Agenda
Investment Advisory Council (IAC)

Tuesday, March 26, 2019, 1:00 P.M.*

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

1:00 – 1:05 P.M.	**1.**	**Welcome/Call to Order/Election of Officers/Approval of Minutes** *(See Attachments 1A – 1B)* ***(Action Required)***	*Gary Wendt, Chair*
1:05 – 1:10 P.M.	**2.**	**Opening Remarks/Legislative Update/ Reports** *(See Attachments 2A – 2E)*	*Ash Williams* *Executive Director & CIO*
1:10 – 1:55 P.M.	**3.**	**Florida Growth Fund Investment Review** *(See Attachments 3A – 3B)*	*Hamilton Lane* *Nayef Perry* *Katie Moore* *J.P. Morgan* *Rob Cousin* *Tyler Jayroe* *Patrick Miller*

1:55 – 2:55 P.M.	**4. Real Estate Review** *(See Attachments 4A – 4B)*	*Steve Spook, SIO* *Lynne Gray, Senior Portfolio Manager* *Michael Fogliano, Senior Portfolio Manager* *Townsend Group* *Richard Brown* *Seth Marcus*
2:55 – 3:25 P.M.	**5. Corporate Governance and Voting Guidelines Review** *(See Attachments 5A – 5B)*	*Michael McCauley* *Senior Officer, Investment Programs & Governance*
3:25 – 4:25 P.M.	**6. Asset Class SIO Updates** **DC Programs Chief Update** *(See Attachments 6A – 6E)*	*Trent Webster, SIO Strategic Investments* *Alison Romano, SIO Global Equity* *Tim Taylor, SIO Global Equity* *Katy Wojciechowski, SIO Fixed Income* *John Bradley, SIO Private Equity* *Daniel Beard, Chief Defined Contribution Programs*
4:25 – 4:40 P.M.	**7. Major Mandate Performance Review** *(See Attachment 7)*	*Aon Hewitt* *Kristen Doyle* *Katie Comstock*
4:40 – 4:45 P.M.	**8. Audience Comments/2019 Meeting Dates/Closing Remarks/Adjourn** *(See Attachment 8)*	*TBD, Chair*

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

MINUTES
INVESTMENT ADVISORY COUNCIL
December 10, 2018

A meeting of the Investment Advisory Council (IAC) was held on Monday, December 10, 2018, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the December 10, 2018 meeting is hereby incorporated into these minutes by this reference.

Members Present:	**Gary Wendt, Chair**
	Bobby Jones, Vice Chair
	Chuck Cobb
	Les Daniels
	Peter Jones
	Sean McGould
	Vinny Olmstead
	Michael Price (via telephone)
SBA Employees:	**Ash Williams, Executive Director/CIO**
	Kent Perez
	John Benton
	Trent Webster
	Alison Romano
	Tim Taylor
	Katy Wojciechowski
	Steve Spook
	John Bradley
	Daniel Beard
	Michael McCauley
Consultants:	**Katie Comstock, Aon Hewitt**
	André Mehta, Cambridge Associates
	Samit Chhabra, Cambridge Associates
	Jim Mnookin, Cambridge Associates
	Sheila Ryan, Cambridge Associates
	Richard Brown, The Townsend Group
	Seth Marcus, The Townsend Group

WELCOME/CALL TO ORDER

Mr. Gary Wendt, Chair, called the meeting to order at 1:00 P.M.

STRATEGIC INVESTMENTS ASSET CLASS REVIEW

Mr. Trent Webster, Senior Investment Officer - Strategic Investments, provided a detailed presentation on the Strategic Investments asset class. He discussed their policy objectives, their staff, and their processes, including fund selection, due diligence, manager monitoring, risk management, and asset allocation. Mr. Webster described the portfolio, elaborating on net asset value, unfunded commitments, number of relationships, and private market strategies and liquid strategies. He also provided details of their recent activity, explaining that five funds totaling $875 million were closed during the quarter.

Mr. Webster discussed asset class performance, benchmarks, performance versus the Florida Retirement System, exposures, and strategy allocations over time. He described the strategy allocations (portfolios): debt, equity, real assets, diversifying strategies, and flexible mandates. Mr. Webster also discussed hedge funds and the role that they play in the portfolio.

Mr. Samit Chhabra, Cambridge Associates, stated that the SBA and Cambridge are working together every week. He briefly discussed hedge fund allocation, indicating that the allocation has changed over the last few years and that it is more diversifying. Mr. Jim Mnookin, Cambridge Associates, added that the SBA staff and Cambridge Associates are working together very effectively.

Mr. Seth Marcus, The Townsend Group, discussed the performance of the real estate debt and timber portfolio, stating that a limited number of new investments had been made over the last three years in that portfolio due to the fact that there have been attractive opportunities in other asset classes. Mr. Richard Brown, The Townsend Group, told the IAC members that The Townsend Group provides the SBA with write-ups on all of the opportunities that fall in real estate structured debt and timber.

There was an in-depth discussion about hedge funds during the Strategic Investments review. Questions posed by IAC members during the review were answered by Mr. Webster; Mr. Ash Williams, Executive Director/Chief Investment Officer; Mr. John Benton, Senior Investment Policy Officer; Mr. Chhabra; Mr. Mnookin; Mr. Marcus; and Mr. Brown.

APPROVAL OF MINUTES

Mr. Wendt stated that the minutes from the September 17, 2018 IAC meeting had not been approved. Mr. Bobby Jones made a motion to approve the minutes; the motion was seconded by Mr. Les Daniels. The minutes were approved.

OPENING REMARKS/REPORTS

Mr. Williams provided a brief summary on the performance of the Florida Retirement System Pension Plan, stating that, as of December 7, 2018, the fund was down 1.16 percent for the calendar year, 176 basis points ahead of target. He stated that the fund balance was down $8.1 billion (net of distributing approximately $8 billion in benefits) over the calendar year.

Mr. Williams thanked the IAC members and the compensation committee for the work they had done and indicated that the Trustees had reaffirmed him at their recent meeting. He provided an update on the Trustees, indicating that there will be a new Governor and a new Attorney General in January but that the current Chief Financial Officer had been reelected. Mr. Williams welcomed Mr. Peter Jones to the IAC as he had just been appointed by the Attorney General and was attending his first IAC meeting. Mr. Williams stated that another new IAC member, Mr. Tom Grady, was also just appointed and will be attending the upcoming March IAC meeting.

Mr. Williams briefly discussed the following: becoming signatories with several private firms and other public pension funds on a set of Principles for a Responsible Civilian Firearms Industry; Airbnb's possible activity in some of the occupied territories in Israel; and multi-share voting.

In closing, Mr. Williams informed the IAC members that, since January of 2011, there has been an investment gain in aggregate of $81,847,000,000, of which $8.884 billion was value added above the benchmark.

ASSET CLASS SIO UPDATES, DC PROGRAMS CHIEF OFFICER UPDATE, INVESTMENT PROGRAMS & GOVERNANCE OFFICER UPDATE

The Senior Investment Officers of Global Equity, Fixed Income, Real Estate, and Private Equity provided an update on the performance of their respective asset classes over the last quarter and trailing time periods and discussed general market conditions. Questions from IAC members were answered.

Mr. Daniel Beard, Director of Administration - Defined Contribution Programs, provided an update on results from the recently enacted law pertaining to new hires in the Florida Retirement System who do not make an active choice. He also provided a snapshot of the assets, number of members, average account balance, assets under management by asset class, performance, and the MyFRS Financial Guidance Program. Mr. Beard answered questions from IAC members during his presentation.

Mr. Michael McCauley, Investment Programs & Governance Officer, elaborated on the Council of Investors' petition and the letters from the SBA to the New York Stock Exchange and NASDAQ concerning dual class stock or multi-class share. He stated that the Principles for a Responsible Civilian Firearms Industry had just recently been finalized and that the investor group is collaborating and planning what steps to take next. Mr. McCauley stated that the SBA had voted over 1,300 meetings last quarter, and he referred to the statistical figures in the appendix of his presentation.

MAJOR MANDATE PERFORMANCE REVIEWS

Ms. Katie Comstock, Aon Hewitt, provided an overview of the performance of the Pension Plan, the Investment Plan, the Florida Hurricane Catastrophe Fund, the Lawton Chiles Endowment Fund, and Florida PRIME. Questions posed by IAC members were answered by Ms. Comstock, Mr. Williams, and Mr. McCauley.

AUDIENCE COMMENTS/CLOSING REMARKS/ADJOURN

There were no comments or questions from the audience. Mr. Wendt noted that the IAC members had received the proposed dates for the upcoming 2019 IAC meetings.

The meeting adjourned at 3:30 P.M.

GC Wendt

March 5, 2019

Gary Wendt, Chair

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

MONDAY, DECEMBER 10, 2018
1:00 P.M. - 3:30 P.M.

1801 HERMITAGE BOULEVARD
HERMITAGE ROOM, FIRST FLOOR
TALLAHASSEE, FLORIDA

REPORTED BY: JO LANGSTON
Registered Professional Reporter

ACCURATE STENOTYPE REPORTERS, INC.
2894-A REMINGTON GREEN LANE
TALLAHASSEE, FLORIDA 32308
(850)878-2221

APPEARANCES

IAC MEMBERS:

GARY WENDT
PETER COLLINS
BOBBY JONES
VINNY OLMSTEAD
LES DANIELS
CHUCK COBB
SEAN McGOULD
PETER JONES
MICHAEL PRICE (telephonically)

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR
KENT PEREZ
JOHN BENTON
ALISON ROMANO
TIM TAYLOR
KATY WOJCIECHOWSKI
STEVE SPOOK
JOHN BRADLEY
TRENT WEBSTER
DANIEL BEARD
MICHAEL MCCAULEY

CONSULTANTS:

KATIE COMSTOCK - (Aon Hewitt)
ANDRÉ MEHTA - (Cambridge Associates)
SAMIT CHHABRA - (Cambridge Associates)
JIM MNOOKIN - (Cambridge Associates)
SHEILA RYAN - (Cambridge Associates)
RICHARD BROWN - (Townsend Group)
SETH MARCUS - (Townsend Group)

INVESTMENT ADVISORY COUNCIL MEETING

* * *

MR. WENDT: The meeting will still come to order. Okay. We're waiting for Mr. Williams to show up. He's the one that runs this show. It would be good if he had some opening remarks for us. He may not. But I think we'll push ahead anyway, even though he isn't here.

Let's move ahead into the strategic investment class. We've been waiting for this for a year now, for Trent to give us his -- to try to unravel the mysteries of the strategic investments. Be our guest.

MR. WEBSTER: Well, somebody told me the mystery of the pyramids were easier, so I'll do my best here. So for those who are new to this forum, we are the strategic investments asset class. And the best way that you can think about us is that we are the alternative investment asset class. So things that don't fit nice and neatly into the other four asset classes, stocks, bonds, real estate and private equity, come to us.

And one of the reasons why this asset class exists is because there was a time where we would see good investment opportunities but we didn't have

a place to put them because they didn't fit the mandate of the other four asset classes. So they created this asset class called strategic investments, and you can think of us as the miscellaneous part of the Florida Retirement System.

Now, we are charged with four objectives in policy. The first one is to generate a real return that is the same as the rest of the FRS. Today that's 4 percent plus CPI, and we're to generate that over the longer term. The second thing we're here to do is to dampen the volatility and improve the risk-adjusted return of the total fund.

We're also here to outperform the FRS during significant market declines. And what should happen, if we have a significant market decline -- and it's possible we may be having that right now, but we would expect to decline by somewhere between a quarter to a third that of the market. So if the stock market is down 30 percent, we would expect to be down somewhere between 7 and 10 percent.

But we have strategies in our book that helps mitigate the volatility of the fund. And finally we're here to -- we also have a mandate to invest opportunistically. So one of the things that's a little bit unique about strategic investments is that we have a target of 12 percent, but we really more think of that as a range. We think of the target or the 12 percent more of a ceiling. Then we have a range between zero and 12 percent.

So in theory, we could not -- we don't have to invest in anything. So in theory, if there was nothing that we like, we could liquidate everything and give it back to the rest of the fund. In practice, that's not going to happen. We won't do that.

But what it does is that it instills a mind-set amongst the staff that we don't have to be forcing money into unattractive markets if we don't want to. We have a wide variety of things that we can invest in. And so if there are some things we don't like, we can go pursue some other things that we do like.

So just briefly on the staff, I work with an excellent group of individuals. They're sitting in the audience currently. They're a great bunch of people to work for. And we currently have a couple of openings. So if you know of anybody, talented people who are looking for work, please send them my way.

I'm not going to speak a whole lot on process today, but I'll go over some of the highlights. The

first one -- and I've shown these slides in the past. But when we're looking for funds, we have three very broad things that we're looking for. The very first thing is that the manager must have high ethical standards.

If the manager does not have high ethical standards, if the manager puts himself before his investors, if the manager has a poor reputation in the market, he doesn't treat his investors well, then we simply will not invest with them no matter how good that investor is. There's just too many good people out there. We don't need to deal with that and those types of investors.

The second thing -- and this follows the ethical questions -- is whether or not the manager is of institutional quality. The FRS is, I believe, the fifth largest public pension plan in the United States. We're a very large institution, and we need managers who can deal with the demands of a large institution.

And third and finally after those first two is that we're obviously looking for attractive, process-driven, repeatable risk-adjusted performance. Ultimately this is a business about performance, and we're here to generate attractive

ACCURATE STENOTYPE REPORTERS, INC.

risk-adjusted returns. But those only come after those first two.

MR. WENDT: Trent, how do you -- give us an example of how you apply risk-adjusted to your -- looking at the history of these companies.

MR. WEBSTER: Well, yeah, so we'll talk in a bit about some of the strategies. It depends on the strategy and it depends on the structure. So there are certain strategies right now, there are certain parts of the market where you can get pretty attractive returns fairly high up the capital stack. And so we would view that as an example of good risk-adjusted returns.

Whereas five years ago you may have to get those returns in the equity, now you can get them, say, in the senior secured bonds. And we'll talk a little bit about that.

Another way of looking at this is, is that if you look at, say -- and this is jumping way ahead -- the Sharpe ratios of many of our hedge fund strategies are quite high, even if the returns are perhaps a little lower than we wanted.

So the idea of risk-adjusted returns, there's multiple definitions, but ultimately that's what we're trying to do. So we're not trying -- if we

can generate, say, a 6 or 7 percent return with a 3 volatility, that's more valuable to us than a 6 or 7 percent return with a 13 percent volatility.

MR. WENDT: So even though it's a part of what you would consider to be a numerically driven item, you kind of guess at that stuff, don't you?

MR. WEBSTER: We like to apply --

MR. WENDT: Risk-adjusted, I mean, you kind of --

MR. WEBSTER: We like to apply qualitative discipline towards the assessment of risk. And I've got a many-bullet-pointed slide here to show you about that.

So we go here. So in our process -- and the next couple of slides have a whole lot of bullet points on them, which I won't go through all of these. What I'd like to stress on this slide is that we put a lot of time and effort into our managers. In our due diligence process, we're typically taking 20, 40 hours, usually longer, to do the work on a manager before we invest with them.

With most managers, we're usually meeting them before they're in their fundraising cycle. And even with some of the evergreen funds, we usually take quite a long time learning about them and getting to know them before we invest with them. So it's a pretty intense process in terms of what it takes to get a fund from initial sourcing into the asset class.

We're typically meeting with the managers every quarter or every month. We're talking to them if there's anything new that's arising with them. So we're in constant contact and getting updated on any relevant information that's coming to us.

And on risk management -- and this is what I mean, Mr. Chairman, in terms of our risk-adjusted returns, when we're looking at things. I would point to two items on here. The first one is that we implement a contrarian investment philosophy as a way to mitigate investment risk.

So typically what that means is that we're going into strategies which tend to be unpopular, so they tend to be -- from an investment standpoint, they tend to be strategies which may have had a pullback. There's a lot of capital coming out. There's been a lot of returns that have been negative, could have been some investment pain for some managers.

Those are the types of things that we like because it drives capital away from the industry.

As long as there's not something structural or systematic which is causing that, that's of interest to us.

Similarly there are some strategies which may go through poor performance, where you have a withdrawal of capital, because this business often is return-chasing. And so we want to be putting capital to work when capital is scarce and dear and expensive and being cautious when capital is abundant and returns are low. So typically what we're doing is that we're following a more value philosophy. Though we will at times fund up growth if we think the opportunity is there.

The second thing I'd point out to this slide is the heightened sensitivity to operational issues. Now, anybody who has been involved with an investment firm knows there's often debate that goes on around any given investment within a firm. It can be quite a vigorous debate, where you have individuals who are maybe more enthusiastic and some people who are less enthusiastic.

You may have some individuals who prefer investment A over investment B. And we can have these discussions with our colleagues at Cambridge. Cambridge may say, We think that this is probably better. And we say, Well, we think that's probably better. That's part of the investment process. We keep an open debate where everyone can feel free to express their opinions, and then ultimately we come to a decision.

That's not necessarily the case when we're dealing with operational due diligence. This is a binary decision for us, that they are institutional or they are not. And our consultants can come back to us and tell us that if they think that the work that they have done -- it's concluded that this is not an institutional firm on the back office or any issues with operations, if it can't be mitigated or fixed, then we won't do the investment regardless of the investment merits.

And that goes back to one of the first slides they put on there in terms of the things that we look for, where a fund has to be institutional before we'll invest with them.

MR. COLLINS: Can I ask a question, Mr. Chairman?

MR. WENDT: Please do.

MR. COLLINS: Trent, how do you -- do you source most of your opportunities through Cambridge or -- as a percentage, let me ask. As a percentage,

the percent that come to you directly, find their way to the State Board of Administration, versus those that find their way to Cambridge or some of those that you source, how would you split those percentages up?

MR. WEBSTER: That's a really good question, Peter.

MR. COLLINS: You're giving me too much credit but --

MR. WEBSTER: Well, yeah. I would say it's -- we're having a constant dialogue with Cambridge, so they're meeting managers and we're meeting managers. And I would say, what, roughly half come from one or the other. I mean, I really -- we really don't know, because we view Cambridge as an integrated part of staff, and we talk to Cambridge every single week, and we're talking about managers that we've met, that they've met.

And my guess is that if you were to look at our portfolio of funds, at least the ones that have come in in the last five years, it's probably about 50-50 in terms of being from the consultants and from -- maybe 60-40, 65. I don't know. But we work with them, and they've given us some good ideas which we've pursued. And we've brought some stuff to them

that, you know, they've done work for us, so --
MR. COLLINS: It just -- it strikes me that out of all the chiefs here, that you have the ability to be the most esoteric in your investments. And your comment about being -- going when capital is scarce --
MR. WEBSTER: Right.
MR. COLLINS: -- versus abundant. But given that it's just not mainline or mainstream funds that you're investing in, but they have to be institutional, right? So I just -- I often wonder how somebody positions themselves to be strategic and not private equity or real estate, but it's strategic because it's a certain way and how Cambridge says this really belongs in the strategic investments portfolio versus private equity or real estate or somewhere else.
It's just -- finding those opportunities, those strategic opportunities, it's difficult, but maybe not so difficult, depending on how you categorize strategic.
MR. WEBSTER: Yeah. Look at it this way. We get bombarded with people selling us stuff. We get a lot of stuff that comes in. And we can --
MR. COLLINS: That's not so strategic.

MR. WEBSTER: Yeah. But we can determine pretty quickly where it fits. So, you know, if it's straight up down the fairway private equity, we'll send it over to John. And the same with real estate. Occasionally I've been pitched on agriculture in real estate. We just then go talk to the smart people at real estate to do that. But then there can be some gray area stuff.
But you'd be surprised at the things that people have been contacted -- contacted us on. I once got an e-mail -- I'm not kidding -- from Melbourne, Australia, said that they were going to be in Tallahassee on such and such a day. And we get these types of e-mails all the time.
MR. COLLINS: Sure, yeah.
MR. WEBSTER: And, of course, you politely, well, that's very nice, thank you, but send us a -- but if somebody sends you from Australia and says they're going to be in Tallahassee, that piques your curiosity. And so we ask, you know, what are you going to be here for? And they were actually here to do mitigation banking.
And so something -- we've looked at mitigation banking as a possible investment strategy. We've gone out and researched it. So we get pinged with

this stuff. We get life settlements, litigation finance.

I mean, State Board, people know who we are, and they can just do a fire shot to the organization. And that comes to John Kuczwanski, comes to us, but usually it will come down straight to us. So there's no shortage of ideas or people who are talking to us.

MR. COLLINS: Last question?

MR. WENDT: Any more -- oh, so you do have another --

MR. COLLINS: Yes, just one more, Mr. Chairman, if you will indulge me.

MR. WENDT: Well, please make it quick.

MR. COLLINS: Okay. Institutional, it has to be institutional, right? So, Sheila, how many people show up that are institutional qualified but that are really interesting and strategic? How many deals -- how many -- the funnel is pretty big, right? And then it's got to get pretty small to be in strategic and to be institutional.

So are you weeding out the vast majority of them because, yes, they're institutional, but it's not so interesting or special or strategic?

MS. RYAN: I would say, in general, I think we

weed out probably about 90 percent of the managers that come through the door, because we are looking for high quality, differentiated, ability to generate returns, you know, stable team, et cetera, et cetera.

And when we look at our funnel every year and we sort of pare it down to see who we said no to and who we said yes to, it's a pretty high bar, because there are thousands and thousands and thousands of these managers. And we're meeting them around the globe, because we've got people, you know, all over the place.

And, I mean, you should see the sheets that we share each week of all of the meetings that we've had, and then they're sharing all the meetings that they had, and we're cross-referencing. And there's just a lot of data points, so -- and typically the institutional thing will come down to kind of fund size in a lot of ways. You know, 50 million, 75 million.

I mean, it's just not worth their time to really spend -- you know, because at the end of the day, we want to write at least a $50 million check. So there's that element of it as well. It needs to be at least, you know, 3, 4, 500 million in asset

ACCURATE STENOTYPE REPORTERS, INC.

size for it to really kind of start to make sense.

MR. WEBSTER: And usually by that time, they usually have the systems and they usually have the back office. Oftentimes, it's been my experience here across different asset classes that it's the reputation of the manager that can kill it. And the value add from the consultants that I've had over the years is understanding the reputation of the managers. That's across -- I've been in equities. And that's where it's beneficial.

MR. WENDT: Thank you.

MR. PRICE: Could you get closer to the mike? It's hard to hear you.

MR. WEBSTER: Okay.

MR. WENDT: Can we move on, please, down to the major items of the process, asset allocation, number nine, or are you done with that?

MR. WEBSTER: Well, the only thing I'll say to this is that we have a fairly involved asset allocation process. Even though we are an opportunistic asset class, what we don't ever want to find out one day is wake up and we have 40 percent of our book in one single narrow strategy.

So what we do is that we sit down and we go

through this process in the spring, and then we make a determination of where we want to allocate capital over the next three to five years. And that acts as a guide or a road map of where we want to go. Now, that can change depending on how markets change, but we do have a process in where we want to allocate capital across the alternative investment universe.

So like I said earlier, our policy target is 12 percent. We're currently 8 percent. That is not by design. We've been 8 percent -- well, we've been 8 percent for 30 months. That's not been by design. But there's been a few reasons why we've been 8 percent for two and a half years.

