



**Agenda
Investment Advisory Council (IAC)**

Monday, September 22, 2014, 1:00 P.M. to 3:30 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 <i>(See Attachments 1A – 1D)</i> <i>(Action Required)</i>	<i>Les Daniels, Chair</i>
1:05 – 1:15 P.M.	2. Opening Remarks/Reports <i>(See Attachments 2A – 2F)</i>	<i>Ash Williams Executive Director & CIO</i>
1:15 – 2:15 P.M.	3. Strategic Investments Asset Class Review <i>(See Attachments 3A – 3C)</i>	<i>Trent Webster Senior Investment Officer Strategic Investments and Private Equity Cambridge Associates James Mnookin Liqian Ma Samit Chhabra Sheila Ryan The Townsend Group Richard Brown Jack Koch Seth Marcus</i>

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2:15 – 3:00 P.M.	4. Asset Class SIOs and DC Programs Officer Update <i>(See Attachments 4A – 4E)</i>	<i>Scott Seery, SIO Global Equity</i> <i>Katy Wojciechowski, SIO Fixed Income</i> <i>Steve Spook, SIO Real Estate</i> <i>John Bradley, SIO Strategic Investments and Private Equity</i> <i>Joan Haseman</i> <i>Senior Defined Contribution Programs Officer</i>
3:00 – 3:20 P.M.	5. Major Mandate Performance Reviews <i>(See Attachment 5)</i>	<i>Hewitt EnnisKnupp</i> <i>Steve Cummings</i> <i>Kristen Doyle</i>
3:20 – 3:30 P.M.	6. Audience Comments/December Meeting Date/Closing Remarks/Adjourn <i>(See Attachment 6)</i>	<i>Les Daniels, Chair</i>

**MINUTES
JOINT MEETING OF
THE PARTICIPANT LOCAL GOVERNMENT ADVISORY COUNCIL (PLGAC)
AND THE INVESTMENT ADVISORY COUNCIL (IAC)
JUNE 16, 2014**

A joint meeting of the Participant Local Government Advisory Council (PLGAC) and the Investment Advisory Council (IAC) was held on Monday, June 16, 2014, in the Hermitage Conference Room, State Board of Administration (SBA) of Florida offices, located at 1801 Hermitage Blvd., Tallahassee, FL 32308.

PLGAC Members Present: Doug Belden, Tax Collector, Hillsborough County (via phone) (Vice-Chair)
Patsy Heffner, Tax Collector, Osceola County
Amy Lovoy, Escambia County
Mark Peterson, Brevard County Clerk of Court
Gary Price, Fifth Avenue Advisors (Chair)
Daniel Wolfson, Office of Manatee County Clerk of Court

IAC Members Present: Peter Collins
Les Daniels (Chair)
MaryEllen Elia
Martin Garcia
William Harrell
Charles Cobb (via phone) (Vice-Chair)
Chuck Newman
Gary Wendt

IAC Members Not Present: Michael Price

CALL TO ORDER/OPENING REMARKS/UPDATE

Mr. Ash Williams, State Board of Administration (SBA), called the joint meeting to order at 10:54 A.M. and gave a brief update on the SBA's activities.

FLORIDA PRIME LEGAL COMPLIANCE REVIEW – CHAPTER 218, PT. IV, FLORIDA STATUTES

Ms. Anne Longman, of Lewis, Longman & Walker, presented their statutory compliance review and indicated that the Florida PRIME has been managed and operated in accordance with the statutory requirements of Part IV of Chapter 218, Florida Statutes from May 2011 to May 2012. Ms. Longman also reviewed SBA staff efforts to maintain completed disclosure statements for all Florida PRIME participants, noting significant gains in the level of coverage over the last fiscal year.

FLORIDA PRIME AND FUND B PERFORMANCE REVIEW

Ms. Kristen Doyle, with Hewitt EnnisKnupp, gave a performance review of Florida PRIME and Fund B, covering fund performance through March 31, 2014.

FLORIDA PRIME PORTFOLIO REVIEW

Ms. Deborah Cunningham, Federated Investors, presented the portfolio review of Florida PRIME along with a summary of recent economic events impacting the money markets, including results of the most recently performed quarterly stress test. Ms. Cunningham briefly discussed the Federal Reserve's reverse repo program and the regulatory environment for money market funds. Questions were posed and answered.

FUND B PORTFOLIO REVIEW

Mr. McCauley briefly reviewed current fund values and distributions of original participant principal. Then, Mr. Michael Commaroto, Apollo Management, presented a detailed portfolio review, covering improvements in the residential housing sector and market factors positively impacting Fund B's collateral holdings. Mr. Charles Pettinato, Apollo Management, then reviewed the characteristics of the underlying collateral of Fund B and current market valuations. Council members briefly discussed Fund B investments and the expected time frame for remaining asset sales.

FLORIDA PRIME BEST INVESTMENT PRACTICES REVIEW

Ms. Kristen Doyle, with Hewitt EnnisKnupp, presented the findings of the best practices review, noting the pool is managed in accordance with industry best practice. Ms. Doyle discussed ongoing regulatory changes to money market funds as well as several enhancements benefiting pool participants.

REVIEW OF FLORIDA PRIME AND FUND B SURPLUS FUNDS TRUST FUND INVESTMENT POLICY GUIDELINES (ACTION REQUIRED)

Mr. Williams presented minor changes to the investment policy statement for Florida PRIME and Fund B. Board members voted to accept the changes as presented.

OPEN AGENDA ITEMS/AUDIENCE COMMENTS/ADJOURN

The joint PLGAC/IAC meeting agenda was concluded, and the meeting adjourned at 11:55 A.M.



Gary Price, Chairman
Participant Local Government Advisory Council

8-29-14

Date

Les Daniels, Chairman
Investment Advisory Council

Date

(Further meeting information can be found in the written transcripts of the meeting kept by the State Board of Administration.)

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STATE BOARD OF ADMINISTRATION OF FLORIDA

JOINT MEETING OF THE
INVESTMENT ADVISORY COUNCIL
AND THE
PARTICIPANT LOCAL GOVERNMENT ADVISORY COUNCIL

DATE: June 16, 2014

TIME: Commenced 10:54 a.m.
Concluded at 11:55 a.m.

LOCATION: 1801 Hermitage Boulevard
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR, FPR
Notary Public, State
of Florida at Large

ACCURATE STENOGRAPHY REPORTERS, INC.
2894-A REMINGTON GREEN LANE
TALLAHASSEE, FLORIDA 32308
850/878-2221

IAC MEMBERS PRESENT:

LES DANIELS, Chair
CHARLES COBB, Vice Chair (Telephonically)
PETER COLLINS
MARYELLEN ELIA
MARTIN GARCIA
WILLIAM HARRELL
CHUCK NEWMAN
LAMAR TAYLOR
GARY WENDT

PLGAC MEMBERS PRESENT:

GARY PRICE, Chair
DOUG BELDEN, Vice Chair (Telephonically)
PATSY HEFFNER
AMY LOVOY
MARK PETERSON
DANIEL WOLFSON

ALSO PARTICIPATING:

ASH WILLIAMS, SBA Executive Director
JOHN BENTON, SBA
MIKE COMMARATO, Apollo (Telephonically)
STEVE CUMMINGS, Hewitt EnnisKnupp
DEBBIE CUNNINGHAM, Federated
KRISTEN DOYLE, Hewitt EnnisKnupp
ANNE LONGMAN, Lewis Longman
MICHAEL MCCAULEY, SBA
AMY MICHALISZYN, Federated
CHARLES PETTINATO, Apollo
ED SANCHEZ, Federated

ACCURATE STENOGRAPHY REPORTERS, INC.

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P R O C E E D I N G S

MR. WILLIAMS: Okay. Why don't we convene the joint session of the Participant Local Government Advisory Council and the Investment Advisory Council if we could, please.

By way of opening remarks, a couple of things. First of all, we just had earlier this morning the usual productive meeting of the PLGAC in which we went over the progress of the fund year to date, where we are on Pool B, certain things relating to our investor/client base, et cetera, all good.

Let me just mention a few broad things of interest, and then we can go ahead into the joint meeting.

First of all, the legislative session went very well. The legislation that the State Board proposed relating to foreign securities, making some modifications to the Protecting Florida's Investment Act, and also having a provision relating to insurance companies and subjecting them to some standards, similar to the PFIA that applies to the State Board, was adopted. The Governor signed that legislation at the tail end of last week, so all good there.

We're now in June, so hurricane season has

1 started. The Hurricane Catastrophe Fund is in the
2 best shape it's ever been economically. One of the
3 reasons it's in the good shape that it's in is that
4 we did a couple of billion dollars worth of bond
5 issuances. When did we do that, Lamar?

6 MR. TAYLOR: April of last year.

7 MR. WILLIAMS: April of '13. So we have those
8 dollars in the bank and were able to get that
9 financing off at an extraordinarily low net
10 interest cost, so we're pleased with that.

11 On the defined contribution side, our target
12 date funds will start operating I guess July 1, and
13 we have rules coming up before the Trustees
14 tomorrow to move forward with those.

15 We have a review coming up a little bit later
16 on this morning's agenda on Pool B, but the end is
17 in sight there, so nice progress, no losses for any
18 of the investors there originally.

19 We have got coming to the Trustees tomorrow
20 the revised Investment Policy Statements that
21 reflect statutory changes and benchmark adjustments
22 as we have worked through previously.

23 We also have the budget coming up tomorrow,
24 and all was worked out there in a constructive way,
25 and we're pleased that we were able to lower our

1 cost of management per dollar of assets under
2 management, not change our fees at all, and still
3 accomplish various priorities that we need to
4 accomplish within that budget.

5 Of course, at the joint meeting every year, we
6 have a number of statutory duties that we need to
7 cover, and we can go ahead and move into those.
8 And they include the legal compliance review of
9 Florida PRIME, which we have Anne Longman with us
10 from Lewis, Longman & Walker, who has covered that
11 turf for a number of years and will again this
12 year.

13 So with that, Anne, do you want to move ahead?

14 MS. LONGMAN: Okay. Is this on? Can you hear
15 me?

16 Okay. Well, as Ash stated, I'm here again I
17 think for the seventh time on the statutory
18 compliance review for PRIME. The methodology I use
19 is the same that I've always used. It produces
20 probably more pieces of paper than you want to look
21 at, but basically, I track the statutory
22 requirements and discuss how PRIME complies with
23 them.

24 In addition, I speak with SBA personnel. I
25 look at everything that's on the website. There

1 are other materials that are produced for me to
2 review that have to do with the individual
3 participants. So I feel like it is a very thorough
4 review.

5 All of the fund rules are up to date this
6 year, so there's no issues with that. In short, I
7 didn't find any issues at all that I regard as
8 material.

9 You'll recall that last year we discussed
10 these disclosure statements that the participants
11 are supposed to have on file. Some of those are
12 missing. In accordance with what Ash just said, I
13 would anticipate that when Fund B is no longer
14 around, which it sounds like that might happen
15 sometime fairly soon, there will be much fewer of
16 those issues. Those participants don't have a lot
17 of incentive to cooperate with details in some
18 cases.

19 Staff has made extraordinary efforts to get
20 these disclosure statements, including mass emails,
21 targeted emails, letters including return
22 addressed, stamped envelopes. I don't know much
23 else that they could do.

24 And as you will remember, I have never
25 regarded this as a material issue, because although

1 the statute says that these disclosure statements
2 are supposed to be on file, there were a lot of
3 participants before that requirement ever went into
4 place.

5 And the purpose of the disclosure statement is
6 simply for the participant to say, "Yes, we have
7 received these materials. Yes, we know what the
8 fund is all about." Well, all of these
9 participants get monthly status reports that are
10 very detailed. They all have access to the website
11 and to other materials that are mailed to them. So
12 in terms of both actual and putative knowledge of
13 what the fund is all about, I don't think that
14 there could possibly be a contention that that is
15 not known to them.

16 So that is my review for this year. I'll be
17 happy to answer any questions.

18 MR. WILLIAMS: Any questions?

19 Thank you, Anne.

20 MS. LONGMAN: Thank you.

21 MR. WILLIAMS: Why don't we then move on to
22 the Florida PRIME performance review and best
23 practices review. Kristin Doyle from Hewitt
24 EnnisKnupp, and we also have Mr. Steve Cummings
25 with us today from Hewitt. Thank you for joining

1 us.

2 MR. CUMMINGS: My pleasure.

3 MS. DOYLE: Thank you. I'm going to spend a
4 few minutes looking at performance for Florida
5 PRIME, and then I'll talk about the best practices
6 review that we do on an annual basis.

7 So if you read Anne's report, the report lists
8 the primary objectives that the Florida Statutes
9 stipulate for the Florida PRIME, and those are, in
10 order of priority, safety or preservation of
11 capital or principal, liquidity, and investment
12 return.

13 So PRIME is invested according to those
14 objectives. It's extremely diversified in terms of
15 the bonds that they invest in. It's invested
16 across commercial paper, government agencies,
17 floating and fixed rate issues. It's extremely
18 liquid, and performance has been very, very strong.

19 So if we look at performance, we look at it
20 relative to other local government pools shown on
21 this slide, you can see that relative performance
22 has been very strong over all trailing time
23 periods. Obviously, the absolute return has been
24 quite muted over the past five years, given the low
25 interest rate environment that we're in. But

1 relative to the 30-day net yield index that's
2 provided by S&P of other local governments'
3 portfolios, performance has been very strong.

4 And then relative to other money market
5 funds -- these are registered 2a-7 money market
6 funds -- Florida PRIME has performed very, very
7 well. You can see here, this chart has the
8 annualized standard deviation along the horizontal
9 axis, and then on the vertical axis is the
10 annualized return. So what this is showing is that
11 relative to a very large universe of other
12 registered money market funds, Florida PRIME has
13 well outperformed those funds at a similar level of
14 risk.

15 This doesn't mean that the pool is taking
16 additional risk in order to achieve this higher
17 yield. What's happening is that the cost of the
18 pool to participants, the investment management fee
19 that they pay is extremely low, and so more of the
20 yield is going to participants because staff has
21 been able to keep the cost of the pool very, very
22 low.

23 And then lastly, you'll hear more from Apollo
24 on Fund B, but this is just an illustration of the
25 cash flows. So this is through March 31st of this

1 year, about \$10 million back to participants. Over
2 the past year, there have been between 3 and
3 \$5 million being sent back to participants each
4 month, and that continues, although there has been
5 quite a bit of additional capital that has been
6 returned back to participants over the past --
7 since the end of March, in the past couple of
8 months. So actually, the market value here is
9 probably more like around 80 million today as
10 opposed to the 100 million that you see here.

11 Any questions on performance?

12 MR. WILLIAMS: Thank you, Kristin.

13 Why don't we then move on with the Florida
14 PRIME portfolio review, and we have Debbie
15 Cunningham with us from Federated today. Debbie,
16 do you want to go ahead?

17 MS. CUNNINGHAM: Sure. This is under actually
18 Tab 2-d in the book. I know you can't read that,
19 but I'll give you just an overview.

20 What's happening from -- thank you. Just to
21 give an overview of what's happening from a rate
22 perspective, where we are, we think, from a cycle
23 standpoint and maybe what to expect going forward
24 for the rest of this year. And again, I'm glad to
25 be with you guys. I haven't been here for about a

1 year and a half. So it's always very nice to visit
2 northern Florida.

3 If we look at the end of March LIBOR rates
4 just as a benchmark for what was happening during
5 the first quarter and compare that to year end,
6 effectively, the whole yield curve amazingly
7 shifted down two more basis points.

8 You think, okay, we were at ultimate lows for
9 most of 2013. How could it have gone lower? It
10 did. It went lower in one month from 17 basis
11 points down to 15, all the way out to one year
12 investing from 58 basis points down to 56. So it
13 did shift lower in the first quarter.

14 You'll see a reversal of that in the second
15 quarter and some positives that come out of it.
16 But for the first quarter, there was a lot of cash
17 to be put to work. Supply and demand definitely
18 had something to do with that shifting down. But
19 overall, people were still looking at we're still
20 probably a year away from the first quarter of 2014
21 until we get to the first rate increase from a Fed
22 funds perspective.

23 I think as Paige has probably talked to you in
24 the past, we believe that there are three phases of
25 this unwind process that are occurring from a rate

1 change standpoint within the Fed, the FOMC. The
2 three phases are the reverse repo process out of
3 the New York Fed, the tapering or cutback of what's
4 being purchased on a QE basis monthly from the
5 Treasury and government agency marketplace, and
6 then thirdly, what we consider the traditional
7 tightening process, which would be the actual
8 raising of rates.

9 Just to talk about those a little bit
10 individually, from a Fed reverse repo program
11 standpoint, that program went into a daily test
12 phase back in September of 2013. That daily test
13 phase lasted to the end of January 2014. And at
14 the end of January, at the FOMC meeting in January,
15 what was then done was, they extended it into a
16 daily exercise that will last through January of
17 2015. It's not really much different from we had
18 been experiencing from September through January,
19 but it's now more permanent, if you will, and being
20 used on the daily operations to help maintain and
21 control where short-term overnight rates are.

22 So if you recall, several years ago there were
23 additions added to who could participate as what's
24 considered a non-traditional counterpart with the
25 New York Fed in this reverse repo operation. Their

1 balance sheet was growing so large, they knew that
2 their then 28 different broker-dealers that they
3 had to participate with on a daily basis would not
4 be able to help them much in this unwind phase.
5 They were looking for other participants, and they
6 went down the path of 2a-7 money markets funds.

7 Federated has eight of those. And although
8 that privilege, if you will, to trade with the New
9 York Fed -- and I put that in quotes, because it's
10 a very operationally difficult process to undertake
11 every day.

12 They have this thing called a token that is
13 unique to you as a trader, as well as to the fund
14 that you're trading for. So we have eight
15 different funds and eight different traders. Each
16 trader has eight different tokens that, depending
17 upon what they're doing with what fund on what day,
18 they make sure they're using that correct token.
19 And the New York Fed has defined amounts of those
20 tokens.

21 They have contemplated updating this rather
22 archaic system, and if they do, my guess would be
23 that they will expand the non-traditional
24 counterparts. And I know one of the ones that
25 they're looking to, from a potential expansion

1 perspective, would be some of the largest local
2 government investment pools, especially those that
3 run their operations on a daily basis similar to
4 2a-7 funds. So it's something to potentially look
5 forward to going forward, going into the future,
6 but that certainly is not happening on an overnight
7 basis.

8 How this benefits the pool, though, is, in
9 effect, twofold. Number one, it puts a rate floor
10 underneath where overnight rates are trading. So
11 throughout most of the first quarter and into tax
12 season, the beginning of April, interest rates on
13 an overnight Treasury collateralized basis were
14 being controlled by this facility. And for the
15 most part, it averaged five basis points. They
16 were at three basis points at the beginning of the
17 year, but were increased to five and stay at five
18 today.

19 Had that five basis points from the New York
20 Fed, the Treasury collateral, not been in place, we
21 would have been trading at zero or one. I'm
22 absolutely certain of that. The supply was such
23 that participants, because of their own regulatory
24 requirements on a banking basis, capital,
25 liquidity, and other types of requirements, are

1 causing them to need to fund longer rather than in
2 an overnight capacity, and yet the demand being
3 exactly the same from a participant perspective in
4 that local, you know, repo market on a daily basis.

5 Certainly the rates would have been zero or
6 one. In fact, because they were controlled at five
7 by the New York Fed, that benefited all
8 participants, even those like the Florida PRIME
9 pool that don't have access to them as a trading
10 counterparty on a daily basis.

11 The second way that it has basically assisted
12 is just by putting that supply/demand equation back
13 into a little bit more neutrality or equality.
14 Effectively, the New York Fed has been able to,
15 especially on what I'll call, you know, sort of the
16 tighter dates for supply, month end, quarter end,
17 year end, has been able to provide as much supply
18 as the market can take to offset what is oftentimes
19 sort of the window dressing process that occurs at
20 the normal broker-dealers and banks that the New
21 York Fed is dealing with on a daily basis.

22 So both of those have been extremely helpful
23 processes to the Florida PRIME pool, even though
24 the direct participation with the New York Fed on
25 this reverse repo process is not there. The second

1 phase -- so that's well under way.

2 And today we stand with probably about
3 100 billion being done daily from non-traditional
4 counterparts with the New York Fed. It was as high
5 as 200 billion for a while during the end of April
6 and into the middle of May. But because Treasury
7 has brought more supply into the marketplace and
8 it's not quarter end at this red hot moment in
9 time, it has been able to be sort of dwindled down
10 to right now where it's averaging about \$100
11 billion.

12 Federated regularly does about 20 percent of
13 its overnight repo with the New York Fed as opposed
14 to other more -- what we would call our traditional
15 counterparts in the bank and broker-dealer
16 marketplace.

17 The second phase from an investment and
18 interest rate perspective that would indicate
19 unwinding, if you will, some of the easing of money
20 policies that the Fed has had, is the tapering that
21 continues to occur.

22 If you recall, when we started this process,
23 the QE-Infinity, or whatever it was being called at
24 that point, was buying \$85 billion worth of
25 securities out of the marketplace, a combination of

1 Treasuries and government agencies. And that was,
2 you know, in effect, building up their balance
3 sheet and providing sort of a floor to the
4 marketplace from a supply/demand perspective.

5 That doesn't seem to be necessary anymore, and
6 they've been cutting back on that number by
7 \$10 billion, basically, at every FOMC meeting since
8 the fourth quarter of last year. So we're
9 currently down to 35 billion per month being
10 purchased by the New York Fed out of the
11 marketplace and added to their balance sheet.

12 Now, don't get me wrong. That's still easing.
13 They are still purchasing. They are still adding
14 liquidity to the system, but they're cutting back
15 on it. They're tapering the amount that they're
16 doing. And it's fully expected from our standpoint
17 that that will end. That tapering will end, and
18 they'll be down to no purchases by the beginning of
19 fall of this year.

20 Now, the last aspect of increasing rates would
21 be when do they really go up, when does the FOMC
22 decide to raise their zero to 25 basis point Fed
23 funds target rate, and when does that impact the
24 Florida PRIME pool?

25 I think to some degree, they're doing that

1 already with the reverse repo program. And
2 certainly the existence of that program and their
3 ability to control the overnight rate in a way
4 that's different from what they've historically had
5 as a part of their tool set has been helpful.

6 And I think, you know, everybody was wondering
7 prior to this reverse repo process, would the Fed
8 go from zero to 25 to maybe just 25, no range,
9 let's just call it a target of 25, or would they go
10 to a new range of 25 to 50, or maybe 10 to 35.
11 There were all sorts of questions to how the Fed
12 might, you know, sort of gradually start taking
13 this rate back up again without disrupting
14 financing from an overnight perspective to a large
15 degree.

16 And I think the reverse repo program is sort
17 of the answer to their prayers, if you will, in
18 this capacity. It has been able to be used in a
19 way that controls where overnight, at least
20 Treasury collateralized rates are, and sort of sets
21 a floor off which the rest of the market then
22 prices. And the anticipation is that they'll
23 continue to use that through the zero to 25 basis
24 point range. So it's now five basis points. It
25 could be a 10 in a short period of time, maybe 15.

1 But I think they'll use that to get up to 25
2 before they then actually start their true
3 tightening process, where they move the Fed funds
4 rate. Our expectation of that timing would be the
5 first half of 2015, so we're still a year away from
6 that, nine months to a year. We're starting to see
7 pricing in that nine to twelve months sector of the
8 yield curve that reflects the potential, the likely
9 potential for that rate to be something other than
10 25 basis points at that point, closer to 50 basis
11 points. So we're looking at those types of rates
12 on a daily basis to see how they fit, if at all,
13 within the portfolio for Florida PRIME.

14 Just a few seconds on the economic side of the
15 situation. It has been mostly sideways in the
16 first quarter. That was due to some rough winter
17 weather. I'm not sure how you guys fared in
18 Tallahassee, but Pittsburgh had record lows, record
19 days of not above zero, winds, ice, chill, all of
20 that. And I think a big portion of the at least
21 northern portion of the United States was under
22 that same sort of a weather scenario, and so
23 economics were not great in the first quarter.

24 We do think that, you know, we've seen in the
25 second quarter a lot of improvement. Industrial

1 production today was out at plus .6 percent. That
2 was a higher than expected number, revised April.
3 We've seen similar from a housing perspective.
4 Certainly employment seems to be heading in the
5 right direction. So the consumer is out there
6 spending again.

7 So all of these things continue to, I think,
8 bode well for that interest rate outlook, which is,
9 you know, finally seeing an increase in rates in
10 the first half of 2015.

11 From an other countries perspective, we've
12 actually seen the UK likely to be one of the first
13 to raise rates. There's been a lot of discussion
14 around that. And generally speaking, once you see
15 a large country like the UK start to increase
16 rates, it quickly follows from other developed
17 countries, and I think the U.S. would be close
18 along those paths.

19 On the other side of the equation, the ECB
20 just went to negative interest rates for the first
21 time ever in the history of any country or
22 organization or central bank to actually have their
23 overnight rate pegged at a negative interest rate.
24 And their fear is of stagflation, deflation,
25 lowflation. It's called all sorts of things. It

1 doesn't seem to be something that again is
2 impacting us very much here in the U.S., but it's
3 still something that we keep an eye out on a
4 day-to-day basis.

5 If we look a little bit now at the composition
6 of the portfolio, from a maturity perspective, we
7 decreased two sectors. That would be our
8 one-to-seven-day area, the dark blue area, and then
9 the 91-to-180-day area, the purple area in the pie
10 chart on the left. And that's just reflective of
11 basically taking our liquidity down to some degree
12 through participant distributions, since we know,
13 as we talked about, in the first quarter, at the
14 beginning, we take in a lot of cash, and towards
15 the end of the quarter, we start to spend it or
16 start to push it out to the participants, and
17 that's a reflection of usage of that cash going
18 back out.

19 On a weighted average maturity basis, we're
20 actually down to 49 days at the end of the first
21 quarter. That's lower by five days than we were at
22 the end of the year of 2013, and again reflective
23 of a little bit more need for the ability to pay
24 out participants as we look at that portion of the
25 cycle.

1 Our weighted average life, which reflects not
2 just the maturity of the securities that we're
3 purchasing, or not just the interest rate reset of
4 the securities that we're purchasing, but from a
5 floating rate standpoint, what their final
6 maturities are. That actually remains 83 days.

7 That's a number that will be constrained to
8 some degree as we go forward from an S&P
9 standpoint. The SEC constrains that at 120 days,
10 but S&P on a rated funds or a rated pool basis
11 constrains it at 90 days for weighted average life
12 purposes for AAA rated products.

13 And given where we believe we're heading, the
14 likelihood of more usage of floating rate
15 securities is pretty high, because we want
16 something that, as interest rates in the market
17 start to adjust upwards, we're able to capture that
18 with these types of floating rate securities that
19 also will be adjusting upwards. But it is a
20 constraint that will hit at some point with that
21 S&P requirement.

22 The credit quality chart on the right side is
23 also a reflection of a requirement from an S&P
24 rating perspective. The right side, the blue
25 portion of this chart has to be maintained at least

1 as high as 50 percent in order to -- again, that's
2 the A-1+ short-term rating from S&P. That's what's
3 required to be necessary to maintain the AAA
4 rating.

5 The next slide shows the portfolio composition
6 and basically the modifications that occurred from
7 quarter to quarter within that portfolio
8 composition, modest changes, an extra 7 percent or
9 so in repurchase agreements. To some degree,
10 that's reflective of the fact that, number one,
11 they're higher in overall yield because of the Fed
12 facility; and number two, we have Federated funds
13 that are participating in that Federated capacity
14 with the reverse repo facility at the New York Fed
15 opening up more allowances, if you will, for those
16 that can't operate with the New York Fed, but at a
17 higher rate in most instances.

18 The biggest portion, which would be the bank
19 instruments at 43.9 percent, is up 3 percent, again
20 reflective of large global banks that we'll talk
21 about on the right-hand side from a top holdings
22 perspective.

23 Top holdings-wise, you see J.P. Morgan in
24 there as a U.S. representative; Svenska, Deutsche,
25 Rabo, BNP, and Barclays all within the EU. You see

1 Federated Prime Obligations Fund as a top holding
2 down at the very bottom of this list.

3 And then Sumi, Sumitomo and Mitsubishi in the
4 middle are also opening up an Asian avenue in
5 diversification for our Japanese banks that we're
6 financing through this pool. The Japanese side of
7 the equation is still one that from a maturity
8 perspective is pretty short. Our global analyst
9 that follows the Japanese banks is very
10 comfortable, but still a little bit wary of what's
11 going on there from an abenomics perspective. And
12 so generally speaking, you won't see us longer than
13 three months in those Japanese names.

14 The next slide gives you an exposure by
15 country. I think this is something that we started
16 fairly recently to report to you. Not a whole lot
17 of changes here. The United States is up by
18 1 percent. Canada and Japan are both down
19 2 percent.

20 Probably the biggest change would be the UK,
21 which is at the 7 point on this list. It was
22 number 10 at the last reported juncture. And
23 that's up 4 percent, basically a reflection of some
24 interest in some of the UK banks in financing in a
25 shorter sector of the marketplace than they had

1 before.

2 And then Switzerland, which is the very last
3 one, was at number 6. UBS in particular has not
4 shown much of an interest from a short-term
5 financing standpoint.

6 I'll preview the next quarter's presentation
7 along this exposure reports perspective. We just
8 recently within the last two weeks approved another
9 country, the country of Finland, and the country's
10 largest bank, which is Pohjola Bank. Finland is
11 actually one of, I think, only six AAA, AAA, AAA.
12 All three rating agencies still rate them, you
13 know, across the board the highest quality rating.

14 It's smaller than some of the other Nordic
15 countries that we use, but nonetheless has amazing
16 amounts of good capital and credit quality metrics,
17 and, you know, from a financing perspective is on a
18 very, very steady footing. So we've added that, so
19 my guess is that you're going to see Finland pop up
20 there for the first time in your next quarter's
21 reporting.

22 We've also been reporting stress test results
23 to you on a regular basis for quite a while now.
24 And again, this was a reflection of the 2010 rule
25 change amendments for 2a-7 funds. And, you know,

1 through discussions with this board, it was decided
2 it would be something that would be worthy of
3 reporting to you all from Florida PRIME's
4 perspective on a quarterly basis.

5 First of all, I'll point out that at the very
6 top, it says "Shadow NAV at time of test." And
7 we're doing this on a monthly basis, so the end of
8 January, February and March all are over one
9 dollar, which essentially means that what I had
10 said earlier in the first part of the presentation,
11 that interest rates are still lower than they were
12 from when we purchased this portfolio and what we
13 were buying on a regular basis still held true in
14 all three of these quarters.

15 My expectation is that sometime either late
16 this second quarter -- it hasn't happened yet -- or
17 early in the third quarter, you'll start to see
18 some of those be slightly under a dollar, .99998,
19 .99997. And again, it's nothing to worry about.
20 It's just a reflection of where the current
21 portfolio would be valued on a very long NAV basis
22 versus what market conditions currently are. And
23 if we're right, we think in that second half of the
24 year, you'll start to see a little bit more from a
25 steepening of that money market yield curve in

1 expectation of real interest rates rising in the
2 first half of 2015. You'll see that start to dip
3 underneath the 1.0000, five zeros.

4 The second -- middle portion of this slide
5 shows you what the stress test results are. And we
6 stress it in several different ways: First of all,
7 in conjunction with a redemption scenario, so you
8 see on the far left either zero percent redeemed,
9 25 percent, 50 percent, 75 percent. Then within
10 each of the three stresses, we look at what change
11 in interest rate on an instantaneous basis would be
12 required with those redemption changes to actually
13 break the fund's one-dollar NAV, so take it down to
14 .995, essentially, .9949.

15 So with the first three columns, it basically
16 shows you that on a worst case scenario, under
17 March, with a 75 percent redemption value -- so
18 75 percent of the fund has gone at this point, and
19 interest rates have gone up by 96 basis points.
20 That's essentially the worst case scenario for what
21 it would take to break the fund.

22 If you look at something sort of intermediary,
23 25 percent, you know, with a 282 basis point
24 withstanding is, you know, with a yield curve
25 change, what could be withstood.

1 So these are just gauges that show, you know,
2 how conservatively the portfolio is positioned and
3 how responsive it is to changes in the day-to-day
4 value of the fund, as well as the day-to-day
5 interest rate environment. None of these are
6 things that we think are imminent or going to
7 happen. It just is the stress that we're required
8 to prepare and that we show you guys on a quarterly
9 basis.

10 The middle section shows basically our largest
11 issuer, if our largest issuer defaulted, how much
12 would need to be recovered. And then our lowest
13 rated issuer, which in Federated's 1 through 5
14 rating scale, which I know we've talked to you
15 about in the past before, that would be a Federated
16 3. So if our lowest rated issuer defaulted, what
17 we would need to recover. And again, those are
18 somewhere in the 90 to 97 percent range, which
19 makes sense, because essentially we've got 3, 4, 5
20 percent positions for a lot of those issuers.

21 And then ultimately, on the far side, it
22 basically just shows you change in spread, which is
23 similar to change in interest rates. But
24 obviously, with a change in interest rates,
25 overnight securities, very short-term securities

1 aren't much impacted, whereas from a change in
2 spread perspective, it's looking a little bit
3 further out the curve and what those potentially
4 might -- what could potentially happen.

5 Again, none of these scenarios are ones that
6 we think are likely, but it's, you know, provision
7 of information that shows you how remote the
8 possibility is in these instances.

9 Maybe the last discussion topic I'll bring up
10 from my side is where we are from a Rule 2a-7
11 perspective with changes. As you recall, in 2010,
12 there were changes to Rule 2a-7 that for the most
13 part were risk dialing-in metrics for how money
14 market funds, 2a-7 money market funds from an SEC
15 purview are allowed to be invested.

16 At that time, Chair Mary Schapiro had said,
17 "This is the beginning, but we think there is more
18 that needs to be done." And so structural, more
19 structural changes were proposed a year ago in June
20 of 2013 for either a portion of the industry to
21 float their NAV -- and by floating their NAV, it
22 was essentially proposed to carry it out to the
23 hundredth of a penny rather than a penny from a
24 pricing perspective.

25 The second part of the -- the second major

1 part of the proposal was called the gates and fees
2 alternative, which would essentially mirror to some
3 degree what occurred within the Florida PRIME pool
4 in the late fall and early winter of 2007, and, you
5 know, a portion of the investors, you know, held in
6 the fund, unless they wanted to get out, in which
7 case they paid a redemption fee, and that went into
8 a pot that then built that NAV of the product back
9 up again. So a similar type of structure being
10 considered from an SEC perspective in this first
11 proposal.

12 Just last week there was an article that came
13 out from -- it was in the Wall Street Journal
14 Thursday or Friday of last week talking about the
15 five commissioners. Mary Schapiro is no longer the
16 head of the SEC. A woman by the name of Mary Jo
17 White took over last year and is now heading that
18 institution.

19 Of the five commissioners, they are very, very
20 divided on what, if anything, is the appropriate
21 path to go forward with this Rule 2a-7 rulemaking.
22 There are some that will not ever vote for a
23 floating NAV, even if it's only impacting like a
24 third of the market. There are some that will
25 never, ever vote for the gates and redemption side

1 because they think that it's a liquidity product,
2 and in order to achieve a liquidity product, you
3 can't put a gate onto that product.

4 But what this article in the Journal last week
5 indicated is that we're probably not much closer to
6 resolution of this particular part of the dialogue
7 today than we were in June of 2013 when the
8 proposals were initially made. So it's something
9 that continues to be out there, continues to be
10 debated. It certainly takes up a whole lot of my
11 time on a daily basis and, you know, weekly and
12 monthly visits with the various commissioners and
13 the staff at the SEC.

14 But at this point, the resolution of it is
15 tenuous and up in the air. I think probably, you
16 know, timing-wise, what Mary Jo White has said is
17 that she would like to have this completed soon.

18 And specifically we asked at one point if soon
19 from a Mary Jo White perspective was similar to
20 Janet Yellen, where, if you recall, in her first
21 discussion after her initial FOMC chairmanship was
22 brought into play, she described "soon" as being
23 something six months or so, and that was much
24 sooner than what the bond market had thought it was
25 going to be, and so there was a little negative

1 reaction from the bond market.

2 Well, when we posed that question to Mary Jo
3 White, if she had the same definition of "soon" as
4 Janet Yellen, she declined to give us an answer on
5 that. So I'm not sure if soon is, you know, six
6 days, six months, six years.

7 But in any case, what we do know from her is
8 that she wants either a supermajority or a
9 consensus vote. So there are five commissioners.
10 Four or five of them need to vote for one of these,
11 be in conjunction with one of these proposals, and
12 it's just not there yet at this point. So the
13 likely potential for compromise we think is pretty
14 high at this point.

15 And again, sort of the impact on the Florida
16 PRIME pool with how this goes forward generally
17 speaking is the 2a-7 like nature of it and what
18 that in fact may, you know, require us to do. But
19 it's all up in the air, and certainly not imminent
20 from a timing standpoint, no matter what the end
21 result might be.

22 MR. WILLIAMS: Unless anyone has any
23 questions, thank you, Debbie. Very thorough, as
24 usual. And again, thank you for the terrific job
25 Federated has done over an extended period of time

1 with Florida PRIME.

2 MR. BELDEN: This is Doug Belden. I would
3 just like to make one comment.

4 MR. WILLIAMS: Please do. Go ahead, Doug.

5 MR. BELDEN: I want to commend her for being
6 very comprehensive, understanding forms of economic
7 metrics. You're very articulate. You're very
8 proactive to what we're trying to do, and I
9 appreciate that.

10 MS. CUNNINGHAM: You're welcome. Thank you.

11 MR. WILLIAMS: Thank you very much.

12 All right, then. Why don't we move on into
13 the review of Florida PRIME and the Fund B Surplus
14 Funds Trust. I'm sorry, the Fund B portfolio
15 review. And we have with us today Charlie
16 Pettinato from Apollo. And is Michael on the line?

17 MR. PETTINATO: Michael is on the line.

18 MR. WILLIAMS: Excellent. Great.

19 MR. COMMARATO: Yes, Michael is on.

20 MR. PETTINATO: So the first couple of slides,
21 Mike, these are yours. Do you just want to go
22 through the first ones that you do? Mike?

23 MR. COMMARATO: Sure.

24 MR. PETTINATO: I'm sorry. Not you, Michael
25 Commarato. Sorry. Mike McCauley.

1 MR. McCAULEY: Oh, the first few slides? I'm
2 sorry.

3 MR. PETTINATO: Right.

4 MR. McCAULEY: These are just normal slides
5 that we covered at the PLGAC meeting.

6 I think Kristin actually touched on this first
7 slide. It just shows the fund flows for the last
8 quarter to the quarter end 3/31. You can see some
9 significant participant distributions both on a
10 quarterly as well as a fiscal year-to-date basis.
11 Charlie will go into a little more detail about
12 more recent activity. That just shows the fund
13 flows through the last quarter.

14 MR. COBB: This is Chuck Cobb. Ash, this is
15 Chuck Cobb. We cannot hear the Apollo person
16 speaking.

17 MR. McCAULEY: I'm sorry. Is that better?

18 MR. COBB: Yes.

19 MR. McCAULEY: Okay. Sorry. I apologize.

20 MR. COBB: Thank you.

21 MR. McCAULEY: The first side is just the
22 quarterly fund flows.

23 The next couple of slides cover the cumulative
24 and historical distributions from Fund B. The
25 first slide, which I think is 53, just visually

1 shows going back to the beginning of 2010 and how
2 the distributions have progressed, and now we're up
3 to about 98 percent-plus of the original principal
4 that has actually been returned to Fund B
5 participants.

6 And the next slide is essentially the same
7 data in a tabular format. Due to the meeting
8 timing, this does not include the June, the most
9 recent distribution, which was a little under
10 26 million. And that brings us up to 95 -- excuse
11 me, 98.5 percent of the original participant
12 principal that has been returned. So we're within
13 about a percent and a half of getting there to full
14 payback.

15 And I'll just return it over to Charlie.

16 MR. PETTINATO: And right now, what we've done
17 in past meetings, Michael Commarato, he will go
18 through the market, so I'm going to turn it over to
19 him.

20 MR. COMMARATO: Thank you, Charlie.

21 Why don't we flip to page -- you know, there's
22 an awful lot of -- can you guys hear me? Let me
23 try this. I'll take it off the speaker. Maybe
24 that will be slightly better.

25 All right. I wanted to just try and walk you

1 through where the market has been. And I'll tell
2 you, the scheme of this conversation will be very
3 similar to where we left off last quarter, which is
4 frankly, fundamentals and technicals in the market
5 are very supportive of what you own and of,
6 obviously, what we own. And I know that you guys
7 have been selling into the market to bring your
8 risk down, and I think that's the right thing to do
9 at this point in the market.

10 Page 7 is just a slide you guys have seen
11 before. It's a picture of non-current mortgages,
12 and you see how it peaks in 2009 and continues to
13 march down. I have some slightly more recent data
14 that we didn't have a chance to get into your book,
15 but it just shows once again for the first quarter
16 of this year, you know, we go from a 9 percent of
17 seriously delinquent in 2013, and now it's closer
18 to something more like 8.8. So again, the trend is
19 definitely our friend with respect to seeing
20 delinquent assets being worked through.

21 And then with respect to the next page, on
22 page 8, the same type of story when you just home
23 in on foreclosures, especially judicial versus
24 nonjudicial, and seeing how the backlog continues
25 to be worked down. And even in judicial where it

1 felt like it started to level off, we saw it take
2 another leg down. So, again, strong fundamentals.
3 It's really being driven by the strength in the
4 economy and housing coming back and flowing through
5 with numbers like this.

6 The next page, page 9, again is just trying to
7 show some type of pent-up demand that could
8 potentially be out there. And you'll see the blue
9 line is the unemployment rate for the
10 25-to-34-year-old cohort working its way down. So
11 obviously, there has been some job creation at that
12 point in the population. Then at the same time,
13 you still have a fair amount of 25-to-34-year-olds
14 living at home, so the thought being there that
15 there should be pent-up demand for housing, and we
16 would expect to see that come through.

17 And then when you flip to the next page, we
18 generally had seen that with existing home sales.
19 Now, what we did see is that toward the latter part
20 of last year between seasonal effects and then
21 earlier this year with the rough winter we went
22 through, home sales have definitely slowed down a
23 little bit, and it was a function of a couple of
24 things.

25 We had a very aggressive year-over-year

1 increase in housing prices. If you look at things
2 like Case-Shiller -- we look at two different
3 pieces of it. If you look at the 20-City
4 Case-Shiller Index, I think that's up right now
5 about 12 percent and change year over year, and
6 that's driven by some of the cities in it that have
7 had some of the more aggressive appreciation. If
8 you look at their wider composite view, that's
9 about 10 percent year over year.

10 So once again, you see that housing prices
11 have been marching up over the course of the past
12 year, and we've seen that happen even in the
13 context of interest rates moving up. And I think
14 what's happening now is, between housing prices up
15 and interest rates up, what you'll see is really a
16 point in the market where it's trying to find an
17 equilibrium point.

18 So existing home sales definitely kind of
19 softened a little bit. But then over time, even
20 though it had started to turn back around, if you
21 look at some of the more recent trends for -- you
22 know, after you've come out of the winter this
23 year, it's starting to turn back up.

24 Then it just moves into how this kind of plays
25 in the market, a couple of things. On page 11, we

1 really give you a picture of agency pricing just to
2 give you a sense of what's going on in the rates
3 market. And I think you just had a very thorough
4 walk-through on rates, so I don't want to repeat a
5 lot of what has been going on there in terms of
6 what the Federated people walked you through.

7 My view on what's important in the agency
8 market -- and again, it's a driver of what's going
9 on in the non-agency market. I think in a lot of
10 ways, the agency market still feels almost priced
11 to perfection. We see agency spreads trading
12 almost at their all-time height. You know, there
13 was some technical print when QE3 was announced,
14 and spreads got very tight for a short period of
15 time. But if you take those out, I think it was
16 maybe five or ten basis points of the tightness in
17 the mortgage spread.

18 And then, you know, you'll look at that and
19 say, well, why is that the case? If people know
20 the Fed had been buying less with respect to their
21 tapering of both Treasuries and mortgage-backed,
22 you would expect to see maybe some softening in the
23 spread.

24 But the reality of it is, even though the Fed
25 has been less involved -- I think they're now down

1 to \$20 billion of mortgages a month -- they're
2 still reinvesting their runoff, which is about
3 another 20 billion of mortgages. And what we're
4 seeing is a lot of weakness in both gross supply
5 and net supply.

6 So if you go back and think about what we just
7 talked about with respect to the rate action and
8 what's happening with, you know, a little bit of
9 softness in home sales, but also with rates 100 to
10 150 basis points above their lows over the previous
11 year, there's not a big refi reaction happening.
12 So as a result, you just have a real slowdown in
13 origination.

14 We looked at some of these numbers, and I
15 think there was a trillion seven of mortgage
16 origination in 2006, and then there was about a
17 trillion seven -- I'm sorry, not '06. A trillion
18 seven in '12, and then I think there was about a
19 trillion six in '13. And right now, just through
20 the end of May, if you look at the numbers, I think
21 there has been about 330 billion of issuance. So
22 if you're trying to annualize it with respect to
23 mortgages just because of the seasonality, you
24 would see that we should be on track to have less
25 than a trillion dollars of issuance.

1 So you have softness in gross issuance, and at
2 the same time that there's softness in gross
3 issuance, with respect to net supply, the CMO
4 machine is still operating, so that's buying paper.
5 The Fed is still buying paper. So there's not a
6 lot of paper in the market. You said prepayments
7 are down, which they are, because of rates being
8 up, so as a result, you see a lot of tightness in
9 the agency market.

10 And to me, in a lot of ways, the market is
11 kind of priced to perfection, so you have to just
12 always be careful of what could really drive
13 spreads wider or drive rates up. And I know you
14 guys spent a lot of time with rates. I think from
15 my perspective, with respect to the spread, to the
16 extent you have something that's geopolitical that
17 could really cause rates to rally dramatically,
18 then you could end up in a situation where you have
19 kind of 4 percent start rate on a mortgage or, you
20 know, a current coupon rate, and then that could
21 help spur production again. And if production gets
22 spurred again and people get concerned about a refi
23 wave coming through, you could see some spread
24 widening. But right now we don't see that being
25 the case, but obviously we'll keep our eye very

1 carefully on what's going on in the rates market
2 and try to hedge our exposures in the agency
3 market.

4 And what does this mean for you? I know you
5 guys don't have an agency exposure, but I think
6 it's good to help frame spreads in the context of
7 agencies, which is more liquid product. But if you
8 flip the page and you look at page 12, this is a
9 familiar picture that we go over all the time with
10 you guys, and this gives you a sense of the price
11 action in the ABX 06 AAA bond, 06-2 AAA. And
12 that's the green line, and it continues to rally
13 up.

14 And again, this picture is kind of at the end
15 of the first quarter. If you were to add in the
16 more recent trend, you would see that we're pretty
17 close to almost an \$80 price on that index.

18 You know, it's a derivative that is closest,
19 we think, in line with some of the paper that you
20 guys own, and we watch it with respect to the paper
21 we own in our REIT, not as any type of leading
22 indicator, but more to just give you a sense of
23 where have prices been and where could they go.
24 And we always like to kind of show it in the
25 context of where the S&P 500 is moving, which is

1 the blue line. Again, it just tends to be a view
2 of what people's expectations are around risk and
3 risk aversion or risk appetite.

4 And right now, just again looking at the
5 supply that's out there, there was about a billion
6 price pool that came out of the GSEs the past
7 couple of weeks that was very well spoken for. But
8 we see stuff pricing, again, paper that we look at
9 for our REIT, very close to a 3% to 4 percent
10 yield. You know, occasionally we can see something
11 maybe a little bit north of 4. The better quality
12 paper, the seasoned jumbo and really clean all day,
13 trading at yields inside of that, you know, stuff
14 that you can have a handle on it. The paper that
15 comes out of the GSEs, again, they're not trading
16 on a dollar price anymore, but all trading on
17 spread, which is consistent with a healthy market.

18 So I think that notwithstanding some of the
19 selling that we've seen from some of the hedge
20 funds that they're rolling out of the paper and
21 taking profit, you'll still see spreads hanging in
22 there. The banking community is very supportive of
23 the space. There is a lot of repo availability
24 from the global banks, both with respect to advance
25 rates that they show out, length of tenor of the

1 facilities that they will offer, as well as margin
2 requirements. So still a lot of availability for
3 liquidity in this space, a lot of buyers flocking
4 to the space still.

5 The home loan market again is not a market you
6 guys have been involved in, but just another piece
7 of the market just to talk about for a second,
8 incredibly stressed levels of paper that's trading
9 on the home loan market. HUD just had a big
10 auction that was literally a \$4 billion offering of
11 a series of, I think, about 20 different pools. I
12 think there were between 20 and 30 bidders
13 aggressively bidding that paper.

14 And our view is that it traded somewhere in
15 the mid to upper 70s of BPO value, broker price
16 opinion of the underlying collateral, which would
17 imply roughly bid single digit best case. And
18 again, that implies a pretty rosy view of housing
19 on a go-forward basis, as well as the ability to
20 procure loans that are delinquent and potentially
21 reoffer those into an equally frothy reperforming
22 market which is essentially bootstrapped to the
23 market we just talked about, the non-agency
24 securitization market.

25 So our view is that throughout the market,

1 everything is very much priced to perfection.
2 Spreads are tight. There doesn't seem to be a
3 reason that we can see anytime in the near future
4 where we could expect there to be something that
5 would upset the market, spreads to widen, something
6 go wrong, which tells us we're being fairly
7 cautious in terms of where we're adding paper, try
8 to spend more time working on some new origination
9 mandates for our business as a way to add risk
10 without getting into chasing markets that seem to
11 be rising a little bit too quickly.

12 I think from your perspective, in terms of
13 looking to pare down risk, it's a great market to
14 continue to do that. I think you'll continue to
15 see good results from Charlie and from Dan when
16 they put the offerings in the market. So I would
17 say you want to stay the course and continue to be
18 a seller and take gains where you can.

19 And with that, those are my prepared remarks.
20 I'm happy to take any questions if you guys have
21 any.

22 MR. PETTINATO: Does anybody have any
23 questions for Michael?

24 Michael, thank you. And I will start --

25 MR. COMMARATO: Thank you.

1 MR. PETTINATO: If we go to the next slide,
2 this is the Fund B securities as of 4/30. It's a
3 little bit dated because we've been doing some
4 selling in the last six weeks. So right now, I
5 would just tell you the Fund B part is at about
6 \$68 million with a market value of \$55 million.

7 If we go to the next slide, you can see
8 Florida East in April was nine securities. We've
9 since then sold five more, so that's down to four
10 securities.

11 Florida Funding I had 14 securities in April.
12 We have since sold all 14, and now Florida Funding
13 I is essentially just sitting in cash right now
14 with a reserve to be shut down.

15 Florida Funding II, nothing much there. We
16 still have about 129 securities.

17 Florida West, we've sold nine securities since
18 April, and last week we sold one more, so that's
19 down to 20 bonds left in the portfolio.

20 The last slide, which I know Ash refers to a
21 lot -- it's one of his favorite ones. We can take
22 a look at where we stand as far as recovery to the
23 participant balance, and you can see the -- this
24 includes the May -- I'm sorry, the June payment of
25 25.7 million. So you can see the participant

1 principal balance is just under \$31 million.

2 Market value, like I said, is 55 million.

3 For the most part -- actually, we haven't done
4 a BWIC yet where we received -- when we put out the
5 bonds to market where we received less than the
6 marks. If we have received less than the marks, we
7 assessed the value of the bond, and we decided to
8 hold every single one in the past auctions. So
9 there have been a couple of auctions that we've
10 held where we haven't sold the bonds, but we still
11 feel very comfortable that we can continue to
12 manage this process going forward, and we should be
13 able to, hopefully, if the market cooperates, get
14 Fund B closed as soon as possible.

15 MR. WILLIAMS: Thank you very much, Charlie.
16 Any questions or comments?

17 Thank you. Again, I want to just commend the
18 tag team.

19 MR. NEWMAN: Which definition did you use for
20 soon? Six months or six days or six years?

21 MR. WILLIAMS: I think what we're operating
22 under is the view that this will be calendar year
23 '14, and my guess would be Q4, potentially the
24 first half of Q4.

25 MR. PETTINATO: That's the goal. And assuming

1 the market cooperates -- you know, now we're into
2 the summer months. And we saw this last year when
3 we were selling. We sold heavily from March until
4 May. The market kind of flattened out, not much
5 interest in the summer months. We picked it up
6 again in September through the end of December.

7 Just in total, we've sold since March of last
8 year \$605 million of assets at about a \$74 price,
9 and Fund B's portion of that is \$177 million. So
10 we'll continue to keep doing that.

11 MR. NEWMAN: Thank you.

12 MR. PETTINATO: You're welcome.

13 MR. WILLIAMS: It's all about supplying the
14 appetites of those who are willing to take more
15 risk in a search for yield, and we're happy to give
16 them that opportunity.

17 All right. Well, again, I just want to
18 commend the effective relationships that we've had
19 with Apollo and Federated. They've served the
20 interests of Pool B investors and Florida PRIME
21 investors very, very effectively over an extended
22 period of time.

23 Let's then move on to Item F.

24 MR. CUMMINGS: Sorry to interrupt. We
25 actually inadvertently skipped over the best

1 practices report. Maybe before that we can --

2 MR. WILLIAMS: Sorry about that.

3 MS. DOYLE: That's okay.

4 MR. WILLIAMS: Kristen, fire at will.

5 MS. DOYLE: Okay. John is going to get me
6 back to the slides on the best practices review.

7 One of the other Florida Statutes stipulates
8 that an annual best practices review needs to be
9 completed reviewing the Investment Policy Statement
10 and the management operations of the Florida PRIME
11 pool to ensure that it is being managed according
12 to best practices. So this is the sixth time we've
13 done this review and the sixth time that we have
14 concluded that in fact Florida PRIME is being
15 managed according to best practices.

16 There's a longer report in your materials.
17 I'm just going to summarize some of the conclusions
18 from it.

19 So in our report, we provide an update on the
20 additional enhancements that continue to be made to
21 the pool, so two notable enhancements that have
22 been made over the past year include automatic
23 notifications to participants when they make a
24 transaction online. So this does two things: One,
25 it gives them comfort that their transaction went

1 through; and number two, it helps to monitor
2 unauthorized transactions.

3 And then secondly, the website enhancements,
4 so if you go to the website, it looks a lot
5 different than it has in the past. It's much more
6 user friendly, and it's also now accessible via an
7 iPhone or a tablet, so two direct impacts to
8 participants.

9 We also reviewed the Investment Policy
10 Statement. We did not have any recommendations
11 this time around on any changes to the Investment
12 Policy Statement. It continues to have all the
13 relevant areas and topics that it needs to address.

14 And then on page 12 of our report, we have a
15 more comprehensive peer analysis than we've done in
16 the past, so we looked at Florida PRIME relative to
17 other short-term bond funds that are available to
18 local governments in Florida. If you look at the
19 chart in the report at your leisure, you'll notice
20 that Florida PRIME is clearly the largest pool,
21 both by assets and number of investors.

22 And it has clearly, as I mentioned before, the
23 lowest fees. The fees on the Florida PRIME pool
24 are about three basis points. The next pool that
25 has the lowest fee is 11 basis points, so it's

1 almost four times less expensive than the other
2 pools in the State of Florida.

3 There are some things that Florida PRIME is
4 doing that's very much in line with what the other
5 pools are doing, using an external investment
6 manager, having similar investment objectives.
7 Offering one fund option is very common in the
8 State of Florida.

9 But another thing to point out is that while
10 we know that Florida PRIME is not a registered 2a-7
11 money market fund, the fact that the staff here and
12 Federated, along with us at HEK, are so closely
13 following what's happening with registered 2a-7
14 money market funds and the regulations around those
15 funds just adds another layer of sophistication to
16 managing the pool.

17 So lastly, just two recommendations. These
18 things are both already in place, so obviously
19 continuing to stay apprised of what's happening
20 with 2a-7 regulations. And our report provides an
21 overview of what's going on there, very similar to
22 what Debbie Cunningham mentioned in her report in
23 terms of the additional regulations that we may
24 see.

25 And then secondly, we did do another review of

1 whether it makes sense to add another pool. So
2 this is something that we talked about back in
3 2011. It came up again with regard to the
4 participant plan survey.

5 We just don't see -- there's two main reasons
6 that we would suggest postponing moving forward on
7 offering another fund. Number one, the market
8 environment, so offering a lower risk, lower return
9 fund is probably not going to get much traction.
10 Offering a higher risk, higher return fund may.
11 However, then if we see rates rise, there could be
12 principal decline, and that could be something that
13 would not be a good experience for participants.
14 So that's one reason. The second reason is that
15 there's just not a whole lot of interest from the
16 participants for a second pool.

17 So I'm happy to answer any questions on
18 anything that I just mentioned or anything in our
19 report.

20 MR. WILLIAMS: Thank you, Kristen. Any
21 questions? Does anyone on the phone have
22 questions?

23 Thank you very much. And again, apologies for
24 the error there.

25 All right. Why don't we move on into Item F,

1 and Kristin just framed it up, which is the review
2 of Florida PRIME and Fund B Surplus Funds Trust
3 Fund Investment Policy Statements.

4 And basically, per Kristin's comments, we do
5 not feel the need to do any update to the
6 Investment Policy Statement for Florida PRIME at
7 this point. You'll remember we did some fairly
8 extensive updating to it in the past year or two in
9 which we adopted a lot of the SEC 2a-7 like
10 standards. As Debbie pointed out, that will be in
11 orbit for the foreseeable future. But we're
12 current there and would see no need to make any
13 further changes there.

14 With respect to Fund B, the only change there
15 would be to update the reference to the asset
16 management firm that's involved in handling Fund B.
17 That, of course, is to cover Apollo. So perhaps
18 the way we should do this would be to go ahead and
19 have a motion on those two areas, on those two
20 policy statements, to leave the one for Florida
21 PRIME untouched and to simply have the adoption of
22 the update on the asset manager referenced in the
23 policy statement for Fund B.

24 So if we could have a motion on those two,
25 that would be helpful.

1 MS. HEFFNER: So moved.

2 MR. WILLIAMS: Is there a second?

3 MR. WENDT: Second.

4 MR. WILLIAMS: Thank you. Any discussion?

5 Any objection?

6 Without objection, thank you very much.

7 That then brings us to Item G, open agenda
8 items, audience comments. Do we have any comments
9 or questions, or anyone from the audience who would
10 like to be heard, or anyone on the phone who has
11 anything to offer?

12 Hearing none, I think we can move to
13 adjournment. Without objection, we're adjourned.

14 (Proceedings concluded at 11:55 a.m.)
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1 CERTIFICATE OF REPORTER

2
3 STATE OF FLORIDA:

4 COUNTY OF LEON:

5 I, MARY ALLEN NEEL, Registered Professional
6 Reporter, do hereby certify that the foregoing
7 proceedings were taken before me at the time and place
8 therein designated; that my shorthand notes were
9 thereafter translated under my supervision; and the
10 foregoing pages numbered 1 through 55 are a true and
11 correct record of the aforesaid proceedings.

12 I FURTHER CERTIFY that I am not a relative,
13 employee, attorney or counsel of any of the parties, nor
14 relative or employee of such attorney or counsel, or
15 financially interested in the foregoing action.

16 DATED THIS 7th day of July, 2014.
17
18

19 _____
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**MINUTES
INVESTMENT ADVISORY COUNCIL
June 16, 2014**

A meeting of the Investment Advisory Council (IAC) was held on Monday, June 16, 2014, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the June 16, 2014 meeting is hereby incorporated into these minutes by this reference.

Members Present: Les Daniels, Chair
Chuck Cobb, Vice Chair (via telephone)
Peter Collins
MaryEllen Elia
Martin Garcia
Will Harrell
Chuck Newman
Gary Wendt

SBA Employees: Ash Williams
Lamar Taylor
John Benton
Trent Webster
John Bradley
Katy Wojciechowski
Steve Spook
Scott Seery
Joan Haseman

Consultants: Steve Cummings, Hewitt EnnisKnupp
Kristen Doyle, Hewitt EnnisKnupp
Margo Doyle, Cambridge Associates
Liqian Ma, Cambridge Associates
Dan Aylott, Cambridge Associates

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES

Mr. Les Daniels, Chair, called the meeting to order at 12:30 P.M. and asked for a motion to approve the minutes from the March 17, 2014 meeting. Mr. Collins made a motion to approve the minutes. The motion was seconded by Ms. Elia and passed without objection.

OPENING REMARKS/REPORTS

Mr. Ash Williams, Executive Director and Chief Investment Officer, provided an overview of the SBA's performance and market factors. Mr. Williams brought the draft of proposed standing agenda items to the attention of the IAC members to see whether they were in agreement that this was a good baseline for fiscal year 2014-15 IAC meetings. Questions from the IAC were answered. Ms. Elia requested that Mr. Williams provide his performance overview to the members in writing in the future. Mr. Williams responded that he would do so.

PRIVATE EQUITY ASSET CLASS REVIEW

Mr. John Bradley, Co-Senior Investment Officer – Strategic Investments and Private Equity, provided a summary of the asset class review before the presentation began, explaining which topics he would cover and which topics would be covered by their consultant, Cambridge Associates.

Ms. Margo Doyle, Cambridge Associates, discussed the performance of private equity markets. Mr. Dan Aylott, Cambridge Associates, compared the U.S. to Europe, discussing purchase price multiples and leverage multiples. Mr. Aylott also discussed the debt market. Mr. Liqian Ma, Cambridge Associates, presented information on the exit environment of private equity, including distributions, M&A activity and IPOs. Ms. Doyle discussed the venture capital market and explained the parameters which make it compelling in their view. Mr. Ma talked about the historical performance of the private equity portfolio. Questions from IAC members were posed and were answered by Cambridge Associates consultants as well as by SBA staff. There was a discussion about pre-'99 and post-'99 investments and reporting. Mr. Aylott continued his presentation by providing details on the current status of the SBA private equity program. Additional questions were answered. To conclude their presentation, Ms. Doyle referred to a time line which shows where Cambridge Associates thinks the private equity program will go moving forward. Questions about the program from IAC members were answered by Cambridge Associates consultants as well as by SBA staff.

Mr. Bradley provided an overview of the Private Equity asset class which included the following: a brief history, the target allocation, the allocation range, the current allocation, current staffing, primary and secondary benchmarks and asset class goals/objectives. He elaborated on the investment process the asset class follows which includes: producing an annual investment plan, sourcing, due diligence and monitoring. Mr. Bradley discussed the five sub-strategies within the portfolio which included buyout, venture capital, growth equity, distressed and secondary. Questions from IAC members were answered throughout the presentation.

ASSET CLASS SIO AND DC PROGRAM UPDATE AND PERFORMANCE REVIEWS

Mr. Scott Seery, Senior Investment Officer – Global Equity, provided an overview of the global equity market environment and a market outlook from the first quarter of 2014 and discussed the asset class performance. Mr. Seery also presented a brief summary of Global Equity major initiatives and reminded the council that the asset class provides significant liquidity in order to meet benefit payments.

Ms. Katy Wojciechowski, Senior Investment Officer – Fixed Income, provided an overview of returns for Fixed Income and discussed risk, growth and security selection. A question from the IAC was answered. Mr. Ash Williams commented on the terrific job being done by Ms. Wojciechowski and her team after the departure of a key staff member.

Mr. Steve Spook, Senior Investment Officer – Real Estate, provided an overview of the Real Estate portfolio performance and discussed highlights of the portfolio, including the recent target allocation increase, using a five-year pacing model, core investments, non-core investments, REIT and agriculture portfolios, and build-to-core projects. He provided property and market highlights for six properties. Mr. Spook elaborated on Real Estate activity (acquisition/commitment) calendar year-to-date and also discussed expectations for U.S. real estate markets in 2014. Questions from the IAC members were answered by SBA staff throughout the presentation.

Mr. Trent Webster, Co-Senior Investment Officer – Strategic Investments and Private Equity, provided an overview of the Strategic Investments asset class which included policy objectives, current portfolio weights, performance, first quarter activity, recent initiatives and market opportunities. Mr. Webster was asked for a more in-depth definition of global macro managers, and he provided an explanation of global macro trading.

Ms. Joan Haseman, Director of Administration – Defined Contribution Programs, provided an update on the Investment Plan. She presented current information on the FRS Financial Guidance Program usage and an update on the transition to the new fund lineup effective July 1, 2014. Ms. Haseman discussed the FRS retirement date fund investment manager allocations and provided the council with a 2014 targeted education program fund lineup calendar.

Ms. Kristen Doyle, Hewitt EnnisKnupp, provided a brief overview of the SBA's major mandates performance. Questions from IAC members were answered by Ms. Doyle and by SBA staff.

AUDIENCE COMMENTS/2014 SCHEDULED MEETINGS/CLOSING REMARKS/ADJOURN

Mr. Les Daniels, Chair, asked if there were any questions or any audience comments. There being none, he asked for a motion to adjourn. Mr. Collins made the motion to adjourn. The motion was seconded by Mr. Newman. The meeting adjourned at 2:50 P.M.



Les Daniels, Chair

9/4/2014

Date

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

MONDAY, JUNE 16, 2014
12:30 P.M. - 2:50 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

REPORTED BY: JO LANGSTON
Registered Professional Reporter

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APPEARANCES

IAC MEMBERS:

LES DANIELS
MARTIN GARCIA
CHUCK NEWMAN
CHUCK COBB (via telephone)
GARY WENDT
WILL HARRELL
MARYELLEN ELIA
PETER COLLINS

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR
JOHN BENTON
LAMAR TAYLOR
TRENT WEBSTER
JOHN BRADLEY
KATY WOJCIECHOWSKI
STEVE SPOOK
SCOTT SEERY
JOAN HASEMAN

CONSULTANTS:

KRISTEN DOYLE - (Hewitt EnnisKnupp)
STEVE CUMMINGS - (Hewitt EnnisKnupp)
MARGO DOYLE - (Cambridge Associates)
LIQIAN MA - (Cambridge Associates)
DAN AYLOTT - (Cambridge Associates)

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1 INVESTMENT ADVISORY COUNCIL MEETING

2 * * *

3 MR. DANIELS: Let's call the Investment Advisory
4 Council meeting to order. I would like to ask for a
5 motion to approve the minutes.

6 MR. COLLINS: Motion.

7 MS. ELIA: Second.

8 MR. DANIELS: Any discussion? Any objection?
9 Motion passes. Ash.

10 MR. WILLIAMS: Thank you, Mr. Chairman. A couple
11 of things. First of all, in terms of overall
12 performance through the close on 13 June, the fiscal
13 year is shaping up to be a good one. The fund, as of
14 the close on 13 June, was up 16.29 percent fiscal year
15 to date. That's 36 basis points ahead of target.
16 Leaves the fund at \$148.5 billion. This is the Florida
17 Retirement System Trust Fund. That's \$16.1 billion
18 ahead of where we started the fiscal year, and that's
19 net of \$8 billion in distributions. So that would, of
20 course, be an overall gain of 24.1 billion on the
21 investment side.

22 What's interesting is, if I look at the numbers
23 broken down by asset class, looking at the performance,
24 performance relative to the benchmark and then roll it
25 out on the total fund basis, on a fiscal year to date

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1 series versus calendar '13 series, something kind of
2 jumps out. And what jumps out is that where we're able
3 to put distance between our actual performance and the
4 benchmarks is evolving.

5 If we look at calendar '13, global equity had a
6 huge outperformance to its benchmark, 155 basis points.
7 If we look at the fiscal year to date, it's pretty much
8 flat. And that's not because the global equity team
9 forgot how to do their jobs overnight. It's because
10 the markets have caught up, and the ability to add
11 value through active management has become much, much
12 tougher because of the way global equity prices have
13 run. So we're just getting the beta return, which
14 frankly has been great. We have no complaint with
15 that.

16 I mean, if we look at global equity's performance
17 over the fiscal year, it's 22 percent, over 22 percent.
18 So it's great, but it's pretty heavily beta exposure.
19 Then if we look at some of the other areas, like fixed
20 income, there's 50 basis points of outperformance in
21 fixed income, which is positive for the whole period.
22 And then we see larger amounts of outperformance to
23 benchmarks, 280 basis points in real estate, 248 or
24 399, depending on which primary or secondary target
25 you're looking at, in private equity and -- or I'm

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1 sorry, 248 in strategic and 399 in private equity.

2 So the diversification of being in these different
3 areas I think is showing its worth, and just hope we
4 can get to the fiscal year end with things intact,
5 which in turn should give wing to some improvement in
6 actuarial funding status when that work is done in Q4.

7 So unless there are questions on performance, I
8 would draw your attention to Tab 3-B, in which we have
9 a draft proposed set of standing agenda items. And
10 what we've tried to do here -- and this really stems
11 out of some work we did with Martin back in January of
12 last year. We tried to look at the different areas
13 that we cover and rationally spread those across the
14 four quarters so that we make sure, over the course of
15 each year, the IAC touches on all these various areas.

16 This is very similar to what we adopted back at
17 the beginning of '13, and just wanted to bring this
18 forward again and take your temperature on this. And
19 of course the IAC is fully able to change course any
20 time it chooses, but just have an overall guideline to
21 try and keep our bases covered. We thought this would
22 be a good one.

23 MR. COLLINS: So, Mr. Chairman, can I ask a
24 question?

25 Ash, so you're saying this starts September --

1 this September box that's in here is the next meeting
2 that we would have, and this is what we're going to
3 cover. So June is next -- a year from June.

4 MR. WILLIAMS: Yes.

5 MR. COLLINS: A year from now.

6 MR. WILLIAMS: Correct. And June is always the
7 meeting that's the joint meeting between the IAC and
8 the PLGAC, and there are certain statutory things that
9 have to be accomplished there. John, any other color
10 on what we're trying to do here?

11 MR. BENTON: No, not at this time.

12 MR. COLLINS: Is there a reason why you picked
13 this sort of subset of topics at the different
14 meetings, or you just took our list and sort of spread
15 it out?

16 MR. WILLIAMS: A little bit of both, a little bit
17 both. Some of it is driven by the natural timing of
18 when we do things. Some of it is driven by certain
19 statutory prompts of one kind or another. And the rest
20 was just, okay, we have some space, let's put it here.
21 So it's not set in stone. The idea is just have an
22 overall guideline so that we can keep the bases
23 covered.

24 If anybody has a comment -- if you're happy with
25 it, we'll use it as a baseline. And what we always do

1 is work with the chair to do agendas for individual
2 meetings.

3 MR. DANIELS: Any further discussion?

4 MR. COLLINS: Just one more question. On your
5 December meeting, number four, the public markets, so
6 you're covering equities and the debt and bonds there?

7 MR. WILLIAMS: Correct.

8 MR. COLLINS: Looks good to me. Thank you,
9 Mr. Chair.

10 MS. ELIA: I have one question. Ash, a few
11 moments ago you went through some of -- kind of the
12 update of where we are right now. In the future, could
13 you have that in writing for us?

14 MR. WILLIAMS: Sure.

15 MS. ELIA: It's just helpful. Thank you.

16 MR. WILLIAMS: Certainly.

17 MS. ELIA: If it needs approval, I'm willing to
18 approve this. Do we need that?

19 MR. DANIELS: I don't think so.

20 MS. ELIA: It can change anyway, right? When will
21 we have the dates for each of the meetings?

22 MR. WILLIAMS: We generally do those --

23 MR. DANIELS: They're in the back of the book.

24 MR. WILLIAMS: And we try to set them a year in
25 advance, pretty much. So the only other thing I had,

1 Mr. Chair, is that format-wise today we've tried to
2 accomplish something that you've all expressed a
3 preference for, which is, as we roll through the asset
4 class reviews, we're going to have each of the SBA
5 senior investment officers take a lead on those, give a
6 quick summary on where they are, run through a couple
7 of slides.

8 And to the extent we have a deeper dive on some
9 areas, private equity being the key one today, then
10 we'll have the requisite consultants present. We also
11 have one in the DC area today. So with that, shall we
12 move on --

13 MR. DANIELS: Yes.

14 MR. WILLIAMS: -- to the private equity?

15 MR. DANIELS: John Bradley, would you start,
16 please?

17 MR. BRADLEY: Thank you. Good afternoon. I'm
18 John Bradley, one of the senior investment officers in
19 strategic investments and private equity, where my
20 focus is on the private equity asset class. Before we
21 begin, I thought it would be helpful to set the stage
22 for what we're going to cover today in a review. And
23 since this is the first time for many of you to sit
24 through such a review, we plan to take a deeper dive
25 and discuss not only our performance and new

1 initiatives, but I thought it would be interesting and
2 helpful to talk through our investment process or how
3 we plan, source and manage our program.

4 So we're going to start today with our consultant,
5 Cambridge Associates. They're going to present an
6 overview of the private equity market and our asset
7 class performance from a program level. I will then
8 take over and walk through our investment process.
9 We'll discuss our allocations by sub-strategy, sector
10 and geography, our performance at the sub-strategy
11 level, as well as any new initiatives for the programs.
12 So with that, I'll now turn it over to our consultants,
13 Margo Doyle, Liqian Ma, Dan Aylott, from Cambridge.

14 MS. DOYLE: Hi, everyone. I'm Margo Doyle from
15 Cambridge Associates. As John said, we're joined by
16 two of my colleagues that make up part of a very large
17 team of us from Cambridge that work with you across
18 your alternatives portfolio. Liqian, Dan and I focus
19 our time on your private and also work with Trent and
20 his team on the strategic investments that are in the
21 private markets.

22 So as John said, we wanted to give you some sense
23 of the market that we're dealing with on the private
24 side. And as Ash was commenting as well, we all know
25 that the public markets have been on quite a tear. And

1 the private markets need to try to work within the
2 parameters of that public market. So if we can flip
3 you to page two of our materials, which I pulled out of
4 my book, so I think they were behind Tab 3-C.

5 MR. BRADLEY: And in your books, the presentations
6 are flipped. So if you flip about ten pages past the
7 green --

8 MS. DOYLE: Behind the green sheet behind 3-C. So
9 if you go to page two of this set of materials, what we
10 provide here for you is a look at how the private
11 markets have performed against some public benchmarks.
12 And for visual assistance, the green lines are the
13 public markets and the blue lines are the private
14 markets.

15 And you can see that in the near term, three and
16 five years, the top two areas, it's been very
17 challenging for the private returns to keep up with the
18 public markets. The public markets have been quite
19 strong. Although I think people might not realize that
20 actually those blue bars have accelerated quite a bit
21 to become almost on par over these time periods with
22 some of the green bars.

23 But it's really when you look down over the longer
24 time periods, 10 and 15 years below, that you can see
25 that there continues to be outperformance of the

1 private asset class. And the reason that we spend time
2 looking at these numbers is because we want to make
3 sure that it's still prudent to have part of a
4 portfolio invested in the private markets.

5 And we very much believe that there continues to
6 be the opportunity for outsized returns over a long
7 period of time in the private markets over the publics.
8 And so from a diversification standpoint, it makes
9 sense to have this asset class in your portfolio.

10 I was going to turn now to the next page to talk a
11 little bit more about the buyout in private equity
12 markets in particular. So you'll hear us make
13 reference to some of the different subsectors. So now
14 we're looking at some of the larger deals on companies
15 that have revenues --

16 MR. COLLINS: Can I ask a question real quick?
17 Are those return net of fees?

18 MS. DOYLE: These are all net of fees, yes.

19 MR. COLLINS: Okay. Thanks.

20 MS. DOYLE: So we move to page three here. We're
21 now talking about companies that have real revenues,
22 usually are profitable at the time of an investment
23 from the private managers. And what you can see is
24 that this trend line, the right-hand side of the page
25 is since the recovery of the financial crisis. These

1 multiples have been moving up rather steadily. So
2 these are your purchase price multiples in the green
3 and the leverage that these companies have been using
4 in those deals.

5 So it's been a very strong market. On the
6 positive side for you, your companies that were already
7 in the market here have been getting capital back to
8 you as a result of these strong elements of the market.
9 What we look for, and John will go through the process,
10 but when we evaluate managers to invest in now, we're
11 looking for people who understand how to invest in a
12 market like this. Where prices are high, they're going
13 to be cautious about the amount of leverage that's put
14 on the companies, folks who have real operating
15 expertise to understand the businesses that they're
16 buying.

17 Turn the page. I'll spend just a moment on one
18 more element here, and then we're going to share the
19 rest of these slides. So on the next page, again,
20 staying within the leveraged buyout arena, on the
21 left-hand side, you can see the size of the deals have
22 accelerated again. Now, these bars can be a bit
23 misleading because single deals can really have an
24 impact on them. But the trend line clearly shows what
25 has occurred. And there was a ramp-up pre the

1 financial crisis in the size of the transactions. A
2 lot of that was because of the amount of leverage that
3 was available for those deals. And we're seeing
4 somewhat of a similar trend now.

5 And similarly, when you see available leverage for
6 these deals, the equity contributions do tend to trail
7 down a bit, as we're seeing on the right-hand side of
8 that page. So again, at this stage in the buyout
9 market, we're cautious and we're looking for those high
10 quality elements that I went through for the manager.
11 We'll move now over into some of the U.S./European
12 comparisons.

13 MR. AYLOTT: Margo touched on a little bit of this
14 already, so we won't need to spend too much time. But
15 on the right-hand side of this chart here, you have a
16 comparison of purchase price multiples in Europe versus
17 the U.S. This is capital weighted data, so it's skewed
18 toward some of the larger transactions. And I think we
19 feel both in Europe and the U.S. there is better value
20 to be had lower down the food chain, in the mid and
21 lower mid market right now.

22 There is, as you can see -- a lot of our clients
23 have been asking us, are we back to a bubble. The
24 pre-crisis levels, as you can see, for the U.S.,
25 pricing is above the 2006 levels right now but haven't

1 quite reached that level in Europe. Indicative data
2 for 2014, though, does suggest that pricing is ticking
3 up in Europe as well, above those levels now. So it's
4 definitely something that we are watching.

5 If you turn to slide six, again, this just focuses
6 on leverage multiples, U.S. on the left, with Europe on
7 the right. And I think, again, in the U.S. the data
8 suggests that those multiples have risen back to above
9 pre-crisis levels, whereas in Europe they stayed a
10 little bit lower. I think a number of factors there.
11 I think the big deals in Europe just haven't been
12 there, and the banking market is more of a local
13 market, which lends itself more to smaller
14 transactions, which I think has helped to compress
15 multiples there.

16 And we think that in Europe, the evidence that
17 we've seen is that the managers there have been more
18 cautious to date, although the trend is still up and to
19 the right. So, again, something to be watching.

20 Slide seven just gives a little bit more color on
21 some of the characteristics of the debt market. And,
22 again, the data here is quite stark, in that the rise
23 in second lien loans to September 2013 has been quite
24 dramatic, as have the amount of covenant-lite loans
25 that have been available. And, again, this has been

1 driving some of the pricing.

2 I guess those managers that are using this market
3 well are using some covenant-lite structures to
4 insulate their portfolios against a potential
5 challenging period beyond 2013 and '14. So, again,
6 it's signs of a frothy market, but we're looking to
7 back managers that use it to their advantage.

8 MR. MA: I'll just spend a few minutes talking
9 about the exit environment of private equity currently.
10 As Margo and Dan both mentioned, you know, we look for
11 managers who can buy appropriately and be cautious in
12 this current environment of very expensive prices and
13 leverage multiples. But on the flip side, we also look
14 for managers who can take advantage of the current
15 environment and distribute capital back to LPs.

16 One of the fundamental characteristics of private
17 equity, as you may know, is make a commitment to
18 private equity, contribute the capital, have that
19 capital put to work over time and eventually receive
20 that capital back in the form of distributions.

21 And we see that on page eight here. Distributions
22 have reached record highs, meaning managers have taken
23 advantage of the easy credit environment that both
24 Margo and Dan have mentioned. So they're putting up
25 more leverage on the balance sheets, and basically

1 issuing dividends back to shareholders in the form of
2 distributions.

3 But they are also selling companies. So on the
4 next slide you can see that the M and A activity has
5 been picking up in the past few years. Even though the
6 number of transactions has stayed flat, if anything
7 decreased a little bit, in 2013, the amount paid or the
8 actual dollar amount of M and A activity has increased
9 in 2013 relative to 2012. Obviously, it's nowhere near
10 the pre-crisis 2006, 2007 levels, but we have seen in
11 the last few years pretty healthy M and A activity,
12 meaning large corporations, strategic investors buying
13 private equity backed companies.

14 And on the next slide, a similar story goes for
15 IPOs, so sort of the larger, more mature companies, but
16 the amount of capital that is being brought to the
17 public markets has also increased. You can see here a
18 big bump from 2012 to 2013, in terms of both amounts
19 raised in the equity markets as well as the number of
20 transactions. So I think looking at the current
21 environment, we are continuing to focus on managers who
22 can buy right but also to sell right.

23 MS. DOYLE: And so to look at the venture market
24 as well, obviously there's been a lot of press about
25 venture capital being a difficult place to invest. The

1 bulk of your portfolio is in the buyout market. And
2 because of the maturity of your portfolio, you've
3 benefited from this exit market that Liqian just went
4 through.

5 But in the venture side, there has also been
6 parameters that make this part of the market, in our
7 view, continue to be compelling. And I think we've
8 worked with John and his team to make sure that we're
9 sizing your exposure into venture appropriately. Given
10 the size of the program, clearly we cannot have any
11 kind of a majority target for this sector of the
12 market, but we do have a targeted 10 percent to venture
13 and believe that that can be a strong contributor to
14 your performance.

15 And so why is that, even though there's so much
16 press about venture being a difficult place to invest?
17 If you look on page 11 here, this shows you a long
18 snapshot of capital commitments to venture capital
19 funds. So these are the dollars that investors have
20 given to the managers to invest. And you can see that
21 after the first tech bubble in '99, 2000, there really
22 has been a rationalization of capital commitments to
23 these venture capital funds.

24 And as a result, we think that the supply/demand
25 balance within venture is much more stable. We think

1 that there's really a balance between the amount of
2 capital that new company formations need and the amount
3 of capital that's in the industry.

4 If you turn the page, though, there have been some
5 changes to the pricing that's happening within venture
6 capital. The brown bar at the top are later stage
7 deals. And these are the ones that you're reading
8 about in the newspapers. This is the Uber being priced
9 at \$18 billion or the WhatsApp getting bought at an
10 even larger astronomical valuation.

11 And even smaller things, companies that are still
12 in the creative stages getting priced in the several
13 hundred millions of dollars. Later stage is an area
14 that we're cautious about. But if you look at this
15 chart and look at all of the remaining subsectors of
16 venture capital, you actually see that first round, the
17 orange line, and the green line there, seed rounds have
18 actually trended down slightly.

19 So if when you talk with the managers they say
20 they're very comfortable backing these seed and first
21 round stages of the companies because they feel they're
22 getting in still at very fair prices, but they talk
23 about the technologies being that much stronger, the
24 ability to grow the companies with much less capital,
25 the quality of the management teams. A lot of these

1 management teams are now spinning out of the Googles
2 and the PayPals and Facebooks. So they've had
3 experience at some of these fast-growing companies.
4 There are really experienced managers coming out with
5 new ideas of how to evolve the market another step
6 further.

7 So we look again for managers who are cognizant of
8 this, what's happening in the market, and who can
9 rationalize where they're putting their capital, your
10 capital, in the market.

11 And then to round it out, what's happening on the
12 distribution side, on page 13, this chart shows you
13 what's happening in the IPO market for venture backed
14 companies. And you can see that thankfully there --
15 2014, just to be clear, is a year to date number.
16 There has been a return of the number of transactions
17 here in the marketplace. But, again, these are front
18 page news stories. And I know when I look at this
19 chart, I expect the numbers to be much higher, given
20 how much press it gets in the newspaper. Actually, the
21 distribution amount, it is strong and we're going to
22 benefit from it, but it doesn't feel topky yet, which
23 is nice. So we think that there's still a lot of
24 opportunity.

25 And we don't have the chart in here, but if you

1 look at the M and A transactions, again, a lot of the
2 tech companies have a lot of cash on their balance
3 sheets. And so they're doing big transactions and
4 acquiring companies. And oftentimes there's a big cash
5 component to those acquisitions. Again, that's dollars
6 back into your pocket right away.

7 MR. MA: If you turn to page 15, we'll spend a few
8 minutes talking about historical performance of the
9 portfolio. So if you look at page 15 here, the
10 headline here is, over the long-term we believe that
11 the private equity asset class is meeting its long-term
12 objectives. And what does that mean?

13 So we used here a public market benchmark of
14 Russell 3000, plus a liquidity premium of 300 basis
15 points. So that's incorporated in the benchmark
16 numbers already. That's the light blue bar on the
17 right. And we compare that benchmark with the
18 post-1999 asset class return. So that's basically when
19 the asset class was established.

20 And both in the last ten years and since
21 inception, the portfolio has outperformed that
22 benchmark, both on a cash, money-weighted basis as well
23 as a time-weighted basis. There are two commonly used
24 methodologies to calculate performance. I won't go
25 into details, but on both metrics, the private

1 portfolio has outperformed the publics.

2 And you can see here on both charts, in the last
3 three or five years, as Margo mentioned earlier, it has
4 been more challenged because the public markets have
5 been so strong, especially small cap equities. And the
6 Russell 3000 incorporates the Russell 2000, obviously.
7 So you will see some lag in the near term. But that is
8 in line with what we have seen across private
9 portfolios.

10 So on a relative basis, if you look at the next
11 page, page 16, this is looking at real portfolios that
12 we track, over 250 of them over the last ten years.
13 And what we have seen is that in all time periods,
14 going back ten years but also in the recent periods,
15 five, three and one, the post asset class returns of
16 the portfolio has ranked in the top quartile of those
17 real client portfolios.

18 And we do believe that the portfolio has benefited
19 from good decision-making earlier on in the 2000s, with
20 some very strong commitments to U.S. buyout managers as
21 well as distressed and secondaries, which I'll talk
22 about a little bit later. But in terms of relative
23 basis, these are very strong relative returns.

24 MR. WENDT: Excuse me. Question. This is the
25 world, not just our portfolio, correct? This is the

1 world of private equity?

2 MR. MA: So the top row here --

3 MR. WENDT: Page 15.

4 MR. MA: Page 16. Sorry.

5 MR. WENDT: Can we look at page 15?

6 MS. DOYLE: Sure.

7 MR. WENDT: Page 15, is that the world of private
8 equity or is it our portfolio?

9 MR. MA: This is our portfolio.

10 MS. DOYLE: The light blues, though, are the
11 public markets, with the premium. So all the other
12 numbers on this page are the Florida portfolio.

13 MR. WENDT: I would just like to look at the last
14 five years, if I could, for just a second.
15 Twenty-two percent is what one would have hoped to get
16 in the benchmark. A benchmark was set at 22, and
17 you've broken ours into three parts there. And it's
18 hard to tell what it really was, what it was really.
19 About 3 percent, 4 percent, do you guys know, 5? Some
20 of it was down and some of it was up, and we have no
21 idea how much is in each of those baskets, do we?

22 MS. DOYLE: 9.8 was your post-'99 portfolio.

23 MR. WENDT: Right. But we have legacy portfolio
24 and something called managed.

25 MR. MA: That's the total portfolio, including the

1 legacy.

2 MR. WENDT: So 7.8 versus 22. Now, tell me again
3 why that's good.

4 MR. MA: No. You're right.

5 MR. WENDT: You seemed to indicate it was very
6 good, and I looked at it and I said, I don't --

7 MS. DOYLE: The five-year return is a challenging
8 return.

9 MR. WENDT: You looked until you found a set of
10 years that work.

11 MS. DOYLE: It's not really that way. Privates
12 are not done cooking, if you will. The private
13 portfolio here, the 7.8, still has capital that is at
14 work on your behalf, still waiting for its exit. And
15 one of the things, despite all of the different ways
16 that people set their valuations, is that the private
17 market does typically lag the public market.

18 So as the public market accelerates, the private
19 guys accelerate but at a slower rate. As the public
20 markets tail off, you typically see the private guys
21 tail pretty quickly but slower on the outcome.

22 MR. WENDT: I do understand this market. I'm
23 sorry. And maybe that's why I'm cynical about some of
24 your conclusions here.

25 MS. DOYLE: No. We get it. And I think that's

1 why you don't have all of your portfolio in privates,
2 because it's important to be diversified across all of
3 the asset classes.

4 MR. WENDT: I kind of understand that. I'm sorry.
5 I'm going to stop now. I couldn't believe you just
6 said that last thing, that we shouldn't have all of our
7 portfolio in privates.

8 MS. DOYLE: That you should not?

9 MR. WENDT: That's what you just said.

10 MS. DOYLE: I don't think it would be prudent to
11 have your entire portfolio in the private markets,
12 although I still believe the private markets over the
13 long term will outperform.

14 MR. COLLINS: So can I ask a couple of questions
15 on that, to Mr. Wendt's point? So if I look at page
16 16, explain to me why we look at private equity here,
17 pre-'99 or legacy -- we have a legacy number, which
18 isn't too good. We dropped two or three quartiles.
19 And then we have a post-'99, you know, everybody has
20 been great category.

21 So if I look at the five-year performance on page
22 16, it says 10.8. Where is that number on page 15?

23 MR. BRADLEY: They're different dates, so 16 is as
24 of September 30. So in 16 we're comparing our
25 portfolio versus Cambridge's client portfolio, so the

1 other clients that they consult for.

2 MR. COLLINS: So that's not the world we're
3 comparing, just Cambridge?

4 MR. BRADLEY: Just Cambridge's clients, correct.
5 Whereas the page before, page 15, is as of
6 December 31st. So to answer your question, for the
7 post and legacy portfolio, so the delineation is when
8 the asset class was created. So in 1989 was the first
9 private equity investment. From '89 to '99, it was a
10 sub-strategy within domestic equities.

11 MR. COLLINS: But they're still private equity.

12 MR. BRADLEY: Correct. It was still private
13 equity. In '99 it was determined that private equity
14 was actually a program. So it benefited from a
15 full-time staff, a full-time consultant, and a
16 full-time view as to how you should properly invest in
17 it. And so at the time the asset class was created --

18 MR. COLLINS: So we were just out throwing darts
19 in '89 to '99?

20 MR. BRADLEY: I wasn't here at that time, so I
21 couldn't tell you.

22 MR. COLLINS: I was here a couple of years.

23 MR. BRADLEY: I guess what we could point to is a
24 difference in performance. So we could see what the
25 program aspect of what we've done in the asset class

1 over the last 14 years, how that performance has
2 compared to when it was a sub-strategy of domestic
3 equity. And if we look through pacing, over those ten
4 years, there wasn't a consistent -- so they didn't
5 invest every year in private equity. It was, it looked
6 good in this year, let's do some private equity funds.
7 There might be three years that went by. Hey, let's do
8 another private equity fund.

9 I think what we'll show is that the portfolio
10 needs diversification by vintage year. You can't
11 properly cull the market at any specific point in time.

12 MR. COLLINS: And I don't think any of us wouldn't
13 agree with you. I just don't like having a lot of
14 caveats about our returns. Here's the number, but --

15 MR. BRADLEY: I think the other thing, too,
16 though, for the IAC, is the question of how are we
17 doing and what's the structure that we're investing our
18 program. It helps to look at, well, how have we
19 managed it. And we have a 14-year track record as a
20 asset class to look at. And if we put that together,
21 absolutely, you would look at these numbers and say,
22 why are you doing private equity.

23 MR. COLLINS: So to my point, I guess, and to
24 that, let's either put it together and call it what it
25 is and live with the fact that we're not super first

1 quartile people, or let's just stop reporting about
2 legacy. If we don't like it and if it's got something
3 bad, we don't want to touch it, let's just move it
4 somewhere.

5 MR. BRADLEY: Second that vote.

6 MR. COLLINS: Right? And then we can have a
7 conversation that we're really looking at numbers that
8 everybody can get behind and go, yeah, this is
9 what we should be looking at. I don't know where you
10 put those numbers, you know, in the context of
11 historical returns for the entire fund. You can't make
12 them disappear but --

13 MR. BRADLEY: Yeah. I think they need to be in
14 there because that is the history of --

15 MR. COLLINS: So then let's look at it together
16 and let's just say, you know what? We're not first
17 quartile.

18 MR. BRADLEY: But, again, I think for the purpose
19 of how have we done and do we need to change our
20 philosophy in investing, where we're investing, it
21 helps to break that off and say we've been doing this
22 for close to 15 years and it's been successful under
23 this format.

24 MR. HARRELL: Actually I had Peter's question as
25 well coming into today. But since he asked it, I'd

1 like to follow up with a different one. My
2 understanding is that maybe one of the most important
3 drivers for your performance of any given private
4 equity investment is probably the year in which it's
5 made.

6 MR. COLLINS: Vintage.

7 MR. HARRELL: Yeah. If you had some private
8 equity investment fund that, say, had invested all of
9 its money in 1999, that probably turned out pretty
10 badly. If they invested all their money in 2002, I'm
11 guessing that probably turned out pretty well. Am I
12 roughly in the right?

13 So that being the case, it seems to me that if our
14 benchmark, which I assume is a whole bunch of
15 portfolios spanning -- you know, portfolios that were
16 raised in 1990, '91, '92, and so on, all the way
17 through until each one of them gets liquidated and is
18 done. Right? Is that what the benchmark is?

19 MR. COLLINS: No. It's the Russell 3000.

20 MS. DOYLE: The Russell 3000 benchmark with the
21 premium gives you how you made the decision to put the
22 capital in the private versus the public market.

23 MR. HARRELL: And so this would -- mine applies
24 more to page 16 at the moment. But I suspect, with a
25 tweak, it would probably apply to page 15 as well. And

1 so if you take your own portfolio history, your flows
2 are going to be different at different times than
3 whatever that overall picture is. And so you're going
4 to have some mixed effects there.

5 But if you split your portfolio into everything up
6 until 1999 and then everything after and then you
7 compare those two pieces to an overall mix of
8 everything, I would think it's almost a given, like if
9 you told me that's what had happened and I didn't know
10 any of the numbers, I would assume it's pretty much a
11 given that the 1999 did worse than the benchmark and
12 the post-1999 probably did better.

13 Now, if we disaggregated all the math, would I be
14 in the ballpark of -- like if we had a benchmark for
15 the legacy stuff, it was all funds raised up until
16 1999, and then we had a benchmark -- and, believe me,
17 I'm not suggesting that we get more benchmarks going.
18 I'm just asking for purposes of understanding this
19 performance. If we had those two distinct benchmarks
20 that actually related to the vintages and the periods
21 of our investments, how would we look then?

22 MS. DOYLE: That's what this does, actually. So
23 the Cambridge universes are the same time periods, so
24 presumably the same universe of funds in which those
25 other clients could be investing.

1 MR. COLLINS: So I think, to Will's point, if you
2 were showing us indexes for 20 and 25 years, your point
3 would be right. They're not compare --

4 MR. HARRELL: My understanding of the benchmark
5 then is mistaken. There are multiple benchmarks
6 embedded in here of different vintages.

7 MS. DOYLE: So these represent -- yes.

8 MR. HARRELL: Okay.

9 MS. DOYLE: This is to show you against, in
10 certain time periods, so one year, three, five year,
11 how your performance compared against other clients who
12 presumably are investing in the same universe of funds
13 across all those different vintage years. And then we
14 provide staff with a report that shows them, within
15 each vintage year, how their funds are doing fund by
16 fund.

17 So in a way I think that there's kind of three
18 levels of information that you can glean from doing a
19 performance review. One is, did we make the right
20 decision putting our capital in the public versus the
21 private industry. And one of the challenges of that is
22 in the near term, as we said, public numbers are baked
23 in, private numbers are still cooking. And so it takes
24 a while to make those apples to apples.

25 Then the next question would be to say, okay, now

1 just look at people who are investing in privates. How
2 did we do compared to other people investing in
3 privates. And that's what page 16 gives you. So same
4 overall universe, same time period.

5 MR. HARRELL: I guess I'm still not certain,
6 though, whether that's -- your point is, on page 16, we
7 have not -- this is SBA not broken down into legacy and
8 recent. It's the whole thing.

9 MS. DOYLE: The whole thing is the SBA PE. The
10 post-'99 is just the post-'99. But you're right in
11 that the comparative numbers for the quartile rankings
12 are against pools of our clients' portfolios that could
13 have very different vintage year makeups to yours. But
14 it shows what their performance was over these exact
15 same time periods. So that's where we get the apples
16 to apples.

17 And the third level would be to say, okay, how did
18 your manager selection do; did you pick the right
19 managers within each vintage year. And, again, that's
20 another level of analysis that we talk about
21 internally. We can, as you said, provide all means of
22 numbers here to swamp you, but we thought that these
23 were helpful.

24 MR. HARRELL: No. I marvel sometimes about the
25 amount of information that we're given, and then the

1 fact that I can come in here and say, if I could just
2 see the data a little deeper.

3 If I followed all of that, because the benchmark
4 is a composite of other portfolios, which probably
5 aren't segregated into pre- and post-1999, but our --

6 MR. COLLINS: It's the last ten years, so it
7 wouldn't matter.

8 MR. HARRELL: Well, but if you raised money in
9 1998, the fund would be continuing -- it would still be
10 in a composite.

11 MR. COLLINS: Yeah, okay.

12 MR. HARRELL: I think I understand your answer,
13 though. There's some of that in there. How much, hard
14 to say probably.

15 MS. DOYLE: But it's still apples to apples in
16 that this is the same time period.

17 MR. HARRELL: Sure. I'm with you on that.

18 MR. COLLINS: I have one more question. It has
19 eight parts.

20 MS. DOYLE: Good thing we started early.

21 MR. COLLINS: So I think we can all agree that
22 Will is correct or mostly correct relative to the
23 vintage having a great outcome on performance, sort of
24 like asset allocation, right, at the whole pension fund
25 level, having the biggest impact on performance. And

1 so if you look at our commitments, we have about
2 \$20 million of commitments. I'm looking at the number,
3 so if I read it wrong, just correct me.

4 We have 20 million -- we have 6 million --
5 20 billion, sorry. We have 6 billion that's unfunded.
6 And we committed -- I've lost the number now, but we
7 committed I'm not sure how much last year. So -- and
8 we spent the beginning part of this presentation
9 talking about the market today and how -- and it's
10 difficult to get money out.

11 So given this, I'm just wondering how quickly we
12 feel like we're going to get that 6 billion to work,
13 how quickly we feel like we're going to get the
14 commitments that were made in 2013 to work, and how
15 much time you all spend really as a senior staff, even
16 with Ash, talking about vintage and whether you stay
17 committed to that long-term or if you're trying to, you
18 know, be vintage timers.

19 MR. BRADLEY: So we're not vintage timers. I
20 think if you look back at the financial crisis, 2008
21 was a peak for prices, for leverage, everything you
22 could think of. Commitments we made in 2008 are going
23 to be very, very good funds from a return perspective.
24 So these funds have four to five year investment
25 periods, so they're pacing the capital.

1 We often in the legal negotiations put speed bumps
2 in there, so saying they can't put more than 25 percent
3 of the fund to work in one single year. So we try to
4 diversify across years within our funds. And so those
5 2008 funds, we're fortunate that when the market
6 crashed in 2009, they had three to four years of very
7 good pricing.

8 So in that sense, we don't try to time vintage.
9 If we think we're at a top today, we don't think we
10 are, but if we were, it would still be a good time to
11 put private equity dollars to work, that capital would
12 be invested across the years. So we do spend a number
13 of times and we do spend a lot of time working through
14 that and thinking through the vintage and how we
15 diversify the portfolio.

16 And so for what we have unfunded, I think our
17 thought would be it probably gets put to work over the
18 next three to four years. But as we're constantly
19 investing each vintage year, that number continues to
20 get refreshed. And we monitor that with Cambridge
21 every six months and go through a modeling exercise to
22 look at every fund in the portfolio, what their pacing
23 is, when we think that money is going to be put to work
24 and when we think distributions are going to come back.

25 MR. COLLINS: And so -- and the last part of that

1 would be, if you -- looking at your allocation within
2 the portfolio, you're making some changes or you're not
3 really at your targets in some of the allocations. But
4 post-'99, you know, we're first quartile. So why are
5 we changing -- and some of them are pretty dramatic
6 that we're changing. Why the change?

7 MR. BRADLEY: I think -- I mean, the change is
8 just, you know, as we see opportunity. And some of it
9 is reflective of the growth in the portfolio. So I
10 think the biggest change you'll see for us is our move
11 in the buyout space, so we're repositioning the
12 portfolio from some larger funds back into the smaller
13 market.

14 And I think that's just a symptom of over time in
15 our portfolio, as our funds are successful, we had a
16 number of very, very good funds in the portfolio that
17 were \$500 million, \$600 million funds that today are
18 4 billion that we've backed. They've done well for us.
19 But as we look back at the portfolio, which we do every
20 year, and say, are we in the right space, do we need to
21 reposition. So we'll be repositioning back into the
22 allocations that we think are the best long-term places
23 to be.

24 And so some of these -- so if we looked at the
25 secondary market, Peter, it could depend on, if we get

1 a lot of distributions back in a single year, that
2 percentage gets drawn down. Some of our buyout guys
3 have been a little less apt to sell over the last
4 couple of years. They're now selling the portfolio.
5 So that percentage had increased. So that should draw
6 down naturally. But that's kind of how we think
7 through it.

8 MR. DANIELS: Anything else?

9 MR. WILLIAMS: Mr. Chairman, may I just offer one
10 thing in here? I want to apologize to everybody about
11 the complexity and the seeming obfuscation of legacy
12 and '99 and this and that. There's a reason for that.
13 It's very simple. We want to be accountable, and we
14 want to be honest and we want to fully disclose
15 everything.

16 There were a couple of investments, one primarily,
17 that dated back, as John said, to the late eighties,
18 early nineties, the vast majority of which we're out
19 of. The last little tail piece of the big one we're
20 almost out of and we will be soon. And we're talking
21 about exposure here in the 20-some-odd million dollar
22 range, which given where this was a few years back, is
23 not unlike the exit of Pool B in terms of its
24 magnitude.

25 And John and the private equity team have nothing

1 to do with any of those investments. You manage what
2 you measure and you measure what you manage. And part
3 of what we use all of our performance information for
4 is evaluating our professional performance.

5 So the easy thing for us to do would be to focus
6 on the post-'99 period because that's what this team
7 has managed over time and structured and been very
8 thoughtful about how they've done. But in my mind,
9 that would be misleading, because the reality is
10 there's more history than that. The history may
11 pre-date these individuals, but it does exist.

12 That's what the pre-'99 legacy is that we report.
13 And that's why we show a blended number, because if
14 you're not showing the whole history, you're, I would
15 argue, being less than fully truthful. We're not going
16 to go there.

17 So what we're trying to do is draw the distinction
18 between history, the present time and the recent past
19 that's relevant and measurable and currently actionable
20 and then the blend of the two. So that's why we have
21 the three things. It's not intended to be confusing,
22 but life is sometimes complicated.

23 MR. COLLINS: When you get rid of everything that
24 was pre-'99, are we going to drop that, or are we still
25 going to report it?

1 MR. WILLIAMS: Well, it's still part of the
2 history. So we probably still ought to acknowledge its
3 existence. But it's sort of like, if you had a seafood
4 restaurant. It wasn't very good. You closed it. You
5 opened a steakhouse. It's one of the top ten percent
6 of all the steakhouses in the country. You keep it
7 open. Do you still report your financial experience
8 when you had the seafood place that was no good?

9 You probably should if somebody is looking at your
10 whole track record. But it's not relevant because
11 you're not in the seafood restaurant business anymore.
12 Does that help, or is that just a useless --

13 MR. NEWMAN: Makes me hungry.

14 MR. COLLINS: From one Floridian to another, I get
15 it. I just -- okay.

16 MR. DANIELS: I think it's a good way to report,
17 and I think it's fairly obvious what you're doing, and
18 it's reasonable. So I would continue to report it that
19 way. It will eventually drop off when it's 25 years
20 old and you don't report 30-year numbers. Carry on.

21 MS. DOYLE: We were going to continue in a little
22 more detail on this, but we'll move quickly through it.
23 So, Liqian, do you want to keep going on page 17 here?

24 MR. MA: Sure. So 17 essentially breaks down in
25 further granularity, unfortunately, each sub asset

1 class of the portfolio over the three, five, ten and
2 since inception periods. And the same pattern applies
3 over the long term. I think most of the asset classes,
4 especially the more mature asset classes, which are
5 U.S. buyouts, distressed and secondaries, which are
6 more weighted towards the early 2000s, whereas I think
7 the non-U.S., the growth equity, are more (inaudible).
8 So some of those portfolios, as Margo said, are still
9 cooking and, as a result, have lagged a little bit
10 more, especially in the near term. And I think when
11 John speaks about asset class strategy, he'll talk
12 about looking forward, how we're navigating the various
13 asset classes.

14 And then finally, on page 18, so we've looked at
15 everything on an IRR or a time-weighted return basis.
16 But on a total multiple basis, this is dollars in,
17 dollars out. On that basis, you can see that on a
18 total portfolio basis, the portfolio has returned about
19 1.4x. So for every dollar, we have generated \$1.4 of
20 value.

21 And the blue bar just shows how much of that value
22 is actually realized in terms of distributions, and the
23 green is a total of realized and unrealized. And the
24 post-'99 is a little bit higher, at 1.5x. So as the
25 portfolio matures, we anticipate that the blue bars

1 will get higher and higher and converge with the green
2 bars.

3 MR. AYLOTT: So Liqian talked a little bit about
4 where the program has been. Now the next couple of
5 slides just gives us a snapshot of where it is right
6 now, just in terms of commitments and NAV. So the NAV
7 for the program stood at 7.3 billion for the full
8 portfolio and the post-'99 portfolio at around
9 7 billion.

10 Since inception, the program has committed
11 21.6 billion to 178 funds in total, while post-'99,
12 16 billion has been committed to 145 funds. So the
13 charts at the bottom just illustrate all of those
14 metrics. The managers have called roughly 70 percent
15 of commitments. And the post-'99 managers have called
16 almost 60 percent, or \$9.2 billion to date.

17 Slide 21 just shows where we are in terms of NAV
18 versus the target for the private equity program.

19 MR. HARRELL: Can I interrupt you and pause on
20 that slide 20 for one second? I may have done my math
21 wrong. But when I subtracted one from the other, it
22 seemed to imply that five and a half billion had been
23 committed to legacy and 5.8 billion had been paid in.
24 Would there be -- do you ever -- are there supplemental
25 capital calls on top of what your original -- and my

1 math could be wrong. I just was trying to understand
2 what would -- so I think, if you subtract the post-1999
3 portfolio from the total private equity portfolio, that
4 would give you legacy, right? If I'm wrong about that,
5 then my math is wrong.

6 MR. MA: That is correct.

7 MR. HARRELL: So when I did the math, 21,606 minus
8 16,066, I got 5.540 committed to the legacy portfolio
9 and 5.792 paid in. And if it's complicated, whatever,
10 figuring out what's behind those numbers, this may be
11 the wrong place to do it. I just wondered if there was
12 a -- that seemed odd to me. And I can't see two
13 numbers without subtracting them, so I did.

14 MR. MA: That is correct. I think the difference
15 on this page is we've actually incorporated some
16 subsequent commitments in the portfolio since year-end
17 2013, because we received some of that data earlier
18 this year. So it doesn't incorporate performance,
19 because all NAVs are reported as of Q4 2013. But the
20 cash flows and some commitment activity have reported
21 subsequent activity since then. So that's why you may
22 see some differences in these numbers.

23 MR. HARRELL: Okay.

24 MR. AYLOTT: So slide 21, again, is a snapshot of
25 where the NAV is versus the target of six percent. And

1 as you can see, to Q1 2014, we are slightly below
2 target at 5.1 percent. And we continue to build the
3 portfolio towards the six percent target and expect to
4 get there sometime in 2015-16, which we'll come on to a
5 little later on.

6 The next slide, 22, just gives you an idea of how
7 the cash flow profile has been for the program since
8 inception. You can see that in 2013 we were cash flow
9 positive. And given the maturity of the program and
10 the rate of distributions that we're seeing coming
11 back, we expect that to continue to be positive. 2014,
12 obviously year-to-date data at the moment.

13 The next slide just gives you an idea of how -- of
14 the weighting to the different sub asset classes within
15 the portfolio. And it's very clear here that the U.S.
16 buyout program has dominated the program to date. As
17 John alluded to earlier, going forward, we're looking
18 to increase the exposures within the program to
19 venture, to growth equity, to small buyouts and
20 non-U.S. funds over time to give a more balanced
21 exposure within the portfolio.

22 MS. DOYLE: The final page that we're going to
23 show you is just moving out that timeline of how we
24 think the program will go in terms of meeting the
25 target at six percent. So this is now projecting

1 forward, the darker orange lines, from the slide that
2 Dan showed you on page 21.

3 And as you know, there's a new target of 6 percent
4 for this asset class. This assumes a commitment pace
5 of around \$2 billion per year and assumes annual growth
6 of about 2.5 percent net for the portfolio. And to
7 some of the comments made earlier, we can't control
8 when the dollars are paid in and when they're
9 distributed out. So we always know that there's a
10 little buffer of this moving above and below the line.
11 And I think what's important, though, as we talk with
12 John and his team, this has been the steady \$2 billion
13 commitment pace. And you see the blue line, which is
14 your actual NAV trailing down.

15 So if we were to enjoy a net two and a half
16 percent growth over this time period in the portfolio,
17 the modeling would say we probably need to bump up the
18 longer term commitment pace above the \$2 billion. But
19 we don't have to make that decision now. This is just
20 a model that helps us guide our way.

21 MR. COLLINS: What's our cash inflow running in
22 the last couple of years on an annual basis?

23 MR. WILLIAMS: From PE?

24 MR. COLLINS: Yeah.

25 MS. DOYLE: That's on page 22 here.

1 MR. BRADLEY: 2013 was 500 million inflow from the
2 asset class.

3 MR. COLLINS: 500?

4 MR. BRADLEY: Yeah. And then this year to date is
5 about 120 million inflow.

6 MS. DOYLE: So that's the dotted line on this
7 chart here.

8 MR. BRADLEY: We've been cash flow positive.

9 MR. COLLINS: It's a pretty involved chart here.

10 MR. BRADLEY: Yes. If you look back 24 months, I
11 think we've been about net a billion dollars positive
12 back into the asset class.

13 MS. DOYLE: This chart does have a lot on it. But
14 we think it also shows you where the calls and the
15 distributions are coming from as well. So there's a
16 few different layers.

17 MR. COLLINS: But if you're worried about putting
18 \$2 billion out -- well, okay. So you're saying in 2013
19 we had a net positive 508?

20 MR. MA: Uh-huh (indicating affirmatively).

21 MR. COLLINS: And 114 thus far in 2014.

22 MR. BRADLEY: Correct.

23 MR. COLLINS: So you actually have to put more
24 than 2 billion out this year.

25 MR. BRADLEY: The 2 billion refers to just our

1 commitment to the funds, so not necessarily the cash
2 flow.

3 MR. COLLINS: Right. So this \$2 billion that
4 you're talking about on the other chart, is that cash
5 out that you have to get out the door, or is that
6 commitments?

7 MS. DOYLE: It's commitment. And so you can see
8 on this page --

9 MR. COLLINS: But you're making certain
10 assumptions about how much cash is going out relative
11 to those commitments, though, right?

12 MS. DOYLE: That's right.

13 MR. BRADLEY: And we're making assumptions with
14 every existing fund in the portfolio, as to when those
15 investments are going to liquidate, when they're going
16 to call additional capital, and all that gets put
17 together to give us the roughly 2 billion a year for
18 new commitments.

19 MR. COLLINS: So going back to my earlier
20 question, you've got 6 billion of unfunded commitments
21 already. You've got \$2 billion worth of commitments to
22 make a year. Right? And then you've got to worry
23 about how much of that is getting called.

24 MR. BRADLEY: Correct.

25 MS. DOYLE: The modeling helps us kind of look at

1 all of that.

2 MR. COLLINS: I don't know that \$2 billion is
3 going to be enough, is my point.

4 MS. DOYLE: Well, I think over the long term,
5 2 billion probably is not enough, if you look at page
6 25. So, again, the numbers behind here, I promise you,
7 will be wrong over the long term. It's a model.
8 However, directionally, it points to us saying, you
9 know, probably by 2017, when we run this model, we'll
10 have some more conviction as to whether or not we need
11 to move that two billion up or down. But we'll also
12 know what's been happening in the public markets, in
13 the fund during that time period as well. So we don't
14 need to make these judgments now. But we know, if we
15 were to stay just at \$2 billion, you're absolutely
16 correct. Page 25 tells us that would not be enough.

17 And the benefit -- the reason for this is that
18 you've built a mature portfolio now that is starting to
19 churn cash off. Whether we stay exactly cash flow
20 positive, we think we'll stay maybe at the break-even
21 point here, plus or minus a little, over the next year
22 or two. But we're clearly on a trajectory to be cash
23 flow positive with this portfolio. But you can see
24 there the scale has increased. And so, as you absorb
25 the increase at that scale, you need to sort of settle

1 into it.

2 But you're right in your conclusion. We agree
3 with you, that over the next couple of years we'll
4 probably be talking about a slightly different size
5 annual commitment pace number.

6 MR. COLLINS: Because we're making certain return
7 assumptions in our overall asset allocation based on
8 going to 6 percent in private equity. So if it takes
9 ten years to get there and we're assuming we're going
10 to get alpha or certainly a good return off of that, it
11 may be something to be concerned about on the overall
12 return standpoint.

13 MR. WILLIAMS: But keep in mind those assumptions
14 about alpha -- if I may, Mr. Chair -- are longer term
15 assumptions. So we're not going to turn things around
16 based on 6 or 12 months' view one way or the other.

17 MR. COLLINS: Yeah. I mean, you can't get it all
18 to work in six months. That wouldn't be prudent. But
19 that's not realistic either, I don't think.

20 MR. WILLIAMS: What's the "that" in that sentence?

21 MR. COLLINS: Well, that given what we've been
22 talking about, given the set of variables that we know
23 today, 2 billion is not enough to commit on an annual
24 basis to get to where we need to go in a reasonable
25 amount of time.

1 MS. DOYLE: It's the right amount today, though,
2 because if you look at this chart, this gets you to the
3 6 percent within the next, say, year and a half to two
4 years. So we think it's the right pace now. If you
5 were to go up to even, say, \$2.5 billion steady right
6 now, you would peak above that 6 percent. It might
7 mean that you've settled back to a better 6 percent
8 level. But we want to leave ourselves with some room.

9 MR. COLLINS: The only difference in what we're
10 saying is I want that money working and earning a
11 return, and you're not going to get there in the next
12 18 months by a long shot.

13 MR. HARRELL: But it is working. It's in public
14 equities until it goes over.

15 MR. WILLIAMS: Exactly right.

16 MR. HARRELL: It's not idle.

17 MR. COLLINS: To some extent, sure.

18 MS. DOYLE: But this does bring in the asset
19 allocation discussions that you guys have been having,
20 about where is the better place for the capital now
21 versus later and given the market influences, et
22 cetera. And I think you made a good step in moving
23 your target up to 6 percent, which we have therefore
24 made some adjustments to our flexibility with respect
25 to commitment pacing.

1 So we actually meet -- again, we'll get to some of
2 the process, but we actually meet and go through kind
3 of the forward calendar line by line, manager by
4 manager. So \$2 billion per year is a target. By no
5 means is it a hard stop. It also doesn't mean it is a
6 bogey that we have to hit.

7 So when we look at the forward calendar, if we
8 were to look and say we think this is a great time to
9 invest but we look at the manager lineup, who is
10 fund-raising in that year, and say, you know what, I
11 only come up with a billion in people I have high
12 conviction in, we're not going to go try to fill the
13 remaining billion dollars, because we also think that
14 that's --

15 MR. COLLINS: I totally agree on that. I wouldn't
16 expect that. But until you invest it, it doesn't earn
17 a return. And if we're expecting X dollars of return
18 from private equity and we have \$8 billion to invest
19 just in the next -- you know, with the unfunded -- or
20 to get to work in the unfunded commitments and next
21 year's or this year's \$2 billion, and you figure that
22 you fund 30 percent to those unfunded commitments on an
23 annual basis, I mean, you're over four years before you
24 get all that money to work.

25 That's on a -- not even on a net basis. Right?

1 If you've got half a billion dollars coming back a
2 year, you've got more of an issue.

3 MS. DOYLE: One important thing just to point out,
4 and then maybe we can move on if you all are ready, is
5 you aren't actually ever going to get all of your
6 unfunded into the market. You're always going to have
7 an unfunded level. And in fact, when you are at
8 target, typically your unfunded capital sits between 50
9 and even as high as, say, 60, 70 percent of your target
10 will be in unfunded.

