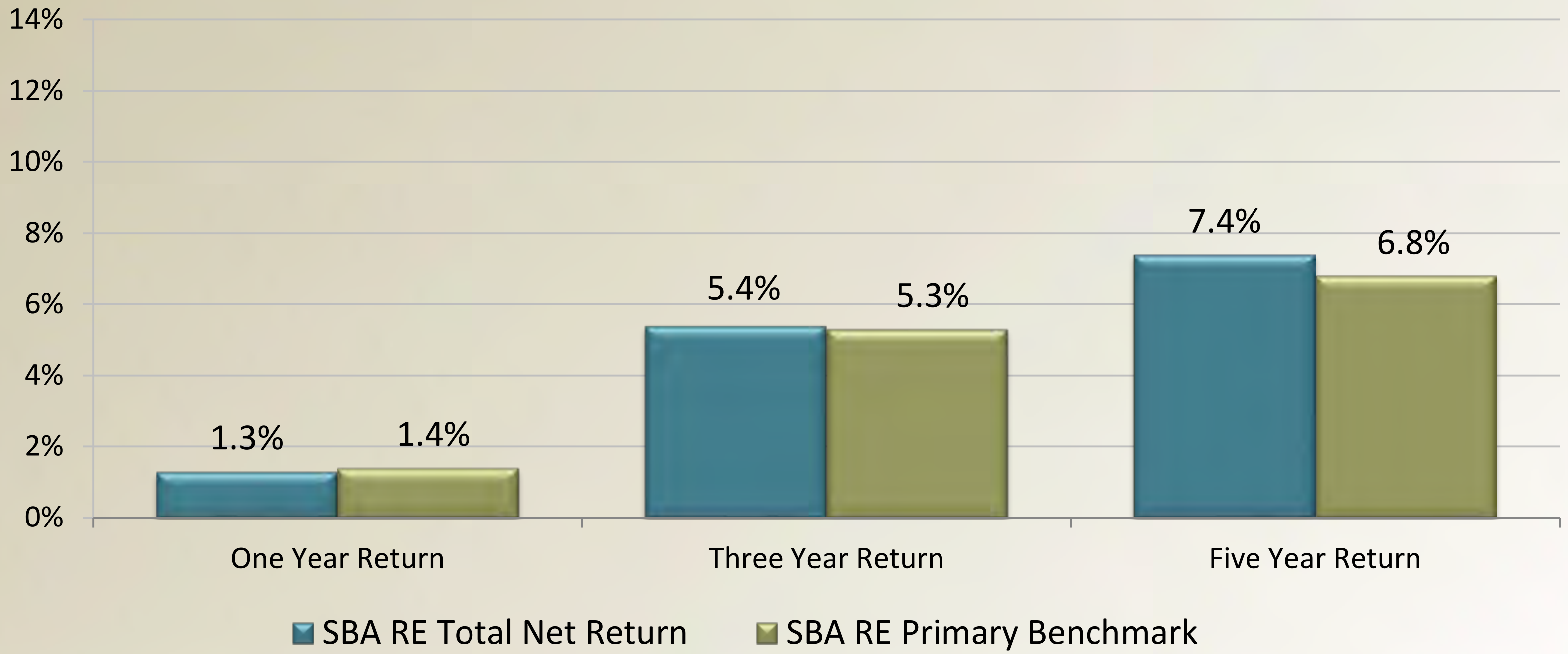
Investment Portfolio Guidelines

- Portfolio Leverage limited to 30% Loan To Value (LTV)
- Individual Asset Level limited to 50% LTV
- JV Individual Asset limited to 70% LTV
- Nonrecourse to the SBA

Total Real Estate Portfolio Performance

Data Through March 31, 2020

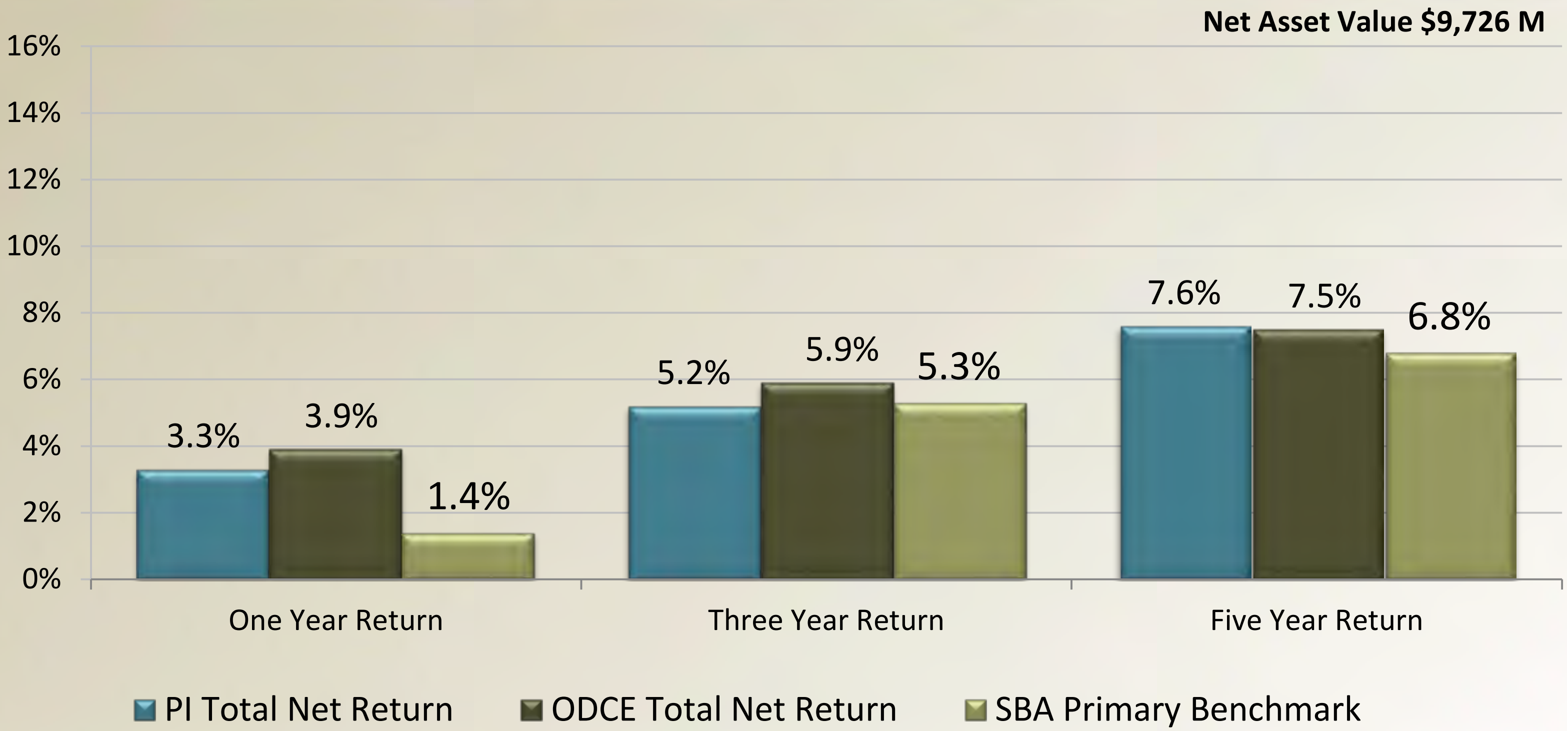
Net Asset Value $15,112 M



Source: The Townsend Group

Principal Investments Performance

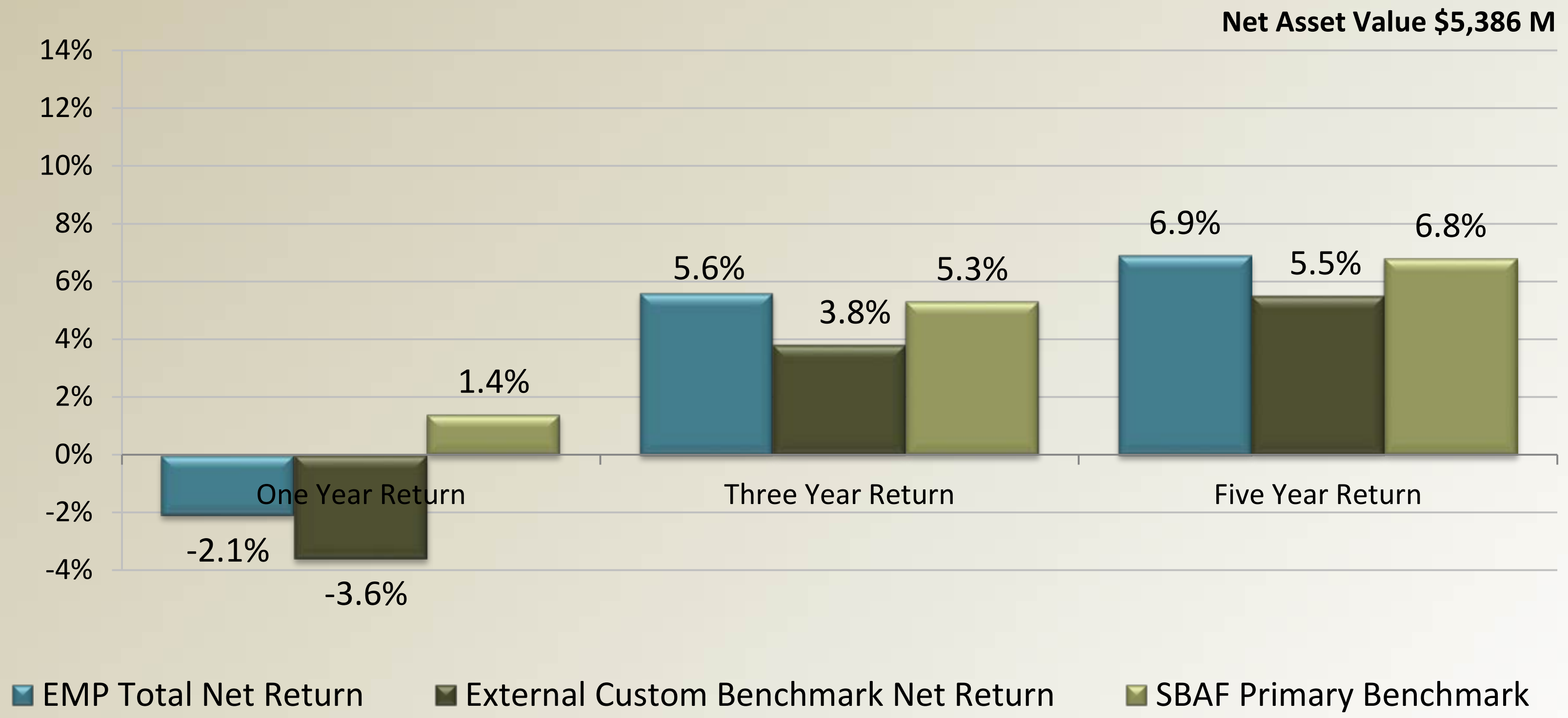
Data Through March 31, 2020



Source: The Townsend Group

Externally Managed Portfolio Performance

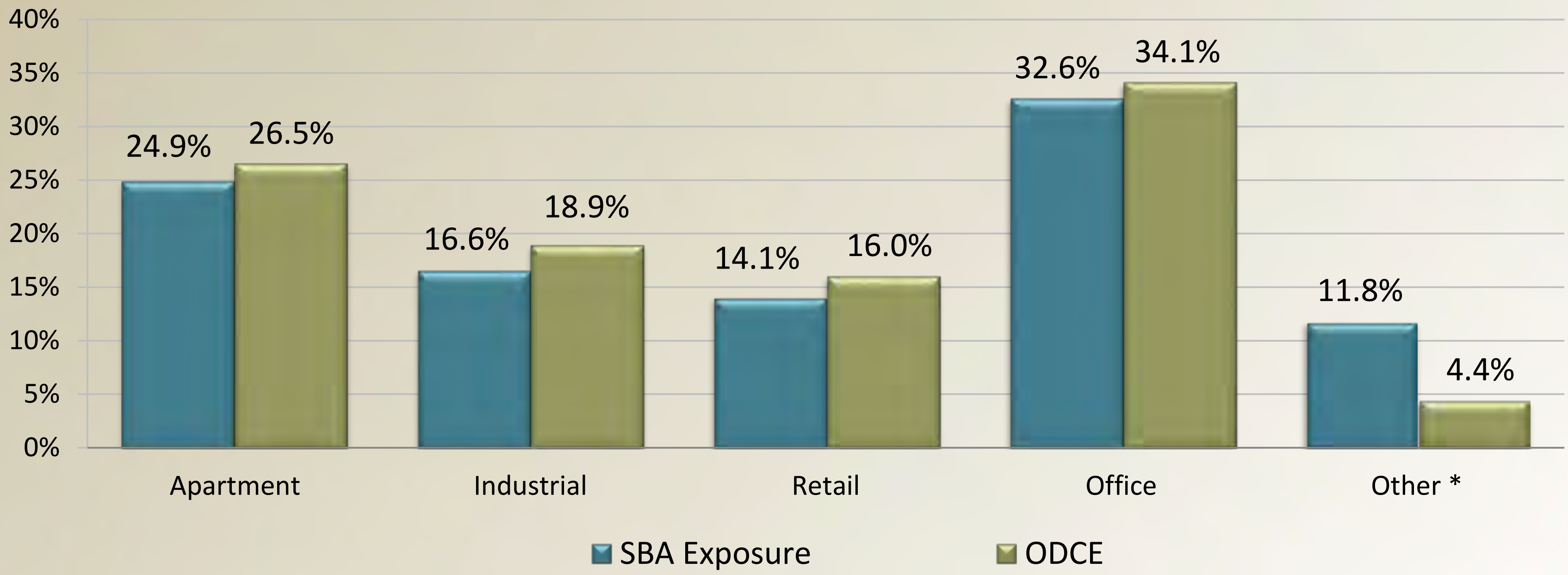
Data Through March 31, 2020



Source: The Townsend Group

Private Market Property Type Diversification as of 3/31/2020

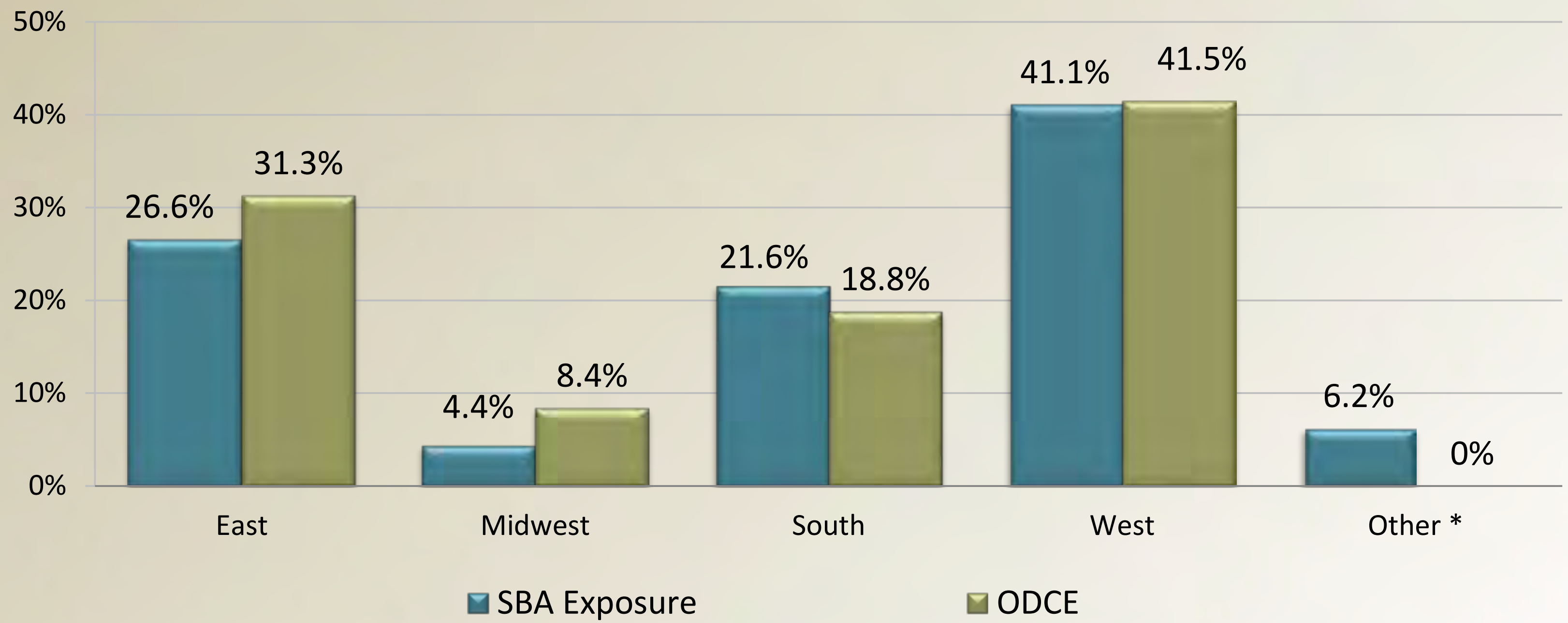
Target NFI-ODCE +/- 15%



* Other includes Agriculture, Senior Housing, Self-Storage, Hotel, Land

Private Market Geographic Diversification as of 3/31/2020

Target NFI-ODCE +/- 15%



* Other includes International Investments

Recent Activity

(Since Last IAC Report)

Direct Owned:

Acquisitions (Price/Equity)

-	Medical Office	$58 million/$39 million

Dispositions (Price/Equity)

-	Retail	$34 million/$22 million
-	Senior Housing	$23 million/$23 million

Financing (Proceeds)

-	Loan Refinance	$79 million

Externally Managed:

New Commingled Fund Commitments

- N/A

Current Market Conditions

- **Real Estate Market Conditions**
  - Office
  - Multifamily
  - Industrial
  - Retail
  - Alternative Property Types

- **Current Real Estate Investment Focus**

State Board of Administration

Private Equity Asset Class Update

John Bradley, SIO Private Equity

Investment Advisory Council

September 29, 2020

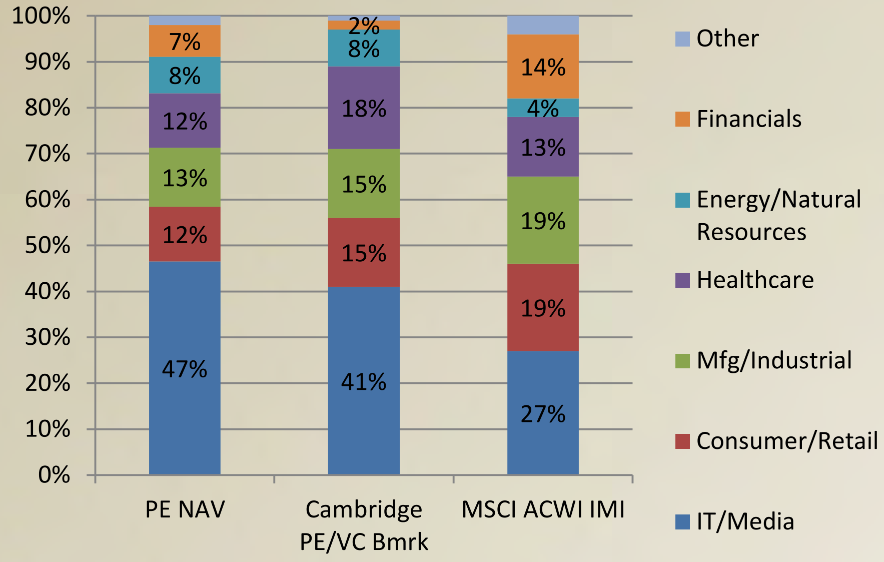
SBA FLORIDA STATE BOARD OF ADMINISTRATION

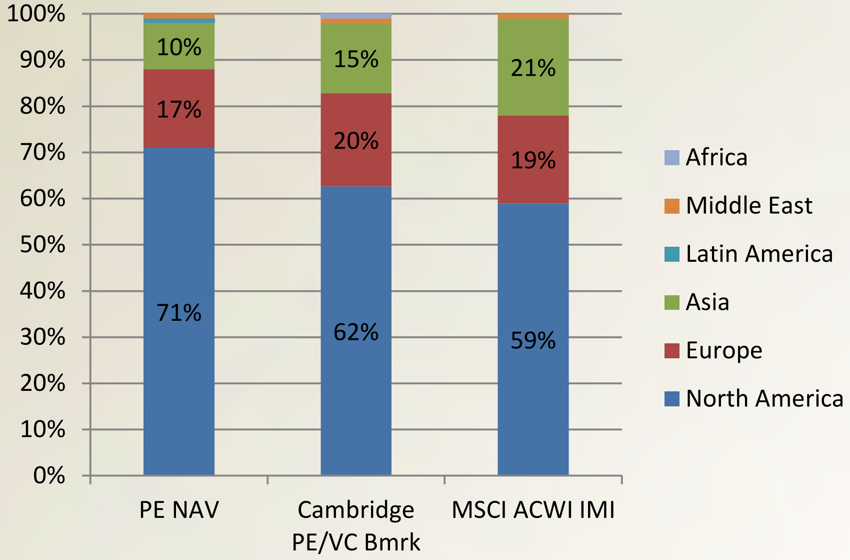
Market/Portfolio Update

- Market/Portfolio Update:
  - Market
    - M&A transactions down over 30% in Q2; U.S. down 70%
    - Purchase multiples fell to 9.0x while leverage multiples fell below 5.0x
    - Fundraising market surprisingly resilient in the first half of 2020
  - Portfolio
    - PE portfolio down -9.0% in Q1 2020; tech portfolio led outperformance
    - 2020 net cash flow: $308 million

Sector and Geographic Exposure

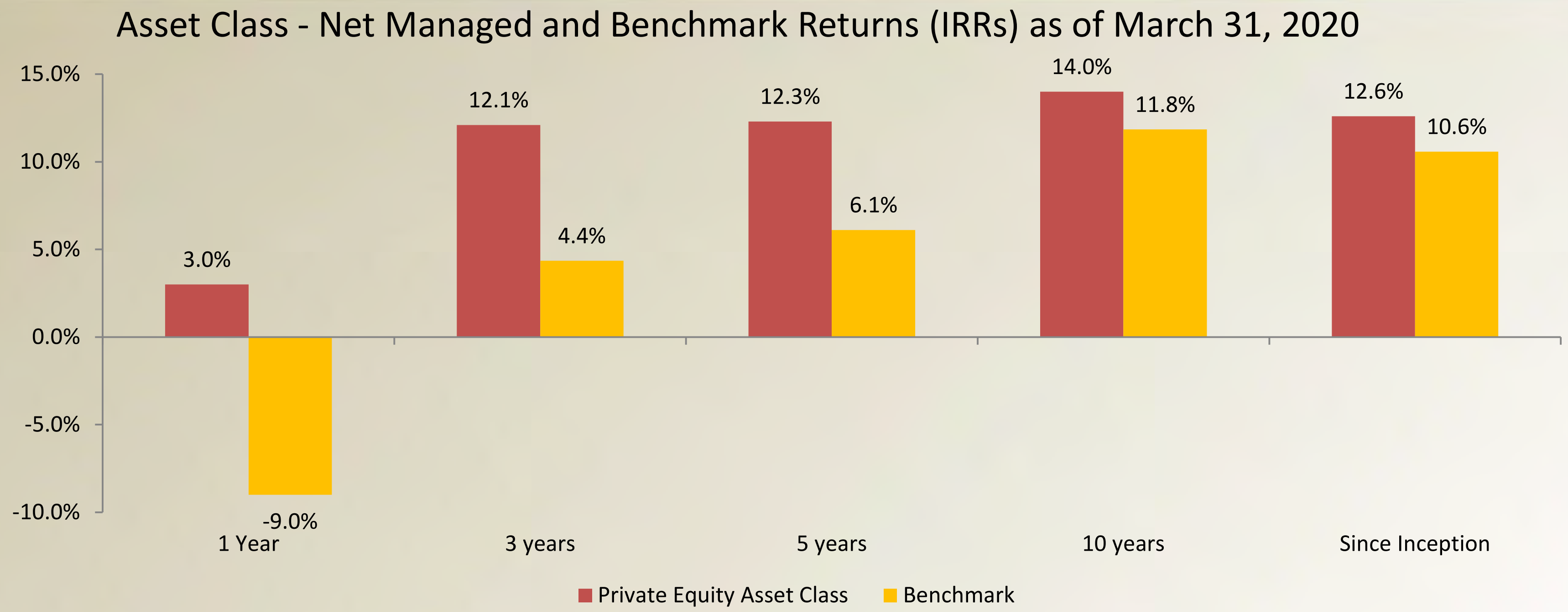
As of March 31, 2020





Source: Cambridge Associates

Private Equity Asset Class Performance



Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010 , the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equities asset class and its benchmark was the Domestic Equities target index + 750 bps.

Sub-strategy Performance

As of March 31, 2020

	1yr	3yr	5yr	10yr	Since Inception	Benchmark
U.S. Buyouts	-0.9%	11.7%	12.8%	14.4%	11.9%	9.5%
Non-U.S. Buyouts	-0.3%	11.8%	12.7%	12.9%	10.1%	8.3%
U.S. Venture	14.9%	16.5%	13.3%	15.0%	12.2%	10.5%
U.S. Growth Equity	1.3%	13.3%	14.0%	15.1%	13.0%	11.7%
Non-U.S. Growth Equity	0.8%	7.3%	7.7%	5.7%	6.4%	9.0%
Distressed/Turnaround	-0.9%	5.4%	8.6%	12.9%	18.7%	8.7%
Secondaries	3.3%	9.5%	9.0%	12.4%	15.0%	14.4%
Total PE Asset Class	3.0%	12.1%	12.3%	14.0%	12.6%	9.8%

Sub-strategy returns and benchmark returns provided by Cambridge Associates and are calculated net of all fees and expenses. The Cambridge benchmark is the median return for the respective sub-strategy.

2020 Commitment Activity

- Commitments totaling $1.5 billion to 14 funds through September 30, 2020
  - $1.3 billion to 11 buyout funds
    - Small 30%, Middle-Market 25%, Large 45%
  - $170 million to 3 venture funds
  - Geographic Focus
    - US 63%, Europe 20%, Asia 7%, Global 10%

Appendix

Private Equity Aggregates

Dollar-Weighted Performance (IRRs) as of March 31, 2020

	Inception Date	Market Value (in Millions)	1yr	3yr	5yr	10yr	Since Inception
Total Private Equity	1/27/1989	$11,719.7	3.0%	12.1%	12.2%	13.0%	9.5%
Custom Iran- and Sudan-free ACWI IMI +300bps			-9.0%	4.4%	6.1%	11.8%	10.0%
Private Equity Legacy Portfolio	1/27/1989	$2.6	4.2%	-8.7%	-11.9%	-14.2%	3.7%
Custom Iran- and Sudan-free ACWI IMI +300bps			-1.4%	7.3%	6.8%	11.7%	9.5%
Private Equity Asset Class Portfolio	8/31/2000	$11,717.1	3.0%	12.1%	12.3%	14.0%	12.6%
Custom Iran- and Sudan-free ACWI IMI +300bps			-9.0%	4.4%	6.1%	11.8%	10.6%

Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010 , the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equity asset class and its benchmark was the Domestic Equity target index + 750 bps.

State Board of Administration

Strategic Investments Asset Class Review

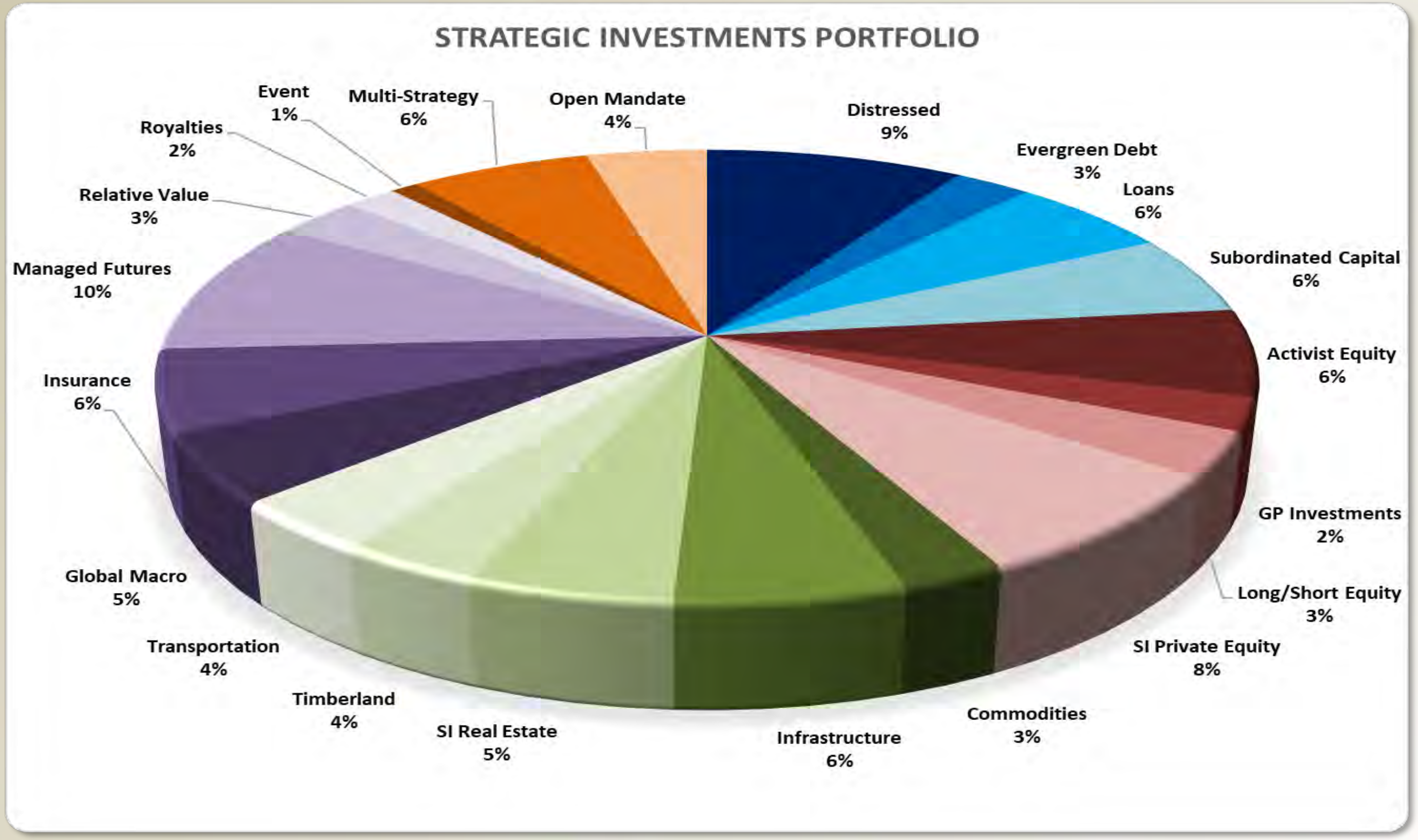
Trent Webster

Senior Investment Officer – Strategic Investments

Investment Advisory Council Meeting

September 29, 2020

Portfolio


STRATEGIC INVESTMENTS PORTFOLIO
Event 1%
Multi-Strategy 6%
Open Mandate 4%
Distressed 9%
Evergreen Debt 3%
Loans 6%
Subordinated Capital 6%
Activist Equity 6%
GP Investments 2%
Long/Short Equity 3%
SI Private Equity 8%
Commodities 3%
Infrastructure 6%
SI Real Estate 5%
Timberland 4%
Transportation 4%
Global Macro 5%
Insurance 6%
Managed Futures 10%
Relative Value 3%
Royalties 2%

Performance

Recent Activity

- Quarterly cash outflow was $522 million
- Fiscal year cash outflow was $364 million
- Seven funds totaling $1.25 billion were closed in the most recent quarter
- Eight funds totaling $1.55 billion have been closed this quarter
- Ten funds totaling $2 billion are in the pipeline
- FY2020 busiest fiscal year ever
- CY2020 busiest calendar year ever

Pipeline

- Four Debt funds – Four Distressed
- Four Real Asset funds – Two Infrastructure, one Commodities, one SI Real Estate
- One Flexible Mandates fund – Multi-Strategy
- One Equity fund – Activist Equity

- Five new relationships
- Eight private markets strategies
- One hedge fund

Investment Themes

- Focused mainly on Distressed
  - Economic stress until society back to normal
  - Normality depends on COVID-19 treatment
  - Federal Reserve picking winners and losers
  - Flood of liquidity has pushed markets ahead of fundamentals
  - A wave of mini-cycles likely coming

- Tightening standards in performing credit
- Insurance markets continue to harden
- Opportunities in aircraft
- Activists in Japan and Europe
- Commodities boom coming

COVID-19 Fund Timeline

	Sub-Strategy	Commitment	Sep-20	Oct-20	Nov-20	Dec-20		2021
Fund A	Distressed	$200						
Fund B	Distressed	$300						
Fund C	Distressed	$300						
Fund D	Commodities	$250						
Fund E	SI Private Equity	$300						
Fund F	Distressed	$200						
Fund G	Distressed	$300						
Fund H	Distressed	$200						

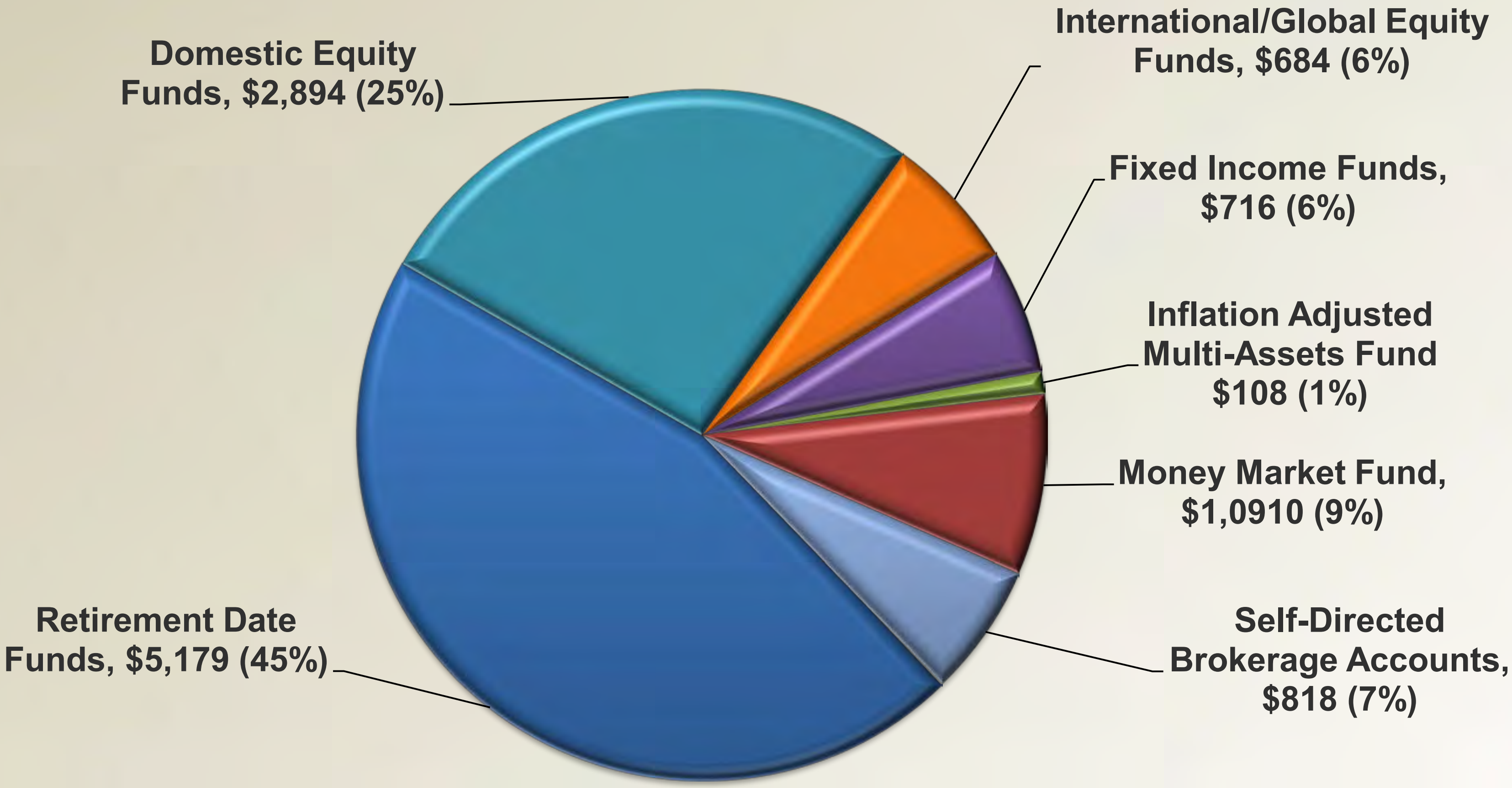
FRS INVESTMENT PLAN

FRS Investment Plan Snapshot
(as of June 30, 2020)

- **Assets:** $11.5 B (2.22% increase since June 30, 2019)
  - 14.3% - 2nd Quarter 2020 Return
  - -3.82% - Calendar Year 2020 Return (Jan – Jun)
  - 2.58 % - Fiscal Year to date (Jul 19 – June 20)
- **Members:** 241,867 (up 13.4% since June 30, 2019)
  - Active – 172,317
  - Inactive – 69,550
- **Average Acct Balance:** $47,506 (9.9% decrease since June 30, 2019)
- **Average Age:** 45
  - Males – 46 (35% of members)
  - Females – 44 (65% of members)
- **Average Yrs of Service:** 5 Years (active members)
- **Retirees:** 151,170 (9.1% increase since June 30, 2019)
- **Distributions:** $14.2 B
  - Lump Sum Payouts – 40%
  - Rollovers – 60%

FRS Investment Plan AUM by Asset Class
(as of June 30, 2020 in $ millions)

Total Assets: $11.5 Billion



Asset allocation is a result of member investment selection

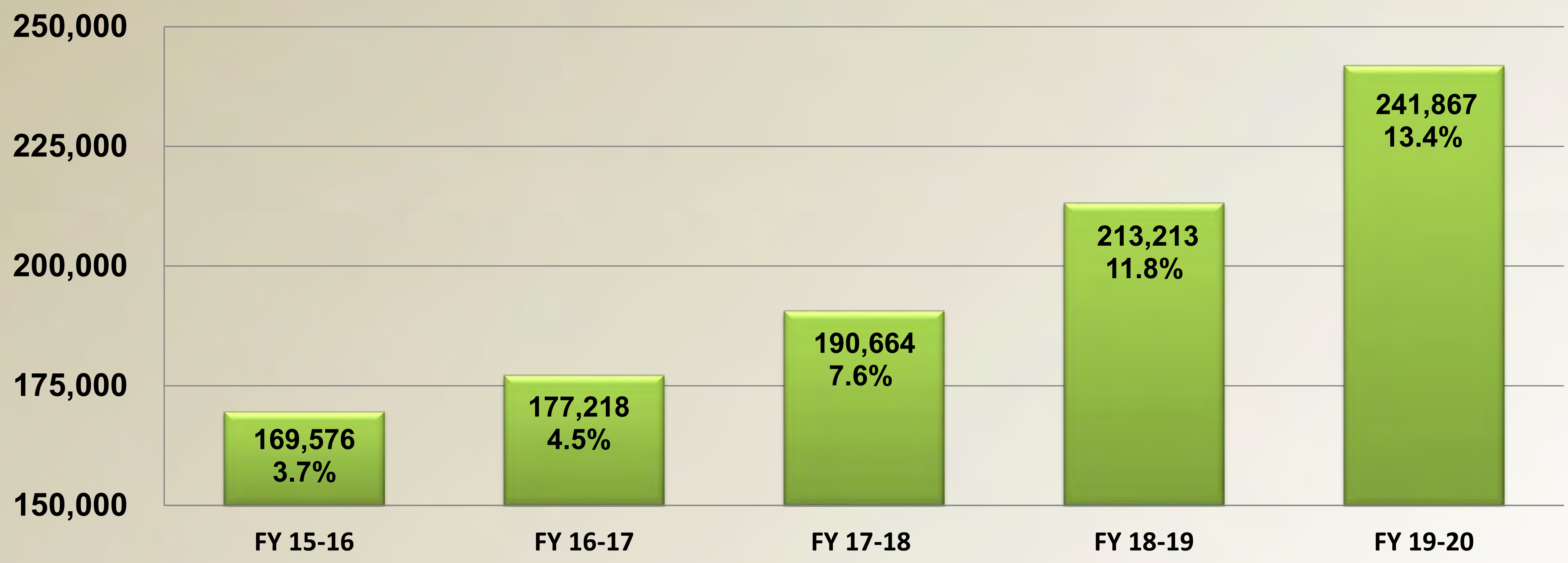
FRS Investment Plan Performance by Asset Class

(as of June 30, 2020)

	QTD	FYTD	1 Year	3 Years	5 Years	Inception
Total Fund	14.31%	2.58%	2.58%	5.76%	5.86%	6.70%
Money Market	0.17%	1.66%	1.66%	1.94%	1.42%	1.59%
Inflation Adjusted Multi-Assets	8.97%	0.09%	0.09%	2.11%	1.55%	0.49%
Fixed Income	5.12%	7.28%	7.28%	5.11%	4.53%	4.97%
Domestic Equities	23.54%	4.01%	4.01%	8.77%	9.23%	9.79%
Global & Intl Equities	18.39%	-1.97%	-1.97%	2.84%	3.80%	7.40%
Retirement Date Funds	13.22%	2.28%	2.28%	5.33%	5.60%	4.80%
TF x RDFs	15.35%	2.84%	2.84%	6.14%	6.08%	5.73%

FRS Investment Plan Membership Growth

Percent Membership Growth Year to Year



MyFRS Financial Guidance Program
(as of June 30, 2020)

INVESTMENT EDUCATION

EY FINANCIAL PLANNER CALLS	FINANCIAL PLANNING WORKSHOPS	ATTENDANCE FINANCIAL WORKSHOPS	WEBSITE HITS	WEBSITE CHATS
286,483	493	20,464	2,847,823	124,980
-10%	-8%	+5%	+13%	+102%

(% change from previous 12 months)

18 Annuities purchased last 12 months ($1.7 million)
149 Total Annuities purchased inception to date ($19.7 million)

Questions?