First of all, at least until recently, Tim and Alison have been very, very hard to keep up to. Global equities has been on fire, at least until recently, and we're hoping they fix that soon. So that's been one. Part of it also is that we've -- our managers have been sending money back to us in distributions and they've been calling it.

Part of it is that we actually had a period where our pipeline was very thin. And that's being populated again. And part of it is that we've redeemed nearly a billion dollars in hedge funds that has not been replenished yet. So that's why this -- you've seen in this graph here we've been hovering around the 8 percent level.

We're currently -- at the end of the quarter we were $13 billion in net asset value, 18.2 billion in NAV plus unfunded commitments, 85 relationships managing 138 funds, and split roughly between private market strategies and liquid strategies.

So this calendar year is very unusual. We've been cash flow positive. So we've kicked back nearly a billion dollars back to the fund, for some of the reasons that I already stated.

This recent activity slide is always a little old because we always close things after I send this off. We've actually closed five funds this quarter, at 875 million. We've actually got two more in the pipeline we're hoping to get done by the end of the year. So this will actually be a pretty productive quarter for us.

This is performance. It's difficult benchmarking alternative investments. And so we always counsel individuals to look at us in multiple different ways. Obviously you need a benchmark. It has to roll up to the total fund. That's the red bars in this graph. The benchmarks, the official benchmarks are the weighted sum of all the

individual fund manager benchmarks, the same way they do it in global equities or fixed income.

And then those yellow bars are the real return target. So that's in our policy. Our policy is to generate real returns similar to the FRS. Currently that's 4 percent. You can see over time what that has been, and it's been roughly six and a half percent over time, six and a bit.

Benchmarking in alternative investments is very, very difficult. We spend a lot of time looking at this and trying to understand it. And we benchmark our funds on market indices, peer groups and on the asset class secondary benchmark.

MR. WENDT: Trent, is it possible for you to just roughly proportion how much of the return that goes into your strategic investment performance is cash versus estimates or mark it as value estimates? Your performance, is it all -- it's not all cash. I know that.

MR. WEBSTER: It's all cash?

MR. WENDT: It is not all cash. When you do your performance, you're trying to get the profit, right? That's your profits here. And how much of that is based on your assumptions as to values?

MR. WILLIAMS: Yield versus asset value.

MR. WEBSTER: I'm sorry?

MR. WILLIAMS: Yield versus asset value.

MR. WEBSTER: Oh, oh, the yields. Oh, okay. Yeah. So I would say that in this, I would estimate that the portfolio as a whole, the cash yield is probably somewhere around 2 percent, 2.25 percent, maybe 3, somewhere in there, in terms of the cash yield.

But that doesn't necessarily get distributed back to us. Sometimes they will reinvest it. There's an investment period where they'll recycle. So it just depends on the fund terms. Most of this return is on the appreciation of net asset value of the underlying assets. Thanks.

So another way to look at us is to look at us versus the rest of the FRS. We do not -- we would not expect to keep up with the rest of the FRS. The retirement system is roughly almost two-thirds equity, it's 62, 63 percent equity. So the -- most of the risk in the fund is equity. Most of the risk, most of the assets in this asset class are not equity.

And so if we can keep pace over the long run with the returns from the FRS, notwithstanding our target, which we should be doing anyways, you know,

we think we're being -- we're doing a fairly good job.

These are the exposures. So what this measures -- we started measuring this a couple of years ago. These are the notional exposures of our underlying securities. And what this looks at, the blue line is the gross exposure. The red line is the net exposure.

The gross exposure is measured -- it's a measure of the longs plus the shorts. And if I recall correctly, at the end of the quarter, we were 163 percent long and 84 percent short, and 164 percent long, 83 percent short. So our gross exposure was 240 percent. Our net was 81 percent. So that means for every dollar of exposure, 80 percent of it is long, roughly speaking.

I'm a little surprised by this, to be honest with you, and I've mentioned that here in the past, that the net exposure hasn't been higher, or hasn't been more volatile, excuse me. So for two years it's been fairly constant around that 80 percent level.

This graph looks at the exposures over time. So when we were originally funded in June 2007, we were actually funded by a global equity portfolio.

So back then we had -- and correct me if I'm wrong, John, but I think we had three different equity asset classes. We had foreign equity, domestic equity and global equity.

MR. BENTON: Yes.

MR. WEBSTER: Right. And so the strategic investments asset class was created in part so that things that ran across different asset classes could come to us. So the global equity portfolio was transferred to us with the idea of it being liquidated over time and being invested in more traditional alternative investments. But that was in 2007. And we all know what happened over the next few years, is we got caught in the financial crisis.

And so for the first three years of our existence, we actually looked -- we were an equity fund. We had equity risk. We had the returns of an equity fund. And it wasn't until June 2010 where, with the creation of the new global equity class that now exists, it's now Tim and Alison, what was remaining of that portfolio that hadn't been liquidated or hadn't been subject to a drawdown was transferred back into the new global equity asset class.

And it's from there that we kind of think in our minds where the start of the traditional, what you'd consider to be a traditional asset class began. We were actually also funded with a two and a quarter billion dollar portfolio of high yield bonds. That's that light blue part of the graph, of which we liquidated and used for other investments.

And the sin of, you know, many value investors is that we thought that yields were not high enough in high yield. And, boy, that came back to look silly over the years.

But if you look at the rest of that, the blue is the -- blue is debt. The red is equity. Green is real assets. The purple is what we call diversifying strategies. And that brown, which is supposed to be orange, is flexible mandates.

These are all the sub-strategies. And this is what -- so when Peter asked earlier about all the stuff that comes in, this is how we classified all the different sub-strategies that we can invest in. And we're going to talk about all of these in a little bit, or talk about most of them in a little bit. But this is how we structure our portfolio from a strategy standpoint.

MR. WENDT: Excuse me, Trent. Bobby Jones has a question for you.

MR. BOBBY JONES: This is a good slide for it, too, Trent. On page 12 you mention that private market strategies are 52 percent of NAV, and then 48 percent of that, of NAV, would be liquid. So that means that 52 percent are appraised periodically by somebody and then 48 percent is based on what the market --

MR. WEBSTER: More or less, yes. That's correct, yes.

MR. BOBBY JONES: Okay. So half and half?

MR. WEBSTER: Yeah, roughly speaking.

MR. BOBBY JONES: And so we can almost pick out the halves.

MR. WEBSTER: Yeah. For some of them, right. So the hedge fund strategies, the activists, and there's a few other things that we have in there, buried in those that would be considered to be more liquid. We actually define liquid as anything that you can liquidate within a year, for what it's worth.

MR. WENDT: Will you go back to the previous slide, please? Thank you. Art Basel is over, in Miami, is over for this year, but next year you've got to put that one in. I guarantee you that will

sell. You'd get a hundred thousand bucks for that.

MR. WEBSTER: Duly noted.

MR. WENDT: I mean, it's a beautiful piece of work.

MR. WEBSTER: Thank you.

MR. WENDT: It will be sold, believe me. It will sell.

MR. WEBSTER: All right. So you'll see here on -- when we start talking about all the strategy portfolios, you can see in that first bullet point, it says 28 percent of strategic NAV. That was the allocation at the end of the third quarter.

Where it says the medium-term target is 26 percent, that's what was determined when we did our asset allocation. So we're currently 28 percent. We expect to get to 26 percent over the next three to five years.

So within our debt portfolio, we have four sub-strategies; distressed, evergreen debt, loans and subordinated capital. Distressed was actually our first investments in alternatives and in fact predated the creation of strategic investments, was originally -- the investments were originally in the private equities asset class and were then transferred over into strategic. And so we were very active during the global financial crisis allocating capital to these funds.

Since that time, a lot of this strategy has morphed away from distressed to more distressed and more what you'd consider to be special opportunities or credit opportunities in the private markets. So it may be a bit of a misnomer.

But that's our distressed portfolio. It's our largest allocation at about 12 percent. We like distressed as a strategy, if not necessarily for where we are in the cycle on it, because it's a great way to play value investing.

The evergreen debt, that's one of those liquid strategies. Most of those are hedge funds, and we've been very inactive in credit hedge funds, simply because what we have found is that when we compared our credit hedge funds to our private markets debt funds, they often had the similar, if not the exact same securities and exposures between the two.

And when you're in a private market structure, for an LP, the fee structure is so much better. And we don't have any liquidity demands on us, so there's no reason necessarily to invest in a credit hedge fund when we can get the same exposures in the

other sub-strategies, with the caveat is that we'd always invest with a really good manager no matter what they do, no matter what the structure. Loans, those are mostly senior loans. And then we've got subordinated capital, that's primarily mezz and preferred shares.

And that's the returns for the last three years. We're using three years. You'll see a bunch of graphs with three years performance. The reason for that is because that's the time frame where we have the most data points to show you that's in any way meaningful. So for the private market stuff, it's been, for the last three years, generating returns of 7.5 to 8.25 percent.

In equity, we actually have five strategies. So we have four listed here. And I'll give you -- so, again, it's 21 percent of NAV and a medium-term target of 16 percent. Now, that 16 percent, we made that allocation in the spring, so back in May. We would intend to increase our allocation to equities as the equity markets pull back.

So it could be that if this is a really bad bear market, if we're at the beginning of that, then we'll start getting interested in some of these other strategies, like activist and long/short equity. We haven't really liked the equity markets a lot, but with markets pulling back and stocks going down, it becomes more interesting to us every day.

So one of our best performing strategies has been the activist portfolio. And I'm going to get on my soapbox a little bit here, because I think one of the reasons why it's been so good for us is how we structure it.

I think one of the mistakes that LPs make, investors make with activists is that they treat them like they're a hedge fund strategy, when they're not. They're really a beta-plus strategy. And so a lot of the activists want to be paid like hedge funds, but they really should be paid as if they're a beta-plus strategy.

So for all of our managers that we hire, we put them on a benchmark of some -- or a hurdle. We prefer a market benchmark, but we will also put them on an absolute hurdle if that's what they would choose.

So what that means is, is that if the market goes down 40 percent and they go down 20 percent, we'll pay them for the alpha. But if the market goes up 40 and they go up 20, we won't pay them for

that, because it's beta, so why are we paying them for the beta? We're willing to lock up for a while to do that. But we think it's really, really important that you structure it properly.

I wrote a white paper on activism over ten years ago and did a survey of all the academic literature and came to the conclusion that activism adds about 3- to 400 basis points of alpha. And if you're in a typical two and 20 structure, the manager captures every single dollar of that. Your average asset manager does.

So why would we go in that? Why would we fund something so that the manager can capture all the alpha? So we'll capture part of the alpha in this structure, and we'll pay the manager even if the markets are down.

Long/short equity, that's not a big part of our portfolio. If we continue to see a pullback in the markets, we'll start looking for some higher beta managers who do that. That could be interesting.

We've got this thing called SI private equity, and you're saying, Well, Trent, why are you in private equity? I've got a really smart guy sitting beside me with a really good group who does really good private equity investing. Why are you guys doing that?

And the reason for that is because, generally, when we're into private equity, there's something about the fund that we like that doesn't fit the mandate of the private equity asset class. So we've got investors or we've got investments where the private equity manager is also making investments in real estate or they're also making investments in debt.

So they run across the different asset classes, which, again, as I mentioned at the beginning, was one of the reasons why we exist. If it's multiple asset classes, then it would come to us.

So the performance of the long-only -- the long-only stuff has done very well. The long/short has been poor. This has actually underperformed its benchmark, the long/short. We don't have the benchmarks on here. So that might look really piddling, but the benchmark hasn't been much better, but even though, we've trailed it in that sub-strategy.

This is our real assets portfolio. It's comprised of commodities, infrastructure, timber, transportation and real estate. Commodities, these are commodities lending strategies. And so,

Mr. Chairman, you'd asked earlier about risk-adjusted returns and whether it's attractive. We actually think commodities in metals and mining has some very good opportunities right now. And that's without making any bets whatsoever on the direction of the commodities.

What happened was, was after the super cycle and commodities unwound, prices fell a lot. A lot of people got hurt. A lot of capital has come out. And so what we're finding is that there's probably not enough capital to fund all the mine expansion over the next five years.

Our challenge in commodities with metals and mining is to find institutional funds, because there's not a lot of funds that do that. There's a few equity funds that do that, but we're really more in the financing area.

On infrastructure, we really like our managers in infrastructure, but we really don't like the market a whole lot in the developed markets, core area and some of the core plus. That's an area where you see an ocean of money has gone in and mandates and buckets have to be filled, and we think that assets have -- people have been overpaying for assets. I've been saying that for five years. I've been wrong for these five years.

But what it looks like to us is that people are -- some people are using this as a bond proxy and a substitute for yield. And we think there are more operating assets with a lot of negative convexity. So if you have a backup generally in rates, we're afraid that the net asset values of some of these underlying businesses could get really hurt.

Now, there's a couple of caveats to that. We are looking at the 5G build-out. That looks kind of interesting. And we're also looking at infrastructure in emerging markets. Don't know if we're going to get there, but that is an area where there's not a lot of money and there are some really good tailwinds in emerging markets and some decent returns on a risk-adjusted basis that could be interesting to us if we can get there.

And, again, the question, okay, so you've got this real estate area. Why have you got that when you've got Steve and his group doing a really good job? Half of these funds are lending, so we can do real estate debt, and half of them more or less are funds which are distressed or transitional or there's something wrong that's outside of the core

or core-plus mandates.

MR. WENDT: Continue on, please.

MR. WEBSTER: And there's the returns for the real assets. It's generated a 10 percent return over the last three years in total.

Now, the diversifying strategies, these are the strategies which have -- which we are using to help diversify from equity risk. So currently it's 19 percent of strategic. The medium-term target is 24 percent. We'd like to see it get up to 30 percent or even higher in the longer term.

And the one that I've talked about in the last few meetings is insurance. We've made a couple of insurance investments. We've made a recent one that is not cat related or catastrophe reinsurance related. We've got two more that are in the pipeline.

We don't like the insurance markets particularly right now because there's a lot of capital in it. However, what we've been doing is setting up structures, putting small amounts in, and will be able to fund it sometime in the future, whenever the market hardens. We'd like to see insurance getting somewhere between 5 and 10 percent over time. And within a couple of quarters it will be at around 2.

Returns aren't anything to write home about. The only thing that I would say about these returns, which have been lower than what we would otherwise like, is that this diversifying strategy, we first made our first investment in this in May of 2014. The returns from this have been about 3 percent, again, lower than what we like, but from the rest of the hedge fund book, the return has been 4 percent over the same time. So it's a problem generally in that whole business.

And finally something we call flexible mandates. The first two are hedge fund strategies, event and multi-strategy, and the last one is open mandate. And these are generally funds which offer eclectic mandates, usually within a larger firm, where the opportunities that come to the firm are not eligible for other funds or they can't be put into other funds for whatever reason. So it's a flexible pool of capital that can run across equity, debt, whatever other financing structure that they have. And that's the returns from this portfolio, just under 6 percent in total.

And finally on hedge funds. I talk about this -- we don't -- I talk about this -- we don't

publicly publish anything other than speak about it here. The reason for that is because we don't have a hedge fund program. There is no hedge fund allocation within the board. Instead what we have is a program that includes hedge funds.

And currently we have $4.3 billion invested in hedge funds. It's roughly a third of strategic investments. We have 19 hedge funds that are ongoing and two fund of funds. We have one in the pipeline, but we actually have a couple sitting just outside of the pipeline we expect to go into it.

And it's important to understand the role that they play and how they play and the context in which they were set. So we originally made our first investments in hedge funds in 2011. And at the time, the way a lot of large -- or a lot of plans like ours were going into hedge funds were to go through a fund of funds. And then the idea would be you'd have a fund of funds for five years, and then you'd go direct on your own.

Instead, what we did is we hired the smart people of Cambridge, and they helped guide us into the hedge fund world, going into some big institutional hedge funds. We all held hands and walked, you know, very slowly into the big scary

ACCURATE STENOTYPE REPORTERS, INC.

world, big scary pond of hedge funds.

And then -- and so what they did for us is that they put about 15 managers in front of us, and we tried to find reasons to shoot those managers down. And if we couldn't find a whole bunch of reasons to reject them, we thought, well, they must be pretty good, we did all the due diligence on them and we put them in the portfolio. And that was about seven funds.

From there, in the second wave, what we did was that we took a bunch of coms. So we probably met about 50 or 60 of those hedge funds. And from that, we did our own work, did our own due diligence, and I think we probably hired another five or six or whatever. And then in those funds in those first two stages, those looked like your more traditional hedge funds. They were equity, credit and multi-strategy type funds.

And then the current stage where we're at was that we started to do a lot of our own internal sourcing of hedge funds and then thinking about how this strategy fit into our program. The original funds that we hired did very well during the global financial crisis. I think the average decline was 8 or 9 percent, whereas the stock market was down

something like 38 or 40.

But what we wanted to do was to diversify away from equity and credit. And so in the stage that we've been in is that we will still hire equity and we still hire multi-strategy, we'll still hire credit funds, but it's been more of a focus on these diversifying strategies. Right? So we'll look at any manager -- oh, I'm sorry. Mr. Chairman?

MR. WENDT: I'm back to where you said it's no hedge fund program, instead a program that includes hedge funds.

MR. WEBSTER: Right.

MR. WENDT: What are some other things that might be in that program?

MR. WEBSTER: Well, we don't have activists, for example. I mean, our program is the entire program.

MR. WENDT: Okay. It's the whole thing.

MR. WEBSTER: It's the whole thing, right.

MR. WENDT: So the hedge fund is just one part of your whole program.

MR. WEBSTER: Right. And so when we go back --

MR. WENDT: You do have a program.

MR. WEBSTER: That's right. So when we looked at all those sub-strategies, that pie graph with all the different colors on it, there were some hedge funds in there. There were some private markets in there. There was some long-only stuff in there. There were some real assets in there. And so what we want is we want to have an integrated portfolio, as opposed to saying 50 percent is going to be in hedge funds.

MR. WENDT: Thank you.

MR. COLLINS: Can I ask a question, Mr. Chairman?

MR. WENDT: You certainly may.

MR. COLLINS: Thank you. This is a personal view. I think hedge funds have turned out to be snake oil personally, especially long/short. If you look at the long/short performance over the past four years, three years really, it's been terrible.

I think in response to the great financial crisis, people were looking for risk mitigation, and people were happy to roll out products that said, Hey, this is great risk mitigation and we're going to give you a percentage of beta.

And it just hasn't worked out. And now the response is, because everybody, the managers know that it hasn't really worked out, but for a few, right, that have done well, but they certainly

haven't been necessarily long/short managers. They've said, Okay, well, you know, here's what we're going to do. We're going to lower our costs. We're going to lower our fees, and that's how we'll do better.

I think a fund, certainly the size of the Florida State pension fund, with the people that we have and the various asset classes, we can certainly find a way to mitigate risk without -- and I understand you say that we don't have a hedge fund program, but we've got $4.3 billion in hedge funds.

MR. WENDT: That's a hedge fund program.

MR. COLLINS: That's a hedge fund program. Right? It may not be a program, but it -- it's a hedge fund program. So I just -- I would challenge Ash and the staff over the next however long, you know, just like we do periodic reviews in fixed income and the benchmark in fixed income, and we spend a lot of time on the asset allocation, I would challenge the staff to really look at the hedge fund program on that.

MR. WEBSTER: Yes. Let me say a few things on that. And we share the frustration. So, again, the idea being we would always look at a very good manager, no matter what they do. But we also want to be swimming with the tide as opposed to against it. So we've done some work on this. So to your point, for the Credit Suisse long/short equity universe, which is what matters to us, right, since 2010, this group has captured 26 percent of the upside of the Russell 3000 total value, 26 percent, with half the volatility.

Not only have they done that, they've captured 23 percent of the upside and 57 percent of the downside. So what's happening is, oh, my gosh, it's a scary market. Boom, we're out. Right? The market goes back up and they're chasing it. Not a value proposition, right?

So even if you look at over the last ten years, on a Sharpe ratio basis, on a Sharpe ratio basis, they have underperformed the S&P 500. It's a very fair question. Now, I would say that if -- you know, a typical equity long/short hedge fund has a gross exposure of 140 to 180, net exposure 40 to 60. It has volatility of about half the market.

If you actually back out the fees, hedge funds actually outperform the market on a risk-adjusted basis, on a risk-adjusted basis. Oh, they do. We've done the math. The problem is is that they capture all of that and more. And so their net

returns, which is what matters to us, that's what matters to us, is really poor.

But I would be hesitant to -- so that's one of the reasons. We've done one equity long/short fund in five years. That's all we've done. I'd be a little hesitant, though -- and it's a fair question because you're paying a lot of money for this.

MR. COLLINS: But I agree with you on some of the other strategies, because I think that they're strategic, right?

MR. WEBSTER: Right.

MR. COLLINS: I don't think the long/short necessarily and certainly the results don't prove out that it's -- you know, any wonder kid is out there just destroying the market.

MR. WEBSTER: Yeah. It's hard.

MR. COLLINS: Yeah.

MR. WEBSTER: And I think that the structure of the market has made it more difficult. I think that big data has made it more difficult. There's no question. But I don't want to say we would never do it, because you just -- we just haven't done a whole lot of it recently. So we think of it in the same way. And I think equity long/short is 20 percent of all the hedge funds.

So it may be that you have to figure out a different fee structure. The issue is is that people have this allocation to hedge funds and it has to get filled, and so --

MR. COLLINS: Thank God they're not leveraged.

MR. WILLIAMS: Well, now, wait a minute.

MR. COLLINS: I'm just kidding.

MR. WILLIAMS: I'd like to respond to that, too, if I may, Mr. Chair.

MR. WENDT: Please.

MR. WILLIAMS: It's very interesting. As we've all summed up, the hedge funds have not excited any of us in what they've done. And it's interesting. Back in June of '10, when we did some of the initial visits, I still have the book from those diligence visits, and if you looked at all of the funds we were looking at and you looked at their records going back five years, ten years or to inception -- and most of them had been around long enough that it was either a ten year track record or longer -- every single one of them, number one, had materially outperformed the S&P 500 from inception; number two, they had commonly half or less of the vol of the SPX; and, number three, in the '08 downturn, they had lost half or less or they had made money

relative to the market. So it was the classic tastes great, less filling diversifier. That's what got us there.

We were very careful to pick funds with very, very deep records, unambiguous institutional legitimacy, et cetera. And whatever the reason is -- and Trent just ran through a whole pantry of potential reasons. It doesn't really matter what the reasons are, but the fact is they haven't delivered the way we had hoped.

And is it -- could you say hedge funds are snake oil in the wake of their recent performance? You could probably say that about as well as you could say that global equities were snake oil in January of 2009. They looked pretty ugly then.

And I don't think there's any magic about a hedge fund. From a strategic standpoint, a hedge fund is a business structure and a fee structure. It says nothing about the underlying risk, the underlying performance or even the leverage, if that's a subject you'd be interested in.

But at any rate, I think there are going to be strategies that work, but -- and we're on the lookout for them all the time, but what we've put a lot of work into -- and Trent will touch on some of

ACCURATE STENOTYPE REPORTERS, INC.

these things, is finding other areas to deploy money that have the same diversifying negative or non-correlated parameters but have some reason to work that's very clearly observable and some specific niche where they're meeting a need that's a real economic need, other than somebody wants to have a structure with high fees. And that's where we're going.