11 So if your unfunded amount shrinks significantly,
12 it implies that you are not providing the ingredients,
13 if we keep with our cooking analogies, for your private
14 program to meet its targets. You're shrinking your
15 program if your unfundeds contract too much. And if
16 they grow too large, you might be committing too much
17 capital and you'll overshoot your target. So you're
18 never trying to get your unfundeds to zero unless
19 you're trying to end your program. So that's just an
20 important part of this.

21 MR. MA: The other point I would add is, you may
22 recall all of the robust exit environment discussions
23 that I spoke about earlier. If that moderates in the
24 next 18 months, we may get to the 6 percent a lot
25 quicker. If the M and A or the IPO markets slow down a

1 little bit, we may be getting cash a little bit slower
2 back from managers, and therefore our net cash flow
3 will be more negative in the near term.

4 So we're trying to be conservative in our model,
5 so it will never be exactly correct. But we'd rather
6 be slightly conservative rather than overcommit and be
7 caught in a bad market environment.

8 MR. HARRELL: I have a quick question about this,
9 and completely agree, it's a guesstimate about the
10 future. Stress test it for me, if you would. If you
11 had a scenario, another market crash, something like
12 that, where your funds are not able to exit their
13 investments but they may be calling capital at a little
14 faster clip, what would that look like today in
15 dollars, on our now larger size than we were in the
16 past?

17 Like if that was the only thing that changed, how
18 much would this wiggle up or down? Just broad
19 guesstimates, if you stress test it, what could happen?

20 MS. DOYLE: So before I try to make an estimate on
21 the dollars, what we see happen -- and cognizant that
22 we're flipping back and forth. But if you look here at
23 page 22, if you look at 2009, you see how the calls and
24 the distributions contracted quite a bit there. It was
25 around 50 percent on both sides.

1 So one of the important things that I think people
2 didn't understand in terms of what was going to happen
3 in the private markets, even though you had all this
4 unfunded capital that had been given, committed to the
5 managers, the managers did not keep calling at the same
6 pace they had been doing beforehand.

7 They recognized the market, the world was very
8 uncertain, and they didn't want to be putting capital
9 behind companies when they weren't sure exactly what
10 the buying from enterprise was going to be or what the
11 consumer appetite was going to be.

12 So your calls by the managers contracted. Okay.
13 Of course, your distributions also, because the public
14 markets were shut down. Now, in a mature portfolio
15 like yours, you weren't completely out. Some people
16 literally, you know, might have -- if they were growing
17 their business, maybe they had started getting -- their
18 program, I should say -- and they started getting some
19 distributions, that literally could have dried up to
20 zero again, if they were in the early stages.

21 Where you have a mature portfolio like yours, you
22 see that your distributions -- you have enough
23 companies that were still high enough quality, mature
24 enough, that your managers were able to still provide
25 you with some pretty good distributions in 2009 when

1 the market was really in mayhem.

2 And so we anticipate, when we do the
3 stress-testing, that your distributions can dry up,
4 let's say, maybe to 25 percent of our projection, to be
5 conservative, and that your calls might contract down
6 maybe 50 percent. So it can swap you into a cash
7 required position if you were in a cash generating
8 position.

9 MR. HARRELL: So if I'm reading the chart right,
10 for instance, in 2013 -- I don't know if this is a
11 typical year. But it looks like -- no, this is --
12 yeah. Well, I guess -- yeah, it's 1.7 billion of total
13 distributions to us from all these different types of
14 funds, right?

15 MR. MA: That's right.

16 MR. HARRELL: So if that dried up by half, that's
17 like an almost \$900 million swing right there. And
18 maybe it gets offset by reduced capital calls as well.
19 But that seems to me like a factor that could -- it
20 could go the other way, too. Maybe it didn't last
21 time, but -- so it could happen, to your point. If you
22 get the right or wrong environment, depending on your
23 perspective, it could go very differently than that
24 other chart that we were looking at.

25 MS. DOYLE: Right.

1 MR. HARRELL: And how painful would that be for
2 the SBA as a whole if for a year or two period, our
3 modeling was off by, you know, a billion dollars or
4 more a year?

5 MR. COLLINS: To me, that's where -- that's the
6 great benefit of private equity to pension funds.
7 Certainly a pension fund the size of the State of
8 Florida can afford to be patient and can afford to be
9 committed to something long term and ride out those
10 variations that most individual investors just couldn't
11 take. Right? They couldn't take that swing. So I
12 don't think, from my standpoint, it doesn't provide a
13 hardship to the SBA.

14 MR. HARRELL: No. I'm only asking because in the
15 last downturn, the magnitude of dollars was -- you
16 know, the negative cash flow was 125 billion -- sorry,
17 125 million, yes, which is nothing in the grand scheme
18 of things to a fund of this size. But we're now a much
19 bigger fund with much bigger -- or a much bigger
20 allocation to private equity, with much bigger unfunded
21 commitments and so on.

22 I don't really know. What is it like to -- if
23 you're off by a billion dollars, is that something
24 that's readily fundable, move stuff around? How big
25 a --

1 MS. DOYLE: And to give you some just numbers
2 behind it, again, page 25, the model is projecting
3 about a 1.4 to 1.5 billion net of capital to your
4 program. So if you do these contractions --

5 MR. HARRELL: You'd be down to zero if it was
6 horrible. And so you don't need any money from
7 anywhere. So you're right. That's a good point.

8 MS. DOYLE: So I think that gives you a sense of
9 the scale. And part of that again is because really
10 you're talking about a 6 percent allocation to your
11 portfolio. If we were talking about a 25 percent
12 allocation to privates, which is what some family
13 members that read about in the newspapers or some
14 foundations and things, that can have a different
15 impact on the operations of an organization.

16 MR. HARRELL: I mean, that -- Harvard is the one
17 that I think of as being -- and I have no idea what its
18 allocation was or whatever. But like what I'm
19 describing is basically the vise that Harvard got
20 itself into, right?

21 MS. DOYLE: Yes. Although there were other asset
22 allocation decisions that were made that were not just
23 about privates.

24 MR. HARRELL: And a major difference would be the
25 percentage allocation, because theirs wasn't six.

1 MS. DOYLE: I think that's a significant
2 difference. We're talking about 6 percent in your
3 portfolio versus --

4 MR. COBB: Mr. Chairman, this is Chuck Cobb. I'm
5 going to have to sign off.

6 MR. DANIELS: Thank you for joining us, Chuck.

7 MR. COBB: Thank you. Sorry. Bye.

8 MR. NEWMAN: Let me just make one quick comment.
9 All of what you're saying, though, just really
10 highlights the importance of picking the right
11 managers. The guys that are going to say, we're going
12 to sit on this cash until we see the market right, so
13 that we don't get this huge swing, and that's a key
14 thing to what you do.

15 MS. DOYLE: Absolutely. One of the key ways to
16 check on that is to look at alignments between, what's
17 the GP investing alongside of you, so that they're
18 thinking about this from a personal standpoint as well.

19 MR. DANIELS: I'd like to make one comment and
20 then let's move on.

21 MR. WENDT: In the next issue, can those of us at
22 this end of the table ask some questions?

23 MR. GARCIA: That's why we're down here.

24 MR. DANIELS: Go ahead. Do you have a question,
25 Gary?

1 MR. WENDT: I do. I have two questions, but I'm
2 afraid to ask them now. Who are your three largest
3 managers in terms of investment and commitments, and
4 what is roughly the number of investment plus
5 commitment with each of those three? And then my
6 second question is, do you buy any in the secondary
7 market.

8 MR. BRADLEY: I'll answer the second one. The
9 secondary market, we are investors in secondary funds
10 who we have commitments to, who are buyers in this
11 market. We do not ourselves directly yet buy in the
12 secondary market.

13 MR. WENDT: You do some fund of funds. Roughly,
14 round numbers, who are the big guys and --

15 MR. BRADLEY: So those are Lexington Partners,
16 which they are a -- we committed a total of 2.7 billion
17 to them. It has a current NAV of 718 million. Apollo
18 is another one. So Apollo, we've committed a total of
19 750 million.

20 MR. WENDT: Invested plus committed?

21 MR. BRADLEY: That's committed. It has a current
22 NAV of 327.

23 MR. WENDT: So about a billion.

24 MR. BRADLEY: About a billion, yeah. And then
25 after that would be The Carlyle Group, which is also

1 approximately a billion.

2 MR. WENDT: Thank you.

3 MR. DANIELS: Are there any other questions from
4 that side of the table? The point that I was about to
5 make is that I think we have to look at this as a very
6 long time frame effort, that getting back to Gary's
7 comparison with the 22 percent, if you have a strong
8 stock market for four or five years and you use a stock
9 market, Russell 3000 plus 300, no one will catch that
10 in the private equity market. So that's why we go back
11 to looking at the other private equity funds. And
12 that's how we can be first quartile, versus 10 points
13 behind the Russell. Is that correct?

14 MS. DOYLE: That's correct.

15 MR. DANIELS: Can we move on, please?

16 MR. BRADLEY: Absolutely. Now we'll flip back to
17 the first part of the Tab 3C. So as we said already,
18 the SBA's first private equity investment was made in
19 1989 by our domestic equity asset class. They
20 continued to invest in private equity funds over the
21 next ten years. And so this is, we discussed it, but
22 referred to as the legacy portfolio. In 1999 the asset
23 class was established and staffed with full-time
24 dedicated private equity professionals.

25 This is the model and structure that we've been

1 operating under for the last 15 years, and it's
2 referred to as the asset class portfolio. Our target
3 allocation is 6 percent of the total fund, with a range
4 of 2 to 9 percent around that. And our current
5 allocation is 5 percent, or roughly seven and a half
6 billion in net asset value. We're staffed with six
7 investment professionals, a senior investment officer,
8 two senior portfolio managers, two portfolio managers,
9 and one senior analyst.

10 As we talked about in the March meeting, our
11 primary benchmark is the Russell 3000, plus a 300 basis
12 point premium. This will move to the MSCI ACWI
13 IMI index, plus a 300 basis point premium effective
14 July 1st. And our secondary benchmark is the Cambridge
15 Associates peer benchmark.

16 Our asset class goals are to create a portfolio
17 that outperforms both our primary and secondary
18 benchmarks, while remaining within the bounds of our
19 asset class risk budget, to construct a program to
20 avoid concentrated exposure to a particular vintage
21 year, manager or strategy or geography, and to
22 establish prudent portfolio diversification while
23 minimizing proliferation of manager relationships.

24 So we aim to build a portfolio that's concentrated
25 around our highest conviction ideas and the best

1 performing managers around the globe. Today we have
2 roughly 60 GPs in our portfolio. This is a very
3 focused portfolio for a program of our size. And given
4 the markets and the strategy that we're investing in,
5 60 feels like the right number to us today. Were we to
6 expand into new markets or new geographies, this number
7 would likely increase.

8 So how do we make decisions and how do we manage
9 our program? Our investment process can be divided
10 into four categories, and I'm going to dig deeper into
11 each of these categories here in a moment. But if we
12 start with the upper left-hand area, the annual
13 investment plan, this is where we're mapping out our
14 resource needs and our investment activities for the
15 next few years.

16 You have sourcing. So this is identifying and
17 finding funds in which to invest. There's due
18 diligence, determining whether or not an investment is
19 actually warranted, and then monitoring. So the
20 question, how are our investments, our firms, how's our
21 program, how are we performing.

22 So we'll start with the investment plan. This is
23 produced on a yearly basis and serves as a road map or
24 plan for our upcoming years. So in the planning
25 process, we are determining how much money we have to

1 commit each year. We're identifying attractive and
 2 unattractive areas of the market. We're looking at
 3 portfolio construction and what areas or strategies are
 4 we over-allocated to, under-allocated to, and we're
 5 compiling a short list of funds that might be
 6 interesting candidates for our portfolio.

7 We do all this work to focus our efforts and
 8 resources in the appropriate areas. There's a number
 9 of inputs into this process. They are the pacing
 10 model, which we've discussed, which guides us on how
 11 much we should commit each year to maintain a desired
 12 exposure to private equity.

13 Priority rankings, so what areas of the market do
 14 we like best, where are we going to focus our time. We
 15 create a focus list, so what PE firms are we targeting
 16 for investment, who do we need to get in front of. And
 17 then there's a forward calendar, where we're mapping
 18 out how we're going to allocate capital and resources
 19 over the next three years.

20 So here's an example of our priority rankings or
 21 areas of focus. Strategies are on the top axis.
 22 Geography is on the left. And we're ranking these
 23 based on two things. One, their exposure in our
 24 portfolio and the attractiveness of the opportunity.
 25 And this helps focus our resources when screening

1 opportunities and communicating with the market on
 2 which type of investments we're most interested in.

3 So an example here, if we take large buyout in
 4 North America, that's in the top left box. This is
 5 currently a low priority for us. So in the current
 6 environment, given the high pricing, large levels of
 7 debt and increased competition, couple that with our
 8 desire to shed some GPs in this area, so we're
 9 over-allocated from a partnership perspective, leads us
 10 to be ranked as a low priority.

11 And so, conversely, in the small buyout market in
 12 North America, it remains attractive from a pricing
 13 standpoint. These funds use less leverage and it's a
 14 less intermediated market. Couple that with our desire
 15 to increase exposure, and you have a high priority area
 16 for us.

17 MR. HARRELL: John, can I ask you a quick
 18 question?

19 MR. BRADLEY: Yes.

20 MR. HARRELL: If you looked through at the
 21 underlying portfolio companies, how much leverage is on
 22 our invested money, or can you even do that?

23 MR. BRADLEY: So it's -- we do this on a
 24 semi-regular basis. Our debt-to-equity ratio today in
 25 the portfolio is one. But you need to stratify that by

1 strategy. So 15 percent of our portfolio is in venture
2 that uses zero leverage. Our growth equity guys tend
3 to use zero leverage. If they use any, it's very
4 small. Our distressed managers often don't leverage at
5 buy, at the purchase, given that these companies are
6 often in bankruptcy.

7 Our buyout portfolio, if our total portfolio is
8 one, our buyout portfolio is probably two to one, three
9 to one leverage. And that really depends, too, on the
10 strategies. Some of our larger buyout guys might be
11 five to one, six to one leverage, whereas some -- we do
12 have buyout funds in our portfolio that do not use
13 leverage, that are growth focused managers.

14 But I think we're about, as we look, we're 30,
15 35 percent higher leverage than the market. That's on
16 debt to equity, not including cash.

17 So now we'll go on to sourcing. And so
18 identifying attractive funds and working hard to gain
19 access to them is the key to the success of our
20 program. As is the case with most things, the most
21 successful and sought-after private equity funds around
22 the globe are constrained and limited in their access
23 or their ability or their need to take on new
24 investors. So it's our job as the private equity staff
25 to identify these funds, to stay in front of them, to

1 form a dialogue and be ready to commit should they
2 raise a new fund.

3 We use multiple channels to source and find these
4 investments. One is our consultant. So we have a
5 biweekly phone call with Cambridge to review our
6 pipeline as well as new funds that they've seen in the
7 market. There's limited partners, so we're in constant
8 contact with our peers, asking questions such as who is
9 your best manager, what are you currently looking at,
10 et cetera. There's general partners, so we will ask
11 our managers who they see in the market, who do they
12 think does a good job, who do they respect the most.

13 And, finally, we do react. We receive hundreds of
14 unsolicited proposals each year. These are all run
15 through our diligence process. However, we rarely find
16 new investments through this channel. Our consultant,
17 limited partner and general partner networks have been
18 much better sources of new opportunities.

19 So now I'll move to due diligence. Once we
20 identify funds, our attention turns to the diligence
21 process in determining whether or not that's something
22 we want to invest in and, most importantly, if it's
23 something that actually fits into our program. And so
24 we have a very rigorous due diligence process, which
25 we'll go through on the next slide. And very few funds

1 actually make it into the portfolio.

2 So over the last 12 months, we received 255
3 investment proposals. This led to 134 meetings here in
4 our office. Eighty-one of those opportunities made it
5 to some phase of our diligence process, which led to 24
6 investments. Now, 20 of these 24 were existing GPs in
7 our portfolio, or re-ups. And so if you exclude the
8 re-ups and the existing funds, you can see the work
9 done to find new investments. So those numbers are 235
10 new opportunities, 114 meetings, 61 made it to some
11 phase of the diligence review, which led to four new
12 investments, new general partner relationships for us
13 over the last 12 months.

14 MR. WENDT: I had a question about. It is new
15 general partners, not just new funds of old general
16 partners.

17 MR. BRADLEY: Yeah. So the first set are
18 inclusive of new and old, but the bottom is new general
19 partner relationships.

20 MR. WENDT: How many do you drop? I know you
21 don't really drop these. You just don't buy into the
22 next fund. But how many do you have that you said, no,
23 we just don't like the way those guys do business?

24 MR. BRADLEY: We have probably -- I've been in the
25 asset class for eight years now -- probably 20 or more.

1 We have a list today of roughly 10 to 12 that we won't
2 re-up with when they come back to market. And we'll
3 get to it a little bit later, but we are actively
4 beginning to sell positions of these non-core managers
5 in the market when the secondary pricing looks
6 attractive.

7 And so this is what our diligence process looks
8 like. So opportunities that pass our initial screening
9 and move to a diligence review go through this process.
10 And so I'll walk you through it. Every Monday our
11 private equity team meets to discuss deal flow and
12 process updates. And so you can think of these light
13 gray arrows between the boxes as our Monday meetings or
14 decision points when we decide as a team whether or not
15 to move an investment to the next stage or whether to
16 decline and pass on the fund.

17 And so we start with a meeting with the GP at our
18 office and the private equity scorecard. And so after
19 a meeting with the GP, each member of our team is
20 evaluating the opportunity using our private equity
21 scorecard. The scorecard contains a number of
22 categories which are important to us, including
23 strategy, team, process, performance and terms.

24 So if you were to look at the performance
25 category, for example, you'd find things such as

1 quartile ranking, so how does the fund perform versus
2 its peers, dispersion of return, so volatility,
3 investment pacing, and then attribution of performance
4 to the existing team. We rank these categories on a
5 positive/negative/neutral scale.

6 And at our next Monday meeting, we will meet,
7 discuss the meeting, the private equity scorecard. And
8 if the team feels that the opportunity is still
9 interesting, we will move to the preliminary diligence
10 summary phase. In this phase one of our portfolio
11 managers will produce a two- to three-page summary of
12 the opportunity.

13 Here we're going to focus on performance. We're
14 going to look at strengths and weaknesses taken from
15 the scorecard. And, importantly, we're going to look
16 at the fund and see how it fits into our portfolio. So
17 we're going to compare it to other funds in our
18 portfolio and other funds in the market and look at,
19 are we getting duplicative exposure in our portfolio or
20 is it a complementary exposure.

21 If we still feel at this point that the fund has
22 interest to us, we will move it to the interim
23 diligence phase. This is the meat of our due diligence
24 process. This can be seen in the call-out box on the
25 right. Items in this phase include a due diligence

1 questionnaire, a fund information request, which is an
2 Excel spreadsheet we send to the GP, which includes
3 details of every fund they've raised, every portfolio
4 company they've owned.

5 We're looking at items such as revenue numbers,
6 EBITDA numbers and debt levels at purchase, at exit and
7 in intervals in between. And here we're trying to say,
8 how is the fund -- how are they producing a return. So
9 are they producing returns due to leverage. Are they
10 producing returns because they're actually operating
11 these companies and growing revenue and earnings, or
12 are they just beneficiaries of increased multiples.

13 We do reference calls. There's on-site visits at
14 the GP's office. There's a consultant memo. Cambridge
15 at this time is also running a parallel process to ours
16 and giving us a prudent person opinion. We're sharing
17 notes with them along the way as to what we're seeing
18 in the funds and what we should be looking for. And
19 then there's a legal terms checklist, which you're
20 looking at what are the terms of the partnership, are
21 they acceptable. If they're not acceptable, are they
22 negotiable.

23 We'll then discuss this interim diligence as a
24 team. Usually this goes through a few discussions, a
25 few Monday mornings. We'll often send portfolio

1 managers back if we feel they haven't addressed every
2 issue or if new diligence items come up.

3 At that point, again, if we think this is
4 something that we want to invest in, this is then --
5 all the work we've done to this point is summarized in
6 a final recommendation, which goes to Lamar and Ash for
7 ultimate approval.

8 And then, so finally we have monitoring. So once
9 we commit, our attention turns to monitoring our funds.
10 And so in addition to making sure that they're behaving
11 properly, we're also monitoring to help inform our
12 decision to invest or not in the manager's next fund.
13 Our monitoring effort includes a review of all capital
14 calls and distributions, attendance at annual meetings,
15 participation on advisory boards. So we hold advisory
16 board seats on roughly 80, 85 percent of all the funds
17 we invest in.

18 We have strategy meetings with Cambridge
19 Associates. So we meet in person twice a year with
20 Cambridge for an in-depth review. We meet in December
21 to talk about the market and overall portfolio
22 strategy. And we meet in June, which will take place
23 tomorrow morning, to discuss every fund and every
24 manager in our portfolio. And then, lastly, our risk
25 management and compliance group also assists us in

1 monitoring the portfolio.

2 So on to strategies. We have five major
3 sub-strategies within private equity; buyout, venture
4 capital, growth equity, distressed and secondary. Here
5 you can see our current allocation, our target and our
6 range. So all strategies are within the appropriate
7 range, with our buyout and venture portfolios above
8 target. And so as we've discussed, we will be likely
9 positioning out of buyout into growth equity,
10 distressed and secondary as the opportunities present
11 themselves.

12 These are allocation by sector. As you can see,
13 we're diversified and actually track pretty close to
14 our benchmark. Our largest deviation is in the
15 information technology and media sector. That's
16 largely coming from our 15 percent allocation to
17 venture.

18 Here's our allocation by geography. We're heavily
19 weighted today towards the U.S. That makes up about
20 80 percent of the portfolio. Europe makes up
21 approximately 17 percent, and Asia 4 percent. Over
22 time we would expect to see this shift and see
23 increased exposure outside of the U.S. However, that's
24 going to be opportunistic. We're not sure how long
25 that will take or when it will occur.

1 We do continue to source and review funds all over
2 the globe. Lately we've looked at a number of funds in
3 Africa, South America and Southeast Asia. But we've
4 really -- I think we talked about it last meeting. We
5 really have to feel we're getting compensated for the
6 additional risk of investing in these geographies.
7 Looking at the take-away is we're a global portfolio, a
8 global opportunity set, yet we've chosen to maintain
9 this higher allocation to the U.S. for the time being.

10 MR. NEWMAN: John, can I ask you a quick question?
11 When you start looking over there, how do you --
12 because their reporting requirements and all that
13 aren't the same as ours. How do you get to that
14 information?

15 MR. BRADLEY: That's part of the reason that we've
16 been hesitant to invest over there. Most of these
17 funds, we've traveled to these geographies, so we've
18 sat down in their office, met with them. I think the
19 institutional quality of the GPs is better than you
20 would expect, in terms of their reporting. But, again,
21 we looked at those funds relative to our U.S. funds and
22 absolutely say 15 percent in the United States is much
23 better to us than 15 percent made in Southeast Asia.
24 And so I know it's been a popular area for LPs to
25 invest in. We've just yet to really feel a compulsion

1 to put money into those markets.

2 MS. DOYLE: And I think, John, you get the
3 benefits, too, that Cambridge has eight offices around
4 the world. So we have people going into these
5 geographies as well to do deep dives, manager reviews
6 that we can then share and provide some additional --

7 MR. BRADLEY: Yeah. As well as clients who are
8 investors in some of these funds that we're seeing. So
9 the Cambridge staff can see the reporting that they
10 give, the transparency in that, how they treat their
11 LPs.

12 And so here we're looking at our performance by
13 sub-strategy since the asset class's inception. And so
14 these strategies would be post-'99. Strategies are on
15 the left. The performance is going to be the third
16 column from the right, labeled Asset Class IRR, and the
17 benchmark, the second column from the right, labeled
18 Cambridge Mean.

19 So as you can see, the total portfolio labeled
20 post-'99 has exhibited strong performance since
21 inception at 12.2 percent versus a benchmark of 10.4
22 percent. The legacy portfolio has materially
23 underperformed its benchmark at 3.7 percent versus a
24 15.2 percent peer benchmark return.

25 And so within our strategies, our U.S. and

1 non-U.S. buyout portfolios, our distressed portfolios
2 and our secondary portfolios have all outperformed,
3 while venture capital and growth equity have
4 underperformed and are trailing the benchmark.

5 One note, our venture capital portfolio and our
6 U.S. growth equity portfolio have all exhibited very
7 strong performance as of late and are maturing. We
8 would expect both of these to be at or near their
9 benchmark in the near future. Growth equity we would
10 expect to pass its benchmark here soon. Venture
11 capital will get there.

12 Our non-U.S. growth equity portfolio has
13 underperformed, has severely underperformed its
14 benchmark, at 5.6 percent versus the benchmark of
15 13 percent. There are two funds that are in the
16 non-U.S. growth equity category, so we're still
17 building this portfolio out. But unfortunately both
18 funds have underperformed our expectations.

19 So recent activity, in 2013, we committed
20 \$1.9 billion to 18 funds, \$1.2 billion to 11 buyout
21 funds, \$410 million to three venture capital funds,
22 \$170 million to two distressed funds, and 75 million
23 each to a growth equity and a secondary fund. If you
24 look at our 11 buyout funds, the breakout there would
25 be six of those funds were U.S. funds, four European

1 funds and one Asian fund.

2 So finally I'll end with some of the major
3 initiatives in our program. First being the small
4 buyout program. So we would classify small buyout as
5 fund sizes less than a billion. Up until last year we
6 had historically accessed this market through fund of
7 funds. So fund of funds are managers who commit to
8 other managers, in our case small buyout managers on
9 our behalf. This is a very fee intensive model of
10 investing and one that did not produce the returns that
11 we had hoped for.

12 We have since committed to investing directly in
13 the small buyout market, as we do with every other
14 strategy in the portfolio. To accomplish this, we've
15 added a new portfolio manager position to the team,
16 which gives us more bandwidth to handle what will
17 likely be 10 to 12 new relationships in the small
18 buyout space.

19 MR. COLLINS: So we invested in a fund of funds?

20 MR. BRADLEY: Correct.

21 MR. COLLINS: By emerging managers or small?

22 MR. BRADLEY: It would be small. We would say
23 small or emerging, but it would be fund sizes --

24 MR. COLLINS: 200 million and below?

25 MR. BRADLEY: No. Probably 700, 600 million and

1 below.

2 MR. COLLINS: Okay. And it didn't go well?

3 MR. BRADLEY: It's underperformed, and it's
4 underperformed what we've done ourselves on the direct
5 side. And it's largely underperformed just due to the
6 fee drag of a fund of fund model, that fee on top of a
7 fee.

8 MR. COLLINS: And who was the manager?

9 MR. BRADLEY: The two managers we've used have
10 been RCP Advisors and Grove Street. And they have put
11 together very good portfolios. So when you look
12 through to the funds that they've invested on our
13 behalf, they are very, very high quality funds.

14 MR. COLLINS: But?

15 MR. BRADLEY: But when we layer the fee on top of
16 the fee, the drag that that creates has just
17 underperformed our expectations.

18 MR. COLLINS: And so how much underperformance
19 relative to our direct would you say it is?

20 MR. BRADLEY: It's probably in the magnitude of,
21 versus the benchmark, 100 basis points maybe. So these
22 typically charge a 1 percent management fee. So you
23 can kind of see where the drag is coming from. But
24 that's also relative to what we've done on the direct
25 side, which is outperform our benchmarks by a few

1 hundred basis points.

2 So when we look at that spread, you know, for us
3 to take that in-house, we needed to add another team
4 member. We've done that. And to date, we've done one
5 transaction in the small buyout space, and we've been
6 really pleased with the funds that we're seeing, the
7 sourcing that we've had, and we're working on a few
8 funds today.

9 MR. COLLINS: So you'll do it, but you'll do it
10 direct.

11 MR. BRADLEY: Absolutely, yes. And we're actually
12 going to increase our dollars in this space. So there
13 will be -- more of our commitments will go to the small
14 buyout space. So when I say that we're going to add 10
15 to 12 new funds, that's going to come at the expense of
16 large buyout and middle market buyout. We're going to
17 shift those relationships back downstream.

18 So, finally, we continue to explore using the
19 secondary market as a portfolio management tool,
20 selling or buying positions opportunistically. The
21 secondary market historically transacts at discounts to
22 market value roughly in the low to mid teens range.
23 However, pricing in today's market, it's around par or
24 better with many well regarded funds trading at 10 to
25 15 percent premiums above market value.

1 And so this feels very frothy to us. It's not
2 something the secondary market has seen since 2007,
3 2008. We took advantage of this exuberance last fall
4 to clean up some of our older legacy funds in the
5 portfolio. We sold 18 partnerships in October, the
6 average age of which was 13 years old, to a secondary
7 buyer. We were very pleased with the pricing and the
8 outcome of the sale, and today we continue to evaluate
9 opportunities to sell non-core positions in the
10 portfolio.

11 Lastly, we're also building the capability
12 internally to selectively buy positions on the
13 secondary market. This is not a focus today, given
14 pricing. But should the market correct and discounts
15 widen, we want to be in a position to act if we deem it
16 appropriate.

17 MR. WENDT: When you say small buyout, is that
18 small fund or small deals in the fund?

19 MR. BRADLEY: It's both. It's a small fund,
20 classify it as fund sizes less than a billion, and
21 those would also then imply smaller enterprise values
22 for the companies that they're buying.

23 MR. WENDT: Take a guess at what you think the
24 average of your billion dollar fund would be in
25 transaction size.

1 MR. BRADLEY: The average billion dollar fund
2 would probably have an enterprise value of --

3 MS. DOYLE: 50 to 150 million dollars.

4 MR. BRADLEY: Yeah. I was going to say
5 \$50 million for a company.

6 MR. WENDT: Per transaction.

7 MR. BRADLEY: Yes.

8 MS. DOYLE: Right. But some of those small buyout
9 -- when we talk small buyout, some of them will go all
10 the way down to \$30 million a transaction.

11 MR. BRADLEY: So we do look through the
12 transaction. So there are -- not a lot, but there are
13 funds in the market, it might be a billion dollar fund,
14 it might have five positions in the fund. But we would
15 look through that and say, you know, those are middle
16 market companies, this isn't going to qualify. Even
17 though the fund size might be within the range of a
18 small buyout fund, we wouldn't invest in that.

19 MR. WENDT: Thank you.

20 MR. BRADLEY: That's all I have, unless there are
21 any questions.

22 MR. DANIELS: Thank you, John. Thank you to the
23 Cambridge team.

24 MR. COLLINS: Thank you, everybody. Really good.

25 MR. DANIELS: It appears that we are back on

1 schedule, but that was not our goal. Can we move on to
2 the asset class senior investment officers program?

3 MR. WILLIAMS: Yeah, why don't we do that. And
4 just for everybody's benefit, let's make clear, this is
5 not going to be a repeat of the depth we just did on
6 private equity in every asset class. So why don't we
7 lead off with global equity. Scott?

8 MR. SEERY: We provided just a few slides about
9 the environment, performance and asset class
10 initiatives. I won't belabor the first couple of
11 slides, other than to say that, although this is
12 talking about the first quarter, I'd say it's generally
13 reflective of the current environment, although global
14 equity markets gained almost 3 percent in the second
15 quarter, which is more than double the pace of the
16 first quarter, and global markets are through the end
17 of May about 4 percent ahead.

18 Looking to the performance on page three, I think
19 Ash pretty much characterized what our performance has
20 been. Over more recent periods we have kept pace but
21 not distanced ourselves from the benchmark. Although
22 if you look over the longer period, one, three and
23 since inception, we are still nicely ahead of the
24 benchmark.

25 Initiatives, since we first formed the asset class

1 in July 2010, there have been a lot of initiatives. At
2 this point these are more refinements and niche areas
3 within the market. One of those is China A share
4 market. It has historically been available only to
5 domestic investors. There are mixed opinions as far as
6 the attractiveness. But we have a manager, we have a
7 relationship now in both small cap and emerging who has
8 expertise and on-the-ground staff, and we think that
9 there can be an opportunity for us. And we're
10 currently working through the contractual arrangements
11 there.

12 The other one is the U.S. Microcap. We talked
13 about this last time. We have moved forward and are
14 working to finalize the contract with a fund of fund
15 manager. Again, another niche area, which we think we
16 can add some value on the margin.

17 The other two initiatives relate to operational.
18 We periodically review our trade cost analysis
19 providers to ensure that we continue to have
20 best-in-class providers. The RFIs came in today, as a
21 matter of fact. We're currently reviewing those on
22 both the equity and the currency front. It may be one
23 provider, it may be two providers, it may be three,
24 depending on who offers it best in each of those areas.

25 The other thing is we funded the currency overlay

1 managers, which we also talked about previously in
2 March. One of the managers has a strong preference for
3 a prime brokerage relationship, to allow him to face
4 off against more counterparties. We've been working
5 with Lamar to develop that relationship. I don't
6 think -- I think that will be online reasonably soon.

7 The other thing I wanted to remind you of is that
8 we continue to provide significant liquidity to meet
9 benefit payments. They have been on the order of about
10 \$700 million. And because of the liquid nature of our
11 asset class, we are able to quickly and at a relatively
12 low cost provide those funds as needed. That's pretty
13 much it.

14 MR. WILLIAMS: Thank you. Questions? Why don't
15 we move on to fixed income. Katy?

16 MS. WOJCIECHOWSKI: Just a couple of quick
17 comments about fixed income. I think that both Deb and
18 Michael Commarato did a great job talking about the
19 market in general. We have had good returns, positive
20 returns. As we know, there have been challenges in
21 fixed income. Rates have not gone up a lot. Global
22 pressures, things like that are causing them to stay
23 low, possibly go lower.

24 Current yield on our benchmark is 1.9 percent-ish.
25 So don't expect huge returns going forward. But we've

1 seen a lot of our returns from people reaching for
2 yield, which is concerning. I think somebody had a
3 great chart about covenant-lite, things like that going
4 on in the marketplace. But we continue to see concerns
5 in the marketplace, but everyone is chasing yield.
6 Everything is okay, the world is okay until it's not.

7 As such -- let me just do a couple of quick things
8 so I don't go out of order. If you look at the next
9 page, our returns have been good over all periods. But
10 as you'll see, we have -- and if you look at the value
11 added risk number, on the one-year basis especially,
12 we're very low on risk right now. That's both
13 internally and externally, with our six external
14 managers.

15 Everyone has been ratcheting down risk, I would
16 say, because we're concerned that we're reaching for
17 yield and there's not a lot of return opportunity. So
18 I wouldn't expect huge things out of fixed income going
19 forward. I think we already discussed this. Low
20 growth in the U.S., lower growth globally. The world
21 is okay until it's not.

22 And then the last thing, security selection has
23 become much more important, very selective on what
24 we're willing to take risk on. We have been --
25 actually, this week we had a sell program on, this week

1 and last week, so just kind of taking off some of our
 2 corporate credits that have done very well. But when
 3 you can only pick up seven basis points over
 4 Treasuries, it seems like we might as well just sit in
 5 Treasuries at that point. And tactically we're
 6 hunkering down again. That's about it.

7 MR. WENDT: I think someplace in here, in this big
 8 book, there's information on how much is international
 9 or non-U.S. stuff. Can you remind me, how much is
 10 non-U.S. in terms of your bond buying?

11 MS. WOJCIECHOWSKI: In terms of our -- in
 12 investment grade?

13 MR. WENDT: Yeah.

14 MS. WOJCIECHOWSKI: Very little. We'll go into
 15 some sovereigns. It's all investment grade. Very
 16 little in this portfolio.

17 MR. WILLIAMS: Thank you, Katy. And just for the
 18 group's benefit, I want to say Katy and her team have
 19 done an unbelievable job. They lost a key person, who
 20 was hired away by a private firm in Atlanta some months
 21 ago and is, I believe, leading the effort for their
 22 unconstrained fixed income product there. But we're
 23 working on filling that position. She and her group
 24 have done a terrific job.

25 With that, Mr. Spook, should we move on to real

1 estate?

2 MR. SPOOK: Good afternoon. My name is Steve
 3 Spook. I believe I've met most of you. I'm just going
 4 to do a short presentation. I know time is short, and
 5 just three months ago I did a deeper dive into real
 6 estate, similar to what John just did.

7 We'll start with performance, which as you can
 8 see, we have outperformed over all time periods. We
 9 attribute most of that outperformance to a superior
 10 stock selection and historically low leverage. So in
 11 times of distress we're generally not forced sellers.
 12 Historically we've had a focus on internal management,
 13 which keeps down the fees also.

14 Some highlights on the portfolio. As you realize,
 15 recently we increased our target allocation from 7 to
 16 10 percent. We are using a five-year pacing model,
 17 similar to what private equity is using, to avoid
 18 vintage year risk. Core investments have strong
 19 outperformance, driven primarily by the internally
 20 managed portfolio, as opposed to our core open end
 21 funds. Again, we have a fee advantage in that area.

22 Non-core investments have outperformed over the
 23 one and three year periods. Longer term performance
 24 was impacted by legacy investments made at the peak of
 25 the market. That's kind of reflected in the five year

1 numbers, which are finally starting to look a lot
2 better versus the benchmark, as some of those legacy
3 investments roll out of the five year.

4 MR. WENDT: Steve, your one and three numbers are
5 so high, you've been harvesting, I gather?

6 MR. SPOOK: I'm sorry?

7 MR. WENDT: Your one and three year returns are so
8 high that you must have been harvesting, you must have
9 been selling a lot of stuff?

10 MR. SPOOK: We have been harvesting. I wouldn't
11 say a lot of stuff. But we have been taking advantage
12 of very strong markets, so we'll take some of our less
13 strategic assets that are maybe getting some age on
14 them or the market has changed in their area and the
15 market is pricing right, there was such a strong --
16 most of our assets are core assets.

17 MR. WENDT: Is it a responsible question, right
18 question to ask, to say do you have like every year a
19 budget of sell 10 percent or 20 percent or something
20 like that? Do you ever set up a goal like that, or do
21 you just wait for what you think is the time?

22 MR. SPOOK: Well, we kind of have a budget in our
23 pacing model for buying. For selling, we do --

24 MR. WENDT: I meant selling.

25 MR. SPOOK: Yeah. We do it on an asset-by-asset

1 basis. Each asset on the direct-owned portfolio has an
2 annual business plan. And as part of that annual
3 business plan, there's a rigorous buy-sell analysis.
4 Our managers, our separate account managers who don't
5 have discretion, they may make a sell recommendation
6 that staff may disagree with because we're looking at
7 it from a total portfolio basis. And so they may say
8 it's time to sell this office asset in New York, but
9 the total portfolio construction view, we have other
10 separate account advisers, so we may have a desire to
11 maintain exposure to that asset, even though from their
12 perspective, it may be time to sell it.

13 MR. WENDT: Do you do any developing investments?
14 In other words, do you build them from the ground up,
15 or do you always buy an existing property.

16 MR. SPOOK: Well, you set it up pretty good for
17 the next slide.

18 MR. WENDT: I wasn't sure how old they were here,
19 but nice pictures.

20 MR. SPOOK: And I'll hit those in just a second.
21 We also have a target of 10 percent to REITs. And
22 those REIT portfolios, we have four external managers.
23 They've consistently outperformed over all time
24 periods, as has the agriculture portfolio. And we do
25 have currently six build-to-core projects in the

1 pipeline. Core pricing is so rich right now that we
2 think this is a good way to access great assets in
3 markets that we'd like to be in long-term, so you can
4 build a return on cost far lower than what the yield
5 would be if you bought a core asset.

6 We do have limitations on that. Within the
7 internally managed portfolio, what we call principal
8 investments, only 10 percent of that can be build to
9 core. Of course, as it stabilizes, some roll out and
10 then you've got room to do some others.

11 MR. COLLINS: Is that multifamily today, or is
12 that -- what is that today? What are those six
13 projects?

14 MR. SPOOK: Most of them are multifamily, because
15 when we started the build-to-core program, that was the
16 opportunity. There was a great shortage of
17 multifamily, especially as home ownership rates were
18 falling. We still think very selectively that there's
19 good opportunities there. Some markets are starting to
20 get overbuilt. There's very little new supply of
21 commercial real estate coming on. But what there is is
22 mostly multifamily. That's where the opportunity is.
23 If we're going to do office, like one of the assets I'm
24 going to show you, that was 50 percent pre-leased.

25 MR. COLLINS: And so your return on cost that

1 you're underwriting on a multifamily deal -- I know
2 you're probably not doing -- starting more maybe.
3 Maybe the ones you have in place, you've had them in
4 for the last year or so. But your return on cost on
5 those, do you think the average of that is above a
6 seven?

7 MR. SPOOK: No. It's below that today.

8 MR. COLLINS: But it still beats core pricing in
9 the market by a couple hundred basis points.

10 MR. SPOOK: Again, if you can build to a six and
11 that same asset in that market would sell for four,
12 four and a quarter, it has a big spread.

13 MR. COLLINS: And is it with one manager?

14 MR. SPOOK: No. Three managers.

15 MR. COLLINS: And different geographies.

16 MR. SPOOK: Different geographies. And so the
17 return on cost numbers that you see in here are at
18 underwriting. And when we do return on cost, that's on
19 un-trended rents. So if we underwrote a project two
20 years ago and rents have now risen 10 percent,
21 obviously that return on cost is going to be much
22 higher.

23 MR. COLLINS: Right.

24 MR. SPOOK: In fact, that's what has happened.

25 MR. COLLINS: Okay.

1 MR. SPOOK: So this is a multifamily deal in the
2 Galleria in Houston. It's directly across the street
3 from a brand new Whole Foods. It's just a great area
4 and a first-in-class joint venture partner. The plan
5 would be to buy, with most of these, where we have
6 joint venture partners, buy out the partner at
7 stabilization and keep it in the portfolio. We always
8 do have the optionality, if we see that the market has
9 changed, there's too much supply in the market or we
10 just get a ridiculous offer, we have optionality not to
11 keep it in the portfolio and sell it upon completion.

12 This next one is only about a block or two away
13 from the one I just showed you. This is office, and
14 this was 50 percent pre-leased. It is now completed,
15 and we're up to about 70 percent leased. It would have
16 been 100 percent leased already except the anchor
17 tenant had a right of first refusal on anything beyond
18 the 50 percent until this past April. So we waited
19 them out, because obviously they were at a much lower
20 rent than we could get smaller, newer tenants today,
21 because their right was on their original rent. It's
22 also the first speculative -- one of the first
23 speculative new office developments in the Galleria in
24 25 years.

25 This building just recently topped out. It's

1 across the street -- again, with our Whole Foods
2 strategy, it's directly across the street from Whole
3 Foods' headquarters and their flagship store. Again, a
4 great JV partner in Austin. While there is some new
5 supply coming on, they are adding jobs, just like
6 Houston, like mad.

7 This is already delivered. It's already
8 60 percent occupied. It's right across the street from
9 Amazon. Amazon just continues to expand and expand and
10 expand over there. It's in the South Lake Union
11 district, just north of downtown Seattle. And this
12 thing is already exceeding pro forma as far as all the
13 rents that we're achieving, and it's going to be a
14 great deal.

15 And this is our most recent one. As many of you
16 may know, Santa Monica is extremely hard to get into.
17 We got together with the JV partner, had control of a
18 very great site, and this one we would anticipate being
19 a very long-term hold.

20 MR. COLLINS: This is apartments?

21 MR. SPOOK: This is apartments.

22 MR. COLLINS: You wouldn't convert it?

23 MR. SPOOK: We generally build in finishes that
24 would allow us to convert, but we wouldn't convert
25 ourselves. If you can find, at exit, a seller who is

1 willing to pay based on that pricing, you're obviously
2 going to have totally different pricing than selling to
3 a core partner buyer.

4 And this is not a JV. We have a developer working
5 directly for us, Airport North Industrial. It's right
6 off the 826, if you know the area. Miami is extremely
7 supply constrained. You've got the Everglades on one
8 side. You've got the Atlantic on the other side. It's
9 growing. It's a growing market. The port is Super
10 Panamax ready. They've got the tunnel. This also
11 benefits from obviously being next to the airport,
12 which is the largest cargo airport in the U.S. It's
13 going to be four buildings. We plan to build one,
14 maybe two buildings at a time. As they lease up, we'll
15 start the other buildings.

16 MR. COLLINS: So that's your first building under
17 construction right there?

18 MR. SPOOK: Yes. And that should deliver in a
19 week or two. As far as activity year to date, that's
20 calendar year to date, not fiscal year to date. We
21 closed on a New Jersey Industrial Portfolio. We viewed
22 that as very strategic. We are underweight versus our
23 benchmark to industrial and definitely underweight to
24 northern New Jersey, which is one of the major markets.
25 Two small Boston retail assets which are part of a

1 larger high street retail aggregation strategy. A New
2 York office building on Broadway, in the Times Square
3 South neighborhood, which is benefiting from the tech
4 boom, and Midtown South. As they get priced out of
5 Midtown South, they're moving.

6 MR. COLLINS: Is that Broadway and the 39s or
7 Broadway and --

8 MR. SPOOK: 37s. Very prominent building. It's a
9 prewar building.

10 MR. COLLINS: And what is it? It's an office
11 building?

12 MR. SPOOK: It's an office building.

13 MR. COLLINS: Are you going to convert that?

14 MR. SPOOK: To residential? We're not looking at
15 that. Maybe one day. Those are hopefully going to
16 have long enough leases in there that that would be a
17 very difficult strategy.

18 MR. COLLINS: A lot of people doing it.

19 MR. SPOOK: The LA multifamily development is the
20 Santa Monica one that I pointed out to you a little
21 earlier. Three student housing assets, two of them in
22 Tampa, one in Milwaukee, and that would be Marquette
23 University student housing. California vineyard, lots
24 of people here raised their hands to do an inspection
25 there, including Peter.

1 MR. COLLINS: We're in. Right side of the table
2 down here, we're in, everybody from the left on down.

3 MR. SPOOK: And that one is going to be -- it's
4 about 500 acres, about half of it of which is currently
5 planted in grapes. The other half is in blueberries,
6 which we plan to tear out and develop into further
7 vineyards. And recently we've made commitments to the
8 funds that you see there, Tristan, Carlyle, Europa;
9 Tristan and Europa being our first European
10 investments.

11 MR. COLLINS: So did you close on the Tampa asset
12 in 2013? Is that why you don't have it here?

13 MR. SPOOK: Yes.

14 MR. WENDT: Is the Carlyle investment in addition
15 to the billion dollars that John mentioned?

16 MR. BRADLEY: Yes.

17 MR. WENDT: Do we have money from them in other --
18 any other thing we'd be doing with them? And I don't
19 care about them. I'm just curious as to whether we
20 have manager situations scattered around.

21 MR. WEBSTER: We do have a mezzanine fund with
22 Carlyle in strategic investments, but that's all.

23 MR. WENDT: How much would that be?

24 MR. WEBSTER: Today it's about 50 million in asset
25 value.

1 MR. WENDT: Do you ever examine total commitments
2 to a given manager? I'm not sure it's important, but
3 I'm just curious.

4 MR. WILLIAMS: Yes. And our view is -- if I may,
5 Mr. Chairman. Our view is, to the extent we can find
6 really strong partners that have huge reach, take
7 somebody like a Blackstone, for example, then it's not
8 at all unlikely for us to have relationships with them
9 on a number of levels, and we absolutely look at them
10 holistically, not only from a sum of the parts view but
11 also from a counterparty risk perspective. We have to
12 think about them in all kinds of ways.

13 MR. WEBSTER: Gary, my apologies. We have
14 95 million with a Carlyle mezzanine.

15 MR. SPOOK: And on to the last page. U.S. real
16 estate markets, we expect real estate markets to
17 continue to improve in 2014. Obviously, one of the big
18 concerns in real estate is that there will be increases
19 in interest rates, which would raise cap rates and
20 decrease values. We do think that there's currently a
21 sufficient spread between cap rates, even though they
22 are low for prime assets, and a risk-free rate that
23 real estate values can stand up pretty good to moderate
24 increases, as long as they're measured increases and
25 NOI at the individual property level keeps pace. So

1 very key to us is making sure that we are able to grow
2 net operating income at the property level.

3 I mentioned earlier, supply pipelines are
4 rebuilding. The biggest part of that is in
5 multifamily. Probably the lowest part of that is in
6 retail. Office starting to tick up. Industrial has
7 already ticked up.

8 Private real estate values have fully recovered in
9 the prime sector. There's a clear bifurcation between
10 non-prime real estate and prime real estate, so in
11 gateway cities and secondary cities or secondary
12 locations, or properties that need fixing to bring up
13 to a core standard, very clear bifurcation there. I'm
14 ready to take any questions you may have.

15 MR. WENDT: Early on in the conversation we were
16 talking about construction lending. You said, I think,
17 that you had a restriction of 10 percent of something,
18 I gather it would be your portfolio, in construction or
19 building activities; is that right?

20 MR. SPOOK: We have an internally managed
21 portfolio, what we call principal investments. And
22 that's where we don't give discretion, so we own
23 individual assets. And that portfolio is currently
24 about 50 percent of the total portfolio. The remainder
25 made up of commingled funds, REITs, or commingled funds

1 and REITs for the most part.

2 Of that 50 percent internally managed portfolio,
3 we have a limitation of 10 percent of that portfolio in
4 non-core strategies. So that would be build to core.

5 MR. WENDT: But 10 of 50?

6 MR. SPOOK: Yes.

7 MR. WENDT: Of 10, so really a half of one percent
8 of the whole thing is all you can do, right?

9 MR. SPOOK: Yeah. That --

10 MR. WENDT: Is that something you guys set?

11 MR. SPOOK: That's part of policy.

12 MR. WENDT: If we had the chance to set it, we'd
13 like to meddle in on that probably. I picked that up,
14 that you had a rule out there that we didn't know
15 anything about.

16 MR. COLLINS: One question, one more question.
17 The direct stuff that you're doing today,
18 non-development and non-fund investing, the direct --
19 you know, the office building in New York, what are you
20 looking at your leverage these days? What are you
21 thinking about your overall percentage and where you
22 want to be, or do you fix it on a portfolio basis, or
23 do you do it asset by asset?

24 MR. SPOOK: We have limitations both at the asset
25 level, at the sub-portfolio level, which is the

1 internally managed principal investments. So at the
2 asset level, we're restricted on core investments no
3 more than 50 percent leveraged. If it's a joint
4 venture, we can go up to 65 percent, because your
5 partner usually needs leverage.

6 At the -- I think I said this. The principal
7 investments level, as a portfolio, we're limited to
8 25 percent. Keep in mind ODCE is about 25 percent
9 today. And at the total portfolio level, which
10 includes higher leverage, opportunity funds and all,
11 we're restricted to 40 percent. Currently we're about
12 32 percent. On the New York asset in particular, we
13 just did a 40 or 45 percent loan to value and got close
14 to a 3 percent interest rate on that.

15 MR. COLLINS: And how long -- what did you do on
16 the term? Did you float it or did you fix it?

17 MR. SPOOK: It depends on the strategy. If we
18 think it's going to be --

19 MR. COLLINS: On New York.

20 MR. SPOOK: New York, it was a fixed 10 years.

21 MR. WILLIAMS: Good. Then why don't we move on to
22 strategic investments. And then once Trent has wrapped
23 that up, we'll go to Hewitt EnnisKnupp and have the
24 overall major mandate review and the DC piece before
25 that.

1 MR. WEBSTER: Thanks, Ash. Just because we're the
2 odd duck of the bunch here, I thought a refresher on
3 some of our policy objectives might be in order. We
4 are the asset class which is charged with generating an
5 absolute return over time of 5 percent above CPI. That
6 doesn't mean we won't go down. It doesn't mean we
7 won't take beta. But when we construct a portfolio,
8 we're attempting to generate a return of 500 basis
9 points or more above the Consumer Price Index.

10 The second thing that we're charged with doing is
11 to diversify the FRS pension plan. We look at that in
12 two ways. The first one is to invest in alternative
13 sources and alternative streams of economic returns.
14 And the second thing that we do is that we try to
15 dampen the volatility of the total FRS.

16 Our third objective that we are charged with is to
17 provide a potential hedge against inflation. There's
18 no inflation, at least no price inflation, measurable
19 price inflation in the economy today, but there might
20 be in the future. So we have the option of investing
21 in inflation hedges. We do have part of the portfolio
22 that have inherent hedges within them. But it isn't a
23 big part of the portfolio at this time.

24 And finally we have the opportunity to invest
25 opportunistically across different asset classes. The

1 overriding philosophy that we have pertaining to
2 investment flexibility is that we want to be supplying
3 capital to the market when capital is dear and we want
4 to be withdrawing it when it is cheap. It's mostly
5 cheap today.

6 Currently, these are the weights of the portfolio.
7 This is going to change a little bit. We're on the
8 docket at the next IAC meeting. We'll be making our
9 full presentation. This might look a little different
10 because we're currently in the process of reclassifying
11 our real estate debt, which we include in there. That
12 50 percent debt weighting, we will move that to real
13 assets. We have 11 to 12 percent in real estate debt.
14 So when you look at this next quarter, if we have done
15 the changes in policy in time, it might look a little
16 different. Don't worry. We haven't made any dramatic
17 changes, but the weights will cosmetically be -- will
18 differ.

19 So currently, in the 50 percent debt, the
20 portfolio, are senior loans. We have distressed
21 securities. We have credit hedge funds, and we have
22 mezzanine securities. The definitions are a little
23 fuzzy, admittedly. But that's one of the crosses we
24 bear in this alternative asset class.

25 Equity is roughly 21 percent. That's comprised of

1 equity long/short hedge funds. We've got some activist
2 funds, as well as two general partnership entity level
3 investments. Real assets currently are commodities,
4 infrastructure and timber. They're 5 percent. We plan
5 to shift our real estate debt in there, so that will go
6 up.

7 Flexible mandates right now are currently
8 multi-strategy hedge fund and event-driven hedge funds.
9 And special situations is the everything else. So
10 we're the miscellaneous asset class, and special
11 situations is the miscellaneous part of the
12 miscellaneous asset class.

13 If you flip over here, this is our performance.
14 We were up 3.4 percent in the first quarter, which beat
15 our benchmark by 1.9 percent. Over the last year we're
16 up 16 percent compared to just under 11 percent for the
17 benchmark. As I've stressed, these are very good
18 numbers. We don't expect to repeat them in the near
19 future, but we'll take them when we can.

20 Volatility is 3.2 percent, the Sharpe ratio,
21 roughly 4, and the correlation to the total FRS is
22 37 percent. Both of those are a little -- they look a
23 little better than they really are, because we do have
24 issues with part of our portfolio regarding mark to
25 market in the private funds. So volatility is probably

1 a little higher. Correlation is probably a little
2 lower. But as we're charged with doing in policy, thus
3 far it looks okay.

4 For the quarter, recent activity, we actually had
5 a \$15 million, \$16 million inflow, which is very
6 unusual, considering that we are an asset class that is
7 growing. This was driven partly by a liquidation of
8 one of our hedge funds who decided to go to the beach
9 and kick it in, so kicked back \$250 million to us.
10 That was part of it.

11 But also part of it is -- a big part of it is that
12 our managers are distributing cash back to us at a much
13 faster rate than they are calling it. So even though
14 we are increasing our commitments and investments, the
15 cash is coming back to us at a pretty fast rate because
16 things are expensive.

17 As of the end of the third quarter of the fiscal
18 year, cash outflows will have been 388 million. As of
19 Friday, it was actually around 430 million. Just to
20 give you an example, every year, like John and like
21 Steven, we forecast out what we expect our
22 distributions and contributions and our cash flows will
23 be. We had expected to put out \$1.8 billion this
24 fiscal year, and we're not going to even come close to
25 that, simply because markets have become extended and

1 our managers are taking back cash at a fast rate.

2 We had added three new funds in the first calendar
3 year quarter, the quarter ending in March, totaling
4 275 million. Commitments and investments had been just
5 over 1.4 billion. Since, in this -- in the second
6 calendar year quarter, we've actually added three new
7 funds. It says two here on the second point from the
8 bottom. Since I gave this slide presentation to John
9 to include in the package, we had another manager
10 close. In total, the three new funds have investments
11 and commitments of \$450 million.

12 We have approximately \$1.8 billion of fund
13 investments and commitments in the pipeline. Because
14 we've had a few things close, that's a little lower.
15 So we would expect that \$1.8 billion, at least that, to
16 be invested or committed next year, next fiscal year,
17 starting in July.

18 We flip over. Recent initiatives, our focus over
19 the last year and will be for the near future will be
20 investing in diversifying strategies. We think markets
21 are expensive, and so we are moving into strategies
22 which we think will cushion the asset class. If
23 there's a correction in the market, we have no idea if
24 there's one coming or not, but we think it's a good
25 time to be going into alternative strategies, which

1 should lower the beta of the portfolio.

2 So we currently are in negotiations with two fund
3 of funds to manage a managed futures program for us, a
4 CTA program. What we're also looking at doing within
5 the next six to nine months is to identify passive or
6 rules-based CTAs, the idea being that much of the
7 benefits of managed futures can be captured in very
8 simple models, and you can pay a cheap price for them.
9 So the total cost of the managed futures program should
10 be a little lower than we'd expected.

11 We've been -- staff has met with 30 of the 35
12 global macro managers around the world over the last
13 year. We recently hired one. That's the one that
14 closed or that we funded on June 2nd. We expect to put
15 more money into global macro, as it offers pretty
16 attractive diversifying characteristics.

17 We've written a white paper on royalties, which
18 will be presented next week to the senior investment
19 group, and hope to invest in two to three royalty funds
20 within the next fiscal year. And we have also
21 identified a portfolio monitoring risk system, risk
22 management system, and we're expecting to implement
23 that in the third quarter.

24 Finally, on the market opportunities, as we said,
25 most asset markets are either fair value or expensive.

1 One of the big themes in the market has been the
2 European banks selling assets. There's an estimated 1
3 to \$2 trillion of European bank assets to be sold.
4 From an investor perspective, it's gone much slower
5 than what we had expected, and large pools of capital
6 have been raised to take advantage of that. Thus
7 pricing hasn't been as attractive in the European
8 distressed market as we had anticipated.

9 Returns will be decent, but they won't be
10 spectacular. So if we go back to right here, when you
11 see those returns, those 11, 13, 16 percent returns, a
12 lot of that is being driven by the distressed market of
13 investments that we made three years ago. We'd hoped
14 to repeat that in Europe, but it doesn't appear to be
15 happening. We do think there will be decent returns to
16 it but not sort of the same mouth-watering returns we
17 had in the United States.

18 Pockets of distressed real estate still look
19 attractive outside of core. Especially in the debt
20 markets, we're still seeing some of our managers invest
21 there. But we think residential real estate is still
22 attractive in some markets, but it's difficult to
23 access. There are funds that have gone out and raised
24 capital to buy homes. We have not participated in any
25 of those directly, though some of our managers have

1 indirectly invested in them.

2 The underperformance of trading strategies may be
3 presenting opportunities to us. That was part of the
4 rationale behind managed futures. There are other
5 trading strategies which have significantly
6 underperformed. Strategies tend to be mean reverting.
7 So with stretched valuations and underperformance, we
8 think it's a good time to be entering.

9 Finally, what I didn't add on there is that we're
10 still seeing very attractive investments in the lower
11 end of the mezzanine market, especially out of the
12 non-sponsored area. I saw a deal come by earlier in
13 the week which presented a 12 percent cash-on-cash
14 return. So we're still seeing that, but we're seeing
15 less and less of that. So we'll be presenting next
16 quarter, so we'll go more in depth at that point. Any
17 questions?

18 MR. WENDT: Please just go one layer deeper on
19 your definition of global macro managers.

20 MR. WEBSTER: That's a good question. It's a very
21 broad encompassing strategy. But generally what macro
22 trading is, is it's trading trends in the macro
23 economy. So they trade interest rates. They trade
24 commodities. They may trade currencies. They may
25 trade equity markets. So it's a wide variety of

1 markets driven by macro events.

2 MR. WILLIAMS: Thank you. Why don't we move on
3 then to the investment plan. Joan Haseman.

4 MS. HASEMAN: Just very quickly, these are just to
5 give you some of the data points on the DC plan. We're
6 currently, as of April 30th, sitting at 8.7 billion.
7 As of May 31st, we are now at 8.8 billion. I would say
8 we've done very well for our return. Our one year
9 return, as of 5/31, is now at 11.84 percent, and our 10
10 year return overall is at 6.57 percent.

11 Total calls into our call center, the FRS
12 financial assistance line, has been 286,000-plus calls.
13 Most of that has been to help our members with their
14 initial choice and then with second elections when
15 members are trying to decide whether or not they would
16 like to move from the investment plan back to the
17 pension plan, or from the pension plan back into the
18 investment plan.

19 One of the big initiatives that we have taken over
20 the last 12 months -- and I know we spoke with you, or
21 Ron spoke with you in December about this -- was the
22 transition to a new fund lineup. We have now moved and
23 will be effective July 1st of this year, introducing
24 the 10 retirement date funds, along with commingling
25 and putting together a more actively managed account,

1 as well as still offering our three passively managed.
2 We also introduced the brokerage window, which was
3 rolled out to the plan on January 1st.

4 I wanted to give you an idea of where the
5 allocations were for our investment managers for the
6 new retirement date funds. This is illustrated here to
7 let you know that while we've brought in these 10
8 retirement date funds, we have not lost any of our
9 managers. We did, however, lose one because of low
10 usage by the members. It had actually closed to new
11 members. It was the Fidelity Low-Priced Stock Fund.
12 It had less than 1 percent of the assets. And the
13 decision was made, when we were doing this
14 reorganization, to go ahead and close it down and map
15 its assets.

16 One of the items that I know is important to
17 several of the IAC members was the education program
18 we're rolling out. And I do remember a very strong
19 push to be sure that we talked to the members and also
20 to the employers. So we thought we'd let you see what
21 we've done over the last six months, quite a bit both
22 directly and indirectly through communications, through
23 newsletters. We've had two live webcasts that are now
24 also posted for our members and for the employers.

25 We continue through now until September

1 reiterating the reasons behind the move, make sure our
2 members know what their resources are, make sure they
3 have the kind of areas that they can go to to ask
4 questions and get answers.

5 And that's my presentation. Any questions?

6 MR. WILLIAMS: Thank you, Joan. So then to wrap
7 it up, Mr. Chair, why don't we go to Steve Cummings and
8 Kristen Doyle from Hewitt EnnisKnupp for the major
9 mandate review.

10 MS. DOYLE: Great. Thanks. I'm going to cover
11 performance through March 31st of this year, but
12 overall, if I were to summarize performance of all the
13 major mandates that we review for you all on a
14 quarterly basis, they've all outperformed their primary
15 policy benchmarks over all trailing periods. So
16 overall, very, very strong performance across the
17 board.

18 If we look at the pension plan first, what I'll
19 point out on this chart is the investment earnings that
20 we've seen over the past quarter and fiscal year to
21 date period, so two and a half billion dollars up for
22 the first quarter and a little over \$17 billion earned
23 in investment earnings for the fiscal year to date
24 period. So for both time periods, the investment
25 earnings are far outpacing the benefit payments that

1 are coming out of the fund.

2 This is a snapshot of the asset allocations. So
3 the conclusion here is that the actual allocations to
4 the various asset classes are right in line with the
5 policy allocations. And then performance relative to
6 two benchmarks here. The blue bar is the primary
7 performance benchmark, which is the weighted average of
8 the underlying policy benchmarks for the asset classes,
9 and then the absolute nominal target rate of return,
10 which is the CPI plus 5 percent return target, which
11 was the secondary benchmark. You can see that over all
12 trailing time periods, the pension has outperformed its
13 performance benchmark and over most periods has
14 outperformed the absolute nominal target rate of
15 return.

16 But we've talked about this in the past, that that
17 measure is really better looked at over very, very long
18 periods of time. So in this slide, you can see over
19 the last 20, 25 and 30 year periods the FRS has
20 outperformed its absolute target rate of returns.

21 And then this analysis is relative to peers. So
22 this is the top 10 peer universe created by TUCS. This
23 is the asset allocation, how the asset allocation of
24 the FRS compares to that of the universe. The FRS is
25 overweight to global equity, underweight to fixed

1 income, overweight to real estate and underweight to
2 alternative investments, which includes strategic
3 investments and private equity. But as we know, we are
4 moving more into the alternatives space. We are adding
5 additional to real estate and continuing to take down
6 the allocation to fixed income based on the new asset
7 allocation that was approved last year.

8 So how does that look in terms of performance?
9 This is gross performance now of the pension plan
10 relative to the top 10 median return. And the reason
11 we show gross is just because that's what the universe
12 provides, is a gross return, so making sure we're
13 comparing apples to apples. So the pension plan has
14 either matched the return or outperformed the return
15 over all trailing periods, with the exception of this
16 past quarter.

17 And then here it is in terms of rank. So one
18 being the highest return for a period, 99 being worst.
19 So you can see that for the one and three year periods,
20 the pension was right at the 50th percentile relative
21 to the top 10 peers, in the top quartile over the
22 trailing five year period and, over the trailing ten
23 year period, the best performer. Any questions on the
24 pension?

25 MR. NEWMAN: What was the peak of the total assets

1 last time?

2 MR. WILLIAMS: Would have been probably '07. I
3 wasn't here in '07. I know we're past it now. What
4 was it, John? 147?

5 MR. BENTON: 148 and a half.

6 MR. WILLIAMS: So we're right at it.

7 MR. NEWMAN: So we're pretty much there, right?

8 MR. WILLIAMS: Yeah, we're there. And that's net
9 of all distributions, too.

10 MR. WENDT: A question on chart 13, with the top
11 10, they have a big category called alternatives,
12 17 percent almost. Any idea what that really breaks
13 down into, types of things? It isn't all timber, I
14 know that.

15 MS. DOYLE: No. It's going to be a diversified
16 pool of hedge funds, private equity, commodities,
17 timber probably to some extent.

18 MR. WENDT: But it's probably -- I'm going to
19 guess. You tell me if this is right or not. It's
20 probably just another way to play global equity.

21 MS. DOYLE: Not necessarily.

22 MR. WENDT: Mostly.

23 MS. DOYLE: Well, I wouldn't characterize it that
24 way. These are going to be -- these are investments
25 similar to what Trent is doing and his team with

1 strategic investments and what John is doing in terms
2 of private equity. So when they survey the plans that
3 participate in this universe, these are the asset
4 categories that they give them, and then the plans say,
5 yeah, I've got that much in global equity, I've got
6 that much in alternatives. And alternatives is kind of
7 a catchall for anything that's not global equity, fixed
8 income, real estate and cash.

9 MR. WENDT: I guess I don't need to know, but I
10 think that a good bit of those alternatives are hedge
11 funds, because that's where we put hedge funds, right,
12 in the alternative thing?

13 MS. DOYLE: Correct.

14 MR. WENDT: And that's just another way to play
15 the game, in my opinion.

16 MS. DOYLE: It's a way to diversify away from
17 global equity, in most --

18 MR. WENDT: It's a way to hedge global equity.

19 MS. DOYLE: Sure, yes.

20 MR. WILLIAMS: It's a risk asset, though. So in
21 that category, it --

22 MR. WENDT: All right.

23 MS. DOYLE: So next is the DC plan. So
24 performance here for the DC plan relative to the total
25 plan aggregate benchmark, which is the weighted average

1 of the underlying fund option benchmarks, very strong
 2 outperformance over all trailing periods, indicating
 3 that the fund options are outperforming their
 4 respective benchmarks on a collective basis.

5 The performance that you see in the chart at the
 6 bottom is a little bit dated, but this is based on peer
 7 data that we get from CEM, which is a benchmarking
 8 provider. So the five year average return is right in
 9 line with the FRS peer group. But what I think is even
 10 more important is the five year net value added is much
 11 higher than peers. So for peers there's barely any net
 12 value added over the five year period. The FRS
 13 collectively, the investment plan, has earned 50 basis
 14 points over the benchmark, so very strong alpha
 15 generation. And then the expense ratio is very much in
 16 line with peer plans as well.

17 This is the Hurricane Catastrophe Fund. So,
 18 again, strong outperformance every all trailing
 19 periods, muted returns on an absolute basis, given the
 20 low interest rate environment that we are in, but
 21 overall good performance, what we would expect for a
 22 fund invested the way that this fund is invested.

23 MR. WENDT: How large is this? I didn't see that
 24 number.

25 MS. DOYLE: We didn't include that. The operating

1 fund is a couple billion dollars, I think. Is that
 2 right, John?

3 MR. BENTON: About 8 billion.

4 MS. DOYLE: Then Lawton Chiles, a snapshot of the
 5 asset allocation, again, very much in line. The actual
 6 allocation is in line with policy allocations. And
 7 then consistent with the other mandates, performance
 8 both on an absolute and relative basis has been very
 9 strong. So the Lawton Chiles Endowment Fund has
 10 outperformed its performance benchmark over all
 11 trailing periods.

12 And then the last fund is the Florida PRIME and
 13 Fund B, but we already reviewed that earlier this
 14 morning, so won't go over it again. Happy to answer
 15 any questions anyone has.

16 MR. DANIELS: Are there any questions? Thank you.
 17 I think that concludes this portion of it. Are there
 18 any audience comments? Seeing none, I would ask for a
 19 motion to adjourn.

20 MR. COLLINS: So move.

21 MR. NEWMAN: Second.

22 MR. DANIELS: All in favor?

23 (Ayes)

24 MR. DANIELS: Meeting is adjourned.

25 (Whereupon, the meeting was concluded at 2:50 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter,
do hereby certify that the foregoing pages 3 through 114,
both inclusive, comprise a true and correct transcript of
the proceeding; that said proceeding was taken by me
stenographically and transcribed by me as it now appears;
that I am not a relative or employee or attorney or counsel
of the parties, or a relative or employee of such attorney
or counsel, nor am I interested in this proceeding or its
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand
this 6th day of July 2014.

JO LANGSTON
Registered Professional Reporter



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ATTORNEY GENERAL**

**ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO**

MEMORANDUM

To: Board of Trustees
From: Gary Price, Chairman
Participant Local Government Advisory Council (PLGAC)
Date: September 5, 2014
Subject: Quarterly Update – Florida PRIME™

The Participant Local Government Advisory Council (the "Council") last met on June 16, 2014 and will meet next on September 18, 2014. At the Joint PLGAC/Investment Advisory Council meeting on June 16th, both oversight boards received and discussed several reports covering Florida PRIME™'s investment and statutory compliance as well as the status of Fund B's liquidation. Over the prior quarter, the Council continued to oversee the operations and investment management of Florida PRIME™ and Fund B, reviewing participant transactions, legal and investment compliance reviews, as well as the current market environment for Fund B securities.

CASH FLOWS / PERFORMANCE

- Over the quarter ending June, 2014, participant deposits totaled \$2.8 billion; participant withdrawals totaled \$3.6 billion; transfers from Fund B totaled \$54.3 million, for a net decrease of approximately \$715 million.
- During the 2nd quarter, Florida PRIME™ delivered an aggregate \$3.6 million in investment earnings.
- Performance of Florida PRIME™ has been consistently strong over short and long-term time periods. For the period ending June 30, 2014, Florida PRIME™ generated excess returns (performance above the pool's benchmark) of approximately 11 basis points (0.11 percent) over the last 12 months, 16 basis points (0.16 percent) over the last 3 years, and 15 basis points (0.15 percent) over the last 5 years.

POOL CHARACTERISTICS

- As of June 30, 2014, the total market value of Florida PRIME™ was approximately \$7.2 billion.
- As of June 30, 2014, the investment pool had a 7 Day SEC Yield equal to 0.16 percent, a Weighted Average Maturity (WAM) equal to 40.2 days, and a Weighted Average Life (WAL or Spread WAM) equal to 79.5 days.

SEC ADOPTS COMPREHENSIVE MONEY MARKET FUND REFORMS

- On July 23rd, the Securities & Exchange Commission (SEC) passed a sweeping set of new rules covering institutional prime money market funds.

FUND B

- Including today's Fund B participant distribution, a full 100 percent of the original principal balance has been returned to participants, with no loss of principal.
- As of June 30, 2014, the estimated liquidation value of Fund B securities was equal to 184.44 percent of remaining participant principal positions. As the U.S. residential housing market continues to improve, the fundamentals of non-agency residential mortgage-backed-securities (RMBS) held within Fund B continues to strengthen, raising the underlying value and liquidity of collateral assets. As a result, the fund's investment manager continues to opportunistically liquidate portions of the remaining collateral, with any asset sales being contingent on economic conditions and available market liquidity.



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Date: August 25, 2014
To: Board of Trustees
From: Rodolfo Engmann, Audit Committee Chair *RAE*
Subject: Quarterly Audit Committee Report

The State Board of Administration's (SBA) Audit Committee met on August 25, 2014, and discussed the following:

I. External Audit

Reviewed and discussed the following:

- A. Ernst & Young's 2014 audit plan for the financial statement audits, agreed upon procedures, debt and tax compliance of the 40 wholly-owned entities and 17 joint ventures (JVs) of the SBA. We tentatively approved the scope of work, deliverables, timing and key considerations for the audits.
- B. Results of the following financial statement audits:
 - 1. Ernst & Young's financial statement audits of 16 of the SBA's wholly-owned companies and JVs with September 30, 2013, December 31, 2013 and March 31, 2014 year-end. Ernst & Young reported the following corrected prior period misstatements:
 - a. Potomac Center CF Owner, Inc. (a wholly-owned entity of the SBA) – Certain amounts in the statement of net assets and statement of cash flows for the period ended December 31, 2012, have been corrected to properly present cash and cash equivalents and restricted cash. The Company previously reported the cash reserved for taxes within the overall cash and cash equivalent balance. In the December 31, 2013 financial statements, the Company properly corrected the December 31, 2012 cash balance by presenting the December 31, 2012 restricted cash amount as a separate line item. The Company also properly reported the December 31, 2013 restricted cash amount as a separate line item.
 - b. The December 31, 2013 supplemental investment level financial statements for two JVs of the SBA, North American Logistics Investors, LP (NALI-A) and North American Logistics Investors – C, LP (NALI-C), contain a correction of an error for a reallocation of net income attributed to the years ended December 31, 2012 and 2011. Certain investment hurdles, as defined in each entity's partnership agreement, were met under fair value reporting due to unrealized gains recognized over these periods. This resulted in a

higher allocation of net income to the partners that differed from an allocation based on each respective partner's ownership interest as previously reported. The corrections of \$2,689,328 and \$441,689 for NALI-A and NALI-C, respectively, were recorded in the current period allocation of earnings between the partners and judged immaterial to both the current year and prior years' financial statements.

2. KPMG's financial statement audit of MS Inland Fund, LLC, a JV of the SBA, with a December 31, 2013 year-end. KPMG reported the following uncorrected misstatements:
 - a. The misstatements were identified in conjunction with the December 31, 2012 audit. As these misstatements were not corrected by management, they continue to be an uncorrected difference on the income statement for the year ended December 31, 2013. The unrealized gain on real estate properties for the year ended December 31, 2012 was overstated by a total of \$5.3 million and, therefore, the unrealized gain on real estate properties for the year ended December 31, 2013 was understated by the same amount and the beginning equity is overstated.

KPMG notes that this adjustment represents a difference in estimation methodology rather than a factual error, and therefore KPMG has classified this misstatement as judgmental.

All of the audited financial statements received an unmodified or clean opinion.

- C. Reports on agreed upon procedures, tax compliance, internal control over financial reporting, and compliance with debt covenants. Ernst & Young reported no findings.

Approved a two-year extension of the following contracts:

- A. SBA's engagement with Ernst & Young to audit and report on the financial statements of the Florida Retirement System (FRS) Trust Fund and the FRS Investment Plan Trust Fund
- B. SBA's engagement with KPMG to conduct an examination of Paragon Strategic Solutions Inc.'s description of its Florida Hurricane Catastrophe Fund (FHCF) administrative services system for processing FHCF transactions and the suitability of the design and operating effectiveness of controls, i.e., Statement on Standards for Attestation Engagements (SSAE) No. 16.

Received and discussed the following SBA's proposed changes to the governance of the Real Estate entities:

- A. Transition the selection of title holding companies' (THC's) external auditors from the Audit Committee to the THC's Board of Directors¹

¹ THC's Board of Directors is made up of SBA employees.

- B. Eliminate the Audit Committee requirement for an external audit of each JV's supplemental fair value financial statements (and retain the external audit requirement for each JV's historical cost financial statements)
- C. Eliminate the Audit Committee requirement for external auditors to perform agreed upon procedures for the THCs and JVs

The Audit Committee will discuss further the above proposals at a special Audit Committee meeting on October 13, 2014.

II. Internal Audit

Reviewed the following reports:

- A. Fiscal Year 2013-14 Third Quarter Follow-up Audit which included prior recommendations from five reports:
 - a. Office of Internal Audit's (OIA) Private Equity Operational Audit
 - b. OIA's Securities Class Action Operational Audit
 - c. OIA's Strategic Investments Operational Audit
 - d. OIA's Systems/Servers Backup Operational Audit
 - e. OPPAGA's Report on Florida Growth Fund Investments
- B. Fiscal Year 2013-14 Fourth Quarter Follow-up Audit which included prior recommendations from two reports:
 - a. OIA's Strategic Investments Operational Audit
 - b. OIA's Investment Policy and Economics Operational Audit

Received quarterly progress report from the Chief Audit Executive (CAE):

The CAE discussed the following matters:

- A. Status of 2013-14 Annual Audit Plan:

The CAE reported that five of the seven risk-based internal audit projects and all follow-up audits have been completed. The OIA is awaiting management's response on the two risk-based audits in progress. To date, 172 external auditors' reports, relating to 59 entities, have been completed. OIA reviewed these 172 reports before the reports were finalized. Currently, 18 external auditors' reports, relating to five entities, are in progress.
- B. Status of 2014-15 Annual Audit Plan:

The CAE reported that planning has begun for three risk-based internal audit projects and one follow-up audit.
- C. OIA quality assurance and improvement program
- D. OIA professional staff training and development

E. OIA initiatives, including:

1. Implementation of a continuous auditing tool (IDEA)
2. Incorporation of the 2013 COSO Internal Controls Framework in its assessment of internal controls.

F. Open Recommendations

The table below summarizes the progress made on open Category “A” recommendations as of August 15, 2014. Additional details related to open recommendations are presented in Appendix 1.

CATEGORY “A” RECOMMENDATIONS

	As of 5/19/2014	Changes from 5/19 to 8/15	As of 8/15/2014
Total number of recommendations	513	4	517
Closed recommendations	(463)	(9)	(472)
Open recommendations	50	(5)	45

Category “A” refers to recommendations made either by internal or external auditors. The OIA monitors and performs follow-up procedures on these recommendations in accordance with *The IIA Standard* 2500.A1.² In certain cases, follow-up procedures are performed by external auditors.

As stated in our prior quarter report, there are no remaining Category “B” recommendations being tracked.

III. Enterprise Risk Management and Compliance

A. Compliance Activities

The Chief Risk & Compliance Officer (CRCO) reported that there were no material compliance exceptions during the quarter. The CRCO also reported that the annual self-assessment will be expanded to include the Performance and Risk Analytics group, following the change in the reporting line of the Senior Investment Policy Officer. The report is targeted for issuance in September.

B. Risk Management Activities

The CRCO presented the quarterly Enterprise Risk Management and Compliance Report for the quarter ended June 30, 2014. The CRCO covered several areas of the report, and reported risk levels are within tolerance. The CRCO also reported that strategic projects

² *Standard 2500.A1-The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*

have been incorporated in the biennial Risk Management Plan, targeted for issuance in September.

IV. Other Audit Committee Activities

Governance, Risk Management, and Compliance (GRC) Triennial Review

Discussed and approved the following scope/objectives of the GRC triennial review:

1. Evaluate the maturity, advancement, and direction of the GRC program since its inception.
2. Formally assess the independence and objectivity of the compliance function.
3. Evaluate the GRC protocols relative to internal audit, risk management, compliance, Inspector General, and external auditors, and their interaction with the Audit Committee and Investment Advisory Council.

The Committee requested the CAE to send the above scope/objectives to the SBA pool of auditors and request the pool of auditors to submit a proposal. During the October 13, 2014, special meeting of the Audit Committee, it is expected that the evaluation team will present the selected respondent for the Committee's approval.

APPENDIX 1
STATUS OF CATEGORY "A" RECOMMENDATIONS
AS OF 8/15/2014

1. OPEN RECOMMENDATIONS BY YEAR & RISK RATING

Year	Risk Rating				Total	%
	High	Medium	Low			
2012			1		1	2.2%
2013	3	3	2		8	17.8%
2014	12	12	12		36	80.0%
	15	15	15		45	100%
	33%	33%	33%			

2. DETAILS OF OPEN RECOMMENDATIONS

Report Title	Report Date	Risk Rating				Status			
		High	Medium	Low	Total	NYI	PIRP	OTV	Total
Accounting Reconciliations Operational Audit (OIA)	9/14/2012			1	1		1		1
Securities Class Action Operational Audit (OIA)	5/23/2013	1			1		1		1
Strategic Investments Operational Audit (OIA)	8/5/2013	2		2	4	4			4
Investment Policy & Economics Operational Audit (OIA)	11/1/2013		1		1		1		1
Systems/Server Backup Operational Audit (OIA)	11/1/2013		2		2	1		1	2
Florida PRIME Financial Statements Audit 6/30/13 (Auditor General)	1/28/2014		1		1			1	1
Internet and Web Application Assessments (Ernst & Young)	2/12/2014	6	6	7	19	3		16	19
Disaster Recovery Plan Assessment 2014 (Ernst & Young)	3/28/2014	2	3	3	8	5		3	8
Data Loss Prevention Assessment 2014 (Ernst & Young)	4/11/2014	3	1	1	5	1		4	5
Fiscal Year 2013-14 Third Quarter Follow-up Audit (OIA)	6/3/2014	1	1	1	3			3	3
		15	15	15	45	14	3	28	45
									100%

Category A - Recommendations were made by either by internal or external auditors. The Office of Internal Audit (OIA) monitors and performs follow-up procedures on these recommendations in accordance with the IIA Standard 2500. A.1

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



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**ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO**

MEMORANDUM

To: Ash Williams
From: Michael McCauley
Date: September 5, 2014
Subject: Board of Trustees Meeting – Standing Report / Investment Programs & Governance

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The SBA's Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) met last on June 25th, and will meet next on September 25th. The Proxy Committee continues to discuss ongoing governance issues including the volume and trends for recent proxy votes, significant proxy votes, corporate governance investment factors, major regulatory developments and individual company research related to the Protecting Florida's Investments Act (PFIA).

GLOBAL EQUITY PROXY VOTING & OPERATIONS

For the trailing twelve months ending on June 30, 2014, the SBA voted 10,037 public company proxies covering 92,488 individual voting items. Individual voting items included director elections, audit firm ratification, executive compensation plans, merger & acquisitions, and various other management and shareowner proposals.

2014 Proxy Season

With about three quarters of all annual shareowner meetings for U.S. companies taking place in the first half of the year, the 2014 proxy season has been similar to last year across most voting items. The table below provides major statistics on the SBA's proxy voting activities through the last 12 months ending June 30, 2014:

Votes in Favor of Directors 79.8% (FY2013=81.6%)	Votes with Management 80.6% (FY2013=81.8%)
Votes in Favor of Auditors 94.9% (FY2013=93.7%)	Total Ballot Items 92,488 (FY2013=89,060)
Votes in Favor of All Governance Proposals 62.5% (FY2013=68.2%)	Total Eligible Proxies 10,037 (FY2013=9,820)
Top 3 Voting Markets U.S., Japan, & Hong Kong	Shareowner Proposals As a Percentage of All Votes 2.7% (FY2013=2.2%)

Attached is the SBA governance dashboard, covering major global voting statistics as of June 30, 2014.

KEY VOTING ISSUES

Board of Director Elections —the SBA supported 79.8 percent of individual nominees for boards of directors, voting against the remaining portion of directors primarily due to concerns about candidate independence, qualifications, attendance, or overall board performance. The SBA's policy is to withhold support from directors who fail to observe good corporate governance practices or demonstrate a disregard for the interests of investors. During the first half of 2014, only 34 nominees at 21 companies in the Russell 3000 stock index failed to receive majority support by shareowners as part of uncontested director elections. Board elections represent one of the most critical areas in voting due to the fact that shareowners rely on the board to monitor the performance of a company's management.

Declassifying Board Elections (Annual Election Cycles) — during the 2014 proxy season, the SBA continued its partnership with the Harvard Law School's Shareholder Rights Project (SRP), submitting shareowner proposals at a half-dozen U.S. companies. The shareowner proposals urged repeal of the companies' classified board structure and a transition to annual director elections. The use of annual board terms at S&P 500 companies has increased five percent over the last three years – from 67.4 percent in June 2012 to 74.6 percent in 2014. As a result, management proposals in 2014 outnumbered shareowner proposals by a margin of 71 to 15. Consistent with policy, the SBA votes in favor of all proposals to de-stagger director terms and has been a long-standing advocate of annual elections for all companies, regardless of size or domicile.

Proxy Access — proxy access shareowner proposals facilitate investor-nominated director candidates. This proxy season, six proposals received majority support from shareowners. The SBA voted in favor of 75 percent of proposals submitted by investors. Nine of the proposals, proposing to allow shareowner groups holding at least three percent of shares outstanding to nominate directors, averaged 54.7 percent support.

Executive Compensation — the SBA considers on a case-by-case basis whether a company's board has proposed or implemented equity-based compensation plans that are excessive relative to other peer companies or plans that may not have an appropriate performance orientation. As a part of this analysis, the SBA reviews the level and quality of a company's compensation disclosure—believing strongly that shareowners are entitled to comprehensive reporting on compensation practices in order to make efficient investment decisions.

The fourth year of mandatory advisory votes on executive compensation (Say-on-Pay) in the U.S. saw an increase in overall proposals as companies that elected triennial vote frequency in 2011 held their second advisory vote in 2014. Among the Russell 3000 companies, 76.8 percent received more than 90 percent support for their executive compensation plans. As of the end of June, 51 companies had failed to garner majority support for their plans. The leading proxy advisors, Institutional Shareowner Services (ISS), Glass Lewis, and Farient Advisors, supported executive compensations plans approximately 87 percent, 81 percent, and 83 percent of the time, respectively, while the SBA supported 78 percent of all U.S. pay plans.

Beginning in October 2013, companies domiciled in the United Kingdom, have been required to receive binding shareowner approval for their executive remuneration policy at least once every three years. The proposal requires an approval of a simple majority, 50 percent plus one. The remuneration policy sets out all components of executive pay and the maximum amount payable under each component, including recruitment and exit payments. Once effective, no payments can be made above those limits or outside of the approved components without separate shareholder approval. The SBA has supported 80.4 percent of UK remuneration policies proposed through June.

Sustainable Business Practices — environmental and social shareowner proposals dominated in 2014 with a 15 percent increase, a total of 460 proposals, surpassing governance topics for the first time since the 1980s. Investor proposals to strengthen sustainability reporting requirements or improve environmental disclosures allow investors to better gauge a firm's potential environmental risks and business practices. The SBA supported 79 percent of shareowner resolutions asking companies to publish sustainability reports, 33 percent of shareowner resolutions asking companies to produce reports assessing the impact on climate change, and 33 percent of shareowner proposals designed to improve human rights standards or company policies.

HIGHLIGHTED VOTES

Commonwealth REIT (March, May, and July)—at the March 2014 Commonwealth proxy contest, shareowners (including the SBA) voted to remove the entire existing board of directors due to a history of governance concerns and excessive compensation practices at the expense of shareowners. In May 2014, a special meeting was held to elect the new slate of seven directors, with Sam Zell as Chair (SBA supported all new directors). At the July annual meeting, the SBA supported all directors, but voted against certain management proposals that restricted the rights of shareowners (related party voting rights, board committee structure, and increased shareowner voting requirements).

Coca-Cola Company (April 2014)—the SBA supported 13 of 15 board members, withholding support from two nominees due to over-boarding. The Say on Pay proposal was supported due to improvements over the previous year. However, the company's 2014 equity plan was not supported due to concerns about excessive potential dilution. In addition, the SBA supported the shareowner proposal for an independent board chairman.

Duke Energy Corporation (April 2014)—institutional investors presented a Vote No Campaign on committee members of Duke Energy's (DUK) Board of Directors responsible for regulatory and environmental oversight in regards to its Dan River Coal Ash Spill. The SBA withheld votes for three directors. One for being over-boarded and the other two to encourage the board to replace them on the regulatory policy and operations committee with an independent director and a director with expertise directly related to that sector.

Graftech (May 2014)—in the proxy contest at Graftech, the SBA voted for four management nominees and for one of three dissident nominees, supporting nominee David Jardini, whose industry expertise and knowledge were seen as most likely to strengthen the existing board.

Tata Motors Limited (May 2014)—as part of a postal vote during May and June, shareowners of Tata Motors Limited rejected multiple director compensation items perceived to be poorly designed and overly generous. The ballot items required supermajority voting thresholds of 75 percent among the votes cast, with each proposal failing to receive adequate support with a little over 46 percent of institutional investors voting their shares. One proxy advisory firm in India, InGovern, noted the proposals lacked any linkage between pay and company performance, allowing for increased compensation with declining net income and other financial metrics. In India, companies earning minimal profits are required by law to limit the salaries paid to senior executives. Absent shareowner approval, firms must then claw back salary in excess of the regulatory threshold. Investor activism has increased steadily in India over the last few years, although failed compensation ballot items are exceedingly rare. The SBA voted against all compensation proposals.

General Motors (June 2014)—the SBA voted to support one union-nominated director to the board, and approved management's proposed executive compensation plans.

Honda Motor Corp. LTD. (June 2014)—the SBA voted against the Chairman due to lack of a sufficient number of independent directors and one additional member of the board for being over-boarded (simultaneous service on a high number of corporate boards).

Toyota Industries Corp. (June 2014)—the SBA voted against the Chairman due to lack of independent directors. The SBA also voted against a statutory auditor due to lack of independence, voted against the annual bonus payment due to poor description of hurdles, as well as payments to outsiders and/or statutory auditors. Although Japan's Corporate Law does not require companies to seek shareowner approval to pay annual bonuses, Toyota's voluntary disclosures offers greater accountability for investors to oversee compensation practices at the company.

Booz Allen Hamilton Holding Corp. (July 2014)—the SBA voted to withhold support from several board members due to concerns about their independence and related sub-committee structure of the board of directors. The company qualifies as a "controlled" company as defined by the New York Stock Exchange (NYSE) because one investor (The Carlyle Group) beneficially owns more than 50 percent of the company's voting stock. As a result of this designation,

the firm has elected to be exempt from having a majority independent board and fully independent compensation, nominating and governance sub-committees. Additionally, the SBA voted in favor of a management proposal to convert or eliminate certain classes of common stock to better align their voting rights with economic ownership, and voted against two compensation equity incentive plans due to their poor design and high cost.

Cliffs Natural Resources Inc. (July 2014)—a large shareowner, Casablanca Capital LP, ran a successful proxy contest and gained 6 seats and control of the board. Casablanca requested the company spin off Bloom Lake and Asia Pacific to create Cliffs International, while converting the U.S. assets to a master limited partnership called Cliffs USA, double its dividend, significantly cut SG&A and exploration expense, and divest non-core assets. Cliffs announced that expected 2014 expenditures would be reduced to between \$375 and \$425 million. In response, the company named a new CEO, offered to permit Casablanca to appoint two directors to the board and a third mutually agreed upon director to be named at a later date. In July, the company announced a settlement offer to Casablanca, where the company would offer Casablanca three seats on a reconstituted board consisting of nine directors. If Casablanca was to reject the offer, the board would remain at 11 members and the new board would elect a new Chairman of the board. The company then reduced its slate of director nominees from nine to seven candidates so that if shareholders voted on the company's proxy card they would elect seven management nominees and four Casablanca nominees. Additionally, the company offered to include four Casablanca nominees in their proxy card if the four candidates would give consent for such, and shareowners were allowed to cumulate their voting rights. The SBA supported all of management's nominees.

hhgregg, Inc. (July 2014)—the SBA voted against the advisory vote to ratify named executive officer's compensation due to the company's choice of holding advisory votes on executive compensation on a triennial basis and the compensation committee's limited utilization of performance criteria to determine, at its discretion, the vesting of long-term incentive awards. In addition, the SBA also voted against the proposal to amend omnibus stock plan due to allowing for re-pricing or option exchanges without shareholder approval. The plan also has a number of qualitative and quantitative factors that indicate that the company's equity granting practices are more costly than peer companies when compared to enterprise value. The estimated Shareholder Value Transfer (SVT) of 23 percent is also greater than the company-specific allowable cap of 14 percent, and the plan allows re-pricing through the buyout of awards.

McKesson (July 2014)—in addition to supporting all board members, the SBA voted in favor of several shareowner proposals designed to improve the governance and disclosure of the firm: 1) lowering the threshold (to a simple majority of outstanding shares) to act by written consent to call a special meeting of shareowners; 2) improving the disclosure of the company's political contributions and related expenditures; and 3) prohibiting the accelerated vesting of equity shares in the event of a change in control (thereby limiting the vesting of any unearned equity).

ACTIVE OWNERSHIP

In partnership with the Harvard Law School's Shareowner Rights Project (SRP), the SBA's shareowner proposal at Netflix was "duly approved," passing with over 82 percent support among all shares voted excluding broker non-votes). The SBA's proposal urged repeal of the company's classified board structure and a transition to annual director elections. At the 2013 Netflix meeting, the same SBA proposal garnered 88 percent, marking the second consecutive year the proposal received the support of a supermajority of the votes cast. On September 3rd, the SBA sent a follow up letter to the company's lead independent director, seeking further engagement on a range of governance concerns.

On June 26th, the SBA co-signed an investor letter to the Chair of Petrobras regarding the replacement of an independent director on the Audit Committee. As part of our ongoing engagement with the company, we co-signed the letter along with a couple of external investment managers after learning that the independent director representing the interests of minority shareowners was removed from the audit committee. This director change left the committee with no independent representation and the disclosed rationale for the director's removal was opaque, possibly linked to the director's willingness to challenge the disclosure and quality of the company's financial statements.

LEADERSHIP & SPEAKING EVENTS

Staff may periodically participate in and/or speak at investor events, designed to further regulatory commentary and explain the objectives of the SBA's corporate governance activities. Events that include significant involvement by corporate directors, senior members of management, and other key investor stakeholders are targeted. The following items detail involvement at events that occurred recently:

- On June 23rd, SBA staff was invited to participate in the 2014 Women in Governance meeting. Each year women on the boards of large global companies gather to lunch with the women who elect them—proxy voters at large global shareowners. The meeting included a director-shareowner roundtable, a networking lunch, and a shareowner only meeting. Participants discussed several key issues including the role of proxy advisors, separation of the CEO and Chairman role, director tenure, board evaluation and refreshment (succession planning), and board diversity.
- On July 15th and 16th, SBA staff co-chaired The Conference Board's Roundtable on Human Rights and Corporate Governance. The Roundtable consisted of corporation staff and select investors, discussing how firms' develop and structure their policies and practices—the dialogue focused on risk management of human capital, investor expectations, divestment, global sanctions, and the role of the board.

MARKET DEVELOPMENTS & OTHER REGULATORY COMMENTARY

On June 30th the SEC Division of Investment Management and Division of Corporation Finance issued guidance (Staff Legal Bulletin No. 20) for proxy advisers and investment advisers, providing guidance on investment advisers' responsibilities in voting client proxies and retaining proxy advisory firms, as well as on the availability and requirements of two exemptions to the federal proxy rules often relied upon by proxy advisory firms. The SEC's bulletin is not a formal rule, regulation or statement of the Commission, but does outline several new requirements affecting both proxy advisers and fund managers. The main changes include the following:

Proxy Advisers:

- Required to disclose, "significant relationships or material interests to the recipient of the advice."
- Are not required to register with the SEC.
- Are not required to provide publicly-traded companies time to review proxy advisers' voting recommendations prior to client distribution.

Fund Managers:

- Required to review their proxy voting policies at least annually to ensure proxies are voted in the best interests of investor clients.
- Required to determine whether the proxy advisers they use have, "the capacity and competency to adequately analyze proxy issues."
- Required to determine proxy advisers', "capacity and competency to adequately analyze proxy issues."
- Clarifies that investment advisers that vote client shares are not required to vote *all* proxies or *all* proposals on the ballot. [clarifying SEC Rule 206(4)-6, but essentially confirming existing Department of Labor (DOL) Interpretive Bulletin §2509.08-2]

The guidance has been viewed as a failed attempt by some issuer groups, most notably the U.S. Chamber of Commerce, to place additional regulatory and disclosure burdens on proxy advisors and investment funds. Additional requirements for proxy advisors to disclose "material" interests in relation to companies receiving consulting services is largely positive for clients, although the industry was already taking similar steps through the creation of the Best Practices Group (BPG), in response to a final report by the European Securities and Markets Authority (ESMA) in early 2013. Staff does not expect the new SEC guidance to have any implications for SBA corporate governance activities, voting policies or procedures, as current policies and procedures already meets the new requirements.

CORPORATE ENGAGEMENT

During the second quarter of 2014, SBA staff conducted formal engagements with five companies, including Coca-Cola, Alcoa, and Graftech--the small number of engagements reflects the disproportionately high level of voting activity during the quarter.

On July 2nd, the Shareholder Director Exchange (SDX) sent letters to all Chairman/Lead Directors and Corporate Secretaries of companies in the Russell 1000 stock index. The letter attempts to raise awareness of the SDX Protocol and encourage broader adoption of the engagement framework among large U.S. companies, by asking public company boards to consider adopting and clearly articulating a policy for shareholder-director engagement, whether through adoption of the SDX Protocol or otherwise. During the 2014 proxy season, less than 20 percent of S&P 500 companies publicly reported engagement efforts or policies in their proxy statements. An excerpt from the letter states, "Engagement between public company directors and their company's shareholders is an idea whose time has come. We believe that U.S. public companies, in consultation with management, should consider formally adopting a policy providing for shareholder-director engagement, whether through adoption or endorsement of the SDX Protocol or otherwise. Several prominent U.S. companies are already following this path of engagement and disclosing their engagement efforts – we believe other public companies should follow their lead." SBA staff participated alongside other institutional investors including BlackRock, The Vanguard Group, and State Street.

GOVERNANCE DATA

All global voting statistics as of June 30, 2014, covering prior twelve months of proxy voting.

10,037

Number of eligible votes on public company proxies.

80

Number of countries where SBA cast votes on public company proxies.

78.7%

Votes "for" among all global votes cast.

0.1%

Percentage of all votes not voted due to impediments, liquidity restrictions, or other obstacles.

68.6%

Percent of all global proxy votes where the SBA cast at least one dissenting vote at annual shareowner meetings.

19.4%

Percentage of all votes cast where direction was against the management-recommended-vote.

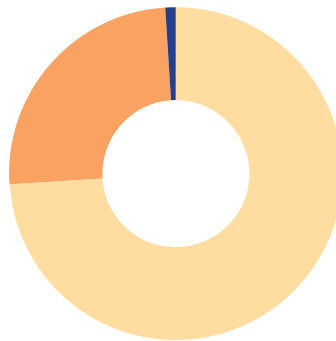
Percent increase in the number of total proxy votes over last year.

2.2%

Percent increase in the number of total individual ballot items over last year.

3.8%

GLOBAL VOTING FOOTPRINT



74%

Percentage of all votes cast in developed markets.

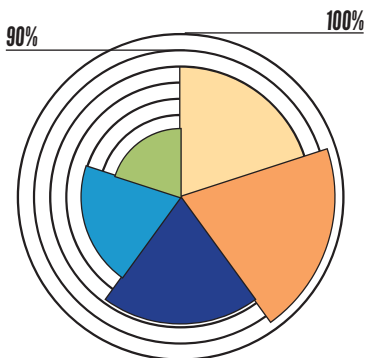
25%

Percentage of all votes cast in emerging markets.

1%

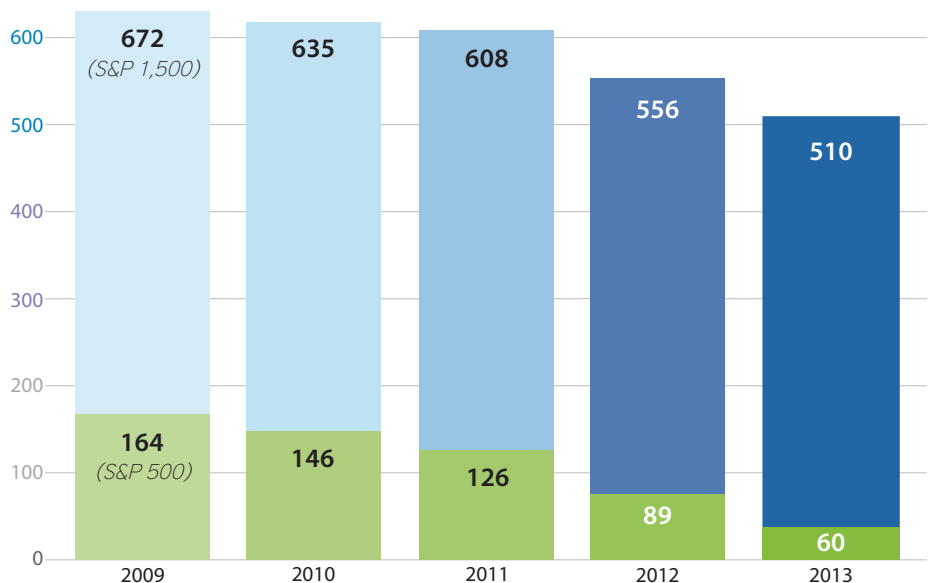
Percentage of all votes cast in frontier markets.

VOTING SUPPORT



- Director Elections
- Auditor Ratification
- Say on Pay (U.S.)
- Say on Pay (Non-U.S.)
- Sustainability Reports

OF COMPANIES WITH CLASSIFIED BOARDS



Source: FactSet Research, SharkRepellent database.



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PAM BONDI
ATTORNEY GENERAL
AS SECRETARY
ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO
From: Maureen M. Hazen, General Counsel *Maureen M. Hazen*
Date: September 5, 2014
Subject: Office of General Counsel: Standing Report
For Period May 28, 2014 – September 2, 2014

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 35 new agreements – including 5 private equity investments, 3 strategic investments, 4 real estate investments, 1 new investment manager agreements for the Global Equity asset class, 1 new investment management agreement for the FRS Investment Plan and 1 new trading agreement for Repo investments for the Fixed Income asset class; (ii) 124 contract amendments, addenda or renewals; and (iii) 11 contract or related terminations.

SBA Litigation.

(a) Passive. As of August 31, 2014, the SBA was monitoring (as an actual or putative passive member of the class) 426 securities class actions. From May 28, 2014 – August 31, 2014, the SBA collected recoveries in the amount of \$813,762.48 as a passive member in 58 securities class actions.

(b) Active.

(i) 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. Pursuant to the Court's master scheduling order, the Court has stayed all answer and motion filing deadlines pending resolution of similar issues in a parallel class case. Several amended complaints have been filed in the action in

which the SBA was originally served in January, 2012 (the “FitzSimons Action”). While responses remain stayed in the FitzSimons case, the court has ruled on the pending motions in the related Deutsche Bank case, and it is expected that a deadline for filing individualized motions to dismiss in FitzSimons will be set by the Court soon. The Court has asked the parties to confer as to how best to proceed with the next round of more individualized motions, which will include motions directed at the FitzSimons case, but no agreement has been reached, and the Court is expected to set out a protocol for dealing with individualized motions to dismiss. There are approximately 1,700 defendants in the FitzSimons case, and the Court has appointed liaison counsel to represent each type of defendant group, including pension fund defendants. At the appropriate time, the SBA plans to seek dismissal on sovereign immunity grounds.

(ii) *In re Lyondell Litigation.* On January 17, 2012, the SBA was served a complaint (along with other defendants) filed in the U.S. Bankruptcy Court, Southern District of New York alleging damages for fraudulent conveyance and seeking the return of proceeds received by all defendant investors that tendered stock in a leveraged merger of Lyondell Chemical Company (which subsequently declared bankruptcy). The SBA received approximately \$32 million in connection with stock tendered in the leveraged merger. On January 14, 2014, the Court granted in part and denied in part the motion to dismiss. The Court denied the motion to dismiss based on Section 546(e) of the Bankruptcy Code (relating to “settled” securities transactions), holding that this provision did not preclude state law claims for constructive fraudulent conveyance. However, the Court granted the motion to dismiss the intentional fraudulent conveyance claim due to insufficient allegations of intentional fraudulent conduct, with leave to re-plead this claim. During the period covered by this report, the SBA continued its discussions with Plaintiff regarding dismissal on sovereign immunity grounds, and the Plaintiff agreed to dismiss the SBA upon the SBA providing a General Counsel affidavit regarding the status of the SBA, among other items. Plaintiff is currently reviewing tis Affidavit, and SBA staff expect a notice of dismissal to be filed shortly.

(iii) *Lehman Brothers, Inc. – SIPA Claim.* On January 29, 2009, the SBA filed a claim in the U.S. Bankruptcy Court, Southern District of New York against Lehman Brothers, Inc. (“LBI”) alleging losses as a result of the sale of unregistered securities by LBI to the SBA on behalf of certain funds (including the Local Government Surplus Funds Trust Fund). This claim is a general unsecured claim and is being administered under the Securities Investor Protection Act (“SIPA”). During past periods, the SBA was served the Trustee’s Objection to the SBA’s Claim, and the SBA served its Response to the Trustee’s Objection. On August 20, 2014, the parties attended a mediation and resolved the claim. As of the date of this report, the SBA and the Trustee were negotiation the Stipulation to present to the Court for approval.

(c) *FRS Investment Plan.* During the period from June 1, 2014 through August 31, 2014, 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 three (3) Final Orders, received notice of filing of three (3) new cases, and continued to litigate eleven (11) cases that were pending during the periods covered by previous reports, including defending two (2) in DOAH and two (2) appellate cases.

Other Matters.

(a) **Public Records and Other Requests.**

(i) During the period covered by this report, the General Counsel’s Office received 29 new public records requests and provided responses to 26 requests. As of the date of this report, the General Counsel’s Office continues to work on 13 open requests.

(ii) During a previous reporting period, the SBA was served a third-party subpoena in connection with the case styled *United State of America v. The Bank of New York Mellon*. On March 28, 2014, the SBA filed its Responses and Objections with respect to a portion of the Subpoena. During the

period covered by this report, the SBA also provided responses to portions of the subpoena not covered by the SBA's Objection and continued to work with the defendant to narrow other portions of the Subpoena.

(b) SBA Rules.

(i) On July 29, 2014, the following rules were filed for adoption and will become effective on August 18, 2014:

Rule 19-11.001 was amended to add a definition of "Retirement Date Fund" and make a technical correction. Rule 19-11.004 was amended to make a technical correction and to emphasize that members having a Self-Directed Brokerage Account ("SDBA") are not subject to the excessive trading policy discussed in the rule with respect to that account, but rather are subject to the applicable rules and restrictions of the funds contained within the SDBA. Rule 19-11.006 was amended to adopt the latest versions of the enrollment forms, and to indicate that the default investment fund is an age appropriate retirement date fund. Rule 19-11.007 was amended to adopt the updated Second Election forms. Rule 19-11.008 was amended to indicate that un-vested account benefits placed in a suspense account will be invested in the Pyramis Intermediate Duration Pool Fund. Rule 19-11.012 was amended to adopt the latest versions of the rollover forms.

(ii) On August 27, 2014, the SBA filed a Notice of Development of Rulemaking to amend Rule Chapter 19-7: Rule 19-7.002 concerning Florida PRIME and Fund B. A rule hearing has been offered for September 18, 2014, but will be held only if a written request is made. If no rule hearing is requested, the rule amendments will be filed for adoption on or about September 23, 2014. The proposed amendments are being made to Rule 19-7.002 to adopt the most recent revised Investment Policy Statements approved by the Trustees effective July 1, 2014 for the Local Government Surplus Funds Trust Fund (Non-Qualified) and the Fund B Surplus Funds Trust Fund (Non-Qualified). There are no other rules incorporating this proposed amended rule. The proposed amendments do not have an impact on any other rules. Legislative ratification of these rule amendments is not required.



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CHIEF FINANCIAL OFFICER
AS TREASURER
PAM BONDI
ATTORNEY GENERAL
AS SECRETARY
ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO**

MEMORANDUM

DATE: September 5, 2014
TO: Board of Trustees
FROM: Ken Chambers, Inspector General
SUBJECT: Quarterly Report on SBA Inspector General Activities

The SBA Inspector General (IG) is responsible for serving as the organization's ethics officer; conducting internal investigations; overseeing investment protection principles (IPP) compliance; and handling special projects as directed by the Executive Director.

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 annually required for all employees in the areas of sexual harassment, information security, personal investment activity, and insider trading. For 2014, employees are also required to complete training courses for public records and the Sunshine Law (these two courses will be required every other year). The deadline for completing the courses was June 30, 2014, and all SBA employees are in compliance.
- During the period May 30, 2014 to September 5, 2014, 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 Investment Protection Principles (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. Annually, 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 investment managers and consultants were reported in the previous quarterly report.

Certification forms for broker-dealers were disseminated to the applicable firms in April 2014. All of the broker-dealers completed and returned their IPP certification forms for the 2013 reporting period. An analysis of the 2013 certifications indicated full compliance with the IPP's by the broker-dealers.

Investment Advisory Council Disclosures

As per Chapter 215.444, Florida Statutes, all current IAC members are required to complete an annual Conflict Disclosure Statement. The nine council members have completed and returned their disclosure statement for this year.

SBA Fraud Hotline

Since July 2006, The Network Inc. has been the independent provider of SBA Fraud Hotline services. Through an 800 number, SBA employees 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. During the quarter, one complaint was received by the Hotline. However, the complaint concerned a fraudulent insurance claim and was not applicable to the SBA. The complaint was forwarded to the appropriate state agency for handling.

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. All SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics for the year ending December 31, 2013.

Internal Investigations

During the period May 30, 2014 to September 5, 2014, one internal investigation was initiated by the Inspector General. The investigation is on-going.

cc: Ash Williams



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**PAM BONDI
ATTORNEY GENERAL**

**ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO**

DATE: September 5, 2014

TO: Ash Williams

FROM: Eric Nelson

SUBJECT: Trustee Update – September 2014

Attached is the consolidated quarterly “Enterprise Risk Management and Compliance Report” as of 6/30/14 for distribution to the Trustees, Investment Advisory Council and Audit Committee. This report combines previously separately reported compliance activities/metrics with relevant statistics from the BarraOne risk model as well as other risk metrics for the organization. Efforts will be ongoing to refine visibility into risks faced by the SBA and enhancements will be ongoing as the risk reporting process matures.

Additionally, the annual “Risk Management and Compliance Program Self-Assessment” report for FY2013-14 is attached for distribution to the Trustees, Investment Advisory Council and Audit Committee. This report is prepared in response to consultant recommendations from both Deloitte and Crowe Horwath that the SBA annually self-assess its compliance program in a manner consistent with SEC-registered investment advisors. The self-assessment has been expanded this year to include narrative and metrics on the Performance and Risk Analytics business unit, which was organizationally transferred to the direct supervision of the Risk Management and Compliance unit in October 2013.

The following is a brief status report of Risk Management and Compliance (RMC) activities and initiatives completed or in progress during the period 5/30/14 through 9/5/14:

- As part of the continuous compliance program, no material compliance exceptions were discovered which required escalation to the Executive Director & CIO during the period 5/30/14 through 9/5/14.
- The SBA’s Risk and Compliance Committee met in August and approved the quarterly Enterprise Risk Management and Compliance Report (attached), reviewed a draft of the biennial Risk Management Plan and received an update from the Deputy Executive Director regarding the SBA working group dealing with Dodd-Frank clearing and collateral management implementation issues.

- RMC staff continued to gather and document objectives, projects and initiatives obtained from business unit heads, with the goal being to work with senior management on prioritization and production of a new strategic plan.
- A consultant was retained to perform a “health check” (a.k.a. an implementation assessment) of the Charles River Compliance System utilized for the internally managed Global Equity portfolios. A final report with suggestions/recommendations was received by RMC in August and staff is currently working on proposed implementation plans.
- RMC staff continues to be actively engaged in documenting the SBA’s system of internal controls within a “control register”. Efforts have focused on identifying both preventative and detective controls and key risk indicators for monitoring and reporting.
- RMC staff is working on an enterprise risk management “maturity assessment” tool, utilizing criteria obtained from several risk industry models but customized for internal staff usage. Risk management maturity would be assessed at the business unit/process owner level, and discussions with management regarding potential solutions/improvements would occur where maturity gaps are identified.