Investment Programs & Governance (IP&G)

Michael McCauley
Senior Officer

Investment Advisory Council Meeting – September 29, 2020

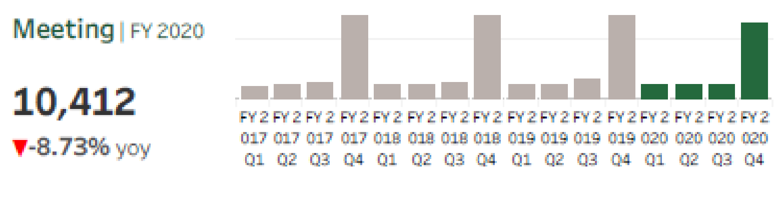
STATE BOARD OF ADMINISTRATION

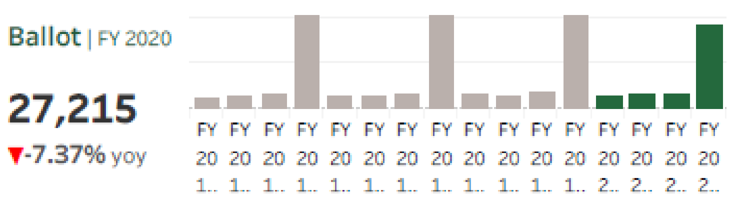
Corporate Governance Summary

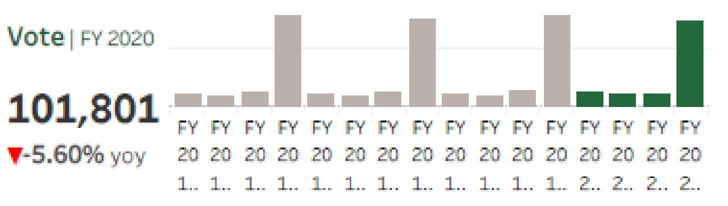
SBA Proxy Voting Activity:
- FY20 voting conducted in 79 markets; 10,412 meetings; 101,801 ballot items
- 2Q20 voting conducted in 73 markets; 6,472 meetings; 72,390 ballot items

Covid 19 Impact:
- Shift to virtual shareowner meetings—rising from 326 in 2019 to 1,494 in 1H20
- Many companies deferred annual meetings to 2H of 2020

Final SEC Proxy Advisor Rules:
- Voting advice considered a “solicitation,” with concurrent release to companies
- Effective December 2021, impacting 2022 proxy season







2020 Proxy Season Preview

- **Lack of board gender diversity becomes a factor in directors receiving less-than-majority support:** While the number of companies maintaining an all-male board continues to diminish, now at less than 200 companies within the Russell 3000 Index, the lack of board gender diversity became a significant driver of failed director votes.
- **Written consent-related shareholder proposals take prominence:** Proponents focused their efforts on shareholder proposals regarding written consent rights, presenting 60 proposals on ballot in the first half of 2020, the most in the past 10 years.
- **Shareholder proposals requesting an independent board chair saw rising support and some integrated ESG concerns:** Ending a nearly two-year drought, two shareholder proposals requesting independent board leadership received majority support, and the median level of support for all independent chair proposals increased. Additionally, for the first time, certain proponents highlighted environmental and social risk oversight concerns as a basis for a change in board leadership.
- **The rate of say-on-pay failures decreased, as did the median support level.** The 2020 say-on-pay vote failure rate declined following a record high failure rate in 2019. However, median say-on-pay support levels also dropped in 2020 to 95.3 percent, the lowest level recorded since mandatory say-on pay votes began in 2011.
- **COVID-related compensation decisions expected to dominate next year's proxy season landscape.** As the pandemic arrived in the US during the 2020 compensation cycle, related changes will not be fully disclosed until the 2021 proxy season. Looking ahead, compensation topics in the 2021 proxy season are likely to be defined by mid-year adjustments to incentive programs and use of discretion or one-time awards.

Source: Institutional Shareholder Services (ISS), 2020 Proxy Season Review reports.

Appendix

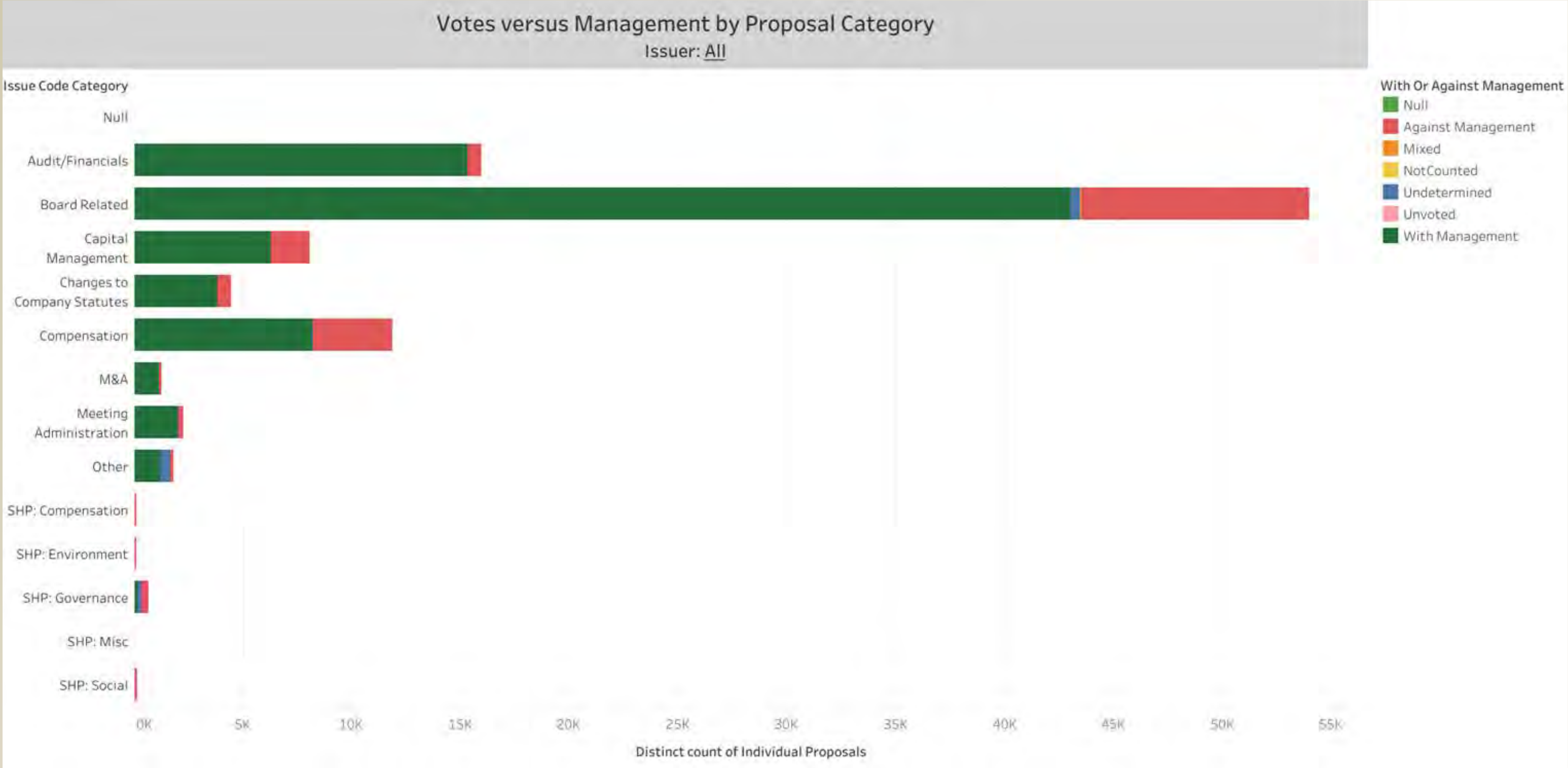
SBA Corporate Governance Statistics

Voting by Ballot Category—2Q2020

Proxy Voting Summary

Issue Code Category	For		Against & Withhold		Abstain		Other Votes	
	Individual Proposals	% of Total Distinct count of Individual P..	Individual Proposals	% of Total Distinct count of Individual P..	Individual Proposals	% of Total Distinct count of Individual P..	Individual Proposals	% of Total Distinct count of Individual P..
Audit/Financials	11,417	96.6%	160	1.4%	95	0.8%	141	1.2%
Board Related	32,273	80.5%	6,914	17.3%	538	1.3%	347	0.9%
Capital Management	3,948	73.7%	1,254	23.4%	46	0.9%	110	2.1%
Changes to Company Statutes	2,658	85.7%	342	11.0%	85	2.7%	17	0.5%
Compensation	5,141	63.2%	2,587	31.8%	26	0.3%	384	4.7%
M&A	374	95.7%	9	2.3%	8	2.0%		
Meeting Administration	1,216	80.5%	167	11.1%			128	8.5%
Other	881	73.0%	211	17.5%	96	8.0%	19	1.6%
SHP: Compensation	34	64.2%	19	35.8%				
SHP: Environment	27	37.5%	39	54.2%			6	8.3%
SHP: Governance	258	49.0%	247	46.9%	10	1.9%	12	2.3%
SHP: Misc			4	100.0%				
SHP: Social	87	61.3%	55	38.7%				
Grand Total	58,314	80.6%	12,008	16.6%	904	1.2%	1,164	1.6%

Management Voting Alignment—2Q2020



State Board of Administration of Florida

Major Mandate Review

Second Quarter 2020

Aon | Retirement and Investment
Investment advice and consulting services provided by Aon.

Empower Results®

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2. Pension Plan Review
3. Investment Plan Review
4. CAT Fund Review
5. Lawton Chiles Endowment Fund Review
6. Florida PRIME Review
7. Appendix

Executive Summary

- The major mandates each produced generally strong returns relative to their respective benchmarks over both short- and long-term time periods ending June 30, 2020.
- The Pension Plan outperformed its Performance Benchmark over the trailing one-, three-, five-, ten-, and fifteen-year periods.
  – Over the trailing five-year period, Global Equity is the leading source of value added, followed by Private Equity, Strategic Investments, and Fixed Income.
  – Over the trailing ten-year period, the Pension Plan's return ranked within the median of the TUCS Top Ten Defined Benefit Plan universe.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark over the trailing three-, five-, and ten-year periods.
- The CAT Funds' performance is strong over both short-term and long-term periods, outperforming the benchmark over the trailing three-, five-, and ten-year periods.
- Florida PRIME has continued to outperform its benchmark over both short- and long-term time periods.

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Pension Plan: Executive Summary

- The Pension Plan assets totaled $160.7 billion as of June 30, 2020 which represents a $12.6 billion increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed over the trailing one-, three-, five-, ten-, fifteen-, twenty-, twenty-five-, and thirty-year periods.
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan was in line or outperformed over the trailing three-, five-, ten-, fifteen-, twenty-five-, and thirty-year periods, and underperformed over the trailing one-, and twenty-year time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
  - Public market asset class investments do not significantly deviate from their broad market-based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
  - Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, and investment strategy.
  - Asset allocation is monitored on a daily basis to ensure that the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

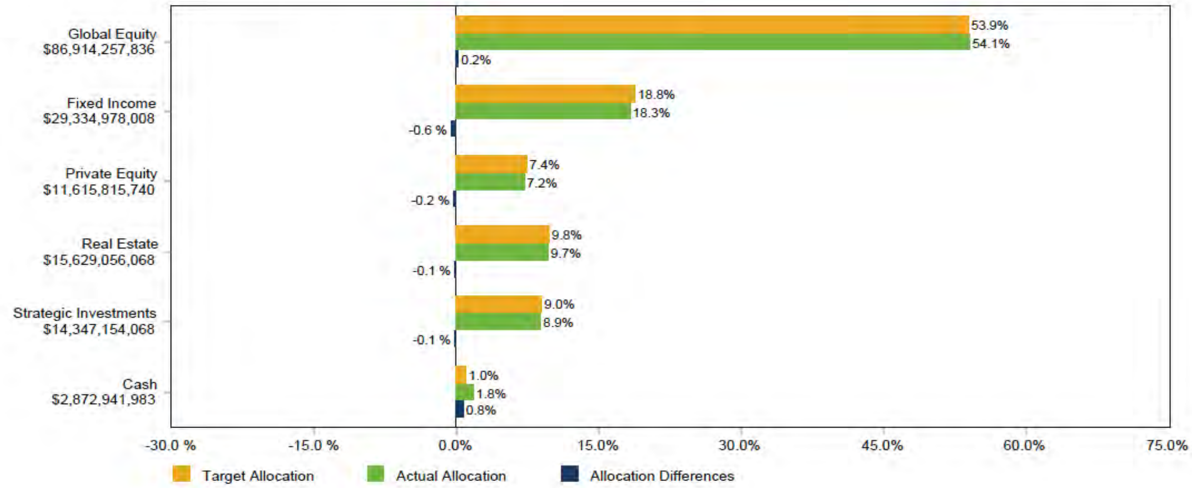
FRS Pension Plan Change in Market Value Periods Ending 6/30/2020

Summary of Cash Flows		
	Second Quarter	**Fiscal YTD***
Beginning Market Value	$148,114,499,286	$163,135,205,913
+/- Net Contributions/(Withdrawals)	$(1,805,052,137)	$(7,320,569,900)
Investment Earnings	$14,404,756,554	$4,899,567,690
= Ending Market Value	$160,714,203,703	$160,714,203,703
Net Change	$12,599,704,417	$(2,421,002,209)

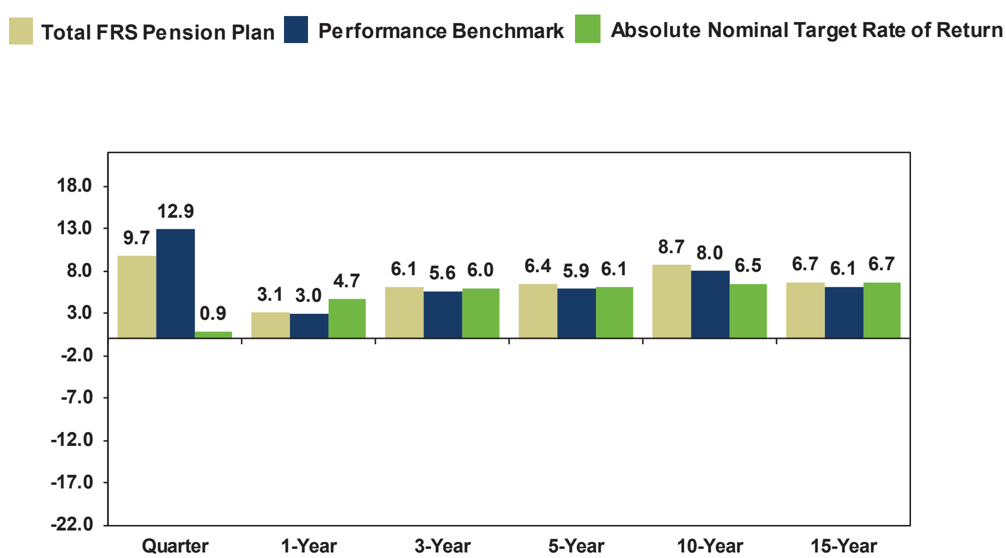
*Period July 2019 – June 2020

Asset Allocation as of 6/30/2020
Total Fund Assets = $160.7 Billion

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	160,714,203,703	100.0	100.0		
Global Equity	86,914,257,836	54.1	53.9	45.0	70.0
Fixed Income	29,334,978,008	18.3	18.8	10.0	26.0
Private Equity	11,615,815,740	7.2	7.4	2.0	9.0
Real Estate	15,629,056,068	9.7	9.8	4.0	16.0
Strategic Investments	14,347,154,068	8.9	9.0	0.0	16.0
Cash	2,872,941,983	1.8	1.0	0.3	5.0

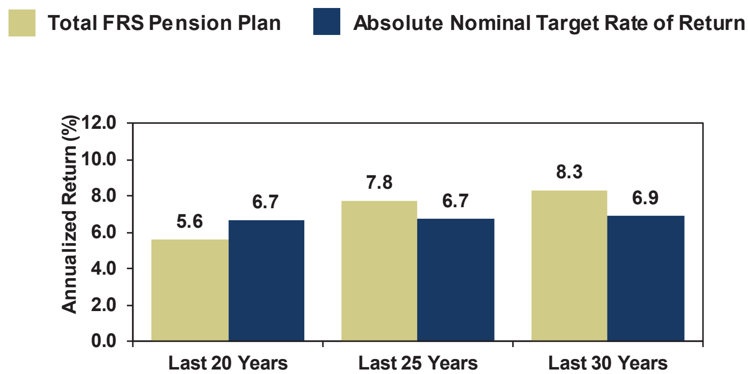


FRS Pension Plan Investment Results
Periods Ending 6/30/2020



FRS Pension Plan Investment Results
Periods Ending 6/30/2020

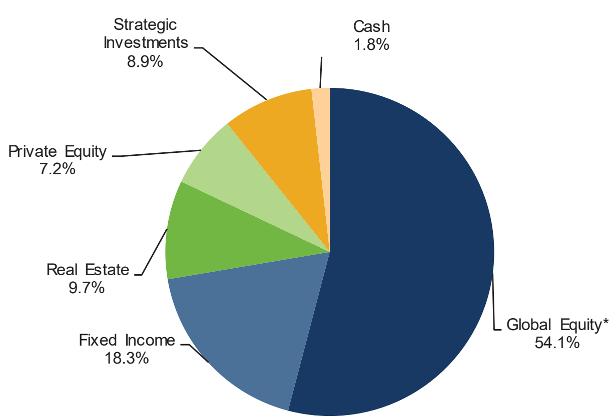
Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective



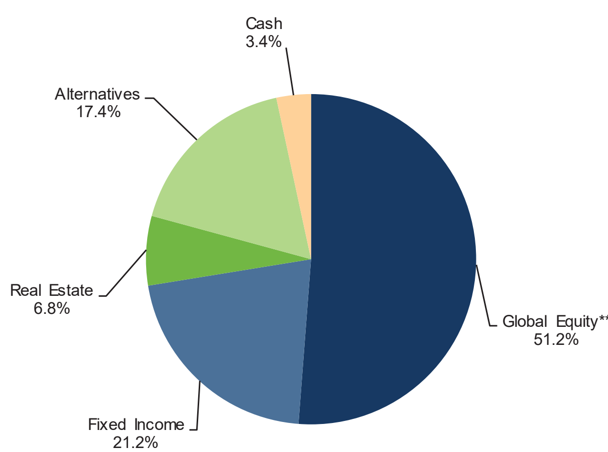
Comparison of Asset Allocation (TUCS Top Ten)
As of 6/30/2020

FRS Pension Plan vs. Top Ten Defined Benefit Plans

FRS TOTAL FUND



TUCS TOP TEN

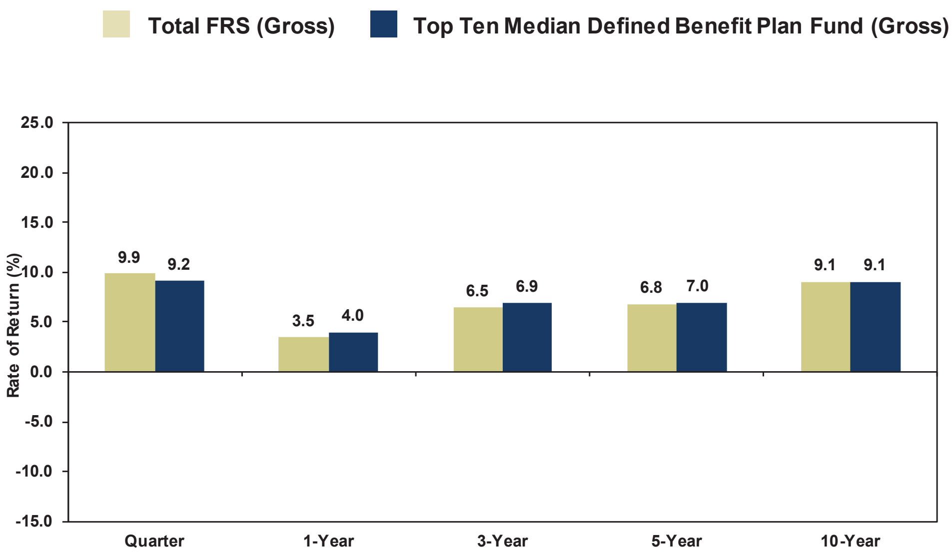


*Global Equity Allocation: 26.6% Domestic Equities; 21.1% Foreign Equities; 5.4% Global Equities; 1.0% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

**Global Equity Allocation: 31.9% Domestic Equities; 19.3% Foreign Equities.

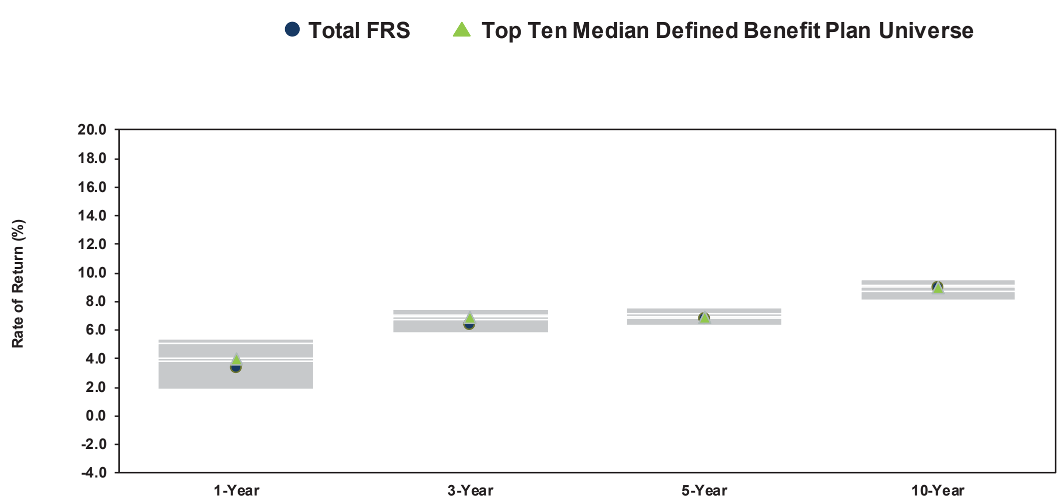
Note: The TUCS Top Ten Universe includes $1,648.0 billion in total assets. The median fund size was $155.2 billion and the average fund size was $164.8 billion.
Note: Due to rounding, percentage totals displayed may not sum perfectly.

FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 6/30/2020



Note: The TUCS Top Ten Universe includes $1,648.0 billion in total assets. The median fund size was $155.2 billion and the average fund size was $164.8 billion.

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)
Periods Ending 6/30/2020



FRS Percentile Ranking	87	87	75	50

Note: The TUCS Top Ten Universe includes $1,648.0 billion in total assets. The median fund size was $155.2 billion and the average fund size was $164.8 billion.

Investment Plan: Executive Summary

- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods. This suggests strong relative performance of the underlying fund options in which participants are investing.

- The FRS Investment Plan's total expense ratio is slightly higher, on average, when compared to a defined contribution peer group and is lower than the average corporate and public defined benefit plan, based on year-end 2018 data. The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. Communication and education costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group.

- Management fees are lower than the median as represented by Morningstar's mutual fund universe for every investment category.

- The FRS Investment Plan offers an appropriate number of fund options that span the risk and return spectrum.

- The Investment Policy Statement is revisited periodically to ensure that the structure and guidelines of the FRS Investment Plan are appropriate, taking into consideration the FRS Investment Plan's goals and objectives.

Total Investment Plan Returns & Cost

Periods Ending 6/30/2020*

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	**2.6%**	**5.8%**	**5.9%**	**7.5%**
*Total Plan Aggregate Benchmark***	2.0%	5.3%	5.6%	7.2%
FRS Investment Plan vs. Total Plan Aggregate Benchmark	0.6	0.5	0.3	0.3

Periods Ending 12/31/2018***

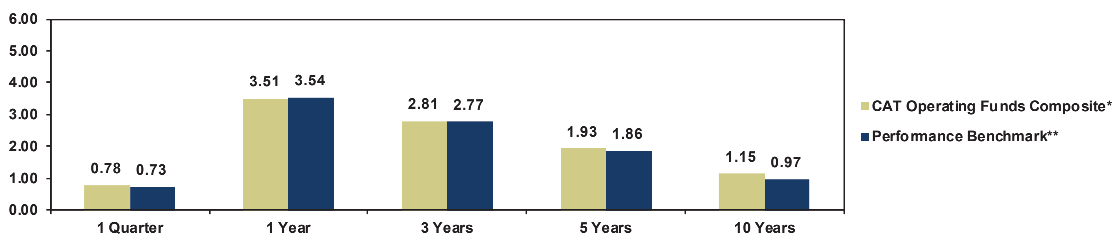
	Five-Year Average Return****	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	**4.2%**	**0.1%**	**0.32%*******
Peer Group	4.6	0.1	0.28
FRS Investment Plan vs. Peer Group	-0.4	0.0	0.04

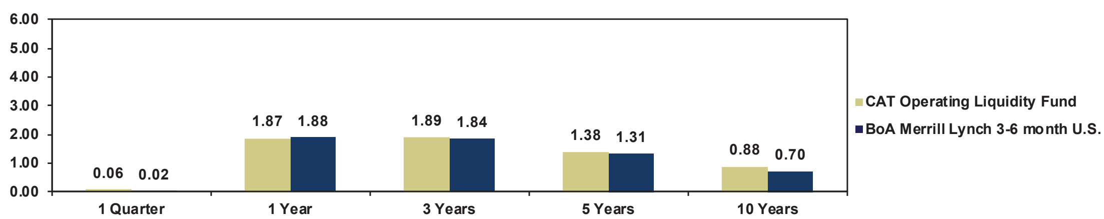
*Returns shown are net of fees.
**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
***Source: 2017 CEM Benchmarking Report. Peer group for the Five-Year Average Return and Value Added represents the U.S. Median plan return based on the CEM 2017 Survey that included 123 U.S. defined contribution plans with assets ranging from $93 million to $60.3 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 17 DC plans including corporate and public plans with assets between $2.3 - $18.6 billion.
****Returns shown are gross of fees.
*****The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. These latter costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group utilized above.

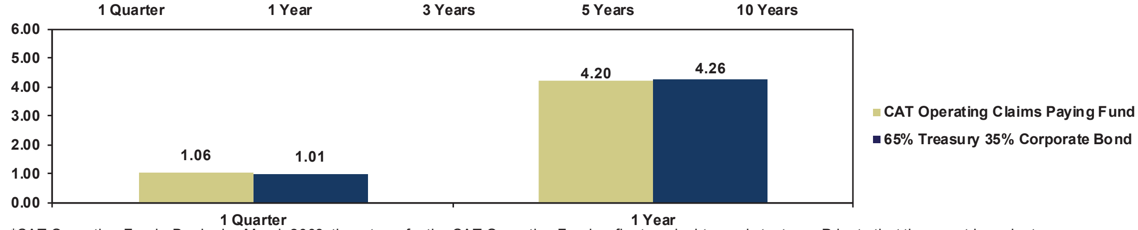
CAT Fund: Executive Summary

- Returns on an absolute basis continue to be modest given the current low interest rate environment.
- All CAT Funds are adequately diversified across issuers within the short-term bond market.
- The Investment Portfolio Guidelines appropriately constrain the CAT Funds to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Adequate liquidity exists to address the cash flow obligations of the CAT Funds.
- The Investment Portfolio Guidelines are revisited periodically to ensure that the structure and guidelines of the CAT Funds are appropriate, taking into consideration the CAT Funds' goals and objectives.
- Over long-term periods, the relative performance of the CAT Operating Funds has been favorable as they have outperformed the Performance Benchmark over the trailing three-, five- and ten-year time periods.

CAT Operating Funds Investment Results
Periods Ending 6/30/2020







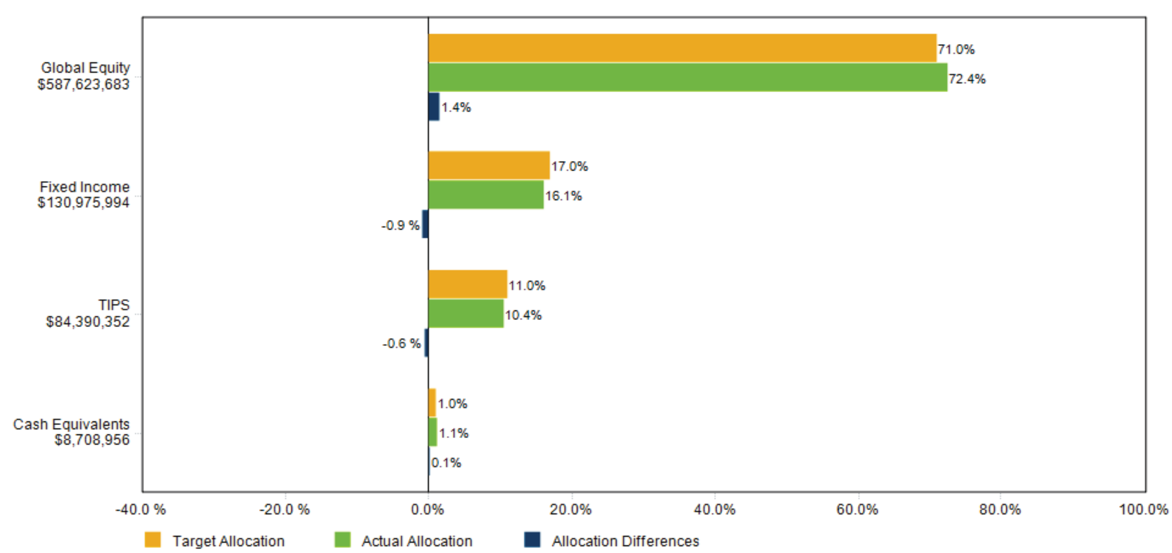
*CAT Operating Funds: Beginning March 2008, the returns for the CAT Operating Funds reflect marked-to-market returns. Prior to that time, cost-based returns are used. Beginning February 2018, the CAT Operating Funds were split into two different sub funds, the CAT Fund Operating Liquidity Fund and the CAT Fund Operating Claims Paying Fund. Performance for each sub fund is shown below.
**Performance Benchmark: Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index, and the CAT Fund Operating Claims Paying Fund benchmark is a blend of 35% of the Bank of America Merrill Lynch 1-3 Year AA U.S. Corporate Bond Index and 65% of Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index. Additional benchmark history can be found in the appendix.

Lawton Chiles Endowment Fund: Executive Summary

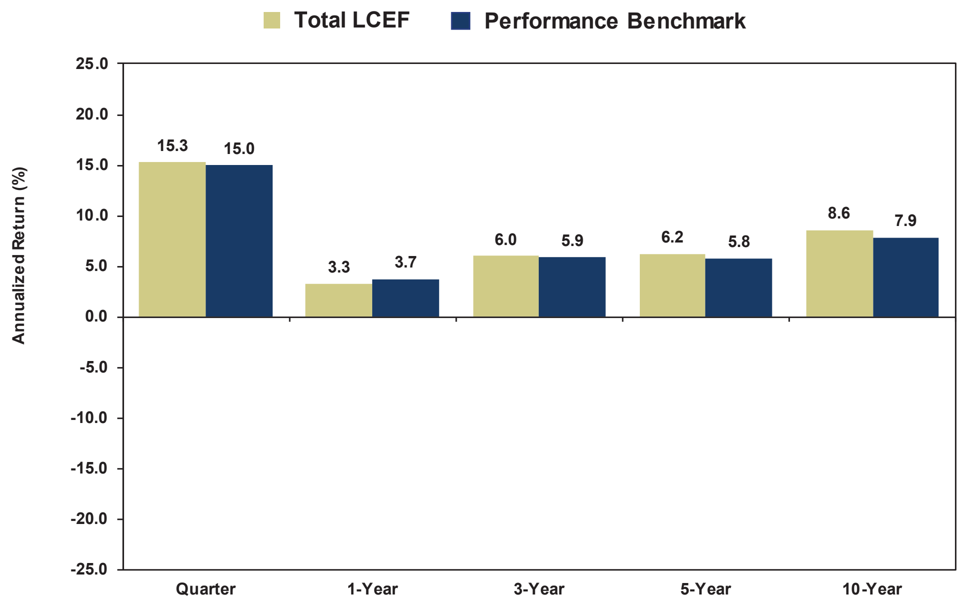
- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
  - The investment objective is to preserve the real value of the net contributed principal and provide annual cash flows for appropriation.
  - The Endowment's investments are diversified across various asset classes including global equity, fixed income, inflation-indexed bonds (TIPS) and cash.
- The Endowment assets totaled $811.7 million as of June 30, 2020.
- The Endowment's return outperformed its Target over the trailing three-, five-, and ten-year time periods and underperformed its Target over the trailing one-year.

Asset Allocation as of 6/30/2020
Total LCEF Assets = $811.7 Million

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
LCEF Total Fund	811,698,985	100.0	100.0		
Global Equity	587,623,683	72.4	71.0	61.0	81.0
Fixed Income	130,975,994	16.1	17.0	12.0	22.0
TIPS	84,390,352	10.4	11.0	6.0	16.0
Cash Equivalents	8,708,956	1.1	1.0	0.0	10.0



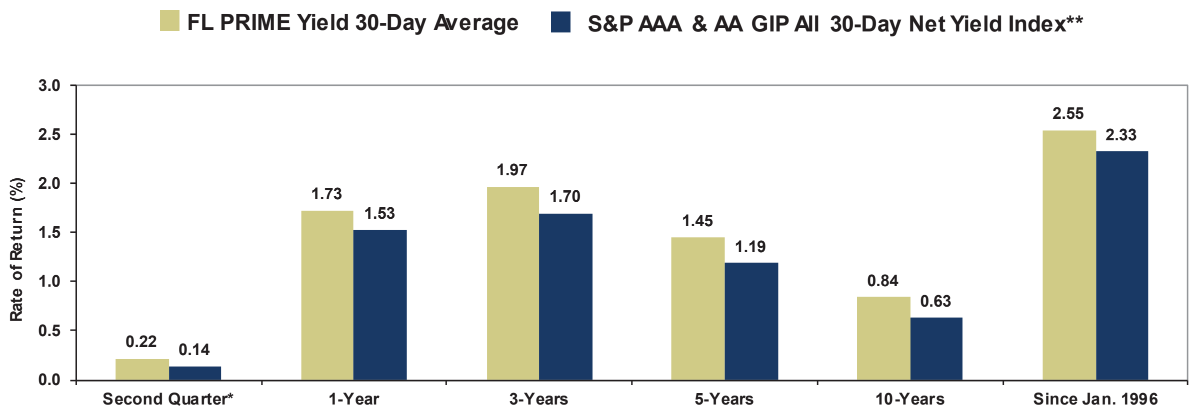
LCEF Investment Results
Periods Ending 6/30/2020



Florida PRIME: Executive Summary

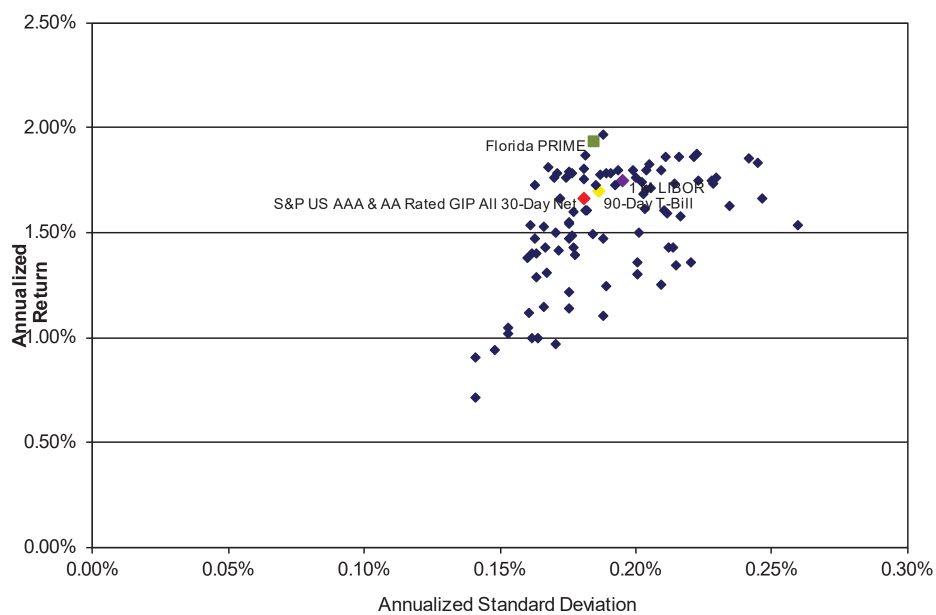
- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately diversified across issuers within the short-term bond market, and adequate liquidity exists to address the cash flow obligations of Florida PRIME.
- Performance of Florida PRIME has been strong over short- and long-term time periods, outperforming its performance benchmark during the quarter and over the trailing one-, three-, five-, and ten-year time periods.
- As of June 30, 2020, the total market value of Florida PRIME was $13.5 billion.
- Aon Investments USA Inc., in conjunction with SBA staff, compiles an annual best practices report that includes a full review of the Investment Policy Statement, operational items, and investment structure for Florida PRIME.

Florida PRIME Investment Results
Periods Ending 6/30/2020

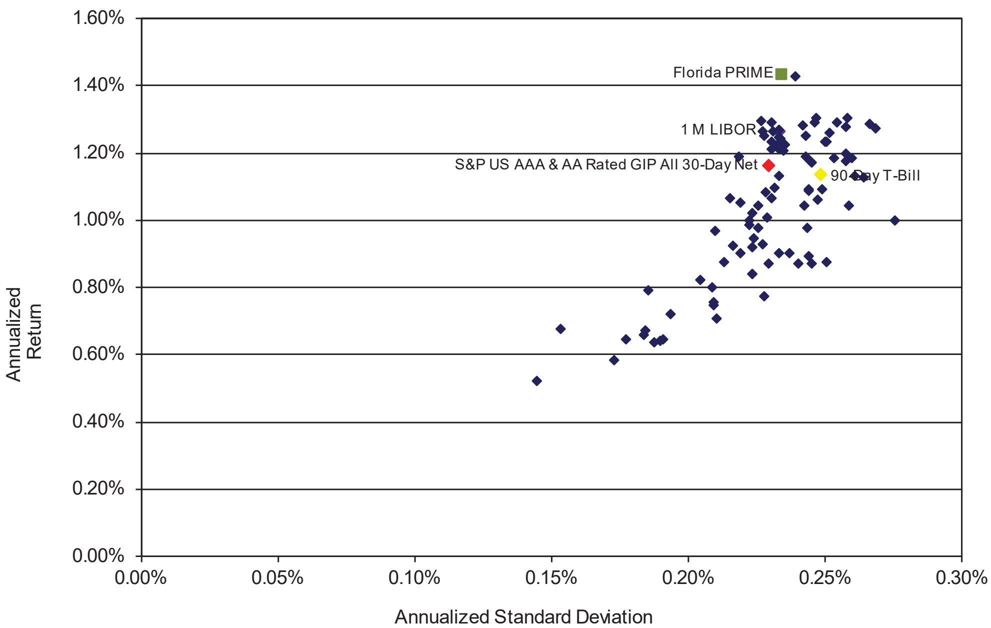


*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

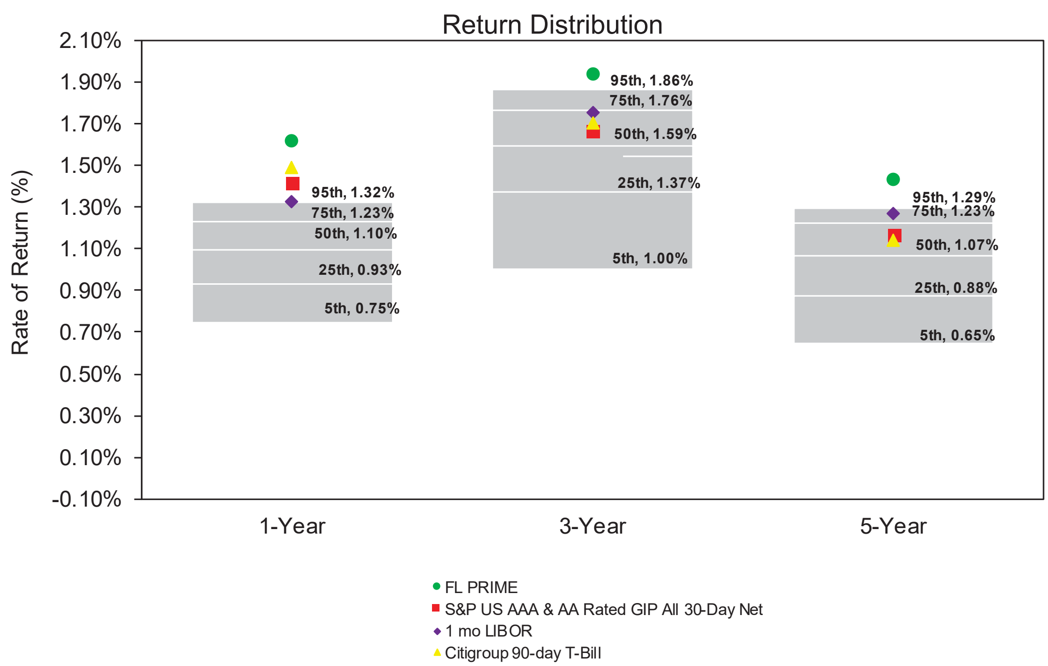
Florida PRIME Risk vs. Return
3 Years Ending 6/30/2020



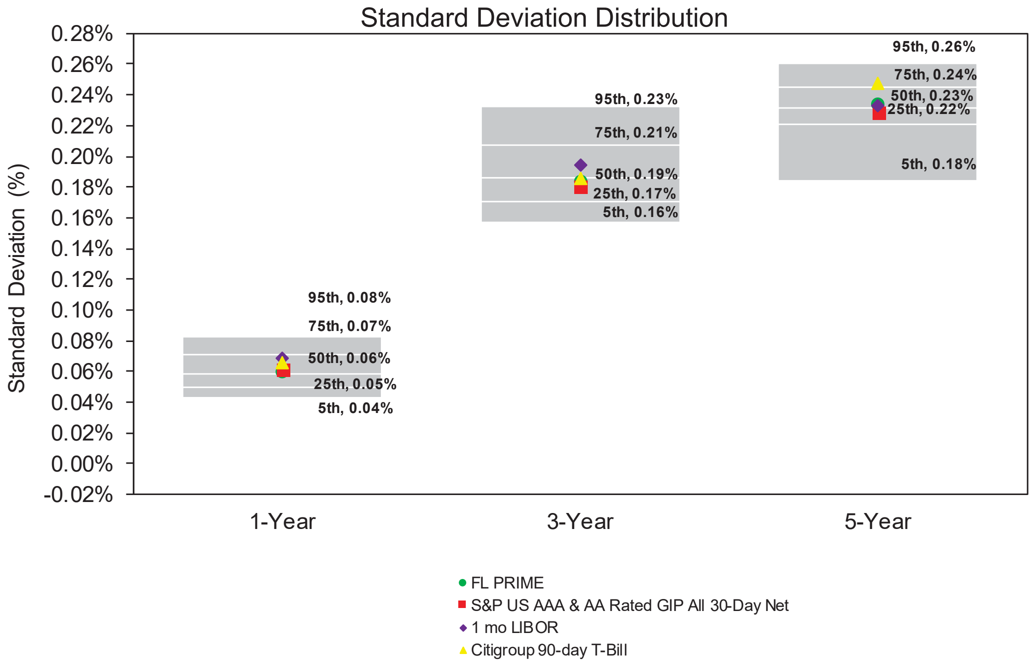
Florida PRIME Risk vs. Return
5 Years Ending 6/30/2020



Return Distribution
Periods Ending 6/30/2020



Standard Deviation Distribution
Periods Ending 6/30/2020



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Appendix

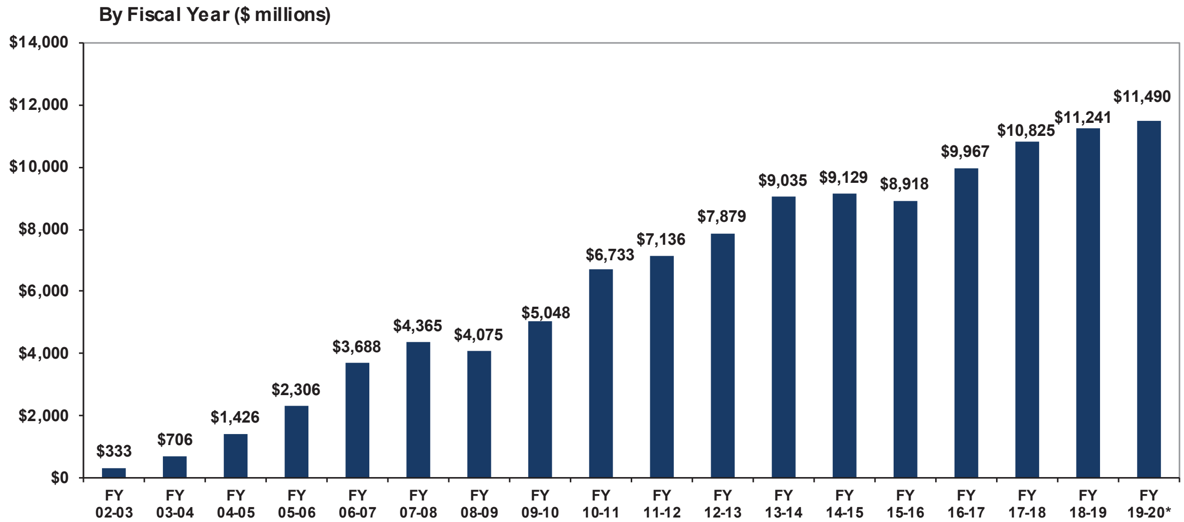
FRS Investment Plan Costs

Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity	0.14%	0.76%
Small-Mid Cap Equity	0.58%	1.02%
International Equity	0.32%	0.89%
Diversified Bonds	0.16%	0.50%
Target Date	0.15%	0.57%
Money Market	0.06%	0.20%

*Average fee of multiple products in category as of 6/30/2020.