MR. WENDT: Thank you for that alternative explanation. True, one I believe.

MR. WEBSTER: Well, but if you look at this, I skipped a few slides ahead, but these are the Sharpe ratios. So if you'll look at the -- I'll go one back. This is the returns. This is our hedge fund book. The blue is us. The red is our benchmark, and then the green is the Credit Suisse Hedge Fund Index. So you look at that. And so you look at -- our return is four and a quarter percent, is what we've done since inception. It's okay.

MR. WENDT: Is it? Is that okay?

MR. WEBSTER: Well, trying to be polite here. But if you look at it --

MR. COLLINS: We're family here.

MR. WEBSTER: If you look at it on a risk-adjusted basis -- and this is kind of the

frustrating thing. Right? So if you look at it on the risk-adjusted basis, this is -- we're really beating our benchmark and we're beating the market in hedge funds.

The problem is, like that three year return, that's on a 2 percent vol. Right? So we got a 3.3 percent return on a 2 percent vol. Right? So the Credit Suisse Hedge Fund is like it's a 3.5 percent return on a 3.4 percent vol.

And so the issue for us is, what we have to figure out, what we're trying to figure out is, is there a way to get that volatility up, because if we came back to you and we said, okay, we've generated a 6.5 or 7 percent return, yeah, it's not too bad on a 4 percent vol. But how do you do that? That's what we're trying to figure out. Right?

Because this -- so if you also look at this graph, this is the three year rolling correlation to the FRS. The green is the hedge fund industry. The blue is us. So what's happened is is that we've got like a 3, 3.5, 4 percent return on the hedge fund book, but we've got very good Sharpe ratios, and we've got low correlation. Well, what that does to the FRS is it pushes you out onto the security market line. Right? It makes your fund more efficient.

MR. WENDT: Thank you. Is that it before we go into --

MR. COBB: Mr. Chairman, I have a question on what Trent just said.

MR. WENDT: Ambassador.

MR. COBB: The 2 percent three year record seems way too low to me. I mean, I know it's been horrible.

MR. WEBSTER: Two percent volatility.

MR. COBB: No. I'm on the return page. I'm on page 33. That's not volatility. That's returns. That's 2 percent --

MR. WEBSTER: Well, we haven't returned -- we've been 3 percent or above.

MR. COBB: I understand, but I'm talking about the index.

MR. WEBSTER: Oh, yeah.

MR. COBB: I'm saying the index is not believable to me. In other words, I have seen the poor returns --

MR. WEBSTER: Right.

MR. COBB: -- and I've -- now, I guess so my question is, is this a fund of funds benchmark or what is this benchmark that's so low it's 2 percent?

MR. WEBSTER: Right. So it's the same as it is with all our other funds, is that for the hedge funds, we benchmark them against the Credit Suisse Hedge Fund Indices. So if it's an equity long/short fund, we benchmark them against the Credit Suisse equity long/short fund. If it's a macro fund, it's benchmarked against the Credit Suisse global macro hedge fund. It's not a fund of funds benchmark. It's the underlyings themselves. It's the underlying funds that we benchmark themselves against.

MR. COBB: Aren't you surprised that it's so low?

MR. WEBSTER: If you had asked me, Ambassador -- when I did this presentation last year, this presentation, we gave -- what Ash had said, I gave that graphically, on why we did it. You could look out. You could say this is why you should do it. It's been a great -- I would tell you that this has not been a performance that I would have expected. I would have expected it to be somewhere around our CPI plus 4 target. That's what I would have thought. Six, 7 percent seems reasonable. But it's four and a quarter.

Now, I would offer this one defense. Right?

So our portfolio --
MR. COBB: But you're not answering my question.
MR. WEBSTER: I'm sorry.
MR. COBB: So we've used this Suisse benchmark. If we used a broader -- maybe it's the question to Cambridge. If you use a broader benchmark of hedge funds, isn't it much in excess of 2 percent?
MR. WEBSTER: But that is -- Ambassador, that is the industry. I mean, the Credit Suisse Hedge Fund Index is an index of -- is an index of other hedge funds. It's a fund -- it's all the hedge funds that meet a certain criteria. I think it has to be AUM above 50 million. They have to report financial statements. They have to be at least one year in existence.
So that green is, I think, something like 3- or 400 hedge funds. It will encompass about 80 percent of the net asset value of the hedge fund industry. That's what that is.
MR. COBB: And my second question was, what percent of either all strategic or of hedge funds, either one, is international, of your portfolio?
MR. WEBSTER: It's about -- I think it's about 10 to 15 percent.

MR. COBB: Thank you.
MR. WENDT: Any other questions of Mr. Webster? None? There being none, we will move forward to the Cambridge Associates part of the presentation. I'd just like to make one comment if I could, or direct your comments.
We believe we hire you to make us better. That's what we believe. And so given two factors, one, that we have already used up the full hour with Mr. Webster and, secondly, that I took the liberty of looking through your presentation, and it appears to me somewhat similar to his, could you please focus, as you go through your presentation, on those things where you think Mr. Webster can improve what he's doing.
MR. CHHABRA: Sure.
MR. WENDT: And if there isn't anything, say perfect.
MR. CHHABRA: I think you're right to say there's a lot of stuff in this part that's covered by Trent. I think there's a few points I want to emphasize. And I don't think it's something that they can do better. As Trent mentioned, we are working hand in hand every week.
On page number three, you can see the

strategies that make up this allocation. I'm not going to go through all these six strategies. The common denominator is less dependency on the equity markets. So if I think about the beta, the equity beta here, it is less than .2 right now, around .2. So there's a little bit -- there's a small component of the returns that are driven by just equity market beta.

And then, too -- so that leads the focus to be on diversification. You can see on page six we've boxed sort of the -- getting across the point that it's diversification. I want to flip forward to page nine. Page nine, this emphasis on diversification has increased in the last few years.

In 2014, there were two fund of funds that invest in mostly systematic global macro strategies that were brought into this allocation. Along the way, there's been less of a focus on equity long/short. Trent mentioned just one manager in the last five years. There's been a focus on other strategies that are more diversifying.

That's shown through in the returns. If you look at page nine, you can see how this allocation protected in the drawdown of 2011, the fall of 2011, and you see that there was some level of protection,

about a quarter of the equity markets, a drawdown that was about a quarter of the equity markets.

In 2016, when we had more of these diversifying strategies in place, that protection was even more so. You can see about a flat market return when the equity markets were down almost seven. Now, fast-forward to this current bout we're having, October, or let's even look at October, this hedge fund allocation is down about 1.5 percent relative to global equities down 7.5.

And so we haven't had many of these bouts in the last five, seven years. Maybe they're getting more. Sure feels like it right now. But this allocation has been built and transformed for these periods of time, along the way, to capture upside as well.

So that's -- I think this allocation has changed over the last few years. It's more diversifying, and I think that should serve well should we see some more volatility in the markets.

MR. WENDT: Is that good? You believe that's good, for it to be more diversified?

MR. CHHABRA: I mean, I think given the mandate of what Trent led off with as far as the objectives of this allocation, absolutely.

MR. WENDT: Okay. All right.
MR. COLLINS: Mr. Chairman?
MR. WENDT: Yes.
MR. COLLINS: My comment to that would be, at 2.7 percent of our assets, so what?
MR. WENDT: Who cares?
MR. COLLINS: It's like, so what? So we saved, you know, 400 basis points on 2.7 percent of our assets for a small period of time. I just don't see the value overall in us having $4 billion in hedge funds.
So I don't disagree -- I can't argue with what you're saying. But to me, at the end of the day, it's like, hey, if it's negative, you know, we're negative, but we're just not as negative. Okay. Well, that's great. But had the whole portfolio been like that or the whole -- yeah, the whole fund been like that, that would be one thing, but we're talking about 2.7 percent of our assets.
MR. WENDT: So you're saying that you don't believe personally that hedge funds are something we should be investing in.
MR. COLLINS: I think certain hedge funds certainly not. I think the long/short side of it certainly not. And I think the equity people can

tell us better than that. But I think that for us to think that we're having a meaningful difference in the overall performance of the fund by having $4.3 billion in hedge funds, when really the lion's share of the work is done in the major asset classes and the diversification there and fixed income, we're going to make a lot bigger difference in our risk on a 1 or 2 percent change in fixed income than we are picking the right managers in the hedge fund portfolio.
MR. WILLIAMS: May I respond to that, Mr. Chair?
MR. WENDT: Certainly you may.
MR. WILLIAMS: So I think that's a very fair point, and I think what's missing in our conversation so far is the contrast in the data about, well, what are we doing? Because really this isn't a discussion about hedge funds as an end in themselves, and we certainly don't have any view that a priori X amount of money in hedge funds is the right place to be, because as we've all said, the perception of their contribution has changed.
Is it possible that that validation will occur when a major downturn in the equity market comes? It could be. We don't know. But what we're talking

about -- and I think what Samit is getting to when he talks about increased diversification is more exposures with a low or negative global equity beta correlation, not just diversification among hedge funds themselves.

And when I think about some of the other strategies we've worked on that are in that pie chart but we haven't talked about, but in the past week we had folks in who are involved in aviation finance, involved in music royalties. We have another thing going on with rail car inventory.

All of these are within strategic. They're all extremely diversifying to global equity beta. And in the three examples I just gave you, they all also have associated cash yield on an ongoing basis and the ability to add value to the underlying asset value.

So I think what we're really talking about in strategic is where do we find ways to invest money that is not correlated, that will produce return patterns not correlated to global equity beta and consistent with the absolute long-term returns we like to see.

And I will tell you without a doubt, on a bottom-up basis, where we're finding opportunities

and allocating capital to them is largely away from hedge funds. Are there hedge funds that will continue to be good? Sure, there are. Has long/short equity been a particular disappointment? Yeah, it has.

MR. WENDT: We got it. And I think that's good. I mean, our job here is to advise, not to consent. So we're going to -- well, no, seriously, I mean, we need to get the point of views, but the guy who runs the business said let's do those hedge funds. I'm with him on that. Let him run the business. Do you have anything else, Mr. Cambridge?

MR. MNOOKIN: I would just add -- you asked if there's any way we can improve. I think that the relationship between the SBA staff and Cambridge is really almost unique among at least our relationships that we're familiar with, in that there is a -- there's a lot of give and take. And as Trent was saying, you know, half the ideas are originating with the staff and half with us.

And there is -- when ideas are brought -- and we have, as we've said, these weekly telephone calls. When ideas are brought by one side or the other, the notion is what makes sense for the SBA portfolio.

And so I was just at a manager that we had seen and like and said it was a very useful meeting. And, you know, there's a willingness on both sides to go look at managers where we see and that we run across, and there has been an enormous breadth of managers, and as we are all looking for strategies that are not correlated to equity markets. And so I think we're working very effectively.

MR. WENDT: Thank you for that. Does your presentation have anything in it that we should look at and focus on before we move on to Townsend?

MR. MNOOKIN: I don't think there's anything else.

MR. CHHABRA: We can move on.

MR. WENDT: Okay. Thank you.

MR. MNOOKIN: Thank you.

MR. WENDT: Townsend, what's your position on hedge funds?

MR. MARCUS: We decline to comment, not our specialty and not what you-all had hired us for. So I'll keep this brief, knowing that the time is tight here. This is a relatively small piece of the overall strategic portfolio. So here specifically what we cover is the real estate debt and timber allocation. The market value here is a little over

$1.4 billion, or 11 percent of Trent's strategic investment allocation.

And really since the 2007 inception, this portfolio has generated a little bit above an eight and a half, an 8.6 percent IRR. And then I'm really just going to stop on slide five and just talk briefly.

The debt investments have performed a little bit better than timber, not surprisingly. There's a little bit higher return strategy there, the 9.2 percent IRR since the '07 inception. And then the timber portfolio is relatively new, 2012 inception. A lot of those investments have -- are in the process of creating value, of value creation. So a lot of this return is -- or a lot of the assets are held at cost today, where the value is still being generated.

But you'll see, if you recall our conversation last year, this portfolio was underperforming. That just happened to be a time in the market where there was underperformance. This year it's now outperforming. We have 90 basis points and 110 basis points of outperformance over the one and three year. And that's due to the active management by the timber managers themselves and also the nature of the market environment.

MR. WENDT: Okay. Thank you. So you guys, you specialize in real estate and real estate structured debt --

MR. MARCUS: Correct.

MR. WENDT: -- and timber.

MR. MARCUS: Correct.

MR. WENDT: That's an usual combination of things to be focusing on, but what the heck. Somebody's got to do it, right?

MR. MARCUS: Exactly. Guilty, yes.

MR. WENDT: Okay. Well, what do you have to say? It looks like they're doing a pretty good job in that, huh?

MR. MARCUS: They're doing a pretty good job. I would say that they're doing a very, very good job. The one point I'd make on this portfolio is we made limited new investments over the last three years, and it's really due to Trent's team finding very attractive opportunities in all of these other asset classes, maybe not hedge funds but most of the other asset classes. So this one has been a little bit quieter over the last couple of years.

We do think that there's a time when that will change and we'll be a lot more active, but in the

last couple of years, we made limited new investments. So the portfolio is contracting. But that's not due to performance. That's due to asset realizations and income generation and lack of new commitments to the portfolio.

MR. WENDT: So your comments are that they're doing a good job in what they're doing.

MR. MARCUS: Right.

MR. WENDT: Do you have any suggestions for what they perhaps could do better? You don't have to. I just --

MR. BROWN: I think, as Seth said, it's relativeness. So if they think there's other relative investment opportunities better than debt and timber, then that's their choice to make.

MR. WENDT: We understand that. But we pay you guys a fair amount of money to give us, you know, information that you know.

MR. BROWN: Well, we provide them write-ups on all the opportunities that fall in these categories.

MR. MARCUS: I'd say there's two strategies that we're seeing a lot of today, the first being very low-returning senior secured loans that don't really meet the threshold of this portfolio. So it's good that we're not investing in those. And the other is higher returning, highly leveraged structured finance deals that are taking almost too much risk to generate a little bit higher return but would achieve the return target we're looking at, but the risk is a little bit outside of what we're comfortable with. So I think doing nothing is probably the right -- is the right --

MR. WENDT: Do nothing. Okay. We got it. Thank you. Thank you. I think that's the end of the presentation on this. For those of you who did not fully understand the whole presentation, I just need to remind you that on December 19th, the show Mary Poppins will be in your local theaters. I have a suggestion for you. I mean, in a year I won't be in the chair.

MR. WEBSTER: I can't sing. I'm sorry, Gary.

MR. WENDT: I may not be here at all. But I've always found your presentation one of the most frustrating things that I do here during the four times we meet. But I was trying to think about what could he do that would make me feel a little better or try to understand it a little better.

And what I thought was that if you could maybe bring some specific deals, somewhere between five and ten, across your gamut of stuff you do, and

explain the deal and why you do it and what's good about it and that kind of stuff, that would help me have some understanding of what I otherwise get the impression is an "all other," which is okay, but I'd like to see why you're doing all other.

We don't have time for a break, so we're going to -- I, as usual in my haste to get to Trent's presentation, went over the fact that we didn't approve the minutes --

MR. BOBBY JONES: So move.

MR. WENDT: -- for the last meeting. Is there a second?

MR. DANIELS: Second.

MR. WENDT: All in favor?

(Ayes)

MR. WENDT: None opposed, and the minutes carry. Now, Ash, do you want to do your opening remarks now or at the end?

MR. WILLIAMS: I can do them at the end if you prefer or I'll do them now, whatever you like.

MR. WENDT: Do them now.

MR. WILLIAMS: All right. Fire away.

MR. WENDT: Get it out of the way.

MR. WILLIAMS: Okay. Thank you, Mr. Chairman. So a couple of things to report on. First of all, the usual calendar year investment performance update. And I would offer, as of Friday's close, December 7, the fund was down 1.16 percent for the calendar year. That's 176 basis points ahead of target.

The fund itself, actual balance, is down $8.1 billion over the calendar year. And that's net of distributing roughly 8 billion in benefits. So it would have been down substantially larger -- substantially more.

A couple of other details I wanted to share with you. First of all, I wanted to thank the members of the IAC and the comp committee for the work you did. Last Tuesday we had a trustees' meeting, at which I was reaffirmed, so you have me to deal with for another year. But thank you for your help with that. There was a lot of hand-wringing, I'm sure. So that is in place, and your recommendations were adopted there.

We are working on the transition now to the new trustees. We have a new governor coming in and a new attorney general. The current CFO was reelected. So we are updating the transition materials and will have those finished shortly and will distribute those to Mr. Peter Jones, who we

welcome as a new IAC member, nominated by Attorney General Bondi and voted on on Tuesday. So he showed up pretty fast after he got voted in. And we have another new IAC member, Mr. Tom Grady, who was appointed on Tuesday, and he will be at the March meeting.

Let's see. What else have we got? A couple of governance matters have come up lately that may cross your path at some point. And Mike McCauley is probably -- yes, there he is. So we have a governance report later, and if we want more information on any of these, we can have them.

We've had a couple of things that may surface. You may have seen something in the news about us becoming signatories with several private firms and other public pension funds on a set of Principles for a Responsible Civilian Firearms Industry.

In addition to that, we've had something surface recently relating to Airbnb, which is a private firm that helps make residences available for lodging. There's been a question raised about their activity in some of the occupied territories in Israel. We're looking into that one, doing research, and we have a contact set up with Airbnb soon to try and get the fact situation straight on that and find out whether Airbnb's behavior is violative of the Israel boycott divest sanction standards that we have in law, which would require us to take some action there. We're still researching that and will talk with them soon.

The last area in governance that's had some exposure lately for us is multi-share voting. As you know, there have been several IPOs recently, Snapchat, a couple of others, where there have been dual classes of stock issued, where the founders have the voting power and control the company, and the providers of capital get little or no say in the running of the company. That's very adverse to our view of one share, one vote.

And we've been pretty active on that subject, and we've recently petitioned the New York Stock Exchange and the Nasdaq to not take listings of dual share companies unless they also include some explicit date for the sunset of that dual class structure and that that date not be more than seven years in the future from the IPO.

So that's one we'll continue to work on. We've seen more of these dual class shares lately than ever before. Sometimes, if you have a great management, it can be a benevolent dictatorship and

a great thing, but there are a lot of other times when management has control of a company and they're not great stewards of the asset and not great things happen, and the shareholders have no recourse because they have no vote. They just have their money tied up.

So those are the main areas I wanted to bring up to you. And I just wanted to thank you for your service. And I also want to share one last thing. And we pull this together for the trustees. Everybody here was appointed by one of the trustees who was originally inaugurated in January of '11. So we went back and pulled our performance to January of '11 to see how this class of IAC members has --

MR. WENDT: We've been dynamite.

MR. WILLIAMS: You've been killing it. You have been lethal. So you may feel slightly tired here, because the work you did generated an investment return in aggregate of $81,847,000,000, of which 8.884 billion was above the benchmark. So it's worked out pretty well.

MR. WENDT: Well, when you've got it, you've got it.

MR. WILLIAMS: Following breeze and welcoming sails were pretty --

MR. COLLINS: Are we bonused on that? Is there a bonus program? Twenty percent?

MR. WILLIAMS: Actually, we'd be willing to increase it to 40 percent of your base salary.

MR. WENDT: Well, thank you for that. We all feel much better now, so we can move into the much more interesting part of the presentation, asset class SIO updates, starting with Alison. Understandable. I shouldn't have said interesting. Understandable.

MR. TAYLOR: Thank you, Mr. Chairman. I'll start off today, talk about the market environment, and then Alison will address global equities' performance and also comment on our current initiatives.

In addition to commenting on the third quarter, we thought it would be beneficial to briefly address the market environment since the end of September, because a good bit has happened.

This slide, you'll see that global markets were up almost 4 percent year to date at the end of the third quarter. However, they notably sold off in October. What was behind this? Well, some of the main reasons people were concerned, investors were

fearful of worsening global trade relationships, rising U.S. interest rates and lofty equity valuations, particularly in the IT sector and particularly in the U.S. The graph does indicate that we were able to preserve some capital as markets sold off sharply, there on the right side of the graph.

Four things on this slide, and I'll briefly touch on each. The divergence of regional returns indicates that the U.S. led equity markets during the first three quarters of the year. The non-U.S. and emerging markets provided negative returns. But all of these areas sold off aggressively in October.

The lower left graph, entitled Leaders Become Laggards, shows that those sectors that provided the strongest returns for the year to date ending September were health care, IT, energy and consumer discretionary, but they gave most or all of those positive returns back in October. Note that in October, there was no positive return in any sector. There was nowhere to hide.

Upper right-hand side, volatility as measured by the VIX, the VIX index, has increased in 2018, after measuring below historical levels for an extended period. Risk aversion finally seems to be returning to previously complacent investors.

In the lower right, as always, the outlook contains both positive things and negative things. Corporate earnings are expected to be strong in 2019. Though slowing, most global economies are growing. Consumer sentiment is high. Many believe that there are value opportunities, particularly outside of the U.S.

But on the other hand, U.S. unemployment numbers are at historic lows, and this fans inflation fears. This fans concerns that the Fed will need to raise interest rates more aggressively to combat inflation. Major central banks around the world are looking to normalize policy from the post-GFC era of easy money and ample liquidity.

And uncertainty in Europe, mostly focused on Brexit, Italy and now protests in France, continue to cloud the future. And even today the market is very much focused on what's happening in the UK with respect to delaying the Brexit, the vote related to Brexit.

With all this said, with respect to our performance, our return was in line with the benchmark in Q3. We remain up 23 basis points on a calendar year to date basis. Excess returns are

positive over all periods from the inception of the asset class in July 2010. And Alison will take over now.

MS. ROMANO: Thanks. So for our active managers, this was a challenging quarter for performance. And in many other quarters that I've been here, it's pretty easy to say -- identify two, three things that can explain that performance. It was a little more challenging this quarter.

But if I would try and encapsulate the entire aggregate, what worked and didn't work, well, we were overweight U.S., and U.S. was performing strongly. We were underweight local China. And just to give you a magnitude of underperformance of China, the local markets were down 7.5 percent when our benchmark was up 3.5. So that underweight made a big difference.

Unfortunately, where our troubles began were our small cap tilt. It's not an intentional big bet on small cap, but our managers tend to go a little bit down the cap spectrum, and there are very wide spreads in the market across the globe. So in the U.S., large cap outperformed small cap by 4 percent, in developed markets by 2 percent and in EM by 5 percent. So even a modest underweight to those large caps impacted performance.

Currency hit us, particularly with Turkey, and I'll hit on that in a minute. And then, frankly, old-fashioned stock selection for this quarter didn't work. There were some specific stock mistakes.

Breaking it down a little bit further, I'll highlight a couple of our aggregates on this page. Developed standard, they were hurt. They tend to make off benchmark bets. They were off benchmark in China, particularly the tech stocks. Those did not work well for the quarter. Poor stock selection, consumer discretionary. And if I had to put my finger on a theme there, some overweights to this concept of fast fashion did not work for the quarter. Also being underweight to Japan hurt.