E



ENTERPRISE RISK MANAGEMENT AND COMPLIANCE QUARTERLY REPORT

2nd Quarter 2014

Prepared by RMC as of 08/18/14





ENTERPRISE RISK
MANAGEMENT
RESIDUAL RISK
SUMMARY
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MANAGEMENT
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COMPLIANCE
RISK
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MISCONDUCT/
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SERVICE PROVIDER
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CLIENT RELATIONSHIP
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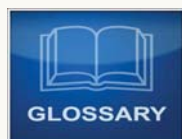
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RISK MANAGEMENT
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APPENDIX
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Risk metric "traffic lights" appear throughout the report. The legend is as follows:



Key risk indicator metrics are low; performance is within tolerance



Key risk indicator metrics are elevated or approaching monitoring thresholds;
management attention may be warranted



Key risk indicator metrics are elevated; monitoring standards or other thresholds
may have been breached; management attention is warranted

Enterprise Risk Management Residual Risk Summary

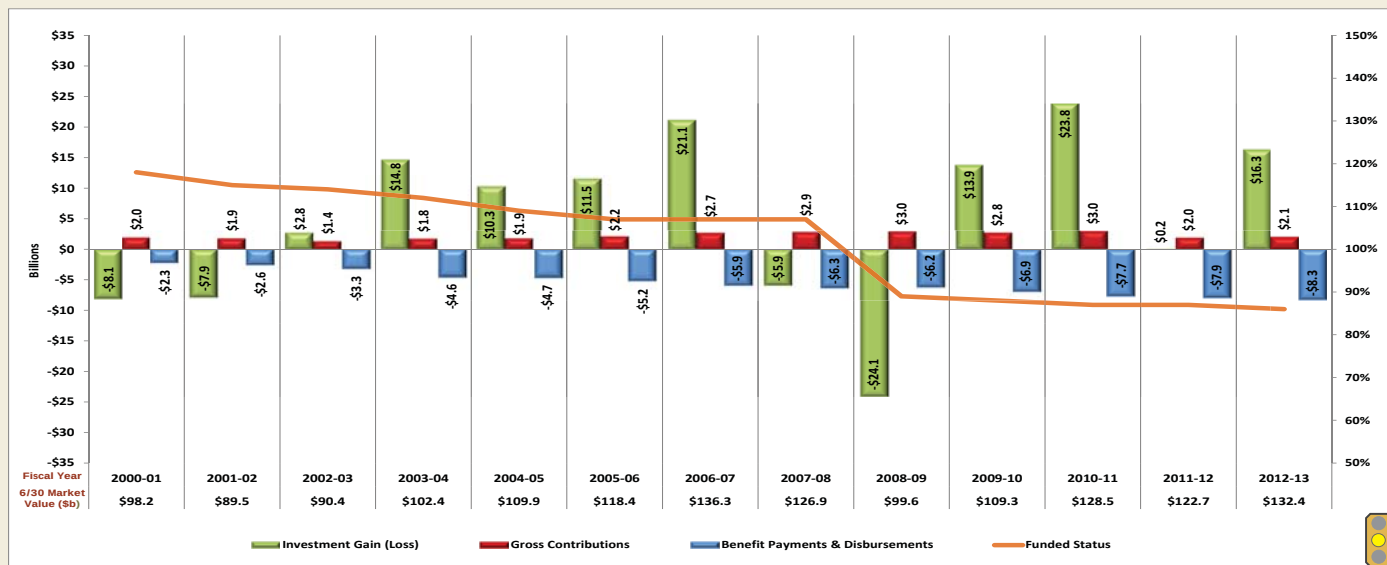
as of 3/31/14

1. Investment Management Risk	2. Governance/Management Risk	7. Service Provider Risk	9. Operational Risk (cont.)	12. Business Continuity/Infrastructure Risk
1.A. Policy Risk	2.A. Resource Allocation Risk	7.A. Financial Condition	9.F. Valuation	12.A. Facilities
1.A.i. Investment Policy Design Risk	2.B. Governance Policy Design Risk	7.B. Service Level Quality	9.G. Performance Measurement	12.B. Communication Systems
1.A.ii. Investment Objective Risk	2.C. Fiduciary/Ethics Risk	7.C. Key Personnel	9.H. Internal System Reliability/ Electronic Data Integrity Risk	12.C. Data/System Recovery
1.A.iii. Capital Market Assumption Risk	2.D. Management Execution Risk	7.D. Premature/Unexpected Service Termination	9.I. FHCFC Program-Specific Risks	12.D. Process Recovery
1.A.iv. Liability Risk				
1.B. Implementation Risk	3. Communication/Public Affairs/ Reputational Risk	8. Client Relationship Risk	9.J. DC Program-Specific Risks	13. Legal Risk
1.B.i. Strategic Risk	4. Legislative/Political Risk	8.A. Service Delivery	9.K. Proxy Voting	13.A. Contract Development
1.B.ii. Trading Risk		8.B. Education	9.L. External Corporate Governance	13.B. Legal Advisory
1.B.iii. Asset Transition Risk	5. Compliance Risk	8.C. Communication/Reporting	10. Human Capital Risk	13.C. Litigation
1.B.iv. Model Risk				
1.B.v. Due Diligence Risk	5.A. Laws, Rules & Regulations	8.D. Allocation of Investment Opportunities	10.A. Recruitment and Retention	
1.B.vi. Leverage Risk	5.B. SBA Policies	9. Operational Risk	10.B. Training and Development	
1.B.vii. Aggregate Issuer/ Counterparty Credit Risk	5.C. Investment Policy Guidelines	9.A. Cash Management	10.C. Key Person/Succession	
1.C. Inherent Risk	5.D. Contractual Agreements	9.B. Trade Settlement	11. Security Risk	
1.C.i. Market/Systematic Risk	6. Fraud/Misconduct/Internal Controls Risk	9.C. Transaction Processing	11.A. Physical Security	
1.C.i.a. Credit Risk	6.A. Internal Staff	9.D. Asset Reconciliation	11.A.i. Employee Security	
1.C.i.b. Interest Rate Risk	6.B. Service Providers	9.E. Accounting and Financial Reporting	11.A.ii. Facility Security	
1.C.i.c. Inflation Risk				
1.C.i.d. Liquidity Risk	6.C. External Parties		11.B. Network/System Security	
1.C.i.e. Currency Risk			11.C. Information Security & Records Management	
1.C.i.f. Systemic Risk				
1.C.ii. Idiosyncratic/Unsystematic Risk				

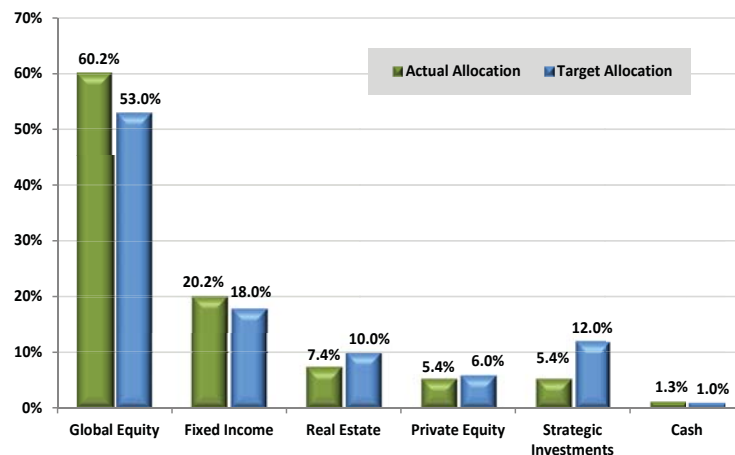
Residual Risk Level	
Low	Low
Low Moderate	Low Moderate
Moderate	Moderate
High Moderate	High Moderate
High	High

ASSET ALLOCATION AND INVESTMENT PERFORMANCE AS OF JUNE 30, 2014

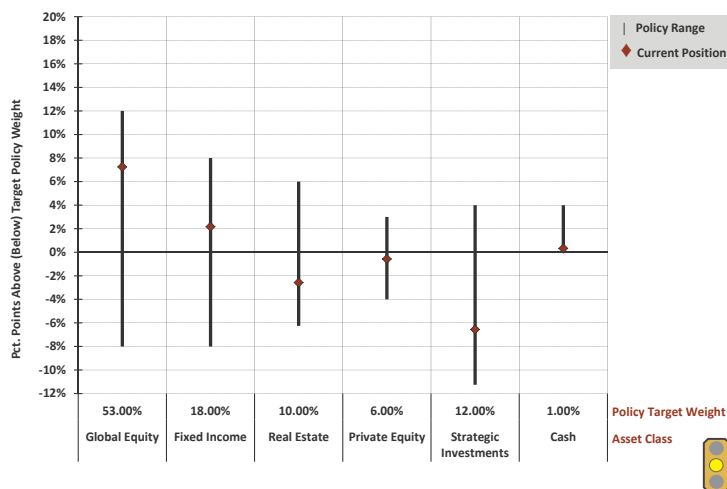
FRS PENSION PLAN CASH FLOWS AND FUNDED STATUS



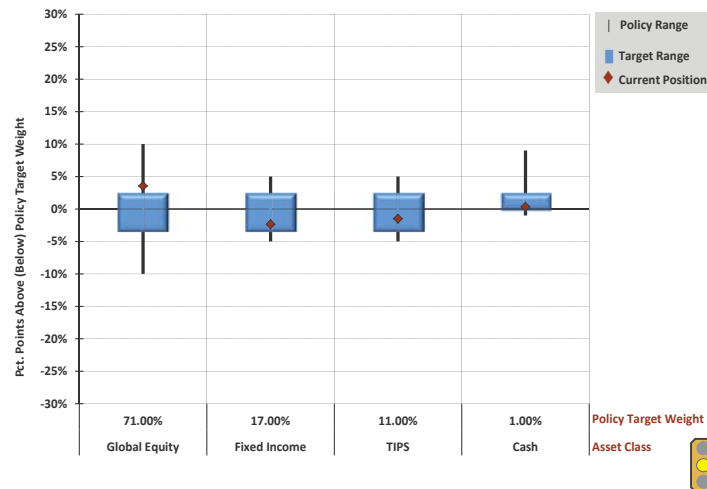
ASSET CLASS ALLOCATION VS. TARGET ALLOCATION



FRS ASSET ALLOCATION

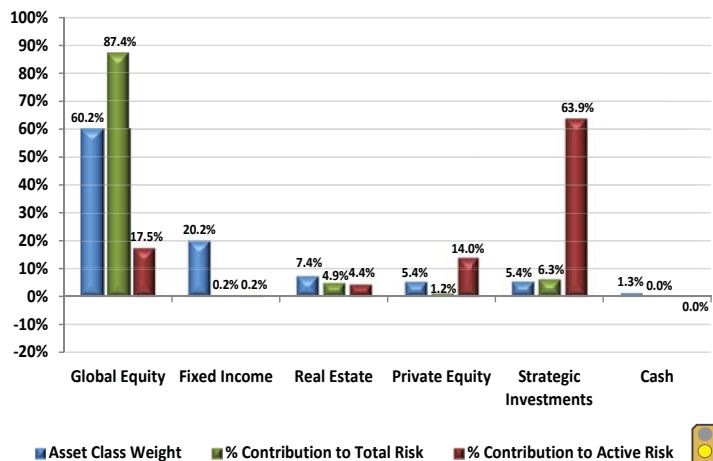


LCEF ASSET ALLOCATION

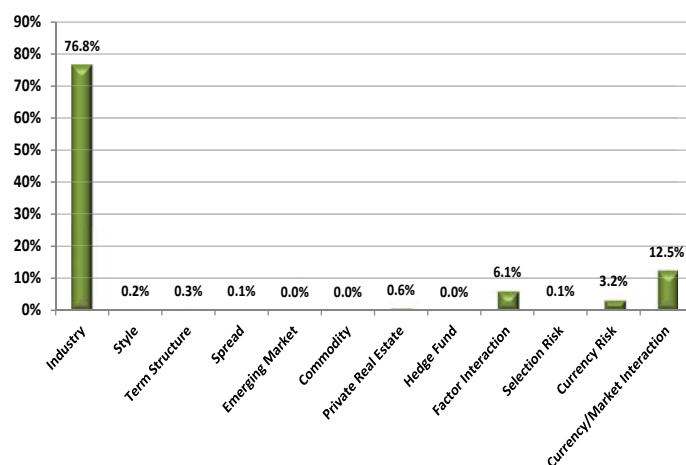


BARRAONE TOTAL FUND RISK MODEL INVESTMENT RISK MEASURES AS OF JUNE 30, 2014

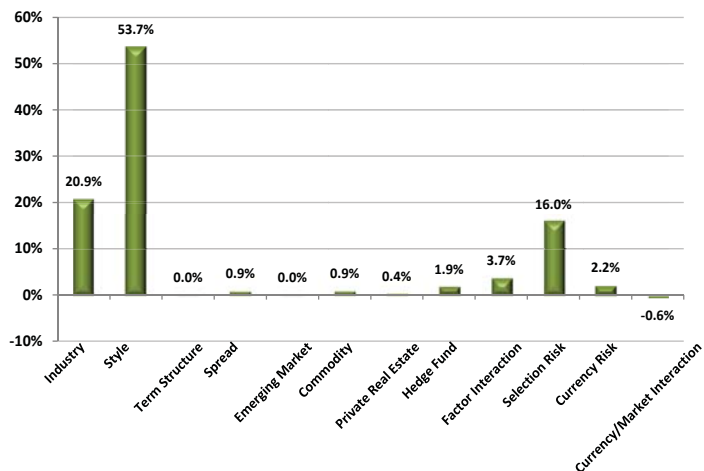
ASSET CLASS ALLOCATION VS. CONTRIBUTION TO PREDICTED TOTAL AND ACTIVE RISK



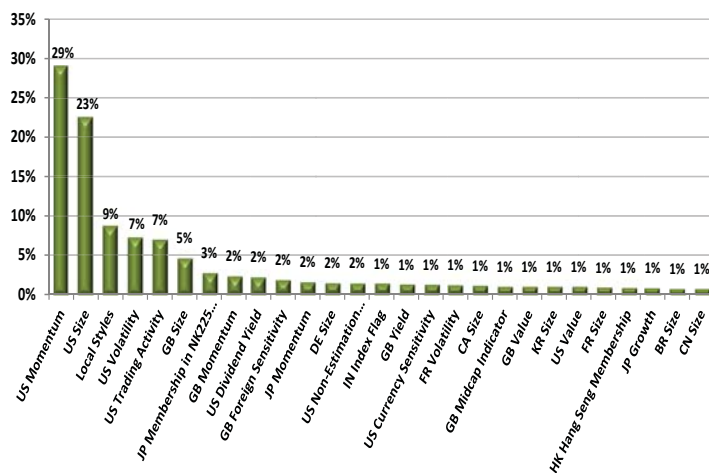
CONTRIBUTION TO TOTAL RISK BY FACTOR DECOMPOSITION



CONTRIBUTION TO ACTIVE RISK BY FACTOR DECOMPOSITION

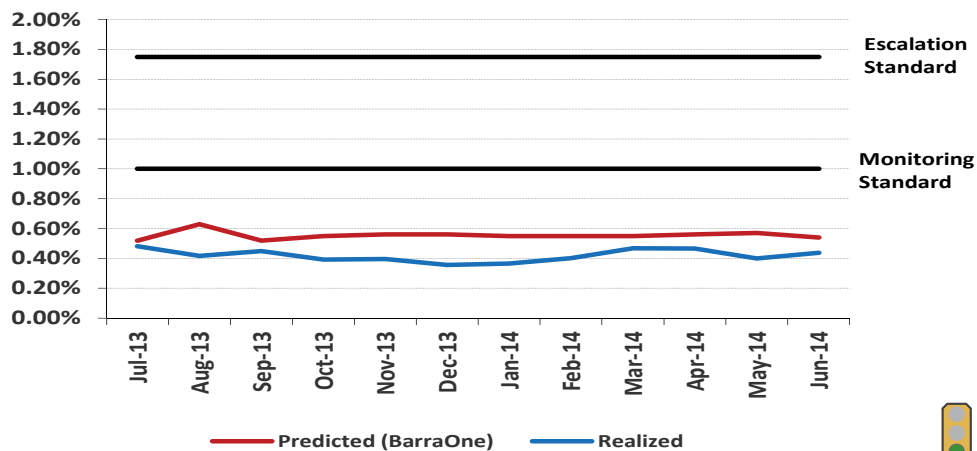


ACTIVE RISK STYLE FACTOR EXPOSURE

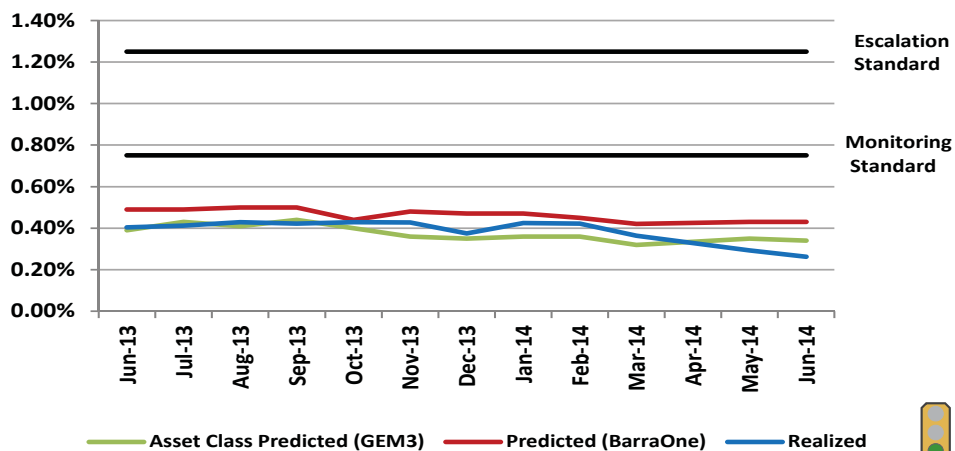


ROLLING 12 MONTH BARRAONE TOTAL FUND RISK MODEL PREDICTED AND REALIZED ACTIVE RISK AS OF JUNE 30, 2014

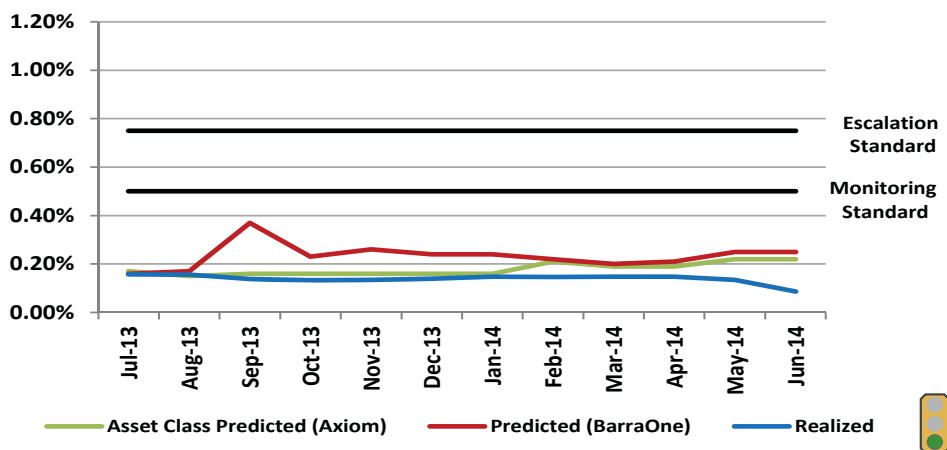
TOTAL FUND
ACTIVE RISK



GLOBAL EQUITY
ACTIVE RISK

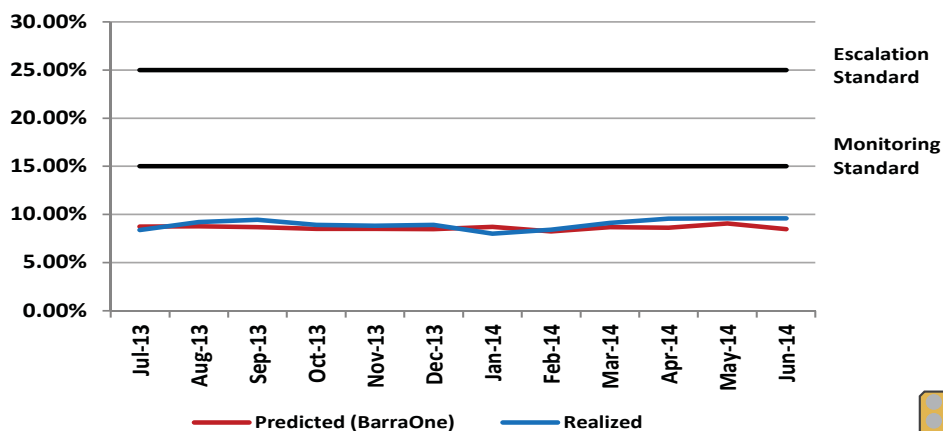


FIXED INCOME
ACTIVE RISK

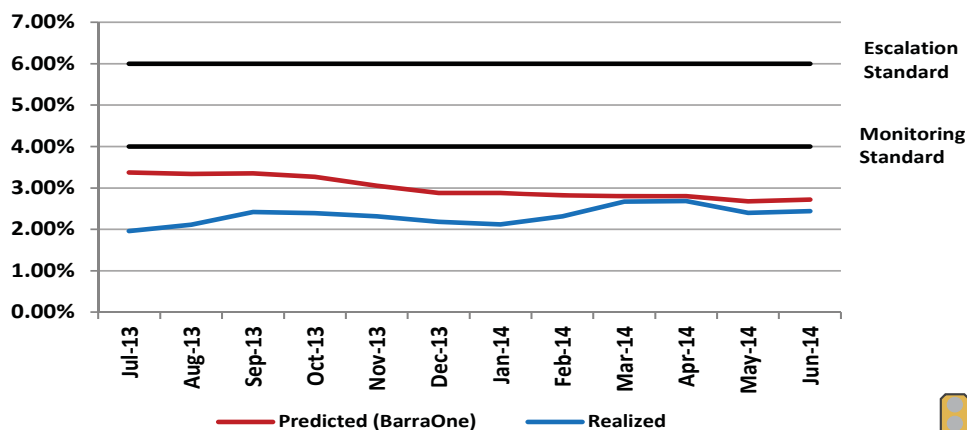


ROLLING 12 MONTH BARRAONE TOTAL FUND RISK MODEL PREDICTED AND REALIZED ACTIVE RISK AS OF JUNE 30, 2014

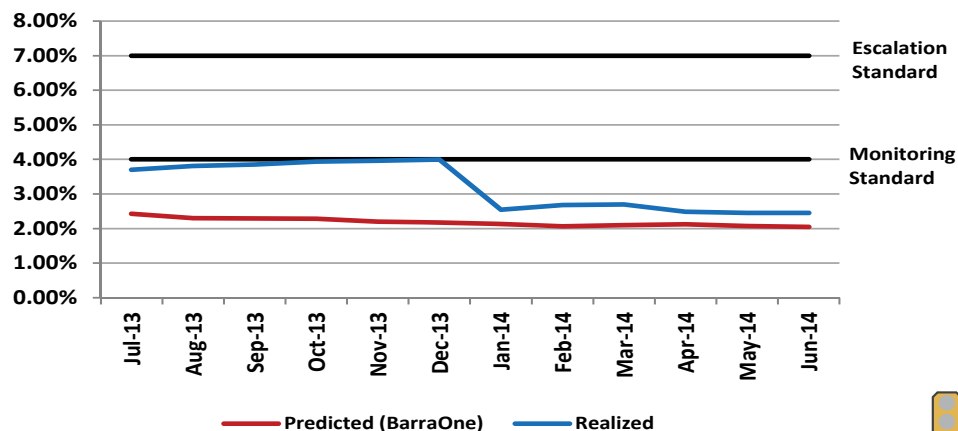
PRIVATE EQUITY ACTIVE RISK



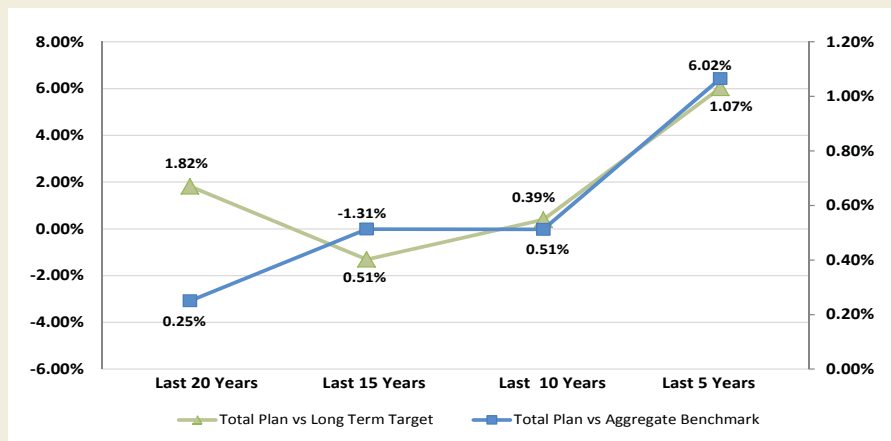
STRATEGIC INVESTMENTS ACTIVE RISK



REAL ESTATE ACTIVE RISK



TOTAL PLAN PERFORMANCE VERSUS LONG TERM TARGET AND AGGREGATE BENCHMARK

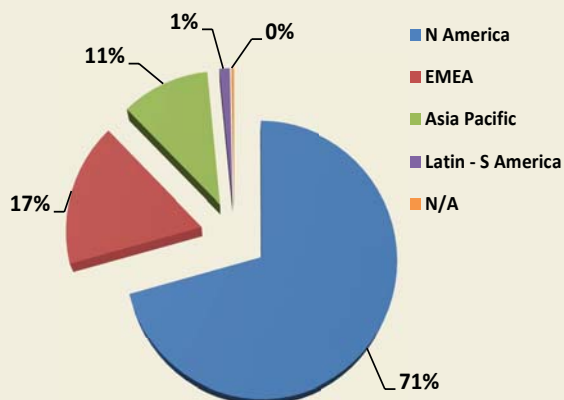


ONE YEAR ASSET CLASS KEY PERFORMANCE AND RISK MEASURES RANKING

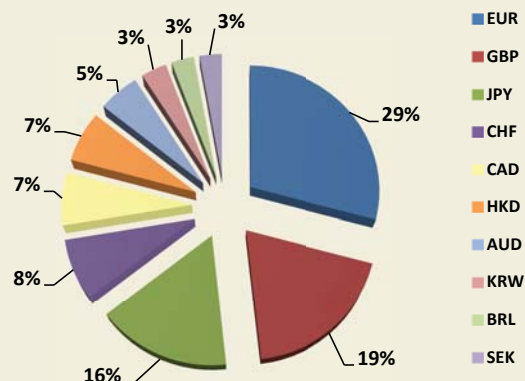
Actual Return	Active Return	Realized Total Risk	Predicted Total Risk	Realized Active Risk	Predicted Active Risk
Global Equity Comp History 23.52%	Real Estate 2.05%	Global Equity Comp History 9.81%	Private Equity 14.04%	Private Equity 9.60%	Private Equity 8.48%
Private Equity 19.88%	Strategic Investments 1.93%	Total Fund Asset Allocation 6.44%	Global Equity 13.71%	Real Estate 2.45%	Strategic Investments 2.72%
Total Fund 17.40%	Total Fund 0.38%	Total Fund 6.04%	Real Estate 11.14%	Strategic Investments 2.44%	Real Estate 2.05%
Total Fund Asset Allocation 17.32%	Fixed Income 0.38%	Private Equity 3.94%	Total Fund 9.44%	Total Fund 0.44%	Total Fund .54%
Real Estate 14.92%	Total Fund Asset Allocation 0.30%	Real Estate 2.79%	Fixed Income 3.32%	Global Equity Comp History 0.26%	Global Equity .43%
Strategic Investments 13.19%	Cash 0.20%	Fixed Income 2.08%	Strategic Investments 2.66%	Total Fund Asset Allocation 0.26%	Fixed Income .25%
Fixed Income 3.63%	Global Equity Comp History 0.16%	Strategic Investments 1.61%	Cash 0.08%	Fixed Income 0.08%	Cash -0.01%
Cash 0.22%	Private Equity -8.34%	Cash 0.01%	Total Fund Asset Allocation NA	Cash 0.01%	Total Fund Asset Allocation NA

CURRENCY EXPOSURE AS OF JUNE 30, 2014 (BARRAONE TOTAL FUND RISK SYSTEM)

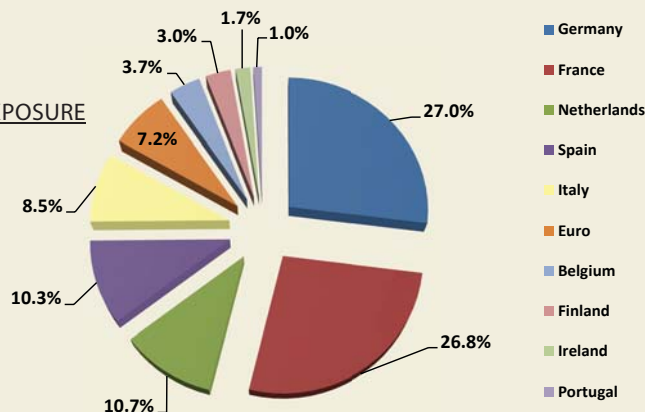
CURRENCY EXPOSURE BY REGION



NON DOLLAR CURRENCY EXPOSURE

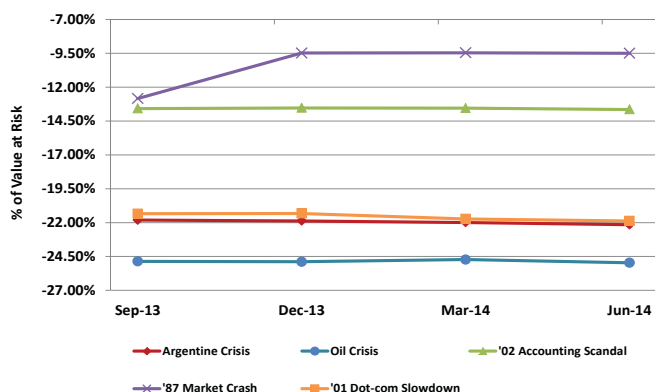


EURO BY COUNTRY OF EXPOSURE

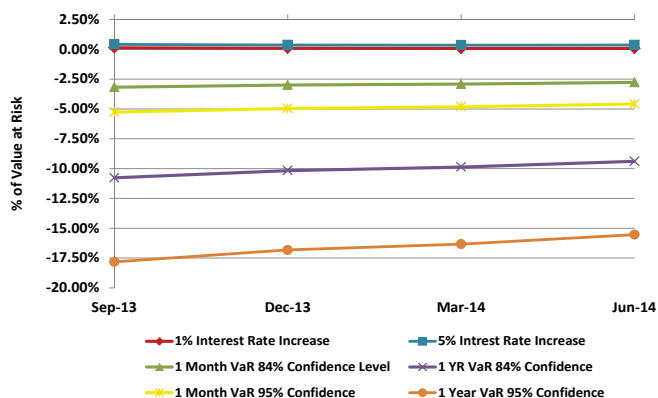


FRS PENSION PLAN STRESS TESTING RESULTS AS OF JUNE 30, 2014 (BARRAONE TOTAL FUND RISK SYSTEM)

HISTORICAL SCENARIOS



VALUE AT RISK



Scenario	Initial Market Value	
	\$144,911,449,705	
	Value at Risk (%)	Value at Risk (\$)
1972 - 1974 Oil Crisis	-24.96%	-\$36,922,224,467
2000 - 2002 Argentine Economic Crisis	-22.16%	-\$32,773,840,985
2001 Dot-com Slowdown	-21.88%	-\$32,360,313,539
2002 Accounting Scandal	-13.65%	-\$20,189,030,419
1987 Market Crash	-9.49%	-\$14,042,460,793

See Appendix on page 21 for more information regarding these Stress Testing scenarios

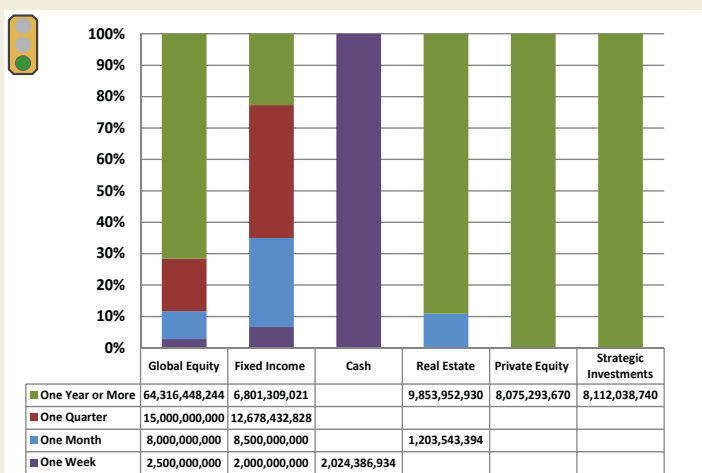
Portfolio	Initial Market Value	
	\$144,911,449,705	
	Value at Risk (%)	Value at Risk (\$)
84% Confidence (1 Standard Deviation) One Month	-2.77%	-\$4,104,632,227
84% Confidence (1 Standard Deviation) One Year	-9.39%	-\$13,891,949,011
95% Confidence (1.64 Standard Deviation) One Month	-4.59%	-\$6,789,145,459
95% Confidence (1.64 Standard Deviation) One Year	-15.53%	-\$22,977,567,132

* Negative Value at Risk indicates a predicted gain at the Total Fund Level in the event of an interest rate increase

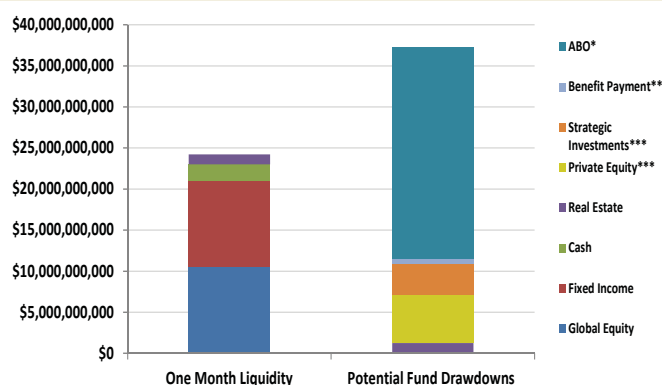
Scenario	Initial Market Value	
	\$144,911,449,705	
	Value at Risk (%)	Value at Risk (\$)
1% Interest Rate Increase	0.08%	\$114,832,769
5% Interest Rate Increase	0.36%	\$535,152,916

LIQUIDITY MEASURES AS OF JUNE 30, 2014

FRS PENSION PLAN PROJECTED LIQUIDATION TIME FRAME BY ASSET CLASS



FRS PENSION PLAN PROJECTED ONE MONTH LIQUIDITY VS MAXIMUM POTENTIAL DRAWDOWNS



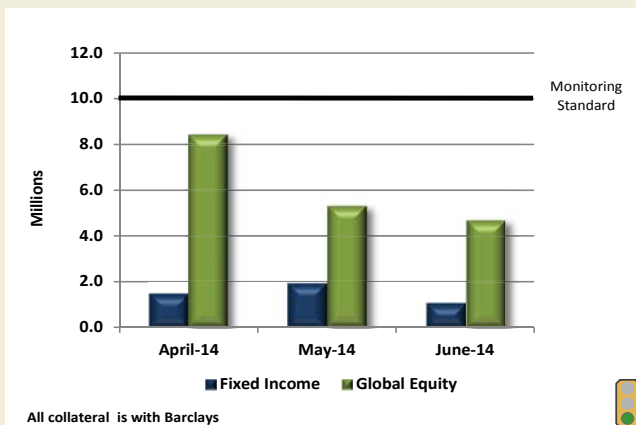
* Accumulated Benefit Obligation for vested participants is based on actuarial valuation as of July 1, 2013

** Benefit Payments represent highest monthly payout recorded over the previous 12 month period

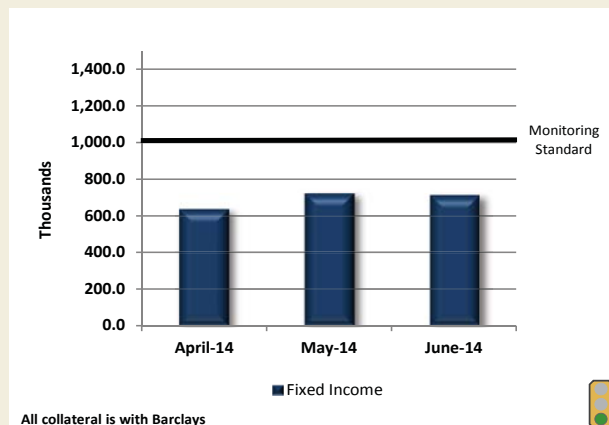
*** Unfunded capital commitments as of June 30, 2014

COUNTERPARTY EXPOSURE AS OF JUNE 30, 2014

EXCESS FUTURES COLLATERAL



EXCESS SWAPS COLLATERAL



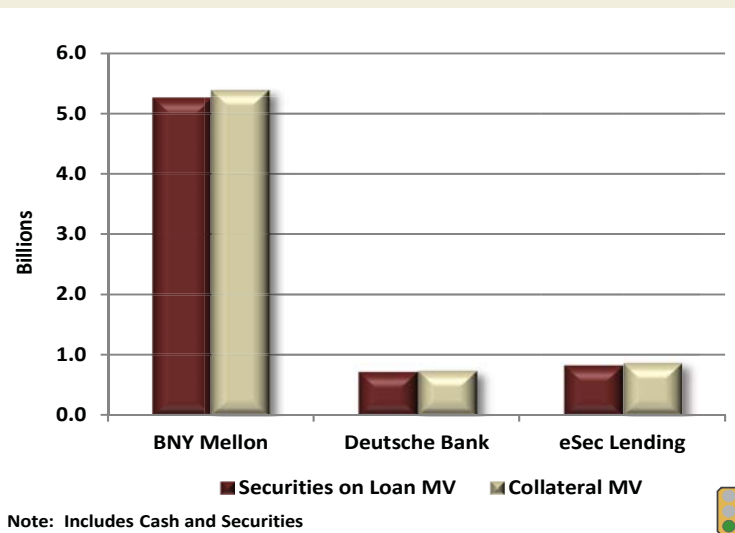
Top Exposures

Class B

Long Exposure by Market Value (Millions)

Nomura	11.2
Credit Suisse	6.3
Citi Group	6.2
Deutsche Bank	5.7
Wells Fargo	1.6

SECURITIES LENDING COLLATERALIZATION



** No material compliance violations for the quarter

For the quarter ending June 30, 2014:

TRADING COUNTERPARTY MANAGEMENT



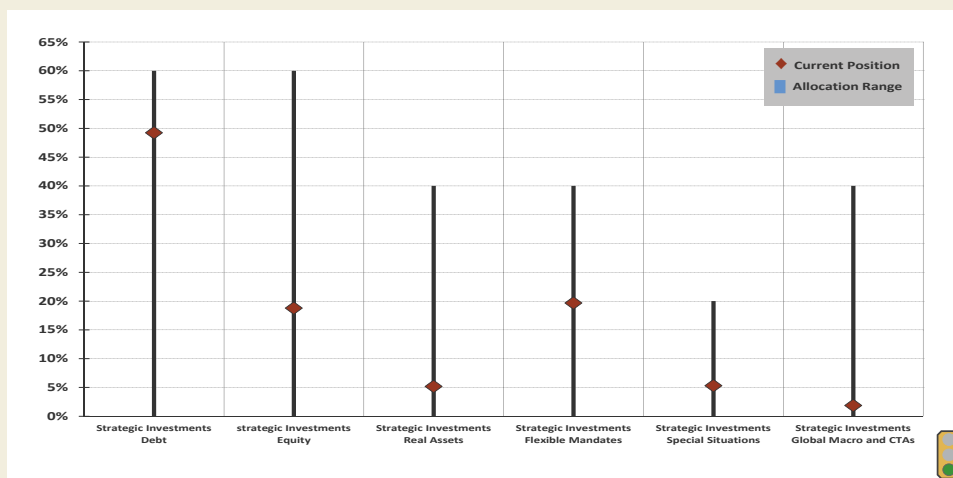
Approved Trading Counterparty List	Approved Authorized Trader list	Asset Class trading volumes	Global Equity quarterly trade cost analysis
Updated 6/19/14	Updated 11/22/13	within monitoring standards	performed and reviewed (6/19/14)



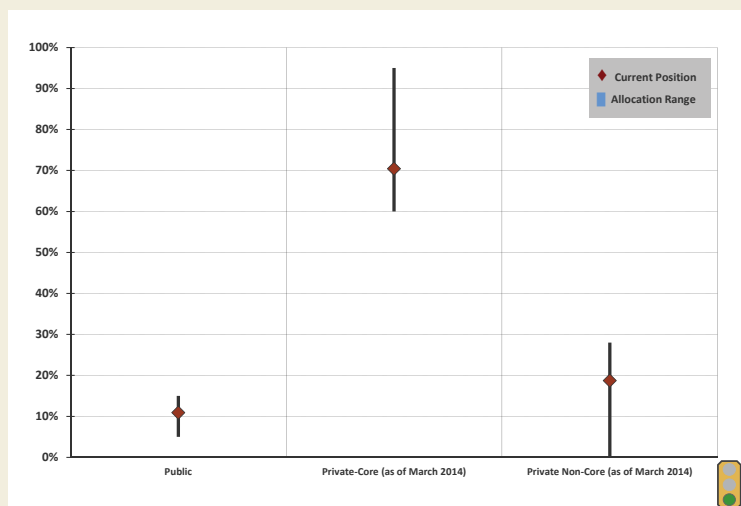
Rebalancing and Liquidity Assessments	Risk Budget	Derivative Instruments Usage
All funds are within policy operating ranges	Aggregate active investment risks (sources, levels and trends) reviewed by Senior Investment Group (6/26/14)	Reviewed counterparty risk exposures - within historically normal ranges

INTRA-ASSET ALLOCATION RANGES AS OF JUNE 30, 2014

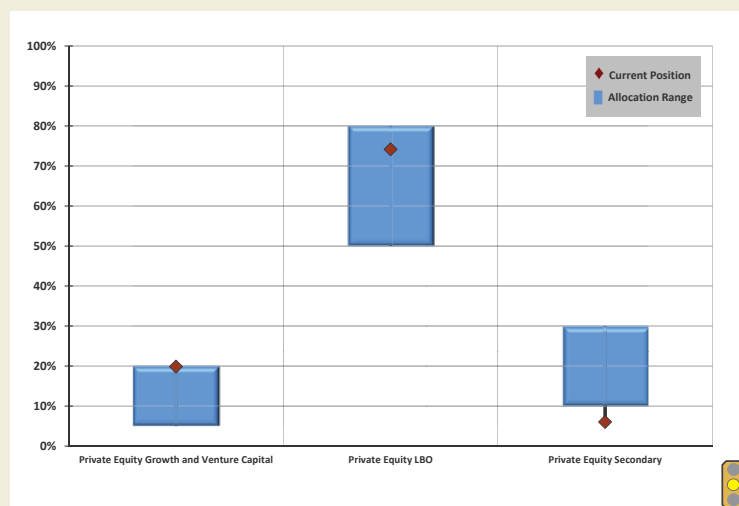
STRATEGIC INVESTMENTS



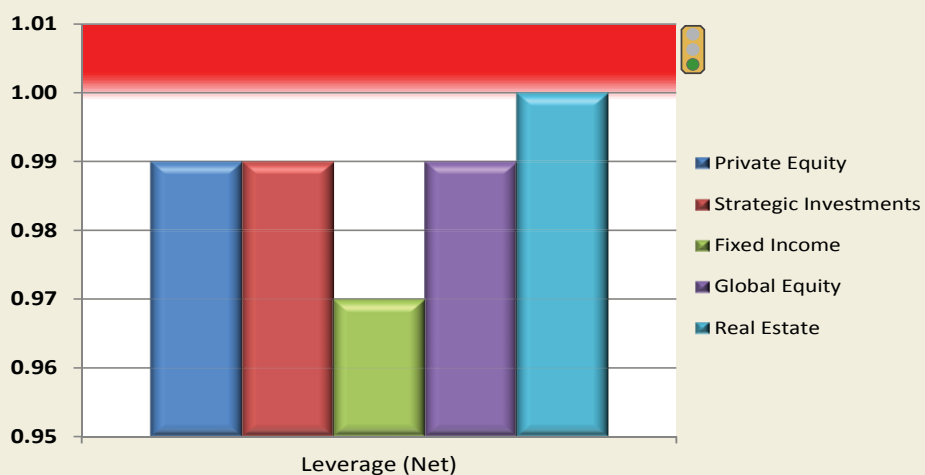
REAL ESTATE



PRIVATE EQUITY

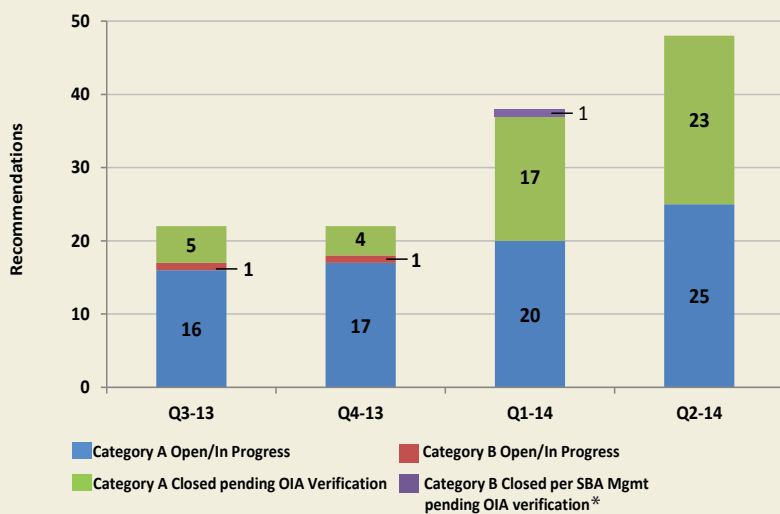


ASSET CLASS LEVERAGE AS OF JUNE 30, 2014





AUDIT (CATEGORY A) AND CONSULTANT (CATEGORY B) RECOMMENDATIONS FY TO 6/30/14



* As of 12/31/13 all Category B recommendations have been closed

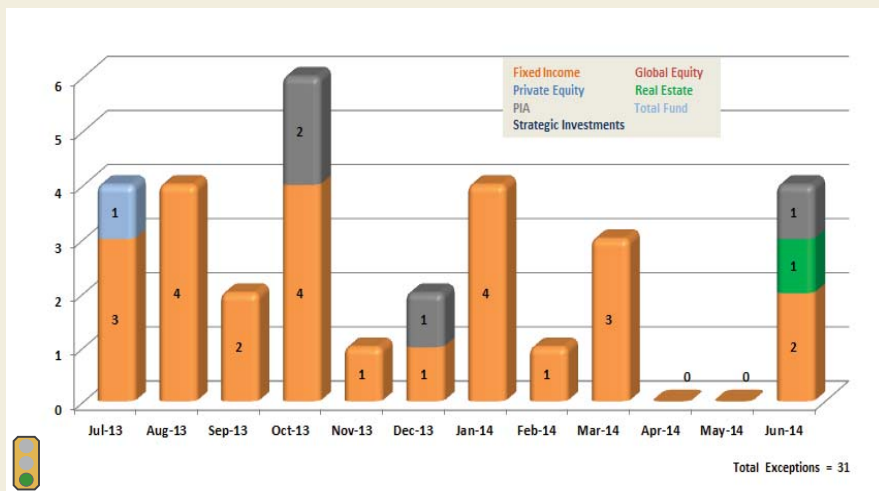
For the quarter ending June 30, 2014:

- All Conflict of Interest Certifications executed
- All Governance and Oversight meetings conducted as specified in policy

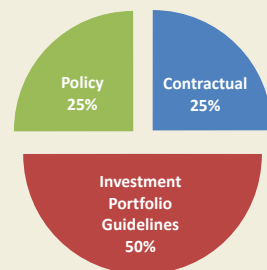


COMPLIANCE EXCEPTIONS

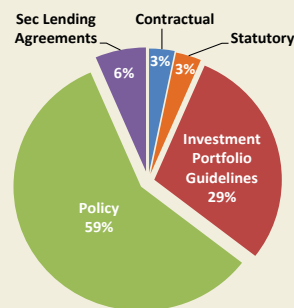
COMPLIANCE EXCEPTIONS BY ASSET CLASS FY TO 6/30/14



BY CATEGORY - QUARTER ENDING 6/30/14



BY CATEGORY - FY TO DATE



INTERNAL TRADING POLICY EXCEPTIONS

0

Exceptions reported to the
Fixed Income Oversight Group

INVESTMENT PORTFOLIO GUIDELINES COMPLIANCE VIOLATIONS

Global Equity Portfolios	REIT Portfolios	Fixed Income/High Yield Portfolios	Private Market Asset Classes
0	0	2	0
material compliance violations through 5/31/14	material compliance violations through 5/31/14	no <u>material</u> compliance violations through 6/30/14	material compliance violations through 12/31/13 (six month lag)

OTHER NON-FRS MANDATES/ TRUST FUNDS

0

material compliance violations
through 6/30/14

For the quarter ending June 30, 2014:

STATUTORY COMPLIANCE



Chapter 215.47, F.S. Investments	Chapter 215.4755, F.S. Certification and disclosure requirements for public market investment advisors/managers	2014 Florida Legislative Regulatory Update	SEC Form 13F - Institutional Investment Managers that have discretion over \$100 million in Section 13(f) Securities
All investments statutorily permitted and within statutory limits	All conflict of interest certifications received	Regulatory updates reviewed and evaluated. One bill requires testing by Compliance in FY2014-15	All securities reported to the SEC
Chapter 218 Part IV, F.S. Annual FL PRIME Statutory Compliance Review reported/ evaluated by IAC/PLGAC	Annual FL PRIME Best Practices Review	Protecting Florida's Investment Act Compliance (Iran/Sudan)	215.471, F.S. Free Cuba Act of 1993 Chapter 121.153, F.S. Northern Ireland
FY2013-14 review presented at 6/16/14 joint meeting of IAC and PLGAC	2014 annual review presented at 6/16/14 joint meeting of IAC and PLGAC	No violations reported - latest quarterly report approved by Trustees on 6/17/14	no restricted securities identified as of 8/26/13 - no compliance violations

MISCELLANEOUS



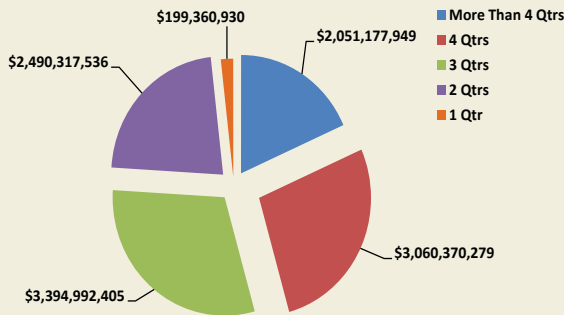
FRS Pension Plan	Lawton Chiles Endowment Fund	Florida PRIME	External Investment Manager Acquisitions
Asset Allocation within specified ranges Effective 7/01/14 (Trustees approved 6/17/14): - Private Equity benchmark changed to "MSCI ACWI ex US IMI plus 300bps" - Real Estate core portion of asset class benchmark changed to "An average of the NCREIF Fund Index - open-ended diversified core equity, net of fees, weighted at 76.5%" - Real Estate non-core portion of asset class is benchmarked to "An average of the NCREIF Fund Index - open-ended diversified core equity, net of fees, weighted at 13.5%, plus a fixed return premium of 150bps"	Asset Allocation within specified ranges	Portfolio securities and transactions in compliance with Investment Policy Statement Federated conducted monthly stress tests - 6/30/14 results reported to the Investment Oversight Group on 7/30/14 Daily NAV and other high risk ranked parameters independently verified and in compliance	Acquisition checklists completed for all new managers and funds Placement Agent disclosures received and reviewed

For the quarter ending June 30, 2014:

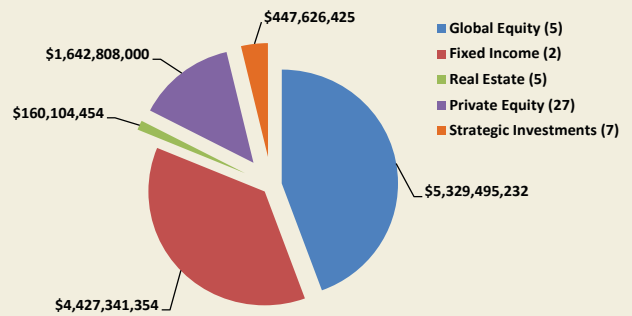


INSIDER TRADING	PERSONAL INVESTMENT ACTIVITY	FRAUD HOTLINE	INSPECTOR GENERAL INVESTIGATIONS
0	1	0	0
violations reported	violation reported	calls received	active investigations during the quarter

AGING OF FRS PENSION PLAN WATCHLIST ASSETS

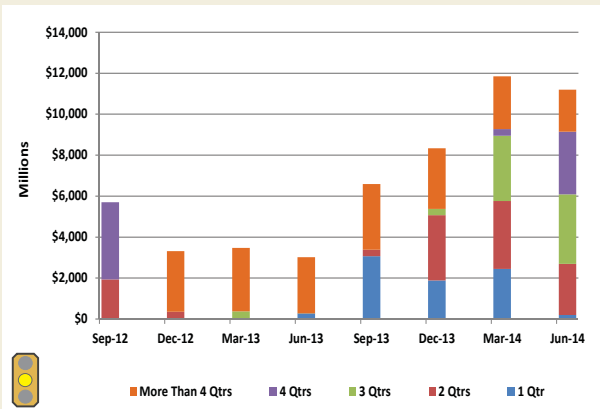


CURRENT ALLOCATION OF FRS PENSION PLAN WATCHLIST ASSETS

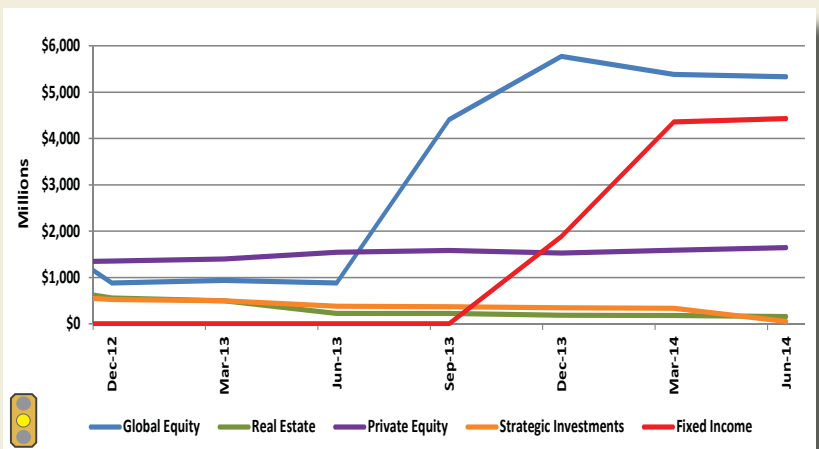


Note: Watchlist information is preliminary as of June 30, 2014

FRS PENSION PLAN WATCHLIST ASSETS AGING BY QUARTER



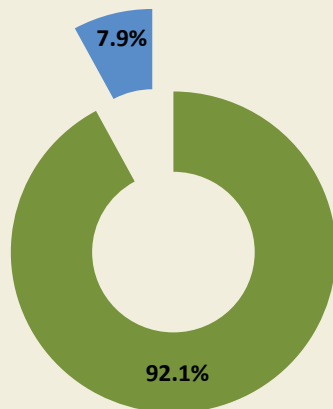
FRS PENSION PLAN WATCHLIST ASSETS



For the quarter ending June 30, 2014:

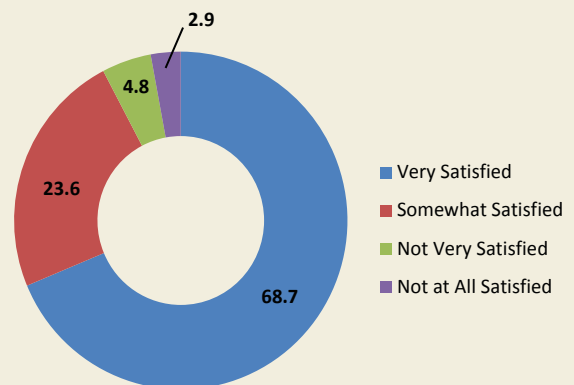
- FRS Investment Plan Education, Investment Plan Administrator and Bundled Provider requirements in compliance
- Defined Contribution foreign stock index commingled trust benchmark changed to "MSCI ACWI ex US IMI Index Fund" (Trustees approved 2/06/14)

FL PRIME QUALITY OF SERVICE 2014 SURVEY RESPONSE



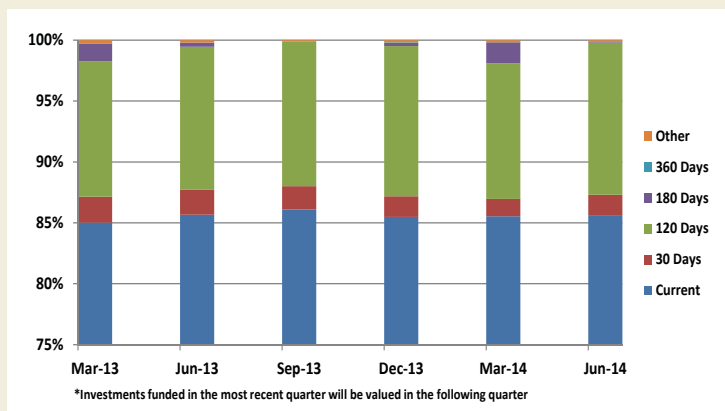
Very Satisfied Somewhat Satisfied

FRS INVESTMENT PLAN QUALITY OF SERVICE 2014 SURVEY RESPONSE

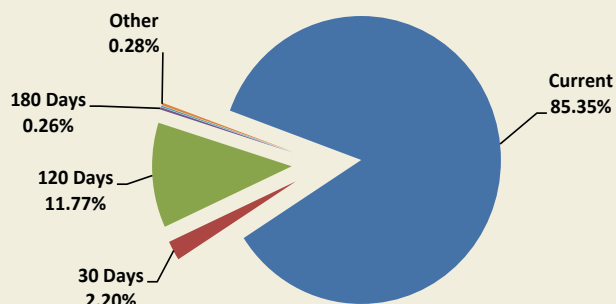


Very Satisfied
Somewhat Satisfied
Not Very Satisfied
Not at All Satisfied

FRS PENSION PLAN ASSET VALUATION
AGING BY QUARTER



FRS PENSION PLAN ASSET VALUATION
CURRENT AGING

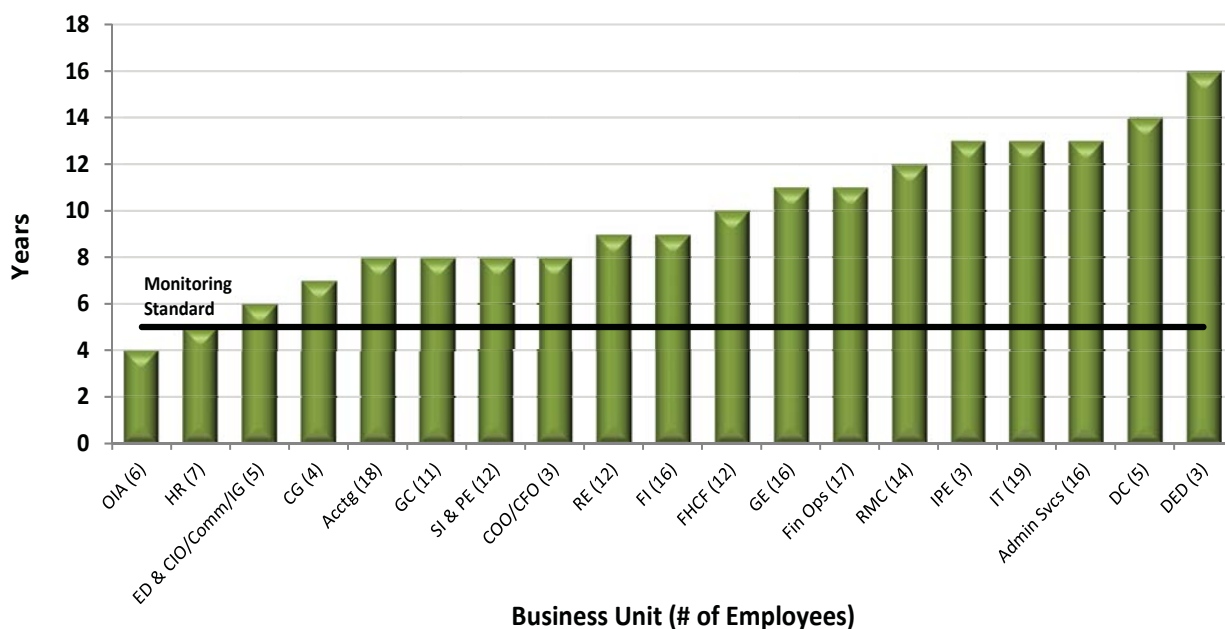


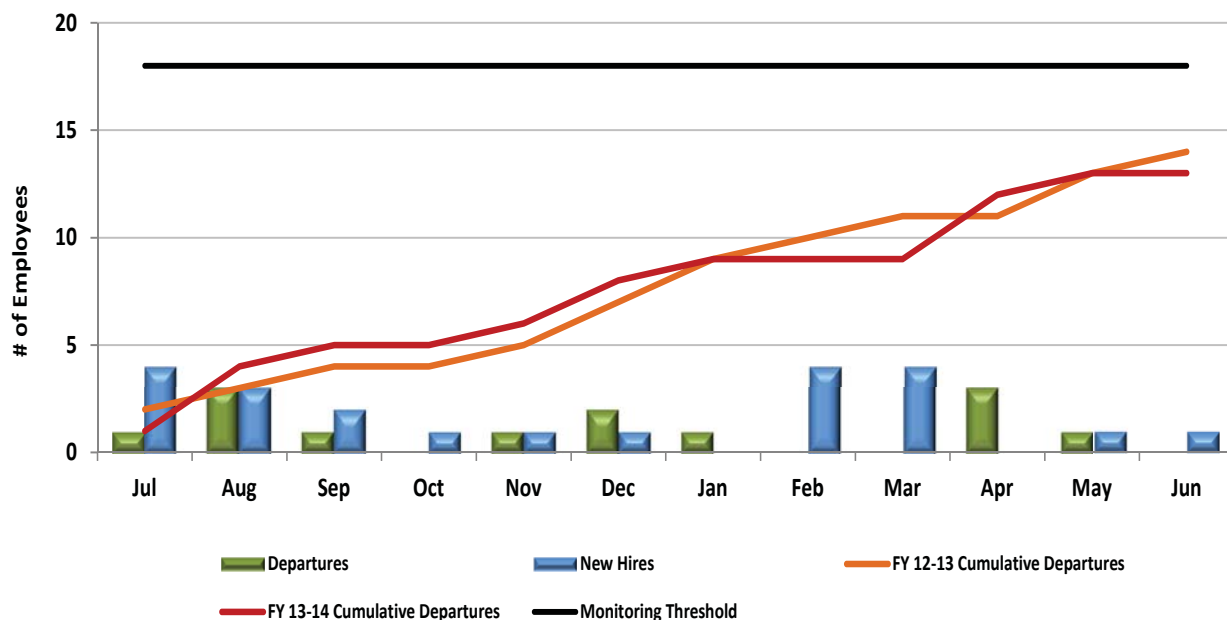
For the quarter ending June 30, 2014:



Investment Valuation	Performance Measurement
All direct-owned real estate properties externally appraised within last 12 months (unless newly acquired, in foreclosure, or in the process of being sold)	All calculations performed in compliance with policy

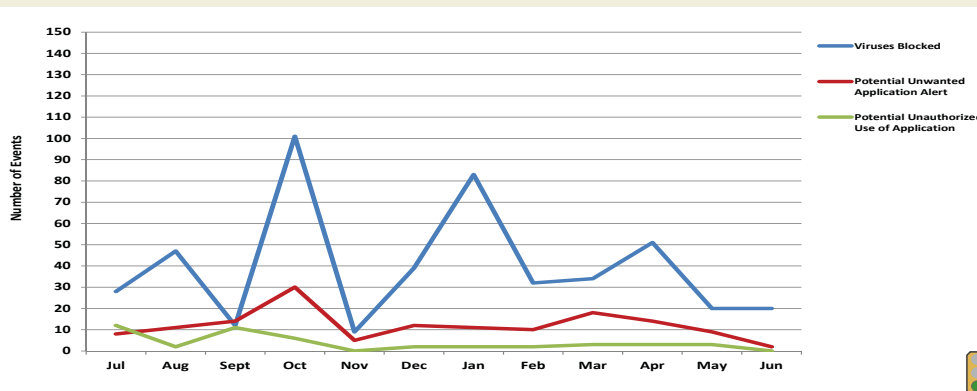
AVERAGE YEARS OF SBA SERVICE
BY BUSINESS UNIT
AS OF JUNE 30, 2014



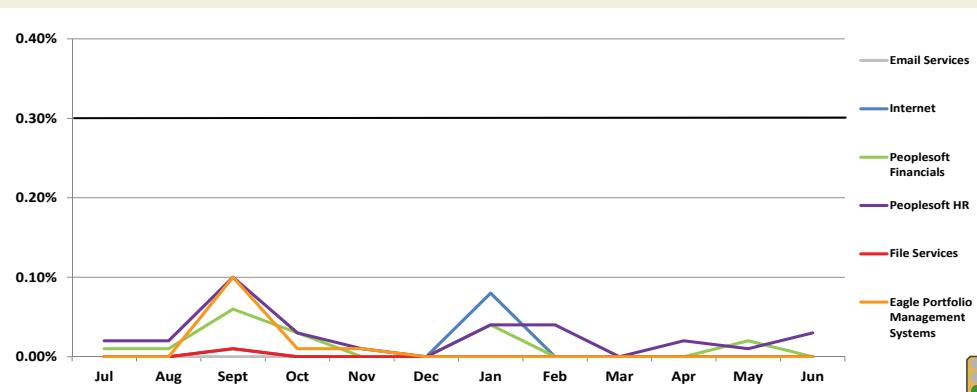


INFORMATION TECHNOLOGY/SECURITY

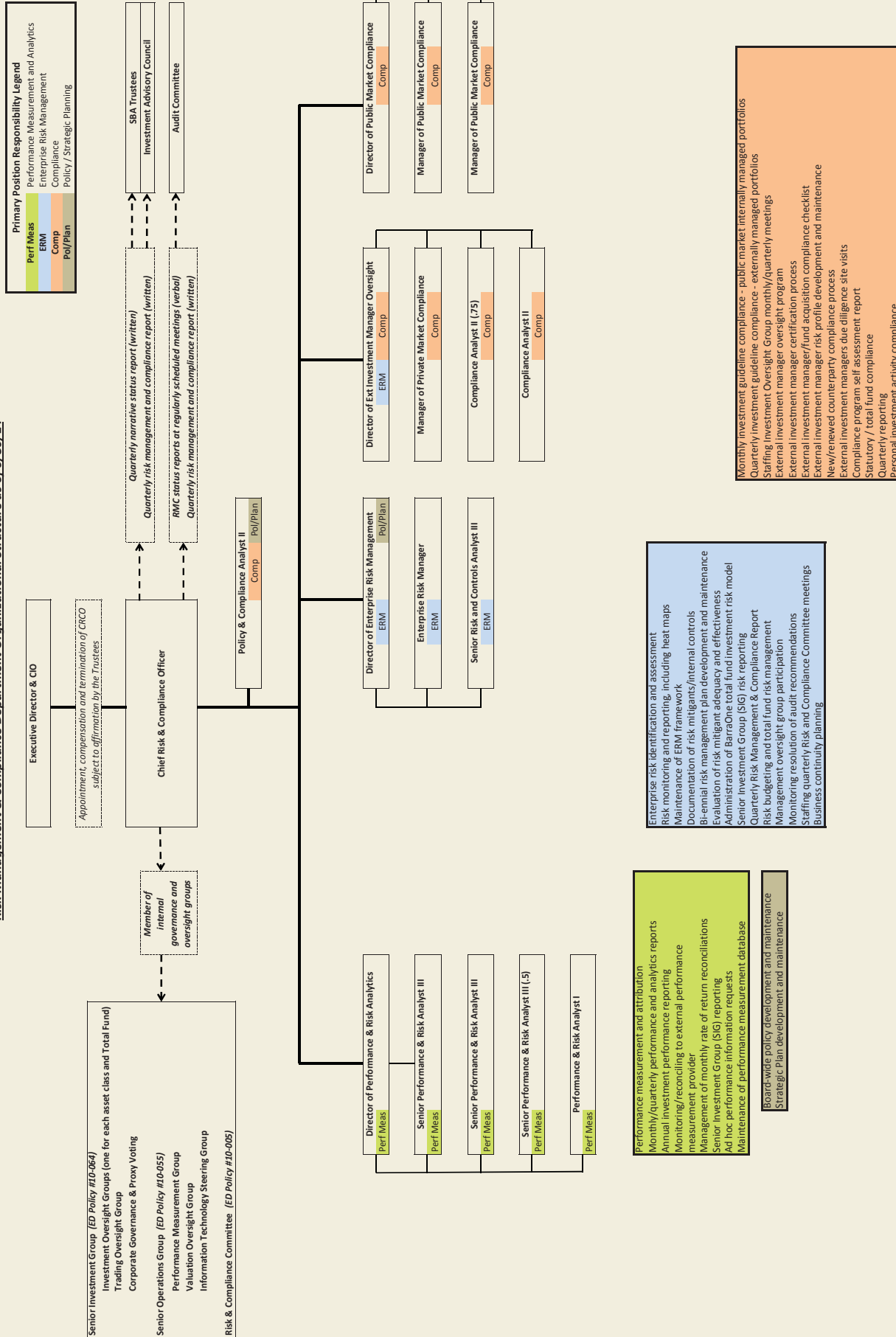
WORKSTATION SECURITY EVENTS AND ALERTS



CRITICAL SYSTEM DOWNTIME



Risk Management & Compliance Department Organizational Structure as of 6/30/14



GLOSSARY

Actual Return - the portfolio performance return actually earned

Active Return - actual portfolio return minus the benchmark return

Class B Exposure - securities with contractual settlement dates more than 5 business days after trade date

Class D Exposure - over the counter derivative transactions, including credit default swaps, interest rate swaps, total return swaps and combinations thereof

Funded Status - comparison of the FRS Pension Plan projected assets to its liabilities

Long Term Target - FRS Pension Plan performance target which is calculated by adding the monthly percentage change in the Consumer Price Index to the real return rate of 5%

Realized Total Risk - standard deviation of actual returns

Realized Active Risk - standard deviation of active returns

Total Fund Aggregate Benchmark - sum of the products of asset class target benchmarks at their respective asset class weights

Watch List - defines the qualitative and quantitative conditions that will cause the SBA to formally evaluate the continued retention of an Investment Manager

BARRA ONE

Currency Risk - risk arising from holdings in assets that are denominated in currencies other than the numeraire currency; a measure of exchange rates and short-term interest rates

Currency/Market Interaction - the correlation between local market and currency bets; a measure of diversification

Emerging Market - spread associated with bonds issued in an external currency by an emerging market sovereign or by a company domiciled in an emerging market country

Factor Interaction - the measure of covariance among risk factors

Hedge Fund - a measure of risk correlated to characteristics of certain hedge fund styles

Industry - risk due to exposure to specific industries and countries

Momentum - sustained relative performance and its effect on risk

Private Real Estate - risk attributable to property type and location factors

Predicted Total Risk - asset class active exposure multiplied by the volatility and correlation

Risk Factors - a characteristic shared by a group of securities that influences the volatility of returns which is used to determine correlations between assets

Selection Risk - risk that is specific to an asset and is uncorrelated (or negligibly correlated) with the risks of other assets; non-factor component of risk

Size - systematic return and risk differences between large-cap and small-cap stocks

Spread - risk due to exposure to spread movements, a risk factor that captures typical movements in term structure spreads

Style - risk factor that characterizes equity's fundamental or market-based characteristics such as Size, Value, Momentum and Volatility

Term Structure - risk due to exposure to term structure movements

Trading Activity - measures the relative activity of a firm's shares in the market

Value - distinguishes between value stocks and growth stocks using the ratio of book-value of equity to market capitalization

Volatility - captures security price changes using measures of standard deviation over long term historical periods and high-low cumulative range of prices over the last 12 months

STRESS TESTING SCENARIOS

BarraOne stress testing scenarios are constructed by applying shocks to equity prices, interest rates, foreign exchange rates, credit spreads and commodity prices that mimic actual movements during the period covered by the chosen scenario or constructed based on possible outcomes in the event that a hypothetical event were to actually take place.

OIL CRISIS



(1 Dec 1972 to 30 Sep 1974)

Many developed countries suffered in this energy crisis as the OPEC members placed an oil embargo to the U.S. and Israel's allies during the Yom Kippur War in October 1973, which sent global oil prices soaring.

The shocks applied in this scenario are a 26% average decrease in global stocks, 263% average increase in copper, silver and crude oil and an increase in near term US Treasury interest rates.

2000 - 2002 ARGENTINE ECONOMIC CRISIS



(03 Mar 2000 to 26 Jun 2002)

The political unrest in Argentina jeopardized its economy with its GDP declining. As the peso depreciation intensified during the crisis, the Argentina government eventually defaulted on its debts.

The shocks applied in this scenario are a 26% decrease in global equity prices, decline in short term global interest rates, 11% decrease in foreign exchange rates, a 145 basis point widening of credit spreads, and 10% decrease in commodity prices.

2001 DOT-COM SLOWDOWN



(10 Mar 2001 to 09 Oct 2002)

Upon the burst of the tech bubble in 2000, more and more internet companies went out of business as the stock market plummeted further. The Dot-com slowdown scenario is based on actual market conditions during March 2001-October 2002.

The shocks applied are an average decrease in global equity prices of 19.82%, a decline in foreign exchange rates of 6.64%, a decrease in commodity prices of 3.85%, 290 basis point increase in credit spreads and a 5% decrease in near term US Treasury interest rates while longer term rates are not subject to a material change.

2002 ACCOUNTING SCANDALS



(30 Apr 2002 to 23 Jul 2002)

After the Enron accounting scandal in 2001, more companies were revealed in a series of new accounting scandals that shook investors' confidence in the stock market. WorldCom's bankruptcy in 2002 was the largest as the scandals unfolded.

The shocks applied in this scenario are a 13% decrease in equity prices, a decline in interest rates, a 60 basis point widening of credit spreads, and an increase of 3% in commodity prices.

1987 MARKET CRASH



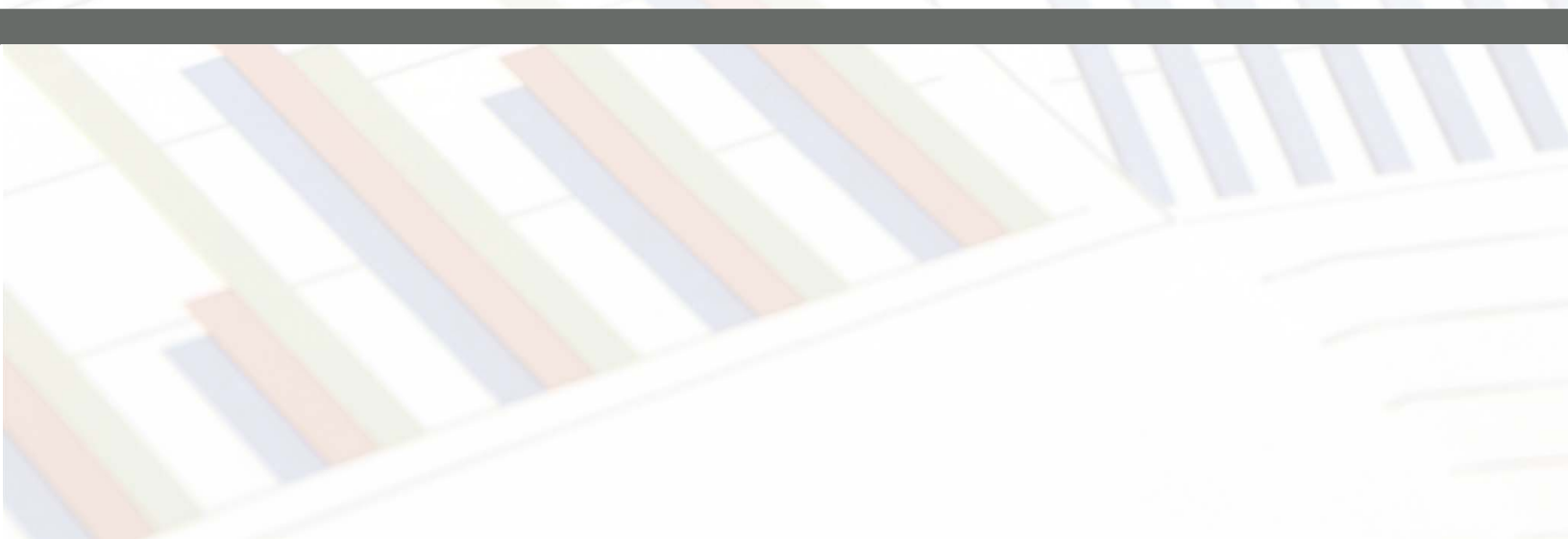
(14 Oct 1987 to 19 Oct 1987)

The U.S. stock market began to topple on October 14, 1987 after reaching a record high. It was also triggered by the reports of larger trade deficit and financing mergers' tax benefits elimination. The aggravating selling pressure in October 19 from confused and fearful investors and the failing portfolio insurers' models led to a substantial global market selloff.

The shocks applied in this scenario in aggregate are a 10% increase in global equity prices, 40 basis point decline in near term interest rates, a 21 basis point widening in corporate credit spreads, and a decrease in commodity prices of 1%.



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TRUST
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INTEGRITY



FY 2013-2014 Self-Assessment

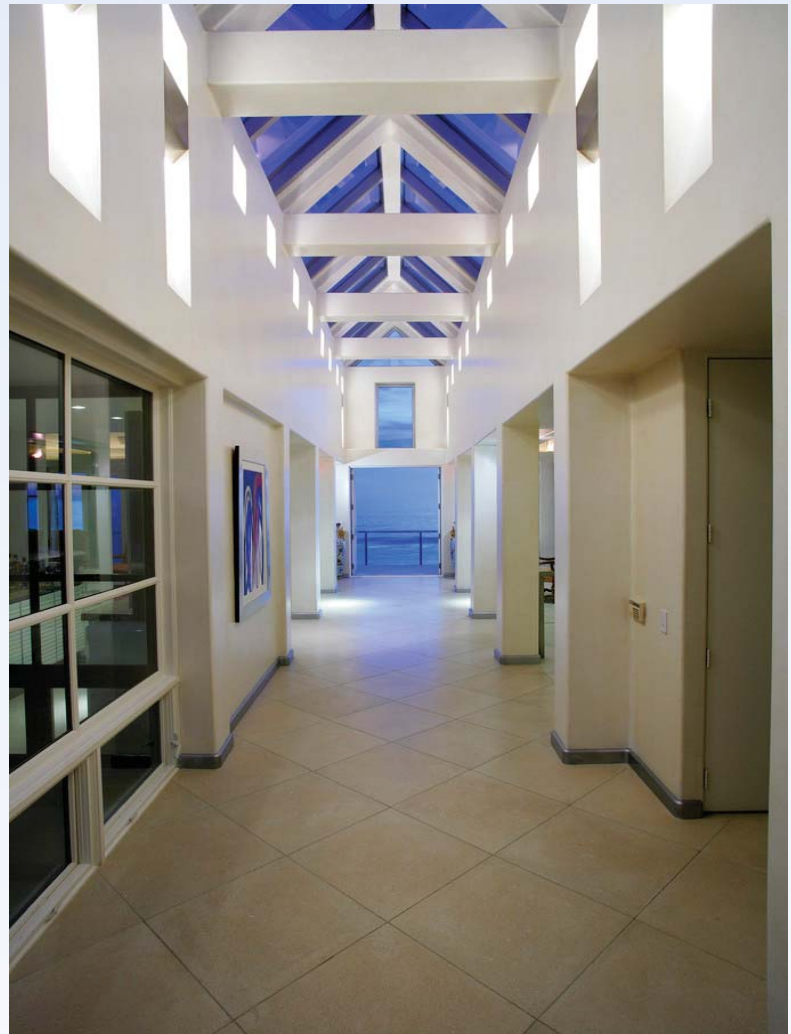
Risk Management and Compliance



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+ APPENDICES

SBA Enterprise Risk Management Framework
(as of 8/21/14)

Risk Assessment Scale Definitions

Risk Ownership and Residual Risk Ranking
(as of 3/31/14)

Residual Risk Assessment - Heat Maps
(as of 3/31/14)



+ EXECUTIVE SUMMARY

Risk management and compliance is an essential component of the State Board of Administration and it supports the SBA's efforts to effectively manage and mitigate risks. This report provides a high level overview and self-assessment of the SBA's Risk Management and Compliance (RMC) unit and its activities. The report covers the findings and accomplishments of the RMC unit for the 12-month period ended June 30, 2014 (the "period").

SBA Senior Management has proactively promoted a culture of risk management and compliance through the governance structure, 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. The SBA's mission statement further supports this culture: *"To provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards."*

Background

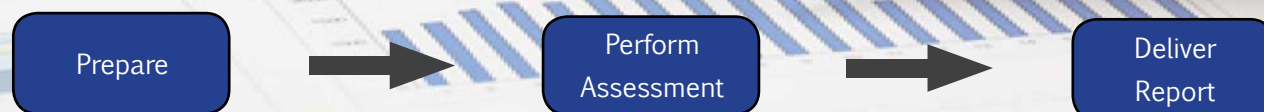
In August 2008, the SBA engaged Deloitte & Touche LLP (Deloitte) to undertake an assessment of the SBA's compliance program and related control, monitoring, and oversight activities. Deloitte subsequently developed high level compliance recommendations for the SBA's consideration. As a follow-up, in 2009, the SBA engaged Deloitte to develop an implementation plan for enhancing the SBA's governance structure and compliance functions. The SBA formalized the compliance program with the creation of the Risk Management and Compliance unit and the recruitment of a Chief Risk & Compliance Officer (CRCO) in December 2009.

The initial compliance self-assessment was completed in July 2012. An external assessment will be performed for FY 2014-15.

In August 2011, based on a request from the SBA Trustees, the SBA engaged Crowe Horwath LLP (Crowe) to evaluate the compliance program and its alignment to risk management processes within the SBA. As part of this engagement, the SBA requested Crowe to evaluate the progress made by the SBA relative to both reports developed by Deloitte. During Crowe's evaluation, a recommendation was put forth consistent with Deloitte's recommendation that the CRCO assess the Compliance Program on an annual basis.

The CRCO's response to the recommendation was to perform a self-assessment annually for two consecutive years, and have an external assessment performed every three years in conjunction with the Audit Committee's evaluation of risk management, compliance and audit functions.

+ SELF-ASSESSMENT APPROACH



- Documented Risk Management and Compliance Activities
- Gathered performance metrics

- Sent out Risk Management and Compliance surveys
- Confirmed observations
- Performed assessment

- Drafted report
- Published and distributed final report

+ RISK MANAGEMENT AND COMPLIANCE TEAM

The SBA's Chief Risk & Compliance Officer (CRCO) oversees all aspects of risk and compliance (investment and regulatory), managing a team of 16 people. The CRCO and his directors have an average of 15 years of industry experience (see information on facing page).

All SBA finance professionals are assigned 10 mandatory training hours per year from a curriculum of advanced finance and investment courses offered by eLearning provider, Intuition. In 2012, RMC implemented a core competency curriculum for all new RMC staff in addition to the mandatory training. These courses cover a broad range of topics pertinent to the SBA (e.g., financial markets, investment management, risk management, operational and regulatory issues). The curriculum provides new RMC staff with a foundation in critical concepts relevant to the many responsibilities of the SBA.

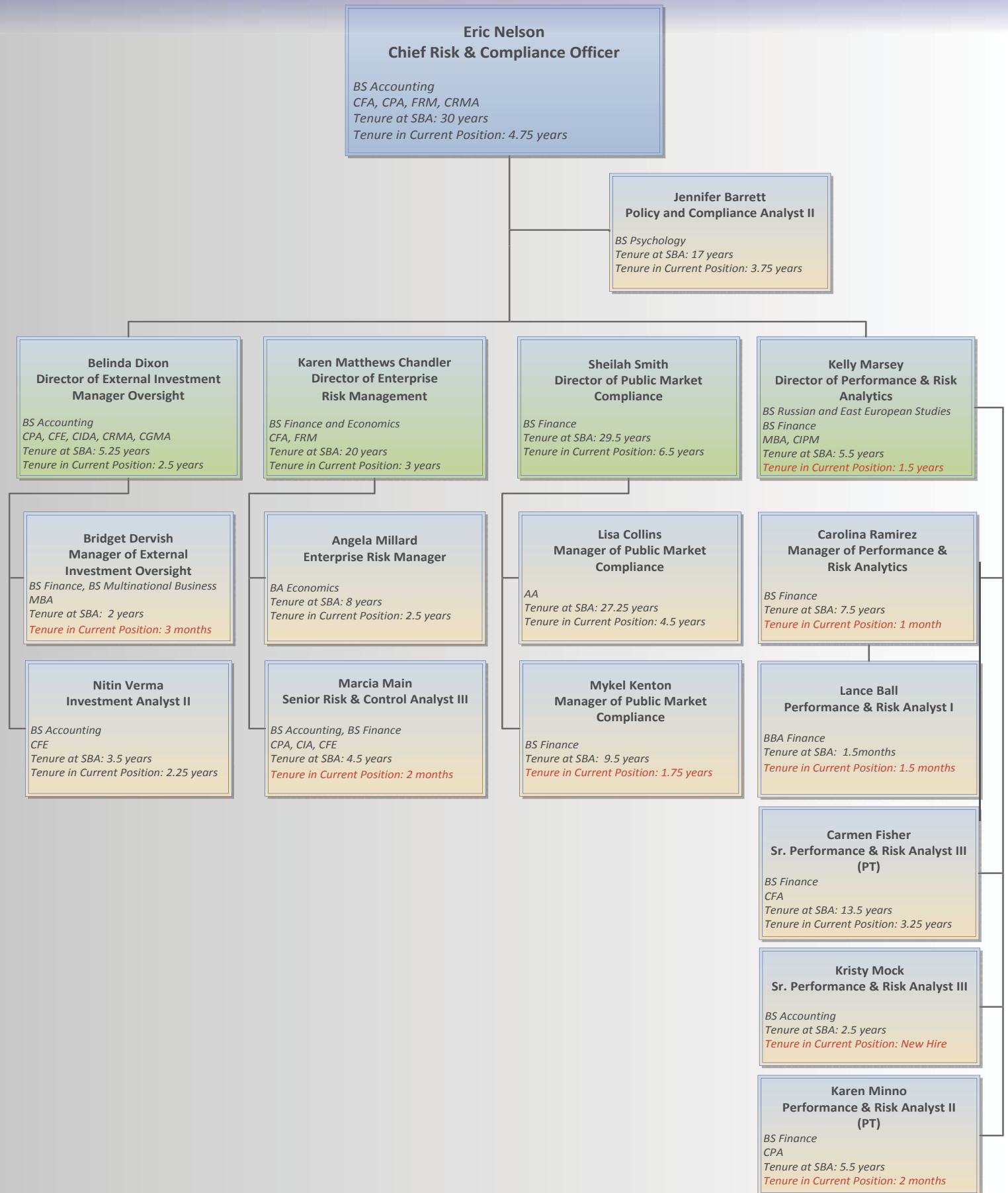
In October 2013, Risk Management and Compliance was re-organized, with the Senior Investment Policy Officer (and two subordinates) being moved to a direct reporting line to the Executive Director & CIO. The Performance and Risk Analytics unit was transferred from the Senior Investment Policy Officer to a direct reporting line to the CRCO.

The following personnel changes occurred during the year:

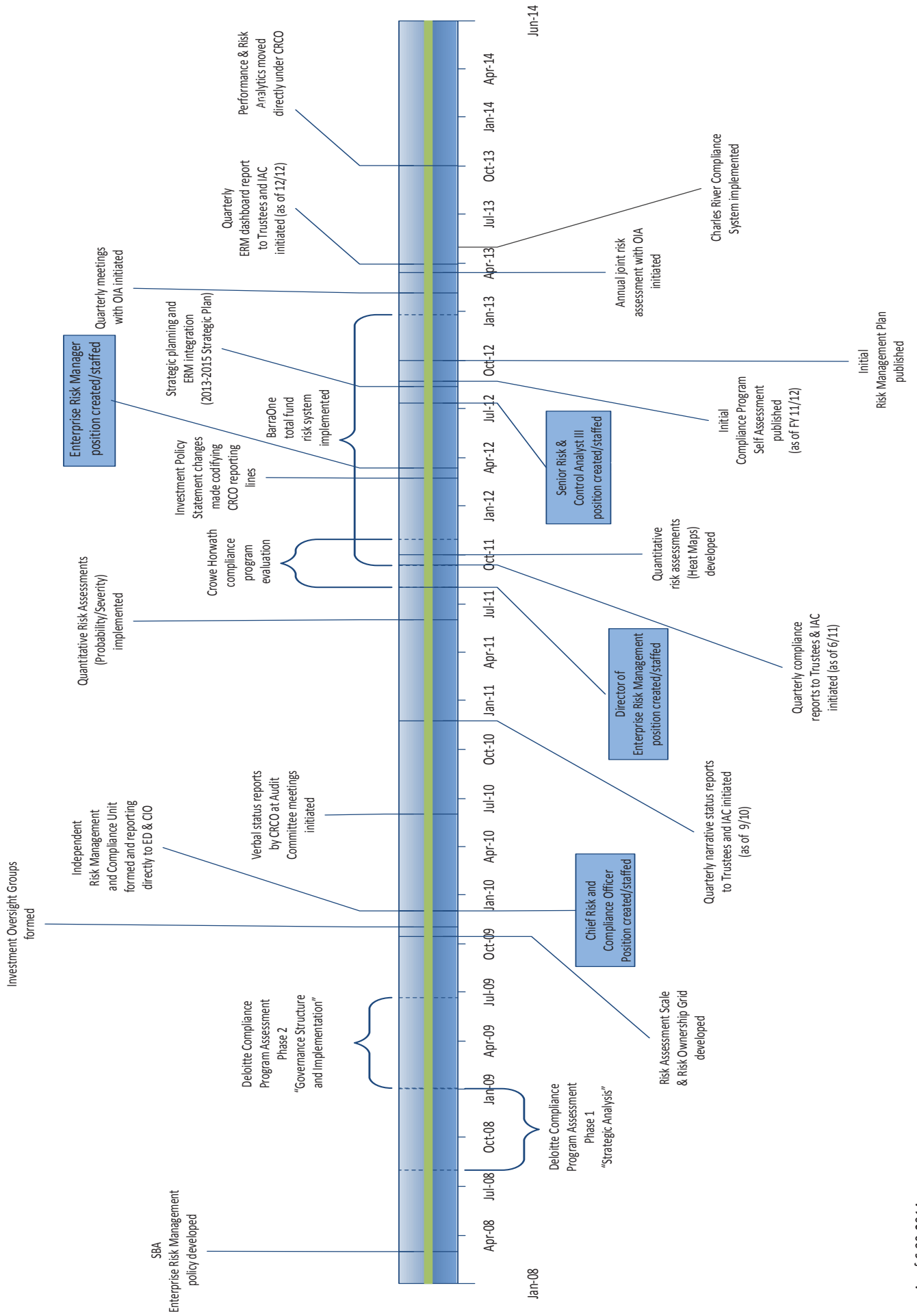
Manager of Private Market Compliance	Vacated	February 2014	Internal opportunity (Fixed Income)
Performance & Risk Analyst I	Vacated	April 2014	External opportunity
Senior Risk & Control Analyst III	Vacated	May 2014	Internal promotion to Manager of External Investment Oversight (position vacated in February 2014; retitled)
Sr. Performance & Risk Analyst III	Vacated	May 2014	External opportunity
Performance & Risk Analyst I	Filled	June 2014	External recruitment
Performance & Risk Analyst II (PT)	Filled	July 2014	Compliance Analyst II position in External Investment Manager Oversight transferred to Performance and Risk Analytics
Sr. Risk & Control Analyst III	Filled	July 2014	Internal promotion (position vacated in May 2014)
Manager of Performance & Risk Analytics	Filled	August 2014	Internal promotion (Sr. Performance & Risk Analyst III reclassified)
Sr. Performance & Risk Analyst III	Filled	September 2014	Internal promotion (position vacated in May 2014)

State Board of Administration (SBA)

Office of Risk Management and Compliance as of 9/01/14



EVOLUTION OF SBA ENTERPRISE RISK MANAGEMENT AND COMPLIANCE FUNCTION





+ ENTERPRISE RISK MANAGEMENT PROGRAM OVERVIEW

The role of Enterprise Risk Management (ERM) is to provide an integrated and consistent framework to identify, assess, monitor and ultimately manage risk in support of the SBA's mission to provide superior investment management and trust services.

Proactively identifying and addressing risks related to the achievement of SBA objectives is central to the role of ERM. ERM coordinates the cross-functional management of enterprise-wide risks and provides a consolidated view of risks and mitigation processes through periodic risk assessment, monitoring, and reporting. The coordination of activities promotes an enterprise-wide approach to managing risks and enhance senior management's understanding of key risks faced by the SBA.

Implementation

Successful risk management depends on risk awareness and input at all levels of the organization. Risk management at the SBA is facilitated through cooperative efforts between ERM staff and management in the business units. In fulfilling their responsibility to manage risk, business unit leaders are required to routinely identify, assess, and monitor risk within their respective units.

ERM facilitates risk management at the enterprise level by integrating the varying views of risk among SBA management. A consolidated view of enterprise-wide risks is communicated in the Quarterly Enterprise Risk Management and Compliance Report, Risk Management Plan, and Strategic Plan. The risk related materials are discussed during quarterly meetings of the Risk and Compliance Committee (RCC).



Total Fund Risk Model

The total fund risk model (TFRM), currently BarraOne, was implemented as part of a larger effort to institutionalize more robust risk management practices, specifically surrounding identification of sources and uses of investment risk. The TFRM allows SBA senior management to measure and monitor investment exposure, volatility, and correlation across portfolios.

The TFRM is a multi-asset class model for forecasting the asset and portfolio level risk. The model is built upon a foundation of factor models of asset types and local markets. The model provides forecasts of asset volatility and enables the SBA to analyze total fund exposures to the style and industry factors of each market.

Asset volatilities and correlations are driven by their exposures to the fundamental factors in the model and by the volatilities and correlations among the factors. Estimation of exposures to the factors requires fundamental data on equities, such as the capitalization of the firm (a size factor) and its sales, assets, and operating income from different industries. For fixed income securities, the terms and conditions of the securities are needed as well as cash flow generators that transform those terms and conditions into income streams.

The public market investment holdings data is transmitted from the SBA's custody bank to the TFRM as of month end. Security identifiers are used to reference the data library within the TFRM which contains the fundamental data needed to estimate exposure, volatility, and correlation of assets. The opaque nature of some Private Equity and Strategic Investments holdings necessitates a proxy modeling approach, in which a similar instrument or segment of an index whose fundamental data is known is used to estimate asset exposure to fundamental factors.

ERM staff worked with Information Technology staff to create a database to store monthly risk statistics from BarraOne. The capture of manager level risk data will enhance analytics through the use of time series and ad-hoc data reporting to discern trends and allow easier comparative analysis of predicted and actual return variation.

ERM staff is responsible for generating various TFRM risk reports for consumption by internal and external audiences. In an effort to inform the stakeholders of investment risks, staff has designed reports with varying levels of detail. Asset volatility (total risk), asset volatility relative to the benchmark (active risk), asset class contribution to total fund volatility (contribution to total portfolio and active risk), factor exposures, and asset correlation are included in the monthly Senior Investment Group meeting materials and Investment Performance and Risk Analytics Report. These measures complement risk analytics prepared by asset class staff and inform quarterly Risk Budget discussions. Currency exposure, value at risk, and stress testing measures are included in the Quarterly Enterprise Risk Management and Compliance report distributed to the Risk and Compliance Committee and external oversight bodies governing SBA activities.

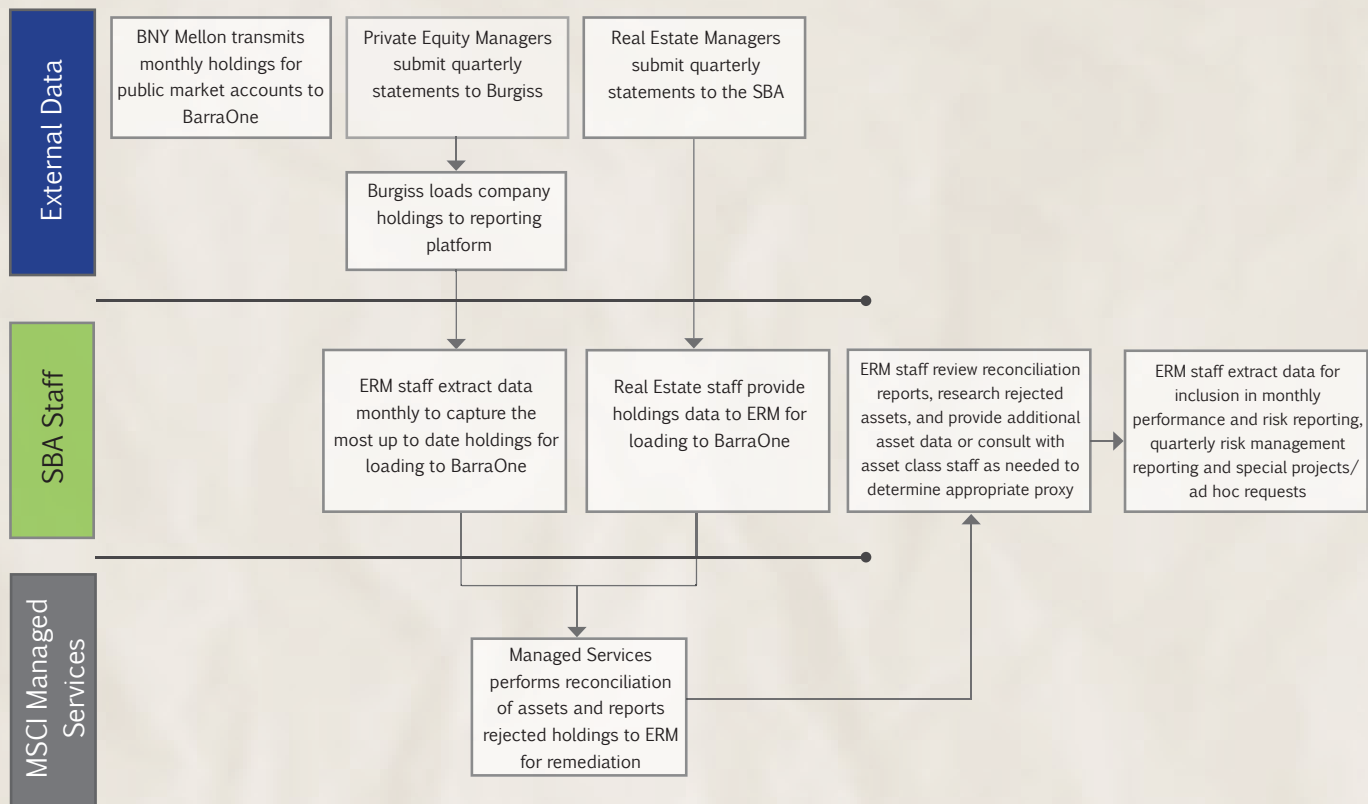
Risk is expressed in the model as annualized standard deviation of return. A total portfolio risk of 10, for example, means that the portfolio has a two-thirds chance of falling within 10% of its expected return over the next year (assuming that returns are normally distributed). Portfolio Risk is the ex ante volatility derived from the model and is based on asset weights. At the top level, the report divides total risk into three main sources: Local Market Risk, Currency Risk, and Currency/Market Interaction.

Risk and Compliance Committee (RCC)

The Risk and Compliance Committee (RCC) is a cross-functional management team that has been established to promote awareness among senior management on issues facing the SBA relating to risk management and compliance. The RCC meets routinely to evaluate effectiveness of risk management and compliance monitoring efforts. The group reviews key enterprise risks, emerging risk issues, and continuously scans for potential new or altered industry, vendor, environmental or internal risks.



Total Fund Risk Model Monthly Data Processing



Risk Assessment

The SBA has developed a robust risk framework, with thirteen strategic risk categories, the majority of which are broken further into subcategories. The framework is used to categorize each risk affecting the SBA, whether it is specific to particular business units or involves the entire organization.

Business unit heads are identified as risk owners based on their unit's exposure to an existing risk in the framework. For example, high ownership means the process owner has a high level of exposure to the particular risk, and therefore has a significant and direct role in managing/mitigating the risks identified. Medium ownership indicates the process owner participates in key support functions or may provide managerial/supervisory oversight of high risk owners and/or certain risk management activities. Risk owners may also be tasked with providing key information to support the reporting of risk metrics.

Semiannually, risk owners are asked to rank the probability, severity, and velocity of risks for which they are responsible for managing. ERM staff meets with risk owners individually or in groups to explore trends or divergence in rankings among owners. Communication across business lines can deepen organizational understanding of the nature of the risk and often lead to more effective risk mitigation.

Rankings are aggregated at the enterprise level and depicted in heat maps to indicate the SBA's residual exposure to each risk. These aggregations are reviewed and confirmed by the Risk and Compliance Committee and help focus mitigation strategies to those areas of highest residual risk to the organization. Risk responses may include acceptance, avoidance, transfer or mitigation through process changes and/or strategic projects.

13 Strategic Risks

- 1. Investment Management Risk**
- 2. Governance/Management Risk**
- 3. Communication/Public Affairs/Reputational Risk**
- 4. Legislative/Political Risk**
- 5. Compliance Risk**
- 6. Fraud/Misconduct/Internal Controls Risk**
- 7. Service Provider Risk**
- 8. Client Relationship Risk**
- 9. Operational Risk**
- 10. Human Capital Risk**
- 11. Security Risk**
- 12. Business Continuity/Infrastructure Risk**
- 13. Legal Risk**



Internal Controls

Internal controls provide reasonable assurance that management's directives are carried out as planned in an effective and timely manner. Internal controls support efficient operations, accountability, compliance with policies and regulatory mandates, and reliable financial reporting by preventing or reducing the likelihood that risks will impede accomplishment of the SBA's goals and objectives. Examples of control activities include: approvals, authorizations, verifications, reconciliations, segregation of duties, operational reviews, monitoring, and reporting.

Over the last year, ERM advanced the documentation and verification of the SBA's system of internal controls. Efforts have also been focused on mapping workflow for key processes across the organization. ERM will continue to work with business units to refine and update internal control documentation and map key processes as risks to the SBA are continuously evaluated.

Strategic Planning

Management strives to achieve the mission and vision of the SBA through the advancement of goals and objectives in the Strategic Plan. Projects in support of the plan are specified to guide management in achieving these goals and objectives.

While executive management is responsible for developing and implementing the plan, the Chief Risk & Compliance Officer leads the strategic planning process, with the Director of Enterprise Risk Management serving as the facilitator for planning meetings. In this way, organizational risk management efforts are directly considered in development of the plan. Each strategic objective is linked to the ERM risk framework through the listing of strategic risks mitigated in the plan. Each objective is sponsored by at least one member of executive management who is responsible for communicating progress and updates back to the strategic planning team.



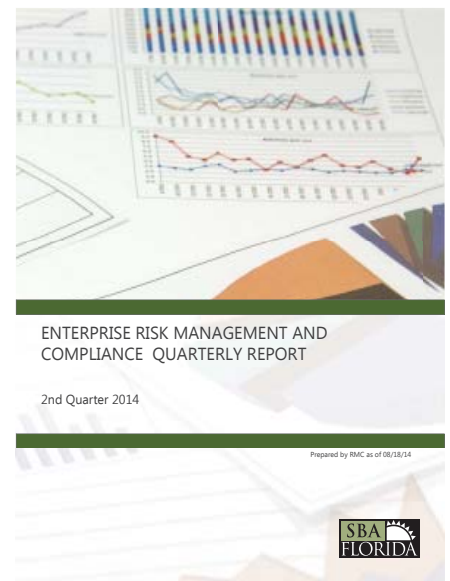
The SBA's vision is to be the best public sector investment and administrative service provider, while exemplifying the principles of trust, integrity and performance

The SBA's 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.

Enterprise Risk Management and Compliance Quarterly Report

ERM and External Investment Manager Oversight (EIMO) collaborate to create the quarterly Enterprise Risk Management and Compliance report. Staff consolidate the metrics from areas around the organization on a quarterly basis and disseminate the information through the Enterprise Risk Management and Compliance Report and quarterly meetings of the Risk and Compliance Committee.

ERM provides information to help management understand current risk levels and works with staff to identify and track key indicators. Key indicators are mapped to specific risks within the SBA risk framework. In addition, ERM staff works with process owners who have a deep understanding of risk related events that may occur within their area of responsibility to identify key performance and risk metrics. The metrics are used as a measure of the effectiveness of risk management strategies and early warning indicators of elevated risks. Staff and management use the information to help identify areas of



EIMO staff provides compliance metrics for each asset class as well as information related to the monitoring of:

- Counterparty Exposure
- Statutory/Regulatory Compliance
- Investment Policy Statements
- Ethics/Conflicts of Interest
- Governance and Policy Oversight
- Collateralization

The identification and monitoring of key risk indicators is a central component to effective risk management. ERM and EIMO continue to work with SBA staff to further develop, refine, and replace metrics as the risk environment changes.

Risk Management Plan

On at least a biennial basis, ERM produces a Risk Management Plan (Plan) that includes the identification of enterprise and business unit risks, the assessment of the likelihood and severity of these risks, and any planned mitigation strategies. The Plan is a culmination of many ERM activities and includes each risk in the framework and a description of risk levels and mitigating strategies.

Risk levels are determined by aggregating risk owner ranking results from risk assessments (severity, probability, velocity, etc.). Aggregated rankings are then scaled from low risk to high risk. Risk levels are combined with a listing of the risk owners, significant mitigating controls, and planned mitigation strategies in the form of objectives identified during the strategic planning process. The combination of the components creates a complete view of each risk the organization faces and management's response.



Measuring the estimated impact of risk events and defining the organizational responses helps to ensure adequate controls are in place to manage risk. The Plan also creates a common risk language which enhances communication and decision making across business units for more effective mitigation. The FY2014-16 Risk Management Plan is targeted for issuance in September 2014.

Trading Counterparty Management

Ensuring best execution of trades is an essential component of fulfilling the SBA's fiduciary duty. The equity and fixed income markets have unique structures and trading dynamics. As a result, trading risk varies by instrument type and market. Given these differing risk levels, securities are classified into categories depending on the risk associated with each type of trade. Trades are monitored within each market and category. Trade activity is reviewed at both the asset class and oversight committee levels.

Adding Counterparties

The SBA is under no obligation to trade with a particular counterparty. Counterparties are chosen based solely on ability to achieve best execution, a process through which the best price is realized for a particular transaction balancing portfolio objectives, market conditions, and liquidity constraints. Ethical requirements are in place for SBA staff with significant authority in the recommendation, selection, and/or approval process for trading counterparty selection.

Ongoing Monitoring

Counterparties are monitored for evidence of best execution on a daily basis by the business units. Quarterly, the Trading Oversight Group reviews trading levels by counterparty and business unit across the organization.

The SBA has **46** authorized trading counterparties

Counterparty Renewal

Maintaining best in class counterparties is critical to the success of the SBA's investment strategies. On an annual basis, applicable Senior Investment Officers (SIOs) request existing counterparties to fill out a Trading Counterparty Renewal Form to submit along with supporting documentation to the SBA for review. SBA staff reviews the documentation and SIOs provide a recommendation whether to maintain the existing counterparty for the next year. The recommendation is reviewed by RMC and then presented to the Trading Oversight Group for concurrence. The Trading Oversight Group provides the final recommendation to the Executive Director & CIO for approval.

The SBA has **10** authorized internal traders

The SBA uses CreditSights to provide independent research on credit risk as a complement to counterparty ratings and analysis generated by internal staff and external rating agencies. In 2012, the service level was enhanced to provide TOG with a quarterly review of counterparties as well as a short-term credit assessment of specific counterparties as requested.

Trading Oversight Group (TOG)

The Trading Oversight Group (TOG) is a standing sub-committee of the Senior Investment Group and is responsible for reviewing all public market trade activity. The group meets quarterly to evaluate the management, monitoring and measurement of counterparty risk. TOG reviews all cash market and derivative market trade activity, authorized exchanges, annual counterparty renewals, as well as emerging risk issues. The Director of Enterprise Risk Management serves as staff director of the Trading Oversight Group.

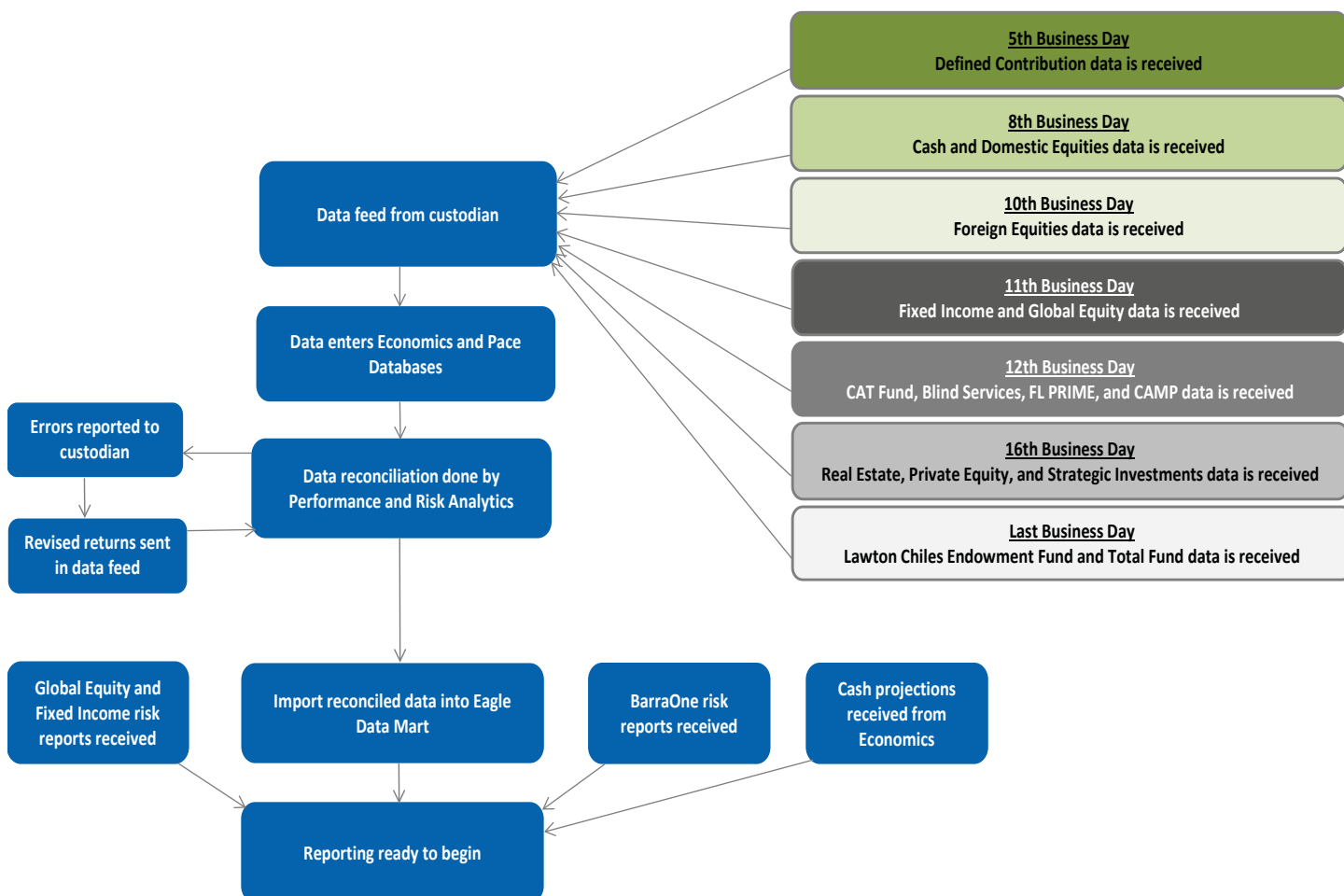




+ PERFORMANCE AND RISK ANALYTICS OVERVIEW

Performance and Risk Analytics is responsible for the maintenance and quality assurance of performance and ex-post risk data used and reported by the SBA. The Performance and Risk Analytics team ensures that methodologies utilized for performance measurement are consistent, documented and in accordance with applicable measurement standards. Performance and Risk Analytics staff work closely with the asset classes to implement changes to the performance databases and reporting due to new programs, transitions and restructures.

Performance Reporting Process



Performance Measurement Controls

The SBA has contracted with an Independent Performance Measurement Provider (IPMP), Bank of New York Mellon, to provide performance data for the FRS Defined Benefit Plan, the FRS Investment Plan and other mandates. The month-end performance returns are calculated by the IPMP and sent to the SBA in a feed that populates the performance and risk databases. The Performance and Risk Analytics team recalculates and reconciles returns with the IPMP to ensure that performance data is accurate for portfolios, aggregates and benchmarks.

The Performance and Risk Analytics team is also responsible for providing data for and review of documents and reports produced by the SBA Communications Office and consultants hired by the SBA.



Databases

The Performance and Risk Analytics team maintains models and systems for calculating time-weighted and dollar-weighted internal rates of return and maintains databases containing the official performance data that is used by SBA staff and provided to external consultants.

The Economics Database is a SQL database made up of tables containing performance and risk data for portfolios, aggregates and benchmarks. The Economics database has historically been used for all of the reporting done by the Performance and Risk Analytics team. The reporting source data is currently being transitioned to Eagle PACE and DataMart and the Economics Database is being phased out.

Private i is a program that uses valuation and cash flow data to calculate time-weighted and dollar-weighted returns for the private market portfolios, aggregates and benchmarks. Private i is populated using a process that extracts month-end valuations from Eagle DataMart (as of July 1, 2014; the month-end valuations were previously extracted from the Economics Database) and cash flow data from Eagle STAR. Benchmark data is fed into the system via a spreadsheet.

Eagle PACE is a performance and risk calculation system that uses valuation and cash flow data from Eagle Star to calculate performance returns and risk statistics. Eagle PACE also receives the monthly data from the IPMP's feed and can calculate linked period returns on the fly. Currently, the Performance and Risk Analytics staff use Eagle PACE to calculate the returns for the Florida PRIME, Fund B, CAMP MM-B, Blind Services and the McKnight Education Funds in order to reconcile the data with the IPMP before reporting.

Eagle DataMart is a data warehouse populated by Eagle PACE. The linked-period returns calculated by Eagle PACE are stored in DataMart for use in reporting. The Performance and Risk Analytics staff are in the process of converting reports from extracting data from the Economics Database to extracting data from Eagle DataMart.

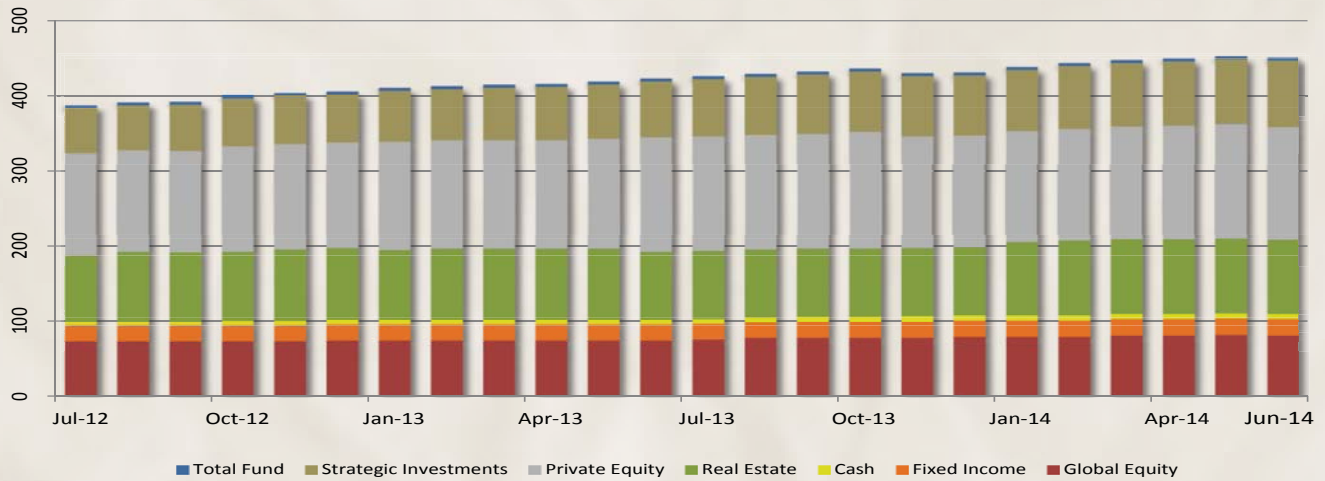
Reporting

The reconciled month-end returns are used by the Performance and Risk Analytics team to calculate the linked-period returns and the ex-post risk statistics that are used in surveys and reports produced and distributed by the department, such as the Flash Performance and Risk Report, the Investment Performance and Risk Analytics Report, the Manager Detail Report and the Senior Investment Group (SIG) Report.

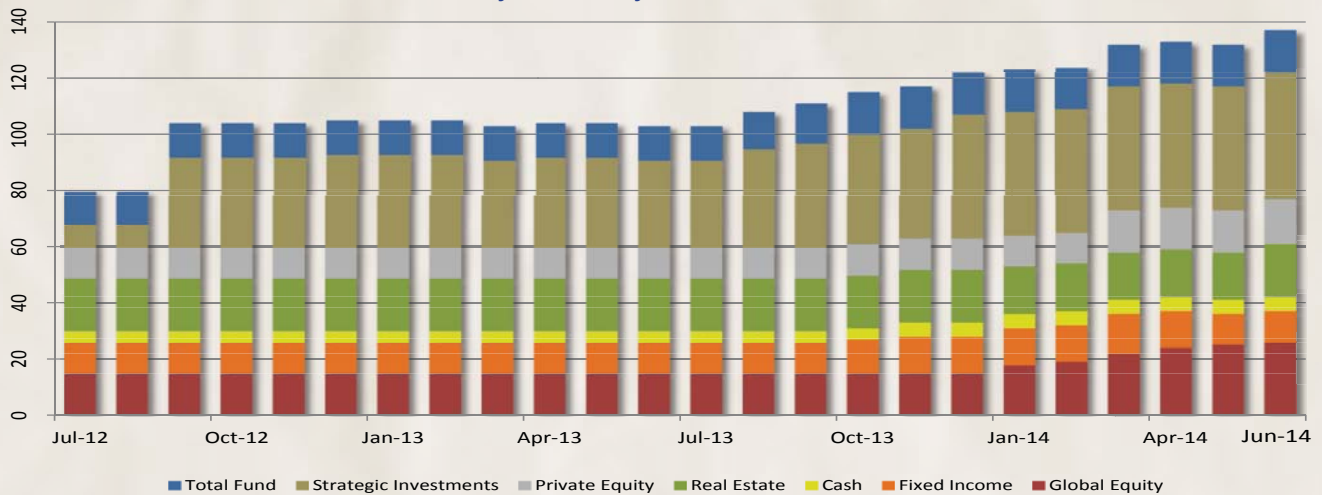
The reconciled performance data is also supplied to consultants and to the SBA Communications Office for use in the SBA Annual Investment Report, Report to the Trustees, public records requests and various other reports and projects.