**Source: Aon's annual mutual fund expense analysis as of 12/31/2019.

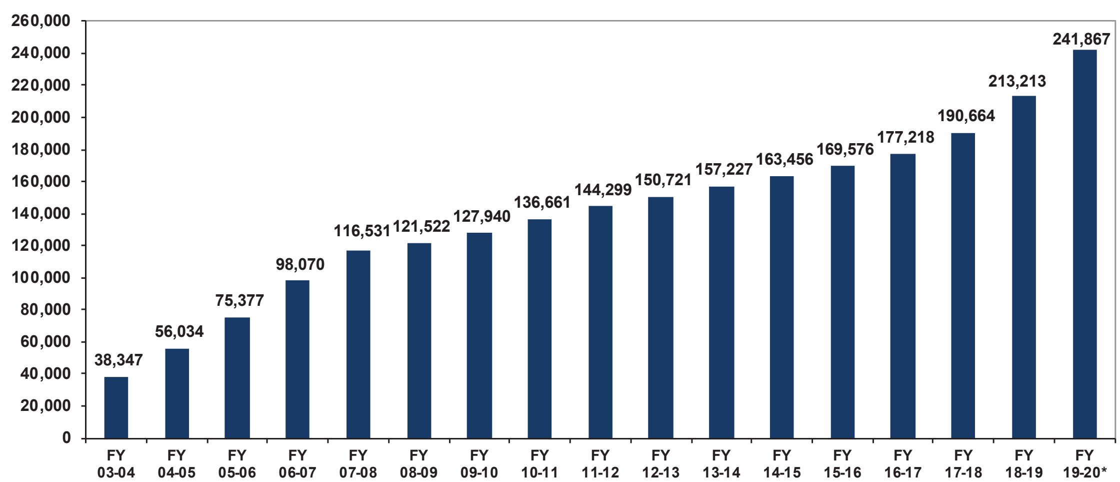
Investment Plan Fiscal Year End Assets Under Management



*Period Ending 6/30/2020

Source: Investment Plan Administrator

Investment Plan Membership



* Period Ending 6/30/2020

Source: Investment Plan Administrator

Florida Hurricane Catastrophe Funds Background and Details

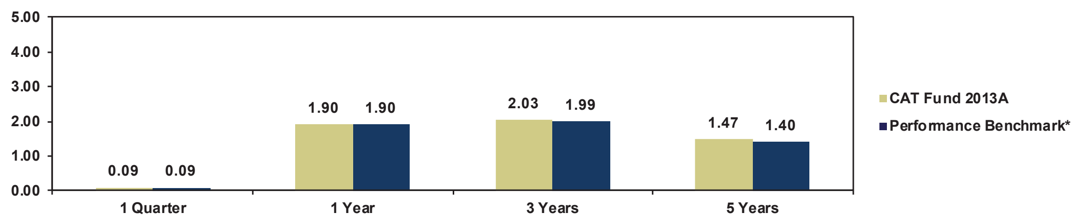
- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.

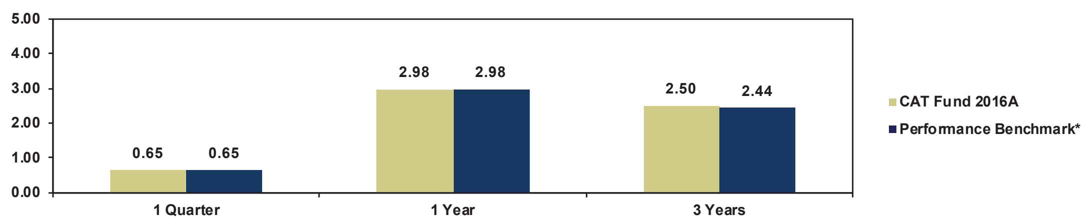
- The CAT Operating Funds, along with CAT 2016 A Fund and CAT 2013 A Fund are internally managed portfolios.

- As of June 30, 2020, the total value of:
  - The CAT Operating Funds was $12.8 billion
  - The CAT 2016 A Fund was $0.7 billion
  - The CAT 2013 A Fund was $0.04 billion

- History of the CAT Funds Benchmarks: *The CAT Operating Funds were benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month LIBOR. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. From July 2010 to September 2014, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Effective October 2014, it is a blend of the average of the Merrill Lynch 1-Yr U.S. Treasury Bill Index and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Beginning February 2018, the CAT Operating Funds were split into two different sub funds, the CAT Fund Operating Liquidity Fund and the CAT Fund Operating Claims Paying Fund. Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index, and the CAT Fund Operating Claims Paying Fund benchmark is a blend of 35% of the Bank of America Merrill Lynch 1-3 Year AA U.S. Corporate Bond Index and 65% of Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index.*

CAT 2013 A and 2016 A Funds Investment Results Periods Ending 6/30/2020





*Performance Benchmark: Beginning February 2018, the CAT 2013 A and 2016 A Funds were benchmarked to themselves.

CAT Operating Funds Characteristics
Period Ending 6/30/2020

Maturity Analysis	
1 to 30 Days	0.14%
31 to 60 Days	0.00
61 to 90 Days	3.20
91 to 120 Days	7.42
121 to 150 Days	8.98
151 to 180 Days	6.80
181 to 270 Days	0.00
271 to 365 Days	1.42
366 to 455 Days	11.50
>= 456 Days	60.54
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	73.64%
AA	22.48
A	3.88
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

CAT 2013 A Fund Characteristics
Period Ending 6/30/2020

Maturity Analysis	
1 to 30 Days	100.00%
31 to 60 Days	0.00
61 to 90 Days	0.00
91 to 120 Days	0.00
121 to 150 Days	0.00
151 to 180 Days	0.00
181 to 270 Days	0.00
271 to 365 Days	0.00
366 to 455 Days	0.00
>= 456 Days	0.00
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	100.00%
AA	0.00
A	0.00
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

CAT 2016 A Fund Characteristics
Period Ending 6/30/2020

Maturity Analysis	
1 to 30 Days	3.49%
31 to 60 Days	1.98
61 to 90 Days	4.75
91 to 120 Days	5.44
121 to 150 Days	7.95
151 to 180 Days	3.01
181 to 270 Days	18.66
271 to 365 Days	54.72
366 to 455 Days	0.00
>= 456 Days	0.00
Total % of Portfolio:	100.00%

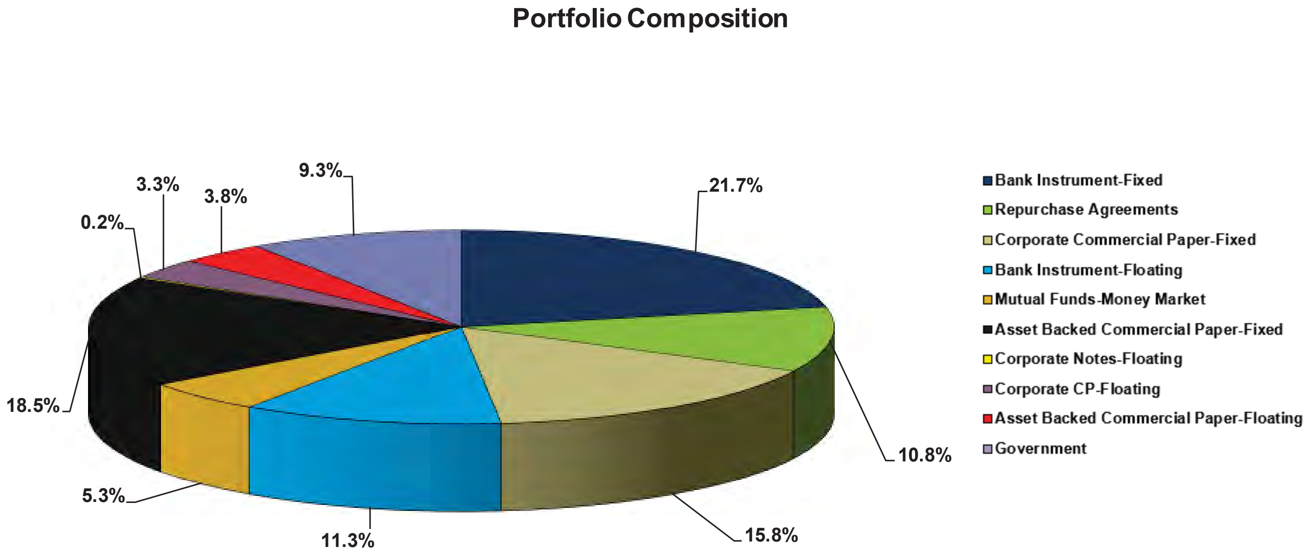
Bond Rating Analysis	
AAA	60.12%
AA	25.57
A	14.31
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

Florida PRIME Characteristics
Quarter Ending 6/30/2020

Cash Flows as of 3/31/2020	Second Quarter	Fiscal YTD*
Opening Balance	$15,952,362,003	13,435,399,194
Participant Deposits	$4,716,706,969	$28,513,722,326
Gross Earnings	$30,850,539	242,005,065
Participant Withdrawals	($5,539,901,099)	($27,027,686,489)
Fees	($1,227,054)	($4,648,739)
Closing Balance (6/30/2020)	$15,158,791,358	$15,158,791,358
Change	**($793,570,645)**	**$1,723,392,164**

*Period July 2019 – June 2020

Florida PRIME Characteristics
Quarter Ending 6/30/2020



Florida PRIME Characteristics
Period Ending 6/30/2020

Effective Maturity Schedule	
1-7 Days	37.7%
8 - 30 Days	14.7%
31 - 90 Days	24.8%
91 - 180 Days	18.7%
181+ Days	4.1%
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
A-1+	72.8%
A-1	27.2%
Total % of Portfolio:	**100.0%**

FRS Pension Plan | Second Quarter 2020

Quarterly Investment Review

Visit the Retirement and Investments Thought Leadership Site *(https://retirement-investment-insights.aon.com); sharing our best thinking.*

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Empower Results®

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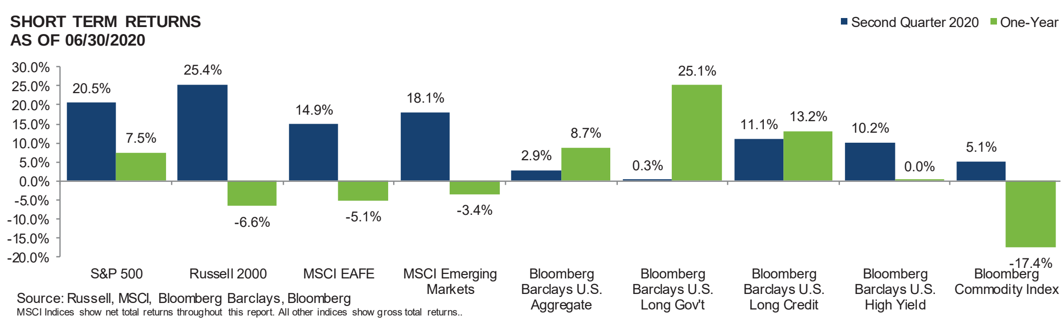
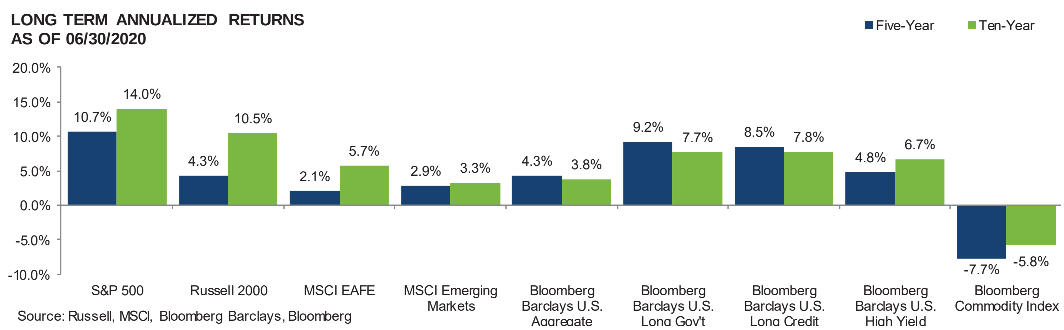
Market Environment

Market Highlights



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg
MSCI Indices show net total returns throughout this report. All other indices show gross total returns..



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Market Highlights

Returns of the Major Capital Markets

Period Ending 06/30/2020

	Second Quarter	YTD	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	19.83%	-7.06%	1.17%	5.55%	6.11%	9.10%
MSCI All Country World	19.22%	-6.25%	2.11%	6.14%	6.46%	9.16%
Dow Jones U.S. Total Stock Market	22.09%	-3.50%	6.41%	9.97%	9.97%	13.68%
Russell 3000	22.03%	-3.48%	6.53%	10.04%	10.03%	13.72%
S&P 500	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%
Russell 2000	25.42%	-12.98%	-6.63%	2.01%	4.29%	10.50%
MSCI All Country World ex-U.S. IMI	16.96%	-11.24%	-4.74%	0.96%	2.30%	5.11%
MSCI All Country World ex-U.S.	16.12%	-11.00%	-4.80%	1.13%	2.26%	4.97%
MSCI EAFE	14.88%	-11.34%	-5.13%	0.81%	2.05%	5.73%
MSCI EAFE (Local Currency)	12.60%	-10.53%	-4.24%	1.26%	2.63%	6.86%
MSCI Emerging Markets	18.08%	-9.78%	-3.39%	1.90%	2.86%	3.27%
Fixed Income						
Bloomberg Barclays Global Aggregate	3.32%	2.98%	4.22%	3.79%	3.56%	2.81%
Bloomberg Barclays U.S. Aggregate	2.90%	6.14%	8.74%	5.32%	4.30%	3.82%
Bloomberg Barclays U.S. Long Gov't	0.28%	20.97%	25.14%	11.96%	9.21%	7.71%
Bloomberg Barclays U.S. Long Credit	11.08%	5.92%	13.19%	8.70%	8.51%	7.77%
Bloomberg Barclays U.S. Long Gov't/Credit	6.23%	12.82%	18.91%	10.32%	8.98%	7.84%
Bloomberg Barclays U.S. TIPS	4.24%	6.01%	8.28%	5.05%	3.75%	3.52%
Bloomberg Barclays U.S. High Yield	10.18%	-3.80%	0.03%	3.33%	4.79%	6.68%
Bloomberg Barclays Global Treasury ex U.S.	2.39%	0.82%	0.87%	2.82%	3.23%	1.85%
JP Morgan EMBI Global (Emerging Markets)	11.21%	-1.87%	1.52%	3.31%	5.12%	5.82%
Commodities						
Bloomberg Commodity Index	5.08%	-19.40%	-17.38%	-6.14%	-7.69%	-5.82%
Goldman Sachs Commodity Index	10.47%	-36.31%	-33.90%	-8.71%	-12.54%	-8.53%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	9.08%	-3.43%	-0.54%	2.13%	2.33%	3.72%
HFRI Fund of Funds[2]	7.48%	-1.97%	0.09%	2.12%	1.41%	2.75%
Real Estate						
NAREIT U.S. Equity REITS	11.82%	-18.71%	-13.04%	0.03%	4.06%	9.05%
NCREIF NFI - ODCE	-1.55%		2.23%	5.66%	7.31%	10.80%
FTSE Global Core Infrastructure Index	8.89%	-10.59%	-4.61%	5.49%	7.01%	9.75%
Private Equity						
Burgiss Private iQ Global Private Equity[3]			15.31%	14.78%	12.30%	13.19%

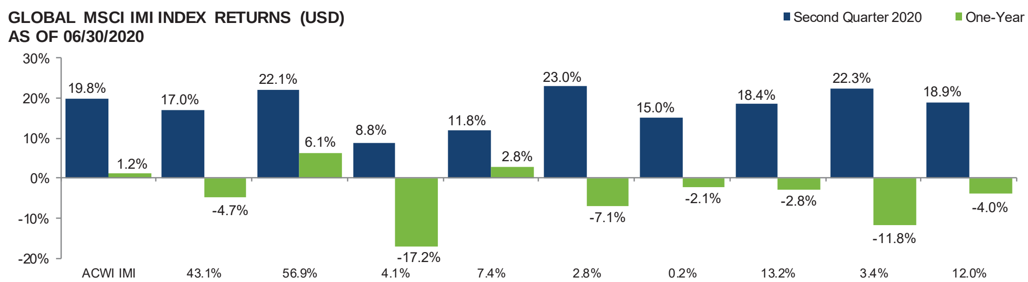
MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

[1] Periods are annualized.

[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Burgiss Private iQ Global Private Equity data is as at Dec 31, 2019

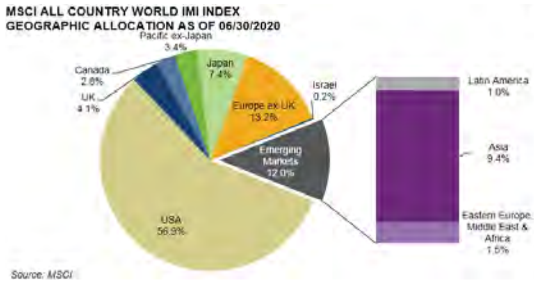
Global Equity Markets

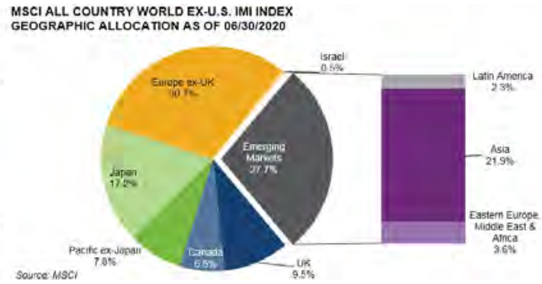


Source: MSCI

- Global equities rebounded sharply over the second quarter, recovering the bulk of losses sustained during the previous quarter's selloff. Investors appear to be willing to overlook economic data suggesting the worst recession in generations. Data on infections indicated that the "first wave" of the pandemic may have passed in many developed economies and a relatively quick re-opening of economies has boosted investor optimism. This coupled with expanding fiscal and monetary stimulus measures from governments has provided further support for markets. In local currency terms, the MSCI AC World Investable Market Index rose by 18.8% in Q2 2020. Depreciation of the U.S. dollar further pushed up the returns to 19.8% in USD terms.
- Canadian equities were the best performers with a return of 23.0% over the quarter, supported by strong returns from the Information Technology and Materials sectors.
- UK equities were the worst performer returning 8.8% over the quarter. The UK suffered the fastest monthly contraction on record as GDP plunged by 20.4% in April, the first full month of the UK's coronavirus lockdown. Meanwhile, the UK formally rejected the option to extend its post-Brexit transition period beyond the end of 2020 but did announce plans for "intensified" trade negotiations over July in a bid to break the deadlock.

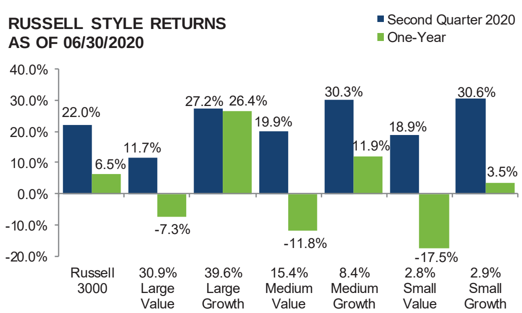
Global Equity Markets

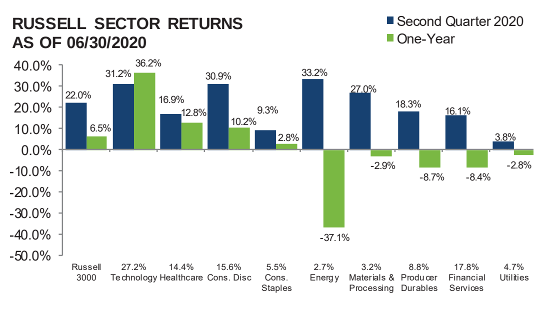




- The two exhibits on this slide illustrate the percentage that each country/region represents of the global and international equity markets as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.

U.S. Equity Markets

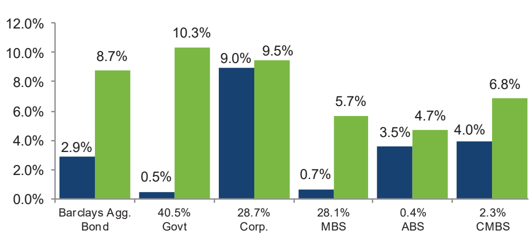




- U.S. equity markets achieved significant gains over the quarter, boosted by rebounding economic data. The U.S. unemployment rate fell from April's all-time high of 14.7% to 11.1% in June, defying analysts who have been expecting the unemployment rate to peak at close to 20%. The technology and consumer discretionary sectors provided the bulk of the gains, benefiting from increased demand for technology and e-commerce services amidst social distancing measures. The Russell 3000 Index rose 22.0% during the second quarter and 6.5% over the one-year period.
- The CBOE Volatility Index (VIX), Wall Street's "fear gauge", steadily declined over the quarter from the record highs seen in Q1. It fell from 53.5 to 30.4 over the quarter, having averaged 23.8 over the previous 12 months.
- All sectors generated positive returns over the quarter. In particular, the energy sector achieved a 33.2% return on the back of rebounding oil prices, but the sector is still 37.1% down over the past 12 months.
- Large cap stocks underperformed both medium and small cap stocks over the quarter, whilst Value stocks continued to underperform their Growth counterparts in Q2 2020.

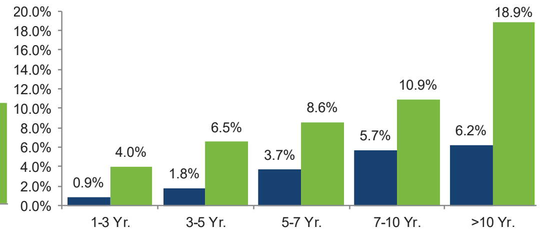
U.S. Fixed Income Markets

BLOOMBERG BARCLAYS AGGREGATE RETURNS BY SECTOR AS OF 06/30/2020



Source: FactSet

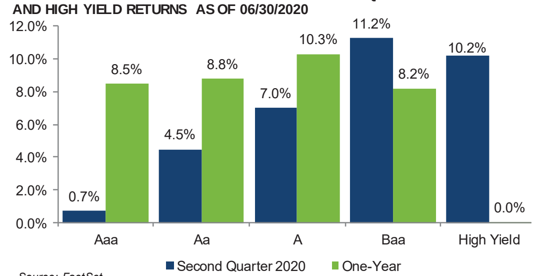
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY MATURITY AS OF 06/30/2020



Source: FactSet

- The Bloomberg Barclays U.S. Aggregate Bond Index rose by 2.9%.
- The increase in investors' risk appetite was evident in the corporate bonds space as corporate bonds rose by 9.0%.
- Corporate bonds were also boosted by the Fed's decision to start buying individual corporate bonds on the secondary market for the first time in history through its $750 billion corporate lending facility.
- High yield bonds rose by 10.2%. Within investment grade bonds, Baa bonds outperformed with a return of 11.2%.

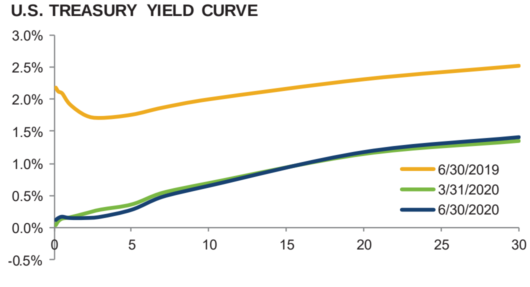
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 06/30/2020



Source: FactSet

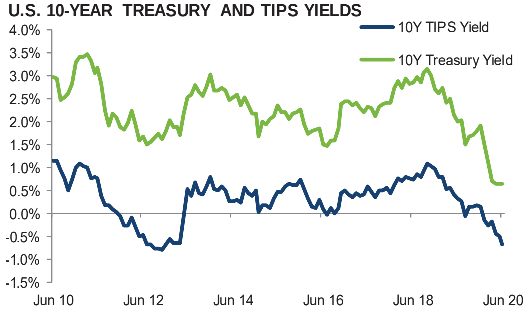
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS

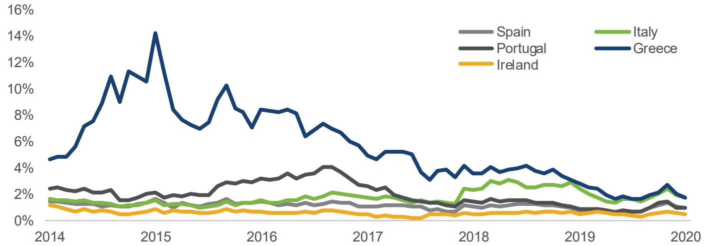


Source: U.S. Department of Treasury

- The U.S. nominal yield curve ended the quarter broadly unchanged. The Federal Reserve forecasted that the U.S. economy will contract by 6.5% this year before rebounding by 5.0% in 2021, as Fed officials signaled that interest rates will likely remain near zero until the end of 2022.
- The 10-year US treasury yield ended the quarter 4bps lower at 0.66% whilst the 30-year yield increased by 6bps to 1.41%.
- The 10-year TIPS yield fell by 51bps over the quarter to -0.68%, whilst the 10-year breakeven inflation increased from 0.87% to 1.34%. Breakeven inflation rebounded as markets appeared to be anticipating some longer-term inflationary effects from recent monetary and fiscal stimulus measures. Meanwhile, rising oil prices and the relaxation of lockdown measures also raised near-term inflationary expectations.

European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS (10-YEAR SPREADS OVER GERMAN BUNDS)



Source: FactSet

- European government bond spreads over 10-year German bunds narrowed across the Euro Area. The European Commission proposed a €750 billion recovery fund to be funded partly by issuing mutualized EU debt. The move towards fiscal burden sharing stabilised the spread between peripheral and core Eurozone government bonds, reducing a source of friction within the Eurozone. Meanwhile, the European Central Bank (ECB) increased the size of its asset purchases under the Pandemic Emergency Purchase Program by an additional €600 billion to €1.35 trillion and extended the program until June 2021.
- German government bund yields rose by 1bp to -0.48% over the quarter. The Eurozone recorded a quarter-on-quarter growth rate of -3.8%, the worst economic contraction since the Eurozone was formed. France, which was amongst the first European countries to be locked down, recorded a quarter-on-quarter contraction of 5.8% in Q1, its worst GDP figure since 1945, whilst the German economy contracted by 2.2%.
- Greek and Portuguese government bond yields fell by 41bps and 39bps to 1.20% and 0.47% respectively.

Credit Spreads

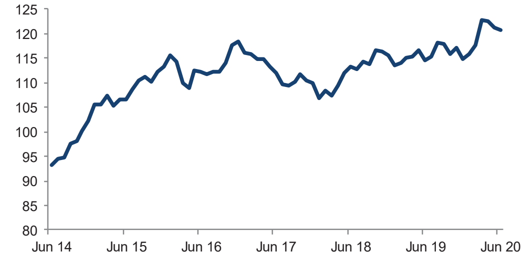
Spread (bps)	06/30/2020	03/31/2020	06/30/2019	Quarterly Change (bps)	One-Year Change (bps)
U.S. Aggregate	68	95	46	-27	22
Long Gov't	1	4	1	-3	0
Long Credit	202	279	161	-77	41
Long Gov't/Credit	120	151	92	-31	28
MBS	70	60	46	10	24
CMBS	132	188	69	-56	63
ABS	68	213	41	-145	27
Corporate	150	272	115	-122	35
High Yield	626	880	377	-254	249
Global Emerging Markets	393	619	282	-226	111

Source: FactSet, Bloomberg Barclays

- Credit assets rebounded strongly, benefiting from a broad risk asset recovery due to improving investor sentiment and reduced coronavirus fears. Credit spreads reversed much of last quarter's spike, boosted by huge fiscal and monetary stimulus measures.
- Credit spreads over U.S. Treasuries narrowed over the quarter (except MBS).
- Riskier areas of credit, such as US high yield bonds and emerging market debt also performed well. Boosted by the Federal Reserve's decision to expand its quantitative easing programmes to include some non-investment grade credit, High Yield credit spreads narrowed significantly in Q2 2020, decreasing by 254bps.

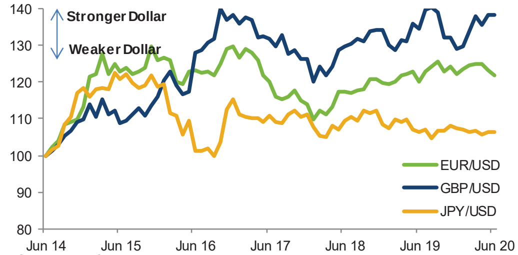
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX (1973 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY REBASED TO 100 AT 06/30/2014

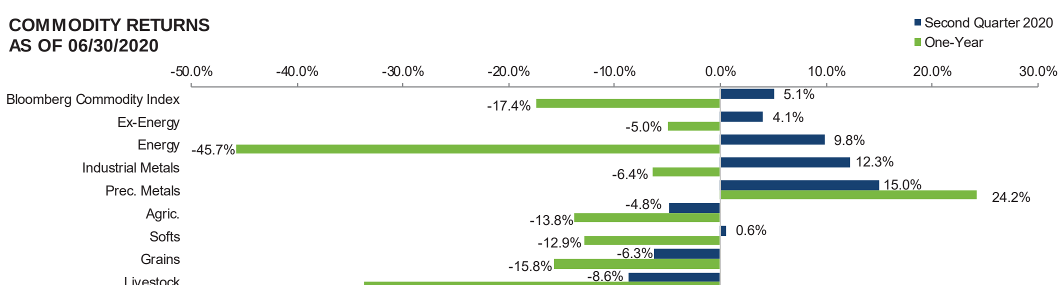


Source: FactSet

- The U.S. dollar generally weakened against major currencies over the quarter as it fell 1.6% on a trade-weighted basis. The safe haven fund flows which supported the dollar over the first quarter was partially reversed in Q2 on the back of easing coronavirus concerns. U.S. dollar depreciated against euro and yen but marginally appreciated against sterling.
- Sterling fell by 2.2% on a trade-weighted basis over the quarter. The increasing prospects of negative rates in the UK made holding sterling assets less attractive, whilst a weak economic outlook and ongoing Brexit uncertainty also weighed on sterling. Sterling depreciated by 0.4% against the U.S. dollar.
- The U.S. dollar depreciated by 2.3% and 0.1% against the euro and yen, respectively.

Commodities

COMMODITY RETURNS AS OF 06/30/2020

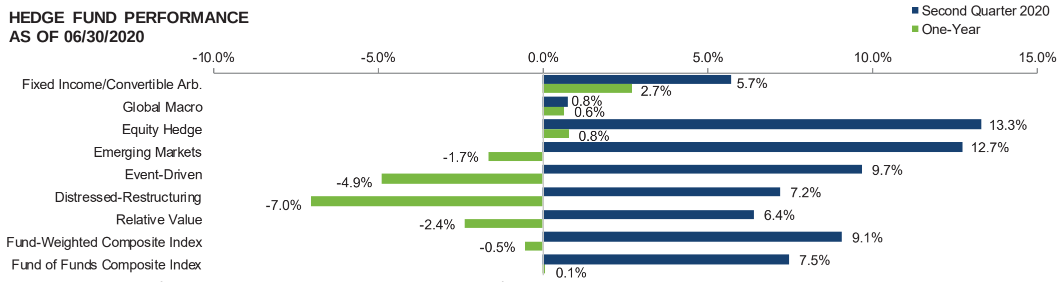


Source: Bloomberg
Note: Softs and Grains are part of the wider Agriculture sector

- Commodities rose over the quarter which saw the Bloomberg Commodity Index return 5.1%.
- The Energy sector rose by 9.8% over the quarter. Oil had an especially turbulent quarter as U.S oil futures prices fell into negative territory for the first time ever when the price of West Texas Intermediate (WTI) futures expiring in May closed at -$37.63 on April 20th. Investors faced storage facility shortages and a decreasing demand, leaving them with no choice but to pay in order to not receive physical barrels. To combat the growing imbalance between supply and demand OPEC+, led by Saudi Arabia and Russia, implemented record setting production cuts in May. An increase in global travel along with the supply cuts created major tailwinds for oil later in the quarter.
- The price of Brent crude oil recovered and sharply rose by 81.0% to $41/bbl. and WTI crude oil spot prices rose by 91.7% to $39/bbl. On a one-year basis, the Energy sector is down by 46%.
- Livestock was the worst performing sector, falling by 8.6% in Q2 2020.

Hedge Fund Markets Overview

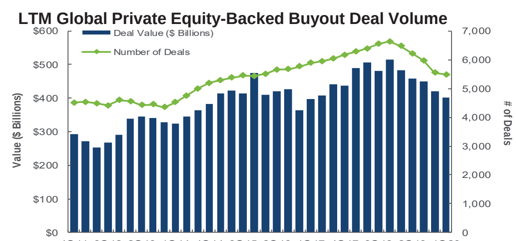
HEDGE FUND PERFORMANCE AS OF 06/30/2020



Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was positive across all strategies in the second quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 9.1% and 7.5%, respectively.
- Equities-oriented strategies performed well amidst a broad risk assets rally. Equity Hedge and Emerging Markets strategies were the best performers over the quarter, returning 13.3% and 12.7%, respectively.

Private Equity Market Overview – Q1 2020



Source: Preqin

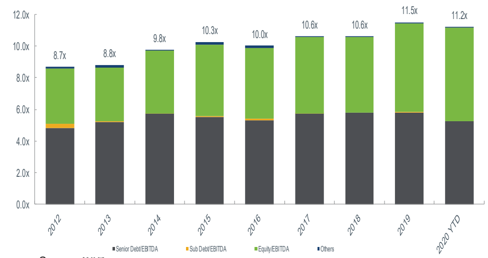
- **Fundraising:** In 1Q 2020, $190.7 billion was raised by 373 funds, which was a decrease of 29.8% on a capital basis and 32.2% by number of funds over the prior quarter. Dry powder stood at nearly $2.2 trillion at the end of the quarter, a modest increase compared to the previous quarter.[1]
- **Buyout:** Global private equity-backed buyout deals totaled $95.0 billion in 1Q 2020, which was down 0.5% on a capital basis and up 7.5% by number of deals from 4Q 2019.[1] Through the end of 1Q 2020, the average purchase price multiple for all U.S. LBOs was 11.2x EBITDA, a decrease of 0.3x over year-end 2019 but higher than the five-year average (10.6x).[2] Large cap purchase price multiples stood at 10.9x, down compared to the full-year 2019 level of 11.4x.[2] The weighted average purchase price multiple across all European transaction sizes averaged 12.2x EBITDA for 1Q 2020, up significantly from the 10.9x multiple seen at the end of 4Q 2019. Purchase prices for transactions of greater than €1.0 billion increased to 12.1x at the end of 1Q 2020, a jump from the 11.2x seen at year-end 2019. Globally, exit value totaled $76.0 billion from 496 deals during the first quarter, down from the $84.2 billion in exits from 458 deals during 4Q 2019.[1]
- **Venture:** During the first quarter, 1,271 venture-backed transactions totaling $26.4 billion were completed in the U.S., which was an increase on a capital basis over the prior quarter's total of $23.3 billion across 1,399 deals. This was 17.5% higher than the five-year quarterly average of $22.5 billion.[3] Total U.S. venture-backed exit activity totaled approximately $19.3 billion across 183 completed transactions in 1Q 2020, down on a capital basis from the $24.2 billion across 215 exits in 4Q 2019. 1Q 2020's U.S. exit activity represented only 7.3% of 2019's total.[4]
- **Mezzanine:** Six funds closed on $2.3 billion during the first quarter. This was down from the prior quarter's total of $3.2 billion raised by eight funds and represented 47.4% of the five-year quarterly average of $4.9 billion. Estimated dry powder was $48.5 billion at the end of 1Q 2020, up from the $44.6 billion seen at the end of 2019.[1]

Sources: [1] Preqin [2] Standard & Poor's [3] PwC/CB Insights MoneyTree Report [4] PitchBook/NVCA Venture Monitor [5] Fitch Ratings [6] Thomson Reuters [7] UBS

Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

Private Equity Market Overview – Q1 2020

U.S. LBO Purchase Price Multiples – All Transactions Sizes



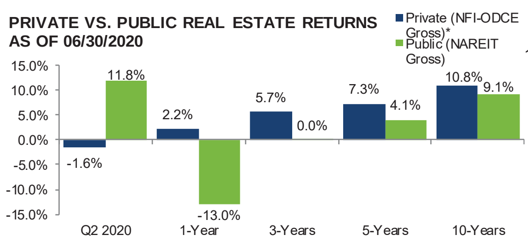
Source: S&P

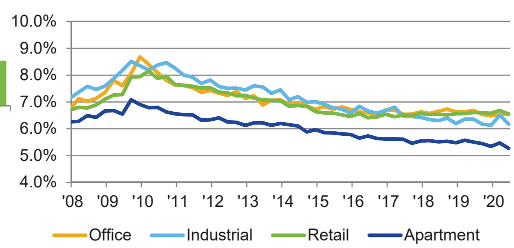
- **Distressed Debt:** The LTM U.S. high-yield default rate was 2.9% as of March 2020, and was expected to increase substantially during the following quarter.[5] During the quarter, $4.5 billion was raised by nine funds, lower than both the $22.3 billion raised by 24 funds in 4Q 2019 and the five-year quarterly average of $11.4 billion.[1] Dry powder was estimated at $117.0 billion at the end of 1Q 2020, which was down slightly from the $117.2 billion seen at the end of 4Q 2019. This remained above the five-year annual average level of $109.4 billion.[1]
- **Secondaries:** 12 funds raised $20.8 billion during the quarter, up significantly from the $5.1 billion raised by 10 funds in 4Q 2019. This was the largest amount raised since 1Q 2017 when 14 funds raised $20.1 billion.[1] At the end of 1Q 2020, there were an estimated 79 secondary and direct secondary funds in market targeting roughly $73.6 billion.[1] The average discount rate for all private equity sectors finished the quarter at 18.1%, significantly lower than the 9.4% discount at the end of 4Q 2019.[6]
- **Infrastructure:** $39.6 billion of capital was raised by 24 funds in 1Q 2020 compared to $47.8 billion of capital raised by 38 partnerships in 4Q 2019. At the end of the quarter, dry powder stood at an estimated $220.7 billion, up from 4Q 2019's total of $212.1 billion. Infrastructure managers completed 603 deals with an estimated aggregate deal value of $79.4 billion in 1Q 2020 compared to 730 deals totaling $149.1 billion a quarter ago.[1]
- **Natural Resources:** During 1Q 2020, six funds closed on $4.6 billion compared to eleven funds totaling $2.6 billion in 4Q 2019. Energy and utilities industry managers completed approximately 39 deals totaling an estimated $5.3 billion through 1Q 2020, which represented 31.2% of energy and utilities deal value during 2019.[1]

Sources: [1] Preqin [2] Standard & Poor's [3] PwC/CB Insights MoneyTree Report [4] PitchBook/NVCA Venture Monitor [5] Fitch Ratings [6] Thomson Reuters [7] UBS

Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

U.S. Commercial Real Estate Markets





Second quarter returns are preliminary
Sources: NCREIF, FactSet

- U.S. Core Real Estate returned -1.55%* over the second quarter, equating to a 2.2% total gross return year-over-year, including a 3.7% income return. Shelter in place orders and social distancing practices have most severely impacted retail and hotel property sectors. Property valuations have begun to price in the loss of cash flow as a result of COVID-19. Transaction volume has contracted substantially, and price discovery continues to be limited.
- Global property markets, as measured by the FTSE EPRA/NAREIT Developed Real Estate Index, returned 10.3% (USD) in aggregate during the second quarter and experienced a cumulative decline of -20.9% YTD. REIT market performance was driven by Asia Pacific (10.8% USD), North America (11.7% USD) and Europe (4.2% USD). The U.S. REIT markets (FTSE NAREIT Equity REITs Index) returned 11.8% in the second quarter. The U.S. 10-year treasury bond yields remained flat during the quarter (0.66%).
- The coronavirus fueled market volatility and decline in the stock and bond markets has created a situation of uncertainty for private real estate pricing. Public markets are searching for the right pricing level in light of the global pandemic, and how it will affect the regional and global economies. Implied volatility continues to signal elevated levels of uncertainty concerning public market implied valuations. Considering this situation, we are recommending that investments with pre-specified assets be postponed. Private market transactions based on appraisal valuations lag the most current information, and they do not fully reflect the current market conditions.
- We are proactively evolving our investment strategy. In the post-coronavirus world, supply chains may move back to North America which will require corresponding real estate infrastructure. Demand for last mile logistics, already a key investment theme, will accelerate. Live and work preference changes will create opportunities. Interest rates are likely to remain lower for even longer, making real estate a very compelling alternative to fixed income investments.
- Blind pool funds offer a potential to have capital available when the new opportunity set presents itself. Those strategies need careful review in light of the changing market dynamics. Strategies that worked previously in a growth-oriented market may not be appropriate for what may be more opportunistic style investing. Regions, countries and property types all need to be reevaluated.