Now, typically, when our developed market managers don't do as well, a lot of times our EM managers will do well. Some of that is because they take different bets on China. That wasn't the case this quarter. Our EM managers did benefit from that underweight in China, but we were very tiny -- a very tiny bit overweight in Turkey. And when I say tiny, I mean we have, in the EM aggregate, 1.4 percent of our holdings in Turkey. It's about a

70 BP underweight. But the lira was down 17 -- over 17 percent, so a very small overweight to Turkey, with a depressed currency, hit performance for our EM managers.

Likewise, some mistakes on the Indian financials pulled down performance. So, again, while we usually see the offset of developed to EM, we didn't see it this quarter.

The good news is, on the U.S. side, we did have a very good quarter. And I know we've been in front of you in the past talking about the opportunity for alpha in U.S. large cap. Well, it's a good thing that we had them this quarter, and they've had a strong year as well. They've been helped by momentum. They've made smart bets in the technology space, and they've performed despite having a bit of a value bias in a market where growth is really leading.

So, again, challenging overall, but generally speaking, our managers are performing as we would expect in the given environment.

Turning to the next slide, what are we doing? We've made a number of changes and now we're in the process of making a number of changes. We are funding an emerging market strategy, and wanted to highlight one point here. With the strength, at least until recently, of the market, with trends in the industry, we're seeing more turnover in individual teams.

So we're very focused on making sure that our managers have strong and deep teams, they have succession planning in place. And if there are changes in teams that we have less confidence in, we will make a change with that manager. And that's what happened with our EM funding.

We're in the final stages of making a decision on an EM small cap manager, adding assets to that space. We made a change with our foreign developed small cap. And this, too, is a reevaluation of risk versus reward. We want to take risk with a manager where we think those will be rewarded, and when we think there are uncompensated risks, sometimes it's time to move on to a new manager. We also continue, as we've talked in the past, about evaluating opportunities to bring money in-house.

We are also spending a lot of time looking at China A. We've had a lot of conversations with our existing managers, a lot of conversations with our consultants. We've really established the criteria of what we think will make a good manager in that

space. We're in medium to late stage discussions with some managers but continue to explore adding assets in that space.

MR. COLLINS: Can I ask a question? So can you give us some of those criteria just real quick, what would make a good manager for China A?

MS. ROMANO: Sure. So broadly speaking, China A managers, I'd say, fall into three categories. We could continue on with an existing emerging market manager that's developing skills in the EM -- in the China A space. We can go with dedicated China A managers based in the U.S., based in Europe, or we could go with truly a local player in local markets.

The challenge with going with a local player is a very high team turnover. It's an exciting space. A lot of people stay at a shop for two years and move on. Fees are very high, and we question whether all those are institutional ready. So while we will continue to explore those as an option, those are probably a lower probability of funding for us.

We are looking at some managers that have some experience already in China A, maybe with some managers that we already currently work with, that have a track record and a unique edge in understanding local markets through language skills.

MR. COLLINS: And are you-all going over there with those local managers? Are you meeting them? Are you having them come here? How much time are you really spending really on that, getting to understand that market?

MS. ROMANO: We've spent time on more U.S. and European based. We have not spent time, extensive time with the local-based managers yet.

The final point in terms of what we're doing to provide alpha, given the increase in volatility in the markets and divergence in factors and styles and regions, we're taking a hard look at a lot of our aggregates to make sure we have the funds allocated within our managers so that we are able to perform in a number of different markets.

And then, finally, continue to be the provider of liquidity, except maybe last month. Through October we had raised 6.6 billion in liquidity.

That was the entirety of our comments, unless you-all have any questions.

MR. BOBBY JONES: Any questions? Okay, Katy.

MS. WOJCIECHOWSKI: I will be brief. Just a quick note. So Treasury yields, if you notice, at the end of the quarter, or the end of October 31st,

I guess, was 3.14. At the end of -- at the beginning of this fiscal year it was 2.86. We've pretty much round-tripped it. So we've done nothing. At the same time, the Fed continues to hike. We're still concerned the Fed will -- 80 percent chance they hike in December, so let's call it 90, then maybe pause.

So fixed income continues to struggle just to keep our nose above the water. We, as an asset class, both internally and with our active managers, have focused on shorter credits, which you will see in -- there, you can see our over- and underweights. We are overweight in corporate sector, but we have concentrated in the front end and actually up in credit a bit.

So we're still pick yield to the benchmark, so we're pretty much lower risk, but still eking out a little bit of excess return. Not very exciting, but sometimes that's the best you can do. And quite honestly, if we'd just sat in some asset-backs and credit card or auto receivables, we'd be knocking the cover off the ball and beating the equity guys handily this year.

So just one quick note, and this points to what I was saying before. The front end of the curve, if you look on page five, really is where we found value, so the two year area of the curve. And the curve is pretty flat right now, so flat that in fact we actually think it might go the other way a bit.

And then just a quick note and then I will be done, unless you guys have any questions, really. We continue to, like I said, just eke out a little bit on returns. Looking at our active managers, we've broadened our guidelines. So we've actually given them core-plus guidelines for a couple of managers now.

And that doesn't speak to we want them to load into high yield or emerging markets, but just give them more degrees of freedom, so they can actually focus more on short-term credit or some other things that are of interest, or even shorter duration if they prefer.

MR. COLLINS: What would be core-plus about that?

MS. WOJCIECHOWSKI: So we give them more degrees of freedom. So in a core manager, they're very tightly guardrailed, right? So they have to be a certain percentage in concentration in assets and can only have certain duration targets. We just broaden the bands a bit. And then we do let them

expand into high yield or perhaps a little bit more esoteric securities. So they do do some more in bank loans and CLOs and things like that. We actually have a couple that will use ETFs for very short-term, which we have historically not done. But that's really just to gain exposure to an asset class and be more tactical.

And that's really it. I mean, we're still concerned with liquidity. And we were last month's liquidity source. If history holds, we'll probably be this month's and next month's, unless you guys start going back up.

And really that's it, just giving them more degrees of freedom. We may fund a mandate that will be completely -- all of our managers right now, all of our portfolios are benchmarked against the intermediate ag, which we started in 2014, which by the way, is winning year to date. So I like to point that out because I was not a huge advocate of that, but this year it's winning. And we might fund one that even has a shorter duration than that.

MR. COLLINS: It took us a while to win, though.

MS. WOJCIECHOWSKI: It did take a while. But in fairness, on a risk-adjusted basis, not that you can take risk to Publix and buy anything with it, but on a risk-adjusted basis, it has outperformed the aggregate. And that's really it. We're just constantly evaluating. We only have five managers.

MR. COLLINS: How about mortgages?

MS. WOJCIECHOWSKI: Mortgages have finally started to contribute and have begun to outperform, certainly outperformed credit this month.

MR. COLLINS: And you're doing some of that in-house, right?

MS. WOJCIECHOWSKI: We do all of our passive investing in-house. So that's a $15 billion portfolio, of which 36 percent roughly is in mortgage securities. And then in external -- and the active portfolio, we have a $5.5 billion active portfolio. That is also done in-house. And that's really it.

MR. McGOULD: And what's the duration and just credit quality of the portfolio?

MS. WOJCIECHOWSKI: Duration is four and a half years, and credit quality is roughly the same as the benchmark, so we're not below benchmark.

MR. McGOULD: And how do you decide on that duration?

MS. WOJCIECHOWSKI: We are benchmarked against

the intermediate aggregate. So we'll be plus or minus about a half a year, and some of our external managers can be plus or minus a year to that duration. But very rarely do we use that duration. We're not yield anticipators.

MR. COLLINS: When did we change that?

MS. WOJCIECHOWSKI: Four years ago.

MR. COLLINS: Has it been four years?

MS. WOJCIECHOWSKI: I believe it was 2014. You can quote me on that but --

MR. COLLINS: We were a little early, Sean, but we're winners now.

MS. WOJCIECHOWSKI: Even broken clocks ring twice a day, though.

MR. BOBBY JONES: Thank you, Katy. Steve, real estate.

MR. SPOOK: Good afternoon. On the first slide it just kind of shows some of the portfolio positioning. Currently we're public securities 10 percent, private 90 percent, which is right on top of our target. And then 21 percent non-core in the private market assets, 79 percent core, right on top of our 80/20 target, so we're doing okay there.

And then real estate versus the pension fund. Here it's showing as of 6/30, 8.9 percent. I checked this morning. As of close of business yesterday, we're at 9.45 percent. Most of that thanks to Tim and Alison.

On the next page I figured you-all would enjoy that topic, so I've got two pages of leverage.

MR. BOBBY JONES: The Collins page.

MR. WILLIAMS: Is two pages enough?

MR. COLLINS: As long as it says the right thing, you could use half a page.

MR. SPOOK: So on that first box you see 59 percent of our leverage is housed in principal investments. And that's simply just a factor of principal investments being the largest section of real estate.

Then we break it down further. The amount of leverage within each of the two sections, principal and the pooled funds. And pooled funds is comprised of open-end core funds but also higher risk, higher levered, value add opportunistic funds. And you can see the LTV in the funds, 50 percent in the closed-end funds, as you would expect from a higher risk fund, and the open-end funds, which are the ODCE funds, which is the basis of our benchmark, is at 20.9 percent.

MR. COLLINS: What would an open fund be? Give

me an example of an open fund that you guys are invested in.

MR. SPOOK: Prudential Prime, I mean Prudential PRISA, or Morgan Stanley Prime, J.P. Morgan Strategic Property Fund.

MR. COLLINS: Okay.

MR. SPOOK: And you can see on the next page we're overwhelmingly fixed rate. We generally only used floating rate for construction financing or short-term type of strategies, where we know we'll probably complete the business plan in three years or less. And even then, we're usually buying interest rate caps for those loans.

In principal investments, which is the area where we can control our leverage, you see the weighted average cost of debt is very accretive, 3.27 percent. You can't get that today unfortunately, but that's in place.

And then you can see the trend of how our leverage and principal investments has been increasing from 12.6 percent mid-year '14 to 28.7 percent mid-year of '18, while at the same time our ODCE part of the index, which is open-end core funds, has been going down slightly over that same period, from 22.1 to 21.1 percent.

Page six, slide six is performance for total real estate.

MR. COLLINS: Can I ask a question real quick?

MR. SPOOK: Sure.

MR. COLLINS: On the five year leverage, so 28.7 percent adjusted?

MR. SPOOK: That's for deals that we have in the pipeline now, that we know are going to close or sell.

MR. COLLINS: So today, as of June 30th, '18, you were at 26.8 percent.

MR. SPOOK: Yes.

MR. COLLINS: How do you determine value? Are you doing a fair market value at the end of the year?

MR. SPOOK: We get one external appraiser once a year, three internal by our managers three times a year.

MR. COLLINS: Okay. So it's 26 percent of --

MR. SPOOK: That's loan to value, not loan to cost.

MR. COLLINS: Right. So your loan to cost when you're buying is obviously higher, you would assume, right? Value is going up.

MR. SPOOK: Yeah, if you're doing construction

financing, before it's been written up.

MR. COLLINS: Sure.

MR. SPOOK: So you might have 60 percent construction financing. When you're finished construction, hopefully you're at something way less than that.

MR. COLLINS: Right. Hopefully you're at 40 percent LTV.

MR. SPOOK: And if we want permanent financing on it, that's when we refinance it.

MR. COLLINS: So if you were buying an asset tomorrow, let's say you're buying Rockefeller Center tomorrow, only because I know we've looked at it in the past, what would your -- maybe that's not a fair question. Let's say that you're buying a core asset in Chicago, tower, apartments, new, and let's say you're paying a five cap on it. Wishful thinking. Let's say you're paying -- yeah, wishful thinking. Let's say you're paying a five cap on it.

As you and the team sit down, what are you thinking about in terms of leverage amount as a percentage? Are you looking at 30, which is what it says your leverage is limited to, which I still think is low but --

MR. SPOOK: So it wouldn't be 30 for the

individual asset. Thirty percent is the limitation for principal investments as a whole.

MR. COLLINS: Okay.

MR. SPOOK: Fifty percent for a core asset is our limitation for individual assets.

MR. COLLINS: Okay. But you still have to fit in the 30. And if you're at 28.7, if you go to 50, I don't know how big the asset is. It's a fictional asset, but let's just say that you didn't have -- you were fine with the 30, right, you had room. What are you looking at at that asset? I mean, are you looking at -- what kind of loan would you look at?

MR. SPOOK: Well, it depends. You want to look at the lease structure and make sure that if you're getting a ten year loan, that you don't have too much rollover in that ten year period.

MR. COLLINS: It's apartments.

MR. SPOOK: Apartments? Well, then that would be an easier decision.

MR. COLLINS: And that decision would be, in a range, your leverage percentage?

MR. SPOOK: Today --

MR. COLLINS: Yeah.

MR. SPOOK: -- the thing we'd be looking at is,

is leverage accretive. So if I bought it for a four cap and I can only get 4.2 percent financing, not so accretive on a cash flow basis. Might be over the long-term. So I'd be a little more hesitant today if -- and it's starting to get to that point, where the debt is getting paid more than the equity.

MR. COLLINS: Well, then you're probably not buying that asset, right?

MR. SPOOK: We're not.

MR. COLLINS: Exactly. So stay with me for my fictional example. Okay? My whole point is, at 30 percent, as you look at your portfolio leverage limited to 30 percent of loan to value, your stated guideline there, that's up from where we were, right? What were we at? What was it, like 22 or -- I forget what it was.

MR. SPOOK: In '14 we were at 12.6.

MR. COLLINS: Well, that's what it was, but I don't know what the guideline was in '14.

MR. SPOOK: 25.

MR. COLLINS: 25. Okay. So you're going to get there, you think, by the end of this year?

MR. SPOOK: Pretty much as close to being there as it can be. Don't want to be exactly there because, you know, the next deal, you may have to

ACCURATE STENOTYPE REPORTERS, INC.

use leverage because it's a development deal or it's a JV where your operating partner has to use leverage and then we have to pass on the deal solely for that reason, because it will push you over.

MR. COLLINS: One other question. Are you a -- so you're a net seller today?

MR. SPOOK: You know, we have been over the last three years. Most of the targeted assets have been sold off.

MR. COLLINS: Are you asset class agnostic as to what you're selling in this environment? It's just good to be a seller rather than a buyer in all asset types?

MR. SPOOK: I would say yes to that, except we have to take a look at our portfolio construction. Industrial is priced as high as it's ever been. I know I could sell my industrial for a good profit, but it's also forecast to be the best performer --

MR. COLLINS: Yeah, it's cash-flowing like crazy, right? Right.

MR. SPOOK: Now, I'll forgo that today profit to keep it in portfolio and keep it in balance and to hopefully capture that outperformance for the next few years. But it's -- I'd be less likely to sell industrial. I'd love to sell retail, but the

pricing isn't there, as you know. It's getting clobbered, so hold onto that until some of the hysteria goes away.

MR. COLLINS: Right. Last question, Mr. Chairman?

MR. WENDT: Go ahead.

MR. COLLINS: Since these are my pages. As you -- let's take that industrial portfolio, for example. Let's say it's cash flowing, I don't know what -- is it high single digits? Is it low double digits? Let's say it's low double digits.

MR. SPOOK: That would be levered.

MR. COLLINS: Levered, sure. God love leverage.

MR. SPOOK: Or negative double digits.

MR. COLLINS: Right. So let's say that it's 25 percent. Let's say your best industrial investment is levered at 25 percent and it's maturing next year and it's yielding 10 or -- let's say it's yielding 8 percent unlevered. Is that something that you would seek to refinance and keep because of the cash flow or -- and if you sought to keep that, would you seek to refinance it at a higher leverage?

MR. SPOOK: I would. The challenging part

ACCURATE STENOTYPE REPORTERS, INC.

about industrial and leverage is a lot of industrial tends to be single tenant or two tenants. And so you want to size the loan, the loan term, so that you don't get caught with an empty building and continue to make debt service. So in other more multi-tenant assets, there's less risk in them.

MR. COLLINS: So is all of our industrial just single tenant stuff?

MR. SPOOK: Not all of it. Good portions of it are, on the bigger buildings, yes, or two tenants in a, you know, 500,000-square-foot building.

MR. COLLINS: Nothing further, Mr. Chairman.

MR. WENDT: Any more comments on leverage? Ambassador, have you had a chance to talk on this?

MR. COBB: No, sir.

MR. WENDT: No reason to talk today? You've handled all the leverage issues?

MR. COLLINS: I think so. He's usually got some good questions, though.

MR. WENDT: Thank you. We'll move on then.

MR. SPOOK: Back to performance, as you can see, for the total real estate portfolio, over all time periods we've outperformed the benchmark. On page seven is just principal investments, which for the newer people is our direct-owned investments.

Outperformed all periods except the one year return. And that was really due to one specific event. That should turn around soon.

Externally managed, which is our pooled funds and our REITs, outperformance over all periods, pretty strong outperformance. And property type diversification, you can see, in the four main food groups, we're slightly below our benchmark due to being over the benchmark in the "other" category, which as I mentioned before, is student housing, agriculture, medical office building, self storage.

MR. WENDT: Steve, back to the previous page. Did you say you only have one fund, one real estate fund?

MR. SPOOK: No.

MR. WENDT: I think I misunderstood you.

MR. SPOOK: No. I said externally managed is pooled funds and REITs.

MR. WENDT: But you have several funds in there.

MR. SPOOK: Yeah. We have, you know, 40 funds. In slide ten, private market geographic diversification, all within ranges. We have plus or minus ODCE plus 15 percent. And then the last slide is activity since the last IAC report. This is just investment activity. We've also hired a new portfolio manager since the last IAC report and lost a portfolio manager.

So here you can see most of our activity was in those alternative property types, both acquisitions and dispositions. Why are we buying medical office buildings and then selling them? Really the strategy in medical office buildings is you buy a whole bunch of small buildings, assemble a portfolio. It's a lot of work, because they tend to be $20, $30 million each. Too small for many of the big players to go out there and assemble the portfolio themselves. So you can buy it for a cap rate in the sixes, aggregate to portfolio and sell it for a cap rate in the fives. And in less than two years hold period, we get a great return on that. And then we're just going to recycle that and do it again.

MR. WENDT: The disposition item, did you accumulate those medical office buildings over time?

MR. SPOOK: That particular portfolio, over less than two years.

MR. WENDT: Very short period. So what was your IRR, just if you know?

MR. SPOOK: 18.

MR. WENDT: 18. Fair enough. Should have leveraged it, would have been better. I think that's okay.

MR. SPOOK: Actually, that's levered 50 percent.

MR. WENDT: You did lever it. Okay. Good.

MR. SPOOK: Because it is a joint venture. The joint venture partner requires it.

MR. WENDT: Took your advice and made a lot of money, made a lot of money.

MR. COLLINS: The joint venture partner required it. Somebody had a phone call.

MR. WENDT: Forced you into it, huh? Okay. Private equity class, John.

MR. BRADLEY: Thank you. So I'll start with some comments on the market. As we look to the U.S. buyout market, there's been no real change in fundamentals. Purchase price and leverage multiples remain elevated, albeit slightly below historic highs, and fundraising for 2018 is still behind 2017's pace.

The venture market has had an active 2018, as fundraising and capital invested are up year over year. In addition, exits have also increased, in particular private equity buyouts of VC backed companies.

Within the portfolio, performance has been strong. We'll take a look at that in a moment. And our net cash flow remains positive. So through October we had net cash flow of $146 million.

Here we see our sector and geographic exposures. No change in either. Technology remains our largest sector exposure and the U.S. our largest exposure by geography.

So here's the performance of the asset class. This is shown as of June 30. The asset class has had strong performance over most measurement periods, with only our ten year return trailing the benchmark by 40 basis points. Performance over the last five years has been particularly strong, with outperformance of over 300 basis points over each time period.

Next is our sub-strategy performance. So all strategies are performing well since inception, with only our non-U.S. growth portfolio trailing its peer benchmark. And then over the shorter term, our U.S. and non-U.S., both our buyout and growth strategies have led the portfolio, while our distressed strategies have lagged.

And then finally our commitment activity, this

is shown through November. We've committed $1.8 billion to 14 funds. That's $875 million to seven buyout funds, $450 million to two secondary funds, 240 to two distressed funds and $227 million to three venture funds. And that's all I have.

MR. WENDT: Okay. Any questions of private equity at this time? If not, we'll go to Michael. No. To Daniel. Go ahead, Daniel.

MR. BEARD: Thank you. Good afternoon. Mr. Chairman, before I get into my presentation, I want to touch on a subject that we've talked about a couple of times, and that's the choice and what's happening there.

As you know, prior to January 1, 2018, new hires who did not make an active choice would default into the DB plan. That was changed effective January 1, 2018. We had our first two groups, or we actually have had three now with the November 30th group. So I wanted to give a quick update on what those three groups, what we're seeing as far as choice.

One of the things that happened after January 1, 2018, they default into the investment plan, except for the high risk, which is your first responders and your correctional officers. They still default into the defined benefit plan. And then the other thing is they lengthened the choice period to eight months, so they have eight months to make that choice.

So what we're seeing is, overall, 70 percent of new hires, that's your default plus active, are going into the investment plan. And then the other 30 percent are going into the DB plan.

MR. WENDT: How many of those by default, though, of the 70 percent?

MR. BEARD: Of the 70 percent that are going into the investment plan, approximately 50 percent are going into the investment plan by default.

MR. WENDT: Half of those go by default.

MR. BEARD: Yes. Small sample, only three months, but it will kind of show us what's happening and what we'll see over time.

MR. WENDT: But you said there are a couple of groups. You named a couple of specific parts of all the employees that work for the State that, what, don't go for the investment plan?

MR. BEARD: Yes. Those are your high risk, your first responders, firefighters, state patrol, sheriffs, also your correctional officers, they still, if they don't make a choice within that

eight-month period, will default into the DB plan. But that's a very small portion. Overall, our default rate that we've seen is about 55 percent. So about 5 percent of that 55 percent are those high-risk employees that are defaulting into the DB plan.

MR. WENDT: Thank you.

MR. BEARD: To our slides, on slide one, our assets currently or as of September 30th was 11.1 billion. As of November 30th, it dropped down to 10.5 billion. We have approximately -- we have 190,210 members. That's active and inactive. Average account balance of about 58,000. Average age, 46, which has been the average age for the past two or three years. And then years of service, five. Retiree count, 130. And then we had 12.3 billion that have been transferred out of the plan since inception.

MR. WENDT: Since inception.

MR. BEARD: Yes, since inception.

MR. WENDT: How about this last year, do you know?

MR. BEARD: Last year was probably about -- I can get that figure, but it's probably about 10, but I can get that figure for you. For our assets under management, you see for all our different funds where we have that 11.1 billion. Of course the majority of the funds are in the retirement date fund, and the reason is because if they don't choose a fund, then we will put them in a retirement date fund based on their age. Once they get into the retirement date fund, pretty much they don't transfer out of that fund.

There's our performance for our assets. And, again, this is through September 30th. For the MyFRS Financial Guidance Program, those are the stats that you see there. Again, the most growth we see there is with the website chats. It's very popular. And as you can see, that's increased 76 percent over the previous 12 months. Any questions?

MR. COLLINS: Can you give us an update on the people that are managing it themselves versus just going with the target allocations?

MR. BEARD: And when you say manage it themselves, you mean in a self-directed brokerage account?

MR. COLLINS: Yes.

MR. BEARD: We have approximately about 2600 who are in the self-directed brokerage account.