Monthly Performance Measurement Reconciliations

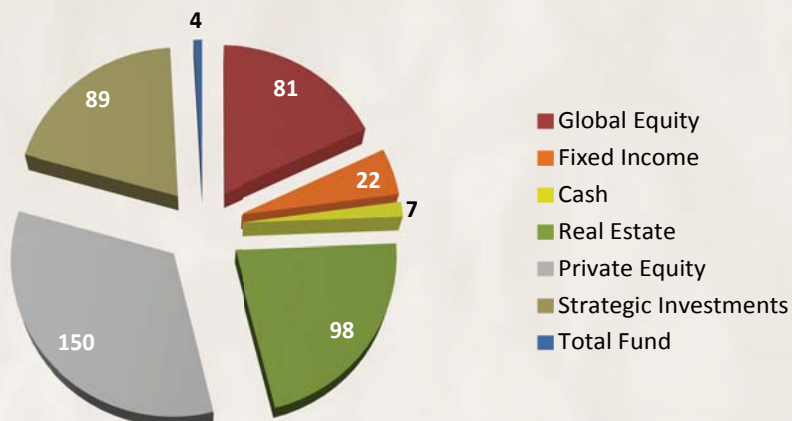
Total Portfolio Reconciliations
by month (July 2012 - June 2014)



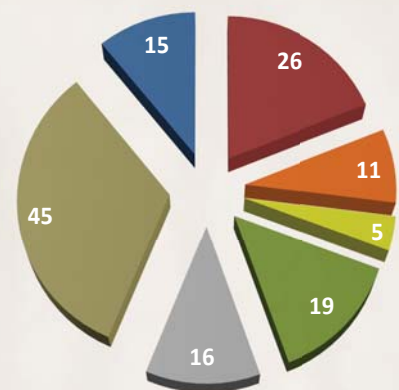
Total Composite Reconciliations
by month (July 2012 - June 2014)



Total Portfolios Reconciled
by Asset Class
as of 6/30/14



Total Composites Reconciled
by Asset Class
as of 6/30/14

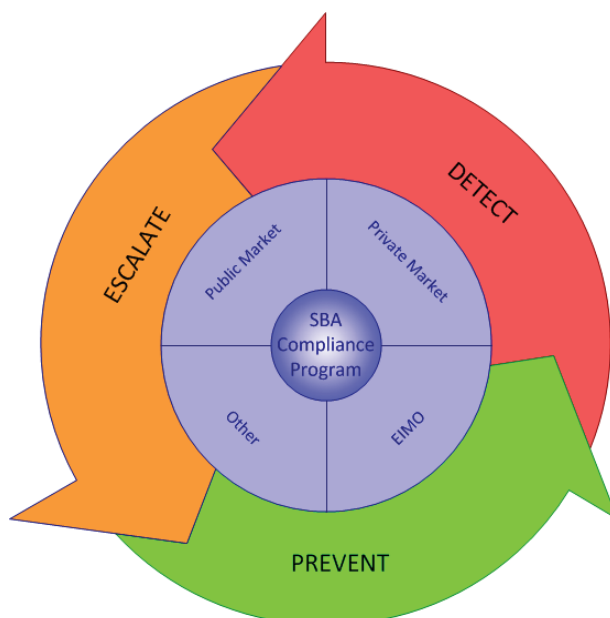




+ COMPLIANCE PROGRAM OVERVIEW

Compliance has significant responsibilities for ensuring that the SBA operates according to applicable laws, policies, guidelines, and contractual agreements. The goals of the SBA compliance program are to PREVENT violations from occurring, to DETECT any violations that may have occurred, and to ESCALATE violations to management for review and, if necessary, appropriate action. The SBA compliance team achieves these goals within a framework of routine compliance testing and reporting.

Routinely testing portfolios against documented Investment Portfolio Guidelines/Policies and reporting the results to the applicable Investment Oversight Group (IOG) ensures that violations are detected and that the appropriate corrective measures are taken. Depending upon the criteria, compliance testing is performed on a daily, weekly, monthly, quarterly, or annual basis. Once identified, exceptions are reported at the next IOG meeting, unless guidelines stipulate that an ad hoc meeting must be called. For some exceptions detected by Compliance, corrective action may have already occurred, and these are reported to an IOG for review and approval of a Senior Investment Officer (SIO) response. In other cases, no action has been taken, and the exception, along with a recommendation from portfolio management, is escalated to an IOG. In the case of material compliance exceptions, the IOG then forwards its recommendation to the Executive Director & CIO for a final determination. This IOG governance structure functions as the primary vehicle for escalation, transparency, and disposition of compliance exceptions.



Investment Oversight Groups (IOGs)

The Executive Director & CIO has established Investment Oversight Groups (IOGs) for Fixed Income, Global Equity, Private Equity/ Strategic Investments, Real Estate, and Total Fund as standing subcommittees of the Senior Investment Group to regularly review compliance exceptions and associated risks, and to develop and document management responses to these exceptions. The Chief Risk & Compliance Officer (CRCO) acts as Chairman on behalf of the Executive Director & CIO, who retains final authority for actions taken. Designated asset class compliance officers serve as staff director and are responsible for distributing meeting materials and for documenting the meeting minutes. Minutes describe items taken up for discussion, open items requiring additional follow-up, and any actions or escalations taken thereon, including the IOG's consensus concurrence, or lack thereof, with portfolio management recommendations with regard to compliance exceptions. The CRCO is responsible for approving the minutes and communicating proposed responses to material compliance exceptions to the Executive Director & CIO for final approval. The IOG consists of the following members:

- The designated asset class Compliance Officer for the applicable asset class
- Chief Risk & Compliance Officer
- Senior Investment Officer for the applicable asset class
- Director of Enterprise Risk Management

The Investment Oversight Groups meet and report minutes as specified in policy, or on an ad-hoc basis if required under applicable investment guidelines to address material exceptions identified intra-month or intra-quarter. If no exceptions are identified for the review period, physical meetings may not take place and, instead, materials will be provided via email, with approval required by a majority of the IOG members.

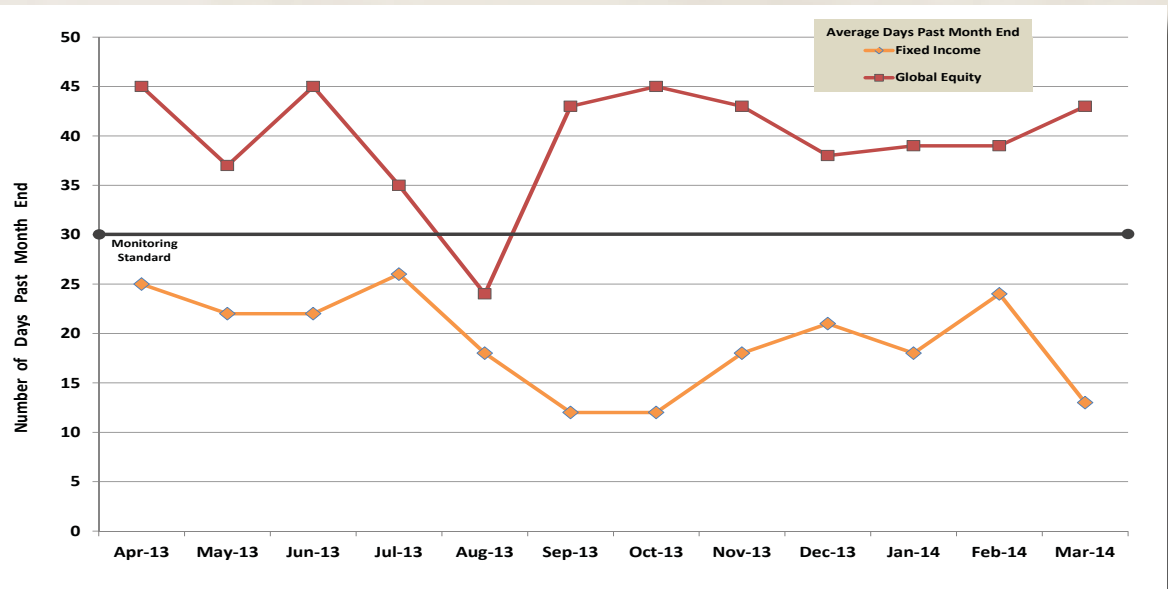


Investment Oversight Groups and Meeting Frequency	
Monthly	
Fixed Income Investment Oversight Group (FI-IOG)	
Global Equity Investment Oversight Group (GE-IOG)	
Quarterly	
Real Estate Investment Oversight Group (RE- IOG)	
Private Equity & Strategic Investments Oversight Group (PESI-IOG)	
Total Fund Investment Oversight Group (TF- IOG)	

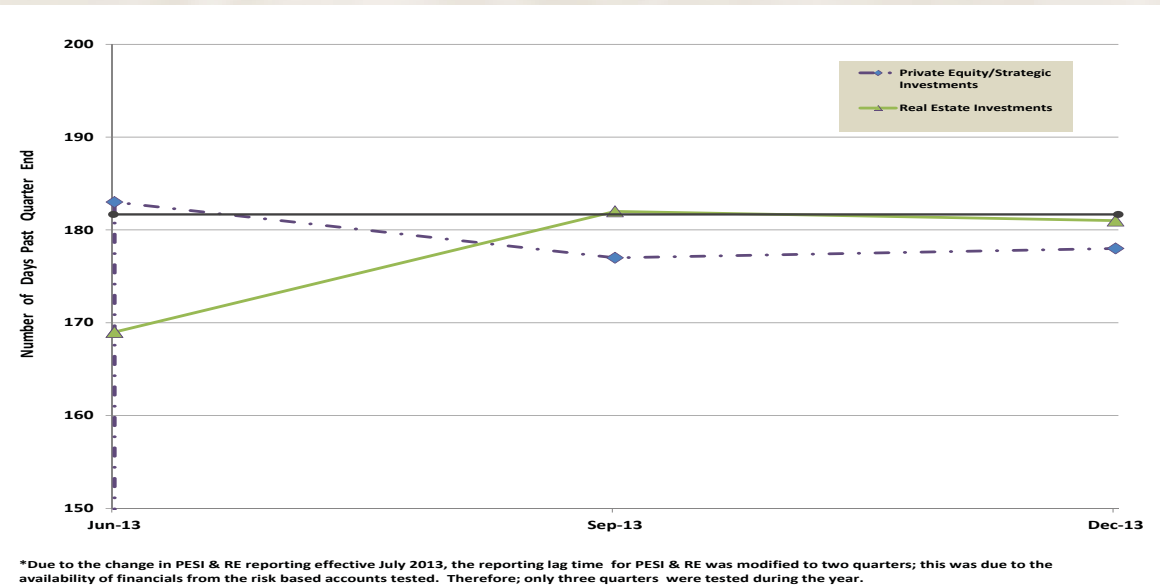
Minutes from all IOG meetings are available on the SBA Intranet under the “Compliance” tab

Compliance Performance Metrics

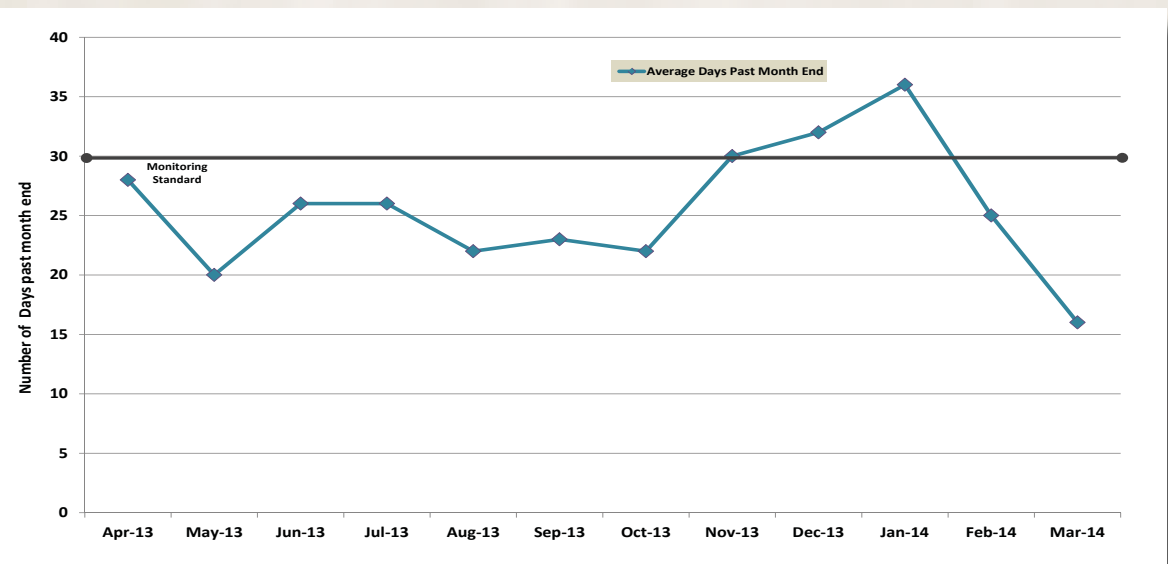
Monthly
IPG Compliance and
Lag Time



Quarterly
IPG Compliance and
Lag Time



ED & CIO and
Asset Class/DED
Policy Compliance
Lag Time



+ PUBLIC MARKET ASSET CLASS COMPLIANCE

The Director of Public Market Compliance (DPMC) is responsible for the compliance program for Public Market mandates, which include both pension and non-pension funds in the Fixed Income, Global Equity, and Real Estate asset classes. Within a framework of testing and reporting, the Director of Public Market Compliance and two Managers of Public Market Compliance monitor the holdings and trading activity in all SBA Public Market portfolios to ensure compliance with investment guideline and policy requirements.

Investment guidelines and SBA policies govern all portfolio management and trading activity conducted on behalf of Public Market portfolios. Checklists are developed and maintained by Public Market Compliance staff, based on the criteria stipulated in these documents. Compliance tests are created to ensure that transactions and holdings are consistent with stated requirements. Public Market Compliance staff utilizes a variety of resources in the testing and verification process:

- Barclay's Point
- Bloomberg/Bloomberg Compliance Manager
- BNY Mellon INFORM, Compliance Monitor, Workbench
- Charles River Systems
- External Manager or Service Provider websites
- JP Morgan ACCESS
- Moody's/Standard & Poor's Rating Agency websites
- US Securities and Exchange Commission website
- Wilshire Axiom

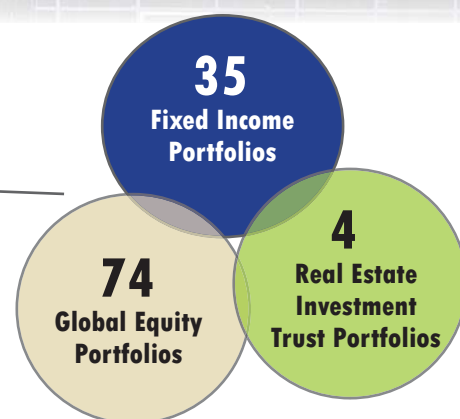
Compliance tests are conducted on a daily, weekly, monthly, or quarterly basis. If an exception is identified during testing, the applicable SIO is requested to provide a written response describing the circumstances of the exception and any corrective measures taken or recommended. The details of all exceptions identified since the last meeting, as well as the SIO responses, are then reported to the applicable IOG on the New Exceptions Report. The IOG will make a determination or provide a recommendation for material items to the Executive Director & CIO for approval. If a determination is made to retain a security that does not meet guideline requirements, it will be reported and maintained on the Open/Ongoing Exceptions Report. The applicable SIO will routinely evaluate open/ongoing items and report any new developments or changes in portfolio management recommendations to the applicable IOG. The IOG will, in turn, reaffirm previous decisions or provide new recommendations for consideration by the Executive Director & CIO for material items. Public Market Compliance staff maintains written procedures for all compliance processes.

Florida Retirement System Pension Plan

Public Market Compliance staff monitors compliance with investment guideline and policy requirements for the Florida Retirement System Pension Plan. Compliance on Pension Plan portfolios is performed on a daily, weekly, monthly, or quarterly basis, consistent with stated criteria. Parameters such as net asset value, eligible securities, approved traders and counterparties, credit quality ratings, and trading limits are tested daily.

Weekly testing is performed on the Pension Plan securities lending portfolios to verify parameters such as collateral type, margin, and counterparty ratings. Monthly compliance is also performed on the securities lending portfolios, as well as on all internally managed accounts, and on externally managed portfolios with less than one year of history with the SBA. The criteria tested on a monthly basis vary, but typically include permitted and prohibited securities, maturity constraints, diversification requirements, minimum liquidity, credit quality ratings, duration, and sector weights.

For the public market asset classes and funds, the SBA monitors compliance on:



Since external managers are principally responsible for compliance with guideline criteria, Public Market Compliance staff performs testing on externally managed Pension Plan portfolios on a quarterly basis. Externally managed accounts are tested on many of the same parameters as internally managed portfolios. However, quarterly tests may also be conducted to monitor exposures relative to a benchmark, market capitalization levels, country or region weights, and currency denomination. Compliance testing results for Pension Plan accounts are reported to the applicable Investment Oversight Group on a monthly, quarterly, or ad hoc basis.

As investment manager of the Local Government Surplus Funds Trust Fund or Florida PRIME, Federated Investment Counseling (Federated) monitors compliance daily to ensure that investment practices comply with the requirements of the Investment Policy Statement (IPS) and with those necessary to maintain the AAAm rating from S&P. Federated is required to notify the Fixed Income-IOG (FI-IOG) of any compliance exceptions within 24 hours of identification. Federated also provides a compliance checklist to Public Market Compliance staff on or before the tenth business day of each month, which shows the pass/fail status of each criterion tested at the previous month-end. Certain information reported on the checklist is then independently verified by Public Market Compliance staff for accuracy, consistent with a risk-based approach.



currently has

862

participants

Under the risk-based approach, each IPS parameter is ranked as “High” or “Low” with respect to the level of risk associated with a potential guideline breach. IPS parameters with risk rankings of “High” are subject to independent verification by Public Market Compliance staff. Results of independent testing are reported to the FI-IOG on a monthly basis, and decisions regarding reported items are documented in the meeting minutes. Additionally, any parameters reported in “Fail” status on the Federated checklist, regardless of risk ranking, are also reviewed by the FI-IOG. The risk rankings, along with a frequency for independent verification, are reviewed and approved by the FI-IOG on an annual basis, concurrent with Investment Policy Statement review or more often if market conditions dictate.

The following Investment Policy Statement parameters are currently ranked as “High” risk in the event of a guideline breach and are subject to independent verification by SBA Compliance:

- U.S. Dollar Denomination
- Daily Liquid Assets
- Weekly Liquid Assets
- Dollar Weighted Average Maturity
- Weighted Average Life
- Credit Quality
- Net Asset Value
- Unregistered Security Eligibility

Since compliance is monitored on a daily basis by the investment manager and the portfolio is also under surveillance by S&P as part of the ratings process, the above parameters, with the exception of Net Asset Value, are independently verified at each month-end. The Net Asset Value of Florida PRIME is verified on a daily basis by Public Market Compliance staff.



Federated also performs monthly stress testing on the portfolio and reports the results to the FI-IOG on a minimum quarterly basis. Testing must be conducted for the following events:

- Changes short-term interest rates
- Increases in net shareholder redemptions
- Downgrades or defaults
- Changes between a benchmark overnight interest rate and the interest rates on securities held by Florida PRIME

Fund B Surplus Funds Trust Fund

The Fund B Surplus Funds Trust Fund (Fund B) holds securities originally purchased for the Local Government Investment Pool, now known as FL PRIME, that defaulted in the payment of principal and interest and were restructured. On a daily and monthly basis, Public Market Compliance staff monitors portfolio activity to ensure that the requirements of the Investment Policy Statement and the Investment Management Guidelines for the collateral manager are met. Compliance tests are conducted on parameters such as eligible transactions and holdings. The test results are reported monthly to the FI-IOG.

Florida Hurricane Catastrophe Fund

For the Florida Hurricane Catastrophe Fund portfolios, Public Market Compliance staff monitors compliance with investment guideline and policy requirements on a daily and/or monthly basis. Guidelines vary, depending upon the mandate, and compliance tests may be conducted on parameters such as portfolio and trading limits, eligible securities, credit quality, diversification, repurchase agreement collateral, approved counterparties and traders, and net asset value. Compliance testing results for the Florida Hurricane Catastrophe Fund portfolios are reported to the FI-IOG on a monthly basis.



Protecting Florida's Investments Act

The Protecting Florida's Investments Act (PFIA) requires the SBA, acting on behalf of the Florida Retirement System Trust Fund (FRSTF), to publish a list of "Scrutinized Companies" that conduct prohibited business operations (as defined in the PFIA) in or with Sudan or Iran. The FRSTF is prohibited from investing in the equity or debt issued by companies appearing on the list. If an issuer of a security held in the FRSTF is added to the list and the company continues to conduct business in or with Sudan and Iran, then the holding must be divested within twelve months.

The list is updated and distributed to all FRSTF managers on a quarterly basis, with the exception of managers of active commingled funds, which are exempt from PFIA restrictions. Depending upon the mandate, Public Market Compliance staff monitors FRSTF investments for Global Equity, Fixed Income, and the Real Estate Investment Trust portfolios on a daily, monthly, or quarterly basis to ensure compliance with the PFIA. Any compliance exceptions are reported to the applicable Investment Oversight Group.

Securities Lending

For securities lending portfolios, compliance is monitored on investment guideline and policy requirements on a weekly and monthly basis. For intrinsic lending portfolios, which invest only in overnight repurchase agreements, reviews are conducted weekly to verify compliance with parameters such as collateral type, segregation, margin, and counterparty ratings. On a monthly basis, securities lending income, approved borrowers, and provider ratings are also verified.

For the Lottery securities lending reinvestment portfolio, compliance is tested monthly on parameters such as eligible securities, ratings, maturity, overnight liquidity, issuer exposure, margin, and weighted average maturity. Compliance testing results are reported to the FI-IOG on a monthly basis. Currently, the SBA participates in one active commingled securities lending fund under the standard terms available to all clients, and as such, compliance is not performed on this account.

Number of mandates the SBA manages (including the FRS and LCEF)

36

Fixed Income long-term trader limits (per trade)

\$150m

Fixed Income short-term trader limits (per trade)

\$300m

Fixed Income Exchange Traded Futures limit (per trade)

\$1.5b
(notional value)

Fixed Income Repos with less than 30 days to maturity limit (per trade)

\$1.5b

Global Equity routine trade limits

\$100m (single security)
\$500m (aggregate trade list)
\$1.5b (notional for exchange traded futures)

Other Mandates

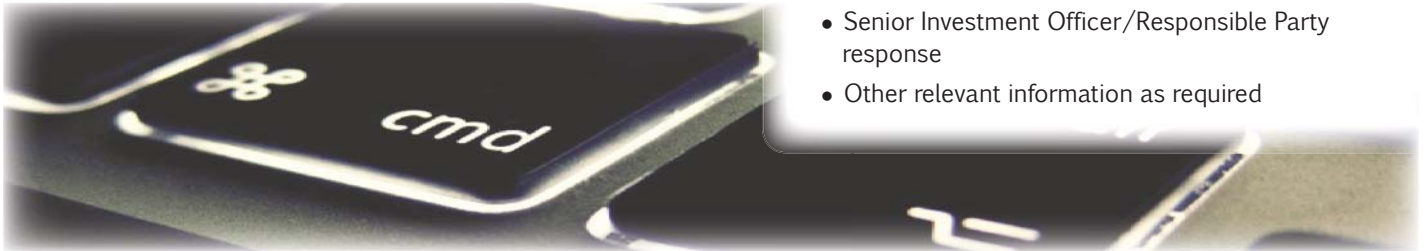
Compliance is also monitored on mandates governed by Florida Statutes or by trust agreements, such as the Lawton Chiles Endowment Fund, which supports health and medical research programs for children and elders; the debt service funds for bonds issued by the Division of Bond Finance; the Department of the Lottery funds; and monies managed on behalf of the Department of Economic Opportunity for the Innovation Incentive Program. These mandates may have various accounts administered or managed by the SBA across multiple asset classes. Investment guidelines are developed according to statutory or trust agreement directives, and compliance testing is conducted on a daily and/or monthly basis on parameters such as permitted and prohibited securities, eligible transactions, ratings, and maturity. Compliance testing results for these funds are reported to the FI-IOG on a monthly basis.

Compliance Exceptions Database

Compliance staff created and maintains an Exceptions Database in Microsoft Access which serves as a centralized data repository for monitoring, tracking, and reporting compliance exceptions. Compliance exceptions include any unapproved deviations from investment guidelines, as well as violations related to policy or other statutory or regulatory requirements. As violations are identified, they are entered in the Exceptions Database by Compliance staff.

Information entered into the database includes:

- Asset Class where exception/violation occurred (as applicable)
- Date of discovery of exception
- Actual date of exception/violation
- Portfolio name/policy title
- Type of exception
- Description of exception/violation
- Escalation
- Senior Investment Officer/Responsible Party response
- Other relevant information as required



REPORTS

An Open/Ongoing Exceptions Report is generated by Compliance and posted to the Intranet on the last business day of each month. This report includes exceptions that have been addressed by an Investment Oversight Group but remain open until resolution is achieved and the status of the item is changed to “closed.”

A New Exceptions Report is generated from the Exceptions Database on a bimonthly basis (usually every other Friday) and the results are posted on the SBA Intranet. This report includes exceptions that have occurred in the prior two-week period that have not yet been addressed by an Investment Oversight Group.



Fixed Income and Global Equity Investment Oversight Groups (FI-IOG/GE-IOG)

The public market asset class IOGs (FI-IOG/GE-IOG) meet monthly. A management response for compliance exceptions or issues noted during the compliance review is obtained from the applicable asset class SIO prior to the IOG meeting. New exceptions (identified since the last meeting) and ongoing exceptions are reported at the monthly IOG. The IOG forwards determinations/recommendations for material items to the Executive Director & CIO for approval.

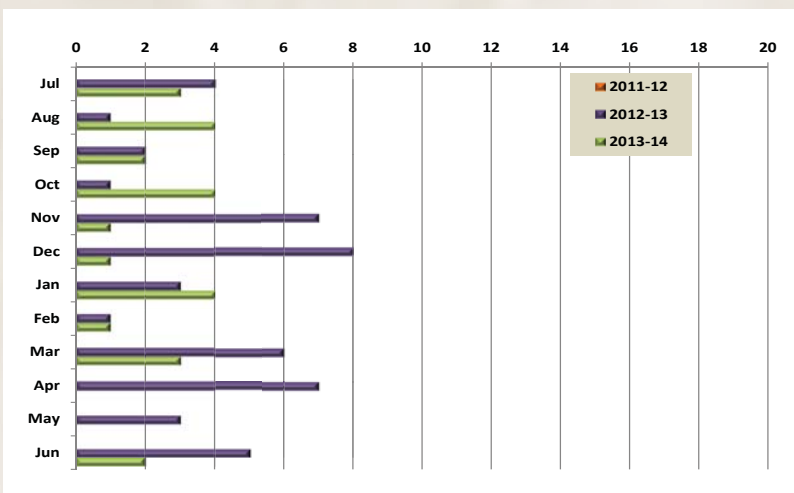
Compliance Exceptions Metrics

Compliance exceptions are reviewed and escalated to the Executive Director & CIO as appropriate. Although the majority of exceptions discovered during the fiscal year occurred in the Fixed Income asset class, there was a significant decrease in the total number of exceptions reported this fiscal year versus the previous two fiscal years (see chart below for comparison).

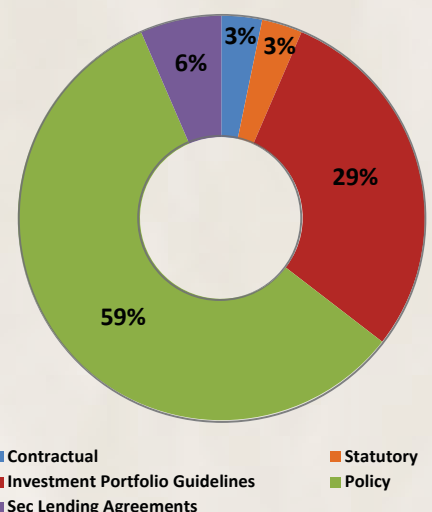
Compliance Exceptions Reported to the IOG (by category)
FY2013-2014

Category	Fixed Income	Global Equity	Private Equity	Real Estate	Strategic Investments	PIA	Total Fund	Total	%
Contractual	0	0	0	1	0	0	0	1	3%
Statutory	0	0	0	0	0	0	1	1	3%
Investment Portfolio Guidelines	9	0	0	0	0	0	0	9	29%
Policy	14	0	0	0	0	4	0	18	59%
Securities Lending Agreements	2	0	0	0	0	0	0	2	6%
Trust Agreements	0	0	0	0	0	0	0	0	0%
	25	0	0	1	0	4	1	31	100%

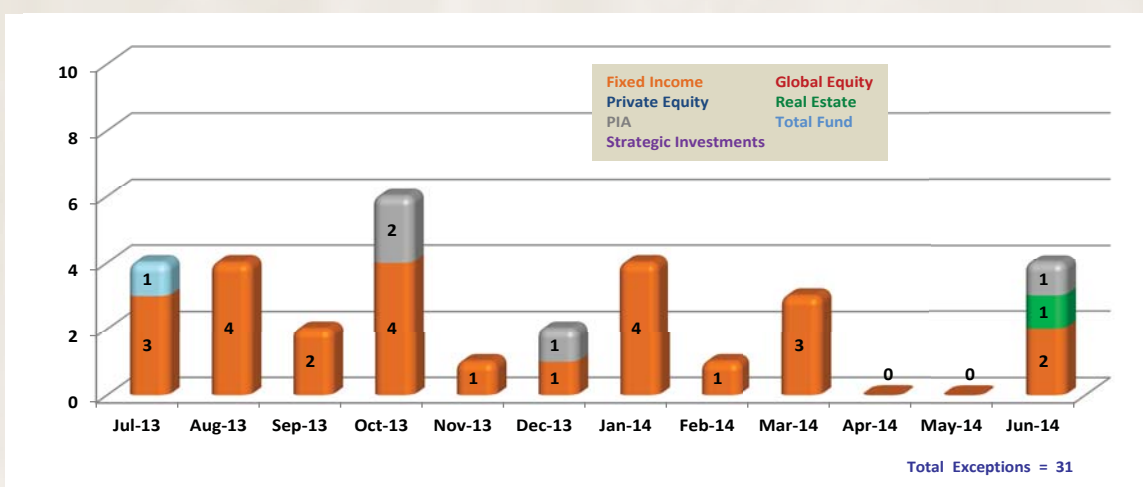
Comparison of Fixed Income Compliance Exceptions
FY2011 - 12/FY2012- 13/FY2013-14



Compliance Exceptions by Category
FY2013-2014



Compliance Exceptions by Asset Class
FY2013 -14





+ AUTOMATED COMPLIANCE SYSTEMS

Automated compliance systems are utilized in the testing of Public Market portfolios to increase the efficiency of processes and to help ensure the accuracy of results. Three systems are currently employed: BNY Mellon's Compliance Monitor, Bloomberg's Compliance Manager, and Charles River Systems. Public Market Compliance staff applies a fully integrated approach to automated compliance by:

- developing, programming, and implementing compliance rules within each system;
- conducting tests on the portfolios;
- reviewing the alerts and warnings that are generated;
- reporting the testing results to the Investment Oversight Groups

BNY Mellon's Compliance Monitor system is used primarily to conduct monthly and quarterly post-trade testing on Fixed Income, Global Equity, and Real Estate portfolios. Parameters such as permitted securities, ratings, issuer

diversification, sector weightings, and benchmark exposures are routinely tested using this system. Bloomberg Compliance Manager is used to test all internally managed Fixed Income portfolios on pre-trade standards that are monitored on a daily basis such as those for permitted securities, ratings, maturity, authorized traders, and trading limits. Charles River is used in a similar capacity to test all internally managed Global Equity portfolios on a pre-trade basis on parameters such as authorized traders, trading limits, cash levels, short-selling, and prohibited investments.

Public Market Compliance staff continues to work toward developing its knowledge base of the three automated systems by attending training seminars and by working with vendors to more fully understand and utilize system capabilities. Efforts to capture greater efficiencies by converting manual processes to automated functions will continue in FY2014-2015.

+ EXTERNAL INVESTMENT MANAGER OVERSIGHT (EIMO) OVERVIEW

EIMO is responsible for the following compliance processes at the SBA which relate to the oversight of external investment managers and fund/property acquisitions:

- Private Market Asset Class Compliance
- New Investment/Fund Acquisition Compliance
- External Manager Oversight Program
- Total Fund Compliance
- Site visits

Private Market Asset Class Compliance

Private Equity and Strategic Investments

During FY2013-14, Private Equity and Strategic Investments compliance reporting was changed to include risk-based testing of investment manager fund restrictions and standardized reporting between the two asset classes on a quarterly basis with a six month lag time (due to private market manager reporting requirements of 90 to 120 days after quarter end).

In addition to the risk-based testing, EIMO staff also reviewed compliance with investment portfolio guidelines (IPGs) for the separately managed accounts each quarter (accounts where the SBA generally has 98% to 100% interest in the fund).

Testing

Examples of Restrictions Tested during FY2013-14

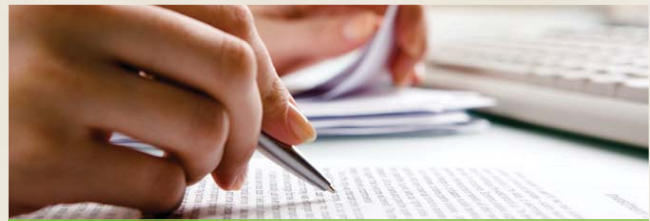
- 25%** Cap on investment in any single Portfolio Partnership
- 20%** Cap on capital committed to funds based outside the US
- 25%** Cap on aggregate capital commitment in Direct Company Investments
- 40%** Cap on investments in any one state or province (need approval for exceptions)
- 25%** Cap on the aggregate amount of investment in exchange-traded options and/or futures
- 50%** Cap on investment in any single Portfolio Partnership

Shall not make investments in real estate funds or oil, gas or other natural resource funds

Shall not invest in collateralized debt obligations or other synthetic investment products

Shall not invest in certain types of publicly traded securities

Shall not invest in a person organized and operating primarily outside of the United States



IPGs determine what the fund can invest in and set limitations on certain items. Items reviewed include:

- Type of investments that are allowed for the fund
- Capital that can be committed to a single fund or portfolio company
- Capital that can be committed to funds based outside the US
- Loan-to-Value ratio
- Debt service coverage ratio
- Term or maturity

Private Equity/Strategic Investments Oversight Group

The Private Equity/Strategic Investments Oversight Group (PESI-IOG) meets quarterly. A management response for any unresolved compliance exceptions or issues noted during the compliance review is obtained from the SIO for Private Equity & Strategic Investments prior to the PESI-IOG meeting. The exceptions/issues and management response are included in a quarterly compliance report to be reviewed by the PESI-IOG.





Real Estate

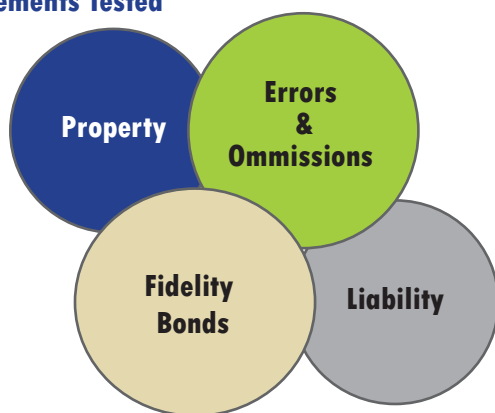
During FY2013-14, Real Estate compliance reporting was changed to include testing of externally managed funds restrictions (six month lag time for data reasons) and standardized reporting on a quarterly basis. The Principal Investments Portfolio (a separately managed account) is tested annually. The Principal Investments Portfolio IPG review includes:

- information regarding new investments
- disposals and loan activities during the quarter
- index data
- net asset values of the properties in the portfolio
- mortgage balances of existing properties

Annual certifications are also requested from real estate investment advisors, which are reviewed by EIMO staff along with any additional documentation received.

Testing of compliance with contractual insurance requirements is also conducted on an annual basis.

Types of Insurance Requirements Tested



The IPG compliance review includes the following:

- Diversification by property types and geographic regions is within the ranges set forth in the IPG
- Proper approval is obtained regarding the exposure in a metropolitan division in excess of a limit
- Leverage within limits
- New loans are non-recourse to the SBA
- Non-core equity strategies are authorized for the portfolio

Testing

Examples of Restrictions Tested during FY2013-14

5% Single-asset concentration

15% Asset type sector concentration +/- vs. NCREIF

15% Geographic sector concentration +/- NCREIF

40% Cap on investments in any one state or province (need approval for exceptions)

25% Cap on the aggregate amount of investment in exchange-traded options and/or futures

50% Cap on investment in any single Portfolio Partnership

The portfolio will have no more than 30% of Agricultural properties in a single NCREIF region, with the exception of the Pacific West. Due to the portfolio's heavy weighting in permanent crops, the Pacific West may comprise up to 80% of the total allocation

Investments outside the United States and its territories and possessions will not be permitted

It is expected that no one asset of the Fund would account for more than 10% of the Fund's total gross asset value at the time of investment



Real Estate Investment Oversight Group (RE-IOG)

The Real Estate Investment Oversight Group (RE-IOG) meets quarterly. A management response for any unresolved compliance exceptions or issues noted during the compliance review is obtained from the SIO for Real Estate prior to the IOG meeting. The exceptions/issues and management response are included in a quarterly compliance report to be reviewed by the IOG.

New Investment/Fund Acquisition Compliance

The Public Market External Investment Manager Selection Compliance Checklist (the Checklist) is used to confirm that the asset class has performed the following due diligence in compliance with SBA policy:

- Developed a manager universe
- Conducted first-level and second-level manager screens
- Conducted preliminary conference calls
- Manager interviews

The Checklist is also used to review the following:

- Reason for adding a new strategy
- Approvals
- Placement Agent Disclosures
- Form ADV
- Consultants due diligence memo
- Conflict of Interest Certification

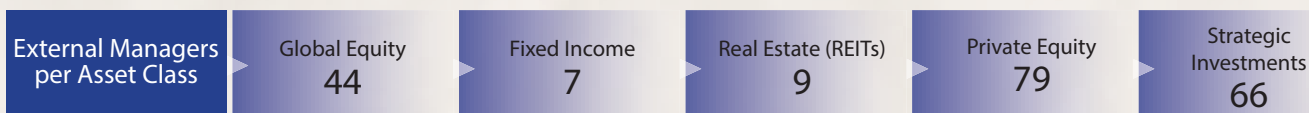
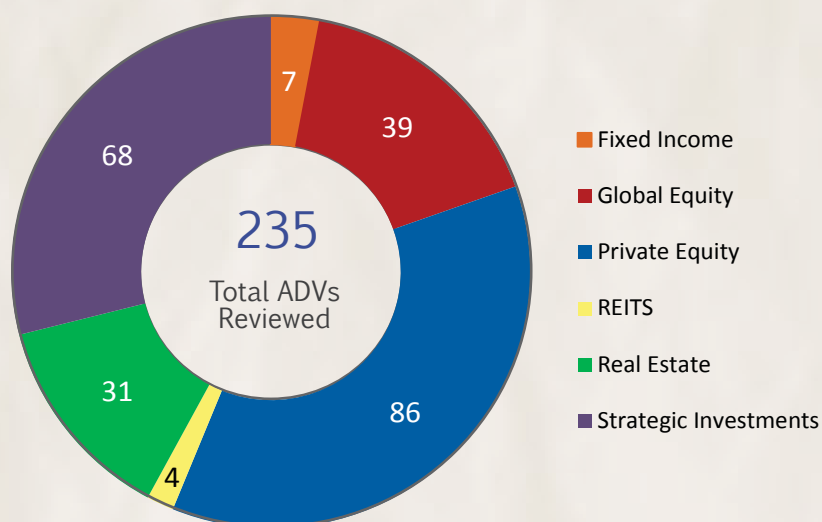
Compliance is conducted on all new private market asset class fund/property acquisitions prior to the Deputy Executive Director's (DED) review of the investment. Checklists are used to verify due diligence was performed by the asset class in compliance with SBA policy, and EIMO documents the review process for the following:

- Private Placement Memorandum
- Quantitative Analysis by Consultant(s)
- References
- Prudent Man Opinion
- Conflict of Interest Certification
- Placement Agent Disclosures
- Leverage Analysis
- Form ADV

Form ADV Review

Effective March 31, 2012 Investment Advisors were required to file the new Form ADV Part II which replaced the old Part II that was prepared using a check-the-box format. The new form is a narrative and covers topics such as the advisor's business, fees and other compensation, investment strategies and risks, disciplinary events, and conflicts of interest. The new Part II requires the advisor to not only describe the nature of the various conflicts of interest but to explain how it addresses such conflicts.

EIMO staff reviews form ADV Part I and II during the new investment/fund acquisition process for all asset classes. Form ADV Part I, item 11 and material changes to Form ADV Part II are reviewed for Real Estate managers during the annual review. Public Markets, Private Equity, and Strategic Investments managers Form ADV Part II is reviewed on an annual basis for material changes. Should a manager submit a revised Form ADV during the year, material changes are reviewed at that time.



External Manager Oversight Program

Annual reviews of the external investment managers are performed to evaluate whether the managers appear to have appropriate operational and compliance controls in place. The public market asset class managers are required to complete an annual certification, and the private equity, strategic investment and real estate managers are requested to submit an annual certification.

215.4755(1), F.S. (Certification and disclosure requirements for investment advisers and managers) requires that investment advisers/managers must annually certify:

- *All investment decisions made on behalf of the trust funds and the board are made in the best interests of the trust funds and the board and not made in a manner to the advantage of such investment adviser or manager, other persons, or clients to the detriment of the trust funds and the board*
- *Appropriate policies, procedures, or other safeguards have been adopted and implemented to ensure that relationships with any affiliated persons or entities do not adversely influence the investment decisions made on behalf of the trust funds and the board*
- *A written code of ethics, conduct, or other set of standards, which governs the professional behavior and expectations of owners, general partners, directors or managers, officers, and employees of the investment adviser or manager, has been adopted and implemented and is effectively monitored and enforced*
- *The investment adviser or manager has proactively and promptly disclosed to the board any known circumstances or situations that a prudent person could expect to create an actual or potential conflict of interest*

Representative External Manager Certification Questions

- ***Is the firm in compliance with all terms, conditions and provisions of the Limited Partnership Agreement and any side letters, including any applicable SBA Policies?***
- ***Have there been any changes in key personnel in either investments or operations?***
- ***Is the GP and/or the manager up-to-date on all required filings, licenses, permits, consents and regulatory approvals?***
- ***Are you aware of any violations of the manager's code of ethics that occurred in the reporting period?***
- ***Have there been any material changes to your firm's compliance processes during the reporting period?***

External Manager Scorecard Factors

Scorecards are developed for each external manager based on certifications, documents received, and the factors listed below for both public and private market external managers. Each factor is weighted to determine an overall manager/fund ranking.

Public Market Asset Class

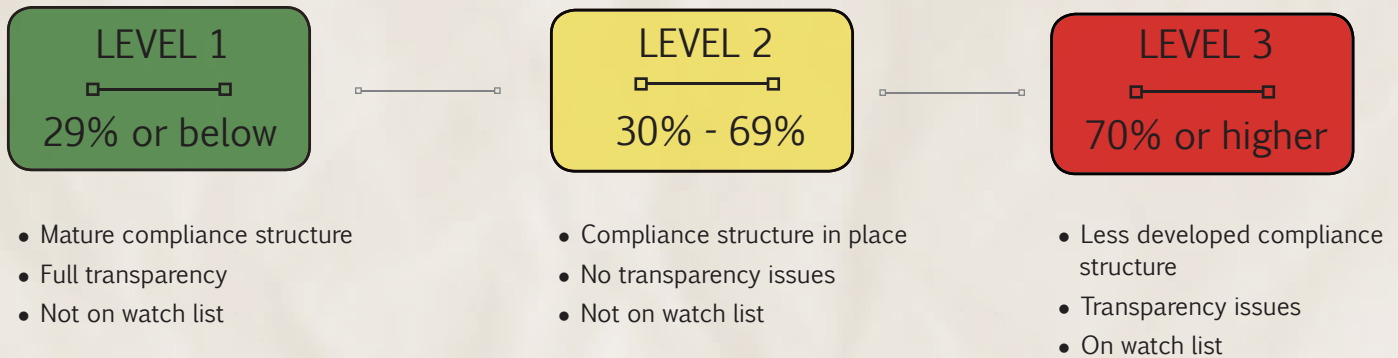
- Watch List Status
- Material changes to firm
- Issues/concerns noted
- Certification
- Site Visit
- Size of Firm
- Insurance Requirements
- Active or Passive portfolio
- Changes to the Chief Compliance Officer
- Civil, Criminal, Regulatory Infractions

Private Market Asset Class

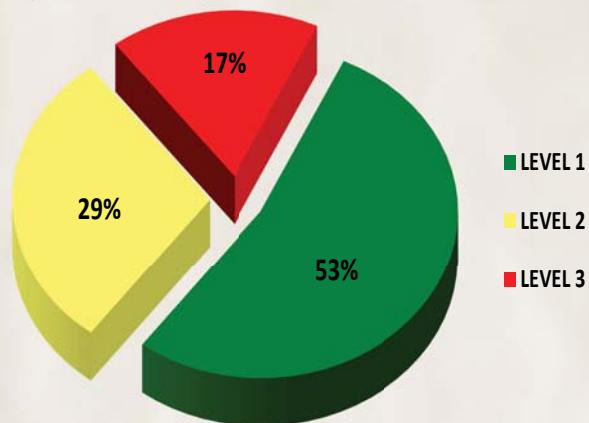
- SBA Commitment as % of PESI total
- Vintage Year
- Watch List
- Accounting's Valuation Risk Ranking
- Liquidity of Fund investors
- Complexity of Investment Strategy
- Reputation/Size of Audit Firm
- Number of Key persons
- Leverage

External Manager Oversight Program cont.

Using the information from the Scorecards for both public and private external managers, an overall manager/fund ranking of LEVEL 1, LEVEL 2, or LEVEL 3 determines the planned surveillance, which may include on-site visits. The tables below provide a description of the rankings. At any time, a special evaluation, either off-site or on-site, can be completed if the manager/fund has any significant issues or changes.



Manager/Fund Overall Rankings
All Asset Classes
 as of 6/30/14



Breakdown of Manager/Fund Overall Rankings as of 6/30/14

Asset Class	LEVEL 1	LEVEL 2	LEVEL 3	Total	%
Fixed Income	6	2	0	8	3%
Global Equity	34	5	0	39	15%
Private Equity	56	56	29	141	52%
Real Estate	4	0	0	4	1%
Strategic Investments	45	17	18	80	29%
	145	80	47	272	100%

Site Visits

Site visits are conducted for managers through the initial due diligence process, ongoing risk ranking, and when manager issues arise. The purpose of these visits is to gain an understanding of and evaluate the external managers' compliance programs. Site visits are performed by EIMO staff and occasionally SBA asset class staff will attend as well. The site visits are coordinated with the manager's client services representative and key investment manager personnel are in attendance. The visits usually take around 3 to 4 hours per manager. Areas discussed and evaluated during the visits include:

- Organization
- Portfolio Management
- Trading
- Operations
- Compliance
- Legal
- Risk Management
- A tour of the facility/trading process



Initial due diligence site visits are usually a combination of asset class, EIMO staff, and the SBA's asset class specialty consultant. During FY2013-14 six initial due diligence site visits were conducted in conjunction with Global Equity.

If compliance concerns of a serious nature are discovered during the visit, the relevant IOG is notified and an ad hoc meeting is scheduled in order to escalate the concern to the group for review and evaluation. Narrative summaries of public market external investment manager site visits are prepared by EIMO staff and discussed during regularly scheduled IOG meetings. These summaries are then posted on the SBA Intranet for a period of 12 months.

FY2013-14 External Manager Site Visits



- 1 Zurich**
- Quaesta Capital (Global Equity)
- Boston**
- P/E Investments (Global Equity)
- London**
- Harmonic Capital Partners (Global Equity)
 - The Cambridge Strategy (Global Equity)
 - HSBC Global Asset Management (Global Equity)
 - Schroders (Global Equity)

- 2 Toronto**
- Sprucegrove (Global Equity)
- Montreal**
- Hexavest (Global Equity)
 - CIBC (Global Equity)

- 3 New York**
- Highline Capital Management (Strategic Investments)
 - Scotia Capital (Strategic Investments)
 - JP Morgan/Training (Strategic Investments)

- 4 Alexandria (VA)**
- TAMRO Capital Partners (Global Equity)

- 5 New York**
- Taconic Capital Advisors (Strategic Investments)
 - York Capital Management (Strategic Investments)
 - Anchorage Capital Group (Strategic Investments)
 - Blackrock/Training (Strategic Investments)

- 6 Seattle**
- Acuitas Investments (Global Equity)
- Spokane**
- Signa Capital Management (Global Equity)

- 7 New York**
- Davidson Kempner Capital Management (Strategic Investments)
 - King Street Capital Management (Strategic Investments)
 - Gruss Capital Management (Strategic Investments)
 - Mason Capital Management (Strategic Investments)

Total Fund Compliance

EIMO conducts statutory and policy compliance testing at the total fund level for various investment mandates managed by the SBA. The statutes selected for testing include certain investment limits and constraints established by the legislature. Certain requirements in SBA policies are also selected for quarterly or annual compliance testing.

Statutory Testing

Examples of Statutory Testing during FY2013-14

215.47(2c) Fixed Income Securities collateralized by mortgages on real property cannot exceed 25% of the Total Fund

215.47(3c) No more than 75% of the Total Fund may be in internally managed common stock

215.47(15) No more than 20% of the Total Fund may be in Private Equity through participation in limited partnerships and limited liability companies

215.473 Divesture by the State Board of Administration; Sudan; Iran - Scrutinized Lists will be created for companies with active business operations in Sudan and the Iran Petroleum Sector. The SBA will engage communications with these companies identified in order to inform them of the Protecting Florida's Investments Act (PFIA). The State Board of Administration will encourage these companies to discontinue active business operations in Sudan or the Iran Petroleum Sector or they will be subject to divestment

121.153 Investments in Institutions Doing Business in or with Northern Ireland - By January 1 of each year, the SBA shall determine the existence of affirmative action taken to eliminate the ethnic or religious discrimination practiced by the government of Northern Ireland, or its agencies, instrumentalities, or national corporations

Policy Testing

Examples of Policy Testing during FY2013-14

10-019 New Investment Vehicles and Programs - Ensuring the appropriate processes for risk review, assessment, and approval by the Investment Oversight Group have been completed and documented

10-070 Cash & Security Transfers - The DED is required to authorize cash or security transfers for any FRS Pension Plan transfer of \$1 billion or greater. The DED's authorization is required in addition to the SIPO's or SIO's authorization

10-020 Fair Dealing and Trade Allocation - For securities crossing transactions (i.e., purchase and sale of a security between two or more SBA Funds/Clients), the price of the security being traded must be equal to the last independent trade on a registered stock exchange or recognized market (e.g., OTC).

Non-FRS Funds

Monthly, the SBA is required to send its clients SBA monthly reports. These reports include month-to-date and fiscal year-to-date returns, monthly and yearly (fiscal) transaction activity, and current holdings at the end of the month



Total Fund Investment Oversight Group (TF-IOG)

The Total Fund IOG meets quarterly as necessary. A management response for any unresolved compliance exceptions or issues noted during the compliance review is obtained from the appropriate source prior to the IOG meeting. The exceptions/issues and management response are included in a quarterly compliance report to be reviewed by the IOG.

Additional responsibilities of the EIMO team

- Reviewing investment related contract amendments
- Attending external manager meetings for all asset classes
- Creating forms and flowcharts to document SBA processes
- Preparing the Annual Regulatory Update
- Participating in quarterly CreditSights conference calls for Trading Counterparties
- Preparing Quarterly Compliance Report
- Reviewing other items: adding a consultant, changing a benchmark, QIB Certificates, etc.
- Maintaining a compliance log to track all new investments, fund acquisitions, and contract staffing
- Member of Investment Oversight Groups
- Preparing SEC 13H Large Trader Reporting
- Participating in evaluation of new external managers
- Participating in Quarterly External Manager Watch List conference calls
- Annual RMC Program Self-Assessment
- Reviewing New Trading Counterparties
- Annually reviewing existing Trading Counterparties
- Participating in evaluation of Consultant searches

+ PERSONAL INVESTMENT ACTIVITY (PIA)

Policy 10-041, Personal Investment Activity, was developed to provide guidance and direction to SBA employees regarding personal investment activity and to guard against any impropriety or conflict of interest between personal investment interests of SBA employees and the Funds managed by the SBA, which may adversely affect the creditability or reputation of the SBA.

The SBA had **90** Affected Persons at the SBA as of June 30, 2014

The Policy applies to all SBA employees, including OPS employees and interns employed longer than 12 consecutive months. Additionally, this Policy sets forth certain policy implementation requirements for a group of SBA employees defined as “Affected Persons” and their Immediate Family.

While the SBA affirms the rights of staff to engage in individual investment activities, conflicts of interest between SBA investment activity and personal investment activity by SBA employees must be avoided.

The Compliance Team performs the following to ensure that all SBA employees are in compliance with the Personal Investment Activity policy:

- Provide notification to new/promoted/transferred employees regarding their status as an Affected Person
- Ensure that all required forms are filled out and submitted by the deadline(s) stated in policy
- Contact brokers/banks to confirm holdings reported on the Initial Holdings Report
- Process pre-clearance requests (generally within one day of receipt)
- Process duplicate confirmations/statements and match with pre-clearance requests
- Notify the CRCO and Affected Person of any violation(s) that occur

During the period there were four minor Personal Investment Activity violations all involving a failure to pre-clear transactions of a covered security. Employees violating policy were notified by the CRCO and reminded of their responsibilities in ensuring compliance with the policy.

Affected Person

Any employee of the SBA (including OPS employees employed longer than 12 consecutive months) who, in connection with his/her regular functions or duties, participates in the selection of a Fund's portfolio securities, participates in the selection or funding of external investment managers, participates in inter-asset class or intra-asset class allocation decisions, or who has timely access to information regarding a Fund's current purchases or sales of securities. This includes, and is limited to, the Executive Director & CIO, the Deputy Executive Director (DED), Senior Investment Officers and all employees within the Senior Investment Officers' span of control, the Chief Risk & Compliance Officer (CRCO) and all employees within the CRCO's span of control, the Senior DC Programs Officer (SDCPO) and all employees within the SDCPO's span of control, and all other Executive Service staff members not included above.



+ NEW REGULATORY/STATUTORY COMPLIANCE FUNCTIONS

Wall Street Reform

The “Dodd-Frank Wall Street Reform and Consumer Protection Act” (Dodd-Frank) became law in 2010. It was created to protect consumers from abusive practices leading up to the Global Financial Crisis and add safety and stability to the financial system. Included in Dodd-Frank are measures designed to monitor and prevent additional “too big to fail” institutions, the imposition of proprietary trading limits on banks, more stringent requirements on municipal advisors, new regulation on credit rating agencies, and the regulation of the perceived “riskiest” derivative securities by the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC).

One part of the law significantly impacting the operations of the SBA has been the requirement to clear certain types of swap transactions with centralized counterparties beginning September 9, 2013. The SBA expanded the contractual duties of its clearing broker and enhanced its operational processes to comply with the new requirements. In addition, the SBA entered into execution agreements with current International Swaps and Derivatives Association (ISDA) master counterparties as an added measure to protect the SBA in the event the new clearing facilities created as a result of Dodd-Frank do not operate as intended. To help facilitate implementation of Dodd-Frank rules, ISDA published a number of protocols for adherence by the SBA and its counterparties. As applicable, the SBA submitted ISDA adherence letters amending agreements to adopt the more rigorous requirements.

Regulatory rule writing has been an evolving process. Many of the rules contemplated by the Dodd-Frank law have yet to be written. As a result, the SBA continues to monitor all developments closely and will implement operational and compliance processes as necessary to comply with any new rules impacting the SBA.

“The Wall Street reform bill will – for the first time – bring comprehensive regulation to the swaps marketplace. Swap dealers will be subject to robust oversight. Standardized derivatives will be required to trade on open platforms and be submitted for clearing to central counterparties. The Commission looks forward to implementing the Dodd-Frank bill to lower risk, promote transparency and protect the American public.”

- Former CFTC Chairman Gary Gensler

Recent Changes to Certain Florida Statutes

During the 2014 legislative session, the maximum permitted holdings of foreign obligations and securities in the FRS Pension Plan and other funds invested by the State Board of Administration was increased from 35% to 50% of the total fund.

Additionally, the “Protecting Florida’s Investments Act”, passed by the Legislature in 2007, was modified to exempt Exchange Traded Funds (ETFs) from the provisions of PFIA.

2013-14 Annual Regulatory Update

An annual regulatory update form is used to identify any Florida legislation passed that affects the SBA which may have new and/or additional compliance requirements. For the 2014 legislative year, there were 12 bills that affected the SBA, only one of which requires new or additional compliance testing.



+ OTHER ACTIVITIES

SBA Intranet Postings

The Risk Management and Compliance tab on the SBA Intranet provides a variety of information.



- Process Flowcharts/Process Mapping
 - Fixed Income Processes
 - Trading Counterparty Processes
 - Fund Acquisition Process Maps
 - Manager Search and Selection Process
- Total Fund Risk Reports
- Risk Management Plan



- Performance & Risk Analytics Monthly Reports
- Performance & Risk Analytics Quarterly Reports
 - Manager Detail Reports
 - Hewitt EnnisKnupp Major Mandate Review
 - FRS Pension Plan Performance and Risk Ranking Quarterly Report
- Performance & Risk Analytics Annual Reports



- Investment Portfolio Guidelines Information
- Public Market External Manager Site Visit Write-ups
- Quarterly RMC Compliance Reports
- Compliance Exceptions Reports (New and Ongoing)
- Florida PRIME Compliance Procedures
- Oversight Group Meeting Minutes
- Personal Investment Activity Information and Forms
- Trading Counterparty Information
- Compliance Forms (e.g. Conflict of Interest, Placement Agent Disclosures)

POLICY AND GUIDELINES

Policies have been developed to communicate the SBA's position on issues which effect employees, constituents, clients, and business relationships. These policies are stated as clearly and concisely as possible, and guide the SBA in achieving its purpose, goals, and objectives. Risk Management and Compliance has been designated as the custodian for all SBA policies, with responsibility for development and maintenance of all SBA policies.

Executive Director & CIO Policies and Guidelines (10-level)

Executive Director & CIO Policies create a broad framework for management decision-making and provide a basis for the creation of policies and guidelines at the departmental level. All Executive Director & CIO Policies and Guidelines are signed by the Executive Director & CIO or designee.

Personnel Policies and Guidelines (20-level)

Personnel Policies and Guidelines set forth directives and provide general information regarding workplace rules such as attendance and leave, payroll, benefits, employee code of conduct and disciplinary action. Personnel policies also cover legal issues like harassment, ethics and workplace violence. All Personnel Policies and Guidelines are signed by the Chief Operating/Financial Officer or designee.

Departmental Policies and Guidelines (20-level)

Departmental Policies and Guidelines are developed and maintained within each senior management position's respective unit (with guidance from Risk Management & Compliance), and may include policy guidance and directives that are departmental specific (e.g. IT, Investment Policy & Economics, etc.). Purpose and scope are established as an integral part of each departmental policy for staff reference as to applicability. All Departmental Policies and Guidelines are signed by relevant senior management or designee.

New policies and current policies under revision are generally staffed using the SharePoint collaboration software. Assignments are sent to all required reviewers and once the staffing process is complete, the policy is signed and the final document is posted on the Policy tab of the SBA Intranet (under the relevant policy heading).

Asset Class Policies and Guidelines (15-level) Asset Class Policies

Asset Class Policies and Guidelines mainly provide directives to the Public and Private Market Asset Classes at a more specific level than the Executive Director & CIO Policies and Guidelines. All Asset Class Policies and Guidelines are signed by the Executive Director & CIO.

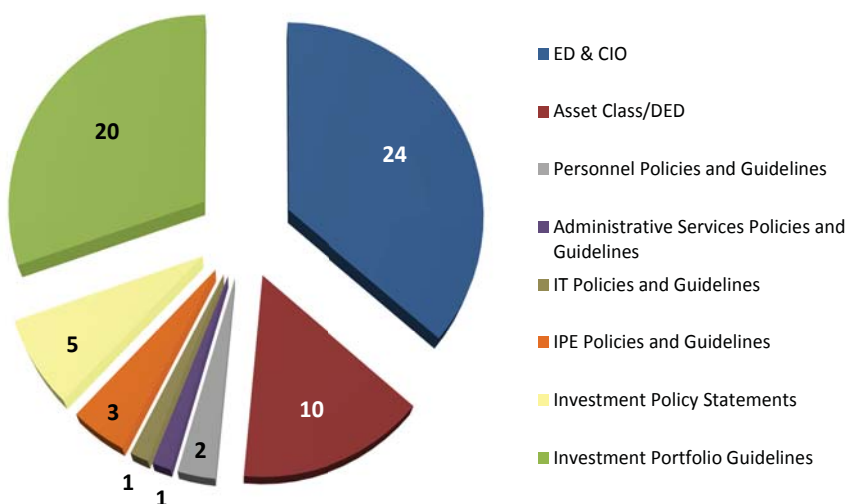
Administrative Services Policies and Guidelines (20-level)

Administrative Services Policies and Guidelines set forth directives and provide general information regarding general workplace operations such as procurement, telecommunications, records management, and property and equipment. All Administrative Services Policies and Guidelines are signed by the Chief Operating/Financial Officer or designee.

Investment Portfolio Guideline Development and Maintenance

The Compliance team participates in the development and review of investment guidelines for all mandates under management by the SBA. These may be in the form of Investment Portfolio Guidelines, Investment Policy Statements, Investment Management Agreement Schedule B's, or Trust Agreement Investment Guidelines. All investment guidelines are staffed for review and comment to the applicable SIO, the DED, RMC staff and other affected business units so that the issues and concerns of all parties can be properly vetted and resolved prior to guideline approval. Once approved, investment guidelines are then communicated to appropriate staff by SBA Legal or by the CRCO. The RMC Unit serves as the central repository for the approved investment guidelines for internally managed portfolios and for external mandates governed by Florida Statutes or by trust agreements. Copies of these documents are posted on the SBA Intranet.

Changes by Category
FY2013 - 2014



During the period there were 66 policy and guideline changes

Executive Director & CIO Policies and Guidelines		Effective Date
10-001	Policy Development	08/19/2013
10-002	Delegation of Authority	08/19/2013
10-004	Communications	08/19/2013
10-006	Business Continuity	10/01/2013
10-011	External Investment Manager Retention and Termination	08/19/2013
10-012	Broker Dealer Relationships	08/19/2013
10-013	Derivatives Instruments Usage	08/19/2013
10-015	Corporate Governance	08/19/2013
10-016	Leverage Usage	08/19/2013
10-017	Investment Protection Principles	08/19/2013
10-018	Asset Class Allocation Policies	08/19/2013
10-019	New Investment Vehicles and Programs	08/19/2013
10-020	Fair Dealing and Trade Allocation	08/19/2013
10-031	Contracts	08/19/2013
10-041	Personal Investment Activity	08/19/2013
10-044	Insider Trading	08/19/2013
10-045	Disclosure of the Use of Placement Agents	01/02/2013
10-050	Budget Development and Administration	08/19/2013
10-052	Travel	08/19/2013
10-055	Senior Operations Group	08/19/2013
10-056	Unrelated Business Income	08/19/2013
10-060	Risk Budget	08/19/2013
10-064	Senior Investment Group	08/19/2013
10-065	Rebalancing and Liquidity Assessments	08/19/2013

Review committees have ultimate responsibility for developing, modifying, reviewing and submitting policies to the appropriate staff for approval.

Asset Class Policies and Guidelines		Effective Date
15-002	Investment Portfolio Guidelines	12/16/2013
15-012	Trading Counterparty Management - Public Market Asset Classes	10/01/2013
15-016	Internal Trading Policy	08/19/2013
15-018	Securities Lending Policy	12/16/2013
15-081	Identification and Reporting of Investments in Florida Businesses	10/01/2013
15-601	Strategic Investments Allocation Policy	12/02/2013
15-712	Real Estate Individual Fund Selection	03/01/2014
	FY 2014 Private Equity Investment Plan	08/13/2013
	FY 2014 Real Estate Investment Work Plan	07/01/2013
	FY 2014 Strategic Investments Work Plan	07/01/2013
Personnel Policies and Guidelines		Effective Date
20-204	Relocation Policy	03/03/2014
20-271	Training and Development	04/01/2014
Administrative Services Policies and Guidelines		Effective Date
20-101	Procurement	07/01/2013
Information Technology (IT) Policies and Guidelines		Effective Date
20-407	Backup	10/22/2013
Investment Policy and Economics Policies and Guidelines		Effective Date
20-510	FRS Pension Plan and Investment Plan Manager Pre-Hire Data Policy	06/11/2014
20-511	General Performance Measurement Policies	06/11/2014
20-515	Private Markets Internal Rate of Return Performance Measurement	04/10/2014
Investment Policy Statements		Effective Date
	FRS DB Plan Investment Policy Statement	03/01/2014
	FRS Investment Plan Investment Policy Statement	02/06/2014
	Fund B Surplus Funds Trust Fund	07/01/2013
	Local Government Surplus Funds Trust Fund (FL PRIME)	07/01/2013
	Lawton Chiles Endowment for Children and Elders	09/24/2013

Investment Portfolio Guidelines			
Active Core	01/13/2014	Fixed Income Policy Transition II	10/11/2013
Atlas Portfolio	12/02/2013	Global Equity Cash Expense Account	03/01/2014
Avatar Portfolio	12/20/2013	Global Equity Transition Account 1	12/16/2013
Chiles Cash Expense Account	03/01/2014	Insurance Capital Build-up Incentive Program Repayment Account	01/13/2014
Chiles Fixed Income Cash Expense Account	03/01/2014	Investment Grade Asset Allocation	10/01/2013
Chiles GE Transition Account	12/16/2013	Nova Portfolio	01/22/2014
Chiles TIPS Cash Expense Account	03/01/2014	Phoenix Portfolio	12/02/2013
Chiles Total Fund Expense Account	03/01/2014	Real Estate Principal Investments Aggregate Portfolio	01/13/2014
Delta Portfolio	12/20/2013	SBAFC Post-Event Revenue Bond Proceeds	08/27/2013
Fixed Income Cash Expense Account	03/01/2014	Total Fund Cash Expense Account	03/01/2014



Mandatory Policy Training

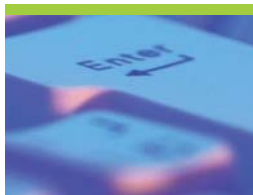
All SBA personnel are required to complete mandatory training courses on an annual basis and upon being hired. These training courses include:

- Ethics
- Harassment
- Personal Investment Activity
- Public Records (required every other year)
- Insider Trading
- Information Security
- Sunshine Law (required every other year)
- Fiduciary Training (required every four years)

Training courses are administered online through Learn.com and supported by Training & Development. It is the responsibility of the Inspector General to ensure that all SBA staff completes mandatory training as required.

Compliance Procedures

Compliance staff maintains procedures for various processes and these are reviewed and updated throughout the year as needed. All procedures undergo an annual review to assess the adequacy of the procedures and their effectiveness in preventing or detecting violations. The annual review also takes into consideration any compliance matters that were identified during the period and any changes in the SBA's business activities and/or any regulatory changes that may have occurred.



All compliance procedures were reviewed and updated as necessary by RMC staff as of June 30, 2014

Policy Requirements Database

Compliance maintains a database of policy requirements that captures items codified in policy that can be checked for compliance. The database also includes select statutory and regulatory requirements and other miscellaneous items that have been identified for compliance checks.

Information input into the database includes:

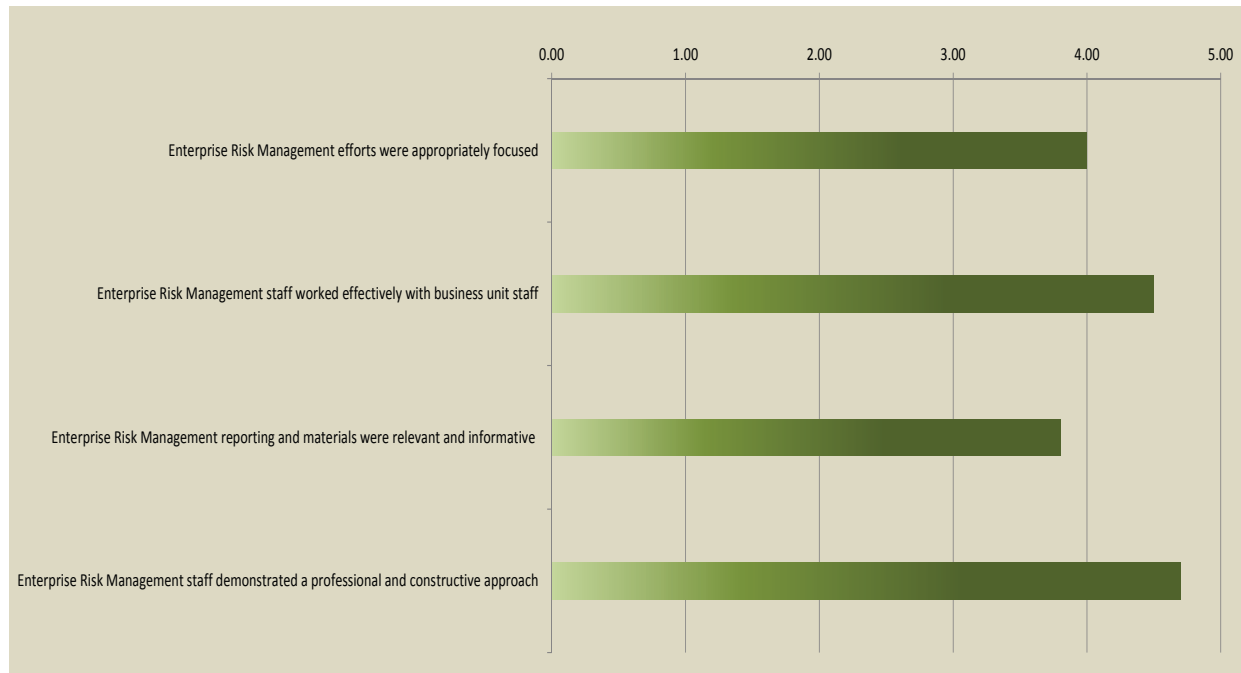
- Policy number and name
- Latest effective date
- Policy requirement/task
- Staff responsible for requirement/task
- Frequency of task (annual, monthly, etc.)
- Requirement/task due date
- RMC staff responsible for checking compliance
- various other information as necessary

The database is updated throughout the year as policies and statutes are created and revised, or when regulatory or miscellaneous items are added or are no longer required.



2013 - 2014 ENTERPRISE RISK MANAGEMENT PROGRAM SATISFACTION SURVEY

An Enterprise Risk Management Program Satisfaction Survey was sent to the SIOs and other members of Senior Management. Respondents were asked to rate several statements on a scale of 1 to 5, with 1 indicating “Very Dissatisfied” and 5 indicating “Very Satisfied”. The survey was sent out to 16 participants and 10 responses were received. The chart below illustrates the overall results of the survey.



Suggestions for Improvement

Suggestion 1: Reporting/tracking of metrics related to total fund objective (funding ratio, performance benchmarks, etc.)

Suggestion 2: I think ERP (ERM) does a great job of examining business risks, process risk, strategic risk, etc. However, investment risk from an organization (SBA standpoint) is still a little loosely addressed from my perspective. Would like to see some approach at how the SBA ought to consider portfolio volatility and volatility mitigates as part of ERP (ERM)/SIG/SIO monitoring and mitigation. We track volatility, but it loses perspective, particularly with respect to how SBA total fund volatility compares with other diversified funds.

Suggestion 3: ERM reporting to Trustees and Audit Committee should focus them on key risks rather than sending them all risk reporting that is shared with management. There should be a distinction in management reporting and governance level reporting so as not to overwhelm governance groups with information that does not need their attention.

Additional Comments

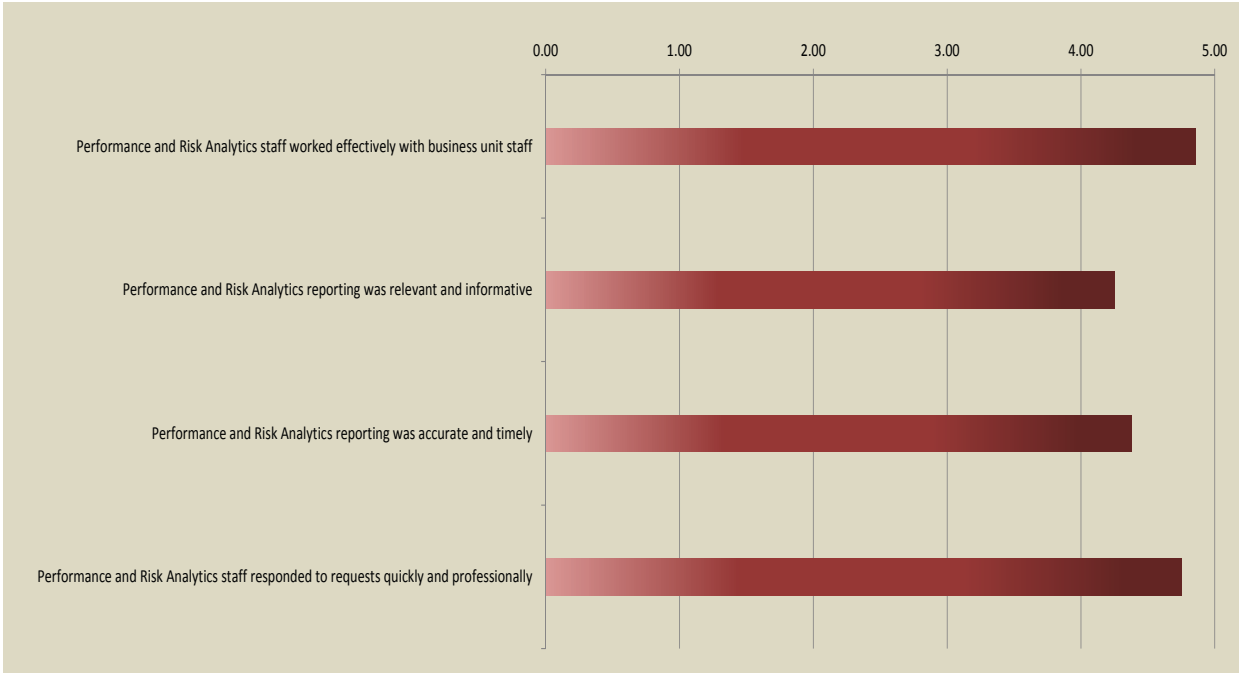
Comment 1: ERP (ERM) has a tough job. I believe they approach issues collaboratively, without pre-judging, and with a view to ascertaining real organizational risk and the most efficient way to mitigate them. Would like to see more effort focused on the previous suggestion (refer to Suggestion 2 - facing column)

Comment 2: ERM has a great attitude/approach of working in conjunction with unit management to identify, monitor and mitigate risks. Always willing to jump in and help out.



2013 - 2014 PERFORMANCE AND RISK ANALYTICS SATISFACTION SURVEY

A Performance and Risk Analytics Satisfaction Survey was sent to the SIOs and other members of Senior Management. Respondents were asked to rate several statements on a scale of 1 to 5, with 1 indicating “Very Dissatisfied” and 5 indicating “Very Satisfied”. The survey was sent out to 14 participants and 8 responses were received. The chart below illustrates the overall results of the survey.



Suggestions for Improvement

No responses

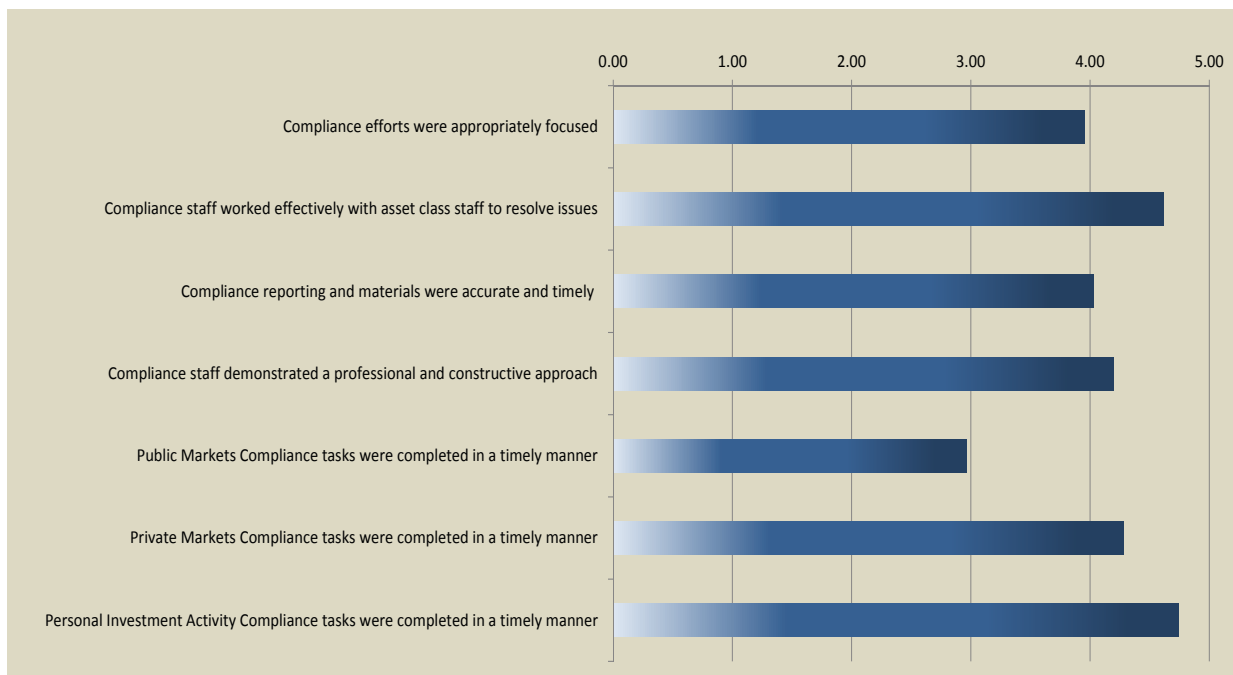
Additional Comments

Comment 1: Kelly is terrific!!

Comment 2: Kelly’s team has been very effective and focused on assistance with fund changes

2013 - 2014 COMPLIANCE PROGRAM SATISFACTION SURVEY

A Compliance Program Satisfaction Survey was sent to the ED & CIO, SIOs, and a few individuals engaged in Personal Investment Activity on a regular basis. Respondents were asked to rate several statements on a scale of 1 to 5, with 1 indicating “Very Dissatisfied” and 5 indicating “Very Satisfied”. The survey was sent out to 9 participants and 5 responses were received. The chart below illustrates the overall results of the survey.



Suggestions for Improvement

No responses

Additional Comments

No responses



+ INSPECTOR GENERAL UPDATE



Administration of Investment Consultant Disclosure Principles

The SBA requires investment services related consulting firms engaged for services to annually certify their compliance with certain independence and disclosure principles. The intent of Consultant Independence & Disclosure Principles (CIDPs) is to prevent conflicts of interest and ethical improprieties which could involve consulting firms and professionals within those firms. The CIDPs compliance process serves as an affirmation of the independent and unbiased manner in which consulting services should be provided.

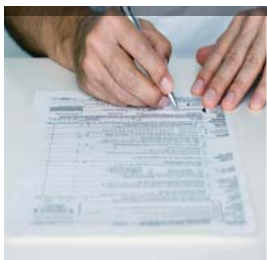
Certification forms for CY2013 were sent to all applicable firms in January 2014. All forms were received by the specified due date, indicating full compliance with the principles.



Administration of Investment Protection Principles

SBA Executive Director Policy 10-017, Investment Protection Principles (IPPs), governs relationships with broker/dealers, investment managers, and investment services consultants utilized to invest the assets of the FRS. The IPPs were originally geared toward broker/dealers to enhance the independence of research analysts and prevent conflicts of interest between research reporting and investment banking, but the SBA has expanded the IPPs to include deals and objectives relevant to external investment management to aid in preventing conflicts of interest and ethical improprieties involving investment firms and professionals within those firms. On an annual basis, written certification is required from the money managers engaged by the SBA to signify their compliance with the IPPs.

The Inspector General requested and collected IPPs for all Public Investment Managers for calendar year 2013. An analysis of the certifications indicated full compliance with the IPPs by most of the investment managers. For those not in full compliance, explanations were provided supporting that these managers complied with the spirit of the IPPs.



Personal Annual Financial Disclosures for Florida Commission on Ethics

Conflicts of interest may occur when public employees are in a position to make decisions that affect their personal financial interests. This is why specified public employees are required to publicly disclose their financial interests. The disclosure process serves as a reminder of the obligation to put the public interest above personal considerations.

During FY2013-14, the Inspector General updated and maintained the Financial Disclosure list as required by the Florida Commission on Ethics. Financial Disclosure forms were mailed out in May 2014, and the Inspector General verified that all affected SBA employee submitted completed forms to the Commission on Ethics as required.



Ethics, Fraud and Internal Controls

The SBA Fraud Hotline was established as an alternative anonymous reporting mechanism for employees who witness or suspect fraud, theft or financial misconduct. The hotline is available 24 hours a day, 7 days a week, and is operated by a contracted third-party who refers any hotline tips received to the Inspector General and other designated SBA staff for investigation and handling.

The Inspector General serves as the administrator for the SBA's Fraud Hotline, and in that capacity, receives information on any calls made during the year, contacts appropriate SBA staff as needed to compile responses to calls, and provides responses to the hotline provider to be communicated to callers.

There were no incident reports made to the Fraud Hotline during FY2013-14.

looking forward

Future Risk Management and Compliance Program initiatives include:

- Developing and implementing mandatory Enterprise Risk Management training for all SBA employees
- Developing and implementing mandatory Business Continuity training for all SBA employees
- Developing Enterprise Risk Management maturity assessment tool for internal use
- Implementing new Internal Rate of Return calculation for Total Fund to comply with GASB67
- Implementing new Retirement Date funds in the Investment Plan effective July 1, 2014
- Incorporating BarraOne data into performance reporting
- Incorporating new targets for Defined Benefit Real Estate and Private Equity, and Chiles Global Equity



APPENDICES

SBA Enterprise Risk Management Framework

As of 8/21/2014

1. Investment Management Risk

A. Policy Risk - The risk that investment policies will be inconsistent with investment objectives because of ineffective policy design, changing objectives or reprioritization of competing objectives, or unexpected behavior of liabilities or risk premiums (both levels and interactions).

i. Investment Policy Design Risk - The risk that an investment policy will not be effectively designed for achieving an investment objective.

ii. Investment Objective Risk - The risk that simultaneous attainment of all objectives will not be possible, priority given to multiple objectives will not be appropriate, or changing circumstances will render existing objectives or priorities inappropriate.

iii. Capital Market Assumption Risk - The risk that capital markets will not perform as expected.

B. Implementation Risk - The risk that decisions made in an attempt to achieve the investment objective for total fund, asset classes or individual investment mandates will cause material underperformance net of fees.

i. Strategic Risk - The risk that investment strategies used to structure total fund, asset classes or individual investment mandates will be unsuccessful, including asset class or individual portfolio underperformance, utilizing/permitting material over/under weights to any of the following: asset class, style, market cap, sector, industries, geography, property type, currency, non-benchmark securities, duration, credit quality, liquidity, vintage or any other risk factors.

ii. Trading Risk - The risk that trades, traders or broker/dealers will not be properly authorized, trades will not be properly documented or executed, or trading costs will not be consistent with best execution.

iii. Asset Transition Risk - The risk that assets will not be cost-effectively managed during asset transition (e.g., excessive transaction costs).

iv. Model Risk - The risk that the models utilized will be inappropriate or misapplied.

v. Due Diligence Risk - The risk that due diligence will not be adequately performed for a public or private asset class investment opportunity.

vi. Leverage Risk - The risk of imprudent or unauthorized use of leverage.

vii. Aggregate Issuer/Counterparty Credit Risk - The risk of undue concentration in firm-wide exposure to an issuer or counterparty or downgrade/default/failure to perform of a counterparty.

C. Inherent Risk - Risks that are inherently present in financial instruments and usually knowingly assumed when investing or managed against a benchmark/peer group.

i. Market/Systematic Risk - The risk that a holder or seller will experience a loss from unexpected price fluctuations, including the loss of the original investment.

a. Credit Risk - The risk that an issuer of debt securities or a borrower will default on financial obligations (e.g., not able to make timely interest or principal payments).

b. Interest Rate Risk - The risk that an investment's value will change due to a change in interest rates.

c. Inflation Risk - The risk that the return from investing will not offset the loss in purchasing power due to inflation.

d. Liquidity Risk - The risk of limited access to funds, failure to meet liquidity needs or loss resulting from lack of market liquidity.

e. Currency Risk - The risk that an investment's value will change due to a change in exchange rates.

f. Systemic Risk - The risk that material portions of the global financial system and institutions will collapse or cease to function.

ii. Idiosyncratic/Unsystematic Risk - The risk, also known as specific risk, to individual financial instruments of price fluctuations which are not correlated with general market movements.

2. Governance/Management Risk

A. Resource Allocation Risk - The risk of inefficient organizational structure and/or processes, and/or insufficient funding or resources.

B. Governance Policy Design Risk - The risk of missing or inadequate rules, policies or procedures.

C. Fiduciary/Ethics Risk - The risk of failing to meet fiduciary responsibilities or act consistent with appropriate ethical and professional standards.

D. Management Execution Risk - The risk of ineffective planning, decision making or supervision, poorly defined roles and responsibilities and/or inadequate internal communication.

3. Communication/Public Affairs/Reputational Risk - The risk associated with (1) the failure to develop and maintain understanding or confidence of stakeholders, (2) inability to communicate, coordinate, manage, and maintain effective public relations, and (3) adverse warranted or unwarranted media exposure.

4. Legislative/Political Risk - The risk that legislative/executive and/or regulatory actions may adversely impact the SBA's ability to carry out its mission.

5. Compliance Risk

A. Laws, Rules, & Regulations - The risk of failure to comply with applicable laws, rules and regulations.

B. SBA Policies - The risk of failure to comply with SBA policies.

C. Investment Policy Guidelines - The risk of investment loss or not being able to achieve the portfolio's objective due to the manager's non-compliance with investment policy guidelines.

D. Contractual Agreements - The risk of investment loss or disruption of services due to custodians', investment managers', or other service providers' non-compliance with contractual agreements.

6. Fraud/Misconduct/Internal Controls Risk

A. Internal Staff - The risk of fraudulent activities (e.g., misappropriation of assets), intentional/negligent misconduct of internal staff or ineffective/nonexistent internal controls.

B. Service Providers - The risk of fraudulent activities (e.g., misappropriation of assets) or intentional/negligent misconduct of service providers.

C. External Parties - The risk of fraudulent activities (e.g., misappropriation of assets) or intentional/negligent misconduct of external parties (e.g., check forgers, computer hackers).

7. Service Provider Risk

A. Financial Condition - The risk of loss due to deterioration of a service provider's financial condition.

B. Service Level Quality - The risk that a service provider will fail to competently and/or timely deliver services of satisfactory quality.

C. Key Personnel - The risk of loss of key service-providing personnel of an external service provider.

D. Premature/Unexpected Service Termination - The risk of premature/unexpected service termination by a service provider.

8. Client Relationship Risk

A. Service Delivery - The risk of failure to deliver satisfactory investment or other support services to the clients of the SBA.

B. Education - The risk of failure to provide adequate education regarding investments, risks, operational procedures, etc. to clients/participants.

C. Communication/Reporting - The risk of failure to provide clients/participants with timely and/or accurate information.

D. Allocation of Investment Opportunities - The risk of inappropriate allocation of investment opportunities for internally or externally managed client portfolios.

9. Operational Risk

A. Cash Management - The risk that residual cash will not be fully invested or will be overinvested (i.e., overdrafts).

B. Trade Settlement - The risk that trades will not be settled on a timely basis and/or in accordance with terms.

C. Transaction Processing - The risk that transactions (e.g., incoming/outgoing wire processing, check processing/disbursement, client deposit/redemption, corporate actions and income collections processing, cash or asset transfers, collateral management) will not be processed on a timely and accurate basis.

D. Asset Reconciliation - The risk that asset reconciliations will not be performed accurately and on a timely basis.

E. Accounting & Financial Reporting - The risk that transactions will not be correctly accounted for and reported on in a timely fashion and in conformance with GAAP or that other financial or performance information reported to external parties will be incomplete and/or inaccurate.

F. Valuation - The risk of incorrect, stale or missing valuations.

G. Performance Measurement - The risk that investment performance will not be accurately or timely measured.

H. Internal System Reliability/Electronic Data Integrity Risk - The risk that the SBA's internal technology platform does not function as intended and/or the information obtained from internal systems is unavailable, incomplete, inaccurate or otherwise cannot be relied upon for investment decision making, financial reporting or other business purposes.

I. FHCF Program-Specific Risks - The risks in the Florida Hurricane Catastrophe Fund that are program specific and are not considered in the other risk categories of this framework.

J. DC Program-Specific Risks - The risks in the Defined Contribution Program that are program specific and are not considered in the other risk categories of this framework.

K. Proxy Voting - The risk that proxy voting is not consistent, reliable, or conducted in a manner most likely to preserve or enhance the value of SBA equity holdings.

L. External Corporate Governance - The risk associated with not actively monitoring the governance structures of individual companies.

10. Human Capital Risk

A. Recruitment and Retention - The risk of failing to attract, recruit and retain adequate and competent staff.

B. Training and Development - The risk of inadequate training/development of knowledge, skills and abilities of staff.

C. Key Person/Succession - The risk of loss of key personnel or lack of adequate succession planning.

11. Security Risk

A. Physical Safety/Security

i. Employee Safety/Security - The risk of harm to employees.

ii. Facility Security - The risk of unauthorized access to the building and office space.

B. Network/System Security - The risk of unauthorized access to networks/systems by internal or external parties.

C. Information Security & Records Management - The risk of not maintaining public records in accordance with mandated records retention requirements or preserving the confidentiality and integrity of physical and electronic records/data as they are collected, created, stored, transported, shared, distributed, retained, or destroyed.

12. Business Continuity/Infrastructure Risk

A. Facilities - The risk of business interruptions attributable to loss of use of SBA facilities.

B. Communication Systems - The risk of business interruptions due to ineffective or non-operative telecommunication resources and/or equipment (i.e., telephone and internet).

C. Data/System Recovery - The risk of not being able to recover data required for performance of critical business functions.

D. Process Recovery - The risk of not being able to resume critical business processes after business interruptions.

13. Legal Risk

A. Contract Development - The risk that a contract does not accurately or adequately incorporate business, legal and other requirements of stakeholders.

B. Legal Advisory - The risk of incorrect and/or incomplete legal advice provided by internal or external counsels.

C. Litigation - The risk of unfavorable litigation outcomes resulting in adverse consequences.

Risk Assessment Scale Definitions

As of March 2014

Probability Scale	Probability of Occurrence within 36 Months
4 - Highly Likely	>90%
3 - Likely	60% - 75% (about 2 out of 3 chance)
2 - Unlikely	25% - 40% (about 1 out of 3 chance)
1 - Highly Unlikely	<10%

Event: threat, breach, violation, incident, occurrence, mistake, accident, emergency, mishap, disaster

Guidance / Examples

4 - Highly Likely

- Event has occurred multiple times at SBA within last 12 months
- Event occurring regularly/routinely within industry or within similar organizations

3 - Likely

- Event has occurred once at SBA within last 12 months
- Event has occurred multiple times at SBA during past 3 years
- Event has occurred multiple times (or systematically) in industry or to similar organizations within past 12 months

2 - Unlikely

- Event has occurred once at SBA during last 3 years
- Event has occurred multiple times (but infrequently/sporadically) in industry or to similar organizations during last 3 years

1 - Highly Unlikely

- Event has not occurred at SBA within last 3-5 years and is not foreseeable
- Event has very isolated or no occurrences in industry or within similar organizations during last 3-5 years

Velocity Scale	Speed of Onset
4 - High	Very rapid onset, little or no warning, instantaneous
3 - Moderately High	Onset in days or weeks
2 - Moderately Low	Onset in several months
1 - Low	Onset occurs over one year or more

Guidance / Examples

4 - High

- Funds transferred to unauthorized account
- Unauthorized access to confidential/sensitive data
- Power outage at Heritage Centre

3 - Moderately High

- Service provider termination due to loss of key person
- Unexpected employee turnover in smaller business unit
- Noncompliance with investment manager contractual obligations

2 - Moderately Low

- Service provider termination due to deterioration in financial condition
- Unexpected employee turnover in larger business unit
- Legislative actions

1 - Low

- Expected employee turnover due to retirement/DROP, etc.
- Inappropriate allocation of investment opportunities among clients
- Inadequate training /development of knowledge, skills and abilities of staff
- Records destroyed prior to retention period

Severity Scale	Impact
4 - Major	Costly loss of assets and/or significantly violates, harms or impedes operations
3 - Moderately High	May result in costly loss of assets and/or requires significant effort by staff and additional resources
2 - Moderately Low	May result in loss of some assets and/or may require increased effort, possibly additional resources
1 - Minor	Can be absorbed through normal business activity, no additional resources required

Guidance / Examples

4 - Major

- Complete loss of operating capability, transaction processing, or telecommunications for more than 2 business days
- Litigation
- Criminal investigation
- Significant to complete loss of stakeholder confidence - SBA "brand" destroyed
- Loss of client assets and/or mandates
- Legislative intervention
- Material investment losses due to such factors as significant deviations from investment policy statements, risk budget, investment policy guidelines, lack of/improper due diligence, issuer defaults, counterparty defaults, etc.
- Unauthorized trading, cash transfers, or wire transfer initiation
- Significant involuntary termination of staff
- 20% or greater turnover in staff
- Employee or service provider fraud greater than \$25K
- Breach of IT security / loss of system or application control
- Unauthorized access to confidential/sensitive data, including bank account/wiring instruction information
- Regulatory investigations
- Multiple senior leaders/business unit heads leave
- Significant injuries or fatalities to employees or third parties

3 - Moderately High

- Material reportable event to Trustees
- Loss of operating capability, transaction processing, or telecommunications for one to two business days
- Isolated employment litigation
- Some loss of stakeholder confidence
- Significant adverse audit findings
- Significant and persistent deviations from investment policy statements, risk budget, investment policy guidelines, etc.
- Material valuation errors
- 10% to 20% turnover in staff
- Multiple service provider terminations occurring simultaneously
- Employee or service provider fraud from \$1K to \$25K
- Unauthorized access to SBA systems, non-sensitive data, or physical facility
- Longer-term negative media focus with sustained concerns raised by stakeholders
- Higher priority audit findings
- High turnover of experienced staff / widespread staff morale problems
- Outpatient medical treatment required for employees or third parties
- Multiple minor severity events occurring simultaneously

2 - Moderately Low

- Minor negative publicity
- Isolated investment losses due to such factors as issuer defaults, counterparty defaults, etc.
- Improper records retention, records missing or records destroyed pre-maturely
- Medium priority audit findings
- Loss of operating capability, transaction processing, or telecommunications for several hours
- Persistent contractual and/or investment policy guidelines compliance infractions
- Service provider termination
- Minor injuries to employees or third parties
- Short-term negative media focus
- Multiple insignificant severity events occurring simultaneously
- General staff morale problems and increase in staff turnover

1 - Minor

- Lower priority audit findings
- Isolated staff turnover and dissatisfaction
- Isolated service provider terminations
- Minor valuation errors
- Employee or service provider fraud of \$1K or less
- One negative article in one publication
- Isolated staff dissatisfaction
- Non-material contractual and/or investment policy guidelines compliance infractions

2013-2014 RISK MANAGEMENT AND COMPLIANCE SELF-ASSESSMENT

2013-2014 RISK MANAGEMENT AND COMPLIANCE SELF-ASSESSMENT

Ownership Level		
H-High	a) A significant and direct role is played by a process owner in risk management/ mitigation b) May include process, contract, budget resource, strategic objective ownership c) Risk severity level and/or frequency may be high at the process owner level d) May include direct reporting of risk metrics to ERM e) May be responsible for developing and maintaining well documented written policies describing risk management f) Significant compliance and/or dedicated monitoring processes may be required g) Significant level of internal controls may be required	
M-Medium	a) Key support responsibilities are provided by a participant in risk management/ mitigation b) May provide oversight of risk management activities c) May be organizationally responsible for risk management efforts through subordinates with high or medium responsibilities d) Promote compliance with established risk appetite e) Manage risks within their spheres of responsibility consistent with risk tolerances f) May provide key data/information to support reporting of risk metrics	
L-Low	a) Minor or minimal support responsibilities are provided by participant in risk management/ mitigation b) Risk severity level and/or frequency is typically low at the participant level c) Execute risk management/ mitigation procedures in accordance with established policies & procedures (e.g., records retention) d) Risk metrics are typically not accumulated or reported	

Residual Risk
Ranking

Low Moderate

Low

Client Relationship Risk				Operational Risk												Human Capital Risk			Security Risk				Business Continuity/ Infrastructure Risk				Legal Risk		
Service Delivery	Education	Communication/ Reporting	Allocation of Investment Opportunities	Cash Management	Trade Settlement	Transaction Processing	Asset Reconciliation	Accounting & Financial Reporting	Valuation	Performance Measurement	Internal System Reliability/ Electronic Data Interchange Risk	FHCF Program-Specific Risks	DC Program-Specific Risks	Proxy Voting	External Corporate Governance	Recruitment and Retention	Training & Development	Key Person/Succession	Physical Security	Network/System Security	Information Security & Records Management	Facilities	Communication Systems	Data/System Recovery	Process Recovery	Contract Development	Legal Advisory	Litigation	

Aggregate Residual Risk	1.8 ↑	1.7	1.8 ↑	1.3	1.4	1.7	1.6	2.0	1.7 ↑	1.6	1.6	1.7	1.9 ↓	1.6 ↓	1.8	2.3 ↓	2.0	3.1 ↑	2.4 ↓	2.2 ↑	2.0 ↑	1.8	2.1 ↑	2.0 ↑	2.1 ↑	2.0 ↑	1.2	2.2 ↑	1.8 ↑
DEB and Staff (Includes SPM and RCM)	M	M	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A	M	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	M	M	M	M
CAT Fund	M	M	H	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	M
Defined Contribution/Legislative Affairs	H	H	H	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	H	M	M	L-N/A	M
RMCM	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	L-N/A	M	M	M	M	M	M	M	M	L-N/A	L-N/A	L-N/A
IPE	L-N/A	H	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	M	M	L-N/A	L-N/A	L-N/A
Inspector General	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	M	M	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
Communications	M	M	H	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
Corporate Governance & Investment Programs	H	H	H	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
Legal	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
Global Equity	M	L-N/A	L-N/A	H	M	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	M	L-N/A	L-N/A
Fixed Income	M	L-N/A	L-N/A	H	M	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	M	L-N/A	L-N/A
Private Equity	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A
Strategic Investments	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A
Real Estate	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A
COO (Includes Budget Manager)	M	L-N/A	H	L-N/A	M	M	M	M	M	M	L-N/A	M	L-N/A	L-N/A	L-N/A	H	H	H	M	M	M	M	M	M	M	M	M	L-N/A	L-N/A
Financial Operations	H	M	H	L-N/A	H	H	L-N/A	L-N/A	L-N/A	L-N/A	H	M	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	L-N/A
Accounting	M	L-N/A	H	L-N/A	M	H	H	L-N/A	L-N/A	M	M	M	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
IT	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	H	L-N/A	L-N/A	H	H	L-N/A	L-N/A	L-N/A	L-N/A
HR (Including Training)	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	H	L-N/A	M	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A
Administrative Services	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	H	H	H	M	M	M	L-N/A	L-N/A	L-N/A

Ownership Level

H-High	M-Medium	L-Low
a) A significant and direct role is played by a process owner in risk management/ mitigation b) May include process, contract, budget resource, strategic objective ownership c) Risk severity level and/or frequency may be high at the process owner level d) May include direct reporting of risk metrics to ERM e) May be responsible for developing and maintaining well documented written policies describing risk management f) Significant compliance and/or dedicated monitoring processes may be required g) Significant level of internal controls may be required	a) Key support responsibilities are provided by a participant in risk management/ mitigation b) May provide oversight of risk management activities c) May be organizationally responsible for risk management efforts through subordinates with high or medium responsibilities d) Promote compliance with established risk appetite e) Manage risks within their spheres of responsibility consistent with risk tolerances f) May provide key data/information to support reporting of risk metrics	a) Minor or minimal support responsibilities are provided by participant in risk management/ mitigation b) Risk severity level and/or frequency is typically low at the participant level c) Execute risk management/mitigation procedures in accordance with established policies & procedures (e.g., records retention) d) Risk metrics are typically not accumulated or reported

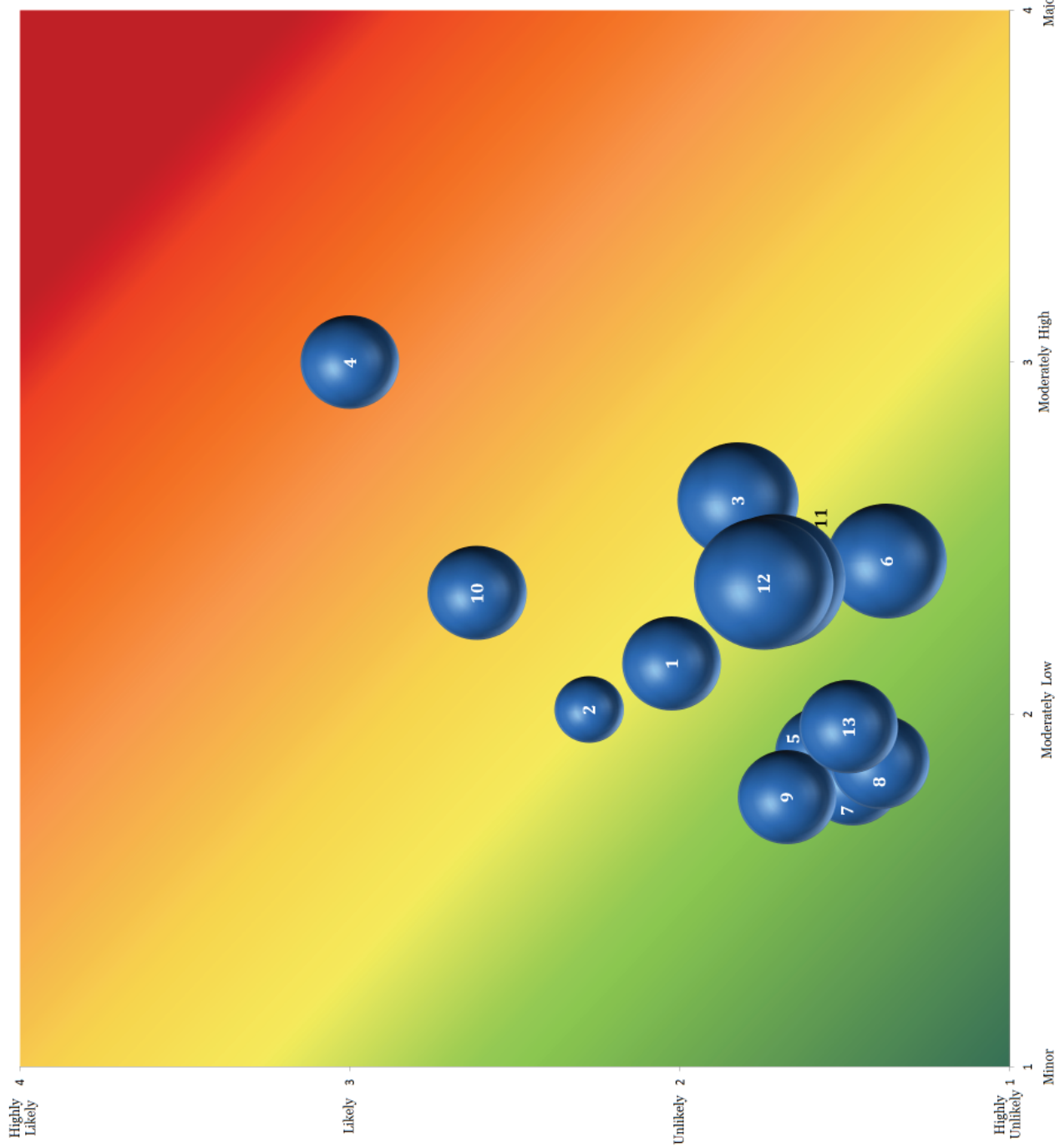
Note: An arrow indicates ε

Residual Risk Ranking	High Risk	High Moderate	Moderate	Low Moderate	Low

SBA Risk Management and Compliance

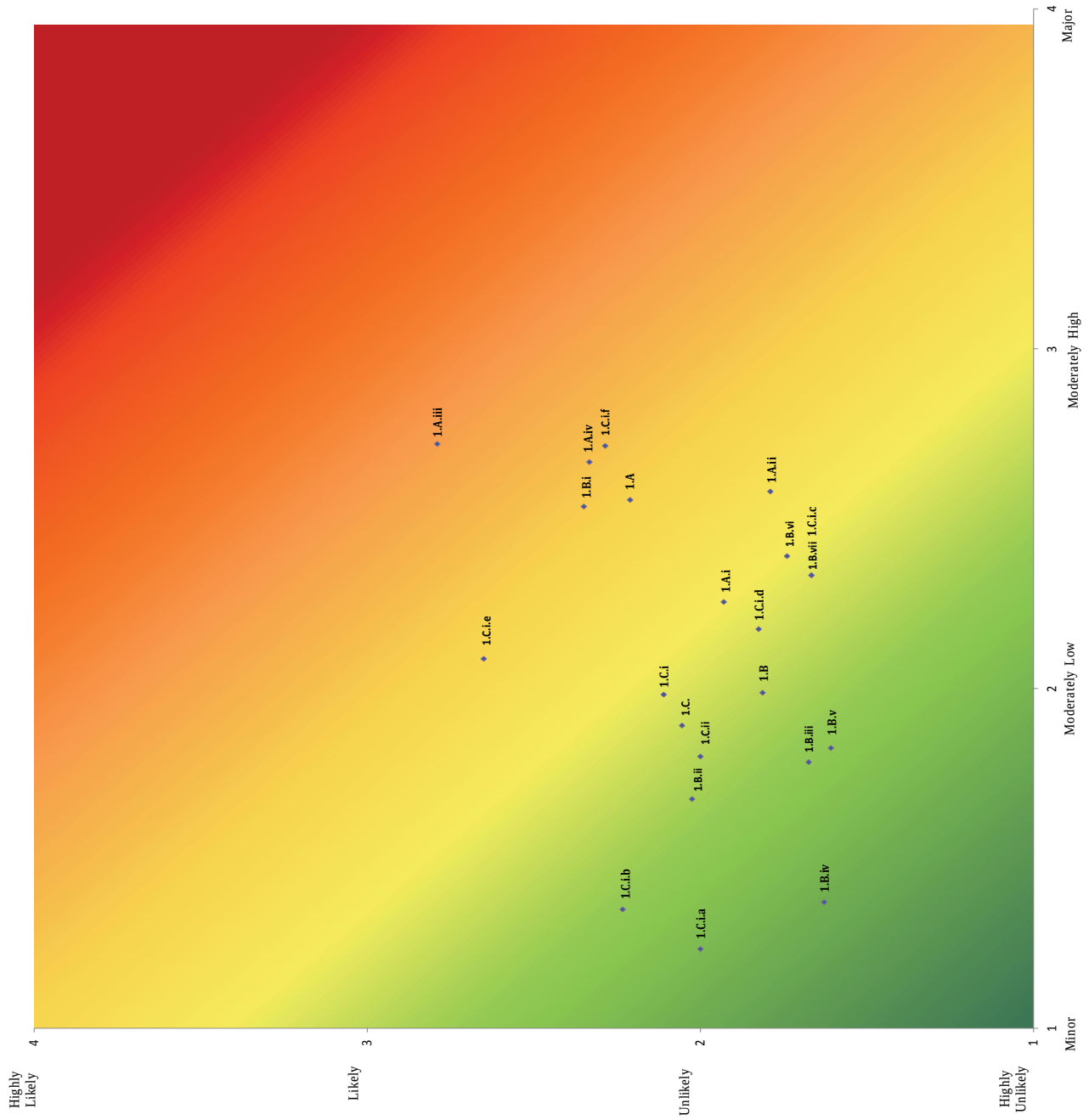
Residual Risk Assessment - Aggregated Strategic Risk Level

As of 03/31/14



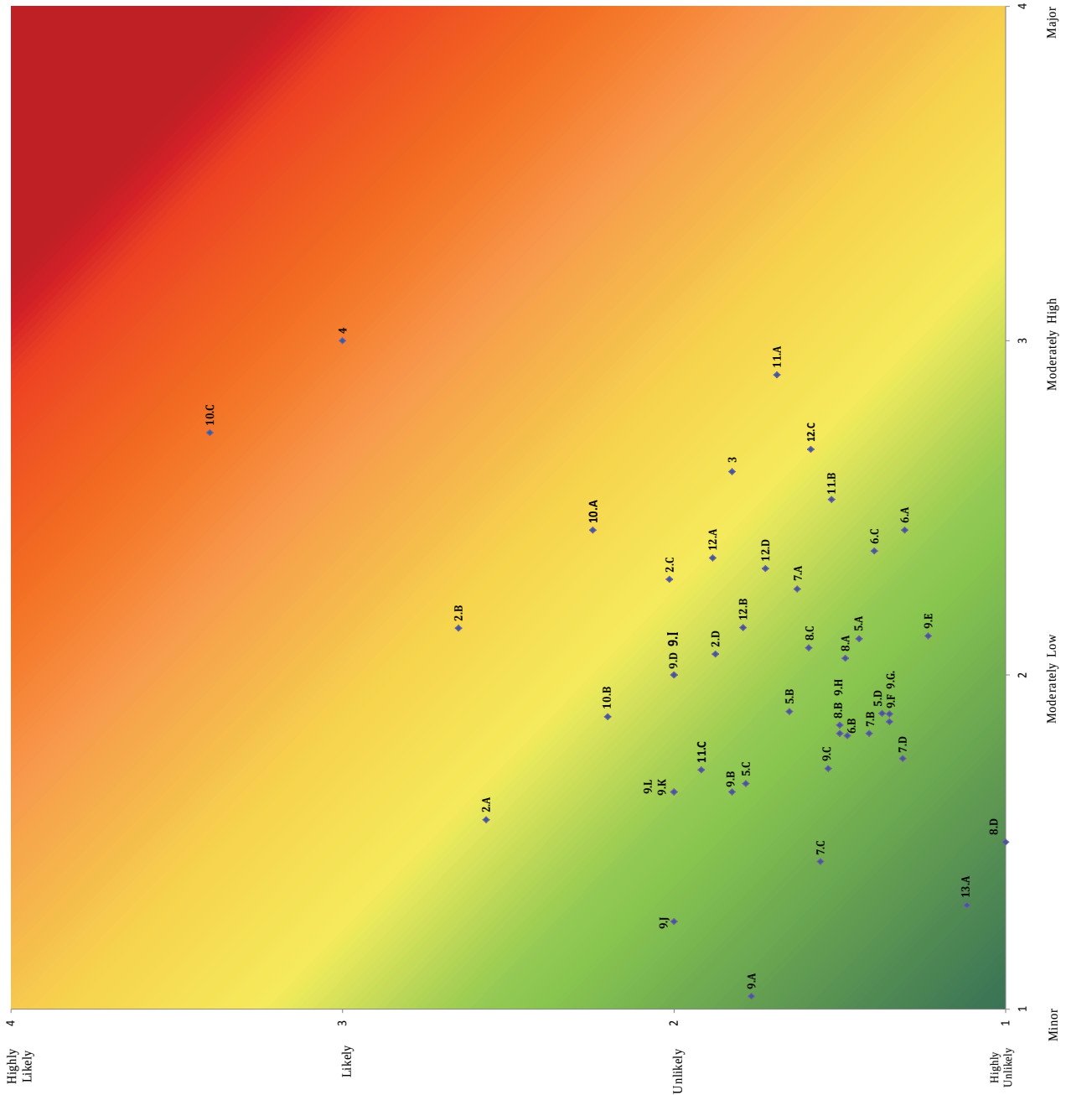
SBA Risk Management and Compliance Residual Risk Assessment - Investment Risks

As of 03/31/14



SBA Risk Management and Compliance Residual Risk Assessment - Non-Investment Risks

As of 03/31/14



2. Governance/Management Risk
 - 2.A. Governance/Management Risk-Resource Allocation Risk
 - 2.B. Governance/Management Risk-Governance Policy Design Risk
 - 2.C. Governance/Management Risk-Fiduciary/Ethics Risk
 - 2.D. Governance/Management Risk-Management Execution Risk
3. Communication/Public Affairs/Reputational Risk
 4. Legislative/Political Risk
 - 5.A. Compliance Risk-Laws, Rules, & Regulations
 - 5.B. Compliance Risk-SBA Policies
 - 5.C. Compliance Risk-Investment Policy Guidelines
 - 5.D. Compliance Risk-Contractual Agreements
 - 6.A. Fraud/Misconduct/Internal Controls Risk-Internal Staff
 - 6.B. Fraud/Misconduct/Internal Controls Risk-Service Providers
 - 6.C. Fraud/Misconduct/Internal Controls Risk-External Parties
 - 7.A. Service Provider Risk-Financial Condition
 - 7.B. Service Provider Risk-Service Level Quality
 - 7.C. Service Provider Risk-Key Personnel
 - 7.D. Service Provider Risk-Premature/Unexpected Service Termination
 - 8.A. Client Relationship Risk-Service Delivery
 - 8.B. Client Relationship Risk-Education
 - 8.C. Client Relationship Risk-Communication/Reporting
 - 8.D. Client Relationship Risk-Allocation of Investment Opportunities
 - 9.A. Operational Risk-Cash Management
 - 9.B. Operational Risk-Trade Settlement
 - 9.C. Operational Risk-Transaction Processing
 - 9.D. Operational Risk-Asset Reconciliation
 - 9.E. Operational Risk-Accounting and Financial Reporting
 - 9.F. Operational Risk-Valuation
 - 9.G. Operational Risk-Performance Measurement
 - 9.H. Operational Risk-Int System Reliability/E - Data Integrity Risk
 - 9.I. Operational Risk-FHCF Program-Specific Risks
 - 9.J. Operational Risk-DC Program-Specific Risks
 - 9.K. Operational Risk-Proxy Voting
 - 9.L. Operational Risk-External Corporate Governance
 - 10.A. Human Capital Risk-Recruitment and Retention
 - 10.B. Human Capital Risk-Training and Development
 - 10.C. Human Capital Risk-Key Person/Succession
 - 11.A. Security Risk-Physical Security
 - 11.A.i. Employee Security
 - 11.A.ii. Facility Security
 - 11.B. Security Risk-Network/System Security
 - 11.C. Security Risk-Information Security & Records Management
 - 12.A. Business Continuity/Infrastructure Risk-Facilities
 - 12.B. Business Continuity/Infrastructure Risk-Communication Systems
 - 12.C. Business Continuity/Infrastructure Risk-Data/System Recovery
 - 12.D. Business Continuity/Infrastructure Risk-Process Recovery
 - 13.A. Legal Risk-Contract Development
 - 13.B. Legal Risk-Legal Advisory
 - 13.C. Legal Risk-Litigation



Governor Rick Scott
Chair

Chief Financial Officer Jeff Atwater

Attorney General Pam Bondi

SBA TRUSTEES

Ash Williams

EXECUTIVE DIRECTOR & CIO
STATE BOARD OF ADMINISTRATION

Rolf Engmann, Chair
appointed by Chief Financial Officer Jeff Atwater

Judy Goodman, Vice Chair
appointed by Attorney General Pam Bondi

Kimberly Ferrell, Member
appointed by Governor Rick Scott

AUDIT COMMITTEE

Publisher
State Board of Administration
(SBA)

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Environmental

This Compliance Self-Assessment Report is created and printed internally by the SBA to minimize production costs, control waste, and monitor the types and amounts of ink and paper used in its production.