*Indicates preliminary NFI-ODCE data gross of fees

Total Fund

As of June 30, 2020

Highlights

Executive Summary

- The Total Fund outperformed the Performance Benchmark over the trailing one-, three-, five-, and ten-year periods, but underperformed during the quarter.
- Performance relative to peers is also competitive over short- and long-term time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
- Public market asset class investments do not significantly deviate from their broad market based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
- Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, or investment strategy.
- Asset allocation is monitored on a daily basis to ensure the actual asset allocation of the plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Investments and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

Performance Highlights

- The Total Fund outperformed the Performance Benchmark over the trailing one-, three-, five-, and ten-year periods.

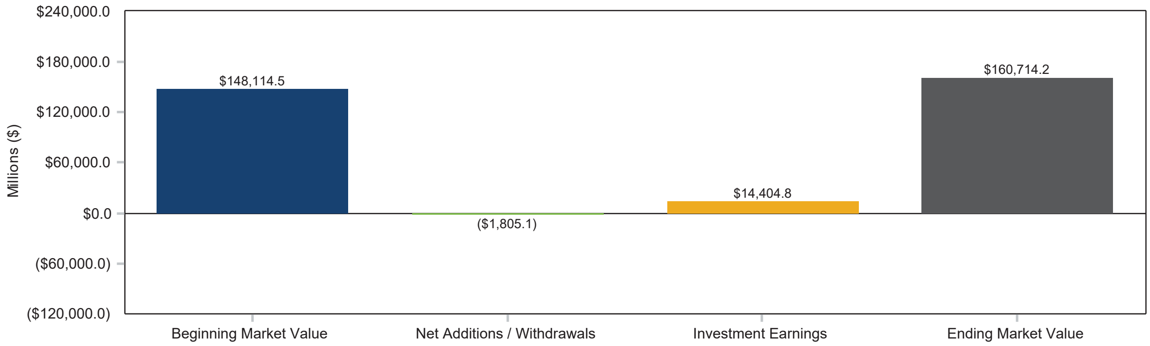
Asset Allocation

- The Fund assets total $160.7 billion as of June 30, 2020, which represents a $12.6 billion increase since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges and in line with the current policy at quarter-end.

Total Fund As of June 30, 2020

Total Plan Asset Summary

Change in Market Value
From April 1, 2020 to June 30, 2020



Summary of Cash Flow

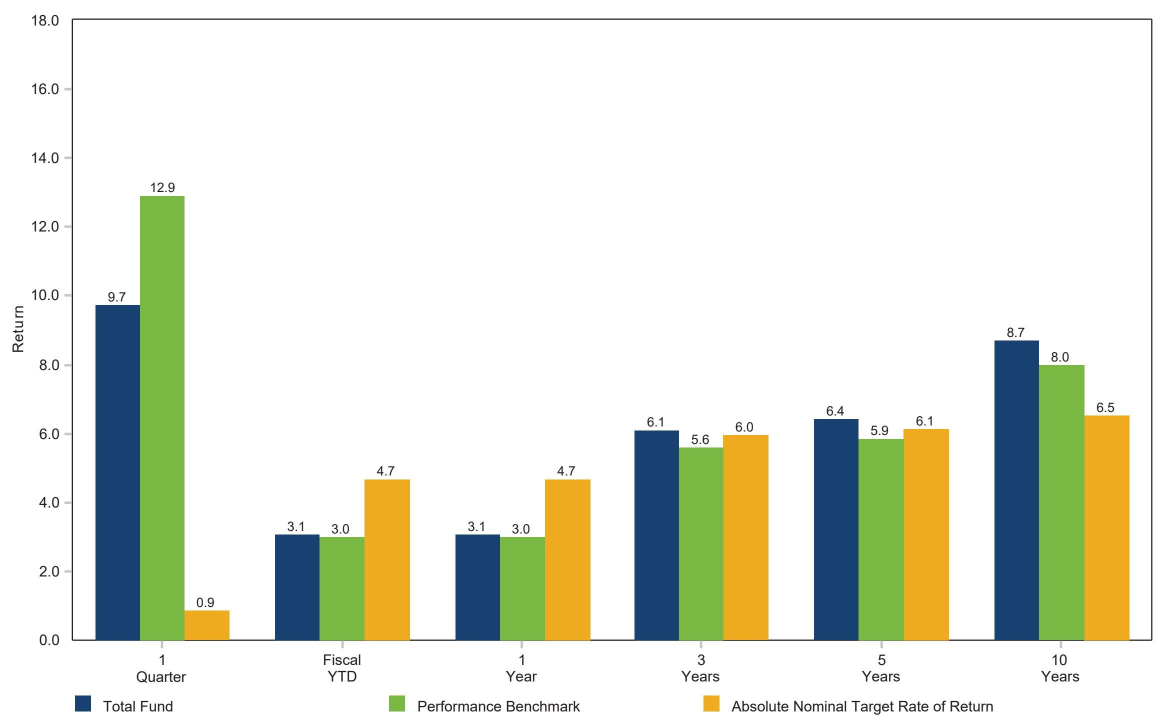
	1 Quarter	Fiscal YTD*
Beginning Market Value	148,114,499,286	163,135,205,913
+ Additions / Withdrawals	-1,805,052,137	-7,320,569,900
+ Investment Earnings	14,404,756,554	4,899,567,690
= Ending Market Value	160,714,203,703	160,714,203,703

*Period July 2019 - June 2020

Total Fund As of June 30, 2020

Total Plan Performance Summary

Return Summary



As of June 30, 2020

Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value ($)	%	Policy(%)	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years
Total Fund	160,714,203,703	100.0	100.0	9.7 (56)	3.1 (22)	3.1 (22)	6.1 (20)	6.4 (13)	8.7 (13)
Performance Benchmark				12.9 (14)	3.0 (23)	3.0 (23)	5.6 (30)	5.9 (28)	8.0 (36)
Absolute Nominal Target Rate of Return				0.9 (100)	4.7 (7)	4.7 (7)	6.0 (21)	6.1 (18)	6.5 (85)
Global Equity*	86,914,257,836	54.1	53.9	20.1	2.1	2.1	6.2	6.8	9.9
Asset Class Target				19.9	1.3	1.3	5.6	6.1	9.1
Domestic Equities	42,825,285,081	26.6		22.0 (45)	5.7 (22)	5.7 (22)	9.7 (19)	9.6 (20)	13.6 (20)
Asset Class Target				22.0 (43)	6.5 (18)	6.5 (18)	10.0 (15)	10.0 (17)	13.7 (18)
Foreign Equities	33,963,866,321	21.1		18.6 (29)	-1.9 (32)	-1.9 (32)	2.1 (37)	3.6 (33)	6.4 (26)
Asset Class Target				17.0 (62)	-4.6 (59)	-4.6 (59)	1.0 (70)	2.3 (67)	5.1 (75)
Global Equities	8,646,476,165	5.4		17.5	0.7	0.7	6.1	6.7	9.7
Benchmark				19.3	2.8	2.8	6.7	6.8	9.7
Fixed Income	29,334,978,008	18.3	18.8	3.1 (87)	6.8 (65)	6.8 (65)	4.4 (80)	3.5 (93)	3.8 (87)
Asset Class Target				2.1 (94)	6.6 (66)	6.6 (66)	4.3 (82)	3.4 (95)	3.3 (95)
Private Equity	11,615,815,740	7.2	7.4	-6.6	3.4	3.4	12.0	12.0	13.0
Asset Class Target				20.2	4.2	4.2	8.6	9.1	14.0
Real Estate	15,629,056,068	9.7	9.8	-0.1 (32)	1.6 (71)	1.6 (71)	5.3 (67)	7.4 (61)	10.9 (21)
Asset Class Target				1.7 (12)	2.3 (59)	2.3 (59)	5.4 (64)	7.2 (65)	10.3 (41)
Strategic Investments	14,347,154,068	8.9	9.0	-3.4	0.0	0.0	4.3	4.9	8.2
Short-Term Target				4.6	1.5	1.5	4.4	4.1	6.0
Cash	2,872,941,983	1.8	1.0	0.1	1.5	1.5	1.7	1.2	0.8
Bank of America Merrill Lynch 3-Month US Treasury Index				0.0	1.6	1.6	1.8	1.2	0.6

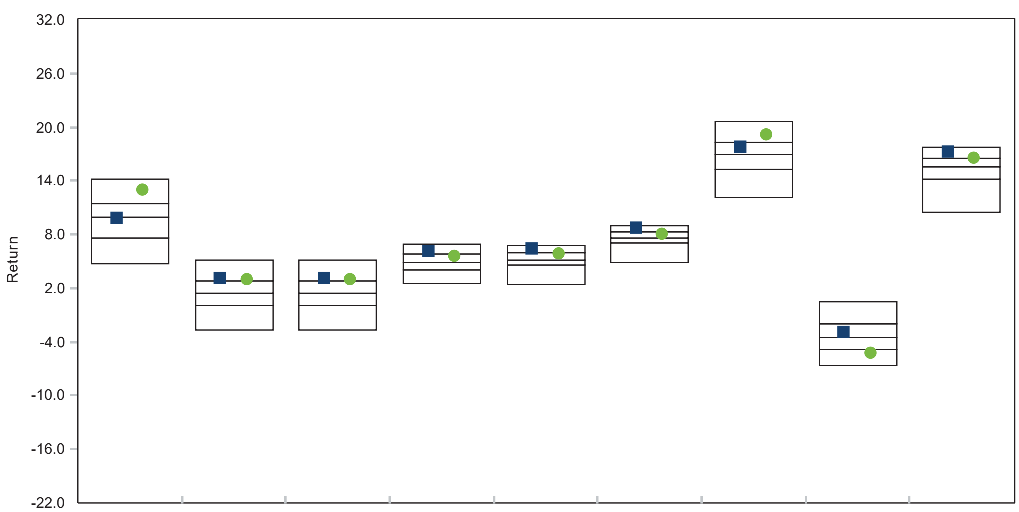
Benchmark and universe descriptions can be found in the Appendix.
* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

AON Empower Results®

As of June 30, 2020

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-Total Fund



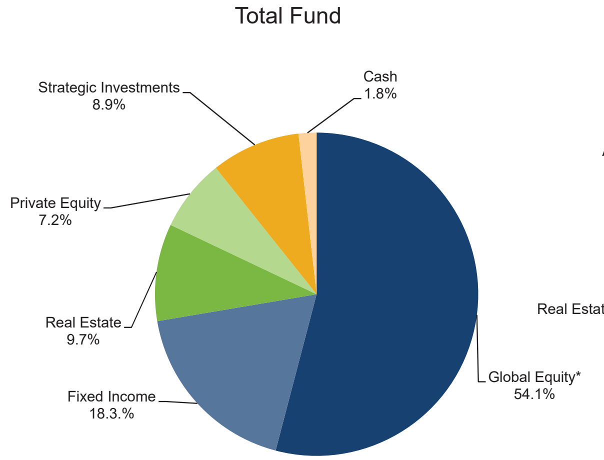
	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2019	2018	2017
■ Total Fund	9.7 (56)	3.1 (22)	3.1 (22)	6.1 (20)	6.4 (13)	8.7 (13)	17.8 (32)	-3.0 (40)	17.2 (9)
● Performance Benchmark	12.9 (14)	3.0 (23)	3.0 (23)	5.6 (30)	5.9 (28)	8.0 (36)	19.1 (17)	-5.2 (78)	16.5 (26)
5th Percentile	14.2	5.1	5.1	6.9	6.8	9.0	20.6	0.5	17.7
1st Quartile	11.5	2.9	2.9	5.8	5.9	8.2	18.3	-1.9	16.5
Median	10.0	1.4	1.4	4.9	5.2	7.6	16.9	-3.5	15.6
3rd Quartile	7.7	0.0	0.0	4.0	4.6	7.0	15.3	-4.9	14.2
95th Percentile	4.7	-2.7	-2.7	2.6	2.4	4.8	12.1	-6.7	10.4
Population	144	143	143	141	139	132	169	130	105

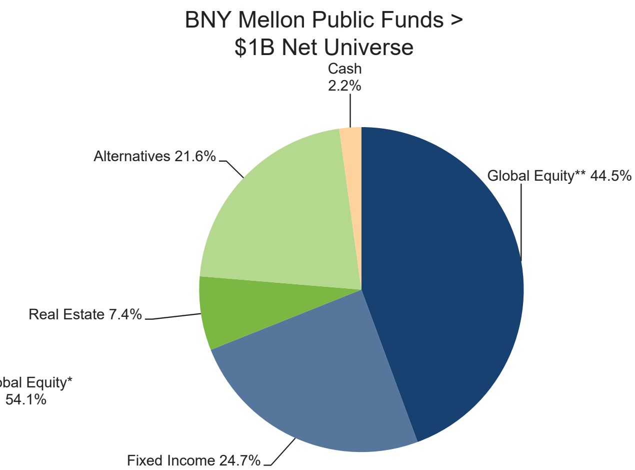
Parentheses contain percentile rankings.

AON Empower Results®

Total Fund | As of June 30, 2020

Universe Asset Allocation Comparison



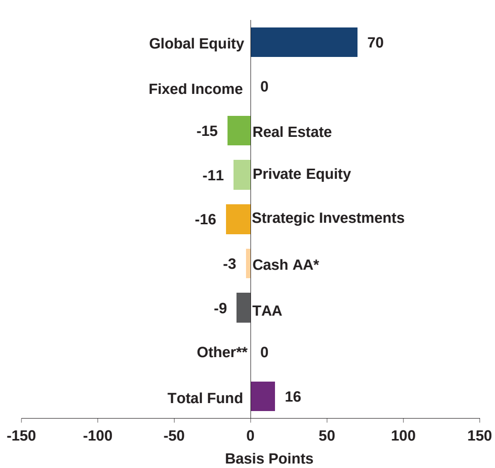


*Global Equity Allocation: 26.6% Domestic Equities; 21.1% Foreign Equities; 5.4% Global Equities; 1.0% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

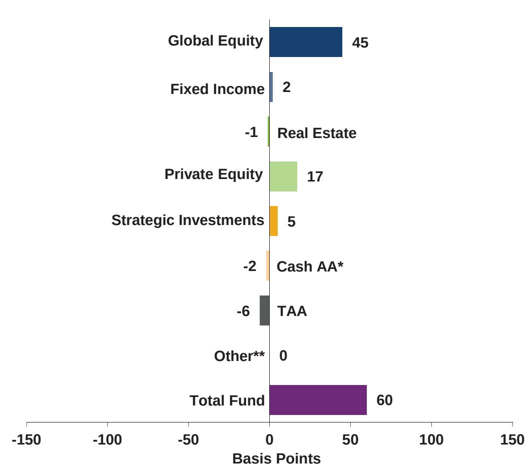
**Global Equity Allocation: 26.3% Domestic Equities; 18.2% Foreign Equities.

Total Fund | As of June 30, 2020

Attribution



1-Year Ending 6/30/2020



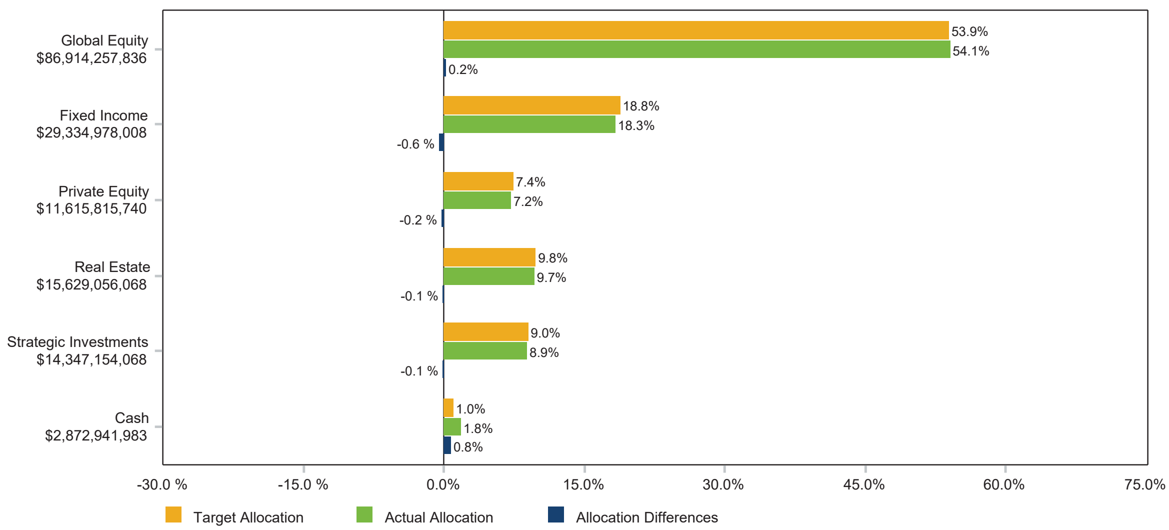
5-Year Ending 6/30/2020

*Cash AA includes Cash and Central Custody, Securities Lending Account income from 12/2009 to 3/2013 and unrealized gains and losses on securities lending collateral beginning June 2013, TF STIPFRS NAV Adjustment Account, and the Cash Expense Account.

**Other includes legacy accounts and unexplained differences due to methodology.

Asset Allocation Compliance

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	160,714,203,703	100.0	100.0		
Global Equity	86,914,257,836	54.1	53.9	45.0	70.0
Fixed Income	29,334,978,008	18.3	18.8	10.0	26.0
Private Equity	11,615,815,740	7.2	7.4	2.0	9.0
Real Estate	15,629,056,068	9.7	9.8	4.0	16.0
Strategic Investments	14,347,154,068	8.9	9.0	0.0	16.0
Cash	2,872,941,983	1.8	1.0	0.3	5.0



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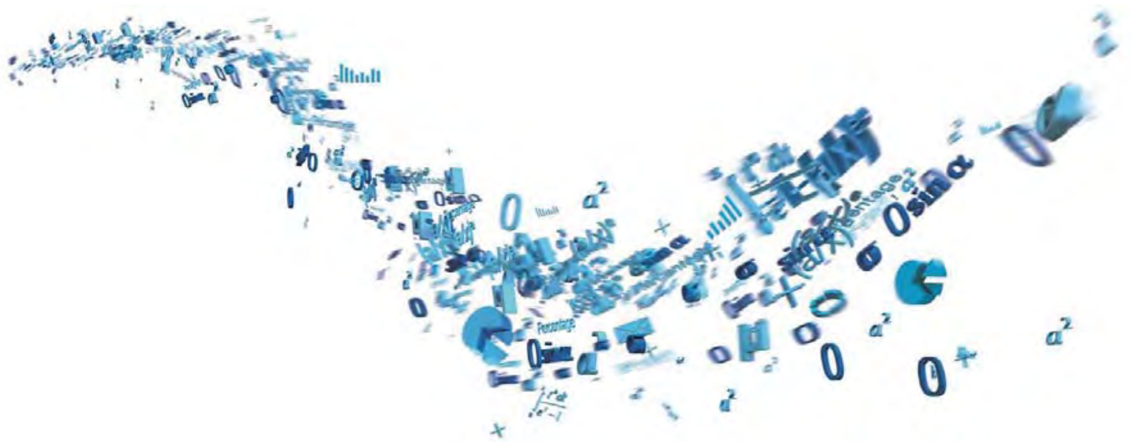


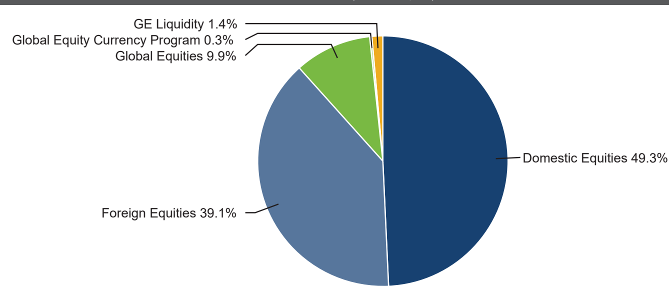
Global Equity

Global Equity* As of June 30, 2020

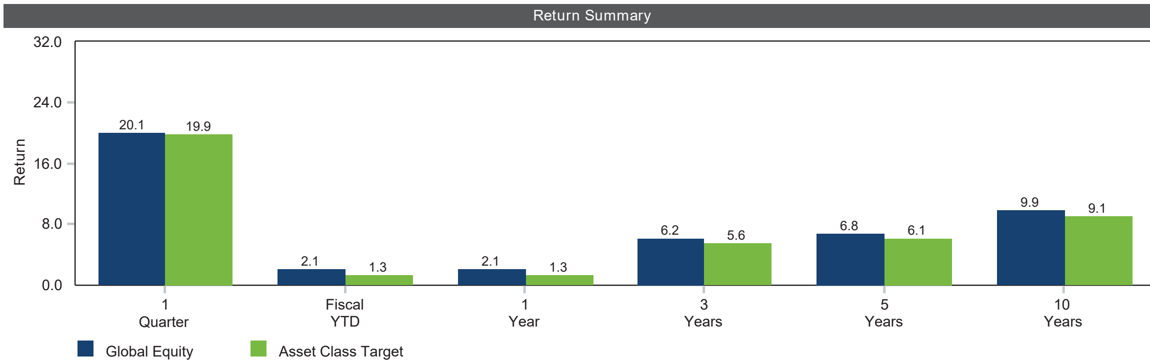
Global Equity* Portfolio Overview

Current Allocation

June 30, 2020 : $86,907M



Return Summary



* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

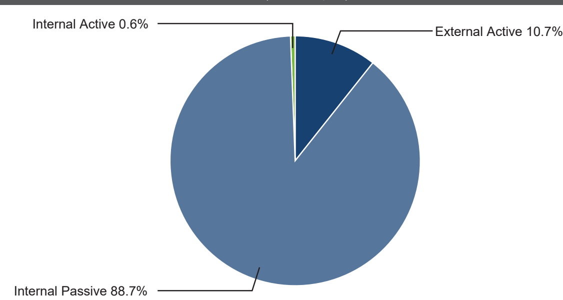
Domestic Equities

Domestic Equities As of June 30, 2020

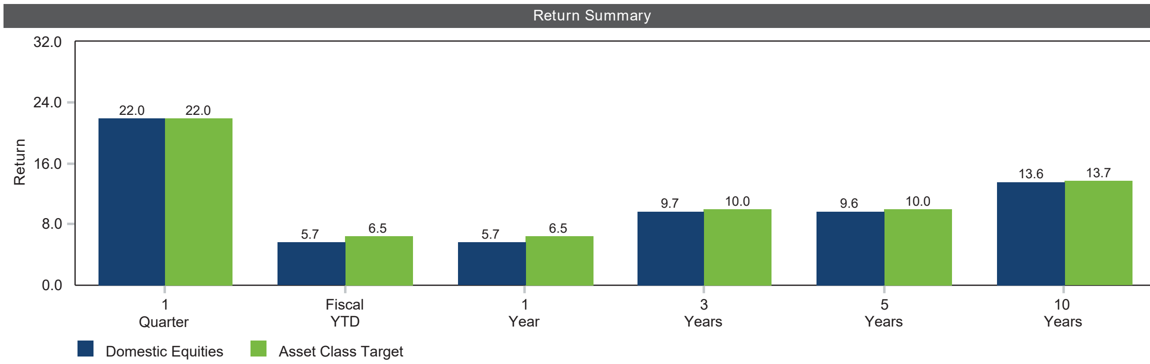
Domestic Equities Portfolio Overview

Current Allocation

June 30, 2020 : $42,825M

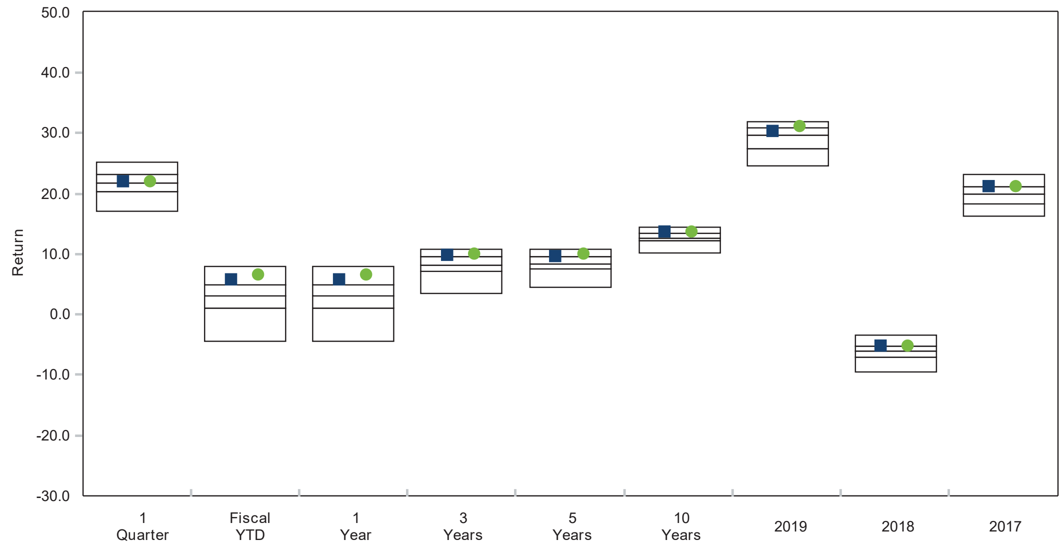


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > $1B-US Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2019	2018	2017
■ Domestic Equities	22.0 (45)	5.7 (22)	5.7 (22)	9.7 (19)	9.6 (20)	13.6 (20)	30.4 (34)	-5.2 (23)	21.2 (21)
● Asset Class Target	22.0 (43)	6.5 (18)	6.5 (18)	10.0 (15)	10.0 (17)	13.7 (18)	31.0 (23)	-5.2 (25)	21.1 (25)
5th Percentile	25.2	7.9	7.9	10.8	10.7	14.5	31.9	-3.4	23.3
1st Quartile	23.1	4.9	4.9	9.6	9.5	13.4	30.9	-5.2	21.1
Median	21.8	3.1	3.1	8.2	8.4	12.7	29.8	-6.1	19.9
3rd Quartile	20.4	1.1	1.1	7.1	7.5	12.1	27.4	-7.1	18.3
95th Percentile	17.2	-4.5	-4.5	3.5	4.6	10.3	24.7	-9.4	16.3
Population	53	52	52	48	46	31	52	53	58

Parentheses contain percentile rankings.

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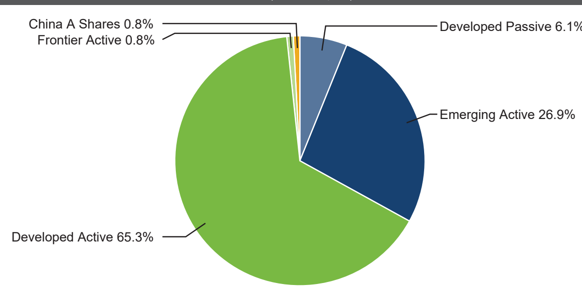
Foreign Equities

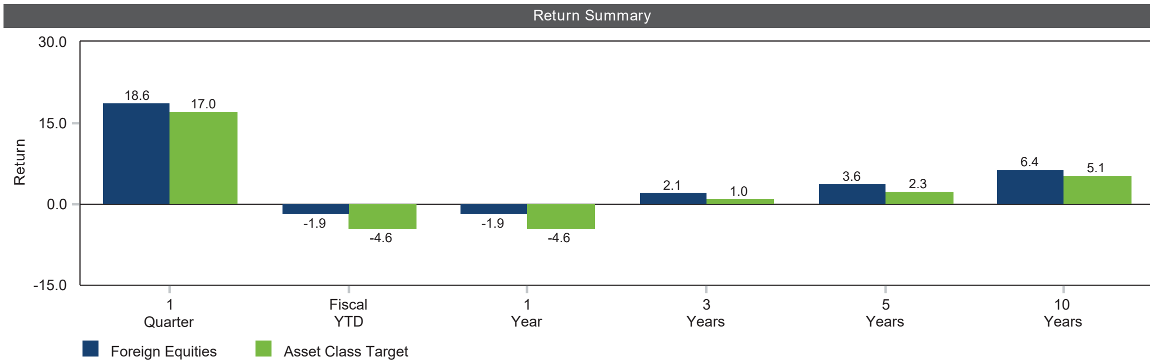
Foreign Equities Portfolio Overview

Current Allocation

June 30, 2020 : $33,964M

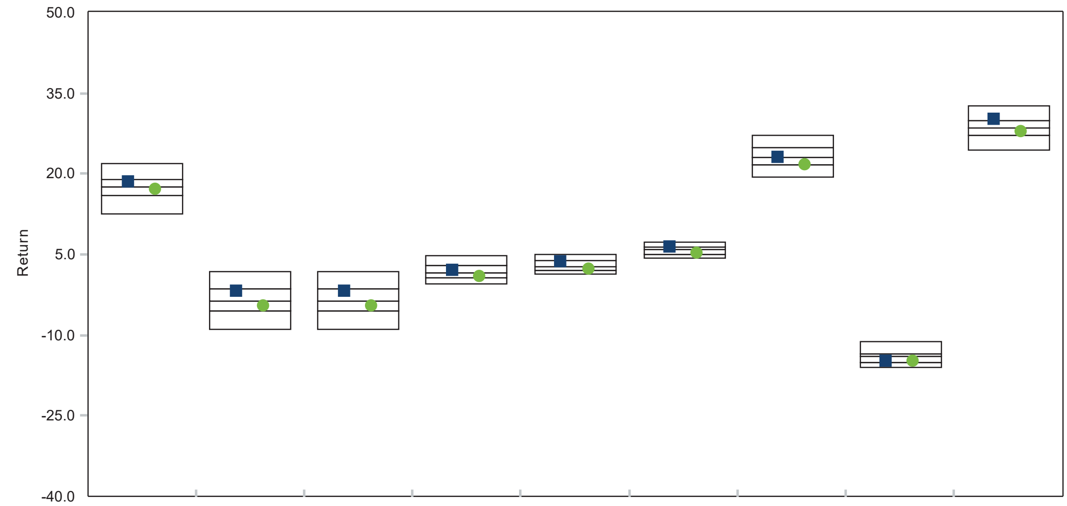


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > $1B-Intl. Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2019	2018	2017
■ Foreign Equities	18.6 (29)	-1.9 (32)	-1.9 (32)	2.1 (37)	3.6 (33)	6.4 (26)	23.1 (50)	-14.9 (72)	30.2 (19)
● Asset Class Target	17.0 (62)	-4.6 (59)	-4.6 (59)	1.0 (70)	2.3 (67)	5.1 (75)	21.7 (77)	-14.8 (71)	27.9 (63)
5th Percentile	22.0	1.8	1.8	4.8	5.1	7.3	27.2	-11.3	32.7
1st Quartile	19.0	-1.4	-1.4	3.0	3.9	6.4	24.9	-13.5	29.8
Median	17.6	-3.8	-3.8	1.6	2.8	5.8	23.1	-14.0	28.6
3rd Quartile	16.1	-5.6	-5.6	0.6	2.0	5.1	21.8	-15.0	27.2
95th Percentile	12.6	-8.8	-8.8	-0.4	1.3	4.3	19.4	-15.9	24.5
Population	58	54	54	52	50	32	53	55	59

Parentheses contain percentile rankings.

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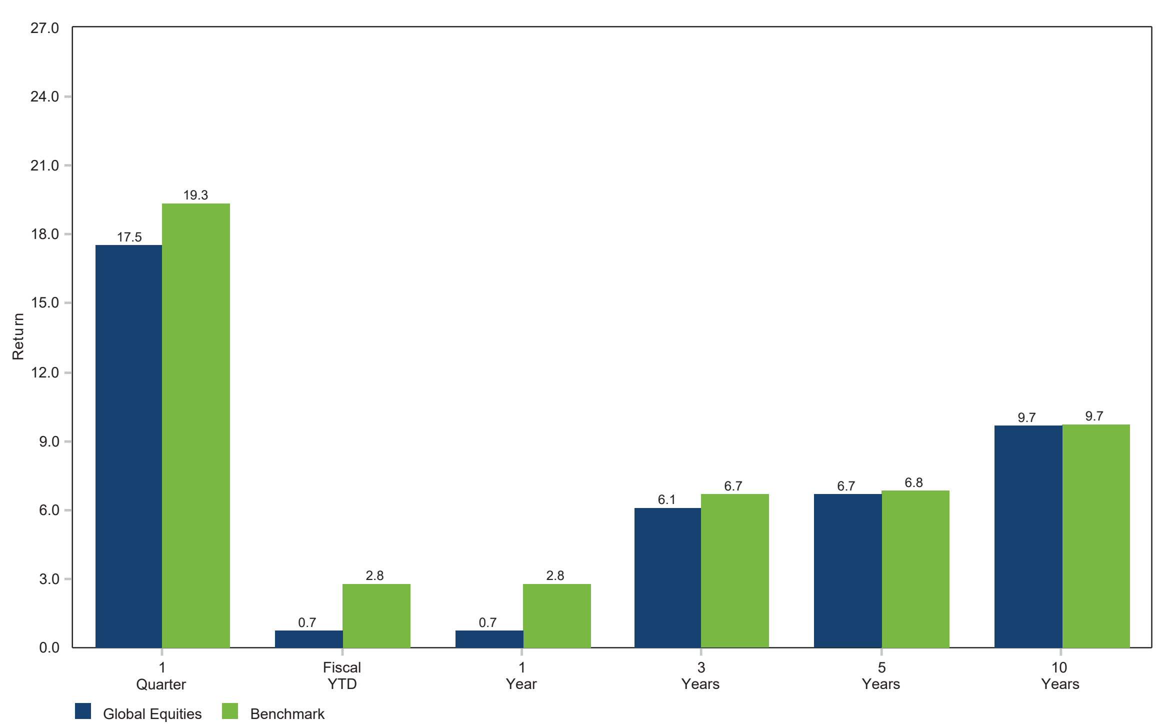
Global Equities

Global Equities As of June 30, 2020

Global Equities Performance Summary

Return Summary



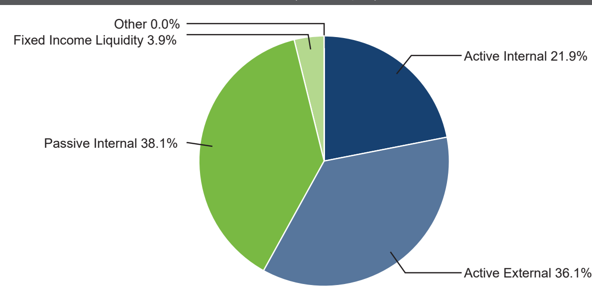
Fixed Income

Fixed Income As of June 30, 2020

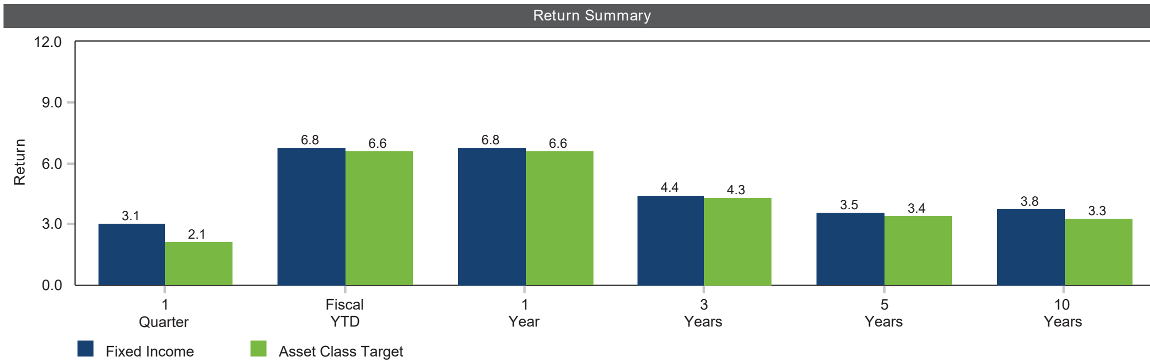
Fixed Income Portfolio Overview

Current Allocation

June 30, 2020 : $29,335M

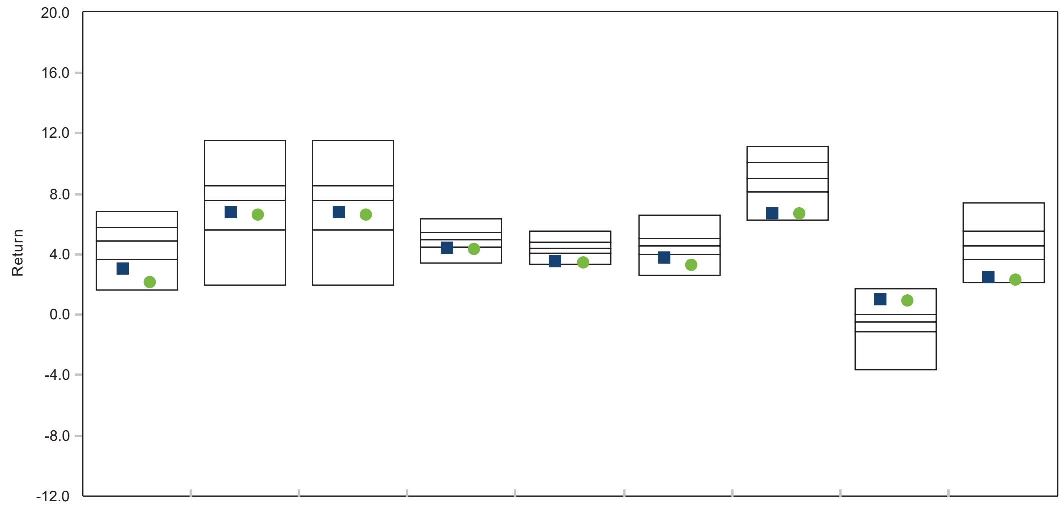


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > $1B-US Fixed Income Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2019	2018	2017
■ Fixed Income	3.1 (87)	6.8 (65)	6.8 (65)	4.4 (80)	3.5 (93)	3.8 (87)	6.7 (91)	1.0 (9)	2.4 (93)
● Asset Class Target	2.1 (94)	6.6 (66)	6.6 (66)	4.3 (82)	3.4 (95)	3.3 (95)	6.7 (92)	0.9 (9)	2.3 (94)
5th Percentile	6.9	11.5	11.5	6.4	5.5	6.6	11.2	1.7	7.4
1st Quartile	5.8	8.5	8.5	5.5	4.8	5.0	10.1	0.0	5.5
Median	4.9	7.6	7.6	5.0	4.4	4.5	9.1	-0.5	4.6
3rd Quartile	3.6	5.6	5.6	4.5	4.1	4.0	8.1	-1.1	3.7
95th Percentile	1.7	2.0	2.0	3.4	3.4	2.6	6.3	-3.7	2.1
Population	56	55	55	50	49	33	53	56	61

Parentheses contain percentile rankings.

Empower Results®

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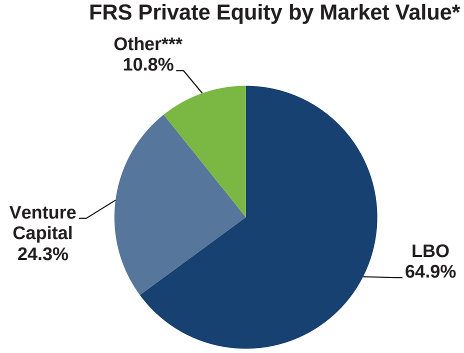
Empower Results®

Private Equity

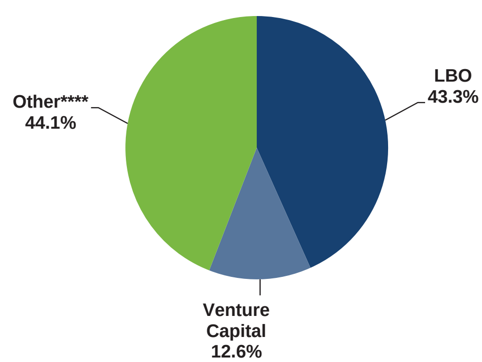
Private Equity — As of June 30, 2020

Overview

FRS Private Equity by Market Value*



Preqin Private Equity Strategies by Market Value**

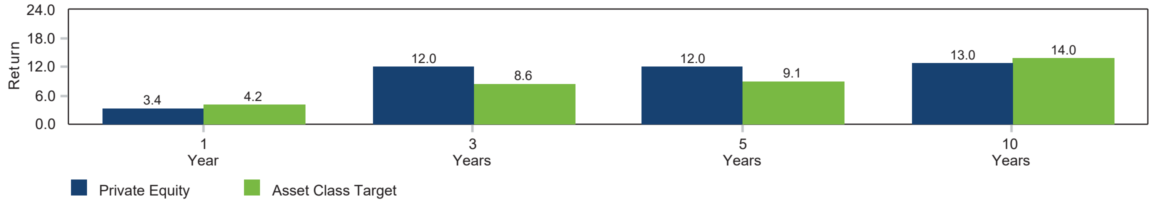


*Allocation data is as of June 30, 2020.
**Allocation data is as of June 30, 2019, from the Preqin database.
***Other for the FRS Private Equity consists of Growth Capital, Secondary, PE Cash, and PE Transition.
****Other for the Preqin data consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations.
Preqin universe is comprised of 10,000 private equity funds representing $4.8 trillion.

