

**Investment Policy Statement
Fund B Surplus Funds Trust Fund
(Non-Qualified)
Effective July 1, 2011**

I. Purpose and Scope

The purpose of this Investment Policy Statement (“Policy”) is to set forth the investment objective, investment strategies, and authorized portfolio securities for the Fund B Surplus Funds Trust Fund (“Fund B”). This Policy does not relate to the Local Government Surplus Funds Trust Fund (“Florida PRIME”) created by an Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes).

II. Overview of Fund B

Fund B was created by an Act of the Florida Legislature effective June 1, 2008 (Section 218.421, Florida Statutes). The State Board of Administration (“SBA”) is charged with the powers and duties to administer and invest Fund B.

Fund B is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively, “Applicable Florida Law”).

III. Roles and Responsibilities

The Board of Trustees of the SBA (“Trustees”) consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees will annually certify that Fund B is in compliance with the requirements of Florida law.

The Trustees delegate the administrative and investment authority to manage Fund B to the Executive Director of the SBA, subject to Applicable Florida Law. The Trustees appoint an Investment Advisory Council and a Participant Local Government Advisory Council. Both Councils will at least annually review this Policy and any proposed changes prior to its presentation to the Trustees and will undertake other duties as set forth in Applicable Florida Law.

IV. Fluctuating Net Asset Value Accounting

In March 1997, the Governmental Accounting Standards Board (“GASB”) issued Statement 31, titled “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” GASB 31 applies to Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either “2a-7 like” or fluctuating net asset value (“NAV”). Fund B will be accounted for as a fluctuating NAV pool.

V. Investment Objective

The primary investment objective of Fund B is to maximize the present value of distributions to participants. Fund B principally consists of segregated securities, which

are securities originally purchased for Florida PRIME that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; (4) experienced elevated market illiquidity; or (5) did not meet the criteria of the nationally recognized statistical rating organization (“NRSRO”) that provides Florida PRIME’s AAAM rating (the “Segregated Securities”).

Each of the Segregated Securities is currently a note issued by Florida East Funding, LLC, Florida West Funding, LLC, Florida Funding I, LLC, and Florida Funding II, LLC (the “Special Purpose Entities”) that holds collateral securities as security for repayment of the Segregated Securities (the “Collateral Securities”). The SBA has contracted with Stone Tower (the “Collateral Manager”) to provide investment advisory services to the Special Purpose Entities with the objective of maximizing the present value of distributions to the Segregated Securities from Collateral Securities. The Collateral Manager has been contractually charged with the responsibility to develop and implement a prudent "work out" or liquidation strategy consistent with the investment objective. The Collateral Manager may, in its sole discretion, sell, exchange, or otherwise dispose of, or agree to the extension, workout or restructuring of the Collateral Securities to meet the investment objective. Proceeds received from any sale, exchange or other disposition of securities may be invested in AAAM-rated money market funds prior to distribution to Fund B participants. Past performance is no guarantee of future performance. An investment in the Fund B is not a bank deposit and is not insured or guaranteed by the FDIC or any other government entity. Investors may lose money investing in Fund B, and returns may not keep pace with inflation.

VI. Controls and Escalation Procedures

Section 218.421(2), Florida Statutes requires this Policy to document a system of internal controls designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the board or a professional money management firm. The controls include formal escalation reporting guidelines for all employees to address material impacts on Fund B that require reporting and action.

The SBA has engaged BNY Mellon (“Custodian”) to provide asset safekeeping, custody, fund accounting and performance measurement services to Fund B. The Custodian will mark to market the portfolio holdings of Fund B on a monthly basis. The SBA will reconcile accounting and performance measurement reports with the Custodian on a regular basis.

The SBA and third parties used to materially implement the investment objective of Fund B will maintain internal control, fraud and ethics policies and procedures.

The Executive Director will organize an Investment Oversight Group to regularly review, document and formally escalate compliance exceptions and events that may have a material impact on Fund B. The Investment Oversight Group will meet and report monthly to the Executive Director, except upon the occurrence of a material event. SBA Risk Management and Compliance will provide regular compliance reports and will communicate compliance exceptions within 24 hours of identification to the Investment Oversight Group. The SBA has an affirmative duty to immediately disclose any material impact on Fund B to the participants.

The Executive Director's delegated authority as described in this section is intended to provide him with sufficient authority and operating flexibility to make professional investment decisions in response to changing market and economic conditions. Nonetheless, the Trustees will at least monthly review and approve management summaries of material impacts on Fund B, any actions or escalations taken thereon, and carry out such duties and make such determinations as are otherwise necessary under law, regulation or rule. The Trustees will also review progress in returning the principal in Fund B to the participants at each meeting of the Trustees until Fund B self-liquidates or is terminated by law.

VII. Distributions

Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or distributions from Collateral Securities resulting in interest payments and principal paydowns of the Segregated Securities; or (2) the sale of Collateral Securities, Collateral Securities liquidation, or other restructure and workout activities undertaken by the Collateral Manager resulting in principal paydowns of the Segregated Securities.

To effect the distribution, the SBA will transfer cash or securities to Florida PRIME for the benefit of Fund B shareholders. Such transfers will be consistent with the pro rata allocation of Fund B shareholders of record as of the initial partition of Segregated Securities within Florida PRIME.

VIII. Deposits and Withdrawals

Participants cannot make additional deposits into, or any withdrawals from, Fund B.

XI. Management Reporting

The Executive Director will be responsible for providing formal periodic reports to the Trustees, legislative committees and other entities:

1. An annual report on the SBA and its investment portfolios, including that of Florida PRIME and Fund B.
2. A monthly report on performance and investment actions taken.
3. Special reports pursuant to Chapter 218, Florida Statutes.