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State Board of Administration

Strategic Investments Annual Review

Trent Webster – Senior Investment Officer
Strategic Investments & Private Equity

Investment Advisory Council

September 22, 2014



Strategic Investments Overview

The Strategic Investments asset class has four objectives by policy

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

Strategic Investments Overview

Timeline of Significant Events

- June 2007 – Creation of Strategic Investments approved by Trustees
- June 2007 – Funded with a \$6 billion transfer of the global equity portfolio from Foreign Equity
- June 2010 – Remaining \$2.2 billion global equity portfolio transferred back to the newly formed Global Equity asset class
- June 2010 – Asset class target of 6% of the FRS set
- July 2010 – High yield portfolio worth \$2.2 billion transferred from Fixed Income
- July 2012 – Asset class target raised to 11%
- March 2014 – Asset class target raised to 12%

Strategic Investments Staffing

- Senior Investment Officer
 - Three Senior Portfolio Managers
 - One Portfolio Manager
 - One Analyst
 - One Administrative Assistant
 - One Operations Clerk
 - One intern
-
- Staff is expected to grow as Strategic Investments' assets increase

Strategic Investments Process

Strategic Investments asset allocation

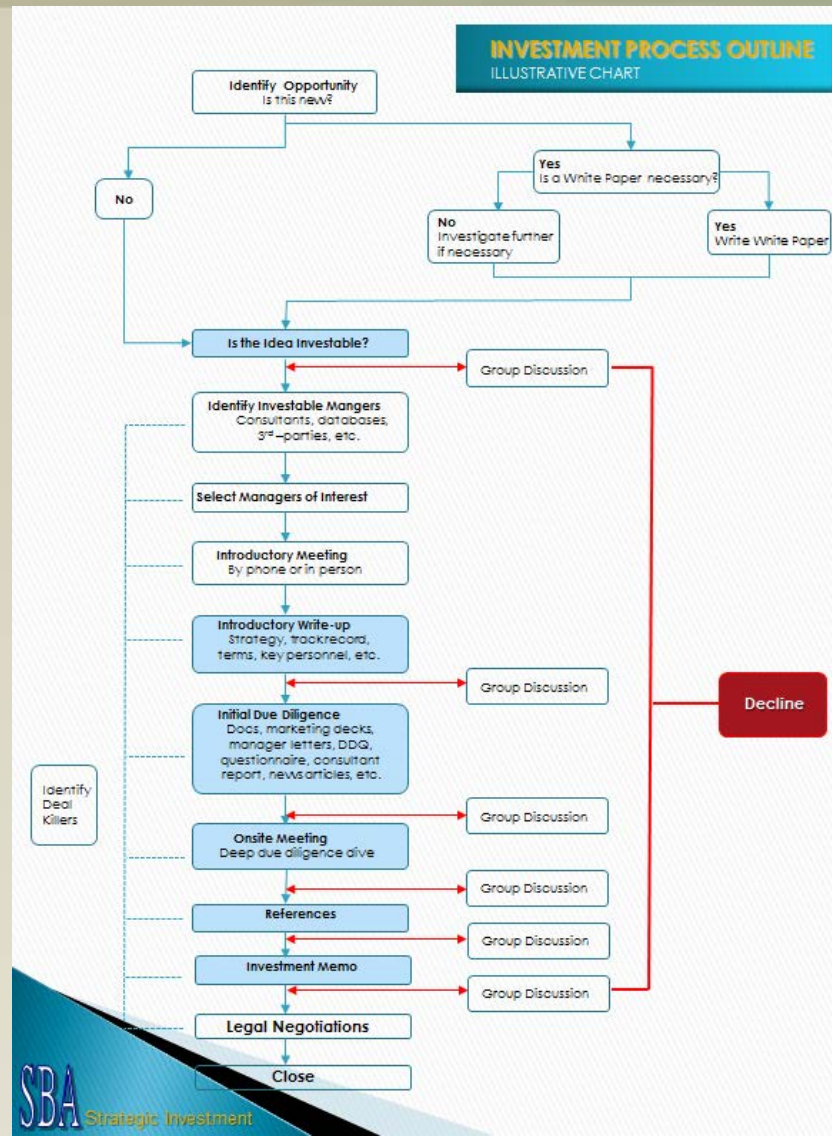
- Annually
 - o Mean-variance optimization
 - o Portfolio and market review with Cambridge
 - o Asset allocation meetings with staff and Cambridge
 - o Target weights set for the next 3 to 5 years
 - o Pacing model used to forecast future investments
- Ongoing
 - o Discussion of managers' outlooks at weekly staff meetings
 - o "State-of-the-World" calls with a manager every 4 to 6 weeks
 - o Markets update meetings quarterly

Strategic Investments Process

Broad characteristics of managers in the Strategic Investments portfolio, in order of importance

1. High ethical standard
2. Institutional quality
3. Able to generate attractive process-driven, risk-adjusted performance

Strategic Investments Process



Strategic Investments Process

Risk Management

- Monitored by Risk Management & Compliance
- Monitored by Senior Investment Group
- Approval of new strategies by Senior Investment Group
- Approval of Annual Work Plan by Executor Director & CIO
- Relationships and ongoing dialogue with consultants
- Relationships and ongoing dialogue with fund of funds
- Thorough due diligence
- Heightened sensitivity to operational issues
- Structuring rights in legal documentation
- Diversification
- Sizing limits
- High bar to first-time and new funds
- Contrarian philosophy
- Portfolio monitoring and risk management system
- Ongoing manager monitoring

Strategic Investments Process

Manager Monitoring

- Weekly internal discussion of managers
- Monthly or quarterly calls with managers
- Review manager letters
- Review manager exposure reports
- Bi-weekly calls with Cambridge Associates
- Quarterly calls with Townsend
- Monthly and quarterly internal reports
- Monthly and quarterly reports from Cambridge
- Quarterly reports from Townsend
- Annual meetings with managers
- Attendance at Annual General Meetings
- Membership on advisory committees
- Review changes in documentation
- Portfolio monitoring and risk management system

Strategic Investments Portfolio

Total Fund Investment Policy Allocation

- Policy target allocation of 12%
- Allocation range from 0% to 16%
- Alternative investments cannot exceed 20%
- Strategic Investments was 5.4% of the FRS as of June 30, 2014

Benchmarks

- Primary: A weighted-average of individual portfolio level benchmark returns
- Secondary: Consumer Price Index plus 500 basis points over market cycles

Strategic Investments Portfolio

- Net asset value was \$8.1 billion as of June 30, 2014. Net asset value plus unfunded commitments were \$11.1 billion.
- There are 86 funds and 58 unique relationships.
- Pacing model estimates that Strategic Investments will be 11% of the FRS within three years.
- Private market funds account for 57% of net asset value. Evergreen funds account for 43% of net asset value.
- Investment activity was \$1.6 billion in 13 funds in fiscal year 2014.
- Net cash outflow was \$437 million during the fiscal year.
- There are 14 funds in the pipeline with 9 new relationships accounting for an estimated \$2.3 billion in new investment activity.

Strategic Investments Portfolio

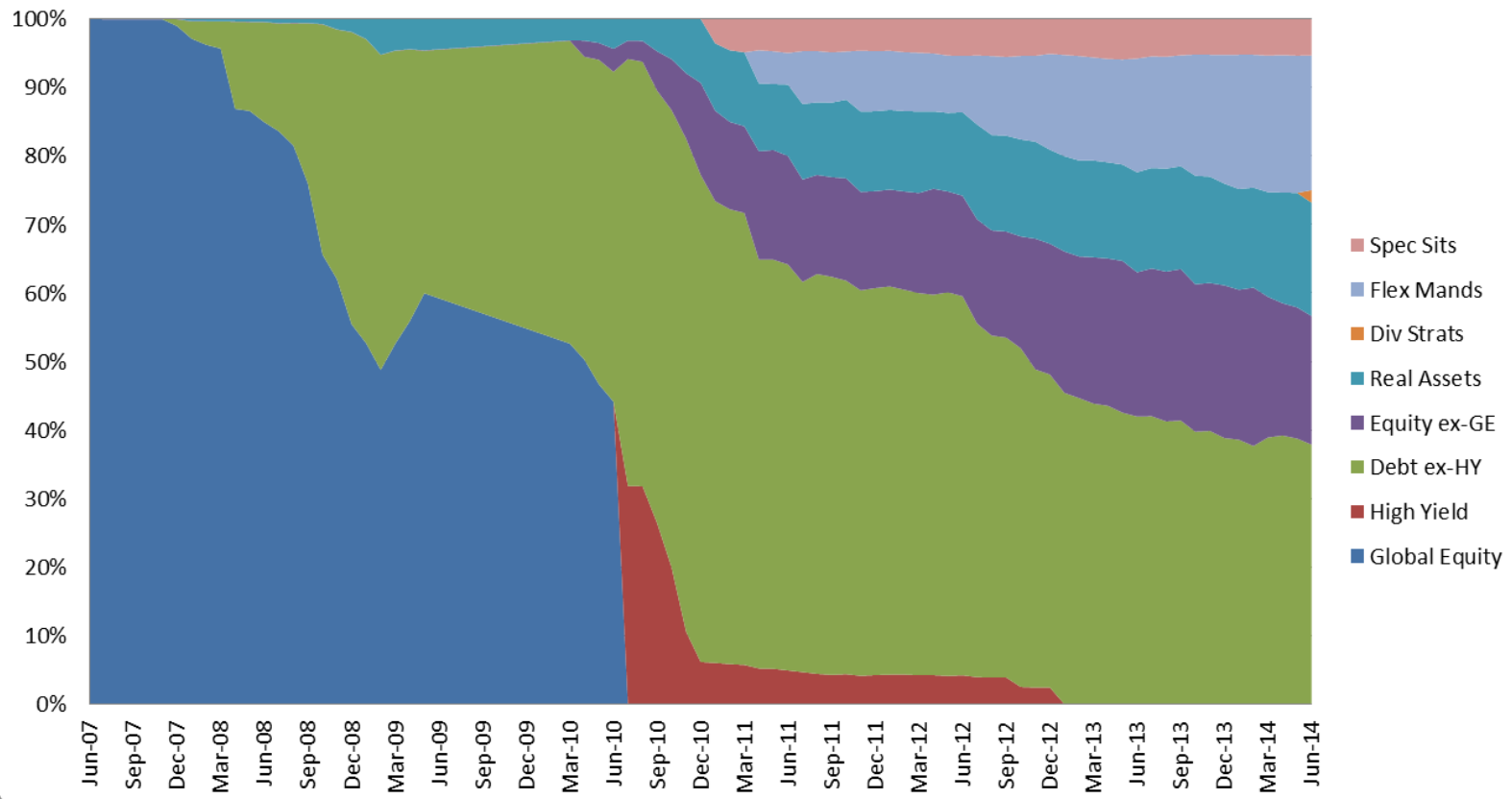
There are six investment classes – Debt, Equity, Real Assets, Diversifying Strategies, Flexible Mandates and Special Situations. The percentage of each within Strategic Investments is as follows.

	NAV	NAV+UFC+P
Debt	38%	36%
Equity	19%	11%
Real Assets	17%	21%
Diversifying Strategies	2%	10%
Flexible Mandates	20%	14%
Special Situations	5%	8%
Total	100%	100%

NAV - Net asset value. UFC - Unfunded Commitments. P - Pipeline.

Strategic Investments Portfolio

Strategic Investments Historical Exposures



Strategic Investments Portfolio

Within the six investment classes, there are 19 strategies.

	NAV	NAV+UFC+P		NAV	NAV+UFC+P
Distressed	17%	17%	CTAs	0%	6%
Mezzanine	8%	8%	Global Macro	2%	2%
Opportunistic Debt	6%	4%	Relative Value	0%	1%
Senior Loans	7%	7%	Royalties	0%	1%
Total Debt	38%	36%	Total Diversifying Strategies	2%	10%
Activist Equity	10%	6%	Event-Driven	8%	5%
GP Investments	3%	2%	Multi-Strategy	12%	8%
Long/Short Equity	6%	4%	Open Mandate	0%	2%
Opportunistic Equity	0%	0%	Total Flexible Mandates	20%	14%
Total Equity	19%	11%	Special Situations	5%	8%
Commodities	1%	1%	Total	100%	100%
Infrastructure	1%	3%			
Real Estate	11%	12%			
Timberland	4%	4%			
Total Real Assets	17%	21%			

NAV - Net asset value. UFC - Unfunded Commitments. P - Pipeline.

Strategic Investments Recent Activity

- Strategic Investments experienced a net cash outflow of \$49 million during the previous quarter.
- New commitments during the quarter were to ABRY Advanced Securities Fund III, Colony Distressed Credit III, and MKP Opportunity Partners, all with allocations of \$150 million.
- The current pipeline includes new funds in Opportunistic Credit, Real Estate, CTAs, Global Macro, Relative Value, Royalties, Event-Driven, Open Mandate and Special Situations.

Strategic Investments Recent Initiatives

- Two fund of funds have been identified for a managed futures program.
- Staff has been focusing on low correlation strategies that have recently underperformed.
- A White Paper on Royalties was approved by the Senior Investor Group. Due diligence is being conducted on three royalty funds.
- A portfolio monitoring and risk system is being implemented.

Strategic Investments Performance

<u>Returns</u>	SI	Benchmark	CPI + 500	FRS xSI
FY 2008	-8.9%	-8.5%	8.9%	-4.2%
FY 2009	-34.6%	-22.0%	4.3%	-18.3%
FY 2010	28.9%	10.9%	7.2%	13.5%
FY 2011	19.2%	12.3%	8.2%	22.3%
FY 2012	3.7%	3.3%	7.3%	0.2%
FY 2013	16.2%	9.8%	6.1%	13.0%
FY 2014	13.2%	11.3%	7.0%	17.6%
Since Inception	3.2%	1.6%	7.1%	5.2%
Since June 2010	12.9%	9.1%	7.1%	12.9%
<u>Volatility</u>				
Since Inception	11.6%	10.8%		11.5%
Since June 2010	3.1%	2.9%		8.9%
Sharpe Ratio	3.9			1.4
<i>since June 2010</i>				
<u>Correlation to FRS</u>				
Since Inception	78%			
Since June 2010	37%			

Strategic Investments Performance

Highest absolute return strategies during fiscal year 2014

- Infrastructure
- Activist Equity

Lowest absolute return strategies during fiscal year 2014

- Long Short Equity
- Commodities

Highest relative return strategies during fiscal year 2014

- Infrastructure
- Distressed

Lowest relative return strategies during fiscal year 2014

- GP Investments
- Commodities

Strategic Investments Market Overview

Alternative investments have approximated a 5% return premium above the Consumer Price Index over the past decade.

Asset	Index	10 Year Return	Beat CPI+5%?
Distressed	CS Distressed	7.9%	Yes
Mezzanine	Cambridge Associates Mezzanine Funds*	9.4%	Yes
Senior Loans	CS Leveraged Loans	5.0%	No
Long/Short Equity	CS Long/Short Equity	7.0%	No
Commodities	CRB Index	1.6%	No
Infrastructure	UBS Global Infrastructure & Utilities 50/50	11.1%	Yes
Timberland	NCREIF Timberland	8.4%	Yes
CTAs	CS Managed Futures	3.6%	No
Global Macro	CS Global Macro	7.9%	Yes
Hedge Funds	CS Hedge Fund	6.4%	No
Average		6.8%	No
CPI + 500 bps	Strategic Investments Long-Term Benchmark	7.3%	

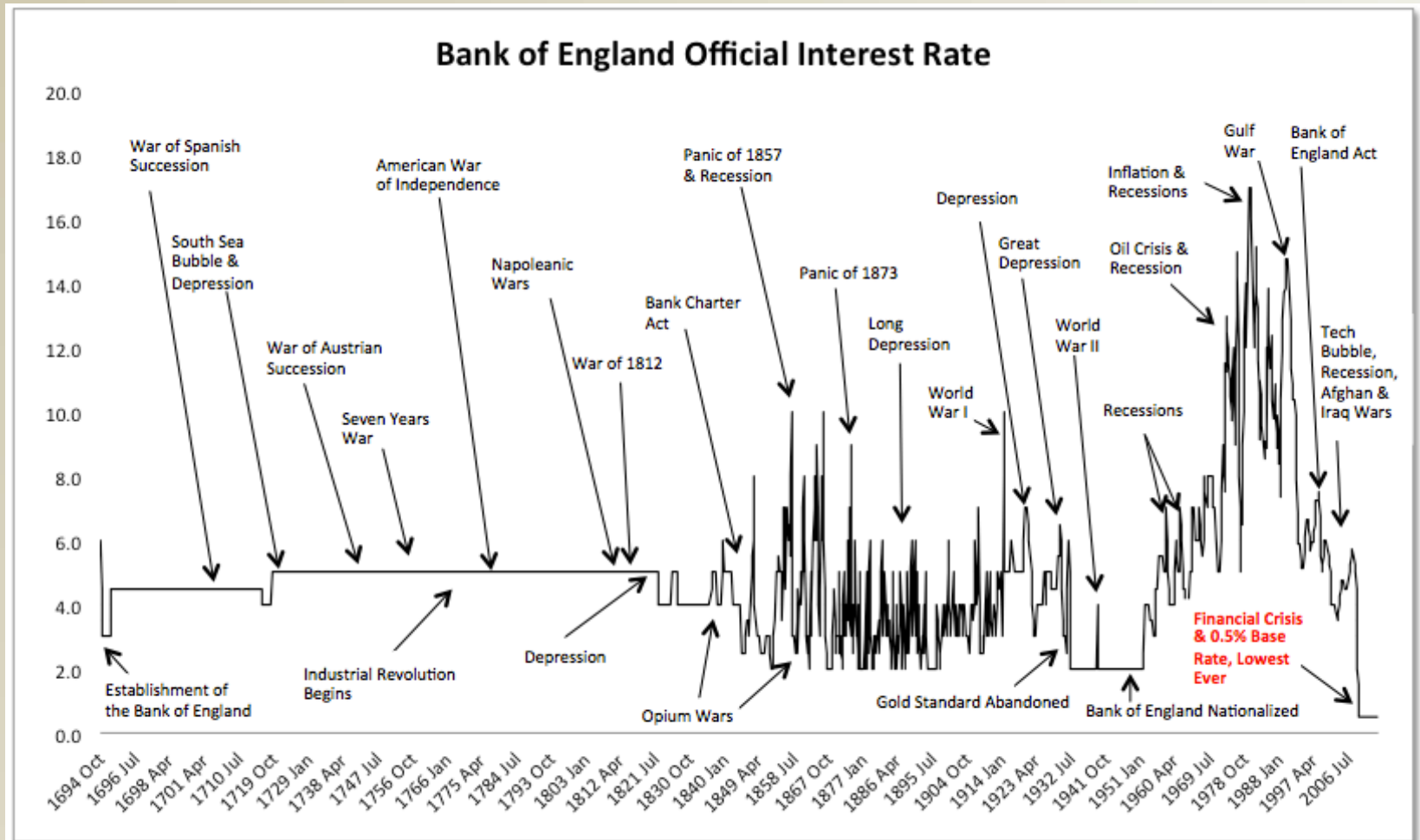
**As of December 31, 2013*

Strategic Investments Market Overview

- Most asset markets are either at fair value or are expensive.
- European banks have been selling assets but large pools of capital have been raised to buy European bank assets.
- Idiosyncratic opportunities are available in Europe but can be difficult to access.
- Pockets of distressed real estate still look attractive.
- Residential real estate is still attractive in some markets but is difficult to access.
- Underperformance of trading strategies may be presenting opportunities.

Strategic Investments Market Overview

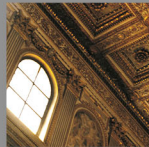
It is an unusual time.



September 22, 2014

Florida State Board of Administration

IAC Meeting



CAMBRIDGE ASSOCIATES LLC



September 22, 2014

Florida State Board of Administration

IAC Meeting

James P. Mnookin

Samit Chhabra

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CAMBRIDGE ASSOCIATES LLC

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CAMBRIDGE ASSOCIATES LLC



Why Hedge Funds?

Why invest in hedge funds?

- ◆ Hedge funds offer investors access to **“best-in-class” managers** because of the wide investment mandate and performance incentives.
- ◆ Hedge fund managers possess the **flexibility to invest** in areas where they see the best opportunities for good risk-adjusted returns.
- ◆ Hedge funds offer investors the ability to **diversify the economic sources of returns**, thus reducing risk through the uncorrelated nature of their investment strategies that are not replicable through traditional long-only investment.
- ◆ A carefully constructed portfolio of hedge funds should **reduce the volatility** of an overall portfolio while adding to returns over a full market cycle because of the added diversification.

- ◆ Outperform portfolio benchmarks
 - ◆ Absolute benchmark:
 - ◆ CPI + 5%
 - ◆ Peer benchmark:
 - ◆ Dynamic benchmark (based on portfolio monthly allocations)
 - ◆ Generate alpha as measured by return in excess of risk taken (risk-adjusted performance)
- ◆ Diversify the remainder of the FRS portfolio by providing exposure to assets with lower correlation to pool assets
- ◆ Protect capital in down markets
- ◆ Reduce volatility of total portfolio
- ◆ Generate returns with lower market sensitivity

Program Goals Determine How Portfolios are Constructed

- ◆ Different investors can have different goals for their hedge fund investments.

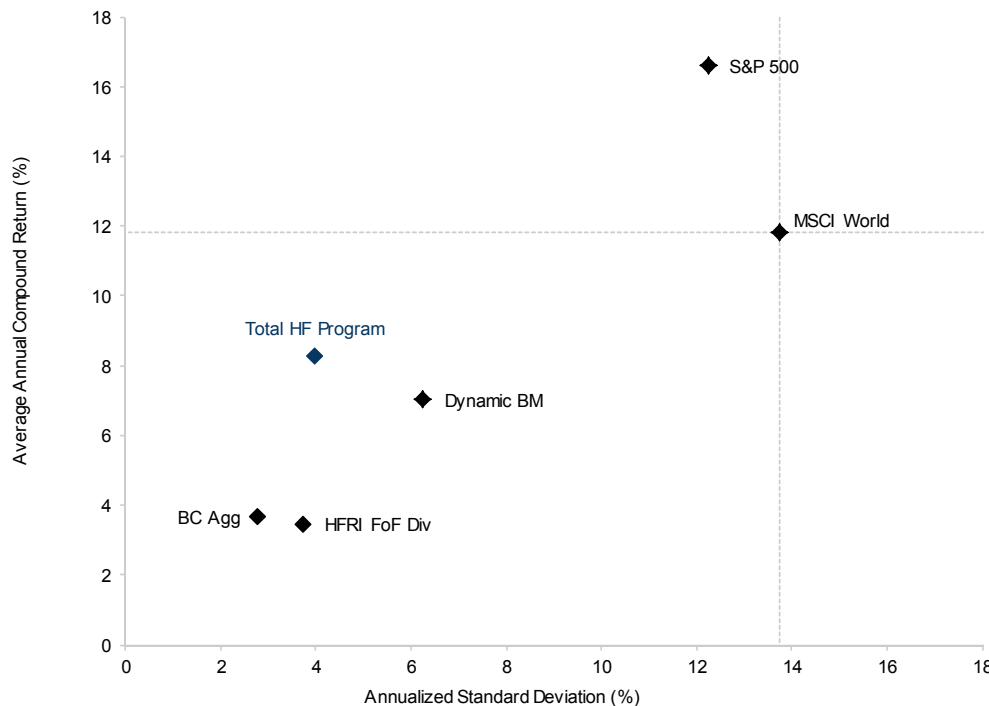
Goals	Portfolio Construction
Diversification	The hedge fund program would focus on multi-strategy, credit focused, and global macro funds that have little beta or correlation to equity markets. These programs can also include open mandate managers who shift their exposures depending on market opportunities and short-biased managers whose returns are negatively correlated with equity markets.
Blend	The hedge fund program would have a mix of multi-strategy, credit focused, and global macro funds in addition to equity long/short funds with a long bias. These programs also frequently include open mandate managers.
Return	The hedge fund program would be more heavily weighted to long/short equity managers who have a long bias and moderate beta and correlation to equity markets. These programs can also include open mandate managers who are more aggressive in seeking and implementing opportunities to generate outsized returns.

- ◆ For the SBA, we focus on managers that most diversify the plan's portfolio and complement existing managers in the Strategic Investments category.
- ◆ To date the SBA has invested \$2.5 billion in 16 managers focusing primarily on larger diversifying managers. The past 12 months have seen an intensive effort to add diversification through macro managers, both systematic and trend following.
- ◆ In the future, we will focus on managers that continue to diversify total plan assets and complement the SBA's current hedge fund portfolio. These may include smaller and newer managers.

Performance as of June 30, 2014

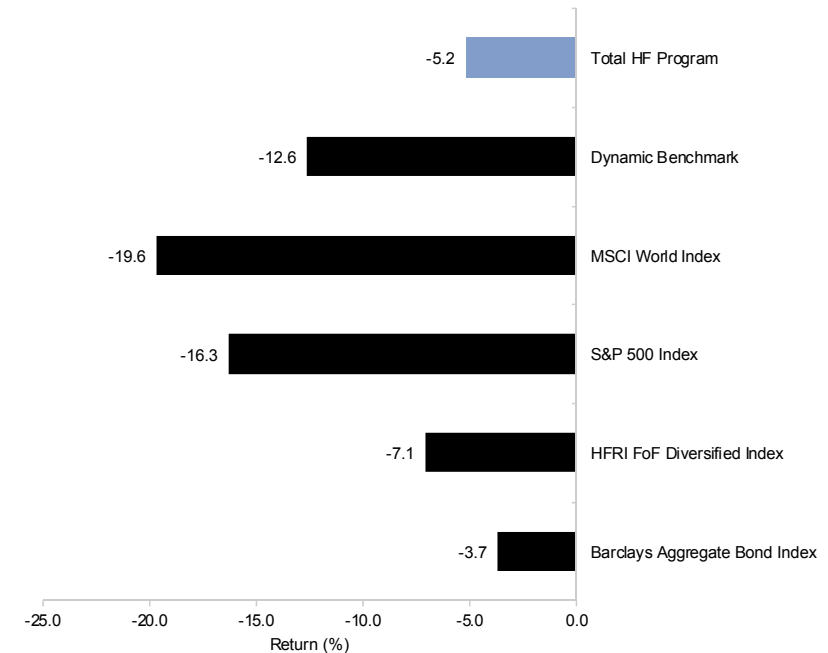
- ◆ The SBA's Total Hedge Fund portfolio has achieved strong risk-adjusted returns, however, it has lagged the MSCI World Index by 350 basis points on an annualized basis.
- ◆ The portfolio has outperformed the HFRI Fund of Funds Diversified Index by 4.8% on an annualized basis despite similar volatility.
- ◆ The Hedge Fund portfolio has exhibited strong downside protection.

Risk/Return Analysis - Florida State Board of Administration
July 1, 2011 through June 30, 2014 - 3.00 Years



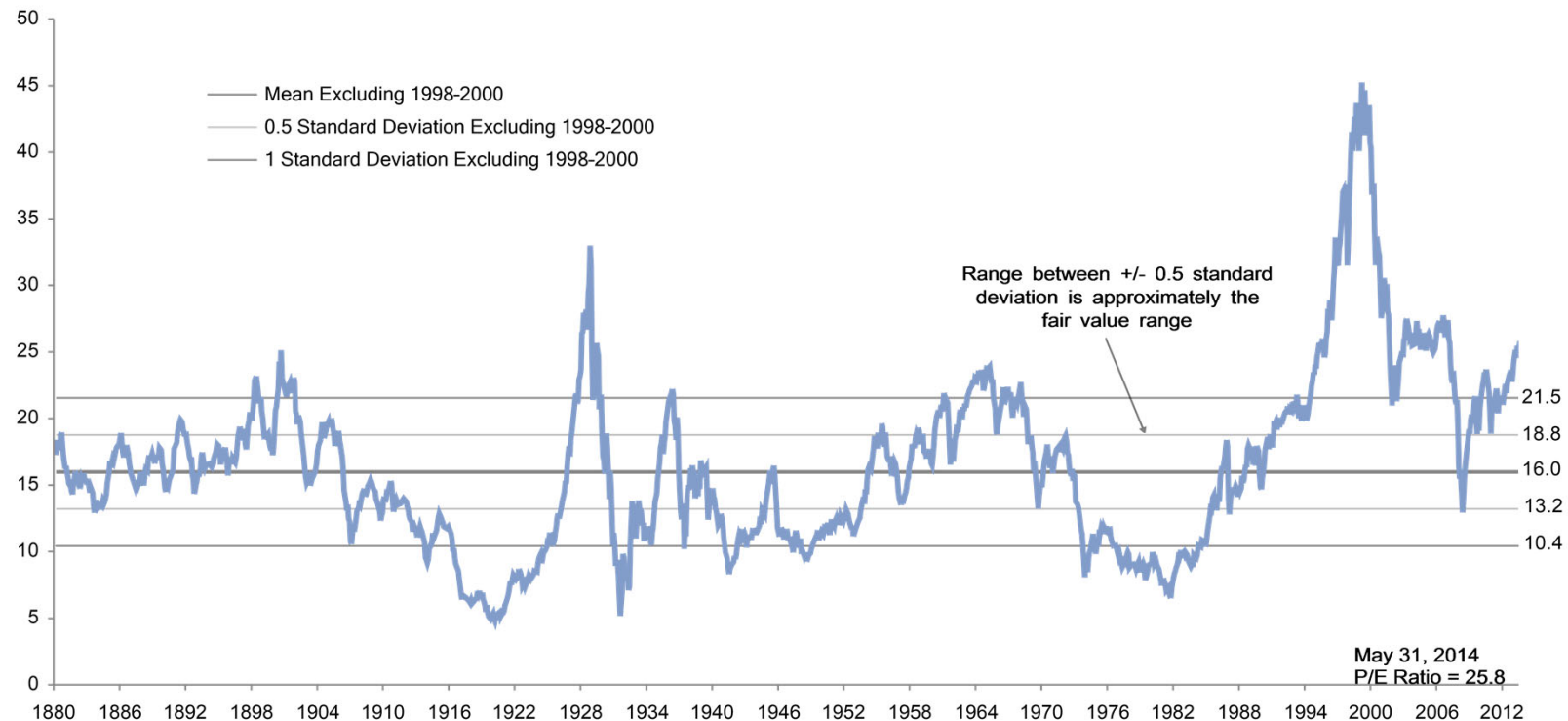
Note: Calculations are based on monthly data, net of fees.

Maximum Drawdown (Peak To Trough) - Florida State Board of Administration
From April 1, 2011 through June 30, 2014



S&P 500 Normalized Real Price-Earnings Ratios

1880–2014



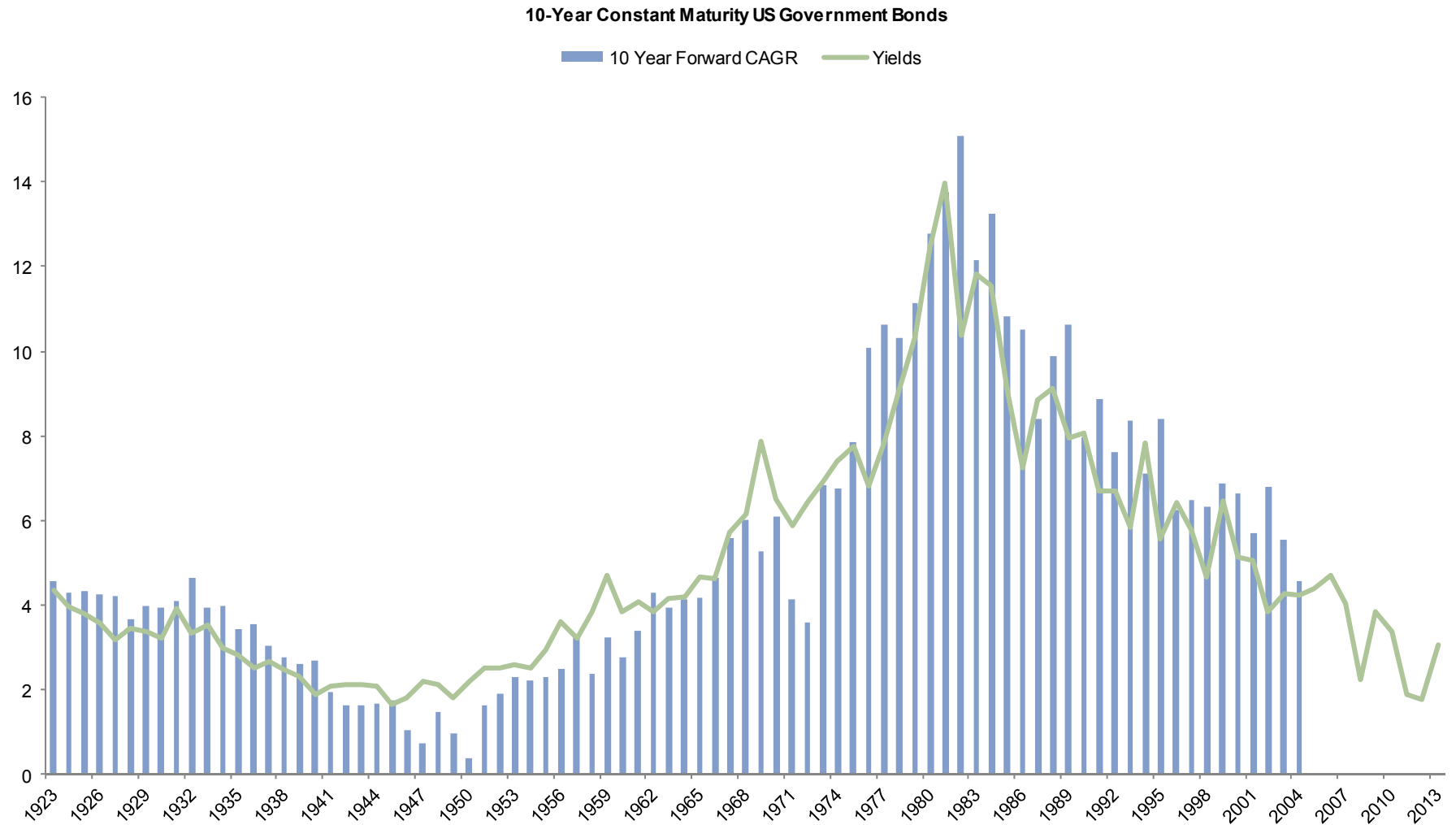
Sources: Robert J. Shiller, Standard & Poor's, and Thomson Reuters Datastream.

Notes: The calculation of the mean and standard deviation of real normalized price-earnings (P/E) ratios excludes the 1998–2000 period to minimize the distortion caused by the final years of the technology bubble on long-term valuation norms. Even excluding this period, approximately 66% of P/E observations still fall within 1 standard deviation around the mean, in line with a normal distribution. We generally consider 0.5 standard deviation around the mean to capture fair value, as readings in this range generally have been followed by subsequent returns consistent with long-term historical averages. For more information, please see our *U.S. Historical Capital Market Valuations* report. Graph is based on monthly data; most recent data point uses daily price change and interpolated monthly earnings. Normalized real P/E ratios (Shiller P/E ratio) for the S&P 500 Index are calculated by dividing the current index value by the rolling ten-year average of inflation-adjusted earnings. Monthly earnings are interpolated from actual quarterly reported earnings per share. Real earnings are deflated in terms of April 30, 2014, dollars. Current earnings are based on March 31, 2014 and May 31, 2014, estimates from Standard & Poor's. Historical data before 1936 provided by Professor Robert Shiller.

1852m

Over the Long Term, Bonds Return Their Yields

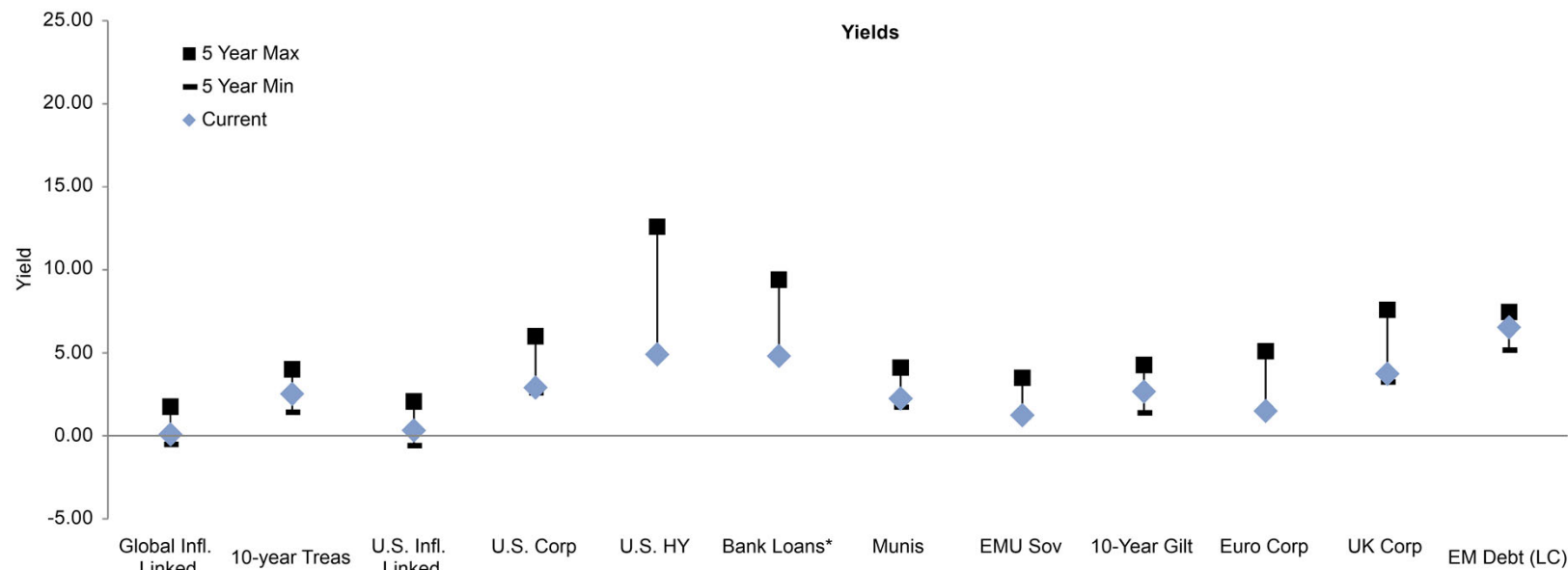
US Bonds Yields vs. Returns from 1923 to 2013



Sources: Federal Reserve, Global Financial Data, Inc., and Thomson Reuters Datastream.

Notes: The 10-year AACR is calculated on a forward looking basis, for example the 1923 data point uses 10 years of returns from the beginning of 1923 to the end of 1932.

As of June 30, 2014



Current Value	0.09	2.53	0.33	2.91	4.91	4.81	2.25	1.25	2.67	1.50	3.74	6.54
Previous Value	0.06	2.48	0.31	2.85	4.99	4.86	2.17	1.36	2.57	1.58	3.64	6.63
Delta	0.03	0.05	0.02	0.06	-0.08	-0.04	0.08	-0.11	0.10	-0.08	0.10	-0.09
Full period Avg	1.90	6.52	2.14	7.93	10.63	7.84	4.24	3.57	7.30	4.40	5.96	6.84
St Dev	1.09	2.77	1.30	2.95	3.23	2.34	1.07	1.18	3.46	1.21	1.20	0.65
5-year Max	1.76	4.01	2.07	6.00	12.59	9.41	4.11	3.50	4.27	5.10	7.59	7.47
5-year Min	-0.51	1.43	-0.59	2.58	4.83	4.81	1.73	1.15	1.38	1.47	3.24	5.16
5-year Max Date	7/23/2009	4/5/2010	8/6/2009	6/29/2009	7/10/2009	7/31/2009	7/7/2009	8/7/2009	2/19/2010	7/15/2009	7/10/2009	7/7/2009
5-year Min Date	4/5/2013	7/25/2012	12/10/2012	5/2/2013	6/20/2014	6/30/2014	11/29/2012	5/31/2012	7/25/2012	6/25/2014	5/2/2013	5/9/2013
Inception	12/31/1996	1/31/1962	2/28/1997	1/31/1973	1/31/1987	1/31/1992	4/30/1991	1/29/1999	1/31/1980	12/31/1995	12/31/1996	12/31/1997

Barclays, BofA Merrill Lynch, Credit Suisse, J.P. Morgan Securities, Inc. and Thomson Reuters Datastream.

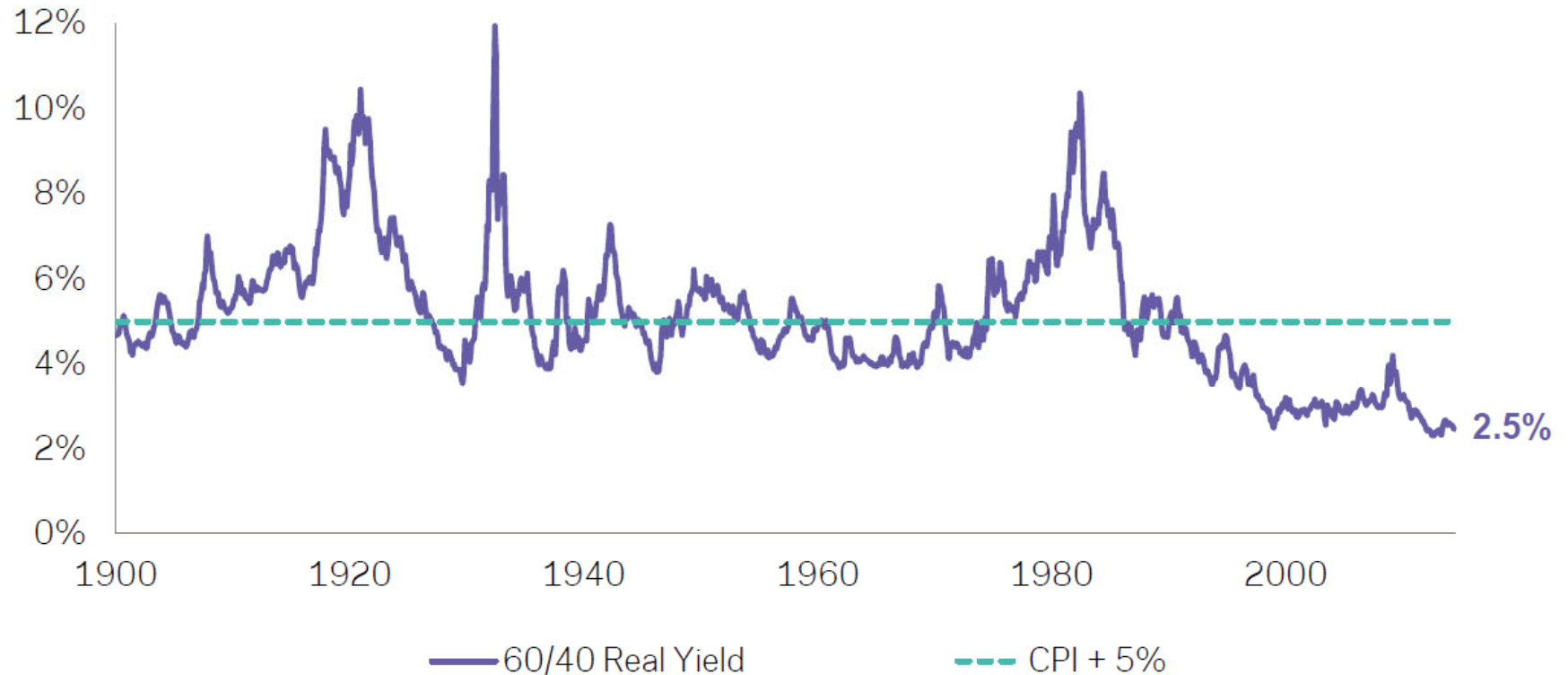
Notes: 5-year max and min calculations use daily data, except for bank loans, which uses monthly data.

*Yields for bank loans are represented by three-month LIBOR plus the three-year discount margin.

6080m

Expected Real Return of 60/40 Stock/Bond Portfolios

January 1900–June 2014



Source: Bloomberg, Robert Shiller's Data Library, Ibbotson Associates (Morningstar), Kozicki-Tinsley (2006), Federal Reserve Bank of Philadelphia, Blue Chip Economic Indicators, Consensus Economics, AQR. U.S. stocks are represented by the Standard&Poor's 500 Index since 1957, and bonds are represented by long-dated Treasuries. The equity yield is a 50/50 mix of two measures: 50% Shiller E/P * 1.075 and 50% Dividend/Price + 1.5%. U.S. bond yield is 10-year real Treasury Yield over 10 year inflation forecast. Scalars are used to account for long term real Earnings Per Share (EPS) Growth. Past performance is not a reliable indicator of future performance. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index.

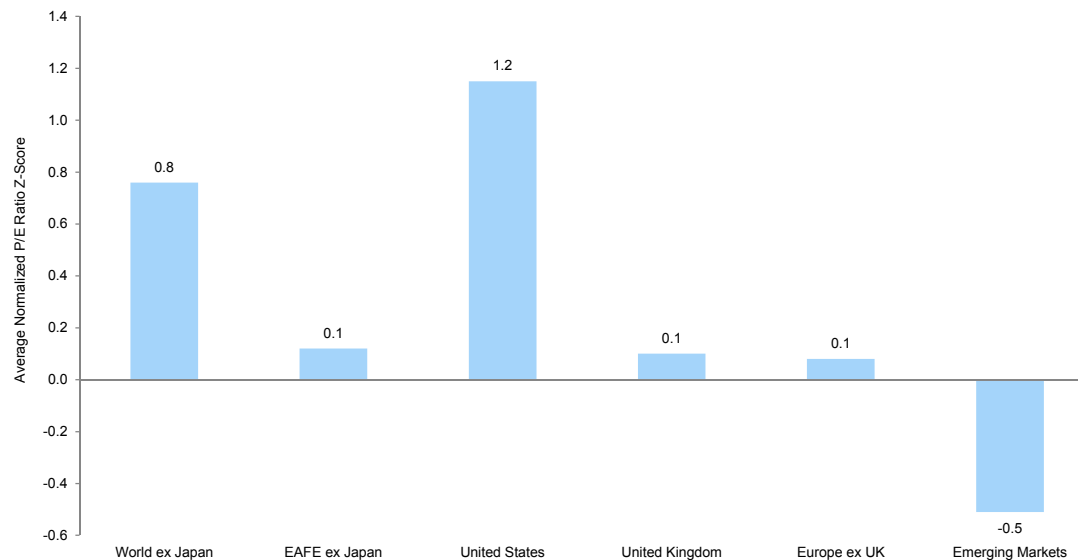


Hedge Fund Market Update

Observations on the Hedge Fund Industry

◆ Positive Trends

- ◆ After a multi-year rally in the credit and equity markets, inexpensive beta appears to be in short supply. Therefore, the search for alpha becomes increasingly important to achieving investors' return goals.

MSCI P/E Ratio Deviation From Historical Average Based on Composite Normalized Earnings

- ◆ Cambridge Associates deems most asset classes to be fairly valued or overvalued. In an environment where little is obviously cheap, hedge funds should be better positioned to be nimble as opportunities arise.
- ◆ Many investment strategies (e.g., merger arbitrage, capital structure arbitrage, distressed, short-selling, etc.) continue to be investable principally through hedge fund investing.
- ◆ Correlations between stocks have declined meaningfully since 2011, providing a more favorable landscape for alpha investing.
- ◆ An environment of rising rates, fully valued markets, and volatile equity and bond markets should provide a favorable backdrop for alpha-generating investment strategies.

Observations on the Hedge Fund Industry

◆ Potential Headwinds

- ◆ Credit markets have remained robust, and many companies have refinanced rather than default. Cambridge Associates believes that the default rate, especially in the U.S., may remain low for several quarters – creating less opportunity for traditional large-cap distressed investing.
- ◆ The lack of yield on cash means that there is a potential high cost of not being invested. Furthermore, near zero interest rates mean managers earn no return on their short rebates.
- ◆ The environment of low rates, low volatility, flat yield curves, and range-bound currencies that has prevailed recently has presented challenges for some hedge funds strategies. It remains uncertain how long this environment may last.
- ◆ The regulatory environment remains uncertain. In the U.S., hedge funds now have to register with the SEC and make additional filings with regulators. Further regulations as a result of Dodd-Frank could be forthcoming. The European regulatory landscape is more uncertain. The SEC continues to examine potential effects of hedge funds on the financial markets.
- ◆ Total hedge fund industry assets continue to increase meaning more money competing for limited opportunities.
- ◆ In the current low interest rate/low growth environment, high fees represent a more significant hurdle to generating desired returns.



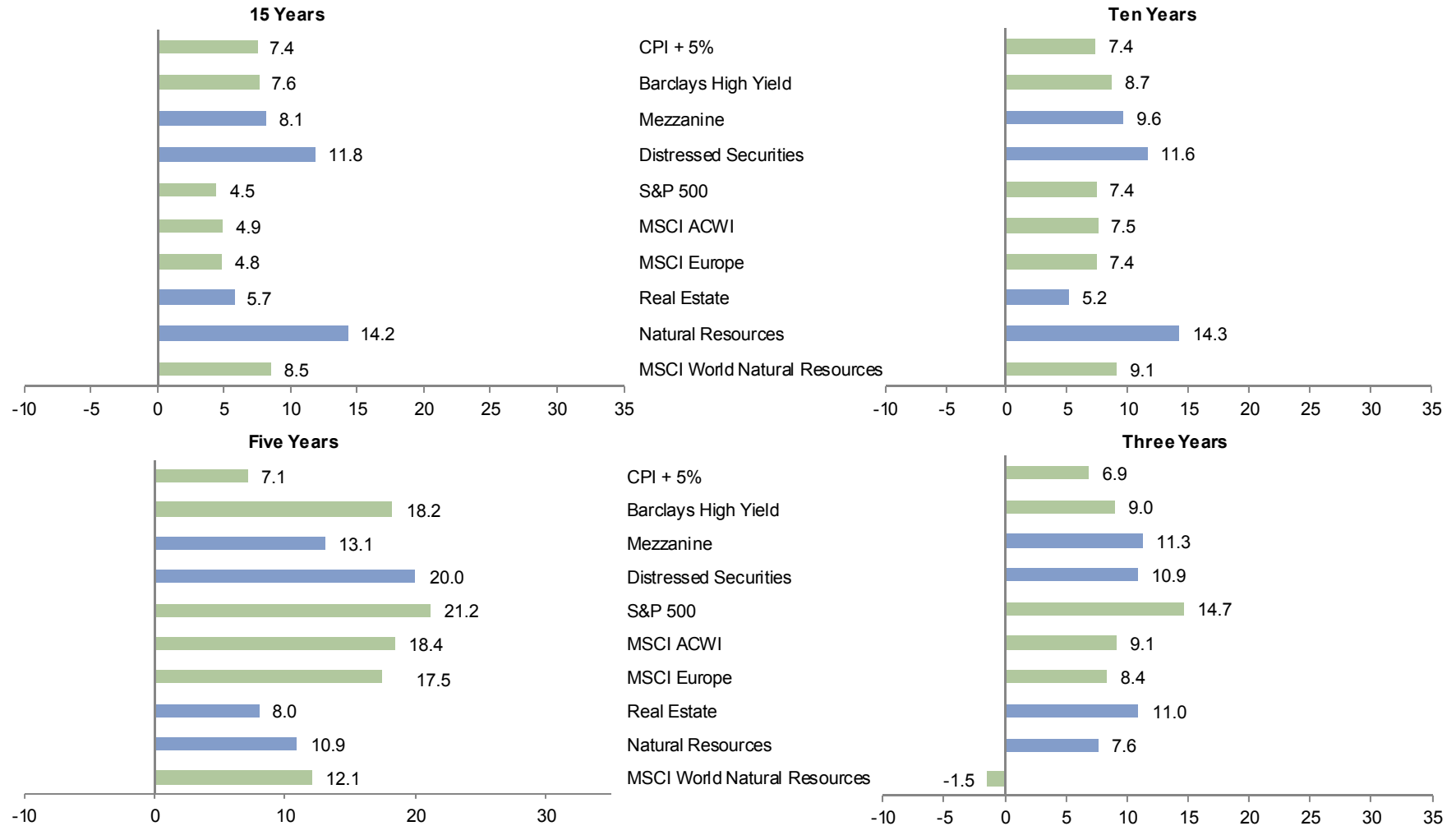
Why Private Investments?



Private Markets Continue to Perform in the Long Term

Comparative Returns: Cambridge Associates Private Investment Indexes Versus Public Market Indexes

As of March 31, 2014 • US Dollar • Percent (%)

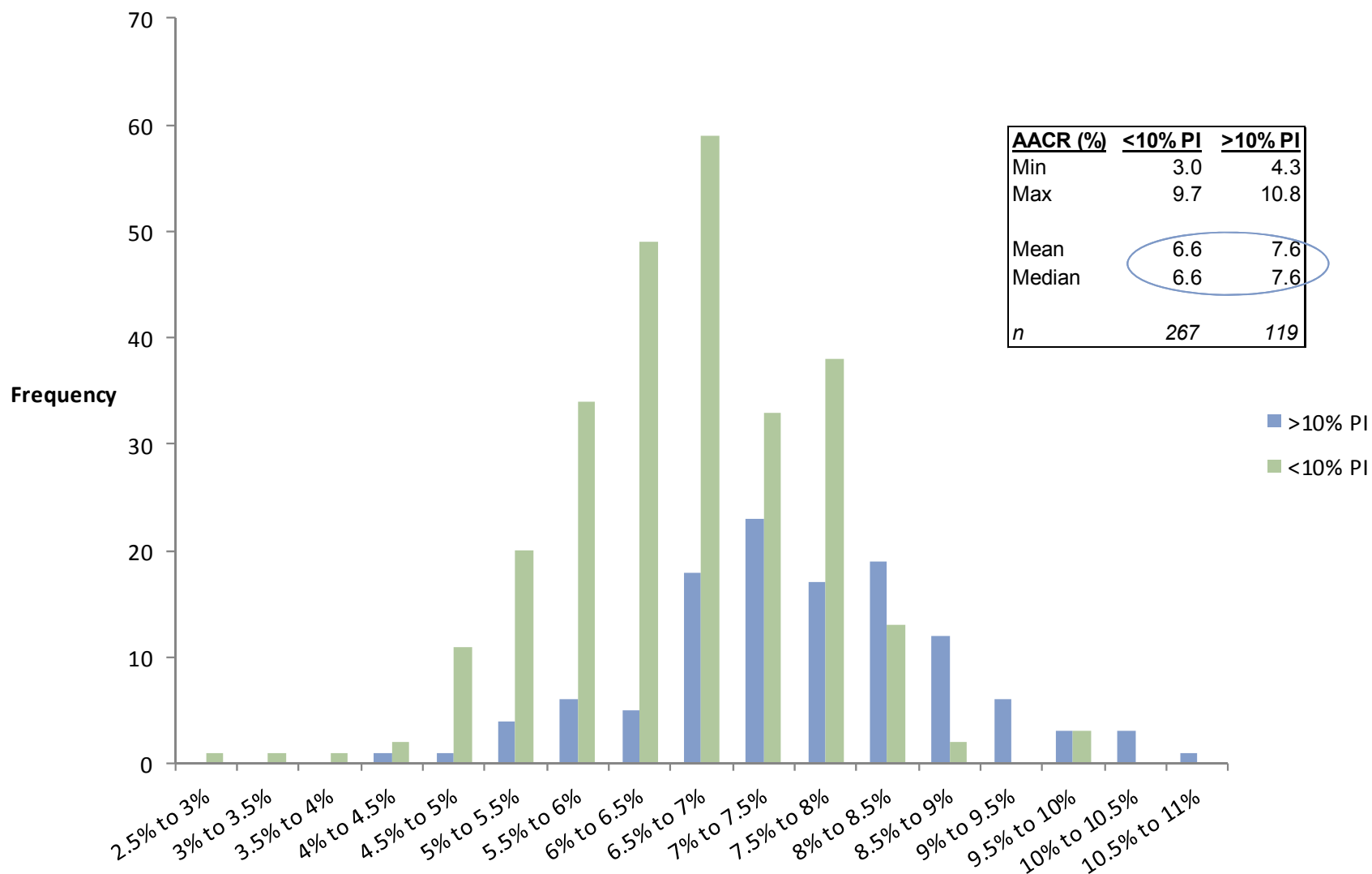


Sources: Cambridge Associates LLC, Frank Russell Company, FTSE International Limited, MSCI Inc., National Association of Real Estate Investment Trusts, Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Blue bars represent Cambridge Associates LLC private investments indexes. Private investment returns are net of fees, expenses, and carried interest.

Institutions with Higher Allocations to Private Investments Outperform Over the Long Term

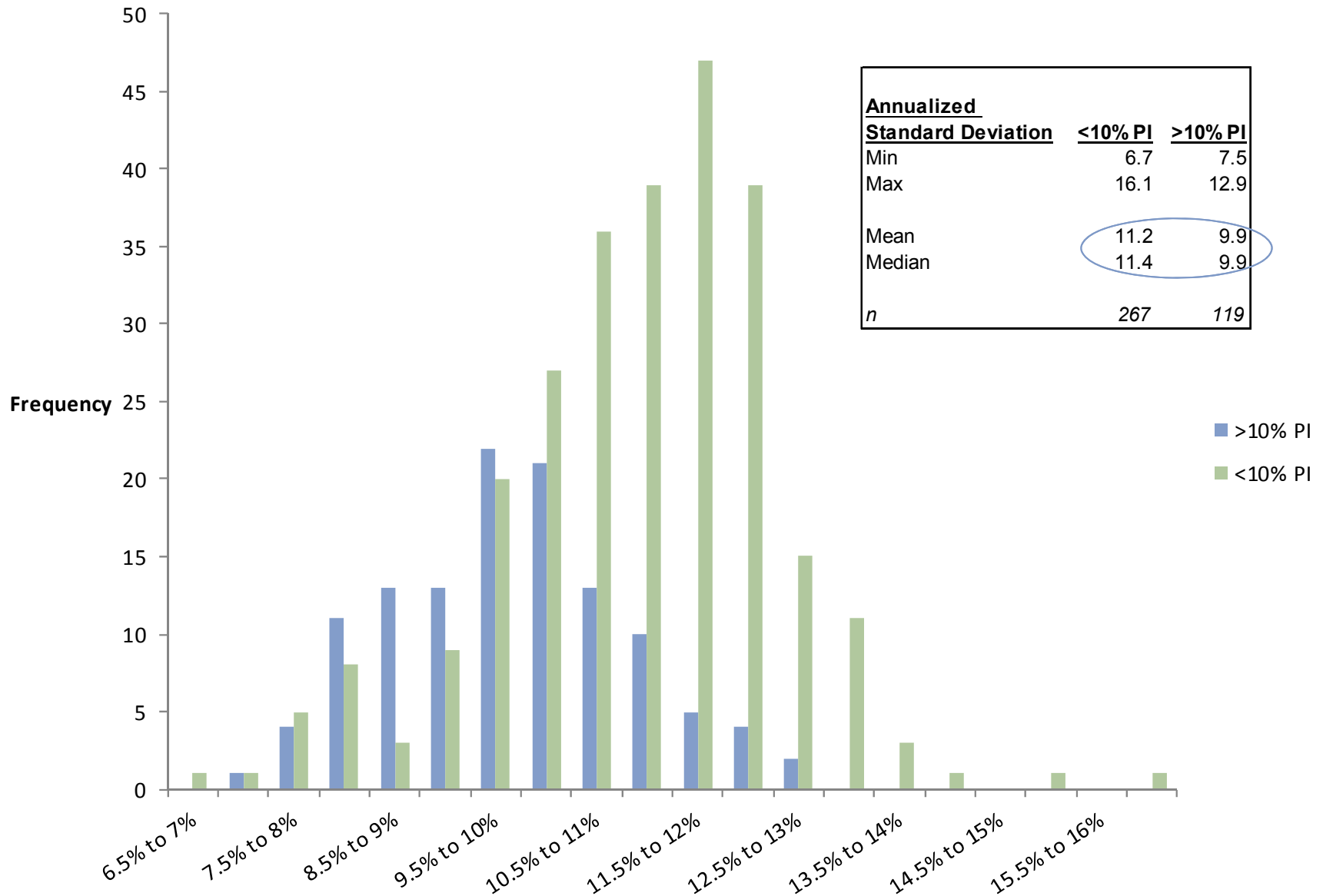
10 Year Average Annual Compound Return (%) as of March 31, 2014



Note: Institutions with greater than 10% Private Investment exposure (defined as Private Equity, Venture Capital, and Distressed) as of March 31, 2014 are classified as >10% PI (n=119). Institutions with less than 10% Private Investment exposure as of March 31, 2014 are defined as <10% PI (n=267).
 Source: Cambridge Associates Database.

...And Are Also Better Able to Reduce Risk

10 Year Annualized Standard Deviation as of March 31, 2014

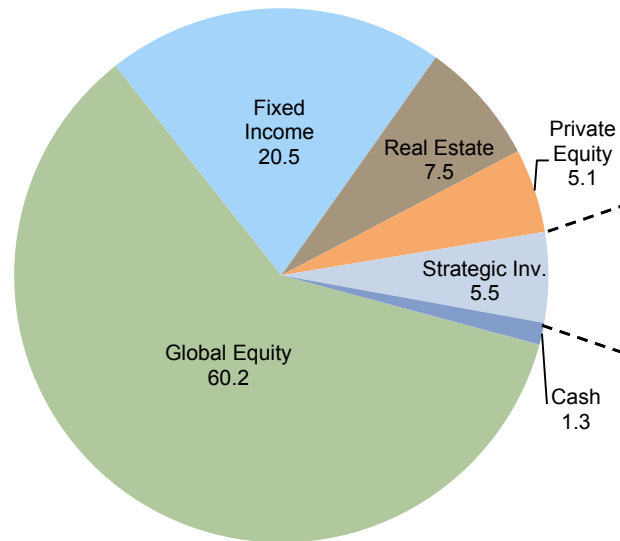


Note: Institutions with greater than 10% Private Investment exposure (defined as Private Equity, Venture Capital, and Distressed) as of March 31, 2014 are classified as >10% PI (n=119). Institutions with less than 10% Private Investment exposure as of March 31, 2014 are defined as <10% PI (n=267).
 Source: Cambridge Associates Database.

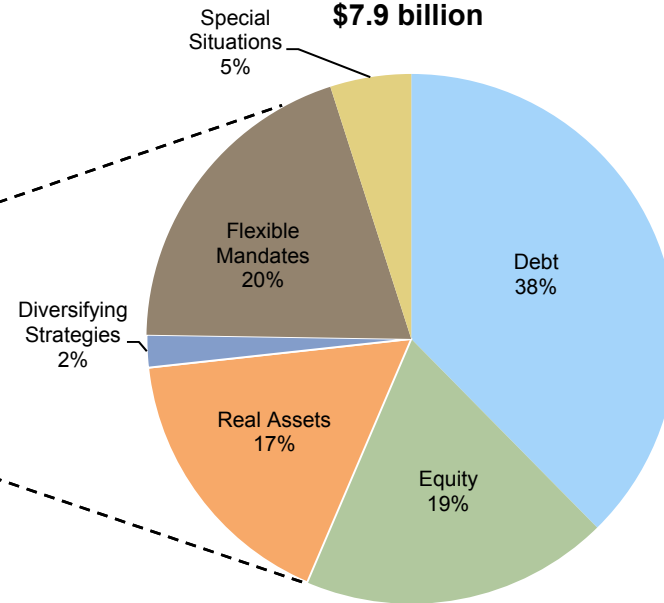
Diversification

- ◆ Diversifies equity exposure- access to new developments or parts of economy not attained through public markets

Florida State Board of Administration Allocation
\$144.9 billion



Strategic Investments Allocation
\$7.9 billion



- ◆ Additional benefits include potential to provide inflation protection.



Private Credit / Distressed / Other Market Update



Macro Factors

- Growth expectations improving esp in US, Europe weak but improving, execution of tapering by US is a risk
- Absent a macro shock, the key factor on whether global growth stalls is business sector confidence, which is critical to investment and employment
- Economic, regulatory, and political uncertainty appears to keep corporations on side lines and building cash
- Low interest rates enable borrowing but, perversely, worsen unfunded pension and healthcare obligations
- Growth in China and emerging markets will continue to slow
- Renewed crisis in Europe remains a significant near-term risk
- Expect periods of increased volatility

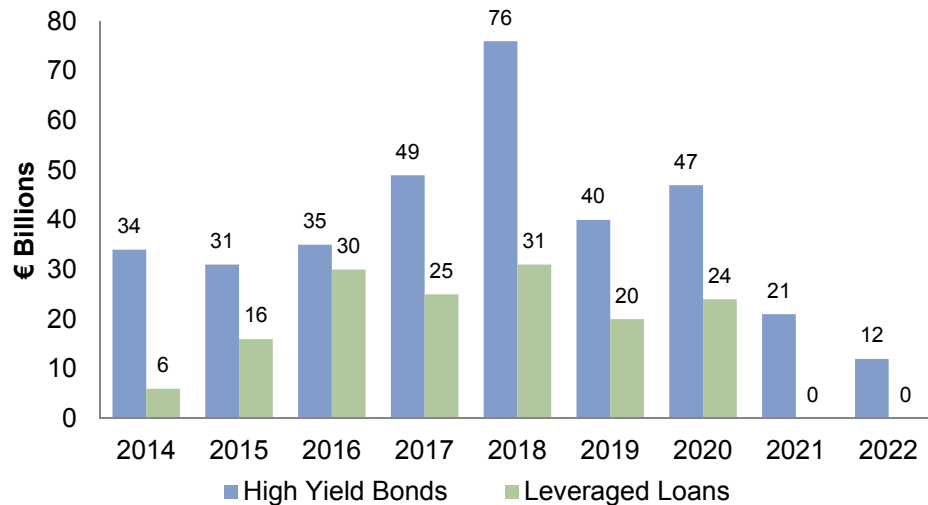
Overleveraged Banks

- In US, banking system has stabilized
 - Tier 1 capital and common equity is at its highest level in the last 2 decades
 - However the FDIC tracks 884 problem institutions with >\$390B in assets
- Highly leveraged European banking system is very reliant on wholesale funding, leaving banks vulnerable to funding pressures and uncertainty
 - Refinancing wall climbs in 2017
 - Basel III requirements seek to improve balance sheets; expected to result in asset sales and capital raising exercises
- Asia is experiencing limited bond interest
 - European banks are pulling out of region due to capital constraints

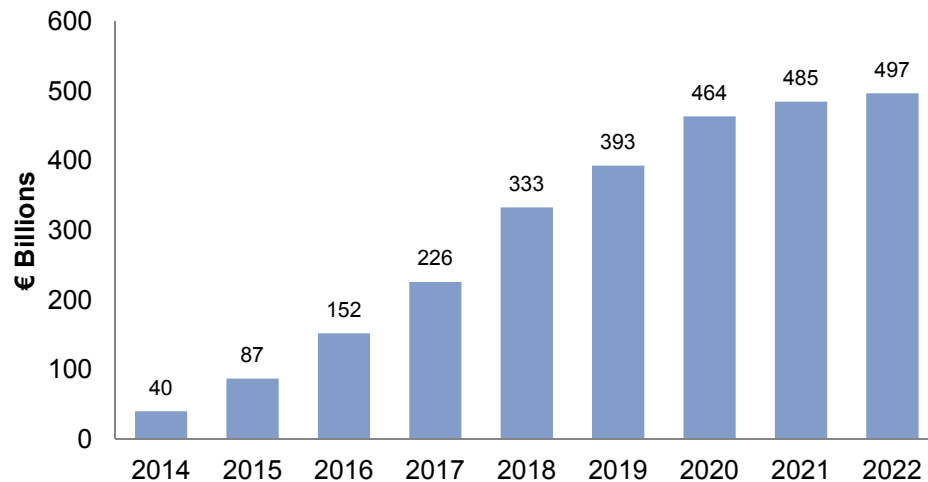
Corporate Maturity Wall

- Over \$1.8 trillion in non investment grade debt expected to come due in the next six years
- Significant volume originally issued during credit bubble of 2004-2007 with high average leverage and often “cov-lite” structures that will be coming due
- North American issuers represent majority of wall though typically better capitalized and less stressed today
- The European corporate maturity wall is amplified by higher initial leverage and a poorer economic environment since
- Future ability and willingness of EU banks to renegotiate covenants and/or further extend maturities is unclear

European Leveraged Loan and HY Maturities by Year



Cumulative European Leveraged Loan and HY Maturities



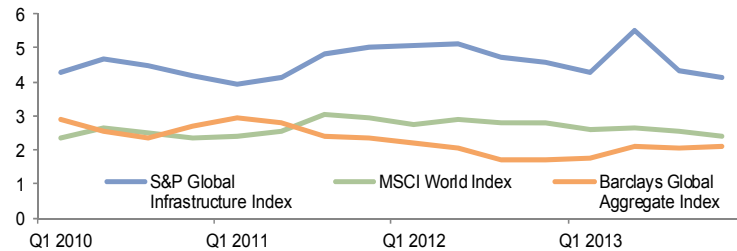
European Debt Maturity Commentary

- Fewer loans have been restructured in Europe compared to US companies.
- The gravity of the European loan maturity wall amplified
 - Up to 35% of all loans are failing to meet covenants and were underwritten to lax standards (Most of issuance and refinancing in Europe has been concentrated in the strongest issuers and there is a larger proportion of lower quality credits maturing in 2014 and 2015. As of June 2013, \$14 billion of European loans trading below 70 which mature before 2016.)
 - European HY market is insufficient to absorb the capacity.
- Future ability and willingness of EU banks to renegotiate covenants and roll over troubled loans remains unclear; underwriting capacity is an obstacle. (As banks delever and CLOs amortize, the ability and willingness of EU banks to roll over troubled loans remains unclear.)

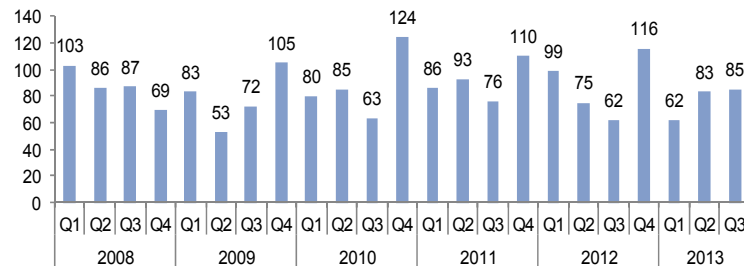
Infrastructure: Cambridge Associates' April 2014 Asset Class Views

Global Infrastructure

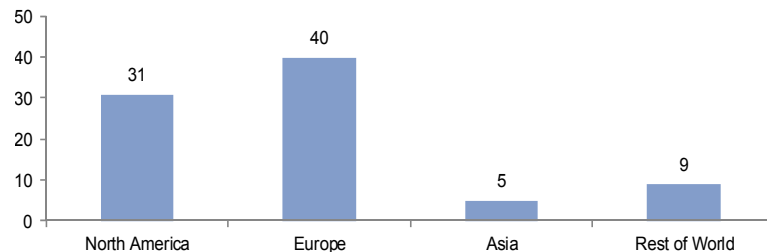
VALUATION: S&P Global Infrastructure Index Dividend Yield
2010 - Fourth Quarter 2013 • Percent (%)



FUNDAMENTALS: Number of deals of done by unlisted Infrastructure Managers
2008 - 2013 (Sept 30) • Number of Deals



FUNDAMENTALS: Transaction Volumes by Region
Third quarter 2013 • Number of Deals



Favor managers with strong operational expertise, as they can more effectively mitigate risks

Strong demand for core infrastructure as Institutional LPs increasingly view infrastructure as an alternative to fixed-income. This has resulted in increasing multiples paid for stable, yielding regulated assets. We believe key value drivers today is mostly a bottom-up exercise barring unexpected interest rate shocks.

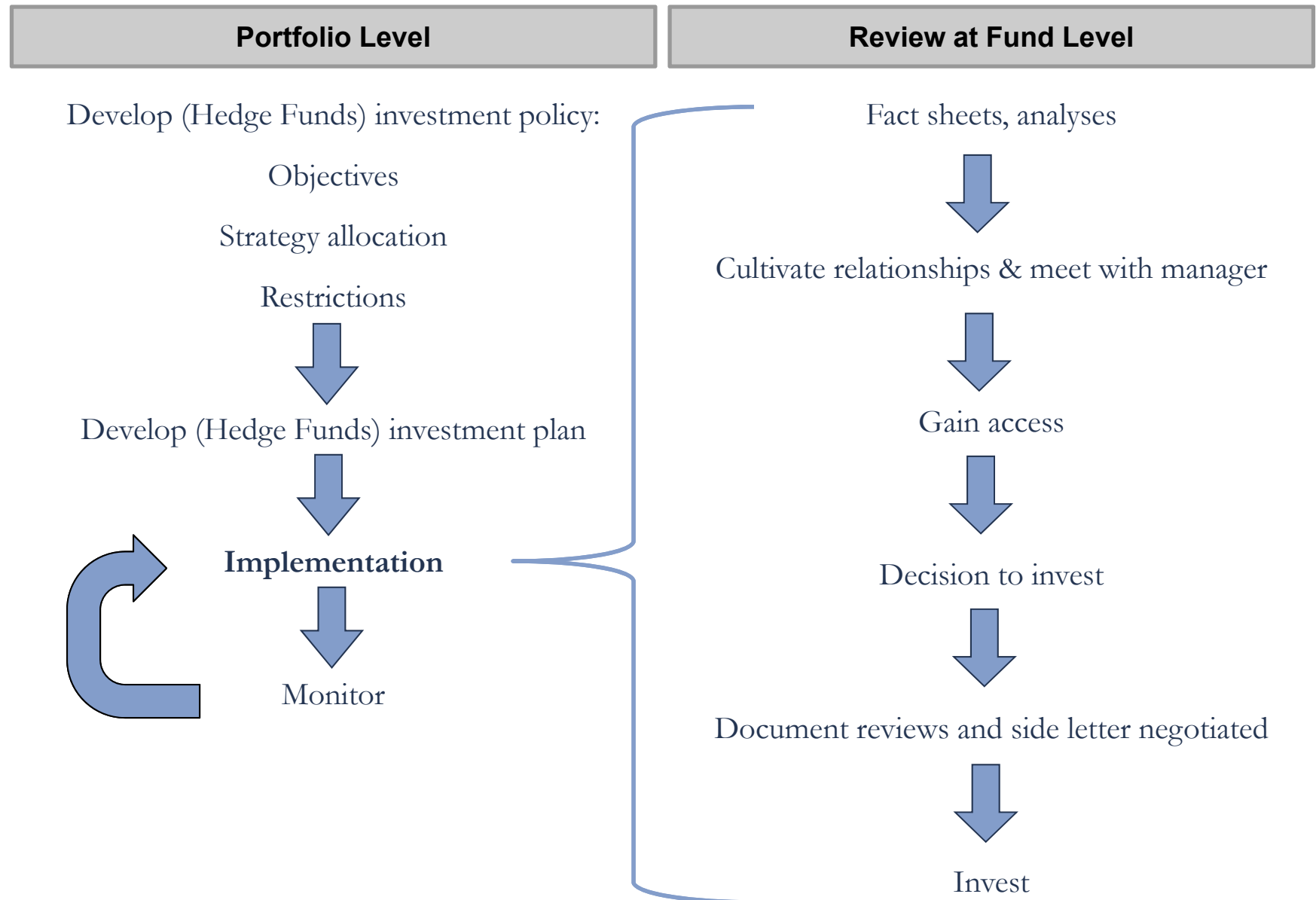
- ◆ According to the World Economic Forum, approximately \$3.7 trillion was needed for basic infrastructure – transport, power, water, and communications where the current spending is at \$2.7 trillion.
- ◆ The current low interest rate environment has depressed bond yields, which has prompted a number of large LPs to look closer into direct infrastructure investments in the effort to improve portfolio yield and inflation protection.
- ◆ Large LPs tend to prefer direct and private infrastructure investments as they build in-house management capabilities and lessen portfolio correlation to the broad equities markets.
- ◆ We saw anecdotal evidences of divergence in valuations between public and private infrastructure assets in certain jurisdictions. This trend, if continues, could present as an attractive opportunity for LPs with higher tolerance for equity market volatility.
- ◆ We view infrastructure investments in emerging Asian markets to contain risks comparable to private equity investments rather than traditional core infrastructure investments. Therefore, good manager selection is more critical relative to entry pricing or valuations.

- ◆ Future private investment in global infrastructure assets could be significant
 - ◆ \$57 trillion in infrastructure investment is required by 2030 – just to keep up with projected global GDP growth, according to a 2013 McKinsey study
 - ◆ This is 60% more than the \$36 trillion spent globally on infrastructure over the last 18 years
 - ◆ It is more than the estimated value of today's worldwide infrastructure
 - ◆ This amount does not address backlogs and deficiencies in maintenance or meet broader development goals of emerging economies
- ◆ Such levels of investment cannot be financed by traditional sources of public finance, including banks with restrained credit growth
- ◆ Because full privatization is not always possible or politically viable, governments are increasingly proposing new forms of cooperation between public and private sectors in infrastructure
- ◆ This massive need for infrastructure will not necessarily bring automatic, outsized returns, however
 - ◆ Previous surges in infrastructure investment, such as the U.S. railways in the 19th century and global airlines in the 20th century, often left investors disappointed



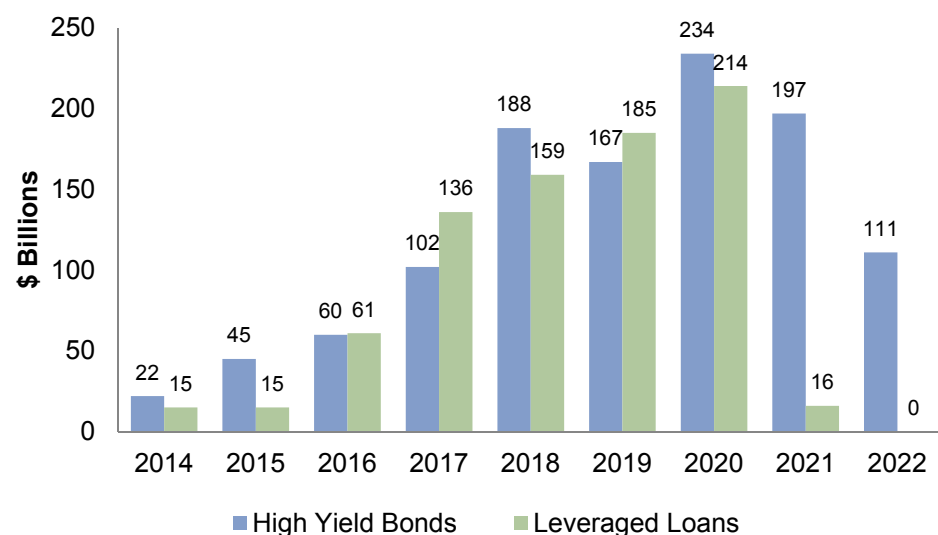
Appendix

SBA's Portfolio Construction Process

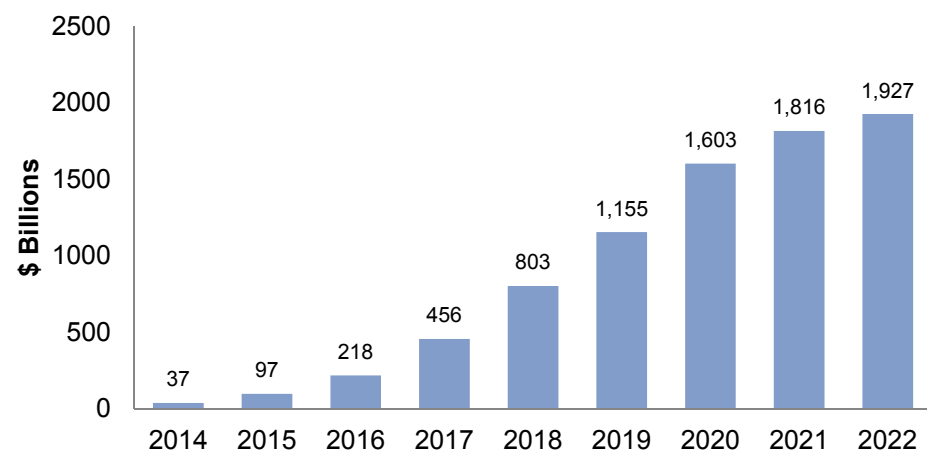


Where is the Distressed Opportunity Set Growing?

U.S. Leveraged Loan and High Yield Maturities by Year



Cumulative U.S. Leveraged Loan and High Yield Maturities



US Debt Maturity Commentary

- The overall size of the US leveraged loan and High Yield markets overwhelm those of Europe
- Total leveraged loan and high yield maturities in the US total \$1.9 trillion from 2014 through 2022
- In contrast, long term default rates have averaged 4.0% for HY bonds and 3.5% for leveraged loans, more recently running at 0.7% and 1.8% in 2013, with an estimated increase to 2.0% and 2.0% respectively in both 2014 and 2015 (JPM), providing limited supply
- Economic recovery and / or a continued ability to extend maturities in the US could diminish the opportunity

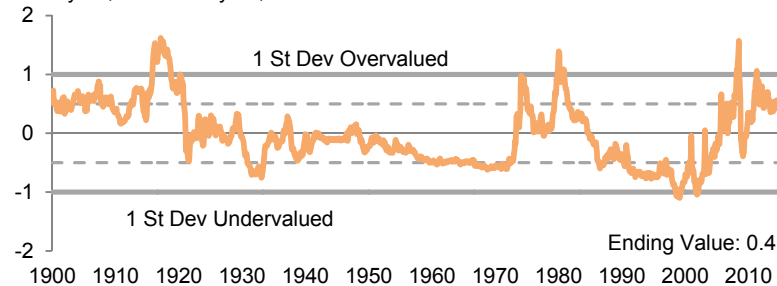
Cambridge Associates' August 2014 Asset Class Views

Commodities

Overvalued since September 2012

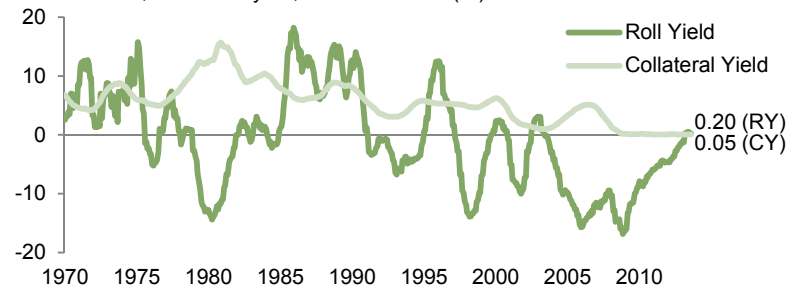
VALUATION: Commodity Basket Spot Price

January 31, 1900 – July 31, 2014 • Z-Score



FUNDAMENTALS: Trailing 12-Month Roll and Collateral Yield

December 31, 1970 – July 31, 2014 • Percent (%)



Opportunistic investment that does not currently look attractive versus other diversifying assets

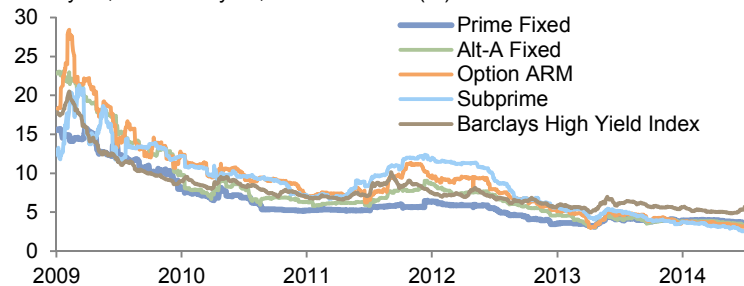
Commodities remain overvalued, even as the supply/demand outlook deteriorates. We continue to recommend underweights. Spot prices are somewhat elevated relative to long-term, inflation-adjusted average levels. Collateral yields remain near zero, but contango has not been a performance drag.

- ◇ Commodity spot prices have risen slightly in 2014 and our diversified basket is 0.4 standard deviation above its long-term, inflation-adjusted average level. Spot prices would need to fall universally by about 18% in real terms to bring the basket back to its long-term average.
- ◇ The roll yield (the ongoing impact of rolling from a near-expiration futures contract to the next monthly contract) has been positive (since February) on a trailing 12-month basis for the first time in a decade.
- ◇ The cash collateral yield, which over the past four decades has been the largest return contributor for the S&P GSCI™ and Bloomberg indexes, has been negligible for nearly five years running.
- ◇ The much-talked-about “commodity supercycle” may have run out of steam. The moderation of global growth and the pace of Chinese infrastructure and property development continues to pressure some commodities. Meanwhile, successive years of elevated commodity prices have spurred significant investment in productive capacity for some commodities such as metals, and technological drilling enhancements have pushed up the likely future supply of oil & gas.
- ◇ Commodities are not presently attractive on the basis of growth or diversification potential.

Structured Finance

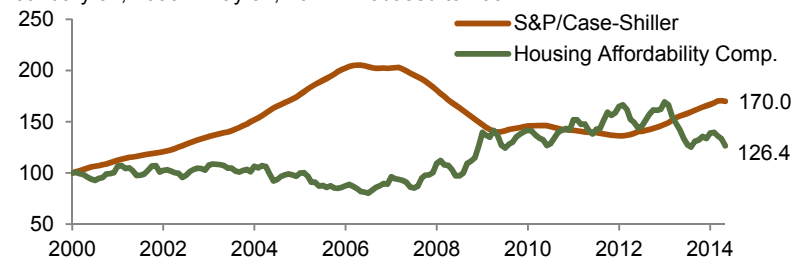
VALUATION: Model Yields for Non-Agency RMBS

January 30, 2009 – July 31, 2014 • Percent (%)



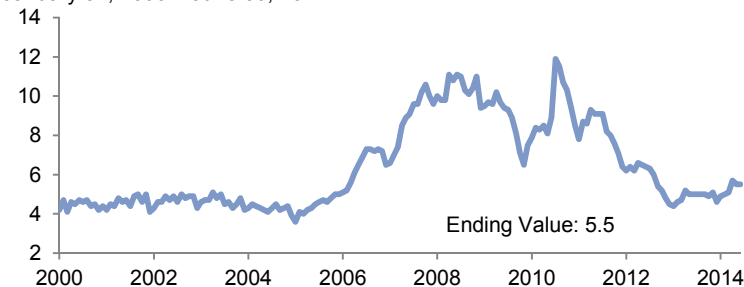
FUNDAMENTALS: S&P/Case-Shiller 20-City Composite Home Price Index and Housing Affordability Composite Index

January 31, 2000 – May 31, 2014 • Rebased to 100



FUNDAMENTALS: US Existing Home Sales Months' Supply

January 31, 2000 – June 30, 2014



Sources: Barclays, Bloomberg L.P., J.P. Morgan Securities, Inc., National Association of Realtors, and Thomson Reuters Datastream.

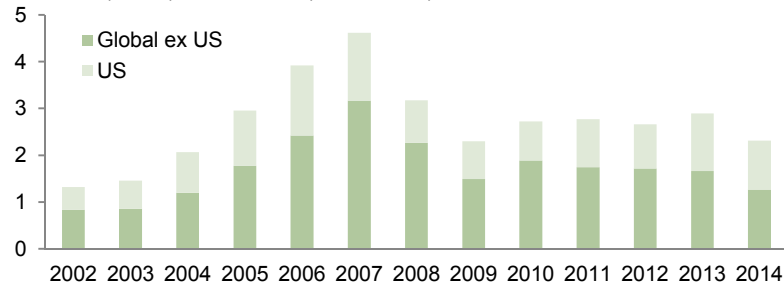
Challenges in finding attractively priced bonds require managers to consider more risk and leverage

Investors in structured credit are increasingly holding seasoned cash-flowing bonds amid a stabilizing employment picture and favorable supply dynamics, as they cannot easily replace the issues due to weak new issuance and muted institutional sales. Low interest rates are likely to continue underpinning housing prices so long as they persist.

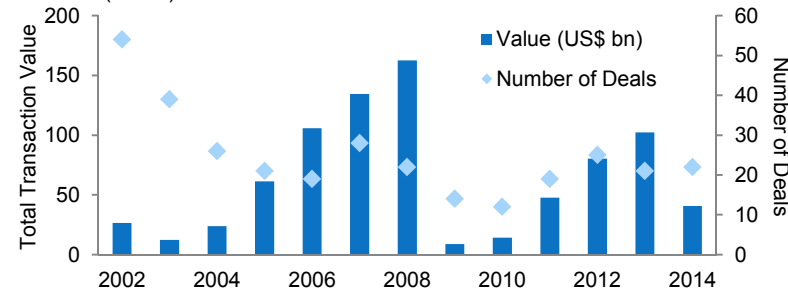
- ◊ Non-Agency bonds continue to benefit from improved housing fundamentals, a slowing of defaults, and limited new supply. Tighter inventory in many major markets is supporting prices, which have risen across most segments, although they seem to be in a holding pattern as interest rates remain in a narrow band.
- ◊ Expanded government programs have provided relief for consumers while driving servicers to restructure more loans. The impact of recent settlements with large banks is unclear as courts and trustees sort out appeals and payout requirements. However, some managers see upside in “put back” optionality on certain bonds where they may capitalize on potential buybacks related to the settlements.
- ◊ New supply of non-Agency mortgages has been limited for the past several years and the market is shrinking. Future securitizations are likely to have risk-sharing features that orient originators, investors, and servicers around higher-quality and more consistent underwriting standards. In the near term, risk sharing deals will be driven by GSEs' mandate to shrink their balance sheets.
- ◊ Some managers have begun to rotate money into CMBS, although issuance remains relatively weak. Delinquency rates, meanwhile, have fallen for 14 straight months, and now stand at 6.04%, 430 bps off their 2012 high.

Event-Driven Investing

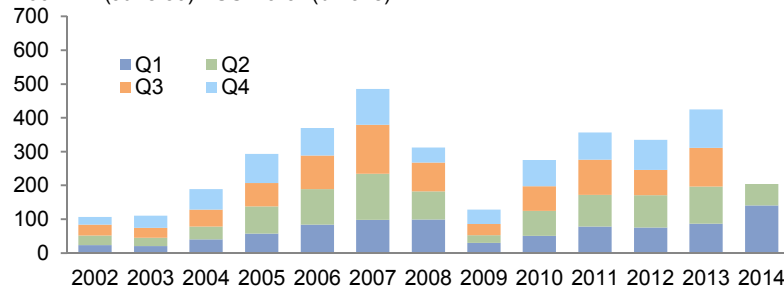
FUNDAMENTALS: Announced Global Merger & Acquisition Activity
2002–14 (Jul 31) • Deal Value (US\$ trillions)



FUNDAMENTALS: US Spin-Offs
2002–14 (Jul 31)



FUNDAMENTALS: Share Buybacks of S&P 500 ex Financials and General Electric
2002–14 (June 30) • US Dollar (billions)



Managers continue to engage company management teams in an effort to unlock value

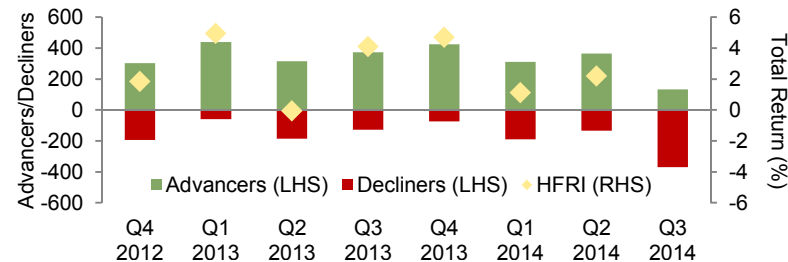
Spreads remain tight and unlevered returns remain unattractive despite the increase in merger activity. Managers will likely favor alternative event-driven situations to spread-based merger arbitrage.

- ◊ Deal volume across the globe remains high compared to recent years. The trend continued in July, which saw the value of announced deals exceed \$438 billion, the highest level in seven years.
- ◊ Restructuring, spin-offs, asset sales, and shareholder activism are on the rise, and corporate share repurchase announcements are also trending higher when compared to previous years as management teams have been putting cash to work.
- ◊ Merger arbitrage remains unattractive as a standalone strategy given compressed merger spreads and the amount of capital available to keep spreads tight. Many event-driven and multi-strategy hedge funds have decreased allocations to the strategy or abandoned it altogether in recent years.
- ◊ Although traditional spread investing has not generated attractive returns over the last several years, a significant uptick in corporate activity notwithstanding recent deal cancellations is a positive outcome for special situation and activist opportunities. Portfolio managers have reported a modest increase in spreads in recent months; however, most are still generally in the mid- to upper-single digits.

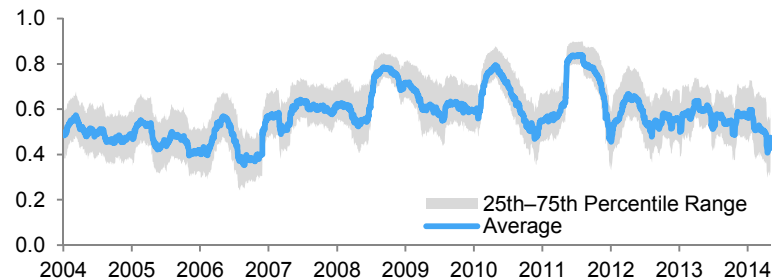
Long/Short Hedge Funds

FUNDAMENTALS: Winners and Losers Among S&P 500 Constituents and HFRI Equity Hedge (Total) Index Returns

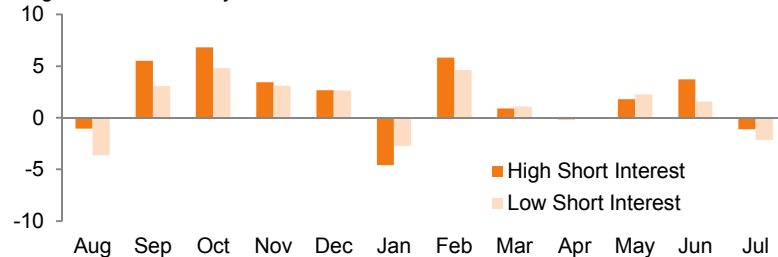
Third Quarter 2012 – Third Quarter 2014 (through July 31)

**FUNDAMENTALS: 63-Day Average Correlation of S&P 500 Stocks**

March 31, 2004 – July 31, 2014 • Percent (%)

**PERFORMANCE: Monthly Returns for 50 Most Shorted vs the 50 Least Shorted Stocks in the S&P 500**

August 31, 2013 – July 31, 2014



Manager selection remains critical

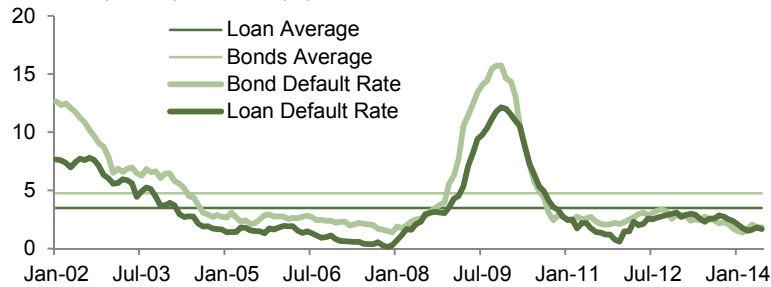
Managers with demonstrated skill in fundamental security analysis and a robust portfolio management process and risk controls have outperformed both hedge fund and major market indexes over time.

- ◆ Average correlations fell to their lowest levels since the financial crisis by mid-July before rebounding sharply in the last two weeks of the month. Despite the spike in late July, month-over-month levels still fell and remain well below the elevated levels last seen in 2011 and early 2012.
- ◆ As the S&P 500 Index continued making new highs into July, US equity implied volatility continued to trend lower before spiking at month-end. Volatility across asset classes (both equity and debt) remains low, at levels last seen during 2005–06, reflecting a perceived central banker “put,” but also highlighting the risks if unexpected developments during the second half of 2014 challenge the complacent consensus.
- ◆ 2014 has seen significant dispersion in returns among long/short equity managers. Managers that have concentrated their long positions in growth and small caps have largely experienced challenging performance, while those focused on value stocks have generally fared better. Short investing remains challenging as stocks have continued to rise and company take-out risk is elevated.
- ◆ Rising rates, fully value markets, and potential bumpiness in equity prices may present an environment of higher volatility and greater dispersion among price gainers and losers, thus providing a more favorable backdrop for long/short equity investing.

Distressed Investing

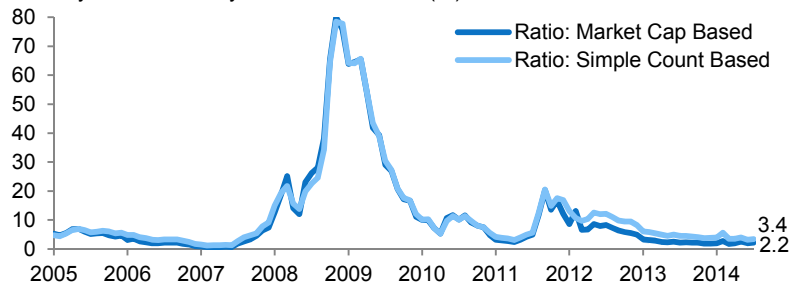
FUNDAMENTALS: US Default Rates

2002–14 (Jun 30) • Percent (%)



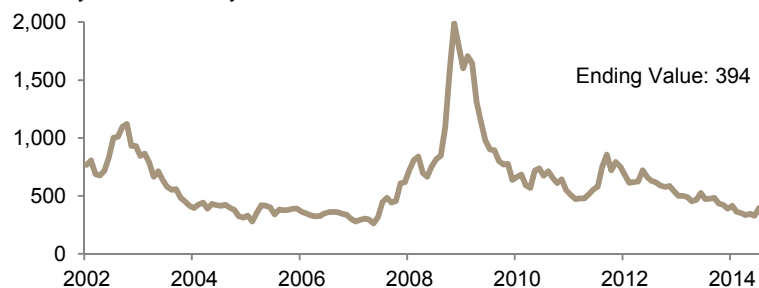
FUNDAMENTALS: BofA Merrill Lynch High Yield Master II Index Distressed Ratio

January 31, 2005 – July 31, 2014 • Percent (%)



RELATIVE VALUATION: High Yield Spread to Five-Year Treasury

January 31, 2002 – July 31, 2014 • Basis Points



The opportunity in large defaulted credit is limited. Managers appear to be selling into strength and holding cash. Middle-market distressed credit is most compelling, but investors must accept less liquidity. Corporate bond and loan maturities continue to be pushed out, leaving the next default cycle years away barring a major shock.

- ◇ Default rates remain low, but could increase if and when rates rise and/or liquidity dries up. Distressed credit managers have begun to see an increasing number of opportunities in Europe, although much of the activity is outside of the traditional corporate distressed space.
- ◇ Defaults remain very low thanks to the easy money environment that has allowed just about any company to roll over debt; one result of this is a sharply reduced opportunity set for distressed managers. As one observer recently noted, “There is nothing of interest going on.” This trend seems unlikely to change given the limited maturities in upcoming years.
- ◇ That said, high-yield bonds and leveraged loans continue to show signs of excess. It remains to be seen whether the recent high-yield sell-off is the start of something bigger; obviously a more pronounced downturn would increase opportunities in distressed.



The State Board of Administration of Florida
("SBAF")

Strategic Investments:
Real Estate Debt and Timber Report



Table of Contents

- Townsend Overview
- Market Overview
- Strategic Investments - Real Estate Debt and Timber Performance

Townsend Overview



The Townsend Group

CUSTOM REAL ASSET SOLUTIONS THAT HELP CLIENTS ACHIEVE THEIR UNIQUE INVESTMENT GOALS

Exclusive Focus on Global Real Assets

REAL ESTATE | INFRASTRUCTURE | TIMBERLAND | AGRICULTURE

30

YEARS OF EXPERIENCE

Global Investment Platform

CLEVELAND | SAN FRANCISCO | LONDON | HONG KONG

68 / 101

INVESTMENT PROFESSIONALS / TOTAL STAFF

Strategy Expertise and Execution

CORE | NON-CORE | GLOBAL | REGIONAL | SPECIALIZED

\$160.0 B¹

ADVISED ASSETS

\$11.4 B²

ASSETS UNDER MANAGEMENT

Scale and Scope Offers Client Advantage

INFORMATION | SOURCING | THOUGHT-LEADERSHIP

\$103 B

AGGREGATE CAPITAL COMMITTED OR INVESTED
SINCE 2004

¹As of December 31, 2013, Townsend provided advice and/or consulting services to clients who have real estate/real asset allocations of over \$160 billion ("advised assets"). Advised Assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio, as well as on a limited basis, certain project specific requirements.

²As of March 31, 2014, Townsend provided services on behalf of regulatory assets under management of approximately \$11,434,073,816. Townsend's regulatory assets under management consisted of \$9,253,175,841 in discretionary client assets and approximately \$2,180,897,975 in non-discretionary client assets where the client's contractual arrangement provides the client with the ability to opt out of or into particular transactions, or provides other ancillary control rights over investment decision-making (a/k/a "quasi-discretionary").

Townsend Global Investment Platform

A GLOBAL FOOTPRINT OF INVESTMENT SKILLS WITH REGIONAL AND SECTOR EXPERTISE

Cleveland | San Francisco | London | Hong Kong

REGIONAL EXPERTS

North America

Jay Long
John Schaefer
Scott Booth
Chris Lennon
Tony Pietro
Brian Woods
Giraud Payen
Zane Hemming
Mate Zuzic

Latin America

Mike Golubic
Jack Koch

Europe

Damien Smith
Kieran Farrelly
Vanessa Sloan
Nick Rush
Lu Liu

Asia

Nick Wong
Joseph Tang
Min Lim
Daniel Choi
Kelson Cheng
Hyun Tae Yim

SECTOR EXPERTS

Public Markets

Chris Lennon
Prashant Tewari
John Dingle

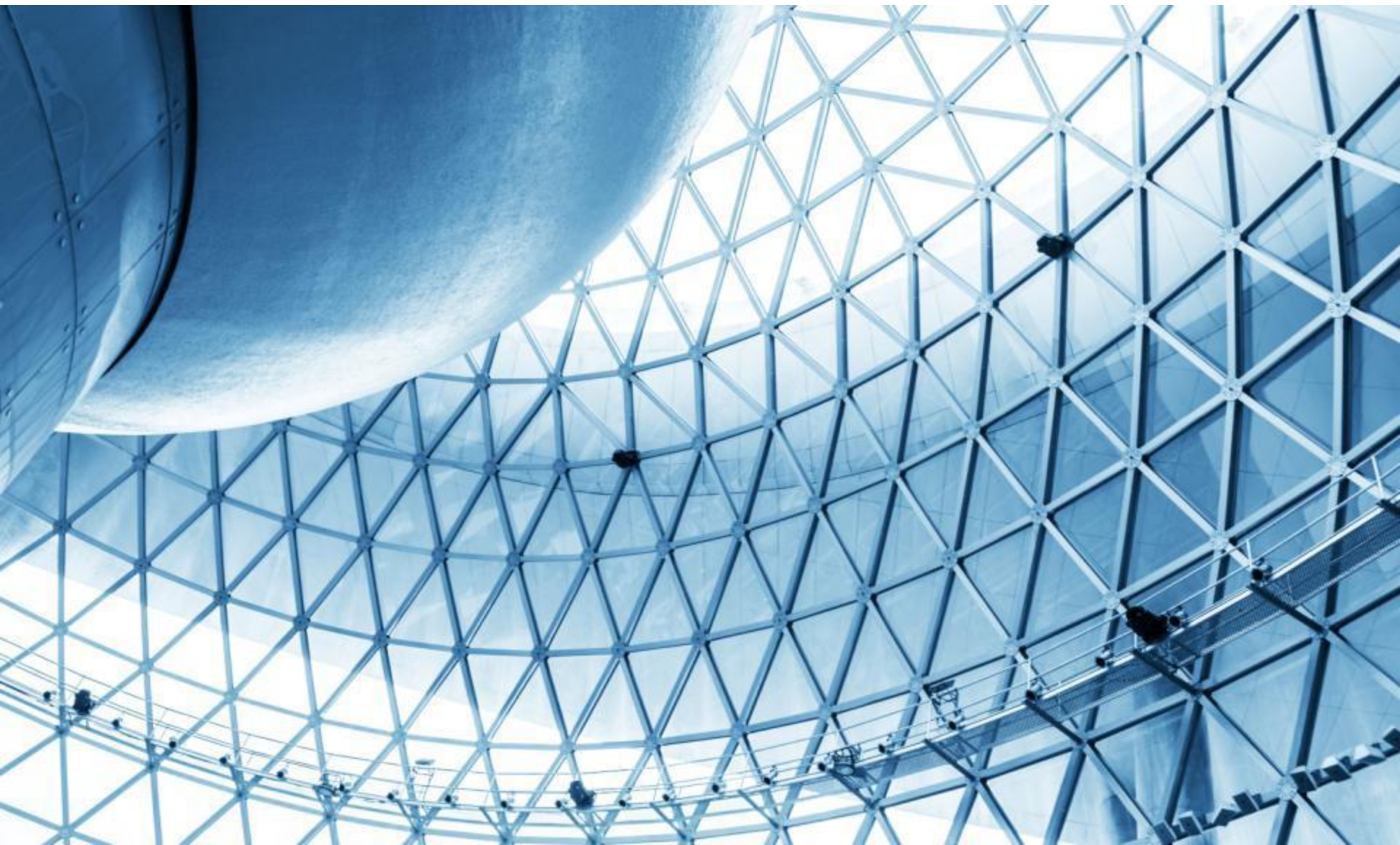
Special Situations Investing

Rob Davies John Kropke
Tim Neslen Zachary Segal
Rob Caravella Disheng Lin
Clark Seiling

Infrastructure, Agriculture & Timber

Patricia Rodrigues Mike Golubic
Kevin Rivchun Morgan Angus
Dick Brown Rob Kochis
Ishika Bansal Chris Cunningham

Market Overview



World Growth To Accelerate in 2014

UNITED STATES

Economic growth strengthened in Q4 2013 on the back of solid consumer and business spending and stronger exports. Growth is expected to accelerate and gain momentum in 2014.

EUROPE

Eurozone economic growth bottomed in 2nd half 2013, with Spain and Portugal performing better than expected. Recent economic data suggests Europe is on track for a gradual recovery. Real GDP growth is expected to average near 1.4% in 2014.

ASIA

Abenomics has been supportive of Japanese growth as the economy is recovering for the first time in six years. By sharply weakening the yen, Abenomics has been positive for exporters.

EMERGING MARKETS

Concerns growing regarding Emerging Markets due to weak PMI and GDP growth rates in China. India and Brazil are dealing with very high inflation rates. Thailand, Egypt, and Ukraine are witnessing social unrest. Emerging Market economic growth expected to downshift slightly in 2014.



Global Economic Outlook and Real Estate Investment Opportunities

	 UNITED STATES GROWTH & RECOVERY	   EUROPE STRESS & DEEP VALUE	 CHINA URBANIZATION	 JAPAN UPGRADE EXISTING STOCK
MACRO FACTORS GDP ('14) UNEMPLOYMENT ('14)	2.8% 6.6%	1.4% (UK 2.6%, GR 1.7%, FR 0.8%) 10.4% (UK 7.1%, GR 6.8%, FR 10.9%)	7.5% 4.1%	1.6% 3.8%
KEY REAL ESTATE THEMES	Core cap rates low, but justified relative to interest rates and offer good rent growth Value Added mispriced	Improving fundamentals as Europe emerges from recession Stressed loan positions finally being worked out	Urbanization trend requiring real estate development	Unfavorable demographic trend limiting rent growth Existing stock old & inefficient
OFFICE	CBD values up, but sustained rent growth offers reliable returns Select suburban offers good value from cash yields and lease-up	CBD values are up, but rents generally at cyclical lows Rental growth will vary market-to-market requiring disciplined buying	Overbuilding in a few locations Limited opportunity for distress level buy	Limited demand, but some stock is old and could be repositioned
INDUSTRIAL	Economic recovery driving demand leading to gradual rent and occupancy growth	Expected economic recovery will drive demand and current valuation offer attractive cash yield	Strong demand for high quality modern industrial properties supported by favorable government policy	Strong demand for modern logistics assets driven by 3PLs
RETAIL	Class A properties highly desirable by retailers Select B grade offers repositioning potential	Class A properties highly desirable by retailers Strong retailer demand for luxury and also discount retail	Retailers continue to expand with momentum growing in non-Core Tier I and Tier II-III cities	Limited demand due to declining demographic trend
RESIDENTIAL	Apartments have seen good rent growth and value appreciation Apartment supply building-up	Market remains generally undersupplied and fragmented, but limited opportunity to invest	Very strong demand, but limited good local partners and continued government interventions	Demand for aged care for growing number of seniors but limited good local partners

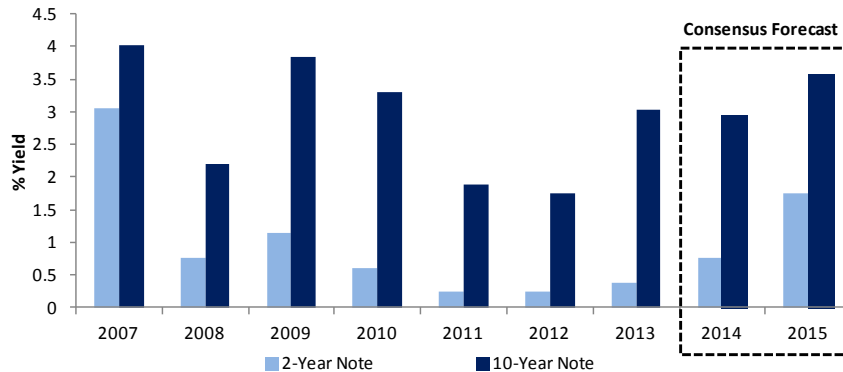
Source: The Townsend Group, Consensus Estimates- Bloomberg (January 2014)



Real Estate Credit Market Update

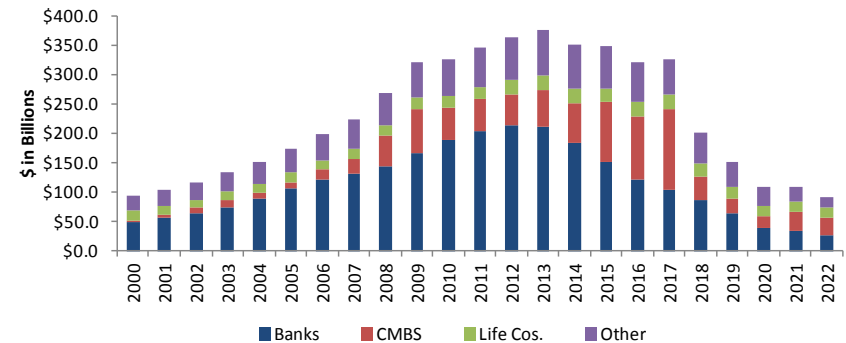
- Real Estate credit strategies remain attractive in today's marketplace. Strategy returns range from 6% - 20% gross.
- The global deleveraging cycle has not yet come to a close with significant debt maturing over the next five years.
- Given where we are in the cycle today, Townsend has looked at debt strategies with equity kickers to enhance returns.

Historical and Projected Debt Yields



Source: Bloomberg

US Commercial Real Estate Mortgage Maturities

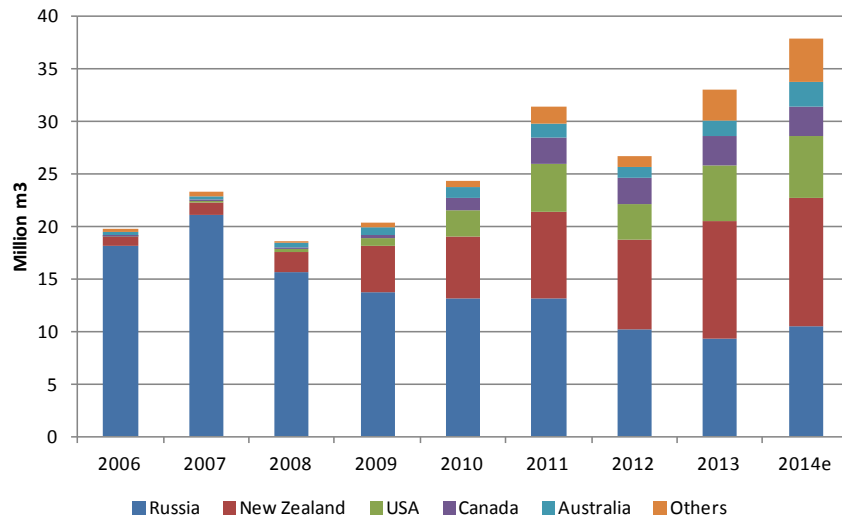


Source: Trepp

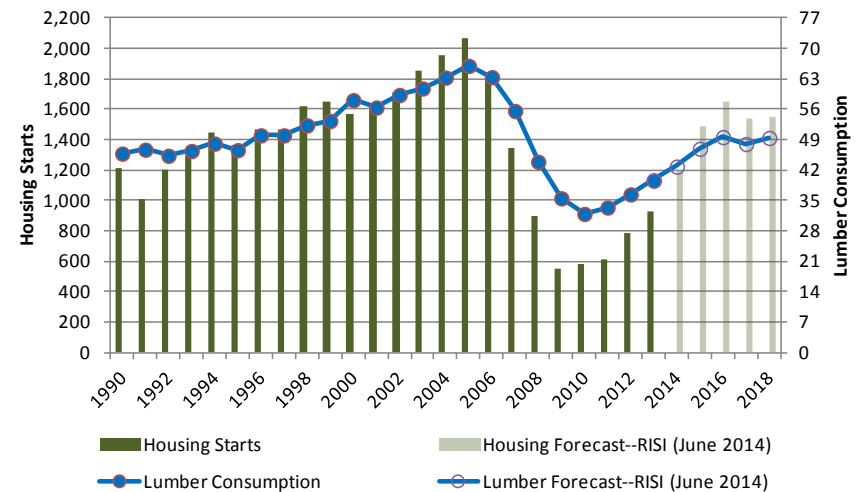
Timberland Market Update

- The U.S. housing market coupled with Chinese demand for wood and wood products continue to drive the timber recovery story in the U.S. and globally.
- Chinese imports of lumber and logs reached peak volumes in 2013, although analysts expect demand to soften as China reigns in its explosive growth of the past decade.
 - While growth will moderate, demand will continue to be strong from China due to sheer size and scale of wood demand, bolstering the U.S. Northwest and Pacific Rim region.
 - Russia continues to lose export market share to the U.S. and New Zealand.
- The U.S. housing recovery continues at a modest pace during the first quarter of 2014 with SAAR housing starts down 4% from 1Q13.

Softwood Log Imports into China

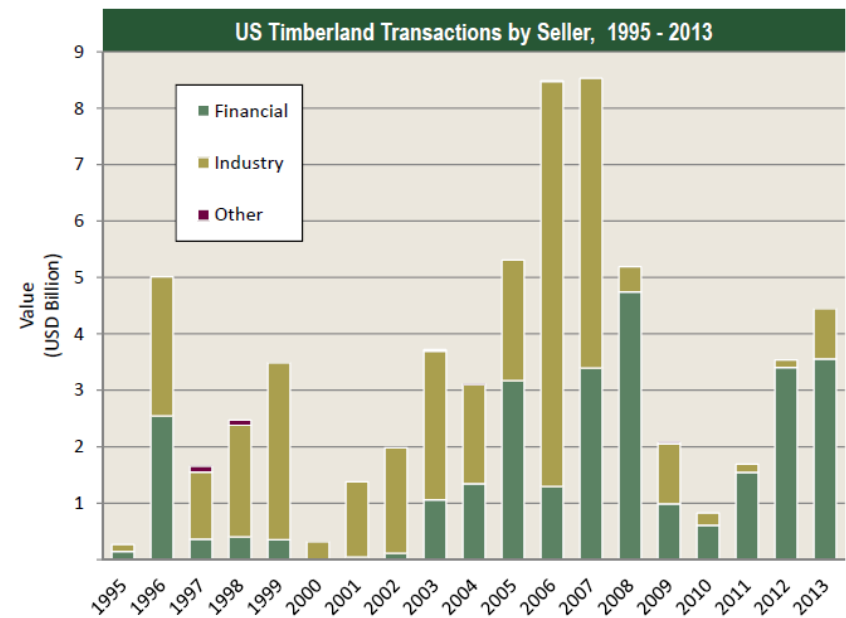
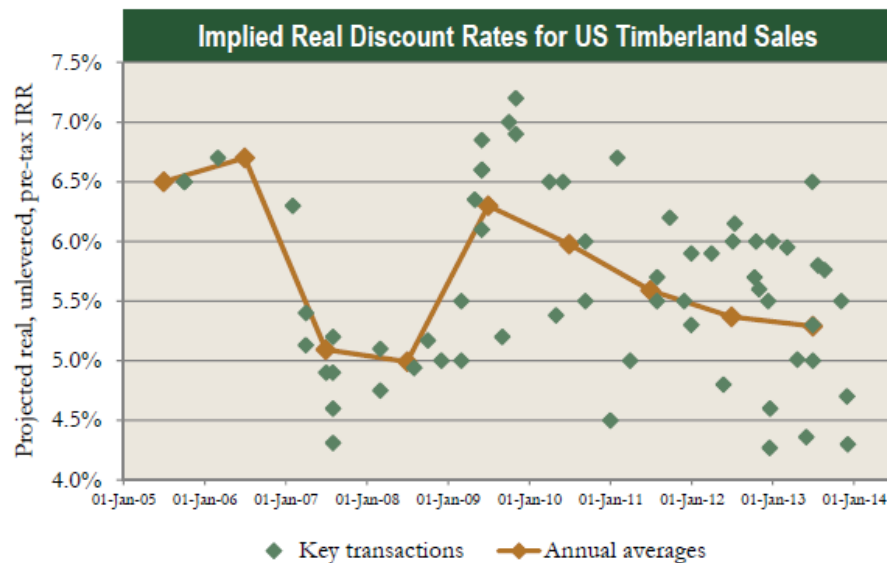


Annual US Housing Starts (1000 units) and Softwood Lumber Consumption (BBF)



Timberland Market Update

- U.S. discount rates continue to compress to levels below 6% real as capital continues to shift into timberland markets.
- Financial investors remain the dominant buyer in the U.S.
- Total transactions in 2013 remain at approximately 50% of peak levels in 2006-2007.