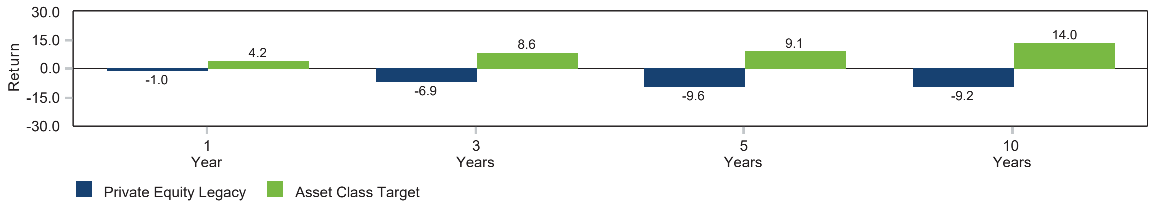
Private Equity

Time-Weighted Investment Results

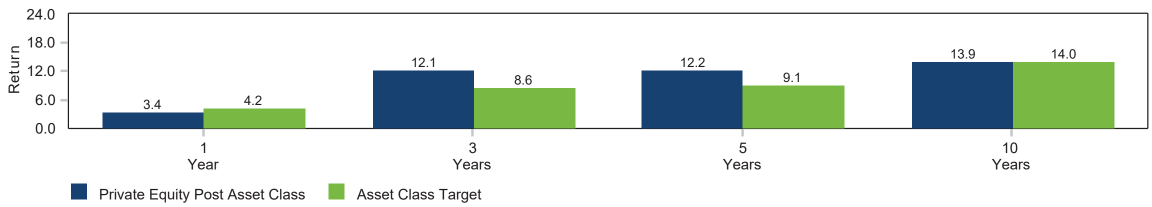
Private Equity Return Summary as of June 30, 2020



Private Equity Legacy Return Summary as of June 30, 2020



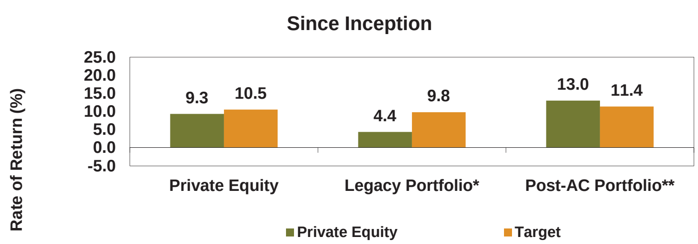
Private Equity Post Asset Class Return Summary as of June 30, 2020



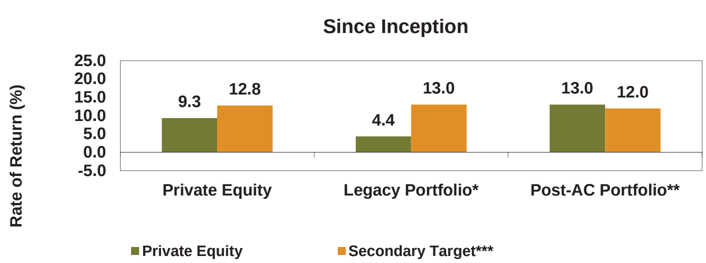
Private Equity

Dollar-Weighted Investment Results

As of June 30, 2020



As of June 30, 2020



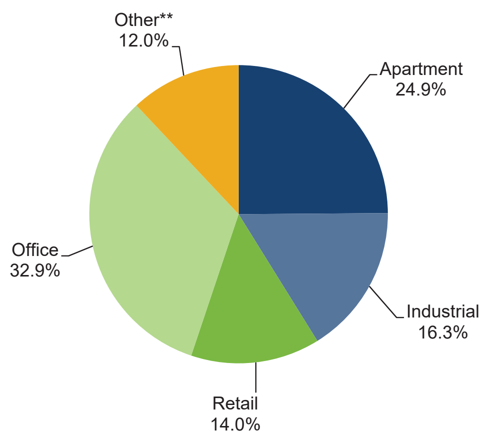
*The Inception Date for the Legacy Portfolio is January 1989.
**The Inception Date for the Post-AC Portfolio is September 2000.
***The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary Target data is on a quarterly lag.

Real Estate

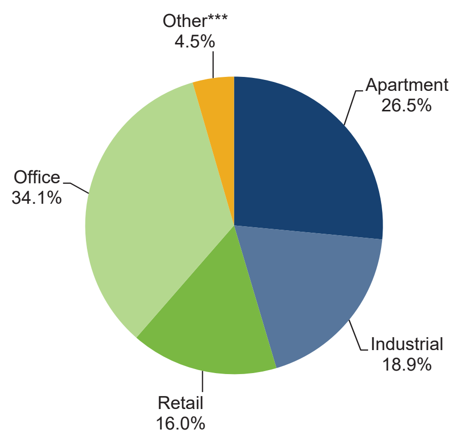
Real Estate As of March 31, 2020

Overview

FRS*



NFI-ODCE Index*

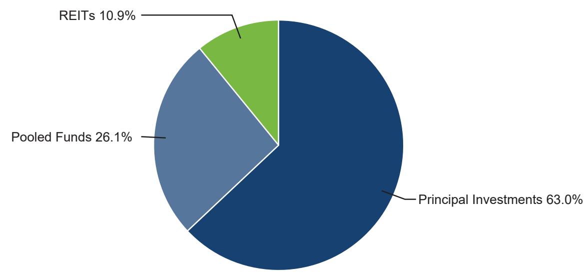


*Property Allocation data is as of March 31, 2020. The FRS chart includes only the FRS private real estate assets. Property type information for the REIT portfolios is not included.
**Other for the FRS consists of Hotel, Land, Preferred Equity, Agriculture, Self-Storage and Senior Housing.
***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Healthcare, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

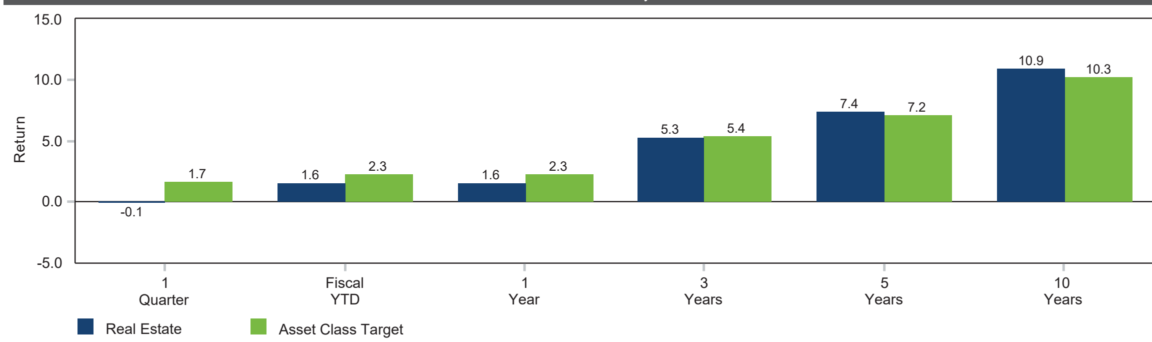
Real Estate Portfolio Overview

Current Allocation

June 30, 2020 : $15,629M

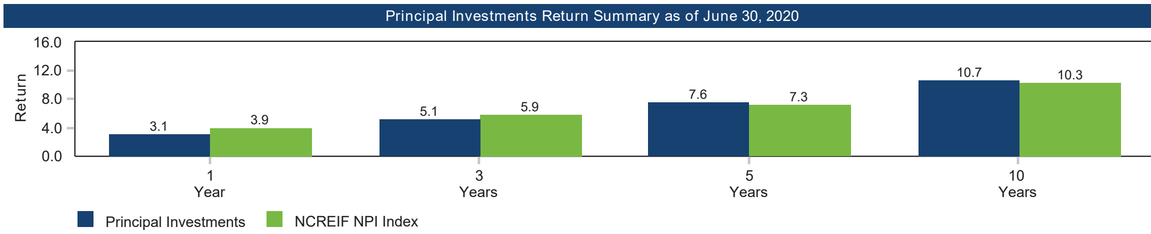


Return Summary

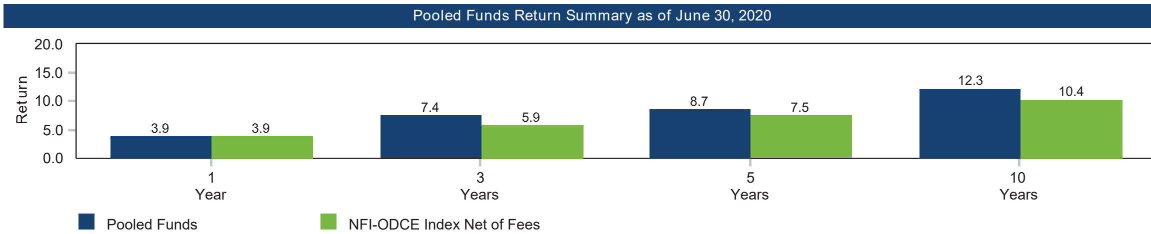


Real Estate

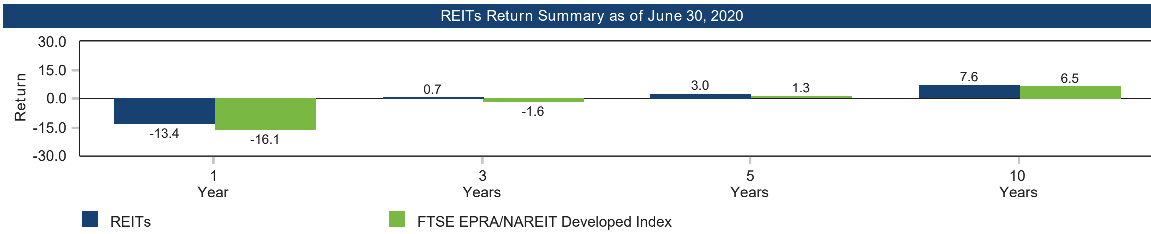
Principal Investments Return Summary as of June 30, 2020



Pooled Funds Return Summary as of June 30, 2020



REITs Return Summary as of June 30, 2020



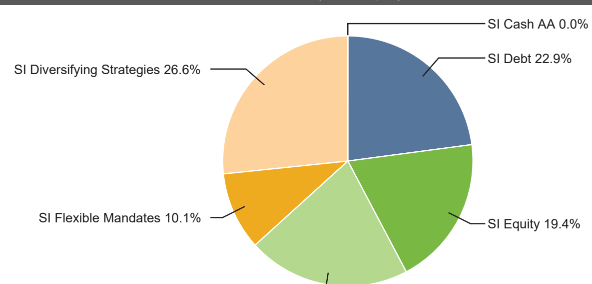
Strategic Investments

Empower Results®

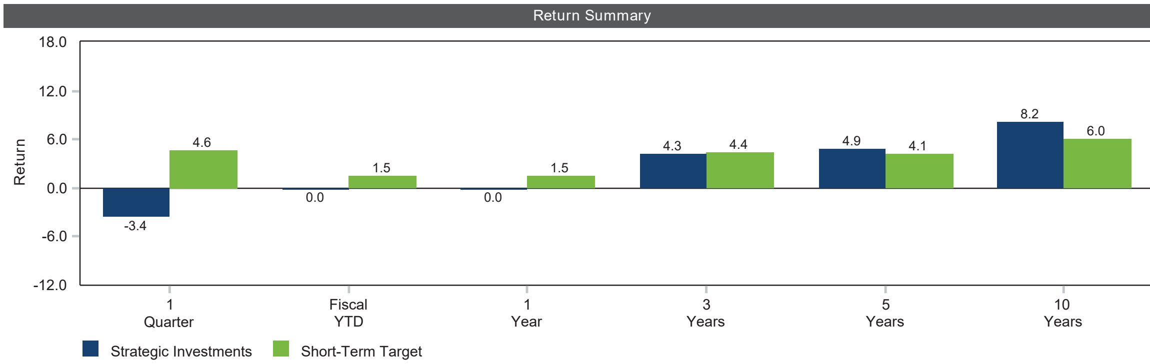
Strategic Investments Portfolio Overview

Current Allocation

June 30, 2020 : $14,347M



Return Summary



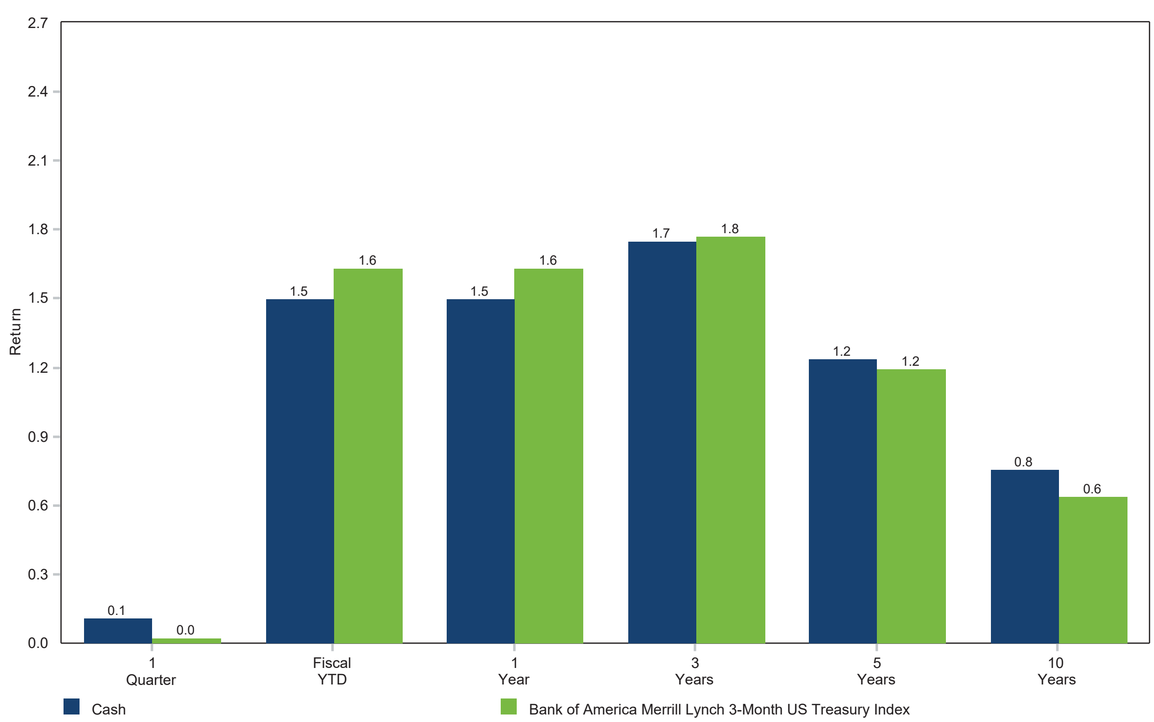
Empower Results®

Cash

Cash As of June 30, 2020

Cash Performance Summary

Return Summary



Appendix

Appendix

Total FRS Assets

Performance Benchmark- A combination of the Global Equity Target, the Barclays Capital U.S. Intermediate Aggregate Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the Bank of America Merrill Lynch 3-Month US Treasury Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Please refer to section VII. Performance Measurement in the FRS Defined Benefit Plan Investment Policy Statement for more details on the calculation of the Performance Benchmark. Prior to October 1, 2013, the Performance benchmark was a combination of the Global Equity Target, the Barclays Aggregate Bond Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the iMoneyNet First Tier Institutional Money Market Funds Net Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Prior to July 2010, the Performance Benchmark was a combination of the Russell 3000 Index, the Foreign Equity Target Index, the Strategic Investments Target Benchmark, the Barclays Aggregate Bond Index, the Real Estate Investments Target Index, the Private Equity Target Index, the Barclays U.S. High Yield Ba/B 2% Issuer Capped Index, and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. During this time, the short-term target policy allocations to Strategic Investments, Real Estate and Private Equity asset classes were floating and based on the actual average monthly balance of the Strategic Investments, Real Estate and Private Equity asset classes. The target weights shown for Real Estate and Private Equity were the allocations that the asset classes were centered around. The actual target weight floated around this target month to month based on changes in asset values.

Total Global Equity

Performance Benchmark- A custom version of the MSCI All Country World Investable Market Index, adjusted to exclude companies divested under the provisions of the Protecting Florida's Investments Act (PFIA). Prior to July 2010, the asset class benchmark is a weighted average of the underlying Domestic Equities, Foreign Equities and Global Equities historical benchmarks.

Total Domestic Equities

Performance Benchmark- The Russell 3000 Index. Prior to July 1, 2002, the benchmark was the Wilshire 2500 Stock Index. Prior to January 1, 2001, the benchmark was the Wilshire 2500 Stock Index ex-Tobacco. Prior to May 1, 1997, the benchmark was the Wilshire 2500 Stock Index. Prior to September 1, 1994, the benchmark was the S&P 500 Stock Index.

Total Foreign Equities

Performance Benchmark- A custom version of the MSCI ACWI ex-U.S. Investable Market Index adjusted to exclude companies divested under the PFIA. Prior to April 1, 2008, it was the MSCI All Country World Index ex-U.S. Investable Market Index. Prior to September 24, 2007, the target was the MSCI All Country World ex-U.S. Free Index. Prior to November 1, 1999, the benchmark was 85% MSCI Europe, Australasia and Far East (EAFE) Foreign Stock Index and 15% IFCI Emerging Markets Index with a half weight in Malaysia. Prior to March 31, 1995, the benchmark was the EAFE Index.

Total Global Equities

Performance Benchmark- Aggregated based on each underlying manager's individual benchmark. The calculation accounts for the actual weight and the benchmark return. The benchmarks used for the underlying managers include both the MSCI FSB All Country World ex-Sudan ex-Iran Net Index and MSCI FSB All Country World ex-Sudan ex-Iran Net Investable Market Index (IMI).

Total Fixed Income

Performance Benchmark- The Barclays Capital U.S. Intermediate Aggregate Index. Prior to October 1, 2013, it was the Barclays U.S. Aggregate Bond Index. Prior to June 1, 2007, it was the Fixed Income Management Aggregate (FIMA). Prior to July 1, 1999, the benchmark was the Florida High Yield Extended Duration Index. Prior to July 31, 1997, the benchmark was the Florida Extended Duration Index. Prior to July 1, 1989, the Salomon Brothers Broad Investment-Grade Bond Index was the benchmark. For calendar year 1985, the performance benchmark was 70% Shearson Lehman Extended Duration and 30% Salomon Brothers Mortgage Index.

Total Private Equity

Performance Benchmark- The MSCI All Country World Investable Market Index (ACWI IMI), adjusted to reflect the provisions of the Protecting Florida's Investments Act, plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2014, the benchmark was the domestic equities target index return (Russell 3000 Index) plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2010, it was the domestic equities target index return plus a fixed premium return of 450 basis points per annum. Prior to November 1, 1999, Private Equities was part of the Domestic Equities asset class and its benchmark was the domestic equities target index return plus 750 basis points.

Total Real Estate

Performance Benchmark- The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%. Prior to July 1, 2014, the benchmark was a combination of 90% NCREIF ODCE Index, net of fees, and 10% FTSE EPRA/NAREIT Developed Index, net of fees. Prior to July 1, 2010, it was a combination of 90% NCREIF ODCE Index, gross of fees, and 10% Dow Jones U.S. Select RESI. Prior to June 1, 2007, it was the Consumer Price Index plus 450 basis points annually. Prior to July 1, 2003, the benchmark was the Dow Jones U.S. Select Real Estate Securities Index Un-Levered. Prior to November 1, 1999, the benchmark was the Russell-NCREIF Property Index.

Total Strategic Investments

Performance Benchmark- Long-term, 4.0% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmarks. Prior to July 1, 2018, a Performance Benchmark-Long-term, 4.5% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmark.

Total Cash

Performance Benchmark- Bank of America Merrill Lynch 3-Month US Treasury Index. Prior to July 1, 2018 it was the iMoneyNet First Tier Institutional Money Market Funds Net Index. Prior to July 1, 2010, it was the iMoneyNet First Tier Institutional Money Market Funds Gross Index. Prior to June 1, 2007, it was the return of the Merrill Lynch 90-Day (Auction Average) Treasury Bill Yield Index.

Description of Benchmarks

Bank of America Merrill Lynch 3-Month US Treasury Index- Consists of U.S. Treasury Bills maturing in 90 days.

Barclays Capital U.S. Intermediate Aggregate Bond Index- A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

Consumer Price Index (CPI)- The CPI, an index consisting of a fixed basket of goods bought by the typical consumer and used to measure consumer inflation.

FTSE EPRA/NAREIT Developed Index- An index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposure and development of income-producing real estate. This index covers the four primary core asset classes (Industrial, Retail, Office, and Apartment).

MSCI All Country World Investable Market Index- A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. This investable market index contains constituents from the large, mid, and small cap size segments and targets a coverage range around 99% of free-float adjusted market capitalization.

NCREIF ODCE Property Index- The NCREIF ODCE is a capitalization-weighted, gross of fee, time-weighted return index. The index is a summation of open-end funds, which NCREIF defines as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests.

Russell 3000 Index- A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This represents most publicly traded, liquid U.S. stocks.

Appendix

Description of Universes

Total Fund- A universe comprised of 150 total fund portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $2.0 trillion as of quarter-end and the average market value was $13.2 billion.

Domestic Equity- A universe comprised of 52 total domestic equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.0 trillion as of quarter-end and the average market value was $18.5 billion.

Foreign Equity- A universe comprised of 55 total international equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.0 trillion as of quarter-end and the average market value was $18.5 billion.

Fixed Income- A universe comprised of 55 total fixed income portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.1 trillion as of quarter-end and the average market value was $19.5 billion.

Real Estate- A universe comprised of 42 total real estate portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.0 trillion as of quarter-end and the average market value was $24.1 billion.

Private Equity- An appropriate universe for private equity is unavailable.

Strategic Investments- An appropriate universe for strategic investments is unavailable.

Appendix

Explanation of Exhibits

Quarterly and Cumulative Excess Performance- The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

Ratio of Cumulative Wealth Graph- An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis- An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and include the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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FRS Investment Plan | Second Quarter 2020

Quarterly Investment Review

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Empower Results®

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FRS Investment Plan

Aon Empower Results®

As of June 30, 2020

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
FRS Investment Plan	11,490,238,469	100.0	14.3	-3.8	2.6	5.8	5.9	7.5
Total Plan Aggregate Benchmark			13.4	-4.2	2.0	5.3	5.6	7.2
Retirement Date	5,179,368,430	45.1						
FRS Retirement Fund	381,526,493	3.3	9.0 (41)	-1.1 (63)	3.6 (65)	4.8 (38)	4.4 (46)	5.6 (72)
Retirement Custom Index			9.0 (41)	-0.9 (57)	3.4 (66)	4.8 (40)	4.4 (45)	5.3 (76)
FRS 2015 Retirement Date Fund	276,277,805	2.4	9.2 (77)	-1.2 (94)	3.5 (100)	5.0 (84)	4.7 (88)	6.1 (92)
2015 Retirement Custom Index			9.2 (78)	-1.1 (91)	3.3 (100)	4.9 (89)	4.6 (89)	5.8 (93)
FRS 2020 Retirement Date Fund	547,440,026	4.8	10.2 (67)	-2.0 (94)	3.1 (92)	5.2 (77)	5.1 (76)	6.9 (68)
2020 Retirement Custom Index			10.1 (67)	-1.8 (87)	3.0 (93)	5.0 (80)	5.0 (79)	6.7 (69)
FRS 2025 Retirement Date Fund	766,214,716	6.7	11.7 (75)	-3.0 (97)	2.8 (88)	5.4 (69)	5.6 (59)	7.7 (79)
2025 Retirement Custom Index			11.8 (74)	-2.8 (96)	2.7 (90)	5.2 (76)	5.4 (75)	7.5 (81)
FRS 2030 Retirement Date Fund	711,910,742	6.2	13.0 (75)	-4.0 (82)	2.3 (83)	5.5 (75)	5.9 (63)	8.5 (64)
2030 Retirement Custom Index			13.2 (71)	-3.7 (79)	2.3 (83)	5.4 (77)	5.7 (78)	8.3 (70)
FRS 2035 Retirement Date Fund	669,186,018	5.8	14.2 (93)	-4.7 (73)	1.9 (77)	5.6 (74)	6.1 (56)	9.2 (57)
2035 Retirement Custom Index			14.4 (89)	-4.5 (71)	2.0 (76)	5.4 (76)	5.8 (72)	8.9 (71)
FRS 2040 Retirement Date Fund	601,150,843	5.2	15.3 (91)	-5.5 (69)	1.6 (67)	5.6 (71)	6.2 (64)	9.3 (62)
2040 Retirement Custom Index			15.6 (87)	-5.2 (64)	1.7 (67)	5.5 (72)	6.0 (69)	9.0 (71)
FRS 2045 Retirement Date Fund	585,673,859	5.1	16.3 (92)	-6.1 (71)	1.3 (69)	5.5 (70)	6.2 (58)	9.3 (68)
2045 Retirement Custom Index			16.5 (91)	-5.9 (71)	1.3 (68)	5.5 (71)	6.1 (64)	9.1 (82)
FRS 2050 Retirement Date Fund	363,505,465	3.2	16.9 (90)	-6.6 (70)	0.9 (71)	5.4 (73)	6.2 (67)	9.3 (75)
2050 Retirement Custom Index			17.2 (88)	-6.4 (69)	1.0 (71)	5.3 (74)	6.0 (72)	9.0 (78)
FRS 2055 Retirement Date Fund	210,517,140	1.8	17.2 (95)	-6.5 (70)	1.1 (68)	5.4 (70)	6.2 (66)	-
2055 Retirement Custom Index			17.3 (95)	-6.5 (70)	0.9 (71)	5.3 (72)	6.0 (73)	-
FRS 2060 Retirement Date Fund	65,965,323	0.6	17.3 (95)	-6.4 (69)	1.2 (67)	5.4 (70)	-	-
2060 Retirement Custom Index			17.3 (95)	-6.5 (70)	0.9 (71)	5.3 (72)	-	-

Aon Empower Results®

As of June 30, 2020

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
Cash	1,090,970,806	9.5	0.2 (10)	0.6 (5)	1.7 (1)	1.9 (1)	1.4 (1)	0.8 (1)
FRS Money Market Fund	1,090,970,806	9.5	0.2 (10)	0.6 (5)	1.7 (1)	1.9 (1)	1.4 (1)	0.8 (1)
iMoneyNet 1st Tier Institutional Net Index			0.2 (9)	0.5 (16)	1.4 (17)	1.6 (18)	1.1 (18)	0.6 (19)
Real Assets	107,793,494	0.9						
FRS Inflation Adjusted Multi-Assets Fund	107,793,494	0.9	9.0	-5.1	-1.7	2.0	1.3	2.5
FRS Custom Multi-Assets Index			8.3	-5.8	-2.9	2.0	1.7	2.4
Fixed Income	715,882,232	6.2	5.1 (29)	4.4 (25)	7.3 (4)	5.1 (1)	4.5 (1)	4.1 (1)
Total Bond Index			3.8 (54)	4.7 (24)	7.4 (1)	5.0 (1)	4.3 (1)	3.9 (5)
FRS Intermediate Bond Fund	109,262,226	1.0	4.9 (24)	4.8 (38)	7.0 (25)	4.5 (13)	3.7 (6)	3.4 (17)
Blmbg. Barc. U.S. Intermediate Aggregate			2.1 (68)	4.7 (39)	6.6 (32)	4.3 (22)	3.4 (20)	3.1 (29)
FRS U.S. Bond Enhanced Index Fund	287,335,153	2.5	3.1 (1)	6.2 (72)	8.8 (61)	5.4 (39)	4.4 (35)	3.9 (35)
Blmbg. Barc. U.S. Aggregate			2.9 (1)	6.1 (72)	8.7 (61)	5.3 (44)	4.3 (36)	3.8 (35)
FRS Core Plus Bond Fund	319,284,853	2.8	6.4 (42)	3.8 (69)	7.0 (61)	5.3 (23)	4.9 (12)	5.0 (17)
FRS Custom Core-Plus Fixed Income Index			4.4 (82)	4.4 (58)	7.4 (54)	5.1 (33)	4.5 (27)	4.8 (23)
Domestic Equity	2,893,905,165	25.2	23.5 (35)	-5.0 (46)	4.0 (45)	8.8 (42)	9.2 (35)	13.6 (28)
Total U.S. Equities Index			22.2 (42)	-5.7 (48)	3.5 (47)	8.3 (44)	8.9 (37)	13.1 (35)
FRS U.S. Stock Market Index Fund	1,106,204,899	9.6	22.1 (41)	-3.4 (53)	6.6 (55)	10.1 (52)	10.1 (51)	13.8 (43)
Russell 3000 Index			22.0 (41)	-3.5 (53)	6.5 (55)	10.0 (53)	10.0 (51)	13.7 (43)
FRS U.S. Large Cap Stock Fund	983,235,146	8.6	25.5 (2)	-1.8 (26)	7.7 (33)	10.3 (39)	9.8 (47)	14.3 (15)
Russell 1000 Index			21.8 (21)	-2.8 (37)	7.5 (34)	10.6 (31)	10.5 (27)	14.0 (22)
FRS U.S. Small/Mid Cap Stock Fund	804,465,120	7.0	26.1 (25)	-11.5 (17)	-5.2 (14)	4.7 (13)	6.9 (8)	12.7 (4)
FRS Custom Small/Mid Cap Index			26.6 (24)	-11.1 (14)	-4.7 (13)	4.1 (15)	5.8 (18)	9.8 (54)

As of June 30, 2020

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
International/Global Equity	683,979,606	6.0	18.4 (52)	-9.0 (41)	-2.0 (41)	2.8 (32)	3.8 (30)	7.1 (24)
Total Foreign and Global Equities Index			17.2 (65)	-10.6 (51)	-3.9 (50)	1.7 (40)	2.9 (42)	6.1 (39)
FRS Foreign Stock Index Fund	252,403,541	2.2	17.1 (66)	-11.0 (55)	-4.4 (54)	1.3 (44)	2.6 (46)	6.1 (40)
MSCI All Country World ex-U.S. IMI Index			17.0 (67)	-11.2 (56)	-4.7 (56)	1.0 (48)	2.3 (50)	5.6 (50)
FRS Global Stock Fund	276,635,172	2.4	23.9 (24)	1.3 (21)	11.2 (19)	11.3 (16)	10.5 (11)	12.3 (16)
MSCI All Country World Index Net			19.2 (47)	-6.3 (43)	2.1 (39)	6.1 (38)	6.5 (35)	9.3 (43)
FRS Foreign Stock Fund	154,940,893	1.3	22.8 (8)	-4.8 (2)	3.2 (1)	4.8 (1)	4.9 (1)	7.5 (1)
MSCI All Country World ex-U.S. Index			16.1 (63)	-11.0 (36)	-4.8 (38)	1.1 (5)	2.4 (3)	5.3 (29)
FRS Self-Dir Brokerage Acct	818,338,736	7.1						

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of June 30, 2020

Asset Allocation & Performance

	Performance(%)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
FRS Investment Plan	20.5	-5.7	16.4	8.0	-0.9	4.9	15.2	10.5	0.7	10.6
Total Plan Aggregate Benchmark	20.0	-5.8	15.5	8.5	-1.3	4.9	14.6	9.7	0.9	10.2
Retirement Date										
FRS Retirement Fund	14.8 (39)	-3.7 (53)	10.8 (52)	6.2 (59)	-2.6 (100)	4.4 (82)	3.5 (96)	10.7 (59)	3.4 (10)	11.5 (55)
Retirement Custom Index	14.5 (42)	-3.8 (55)	10.4 (58)	6.2 (59)	-1.8 (98)	3.6 (89)	3.4 (96)	8.5 (78)	5.0 (1)	9.9 (84)
FRS 2015 Retirement Date Fund	15.1 (62)	-3.8 (54)	12.0 (39)	6.7 (44)	-2.5 (98)	4.4 (78)	5.5 (89)	11.3 (43)	2.1 (20)	11.5 (62)
2015 Retirement Custom Index	14.8 (77)	-3.9 (57)	11.2 (60)	6.5 (52)	-1.8 (90)	3.7 (92)	5.7 (88)	9.6 (88)	3.2 (1)	10.4 (85)
FRS 2020 Retirement Date Fund	16.3 (56)	-4.4 (53)	14.0 (24)	7.4 (22)	-2.1 (91)	4.4 (79)	9.6 (75)	12.4 (38)	0.6 (38)	12.2 (64)
2020 Retirement Custom Index	16.0 (60)	-4.5 (55)	13.3 (47)	7.1 (32)	-1.6 (80)	3.9 (88)	9.7 (75)	11.0 (74)	1.5 (21)	11.2 (86)
FRS 2025 Retirement Date Fund	18.2 (58)	-5.2 (46)	16.1 (26)	8.0 (14)	-1.7 (80)	4.5 (86)	13.7 (74)	13.5 (43)	-0.7 (35)	12.5 (88)
2025 Retirement Custom Index	17.8 (67)	-5.3 (51)	15.5 (39)	7.6 (20)	-1.5 (77)	4.2 (91)	13.8 (74)	12.4 (73)	-0.3 (26)	11.8 (93)
FRS 2030 Retirement Date Fund	19.8 (68)	-6.0 (44)	18.0 (30)	8.5 (18)	-1.3 (63)	4.5 (83)	18.1 (54)	14.6 (34)	-2.1 (50)	13.0 (86)
2030 Retirement Custom Index	19.4 (72)	-6.0 (45)	17.3 (48)	8.0 (33)	-1.5 (67)	4.4 (83)	18.2 (52)	13.8 (53)	-2.0 (49)	12.5 (91)
FRS 2035 Retirement Date Fund	21.1 (77)	-6.7 (37)	19.8 (27)	9.1 (17)	-1.4 (51)	4.4 (84)	22.0 (38)	15.8 (23)	-3.0 (46)	13.7 (80)
2035 Retirement Custom Index	20.8 (82)	-6.8 (38)	18.9 (54)	8.3 (43)	-1.7 (67)	4.3 (85)	22.0 (38)	15.2 (46)	-3.1 (47)	13.3 (89)
FRS 2040 Retirement Date Fund	22.5 (70)	-7.5 (39)	20.9 (28)	9.2 (17)	-1.4 (55)	4.4 (83)	22.3 (48)	15.8 (36)	-3.0 (38)	13.7 (79)
2040 Retirement Custom Index	22.1 (82)	-7.5 (39)	20.4 (45)	8.6 (43)	-1.7 (69)	4.3 (84)	22.4 (48)	15.2 (50)	-3.1 (38)	13.3 (85)
FRS 2045 Retirement Date Fund	23.4 (72)	-8.0 (49)	21.5 (26)	9.4 (18)	-1.5 (53)	4.4 (82)	22.3 (60)	15.8 (38)	-3.0 (26)	13.7 (86)
2045 Retirement Custom Index	23.0 (84)	-8.0 (49)	21.2 (39)	8.9 (36)	-1.7 (64)	4.3 (83)	22.4 (60)	15.2 (68)	-3.1 (26)	13.3 (89)
FRS 2050 Retirement Date Fund	24.0 (75)	-8.4 (55)	21.6 (32)	9.5 (20)	-1.5 (60)	4.4 (82)	22.3 (53)	15.8 (36)	-3.0 (20)	13.7 (84)
2050 Retirement Custom Index	23.6 (78)	-8.4 (55)	21.3 (52)	8.9 (37)	-1.7 (65)	4.3 (82)	22.4 (53)	15.2 (58)	-3.1 (20)	13.3 (87)
FRS 2055 Retirement Date Fund	24.1 (80)	-8.4 (53)	21.5 (47)	9.3 (27)	-1.4 (54)	4.4 (81)	22.3 (72)	15.8 (45)	-	-
2055 Retirement Custom Index	23.7 (83)	-8.4 (53)	21.3 (55)	8.9 (33)	-1.7 (63)	4.3 (81)	22.4 (71)	15.2 (75)	-	-
FRS 2060 Retirement Date Fund	24.2 (79)	-8.3 (52)	-	-	-	-	-	-	-	-
2060 Retirement Custom Index	23.7 (83)	-8.4 (53)	-	-	-	-	-	-	-	-

Empower Results®

As of June 30, 2020

Asset Allocation & Performance

	Performance(%)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	2.4 (1)	2.2 (1)	1.2 (1)	0.6 (1)	0.2 (1)	0.1 (1)	0.2 (1)	0.3 (1)	0.2 (1)	0.3 (2)
FRS Money Market Fund	2.4 (1)	2.2 (1)	1.2 (1)	0.6 (1)	0.2 (1)	0.1 (1)	0.2 (1)	0.3 (1)	0.2 (1)	0.3 (2)
iMoneyNet 1st Tier Institutional Net Index	2.1 (22)	1.8 (17)	0.9 (17)	0.3 (19)	0.0 (20)	0.0 (23)	0.0 (23)	0.1 (23)	0.1 (23)	0.2 (7)
Real Assets										
FRS Inflation Adjusted Multi-Assets Fund	13.0	-5.5	8.1	6.0	-7.9	3.2	-9.1	9.1	7.4	11.7
FRS Custom Multi-Assets Index	13.0	-5.5	8.1	6.2	-5.0	1.8	-8.9	6.6	4.6	13.0
Fixed Income	9.8 (1)	-0.1 (94)	4.4 (2)	4.7 (8)	0.3 (81)	4.7 (1)	-1.1 (84)	6.0 (36)	6.7 (1)	7.6 (30)
Total Bond Index	9.2 (1)	-0.1 (94)	3.9 (3)	4.3 (9)	0.1 (89)	4.9 (1)	-1.2 (87)	4.8 (62)	7.4 (1)	7.0 (35)
FRS Intermediate Bond Fund	7.5 (1)	0.7 (61)	2.4 (17)	3.1 (17)	0.9 (32)	3.4 (31)	-0.5 (43)	4.9 (39)	5.9 (35)	7.0 (24)
Blmbg. Barc. U.S. Intermediate Aggregate	6.7 (20)	0.9 (46)	2.3 (31)	2.0 (54)	1.2 (16)	4.1 (16)	-1.0 (58)	3.6 (60)	6.0 (34)	6.1 (37)
FRS U.S. Bond Enhanced Index Fund	8.7 (33)	0.0 (66)	3.6 (32)	2.7 (1)	0.7 (38)	6.2 (36)	-2.0 (17)	4.4 (13)	7.9 (67)	6.7 (48)
Blmbg. Barc. U.S. Aggregate	8.7 (33)	0.0 (66)	3.5 (32)	2.6 (1)	0.5 (46)	6.0 (37)	-2.0 (18)	4.2 (14)	7.8 (68)	6.5 (49)
FRS Core Plus Bond Fund	11.0 (12)	-0.5 (28)	5.3 (20)	5.7 (20)	0.1 (27)	4.6 (76)	0.8 (14)	11.1 (15)	4.6 (85)	10.1 (28)
FRS Custom Core-Plus Fixed Income Index	10.0 (28)	-0.4 (21)	4.2 (48)	4.9 (31)	0.2 (24)	5.1 (65)	0.8 (14)	7.8 (47)	7.6 (16)	9.1 (38)
Domestic Equity	30.1 (41)	-6.5 (45)	20.8 (48)	13.7 (29)	0.7 (35)	11.5 (42)	35.2 (43)	16.9 (33)	0.3 (38)	20.4 (20)
Total U.S. Equities Index	30.0 (41)	-6.5 (45)	19.6 (55)	14.9 (23)	-0.5 (45)	11.1 (47)	34.0 (54)	16.5 (37)	-0.1 (41)	19.3 (27)
FRS U.S. Stock Market Index Fund	31.1 (48)	-5.2 (57)	21.2 (56)	12.9 (26)	0.6 (54)	12.6 (34)	33.6 (40)	16.5 (39)	1.0 (39)	17.1 (19)
Russell 3000 Index	31.0 (48)	-5.2 (58)	21.1 (56)	12.7 (27)	0.5 (55)	12.6 (35)	33.6 (40)	16.4 (40)	1.0 (39)	16.9 (21)
FRS U.S. Large Cap Stock Fund	28.9 (66)	-7.0 (73)	25.5 (34)	9.3 (51)	2.7 (38)	12.8 (31)	36.4 (16)	17.2 (30)	1.2 (37)	17.8 (17)
Russell 1000 Index	31.4 (43)	-4.8 (52)	21.7 (52)	12.1 (30)	0.9 (51)	13.2 (25)	33.1 (45)	16.4 (39)	1.5 (31)	16.1 (28)
FRS U.S. Small/Mid Cap Stock Fund	29.1 (33)	-8.2 (34)	16.3 (50)	19.9 (30)	-1.1 (25)	8.6 (26)	37.1 (44)	18.7 (13)	-0.9 (28)	29.6 (25)
FRS Custom Small/Mid Cap Index	27.8 (47)	-10.0 (43)	16.8 (50)	19.6 (31)	-4.2 (63)	7.7 (34)	22.0 (100)	15.3 (60)	1.1 (17)	21.3 (94)
International/Global Equity	23.7 (37)	-13.5 (28)	28.6 (50)	4.5 (42)	-2.6 (49)	-3.2 (42)	21.6 (33)	18.6 (53)	-11.3 (23)	10.1 (74)
Total Foreign and Global Equities Index	22.3 (46)	-14.0 (33)	27.3 (60)	4.9 (38)	-4.4 (56)	-3.0 (41)	20.6 (39)	16.6 (72)	-11.3 (23)	10.1 (74)
FRS Foreign Stock Index Fund	22.3 (46)	-14.7 (40)	28.3 (53)	5.3 (37)	-4.4 (56)	-4.5 (55)	20.5 (39)	17.6 (63)	-11.8 (27)	9.2 (77)
MSCI All Country World ex-U.S. IMI Index	21.6 (52)	-14.8 (41)	27.8 (56)	4.4 (42)	-4.6 (56)	-4.2 (51)	21.0 (36)	16.4 (72)	-12.2 (30)	8.9 (78)
FRS Global Stock Fund	30.5 (20)	-5.6 (20)	29.3 (18)	2.2 (81)	5.6 (13)	3.7 (44)	27.1 (41)	21.0 (15)	-7.4 (46)	13.0 (55)
MSCI All Country World Index Net	26.6 (45)	-9.4 (46)	24.0 (40)	7.9 (46)	-2.4 (56)	4.2 (39)	22.8 (60)	16.3 (38)	-5.5 (35)	11.8 (60)
FRS Foreign Stock Fund	27.4 (5)	-14.9 (48)	31.2 (5)	1.0 (60)	-0.5 (20)	-2.3 (16)	20.6 (60)	19.6 (37)	-13.3 (59)	9.8 (35)
MSCI All Country World ex-U.S. Index	21.5 (55)	-14.2 (30)	27.2 (23)	5.0 (10)	-5.3 (73)	-3.4 (18)	15.8 (80)	17.4 (67)	-13.3 (60)	11.6 (20)
FRS Self-Dir Brokerage Acct										

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

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FRS Investment Plan **As of June 30, 2020**