MR. COLLINS: Out of --

MR. BEARD: Out of 190,000. So, remember, to go into the self-directed brokerage account, you have to maintain at least 5,000 in the core funds, and then you have to transfer at least 1,000 into the self-directed brokerage account.

MR. WENDT: Well, what if you're a new employee and you choose to go into the investment -- I'll manage the investment program?

MR. BEARD: Well, if you're a new employee and you come into the investment plan, before you can transfer into a self-directed brokerage account, you need at least 6,000. 5,000 you've got to keep in the core, and then you can transfer that 1,000 into the self-directed brokerage account. But it's not until they get to that amount that they can go into the self-directed brokerage account.

MR. WENDT: But the core is the non-self-directed, right?

MR. BEARD: That's correct. Those are the funds that we have chosen, yes.

MR. WENDT: So even though they might choose to go into the self-directed, they can't for a while.

MR. BEARD: That's correct, yes.

MR. WENDT: Pretty complicated. Okay. Is that

all, Michael?
MR. BEARD: Yes.
MR. WENDT: Thank you very much. Oh, no. You're Daniel. Michael is going to give us an update on all the governance issues.
MR. McCAULEY: Okay. Good afternoon. I will be brief. Ash already touched on the --
MR. WENDT: You don't have to be brief. We've got plenty of time.
MR. McCAULEY: -- the two items. And the only thing to perhaps add to the Council of Institutional Investors' petition that we kind of underscored through our own letters to both the NYSE and NASDAQ, is that it's not -- we're not advocating for a total prohibition or the elimination of the dual class or multi-class structure. It's a bit of a compromise policy position.
Even though from a best practices perspective we do support one share, one vote and do vote in favor of resolutions to eliminate the dual class stock, with respect to the exchanges, if they were to go forward and amend their listing standards, which would then require SEC approval, it would merely put up for ratification or reaffirmation by the shareowners after the seven year sunset period.

And there's some language in there that would give companies flexibility in terms of, you know, if it's five years or ten years, it's not a rigid seven year cycle.
So it's an important caveat. It doesn't necessarily require the unwinding of the multi-class share at the seven year period. It merely would require, if they amended the listing standards, to put that up before shareowners.
And like Ash noted, in some scenarios this works out very well, you know, where you have a founder who stays on and the business does very well. Under those circumstances, in theory anyway, presumably shareowners would continue to support that structure, not make any amendments. And vice versa. Where you have some accountability issues, the idea would be to allow the shareowners an opportunity to weigh in to potentially change that share structure that is preventing the accountability and preventing management changes, et cetera.
With respect to the Principles for a Responsible Civilian Firearms Industry, it's fairly early days. We just came out with the principles, finalized them, what, a week or two before

Thanksgiving, and we're essentially in the period with the investor group to kind of collaborate on next steps and planning and process and which companies will be targeted.

An important caveat with that initiative is that it is very individualistic, so each member can tailor the principles, tailor their own engagement efforts, the scope. There can be a broad application to that with retail, finance. There can be all sorts of angles to that. We'll probably take a more focused approach. But it's still early days, and I imagine we'll provide updates as we go forward into next year.

And then we had the typical voting. We voted over 1300 meetings the last quarter, and we've got all the normal statistical figures in the appendix. So I'm happy to answer any questions on any of those.

MR. WENDT: Do you go to any of the meetings, to any of the shareholder meetings? Do you go physically to those?

MR. McCAULEY: Almost never. They're almost always electronically voted. We have attended meetings in the past to support resolution submissions, second a motion, that sort of thing,

but it's rare.

MR. WENDT: Berkshire Hathaway is supposed to have a great meeting.

MR. McCAULEY: Yes, I've heard that.

MR. WENDT: They give a lot of stuff away, don't they? You should go to that one year.

MR. PRICE: Gary, can I chime in? Gary?

MR. WENDT: Yes, Mike.

MR. PRICE: I just want to say I think that they do a terrific job in the whole corporate governance area.

MR. WENDT: Good. By the way, I forgot to introduce you, Michael. Michael Price, one of our esteemed Investment Advisory Council members, was not able to make today's meeting, but he's been listening attentively throughout the whole thing. And how did you feel the leverage discussion was handled?

MR. PRICE: Well, you know, we've got them up a little bit.

MR. WENDT: Yeah. Good. Making progress.

MR. BOBBY JONES: Who won the Heisman?

MR. PRICE: The Oklahoma quarterback. I was there.

MR. COLLINS: Kyler Murray.

ACCURATE STENOTYPE REPORTERS, INC.

MR. WENDT: I wasn't going to mention that. Yeah, okay, good, good.

MR. WILLIAMS: What's that business school they have out there?

MR. WENDT: They don't have one, do they?

MR. COLLINS: The Price school.

MR. WENDT: Is there anything else on major mandates? Next we go -- the major mandates we go on to next, right?

MR. COBB: Mr. Chairman?

MR. WENDT: We have a question.

MR. COBB: Before we leave our great professionals, I'm not sure we, as a committee, as a council, properly, from my point of view, told Trent what a good job he did with the major report that he did today. You gave him kind of -- you gave him a little tough time.

MR. WENDT: I have a mixed --

MR. COBB: Right, I know. And I, for one, I want the committee to know and Trent to know that I -- I find it really fascinating that we can deal with so many different balls and do it in a really disciplined manner.

And so -- and I applaud this focus on capital flows, which I guess is one of the key parts of his

mission, which I support, that you invest where there's low capital flows and people are exiting, and you exit where there's enthusiasm and exuberance. And I think he's done that. And the results -- I'm on ten investment committees, and these are the best results of alternate investments.

Now, I question, as I did earlier, that 2 percent is the average of all hedge funds the last three years, but it's been a horrible record. I would have thought it was closer to 2.5, 3 percent. But, still, your results have been -- have exceeded those and exceeded all the other funds I'm involved with.

I have only really one objective, which I've brought up about four times. So Peter Collins is losing on leverage, making a little progress.

MR. COLLINS: We're winning.

MR. COBB: Yeah, winning. The one I am losing on big time is to challenge why we call these strategic investments. They're the opposite of strategic investments. Strategic investments are strategic in helping you, your mission, by making an acquisition or making a business decision that's strategically -- the opposite of strategic, in my judgment, is opportunistic. And our strategic investments are opportunistic investments, and in fact it's an opportunistic business strategy, which I applaud.

And I was interested today, if I heard your introductory comments, you said strategic investments are really alternates. Why don't we call them alternates? That's my question.

MR. WENDT: Strategic is a little more mysterious.

MR. WEBSTER: And we're trying to be as mysterious as possible.

MR. COBB: So my question again to Ash and to Trent, why don't we call them alternates?

MR. WENDT: Who would make that decision? That's all I -- as chairman, I have no idea. Who could make the decision on changing the name of categories?

MR. WILLIAMS: We could do it. The way it would happen --

MR. WENDT: We, us on this table?

MR. WILLIAMS: Here's the way it would happen. That would happen in the investment policy statement. And the way we would do it is we would propose it. We would discuss it here. We would put it in, change the nomenclature and take it up with

the trustees and, bang, it's done.

MR. WEBSTER: I just got new business cards.

MR. WENDT: Do you feel strongly enough about that to make a motion?

MR. COBB: Well, I have gone close to a motion for the six or seven years I've been on the committee and have been turned down each time, so I'm afraid to make a motion because I'll lose.

MR. COLLINS: I'll second it.

MR. WENDT: Okay. So there's not a motion being made to make that change.

MR. COBB: I guess I would have a request that management consider whether strategic investment is the appropriate nomenclature for these opportunistic funds.

MR. WENDT: We hear the request. You don't want to make a motion out of it, so we can't do anything with it in this chamber. Okay.

We have major mandates coming up, and I don't see Kristen today. Katie, are you doing the whole thing?

MS. COMSTOCK: I'm doing the whole thing. Thank you, Mr. Chairman.

MR. WENDT: Okay. Trying to cut back on those expenses, huh?

MS. COMSTOCK: We can talk about that. Thank you. I'll bring us home here. We're covering the five major mandates that you-all oversee. All of this information is through the end of September, so a much rosier picture than you will likely see at the next meeting, where we've seen markets -- you've heard from your asset class heads on how markets have performed post-September.

So you put a couple of numbers around that. For the quarter-to-date period through last Friday, so that includes the market correction, some positive returns in November, and then what we're seeing here through December, global equity markets were down north of 9 percent.

So in this type of environment and similar to what we saw back in February, we'll look to some of those diversifying asset classes, to your high quality core fixed income asset class to strategic investments, is a timely presentation that Trent provided, to diversify away from some of this equity volatility that we are experiencing, which is not unexpected, given where we are late in the cycle here.

But turning to the material that you-all have in front of you, again, through 9/30 we have seen

some strong returns, much like you've seen over the past several years, driven by both public and private equity primarily on an absolute basis.

So we will start with the pension plan. It ended the third quarter with $163.2 billion of assets under management. This is growth of about $2.8 billion. So strong investment returns. $4.7 billion over the quarter. That growth is net of cash flows, benefit payments that were made out over the quarter.

Quick pause on asset allocation. About 56 percent of the plan is invested in public equities, 18 percent in fixed income and then going down, private equity, real estate and strategic are all around 10 percent, just shy of the 10 percent allocation. So diversified portfolio. And as you've heard from the asset classes, those portfolios have had a hard time keeping up with public equities, given how strong they have performed.

Modest overweight to global equity, a little bit underweight to fixed income. Likely market moves over the past several months will have corrected a little bit of this. But the portfolio is managed very closely in line with its policy targets.

On to the returns. You can see here the total pension plan returns there in the beige-ish bar. Relative to two performance benchmarks, the policy benchmark in blue and the absolute nominal target rate of return, which is inflation, CPI plus 4 percent now in green.

Strong absolute returns, 2.9 percent over the quarter. And then looking over these trailing periods, very strong absolute returns, 10.4 percent over the three year period and then north of 8 percent on an annualized basis over both the five and ten year period. Again, largely driven by global equity markets over these trailing time periods.

On a relative basis, the portfolio has outperformed over all of these time periods. So exceptional value add. And the value is coming across asset classes. Given the heavy weight to public equities, it's mostly coming from there, but value has been added across these time periods across asset classes.

That's relative to the performance benchmark. Also relative to the absolute nominal target rate of return, performance has also been very favorable.

We like to view this over longer time periods, so we include the trailing 15 year, and on the following page the trailing 20, 25 and 30. And as you can see, the portfolio has well exceeded this long-term target.

We also look at performance relative to peers. This is the TUCS Top Ten universe, so ten of the other largest pension plans in the U.S. We look at asset allocation before we look at returns, as asset allocation is the primary driver when you look at relative performance.

And the story continued to be the same. The largest difference between the median plan in this universe and the FRS is the difference between public equity and the alternatives. So the FRS has a greater weighting to global equity than peers. And this has been beneficial to relative performance, given how global equity has performed through the end of the third quarter.

Within this asset class, the FRS has a globally weighted mandate relative to peers, who have continued to maintain a U.S. bias. So that 10 percent is largely overweighted to -- overweighted relative to your peers to non-U.S. markets. And that will impact the relative performance over some of these various time periods, which we'll get to in a bit.

The 10 percent on the other side is to alternatives. We don't have full transparency into what that is, into the peer group. Hedge funds, private equity likely are a bulk of that. So if you were to aggregate the FRS's strategic and private equity allocations, it's about 15, 16 percent at the end of the third quarter. So that was the primary differences. This had been a consistent message when you look at this on a quarter over quarter basis.

Jumping to the returns here, the total FRS is shown again in that beige color relative to the median plan's return in this universe in the blue. So you can see here, relative performance has been mixed, outperforming over some, underperforming over that one year period. And a maybe easier way to look at these returns and the relative performance is to look at the rankings on the bottom.

So that number there on the bottom shows where the FRS ranks in this universe, one being the best performing, in the top 1 percent of this universe, 100 being the worst. So favorable rankings over these longer time periods, three, five and ten year,

ranking in the top fifth percentile over the three and ten year period, having a larger weighting to global equities, which have done well. Over the three year period global equities returned 13.5 percent and then 8.7 and 8.4 over the five and ten years. So having greater exposure there relative to your peers has been beneficial.

The one year period, closer to median performance, though having exposure to -- greater exposure to global equities has been beneficial. If you look at the difference between U.S. and non-U.S., U.S. markets were up 17.6 percent over this one year period. Non-U.S. were up about 1.7. So having that wide dispersion and having a globally oriented portfolio was a headwind when you look at the performance relative to peers.

So a little bit of background on relative performance. A strong and favorable absolute performance of the pension plan relative to both your policies as well as relative to peers through 9/30.

MR. WENDT: But ten years ago we were number one, huh?

MS. COMSTOCK: You were in the top fifth percentile of --

MR. WENDT: Yeah. That would be number one out of ten. That's before this board came on, isn't it?
MS. COMSTOCK: Yeah. Over the ten year time -- the trailing ten year return.
MR. WENDT: Oh, okay.
MR. COLLINS: We were number one last year.
MR. COBB: The three and the five are the same. The three year period and the five year period are the same, as I understand it.
MS. COMSTOCK: You've ranked in the top -- right, you've ranked at the top --
MR. COBB: Yeah, in the top five --
MS. COMSTOCK: Right.
MR. COBB: -- each time.
MR. WENDT: Thank you. Summary?
MS. COMSTOCK: The next plan I'll touch on, if there are no other questions on the pension plan, is the investment plan, which Daniel covered. There's $11.1 billion at the end of the third quarter. If you aggregate where participants are allocating their dollars, they aggregate that performance, and that's shown at the top line there. So very strong returns, given what -- primarily what equity markets have done.
The important numbers, though, are the row at

the bottom, which shows how the aggregated assets have performed relative to their appropriate benchmarks. And the investment plan has earned meaningful outperformance or value add coming from those actively managed options across all of these time periods. So very strong performance. And the value add is coming across asset classes across these time periods.
We did get some new peer information, which is shown at the bottom table here. This is information through the end of last year, so through December of 2017. And this is a survey from CEM Benchmarking. This comes out annually, so we update this annually in these reports. And we look at five different metrics. Some I think are a little bit more telling or important than others. But I'll cover them quickly here.
The first is the five year average return, so that's looking at the trailing five year return through December 2017 relative to your peer groups. The FRS returned 8.3 percent on an annualized basis relative to a peer group median return of 9.6. What drives these returns is again where the participants are allocating their dollars. So the FRS participants have less allocated to U.S. stocks,

which as we just talked about, has done exceptionally well over this time period. So that was a headwind when you look at it relative to peer performance.

This universe also includes corporate plans, and some corporate plans still offer company stock. So that adds to more U.S. exposure, which generally stocks in the U.S. have all generally risen over this time period. So not that meaningful --

MR. COBB: Excuse me. Can I ask you a question on performance here?

MR. WENDT: Go ahead.

MR. COBB: Ash, do we loan out the securities in the investment plan as we do in the pension plan?

MR. WILLIAMS: I don't believe we do, because the custody would be different. We have a lot of fund products involved in there, so we don't have the ability to aggregate them for lending purposes and manage the lending process the way we do on the DB side.

MR. COBB: Thank you.

MS. COMSTOCK: The next statistic that we look at is the net value added, so this looks at how the -- basically the aggregate of your active managers, how they have performed relative to peers'

aggregate active management. You can see that the FRS over the past five year period has added value above the benchmark by about 20 basis points on an annualized basis. This is in line with how peers' active managers have also performed.

Things that can influence this are the dollars invested in active managers relative to passive managers, as well as just generally where participants are allocating their dollars. But the number to focus there on has been positive over this five year period. And that's consistent with the relative performance that you see at the top of the page there.

And then the last statistic, an important one, is the expense ratio, 30 basis points for the FRS investment plan relative to a peer group of 28 basis points. When you look at -- when you break this down, some things to note here which are not explicitly shown here is, one, when you look at the investment management options, what participants are paying for those options that they can invest in, that is lower relative to your peer group.

That's an important point. There's about four basis points when you look at the average. So you're offering similar style options at a lower cost than your peers. That is something that we look at quarterly and that is a big focus of and a huge benefit to your participants.

Some things that are driving the higher fees in this comparison, one is the advice program that you-all offer, which may or may not be offered in other plans, and that quality is unknown, and then also again where participants are allocating their dollars. Your peers have a higher -- a modestly higher allocation to -- or the FRS has a modestly higher allocation to active managers, which charge higher fees than passive. And so that will impact these relative numbers.

But an important point is that when you look back over the past five years, this number has come down. So back in 2013 the investment plan expense ratio was 38 basis points. So it's come down meaningfully, and as well as a comparison. So overall, strong absolute returns. Relatively, the funds are performing very well for the participants, and the peer group comparisons are favorable.

MR. WENDT: Is your peer group here the same as the peer group in page 12, bottom half?

MS. COMSTOCK: No. This is a different survey, a different provider. There are roughly, for the

expense ratio, 17 other defined contribution plans, both corporate and public. And then for the returns, we look at a broader universe of about 123 plans. And we narrow that down based on asset size, average participant value, as well as number of participants, to get as close to an apples to apples comparison. The pension plan universe is the top ten pension plans in the United States.

MR. WENDT: I guess I'm surprised. I thought we were lower cost than the rest of the world, and we're not.

MR. WILLIAMS: This is the one area where we're higher. And the reason is that in defined contribution, educating that beneficiary is absolutely critical, because these -- particularly in a public employee base, with a very modest size of average account and the vast number of public employees do not have particular financial or investment acumen, educating them to make prudent choices, providing target date funds to make it easy to do the right thing, make it hard to do the wrong thing, witness the barriers Dan talked about earlier around the self-directed option. You have to have a core amount. You have to transfer in round amounts of a $1,000, et cetera. That's why we spend more in that area.

MR. WENDT: Why doesn't the peer group have the same issues to deal with?

MR. WILLIAMS: Well, a lot of peer groups in DC are directing a lot of money into company stock, which is not necessarily a good thing but also doesn't cost any money to get it done. And Katie has a broader knowledge of the industry than I do, so I'll defer to her for a more fulsome answer.

MS. COMSTOCK: So one thing I wanted to point out is that the investment advice cost is not being charged to participants, so they're not actually paying that. And if we -- you had brought this up at the last meeting as well, and I'll quickly take a field trip back to the appendix, which we don't often touch on.

But here are what participants are paying for the various investment options, in that middle column, and then relative to what they could get outside for an average similarly run fund. So you can see what participants have access to are institutional quality, lower cost options in this plan.

Regarding the company stock, that is something that we have seen, not as prevalent, but it is still

something that is being offered and it is offered at no charge.

MR. WENDT: Are they really peers? Are they really peers if they don't have to do the same things we have to do? What you're saying there is these are like kind of mutual funds, right?

MS. COMSTOCK: Right. If a participant were to go outside of your defined contribution plan here and to go out and use a separate brokerage account, they would not be getting the fees there on the left-hand side. They would be paying something more towards the right.

And if we look at what your peers that -- plan sponsors that are offering defined contribution plans, the fees in the middle are also lower than what peers are offering, peer defined contribution plans are offering.

MR. WENDT: I'm about to stumble into the area that the people that do the leveraging stumbled into, and that is, give me one number and I'll give you another. Isn't that what happens up here?

MR. WILLIAMS: To a degree.

MS. COMSTOCK: Are there any other questions on --

MR. WENDT: No.

MS. COMSTOCK: We'll move on to the Hurricane Catastrophe Fund on slide 16. It's about $17 billion at the end of the third quarter invested here. As you can see, returns continue to be very modest, but I will note that they have ticked up, as we've seen interest rates rise and yields rise over the past few months here.

So upward trend, though still at a modest level, on an absolute basis. When you look on a relative basis, though, these funds continue to outperform the benchmark shown here over all these trailing time periods.

MR. WENDT: Mr. Ash here has continuously told me, when I ask him, that we are not using any of our CAT funds, despite the hurricanes that have gone through, right?

MR. WILLIAMS: Our loss experience to date, the last major event that has exposure for us is Irma. And the current estimate of those losses is a bit north of 3 billion, I want to say 3.2. Those are not, however, realized currently. Those will develop over time as the claims come in from the primary insurance companies.

Hurricane Michael, which is a much more recent event and in this part of the state has been one

that is quite severe and has been very, very noticeable and caused a lot of misery, it's early days on that, and the claims to date have been in the ballpark of double digit millions, so very, very low.

I think one of the factors with Michael is that Michael came through a path that's largely rural, because a lot of the damage is in interior counties, Jackson County, Calhoun County, et cetera, Liberty County, Wakulla County. And, number one, those are not densely populated. Number two, we only cover residential in the Hurricane Catastrophe Fund, so commercial properties that were struck would not hit the CAT Fund.

And, number three, the way the fund works is obviously the value of the properties themselves has bearing on what our exposure for losses is in the CAT Fund. And the value of residential real estate in Jackson County generally doesn't quite compare with that of, say, Palm Beach.

And the other thing would be the level of insurance that's present. As you know as Florida property owners, the deductibles on hurricane catastrophe cover are expressed as a percentage of the value of the insured asset, not a dollar amount.

And the options go as high as 20 percent under law.

So for someone of modest means, who is trying to hold their insurance premium costs down, they might elect a much higher deductible, which then if you get tagged on a major loss, can be problematic. But in terms of our exposure, it means there's less of it.

MR. WENDT: Just in a review of this, do we get money from the insurance companies? Do they pay into this fund?

MR. WILLIAMS: Yes.

MR. WENDT: Every year?

MR. WILLIAMS: Yes, they do.

MR. WENDT: So we have more money every year in this fund.

MR. WILLIAMS: Yes. And our annual premium revenue is about 1.2 or 1.3 billion.

MR. WENDT: How big is it now? This wouldn't show how big -- how big is our catastrophe fund? This doesn't show it.

MR. WILLIAMS: The fund presently is north of $16 billion, and we have a billion dollars in reinsurance transfer, so we're fully covered for our statutory liability.

MR. WENDT: Okay. Thank you. Continue on,

please.

MS. COMSTOCK: The next major mandate is the Lawton Chiles Endowment Fund, which has about $790 million at the end of the third quarter. This fund is primarily invested in global equities, which has driven the strong absolute returns shown here in the next slide, 3.6 percent for the quarter, and then over the trailing time periods, you can see here very strong returns, both on a relative basis as well as an absolute. The active management value add is coming from the sole global equity active manager, which has done exceptional over these trailing time periods here.

And then last but certainly not least is the Florida PRIME investment fund. This, at the end of the third quarter, there's about $9.5 billion invested in the Florida PRIME fund, which covers about 730 participants. As a reminder, this is invested in very high quality short-term diversified bonds, with the goal of being very liquid, as well as preserving capital and generating a competitive return. So, again, modest yields here, though this has ticked up over the past several months as interest rates have risen. On a relative basis, this fund has continued to outperform its benchmark, which is a group of other local government investment pools. Continued strong performance from this major mandate as well.

MR. COLLINS: Mr. Chairman?

MR. WENDT: Yes.

MR. COLLINS: What was the size of the Florida PRIME before the crisis? Do you recall, Ash?

MR. WILLIAMS: I want to say it was 30 billion. Michael, is that right?

MR. McCAULEY: It topped out at like 32, 33 --

MR. COLLINS: And it's nine now?