Strategic Investments: Real Estate Credit and Timber Performance



Strategic Investments Portfolio Highlights and Significant Events

Portfolio Highlights

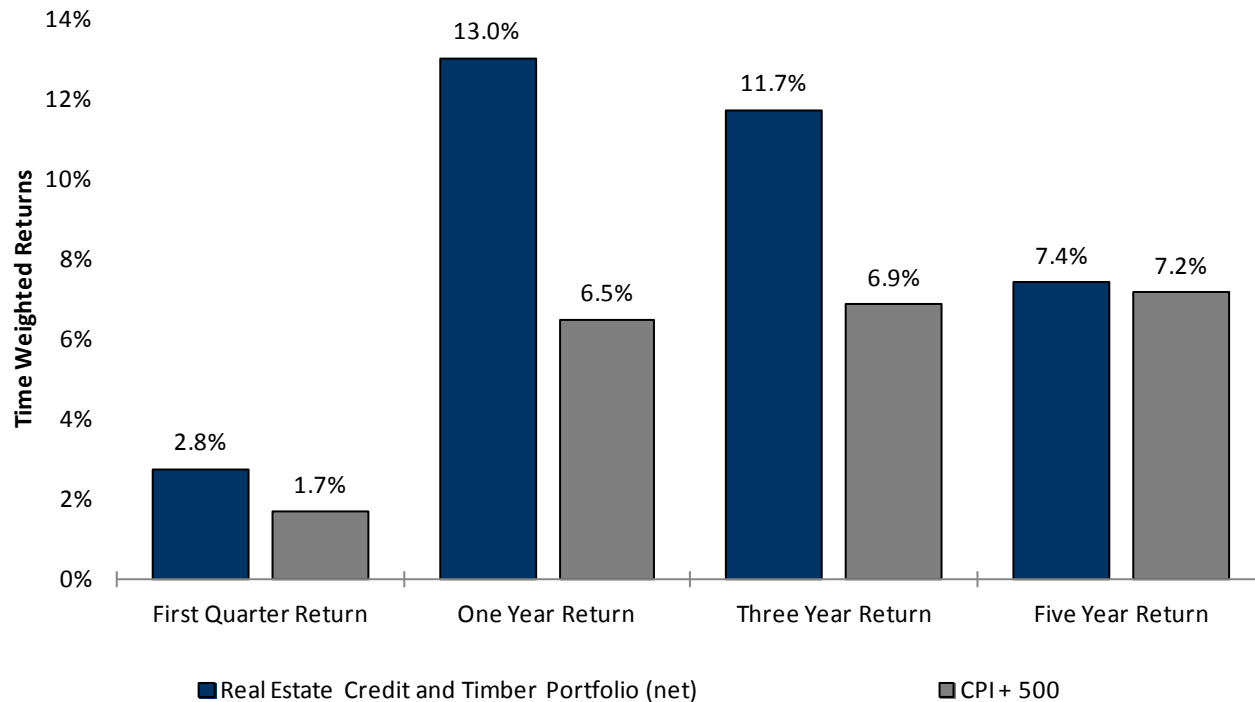
- SBAF initiated an allocation to Strategic Investments in June 2007.
- Townsend supports SBAF's initiatives in Real Estate Credit and Timber within the Strategic Investments portfolio.
- As of 2Q14, the Credit and Timber portfolio consists of 12 Real Estate Credit investments and two Timber investments totaling approximately \$2.4 billion of commitments and a market value of \$1.2 billion. Since the inception of the portfolio, investments have returned approximately \$772 million of capital to SBAF.
- The combined Real Estate Credit and Timber portfolio has exceeded the CPI + 500 bps benchmark over the quarter, one, three, and five-year periods.

Significant Events

- Throughout 2013 and year-to-date 2014, SBAF made five new Real Estate Credit commitments totaling \$650 million. Investment strategies include:
 - Distressed residential debt,
 - Loan-to-own commercial real estate,
 - Distressed commercial real estate debt in the U.S. and Europe,
 - Hold and manage mezzanine debt and preferred equity investments backed by commercial real estate, and
 - Origination and acquisition of commercial real estate debt with a focus on distress.
- Currently, SBAF is considering a follow-on commitment to a distressed residential credit fund.

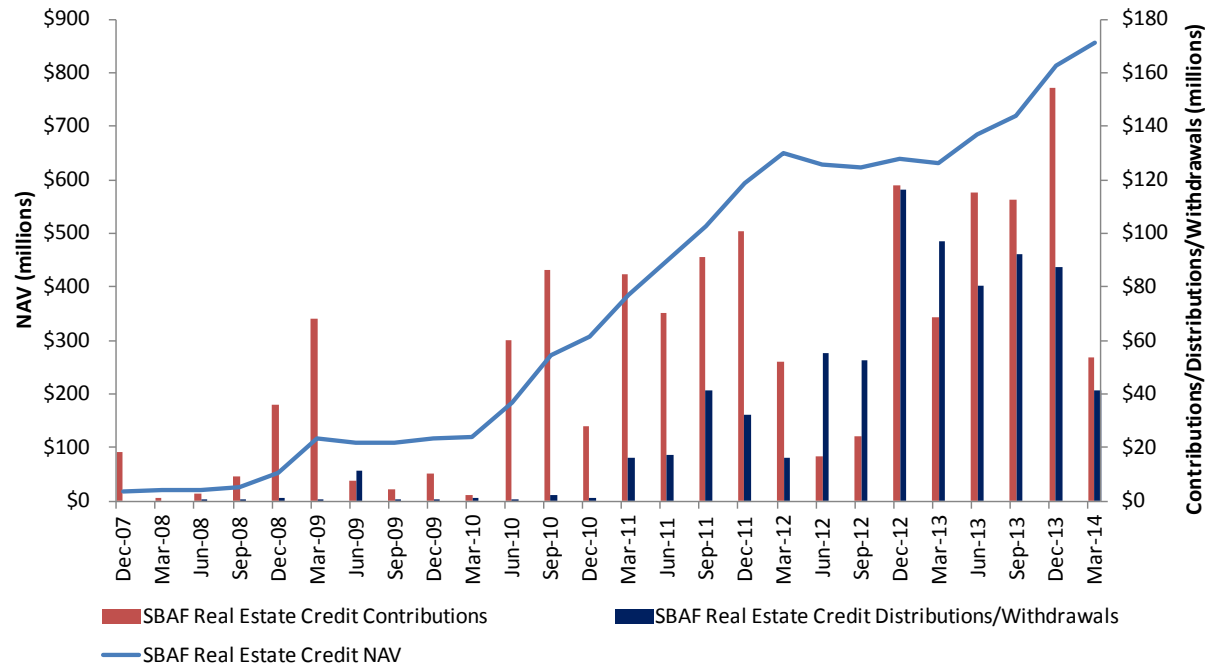
Strategic Investments Portfolio Performance

- Real Estate Credit and Timber investments represented approximately 15% of the Strategic Investments Portfolio as of 2Q14.
- The portfolio outperforms the CPI + 500 bps benchmark as shown below. Additionally, the portfolio has provided strong income returns over the measured periods.
- While the Real Estate Credit and Timber investments portfolio is relatively new; taking into account all investments, the combined net IRR since inception is 9.4%.



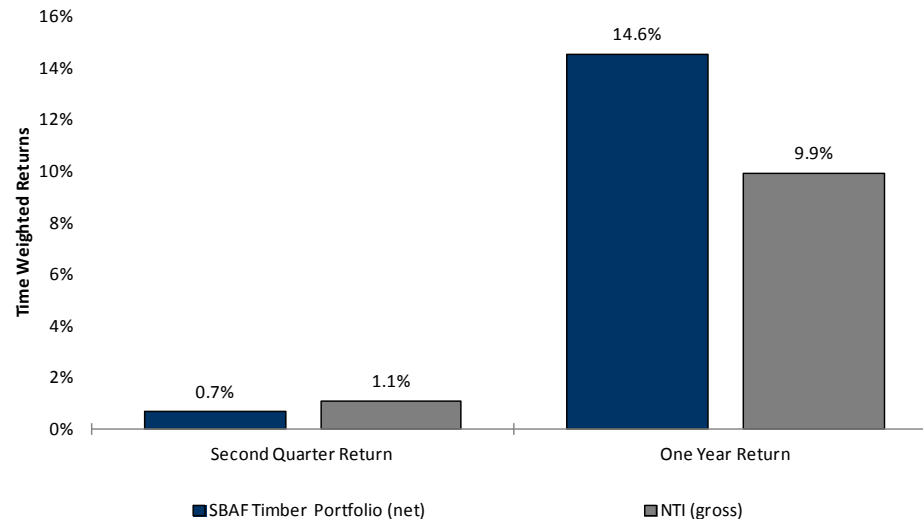
Real Estate Credit Portfolio Performance

- Real Estate Credit investments target opportunities throughout the capital stack and across property types as well as regions. SBAF has committed approximately \$1.8 billion to eight credit focused managers across 11 funds and one separate account.
- Performance for Real Estate Credit investments has been strong, producing a 12.5%, 12.1% and 7.7% total net return for the one, three, and five-year periods, respectively, with income exceeding 8% over each period.
- Starting in 2008, the portfolio has invested across six vintage years. The portfolio is seeing realizations and distributions from early commitments.

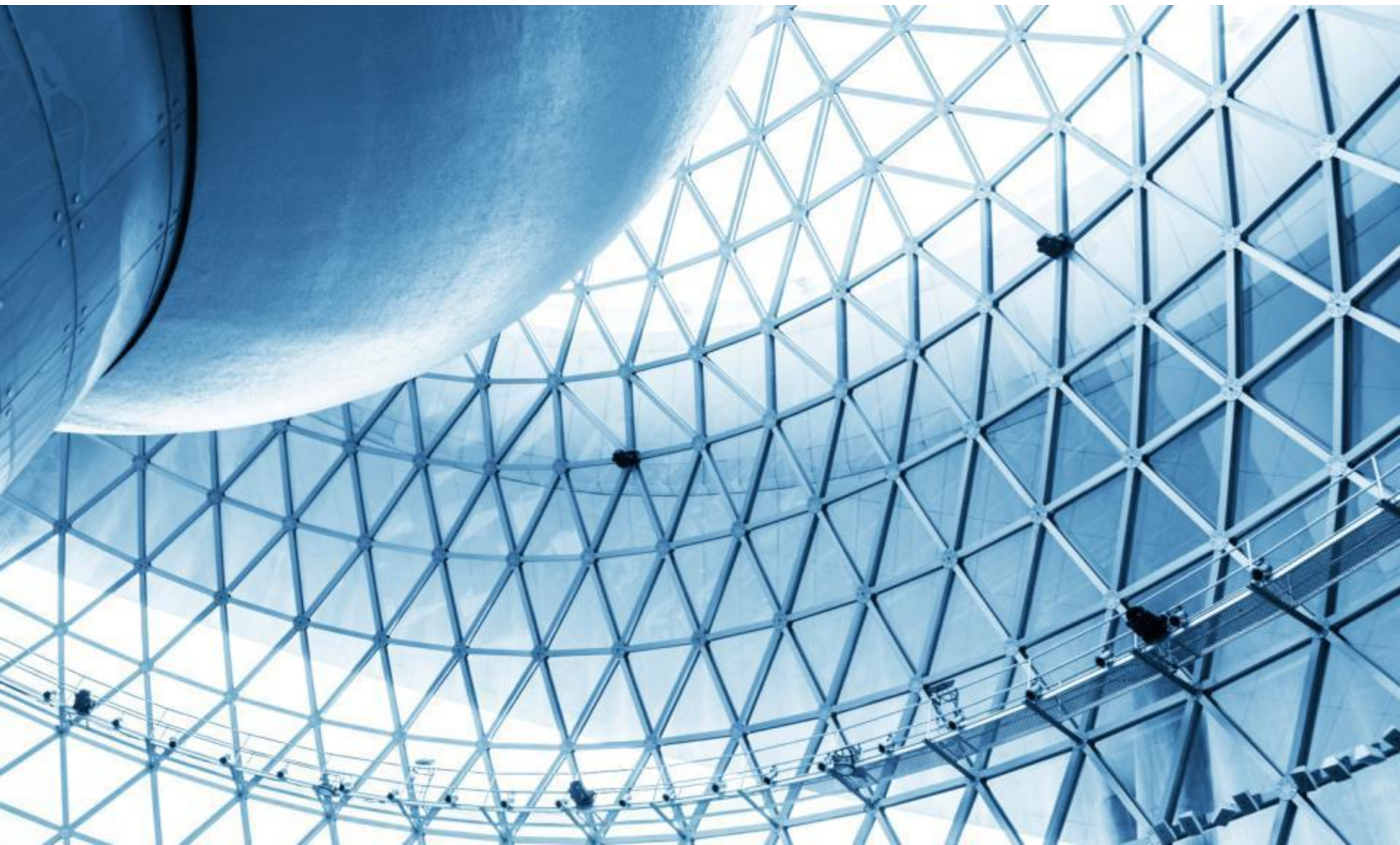


Timber Portfolio Performance

- The Timber program will invest exclusively in the private markets with a focus on direct owned properties through Separate Accounts. The Timber Portfolio currently consists of two separate accounts totaling \$500 million of commitments made in 2012 with approximately half of the capital committed.
- Strategies include both a domestic and international focus with current exposure to both the Northwest and South Regions as well as Chile. The existing portfolio is further diversified by age class and species.
- The two separate accounts appraise their portfolios on an annual basis occurring in December and June, respectively.
 - Appraisals completed in December 2013 recorded appreciation of approximately 15.9%.
 - Subsequent to quarter end, the June 2014 appraisal was completed and recorded appreciation of approximately 11.0%.
- Though the portfolio has a limited history, it outperforms the NCREIF Timberland Index by 470 basis points over the one-year period and has a since inception Net IRR of 10.1%. Over the last five quarters, the portfolio is providing an average annual distribution yield of approximately 3.0%.



Disclosures



Disclosures

This presentation (the "Presentation") is being furnished on a confidential basis to a limited number of sophisticated individuals meeting the definition of a Qualified Purchaser under the Investment Advisors Act of 1940 for informational and discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security.

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Statements contained in this Presentation that are not historical facts and are based on current expectations, estimates, projections, opinions and beliefs of the general partner of the Fund and upon materials provided by underlying investment funds, which are not independently verified by the general partner. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Additionally, this Presentation contains "forward-looking statements." Actual events or results or the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements.

Material market or economic conditions may have had an effect on the results portrayed.

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There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results.

Disclosures and Definitions

ADVISED ASSETS

- Advised assets include relationships where Townsend provides services such as portfolio strategy development and underwriting advice, or where the services may be limited to performance reporting or certain project specific mandates. Townsend does not have discretion over advised assets. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Assets under advisement are calculated on an annual basis.

REGULATORY ASSETS UNDER MANAGEMENT

- The SEC has adopted a uniform method for advisers to calculate assets under management for regulatory purposes which it refers to as an adviser's "regulatory assets under management". In calculating regulatory assets under management Townsend relies on third parties to provide asset valuations, which may take longer than 90 days after the quarter-end to provide. Therefore, regulatory assets under management have been calculated using March 31, 2014 figures where available but may also include March 31, 2014 figures. Regulatory assets under management are calculated quarterly.

State Board of Administration

Global Equity Update

Scott Seery, SIO Global Equity

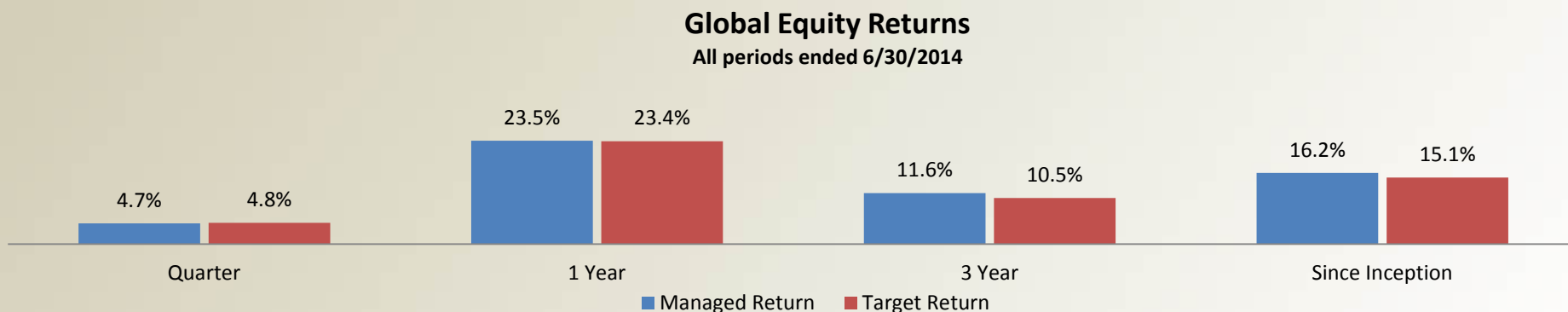
Investment Advisory Council

September 22, 2014



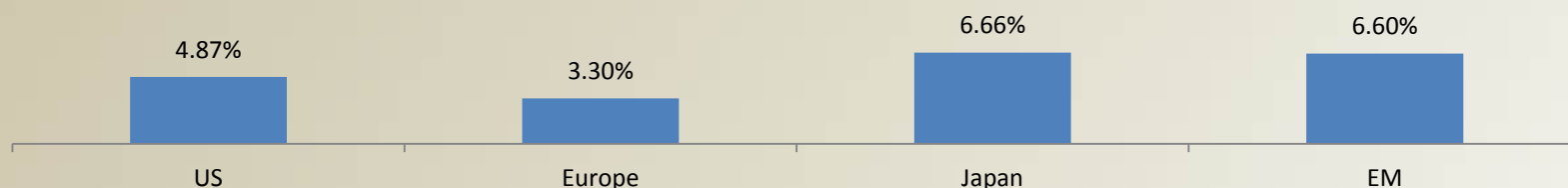
Key Themes

- Equity markets continued upward trend.
- Positive market returns in Q1 and Q2 masked major market shifts from risk on/risk off and value/growth. Such markets are challenging for active management.
- Through balanced allocation across passive strategies and a diversified group of active strategies, Global Equity remains ahead of benchmark on 1 year, 3 year and since inception basis.
 - Global Equity marginally lagged target index return during Q2.
 - For trailing year, U.S. active and passive aggregates provided positive excess returns, mitigating marginal underperformance from active non-US and Global investments.
- Team remains focused on effective internal management, identifying unique alpha opportunities, and delivering best execution.



Market Environment and Outlook

2Q Market Returns¹



<u>Region</u>	<u>Review of 2Q</u>	<u>Outlook</u>
Global	Global markets up sharply on steady economic growth, accommodative monetary policy, and low inflation.	Economic growth is improving and corporate profits remain robust, yet geopolitical risk remains.
US	U.S. reached new highs, bolstered both by cyclical and yield driven sectors.	Market valuation broadly at higher end of historical range, but stock specific opportunity persists.
Europe	Europe received another boost from the ECB.	Non-U.S. developed markets varied on stage of recovery. Valuations reasonable in many markets.
Japan	Japan rebounded as fears of consumption tax abated.	Next stage of economic and corporate reform is underway, but may face challenges.
EM	Emerging Markets saw best gains in six quarters.	Emerging Markets have stabilized, though China is a wildcard.

¹US returns are Russell 3000 and ex US returns are MSCI.

Delivering on Objectives

Provide Asset Growth and Liquidity

- 2014 FY End assets up \$20.5bn since 2012, while asset class provided \$10.2bn in liquidity.

AUM Growth and Liquidity Draws (\$bn)



Generate Alpha Where Risk is Rewarded

- Beat 3-year target return with strong relative performance from U.S. and non-U.S. active aggregates and consistent results from passive.

3 Year - Risk and Return



Global Equity Initiatives

Goal	Initiative	Status
Alpha Generation	Active currency overlay	Initial phase of funding completed
	US Microcap	Funded
	China A Shares	To be funded by year end
	Emerging Markets	Targeted search initiated
Best Execution	Augment trading cost analysis	Completed search; selected equity and FX TCA provider
	Internal Global Passive Portfolio	Continues to meet objectives
	Prime Brokerage	Discussions in progress
Provide Liquidity	Support payments and funding private asset classes	Raised \$6.4bn in FY2014

State Board of Administration

Fixed Income Update

Katy Wojciechowski, SIO Fixed Income

Investment Advisory Council

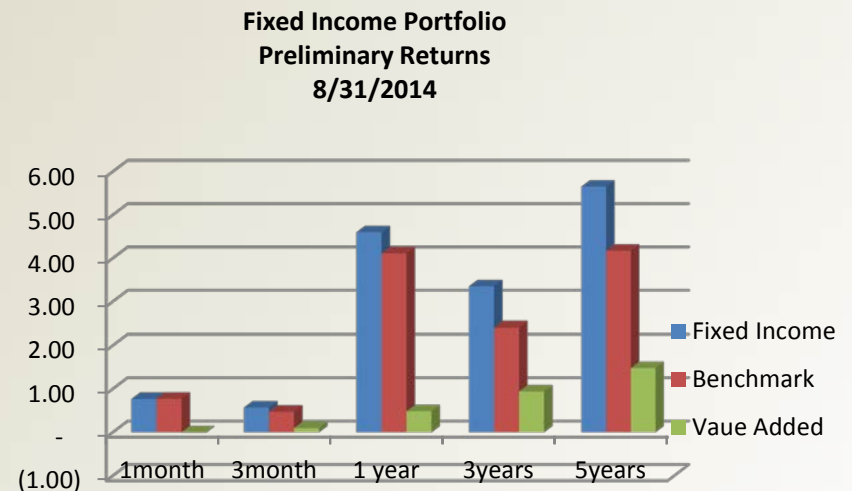
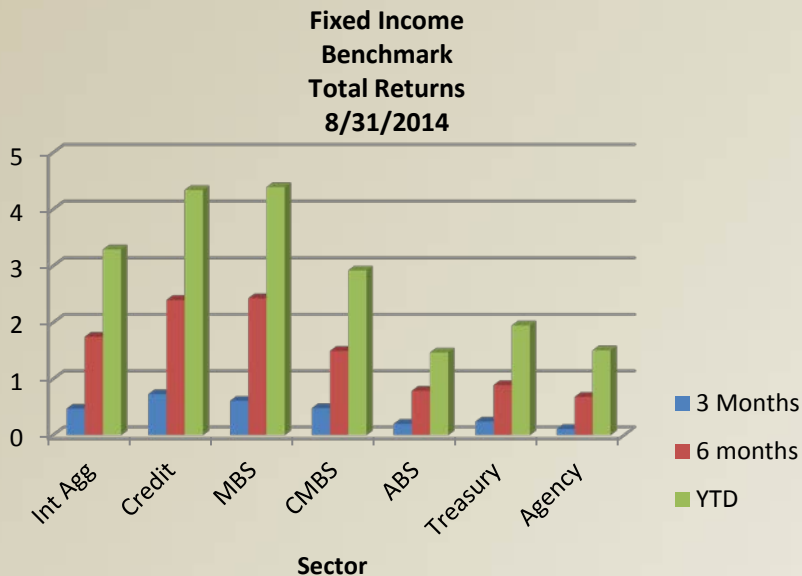
September 22, 2014



Fixed Income Review and Outlook

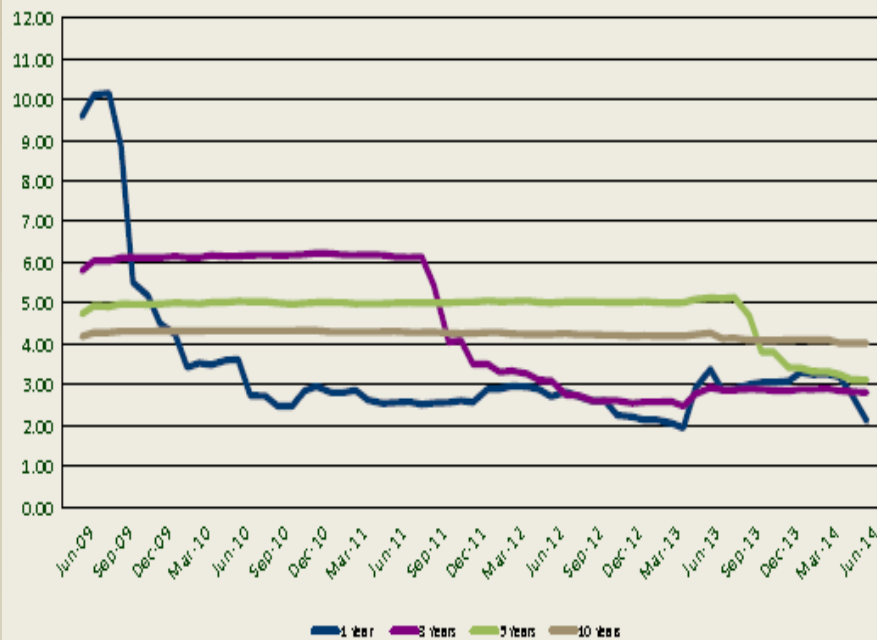
September 2014

- Returns for the Fixed Income benchmark – Barclays Intermediate Aggregate through 8/31/12 were 3.29%.
 - Returns were driven both by a drop in interest rates and spreads tightening.
 - Performance was strong across all sectors within the fixed income universe – spread sectors driven by demand for yield in a low volatility environment

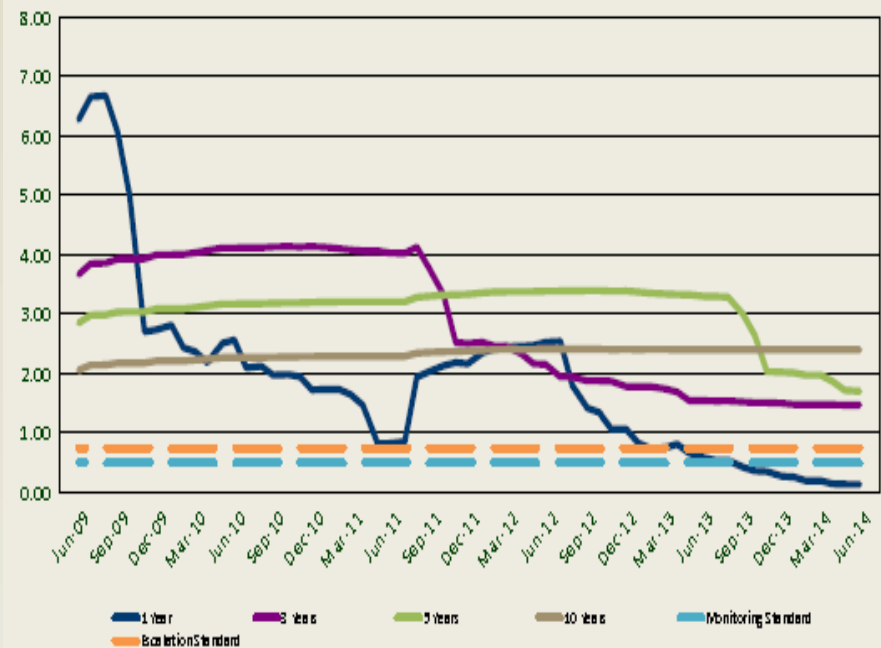


Fixed Income Review and Outlook September 2014

Annualized Total Risk

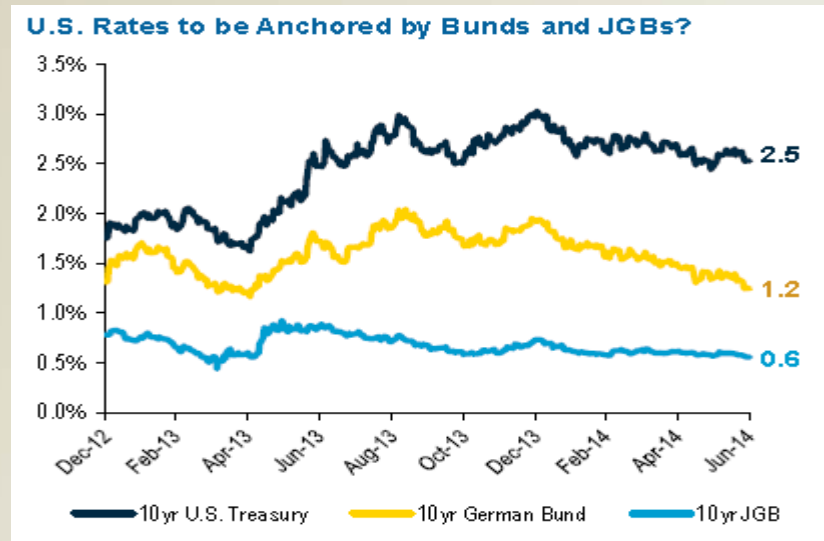


Annualized Active Risk



Fixed Income Review and Outlook September 2014

- Global rates are putting downward pressure on US rates.. The economic recovery in the Eurozone is arguably five years behind the US. Similarly, Japanese rates appear likely to remain low with QQE.
- The prospects for US growth over the next three to five years continue to encompass a wider range of optimistic outcomes than that for other major economies. However, growth for all economies will likely be lower than pre-crisis trend.



Fixed Income Review and Outlook September 2014

Security selection has become more important as spreads have tightened back to pre-crisis levels and below

Our overall risk levels are relatively low—we seek to add alpha tactically within sectors



State Board of Administration

Real Estate Update

Steve Spook, SIO Real Estate

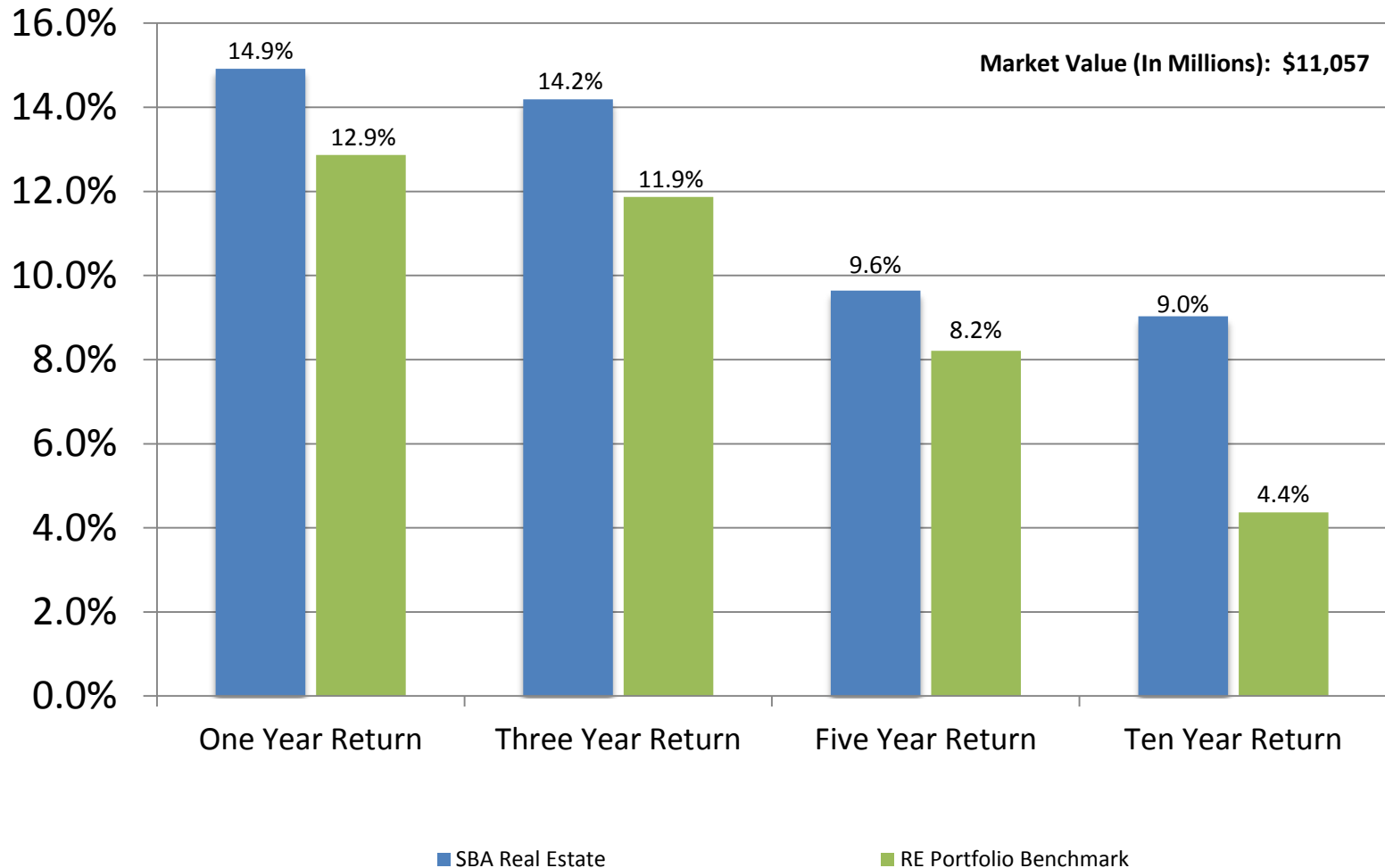
Investment Advisory Council

September 22, 2014



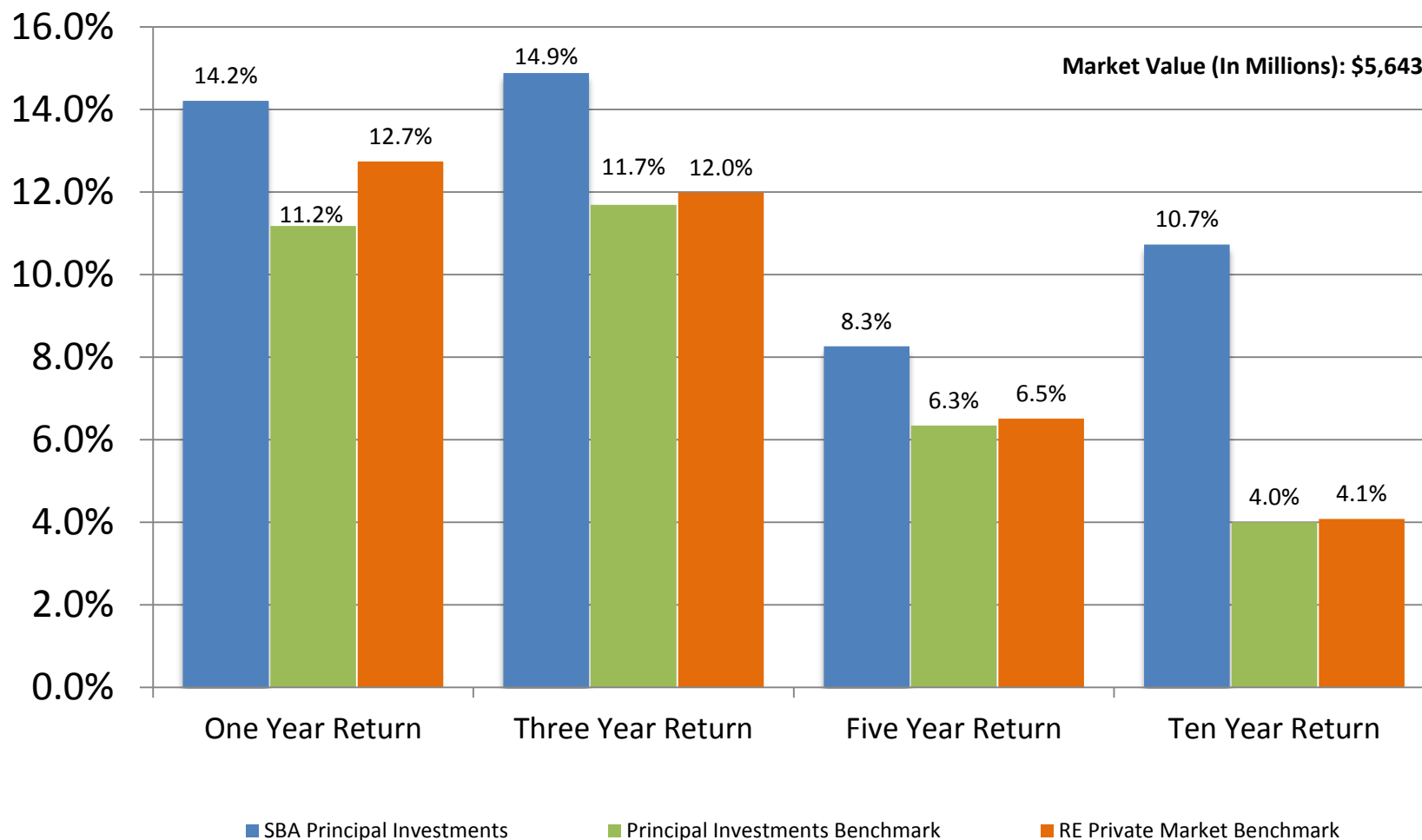
Total Real Estate Portfolio Performance

Data through June 30, 2014



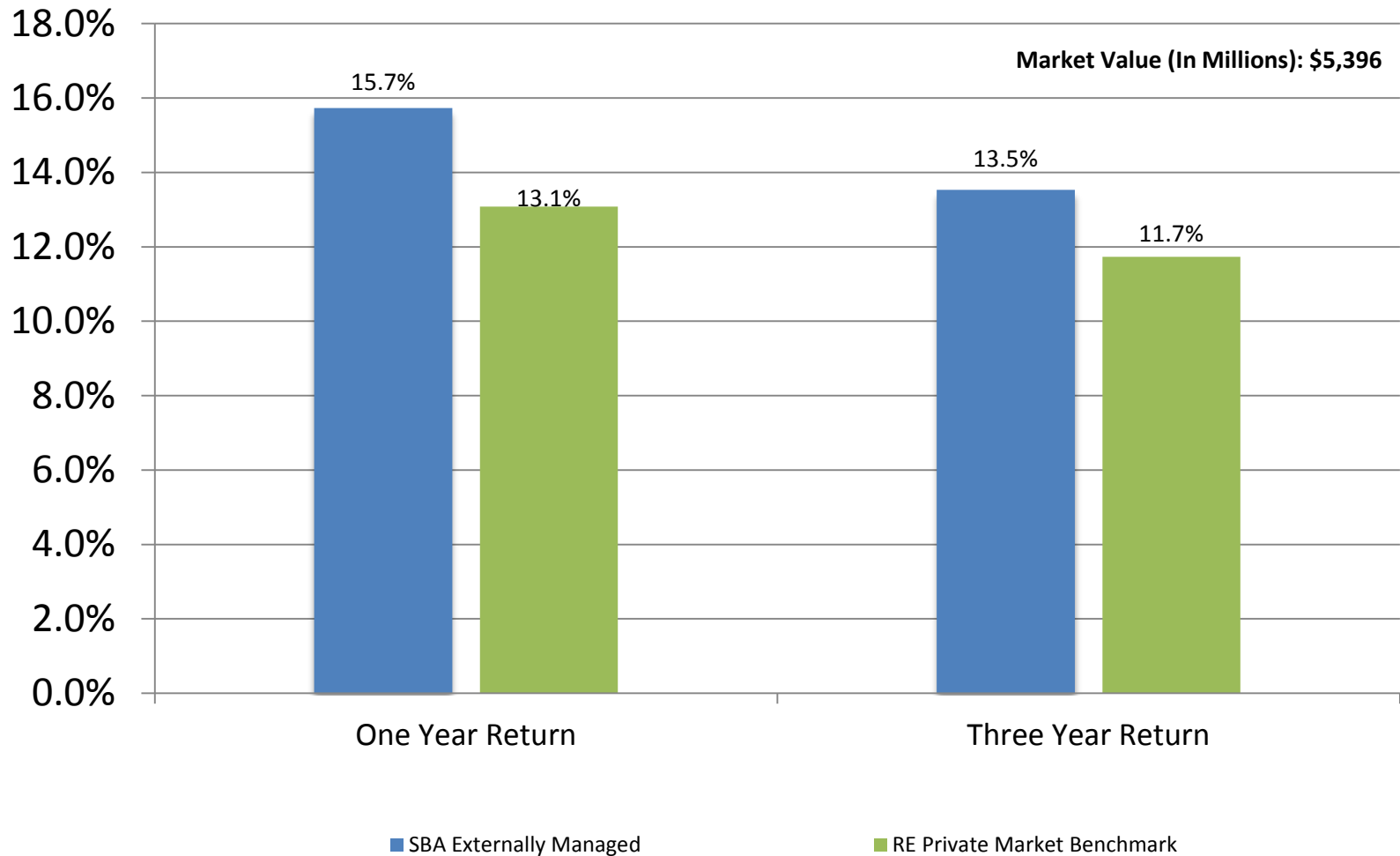
Principal Investments Performance

Data through June 30, 2014



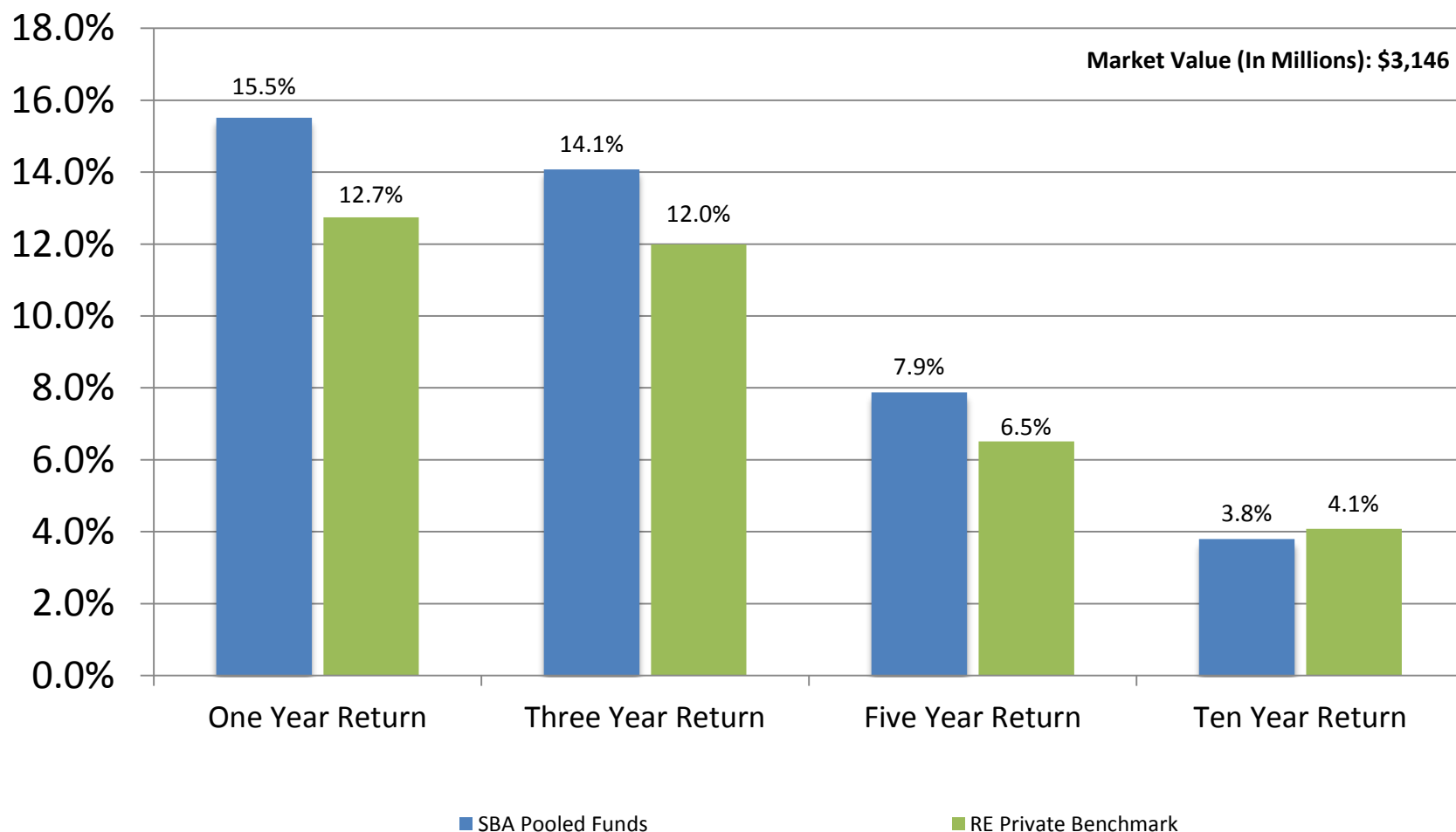
Externally Managed Portfolio Performance

Data through June 30, 2014



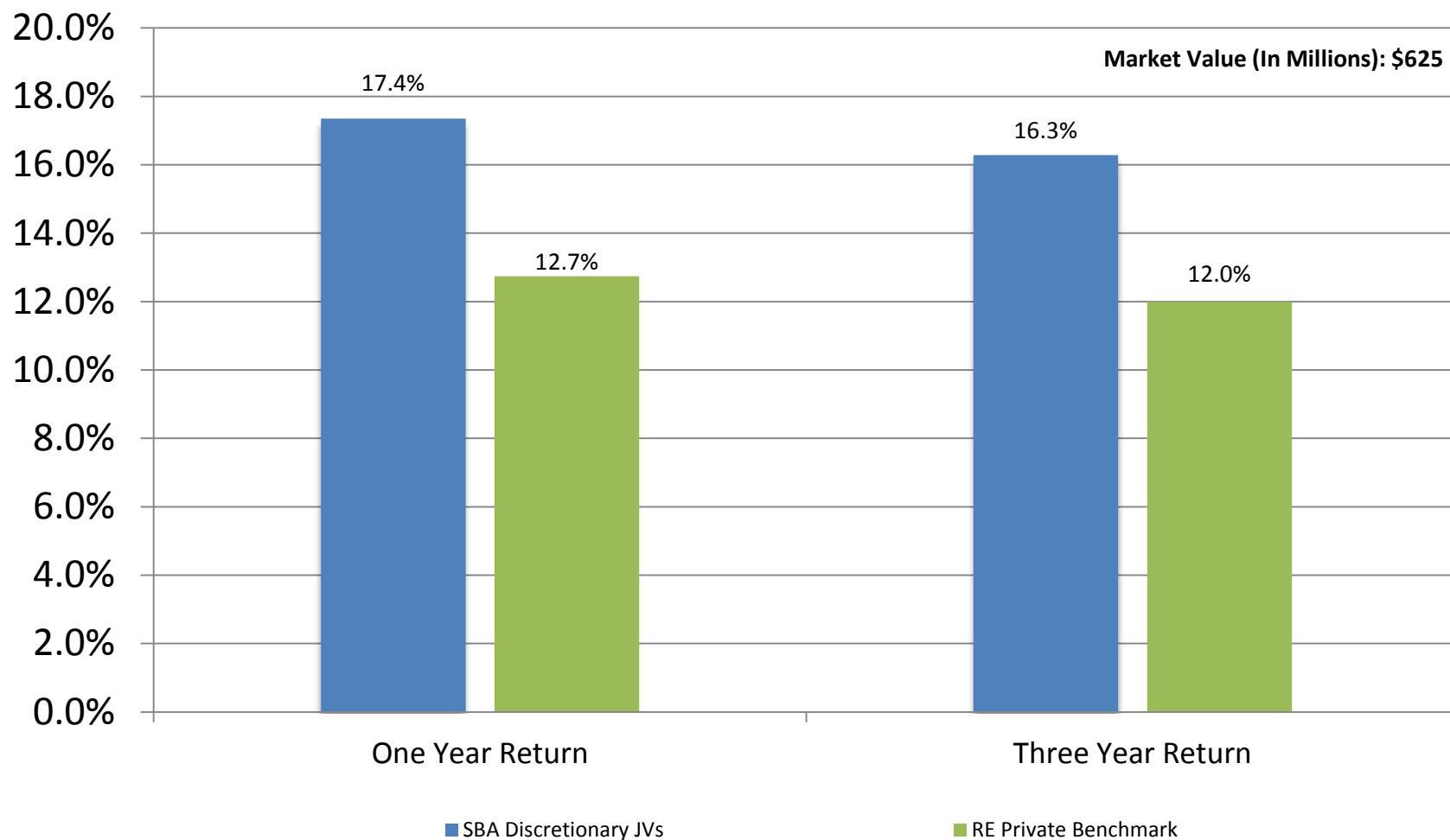
Externally Managed Sub-Portfolio Performance Pooled Funds

Data through June 30, 2014



Externally Managed Sub-Portfolio Performance Discretionary Joint Ventures

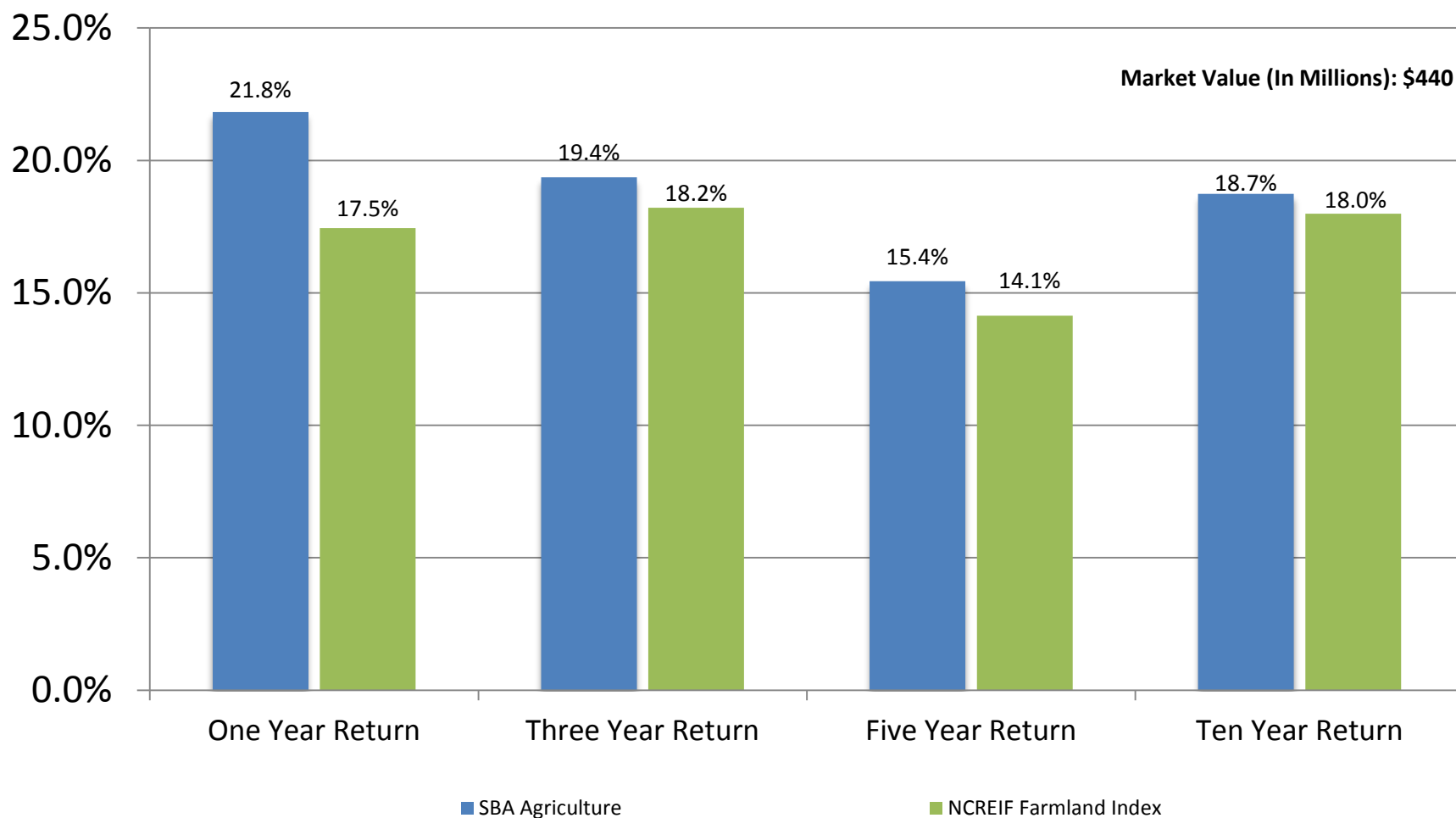
Data through June 30, 2014



Externally Managed Sub-Portfolio Performance

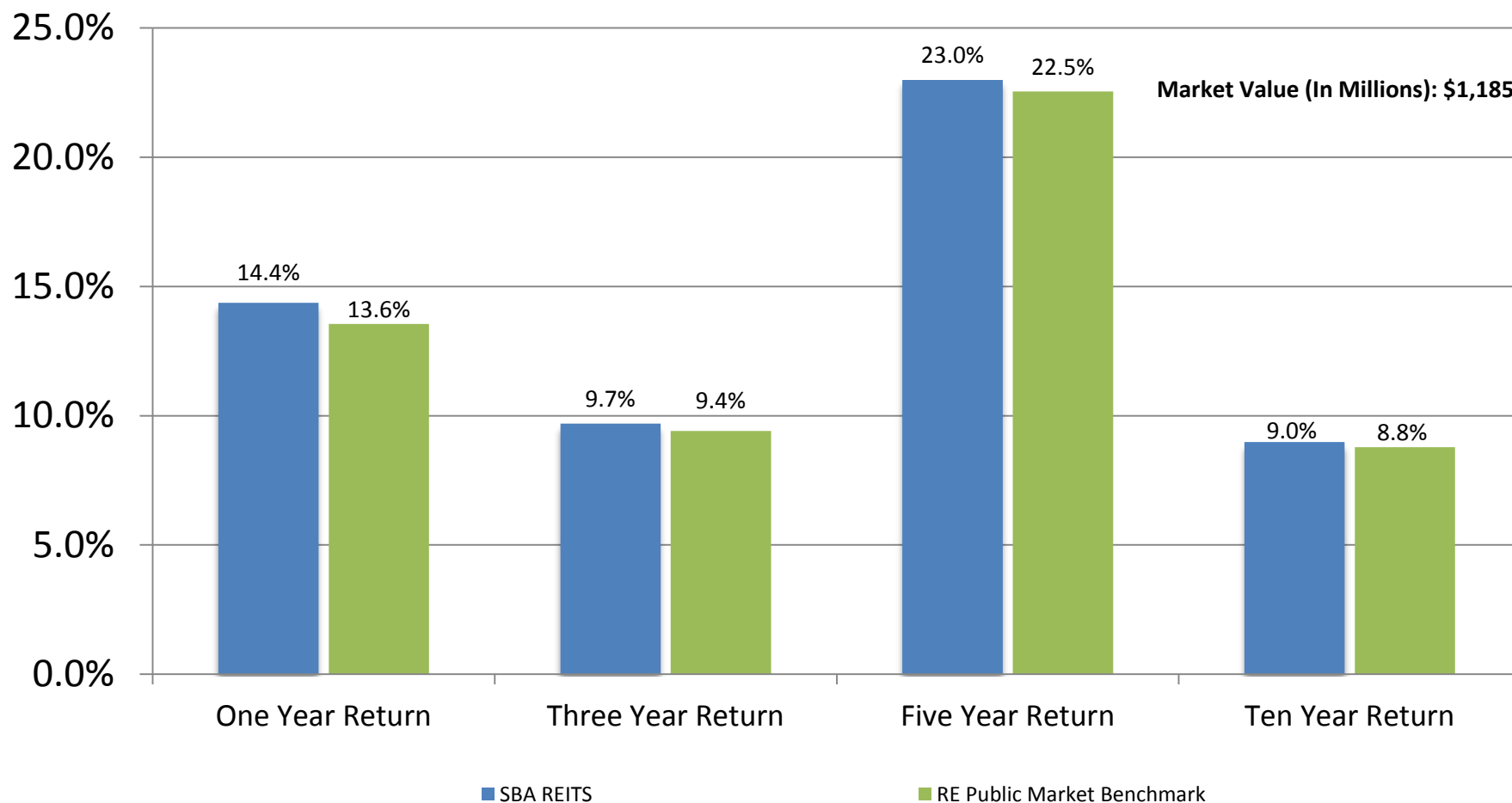
Agriculture

Data through June 30, 2014



Externally Managed Sub-Portfolio Performance REITS

Data through June 30, 2014



2014 – 2015 Real Estate Work Plan

- Continue investment pace to achieve 10% target allocation (currently 7.5%).
- Target \$500M Core investments and \$400M Non-Core investments.
- Convert completed/stabilized developments to Core.
- Target attractive development opportunities for “Build-to-Core” program.
- Continue to identify international pooled fund opportunities.
- Recruit new Portfolio Manager.

Recent Activity

Direct Owned:

Acquisitions

- Multifamily \$93.5 million
- Retail \$7.5 million

Dispositions

- Office (2) \$202 million
- Retail JV Portfolio \$120 million
- Preferred Equity Payoff \$52 million

Commingled Funds:

Commitments

- Industrial Commingled Fund \$100 million
- Pan European Commingled Fund \$50 million

U.S. Real Estate Markets

- US property markets continue to recover. NOI grew 5.4% in year ending 6/30/2014. Vacancy rates range between 150 and 470 basis points below 2010-2011 peaks. Supply is increasing, but remains below its historical average across most property types.
- Real estate capital markets and prices have not moved ahead of market fundamentals, but continued vigilance is warranted.
- Continued divide in real estate performance largely driven by the rise in urbanization. A large divide in the labor market between high-and-low knowledge jobs has also created a split in the performance of real estate markets.

State Board of Administration

Private Equity Asset Class Update

John Bradley, SIO Strategic Investments & Private Equity

Investment Advisory Council

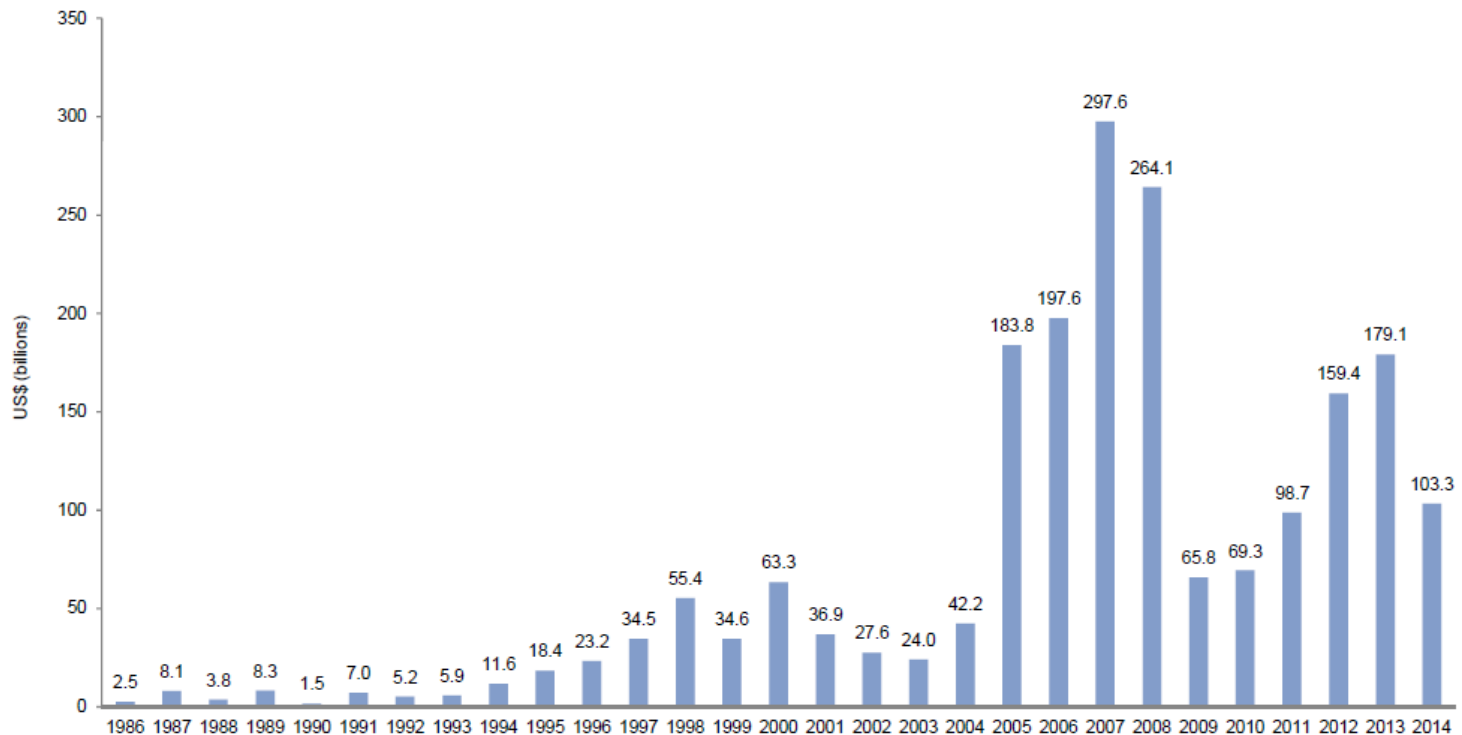
September 22, 2014



Private Equity Market Environment

Capital Commitments to US Leveraged Buyout Funds

1986–2014



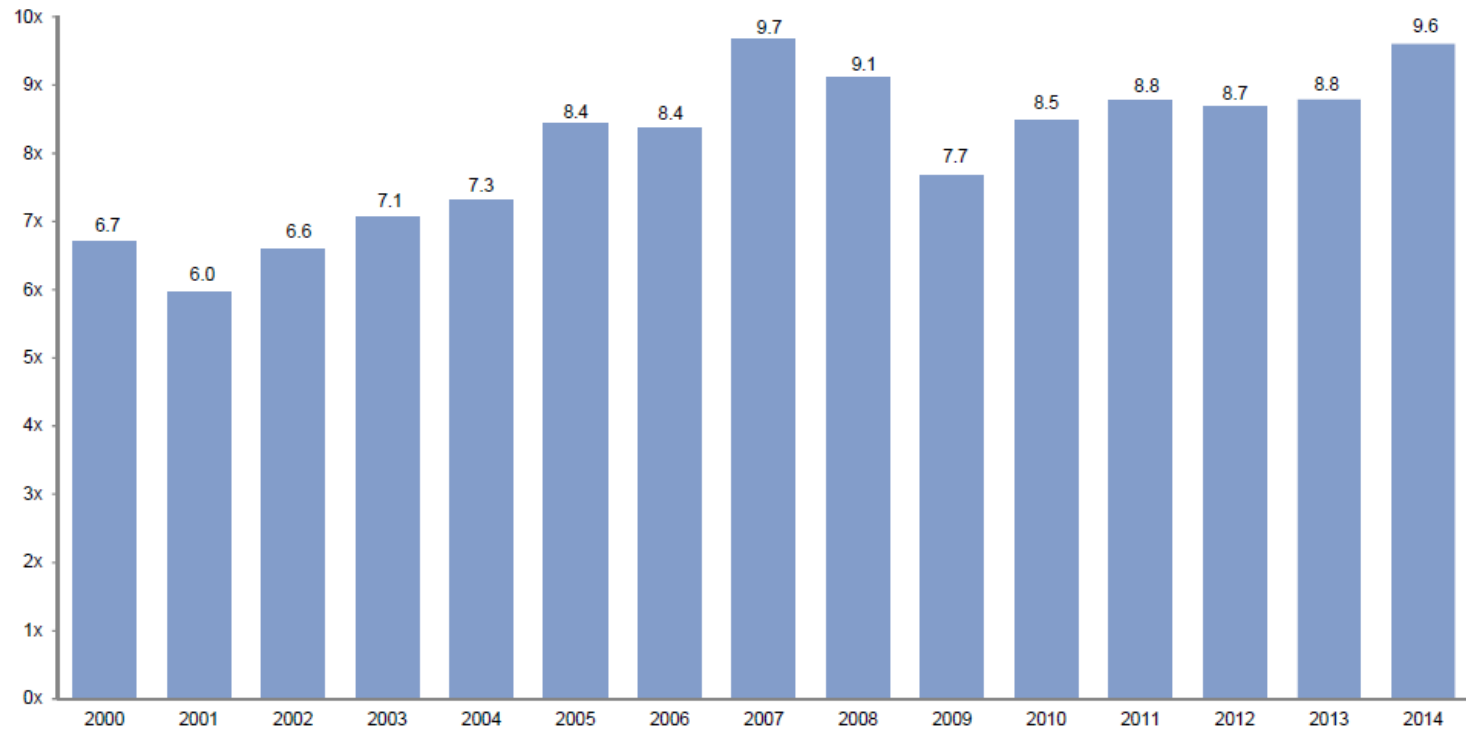
Source: *Buyouts*.

Note: Fund-raising data for 2014 are as of July 14, 2014.

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Private Equity Market Environment

US Purchase Price/EBITDA Multiples
2000-14



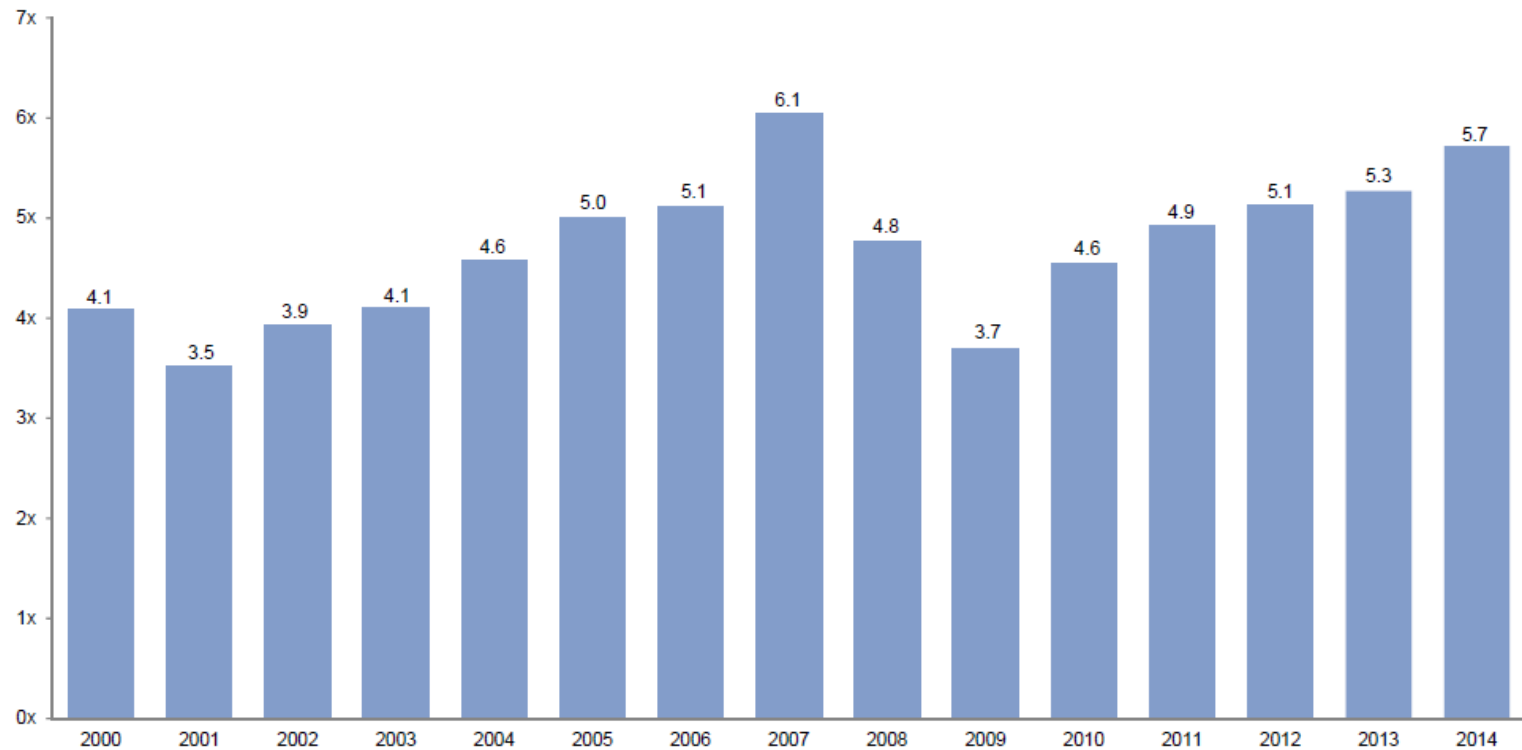
Source: Standard & Poor's LCD.

Notes: Data for 2014 are through June 30. Purchase price multiples include fees and expenses.

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Private Equity Market Environment

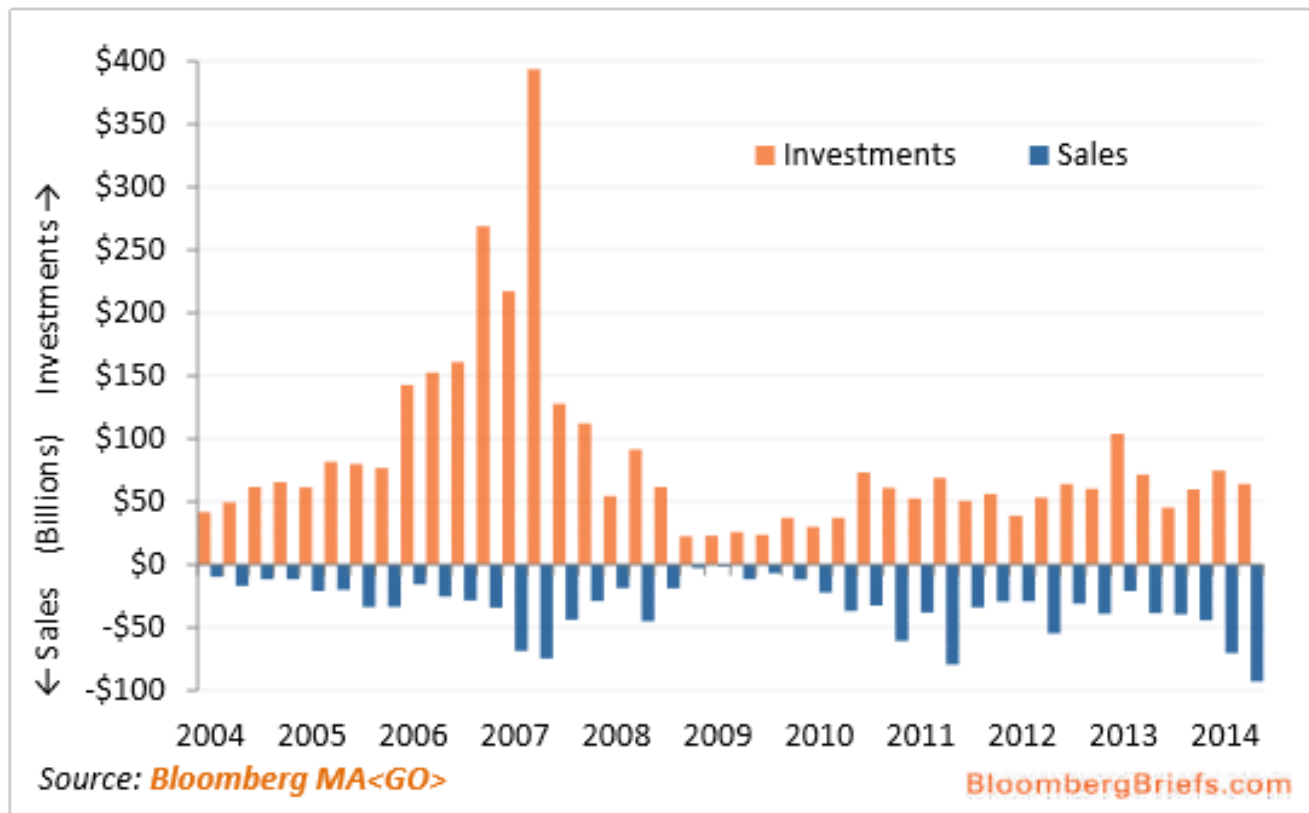
US Average Debt/EBITDA Multiples
2000-14



Source: Standard & Poor's LCD.
Note: Data for 2014 are through June 30.
1718m

Private Equity Market Environment

Buyout Firms Sold More Than They Bought



Private Equity Performance

Net Managed and Benchmark Returns (IRR) as of March 31, 2014



Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. As of March 2014 the Private Equity benchmark is 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. Since inception performance of the benchmark is representative of the total Private Equity portfolio (Legacy investments included).

Performance by Sub-strategy

As of March 31, 2014

Reporting Currency: U.S. Dollars (\$), in millions

<u>Asset Classes</u>	<u>Commitment(s)</u>	<u>Paid-In Capital</u>	<u>Unfunded Commitment(s)</u>	<u>Distributions at Market</u>	<u>Current Net Asset Value (NAV)</u>	<u>Asset Class IRR</u>	<u>CA Mean</u>	<u>Total Value/ Paid In Multiple</u>
U.S. Venture Capital	1,892.5	1,147.3	750.0	346.7	1,195.6	8.8%	9.9%	1.3
U.S. Growth Equity	825.0	465.0	360.0	190.8	440.6	11.0%	10.9%	1.4
Non-U.S. Growth Equity	280.3	93.2	187.2	22.9	83.7	5.1%	13.5%	1.1
U.S. Buyouts	9,085.0	6,165.0	2,960.5	5,359.7	4,082.7	12.4%	10.4%	1.5
Non-U.S. Buyouts	1,831.2	888.9	964.5	270.9	902.2	9.9%	8.3%	1.3
Distressed Securities	1,345.0	657.6	689.0	513.2	504.0	19.3%	12.1%	1.5
Secondaries	1,425.0	796.4	634.7	729.1	458.1	17.1%	14.6%	1.5
TOTAL PORTFOLIO POST-1999	16,683.9	10,213.4	6,545.9	7,433.4	7,667.0	12.4%	10.6%	1.5
Legacy	4,356.7	4,998.2	70.4	5,603.7	79.7	4.0%	15.3%	1.1
TOTAL PORTFOLIO	21,040.6	15,211.7	6,616.3	13,037.1	7,746.7	8.6%	13.2%	1.4

Paid-In Capital: Capital paid in to the partnership, which includes fees and capital for investments.

Distributions at Market: Capital distributed to an investor from the partnership.

Current Net Asset Value (NAV): The residual value of an investor's interest, which is reported by the partnership in its financial statements.

IRR: The investor's return on its investment in the partnership, net of fees, expenses, and carried interest received by the general partners.

Total Value: Total value is calculated by adding the NAV and Distributions at Market.

2014 Commitment Activity

- Through June 30, 2014 we have committed \$1.25 billion to 16 funds.
 - \$695 million to 10 buyout funds
 - \$350 million to 2 secondary funds
 - \$150 million to 1 growth equity fund
 - \$57.5 million to 3 venture funds

Major Initiatives

- Continued focus on portfolio construction
 - Emphasis on smaller end of the market
 - Sector specialists
 - Europe: regional/country-specific funds
- Opportunistic secondary sales

State Board of Administration

FRS Investment Plan Investment Advisory Council Meeting September 22, 2014



Current Investment Plan Updates (as of June 30, 2014)

- \$9.04 Billion AUM
 - 15.5% – Fiscal Year-end Return (July-June) (excludes Brokerage Window)
 - 157,227 member accounts
 - 113,216 active members receiving contributions
 - 44,011 inactive members
 - \$57,464 Average Member Account Balance
- \$7.4 Billion Distributions (inception to 6/30/14)
- 82,484 Investment Plan Retirees
- Self-Directed Brokerage Account (implemented Jan 2014)
 - 1,137 members enrolled (878 funded account)
 - \$124.0 Million transferred
- Completed search for annuity provider – MetLife replacing MassMutual effective 7/1/14

Ongoing FRS Financial Guidance Program

(12 month period ending June 30, 2014)

- 284,349 – Total Calls
 - 189,842 – Assistance with initial and 2nd election calls
 - 93,057 – Financial/Retirement planning calls
- 2,213,675 – Total unique visits to MyFRS.com

New Fund Lineup

- New Line Up effective July 1, 2014:
 - Successfully implemented 10 Retirement Date Funds and other fund changes
 - 147,955 individual member accounts were touched by the process
 - Almost 125,000 member with balances in the Balanced Funds were mapped to one of the new Retirement Date Funds
 - Almost 100,000 of these members now have all their assets in an age-appropriate Retirement Date Fund
 - \$6.6 Billion was reallocated on the custody and recordkeeping systems
 - Quarterly statements mailed July 2014 reflected fund changes
 - 18,446 first-time callers between April and August to the Financial Guidance Line



State Board of Administration of Florida

Major Mandate Review
Second Quarter 2014

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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 and Fund B Review
7. Appendix

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Executive Summary

Second Quarter 2014



Executive Summary

- The major mandates outperformed their respective benchmarks over all longer time periods through June 30, 2014.
- The Pension Plan outperformed its Performance Benchmark over the trailing one-, three-, five-, ten- and fifteen-year time periods.
 - Global Equity has been a consistent source of value added over the trailing one-, three- and five-year time periods. Fixed Income, Real Estate and Strategic Investments have also added value.
- Over the trailing one-, five-, and ten-year periods, the Pension Plan's return ranked in the top quartile of the TUCS Top Ten Defined Benefit Plan universe and ranked in the top half of the universe over the trailing three-year period.
- The FRS Investment Plan met or outperformed the Total Plan Aggregate Benchmark during the second quarter and over all trailing periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark over all trailing periods, primarily due to strong public equity performance.
- The CAT Funds and Florida PRIME continued to outperform their respective benchmarks over both short and long time periods.

State Board of Administration of Florida Florida Retirement System

Pension Plan Review Second Quarter 2014



Executive Summary

- The Pension Plan assets totaled \$149.1 billion as of June 30, 2014 which represents a \$4.2 billion increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed over the trailing one-, three-, five-, ten- and fifteen-year periods.
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan underperformed over the fifteen-year period, but has outperformed over the trailing one-, three-, five-, twenty- and twenty five-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.
- Hewitt EnnisKnupp 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.

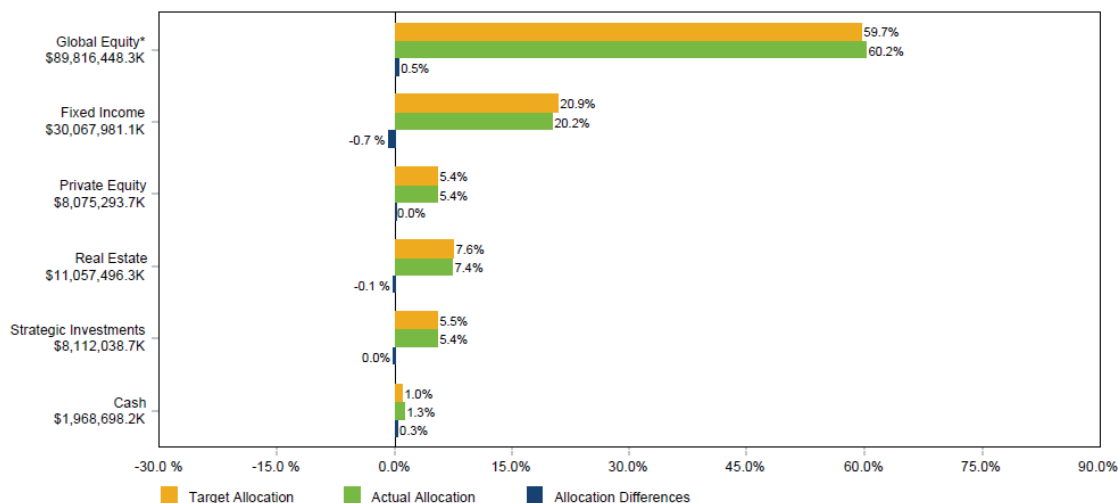
FRS Pension Plan Change in Market Value Periods Ending 6/30/2014

Summary of Cash Flows		
	Second Quarter	Fiscal YTD*
Beginning Market Value	\$144,911,449,706	\$132,382,915,266
+/- Net Contributions/(Withdrawals)	(\$1,382,977,267)	(\$5,920,869,454)
Investment Earnings	\$5,569,483,904	\$22,635,910,530
= Ending Market Value	\$149,097,956,343	\$149,097,956,343
Net Change	\$4,186,506,637	\$16,715,041,076

*Period July 2013 – June 2014

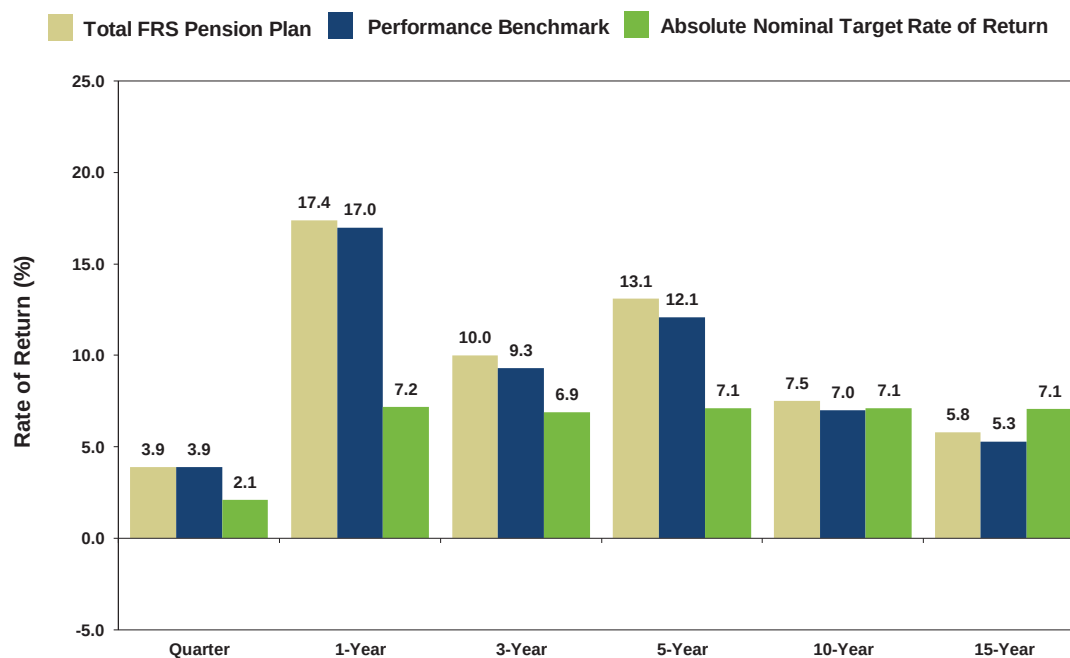
Asset Allocation as of 6/30/2014 Total Fund Assets = \$149.1 Billion

	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	149,097,956,343	100.0	100.0		
Global Equity*	89,816,448,308	60.2	59.7	45.0	65.0
Fixed Income	30,067,981,116	20.2	20.9	10.0	26.0
Private Equity	8,075,293,669	5.4	5.4	4.0	16.0
Real Estate	11,057,496,324	7.4	7.6	2.0	9.0
Strategic Investments	8,112,038,740	5.4	5.5	0.0	16.0
Cash	1,968,698,186	1.3	1.0	0.8	5.0



* 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.

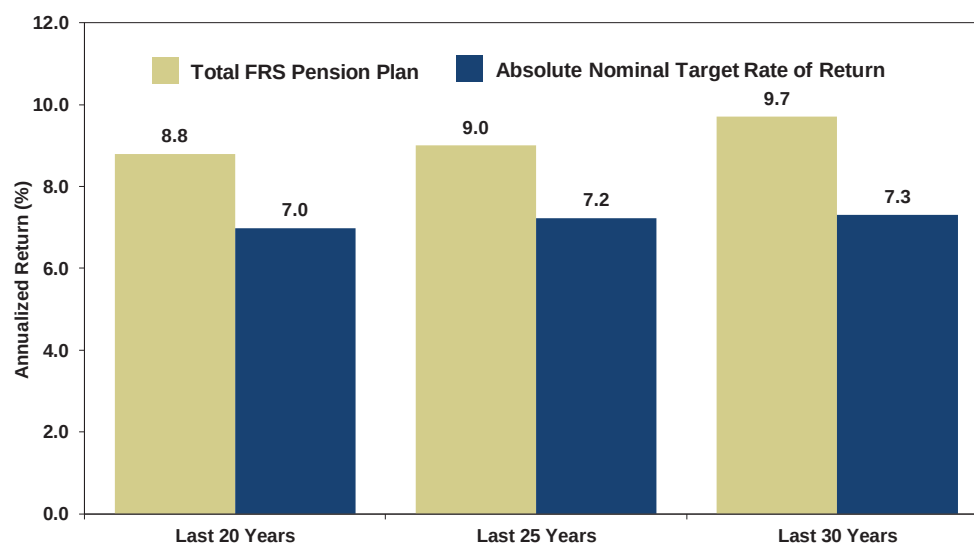
FRS Pension Plan Investment Results Periods Ending 6/30/2014



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FRS Pension Plan Investment Results Periods Ending 6/30/2014

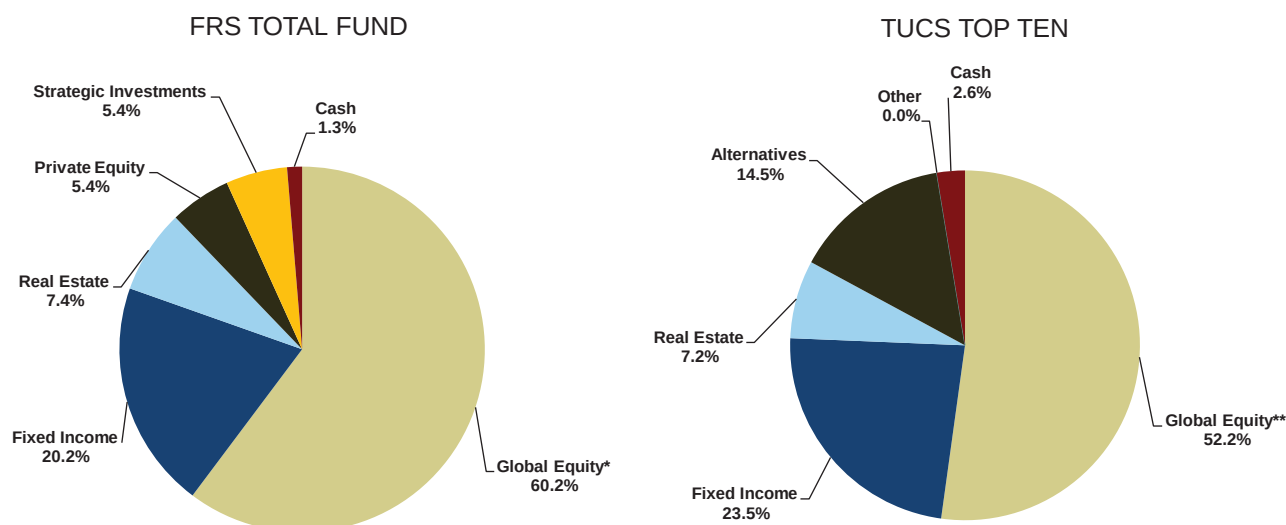
Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective



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Comparison of Asset Allocation (TUCS Top Ten) As of 6/30/2014

FRS Pension Plan vs. Top Ten Defined Benefit Plans



*Global Equity Allocation: 27.8% Domestic Equities; 28.3% Foreign Equities; 4.1% Global Equities. Percentages are of the Total FRS Fund.

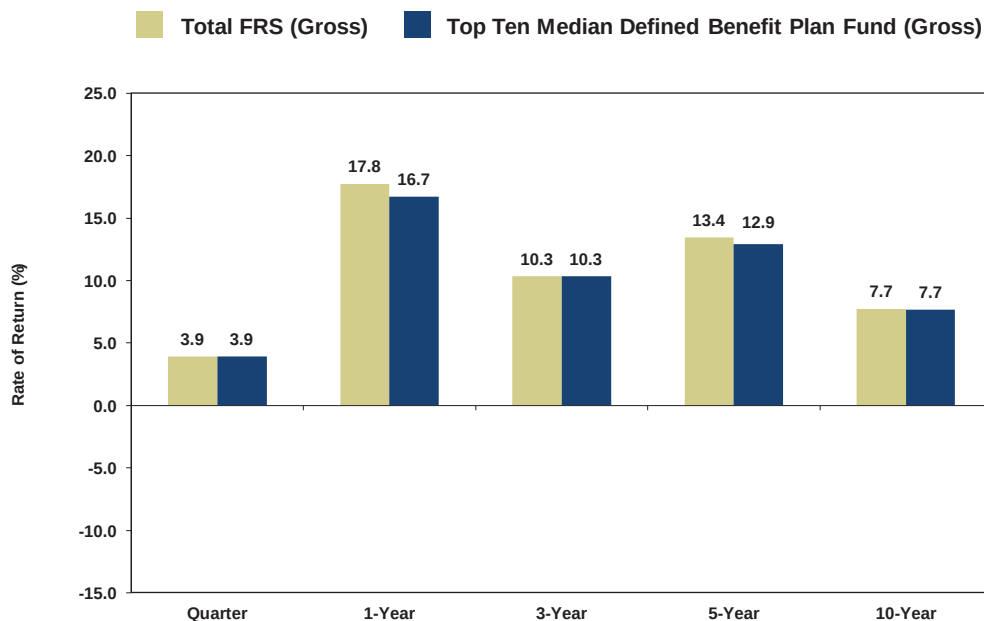
**Global Equity Allocation: 31.8% Domestic Equities; 20.4% Foreign Equities.

Note: The TUCS Top Ten Universe includes \$1,310.0 billion in total assets. The median fund size was \$130.2 billion and the average fund size was \$131.1 billion.

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FRS Results Relative to TUCS Top Ten Defined Benefit Plans Periods Ending 6/30/2014

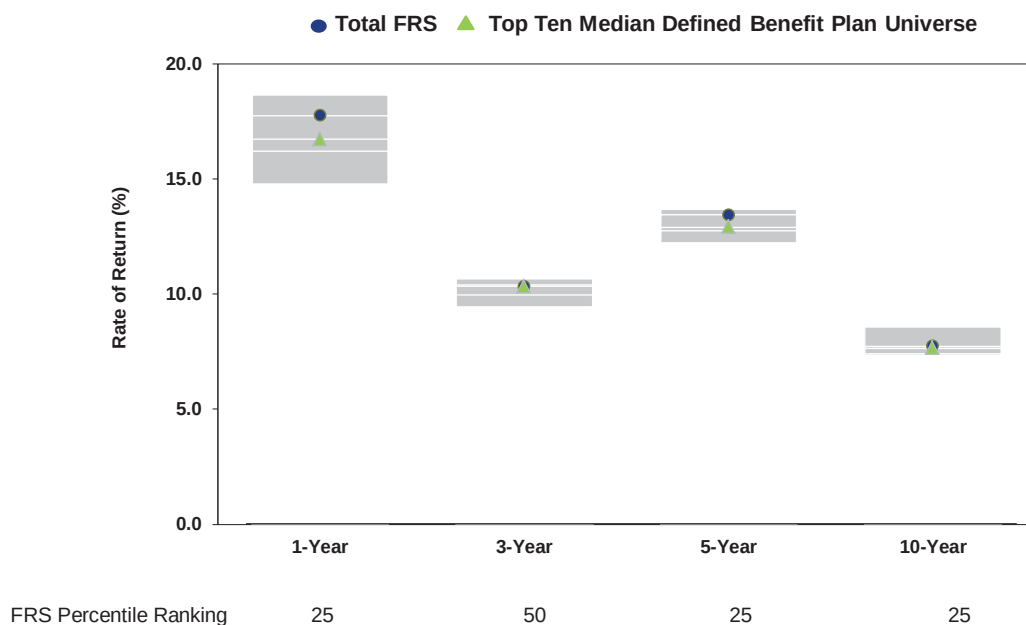


Note: The TUCS Top Ten Universe includes \$1,310.0 billion in total assets. The median fund size was \$130.2 billion and the average fund size was \$131.1 billion.

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Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS) Periods Ending 6/30/2014



Note: The TUCS Top Ten Universe includes \$1,310.0 billion in total assets. The median fund size was \$130.2 billion and the average fund size was \$131.1 billion.

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State Board of Administration of Florida Florida Retirement System

Investment Plan Review Second Quarter 2014



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 Investment Plan Expense Ratio for the FRS Investment Plan is lower, on average, when compared to a defined contribution peer group and is significantly lower than the average corporate and public defined benefit plan.
- 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 6/30/2014*

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	15.5%	8.7%	11.0%	6.6%
<i>Total Plan Aggregate Benchmark**</i>	15.1	8.5	10.5	6.1
FRS Investment Plan vs. Total Plan Aggregate Benchmark	0.4	0.2	0.5	0.5

Periods Ending 12/31/2012***

	Five-Year Average Return****	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	2.27%	0.54%	0.37%
<i>Peer Group</i>	2.33	-0.02	0.32
FRS Investment Plan vs. Peer Group	-0.06	0.56	0.05

*Returns shown are net of fees.

**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.

***Source: 2012 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 2012 Survey that included 166 U.S. defined contribution plans with assets ranging from \$40 million to \$41 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 20 DC plans including corporate and public plans with assets between \$2.4 - \$14.1 billion.

****Returns shown are gross of fees.

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State Board of Administration of Florida CAT Fund Review

Second Quarter 2014

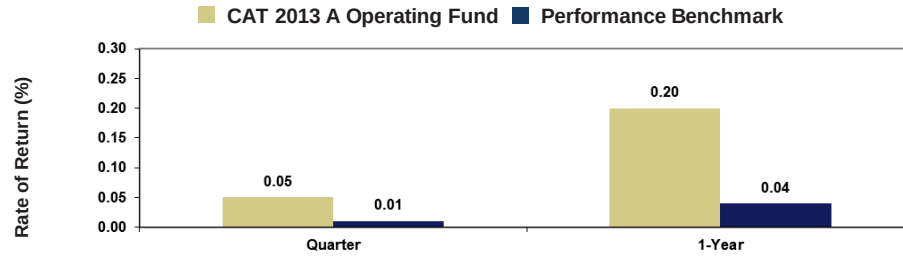
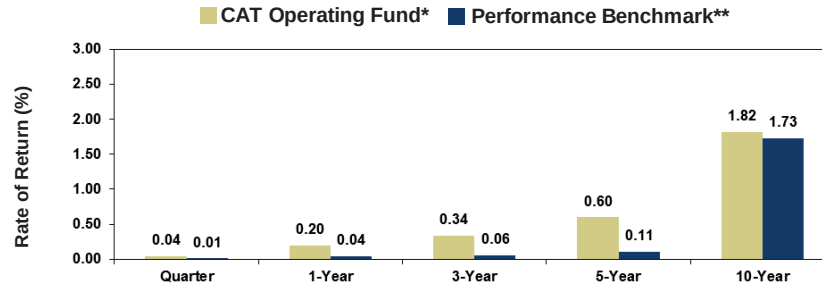


Executive Summary

- Performance of the CAT Funds on both an absolute and relative basis has been strong over short- and long-term time periods.
- The CAT Funds are adequately diversified across issuers within the short-term bond market.
- The Investment Policy Statement appropriately constrains 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 Policy Statement is revisited periodically to ensure that the structure and guidelines of the CAT Funds are appropriate, taking into consideration the CAT Funds' goals and objectives.

CAT Funds Investment Results

Periods Ending 6/30/2014



*CAT Operating Fund: Beginning March 2008, the returns for the CAT Fund reflect marked-to-market returns. Prior to that time, cost-based returns are used.

**Performance Benchmark: The CAT Fund was 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. Effective July 2010, it is a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.

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State Board of Administration of Florida Lawton Chiles Endowment Fund Review

Second Quarter 2014



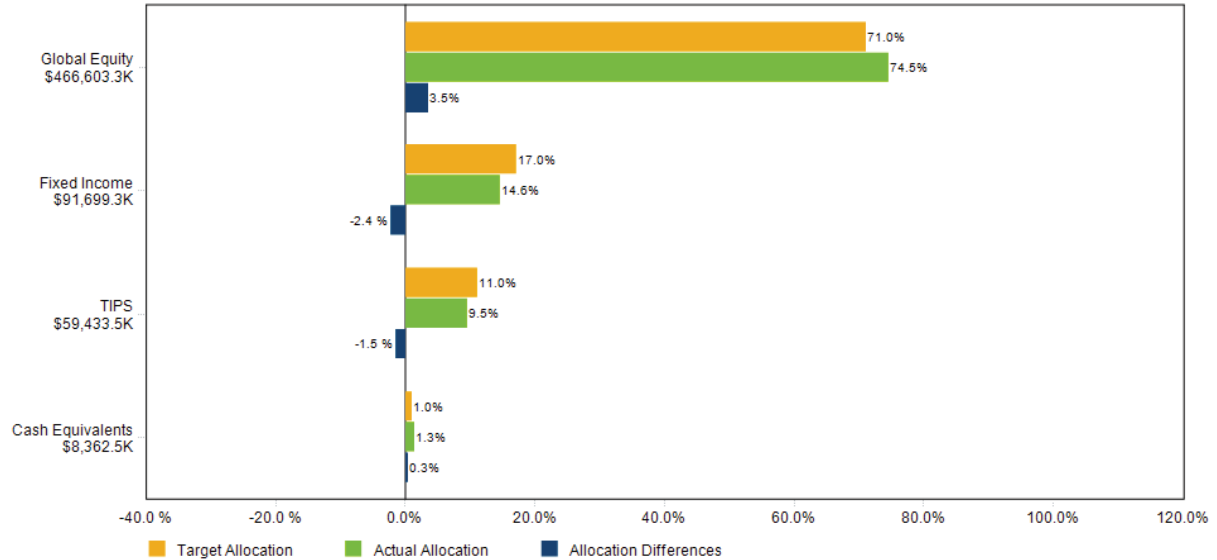
Executive Summary

- 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 \$626.1 million as of June 30, 2014.
- The Endowment's return outperformed that of its Target during the second quarter and over the trailing one-, three-, five- and ten-year time periods.

Asset Allocation as of 6/30/2014

Total LCEF Assets = \$626.1 Million

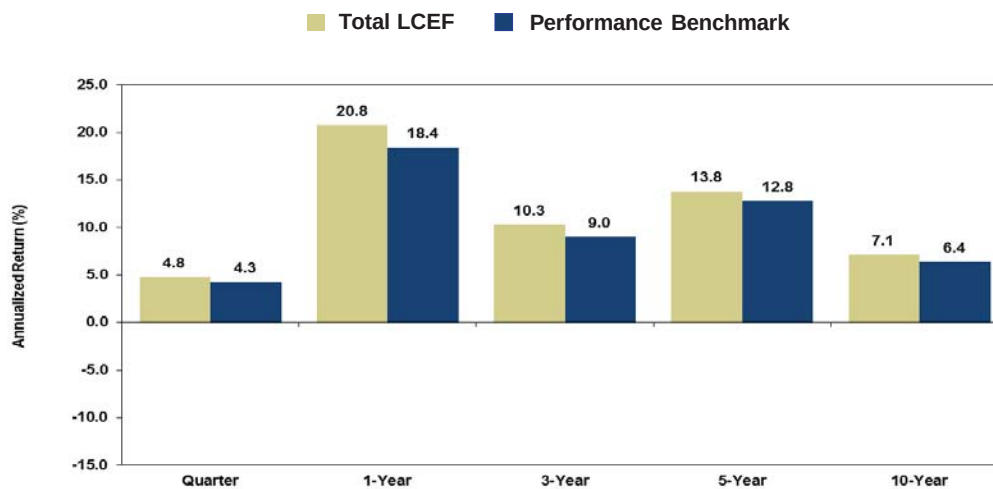
	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
LCEF Total Fund	626,104,239	100.00	100.00		
Global Equity	466,603,330	74.52	71.00	61.00	81.00
Fixed Income	91,699,308	14.65	17.00	12.00	22.00
TIPS	59,433,514	9.49	11.00	6.00	16.00
Cash Equivalents	8,362,475	1.34	1.00	0.00	10.00



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LCEF Investment Results

Periods Ending 6/30/2014



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State Board of Administration of Florida Florida PRIME and Fund B Review

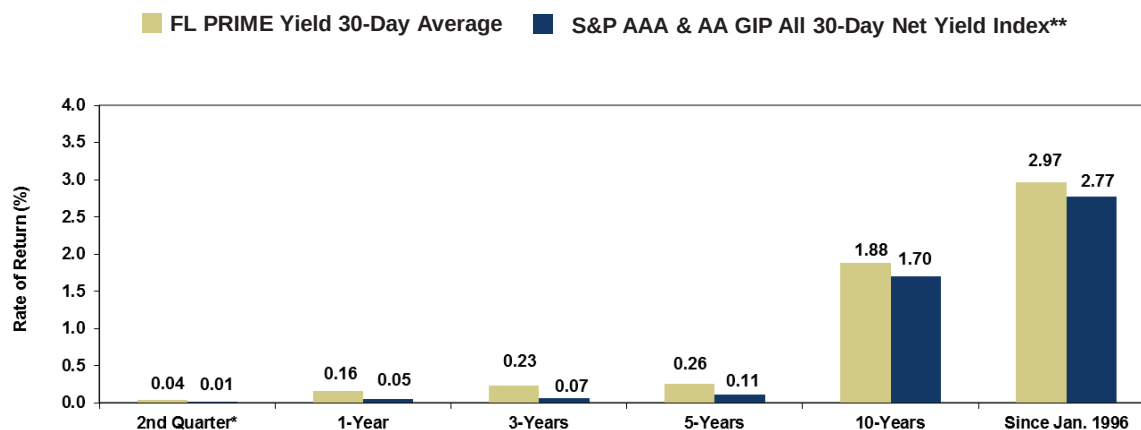
Second Quarter 2014



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, on both an absolute and relative basis, has been strong over short- and long-term time periods.
- As of June 30, 2014, the total market value of Florida PRIME was \$7.2 billion.
- Hewitt EnnisKnupp, 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.

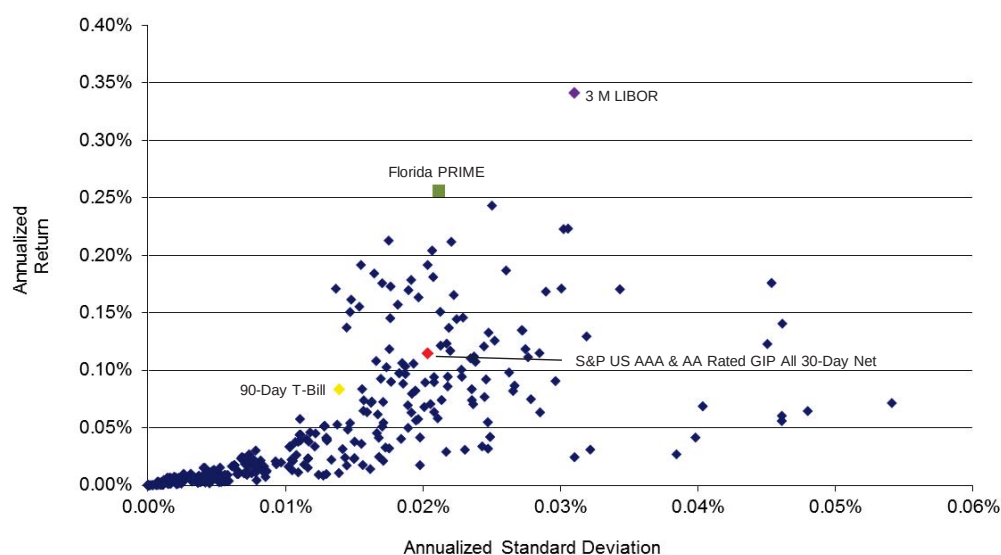
Florida PRIME Investment Results Periods Ending 6/30/2014



*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 5 Years Ending 6/30/2014



Fund B Change in Market Value Periods Ending 6/30/2014

Cash Flows as of 6/30/2014	Second Quarter	Fiscal YTD*
Opening Balance	\$107,932,781	\$147,771,439
Participant Distributions	(\$54,340,000)	(\$101,385,000)
Expenses Paid	(\$3,345)	(\$14,315)
Price Change	\$3,253,182	\$10,470,494
Closing Balance	\$56,842,618	\$56,842,618
Change	(\$51,090,163)	(\$90,928,821)

*Period July 2013 – June 2014

- As of June 2014, 98.5% of the original principal in Fund B has been returned to participants.

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Appendix



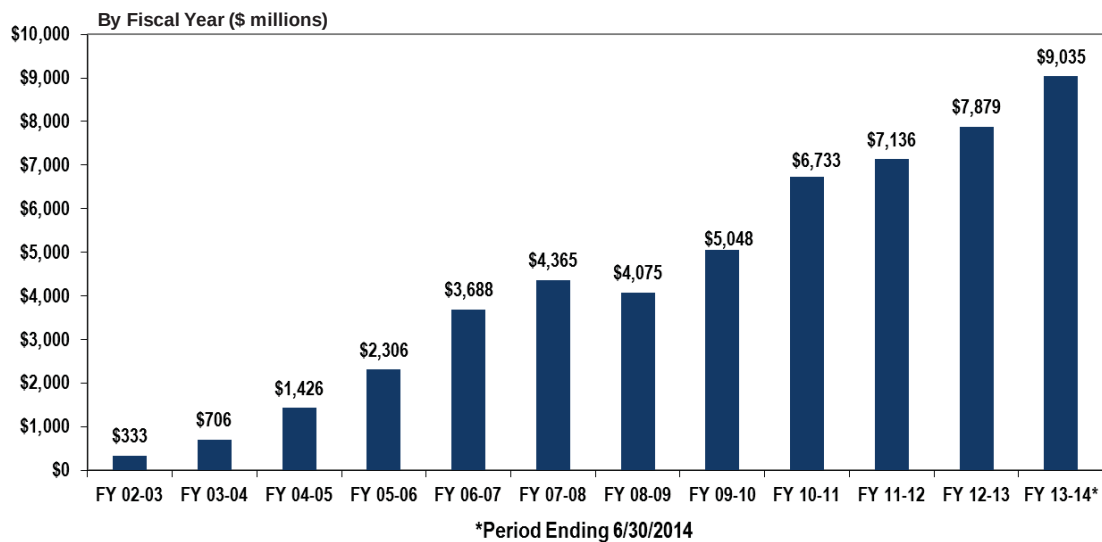
FRS Investment Plan Costs

Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity	0.25%	0.84%
Mid Cap Equity	0.36%	1.01%
Small Cap Equity	0.89%	1.11%
International Equity	0.33%	1.10%
Diversified Bonds	0.29%	0.68%
Balanced Funds	0.05%	0.97%
Money Market	0.06%	0.18%

*Average fee if multiple products in category as of 6/30/2014.

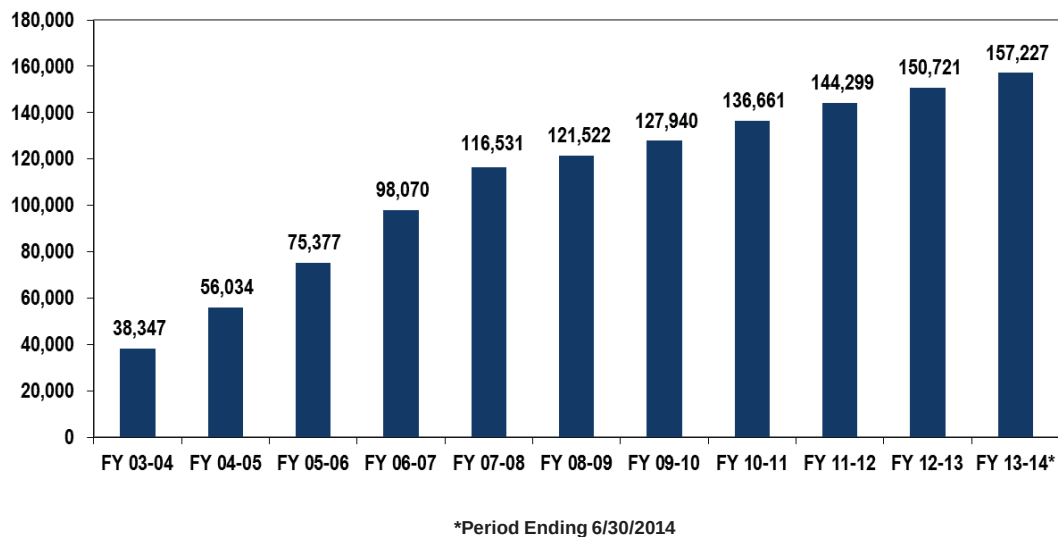
**Source: Morningstar as of 6/30/2014.

Investment Plan Fiscal Year End Assets Under Management



Source: Investment Plan Administrator

Investment Plan Membership



Source: Investment Plan Administrator

Florida Hurricane Catastrophe Fund Background

- 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.
- Both the CAT Fund (Operating Fund) and the CAT 2013 A Fund are internally managed portfolios benchmarked to a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index.
- As of June 30, 2014, the total value of all FHCF accounts was \$11.9 billion.

CAT Operating Fund Characteristics Period Ending 6/30/2014

Effective Maturity Schedule	
O/N* - 14 Days	24.3%
15 - 30 Days	10.5
31 - 60 Days	9.8
61 - 90 Days	8.9
91 - 120 Days	8.1
121 - 150 Days	8.5
151 - 180 Days	3.1
181 - 210 Days	6.4
211 - 240 Days	2.3
241 - 270 Days	4.0
271 - 300 Days	0.0
301 - 365 Days	2.0
366 - 732 Days	5.1
733 - 1,098 Days	5.5
1,099 - 1,875 Days	1.5
Total % of Portfolio:	100.0%

S & P Credit Quality Composition	
AAA	51.7%
AA	2.3
A	45.7
Non-Investment Grade	0.3
Total % of Portfolio:	100.0%

*O/N stands for overnight.

CAT 2013 A Fund Characteristics

Period Ending 6/30/2014

Effective Maturity Schedule	
O/N* - 14 Days	19.9%
15 - 30 Days	12.4
31 - 60 Days	9.3
61 - 90 Days	8.8
91 - 120 Days	0.0
121 - 150 Days	16.0
151 - 180 Days	3.4
181 - 210 Days	4.0
211 - 240 Days	1.7
241 - 270 Days	5.7
271 - 300 Days	3.0
301 - 365 Days	5.7
366 - 732 Days	4.5
733 - 1,098 Days	5.6
1,099 - 1,875 Days	0.0
Total % of Portfolio:	100.0%

S & P Credit Quality Composition	
AAA	53.1%
AA	1.2
A	45.7
Non-Investment Grade	0.0
Total % of Portfolio:	100.0%

*O/N stands for overnight.

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Florida PRIME Characteristics

Quarter Ending 6/30/2014

Cash Flows as of 6/30/2014	Second Quarter	Fiscal YTD*
Opening Balance	\$7,906,452,644	\$7,278,092,920
Participant Deposits	\$2,794,395,561	\$15,068,791,801
Transfers from Fund B	\$54,340,000	\$101,385,000
Gross Earnings	\$3,581,084	\$14,314,095
Participant Withdrawals	(\$3,566,767,608)	(\$15,268,933,892)
Fees	(\$583,105)	(\$2,231,347)
Closing Balance (6/30/2014)	\$7,191,418,576	\$7,191,418,576
Change	(\$715,034,068)	(\$86,674,344)

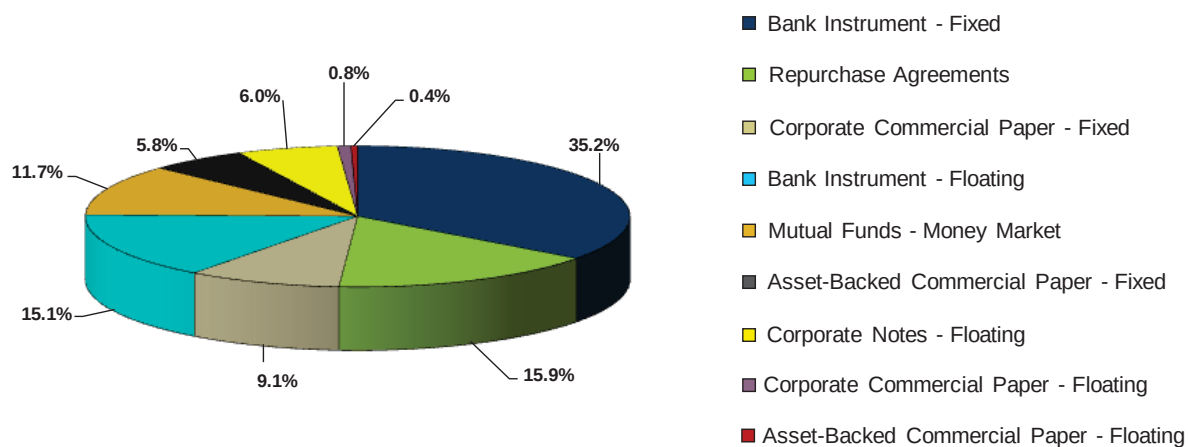
*Period July 2013 – June 2014

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Florida PRIME Characteristics Quarter Ending 6/30/2014

Portfolio Composition



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Florida PRIME Characteristics Period Ending 6/30/2014

Effective Maturity Schedule	
1-7 Days	48.9%
8-30 Days	17.7
31-90 Days	19.3
91-180 Days	9.1
181+ Days	5.0
Total % of Portfolio:	100.0%

S & P Credit Quality Composition	
A-1+	61.3%
A-1	38.7
Total % of Portfolio:	100.0%

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FRS Pension Plan | Second Quarter 2014

Quarterly Investment Review

Visit the *HEK Blog* (<http://www.hekblog.com>); sharing our best thinking.