Asset Allocation

Asset Allocation as of 6/30/2020	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	Real Assets	Cash	Brokerage	Total	% of Total
FRS Retirement Fund	56,084,394	51,506,076	125,140,690	148,795,332			381,526,493	3.3%
FRS 2015 Retirement Date Fund	42,270,504	38,955,171	88,685,175	106,366,955			276,277,805	2.4%
FRS 2020 Retirement Date Fund	102,918,725	95,254,564	159,852,488	189,414,249			547,440,026	4.8%
FRS 2025 Retirement Date Fund	190,787,464	176,229,385	203,813,115	195,384,753			766,214,716	6.7%
FRS 2030 Retirement Date Fund	214,285,133	197,199,276	165,163,292	135,263,041			711,910,742	6.2%
FRS 2035 Retirement Date Fund	230,869,176	212,801,154	131,829,646	93,686,043			669,186,018	5.8%
FRS 2040 Retirement Date Fund	232,044,225	214,009,700	94,981,833	60,115,084			601,150,843	5.2%
FRS 2045 Retirement Date Fund	243,640,326	224,898,762	68,523,842	48,610,930			585,673,859	5.1%
FRS 2050 Retirement Date Fund	157,761,372	145,402,186	29,080,437	31,261,470			363,505,465	3.2%
FRS 2055 Retirement Date Fund	91,995,990	84,838,407	15,367,751	18,314,991			210,517,140	1.8%
FRS 2060 Retirement Date Fund	28,826,846	26,584,025	4,815,469	5,738,983			65,965,323	0.6%
Total Retirement Date Funds	**$ 1,562,657,310**	**$ 1,441,094,681**	**$ 1,082,438,268**	**$ 1,027,212,848**	**$ -**	**$ -**	**$ 5,179,368,429**	**45.1%**
FRS Money Market Fund					1,090,970,806		1,090,970,806	9.5%
Total Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,090,970,806**	**$ -**	**$ 1,090,970,806**	**9.5%**
FRS Inflation Adjusted Multi-Assets Fund				107,793,494	-		107,793,494	0.9%
Total Real Assets	**$ -**	**$ -**	**$ -**	**$ 107,793,494**	**$ -**	**$ -**	**$ 107,793,494**	**0.9%**
FRS U.S. Bond Enhanced Index Fund			287,335,153				287,335,153	2.5%
FRS Intermediate Bond Fund			109,262,226				109,262,226	1.0%
FRS Core Plus Bond Fund			319,284,853				319,284,853	2.8%
Total Fixed Income	**$ -**	**$ -**	**$ 715,882,232**	**$ -**	**$ -**	**$ -**	**$ 715,882,232**	**6.2%**
FRS U.S. Stock Market Index Fund	1,106,204,899						1,106,204,899	9.6%
FRS U.S. Large Cap Stock Fund	983,235,146						983,235,146	8.6%
FRS U.S. Small/Mid Cap Stock Fund	804,465,120						804,465,120	7.0%
Total Domestic Equity	**$ 2,893,905,166**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,893,905,166**	**25.2%**
FRS Foreign Stock Index Fund		252,403,541					252,403,541	2.2%
FRS Global Stock Fund		276,635,172					276,635,172	2.4%
FRS Foreign Stock Fund		154,940,893					154,940,893	1.3%
Total International/Global Equity	**$ -**	**$ 683,979,606**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 683,979,606**	**6.0%**
FRS Self-Dir Brokerage Acct						818,338,736	818,338,736	7.1%
Total Self-Dir Brokerage Acct						**$ 818,338,736**	**$ 818,338,736**	**7.1%**
Total Portfolio	**$ 4,456,562,476**	**$ 2,125,074,287**	**$ 1,798,320,500**	**$ 1,135,006,342**	**$ 1,090,970,806**	**$ 818,338,736**	**$ 11,490,238,469**	**100.0%**
Percent of Total	**38.9%**	**18.5%**	**15.7%**	**9.9%**	**9.5%**	**7.1%**	**100.0%**	

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.
Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of June 30, 2020

Multi Timeperiod Statistics

	3 Years Return	3 Years Standard Deviation	3 Years Sharpe Ratio	3 Years Tracking Error	3 Years Information Ratio	3 Years Up Market Capture	3 Years Down Market Capture
FRS Investment Plan	5.76	12.05	0.38	0.58	0.80	103.58	101.44
FRS Retirement Fund	4.83	7.27	0.44	0.43	0.19	102.17	102.56
FRS 2015 Retirement Date Fund	4.97	7.54	0.44	0.46	0.27	102.51	102.51
FRS 2020 Retirement Date Fund	5.16	8.52	0.42	0.47	0.29	101.90	101.44
FRS 2025 Retirement Date Fund	5.40	9.88	0.40	0.46	0.37	101.42	100.49
FRS 2030 Retirement Date Fund	5.46	11.14	0.37	0.48	0.25	100.84	100.21
FRS 2035 Retirement Date Fund	5.58	12.25	0.36	0.53	0.27	100.76	99.99
FRS 2040 Retirement Date Fund	5.56	13.30	0.34	0.52	0.15	100.35	99.92
FRS 2045 Retirement Date Fund	5.51	14.12	0.32	0.54	0.08	100.04	99.75
FRS 2050 Retirement Date Fund	5.39	14.65	0.31	0.55	0.13	100.02	99.59
FRS 2055 Retirement Date Fund	5.43	14.75	0.31	0.54	0.24	100.31	99.61
FRS 2060 Retirement Date Fund	5.42	14.75	0.31	0.56	0.22	100.24	99.55
FRS Money Market Fund	1.94	0.17	1.29	0.07	4.09	118.73	N/A
FRS Inflation Adjusted Multi-Assets Fund	1.95	8.82	0.06	1.15	-0.05	102.95	104.61
FRS Intermediate Bond Fund	4.48	3.20	0.82	1.97	0.11	118.05	161.04
FRS U.S. Bond Enhanced Index Fund	5.36	3.31	1.07	0.16	0.26	101.37	102.80
FRS Core Plus Bond Fund	5.28	4.52	0.76	1.60	0.13	111.92	128.54
FRS U.S. Stock Market Index Fund	10.11	17.70	0.53	0.05	1.14	100.22	100.02
FRS U.S. Large Cap Stock Fund	10.27	18.90	0.52	2.34	-0.03	105.32	109.30
FRS U.S. Small/Mid Cap Stock Fund	4.73	22.52	0.24	1.51	0.43	102.87	100.96
FRS Foreign Stock Index Fund	1.28	16.34	0.05	1.20	0.28	100.89	99.35
FRS Global Stock Fund	11.30	16.50	0.62	3.07	1.56	110.32	87.09
FRS Foreign Stock Fund	4.76	16.90	0.25	3.36	1.09	112.24	95.35

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

As of June 30, 2020

Multi Timeperiod Statistics

	5 Years Return	5 Years Standard Deviation	5 Years Sharpe Ratio	5 Years Tracking Error	5 Years Information Ratio	5 Years Up Market Capture	5 Years Down Market Capture
FRS Investment Plan	5.86	10.47	0.48	0.56	0.58	102.99	101.53
FRS Retirement Fund	4.38	6.46	0.51	0.44	-0.05	101.29	102.72
FRS 2015 Retirement Date Fund	4.66	6.81	0.52	0.47	0.16	101.88	102.15
FRS 2020 Retirement Date Fund	5.11	7.76	0.53	0.46	0.25	101.88	101.62
FRS 2025 Retirement Date Fund	5.58	8.94	0.52	0.47	0.40	101.33	99.99
FRS 2030 Retirement Date Fund	5.85	10.06	0.50	0.50	0.38	101.25	100.06
FRS 2035 Retirement Date Fund	6.10	11.10	0.48	0.55	0.54	101.79	100.11
FRS 2040 Retirement Date Fund	6.16	11.94	0.46	0.56	0.32	100.75	99.67
FRS 2045 Retirement Date Fund	6.22	12.53	0.45	0.62	0.20	99.99	99.00
FRS 2050 Retirement Date Fund	6.15	12.90	0.43	0.62	0.24	100.10	99.01
FRS 2055 Retirement Date Fund	6.16	12.96	0.43	0.61	0.29	100.21	98.99
FRS 2060 Retirement Date Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Money Market Fund	1.42	0.23	1.97	0.06	4.92	126.36	N/A
FRS Inflation Adjusted Multi-Assets Fund	1.26	7.82	0.05	1.47	-0.27	105.07	111.65
FRS Intermediate Bond Fund	3.70	2.84	0.87	1.57	0.20	118.13	139.91
FRS U.S. Bond Enhanced Index Fund	4.39	3.10	1.03	0.13	0.62	101.60	100.93
FRS Core Plus Bond Fund	4.88	3.99	0.91	1.32	0.33	114.15	122.51
FRS U.S. Stock Market Index Fund	10.13	15.37	0.63	0.05	1.74	100.32	99.91
FRS U.S. Large Cap Stock Fund	9.83	16.56	0.58	2.50	-0.14	105.91	113.17
FRS U.S. Small/Mid Cap Stock Fund	6.91	19.29	0.38	1.58	0.69	102.02	97.25
FRS Foreign Stock Index Fund	2.56	14.92	0.16	1.37	0.18	99.88	98.55
FRS Global Stock Fund	10.52	14.71	0.67	3.14	1.21	110.25	89.81
FRS Foreign Stock Fund	4.90	15.14	0.31	3.56	0.69	105.91	93.50

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

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Appendix

As of June 30, 2020

Benchmark Descriptions

Retirement Date Benchmarks - A weighted average composite of the underlying components' benchmarks for each fund.

iMoneyNet 1st Tier Institutional Net Index - An index made up of the entire universe of money market mutual funds. The index currently represents over 1,300 funds, or approximately 99 percent of all money fund assets.

FRS Custom Multi-Assets Index - A monthly weighted composite of underlying indices for each TIPS and Real Assets fund. These indices include Barclays U.S. TIPS Index, MSCI AC World Index and the Bloomberg Commodity Total Return Index, NAREIT Developed Index, S&P Global Infrastructure Index, S&P Global Natural Resources Index.

Total Bond Index - A weighted average composite of the underlying benchmarks for each bond fund.

Barclays Aggregate Bond Index - A market value-weighted index consisting of government bonds, SEC-registered corporate bonds and mortgage-related and asset-backed securities with at least one year to maturity and an outstanding par value of $250 million or greater. This index is a broad measure of the performance of the investment grade U.S. fixed income market.

Barclays Intermediate Aggregate Bond Index - A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

FRS Custom Core-Plus Fixed Income Index - A monthly rebalanced blend of 80% Barclays U.S. Aggregate Bond Index and 20% Barclays U.S. High Yield Ba/B 1% Issuer Constrained Index.

Total U.S. Equities Index - A weighted average composite of the underlying benchmarks for each domestic equity fund.

Russell 3000 Index - A capitalization-weighted index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Total Foreign and Global Equities Index - A weighted average composite of the underlying benchmarks for each foreign and global equity fund.

FRS Custom Small/Mid Cap Index - A monthly rebalanced blend of 25% S&P 400 Index, 30% Russell 2000 Index, 25% Russell 2000 Value Index, and 20% Russell Mid Cap Growth Index.

Total Foreign and Global Equities Index - A weighted average composite of the underlying benchmarks for each foreign and global equity fund.

MSCI All Country World ex-U.S. IMI Index - A capitalization-weighted index of stocks representing 22 developed country stock markets and 24 emerging countries, excluding the U.S. market.

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 47 developed and emerging countries, including the U.S. and Canadian markets.

MSCI All Country World ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 24 emerging countries, but excluding the U.S.

Descriptions of Universes

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Money Market Fund - A money market universe calculated and provided by Lipper.

FRS U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Lipper.

FRS Intermediate Bond Fund - A broad intermediate-term fixed income universe calculated and provided by Lipper.

FRS Core Plus Bond Fund - A core plus bond fixed income universe calculated and provided by Lipper.

FRS U.S. Stock Market Index Fund - A large cap blend universe calculated and provided by Lipper.

FRS U.S. Large Cap Stock Fund - A large cap universe calculated and provided by Lipper.

FRS U.S. Small/Mid Cap Stock Fund - A small/mid cap universe calculated and provided by Lipper.

FRS Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

FRS Global Stock Fund - A global stock universe calculated and provided by Lipper.

FRS Foreign Stock Fund - A foreign large blend universe calculated and provided by Lipper.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

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Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and include the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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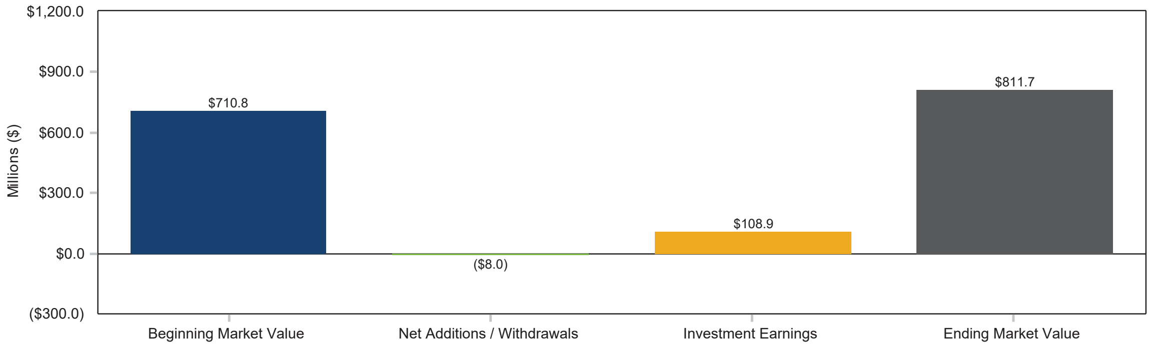
LCEF Total Fund

LCEF Total Fund As of June 30, 2020

Total Plan Asset Summary

Change in Market Value
From April 1, 2020 to June 30, 2020



Summary of Cash Flow

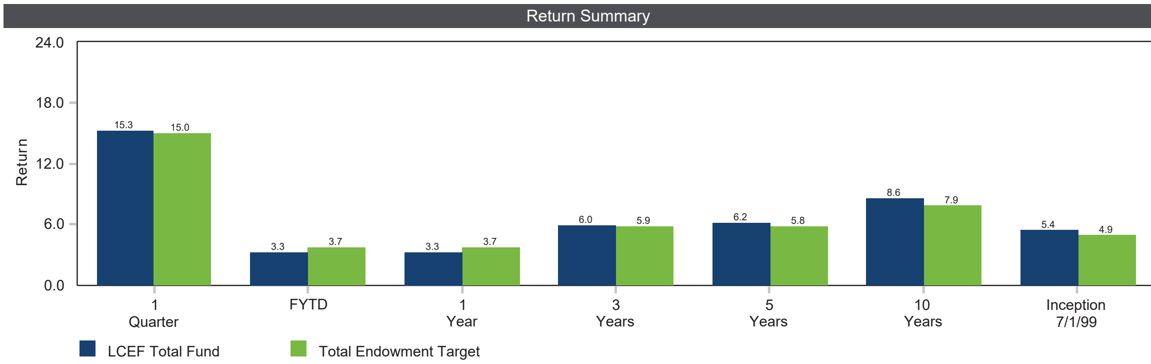
	1 Quarter	FYTD*	1 Year
Beginning Market Value	710,815,030	793,608,408	793,608,408
+ Additions / Withdrawals	-8,002,000	-8,002,000	-8,002,000
+ Investment Earnings	108,885,955	26,092,578	26,092,578
= Ending Market Value	811,698,985	811,698,985	811,698,985

*Period July 2019 - June 2020

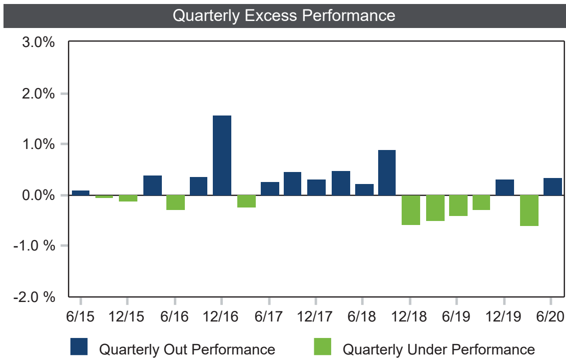
LCEF Total Fund As of June 30, 2020

Total Plan Performance Summary

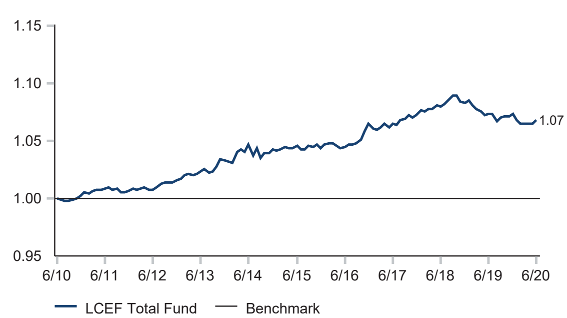
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



As of June 30, 2020

Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value ($)	%	Policy(%)	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years
LCEF Total Fund	811,698,985	100.0	100.0	15.3 (14)	3.3 (29)	3.3 (29)	6.0 (14)	6.2 (8)	8.6 (7)
Total Endowment Target				15.0 (18)	3.7 (22)	3.7 (22)	5.9 (16)	5.8 (14)	7.9 (20)
Global Equity*	587,623,683	72.4	71.0	20.6	0.8	0.8	6.0	6.9	11.2
Global Equity Target				19.9	1.2	1.2	5.7	6.2	10.1
Fixed Income	130,975,994	16.1	17.0	3.0 (61)	8.9 (6)	8.9 (6)	5.4 (8)	4.4 (19)	3.9 (53)
Blmbg. Barc. U.S. Aggregate				2.9 (63)	8.7 (7)	8.7 (7)	5.3 (16)	4.3 (20)	3.8 (58)
TIPS	84,390,352	10.4	11.0	4.4	8.3	8.3	5.1	3.9	3.6
Barclays U.S. TIPS				4.2	8.3	8.3	5.0	3.8	3.5
Cash Equivalents	8,708,956	1.1	1.0	0.2	1.9	1.9	2.1	1.5	1.1
S&P US AAA & AA Rated GIP 30D Net Yield Index				0.1	1.5	1.5	1.7	1.2	0.6

Benchmark and universe descriptions are provided in the Appendix.

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

As of June 30, 2020

Calendar Year Performance

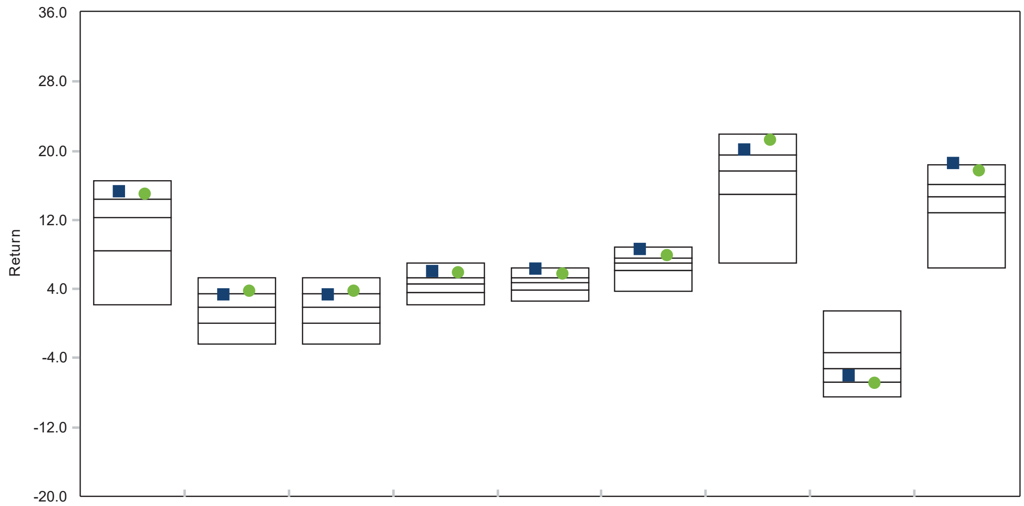
	Performance(%)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
LCEF Total Fund	20.1 (18)	-6.1 (62)	18.5 (4)	9.2 (9)	-1.4 (48)	5.2 (47)	14.7 (39)	13.2 (23)	1.9 (20)	14.0 (15)
Total Endowment Target	21.2 (11)	-7.0 (79)	17.7 (9)	7.0 (39)	-1.6 (51)	4.3 (59)	12.8 (57)	12.2 (45)	1.5 (24)	13.7 (17)
Global Equity*	25.0	-8.5	24.5	11.4	-1.9	5.3	27.1	20.4	-1.1	17.0
Global Equity Target	26.4	-9.8	24.1	8.4	-2.4	3.9	24.1	19.4	-2.2	16.1
Fixed Income	8.7 (24)	0.1 (48)	3.7 (34)	2.7 (60)	0.6 (32)	6.0 (17)	-1.8 (75)	4.6 (83)	7.6 (45)	7.0 (75)
Blmbg. Barc. U.S. Aggregate	8.7 (25)	0.0 (49)	3.5 (39)	2.6 (60)	0.5 (34)	6.0 (17)	-2.0 (77)	4.2 (88)	7.8 (42)	6.5 (80)
TIPS	8.5	-1.1	3.2	4.8	-1.2	3.5	-8.7	7.2	13.6	6.1
Barclays U.S. TIPS	8.4	-1.3	3.0	4.7	-1.4	3.6	-8.6	7.0	13.6	6.3
Cash Equivalents	2.6	2.3	1.2	0.7	0.5	0.2	0.2	1.3	0.1	2.0
S&P US AAA & AA Rated GIP 30D Net Yield Index	2.2	1.8	0.9	0.4	0.1	0.0	0.1	0.1	0.2	0.3

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

As of June 30, 2020

Plan Sponsor Peer Group Analysis

All Endowments-Total Fund



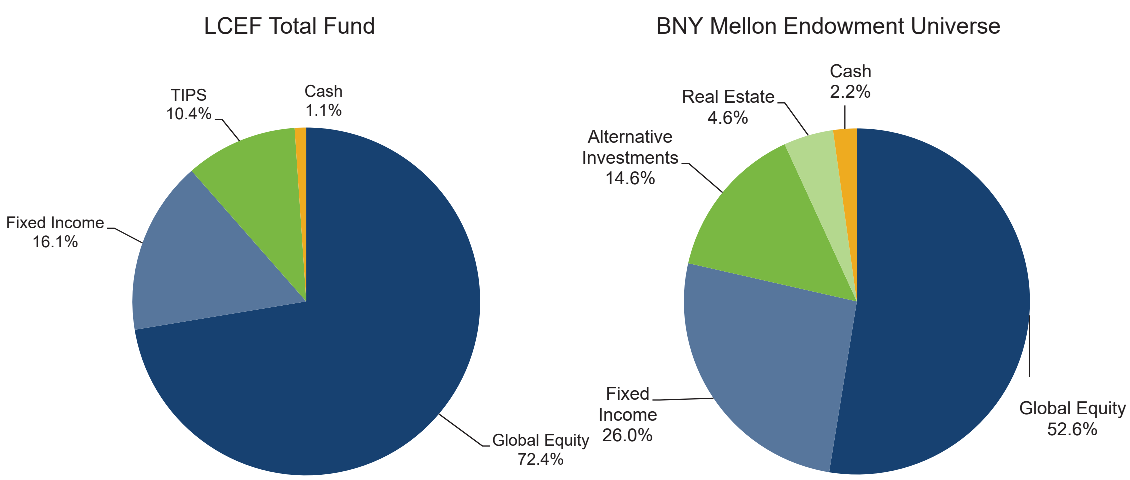
	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years	2019	2018	2017
■ LCEF Total Fund	15.3 (14)	3.3 (29)	3.3 (29)	6.0 (14)	6.2 (8)	8.6 (7)	20.1 (18)	-6.1 (62)	18.5 (4)
● Total Endowment Target	15.0 (18)	3.7 (22)	3.7 (22)	5.9 (16)	5.8 (14)	7.9 (20)	21.2 (11)	-7.0 (79)	17.7 (9)
5th Percentile	16.6	5.3	5.3	7.0	6.5	8.9	21.9	1.5	18.3
1st Quartile	14.4	3.5	3.5	5.4	5.3	7.6	19.5	-3.4	16.0
Median	12.3	1.8	1.8	4.6	4.7	7.0	17.6	-5.3	14.6
3rd Quartile	8.4	0.1	0.1	3.6	3.9	6.1	15.0	-6.8	12.8
95th Percentile	2.2	-2.3	-2.3	2.2	2.7	3.7	7.1	-8.5	6.5
Population	312	305	305	275	247	183	404	378	478

Parentheses contain percentile rankings.

AON Empower Results®

LCEF Total Fund **As of June 30, 2020**

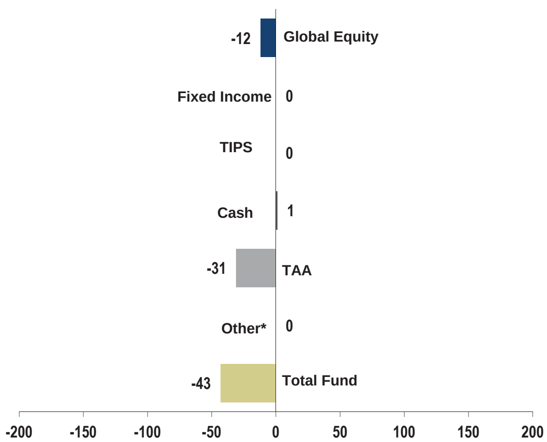
Universe Asset Allocation Comparison



AON Empower Results®

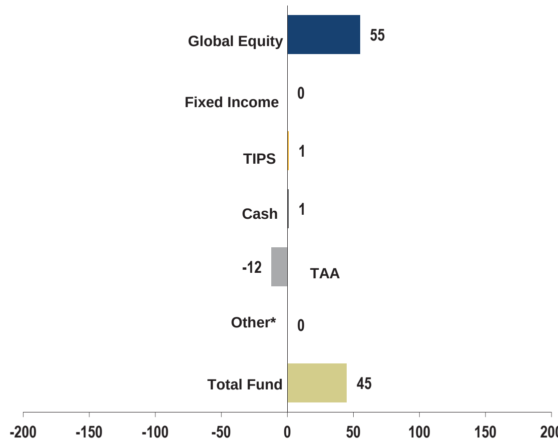
LCEF Total Fund As of June 30, 2020

Attribution



Basis Points

1-Year Ending 6/30/2020



Basis Points

5-Year Ending 6/30/2020

*Other includes differences between official performance value added due to methodology and extraordinary payouts.

Appendix

Benchmark Descriptions

LCEF Total Fund

Total Endowment Target - A weighted blend of the individual asset class target benchmarks.

Total Global Equity

MSCI ACWI IMI ex-Tobacco - From 7/1/2014 forward, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. From 10/1/2013 to 6/30/2014, a custom version of the MSCI ACWI IMI adjusted to reflect a 55% fixed weight in the MSCI USA IMI and a 45% fixed weight in the MSCI ACWI ex-USA IMI, and excluding certain equities of tobacco-related companies. From 9/1/2012 to 9/30/2013, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. Prior to 9/1/2012, the benchmark is a weighted average of both the Domestic Equities and Foreign Equities historical benchmarks.

Total Domestic Equities

Russell 3000 Index ex-Tobacco - Prior to 9/1/2012, an index that measures the performance of the 3,000 stocks that make up the Russell 1000 and Russell 2000 Indices, while excluding tobacco companies.

Total Foreign Equities

MSCI ACWI ex-US IMI ex-Tobacco - Prior to 9/1/2012, a capitalization-weighted index representing 46 countries, but excluding the United States. The index includes 23 developed and 24 emerging market countries, and excludes tobacco companies.

Total Fixed Income

Barclays Aggregate Bond Index - A market value-weighted index consisting of the Barclays Credit, Government, and Mortgage-Backed Securities Indices. The index also includes credit card, auto, and home equity loan-backed securities. This index is the broadest available measure of the aggregate investment grade U.S. fixed income market.

Total TIPS

Barclays U.S. TIPS - A market value-weighted index consisting of U.S. Treasury Inflation-Protected Securities with one or more years remaining until maturity with total outstanding issue size of $500 million or more.

Total Cash Equivalents

S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index - An unmanaged, net-of-fees, market index representative of the Local Government Investment Pool. On 10/1/2011, the S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index replaced the S&P U.S. AAA & AA Rated GIP 30-Day Gross Yield Index, which was previously used from 4/30/08 - 9/30/11. Prior to 4/30/08, it was the average 3-month T-bill rate.

Universe Descriptions

LCEF Total Fund

A universe comprised of 465 total endowment portfolio returns, net of fees, calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $354.4 billion as of quarter-end and the average market value was $791.2 million.

Total Fixed Income

A universe comprised of 42 total fixed income portfolio returns, net of fees, of endowment plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised $260.9 billion as of quarter-end and the average market value was $7.5 billion.

Explanation of Exhibits

Quarterly and Cumulative Excess Performance - The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

Ratio of Cumulative Wealth Graph - An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis - An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and include the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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Aon Investments USA Inc.
200 East Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Investment Advisory Council
Compensation Subcommittee Conference Call
September 24, 2020

Agenda
Investment Advisory Council (IAC) Compensation Subcommittee Conference Call

Tuesday, September 24, 2020

1.	**Welcome/Call to Order/Approval of Minutes of September 3, 2019 Meeting (Attachments 1A and 1B)**	Vinny Olmstead, Chair
2.	**Opening Remarks**	Vinny Olmstead, Chair
	Opening Remarks	Ash Williams, Executive Director & CIO
3.	**Recap of ED/CIO's FY 2019-20 Incentive Plan Design (Attachment 2)**	Jon Mason, Mercer
4.	**Presentation of Results of ED/CIO's Evaluation and Mercer's Salary Recommendation (Attachments 3A, 3B, Appendix to 3B, 3C)**	Jon Mason, Mercer
5.	**Transition of Chair**	
6.	**Discussion of Evaluation Results and Salary Recommendation by Subcommittee**	Vinny Olmstead, Chair
7.	**Formulation of Recommendation to IAC and Trustees**	Vinny Olmstead, Chair
8.	**ACTION REQUESTED: Approval of Recommendation**	Vinny Olmstead, Chair
9.	**Other Business/Audience Comments/Closing Remarks Adjournment (Attachment 4, Information Only)**	

Attachment 1A

MINUTES
INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE CONFERENCE CALL
September 3, 2019

A special meeting of the Investment Advisory Council (IAC) Compensation Subcommittee was held on Tuesday, September 3, 2019, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the September 3, 2019 meeting is hereby incorporated into these minutes.

IAC Members:	Vinny Olmstead, Chair (Via telephone) Chuck Cobb (Via telephone) Peter Collins (Via telephone) Gary Wendt (Via telephone) Peter Jones (Via telephone)
SBA Employees:	Ash Williams, Executive Director & CIO Kent Perez Lamar Taylor Randy Harrison Gregory Ortego John Kuczwanski
Consultants:	Jon Mason, Mercer (Via telephone) Josh Wilson, Mercer (Via telephone)

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES OF SEPT. 10, 2018 MEETING

The meeting was called to order at 4:02 PM. Mr. Vinny Olmstead, Chair, IAC Compensation Subcommittee, welcomed everyone. Mr. Olmstead made a motion to approve the minutes from the September 10, 2018 IAC Compensation Subcommittee conference call; Mr. Peter Collins seconded the motion. The minutes were approved.

OPENING REMARKS

Mr. Olmstead clarified that, in addition to himself, the other IAC Compensation Subcommittee members are Mr. Gary Wendt, Mr. Peter Collins, and Mr. Chuck Cobb; Mr. Peter Jones was on the conference call as an observer. Mr. Olmstead reminded everyone that the purpose of the meeting was to review the incentive plan design and the Executive Director/CIO's (ED/CIO) compensation and to make recommendations to the full Investment Advisory Council. He stated that Mr. Jon Mason, Mercer, would present Mercer's findings on the ED/CIO's performance evaluation. Mr. Olmstead stated that the evaluation process was a good one and that it was comprehensive.

Mr. Ash Williams, ED/CIO, reported that the updated performance number for the Florida Retirement System Pension Plan for the fiscal year-end was 6.26 percent, 59 basis points ahead of target. He commented that the incentive compensation plan is working very well and that the SBA team is stable. Mr. Williams explained that the SBA is currently in a good position where it can recruit, motivate and retain employees who are capable of managing more money in-house. He concluded his remarks by stating that the aggregate return environment continues to be under pressure.

IAC members asked questions which were answered by Mr. Williams and Mr. Lamar Taylor.

RECAP OF ED/CIO'S FY2018-19 INCENTIVE PLAN DESIGN

Mr. Jon Mason directed the IAC members' attention to Attachment 2, the Incentive Plan Design for the ED/CIO for Fiscal Year 2018-19. He explained that there is an organizational (quantitative) component and an individual (qualitative) component of the plan and that the individual component is 15 percent of the total award.

Questions were answered by Mr. Mason, Mr. Taylor, Mr. Williams, and Mr. Olmstead.

PRESENTATION OF RESULTS OF ED/CIO'S EVALUATION AND MERCER'S SALARY RECOMMENDATION

Mr. Mason discussed the results of the ED/CIO evaluation, explaining that there were high performance scores for Mr. Williams and positive comments for the job that Mr. Williams is doing. He provided details on the evaluation process, discussing the three reference points that Mercer used for its recommendation: the median of the top five public pension funds, the 75th percentile of the Larger Public Pension Funds peer group, and the 75th percentile of the Broader Public Pension Funds peer group. Mr. Mason stated that Mercer's recommendation is an annual salary for the ED/CIO of approximately $575,000.

DISCUSSION OF EVALUATION RESULTS AND SALARY RECOMMENDATION BY SUBCOMMITTEE

IAC members discussed the salary recommendation and asked several questions which were answered by Mr. Mason, Mr. Williams, Mr. Taylor, and Mr. Josh Wilson, Mercer.

FORMULATION OF RECOMMENDATION TO IAC AND TRUSTEES

Mr. Cobb stated that performance has been outstanding, and leadership has been great. He recommended near the maximum for both the salary and the discretionary bonus, adding that he believes the performance compared to peers should be considered.

Mr. Collins commented on the talent at the SBA, the performance results, the professionalism and the low cost, further stating that he supported the maximum on the 15 percent for the individual award and he supported the salary increase to $575,000.

Mr. Wendt stated that the SBA is an excellent run organization, that Mr. Williams has done an excellent job, and that he believed that the maximum amount should be awarded wherever possible.

Mr. Olmstead stated that he agreed with the comments of the other subcommittee members.

ACTION REQUESTED: APPROVAL OF RECOMMENDATION

Mr. Olmstead made a motion that the subcommittee approve the recommendation for the ED/CIO individual component of $35,831. Mr. Cobb seconded the motion. The motion passed. Mr. Olmstead made a motion to increase the ED/CIO annual salary to $575,000. Mr. Collins seconded the motion. The motion passed.

OTHER BUSINESS/AUDIENCE COMMENTS/CLOSING REMARKS/ADJOURNMENT

Mr. Williams thanked the IAC Compensation Subcommittee members for their time, for their effort, and for their kind remarks. He explained the process whereby the IAC Compensation Subcommittee chair will send a letter to the members of the full Investment Advisory Council outlining the substance of the subcommittee review, together with the conclusions in the form of a recommendation. That recommendation will then be presented at the upcoming quarterly IAC meeting and will be voted on by the full IAC.

The meeting was adjourned at 4:58 PM.

Vinny Olmstead, Chair
IAC Compensation Subcommittee

10/9/19
Date

Attachment 1B

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL

COMPENSATION SUBCOMMITTEE

CONFERENCE CALL

TUESDAY, SEPTEMBER 3, 2019
4:02 P.M. - 4:58 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FL 32308

Stenographically Reported By:
JO LANGSTON, RPR

Job No. : 104380

APPEARANCES

IAC MEMBERS:

VINNY OLMSTEAD, CHAIR
CHUCK COBB
PETER COLLINS
GARY WENDT
PETER JONES

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR AND CIO
KENT PEREZ
LAMAR TAYLOR
RANDY HARRISON
GREGORY ORTEGO
JOHN KUCZWANSKI

CONSULTANTS:

JON MASON - (Mercer)
JOSH WILSON - (Mercer)

INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE
CONFERENCE CALL

* * *

MR. OLMSTEAD: And this, of course, is Vinny Olmstead, which I am chair of the subcommittee on compensation for the IAC this year, so welcome all. Ash, I'm following the agenda. I'm going to kick us off here. Quick question. Do we need an approval for the minutes from September of 2018?

MR. WILLIAMS: I presume we do, yes. So hopefully everyone has had a chance to take a look.

MR. OLMSTEAD: I've taken a look. And a motion to approve those.

MR. COLLINS: Second.

MR. WILLIAMS: So that was Peter Collins seconding.

MR. OLMSTEAD: All in favor.

(Ayes)

MR. OLMSTEAD: All in favor. Great. Okay.

MR. WILLIAMS: Vinny, before you move on, sorry, I was saying before you got on the call, we have a court reporter here, and since those of you on the phone, she can't simply look and see

your name tag in front of you like she can with us, so who made the motion there? It will be useful if everybody can identify themselves before they speak. Did you do that, Vinny?

MR. OLMSTEAD: Yeah, Vinny made the motion.

MR. WILLIAMS: Okay, great. Thank you. Sorry to interrupt.

MR. OLMSTEAD: No problem. And for clarification, the committee is, I believe, Gary Wendt, Peter Collins, Ambassador Cobb, and Peter Jones also?

MR. JONES: This is Peter Jones. I don't think --

MR. WILLIAMS: No, Peter Jones is not a member of the committee.

MR. OLMSTEAD: Okay. He's an observer. Great. I think Peter Collins, Chuck Cobb and myself were all on this last year, so we have some continuity in the process. And just for a reminder, the purpose of this meeting is to review the incentive plan design, the executive director's compensation, and ultimately the committee will make recommendations on the -- at least the non-formulaic aspects of Ash Williams' compensation, along with a recommendation for any potential increase in salary.

We will also have Jon Mason of Mercer present their findings on the executive director's performance evaluation, including reviews that were conducted by each of the four members of the compensation committee.

A little bit of -- a quick commentary on my behalf. I find this process pretty comprehensive. I think it takes into account things like market data, independent reviews, study by Mercer, the ability to opine confidentially any concerns or positive things that are going on. And so I think the process is good.

In addition, what I really like about this plan is the majority of the compensation is derived based on performance, 85 percent on performance and 15 percent more qualitative, so very explicit in that regard.

And 2018 and 2019, by all measures, was a very successful year. I won't review all of the aspects of it, but the -- I think the total return was north of 6 percent, 6.17 percent or so, which was 83 BPs above target, not audited but close enough, I think, and the trust fund

grew by 2.5 billion in cash. So congrats to Ash and the team. They've done a superb job this year.

As noted, Jon Mason of Mercer will present their findings and recommendations, and then the committee will discuss the findings and provide our recommendations, and I'm sure there will be a number of questions.

And so at this point, two things before Jon presents; one, I'm sure Ash would love to make some comments, and then if there are any of the subcommittee members that are interested and have some questions prior to Jon jumping in, we'll take the opportunity to do so. So Ash first and then any questions after that, and then I'll turn it over to Jon.

MR. WILLIAMS: Thank you, Mr. Chairman. So by way of comments, I would offer a couple of things. First of all, since we sent out the initial numbers for the year ended June 30, we have refined those numbers a little bit. And where we end up is the pension plan return -- and this is with some of the private market assets in but not all of them. The real estate values will come in later in the year. We only have those assets appraised once a year.

But, basically, the updated performance number for the fiscal year ended is 6.26 percent. That's 59 basis points ahead of target, $2.7 billion gain in the fund over the fiscal year. And that's net of paying out 7 billion in benefit payments over the year, so an aggregate investment gain of 9.7 billion.

I think more importantly for your purposes would be the question of, well, how is the team holding up and what is the evidence that we have the right people in positions of responsibility managing this large investment portfolio, the success of which determines to a degree the safety and soundness of the pensions of about a million people who have given their lives to public service in Florida.

And I think the short answer to that is it's working very well. We are now at a point in the incentive compensation plan's life where it is mature, meaning all of the -- all of the incentive earned under this plan is earned on a rolling three year basis.

So we are incenting a longer term performance, and the boundaries for earning

incentive awards are also bounded by requirements that to actually receive an award, someone doesn't just meet the performance criteria. They have to do so in a manner consistent with the risk budgeted for their asset class, be free of any compliance issues or other issues of a disciplinary nature involving the board, and the payouts are over two consecutive years. And in order to collect the second year's payout, one must still be working at the board and be in good standing.

Those are all criteria that were designed into the plan originally to avoid moral hazard and incent good alignment of behavior for all concerned.

So if you bring that back to the fiscal year ended June 30, I think we see some indications that we've got the right people in the jobs; number one, because the total fund return was good and good relative to benchmark and relative to peers, but, number two, if you look at the asset classes, global equity, fixed income, real estate, private equity and strategic investments -- I'm excluding cash -- every single one of them was in a position of adding value.

Global equity, 43 basis points. Fixed income, 9. Real estate, 18. And that's before we've marked up the value of real estate's assets. Private equity, 785. Strategic investments, 14. And, again, there are some private assets in that strategic book that are not fully written up.

So I think the fact that we have a stable team, we've been through a significant degree of succession already, we've turned over every single one of the asset class heads in the ten-years-plus I've been back at the SBA, and we've done pretty darn well on the performance and we've done really well in terms of recruiting and developing talent.

I think in the past year we had a little turnover. I think we had one person that we lost for an element of economic reasons. Most of the rest of the changes were either people just desiring to make a move physically to a different part of the country or family situations or a retirement, something like that.

So I think what we've accomplished, with the support of the IAC and the comp subcommittee of the IAC, has been to put the State Board in a

posture where we can recruit, motivate and retain talent that is capable of managing more money in-house, and we have materially increased the portion of our dollars we manage in-house over this time period that I'm referring to and will continue to do so in the future.

And I don't think I need to tell any of you it costs a whole lot less money to manage money in-house than it does outside. I would qualify that and say there are a number of strategies that we do not see ourselves as competitors in, and we will never try and do those things in-house.

You're not going to see us doing direct private equity investments or direct venture capital or things of that nature, but there are other things that we have done a lot of and we're very good at and we can do more, and we would envision continuing to do more.

So the last thing I would say is, the aggregate return environment continues to be under pressure. Rates, interest rates and yields are still at historic lows. Equity markets are already appreciated heavily. Equity-like risk strategies, venture, private equity, are also pretty richly priced, and there's a lot of capital, a lot of dry powder on the sidelines.

None of that says prices can't go higher, but all of that says we're probably later in the game than we are closer to the beginning of the game, and the overall return environment going forward is tough.

The investment return assumption that was the consensus on a total fund basis across the five major investment consultancies operating in the U.S. last year was 6.4 percent. We have not seen an updated number this year.

MR. TAYLOR: It did tick up a little bit.

MR. WILLIAMS: But it came up a tiny bit, not much, 15, 16 basis points, something like that. So all that says the importance of getting it right is large, as it always has been. And it also tells you that in an environment where the returns themselves are in the sort of mid-single-digit-plus ballpark, if we can get 50-plus basis points of tailwind through low costs, low cost, that 50 basis points is worth a lot more in a 6.5 percent world than it is in a 16 percent world.

So that speaks to the value of internal

investing, the value of having a competent team and retaining the talent, all of which I think is in large measure due to this comp scheme, together with our culture and the merit-based nature of it. So I'll be happy to answer any questions anyone has.