MR. McCAULEY: -- but it was less than that when it was --

MR. COLLINS: And it's nine now?

MR. McCAULEY: As of today, we just got another over a half a billion today. So it's at about 13, a little under 13 right now.

MR. WILLIAMS: And it bottomed at three or four?

MR. McCAULEY: Yeah. 4.2.

MR. COLLINS: So a lot of those people that left just didn't come back?

MR. McCAULEY: A lot of them have come back.

MR. WILLIAMS: They came back in part. Part of the problem we had before -- Mr. Chairman, if I may.

We had an awful lot of local governments who had their entire cash balance invested in PRIME, which is an inappropriate concentration. I think a lot of them have come back, but they've added diversity to their portfolio, which we believe to be appropriate. So we've grown the fund by 3X-plus since the bottom.

MR. WENDT: Okay. Continue on, or was that it?

MS. COMSTOCK: That concludes all of the major mandates, unless there are questions.

MR. WENDT: So we're in compliance on everything that we're supposed to be in compliance on?

MS. COMSTOCK: In compliance on the five major mandates, and performance through the end of the third quarter continues to be very strong.

MR. WENDT: You can't say anything about this quarter. We may be going nuts this quarter.

MS. COMSTOCK: I can say that they will not be as favorable over the fourth quarter period, I don't anticipate.

MR. WENDT: Okay. So is there anything else that I've missed on the agenda? If not, it's time to ask the audience, who has been listening in, if they have any comments.

And we will not -- two of our trustees, Les

Daniels and Michael Price, who's on the phone, I've just been told will not be at the next meeting. But I didn't know this. Did you know this?

MR. DANIELS: I knew.

MR. WENDT: Oh, you do. Okay.

MR. WILLIAMS: They're welcome to come until their -- they're welcome to continue to serve until their positions are filled by other appointments, but --

MR. WENDT: How are we going to split an airplane?

MR. WILLIAMS: -- can come and heckle. But their service has been extraordinary, and we're very grateful for it.

MR. WENDT: You have done a good job. As the results have shown, things have dramatically gone forward on this situation. Anything else that we should have? Any other remarks you want to make?

MR. WILLIAMS: Talk about dates for future meetings.

MR. WENDT: We have dates that have been handed out to all of you for future meetings. These are subject to eventual approval by the governor, I guess, right?

MR. WILLIAMS: Not really. This group sets its

own schedule.

MR. WENDT: So he can say, To hell with them, when he sets it, right?

MR. WILLIAMS: I would probably not use that phrase.

MR. WENDT: There are some Democrats that would say that.

MR. WILLIAMS: I would not choose that phrase.

MR. COLLINS: Easy, easy.

MR. WENDT: Okay. Well, we're still counting votes down there in Broward County, so hold onto your hats at this point. Do you have anything else to say, Ash?

MR. WILLIAMS: No, sir.

MR. WENDT: I was going to ask just one other question, since we have just a few minutes here. We had this terrible activity in the stock market in the last two or three weeks. What are you guys looking for going forward, you global equity guys?

MR. COLLINS: People.

MR. TAYLOR: I'll start off.

MR. WENDT: Kids.

MR. TAYLOR: I think one thing we have to consider is we've got a very long-term investment horizon.

MR. WENDT: Yeah, I'm sure of that.

MR. TAYLOR: So the market has gone up for so many years, and we have seen a rise in volatility, and the markets are getting a little scarier. But relative to what we've gained over the last few years, we're still well ahead. So I think one of the things we have an eye to is, as people sell things and things get cheaper, perhaps we can pick up some bargains, because again we're long-term investors.

But I think one thing we're looking for are opportunities where, as some have mentioned already, where investors are fleeing is a place where we can come in and provide some liquidity and have a nice attractive investment that will pay off for the long-term. That's one thing I would provide, Mr. Chairman.

MR. WENDT: Alison, anything else?

MS. ROMANO: Yeah. I would just add, anecdotally, we come in every morning and we look at daily performance. And yes, we are long-term investors, but we're paying attention to what's going on. And the daily swings are larger, so we're having conversations. We're not making major moves, but we're looking manager by manager to say, am I

sizing the mandates appropriately? If this is a very risky strategy that's going to do well -- not do well in a down market, do I have something else to offset it, and am I thinking about those risks across not only what we had when we had stable markets but now when we have more volatile markets?

MR. WENDT: But there are no new strategies. Just come into the office and work hard every day?

MS. ROMANO: Again, we're looking at some what we call opportunistic strategies in China A and other areas, but, no, we're not making any major moves in our allocation.

MR. WENDT: Well, feel free to take off Christmas Eve and Christmas Day. Is it okay to give them that approval?

MR. WILLIAMS: I think so.

MR. WENDT: Thanks to all of you in the audience and on the phone.

(Whereupon, the meeting was concluded at 3:30 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 130, 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 2nd day of January 2019.

Jo Langston

JO LANGSTON
Registered Professional Reporter

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

Date: January 28, 2019

To: Board of Trustees

From: Kimberly Ferrell, Audit Committee Chair KF

Subject: Quarterly Audit Committee Report

The State Board of Administration's Audit Committee met on January 28, 2019. Please see the attached agenda for the items discussed. Also please see the attached Office of Internal Audit Quarterly Report presented to the Audit Committee at the meeting.

STATE BOARD OF ADMINISTRATION
Audit Committee Open Meeting
Agenda
January 28, 2019
9:30 A.M. – Conclusion of Business

1. Call to Order

2. Approve minutes of closed and open meeting held on November 26, 2018

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

4. Presentation on the results of the SBA Local Government Surplus Funds Trust Fund (Florida PRIME)

5. Office of Internal Audit Quarterly Report

6. Election of the Committee's Chair and Vice Chair

7. Approval of the Committee's annual independence statement

8. Chief Risk & Compliance Officer Quarterly Report

9. Presentation of Real Estate Title Holding Entity audits

10. Other items of interest

11. Closing remarks of the Audit Committee Chair and Members

12. Adjournment

OFFICE OF INTERNAL AUDIT
SBA FLORIDA
STATE BOARD OF ADMINISTRATION

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

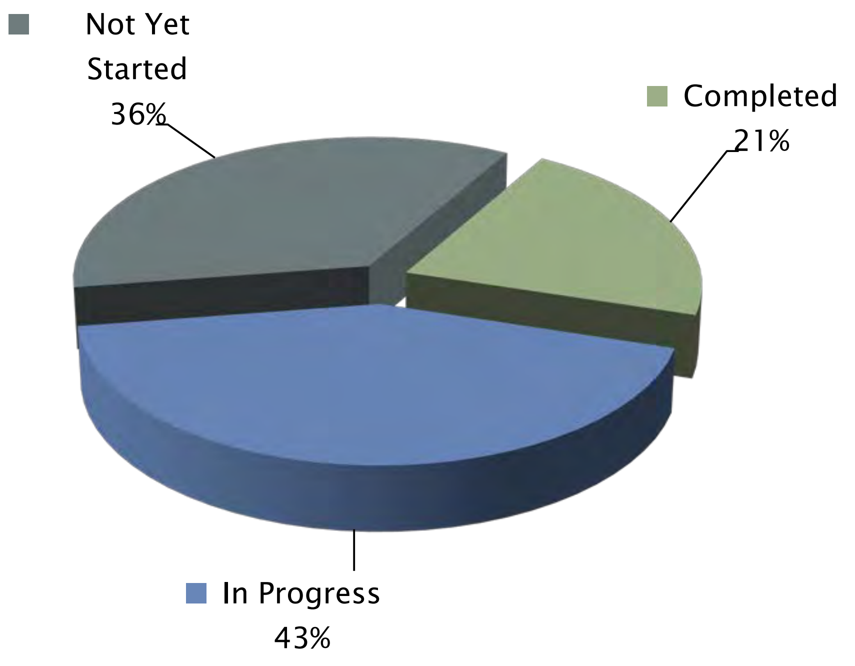
January 28, 2019

Table of Contents

Status of the FY 2018-19 Annual Audit Plan

Status of the FY 2018-19 Annual Audit Plan

Internal Audit and Advisory Engagements



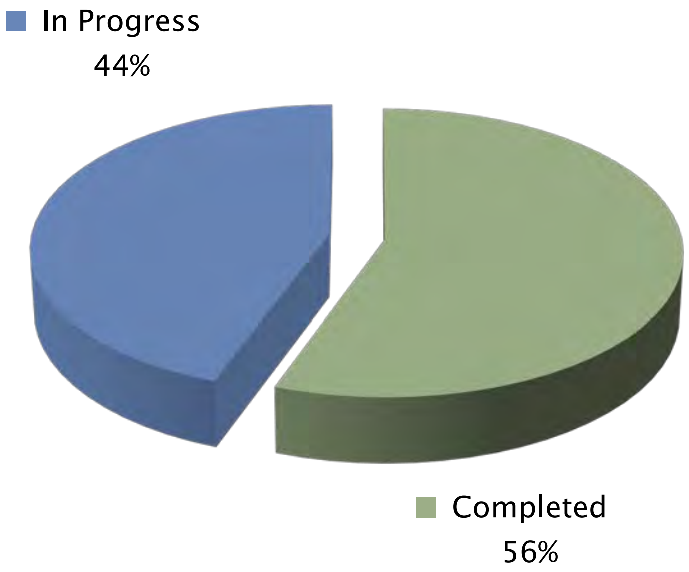
Highlighted: Completed since prior quarterly report.

Projects Status	Type	Planned Timing
Completed		
Externally Managed Derivatives Audit (carryover)	OIA Operational Audit	Q2
ACH Advisory FHCF (carryover)	OIA Advisory	Q2
Proxy Voting Data Analytics	OIA Advisory	Q3
In Progress		
Continuous Monitoring - General	OIA Advisory	Ongoing
Action Plan Monitoring	Project Management	Ongoing
Performance and Risk Analytics	OIA Operational Audit	Q3
Continuous Monitoring - Accounts Payable	OIA Advisory	Q3
Continuous Monitoring - Travel & Expense	OIA Advisory	Q3
Strategic Investments	OIA Operational Audit	Q3/Q4
Not Started		
Business Continuity Program Peer Survey	OIA Advisory	Q3/Q4
CIS CSC Framework Gap Assessment*	OIA Advisory	Q3/Q4
Network and Application Change Control	OIA Operational Audit	Q4
Review of Critical Financial Reporting Spreadsheets	OIA Advisory	Q4
Real Estate - Direct Owned	OIA Operational Audit	Q4

*Includes Incident Management Framework Gap Follow-up

Status of the FY 2018-19 Annual Audit Plan

External Engagement Oversight

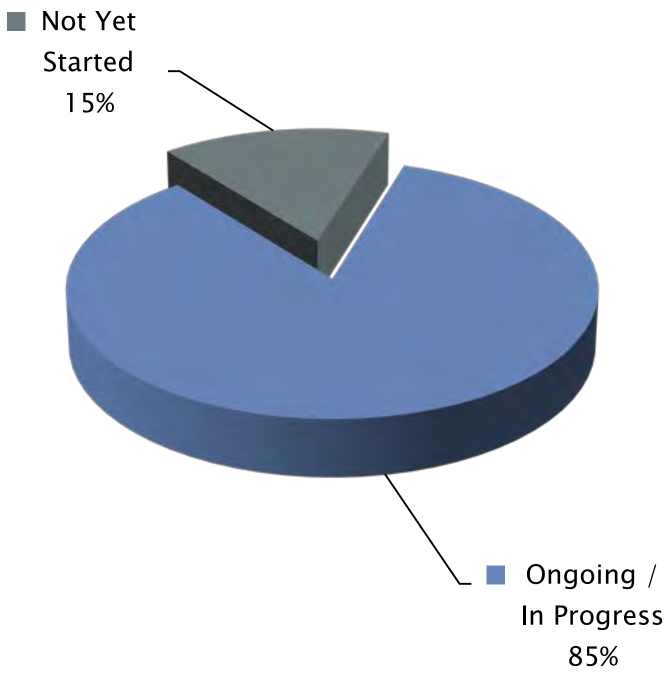


Project Status	Service Provider	Type	Planned Timing
Completed			
Network Security, outsourced	BDO	External IT Audit	Q1/Q2
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit	Q1/Q2
Florida PRIME	Auditor General	External Financial Statement Audit	Q1/Q2
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit	Q1/Q2
In Progress			
Part of the Statewide CAFR	Auditor General	External Financial Statement Audit	Q2/Q3
Florida Growth Fund Initiative	OPPAGA	External Review	Q1/Q2
Biennial Review	OPPAGA	External Review	Q2/Q3
External Validation of OIA's self-assessment	IIA Quality Services	External Review	Q3
Not Started			
None			

Highlighted: Completed since prior quarterly report.

Status of the FY 2018-19 Annual Audit Plan

Special Projects, Risk Assessments, and Other Activities



Project Status	Type	Planned Timing
Completed		
None		
Ongoing/In Progress		
Data Analytics Tools Enhancements	OIA Special Projects	Ongoing
Special requests from SBA management and/or Audit Committee	OIA Special Projects	
WorkSmart Portal Enhancements	OIA Special Projects	
Audit Committee Related Activities	OIA Audit Committee	
Annual Quality Assessment Review - Self-Assessment	OIA Quality Assurance	Q1/Q2
Integrated Risk Management Solution ITN	OIA Special Projects	Q2/Q3
Annual Risk Assessment	OIA Risk Assessment	Q2/Q3
Continuous Risk Assessment with Data Analytics/Risk Assessment Updates	OIA Quality Assurance	Q3/Q4
CFO/COO Key Metrics	OIA Special Projects	Q3/Q4
Assistance with Aladdin Implementation	OIA Special Projects	Q3
OIA process improvement initiatives, including QAR identified initiatives	OIA Quality Assurance	Q3/Q4
Not Yet Started		
Annual Audit Plan	OIA Risk Assessment	Q3
Teacher Retirement System of Texas Peer Review	OIA Special Projects	Q4

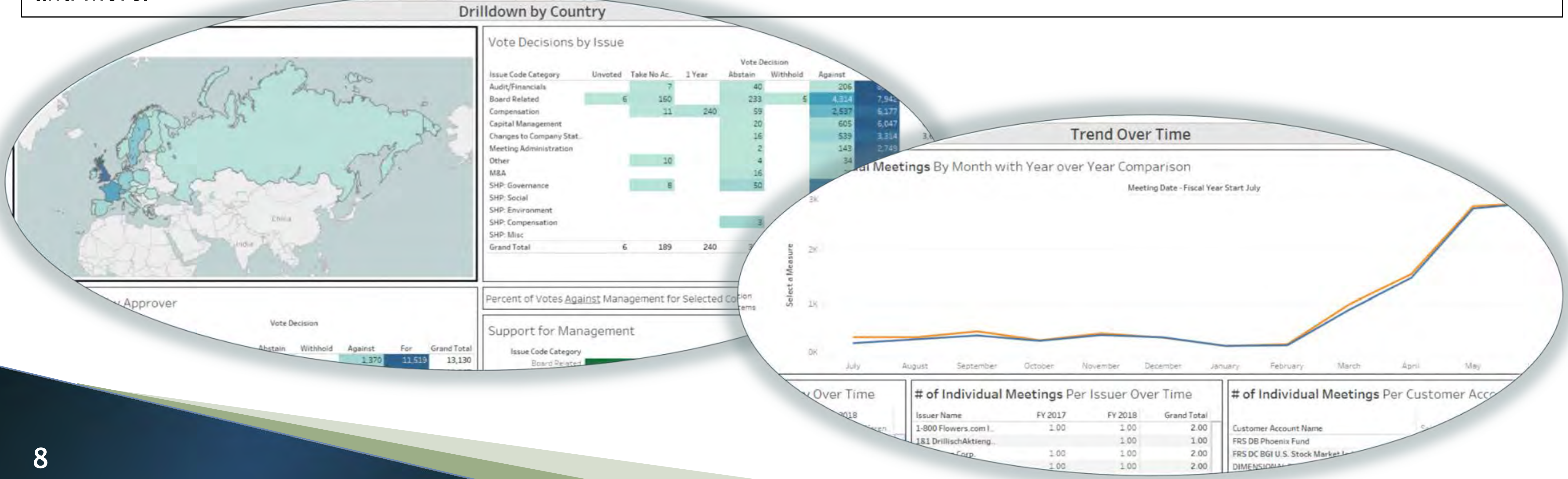
OIA Projects Completed and Status of Management Action Plans/Recommendations

Proxy Voting Data Analytics

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

1. Develop analytics dashboards using Tableau
2. Determine how to best obtain data to enable ongoing analyses
3. Identify potential solutions for viewing and distribution of dashboards

The OIA completed this engagement and provided Tableau dashboards, along with research results, to IP&G. The dashboards included various analytics, including trends and "drill-downs" related to contested votes, issues, companies voted, countries voted, and more.

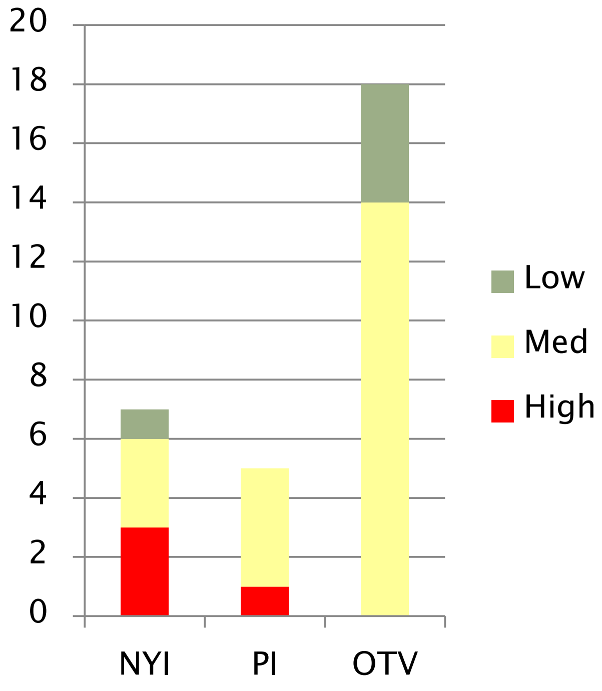


New/Closed Action Plans & Recommendations

Audit and Advisory Engagements

# of Recs	Source
New recommendations:	
44	Network Security Assessment 2018 (BDO)
44	Total action plans/recommendations added to the database
Closed action plans and recommendations:	
0	Total action plans/recommendations closed in the database
44	Total change for both audit and advisory action plans/recommendations

Status of Management Action Plans–Audits



For details, see Appendix A.

		Risk Rating				Status			
Report Title	Report Date	High	Med	Low	**Total**	NYI	PIRP	OTV	**Total**
Accounts Payable Continuous Audit	8/7/2015		1		**1**			1	**1**
Fixed Income Trading Activities Operational Audit	1/29/2016		1		**1**		1		**1**
Trust Services Operational Audit	7/25/2016	1			**1**		1		**1**
Global Equity Internal Trading Operational Audit	1/18/2017	1	1		**2**	1		1	**2**
Internally Managed Derivatives Operational Audit	3/31/2017	1	1		**2**	2			**2**
AG - Operational Audit 2017	11/13/2017		1	1	**2**			2	**2**
AG - IT Operational Audit 2017	4/5/2017		9		**9**			9	**9**
Incentive Compensation Program Operational Audit Report	4/10/2018		4	2	**6**	1	3	2	**6**
Externally Managed Derivatives Operational Audit	10/31/2018	1	3	2	**6**	3		3	**6**
		4	21	5	30	7	5	18	30
		13%	70%	17%		23%	17%	60%	

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

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

Status of Recommendations – Advisory Projects

		Status			
Report Title	Report Date	NYI	PI	IMP	Total
Information Technology General Controls Advisory Engagement (OIA)[1]	01/20/2017	1	2	8	**11**
Internal Controls Over Financial Reporting Advisory – FRS Investment Plan (OIA)[1]	09/28/2017	1			**1**
Governance, Risk Management, and Compliance Assessment (Funston)[1]	01/15/2018	75	1	2	**78**
Real Estate Cash Transfers Advisory (OIA)[1]	01/16/2018	1			**1**
SHBW Gap Analysis 2018 Advisory (SHBW)[1]	06/08/2018	7			**7**
ACH Advisory for FHCF[1]	08/16/2018	2			**2**
Network Security Assessment 2018 (BDO)[2]	11/15/2018	38		6	**44**
		125	3	16	**144**

Legend:
NYI - Not yet implemented
PI - Partially Implemented, as represented by SBA management
IMP - Implemented, as represented by SBA management

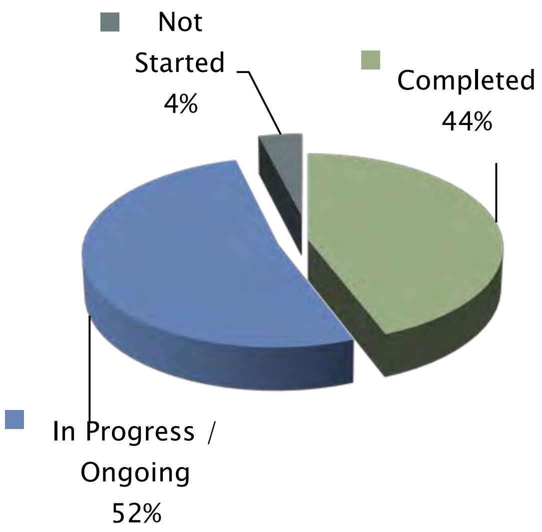
Advisory Recommendations made by OIA or external consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery preparedness program, etc. The OIA monitors the disposition of these recommendations in accordance with the IIA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

[1]At the advice of the Audit Committee, the OIA closes Advisory Recommendations that management represented as "complete" once the OIA has considered those in the annual risk assessment. The next annual risk assessment will occur during Fiscal Year 2018-19.

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

Other OIA Activities

Status of FY 2018-19 OIA Department Goals



Highlighted: Completed since prior quarterly report.