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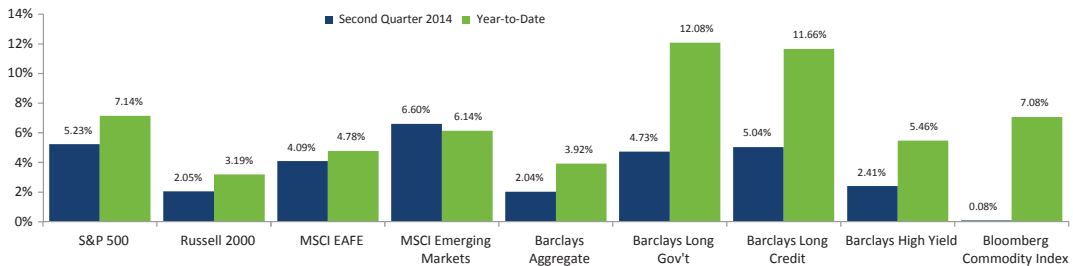
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Market Environment

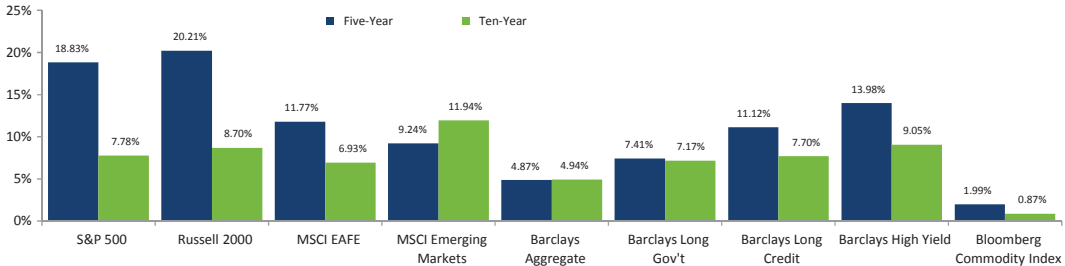
Market Highlights

SHORT-TERM RETURNS
AS OF 06/30/2014



Source: Russell, MSCI, Barclays, DJ - UBS

LONG-TERM ANNUALIZED RETURNS
AS OF 06/30/2014

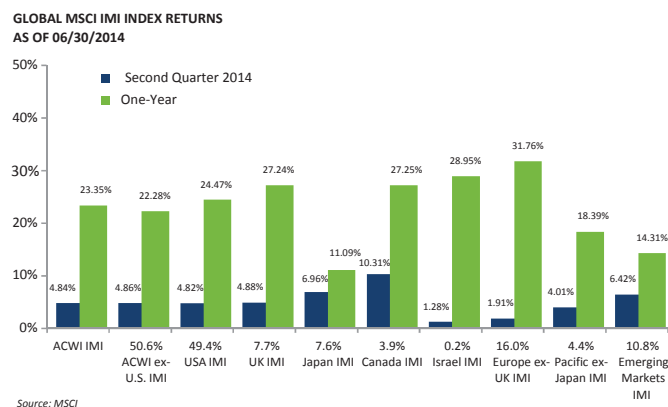


Source: Russell, MSCI, Barclays, DJ - UBS

Market Highlights

Returns of the Major Capital Markets					
	Second Quarter	Periods Ending 6/30/2014			
		1-Year	3-Year	5-Year	10-Year
Domestic Stock Indices					
Dow Jones U.S. Total Stock Market Index	4.84%	25.02%	16.44%	19.42%	8.40%
Russell 3000 Index	4.87%	25.22%	16.46%	19.33%	8.23%
S&P 500 Index	5.23%	24.61%	16.58%	18.83%	7.78%
Russell 2000 Index	2.05%	23.64%	14.57%	20.21%	8.70%
Global Stock Indices					
MSCI All Country World IMI Index	4.84%	23.35%	10.37%	14.77%	7.80%
MSCI All Country World ex-U.S. IMI Index	4.86%	22.28%	5.88%	11.50%	8.01%
MSCI EAFE Index	4.09%	23.57%	8.10%	11.77%	6.93%
MSCI Emerging Markets Index	6.60%	14.31%	-0.39%	9.24%	11.94%
Domestic/Foreign Bond Indices					
Barclays Aggregate Bond Index	2.04%	4.38%	3.67%	4.87%	494.00%
Barclays Long Gov't Index	4.73%	6.44%	8.70%	7.41%	7.17%
Barclays Long Credit Index	5.04%	13.34%	9.81%	11.12%	7.70%
Barclays Long Gov't/Credit Index	4.94%	10.77%	9.56%	9.59%	7.60%
SSB Non-U.S. WGBI Index	2.64%	8.88%	1.03%	3.59%	4.90%

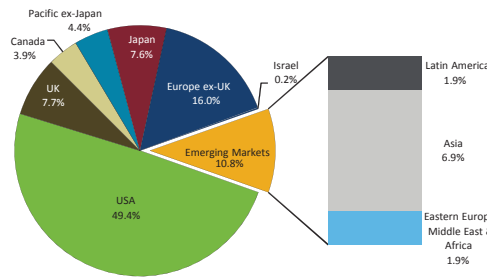
Global Equity Markets



- Global equity markets increased in value during the second quarter of 2014.
- Equities enjoyed a smooth upward ride through the second quarter. Much of the move was driven by the renewal of the U.S. economic recovery, stabilization of emerging market data, and further loosening of monetary policy by the European Central Bank.
- During the quarter, Canada proved to be the best performing equity market.

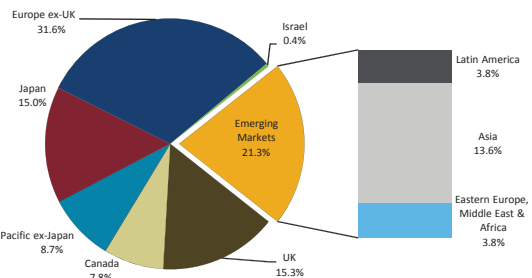
Global Equity Markets

MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 06/30/2014



Source: MSCI

MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 06/30/2014

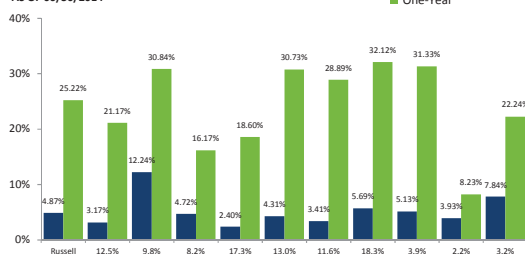


Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

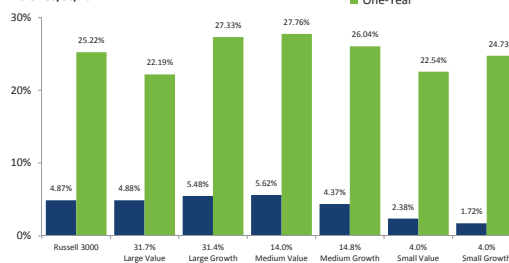
U.S. Equity Markets

RUSSELL GICS SECTOR RETURNS
AS OF 06/30/2014



Source: Russell Indexes

RUSSELL STYLE RETURNS
AS OF 06/30/2014

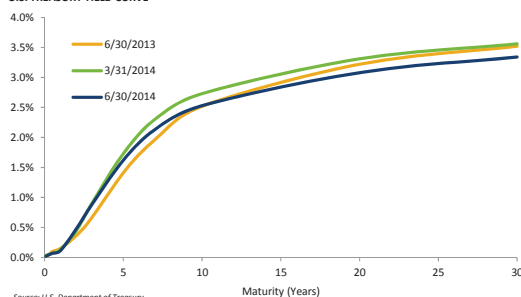


Source: Russell Indexes

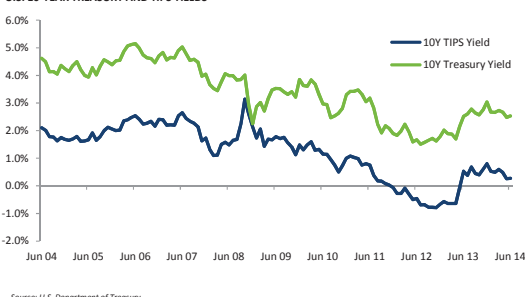
- The Russell 3000 Index returned 4.87% during the quarter and returned 25.22% over the one-year period.
- During the second quarter, the Energy and Utilities sectors were the strongest performers, posting returns of 12.24% and 7.84%, respectively. The Consumer Discretionary and Financials sectors were the weakest performers, producing returns of 3.17% and 2.40%, respectively.
- Performance across the market capitalization spectrum was positive over the quarter. Small cap stocks trailed the larger segments of the markets and performance among the style biases was mixed, with value outperforming growth in the mid and small cap segments of the market and growth outperforming in the large cap space.

U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



U.S. 10-YEAR TREASURY AND TIPS YIELDS

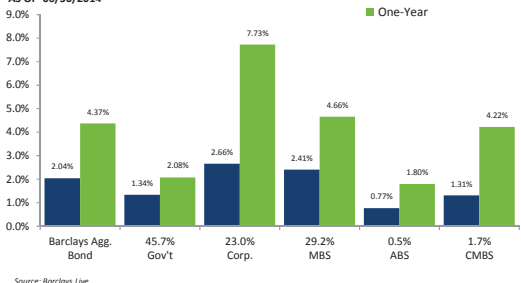


- The Treasury yield curve flattened during the second quarter, driven by long bond yields falling through much of the quarter and short rates moving slightly higher. Recent moves in interest rates were in significant part attributable to the U.S. Federal Reserve as it endeavors to keep the adjustment to more "normal" interest rates gradual and well flagged in advance.
- The 10-year U.S. Treasury yield ended the quarter at 2.53%, 20 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield fell by 33 basis points over the quarter and ended the period at 0.27%.

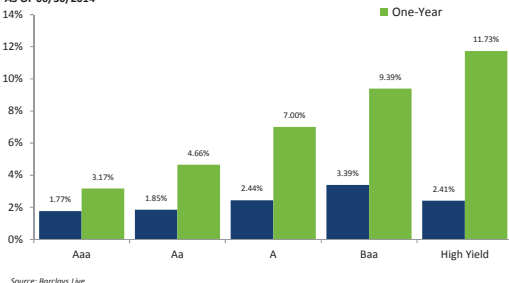
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U.S. Fixed Income Markets

BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 06/30/2014

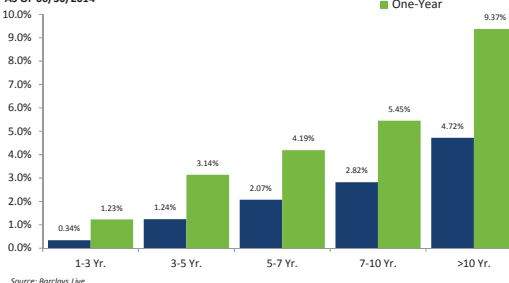


BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 06/30/2014



- The Barclays Aggregate Bond Index returned 2.04% in the second quarter. Corporates were the strongest performing index segment, returning 2.66%.
- In the investment grade market, lower quality bonds outperformed higher quality bonds.
- High yield bonds underperformed aggregate investment grade corporate bonds.
- Long duration bonds continued to outperform shorter duration bonds.

BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 06/30/2014



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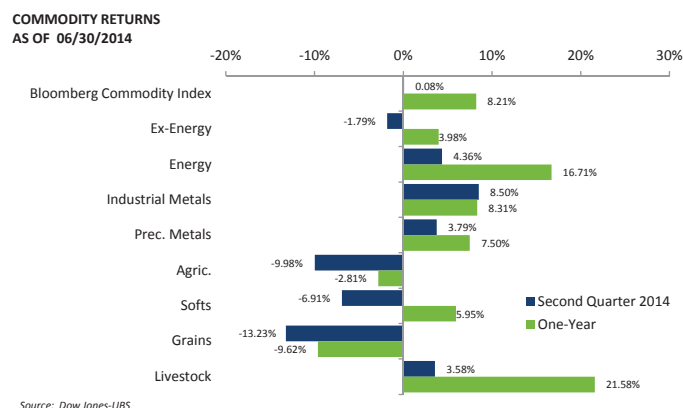
Credit Spreads

Spread (bps)	6/30/2014	3/31/2014	6/30/2013	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	38	44	61	-6	-23
Long Gov't	4	5	6	-1	-2
Long Credit	148	155	198	-7	-50
Long Gov't/Credit	97	102	124	-5	-27
MBS	24	38	60	-14	-36
CMBS	86	107	150	-21	-64
ABS	48	50	58	-2	-10
Corporate	99	106	152	-7	-53
High Yield	337	358	492	-21	-155
Global Emerging Markets	260	294	345	-34	-85

Source: Barclays Live

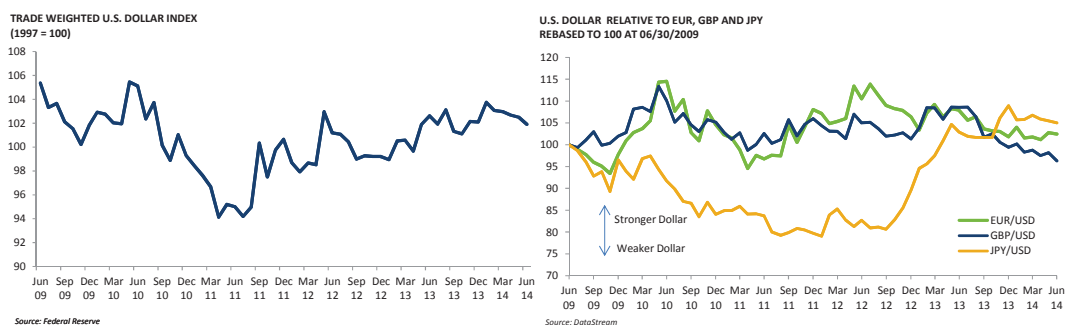
- During the second quarter, credit spreads fell across most areas of the bond market.
- Emerging market bond spreads (-34 basis points) fell by the most over the quarter, followed by high yield bond and CMBS spreads (-21 basis points for each category).

Commodities



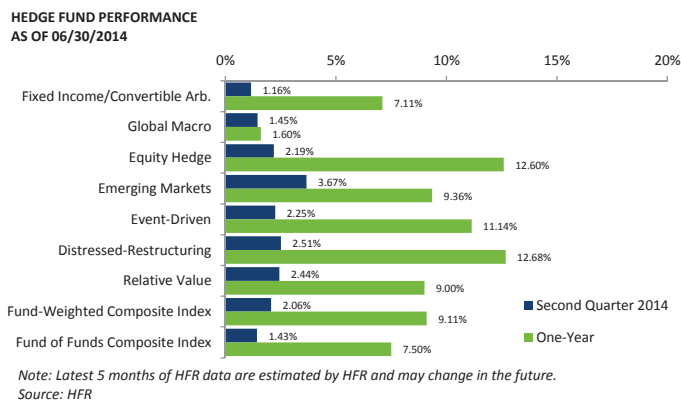
- The Bloomberg Commodity Index was broadly flat during the second quarter with a return of 0.08%.
- Over the quarter, the best performing segments of the market were Industrial Metals and Energy, returning 8.50% and 4.36%, respectively.
- Grains and Agriculture were the worst performing sectors of the market during the quarter with returns of -13.23% and -9.98%, respectively.

Currency



- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar modestly depreciated during the quarter.
- Across the major currency pairs, the U.S. dollar weakened against the Japanese Yen and British Pound and appreciated against the Euro during the quarter.

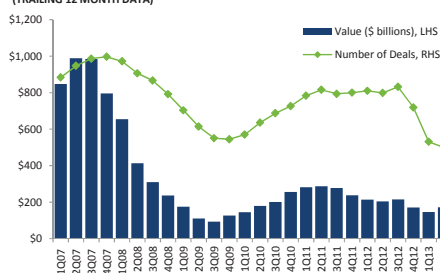
Hedge Fund Markets Overview



- Hedge fund performance was positive over the quarter.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 2.06% and 1.43%, respectively, during the quarter.
- Emerging Markets and Distressed-Restructuring strategies were the strongest performers during the quarter, gaining 3.67% and 2.51%, respectively.

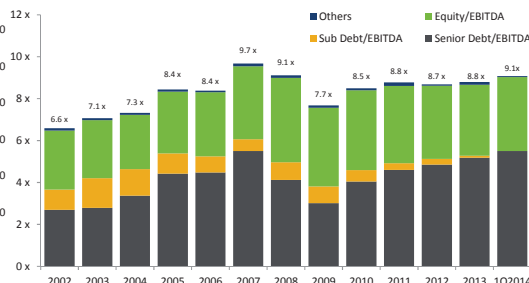
Private Equity Market Overview

LTM GLOBAL SPONSOR M&A DEAL VOLUME AND VALUE
(TRAILING 12 MONTH DATA)



Source: ThomsonOne

PURCHASE PRICE MULTIPLES



Source: S&P

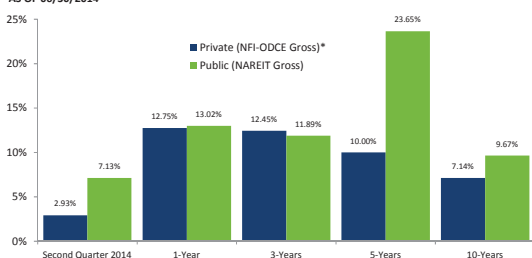
- Fundraising:** \$331 billion closed on a rolling 12-month basis ("LTM") continuing the upward trend that began in 3Q 2010. LTM fundraising now stands at 10% above the ten-year average level of \$300 billion. While well below the peak pre-crisis levels (\$490B), LTM fundraising is approaching the higher end of reasonable levels. Dry powder has increased to an estimated \$910 billion, 2% above the 2008 peak. A portion of this is due to the growth in the Infrastructure and Private Debt asset classes.
- Buyout:** Activity increased slightly since last quarter. \$94.1 billion of global sponsor-backed M&A deals closed in 1Q 2014, an 80% increase over the five-year quarterly average. 1Q purchase price multiples (PPMs) were 9.2x EBITDA for large cap and 8.3x for mid cap; both are running above their ten-year averages. European PPMs were just slightly below their ten-year averages for all deal sizes. LTM exits reached the highest level in value since 3Q 2011 and a new high in number of deals at ~ 1,500.
- Venture:** Healthy investment activity occurred during 1Q 2014, with \$9.5 billion invested in 951 deals vs. \$8.4 billion invested in 1,112 deals in 4Q 2013. This is the highest dollar amount committed since 2001, although the number of deals is relatively consistent with recent periods. Exit activity continues to be low but shows some signs of improvement, especially amongst IPOs which increased in number to 36 (50% over 4Q 2013).
- Mezzanine:** Managers are deploying capital due to aggressive senior lending and strong high yield markets. While fundraising has begun to abate, there is excess capital in the market. Dry powder is estimated at \$41.5 billion, roughly equal to the total raised over the last three years.
- Distressed Debt:** Activity continues to be subdued and is expected to continue in this manner. Credit health is being maintained by "covenant lite" structures, plenty of available capital for refinancing, and growing GDP. Increased leverage on current deals may result in more distressed opportunities in a couple of years.
- Secondaries:** LTM funds raised continue to increase, reaching \$21.4 billion, the highest level since the 2008 peak of \$26.7 billion. Dry powder stands at ~\$45.8 billion, 2.2x the average annual deployment rate over the last two years. Transaction activity is on pace with 2013 and expected to exceed 2013 for all of 2014. Average discounts for the quarter were 9.7%, an increase from 8.3% at year end, driven primarily by some large trades in non buyout and venture funds. High quality funds can trade at a premium.
- Infrastructure:** Fundraising declined from 4Q 2013. On a LTM basis, the number of funds closed decreased 17% to 47 funds, but the average fund size reached a new peak in 1Q 2014 at \$3.98 billion. Dry powder of \$100 billion stands at an all-time high, with 49% of that targeted for North America. 1Q 2014 activity picked up over 1Q 2013 with 119 deals completed at a total value of \$43 billion. No trend is discernible at this point as the first quarter of any year is a notoriously slow quarter for infrastructure.

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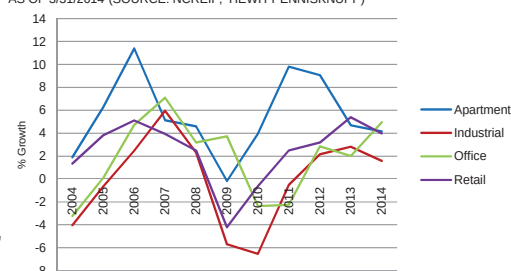
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 06/30/2014



*Second quarter returns are preliminary
Sources: NCREIF, NAREIT

NOI GROWTH BY PROPERTY TYPE
AS OF 3/31/2014 (SOURCE: NCREIF, HEWITT ENNISKNUPP)



- Private commercial real estate total returns accelerated slightly in 2Q* relative to 1Q. Despite this, the Core recovery is mature and many coastal markets are fully valued; thus, a resumption of moderating total return trends is expected going forward. PREA's consensus forecast of the NPI for 2014 is 9.5%, which is just slightly above the sector's long run average.
- U.S. REITs continued to display strong positive momentum in 2Q, returning 7.0%. At the mid-point of 2014, the NAREIT U.S. Equity REIT Index was up 17.7%. A continued decline in Treasury yields (down 50 bps from January 1 when the 10-year Treasury was at 3.0%) and continued strength in operating fundamentals has spurred the rally. An increase in interest rates poses the most immediate threat to a pullback in REITs; however, the strengthening economy will continue to drive fundamentals and support pricing.
- Sector fundamentals continue to rebound more widely, helping to support and expand current pricing. Non-core investments should disproportionately benefit as value enhancement strategies are executed (e.g., leasing, repositioning, select development). Metro areas significantly supported by technology, healthcare, and energy sectors are expected to continue to outperform.
- In particular, rental rate growth, which has been modest to-date in all property types except apartments, has plenty of room for improvement. Net Operating Income growth across all property sectors remains attractive as excess space continues to be absorbed and new supply remains largely below average, creating attractive on-going cash flow yields, even in the Core sector.
- New supply is expected to rise modestly across most property types, with the exception of the apartment sector. While the demand/supply gap should remain favorable for most property types on a near-term basis, market selection will become even more important as the supply cycle ramps up.
- Rising interest rates should be monitored. While gains in sector fundamentals will help offset rising rates, the offset will not be complete. Portfolio structure and other long-term risk mitigation measures are important for managing liquidity and interest rate sensitivities.

Source: HEK, NAREIT, NCREIF
*Preliminary

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Total Fund

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As of June 30, 2014

Highlights

Executive Summary

- Performance of the Pension Plan, when measured against the Performance Benchmark, has been strong over short- and long-term time periods.
- 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.
- Hewitt EnnisKnupp 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

- Over the trailing one-, three-, and five-year periods, the Total Fund outperformed the Performance Benchmark. During the second quarter, the Fund performed in line with its Benchmark, returning 3.9%

Asset Allocation

- The Fund assets total \$149.1 billion as of June 30, 2014, which represents a \$4.2 billion increase since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges at quarter-end.
- The Fund was modestly overweight to global equity and cash, with corresponding marginal underweights to fixed income and real estate.

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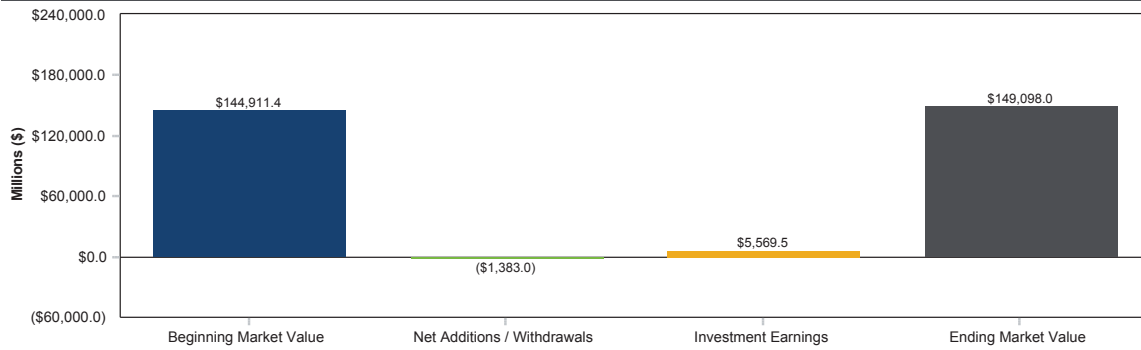
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Total Fund

As of June 30, 2014

Total Plan Asset Summary

Change in Market Value
From April 1, 2014 to June 30, 2014



Summary of Cash Flow

	1 Quarter	Fiscal YTD*
Total Fund		
Beginning Market Value	144,911,449,706	132,382,915,266
+ Additions / Withdrawals	-1,382,977,267	-5,920,869,454
+ Investment Earnings	5,569,483,904	22,635,910,530
= Ending Market Value	149,097,956,343	149,097,956,343

*Period July 2013 - June 2014

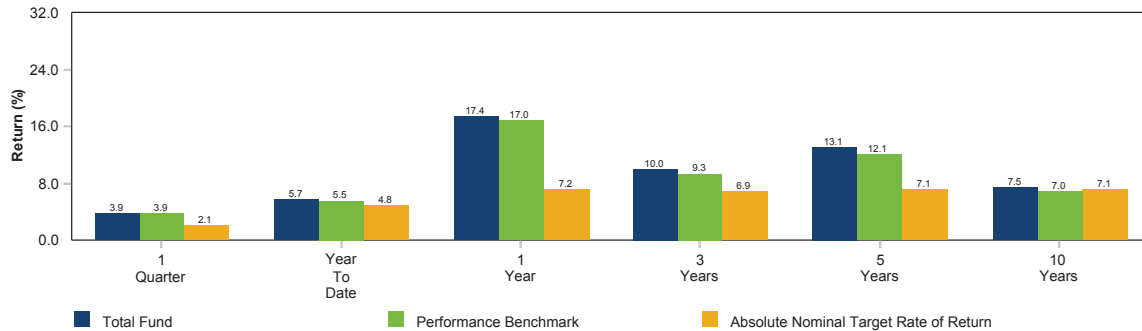
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Total Fund

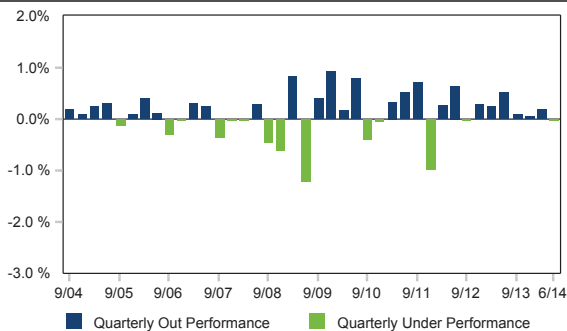
As of June 30, 2014

Total Plan Performance Summary

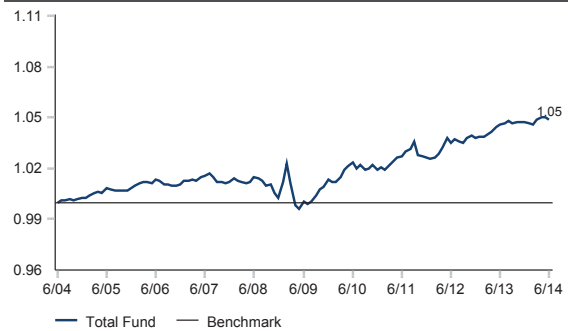
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



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As of June 30, 2014

Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value (\$)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
Total Fund	149,097,956,343	100.0	100.0	3.9 (46)	5.7 (52)	17.4 (29)	10.0 (34)	13.1 (29)	7.5 (29)
Performance Benchmark				3.9 (46)	5.5 (65)	17.0 (41)	9.3 (61)	12.1 (70)	7.0 (67)
Absolute Nominal Target Rate of Return				2.1 (97)	4.8 (88)	7.2 (98)	6.9 (99)	7.1 (100)	7.1 (61)
Global Equity*	89,816,448,308	60.2	59.7	4.7	6.1	23.5	11.6	16.0	7.6
Asset Class Target				4.8	6.2	23.4	10.5	14.9	7.1
Domestic Equities	41,497,580,187	27.8		4.7 (30)	6.7 (25)	25.3 (40)	16.5 (25)	19.5 (34)	8.3 (46)
Asset Class Target				4.9 (24)	6.9 (18)	25.2 (42)	16.5 (27)	19.3 (45)	8.2 (51)
Foreign Equities	42,219,568,091	28.3		4.7 (43)	5.6 (35)	22.0 (43)	7.4 (43)	13.1 (15)	8.8 (21)
Asset Class Target				4.8 (36)	5.8 (29)	22.3 (38)	6.0 (75)	11.6 (75)	8.0 (47)
Global Equities	6,101,092,834	4.1		4.2	5.5	22.2	10.8	14.6	7.1
Benchmark				4.9	6.2	23.6	11.3	15.0	8.0
Fixed Income	30,067,981,116	20.2	20.9	1.7 (92)	3.0 (95)	3.8 (96)	4.0 (84)	6.5 (65)	5.3 (60)
Asset Class Target				1.6 (95)	2.8 (98)	3.3 (97)	3.3 (94)	4.6 (100)	4.9 (84)
Private Equity	8,075,293,669	5.4	5.4	6.6	12.4	19.9	12.3	15.2	8.7
Asset Class Target				5.6	9.1	28.2	19.5	22.6	12.2
Secondary Target**				3.4	11.1	20.5	14.6	17.1	14.7
Real Estate	11,057,496,324	7.4	7.6	3.1 (29)	6.9 (18)	14.9 (13)	14.2 (10)	9.6 (19)	9.0
Asset Class Target				2.8 (42)	5.9 (48)	12.9 (52)	11.9 (37)	8.2 (50)	4.4
Strategic Investments	8,112,038,740	5.4	5.5	2.3	5.8	13.2	10.9	15.9	
Short-Term Target				2.6	4.6	11.3	8.1	9.5	
Cash	1,968,698,186	1.3	1.0	0.1	0.1	0.2	0.3	0.6	1.0
iMoneyNet First Tier Institutional Money Market Funds Net Index				0.0	0.0	0.0	0.0	0.1	1.9

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.

** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

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As of June 30, 2014

Asset Allocation & Performance

	Performance(%)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Total Fund	16.9 (25)	14.2 (12)	-0.5 (75)	13.5 (35)	20.8 (32)	-26.7 (46)	9.1 (39)	14.6 (46)	7.8 (68)	12.0 (58)
Performance Benchmark	15.9 (40)	12.8 (56)	-1.2 (86)	12.9 (48)	19.5 (40)	-26.1 (39)	8.9 (41)	14.4 (50)	7.3 (77)	11.5 (63)
Absolute Nominal Target Rate of Return	6.6 (93)	6.8 (99)	8.1 (3)	6.6 (98)	7.9 (97)	5.1 (1)	8.9 (42)	6.6 (99)	7.6 (70)	7.4 (100)
Global Equity*	25.2	17.8	-6.5	15.9	33.7	-39.9	8.4	17.5	8.6	14.4
Asset Class Target	23.7	16.5	-7.9	15.1	33.8	-40.4	8.5	18.4	8.7	14.1
Domestic Equities	34.1 (53)	16.3 (48)	1.6 (21)	17.2 (65)	28.8 (43)	-37.4 (43)	5.3 (42)	14.7 (52)	6.3 (67)	12.3 (68)
Asset Class Target	33.6 (59)	16.4 (41)	1.0 (30)	16.9 (70)	28.3 (55)	-37.3 (40)	5.1 (43)	15.7 (31)	6.1 (77)	11.9 (89)
Foreign Equities	17.4 (60)	19.3 (27)	-12.9 (45)	15.2 (7)	42.7 (11)	-44.4 (34)	16.1 (31)	26.4 (55)	16.1 (54)	21.3 (34)
Asset Class Target	16.0 (76)	17.2 (83)	-14.6 (80)	13.0 (42)	43.7 (10)	-46.1 (74)	16.4 (23)	26.7 (49)	16.6 (44)	20.9 (39)
Global Equities	26.3	15.6	-5.7	10.4	32.8	-41.8	10.2	20.0	9.4	15.4
Benchmark	25.4	16.0	-6.7	13.1	34.6	-42.1	11.8	21.1	11.3	16.4
Fixed Income	-1.5 (53)	6.4 (61)	7.6 (44)	9.2 (34)	14.4 (45)	-3.9 (43)	6.7 (37)	4.7 (51)	2.8 (34)	5.0 (65)
Asset Class Target	-2.1 (70)	4.2 (89)	7.8 (37)	6.5 (92)	5.9 (89)	5.2 (5)	7.2 (32)	4.7 (49)	2.5 (48)	4.7 (79)
Private Equity	15.0	12.4	8.0	18.6	-12.1	-4.3	16.5	12.2	12.9	0.6
Asset Class Target	36.6	19.4	4.0	19.9	32.8	-32.8	9.6	20.2	10.6	16.5
Secondary Target**	17.0	14.9	14.7	17.2	-9.6	-5.3	30.0	22.6	36.4	19.2
Real Estate	16.8 (11)	14.4 (7)	14.5 (17)	5.1 (73)	-22.8 (35)	-1.5 (20)	13.6 (61)	22.5 (25)	17.2 (78)	17.4 (23)
Asset Class Target	11.2 (50)	12.2 (25)	15.3 (11)	8.8 (64)	-29.7 (58)	-1.1 (19)	12.1 (82)	6.5 (94)	8.8 (100)	7.8 (100)
Strategic Investments	16.1	15.2	5.5	8.9	22.0	-37.4				
Short-Term Target	11.6	9.1	4.2	3.5	20.8	-33.6				
Cash	0.2	0.3	0.3	0.4	1.7	-5.8	4.1	5.1	3.4	1.4
iMoneyNet First Tier Institutional Money Market Funds Net Index	0.0	0.1	0.1	0.2	0.7	3.0	5.4	5.1	3.4	1.4

* 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.

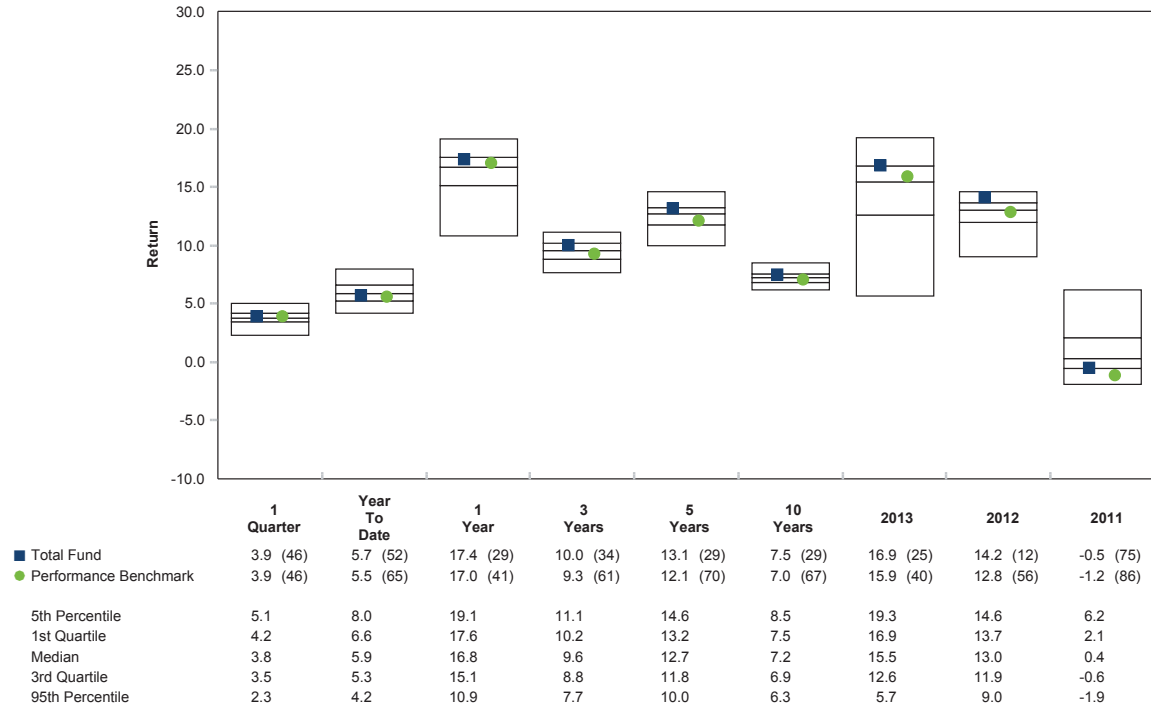
** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index.

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As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-Total Fund



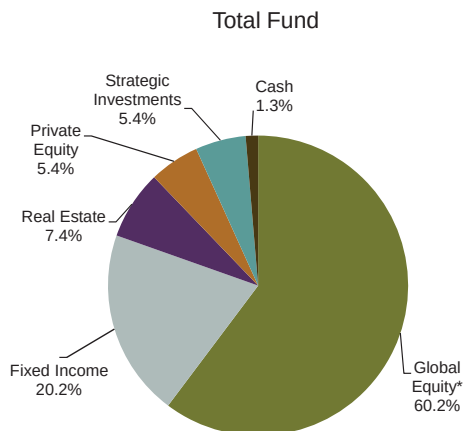
Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

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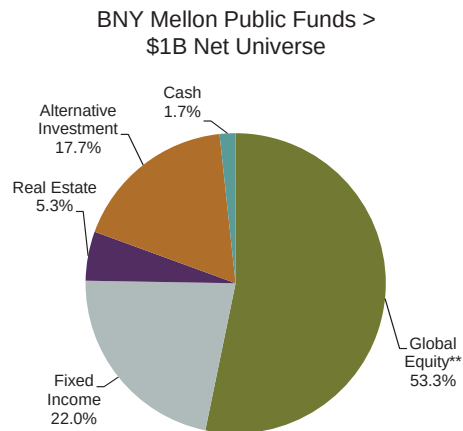
Total Fund

As of June 30, 2014

Universe Asset Allocation Comparison



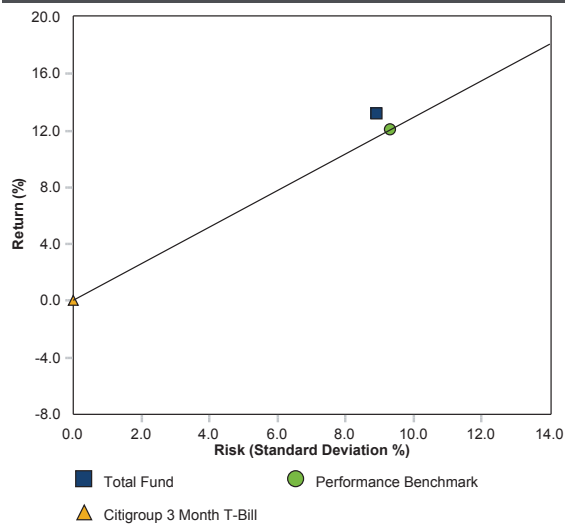
*Global Equity Allocation: 27.8% Domestic Equities; 28.3% Foreign Equities; 4.1% Global Equities. Percentages are of the Total FRS Fund.



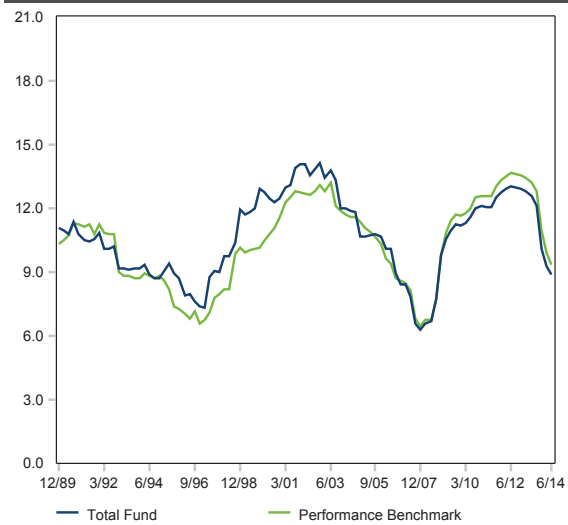
**Global Equity Allocation: 29.4% Domestic Equities; 23.9% Foreign Equities.

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Total Fund Risk Profile

Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation

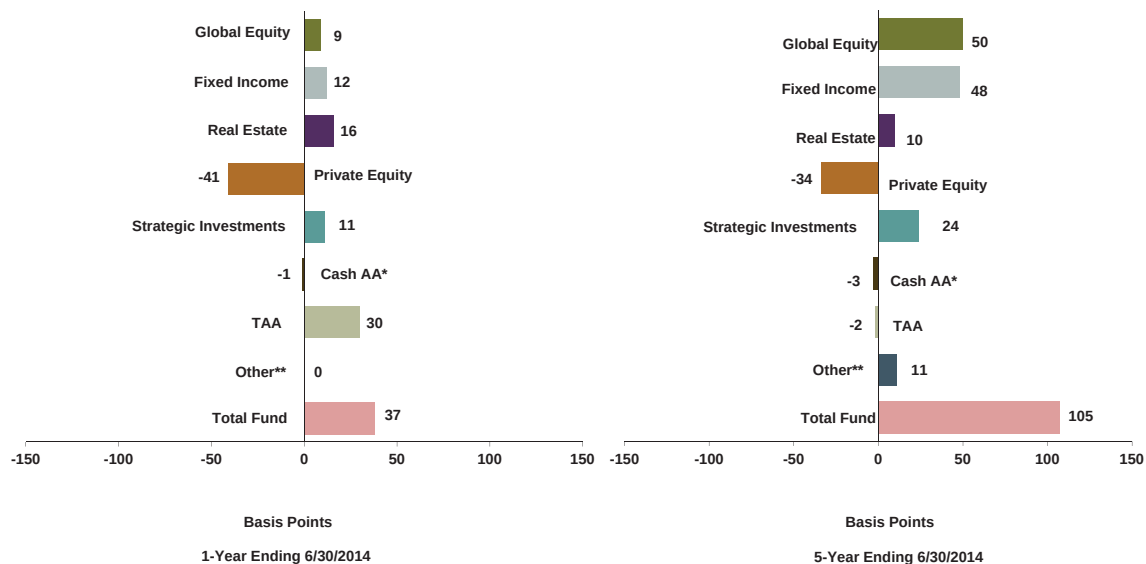


5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Total Fund	0.92	0.78	1.18	0.99	1.43	1.49	0.95	13.14	8.91	1.00
Performance Benchmark	0.00	0.00	N/A	1.00	1.27	0.00	1.00	12.08	9.33	1.00
Citigroup 3 Month T-Bill	-11.81	9.33	-1.27	0.01	N/A	0.07	0.00	0.07	0.02	0.12

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Attribution



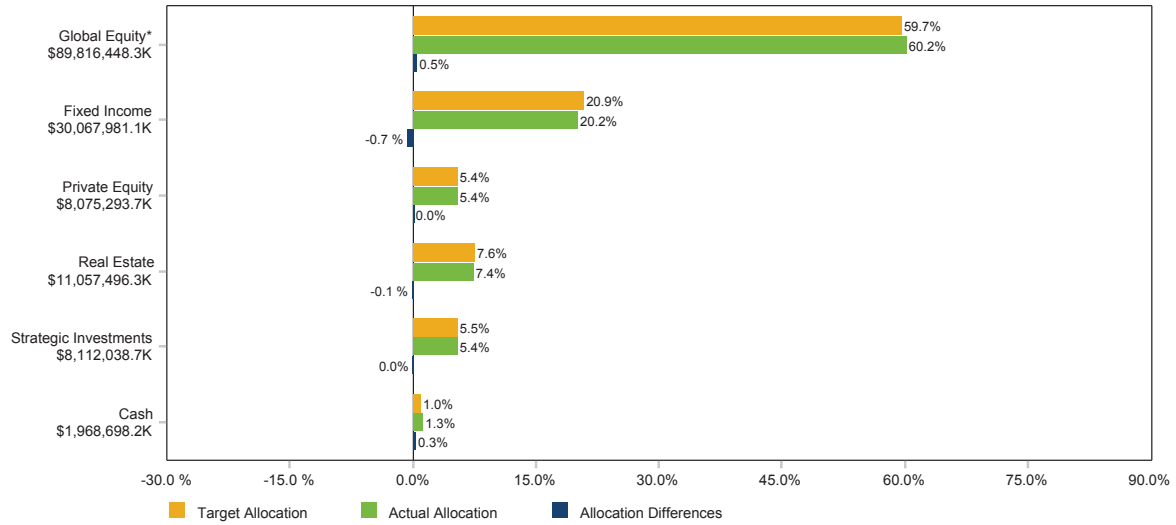
*Cash AA includes Cash and Central Custody, Securities Lending Account income from 12/2009 to 3/2013 and unrealized gains and losses on securities lending collateral beginning June 2013, TF STIPFRS NAV Adjustment Account, and the Cash Expense Account.

**Other includes legacy accounts and unexplained differences due to methodology.

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Asset Allocation Compliance

	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	149,097,956,343	100.0	100.0		
Global Equity*	89,816,448,308	60.2	59.7	45.0	65.0
Fixed Income	30,067,981,116	20.2	20.9	10.0	26.0
Private Equity	8,075,293,669	5.4	5.4	4.0	16.0
Real Estate	11,057,496,324	7.4	7.6	2.0	9.0
Strategic Investments	8,112,038,740	5.4	5.5	0.0	16.0
Cash	1,968,698,186	1.3	1.0	0.8	5.0



* 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.



Global Equity

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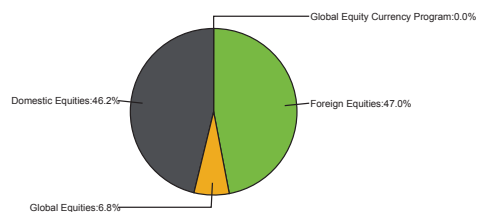
Global Equity*

As of June 30, 2014

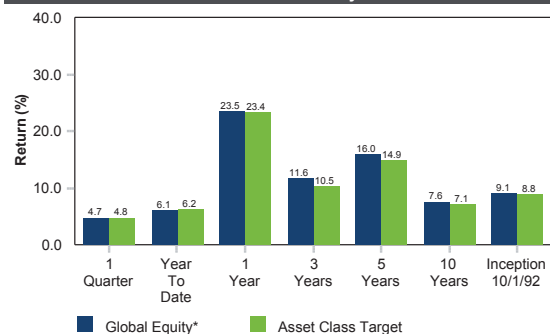
Global Equity* Portfolio Overview

Current Allocation

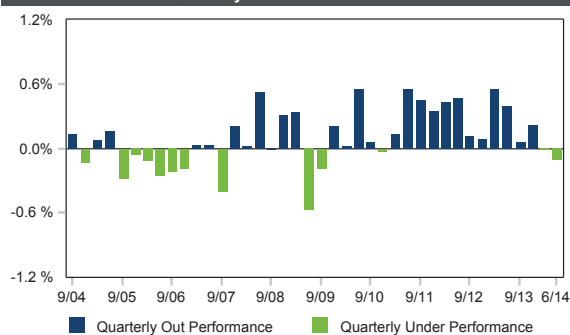
June 30, 2014 : \$89,816M



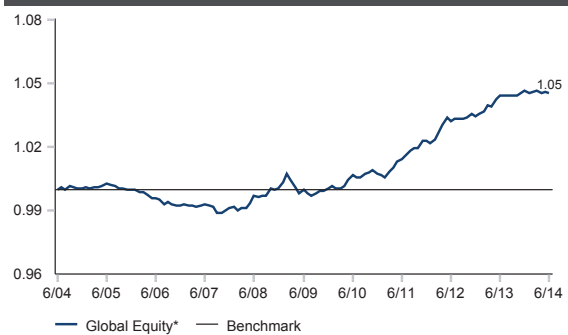
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



* 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.

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Domestic Equities

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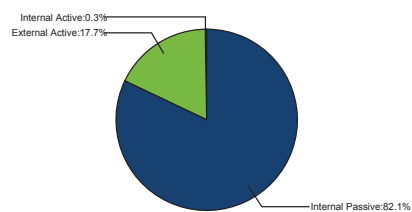
Domestic Equities

As of June 30, 2014

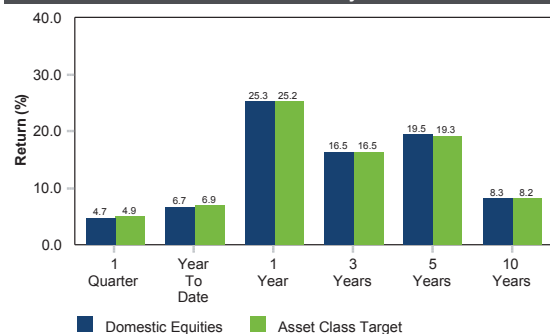
Domestic Equities Portfolio Overview

Current Allocation

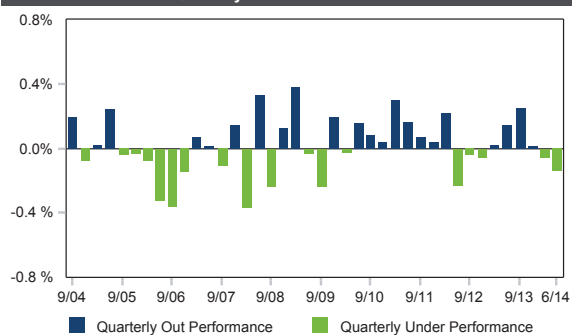
June 30, 2014 : \$41,498M



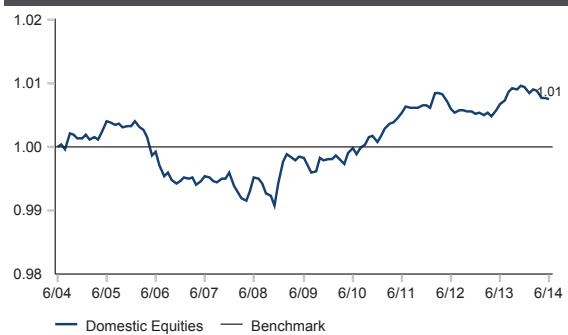
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



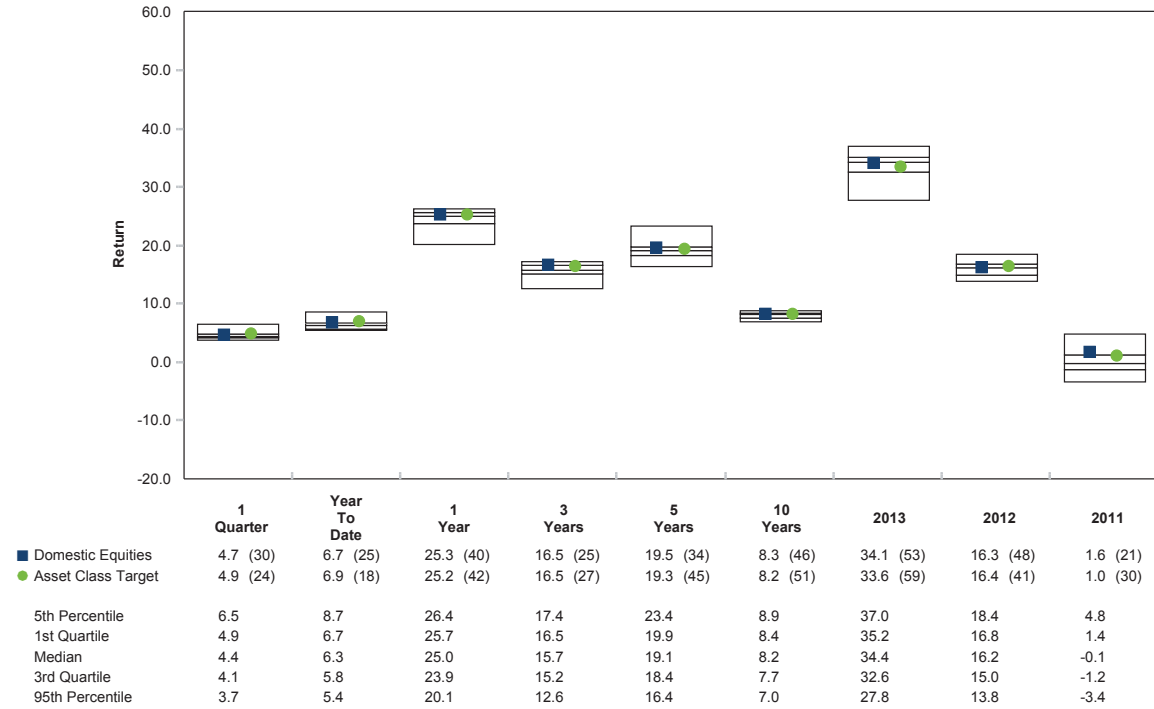
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As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Equity Segment



Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

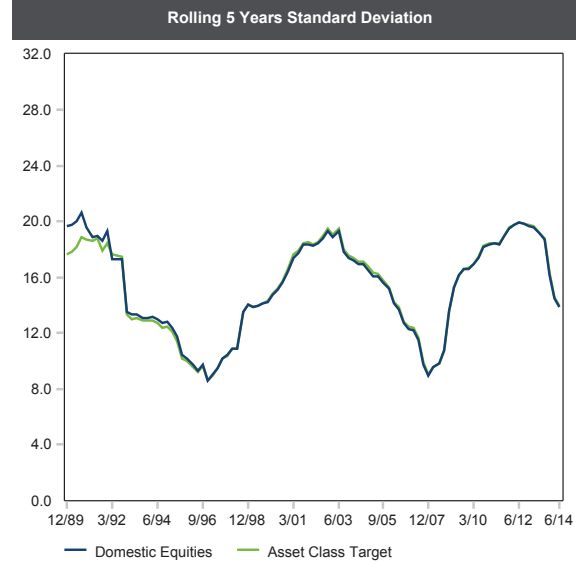
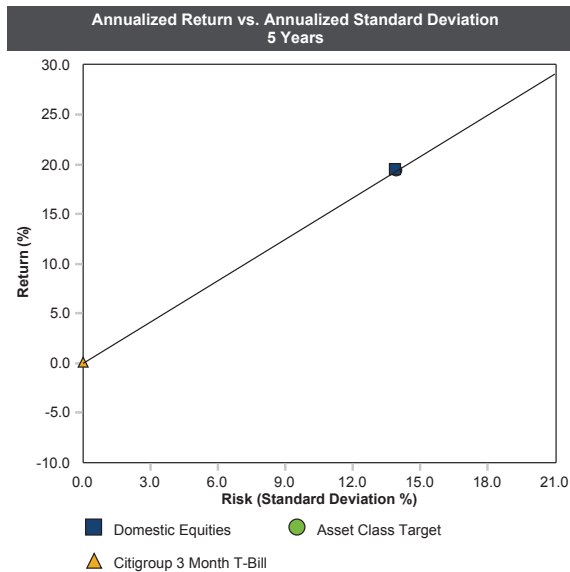
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Domestic Equities

As of June 30, 2014

Domestic Equities Risk Profile



5 Years Historical Statistics										
	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Domestic Equities	0.18	0.27	0.66	1.00	1.36	0.25	1.00	19.55	13.89	1.00
Asset Class Target	0.00	0.00	N/A	1.00	1.34	0.00	1.00	19.33	13.94	1.00
Citigroup 3 Month T-Bill	-18.68	13.94	-1.34	0.01	N/A	0.07	0.00	0.07	0.02	0.07

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Foreign Equities

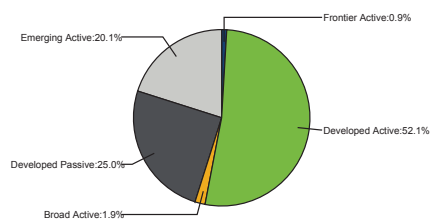
Foreign Equities

As of June 30, 2014

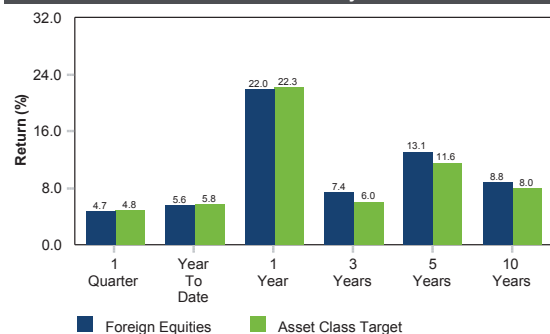
Foreign Equities Portfolio Overview

Current Allocation

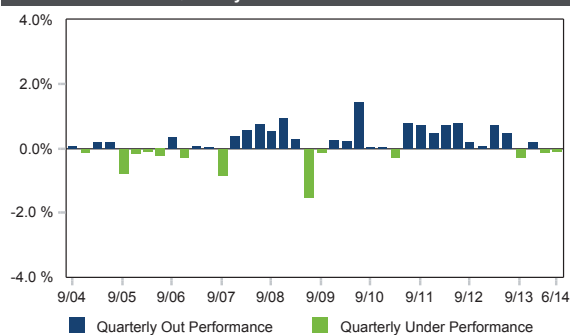
June 30, 2014 : \$42,220M



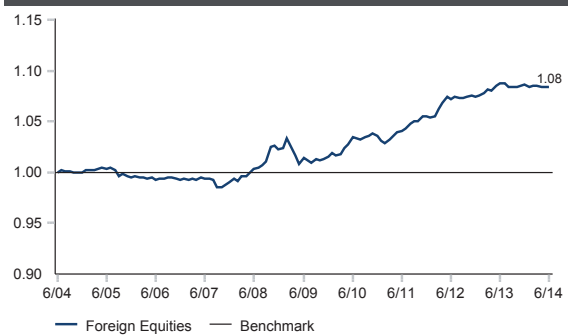
Return Summary



Quarterly Excess Performance



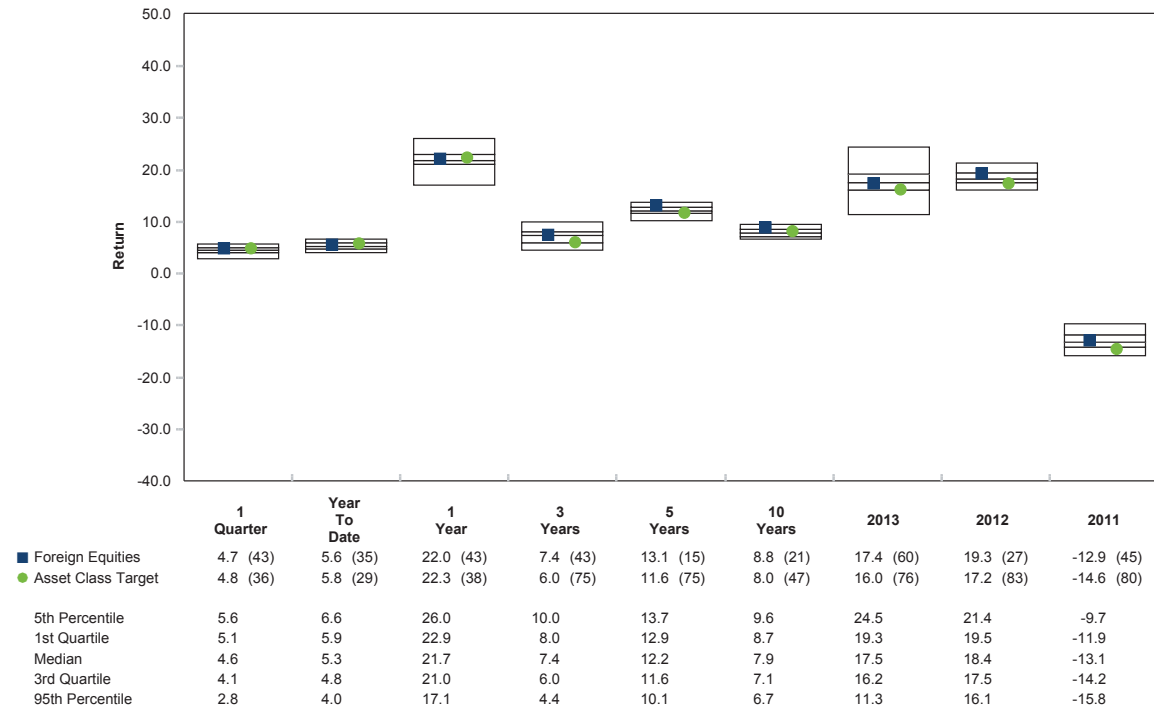
Ratio of Cumulative Wealth - 10 Years



As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-Intl. Equity Segment



Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

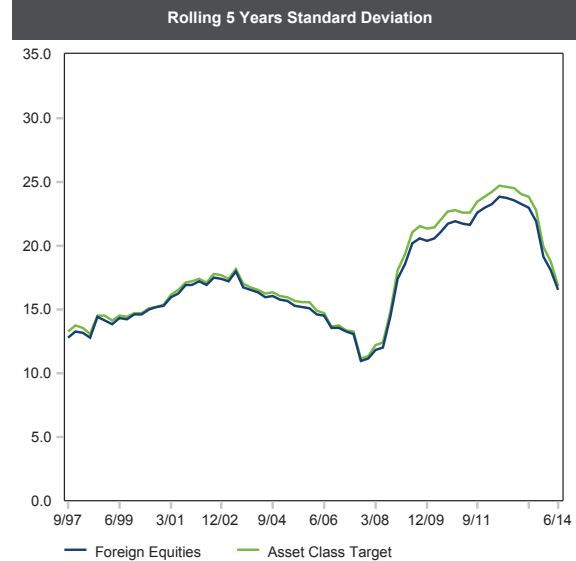
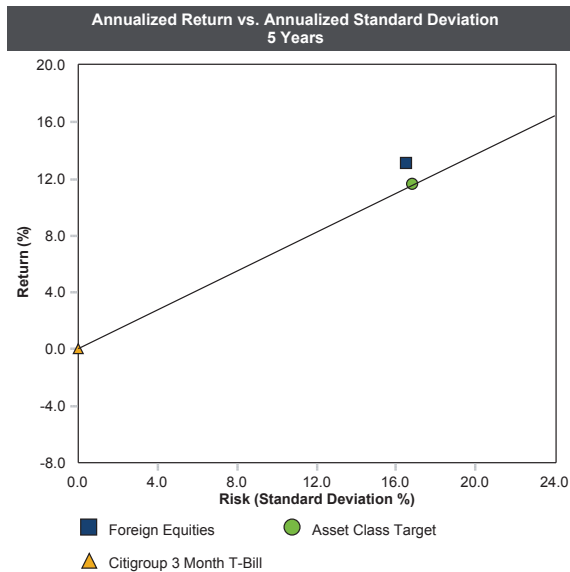
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Foreign Equities

As of June 30, 2014

Foreign Equities Risk Profile



5 Years Historical Statistics										
	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Foreign Equities	1.30	0.90	1.44	1.00	0.83	1.58	0.98	13.08	16.52	1.00
Asset Class Target	0.00	0.00	N/A	1.00	0.73	0.00	1.00	11.58	16.86	1.00
Citigroup 3 Month T-Bill	-12.34	16.86	-0.73	0.03	N/A	0.07	0.00	0.07	0.02	0.16

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Global Equities

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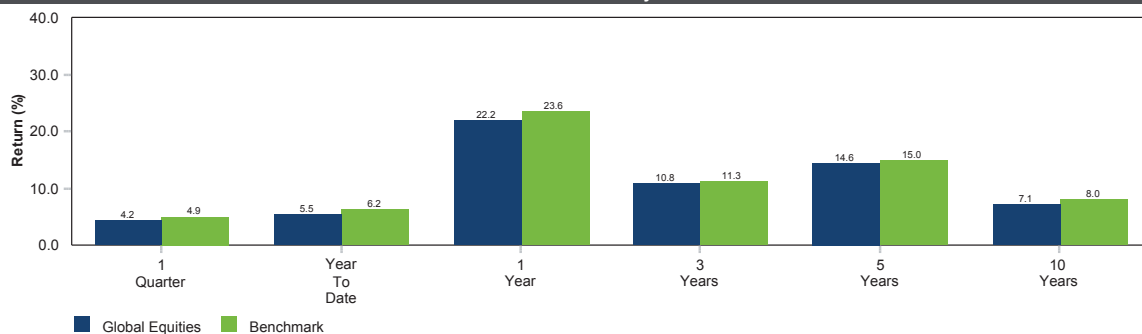
37

Global Equities

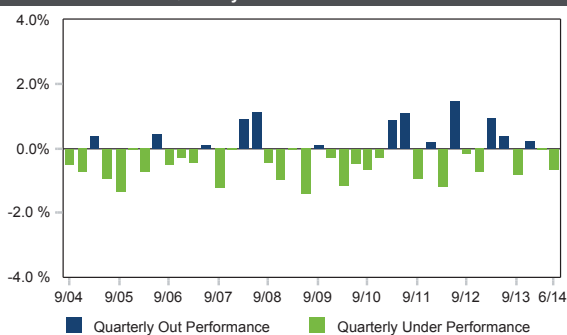
As of June 30, 2014

Global Equities Performance Summary

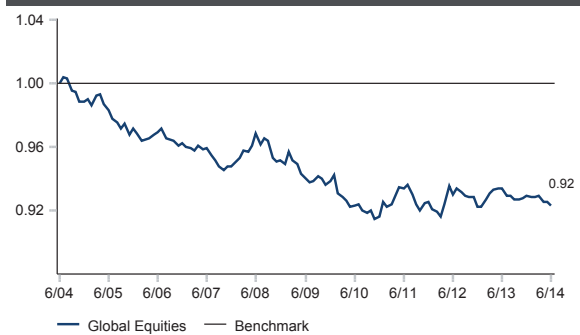
Return Summary



Quarterly Excess Performance



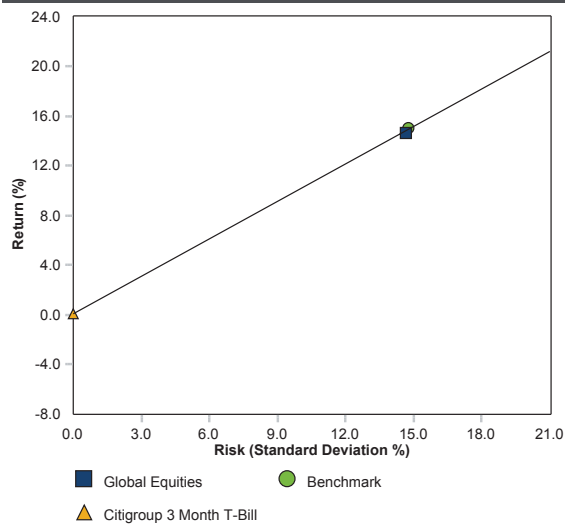
Ratio of Cumulative Wealth - 10 Years



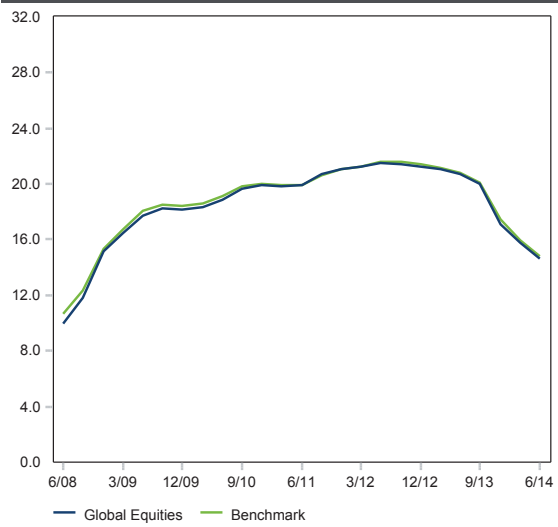
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Global Equities Risk Profile

Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation



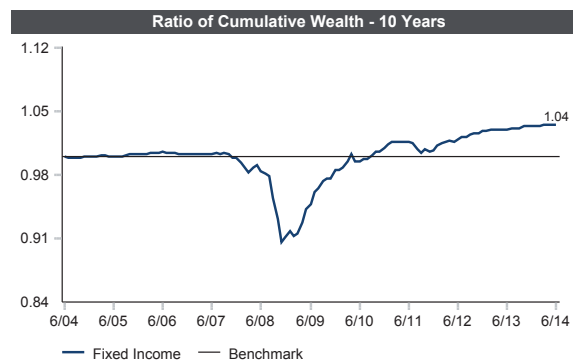
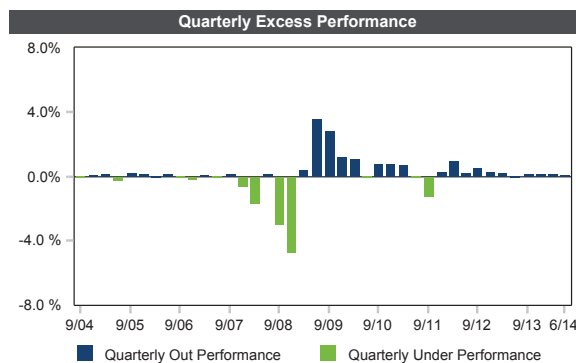
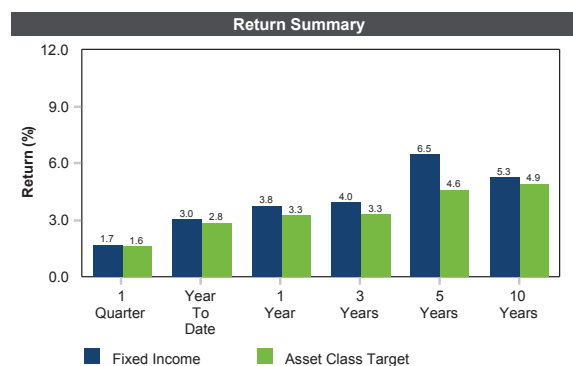
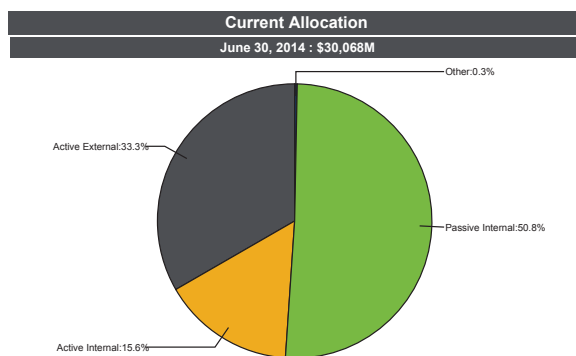
5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Global Equities	-0.39	1.47	-0.27	0.99	1.00	-0.18	0.99	14.58	14.66	1.00
Benchmark	0.00	0.00	N/A	1.00	1.02	0.00	1.00	15.01	14.80	1.00
Citigroup 3 Month T-Bill	-15.07	14.80	-1.02	0.02	N/A	0.07	0.00	0.07	0.02	0.13



Fixed Income

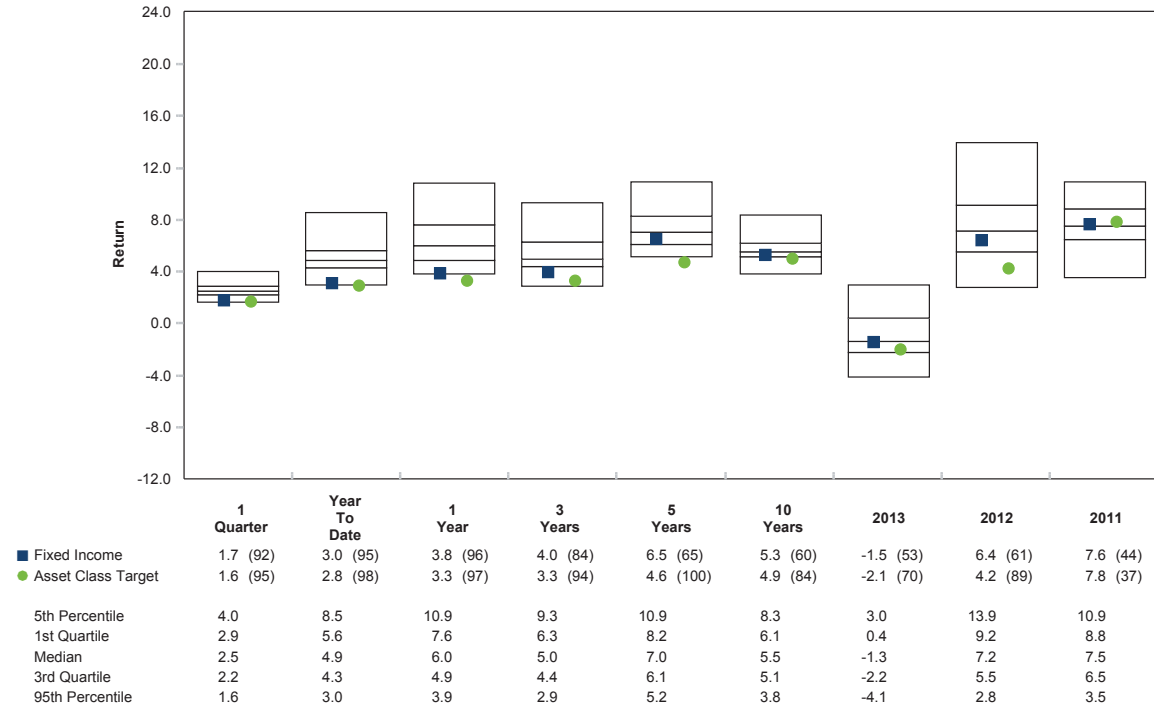
Fixed Income As of June 30, 2014 Fixed Income Portfolio Overview



As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Fixed Income Segment



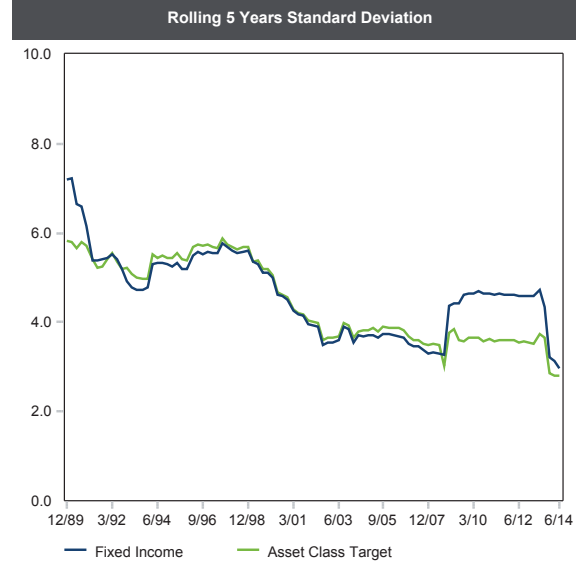
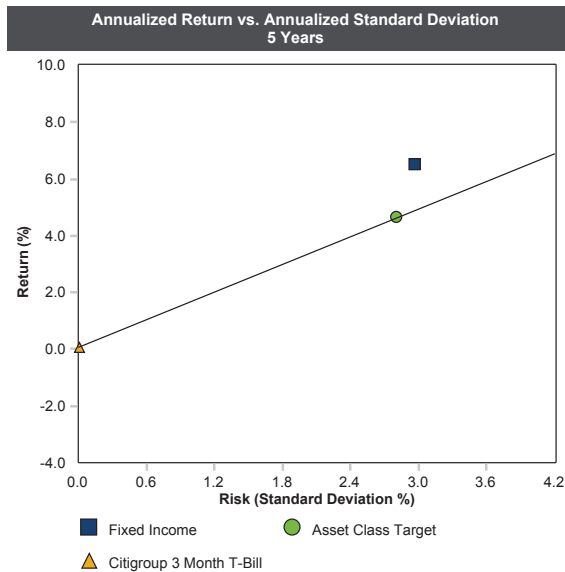
Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

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Fixed Income

As of June 30, 2014

Fixed Income Risk Profile



5 Years Historical Statistics										
	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Fixed Income	1.78	1.18	1.51	0.84	2.12	1.93	0.97	6.50	2.97	0.92
Asset Class Target	0.00	0.00	N/A	1.00	1.60	0.00	1.00	4.63	2.80	1.00
Citigroup 3 Month T-Bill	-4.50	2.80	-1.60	0.00	N/A	0.08	0.00	0.07	0.02	-0.03

Hewittennisknupp
An Aon Company



Private Equity

45

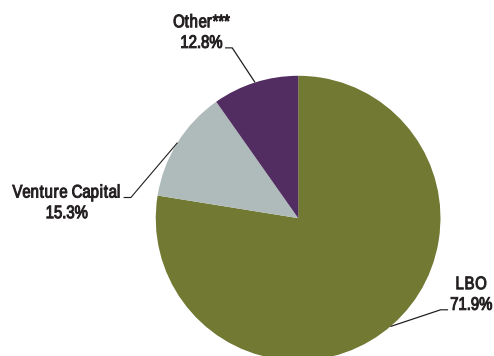
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An Aon Company

Private Equity

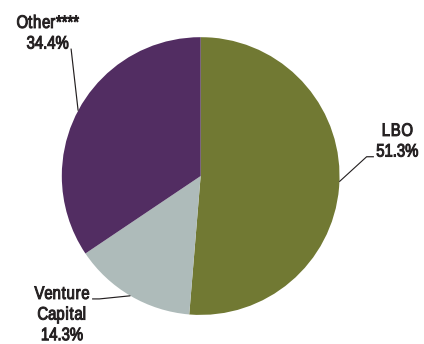
As of June 30, 2014

Overview

FRS Private Equity by Market Value*



Private Equity Strategies by Market Value**



*Allocation data is as of June 30, 2014.

**Allocation data is as of June 30, 2013, 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.

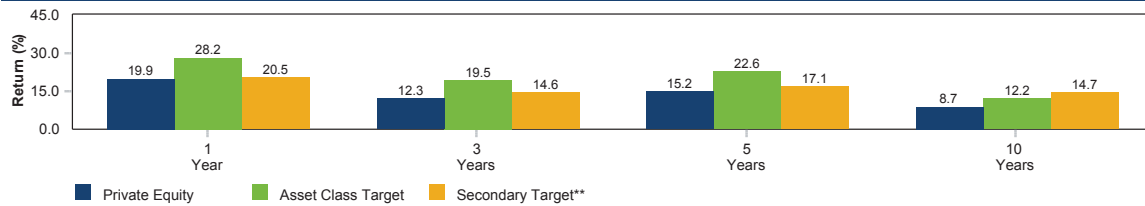
Preqin universe is comprised of 6,200 private equity funds representing \$3.2 trillion.

46

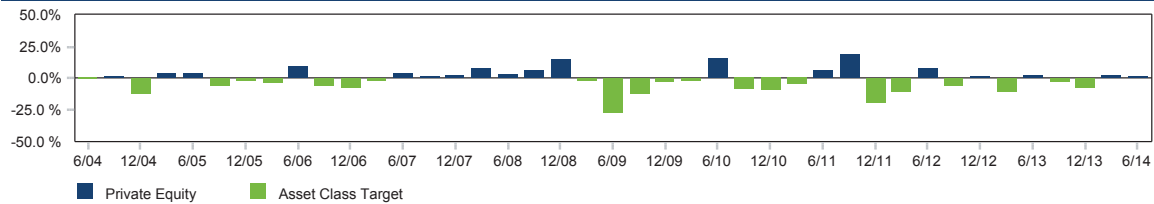
Hewittennisknupp
An Aon Company

Time-Weighted Investment Results

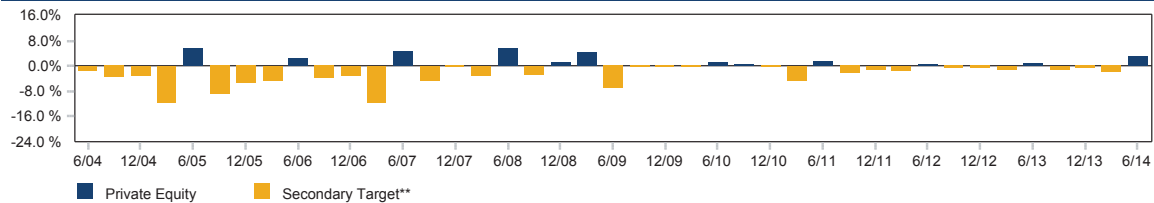
Return Summary



Quarterly Excess Performance vs. Asset Class Target



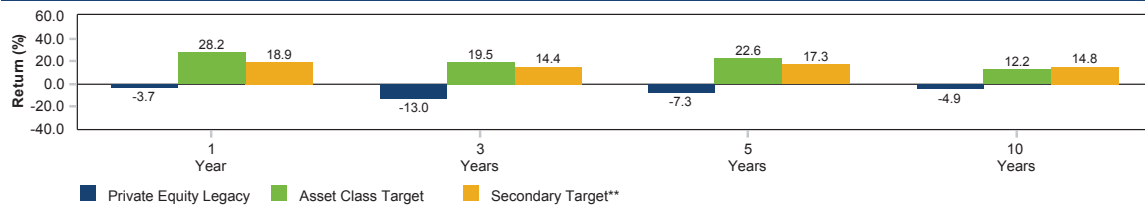
Quarterly Excess Performance vs. Secondary Target



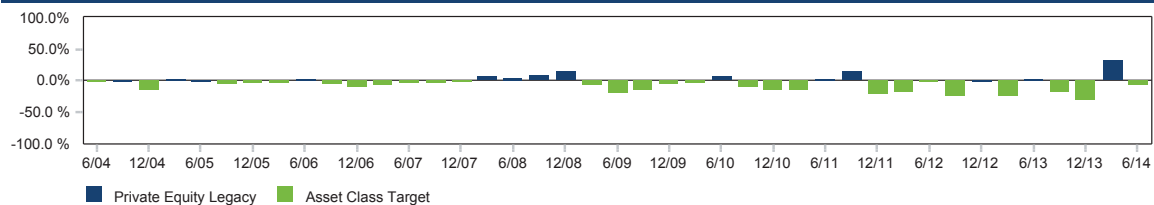
** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary target data is on a quarterly lag.

Time-Weighted Investment Results

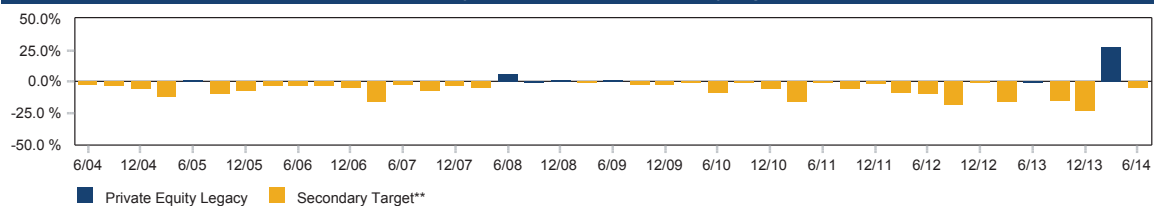
Return Summary



Quarterly Excess Performance vs. Asset Class Target



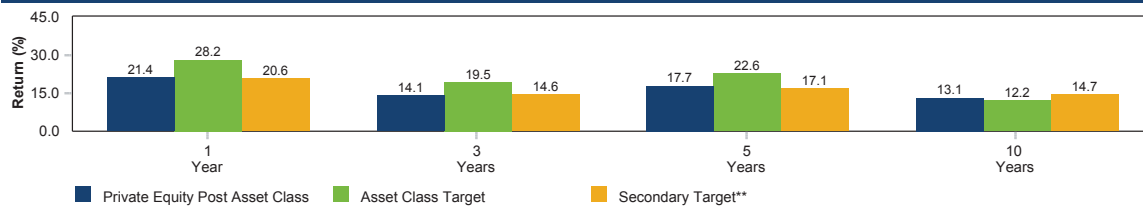
Quarterly Excess Performance vs. Secondary Target



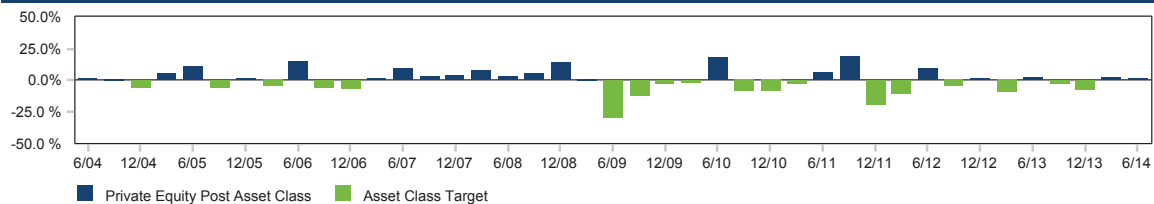
** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary target data is on a quarterly lag.

Time-Weighted Investment Results

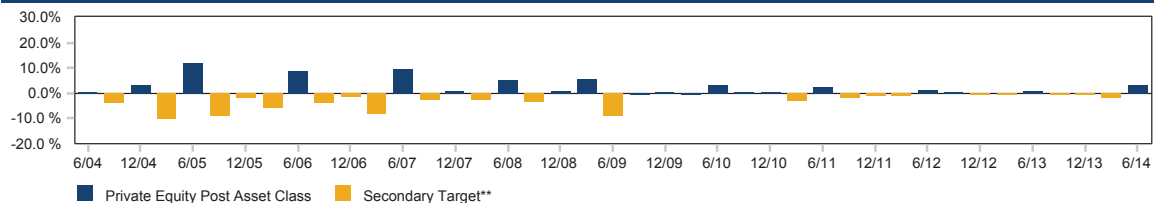
Return Summary



Quarterly Excess Performance vs. Asset Class Target



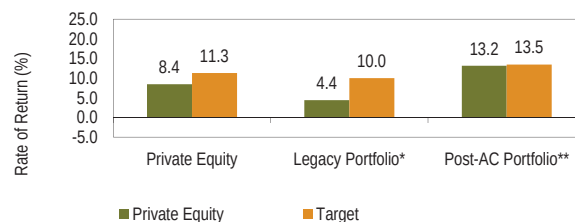
Quarterly Excess Performance vs. Secondary Target



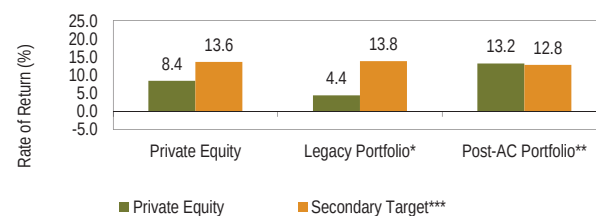
** The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary target data is on a quarterly lag.

Dollar-Weighted Investment Results

Since Inception



Since Inception



*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.

Private Equity Dollar-Weighted Performance					
Cumulative Performance Measures Since Inception Through June 30, 2014					
Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Corporate Partners	CLOSED	N/A	-\$133,709,385	\$0	N/A
Cypress Equity Group Trust Fund	CLOSED	N/A	-\$10,754,517	\$0	N/A
Centre Capital Investors II	CLOSED	N/A	\$49,152,080	\$0	N/A
Carlyle Partners II	CLOSED	N/A	-\$284,660,120	\$0	N/A
Hicks, Muse, Tate & Furst Fund III	CLOSED	N/A	\$540,221	\$0	N/A
Ripplewood Partners I	CLOSED	N/A	-\$75,695,566	\$0	N/A
Lexington Co-Investment Partners	CLOSED	N/A	-\$162,640,110	\$0	N/A
Apollo Investment Fund IV	CLOSED	N/A	-\$167,780,082	\$0	N/A
Thomas H. Lee Equity Fund IV	CLOSED	N/A	\$12,688,674	\$0	N/A
Chartwell Capital Investors II	CLOSED	N/A	-\$18,081,250	\$0	N/A
Green Equity Investors III	CLOSED	N/A	-\$71,272,553	\$0	N/A
Willis Stein & Partners II	CLOSED	N/A	\$16,660,923	\$0	N/A
Liberty Partners I	CLOSED	N/A	-\$267,690,548	\$0	N/A
Liberty Partners II	CLOSED	N/A	-\$230,207,954	\$0	N/A
Liberty Partners III	CLOSED	N/A	-\$6,894,470	\$0	N/A
Liberty Partners IV	CLOSED	N/A	\$66,000,789	\$0	N/A
Carlyle Partners III	CLOSED	N/A	-\$255,015,243	\$0	N/A
Willis Stein & Partners III	CLOSED	N/A	\$2,030,799	\$0	N/A
Thomas H. Lee Equity Fund V	CLOSED	N/A	-\$33,151,752	\$0	N/A
Ripplewood Partners II	CLOSED	N/A	-\$6,764,567	\$0	N/A
Hicks, Muse, Tate & Furst Fund IV	CLOSED	N/A	\$133,564,790	\$0	N/A
TSG Capital Fund III	CLOSED	N/A	\$46,347,448	\$23,246	N/A
Apollo Investment Fund V	CLOSED	N/A	-\$228,690,025	\$0	N/A
Hicks, Muse, Tate & Furst Equity Fund V	CLOSED	N/A	-\$20,548,674	\$0	N/A
Green Equity Investors IV	CLOSED	N/A	-\$96,524,915	\$0	N/A
Wellspring Capital Partners III	CLOSED	N/A	-\$68,517,235	\$0	N/A
TPG Partners IV	CLOSED	N/A	-\$40,815,847	\$0	N/A
FS Equity Partners V	CLOSED	N/A	-\$43,981,800	\$0	N/A
Kohlberg Investors V	CLOSED	N/A	-\$2,741,662	\$0	N/A
Liberty Partners V	15.35	\$209,664,359	-\$49,355,366	\$2,593,734	2.8%
Lexington Capital Partners IV	13.21	\$200,000,000	-\$141,014,961	\$9,063,140	19.4%
Liberty Partners VI	12.46	\$595,484,667	\$209,041,466	\$17,927,983	-6.9%
Lexington Capital Partners V	11.89	\$100,000,000	-\$2,875,433	\$14,313,046	19.1%
Lexington Co-Investment Partners II	11.76	\$500,000,000	-\$534,194,703	\$86,534,943	25.3%
Top Tier Venture Capital II	10.76	\$120,000,000	\$31,019,923	\$72,212,227	4.8%
Gores Capital Partners I	10.44	\$50,000,000	-\$7,749,957	\$20,287,783	12.7%
Platinum Equity Capital Partners I	10.39	\$50,000,000	-\$53,383,159	\$17,543,889	58.4%
Pantheon Venture Partners II	10.38	\$100,000,000	\$58,147,500	\$90,945,776	6.5%
Grove Street Partners Ventures	10.01	\$200,000,000	\$105,765,843	\$194,049,047	7.7%
Kelso Investment Associates VII	10.00	\$50,000,000	-\$27,391,863	\$6,381,000	12.0%
Fairview Ventures Fund II	10.00	\$50,000,000	\$31,817,262	\$36,623,680	1.7%
Hellman & Friedman Capital Partners V	9.56	\$75,000,000	-\$104,556,834	\$9,826,509	28.0%
New Mountain Partners II	9.47	\$50,000,000	-\$32,110,099	\$6,717,864	13.2%

Private Equity Dollar-Weighted Performance (continued)					
Cumulative Performance Measures Since Inception Through June 30, 2014					
Name	Years Since Inception	Commitment	Net Paid In Cap.	Net Asset Value	IRR
Top Tier Venture Capital III	9.22	\$75,000,000	\$41,333,159	\$63,059,063	5.7%
Carlyle Partners IV	9.18	\$75,000,000	-\$52,423,554	\$22,078,841	13.3%
Warburg Pincus Private Equity IX	8.83	\$75,000,000	-\$28,845,244	\$31,839,022	11.0%
Lexington Co-Investment Partners 2005	8.79	\$500,000,000	\$235,209,178	\$330,291,962	3.4%
Pomona Capital VI	8.79	\$50,000,000	\$11,546,289	\$26,104,529	5.8%
Liberty Partners VII	8.68	\$298,408,542	\$40,079,200	\$19,958,872	-5.9%
Lexington Capital Partners VI B	8.57	\$100,000,000	\$25,355,139	\$53,157,174	7.2%
Apollo Investment Fund VI	8.56	\$200,000,000	\$4,296,899	\$146,944,780	10.7%
Wellspring Capital Partners IV	8.43	\$75,000,000	\$12,209,105	\$44,077,156	8.0%
Blackstone Capital Partners V	8.30	\$150,000,000	\$53,848,568	\$122,907,704	7.3%
TowerBrook Investors II	8.25	\$75,000,000	\$9,845,768	\$46,030,826	9.6%
Thoma Cresseay Fund VIII	8.24	\$50,000,000	-\$9,198,470	\$49,575,818	15.0%
TPG Partners V	8.01	\$100,000,000	\$51,275,309	\$71,463,462	3.6%
Fairview Ventures Fund III	8.01	\$75,000,000	\$44,592,216	\$79,706,051	13.1%
Perrini IV	7.87	\$60,000,000	\$21,961,067	\$51,835,609	8.2%
Lindsay Goldberg & Bessemer II	7.87	€ 100,000,000	\$6,390,530	\$55,727,171	8.9%
Grove Street Partners Buyouts	7.76	\$150,000,000	\$61,905,529	\$105,182,686	9.0%
Thomas H Lee Equity Fund VI	7.63	\$75,000,000	\$48,076,328	\$72,960,609	6.5%
First Reserve Fund XI	7.63	\$100,000,000	\$49,842,284	\$58,096,009	1.8%
3i EuroPartners Vb	7.63	\$99,000,000	\$52,640,827	\$52,868,095	0.1%
RCP Advisors Fund IV	7.51	€ 50,000,000	\$13,159,058	\$37,408,103	11.0%
Hellman & Friedman Capital Partners VI	7.45	\$100,000,000	-\$14,778,644	\$49,573,250	12.2%
Providence Equity Partners VI	7.30	\$50,000,000	\$22,640,462	\$35,012,069	5.3%
Carlyle Partners Europe III	7.28	\$49,000,000	\$22,903,941	\$46,985,904	8.8%
Green Equity Investors V	7.16	€ 100,000,000	\$14,570,003	\$83,043,240	18.1%
Gores Capital Partners II	6.93	\$50,000,000	\$9,486,576	\$29,375,919	10.7%
New Mountain Partners III	6.90	\$100,000,000	\$62,472,228	\$97,056,707	10.3%
Carlyle Partners V	6.76	\$200,000,000	\$75,321,452	\$176,788,509	13.4%
Kohlberg Investors VI	6.72	\$50,000,000	-\$9,254,235	\$15,157,449	14.5%
Apollo Investment Fund VII	6.70	\$200,000,000	-\$42,200,274	\$125,165,527	26.3%
Kelso Investment Associates VIII	6.70	\$100,000,000	\$71,697,085	\$88,455,340	6.9%
Platinum Equity Capital Partners II	6.70	\$75,000,000	\$2,731,708	\$52,193,201	16.6%
RCP Advisors Fund V	6.65	\$50,000,000	\$25,128,419	\$40,783,412	10.7%
Warburg Pincus Private Equity X	6.61	\$150,000,000	\$71,427,151	\$132,409,520	9.0%
Top Tier Venture Capital IV	6.40	\$100,000,000	\$65,985,146	\$113,890,523	14.0%
TPG Partners VI	6.21	\$200,000,000	\$119,531,389	\$173,682,231	10.3%
Liberty Partners Group II	6.13	\$12,625,000	\$650,395	-\$158	0.0%
PAI Europe V	6.13	\$27,500,000	\$29,522,222	\$40,383,042	7.1%
Pomona Capital VII	6.02	€ 50,000,000	\$12,458,416	\$26,832,068	10.7%
GS Partners Ventures II	6.01	\$200,000,000	\$123,874,420	\$207,084,633	20.1%
Advent International GPE VI	5.98	\$68,000,000	\$23,423,934	\$62,932,603	18.4%
TowerBrook Investors III	5.96	\$150,000,000	\$79,357,461	\$123,125,508	12.7%
CVC European Equity Partners V	5.96	\$70,000,000	\$45,458,155	\$77,551,972	12.2%

Private Equity Dollar-Weighted Performance (continued)					
Cumulative Performance Measures Since Inception Through June 30, 2014					
Name	Years Since Inception	Commitment	Net Paid in Cap.	Net Asset Value	IRR
Lindsay Goldberg III	5.96	\$100,000,000	\$53,096,989	\$69,573,750	8.9%
Thoma Bravo Fund IX	5.96	€ 50,000,000	\$35,876,181	\$48,027,814	41.5%
KKR European Fund III	5.85	\$40,000,000	\$38,573,542	\$51,761,775	9.2%
Ares Corporate Opportunities Fund III	5.77	\$100,000,000	\$18,043,942	\$63,125,043	21.9%
RCF Advisors Fund VII	5.73	€ 50,000,000	\$30,168,027	\$32,112,272	2.3%
Cressey & Company Fund IV	5.65	\$50,000,000	\$15,288,702	\$32,914,377	16.7%
Blackstone Capital Partners VI	5.65	\$200,000,000	\$88,649,706	\$105,411,627	13.2%
First Reserve Fund XII	5.63	\$200,000,000	\$131,740,535	\$154,897,580	3.6%
Carlyle Asia Growth Partners IV	5.54	\$75,000,000	\$45,070,092	\$53,961,124	5.6%
Charterhouse Capital Partners IX	5.18	\$70,000,000	\$43,770,268	\$67,005,535	13.5%
Top Tier Special Opportunities Fund	5.10	\$12,450,000	\$11,110,804	\$8,200,917	-7.5%
Riverside Capital Appreciation Fund V	5.04	€ 75,000,000	\$33,964,894	\$48,370,767	7.1%
Freeman Spogli Equity Partners VI	4.93	\$75,000,000	\$57,016,895	\$82,799,767	14.0%
Energy Capital Partners II	4.92	\$100,000,000	\$53,886,158	\$103,875,604	19.9%
KPS Special Situations Fund III	4.77	\$50,000,000	\$27,964,075	\$39,241,639	13.5%
Gores Capital Partners III	4.75	\$125,000,000	\$72,433,055	\$87,636,455	8.3%
Charlesbank Equity Fund VII	4.69	\$75,000,000	\$34,160,581	\$56,103,045	17.8%
Lexington Capital Partners VII	4.59	\$200,000,000	\$74,283,114	\$133,260,104	17.3%
3i Growth Capital Fund	4.27	\$40,000,000	\$22,475,949	\$27,040,702	3.8%
Riverside Europe Fund IV	4.04	\$40,000,000	\$37,130,583	\$44,865,874	5.8%
TA XI	3.92	€ 100,000,000	\$42,500,000	\$66,740,460	15.6%
Snow Phipps II	3.89	€ 50,000,000	\$23,040,248	\$29,882,421	11.2%
Pantheon Global Secondary Fund IV	3.86	\$100,000,000	\$41,500,034	\$68,770,423	20.9%
JH Whitney VII	3.72	\$75,000,000	\$37,767,639	\$42,495,926	5.9%
Trident V	3.67	\$75,000,000	\$59,170,255	\$66,030,076	6.3%
RCF Advisors Fund VII	3.58	\$60,000,000	\$21,012,538	\$22,576,124	3.8%
Enervest Energy XII A	3.51	\$60,000,000	\$29,656,936	\$49,792,311	13.8%
EnCap Energy Capital Fund VIII	3.37	\$75,000,000	\$45,697,409	\$54,420,780	10.8%
Corber Group V	3.20	\$50,000,000	\$29,904,186	\$33,269,762	7.8%
Montagu Private Equity Fund IV	3.10	\$40,000,000	\$20,407,383	\$24,081,539	9.0%
Wellspring Capital Partners V	3.00	\$150,000,000	\$56,586,244	\$47,402,950	-10.2%
GS Partners Buyouts II	2.94	€ 200,000,000	\$55,284,273	\$57,419,240	2.8%
Fairview Special Opportunities Fund	2.92	\$25,000,000	\$77,701,823	\$89,573,604	14.8%
ABRY Partners VII	2.89	\$75,000,000	\$58,823,327	\$68,941,984	9.3%
Hellman & Friedman Capital Partners VII	2.89	\$200,000,000	\$118,006,819	\$129,950,480	6.7%
Berkshire Fund VIII	2.85	\$60,000,000	\$22,482,568	\$21,653,689	-2.8%
BC European Capital IX	2.78	\$70,000,000	\$46,943,119	\$53,543,931	9.1%
Strategic Investors Fund V A	2.75	\$125,000,000	\$63,619,641	\$72,645,814	11.4%
Francisco Partners III	2.68	€ 75,000,000	\$55,882,624	\$69,394,988	15.3%
TPG Growth II	2.52	\$100,000,000	\$47,375,183	\$53,897,092	12.5%
TrueBridgeFLSBA Special Purpose	2.45	\$50,000,000	\$26,975,000	\$33,252,858	20.1%
TrueBridge - Kauffman Fellows Endowment Fund III	2.45	\$100,000,000	\$77,392,350	\$92,524,321	12.3%
Lexington Co-Investment Partners 2005 II Post III	2.38	\$500,000,000	\$194,780,913	\$220,414,406	15.0%
Platinum Equity Capital Partners III	2.26	\$200,000,000	\$24,432,327	\$46,662,998	21.0%

Private Equity Dollar-Weighted Performance (continued)					
Cumulative Performance Measures Since Inception Through June 30, 2014					
Name	Years Since Inception	Commitment	Net Paid in Cap.	Net Asset Value	IRR
Desham Commodity Partners Fund VI	2.25	\$100,000,000	\$32,893,595	\$36,079,649	8.3%
Thoma Bravo Fund X	2.24	\$100,000,000	\$59,861,875	\$97,975,571	32.0%
Providence Equity Partners VII	2.14	\$150,000,000	\$32,765,529	\$31,496,731	-3.4%
Warburg Pincus Private Equity XI	2.10	\$200,000,000	\$93,552,185	\$90,711,724	8.2%
AXA Secondary Fund V	2.05	\$100,000,000	\$47,679,704	\$71,009,346	24.4%
Summit Partners Growth Equity Fund VIII A	2.04	\$60,000,000	\$57,039,853	\$65,259,109	19.7%
RCF Advisors Fund VIII	2.00	\$50,000,000	\$10,035,407	\$7,941,117	-22.1%
Strategic Investors Fund V-A Opportunity	1.95	\$50,000,000	\$24,256,961	\$26,650,637	9.0%
Carlyle Partners VI	1.89	\$200,000,000	\$41,148,669	\$38,521,680	-29.3%
GS Partners Ventures III	1.89	\$100,000,000	\$23,537,895	\$19,462,513	-18.1%
Apax VII	1.67	\$157,584,000	\$36,285,659	\$24,745,864	-4.8%
Green Equity Investors VI	1.67	\$200,000,000	\$56,462,534	\$64,927,975	17.9%
Ares Corporate Opportunities Fund IV	1.65	\$200,000,000	\$46,186,173	\$46,239,934	-7.2%
Advent International GPE VII	1.56	\$100,000,000	\$42,211,000	\$54,137,808	27.2%
Silver Lake Partners IV	1.52	\$100,000,000	\$15,372,265	\$13,708,604	-29.2%
EnCap Energy Capital Fund IX	1.47	\$75,000,000	\$14,250,355	\$13,518,527	-7.5%
Lexington Middle Market Investors II	1.46	\$100,000,000	\$17,197,575	\$22,456,325	66.0%
Enervest Energy Institutional Fund XII-A	1.44	€ 100,000,000	\$38,380,836	\$35,897,451	-9.5%
SVB Strategic Investors Fund V-A	1.25	\$125,000,000	\$14,442,478	\$14,385,890	-0.9%
TowerBrook Investors IV	1.14	\$180,000,000	\$1,588,145	\$1,507,238	-100.0%
KKR Asia Fund II	1.04	\$100,000,000	\$26,554,292	\$24,950,010	-14.5%
TrueBridge-Kauffman Fellows Endowment Fund III	1.01	\$150,000,000	\$22,544,440	\$20,040,188	-18.4%
KPS Special Situations Fund IV	1.01	\$150,000,000	\$12,376,347	\$12,172,287	-14.18%
Riverside Capital Appreciation Fund VI	1.01	\$75,000,000	\$9,298,553	\$7,074,130	-43.75%
TrueBridgeFLSBA Special Purpose II	1.01	\$25,000,000	\$1,283,888	\$1,263,050	-18.75%
Insight Venture Partners VIII	1.01	\$75,000,000	\$50,508,165	\$48,166,137	-10.07%
W Capital Partners III	0.89	\$75,000,000	\$18,632,133	\$18,324,588	N/A
Thoma Bravo Special Opportunities Fund I	0.86	\$50,000,000	\$22,304,922	\$30,762,954	N/A
Apollon Investment Fund VIII	0.84	\$200,000,000	\$6,889,133	\$7,231,202	N/A
AXA LBO Fund V	0.84	\$58,000,000	\$36,048,495	\$35,182,875	N/A
DCPF VI Oil and Gas Co-Investment Fund	0.75	\$50,000,000	\$4,705,809	\$4,512,739	N/A
CVC Capital Partners VI	0.71	\$75,000,000	\$79,164	\$38,790	N/A
Energy Capital Partners III	0.42	\$150,000,000	\$7,555,809	\$5,499,789	N/A
ASF VI	0.42	€ 150,000,000	\$18,575,506	\$19,379,705	N/A
Pemina V	0.40	\$73,800,000	\$21,454,378	\$19,512,676	N/A
New Mountain Partners IV	0.40	\$100,000,000	\$46,527	\$2,856,744	N/A
Atlas Capital Resources II	0.40	\$20,000,000	\$1,585,373	\$100,000.17	N/A
Post Oak Energy Partners II	0.37	\$25,000,000	\$245,356	\$4,508	N/A
SVB Capital Partners III	0.23	€ 22,500,000	\$2,636,687	\$2,591,753	N/A
Asia Alternatives FL Investor	0.13	\$150,000,000	\$679,913	\$78,269	N/A
RCF Advisors Fund IX	0.13	\$50,000,000	\$500,000	\$500,000	N/A
Thoma Bravo Fund XI	0.07	\$150,000,000	\$4,800,462	\$3,589,324	N/A
The Energy & Minerals Group Fund III	0.04	\$100,000,000	\$46,384	\$0	N/A
Robicon Technology Partners	N/A	\$50,000,000	\$20,795	\$20,795	N/A
Private Equity as Cash or Transition			\$2,147,092,218	\$7,804,694,699	8.4%



Real Estate

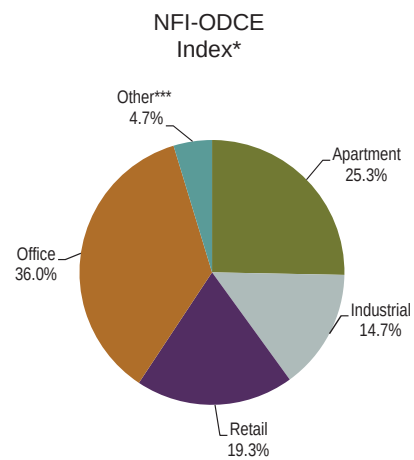
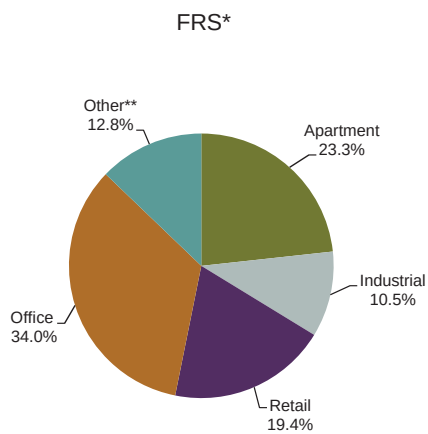
55

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Real Estate

As of June 30, 2014

Overview



*Property Allocation data is as of June 30, 2014. 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, Health Care, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

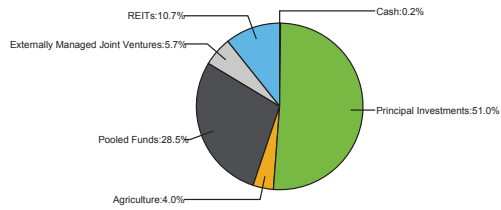
56

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Real Estate Portfolio Overview

Current Allocation

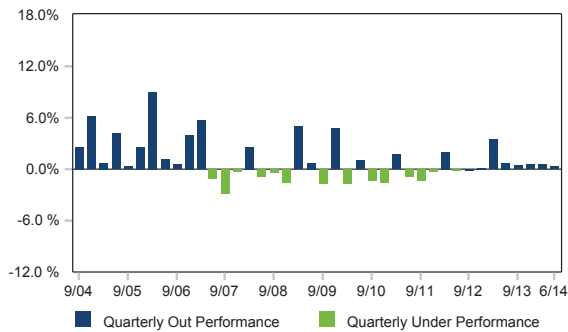
June 30, 2014 : \$11,057M



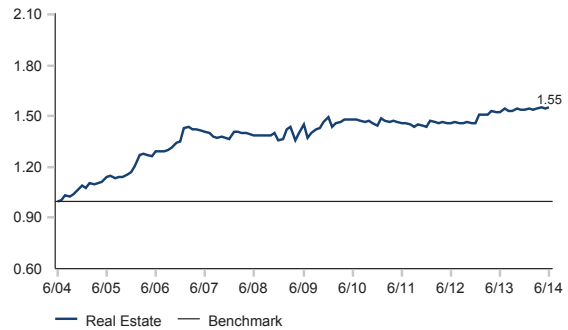
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



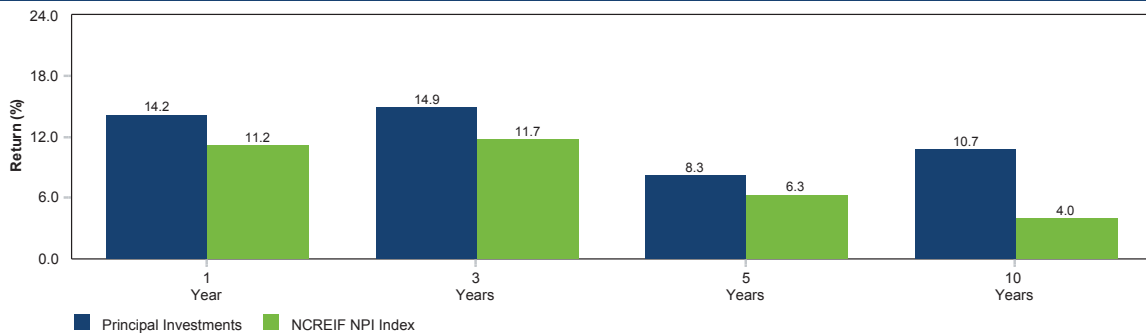
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Principal Investments

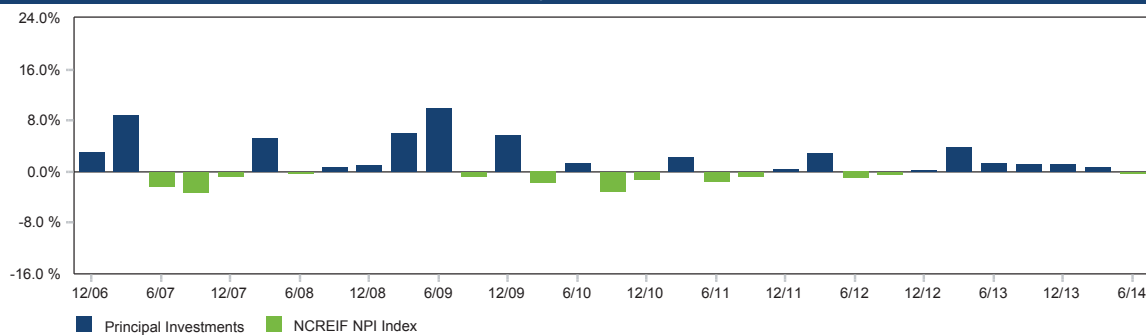
As of June 30, 2014

Principal Investments

Return Summary



Quarterly Excess Performance



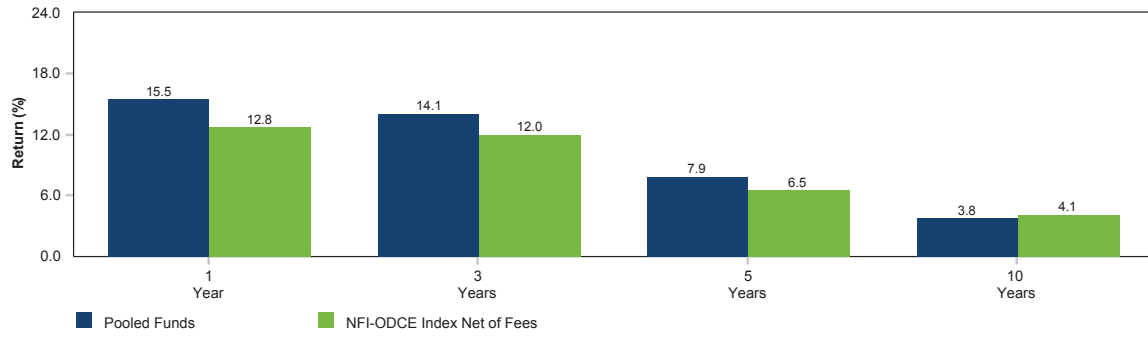
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Pooled Funds

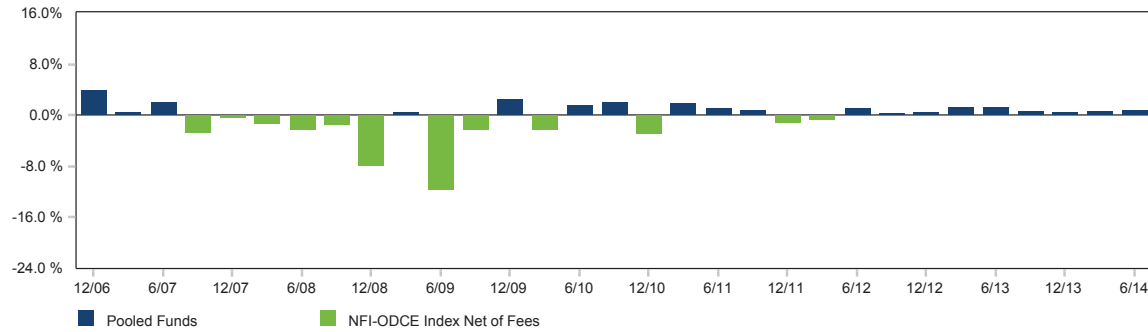
As of June 30, 2014

Pooled Funds

Return Summary



Quarterly Excess Performance

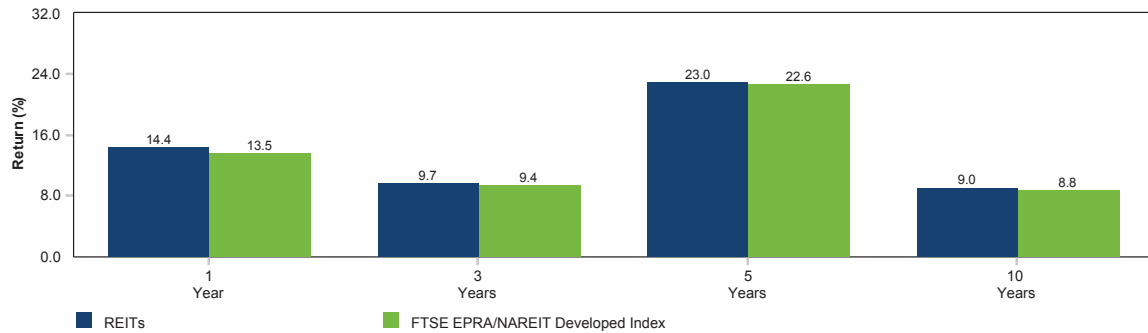


REITs

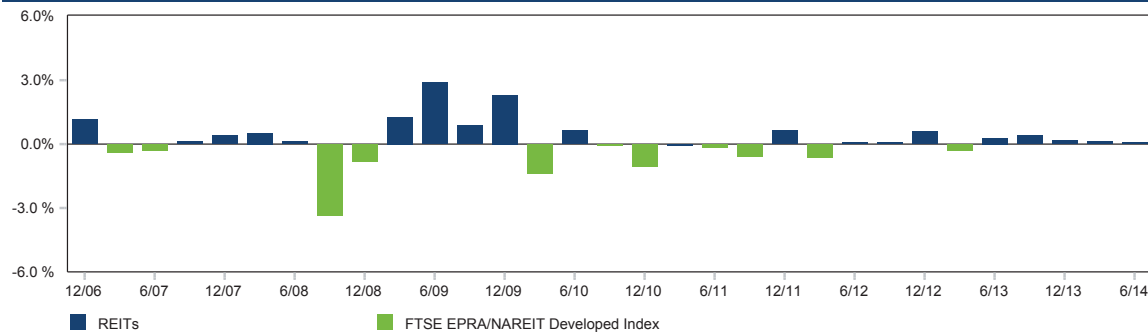
As of June 30, 2014

REITs

Return Summary



Quarterly Excess Performance



Real Estate Pooled Funds Time-Weighted Performance Measures Through June 30, 2014				
Name	Inception Date	Commitment	Net Asset Value	Since Inception Managed Return
Pooled Funds				
Beacon Capital Strategic Partners Fund V	Sep-07	\$100,000,000	\$28,339,542	-13.3%
BlackRock Retail Opportunity Fund	Nov-07	\$60,000,000	\$485,141	-33.6%
Blackstone Asia	Jan-14	\$200,000,000	\$45,088,401	4.7%
Blackstone Real Estate Partners VI	Oct-07	\$200,000,000	\$292,261,870	6.3%
Blackstone Real Estate Partners VII	May-12	\$300,000,000	\$255,165,115	24.2%
Brookfield-Fairfield US Multi	Sep-12	\$50,000,000	\$56,446,780	20.0%
Brookfield-Fairfield US Multi II	Feb-14	\$75,000,000	\$8,034,462	-5.1%
Carlyle Realty Partners VI	Feb-12	\$83,000,000	\$57,480,221	20.7%
Diamond Property Fund	Aug-06	\$100,000,000	\$44,133,152	-9.5%
Enhanced Property Fund	May-07	\$100,000,000	\$46,064,218	-0.7%
Hines US Office Value Added Fund II	Sep-07	\$135,437,699	\$41,082,401	-20.3%
JP Morgan Pooled Fund	Sep-03	\$250,000,000	\$333,113,099	7.9%
JP Morgan Special Situation Fund	Jan-08	\$150,000,000	\$134,601,451	-0.9%
Prime Property Fund	Jun-06	\$250,000,000	\$299,724,735	5.1%
Principal Financial Group Pooled Fund	Oct-03	\$175,000,000	\$261,723,580	6.3%
Prudential PRISA	Apr-05	\$250,000,000	\$269,823,112	4.5%
Prudential PRISA Fund II	Sep-07	\$145,000,000	\$148,448,214	-1.0%
Prudential PRISA III	Jan-08	\$150,000,000	\$183,389,449	-3.4%
Rockpoint Real Estate Fund III	Jan-08	\$100,000,000	\$24,330,240	-51.9%
Rockpoint Real Estate Fund IV	Jan-13	\$100,000,000	\$31,494,589	47.5%
RREEF America REIT Pooled Fund	Jul-03	\$250,000,000	\$249,209,013	6.1%
Starwood Opportunity Fund IX	Apr-13	\$100,000,000	\$78,235,414	17.2%
Tristan EPISO 3	Mar-14	€75,000,000	\$8,192,664	-10.0%
UBS Pooled Fund	Jul-03	\$200,000,000	\$249,124,860	6.9%
Total Pooled Funds			\$3,145,991,720	4.3%

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Strategic Investments

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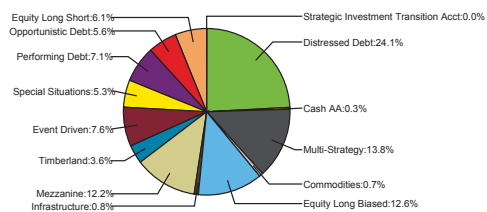
Strategic Investments