MR. WENDT: Gary Wendt has two questions. The first one, just as a reminder, on our three year plan, will any of the employees be getting cash this year?

MR. WILLIAMS: Yes. And I'm not sure I understand the relationship of that question, will they be getting cash, to the three year question.

MR. WENDT: I need a little refresher. I probably shouldn't have asked that question. I'm sorry. The second question is, you mentioned, you talked about the ins and the outs of cash, with the net being plus-two-point-something billion.

MR. WILLIAMS: Yes.

MR. WENDT: But included in the ins, was there any contribution from the government, from the legislature?

MR. WILLIAMS: Oh, yes. Oh, absolutely,

yes. The legislature fully funded the normal cost of the pension system. The normal cost is the actuarial carry for the benefits as they currently stand. And then the other component of what the legislature contributes is an actuarial contribution toward the unfunded liability.

And the convention in government accounting standards is, for pension liability, the actuarially indicated unfunded liability contribution is a contribution that if all other things are held constant actuarially, the unfunded liability would be retired in full at the end of 30 years. So that was -- both of those things were fully funded by the legislature last year.

MR. WENDT: And approximately how much was that?

MR. TAYLOR: Hi, Gary. This is Lamar. The net cash out was about 7 billion. It was about 2.5 billion of contributions from employers and employees. So total net payments -- total gross payments was 10 billion out the door, but we got about 2.5 billion in the door. So that gave us a net cash outflow of about 7 billion.

MR. WENDT: But doesn't the legislature

approve dollars? Don't they approve the number of dollars? That's the number I'm trying to get to.

MR. TAYLOR: I'm sorry. Do they approve --

MR. WILLIAMS: You mean the numbers -- the legislature appropriates money every year for pension contribution.

MR. WENDT: How much?

MR. TAYLOR: Well, it's about $2.5 billion of contributions.

MR. WILLIAMS: That's employees.

MR. TAYLOR: That's employees. So it's about, I'd say, maybe 2 billion in total. But a lot of that is not just the state legislature. It's also all -- we're a multi-employer plan, so the vast majority of the participants are actually counties and school districts. So they contribute their own.

So the legislature sets the rates overall, and they appropriate for the State's portion of it, which is about 20 percent, which is roughly maybe 6-, $700 million.

MR. WILLIAMS: That's right.

MR. TAYLOR: I'd have to break the numbers out. But in total, it's $2.5 billion in total.

And most of that is employers. I can actually get you the real breakout and send that to you after the meeting, because DMS publishes those numbers.

MR. WENDT: That's fine. Thank you.

MR. WILLIAMS: Thank you, Gary.

MR. COLLINS: This is Peter Collins. I have a question, one follow-up question on that. So if I'm hearing it right, because we had a net positive of $2.5 billion last year after payouts but we had $2.5 billion come in, we were basically -- without that $2 billion, we would have, based on just performance, we would have had just enough to pay out the benefits.

MR. WILLIAMS: Yeah, more or less.

MR. COLLINS: Okay. So we carried our own weight last year without the legislature or without the cities and counties contributing their portions.

MR. WILLIAMS: Well, I don't know that I'd put it quite that way, because they did contribute their portion and they have. In fact, in the history of the FRS, there have only been three years when the legislature did not fully fund the normal cost and the actuarially -- the

contribution to any unfunded liability that may have existed, because you will remember that the Florida Requirement System, upon being created, was woefully underfunded. The funding ratio was in the forties. But it became fully funded and then overfunded during the early 2000s and at one point maxed at a funded ratio of 118 percent.

So there were a number of years, from about 1999 through 2008, where the plan was actually fully funded or overfunded. And then when the great financial crisis came along and the mark to market on the assets of the pension portfolio dropped precipitously, suddenly you had an unfunded liability again, after not having one for many years.

And it was in the first three years of the wake of the great financial crisis when the legislature did a little bit of underfunding. Now, in fairness to the legislature, they did fully fund the normal cost, but they went a bit light on the contribution to the unfunded liability. The amount of that lightness was about $3 billion.

And we recently went through an exercise where we answered the question, wow, what would the present value of that 3 billion be today if it had been put in? And the answer was, about another 6 billion. And we mapped that using the actual monthly returns of the fund against the actual monthly contributions that would have been made through payroll.

So we've got pretty good numbers on this. And obviously that's not a small slice of the unfunded liability we now currently are carrying. And we've summarized all this in a letter that we send to the trustees and the legislative leadership each year.

We can send that letter around to all of you. And it will make very, very clear, with both prose and graphics, why this investment return assumption is important and why that number should be as prudent as possible.

MR. OLMSTEAD: Any other questions from the subcommittee members? All right. With that, Jon Mason and Josh Wilson from Mercer, it would be great to hear your presentation.

MR. MASON: Thank you, Mr. Chairman. This is Jon Mason from Mercer. My colleague, Josh Wilson, will jump in here as well. As background, Mercer has been working with SBA on

this topic since 2012. In the past few years, as outlined in our letter, the SBA has moved more of this process in-house to be more cost-effective, and effectively Mercer has played a review capacity, if you will. So the research has been done in-house at SBA, and we peer review, if you will, that research and then opine on the results.

That's the market piece. And then on the performance piece, obviously each of you have submitted a review of the executive director/CIO's performance, which we will go through. Those are the two primary elements that we look at when we're thinking of adjusting or reviewing pay, which are what are the comparable market data reference points and then how is the incumbent in the job actually performing.

Before I jump into those two, perhaps we'll start with a review of the incentive plan so that everyone is refreshed on that topic. And that's Attachment 2 in your materials. I'll give you just a second to flip there. Again, this is with respect to the ED/CIO.

And as the chairman mentioned, the construct of the performance award is primarily measured on performance of the organization. So 85 percent of the rating is based on performance of the SBA, with 15 percent being an individual component, with key criteria for Mr. Williams individually.

And this schedule just goes to show, based on the construct of the plan, what the payout would be as a percentage of salary and the total dollar amounts associated with the various levels of performance.

If there are no questions there, I'll move to Attachment 3.

MR. WENDT: That 455,000, is that the average of the people who are in the program or somebody's salary or just an example?

MR. MASON: Yeah. So this is with respect to the ED/CIO, the annual salary. I actually believe that was his prior salary. It's currently 525. So it's actually 15 percent higher than these figures. But this is with respect to the ED/CIO specifically.

MR. TAYLOR: And, Jon and Gary, just a clarification. The way the plan is designed, the salary is set every July 1st for the current pay performance period. So it's a little bit of a lag in the salary in terms of how the payouts

work, which is why, for this current evaluation, the relevant salary is the 455, because that was the salary in effect last July 1st for the most current performance period.

MR. COBB: This is Chuck Cobb. I have a question on this. So is Mercer going to make a recommendation on the 15 percent range, or do we do that individually during this meeting? I'm confused with the procedure here.

MR. WILLIAMS: I think I can take that one, Ambassador. The primary mission of this meeting is for the members of the comp committee to score me and reach a consensus on the treatment of that 15 percent subjective component of my incentive. And the background exercise to set the stage for that conclusion being made in this meeting is the individual scoring that each of you did privately and then submitted to Mercer.

Mercer has aggregated those scores, has commentary on them and can provide that holistic view to the comp committee on today's call, which I think is where Jon and Josh were teeing up to head, and then you can discuss it among yourselves and reach whatever conclusion you feel is appropriate.

MR. COBB: So you've answered my question. We are going to discuss that. In other words, I saw the extensive discussion on salary increase, but I didn't see as extensive on this 15 percent. But we're going to do both.

MR. WILLIAMS: Correct. Well, I won't speak for the chair.

MR. OLMSTEAD: This is Vinny Olmstead. That's my understanding. And I think what may be helpful, Ash, I may have this at least directionally correct, but I believe we make a recommendation, and then that is passed along to the full IAC, who makes the recommendation, and then ultimately that recommendation is made to the trustees.

MR. WILLIAMS: That is exactly correct. That is exactly right.

MR. OLMSTEAD: So it's subcommittee, IAC, trustees.

MR. WILLIAMS: Correct. That's exactly right. So, Mr. Chairman, unless there's anything else on that, shall we go back to Mercer?

MR. OLMSTEAD: Yes, sir.

MR. MASON: Thank you, Mr. Chairman. So I'm going to move forward to Attachment 3B so we can

kind of directly look at the results of that, Ash's performance review that we just discussed. I believe that's 29, page 29 of the aggregate materials. You'll find the cover page, and if you flip forward, I'd like to go ahead until you find the executive summary, which is a dark blue chart with three rows across the top, and we have the 2019 average rating, the 2018 average rating at the top.

This is a summary of each of the questions that were answered by the members of this committee with respect to the ED/CIO's performance, their reflections pertaining to the overall mission of the organization, people, efficiencies, infrastructure and operations, interactions with committees, and an individual rating. So here you see the average score aggregated for those who filled out the evaluation and then the same results from the year prior.

As a reminder, the scores were between 1 and 4, with 1 being poor, 2 being below, 3 being meets and 4 being exceeds. On three of the five categories, the results were 4s across the board, and with two of the categories, people and interactions with the committees, falling in between the meets and exceeds categories.

Consistent with last year, very high performance scores really across the board and generally higher than last year. I think three are higher than 2018 and one is lower. But if you take these results in aggregate, there's certainly a sense from the committee that the incumbent is doing a very strong job on all five of these categories.

And then the remainder of this report just gets into each, again, description of which questions were asked for each of the survey components and then some comments that were made in the survey with respect to the incumbent. I'll pause there and see if there are any questions.

So, again, I mentioned there's really two fundamental components that go into compensation decisions. There's a market assessment, what is this job being paid in the marketplace and how is the incumbent performing. So this gets to the latter, and I think that the Cliff Notes are that we're seeing exceptionally strong performance out of the incumbent.

That will be a segue into the next piece, which is the market study, which was conducted by the SBA and reviewed by Mercer. I'm going to go ahead and skip past Ash's letter, which is the next piece in your materials, and that just gets to the letter that Ash submitted with respect to the performance evaluations, to Attachment 3C. And that's the memo that Josh and I prepared for this meeting with respect to our review of SBA's research and recommendations.

Mr. Chairman, would you like me to walk through this letter, or should I assume that folks have read it and get more to the Cliff Notes?

MR. OLMSTEAD: I assume, unless the other subcommittee members have not read it, that everybody has, and we can skip to the Cliff Note version.

MR. MASON: Okay. So this letter gives a chronology of our history with SBA since 2012 and the adjustments that have been made over time. We're certainly seeing a dynamic market in this space, where states are, A, aggressively recruiting new executives. We're seeing a lot of turnover and a lot of increases year over year.

So it's been a very dynamic market that we've witnessed over the years.

As we've done in prior years, we take a few different lenses of the marketplace. So now I'm on the second page of the letter, where we talk about our recommendations. And there are really three reference points we've taken. One is the median of the top five public pension funds by asset size.

The second is the 75th percentile of what we call the larger public pension funds group, which is extending that list of five down to the largest 14, and then the third being the 75th percentile of the broader public pension funds, which adds another six organizations to that group.

Historically, we've keyed in on number two as the primary reference point. Just for your reference, last year we made a recommendation with two alternatives. One alternative was to move the ED/CIO to the number two benchmark from last year, and then the more conservative alternative was to take an average of the three. At the time last year, it was decided to choose the first alternative, which was the reference

point for number two.

But this year we've taken a similar approach, which is taking a number that approximates that number two reference point as an alternative, and then as the second alternative, averaging these three data points to come up with a more conservative figure for the committee's consideration.

So if we key off on more of the larger public pension funds, 75th percentile, we're recommending approximately 575,000. It's a bit conservative. It's slightly lower than that 582,500 number that you'll notice. And then when we average the three, that gets us to approximately 545.

I'll reiterate a point I mentioned a couple of times, which is that there's really a few driving influences on these types of decisions. There's the market, which is the incumbent's performance, which we've mentioned before, and the third one that I'll mention is tenure. You often find that individuals that are more long tenured are more highly paid versus newer incumbents.

But I think all three of those things

indicate that at a current 525 level, we're probably lagging, A, the market and, B, the incumbent's performance and tenure. So I'll pause with those points and see if anyone on the committee has any questions for us.

MR. COBB: Mr. Chairman, this is Chuck Cobb again. I have a question. And first I'll make a editorial statement that I prefer the 75 percentile, and I'm not sure whether it's the 14 or the 20, but in any event, it's about 580,000. But it seems to me, before we make the decision, we ought to know what the 75th percentile is for salary and bonus.

So I would be interested to know how Ash's compensation, if it was at 575 plus his proposed bonus, does that still keep him in the top 25 percent, or does that make him the top 10 percent or the top 60 percent?

In other words, I would like to know his total compensation and how that compares to the other top performers in this industry. And it seems to me it would be good to have that information before we make the decision.

MR. MASON: I'll make a quick statement, and the folks at SBA who also did this work, please

chime in. So as I ran the numbers, at target -- and this is up to current level. The target, I believe that would put Ash at a total compensation of 707,000. And I believe that the broader 75th peer group would be in the 717 range.

So he's currently lower. I'd have to do the math on the adjustment, but I think that would probably put him at a magnitude of perhaps 10 percent, 10 percent above where these numbers were last year.

Again, we're somewhat chasing a moving target because we're looking at historical numbers, right? But it is certainly in that range, but I think it would push his total compensation slightly above the 75th.

MR. COBB: So in other words, you're saying that the 575 and the proposed bonus are each at about the 75th percentile.

MR. MASON: We think of it more in aggregate, right, rather than looking at it by piece. But I think when you sum them up and look at the sum of the peers, you're looking just north of the 75th percentile of the peer group.

MR. WENDT: Are these above, above 25

percent?

MR. MASON: Yes, it's slightly above the 75th.

MR. WENDT: That was Gary Wendt with the question.

MR. OLMSTEAD: So, Ambassador Cobb, this is Chairman Vinny here again, and I think that's a great question. I asked it last year. And I think going forward, perhaps having some information in this report on total comp versus disaggregating them is great.

I had asked Ash just to quickly provide a little bit of information. When you look at the larger pension funds, it looks like -- and we can supply this data later -- that he is -- it is in the top five or so, but their total cost seems to be, I wouldn't say material but a significant amount more in total comp opportunity than the ED is offered.

So I think the question is a very pertinent question. And looking at it as total comp versus disaggregating does make sense. And I think as you hear Mercer, they're saying, yes, this is in the 75th percentile. And then as they went through those three items, including tenure,

obviously Ash seems to be up at the top of performance, tenure, et cetera.

So going forward, I would recommend that. And, again, I think it's a little north of 75 percent. If you look at the top five or so, he's got a -- he's probably 20 percent less than some of those, so just a little commentary there.

MR. WENDT: Gary Wendt has a question, which may be a little technical for this committee meeting. But the bonus part can be, as I understand it, up to 52.5 percent of salary, but 85 percent of that is based on numerical achievements, as I remember from an earlier chart?

MR. WILLIAMS: Correct.

MR. WENDT: Has that calculation been made yet, what percentage of 85 percent has been met?

MR. TAYLOR: Hi, Gary. This is Lamar. And so at this point, I think just kind of referring back to that chart would break the numbers out. You know, assuming that -- which the numbers looked like they will come in audited to be maximum, which that 85 percent would be $203,044 for this year's bonus round.

And, again, because the way the plan is designed, the fact that there's a little bit of a lag in terms of what the basis is computed on or what that percentage is computed on, for this year, it won't be computed on the 525 or 575. It will be computed on the salary that was in effect for Ash on July 1 of 2018, which at that time was $455,000. And so the 85 percent quantitative portion would be $203,044.

MR. WENDT: Has that been met? The question is, have those numerical objectives been met?

MR. TAYLOR: It appears that they have been. We're still in the final -- we're still auditing the final year of the three year performance period, but the numbers look, so far, is that we would expect that for the three year performance period, he would have earned the maximum quantitative portion for his incentive plan.

MR. WENDT: Thank you.

MR. COBB: I have a question about the proposed salary increase for the other high-performing executives that we have. If we have a salary increase here of about $100,000, that seems to me that's an increase of about 20, 21 percent or so. I didn't do the arithmetic.

How would that compare to some of our other high performers? Would anybody else be near 20 percent?

MR. TAYLOR: Well --

MR. MASON: Just a really quick clarification on that point. So it's actually going -- it would be going from 525 to 575, so that would be, I believe, around a 10 percent, 9.5 percent increase.

MR. WILLIAMS: And the answer to your question, Gary, is -- or, Chuck, I'm sorry -- on other key people, we have had -- what drives that is, A, their performance first, B, where they are relative to market. We use a calculation called a compa-ratio, which is the percentage of their comp related to the market comp for the position.

And the short answer is we've had a handful of people who have had very substantial increases. And when I say very substantial, I mean 15 to slightly over 20. And I would say the vast majority, if you look across the entire population of the board, would be more like kind of four or five-ish, that kind of percentage.

But, again, if you have key people who are lagging the market and they're doing a great job, we will move aggressively to close the gap and send them the right signal that what they're doing is recognized and appreciated.

MR. TAYLOR: And to follow that up, Ambassador, in Attachment 4 is some very general appendix information. And on slides 3 and 4 of that Attachment 4 is some historical information about percentage increases for other SBA employees, which I think tracks exactly what Ash was laying out there. But it breaks it out. It breaks it out into some numbers and percentage increases and how many people, kind of giving you a little bit of a bell curve.

MR. COBB: Yes. Well, I stand corrected on my arithmetic, but my concern was the high performers and -- but Ash has answered my question, that other performers have received similar increases, and that's comforting.

MR. WILLIAMS: Yeah. What we try and do is be good stewards. And the way we approach this with the trustees is we budget an aggregate portion of the payroll, commonly between 4 and 5 percent, for what we call our recruitment and retention pool.

I have the ability to use executive

discretion on that pool as long as the aggregate spending stays within the limits of the pool. In addition to that, we have been very careful in the way we have managed the use of positions, and we try and generate additional HR money internally where we can.

If we have a -- say if someone retires and we bring in a replacement at a lower compensation level, obviously we've saved some money. That means we've got a little more available to do something else with. At any given time, we try and keep a bit of a war chest so that if for some reason we have a key person who is at risk of being poached, we can do something about it.

So we try and keep our degrees of freedom and flex our muscles where needed and not do so where not needed.

MR. COLLINS: Ambassador, this is Peter Collins. If you don't have a follow-up on that, I'd like the next question.

MR. COBB: No follow-up.

MR. COLLINS: This is for the Mercer folks. The last paragraph of your letter speaks a little bit to the other employees, but to Mr. Williams specifically, it says they're eligible for performance-based incentive. Mr. Williams is eligible for incentive compensation ranging from 17.5 percent to 52 percent, and Mercer remains comfortable that the incentive compensation is reasonable but conservative.

Well, that's a pretty wide range. Were you speaking of a specific number in that range that you were calling reasonable but conservative?

MR. WILSON: Let me jump in here. This is Josh Wilson from Mercer. That range is predicated off a midpoint of 35 percent, and I think that's what we were speaking to as the reasonable but conservative. The range of 17 to 52 is a minimum or half of target to maximum or twice target, I'm sorry, one half times target.

MR. COLLINS: So essentially, Mr. Chairman, what we're here to do today is approve the -- make a recommendation on the salary portion and then to pick the percentage in the range of between 17.5 and 52.5 percent, correct?

MR. WILLIAMS: This is Ash. No, that's not correct. The mission today is, first of all, to make a recommendation to the full IAC on the subjective component of the incentive. That's the 15 percent, which Mercer walked us through

the scoring a little while ago.

The portion of the attainment of incentive on the other 85 percent is driven specifically by investment performance. There's not a subjective judgment there. And that is -- we have actually a chart in the plan that extrapolates for every performance level relative to benchmark, here's the difference that it makes. So you don't have to decide on that.

I think what Mercer was saying is obviously there won't be a specific point estimate for what the incentive should be because there's not a specific statement of performance that's consistent through all time.

That's why there's a range and that's why Josh qualified it in terms of a median, 20 percent below and a margin above as the maximum. So that's the main difference.

MR. COLLINS: Okay. So the incentive comp is basically tied directly to performance. So you just -- you match the numbers up. So we're doing -- we're saying how much of the 15 percent.

MR. WILLIAMS: Correct, correct. And that, too, is set out in the chart in Appendix 2, I believe it is, or maybe it's 3. Hang on. Yeah, Attachment 2.

MR. OLMSTEAD: Peter, this is Vinny. I think the two recommendations we should come to consensus on and make today is the individual 15 percent, which is about 35,800 bucks, and then the second is on the base pay, where you see Mercer's recommendation of on the low side 545 and the high side 575. And those are the two aspects that we should discuss and then make recommendations on.

MR. COLLINS: Okay.

MR. OLMSTEAD: I think that if -- are there any other questions? If there are no other questions for Mercer, maybe it's time for us to further have some conversation on each of these components.

MR. COLLINS: Great.

MR. COBB: Mr. Chairman, I'll go first and say that I think the performance has been outstanding, and I think the leadership has been great. And so on the individual component, I would favor near the max.

MR. WENDT: From Mr. Wendt, near the max.

MR. COBB: But let me finish my -- because I do have an added point that -- and I guess I

don't mean to rediscuss items that I was voted down on seven years ago, but I still believe that performance compared to peers should be considered. And so I am convinced that benchmark is more important than performance vis-a-vis peers, but I do think performance vis-a-vis peers is important.

And so one of the things that gets me to a conclusion of near max is that our performance vis-a-vis our peers has been excellent. And over ten years, you know, it's in the top 10 percent or 20 percent. I mean, it has been extraordinary performance against the top 10. And over five years it's also in the top quarter or so.

During the last year, I don't think it's been in the top -- in fact, it might even be less than median, because my last results that I have are the results ending March 31st, so I don't have the June 30, and maybe none of us have those results compared to the other top 10 performers.

So the only thing I'm -- so conclusion. I am for near max, both on salary and discretionary bonus, but it seems to me that performance vis-a-vis peers should be mentioned in our deliberations. And since they've been excellent, I come out on the excellent side. That's my conclusion, Mr. Chairman.

MR. OLMSTEAD: Thank you. Other comments from subcommittee members?

MR. COLLINS: Yeah. This is Peter Collins. The June 30 numbers that I can find relative to our peers, I think the median was -- that's a little different. It's a little difficult. When most people draw the line at a billion dollars and you're looking at performance numbers for a billion-dollar pension fund, everybody says, oh, well, that's a large pension fund, and so that's how they report it. I don't think that really applies to us. I mean, you can have some real outliers there.

But even those numbers, pension -- public plans with a billion or more in assets, the median return was like 6.69 June 30th. So when you then consider a plan the size of ours, I think it's -- I think the peers is -- I agree with the ambassador on the peer -- we need to view the peers and see how we're doing. But I think we're all benchmark-driven, and we're all certainly involved in creating the benchmark and the asset allocation.

Now, some of these peers could have totally different asset allocations. They can have -- you know, if we set the asset allocation and we set the benchmarks and we outperform the benchmark by 50 basis points but underperform the peers, I'm not sure that that's necessarily reflective of our staff. So that's my only consistent sort of comment on that. But I do think it's important to look at it.

I can't think of a -- maybe it's out there, but I can't think of a better state-run agency that I know of, in the state of Florida at least, than the SBA. The talent that Ash has been able to amass and retain, the results, as Ambassador Cobb just talked about, the professionalism, the low cost, I mean, all of it. We should all be so lucky to operate our businesses as efficiently. So I'm a max on the 15 percent, and I'm in the 575 category.

MR. WENDT: This is Gary Wendt. I don't want to be left out of the lauding that's taking place at this point. I will say it's just an excellent job, it's an excellent-run organization, and we should give the max wherever we can, not near max, but max.

MR. OLMSTEAD: Thanks. This is Vinny Olmstead. I, A, echo each of your comments; and, B, I'd like to point out it's great to have folks like Ambassador Cobb who have been part of this for many years to present the historical perspectives, which are duly noted. And obviously the committee are all components of Ash.

So on two items, I'm going to make a motion to do the max, which is about -- which is $35,831 for the individual. Do I have a second?

MR. COBB: This is Chuck Cobb. Second.

MR. OLMSTEAD: All in favor?

(Ayes)

MR. OLMSTEAD: And then on the base pay, I will also make a motion to move the base pay to $575,000. Do I have a second?

MR. COLLINS: I'll second that.

MR. WENDT: Second.

MR. OLMSTEAD: All in favor?

(Ayes)

MR. OLMSTEAD: I think that Peter Collins was the second on the 575. Okay.

And then, Ash, help me out with process here. I think we have our recommendations. I

think there's a letter that needs to be written. But other than that, open for any other business or any other comments by the audience, or, Ash, maybe at that point you can give closing remarks.

MR. WILLIAMS: Okay. So you're right. The wrap-up -- first of all, thank you-all for your time, your effort and your very kind remarks. I'm grateful and am just pleased that we do have what we have on offer here at the board. We've got an awful lot of good people here that do a lot of good things, and I just get to be the front man for the team.

The process from here is we traditionally have had a letter go from the chair of the comp committee to the chair of the IAC and the entire IAC outlining what the review was that was conducted in today's meeting, together with the conclusions in the form of a recommendation.

Those would be presented to the IAC at their next meeting and would be voted on by the full IAC and adopted in whole or in part or rejected. And then based on the conclusion of the full IAC, a similar letter would be written by the chairman of the IAC to the trustees of the State Board, the governor, the attorney general and the chief financial officer, with the -- reflecting what the consideration has been in these two public meetings of the comp committee and subsequently the IAC, together with their conclusions and recommendations.

Then the way we've handled this to date is that my position is subject by law to annual review and reappointment by the trustees. I think it's the only position in state government that's subject to that.

But at any rate, we commonly put on a single agenda item, the reappointment of the executive director and chief investment officer of the SBA. We include all these materials as background. And in a single action, the trustees approve the reappointment, together with the terms of the reappointment that to date have been exactly consistent or at least in the past couple of years have been exactly consistent with the recommendations of the IAC and the comp committee thereof.

And we can provide you drafts of the letters that have been used previously if that will be helpful and help out with the drafting. Happy to take any questions anyone has.

MR. OLMSTEAD: Okay. With that, without any questions, thanks to all, and this meeting is adjourned.

(Whereupon, the meeting was concluded at 4:58 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA
COUNTY OF LEON

I, JO LANGSTON, RPR, certify that I was authorized to and did stenographically report the foregoing proceedings, and that the transcript is a true and complete record of my stenographic notes.

Dated this 13th day of September 2019.

JO LANGSTON, RPR

Attachment 2

Incentive Plan Design
ED/CIO - FY 2019-2020

- Individual component level for ED/CIO position accounts for 15% of total award
- Organizational and individual component payouts at various incentive achievement levels are shown below. Evalaution criteria for individual component was determined by IAC Compensation Subcommittee in June 2015.

		Incentive as a % of Salary		
	Mix	Threshold	Target	Maximum
Total Incentive Opportunity	100%	17.500%	35.000%	52.500%
Organizational Component	85%	14.875%	29.750%	44.625%
Individual Component	15%	2.625%	5.250%	7.875%

Incentive Opportunity Breakdown (Annual Salary = $525,000)				
	Mix	Threshold	Target	Maximum
Total Incentive Opportunity	100%	$91,875	$183,750	$275,625
Organizational Component	85%	$78,094	$156,188	$234,281
Individual Component	15%	$13,781	$27,562	$41,344

Attachment 3A

ED/CIO Incentive Plan Evaluation Process - FY 2019-2020

ED/CIO Individual/Qualitative Measurement

The sections below outline the approved criteria and process for evaluating the ED/CIO's individual/qualitative performance, which constitutes 15% of his incentive award (the other 85% of the award is determined by the level of outperformance of the FRS Pension Fund). Any changes to the criteria for the next Performance Period (fiscal year) need to have been determined and communicated to the ED/CIO prior to July 1.

ED/CIO Individual/Qualitative Performance Criteria

Criteria Approved for FY 2019-2020 Performance Period

In line with the overall framework for the incentive plan, criteria for the individual/qualitative performance portion of the ED/CIO's incentive award approved in June 2015 are: (1) Overall Mission; (2) People; (3) Efficiencies/Infrastructure/Operations; and (4) Interaction with the Investment Advisory Council and Audit Committee. The Qualitative Evaluation Form on the following pages includes more descriptive information regarding each rating area.

Process and Schedule for ED/CIO Individual/Qualitative Performance Rating

In June 2015 it was decided the Compensation Subcommittee will rate the qualitative performance of the ED/CIO and recommend to the full IAC the amount of incentive to be awarded for the Performance Period. The IAC will vote to approve or disapprove the recommendation.

July 1-15: ED/CIO prepares summary of accomplishments in each of the four areas (Mission, People, Efficiencies/Infrastructure/Operations, and Interaction with IAC and Audit Committee). As part of the summary, the ED/CIO may want to encourage the individual Compensation Subcommittee or IAC raters to speak with individual members of the Audit Committee to gain additional perspective on interactions with them.

By July 15: ED/CIO sends his/her Summary to raters (members of Compensation Subcommittee) along with the attached evaluation form.

By July 31: Raters evaluate ED/CIO and return form to Mercer. Mercer may seek clarification of the ratings and/or comments of individual raters.

By August 31: Mercer compiles final ratings and all final comments from raters and sends them to the ED/CIO, who will compile the materials for a noticed public meeting of the Compensation Subcommittee to review/discuss the evaluation with ED/CIO and provide an overall recommendation to the Trustees. The Subcommittee will present its recommendation to the IAC for its approval or disapproval prior to sending the recommendation to the Trustees.

Following the public meetings of the Subcommittee and the IAC, the Subcommittee Chair communicates the recommendation regarding qualitative incentive award and supporting rationale to the Trustees, with a copy to IAC members, as materials for a noticed public meeting of the Trustees.

September: Trustees consider recommendation in public meeting.

Attachment 3B

HEALTH WEALTH CAREER

STATE BOARD OF ADMINISTRATION FLORIDA

EXECUTIVE DIRECTOR PERFORMANCE EVALUATION SUMMARY

SEPTEMBER 2020

Jon Mason
Josh Wilson

Atlanta

INTRODUCTION

- Mercer has advised State Board of Administration Florida on a variety of human capital needs since 2012.
- Mercer acts as the independent party in the annual review process of the Executive Director/CIO for SBA by the Compensation Subcommittee of the IAC
- In this process, Mercer collects the performance evaluations completed by the Compensation Subcommittee members and disseminates a summary of the findings.
- Performance reviews were completed by the following members:
  - Gary Wendt
  - Peter Collins
  - Vinny Olmstead
  - Ambassador Charles Cobb
- The following pages include an overall summary of the responses and detailed pages on the survey questions

EXECUTIVE SUMMARY

Question	2020 Average Rating (out of a possible score of 4)	2019 Average Rating (out of a possible score of 4)
Overall Mission	4	4
People	3.625	3.5
Efficiencies/ Infrastructure /Operations	3.75	4
Interaction with Committees	3.25	3.75
Individual Rating	3.75	4

*meets and exceeds were circled in one response

- The ED continues to receive high marks across the board
- Interaction with Committees dropped one half point year over year

- Mercer converted the verbal rating scale to a numerical scale as follows:
  - Exceeds = 4 out of 4
  - Meets = 3 out of 4
  - Below = 2 out of 4
  - Poor = 1 out of 4

OVERALL MISSION

- The rating for this category should reflect the degree to which the ED/CIO has:
- Assured appropriate alignment with the investment policy of the SBA's mandates (e.g., FRS Defined Benefit Pension Fund, FRS Investment Plan, Florida PRIME, Florida Hurricane Catastrophe Fund (FHCf), etc.), considering the long term needs of the relevant fund, the risk tolerance of SBA Trustees, and the perceived market environment.
- Provided leadership for effective functioning of the SBA, FHCF and the Office of Defined Contribution Programs.
- Maintained/strengthened the reputation/brand and performance of the SBA in relation to its large public pension fund peers; external communications and issue management

4 OUT OF 4

Comments:

- *"Ash has an outstanding reputation amongst peers and consultants"*

PEOPLE

- The rating for this category should reflect the degree to which the ED/CIO has:
  - Developed subordinate staff
  - Recruited and retained key talent

3.625 OUT OF 4

Comments:

- *"Ash is one of the best at this that I have encountered"*

EFFICIENCIES/INFRASTRUCTURE/OPERATIONS

- The rating for this category should reflect the degree to which the ED/CIO has:
  - Assured the development of organizational structures, systems and processes that enable effective functioning of the SBA, FHCF and the Office of Defined Contribution Programs.
    - This includes such areas as communication of knowledge; development and institutionalization of systems and structures to enhance performance and control risk; efficient acquisition and use of data and other resources; business continuity planning, etc.

3.75 OUT OF 4

Comments:

- *"Discussions of succession plan and/or review of subordinates not done"*

INTERACTION WITH IAC & AUDIT COMMITTEE

- The rating for this category should reflect the degree to which the ED/CIO has:
  - Maintained effective working relationships with individual IAC members and the Council as a whole, and with members of the Audit Committee on matters within the concern of each body.
  - Provided requested information and transparency. Note: As part of the evaluation process, individual raters may speak with individual members of the IAC, Audit Committee to gain perspective on ED/CIO interactions with them.

3.25 OUT OF 4

Comments:

- *"Transparent and forthright. Even during these heighted challenges due to pandemic, Ash was appropriately communicative"*
- *"Would appreciate periodic information on current environment other than at quarterly meeting"*

OVERALL INDIVIDUAL/QUALITATIVE PERFORMANCE RATING FOR THIS PERIOD

3.75 OUT OF 4

Note: No “comments section” was provided for this final rating

OTHER COMMENTARY OR CONSIDERATIONS

- There was an additional comment that expressed the perspective that performance, at least for the qualitative component of the CIO's performance, should reflect not only performance against benchmarks but also performance against peers.

MERCER

MAKE TOMORROW, TODAY

Appendix to Attachment 3B

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD, SUITE 100
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

POST OFFICE BOX 13300
32317-3300

July 15, 2020

Mr. Vinny Olmstead
Chair, IAC Compensation Subcommittee
2770 Indian River Boulevard, Suite 501
Vero Beach FL 32960

Dear Vinny:

Consistent with the process adopted by the Investment Advisory Council (IAC) Compensation Subcommittee and affirmed by the IAC, following is my self-assessment, inclusive of the fiscal year ended June 30, 2019, together with a Qualitative Evaluation Form (attachment 1) for you to complete and return to Jon Mason at Mercer by July 31. For your convenience, an addressed, stamped envelope is enclosed for this purpose. Mercer will review the responses and may contact responders for clarification. They will then compile the ratings and final comments from raters and return them to me by August 31. I will share them with you and the other Subcommittee members and compile materials for a noticed public meeting of the Subcommittee to discuss and adopt a recommendation for the IAC. Please see "ED/CIO Incentive Plan Evaluation Process – FY 19-20" (attachment 2) for additional process details.

As a reminder, in keeping with Florida's Sunshine Law, please do not discuss this evaluation with any other members of the IAC. All members will have the chance to discuss this evaluation at the noticed public meeting planned for later this year.

Background

Upon being triggered by audited total fund performance as of fiscal year-end June 30, implementation of SBA's incentive compensation structure is based on achievement as evidenced by quantitative investment performance measures and qualitative assessment of each incentive plan participant's contributions to the accomplishment of SBA's objectives. These are summarized at a high level in our Mission and Vision Statements:

> **Our mission 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.**

Our vision is to be the best public sector investment and administrative service provider while exemplifying the principles of trust, integrity and performance.

As Executive Director & CIO, my priority is to keep our organization's team, culture, reputation, credibility and resources at a strength that empowers mission and vision fulfillment. This is consistent with the Trustees' delegation of authority to the Executive Director & CIO. Our most visible output is investment results, the adequacy or inadequacy of which is readily seen. Taking a long term view, what is actually more important but less visible is the team and culture building, policy and strategy formation, resource provision, risk management and execution that create the many investment outcomes that sum to the total fund's return. If these are right, the probability of consistent investment outcomes that earn trust, enhance the SBA's reputation and build brand value is vastly enhanced. The result is a virtuous cycle where our credibility and performance help garner critical policy support from key SBA stakeholders (Trustees, Legislature, local governments, beneficiaries, taxpayers, media, etc.), which in turn, positions us as a serious, stable, and desirable investment partner in the marketplace. This enables us to build well-aligned relationships with other exceptional organizations and capture superior deal flow with more favorable terms and pricing, driving the performance that earns trust, enhances reputation and builds brand value. I take responsibility for ensuring that the SBA executes effectively at all levels of this cycle.

While effective strategy execution and policy engagement describe my responsibilities at a high level, the purpose of this letter is to communicate specifically my performance over the past year for your consideration. Evaluation of the Executive Director & CIO and recommending an appropriate level of qualitative incentive compensation falls to the IAC Compensation Subcommittee, which may also make a recommendation on base compensation. Final action on the ED/CIO compensation is reserved for the SBA Trustees. Following are my thoughts on my contribution and accomplishments relating to each of the four central performance areas for the ED/CIO to be evaluated by the Subcommittee and addressed on the Evaluation Form.

1) Overall Mission

The fiscal year ended 30 June, 2020 was remarkable in many ways that provided an excellent stress test for the SBA and for me as its senior executive. In the space of twelve months, we experienced the equivalent of several business cycles. Financial markets at times reflected the underlying economy, and at other times seemed to detach completely. It was like watching a movie with half of it running at "fast-forward" speed. The story started with the last half of 2019, a fairly typical mature bull market, fully (perhaps richly) valued financial and real asset markets around the world against a backdrop of record low interest rates and high employment levels. Life was good, investors worried about whether earnings could support valuations if investment objectives could be met in a near zero interest rate regime and, of course, about potential "exogenous shocks."

In Q1 2020, things started changing. The central concern became COVID-19, an unfamiliar pathogen with a level of contagion capable of igniting a global pandemic. As stories of COVID spread, and China and Europe began to dominate the news, the implications of a pandemic for economies, individuals and investors became the focus of financial analysts, scientists, business people, policymakers and the media. As related uncertainty, anxiety and fear grew, another disruptive surprise occurred. An early impact of the nascent pandemic was destruction of oil demand, driving down global prices by approximately 50% between January 20 and March 20. In the second week of March, Saudi Arabia and Russia ended their price cooperation; both countries increased production, flooding an already weak oil market with new supply as demand continued to ebb. Over the ensuing weeks, oil prices continued to collapse and literally went negative for a period. Taken together, the pandemic, resulting social isolation, business closures and energy price collapse proved to be the exogenous events that reversed one of the greatest bull markets in history and destroyed virtually all of the employment gains since the Great Financial Crisis.

The speed and degree of stock price collapse harkened back to the Great Depression. Likewise, the speed and magnitude of policy intervention set new standards. In a matter of weeks, economies effectively ground to a halt, while central banks created a range of liquidity facilities to address financial market stresses in various areas. Congress passed several trillion dollars of fiscal stimulus aimed at bridging the pandemic driven revenue halt for businesses, individuals and governments. As the negative spiral of social isolation, business closures, unemployment and revenue interruption deepened, a sense that the cure might be worse than the disease emerged. Economies began reopening, people began socializing, markets bounced back with similar zeal to their collapse and COVID resumed its spread. Lagged effects of closure related dislocation are visible in a steady stream of bankruptcies, workforce and expense reductions and defaults. COVID is still spreading aggressively as policy makers try to balance disease containment with economic sustainability. Current disruption and future uncertainty are as extreme as I have ever seen them. How has the SBA fared through the shocks, volatility, dislocations and changes? How has our management performed in the crucible of COVID and how have we adapted? Did our existing policies and processes provide orderly and productive guidance? Did we follow those policies and processes effectively and rationally, making timely adjustments to adapt to changing conditions? Were we leaders or followers in prudently providing for the safety of the human and financial resources entrusted to our care? Have we been able to sustain our culture, maintain client service levels, operate the SBA's businesses and maintain effective dialog with our Trustees? How have we sustained oversight functionality and transparency of our advisory bodies and internal and external auditors? Is our control environment maintaining its effectiveness? Have we been able to progress SBA priorities initiated pre-COVID? Have we continued to provide industry leadership and maintain SBA's brand value?

Broadly speaking, I believe the SBA has performed exceptionally well through recent challenges. We are also mindful of big picture sustainability issues like prudent actuarial assumptions, where the IAC engaged and contributed meaningfully to a positive outcome. For the period at hand, let's first consider high level metrics, then get into some details and more nuanced indicators of prudently managed organizational success. The following bullets will address the questions posed above.

- Initial performance estimates for FY 19-20 show a total fund return of 3.09%, 55bps above benchmark. These numbers will certainly be revised when private market asset values are updated and all performance numbers and calculations are audited. What will not change are the facts about our management, policy, implementation and control environment during the period. While the initial performance is positive in an absolute sense and relative to benchmark; it underscores the propriety of the IAC's expression of concern about reliance on ambitious actuarial return assumptions.
- SBA has responded to the pandemic proactively and systematically. First reported in Wuhan, China in late December, 2019, the initial confirmed case of Coronavirus in the United States occurred on January 21, 2020 in Washington State. The first reported cases in Florida came on March 2, 2020. In response, SBA's "Incident Management Framework", designed to guide management of natural (weather, etc.) or manmade (building failure, workplace violence, cyber-attack, etc.) incidents, was activated in early March and has met regularly since. This provides a single point of data capture and sharing regarding the incident at hand; it also provides unified management decision information and dissemination of conclusions and direction. Full daily transparency on COVID and related issues relevant to SBA operations is provided through the incident management page on our intranet which includes current directives and/or communications from the Trustees, SBA management, public health agencies and emergency management agencies, together with dashboards, resources and remote working guidance.
- Recognizing the threat to our people, partners and collective ability to continue to get our jobs done, we moved quickly, limiting travel and barring visitors from our building and transitioning into remote working. Our ability to make informed, timely decisions and communicate clear, specific, implementation instructions throughout our organization is a direct result of the effort and resources committed to business continuity over the past five plus years. All employees have mandatory annual incident management training, including a proficiency exam; everyone knows how the policies and processes work to maintain order in times of chaos. SBA"s Incident Management Team regularly does tabletop exercises covering a range of perils. While we had not done a dry run of a pandemic, the principles of management are the same regardless of the proximate cause of disruption. The objectives are straightforward: keep people safe, get the job(s) done, maintain controls and accountability, serve client needs and continue to adapt, improvise and advance consistent with our fiduciary duty of prudence. SBA began sending people home March 17th. On March 31st, the SBA began tracking who was in the building as well as the number of remote connections. Since that time, out of roughly 250 FTEs, the SBA has averaged less than 20 people per day in the building. The rest (approximately 90%) have been effectively working remotely from home.
- At the same time we were addressing personnel safety and the new normal of remote operation, we focused on protecting assets and positioning to capture portfolio

opportunities that are the positive part of major market dislocations. First and foremost, this meant ensuring adequate liquidity across client portfolios to meet known obligations, provide for rebalancing(s) as appropriate and for the pension fund, capital calls and opportunistic investments. This approach freed us to focus on how and when to execute based solely on investment merit. As discussed in recent IAC meetings, rebalancings were a source of value added. All obligations were met timely and in an orderly fashion. A number of new strategies, managers as well as follow on investments with existing partners were implemented.