Topic	Activities
Complete/Closed	
Annual Audit Plan	Flexibility was built into the Annual Audit Plan for FY 2018-19 and was approved at the April 2018 AC meeting.
	We signed a contract with ITCI to perform a Strategic Investments audit in FY2018-19. We also signed the SOW for BDO's 2nd Network Security Assessment.
IA Process	Included hours in the AAP for internal process improvements to enable OIA to continue to enhance its processes.
	Using SBA's contracting process, contracted with the IIA to perform OIA's external validation of our QA self-assessment.
	An anonymous survey was conducted by the IIA as part of their external validation of OIA's self-assessment.
Use of Technology	Requested IT manpower resources (Approximately 4 weeks of assistance from applications staff) for the activities related to IIAMS, IDEA and Tableau.
	Requested 2 portable monitors for laptops for OIA to share. (approximately $100 each) This request was declined for FY 2018-19.
People	Based on knowledge gaps in the OIA staff developed a training plan for each member for 2018-19 to close those gaps. The training budget request was approved.
	Had at least one team building event during the fiscal year to enhance the team.
	Requested an additional FTE for an IT Senior Audit Analyst III. This request was declined for FY 2018-19.
	Our intern left in December and we decided not to hire another intern for the remainder of this fiscal year.
In Progress/Ongoing	
Annual Audit Plan	Continue to formalize our Data Analytics Program both project-based as well as a Continuous Auditing/Monitoring dashboards.
	Continue to determine where advisory initiatives may assist the SBA with process improvements, document controls, mapping processes, etc.
	Determine the number of management action plans implemented each month. OIA will perform a follow-up audit if there are at least 5 action plans implemented.
IA Process	Performing our quality assurance self-assessment to ensure OIA is in compliance with the IIA Standards. Identify OIA process improvement initiatives during the QA.
	As part of our annual review of the charters, we considered the updated IIA pro-forma charters to determine if the OIA charter needs to be updated and we updated the AC charter based on certain Funston recommendations. Both charters approved by the AC. Trustees approved the AC charter.
	Hold periodic OIA staff meetings discussing project lessons learned and status as well as any other issues of concern.
	Continue to review results from client surveys for projects for areas of OIA potential process improvements.
	Utilize Lean Six Sigma tools to the extent possible for audits and advisory projects.
Use of Technology	Continue to determine how we can use data analytics tools to test 100% of a population instead of testing samples, at the planning stage of each audit.
	In collaboration with ERM and BC, issued an ITN for an Integrated Risk Management Solution, we will select the vendor through an evaluation process.
People	Consider loaning staff to other departments. Elizabeth is currently providing assistance to PMC for the Aladdin green package.
	OIA team members to attend the APPFA meetings. Two members attended the November 2018 meeting.
	OIA will develop relevant trainings to be held during our staff meetings and invite other business units to our meetings to enhance our knowledge over SBA initiatives.
Not Started	
Annual Audit Plan	Consider reviewing exit interviews as a part of the annual risk assessment process in assessing the control environment and potential risks.

Integrated Risk Management Solution

ITN Response Deadline	January 16, 2019
Selection of Finalist(s)	January 31, 2019
Interviews/Presentations at SBA	Week of February 18, 2019
Final Selection by SBA	February 27, 2019

Other Items for Discussion

- IIA Quality Services contracted to perform the independent validation of the OIA quality self-assessment

- 2019 Audit Committee Meeting Dates
  - Monday, April 29
  - Monday, August 5
  - Monday, November 25

Questions/Comments

OFFICE OF INTERNAL AUDIT

OIA

SBA FLORIDA

STATE BOARD OF ADMINISTRATION

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

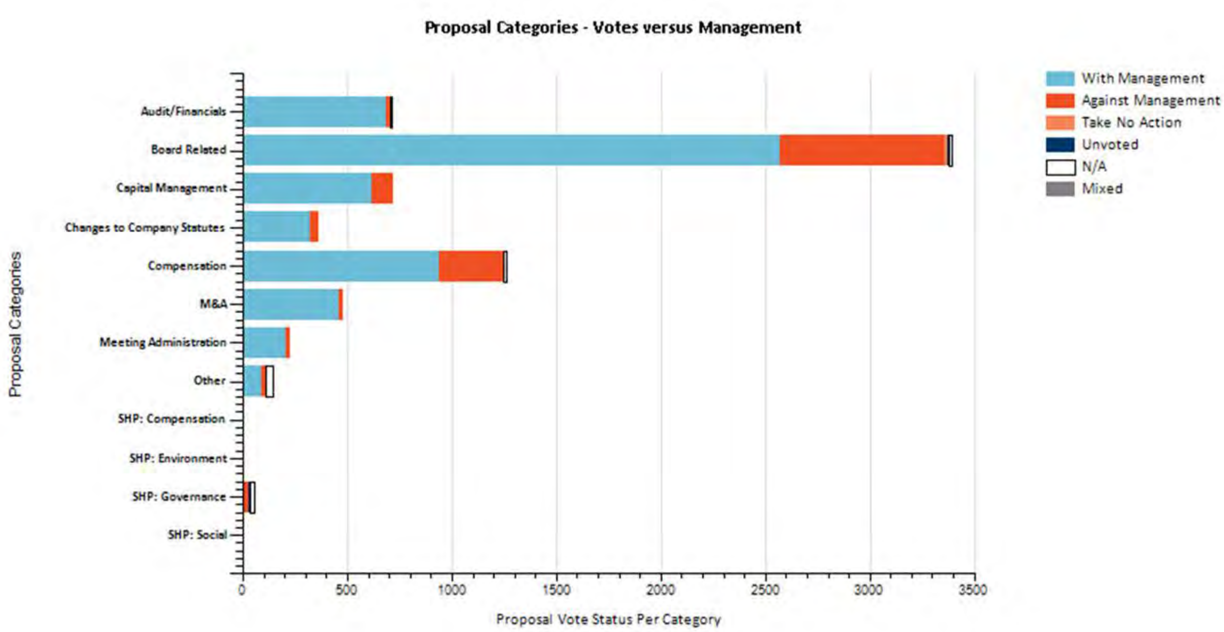
MEMORANDUM

To: Ash Williams
From: Michael McCauley
Date: March 8, 2019
Subject: Quarterly Standing Report - Investment Programs & Governance

---

GLOBAL PROXY VOTING & OPERATIONS

During the fourth quarter of 2018, SBA staff cast votes at 1,181 companies worldwide, voting on ballot items including director elections, audit firm ratification, executive compensation plans, merger & acquisitions, and a variety of other management and shareowner proposals. These votes involved 7,368 distinct voting items—voting 80.5% “For’’ and 17.4% “Against”, with the remaining 2.1% involving abstentions. Of all votes cast, 18.2% were “Against” the management-recommended vote. SBA proxy voting occurred within 53 distinct global markets, with the top five countries comprised of the United States (208), Australia (192), China (140), Japan (52), and India (49). The chart below provides the SBA voting breakdown across all major proposal categories during the fourth quarter of 2018.



CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on December 18, 2018, and the Committee will meet next on March 14, 2019. The Proxy Committee continues to review ongoing governance issues including the volume and trends for recent SBA proxy votes, company-specific voting scenarios, corporate governance policies, governance-related investment factors, major regulatory developments and individual company research related to the Protecting Florida's Investments Act (PFIA) and other statutory investment requirements related to Israel and Venezuela. The next meeting will review annual updates to the proxy voting policies.

ACTIVE OWNERSHIP & CORPORATE ENGAGEMENT

From November 2018 through early March 2019, SBA staff conducted engagement meetings with companies owned within Florida Retirement System (FRS) portfolios, including Telefonica, Bank of America, and the Southern Co.

LEADERSHIP & SPEAKING EVENTS

Staff periodically participates in investor and corporate governance conferences. Typically, these events include significant involvement by corporate directors, senior members of management, and other key investor or regulatory stakeholders. The following items detail involvement at events that occurred recently:

- In February, SBA staff participated in the International Corporate Governance Network (ICGN) spring mid-year conference. The meetings covered general corporate governance topics, with a focus on proposed takeover regulations in the Netherlands.
- In early March, SBA staff participated in the Council of Institutional Investors (CII) spring conference, speaking on several panels. The event covered a variety of corporate governance issues such as governance in emerging markets, comparative ownership structures, block-chain voting ledgers, and current SEC and stock exchange proposals.

HIGHLIGHTED PROXY VOTES

Innovate Biopharmaceuticals—the December 4, 2018 annual meeting of Innovate Biopharmaceuticals included a number of management proposals to significantly reduce shareowner rights and protections. Despite a significant drop in share price since a 2018 reverse merger with Monster Digital Inc., all proposals received majority support due to the large number of shares controlled by insiders. While a de minimis holding in the overall portfolio, the meeting shows some of the cautions for minority shareowners. SBA staff voted against the management proposals to classify the board, limit special meetings, eliminate written consent, prohibit director removal without cause, and require a supermajority vote of shareowners.

American Funds—for their November 28, 2018 annual meetings, SBA staff voted shares owned within the FRS Investment Plan. For American Funds mutual funds New Perspective and Euro-pacific Growth, SBA staff cast votes in support of all director nominees with the exception of Ms. Chang, Mr. Gonzalez Guajardo, and Mr. Ovi—each director had support withheld due to concerns with the high number of outside directorships and overall time commitment of their management service. Applied to both the FRS Pension Plan and FRS Investment Plan is the SBA corporate governance principle and proxy voting guideline covering multiple simultaneous directorships (a.k.a. "over-boarded" directors). The SBA's policy limits simultaneous board service to less than four directorships. Trustee elections were the only ballot item up for a vote and this was the first shareowner meeting held by the funds since 2009.

FCB Financial Holdings and LaSalle Hotel Properties—for the November 29, 2018 and November 27, 2018 annual meetings respectively, investors roundly rejected the advisory vote on "golden parachutes", which are compensation packages related to mergers and acquisitions. More than 70% and 66% of investors voted against the plans at the companies, respectively. Golden parachute plans often have excessive terms that take a large chunk of shareowner value for senior executives, leading to many failed votes. The plan at FCB Financial Holdings was recently revised to change provisions to allow executives a windfall of tens of millions in compensation despite them keeping their employment in the merged company. Originally, the plan terms permitted the payments only if the executives departed the company, which is a standard practice. The plan at LaSalle Hotel Properties was rejected by investors due to several poor practices, including over $60 million in payouts to three executives, including company payment of taxes (known as gross-up payments), bonus payments of more than 100% of target, accelerated vesting of equity awards provided at above-target payouts, and generally poor alignment between compensation amounts and company performance. Unfortunately, say-on-pay votes for golden parachute plans are legally non-binding, and quite often the payments are made to executives regardless of the voting results.

Hain Celestial Group—for their December 5, 2018 annual meeting Hain Celestial's advisory vote on executive compensation passed by a slim margin, with 50.6% support. SBA staff voted against the annual say on pay agenda item because of poor alignment between pay and performance, poor disclosure, and excessive severance pay to the outgoing CEO. We also voted against two directors for holding too many directorships, including a CEO who is on three public company boards, and we voted against an additional director for engaging in material related party transactions that personally enrich the director. The company is also under SEC investigation due to its accounting and audit practices and is the subject of multiple class action and derivative lawsuits over materially false or misleading statements and breach of fiduciary duty, among other complaints.

REGULATORY ACTIONS

Securities & Exchange Commission (SEC)

Originally proposed in February 2015, the SEC adopted final rules requiring companies to disclose in their proxy statements their employee and director hedging policies and practices. New Item 407(i) of Regulation S-K requires a company to describe any practices or policies it has adopted regarding the ability of its employees (including officers) or directors to purchase securities or other financial instruments, or otherwise engage in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of equity securities granted as compensation, or held directly or indirectly by the employee or director. Companies must comply with the new disclosure requirements during fiscal years beginning on or after July 1, 2019, with eased implementation for certain smaller firms. SEC Chairman Jay Clayton stated, "The new rules will provide for clear and straightforward disclosure of company policies regarding hedging. These disclosures in themselves, and in combination with our officer and director purchase and sale disclosure requirements, should bring increased clarity to share ownership and incentives that will benefit our investors, registrants, and our markets."

International Organization of Securities Commissions (IOSCO)

On January 18, 2019, IOSCO published a statement setting out the importance for issuers of considering the inclusion of environmental, social and governance (ESG) matters when disclosing information material to investors' decisions. IOSCO Principle 16 states that issuers should provide "*full, accurate, and timely disclosure of financial results, risk, and other information which is material to investors' decisions.*" With regard to this Principle, IOSCO emphasized that ESG matters, though sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers as well as on risks and returns for investors and their investment and voting decisions. IOSCO's statement notes that ESG information in the market has increased in recent years. Examples of ESG matters that issuers are disclosing include environmental factors related to sustainability and climate change, social factors including labor practices and diversity, and general governance-related factors that have a material impact on the issuer's business. Such information includes how ESG matters affect the issuer's approach to long-term value creation, the nature of strategic and financial risks, and the way the issuer intends to manage them. They also ask issuers to report on the impacts (either potential or realized) resulting from ESG matters. IOSCO also recently established a Sustainable Finance Network of securities regulators to share their experiences and engage in focused discussions about developments in the market and across jurisdictions.

NOTABLE RESEARCH & GOVERNANCE TRENDS

Activist Investors Successful in 2018—a review by Activist Insight (AI) found that activist investors (including activist hedge funds) won more contested elections for board seats in 2018, largely due to a deeper understanding of the companies they target and an overall shift in shareowner sentiment. Activist Insight noted that activists won a board seat in at least 47% of proxy contests worldwide in 2018. That marked a considerable improvement on 39% support in 2017 and 45% support in 2016, which was the previous high mark of the last five years.

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Maureen M. Hazen, General Counsel Maureen M. Hazen

Date: March 4, 2019

Subject: Office of General Counsel: Standing Report
For Period November 9, 2018 – February 28, 2019

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 34 new agreements – including 2 Transition Management Agreements and 1 Investment Management Agreement for Global Equity, 5 Private Equity transactions, 8 Strategic Investments, 3 Real Estate investments and 1 new investment consulting agreement; (ii) 132 contract amendments, addenda or renewals; and (iii) 2 contract terminations.

SBA Litigation.

(a) Passive. As of February 28, 2019, the SBA was monitoring (as an actual or putative passive member of the class) 650 securities class actions. During the period from November 8, 2018 – January 31, 2019, the SBA collected recoveries in the amount of $2,115,760.73 as a passive member in 42 securities class actions.

(b) Active.

In re Tribune Litigation. On January 24, 2012, the SBA was served a complaint (along with other defendants) now pending in the U.S. Bankruptcy Court, Southern District of New York by the Official Committee of Unsecured Creditors of the Tribune Company alleging damages for fraudulent conveyance and requesting the return of proceeds received by all defendant investors in a leveraged buy-out of the Tribune Company (which subsequently declared bankruptcy). Pursuant to a plan approved in the bankruptcy proceeding, the claim was transferred to the U.S. District Court, Southern District of New York (the "Court") and consolidated with additional parallel cases for multi-district litigation. The SBA received approximately $11 million in connection with this leveraged buy-out. Several amended complaints have been filed in the action in which the SBA was originally served in January, 2012 (the

"FitzSimons Action"). In early 2017, the Court dismissed the intentional fraudulent transfer count (the only claim applicable to the SBA), and the SBA (and other defendants) are monitoring for a possible appeal. The Plaintiffs recently extended a settlement offer which the SBA rejected.

(ii) *Valeant* Opt-Out Action. During a previous period, the OGC recommended to the Trustees and you that the SBA file the opt-out with the group of plaintiffs being represented by Bernstein Litowitz. The SBA may have incurred more than $62 million in recoverable damages. The Trustees approved filing of the action on November 6, 2017, and the SBA subsequently filed the Complaint. On November 29, 2017, the Court issued a stay in discovery in the case pending the conclusion of the trial in the criminal case filed by the U.S. Department of Justice. In January 2018, the criminal trial concluded with a conviction, and the stay has been lifted. The SBA filed its Initial Disclosures for purposes of commencing discovery and is currently working on a response to a request for production.

(iii) LIBOR Litigation. The Attorney General's Office has commenced an investigation against several banks with respect to the alleged manipulation of LIBOR. The OGC and other SBA staff (e.g. Fixed Income, Financial Operations and Accounting) have been working with the Attorney General's Office since September, 2012. Since then, the Attorney General (representing the SBA) and the class counsel has settled the case with Barclays Bank and Deutsche Bank, and the SBA has recovered over $12,000,000 in settlement proceeds. The plaintiffs also recently settled with UBS but have yet to receive recovery proceeds.

(c) FRS Investment Plan. During the period covered by this report, the General Counsel's Office monitored and/or managed the following cases for the Florida Retirement System Investment Plan (the "Investment Plan"). The SBA issued 8 Final Orders, received notice of filing of 10 new cases, and continued to litigate 7 cases (including 1 appellate case) that were pending during the periods covered by previous reports.

Other Matters.

(a) Public Records. During the period covered by this report, the General Counsel's Office received 33 new public records requests and provided responses to 34 requests. As of the date of this report, the General Counsel's Office continues to work on 9 open requests.

(b) SBA Rule Activities. On December 4, 2018, the Trustees approved the filing of amendments to Rule 19-7.002, F.A.C. and various rules in Rule Chapter 19-11, F.A.C., as set forth below. Notices of Proposed Rulemaking for the proposed changes were filed in the Florida Administrative Register on December 20, 2018, and the proposed changes were filed with the Joint Administrative Procedures Committee ("JAPC") on the same day. JAPC approved the changes and indicated that the SBA could file the changes with the Bureau of Administrative Code (BAC). BAC accepted the changes and made the changes effective February 19, 2019. The changes are as follows:

(i) Rule Chapter 19-7: Rule 19-7.002, F.A.C.:

Rule 19-7.002, F.A.C., (Investment Policy Statements) was amended to adopt the most recent revised Investment Policy Statement approved and made effective by the Trustees on June 13, 2018 for the Local Government Surplus Funds Trust Fund (Non-Qualified).

(ii) Rule Chapter 19-11: Amendments have been made to the following rules:

19-11.001 Definitions
19-11.004 Excessive Trading in the FRS Investment Plan
19-11.005 Florida Retirement System (FRS) State Board of Administration Complaint Procedures
19-11.006 Enrollment Procedures for New Hires
19-11.007 Second Election Enrollment Procedures for the FRS Retirement Programs
19-11.009 Reemployment with an FRS-covered Employer after Retirement
19-11.011 Employer and Employee Contributions and ABO or Present Value Transfer Procedures
19-11.012 Rollovers or Plan to Plan Transfers to or from the FRS Investment Plan

- Rule 19-11.001 has been amended to add a definition for "electronic signatures" and to state that an electronic signature is the functional equivalent of a handwritten signature.

- New forms have been adopted by amendments to Rules 19-11.005, 19-11.006, 19-11.007, 19-11.009, and 19-11.012, F.A.C.

- Rule 19-11.009, F.A.C. has been amended to indicate that retired law enforcement officers who are reemployed by an FRS-participating employer as school resource officers may receive both a salary and retirement benefits once such individuals have been retired for 6 months.

- Rule 19-11.0011 has been amended to reflect the fact that Treasury Regulation 1.415-6(b)(6) no longer is effective and has been replaced by Revenue Procedure 2018-52.

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

MEMORANDUM

DATE: March 4, 2019

TO: Board of Trustees

FROM: Ken Chambers, KC 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 compliance; and handling special projects as directed by the Executive Director & CIO.

Ethics and Training

- Mandatory ethics training and certification of compliance are required for all SBA employees on an annual basis. The on-line training covers gifts, conflicts of interest, financial disclosure, outside employment, lobbyist/principal restrictions, honorarium related events, etc. In addition to ethics training, mandatory training is required annually for all employees in the areas of harassment prevention, personal investment activity, insider trading, incident management framework, and cybersecurity awareness. The deadline for completing the courses is June 30, 2019. Every other year, employees are also required to complete training courses for public records and the Sunshine Law. All new employees are required to take all of the mandatory training courses (which also includes a fiduciary responsibility course) within 30 days of their start date.

- During the period from November 15, 2018 to March 4, 2019, one instance was reported to the Inspector General concerning non-compliance with the SBA gift policy. The violation was self-reported by the employee, and the provider was reimbursed for the gift in accordance with the 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. On an annual basis, written certification is required from equity, fixed income and real estate investment managers, and broker-dealers. Additionally, annual certifications have been developed for the investment services related consulting firms engaged by the SBA. These consulting firms are required to certify their compliance with certain independence and disclosure principles.

Consultant Independence and Disclosure Certifications for 2018 were submitted to all applicable SBA consultants in January. The certifications have been received from all consultants, indicating full compliance with the principles. The IPP certifications for the equity, fixed income and real estate investment managers were disseminated in February. Many of the certifications have been completed and returned, and the compliance results for all of the investment managers will be included in the next Trustees' report.

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 as part of the SBA Internal Control and Fraud Policy.

To date, no reports or tips have been received by the Hotline for 2019.

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 disclosure statements were recently disseminated to the current council members, and all but one have been completed and returned.

cc: Ash Williams

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

DATE: March 4, 2019

TO: Ash Williams, Executive Director & CIO

FROM: Sooni Raymaker, Chief Risk & Compliance Officer SR

SUBJECT: Trustee Update – March 2019

The role of the Risk Management and Compliance (RMC) unit is to assist the Executive Director & CIO in maintaining an appropriate and effective risk management and compliance program to identify, monitor and mitigate key investment and operational risks. RMC plays a critical role in developing and enhancing the enterprise-wide system of internal controls. RMC proactively works with the Executive Director & CIO and designees to ensure issues are promptly and thoroughly addressed by management.

SBA senior management has created a culture of risk management and compliance through the governance structure, allocation of budgetary resources, policies and associated training and awareness. Management is committed to ethical practices and to serving the best interests of the SBA's clients.

Included below is a brief status report of RMC activities and initiatives completed or in progress during the period November 14, 2018 to March 4, 2019.

Compliance Exceptions
No material compliance exceptions were reported during the period.

Risk Assessments and Management Plans
During November and December 2018, the SBA Enterprise Risk Management (ERM) annual assessment was completed in conjunction with the Office of Internal Audit. The assessment was done based on oral interviews wherein key senior management and business unit leaders were asked to identity key risks and concerns that most significantly threaten the achievement of their business unit or the SBA's strategic objectives. The results were compiled, reviewed and analyzed for top risks, themes and common causes. The major themes and top risks were shared with the Risk and Compliance Committee and the assessment methodology was approved. ERM will continue to analyze the results and prepare an analysis of possible root causes to assist in formulation of management plans and modification of any risk appetites based on the feedback received in the assessment. The ERM is continuing to build out a risk framework that is aligned with the business model of the SBA.

Operational Due Diligence (ODD)
Fiscal year-to-date, as part of the SBA internal investment approval process, the External Investment Manager Oversight (EIMO) team has reviewed 41 new funds/properties/managers across all SBA asset classes and 160 investment contracts. EIMO also conducted two on-site visits with one new manager and one existing manager. EIMO team members work with the asset class portfolio managers to coordinate the investment approval process to manage expectations and workflow. The current process consists of the asset class sending the EIMO Operational Due Diligence Questionnaire (ODDQ) to the investment manager during the investment due diligence process. EIMO reviews the ODDQ along with other supporting documentation and prepares an Operational Due Diligence Risk Assessment report ("ODD RA"). The ODD RA is reviewed by the Senior

Investment Officer for the applicable asset class prior to advancement of the investment approval workflow. Each investment/manager is unique and processes may vary, so the ODD process remains flexible while still trying to be thorough. The ODD process is evolving and will be enhanced by including the review conducted by external ODD consultants. The SBA currently has an external ODD consultant agreement in place for the Public Market Asset Classes and Real Estate. To further enhance the SBA's ODD processes, the SBA recently issued a solicitation for Operational Due Diligence services for Private Equity and Strategic Investments and the ITN is currently in process.

The Florida Asset Manager Evaluation (FLAME) System was implemented in July 2018. To date, approximately 99% of the External Investment Managers have successfully registered in the system and 99% of them have successfully completed and submitted their annual certification. The EIMO team is currently reviewing certifications submitted and working with the asset classes to reach out to Managers who have yet to complete their obligation to submit an annual certification.

Compliance Systems

The primary focus of the Public Market Compliance (PMC) team this period continued to be the implementation of Blackrock's Aladdin system for holdings-based compliance. The project is in the eighth week of a possible 12 week testing phase. This process consists of PMC staff reviewing detailed compliance reports for each portfolio to determine if results are accurate, providing written feedback to Blackrock on issues identified, and verifying that tests are rendering correctly after revisions have been made.