As of June 30, 2014

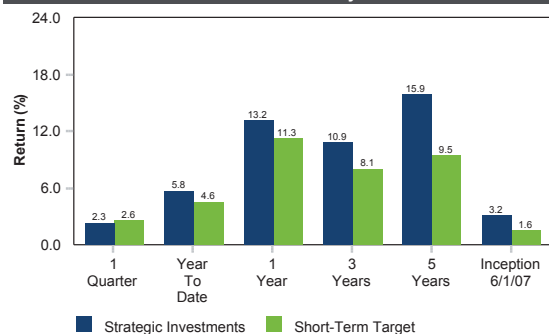
Strategic Investments Portfolio Overview

Current Allocation

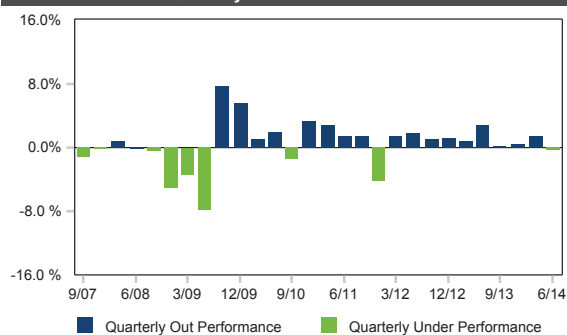
June 30, 2014 : \$8,112M



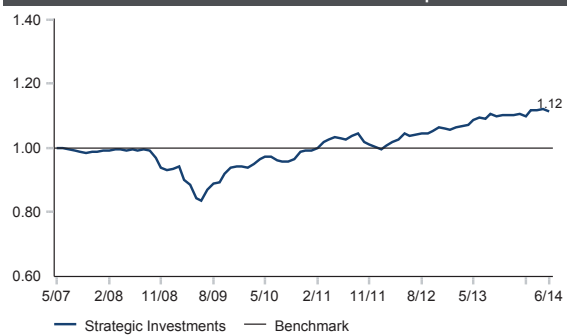
Return Summary



Quarterly Excess Performance



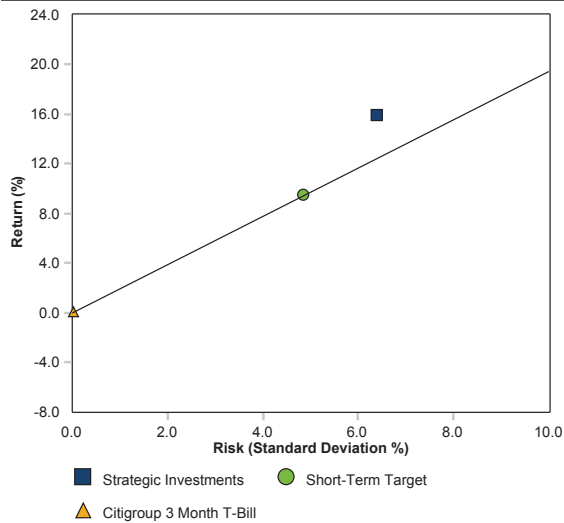
Ratio of Cumulative Wealth - Since Inception



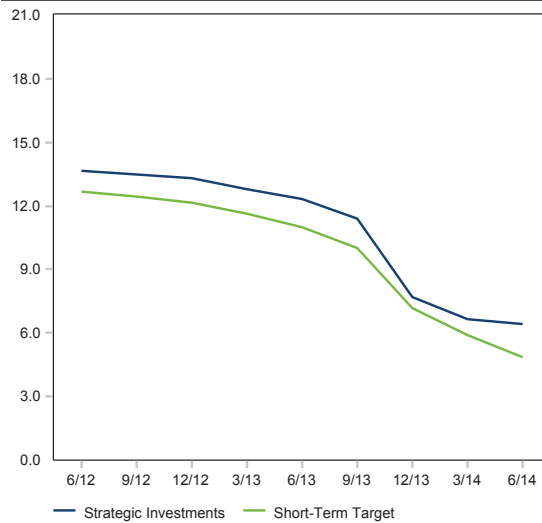
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Strategic Investments Risk Profile

Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation



5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Strategic Investments	5.89	3.79	1.55	0.65	2.35	5.42	1.07	15.93	6.40	0.81
Short-Term Target	0.00	0.00	N/A	1.00	1.88	0.00	1.00	9.45	4.85	1.00
Citigroup 3 Month T-Bill	-9.10	4.84	-1.88	0.04	N/A	0.07	0.00	0.07	0.02	0.19

Strategic Investments Value-Added Returns

For Time Periods Ending June 2014

Style/Manager	Commitment	1 Year			3 Year			5 Year			10 Year			Since Inception		
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added
Performing Debt																
Senior Loans:																
ABRY Advanced Securities Fund	\$150,000,000	49.58%	6.95%	42.62%	29.79%	6.77%	23.02%	31.87%	7.14%	24.73%				25.73%	6.31%	19.42%
ABRY Advanced Securities Fund II	\$150,000,000	15.22%	6.95%	8.27%	15.44%	6.77%	8.67%							12.42%	6.94%	5.48%
Apollo Credit Liquidity Fund	\$238,233,051	16.75%	6.95%	9.80%	16.50%	6.77%	9.73%	35.50%	7.14%	28.36%				14.06%	6.97%	7.09%
Audax Credit Opportunities	\$200,000,000	7.57%	6.95%	0.62%	7.31%	6.77%	0.54%							6.97%	7.14%	-0.17%
Blackstone Credit Liquidity Partners, L.P.	\$250,000,000	67.16%	6.95%	60.20%	23.79%	6.77%	17.01%	45.44%	7.14%	38.30%				15.96%	6.97%	8.99%
Providence TMT Debt Opportunity Fund II, L.P.	\$100,000,000	12.75%	6.95%	5.80%	12.62%	6.77%	5.85%							9.86%	7.25%	2.60%
Providence TMT Special Situation Fund	\$150,000,000	8.48%	6.95%	1.53%	10.59%	6.77%	3.82%	21.74%	7.14%	14.60%				11.67%	6.86%	4.80%
Providence Debt Fund III, L.P.	\$150,000,000													-5.24%	5.17%	-10.41%
Mezzanine																
Corporate Mezzanine:																
ABRY Senior Equity III, L.P.	\$60,000,000	18.48%	6.95%	11.53%	16.03%	6.77%	9.25%							13.78%	7.21%	6.57%
ABRY Senior Equity IV, L.P.	\$100,000,000	8.22%	6.95%	1.27%										6.35%	6.69%	-0.33%
Carlyle Mezzanine Partners II, L.P.	\$150,000,000	16.72%	6.95%	9.77%	10.56%	6.77%	3.79%	9.98%	7.14%	2.84%				7.87%	6.38%	1.49%
Crescent Mezzanine Partners VI	\$150,000,000	7.30%	6.95%	0.34%										3.74%	6.63%	-2.88%
Falcon Strategic Partners III	\$75,000,000	5.15%	6.95%	-1.80%	10.97%	6.77%	4.20%	13.13%	7.14%	5.99%				13.13%	7.14%	5.99%
Falcon Strategic Partners IV	\$100,000,000	5.16%	6.95%	-1.79%										3.60%	7.14%	-3.54%
GSO Capital Opportunities Fund	\$200,000,000	11.56%	6.95%	4.61%	23.71%	6.77%	16.94%	22.38%	7.14%	15.24%				19.75%	6.38%	13.37%
GSO Capital Opportunities Fund II	\$150,000,000	13.71%	6.95%	6.76%										21.38%	6.72%	14.66%
Levine Leichtman Capital Partners IV	\$100,000,000	9.37%	6.95%	2.42%	24.02%	6.77%	17.25%							24.97%	7.08%	17.89%
Levine Leichtman Capital Partners V	\$200,000,000													0.33%	6.32%	-6.00%
TCW Crescent Mezzanine Partners V	\$150,000,000	11.94%	6.95%	4.99%	12.34%	6.77%	5.57%	12.71%	7.14%	5.57%				9.48%	6.45%	3.03%
VSS Structured Capital II	\$75,000,000	37.01%	6.95%	30.06%	23.40%	6.77%	16.63%	12.20%	7.14%	5.06%				9.80%	7.16%	2.64%
Real Estate Mezzanine:																
Blackrock Carbon Capital III	\$100,000,000	19.78%	6.95%	12.82%	14.39%	6.77%	7.62%	10.57%	7.14%	3.43%				10.02%	7.06%	2.96%
BlackRock Carbon Capital V	\$150,000,000													2.20%	6.32%	-4.12%
Principal RE Debt (SBAF Mortgage Fund)	\$300,000,000	9.13%	6.95%	2.17%	9.70%	6.77%	2.93%							5.82%	7.06%	-1.23%

Strategic Investments Value-Added Returns (continued)																
For Time Periods Ending June 2014																
Style/Manager	Commitment	1 Year			3 Year			5 Year			10 Year			Since Inception		
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added
Distressed Debt																
Corporate Securities/Structured Products:																
Blackstone/GSO Capital Solutions Fund	\$100,000,000	25.12%	6.95%	18.17%	14.14%	6.77%	7.37%							17.34%	7.21%	10.13%
CVI Credit Value Fund A	\$100,000,000	20.85%	6.95%	13.90%	24.41%	6.77%	17.64%							20.59%	7.34%	13.24%
CVI Credit Value Fund II A, L.P.	\$200,000,000	26.57%	6.95%	19.62%										19.33%	7.48%	11.85%
CVI Global Value Fund A-Class P	\$250,000,000	27.20%	6.95%	20.25%	21.74%	6.77%	14.97%	25.97%	7.14%	18.82%				23.00%	6.45%	16.55%
Distressed Managers II FL LP	\$150,000,000	7.66%	6.95%	0.71%	-1.53%	6.77%	-8.31%	3.06%	7.14%	-4.08%				0.96%	8.88%	-7.92%
Oaktree Opportunities Fund VIII, L.P.	\$100,000,000	19.90%	6.95%	12.95%	13.29%	6.77%	6.52%							12.87%	7.12%	5.75%
Oaktree Opportunities Fund VIII, L.P.	\$50,000,000	13.41%	6.95%	6.46%										8.13%	6.74%	1.39%
Oaktree Opportunity Fund IX	\$100,000,000	7.38%	6.95%	0.41%										5.51%	7.41%	-1.90%
OCM Opportunities Fund VIIb	\$50,000,000	10.68%	6.95%	3.72%	14.76%	6.77%	7.98%	24.14%	7.14%	17.00%				13.03%	4.47%	8.56%
PCG Special Situations Partners, L.P.	\$150,000,000	21.84%	6.95%	14.89%	8.72%	6.77%	1.95%	11.26%	7.14%	4.12%	6.92%	8.38%	-1.46%	7.91%	9.49%	-1.58%
Special Situation Partners II	\$100,000,000	8.37%	6.95%	1.41%	10.16%	6.77%	3.39%	18.71%	7.14%	11.57%				6.46%	5.15%	1.31%
Varde Fund X, L.P.	\$100,000,000	14.23%	6.95%	7.28%	11.73%	6.77%	4.96%							10.38%	7.19%	3.19%
The Varde Fund XI (C), L.P.	\$200,000,000													8.25%	6.32%	1.93%
Wayzata Opportunities Fund II	\$50,000,000	28.62%	6.95%	21.67%	21.18%	6.77%	14.40%	27.80%	7.14%	20.66%				16.38%	5.24%	11.13%
Wayzata Opportunities Fund III, LP	\$150,000,000	-7.19%	6.95%	-14.14%										-15.39%	7.48%	-22.87%
Real Estate Distressed Debt:																
Bayview Opportunity Master Fund II b	\$100,000,000	26.52%	6.95%	19.57%	26.33%	6.77%	19.56%							20.21%	7.14%	13.07%
Bayview Opportunity Fund IIb	\$150,000,000	9.49%	6.95%	2.54%										7.39%	7.41%	-0.02%
Cerberus Institutional Real Estate Partners III, L.P.	\$150,000,000													2.95%	5.17%	-2.23%
Colony Distressed Credit Fund II	\$75,000,000	13.74%	6.95%	6.78%										10.05%	6.72%	3.33%
Square Mile Partners III	\$100,000,000	14.82%	6.95%	7.87%	15.46%	6.77%	8.69%	9.74%	7.14%	2.60%				6.57%	7.06%	-0.49%
Tricon IX	\$105,000,000	14.11%	6.95%	7.16%	12.22%	6.77%	5.45%	9.36%	7.14%	2.22%				9.60%	6.45%	3.15%
Tricon XI A, L.P.	\$100,000,000	18.35%	6.95%	11.40%										12.86%	6.96%	5.90%
TriGate Property Partners II, L.P.	\$50,000,000	1.33%	6.95%	-5.62%										-0.08%	6.72%	-6.81%
Opportunistic Debt																
Anchorage Capital Fund	\$150,000,000	16.00%	14.34%	1.66%										14.99%	12.30%	2.69%
King Street Capital Fund	\$200,000,000	8.46%	14.34%	-5.88%	6.65%	8.62%	-1.97%							6.46%	8.13%	-1.67%
Equity Long/Short																
Highline Capital Partners	\$150,000,000	21.12%	13.41%	7.71%	11.10%	6.50%	4.60%							9.59%	5.50%	4.09%
Scopia PX LLC	\$100,000,000	4.30%	13.41%	-9.10%										5.51%	10.06%	-4.55%
Scout Capital Partners II LP	\$200,000,000	5.42%	13.41%	-7.99%										11.97%	14.13%	-2.17%
Three Bridges Europe Fund LP	\$75,000,000	7.44%	13.41%	-5.96%										11.04%	12.20%	-1.16%
JHL Capital Group Fund LLC	\$100,000,000													-0.57%	0.27%	-0.84%

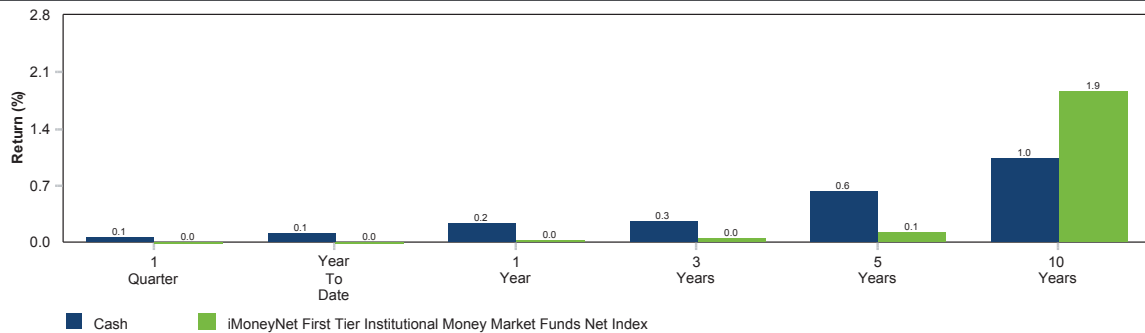
Strategic Investments Value-Added Returns (continued)																
For Time Periods Ending June 2014																
Style/Manager	Commitment	1 Year			3 Year			5 Year			Since Inception					
		Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added	Mgd Return	Bmk Return	Value Added			
Equity Long Biased																
Active Equity:																
Cevian Capital II	\$100,000,000	25.13%	29.28%	-4.15%	9.80%	8.67%	1.13%				15.59%	9.67%	5.91%			
KV Partners	\$250,000,000	30.87%	29.28%	1.59%	-1.26%	8.62%	-9.88%				1.70%	11.92%	-10.22%			
P2 Capital Fund	\$100,000,000	20.60%	23.64%	-3.04%	17.64%	14.57%	3.07%				19.60%	17.94%	1.66%			
Starboard Value and Opportunity Fund	\$125,000,000	14.74%	23.64%	-8.90%	13.89%	14.57%	-0.68%				13.52%	13.29%	0.24%			
GP Investments:																
Blackstone Unit Trusts		52.67%	25.22%	27.45%	25.52%	16.46%	9.06%	26.08%	19.33%	6.75%	4.47%	6.47%	-0.01%			
Lexington GP Holdings	\$41,250,000	9.12%	6.95%	2.17%	27.57%	6.77%	20.80%				20.04%	7.12%	12.52%			
Providence Equity Global Group	\$150,000,000	-6.32%	6.95%	-13.28%							0.23%	6.63%	-6.30%			
Timberland																
Boston Timber Opportunities	\$300,000,000	15.55%	10.78%	4.77%							10.66%	10.07%	0.59%			
Jackson Timberland Opportunities	\$150,000,000	13.30%	9.78%	3.52%							5.57%	9.07%	-3.49%			
Infrastructure																
Global Infrastructure Partners II, L.P.	\$150,000,000	23.80%	6.95%	16.85%							27.02%	6.78%	20.23%			
Commodities																
Orion Mine Finance Fund I	\$100,000,000	8.37%	6.95%	1.42%							5.11%	6.72%	-1.61%			
EIG Energy Fund XVI, L.P.	\$100,000,000										-31.51%	3.99%	-35.50%			
Special Situations																
Castlelake Aviation II	\$75,000,000	18.56%	6.95%	11.61%	16.44%	6.77%	9.67%				14.65%	7.34%	7.31%			
Florida Growth Fund	\$250,000,000	7.45%	6.95%	0.50%	8.42%	6.77%	1.65%				6.40%	7.04%	-0.64%			
Florida Growth Fund Tranche II	\$250,000,000	14.45%	6.95%	7.50%							3.17%	6.60%	-3.43%			
GI Partners III	\$100,000,000	21.23%	6.95%	14.28%	14.39%	6.77%	7.61%	17.12%	7.14%	9.98%	12.05%	7.06%	4.99%			
G.I. Partners Fund IV, L.P.												3.79%	-3.79%			
Florida Growth Fund Credit Tranche												0.74%	-0.74%			
Flexible Mandates																
Event Driven:																
Gruss Global Investors Fund	\$150,000,000	6.66%	14.09%	-7.43%							4.97%	7.11%	-2.14%			
Mason Capital Fund	\$200,000,000	6.94%	14.09%	-7.15%	6.19%	6.63%	-0.44%				5.58%	5.56%	0.02%			
Unleashed Partners, L.P.	\$150,000,000										8.39%	5.75%	2.64%			
Luxor Capital Partners	\$100,000,000										1.60%	5.45%	-3.85%			
Multi-strategy Hedge Funds:																
Davidson Kempner Institutional Partners	\$100,000,000	7.67%	14.09%	-6.43%							7.67%	14.09%	-6.43%			
OZ Domestic Partners II, L.P.	\$150,000,000	7.83%	14.09%	-6.26%							11.73%	14.50%	-2.77%			
Taconic Opportunity Fund	\$200,000,000	7.66%	14.09%	-6.43%	7.35%	6.63%	0.73%				7.15%	5.69%	1.46%			
York Capital Management L.P.	\$150,000,000	21.63%	14.09%	7.53%							19.46%	14.50%	4.96%			
HBK Fund II, L.P.	\$150,000,000										6.54%	10.83%	-4.29%			
Cash																
Strategic Investments Cash		0.08%	0.02%	0.05%	0.21%	0.04%	0.17%	0.39%	0.12%	0.28%	-0.21%	0.62%	-0.83%			
Strategic Investments		13.19%	11.26%	1.93%	10.89%	8.06%	2.83%	15.93%	9.49%	6.48%	3.15%	1.58%	1.57%			
Value-Added returns are managed returns minus benchmark returns.																
Terminated portfolios are not shown individually but are included in the aggregate.																



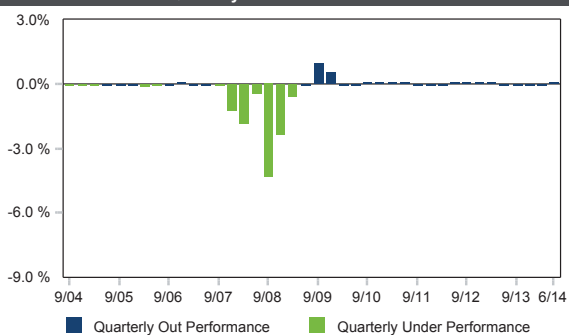
Cash

Cash As of June 30, 2014 Cash Performance Summary

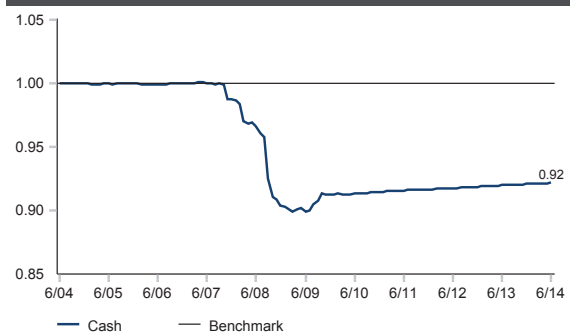
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years





Appendix

As of June 30, 2014
Securities Lending

FRS Pension Plan		
Net Income		
June 2014	Fiscal Year to Date	Calendar Year to Date
\$5,192,359	\$43,515,444	\$20,395,973
Returns (annualized basis points)		
June 2014	Fiscal Year to Date	Calendar Year to Date
88	87	94

Historical Policy Allocation

	Global Equity (%)	Domestic (%)	Foreign Equity (%)	Global Equity (%)	Strategic (%)	Fixed Income (%)	Real Estate (%)	Private Equity (%)	High Yield (%)
6/30/2014	59.7	--	--	--	5.5	20.9	7.6	5.4	--
3/31/2014	60.0	--	--	--	5.5	20.9	7.4	4.9	--
12/31/2013	57.5	--	--	--	5.3	24.0	7.2	5.0	--
9/30/2013	57.2	--	--	--	5.2	24.0	7.4	5.1	--
6/30/2013	57.4	--	--	--	5.0	24.0	7.5	5.1	--
3/31/2013	57.6	--	--	--	4.8	24.0	7.6	5.0	--
12/31/2012	57.2	--	--	--	5.0	24.0	7.5	5.2	--
9/30/2012	57.5	--	--	--	4.7	24.0	7.6	5.2	--
6/30/2012	55.6	--	--	--	4.4	26.0	7.7	5.3	--
3/31/2012	57.1	--	--	--	4.0	26.0	7.2	4.7	--
12/31/2011	56.8	--	--	--	4.1	26.0	7.2	4.9	--
9/30/2011	57.6	--	--	--	3.7	26.0	6.9	4.7	--
6/30/2011	59.2	--	--	--	3.2	26.0	6.4	4.3	--
3/31/2011	60.0	--	--	--	2.6	26.0	6.3	4.0	--
12/31/2010	59.6	--	--	--	2.8	26.0	6.3	4.3	--
9/30/2010	58.2	--	--	--	4.2	26.0	6.5	4.2	--
6/30/2010	--	36.5	19.2	--	3.9	27.2	6.3	4.0	1.9
3/31/2010	--	37.1	19.3	--	3.7	27.3	6.2	3.6	1.9
12/31/2009	--	37.1	19.3	--	3.6	27.2	6.4	3.5	1.9
9/30/2009	--	37.0	19.3	--	3.5	26.9	6.9	3.5	1.9
6/30/2009	--	36.5	19.3	--	3.4	26.4	7.9	3.6	1.9
3/31/2009	--	34.4	19.3	--	3.6	25.0	10.0	4.8	1.9
12/31/2008	--	34.6	19.2	--	4.0	25.0	9.8	4.5	1.9
9/30/2008	--	36.2	19.1	--	4.3	26.1	7.9	3.5	1.9
6/30/2008	--	36.8	19.2	--	4.2	26.5	7.3	3.2	1.9
3/31/2008	--	36.3	19.1	--	4.5	26.3	7.4	3.7	1.8
12/31/2007	--	37.7	18.7	--	4.5	26.8	6.6	3.4	1.4
9/30/2007	--	38.9	17.8	--	4.4	27.1	6.2	3.2	1.4
6/30/2007	--	42.6	14.4	--	4.4	27.3	5.9	3.2	1.4
03/01/04 - 03/31/04	--	50.6	14.0	3.0	--	22.4	5.6	3.4	--
02/02/04 - 02/29/04	--	50.5	14.0	3.0	--	22.6	5.5	3.4	--
01/01/04 - 02/01/04	--	51.3	14.0	2.0	--	22.7	5.5	3.5	--
12/01/03 - 12/31/03	--	51.1	14.0	2.0	--	22.8	5.5	3.6	--
11/03/03 - 11/30/03	--	51.7	13.5	2.0	--	22.8	5.6	3.5	--
10/29/03 - 11/02/03	--	51.7	13.5	2.0	--	23.0	5.5	3.3	--
10/01/03 - 10/28/03	--	51.7	13.0	2.0	--	23.0	5.5	3.3	--
09/01/03 - 09/30/03	--	53.5	12.5	1.0	--	22.9	5.7	3.4	--
08/01/03 - 08/31/03	--	53.4	12.5	1.0	--	23.5	5.2	3.4	--
07/01/03 - 07/31/03	--	52.5	12.5	1.0	--	24.2	4.9	3.6	--
06/02/03 - 06/30/03	--	52.5	12.5	1.0	--	24.6	4.6	3.6	--
04/01/01 - 06/01/03	--	54.0	12.0	0.0	--	25.0	4.1	3.6	--
10/31/99 - 03/31/01	--	54.0	12.0	0.0	--	25.0	4.0	2.8	--
03/31/95 - 10/31/99	--	61.0	8.0	0.0	--	26.0	4.0	0.0	--
09/30/94 - 03/31/95	--	59.0	8.0	0.0	--	24.0	8.0	0.0	--
06/30/93 - 09/30/94	--	59.0	3.0	0.0	--	29.0	8.0	0.0	--
11/30/88 - 06/30/93	--	55.0	0.0	0.0	--	36.0	8.0	0.0	--
12/31/87 - 11/30/88	--	50.0	5.0	0.0	--	36.5	7.5	0.0	--

As of June 30, 2014

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 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 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).

As of June 30, 2014

Appendix

Total Fixed Income

Performance Benchmark - The Barclays Capital U.S. Intermediate Aggregate Bond 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 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 - 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, 5% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmarks.

Total Cash

Performance Benchmark - 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.

As of June 30, 2014

Appendix

Description of Benchmarks

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, disposal and development of income-producing real estate. This index covers the four primary core asset classes (Industrial, Retail, Office, and Apartment).

iMoneyNet First Tier Institutional Money Market Funds Net Index - An average of non-governmental institutional funds that do not hold any second tier securities. It includes money market mutual funds, net of fees, that invest in commercial paper, bank obligations and short-term investments in the highest ratings category and is open to corporations and fiduciaries only.

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 78 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 \$813.8 billion as of quarter-end and the average market value was \$21.4 billion.

Domestic Equity - A universe comprised of 55 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 \$195.2 billion as of quarter-end and the average market value was \$5.4 billion.

Foreign Equity - A universe comprised of 53 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 \$168.3 billion as of quarter-end and the average market value was \$5.0 billion.

Fixed Income - A universe comprised of 54 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 \$217.0 billion as of quarter-end and the average market value was \$6.2 billion.

Real Estate - A universe comprised of 21 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 \$44.4 billion as of quarter-end and the average market value was \$2.3 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.

Risk-Return Graph - The horizontal axis, annualized standard deviation, is a statistical measure of risk, or the volatility of returns. The vertical axis is the annualized rate of return. As investors generally prefer less risk to more risk and always prefer greater returns, the upper left corner of the graph is the most attractive place to be. The line on this exhibit represents the risk and return trade-offs associated with market portfolios, or index funds.

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 - Universe Comparison - 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.



FRS Investment Plan | Second Quarter 2014

Quarterly Investment Review

Visit the **HEK Blog** (<http://www.hekblog.com>); sharing our best thinking.

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FRS Investment Plan

As of June 30, 2014

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value (\$)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
FRS Investment Plan	9,034,889,894	100.0	3.3	4.9	15.5	8.7	11.0	6.6
<i>Total Plan Aggregate Benchmark</i>			3.3	4.9	15.1	8.5	10.5	6.1
Balanced Funds	4,064,682,438	45.0	3.5	5.1	14.3	8.0	10.0	6.2
FRS Select Conservative Balanced Fund	667,506,757	7.4	2.0	3.1	6.3	3.9	5.2	4.6
<i>Conservative Balanced Fund Target Benchmark</i>			1.9	3.0	6.1	3.8	5.0	4.2
FRS Select Moderate Balanced Fund	2,561,289,318	28.3	3.6	5.3	15.1	8.6	10.7	6.4
<i>Moderate Balanced Fund Target Benchmark</i>			3.5	5.3	15.1	8.4	10.4	6.1
FRS Select Aggressive Balanced Fund	835,886,363	9.3	4.3	6.2	19.5	10.7	12.9	6.9
<i>Aggressive Balanced Fund Target Benchmark</i>			4.2	6.2	19.6	10.7	12.9	7.0
Cash	873,396,786	9.7	0.0 (1)	0.1 (1)	0.2 (1)	0.2 (1)	0.2 (1)	1.9 (3)
FRS Select Yield Plus Money Market Active Fund	873,396,786	9.7	0.0 (1)	0.1 (1)	0.2 (1)	0.2 (1)	0.2 (1)	1.9 (3)
<i>iMoneyNet 1st Tier Institutional Net Index</i>			0.0 (23)	0.0 (23)	0.0 (21)	0.0 (23)	0.1 (14)	1.9 (2)
TIPS	156,293,163	1.7	3.9	5.9	4.6	3.7	5.6	5.3
FRS Select TIPS Fund	156,293,163	1.7	3.9 (23)	5.9 (30)	4.6 (39)	3.7 (14)	5.6 (27)	5.3 (31)
<i>Barclays Capital US TIPS</i>			3.8 (25)	5.8 (31)	4.4 (44)	3.6 (30)	5.6 (31)	5.2 (32)
Fixed Income	641,714,649	7.1	2.0 (4)	3.8 (3)	4.9 (9)	4.1 (19)	5.9 (28)	5.5 (12)
FRS Select U.S. Bond Enhanced Index Fund	135,975,664	1.5	2.1 (34)	4.1 (33)	4.5 (24)	3.8 (33)	5.0 (28)	5.1 (27)
<i>Barclays Aggregate Index</i>			2.0 (35)	3.9 (34)	4.4 (25)	3.7 (33)	4.9 (29)	4.9 (32)
Pyramis Intermediate Duration Pool Fund	93,201,513	1.0	1.4 (17)	2.7 (16)	3.7 (32)	3.4 (38)	5.2 (44)	4.6 (33)
<i>Barclays Intermediate Aggregate</i>			1.6 (6)	2.8 (12)	3.5 (44)	2.9 (65)	4.2 (65)	4.6 (34)
FRS Select High Yield Fund	176,833,298	2.0	2.3 (46)	5.4 (35)	10.9 (56)	8.6 (47)	-	-
<i>Barclays Capital U.S. High Yield BA/B 1% Issuer Cap Index</i>			2.4 (31)	5.4 (34)	11.2 (46)	9.4 (20)	-	-
PIMCO Total Return Fund	235,704,173	2.6	2.3 (1)	3.7 (4)	4.8 (10)	4.2 (19)	6.2 (26)	6.2 (1)
<i>Barclays Aggregate Index</i>			2.0 (3)	3.9 (3)	4.4 (13)	3.7 (34)	4.9 (50)	4.9 (18)

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of June 30, 2014

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value (\$)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
Domestic Equity	2,523,581,761	27.9	4.5 (46)	6.7 (39)	26.0 (39)	16.3 (33)	20.5 (21)	9.1 (22)
FRS Select U.S. Stock Market Index Fund <i>Russell 3000 Index</i>	595,866,975	6.6	4.9 (43) 4.9 (44)	7.0 (34) 6.9 (34)	25.3 (41) 25.2 (42)	16.5 (28) 16.5 (30)	19.4 (14) 19.3 (15)	8.3 (22) 8.2 (24)
FRS Select U.S. Large Value Stock Fund <i>Russell 1000 Value Index</i>	336,668,919	3.7	5.1 (27) 5.1 (27)	7.9 (25) 8.3 (13)	24.5 (27) 23.8 (39)	17.0 (18) 16.9 (18)	19.5 (15) 19.2 (18)	-
QMA Mid Cap Quantitative Core Fund <i>S&P MidCap 400</i>	460,260,464	5.1	5.4 (15) 4.3 (38)	8.8 (20) 7.5 (33)	27.6 (27) 25.2 (51)	16.9 (14) 15.3 (32)	23.9 (5) 21.7 (16)	-
FRS Select U.S. Large Growth Stock Active Fund <i>Russell 1000 Growth Index</i>	153,010,423	1.7	4.6 (47) 5.1 (29)	5.0 (47) 6.3 (21)	30.1 (22) 26.9 (47)	15.9 (39) 16.3 (29)	18.9 (32) 19.2 (23)	8.7 (19) 8.2 (35)
Fidelity Growth Company Fund <i>Russell 3000 Growth Index</i>	445,282,638	4.9	3.8 (70) 4.9 (39)	6.6 (16) 6.0 (28)	30.3 (21) 26.8 (52)	16.9 (20) 16.1 (33)	21.7 (4) 19.3 (20)	11.1 (1) 8.3 (34)
American Beacon Small Cap Value Fund <i>Russell 2000 Value Index</i>	178,030,034	2.0	2.9 (24) 2.4 (34)	4.6 (24) 4.2 (36)	25.7 (36) 22.5 (65)	15.9 (40) 14.6 (61)	22.0 (18) 19.9 (61)	-
T. Rowe Price Small Cap Stock Fund <i>Russell 2000 Index</i>	329,089,622	3.6	2.2 (14) 2.0 (15)	4.3 (13) 3.2 (16)	24.0 (53) 23.6 (60)	15.9 (16) 14.6 (46)	23.2 (8) 20.2 (43)	10.7 (2) 8.7 (27)
Fidelity Low Priced Stock Fund <i>Russell 2500 Value Index</i>	25,372,687	0.3	2.9 (66) 4.2 (39)	5.0 (62) 7.9 (29)	22.5 (80) 24.9 (54)	15.7 (26) 16.0 (22)	20.4 (37) 21.6 (18)	10.7 (13) 9.4 (46)
International/Global Equity	651,214,242	7.2	4.3 (57)	5.0 (52)	23.6 (31)	8.6 (22)	12.8 (33)	8.1 (49)
FRS Select Foreign Stock Index Fund <i>MSCI World ex USA</i>	210,070,844	2.3	4.8 (50) 4.6 (53)	5.6 (43) 5.4 (47)	24.2 (27) 23.8 (29)	7.9 (28) 7.6 (34)	12.0 (42) 11.7 (49)	7.4 (53) 7.2 (57)
American Funds New Perspective Fund <i>MSCI All Country World Index Net</i>	246,760,959	2.7	3.2 (76) 5.0 (31)	3.6 (79) 6.2 (48)	21.8 (62) 22.9 (53)	12.2 (28) 10.8 (47)	15.9 (35) 14.4 (54)	9.5 (35) 7.0 (59)
American Funds Euro-Pacific Growth Fund <i>MSCI All Country World ex-U.S. Index</i>	194,382,439	2.2	3.0 (92) 5.2 (26)	3.7 (76) 5.9 (17)	22.4 (58) 22.3 (59)	7.4 (55) 6.2 (81)	12.0 (14) 11.2 (62)	-
FRS Self-Dir Brokerage Acct	124,006,855	1.4						

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.



As of June 30, 2014

Asset Allocation & Performance

	Performance(%)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
FRS Investment Plan	15.2	10.5	0.7	10.6	18.4	-23.2	7.8	12.4	7.4	10.6
<i>Total Plan Aggregate Benchmark</i>	14.6	9.7	0.9	10.2	16.8	-23.4	6.1	13.9	6.1	11.0
Balanced Funds	12.3	9.7	1.4	9.2	16.4	-22.8	7.7	13.9	6.9	11.0
FRS Select Conservative Balanced Fund <i>Conservative Balanced Fund Target Benchmark</i>	2.6 2.5	5.2 4.8	3.9 4.0	5.3 4.8	9.3 8.7	-7.3 -8.0	8.5 7.6	7.1 6.7	4.4 4.0	6.4 6.3
FRS Select Moderate Balanced Fund <i>Moderate Balanced Fund Target Benchmark</i>	13.2 13.2	10.4 9.9	1.2 1.3	10.0 9.7	17.2 15.9	-23.8 -24.5	7.4 7.0	14.2 14.7	6.8 6.8	11.3 11.4
FRS Select Aggressive Balanced Fund <i>Aggressive Balanced Fund Target Benchmark</i>	19.7 19.9	12.8 12.5	-0.9 -0.8	11.3 11.0	20.9 21.1	-32.2 -32.4	8.2 7.5	17.6 18.6	8.6 8.5	13.1 14.1
Cash	0.2 (1)	0.3 (1)	0.2 (1)	0.3 (2)	0.3 (34)	2.4 (41)	5.4 (1)	5.2 (1)	3.5 (1)	1.4 (1)
FRS Select Yield Plus Money Market Active Fund <i>iMoneyNet 1st Tier Institutional Net Index</i>	0.2 (1) 0.0 (24)	0.3 (1) 0.1 (23)	0.2 (1) 0.1 (23)	0.3 (2) 0.2 (7)	0.3 (34) 0.7 (3)	2.4 (41) 3.0 (5)	5.4 (1) 5.4 (1)	5.2 (1) 5.2 (1)	3.5 (1) 3.3 (1)	1.5 (1) 1.5 (1)
TIPS	-8.5	7.1	13.6	6.4	11.3	-2.0	11.7	0.5	2.8	8.4
FRS Select TIPS Fund <i>Barclays Capital US TIPS</i>	-8.5 (50) -8.6 (52)	7.1 (32) 7.0 (37)	13.6 (16) 13.6 (17)	6.4 (36) 6.3 (47)	11.3 (38) 11.4 (35)	-2.0 (42) -2.4 (47)	11.7 (24) 11.6 (24)	0.5 (28) 0.4 (36)	2.8 (22) 2.8 (20)	8.4 (27) 8.5 (26)
Fixed Income	-1.1 (84)	6.0 (42)	6.7 (1)	7.6 (28)	11.7 (55)	1.4 (48)	6.9 (13)	4.8 (19)	2.7 (1)	4.8 (1)
FRS Select U.S. Bond Enhanced Index Fund <i>Barclays Aggregate Index</i>	-2.0 (18) -2.0 (18)	4.4 (10) 4.2 (11)	7.9 (63) 7.8 (64)	6.7 (45) 6.5 (46)	6.5 (7) 5.9 (8)	5.9 (84) 5.2 (86)	7.2 (57) 7.0 (59)	4.3 (2) 4.3 (1)	2.5 (52) 2.4 (53)	4.4 (25) 4.3 (25)
Pyramis Intermediate Duration Pool Fund <i>Barclays Intermediate Aggregate</i>	-0.5 (66) -1.0 (82)	4.9 (59) 3.6 (79)	5.9 (13) 6.0 (11)	7.0 (34) 6.1 (50)	11.9 (54) 6.5 (87)	-1.7 (56) 4.9 (10)	6.0 (30) 7.0 (12)	4.8 (20) 4.6 (23)	2.2 (10) 2.0 (12)	3.9 (17) 3.8 (19)
FRS Select High Yield Fund <i>Barclays Capital U.S. High Yield BA/B 1% Issuer Cap Index</i>	6.1 (73) 6.3 (69)	12.9 (79) 14.7 (58)	6.0 (6) 6.9 (3)	13.6 (75) 13.9 (65)	- -	- -	- -	- -	- -	- -
PIMCO Total Return Fund <i>Barclays Aggregate Index</i>	-2.0 (99) -2.0 (99)	10.2 (3) 4.2 (69)	4.0 (46) 7.8 (1)	8.7 (13) 6.5 (38)	13.7 (43) 5.9 (94)	4.7 (11) 5.2 (9)	8.9 (1) 7.0 (13)	3.9 (71) 4.3 (31)	2.8 (1) 2.4 (7)	5.0 (1) 4.3 (9)

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.



As of June 30, 2014

Asset Allocation & Performance

	Performance(%)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Domestic Equity	35.2 (40)	16.9 (33)	0.3 (35)	20.4 (24)	30.9 (53)	-36.5 (32)	5.2 (58)	14.1 (50)	8.2 (43)	12.9 (49)
FRS Select U.S. Stock Market Index Fund	33.6 (40)	16.5 (37)	1.0 (41)	17.1 (14)	28.6 (48)	-37.2 (51)	5.2 (65)	15.7 (36)	6.2 (49)	12.0 (34)
Russell 3000 Index	33.6 (40)	16.4 (38)	1.0 (41)	16.9 (16)	28.3 (49)	-37.3 (53)	5.1 (66)	15.7 (36)	6.1 (50)	11.9 (34)
FRS Select U.S. Large Value Stock Fund	34.8 (31)	15.4 (60)	1.6 (21)	15.2 (30)	20.8 (66)	-35.2 (29)	-	-	-	-
Russell 1000 Value Index	32.5 (49)	17.5 (26)	0.4 (30)	15.5 (24)	19.7 (73)	-36.8 (55)	-	-	-	-
QMA Mid Cap Quantitative Core Fund	35.6 (49)	20.4 (8)	0.1 (19)	28.9 (14)	36.5 (50)	-36.8 (32)	8.3 (54)	11.9 (49)	11.6 (49)	-
S&P MidCap 400	33.5 (67)	17.9 (23)	-1.7 (37)	26.6 (29)	37.4 (47)	-36.2 (28)	8.0 (56)	10.3 (58)	12.6 (40)	-
FRS Select U.S. Large Growth Stock Active Fund	36.6 (26)	16.0 (47)	1.2 (34)	13.6 (67)	41.5 (31)	-37.3 (26)	11.9 (73)	4.1 (75)	13.3 (12)	4.6 (85)
Russell 1000 Growth Index	33.5 (58)	15.3 (54)	2.6 (18)	16.7 (30)	37.2 (42)	-38.4 (42)	11.8 (73)	9.1 (27)	5.3 (58)	6.3 (69)
Fidelity Growth Company Fund	37.9 (17)	18.8 (14)	0.9 (37)	20.8 (7)	41.5 (31)	-40.7 (55)	20.2 (17)	9.8 (16)	13.8 (11)	12.4 (10)
Russell 3000 Growth Index	34.2 (51)	15.2 (54)	2.2 (24)	17.6 (25)	37.0 (44)	-38.4 (42)	11.4 (80)	9.5 (22)	5.2 (59)	6.9 (67)
American Beacon Small Cap Value Fund	40.1 (42)	16.5 (63)	-4.0 (51)	26.2 (37)	35.4 (40)	-31.9 (34)	-6.4 (42)	14.7 (77)	5.8 (56)	-
Russell 2000 Value Index	34.5 (77)	18.1 (41)	-5.5 (60)	24.5 (56)	20.6 (77)	-28.9 (16)	-9.8 (70)	23.5 (7)	4.7 (68)	-
T. Rowe Price Small Cap Stock Fund	37.6 (85)	18.0 (8)	-0.1 (32)	32.5 (18)	38.5 (42)	-33.3 (10)	-1.7 (91)	12.8 (37)	8.4 (45)	18.8 (22)
Russell 2000 Index	38.8 (77)	16.3 (14)	-4.2 (57)	26.9 (51)	27.2 (86)	-33.8 (12)	-1.6 (91)	18.4 (7)	4.6 (71)	18.3 (24)
Fidelity Low Priced Stock Fund	34.6 (58)	18.8 (16)	0.2 (19)	21.0 (80)	39.4 (40)	-36.0 (26)	3.4 (72)	18.0 (17)	8.9 (72)	22.5 (12)
Russell 2500 Value Index	33.3 (68)	19.2 (13)	-3.4 (51)	24.8 (44)	27.7 (87)	-32.0 (6)	-7.3 (99)	20.2 (9)	7.7 (80)	21.6 (12)
International/Global Equity	21.6 (33)	18.6 (53)	-11.3 (22)	10.1 (73)	34.8 (62)	-40.9 (19)	15.0 (46)	23.2 (80)	14.9 (58)	17.9 (67)
FRS Select Foreign Stock Index Fund	20.5 (39)	17.6 (63)	-11.8 (26)	9.2 (77)	32.3 (69)	-42.5 (28)	12.7 (57)	25.8 (63)	14.7 (61)	20.5 (47)
MSCI World ex USA	21.0 (36)	16.4 (72)	-12.2 (29)	8.9 (78)	33.7 (66)	-43.6 (35)	12.4 (58)	25.7 (64)	14.5 (62)	20.4 (48)
American Funds New Perspective Fund	27.1 (42)	21.0 (17)	-7.4 (41)	13.0 (57)	37.7 (45)	-37.7 (28)	16.3 (31)	20.1 (36)	11.5 (51)	14.5 (57)
MSCI All Country World Index Net	22.8 (61)	16.3 (41)	-5.5 (32)	11.8 (63)	30.0 (70)	-40.7 (41)	9.0 (52)	20.1 (37)	10.0 (60)	15.2 (53)
American Funds Euro-Pacific Growth Fund	20.6 (61)	19.6 (18)	-13.3 (70)	9.8 (23)	39.6 (15)	-40.3 (6)	19.3 (3)	22.3 (97)	21.4 (4)	-
MSCI All Country World ex-U.S. Index	15.8 (85)	17.4 (69)	-13.3 (70)	11.6 (10)	32.5 (32)	-43.1 (64)	11.6 (46)	26.9 (21)	14.0 (26)	-
FRS Self-Dir Brokerage Acct										

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

FRS Investment Plan

As of June 30, 2014

Asset Allocation

Asset Allocation as of 6/30/2014								
	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	TIPS	Cash	Brokerage	Total	% of Total
FRS Select Conservative Balanced Fund	60,075,608	60,075,608	260,327,635	60,075,608	226,952,297		667,506,757	7.4%
FRS Select Moderate Balanced Fund	845,225,475	589,096,543	1,126,967,300				2,561,289,318	28.3%
FRS Select Aggressive Balanced Fund	417,943,182	234,048,182	183,895,000				835,886,363	9.3%
Total Balanced Funds	\$ 1,323,244,265	\$ 883,220,333	\$ 1,571,189,935	\$ 60,075,608	\$ 226,952,297	\$ -	\$ 4,064,682,438	45.0%
FRS Select Yield Plus Money Market Active Fund					873,396,786		873,396,786	9.7%
Total Cash	\$ -	\$ -	\$ -	\$ -	\$ 873,396,786	\$ -	\$ 873,396,786	9.7%
FRS Select TIPS Fund				156,293,163			156,293,163	1.7%
Total TIPS	\$ -	\$ -	\$ -	\$ 156,293,163	\$ -	\$ -	\$ 156,293,163	1.7%
FRS Select U.S. Bond Enhanced Index Fund			135,975,664				135,975,664	1.5%
Pyramis Intermediate Duration Pool Fund			93,201,513				93,201,513	1.0%
FRS Select High Yield Fund			176,833,298				176,833,298	2.0%
PIMCO Total Return Fund			235,704,173				235,704,173	2.6%
Total Fixed Income	\$ -	\$ -	\$ 641,714,649	\$ -	\$ -	\$ -	\$ 641,714,649	7.1%
FRS Select U.S. Stock Market Index Fund	595,866,975						595,866,975	6.6%
FRS Select U.S. Large Value Stock Fund	336,668,919						336,668,919	3.7%
QMA Mid Cap Quantitative Core Fund	460,260,464						460,260,464	5.1%
FRS Select U.S. Large Growth Stock Active Fund	153,010,423						153,010,423	1.7%
Fidelity Growth Company Fund	445,282,638						445,282,638	4.9%
American Beacon Small Cap Value Fund	178,030,033						178,030,033	2.0%
T. Rowe Price Small Cap Stock Fund	329,089,622						329,089,622	3.6%
Fidelity Low Priced Stock Fund	25,372,687						25,372,687	0.3%
Total Domestic Equity	\$ 2,523,581,761	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,523,581,761	27.9%
FRS Select Foreign Stock Index Fund		210,070,844					210,070,844	2.3%
American Funds New Perspective Fund	101,665,515	122,640,197			22,455,247		246,760,959	2.7%
American Funds Euro-Pacific Growth Fund	194,382	178,831,844	1,360,677		13,995,536		194,382,439	2.2%
Total International/Global Equity	\$ 101,859,897	\$ 511,542,884	\$ 1,360,677	\$ -	\$ 36,450,783	\$ -	\$ 651,214,242	7.2%
FRS Self-Dir Brokerage Acct						124,006,855	124,006,855	1.4%
Total Self-Dir Brokerage Acct						\$ 124,006,855	\$ 124,006,855	1.4%
Total Portfolio	\$ 3,948,685,923	\$ 1,394,763,217	\$ 2,214,265,261	\$ 216,368,771	\$ 1,136,799,866	\$ 124,006,855	\$ 9,034,889,894	100.0%
Percent of Total	43.70%	15.44%	24.51%	2.39%	12.58%	1.37%	100.0%	

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of June 30, 2014

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	8.74	7.22	1.20	0.45	0.56	101.81	100.16
FRS Select Conservative Balanced Fund	3.95	2.57	1.52	0.20	0.77	102.72	100.34
FRS Select Moderate Balanced Fund	8.57	6.64	1.27	0.40	0.29	99.97	97.93
FRS Select Aggressive Balanced Fund	10.67	9.21	1.15	0.66	-0.09	98.25	96.76
FRS Select Yield Plus Money Market Active Fund	0.24	0.02	14.52	0.01	15.03	547.12	N/A
FRS Select TIPS Fund	3.67	5.48	0.68	0.17	0.65	100.08	98.13
FRS Select U.S. Bond Enhanced Index Fund	3.82	2.82	1.34	0.16	0.95	102.45	99.72
Pyramis Intermediate Duration Pool Fund	3.42	2.23	1.51	0.58	0.94	116.61	111.59
FRS Select High Yield Fund	8.63	5.30	1.59	0.52	-1.34	94.84	100.28
PIMCO Total Return Fund	4.19	3.92	1.06	2.69	0.20	119.01	126.00
FRS Select U.S. Stock Market Index Fund	16.52	12.86	1.26	0.06	0.97	100.13	99.82
FRS Select U.S. Large Value Stock Fund	16.96	12.88	1.29	1.17	0.02	100.19	100.27
QMA Mid Cap Quantitative Core Fund	16.91	16.47	1.03	1.85	0.87	106.64	102.09
FRS Select U.S. Large Growth Stock Active Fund	15.93	14.23	1.11	3.50	-0.02	106.06	116.20
Fidelity Growth Company Fund	16.91	15.69	1.08	4.88	0.22	117.35	132.88
American Beacon Small Cap Value Fund	15.95	17.67	0.93	2.98	0.46	108.57	108.05
T. Rowe Price Small Cap Stock Fund	15.94	16.38	0.99	2.36	0.47	96.60	86.29
Fidelity Low Priced Stock Fund	15.69	13.64	1.14	4.52	-0.12	92.34	87.09
FRS Select Foreign Stock Index Fund	7.94	15.61	0.57	1.86	0.15	98.37	96.01
American Funds New Perspective Fund	12.21	13.76	0.91	2.73	0.47	101.40	92.88
American Funds Euro-Pacific Growth Fund	7.41	15.78	0.53	3.20	0.32	96.42	89.42

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Appendix

As of June 30, 2014

Benchmark Descriptions

Balanced 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.

Barclays Inflation Index - An index that measures the performance of the U.S. Treasury Inflation-Protected Securities ("TIPS") market.

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.

Barclays U.S. High Yield BA/B 1% Issuer Cap Index - An index composed of non-investment grade corporate debt denominated in U.S. dollars. The issues have to have an outstanding par value of \$150 million or greater and at least one year of maturity remaining.

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 3000 Growth Index - An index that measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index - An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

Russell 1000 Growth Index - An index that measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher I/B/E/S growth forecasts.

Russell 2000 Value Index - A capitalization-weighted index representing those companies within the Russell 2000 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.

Russell 2000 Index - An index that measures the performance of approximately 2000 small capitalization stocks.

Russell 2500 Value Index - A capitalization-weighted index representing those companies within the Russell 2500 Index with lower price-to-book ratios and lower I/B/E/S earnings growth forecasts.

S&P 400 Mid-Cap Index - A market capitalization-weighted index of stocks in all major industries in the mid-range of the U.S. stock market.

S&P 500 Index - A capitalization-weighted stock index consisting of 500 of the largest publicly traded U.S. stocks by capitalization.

MSCI All Country World ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 21 emerging countries, but excluding the U.S.

MSCI All Country World Index Net - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI World ex-U.S. Index - A capitalization-weighted index of stocks representing 22 developed country stock markets, including Canada and excluding the U.S. market.

Descriptions of Universes

FRS Select Yield Plus Money Market Active Fund - A money market universe calculated and provided by Lipper.

FRS Select TIPS Fund - An inflation-protected bond universe calculated and provided by Lipper.

FRS Select U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Lipper.

Pyramis Intermediate Duration Pool Fund - A broad intermediate-term fixed income universe calculated and provided by Lipper.

FRS Select High Yield Fund - A high yield bond fixed income universe calculated and provided by Lipper.

PIMCO Total Return Fund - A broad intermediate-term fixed income universe calculated and provided by Lipper.

FRS Select U.S. Stock Market Index Fund - A large-cap blend universe calculated and provided by Lipper.

FRS Select U.S. Large Value Stock Fund - A large-cap value universe calculated and provided by Lipper.

QMA Mid Cap Quantitative Core Fund - A mid-cap universe calculated and provided by Lipper.

FRS Select U.S. Large Growth Stock Active Fund - A large-cap growth universe calculated and provided by Lipper.

Fidelity Growth Company Fund - A large-cap growth universe calculated and provided by Lipper.

American Beacon Small Cap Value Fund - A small-cap value universe calculated and provided by Lipper.

T. Rowe Price Small Cap Stock Fund - A small-cap growth universe calculated and provided by Lipper.

Fidelity Low Priced Stock Fund - A mid-cap blend universe calculated and provided by Lipper.

FRS Select Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

American Funds New Perspective Fund - A global stock universe calculated and provided by Lipper.

American Funds Euro-Pacific Growth Fund - A foreign large blend universe calculated and provided by Lipper.



Lawton Chiles Endowment Fund | Second Quarter 2014

Quarterly Investment Review

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LCEF Total Fund

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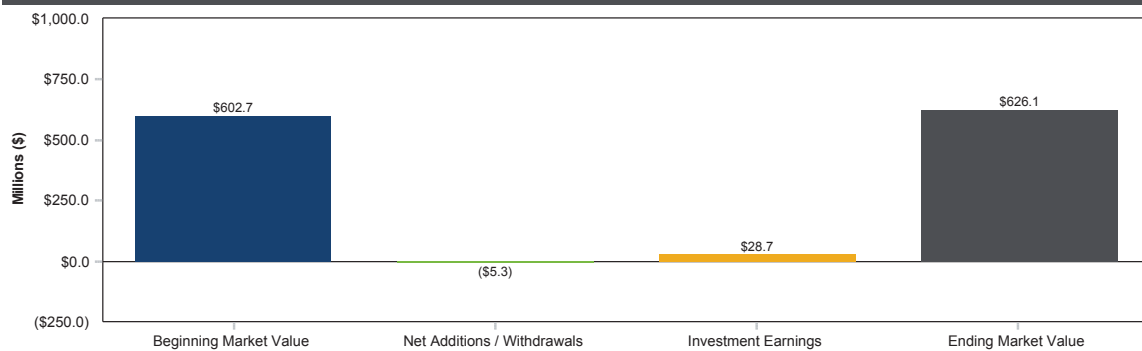
1

LCEF Total Fund

As of June 30, 2014

Total Plan Asset Summary

Change in Market Value From April 1, 2014 to June 30, 2014



Summary of Cash Flow

	1 Quarter	Fiscal YTD*
LCEF Total Fund		
Beginning Market Value	602,674,366	479,320,081
+ Additions / Withdrawals	-5,300,000	40,000,000
+ Investment Earnings	28,729,873	106,784,158
= Ending Market Value	626,104,239	626,104,239

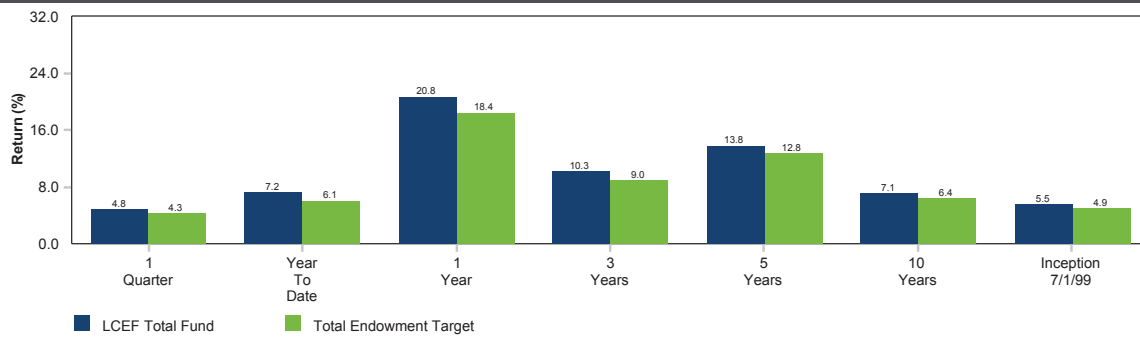
*Period July 2013 - June 2014

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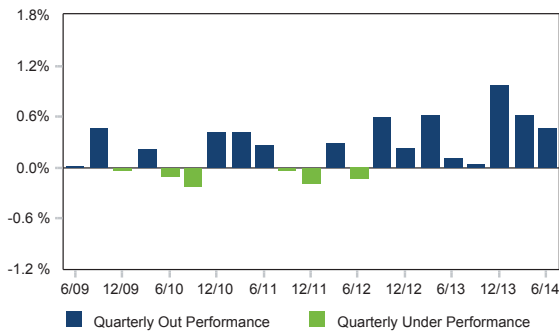
2

Total Plan Performance Summary

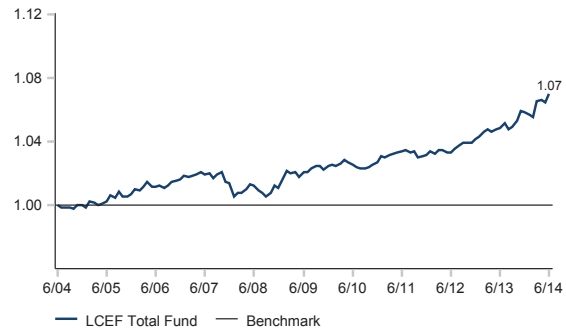
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



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Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value (\$)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
LCEF Total Fund	626,104,239	100.0	100.0	4.8 (6)	7.2 (10)	20.8 (4)	10.3 (12)	13.8 (4)	7.1 (35)
Total Endowment Target				4.3 (13)	6.1 (26)	18.4 (9)	9.0 (49)	12.8 (20)	6.4 (63)
Global Equity*	466,603,330	74.5	71.0	5.6	8.3	27.5	15.4	18.8	8.4
Global Equity Target				5.0	6.6	24.5	13.5	17.3	7.8
Fixed Income	91,699,308	14.6	17.0	2.0 (51)	3.9 (51)	4.2 (65)	3.8 (68)	5.1 (83)	5.0 (58)
Barclays Aggregate Index				2.0 (50)	3.9 (49)	4.4 (61)	3.7 (69)	4.9 (86)	4.9 (61)
TIPS	59,433,514	9.5	11.0	3.8	5.8	4.3	3.6	5.7	5.6
Barclays U.S. TIPS				3.8	5.8	4.4	3.6	5.6	5.2
Cash Equivalents	8,362,475	1.3	1.0	0.0	0.1	0.2	0.5	1.2	2.1
S&P US AAA & AA Rated GIP 30D Net Yield Index				0.0	0.0	0.0	0.1	0.2	1.8

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.

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As of June 30, 2014

Calendar Year Performance

	Performance(%)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
LCEF Total Fund	14.7 (48)	13.2 (22)	1.9 (13)	14.0 (13)	21.2 (46)	-29.2 (72)	6.3 (85)	15.0 (20)	7.4 (50)	12.0 (35)
<i>Total Endowment Target</i>	<i>12.8 (70)</i>	<i>12.2 (46)</i>	<i>1.5 (15)</i>	<i>13.7 (15)</i>	<i>19.6 (56)</i>	<i>-28.9 (71)</i>	<i>6.5 (81)</i>	<i>14.0 (35)</i>	<i>6.7 (64)</i>	<i>12.1 (34)</i>
Global Equity*	27.1	20.4	-1.1	17.0	30.8	-39.6	6.8	17.4	8.5	12.7
<i>Global Equity Target</i>	<i>24.3</i>	<i>19.4</i>	<i>-2.2</i>	<i>16.1</i>	<i>30.5</i>	<i>-39.2</i>	<i>7.2</i>	<i>17.8</i>	<i>7.9</i>	<i>13.5</i>
Fixed Income	-1.8 (68)	4.6 (90)	7.6 (32)	7.0 (73)	4.6 (84)	5.8 (20)	7.3 (42)	4.4 (37)	2.7 (28)	4.4 (58)
<i>Barclays Aggregate Index</i>	<i>-2.0 (69)</i>	<i>4.2 (93)</i>	<i>7.8 (29)</i>	<i>6.5 (75)</i>	<i>5.9 (77)</i>	<i>5.2 (25)</i>	<i>7.0 (53)</i>	<i>4.3 (39)</i>	<i>2.4 (51)</i>	<i>4.3 (60)</i>
TIPS	-8.7	7.2	13.6	6.1	13.3	-2.0	12.4	0.8	2.9	8.8
<i>Barclays U.S. TIPS</i>	<i>-8.6</i>	<i>7.0</i>	<i>13.6</i>	<i>6.3</i>	<i>11.4</i>	<i>-2.4</i>	<i>11.6</i>	<i>0.4</i>	<i>2.8</i>	<i>8.5</i>
Cash Equivalents	0.2	1.3	0.1	2.0	2.6	0.5	5.4	5.2	3.3	1.4
<i>S&P US AAA & AA Rated GIP 30D Net Yield Index</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.3</i>	<i>0.7</i>	<i>2.3</i>	<i>4.7</i>	<i>5.1</i>	<i>3.4</i>	<i>1.4</i>

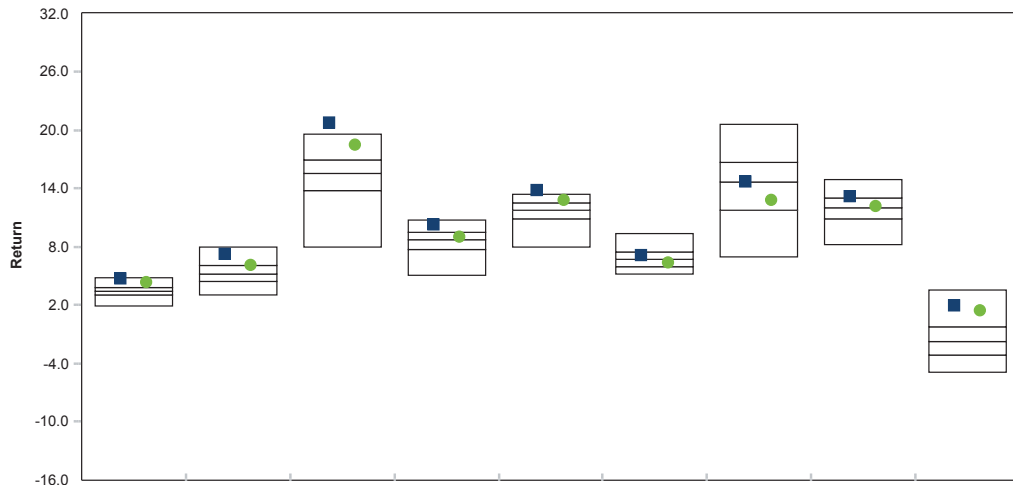
*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

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As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Endowments-Total Fund

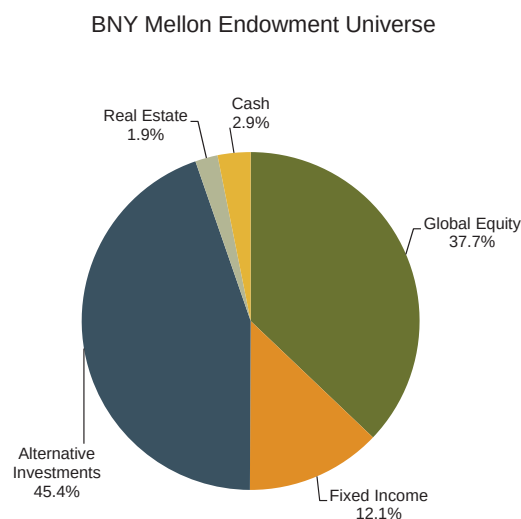
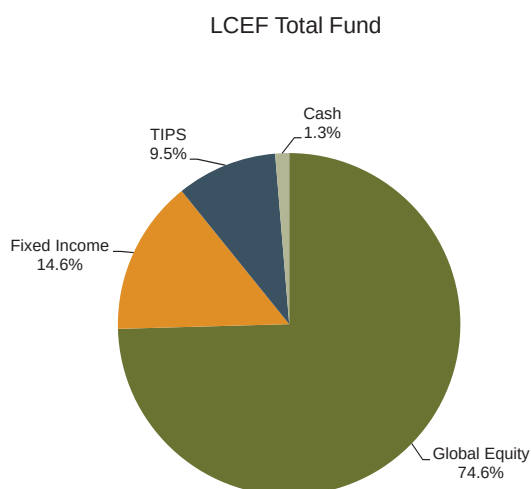


	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	2013	2012	2011
■ LCEF Total Fund	4.8 (6)	7.2 (10)	20.8 (4)	10.3 (12)	13.8 (4)	7.1 (35)	14.7 (48)	13.2 (22)	1.9 (13)
● Total Endowment Target	4.3 (13)	6.1 (26)	18.4 (9)	9.0 (49)	12.8 (20)	6.4 (63)	12.8 (70)	12.2 (46)	1.5 (15)
5th Percentile	4.9	8.0	19.7	10.8	13.4	9.4	20.7	14.9	3.5
1st Quartile	3.9	6.1	17.0	9.6	12.6	7.5	16.8	13.1	-0.3
Median	3.5	5.2	15.6	8.8	11.8	6.8	14.7	12.0	-1.8
3rd Quartile	3.1	4.5	13.8	7.8	10.9	6.0	11.8	10.9	-3.1
95th Percentile	2.0	3.1	8.0	5.1	8.0	5.2	7.0	8.2	-4.9
Population	192	188	183	157	123	85	343	342	332

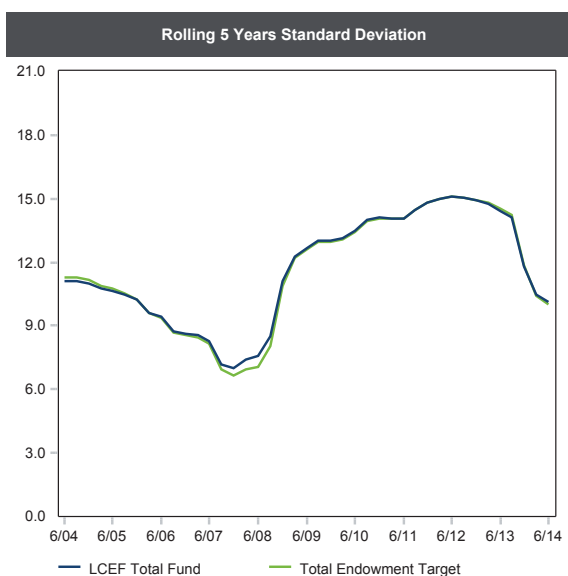
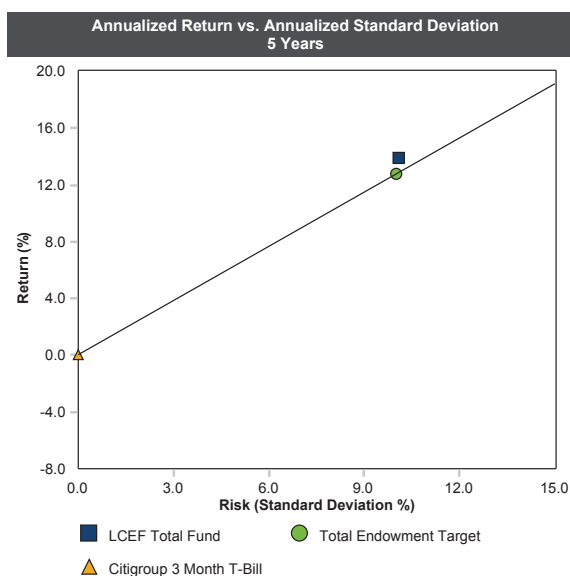
Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

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Universe Asset Allocation Comparison

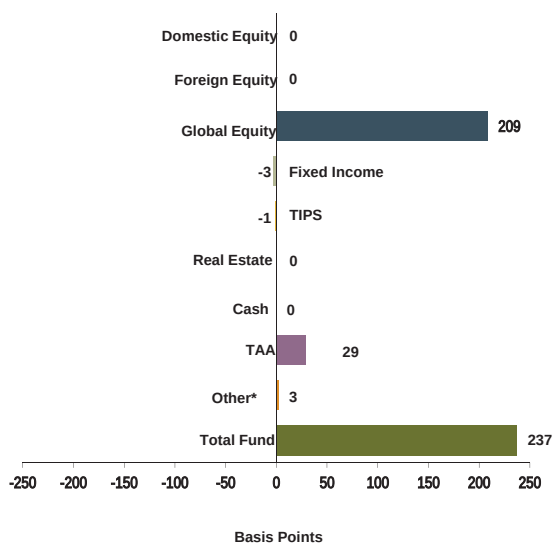


LCEF Total Fund Risk Profile

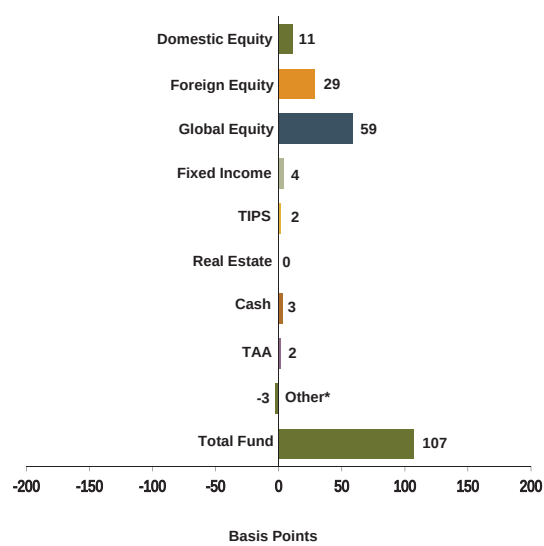


5 Years Historical Statistics										
	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
LCEF Total Fund	0.96	0.75	1.29	0.99	1.33	0.89	1.01	13.83	10.10	1.00
Total Endowment Target	0.00	0.00	N/A	1.00	1.25	0.00	1.00	12.76	10.01	1.00
Citigroup 3 Month T-Bill	-12.48	10.01	-1.25	0.01	N/A	0.07	0.00	0.07	0.02	0.07

Attribution



1-Year Ending 6/30/2014



5-Year Ending 6/30/2014

*Other includes differences between official performance value added due to methodology and extraordinary payouts.

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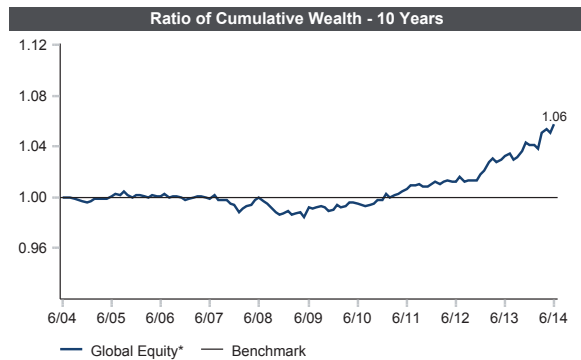
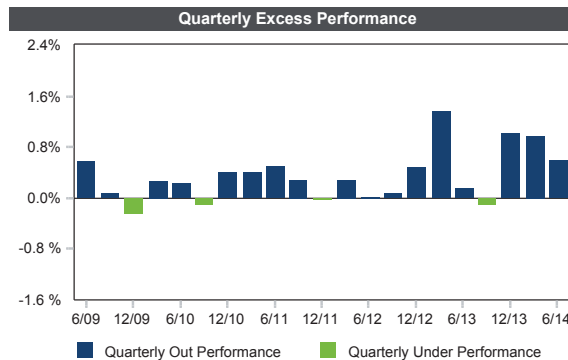
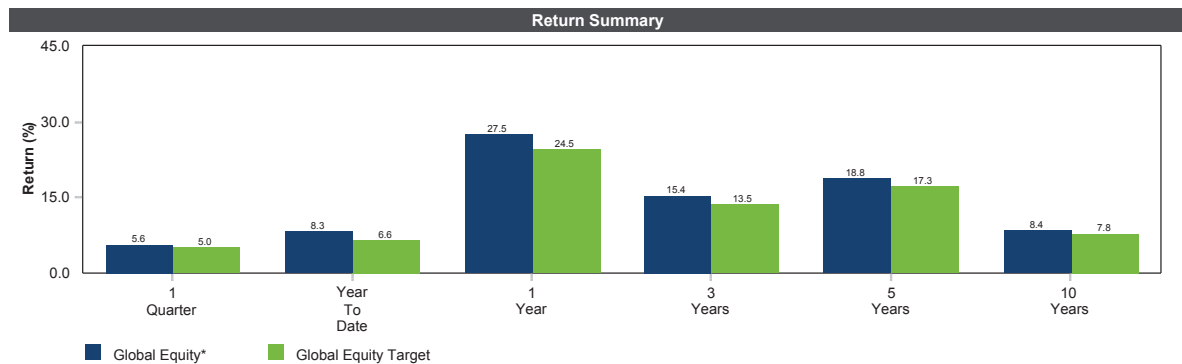


Global Equity

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Global Equity* As of June 30, 2014 Total Plan Performance Summary

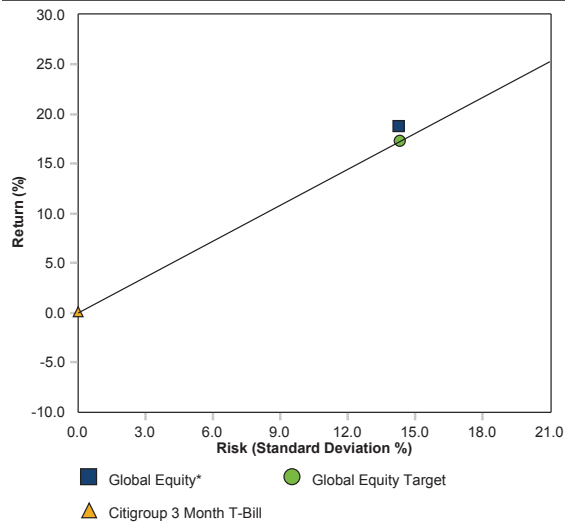


*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

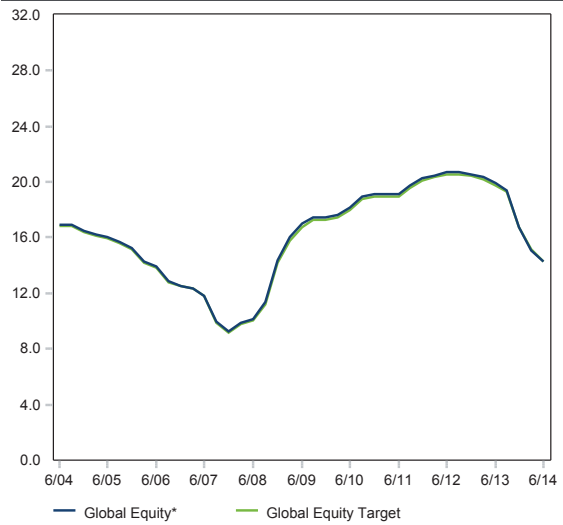
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Global Equity Risk Profile

Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation



5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Global Equity*	1.28	1.00	1.28	1.00	1.28	1.38	1.00	18.77	14.28	1.00
Global Equity Target	0.00	0.00	N/A	1.00	1.18	0.00	1.00	17.27	14.32	1.00
Citigroup 3 Month T-Bill	-16.97	14.32	-1.18	0.01	N/A	0.07	0.00	0.07	0.02	0.10

*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.

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Fixed Income

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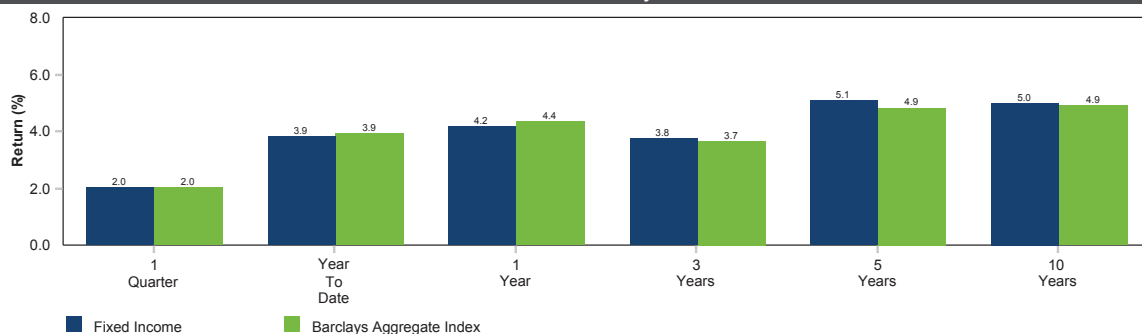
15

Fixed Income

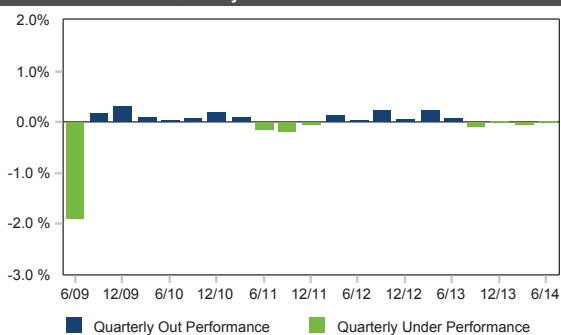
As of June 30, 2014

Total Plan Performance Summary

Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



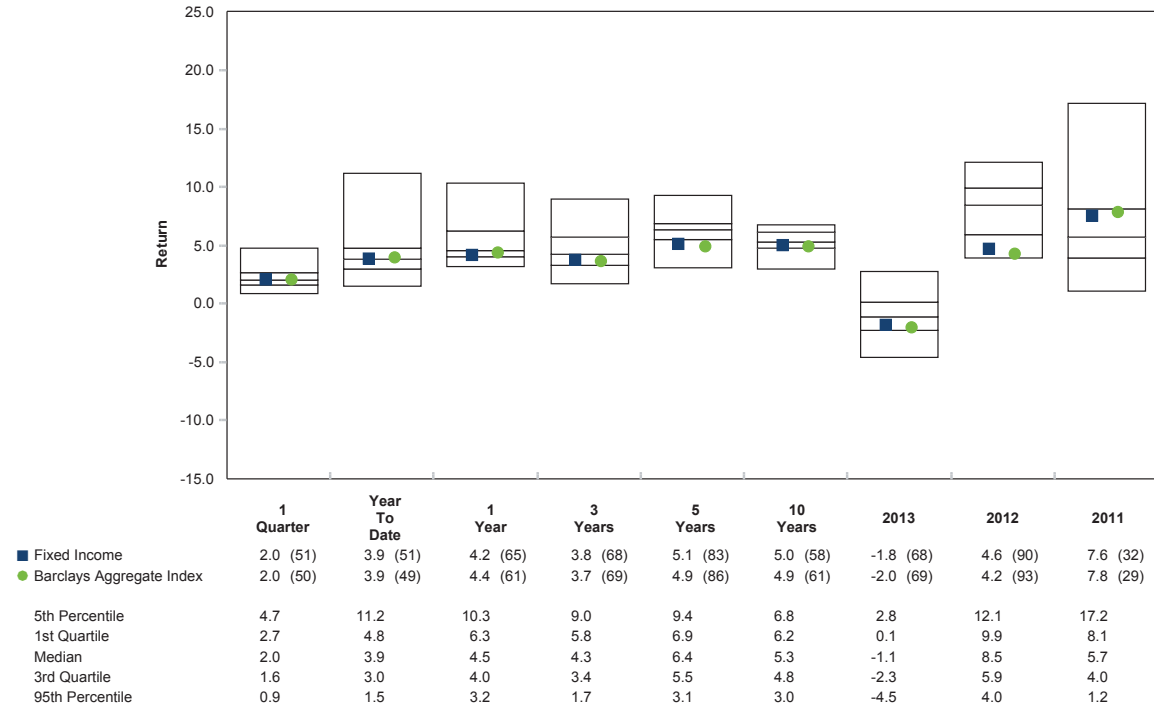
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As of June 30, 2014

Plan Sponsor Peer Group Analysis

All Endowments-US Fixed Income Segment



Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

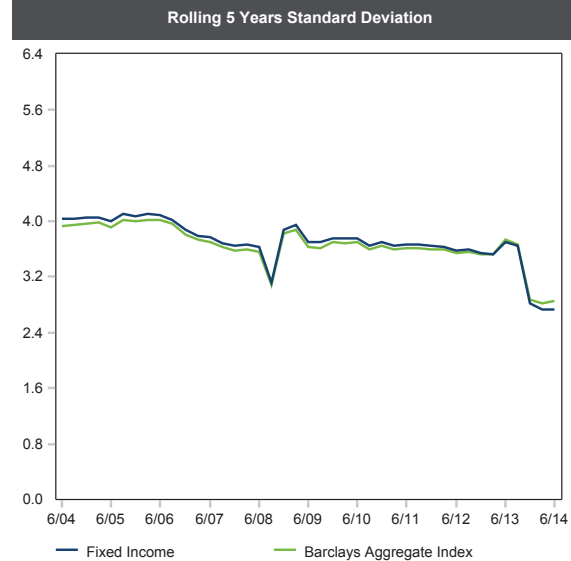
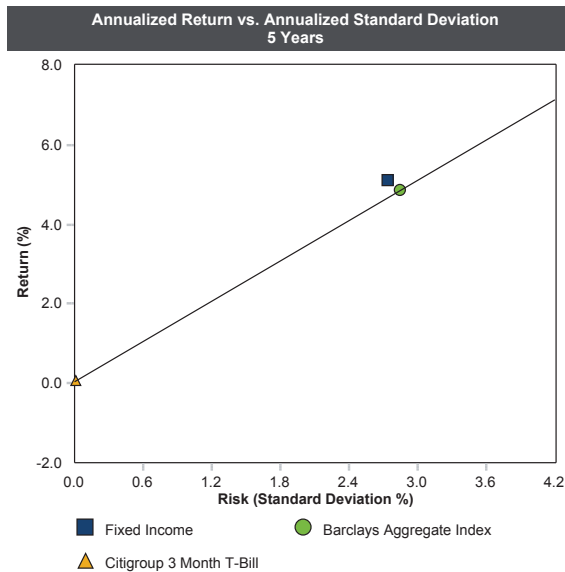
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Fixed Income

As of June 30, 2014

Fixed Income Risk Profile



5 Years Historical Statistics										
	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Fixed Income	0.23	0.29	0.80	0.99	1.81	0.44	0.96	5.10	2.74	1.00
Barclays Aggregate Index	0.00	0.00	N/A	1.00	1.65	0.00	1.00	4.85	2.85	1.00
Citigroup 3 Month T-Bill	-4.71	2.85	-1.65	0.00	N/A	0.08	0.00	0.07	0.02	-0.05

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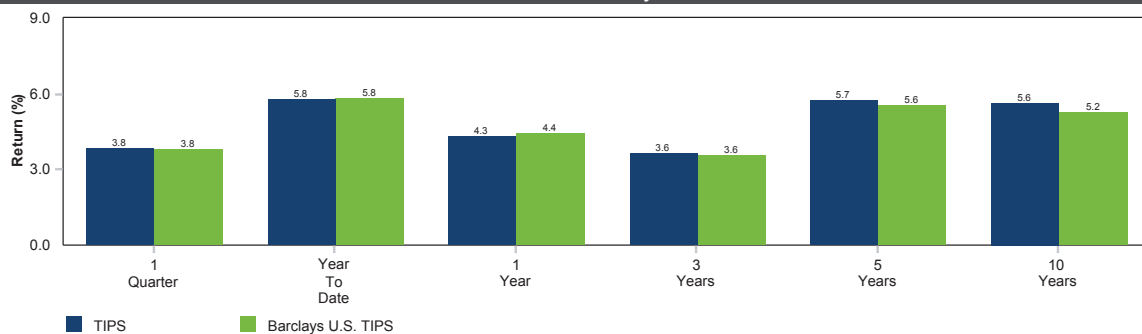
TIPS

TIPS

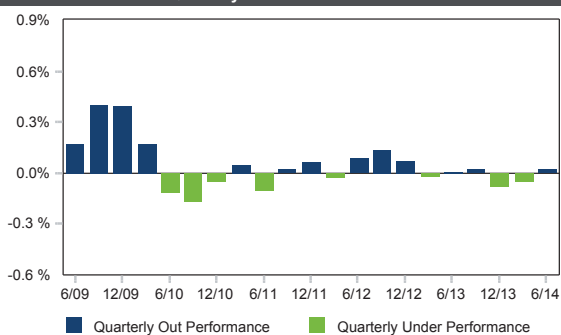
As of June 30, 2014

Total Plan Performance Summary

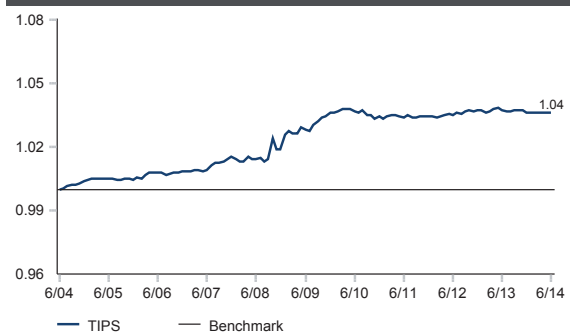
Return Summary

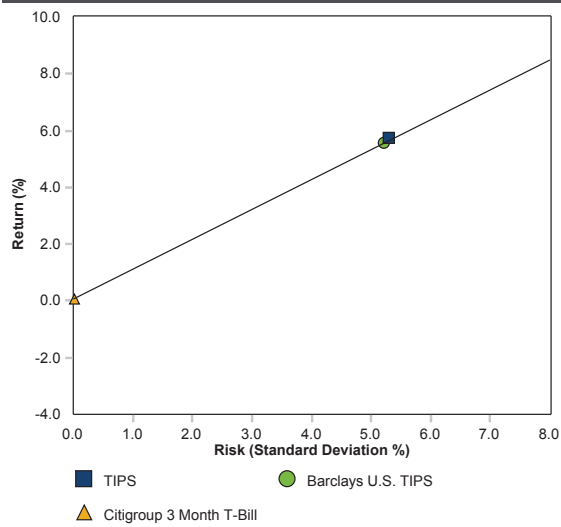


Quarterly Excess Performance

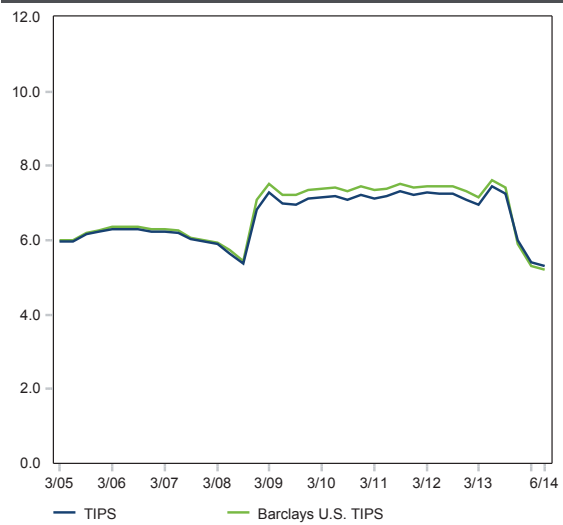


Ratio of Cumulative Wealth - 10 Years



Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation



5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
TIPS	0.16	0.28	0.58	1.00	1.06	0.08	1.01	5.72	5.30	1.00
Barclays U.S. TIPS	0.00	0.00	N/A	1.00	1.05	0.00	1.00	5.55	5.22	1.00
Citigroup 3 Month T-Bill	-5.48	5.22	-1.05	0.00	N/A	0.07	0.00	0.07	0.02	0.02



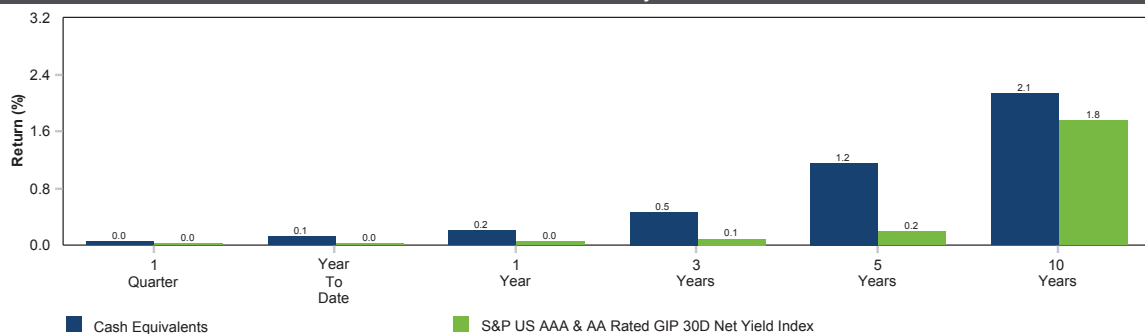
Cash Equivalents

Cash Equivalents

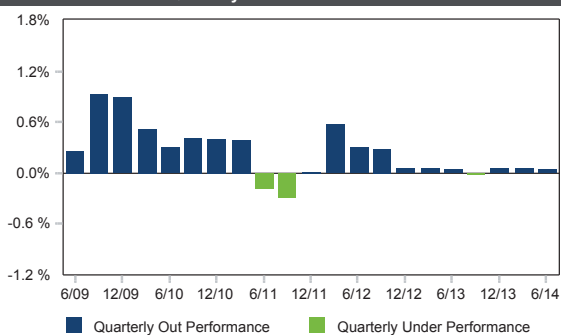
As of June 30, 2014

Total Plan Performance Summary

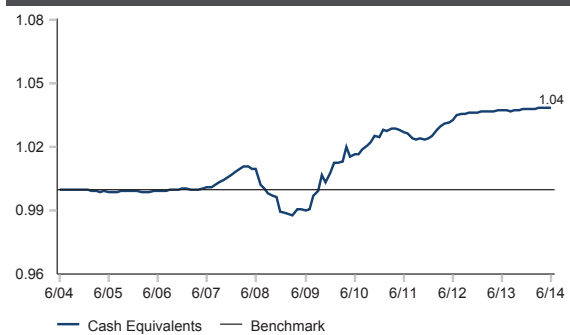
Return Summary



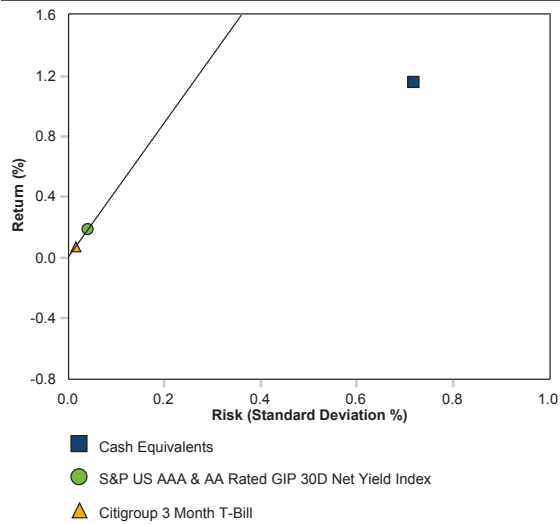
Quarterly Excess Performance



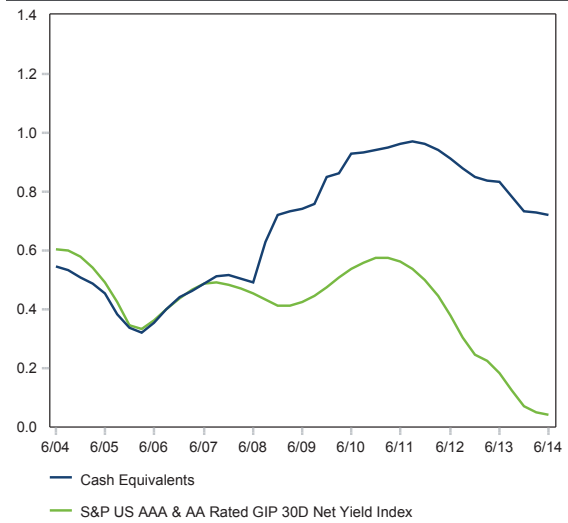
Ratio of Cumulative Wealth - 10 Years



Cash Equivalents Risk Profile

Annualized Return vs. Annualized Standard Deviation
5 Years

Rolling 5 Years Standard Deviation



5 Years Historical Statistics

	Active Return	Tracking Error	Information Ratio	R-Squared	Sharpe Ratio	Alpha	Beta	Return	Standard Deviation	Actual Correlation
Cash Equivalents	0.96	0.70	1.37	0.18	1.50	-0.24	7.49	1.15	0.72	0.42
S&P US AAA & AA Rated GIP 30D Net Yield Index	0.00	0.00	N/A	1.00	3.08	0.00	1.00	0.19	0.04	1.00
Citigroup 3 Month T-Bill	-0.11	0.04	-3.08	0.24	N/A	0.04	0.19	0.07	0.02	0.49



Appendix

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As of June 30, 2014

Securities Lending

Lawton Chiles Endowment Fund		
Net Income		
June 2014	Fiscal Year to Date	Calendar Year to Date
\$22,702	\$252,178	\$183,210
Returns (annualized basis points)		
June 2014	Fiscal Year to Date	Calendar Year to Date
56	71	79

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As of June 30, 2014

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 9/1/2012 forward, 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 44 countries, but excluding the United States. The index includes 23 developed and 21 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.

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As of June 30, 2014

Universe Descriptions

LCEF Total Fund

A universe comprised of 192 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 \$230.7 billion as of quarter-end and the average market value was \$2.3 billion.

Total Fixed Income

A universe comprised of 54 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 \$17.3 billion as of quarter-end and the average market value was \$208.9 million.

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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.

Risk-Return Graph - The horizontal axis, annualized standard deviation, is a statistical measure of risk, or the volatility of returns. The vertical axis is the annualized rate of return. As investors generally prefer less risk to more risk and always prefer greater returns, the upper left corner of the graph is the most attractive place to be. The line on this exhibit represents the risk and return trade-offs associated with market portfolios, or index funds.

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 - Universe Comparison - 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.

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2014

January						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

April						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

July						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

October						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

February						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

May						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

August						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

November						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

March						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

September						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

December						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

Aqua is Proposed PLGAC Meeting
Purple is Proposed Joint PLGAC/IAC Meeting
Yellow is Proposed IAC Meeting
Orange is Proposed Cabinet Meeting



Investment Advisory Council

Economic Outlook

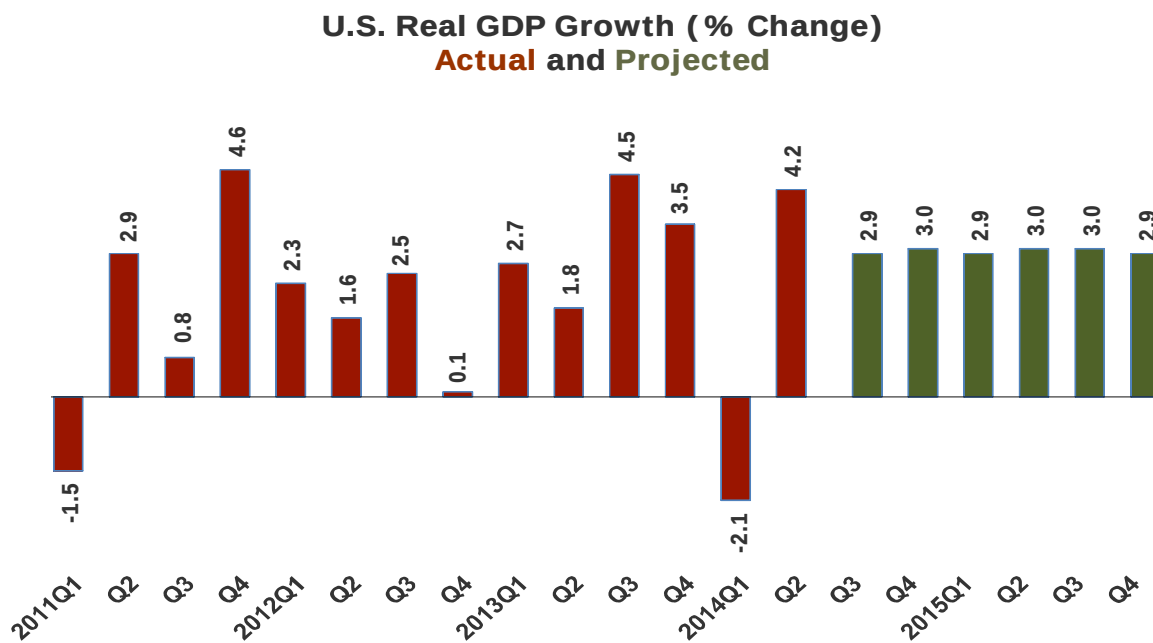
**State Board of Administration of Florida
Office of Investment Policy and Economics**

September 22, 2014

Overview

The U.S. Commerce Department's latest estimate of real Gross Domestic Product (GDP) growth in the second quarter of 2014 was 4.2 percent. This confirmed the widely held view that the first quarter's contraction of 2.1 percent in real GDP was a one-off weather related event. However, second-quarter growth was buttressed by inventory investment that added 1.4 percent to the total. Absent the impact of inventories, growth would have been 2.8 percent, still decent but not far out of line with the last few years. Since the beginning of 2011, the average quarterly growth rate of real GDP has been 2.0 percent. Nonetheless, there were a number of bright spots in the second quarter that could signal an improved outlook. Chief among

these was non-residential fixed investment which grew at an 8.4 percent annual rate. Residential fixed investment was also solid, growing 7.2 percent after having contracted for two quarters. Durable goods expenditures rose a very sharp 14.3 percent on the back of surging vehicle sales. The issue going forward is whether these strong results were harbingers of better things to come or merely reflections of pent-up demand from weather-restrained activity the prior quarter. For now, the consensus seems to be that they were a little of both. The **Blue Chip Survey** of economic forecasters sees prospects for better GDP growth, with the rest of 2014 and 2015 expected to be on a 3.0 percent track.



Forecast: Blue Chip Survey - August 2014.

U.S. Economy

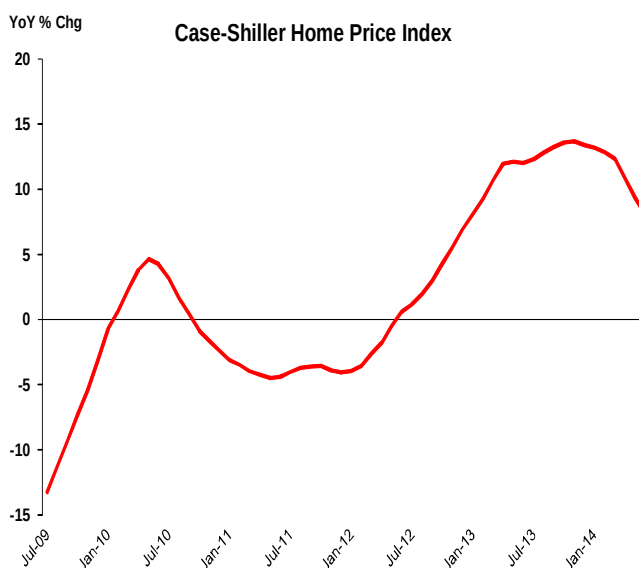
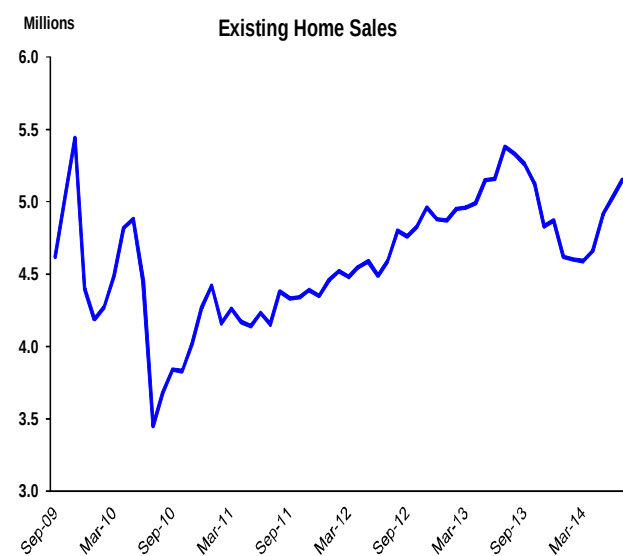
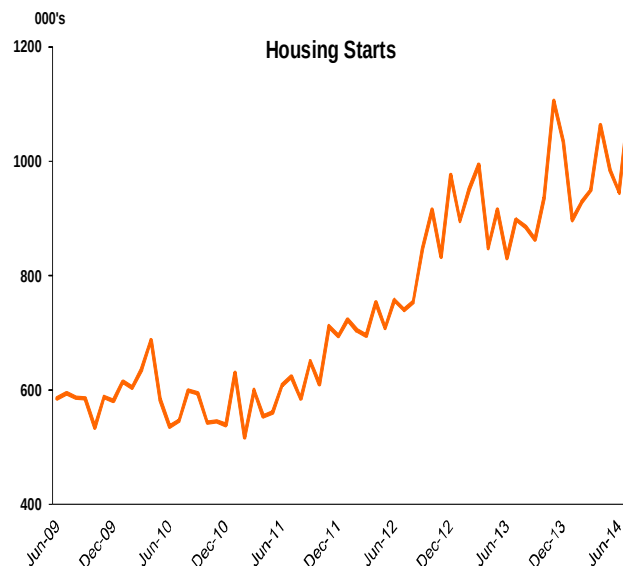
Real non-residential fixed investment grew at an 8.4 percent annual rate during the second quarter of 2014 as businesses picked up their pace of spending. Particularly interesting was 10.7 percent growth in real investment in equipment. This area of business investment also grew at a double-digit rate in the fourth quarter of 2013 before falling in the first quarter of this year. A large piece of this added investment has been for information processing equipment. Questions exist as to how long this push will be sustained as it involves adoption of newer types of equipment - such as tablets - at the enterprise level. However, for now, tech spending by business is giving the economy a shot in the arm. Another area of business spending that stood out in the second quarter was investment in struc-

tures. This sector grew at double-digit rates in the second half of 2013 before slumping to just 2.9 percent growth in the first quarter of this year. Warmer weather got it back on track, and it expanded at a 9.4 percent annual rate in the second quarter. Real inventory investment was up \$48.7 billion in the second quarter, adding 1.4 percent to real GDP growth. That roughly offset the impact of inventories on GDP during the first quarter when they declined by \$46.6 billion. Broadly speaking, second-quarter data on investment was positive and slightly improved the outlook for business spending in 2014. That expectation has been strengthened by recent data on durable goods orders which jumped sharply in July and by business surveys that show heightened optimism. For instance, the **Institute for Supply Management's (ISM)** sur-

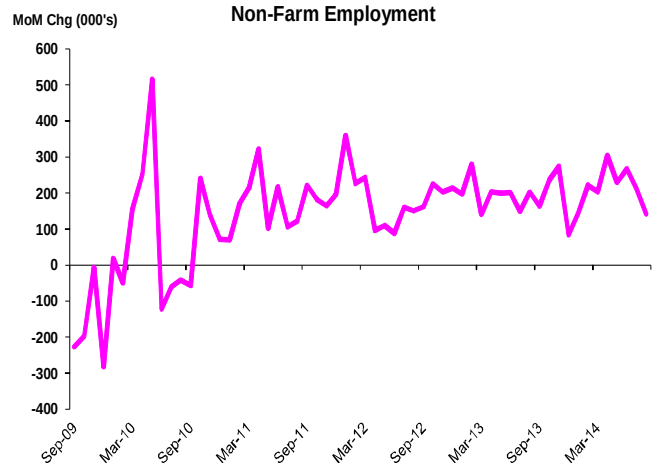
veys of manufacturing and non-manufacturing activity both rose in August 2014 to very high levels (see charts on page 4). New orders indexes were elevated in both instances and this could translate into higher spending down the road. The **Blue Chip Survey** projects business fixed investment to grow 5.0 percent in 2014 and 5.5 percent in 2015.

Residential fixed investment had a good quarter, growing at a 7.2 percent annual rate. This metric was down in the fourth quarter of 2013 and the first quarter of 2014, leading to fears that the housing recovery was imploding. However, those fears appear to have been exaggerated as most measures of housing activity have rebounded in the past few months. Housing starts fell sharply after peaking last November, but they have been over the one million unit mark (annual rate) in two of the last four months and look to be on an uptrend (see upper chart at right). Existing home sales experienced a more prolonged downturn as they started falling soon after the Fed signaled the unwinding of quantitative easing. That downtrend lasted for some eight months, but the last four months have seen positive changes and, in July 2014, they exceeded the five million mark (annual rate) for the first time since last October (see middle chart at right). A number of factors have helped the housing sector regain altitude. Mortgage rates rose sharply in 2013 as the Fed began to taper its asset purchases, but they reversed course after several months and are now back very close to 4 percent for a 30-year conventional mortgage. Home price gains have also moderated. Year-over-year changes in the **Case-Shiller Home Price Index** (see lower chart at right) were well above 10.0 percent for much of 2013 but have declined noticeably this year. Low rates and slowing price gains have made housing more affordable, leading to greater purchase activity. If the correction in housing has run its course, that sector should contribute meaningfully to real GDP growth near-term. One unknown here is when higher rates may begin to affect activity, which depends crucially on the Fed.

Consumer spending was decent in the second quarter as real personal consumption expenditures logged 2.5 percent growth. One area that stood out was expenditures on durable goods. Paced by surging vehicle sales, it posted 14.3 percent annual growth. The jump in car sales has added impetus to the overall economy but, here again, the issue of sustainability arises. Some of the recent strength has been due to easier financing terms and that will change once rates start to rise. However, the Fed seems to be in no hurry to raise its policy rate and may not do so until the middle of 2015. If the pace of rate hikes is gradual, interest-sensitive sectors of the economy need not be convulsed. A key factor here will be the behavior of inflation. Thus far, the Fed's preferred inflation gauge - the year-over-year change in the price deflator for personal consumption expenditures (ex-food & energy) - has remained well below the Fed's target of 2.0 percent (see chart on page 4). Should this persist, rates could take a while to get back to normal.



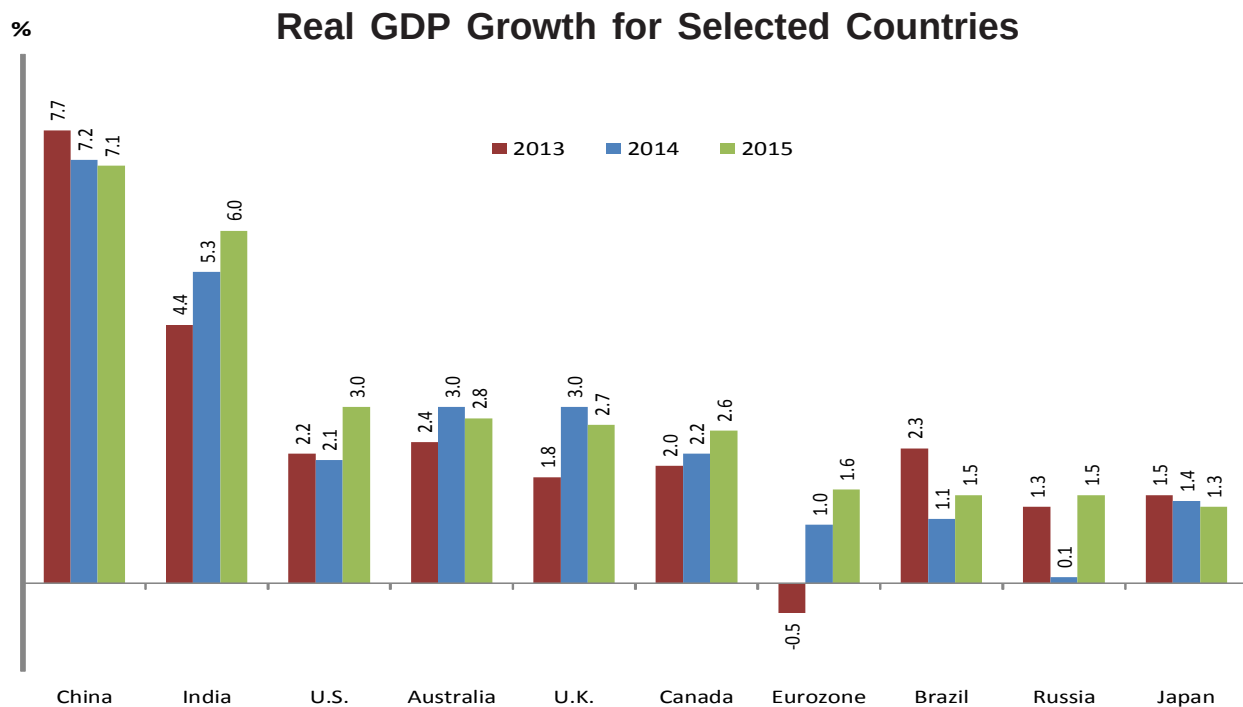
The other key to Fed rate increases is the labor market. Job growth has been generally healthy this year (see chart at right), averaging 226,000 per month prior to August's disappointing 142,000. This has given rise to concerns of cost-push inflation which might necessitate preventative rate hikes. These concerns are likely misplaced. Inflation usually originates on the demand side of the economy and then feeds into the supply side. Consumers account for roughly 70 percent of demand in the U.S. economy and their ability to increase spending is being restrained by minimal wage gains. There is little evidence that meaningful change in this situation is imminent.



International Outlook

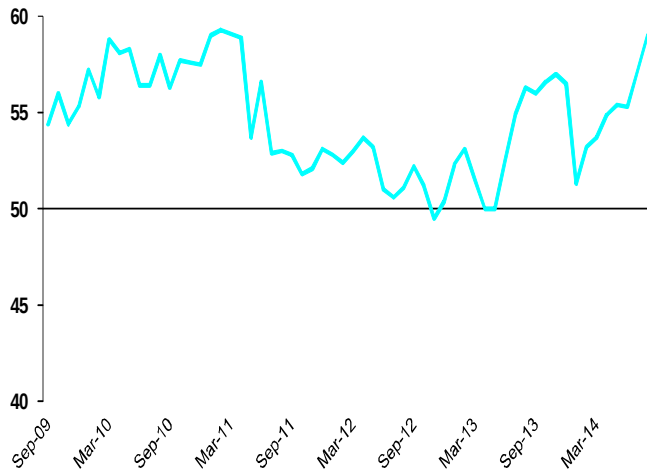
Hopes that the Eurozone would bounce back strongly in 2014 have not materialized. Most Eurozone countries have seen weak growth this year, and the current consensus is that real GDP will grow 1.0 percent in 2014 and 1.6 percent in 2015. In an effort to boost growth, the European Central Bank (ECB) recently cut its policy rate and announced it would begin large scale asset purchases. A number of Eurozone countries have lapsed into deflation and, if the ECB is unable to rectify this, Europe may be in for a long period of little or no growth, similar to Japan since the mid-1990's.

Forecasts for China's GDP growth have also slipped in recent months as it faces slackening demand for its exports and softening infrastructure investment. Apparently, Chinese officials are in no hurry to effect a transition from export driven growth to domestic demand led growth, and with many of China's export markets still slack (notably the Eurozone), growth is contracting. That said, Chinese real GDP is still expected to expand at over 7.0 percent this year and next, which looks quite decent compared to the outlook for the rest of the world.

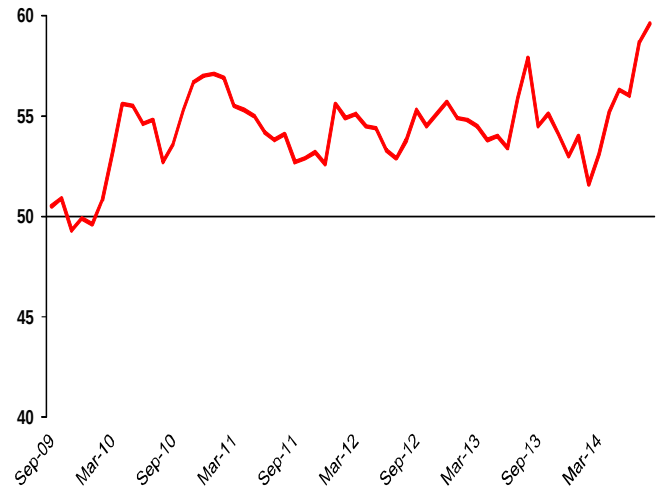


Data for 2013 may not be final. All figures from August 2014 Blue Chip Survey.

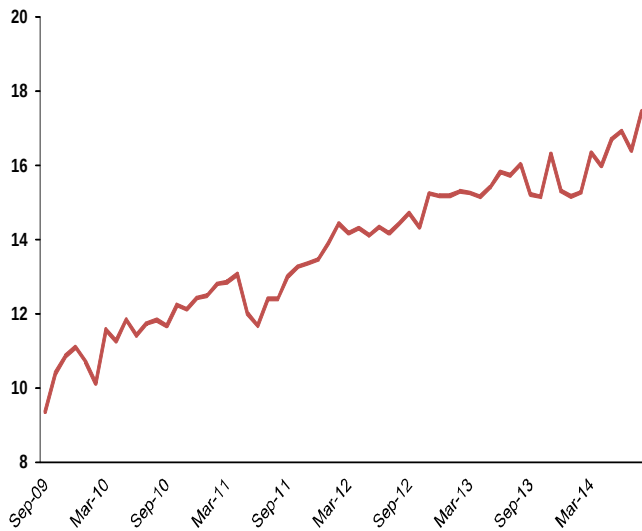
ISM Manufacturing Index



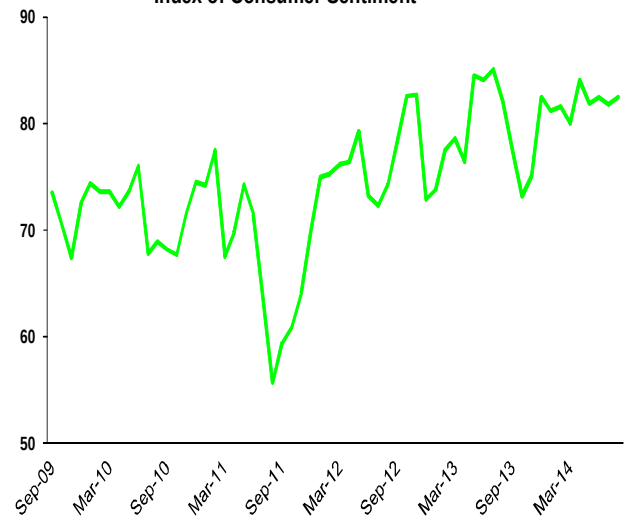
ISM Non-Manufacturing Index



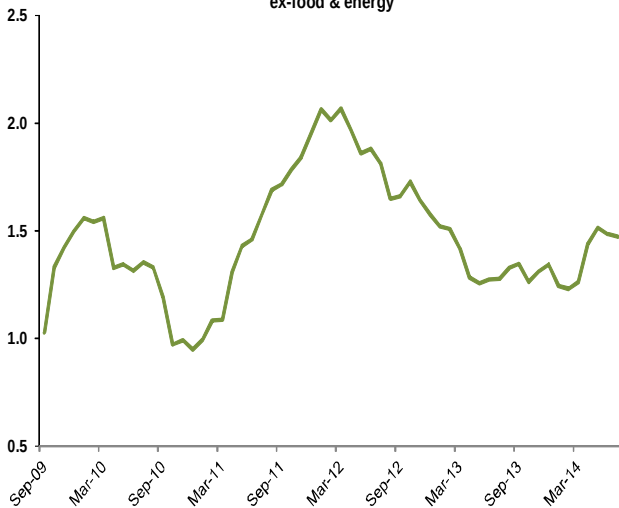
U.S. Vehicle Sales
Millions (annualized)



**University of Michigan
Index of Consumer Sentiment**



Personal Consumption Expenditures Price Index
ex-food & energy
YoY % Chg



Markit Eurozone Manufacturing Index

