

State Board of Administration Investment Portfolio Guidelines

Portfolio Name: Retiree Health Insurance Subsidy Trust Fund

Account ID Number: FMXFC121012

Custodial Bank
Short Name: FMXFCAN0005 HIS

Effective Date: 09/22/10


Approval by Deputy Executive Director

9/22/10
Approval Date

Fund: Retiree Health Insurance Subsidy
Asset Class: Fixed Income
Asset Class: Fixed Income
(actual port. mgmt)
Managed: Internal
Active
Separate Account
Securities Lending: No

Accredited Investor (Total Assets >\$5m): Yes
Qualified Purchaser (Total Assets > \$25m): Yes
Qualified Institutional Buyer (QIB): Yes

Benchmark: 1 month LIBOR Total Return Index
Style: Cash
Risk Profile: Traditional Active

Limits: Maximum of 5% amortized cost in single issuer, excluding U.S. Treasuries and Agencies.
Minimum of 20% amortized cost invested in securities maturing within 7 days.
1 year maximum final maturity, excluding U.S. Treasuries, Agencies, and contractual agreements.
5 year maximum final maturity for individual securities (U.S. Treasuries, Agencies) and contractual agreements.

Maximum of 2% amortized cost invested in securities with maturities between 3 and 5 years (applies to U.S. Treasuries, Agencies, and contractual agreements only).

Extendible securities permitted if SBA has sole option to extend and the final maturity meets guideline requirements.

Maximum Weighted Average to Final Maturity (WAL) = 120 days.

Maximum Weighted Average Maturity to Reset (WAM) = 60 days.

Ratings: Investment grade at time of purchase defined as follows:

Short term ratings – highest applicable rating from one NRSRO

- S&P A-1
- Moody's P-1
- Fitch F1

Long term ratings – minimum mid-single A rating from one NRSRO

- S&P A
- Moody's A2
- Fitch A

There may be grade variations within these parameters.

Provisional ratings of similar quality by the NRSROs and expected ratings by third party providers are acceptable.

Leverage: Not Allowed

Derivatives: Not Allowed

Approved Exchanges: None defined

Permitted Securities (no other types of securities allowed except those specified here):

Asset Backed Medium Term Notes
Asset Backed Securities - Variable
Asset Backed Commercial Paper
Asset Backed Securities - Fixed

Cash

CD – interest bearing
CD – variable rate extendible

Commercial Paper - Discounted
Commercial Paper – Interest bearing

Corporate Medium Term Notes
Corporate Extendable Fixed Rate Notes
Corporate Extendable Floating Rate Notes

Corporate Fixed Rate
Corporate Fixed Rate – Callable
Corporate Fixed Rate – Putable
Corporate Floating Rate Notes
Corporate Step ups
Corporate Variable Rate Callable Notes
Corporate Variable Rate Notes

Custodian Cash Sweep Vehicle

Delayed Delivery

Money Market Floating Rate Notes
Money Market Floating Rate Bank Notes
Money Market Floating Rate Bankers Acceptances
Money Market Floating Rate CD
Money Market Floating Rate Commercial paper

Money Market Variable Callable Bankers Acceptances
Money Market Variable Rate Callable CD
Money Market Variable Rate Callable Notes
Money Market Variable Rate Bank Notes
Money Market Variable Rate Callable Bank Notes
Money Market Variable Rate Callable Commercial Paper
Money Market Variable Rate CD
Money Market Variable Rate Commercial Paper

Promissory Notes

Repurchase Agreements
Structured Notes

Tri-Party Repurchase Agreements

US Agency Asset Backed Securities
US Agency Bonds
US Agency Callable
US Agency Callable Stepped
US Agency Discount Notes
US Agency Floating Rate Notes
US Agency Medium Term Notes
US Agency Notes – Interest Bearing
US Agency Variable Rate Callable
US Agency Variable Rate Note
US Agency Zeros
US Treasury Bills
US Treasury Bonds
US Treasury Inflation Protected Securities
US Treasury Notes
US Treasury SLGS
US Treasury SLGS – Variable Rate

US Treasury STRIPS – Principal Only
US Treasury STRIPS – Interest Only

Prohibited Securities
Northern Ireland
Cuba

Purpose

The purpose of the Retiree Health Insurance Subsidy Trust Fund (HIS) is to provide monthly subsidy payments to retired members of any state-administered retirement system to assist in paying the costs of health insurance. The trust fund shall be used to account for all moneys received and disbursed by the Division of Retirement pursuant to Section 112.363 of the Florida Statutes. An investment policy study of the mandate was completed in 2009 to assess the portfolio implementation and benchmark. The investment guidelines have been updated to reflect the recommendations of the study. Under these recommendations, the portfolio will not sell positions that are inconsistent with the updated guidelines but will allow them to mature during a transition period, which is expected to last through the 2010.

Objectives

The investment objective of the fund is to provide the necessary liquidity to meet distribution requirements.

Portfolio Management and Implementation Narrative

This portfolio will be invested in money market and fixed income securities. Liquidity needs should be routinely evaluated, given statutory adjustments to contribution and/or benefit rates. The Division of Retirement can provide additional information as needed, relative to the projected cash flows of the fund. The projections will be used to develop appropriate investment strategies to maximize return. The investment focus will be on (1) liquidity (2) preservation of principal and (3) portfolio yield, in priority order.

The portfolio may only purchase U.S. dollar denominated money market and fixed income securities, and further:

- Any asset-backed commercial paper or medium term note must have liquidity or credit enhancements in the form of an A-rated bank backstop in addition to collateral credit quality guidelines that are consistent with these Investment Portfolio Guidelines. The Senior Investment Officer of Fixed Income is responsible for maintaining documentation, monitoring such liquidity and/or credit enhancements, and communicating changes to the designated Compliance Officer.
- In the event that a security no longer meets the criteria for purchase due to default, event of insolvency, a credit rating downgrade or other material event ("Affected Security"), the Senior Investment Officer must identify the Affected Security within the monthly compliance cycle and cause the Portfolio Manager to either dispose of the security within 5 business days or present a justification for the retention of the security to the Investment Oversight Group within 3 business days. If an Affected Security matures within 5 business days, no further action is required. An Affected Security may be held after 5 days only if the Executive Director & CIO has determined, based upon a recommendation from the Senior Investment

Officer and the Investment Oversight Group, that it would not be in the best interest of the portfolio to dispose of the security taking into account market conditions that may affect an orderly disposition.

- When the deviation between the market value and amortized cost of STIPFRS exceeds 0.50%, according to pricing information provided by the Custodian, the Portfolio Manager will establish a formal action plan. The Investment Oversight Group will review the formal action plan and prepare a recommendation for the Executive Director & CIO's consideration.
- When the deviation between the market value and amortized cost of STIPFRS exceeds 0.75%, according to pricing information provided by the Custodian, the Executive Director & CIO will promptly consider what action, if any, will be initiated. Where the Executive Director & CIO believes the extent of any deviation from STIPFRS's amortized cost price per share may result in material dilution or other unfair results to asset classes or portfolios, the Executive Director & CIO will cause such action to be taken as the Executive Director & CIO deems appropriate to eliminate or reduce to the extent reasonably practicable such dilution or unfair results.

Requested by (SIO): Rob Smith (SIO-FI)

Reviewed by Compliance: Sheilah Smith

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