- SBA's seamless remote work transition was no accident. With the support of the Trustees and the IAC through our budget process, we have been steadily investing in IT infrastructure and human capital for several years. Since 2016, the SBA has invested over $1 million into its IT and IT Security infrastructure, from implementing paperless contract and investment approvals to onboarding a 24/7 third-party managed security services provider. The strategic objective of this investment has been to ensure our ability to effectively work anywhere, anytime and at a moment's notice. Although the primary risk this enhanced operating capability was intended to mitigate was an intermittent disruption from a hurricane (something that has happened three times in four years), this planning and investment has served us well in the current environment of extended remote work.
- The business of the SBA has not been adversely affected in a meaningful way as a result of transitioning to remote work. Asset management transactions, rebalancings, capital calls, risk and performance measurement, dialog within our investment team, external partners, with Trustees offices, and oversight groups has been uninterrupted. SBA leadership has conducted weekly Incident Management Team meetings, bi-weekly staff meetings and Senior Investment Officer Team meetings, Risk and Compliance Committee meetings, two Audit Committee Meetings and two IAC meetings all by teleconference or video conference. The one exception is on site diligence for new investment managers or GPs. The double whammy of travel suspension and remote work of managers/GPs is problematic. If we have an ongoing dialog with a manager, our consultant(s) and trusted allocator peers know and are invested with them, we can reach closure. We cannot prudently do so for potential investment partners lacking these attributes; the offset to this is a pipeline of funds and GPs who are already known.
- The Cat Fund has continued managing claims from recent storms and preparing for an anticipated pre-event debt issue to replenish capital drawn down by claims and maturing outstanding bonds.
- Florida PRIME has continued to meet the needs of clients, providing full daily liquidity, safety and competitive returns to 1,380+ accounts across more than 740 governmental entities statewide. In stark contrast to the dramatic asset runoff the Local Government Surplus Funds Trust Fund (PRIME's predecessor) suffered in the Great Financial Crisis, PRIME actually grew assets in FY 19-20. Year-end AUM topped $15BB, a 12.8% ($1,7BB) increase.

- As the June 30 IAC materials outlined, internal and external audits and advisory reviews have continued, with adjustments in procedure to accommodate remote working. No material weaknesses have been identified, controls have been affirmed and a number of process improvements identified and progressed.
- With travel cessation and remote work, business has gone virtual. As a result, "meetings" with our investment partners and participation in professional organizations haven't missed a beat. The information and contextual enhancement gained have been extremely valuable in building our understanding of events and related risks and opportunities. I continue to chair the Council of Institutional Investors and the investment advisory boards of the National Institute for Public Finance, Managed Funds Association and Alternative Investment Forum. I remain on the advisory board of "Delivering Alpha", the annual investment event co-hosted by CNBC and Institutional Investor and the Robert Toigo Foundation. I also serve on several non-profit investment committees, including those of the International Endowment for Electrical Engineers, Florida State University Foundation and the Episcopal Diocese of Florida.
- SBA's visibility, leadership and brand value among peers and in the investment industry continue to reflect strong positive perception of our organization, investment acumen and leadership in best practices. Reflecting this perception, SBA received three significant recognitions during FY 19-20. These include two awards from CIO magazine at their 10^{th} annual CIO Industry Innovations Awards ceremony held in NYC December 12, 2019:
  - Innovation Award, Large Public Pension
  - CIO of the Year

SBA also received a nice honor from the National Association of State Investment Officers (NASIO) at their annual meeting in Portland, ME, September 30, 2019. I received the Richard L. Stoddard Award in recognition of outstanding contributions to the investment of public funds. Again a reflection on the excellence of SBA's entire investment team, this recognition is especially meaningful to me for two reasons. First, it is not an annual award; NASIO infrequently awards a Stoddard on the basis of exceptional merit. Second, it is a pure play on peer perception; those who determine if and to whom the award should be bestowed are solely the CIOs of US state pension organizations.

2) People

As Warren Buffet said, "Someone is sitting in the shade today because someone planted a tree a long time ago." Our business is inherently long term focused; we prepare for financial events decades in the future. As last year's letter outlined, continuation of excellence cannot be assumed; it must be willfully conceived and provided for. Truly great organizations understand their own frailty and institutionalize strategies to sustain their strength, anticipating and meeting human capital needs, taking pains to recruit, grow and retain professionals with depth and diversity that empowers orderly succession and sustains cultural values. Circumstances and context are ever changing, but the right cultural norms and personal standards will always distinguish real winners from the less successful. The SBA has the good fortune to own an excellent investment track record, excellent team, strong culture rooted in shared beliefs and a sterling reputation. Getting succession right is critical to preserving what is good in organizations and improving what isn't as good as it could be. Thus far, our succession management has been highly effective; we need to keep it that way.

- Currently, 18.5% of the SBA workforce has established a date within the next few years by which they intend to retire or will be eligible to retire by December 31, 2021. This equates to 40 FTEs, 22 of which are in management positions, representing roughly 25% of SBA managers. While we will lose many of those people in the next 12 to 18 months, it is not cause for concern. Succession is an issue we have been keenly aware of and managing over the nearly 12 years I have been back at the SBA. During this time, all Senior Investment Officers and almost all of top management have turned over. We have added and grown talent at all levels of the organization and developed succession plans in all our business units. I believe we are in a strong position, largely as a result of the IAC's leadership in crafting and implementing our current comp system. Competitive economic compensation and benefits, paired with a very positive combination of workplace quality / culture and smaller city / university town /family friendly lifestyle have proven effective in hiring smart, motivated people and expanding their skills and responsibilities over time.
- I am planning to retire in September of 2021 and am working with the Trustees to make their decisions around succession as straightforward and seamless as possible. SBA's top management team, investment officers and all of the supporting IT, Accounting and Administrative and Control and Compliance teams are strong and well resourced. Whether the Trustees choose to remain with a combined Executive Director & CIO or split the functions as many institutions do, there are excellent internal candidates capable of accomplishing a smooth transition.
- Issues of diversity and inclusion have been a subject of substantial recent discussion. I have reached out to reaffirm SBA's commitment to be a meritocracy with opportunity for all. More importantly, our actions support the value statement. There is always more that can be done and in that regard, we are working on a mentorship program, improving diversity in candidate pools and are open to other initiatives. Perhaps most importantly, we listen to our employees and do our best to honor their skills and service.
- Consistent with SBA's culture of thought leadership, I encourage SBA colleagues to be active in professional organizations relevant to their responsibilities and beneficial to the SBA. Staff are involved in the leadership of the Institutional Limited Partners Association, National Association of Public Pension Attorneys and International Corporate Governance Network. In addition, accounting, audit, Inspector General and compliance staff are active in the American Institute of Certified Public Accountants, Institute of Internal Auditors, Association of Public Pension Fund Auditors, Information Systems Audit and Control Association and the Association of Certified Fraud Examiners.

3) Efficiencies / Infrastructure / Operations

SBA continues to be among the very lowest cost large providers of retirement investment service providers. CEM Benchmarking, an independent third party cost analysis firm's latest compilation of peer metrics show that the Pension Plan's 5-year investment performance exceeded 95% of its peers, and its most recent one-year all-in costs were lower than 81% of peers. The keys to this productivity are internal asset management (which we continue to grow) and scale economies captured in the structure, terms and fees of our asset management and service provider relationships.

- To maintain and improve support for the investment process, trust services, FL PRIME and the FL Hurricane Catastrophe Fund, the SBA has continued to build out its IT infrastructure, including completing an important intelligent automation project (discussed below), upgrading key portfolio accounting systems and conducting critical disaster recovery failover tests in light of the start of hurricane season. This past July, the SBA Trustees approved a budget request that includes an additional $2 million of investment directed to IT and IT security projects, including a new private market portfolio management solution, additional services geared to transitioning many of our current office solutions to the cloud, and continued investment in robotic process automation (RPA).

    - RPA is not new technology, but its implementation among large asset allocators is still in the relatively early stages. The technology uses computer software to mimic the operations that an employee would otherwise conduct "manually" using multiple computer applications. The most common example is where an employee would be required to transfer data from multiple emails, documents, spreadsheets and pdf reports into a single spreadsheet, database or report for further processing. This work is time intensive and generally not particularly satisfying to the employee. RPA software can automate this work to be performed more accurately and in a fraction of the time. This past year, we created an RPA Center of Excellence within the SBA, developed an RPA Operating Model, selected an RPA Project Steering Committee, selected an RPA software vendor and implemented an RPA pilot project. The RPA pilot project automated three relatively simple tasks, saving over 1,000 human hours of work annually. The human hours "saved" can now be redeployed to areas where human judgement and critical and analytical thinking are required, which are higher value activities for both the employees and the SBA. We anticipate automating dozens more processes over the next three years with equivalent productivity gains.

    - IT security has been a topic in prior letters and remains a priority as cyber-crime is perhaps the world fastest growing business. Over the past year, we have formally adopted a Cybersecurity benchmark, conducted a gap analysis with respect to that benchmark and developed a road map and timeline to close identified gaps. We have also upgraded our endpoint security and data loss prevention toolsets, and we continue to work with our annual third-party Cybersecurity auditor to test and continuously refine our security systems. On an annual basis, our IT security infrastructure, which consists of 2 full-time employees, numerous systems (including without limitation endpoint, web-gateway, email filtering and data loss prevention systems) along with a 24/7 contracted third party managed security services provider, analyzes literally hundreds of millions of security events, any one of which, if not prevented, could result in a significant negative impact to the SBA.

4) Interaction with the Investment Advisory Council and the Audit Committee

The IAC plays a central role in the credibility and success of the SBA; the expert independent oversight and guidance provided to the Trustees and stakeholders is one of the keys to the success of our governance model, especially relative to many of our peers. I defer to your judgement on the quality and productivity of our relationship. Regarding the Audit Committee, I attend and actively participate in their meetings and maintain good rapport with its members. Please feel free to contact any of the members of the Audit Committee individually to hear their perception of my interaction with them (see attachment 3 for their contact information).

Thank you for sharing your time and talent by serving on the IAC and for your additional commitment to serve on the Compensation Subcommittee. Your effort and wisdom are valued and have contributed meaningfully to our investment success and the strength of our organization. You have advanced the economic interests of our beneficiaries in the purest sense of fiduciary duty, while also benefiting stakeholders and taxpayers.

With best regards,

Ashbel C. Williams

Attachment 3C

MERCER
MAKE TOMORROW, TODAY

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Atlanta, GA 30326
jon.mason@mercer.com
www.mercer.com

MEMO

TO: Vinny Olmstead, Chairman, Compensation Subcommittee of the Investment Advisory Council, State Board of Administration

DATE: September 14, 2020

FROM: Jon Mason & Josh Wilson, Mercer

SUBJECT: Mercer's Review of SBA Compensation study and Salary Recommendation for Executive Director/Chief Investment Officer (ED/CIO)

Dear Chairman Olmstead

In 2012-13, Mercer was engaged to conduct a compensation study for the State Board of Administration of Florida (SBA). Near the conclusion of that study, Mercer issued a letter of recommendation to Chuck Newman, a prior Chairman of the Compensation Subcommittee of the Investment Advisory Council, State Board of Administration with regard to the SBA's ED/CIO (Mr. Ash Williams) compensation. The recommendation was to increase the ED/CIO's annual salary to $410,000 which approximated the median of the five largest public pension funds in the United States. Mr. Williams' salary was adjusted from $325,000 to $367,500 effective 12/10/13 and adjusted again to $389,500 effective 12/1/2014. Mr. Williams' salary was not adjusted in 2015.

In 2016, the SBA refreshed the analysis done in 2013 but did so internally (as a fee savings measure) and Mercer reviewed and validated the work. In Mercer's view, the process undertaken by the SBA was appropriate and consistent with the approach Mercer would have taken. Mercer's recommendation for 2016 was to increase Mr. Williams' base salary to $425,000 (with the intention of ultimately adjusting the ED/CIO to $455,000, but over a two-year period). However, in 2016 Mr. Williams' base salary was actually adjusted to $411,000.

In 2017 & 2018, SBA continued conducting the benchmarking work internally with validation from Mercer. Based on the 2017 assessment and the ED/CIO's annual performance review, Mercer maintained its prior recommendation of an ultimate adjustment to $455,000 which the Subcommittee accepted. In 2018 Mercer recommended two alternatives for adjustments and the IAC adopted the higher of the two proposals (a salary of $525,000) based on Mr. Williams' performance and positioning in the marketplace.

Finally, in 2019, Mercer recommended an adjustment to $575,000 based on that year's market study and the results from the Executive Director/CIO's performance assessment. At the time, we also offered a more conservative alternative adjustment to $545,000 and the Committee ultimately opted to adjust the ED/CIO's base salary to the higher alternative of $575,000.

2020 Review of ED/CIO's performance

Mercer received feedback from all four members of the Compensation Subcommittee pertaining to the annual performance of the ED/CIO. Consistent with prior years, Mr. Williams received high marks in all categories, with all Subcommittee members giving the highest ratings with respect to performance related to the organization's mission, Efficiencies/Operations/Infrastructure and Mr. Williams' overall individual performance. The Subcommittee has consistently communicated its desire to retain Mr. Williams and the intention to provide market competitive compensation to all SBA employees, including Mr. Williams.

<u>Mercer's Recommendations Regarding SBA's ED/CIO Compensation</u>

The SBA compiled multiple salary market reference points for the ED/CIO position including:

1) Median of top 5 public pension funds - $450,000 (Group consists of CalPERS, CalSTRS, New York State Common, New York City Retirement, Teachers Retirement System of Texas)
2) 75th percentile of Larger Public Pension Funds peer group (n=14) - $566,500
3) 75th percentile of Broader Public Pension Funds peer group (n=20) - $515,500

For the first time since we began working with SBA, the compensation data have remained approximately flat or have declined slightly. For context, among the 14 larger public funds peer group, four had new CIOs in 2020. Three of four were internal promotions and all of the four were first time CIOs (one was previously "Interim CIO"). As an additional data reference point, Mercer conducts a periodic survey of large and leading public pension funds (n=12). The base salary 75th percentile for that group of public pension CIO's is $586,500.

Based on the above inputs, we do not believe a *market-based* adjustment is in order. Due to strong performance, tenure, and a desire to maintain consistent positioning, SBA may consider a typical merit adjustment in the range of 2-4% (or consistent with SBA's broader merit budget adjusted for individual performance). A 3% adjustment would yield a salary of $592,250.

Additionally, several SBA employees, including Mr. Williams, are eligible for a performance-based incentive that is closely tied to the results of the funds. Mr. Williams is eligible for incentive compensation ranging from 17.5% to 52.5% of salary. For reference, a majority of SBA's public pension peers also have incentive programs and this year's study illuminated that those incentives are generally more lucrative than those offered by the SBA. For example, while the maximum incentive compensation for SBA's ED/CIO is 52.5% of base salary, at median, the maximum incentive for SBA's peers is 150% of base salary. The magnitude of these opportunities should be contemplated as the SBA evaluates the competitiveness of the incentive programs across the SBA.

If you have any questions, please do not hesitate to contact us.

Thank you,
Jon & Josh

Attachment 4

2019-2020 SBA Compensation Update

SBA Incentive Compensation Update

	FY2015-2016	FY2016-2017	FY2017-2018	FY2018-2019	FY2019-2020
Total Eligible Positions	63	63	63	63	64
Total Participants Receiving an Award	57	59	54	58	62
Maximum Possible Quantitative Award	$1,786,970	$1,783,384	$1,831,456	$1,962,033	$2,188,657
Actual Quantitative Award (Paid over 2 years)	$1,382,538	$1,610,799	$1,648,299	$1,783,358	N/A
Maximum Possible Individual Award	$339,580	$343,442	$350,144	$369,655	$424,117
Actual Individual Award (Paid over 2 years)	$255,999	$296,867	$311,107	$335,657	N/A
Maximum Possible Award	$2,126,550	$2,126,827	$2,181,600	$2,331,688	$2,612,774
Actual Total Award Earned (Paid over 2 years)	$1,638,535	$1,907,665	$1,959,406	$2,119,014	N/A
Total Earned Quantitative ÷ Max Possible	77%	90%	90%	91%	N/A
Total Earned Individual ÷ Max Possible	75%	86%	89%	91%	N/A
Total Earned ÷ Max Possible	77%	90%	90%	91%	N/A
% Participants Earning Max Possible	53%	63%	69%	37%	N/A
Total Awards Paid in December following FY	$869,218*	$1,728,304	$1,886,568	$2,063,465*	N/A
Total Awards Deferred to December after next FY	$769,318	$953,833	$979,703	$922,488	N/A

*More than 50% of earned awards were paid out due to two individuals (in each year) reaching age 65 in the calendar year and triggering 100% payout pursuant to the Plan Document.

SBA Base Compensation Comparison for 2018 & 2019 Salary Adjustments

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2018 Adjustments	December 2019 Adjustments	December 2018 Adjustments	December 2019 Adjustments	December 2018 Adjustments	December 2019 Adjustments
Total Employees	193	182	135	127	58	55
Employees as % of Total Employees	-	-	70%	70%	30%	30%
SBA Compa-Ratio (Total Salaries ÷ Total Midpoints)	94%	94%	98%	98%	90%	89%

The table above reflects adjustments to SBA employees only and excludes position reclassifications and the ED/CIO adjustment.
NOTE: The base pay plan was updated in conjunction with the base salary increase effective 12/01/2020.

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2018 Adjustments	December 2019 Adjustments	December 2018 Adjustments	December 2019 Adjustments	December 2018 Adjustments	December 2019 Adjustments
Aggregate Rate Increase	$734,384	$820,393	$467,413	$509,856	$266,971	$310,537
Median Base Pay Increase	$4,001	$4,165	$3,550	$3,702	$5,768	$4,812
Average Base Pay Increase	$4,800	$4,508	$4,328	$4,015	$5,933	$5,646
Median % of Base Pay Increase	5.0%	4.7%	5.5%	5.0%	4.2%	4.1%
Average % of Base Pay Increase	5.1%	4.8%	5.6%	5.1%	4.1%	4.1%

The table above reflects adjustments to SBA employees only and excludes position reclassifications and the ED/CIO adjustment.

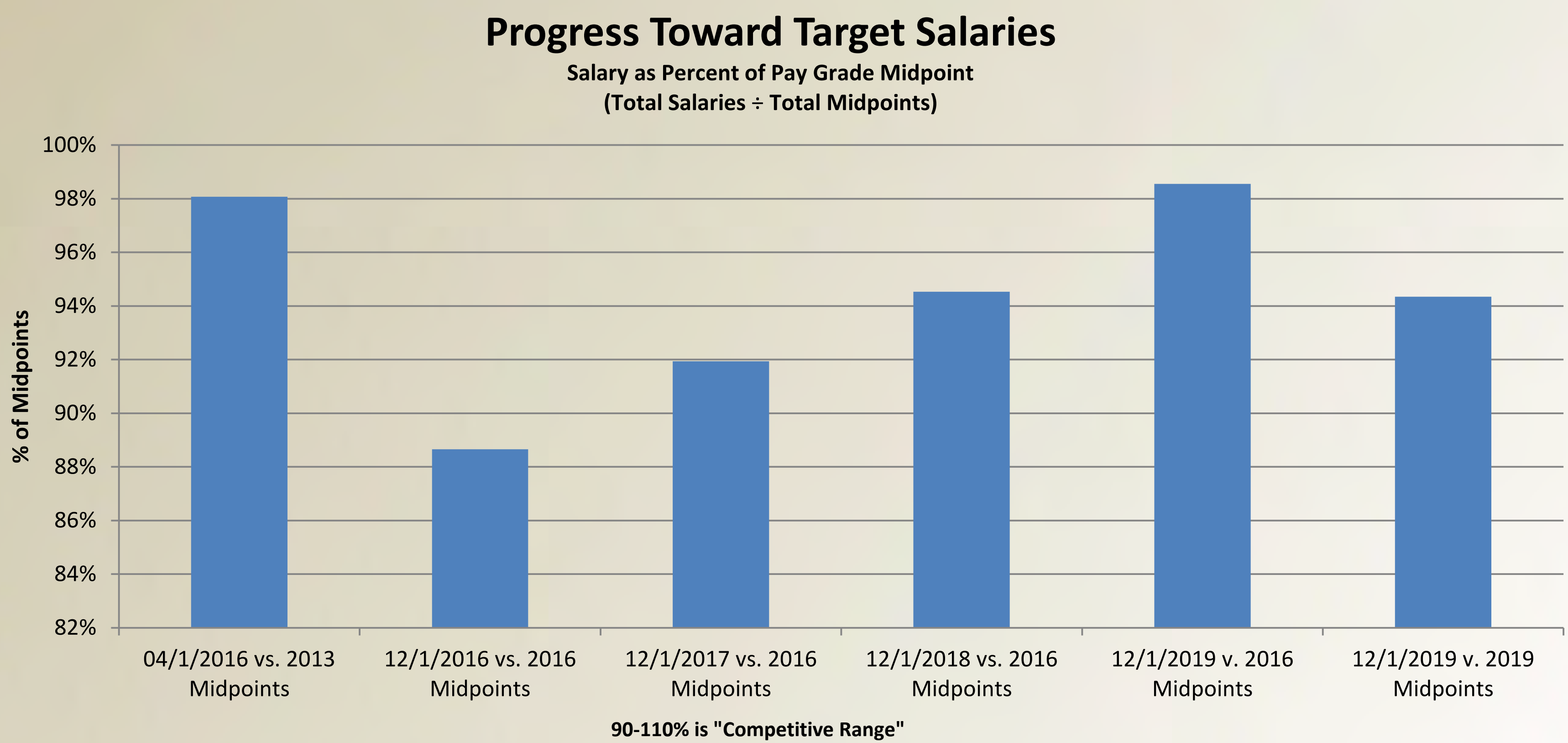
SBA Base Compensation Distribution Update as of December 2019 – Latest Cycle

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
% of Increase	# of Employees	% of Employees	# of Employees	% of Employees	# of Employees	% of Employees
0% - 3%	18	9.9%	12	9.4%	6	10.9%
3.1% - 6%	141	77.5%	95	74.8%	46	83.6%
6.1% - 10%	19	10.4%	16	12.6%	3	5.5%
Greater than 10%	4	2.2%	4	3.1%	0	0.0%

The table above reflects adjustments to SBA employees only and excludes position reclassifications and the ED/CIO adjustment.

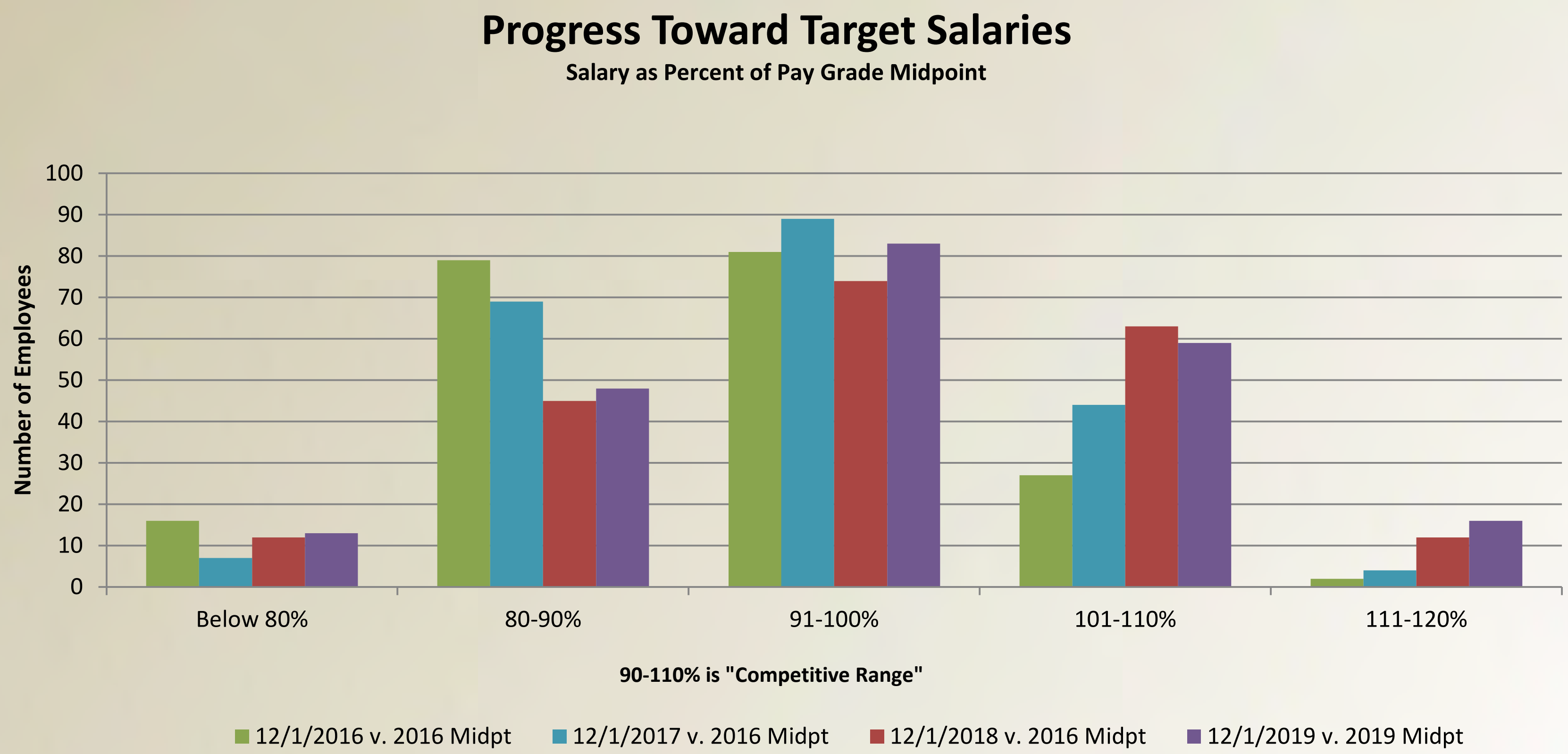
Progress Toward Target Salaries

(Organization-wide Compa-Ratio)

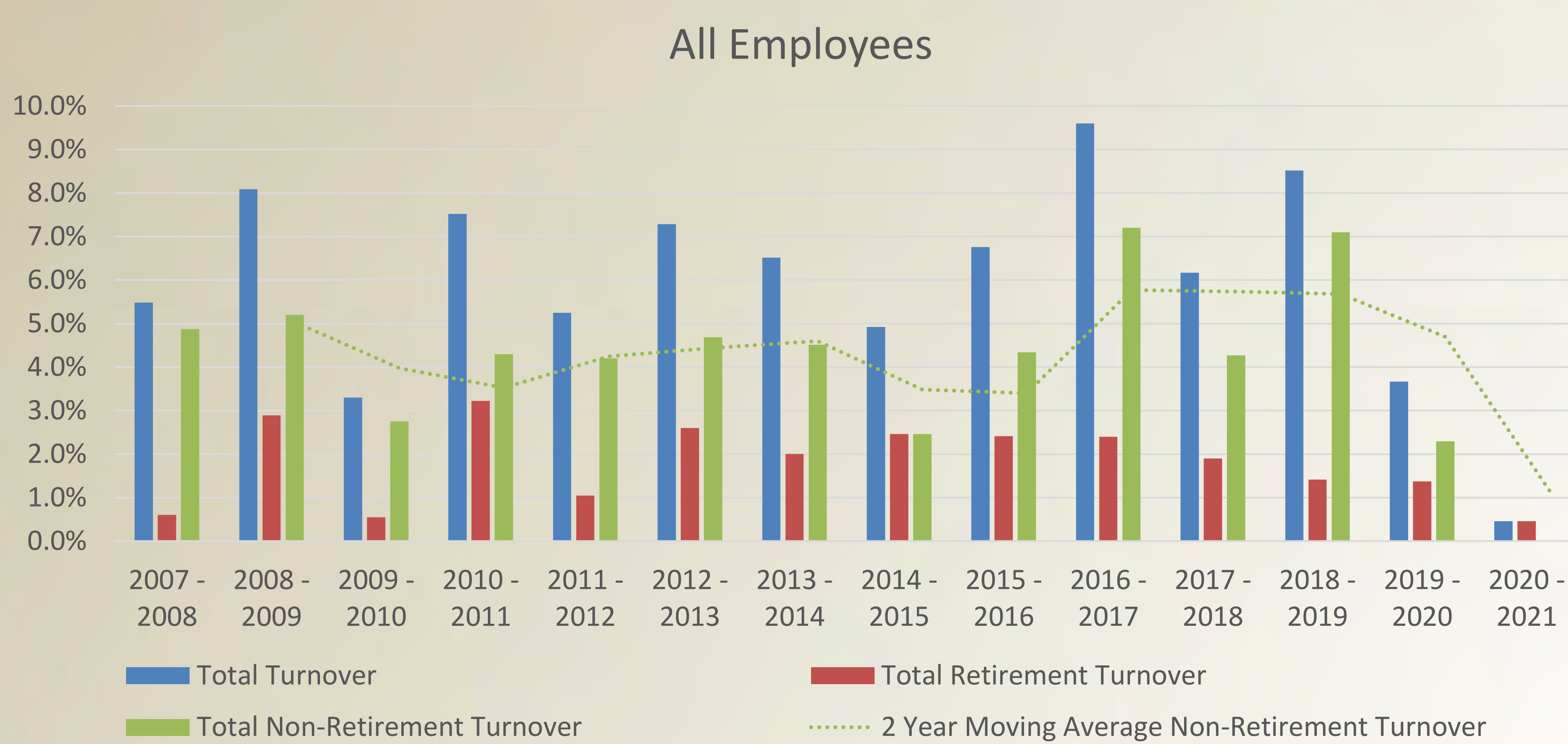


Progress Toward Target Salaries

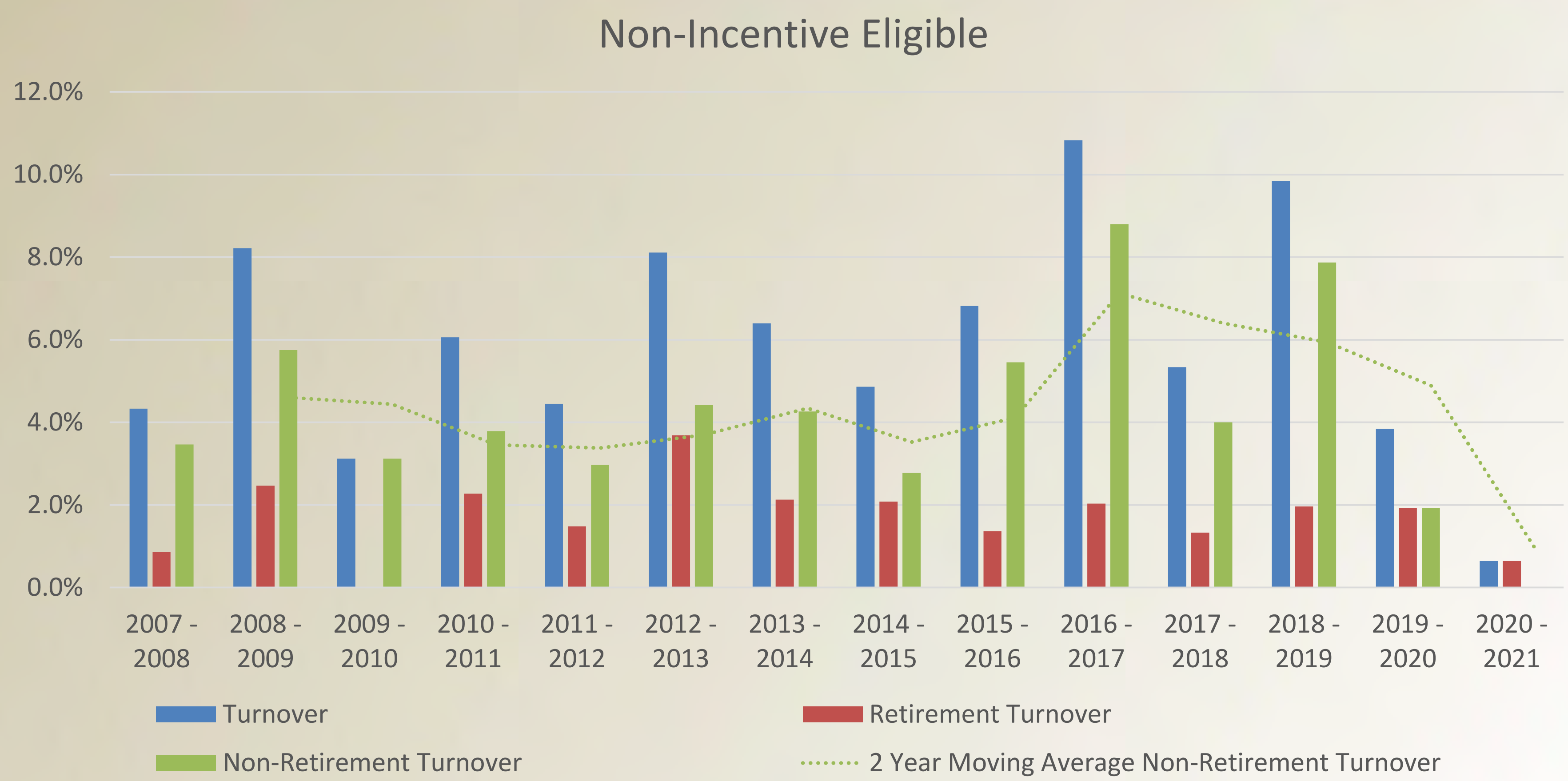
(Distribution of Employees by Compa-Ratio)



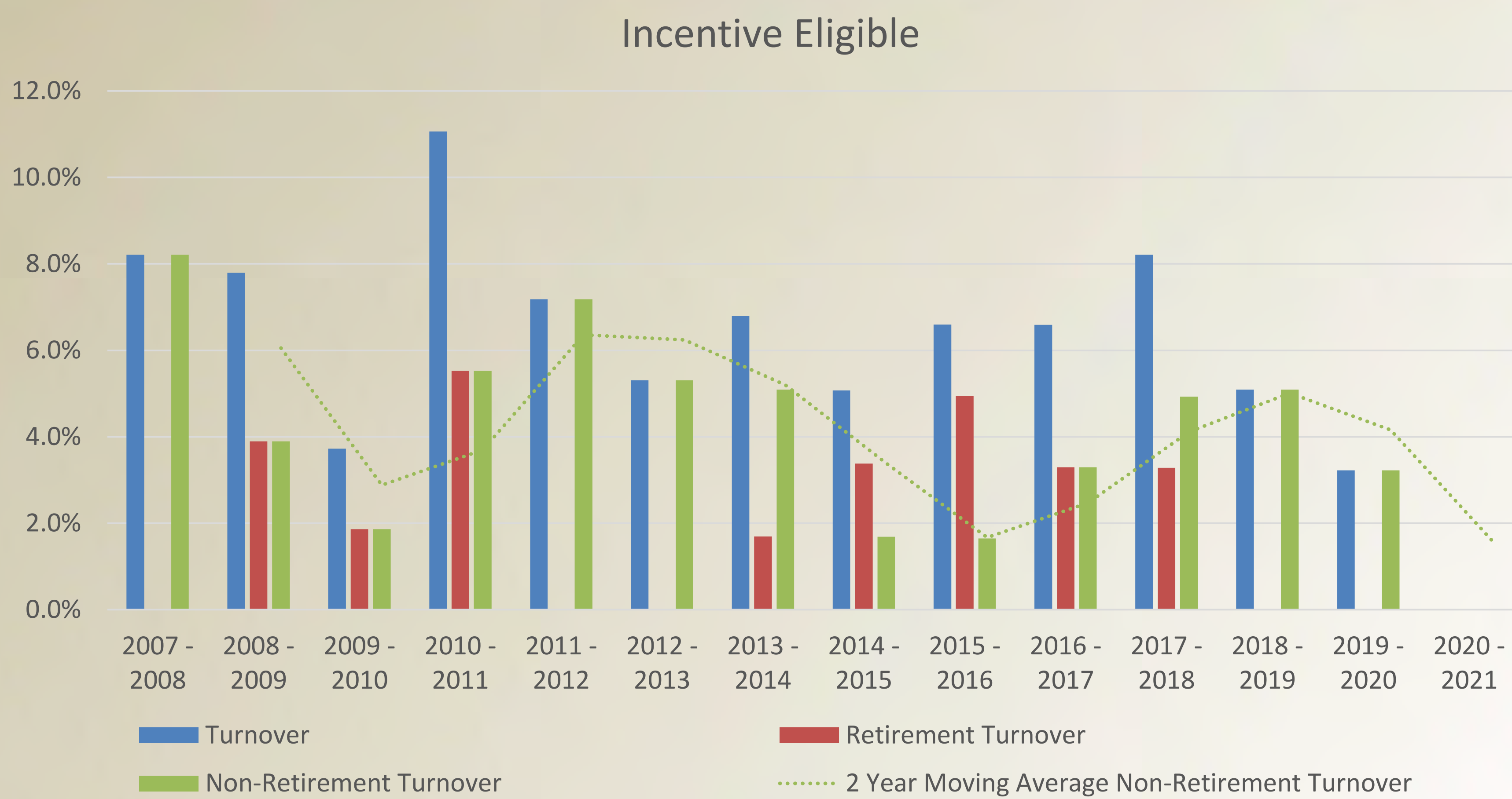
Turnover for all SBA, ODCP, and FHCF Staff



Turnover for all SBA, ODCP, and FHCF Non-Incentive Eligible Staff



Turnover for all SBA, ODCP, and FHCF Incentive Eligible Staff



Projected Retirements by December 2026 for all SBA, ODCP, and FHCF Staff

- 77 (35.5%) of 217 employees are eligible to retire by the end of 2026.
- 42 (54.5%) of 77 employees eligible to retire are manager/supervisor-level and above.
- There are 42 (48.8%) manager/supervisor-level and above employees eligible to retire of the 86 total manager/supervisor-level and above employees. This means that 48.8% of the SBA's manager/supervisor-level and above positions could be replaced by the end of 2026.
- Of the 77 employees eligible to retire, 16 (20.8%) are already in DROP. Of the 16 in DROP, 6 (37.5%) are supervisor/manager-level and above.
- Of the 77 employees eligible to retire, 17 (22.1%) are in an asset class and 60 (77.9%) are in operations.
- There are 61 filled incentive eligible positions with 21 (34.4%) eligible to retire by the end of 2026.

Dear Members of the Investment Advisory Council:

The Investment Advisory Council (IAC) Compensation Subcommittee met by video conference on Thursday, September 24, 2020 at 1:00 p.m. I was joined on the call by fellow Compensation Subcommittee members Peter Collins, Gary Wendt and Ambassador Chuck Cobb, as well as fellow IAC member Peter Jones. Also in attendance were Ash Williams, SBA staff and Josh Wilson and Jon Mason from Mercer.

The purpose of this meeting was to review Mercer's compilation of Subcommittee member individual evaluations of Ash as Executive Director and CIO of the SBA and vote on recommendations relating to the qualitative component of Ash's incentive compensation plan and any adjustment in his base compensation.

After opening remarks from myself and Ash, Mercer presented its compilation of Subcommittee member evaluations, noting Ash received high marks in all categories and the highest marks in performance areas relating to the organization's mission, efficiencies/operations/infrastructure and his overall performance. Mercer then presented its analysis of the EDCIO's base-pay compensation among peers, noting that while no market adjustment is currently necessary, it would be appropriate to award a modest merit adjustment, if the Subcommittee determined an adjustment was warranted in light of the Subcommittee's view of Ash's performance, experience and tenure.

Following Mercer's presentation, the Subcommittee engaged in a thorough discussion of Ash's performance and a number of questions were posed to Mercer. Among them were whether Mercer's salary data accounted for the fact that Ash's role is a combined role of Executive Director and CIO and whether Ash's total compensation (salary and incentive) was significantly below market, even though his base salary was currently at market. Mercer indicated they would provide the Subcommittee with this additional detail. In general, I believe it is fair to say that all Subcommittee members believed Ash's performance not only warranted a merit adjustment and the maximum qualitative award under the incentive plan, but that his total cash compensation should be higher, driven by greater potential economic awards under the incentive compensation plan.

Accordingly, upon conclusion of the discussion, the Subcommittee members unanimously voted to recommend the following to the full IAC:

1. Ash be awarded a 3% merit adjustment to his base salary of $575,000, increasing his base compensation to $592,250.
2. Ash be rated at maximum under the qualitative portion of his incentive compensation plan, resulting in a qualitative award of $41,344 if the SBA triggers an incentive payout this year.
3. The IAC Compensation Subcommittee, working with SBA staff and Mercer, should review the SBA's incentive compensation plan to reassess whether current economics, award thresholds, risk measures, composition and structure need to be adjusted to more closely align the SBA's plan with current market economics and further improve staff alignment of interest with increasing plan performance.

On the third point, it is important to note that it has been over five years since the SBA's incentive compensation program was put into place. In light of the passing of time and actual experience, the Subcommittee believes it is appropriate to review whether the Plan's current structure, composition, thresholds and gating mechanisms are meeting objectives or whether certain aspects of the Plan could be improved to increase staff performance and minimize unintended consequences.

A day after the Compensation Subcommittee meeting, Mercer provided written answers to the questions raised by the IAC members during the meeting and specifically noted that only three of the 14 peer members referenced in Mercer's memo dated September 14, 2020 combine the roles of Executive Director and Chief Investment Officer. Mercer indicated that those plans that combined the roles were smaller plans, and the combined role did not garner more compensation than that of a sole CIO role at a larger organization.

Mercer also indicated that for the top 14 peers, some of whom do not offer incentive compensation programs, the maximum total cash compensation opportunity at the 75^{th} percentile was approximately \$1.1 million. Among the 14 peers that offer incentive compensation, the maximum total cash compensation at the 75^{th} percentile was approximately \$1.8 million, which is more than twice the maximum total cash compensation opportunity available currently to Ash as EDCIO of the SBA. In my opinion, this information only further supports the recommendations of the Compensation Subcommittee with respect to Ash in particular and supports the recommendation to review and possibly reassess the SBA's incentive compensation program as a matter of best practice.

Sincerely,

Vinny Olmstead, Chair, IAC Compensation Subcommittee

2020

January

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31						

June

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November

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29	30					

December

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20	21	22	23	24	25	26
27	28	29	30	31		

Blue is Proposed IAC Meeting

Yellow is Proposed Cabinet Meeting

Proposed 2021 IAC Meeting Dates

Tuesday, March 30, 2021

Tuesday, June 29, 2021

Tuesday, September 28, 2021

Tuesday, December 14, 2021