Late in the period, PMC began the process to contract with Bloomberg to provide an additional Bloomberg service to build and code 200 compliance rules in the Bloomberg compliance system. The acquisition of this service will increase the efficiency and effectiveness of automated pre-trade and post-trade compliance for internally managed Fixed Income portfolios maintained on Bloomberg. This project is slated to begin when the Aladdin implementation is completed.

In conjunction with the Aladdin project, advancements in automation continued to be made, utilizing the BNY Mellon Compliance Monitor, Charles River Development and Compliance and Bloomberg systems. In the BNY Mellon system, the permitted securities rules for 6 Fixed Income accounts were developed and scheduled for automated, daily testing and reporting. Compliance rules for 9 Global Equity accounts were also reviewed, updated as needed for enhanced monitoring, and scheduled for daily automated testing and reporting. In the Bloomberg system, 5 rules were automated to test various parameters on a new Fixed Income account. Additionally, in response to an audit recommendation, account guidelines for two transition accounts were coded for automated pre-trade compliance in the Charles River compliance system.

Counterparty Monitoring

ERM is currently working with BNY Mellon to enhance all counterparty reporting and associated production tools. The goal is ensure the availability of relevant exposure reporting that provides clear visibility, data linkages and trend reporting to traders, senior management and oversight functions. Additional key risk indicators are being developed for operational processes affecting counterparty exposure.

Performance and Risk Analytics

Performance and Risk Analytics (PRA) successfully completed fiscal year-end processes and provided responses to requests from OPPAGA and CEM Benchmarking. PRA is working with the Office of Internal Audit to strengthen existing controls and implement new ones. Excel spreadsheets used to reconcile custodian bank data are in the process of being converted to Crystal Reports as a part of this effort. The Senior Quantitative Analysts are working to document existing code and are working with the IT department to implement version control for the Counterparty Monitoring and Performance and Risk dashboards.

Policy Activity
During the period there was one newly developed policy (CAT Fund), 5 revised policies, and 10 revised Investment Portfolio Guidelines. There are several Policies and Investment Portfolio guidelines currently in staffing with finalization anticipated during the months of March and April. Work also continues on evaluation of policies as a whole to determine continued relevance as well as possible integration of like policies into one unified policy.

Personal Investment Activity
During the period there were sixty requests for pre-clearance by SBA employees and there were no violations of the SBA's Personal Investment Activity policy. Eight new employees submitted Initial Holdings Reports and seven employees left the SBA.

On February 14th, the SBA Personal Investment Activity policy was revised to include some additional reporting requirements to be in better conformance with section 112.313(3) which prohibits an employee from doing business with one's agency when they have a material ownership in that business entity. Materiality is defined in s. 112.312(5) as ownership interest of more than 5 percent. We have maintained the policy amount of $20,000 but also want any disclosure relative to the 5% threshold for statutory compliance. If a disclosure is made by an employee, RMC will do a conflict analysis based on the security, the employee's position, ability to influence, etc. and reach out to the SBA General Counsel and Inspector General as appropriate. The SBA Ethics policy was also updated to reflect this additional disclosure.

Hamilton Lane

Florida Growth Fund Review

Investment Advisory Council (IAC) Presentation

March 26, 2019

Nayef Perry | Katie Moore

FLORIDA GROWTH FUND

Hamilton Lane Overview

A global leader in the private markets for more than 27 years

Market Leaders

$468B+
Assets under management & supervision

$29B+
Capital deployed in 2017[1]

400+
Advisory board seats

450+
Clients across 35 countries

Global & Aligned

15
Offices globally

26
Languages spoken

350+
Employees

47%
Women/Minority employees

$291M+
Invested alongside our clients

Embracing Data & Technology

$4.4T+
Fund assets monitored

4,200+
Active fund database

60,000+
Companies

iLEVEL cobalt DealCloud BLACK MOUNTAIN

As of December 31, 2018

[1] The 2017 capital invested includes all primary commitments for which Hamilton Lane retains a level of discretion and all advisory clients commitments for which Hamilton Lane performed due diligence and made an investment recommendation. The 2017 capital invested also includes all discretionary secondary investment and co-investment commitments.

Florida Growth Fund Program Overview

Objective

Florida Growth Fund ("FGF")

FGF was launched in 2009 to generate attractive private equity returns and invest in technology and growth companies in the state of Florida

Strategy

Fund Investments: Buyout, Growth Equity, Credit, and Venture Capital funds with a strong Florida track record

Equity Co-Investments: Across industries alongside a lead sponsor at the same time and in the same security

Credit Co-Investments: Across industries and typically, alongside a lead sponsor in either a 1st Lien, Uni-tranche, 2nd Lien, or Mezzanine security (opportunistically with equity upside)

	FGF I ($500M)			FGF II ($250M)
Tranche	I	II	Credit	I
Size	$250M	$150M	$100M	$250M
Vintage	2009	2012	2014	2015
Fund Investments	9	11	N/A	11
Co-Investments	17	8	12	11
% Committed/Fund Size	100%	100%	85%	77%

As of September 30, 2018

Experienced Senior Team

Dedicated cross functional team to provide for a comprehensive portfolio construction and management

Investment Committees

Fund Investment	Co-Investment	Secondary	Credit
12 Members	10 Members	9 Members	9 Members

Florida Growth Fund Team


David Helgerson
Managing Director


Nayef Perry
Principal


Katie Moore
Principal


Ankur Dadhania
Senior Associate


Benjamin Eckroth
Associate

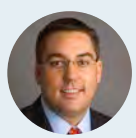

Jordan Dietz
Analyst


Daniel Felman
Analyst

The Florida Growth Fund team leverages the entire Hamilton Lane platform


Andrea Kramer
Managing Director
Fund Investments
29 Professionals


Brian Gildea
Head of Investments
Co-Investments
19 Professionals


Tom Kerr
Managing Director
Secondaries
19 Professionals


Mike Ryan
Managing Director
Research
6 Professionals


Chris Corrao
Managing Director
Operations
63 Professionals


Anthony Donofrio
Managing Director
Legal
22 Professionals


Fred Shaw
Managing Director
Compliance
8 Professionals

As of September 30, 2018

FGF Program Highlights

Performance

14.5%	FGF I Gross IRR
18.8%	FGF II Gross IRR
17.2k	Jobs created in Florida [1]
12.1%	FGF I Net IRR
14.8%	FGF II Net IRR

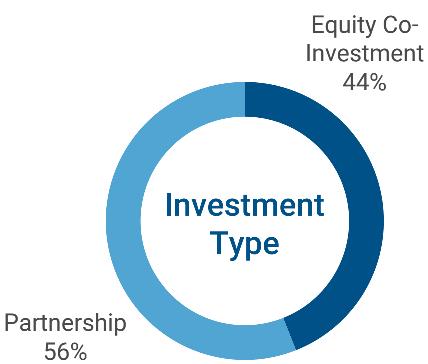
[1] Source: OPPAGA
As of September 30, 2018

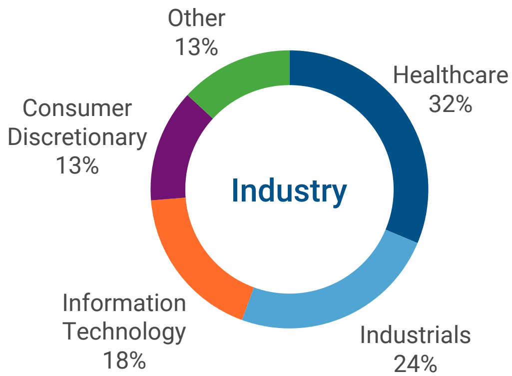
FGF I (excl. Credit) Overview

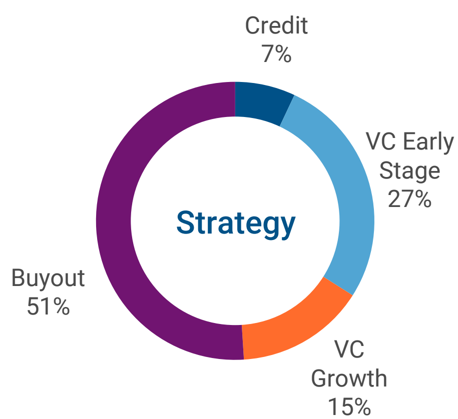
Vintage	2009 / 2012
Fund Size	$400M
Fund Investments	20
Co-Investments	25
Total Distributions	$327.8M
Realized Co-Investments	13
Realized Multiple & IRR	2.5x / 25.4%

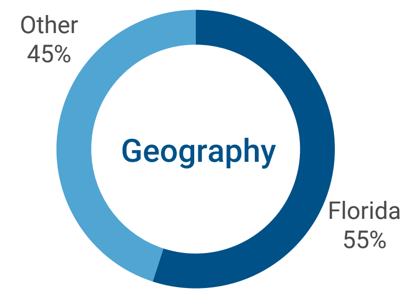
1.7x	1.6x	14.6%	12.3%
Gross MOIC	Net MOIC	Gross IRR	Net IRR

Portfolio Diversification [1]





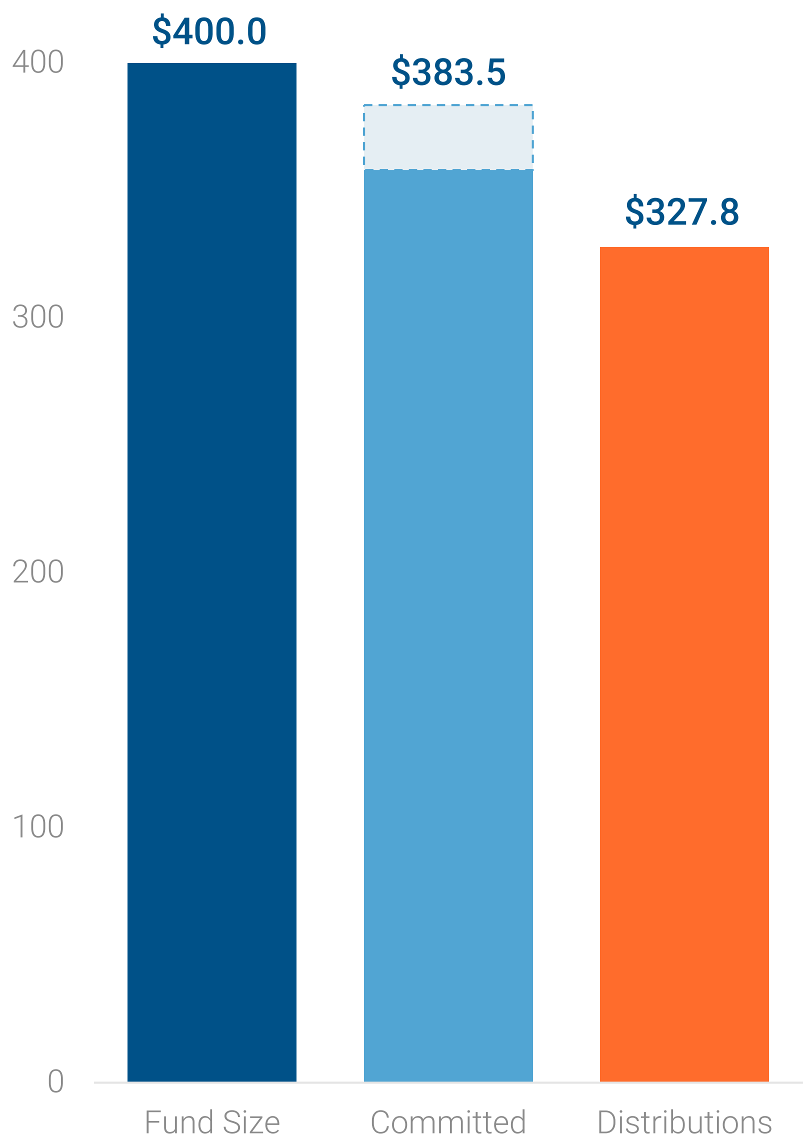




[1] Portfolio diversification is based on exposed market values
As of September 30, 2018

FGF I (excl. Credit) Liquidity

FGF I (excl. Credit) ($M) [1,2]



[1] FGF I (excl. credit) is fully invested and committed. The delta between fund size and commitments is attributable to co-investment reserves and fees & expenses
[2] Demarcation represents the difference between contributed and committed capital on a gross basis
As of September 30, 2018

Liquidity

0.9x
DPI

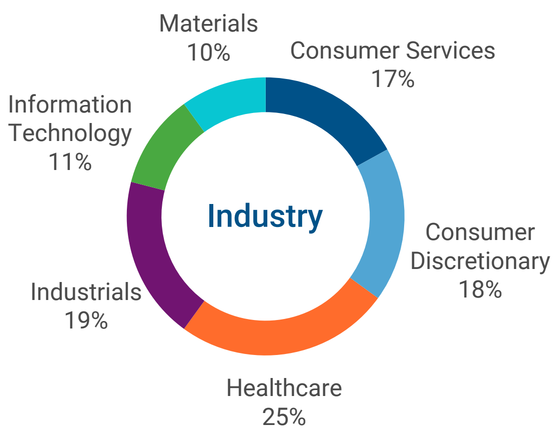
$327.8M
Distributions

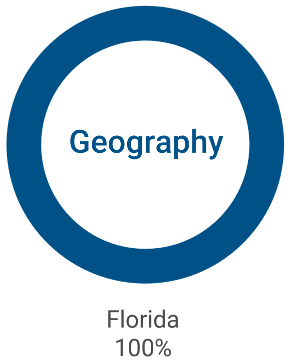
FGF Credit Overview

Vintage	2014
Fund Size	$100M
Investments	12
Total Distributions	$33.4M
Realized Investments	3
Realized Multiple & IRR	1.2x / 23.4%

1.2x	1.1x	13.0%	7.5%
Gross MOIC	Net MOIC	Gross IRR	Net IRR

Portfolio Diversification [1]

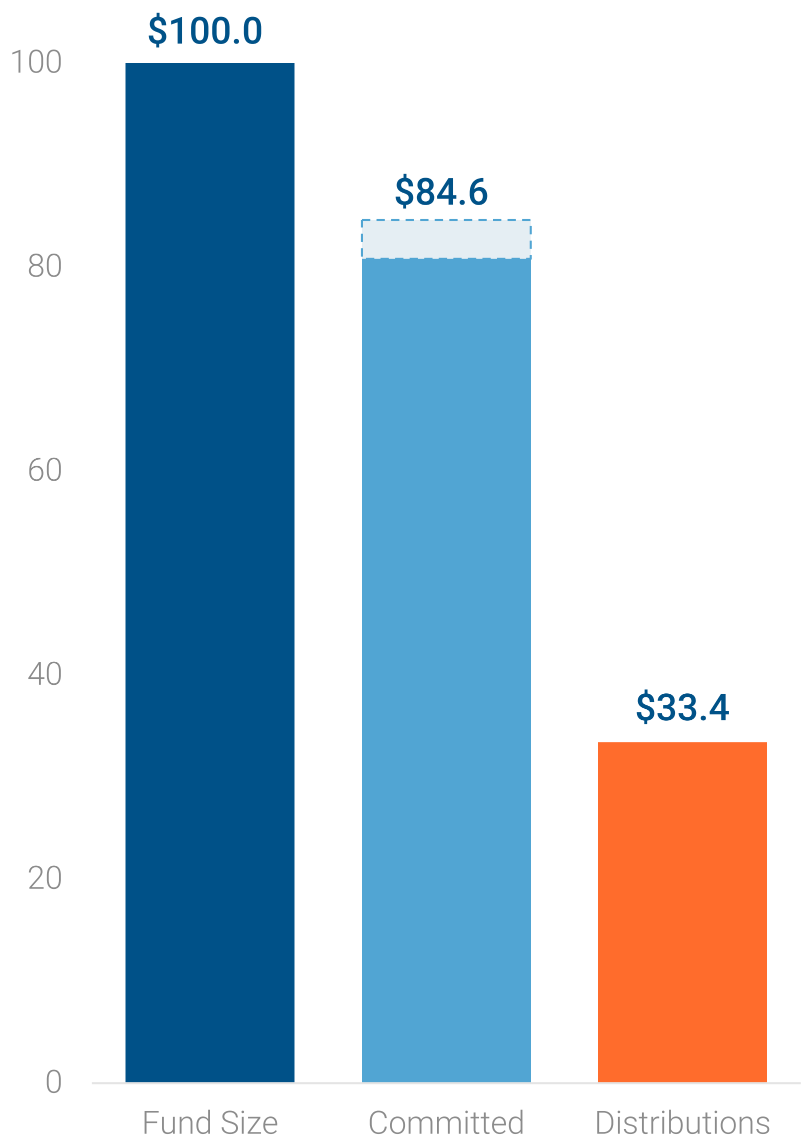




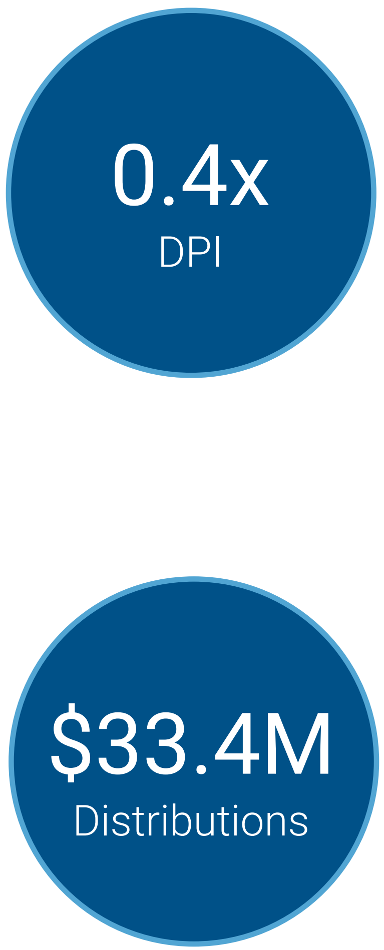
[1] Portfolio diversification is based on exposed market values
As of September 30, 2018

FGF Credit Liquidity

FGF Credit ($M) [1]



Liquidity



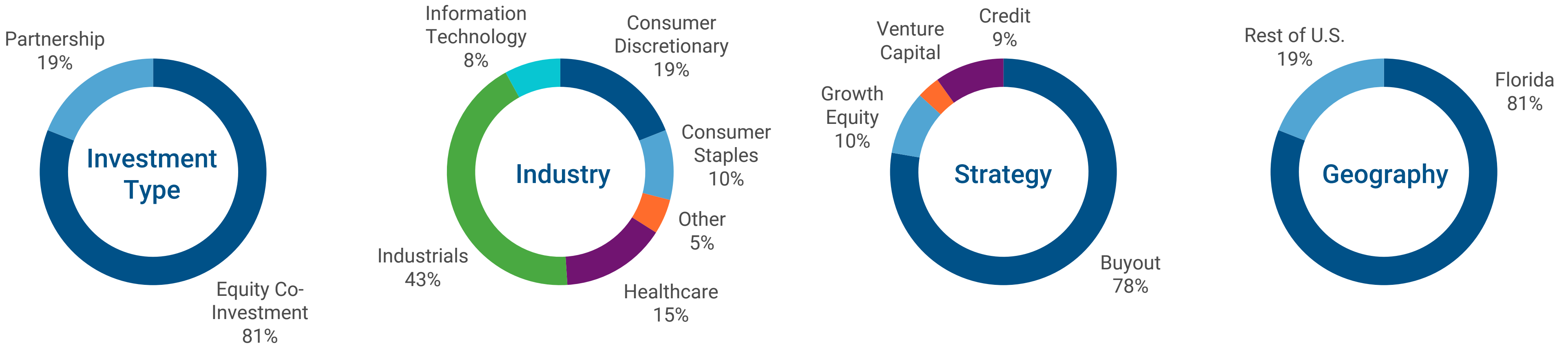
As of September 30, 2018
[1] Demarcation represents the difference between contributed and committed capital on a gross basis

FGF II Overview

Vintage	2015
Fund Size	$250M
Fund Investments	11
Co-Investments	11
Distributions	$19.4M

1.30x	1.26x	18.8%	14.8%
Gross MOIC	Net MOIC	Gross IRR	Net IRR

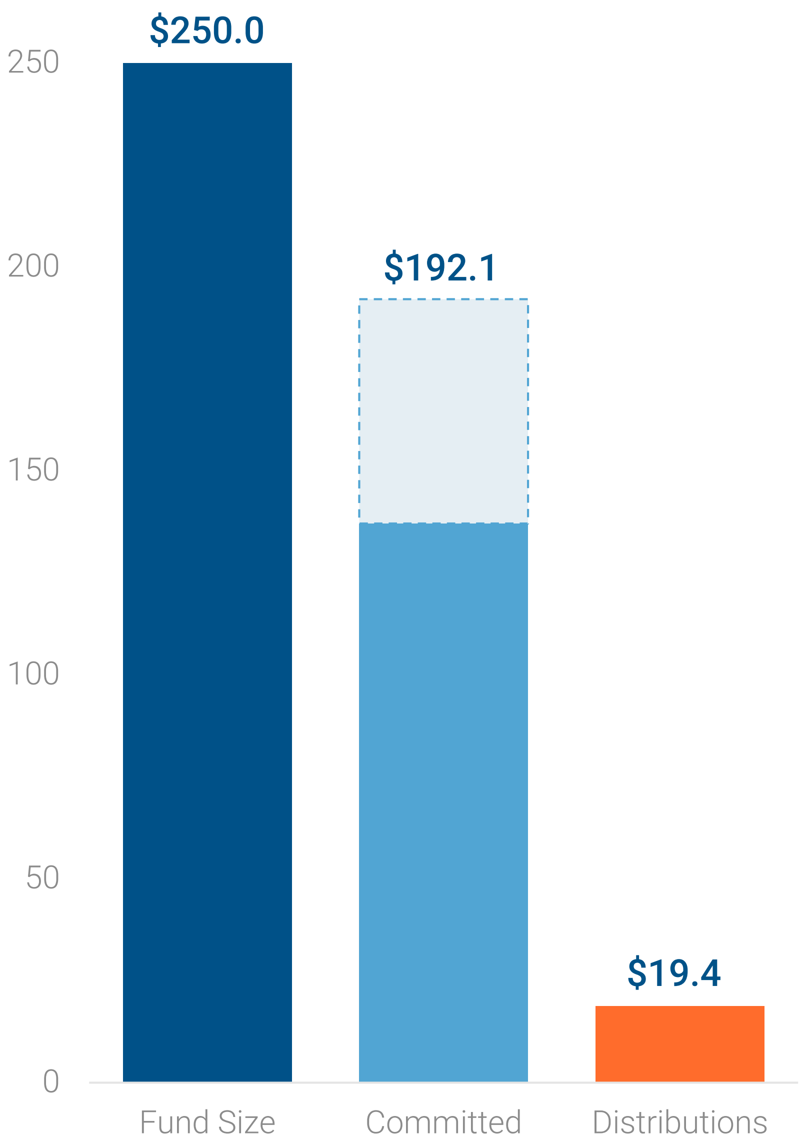
Portfolio Diversification[1]



[1] Portfolio diversification is based on exposed market values
As of September 30, 2018

FGF II Liquidity

FGF II ($M) [1]



Liquidity

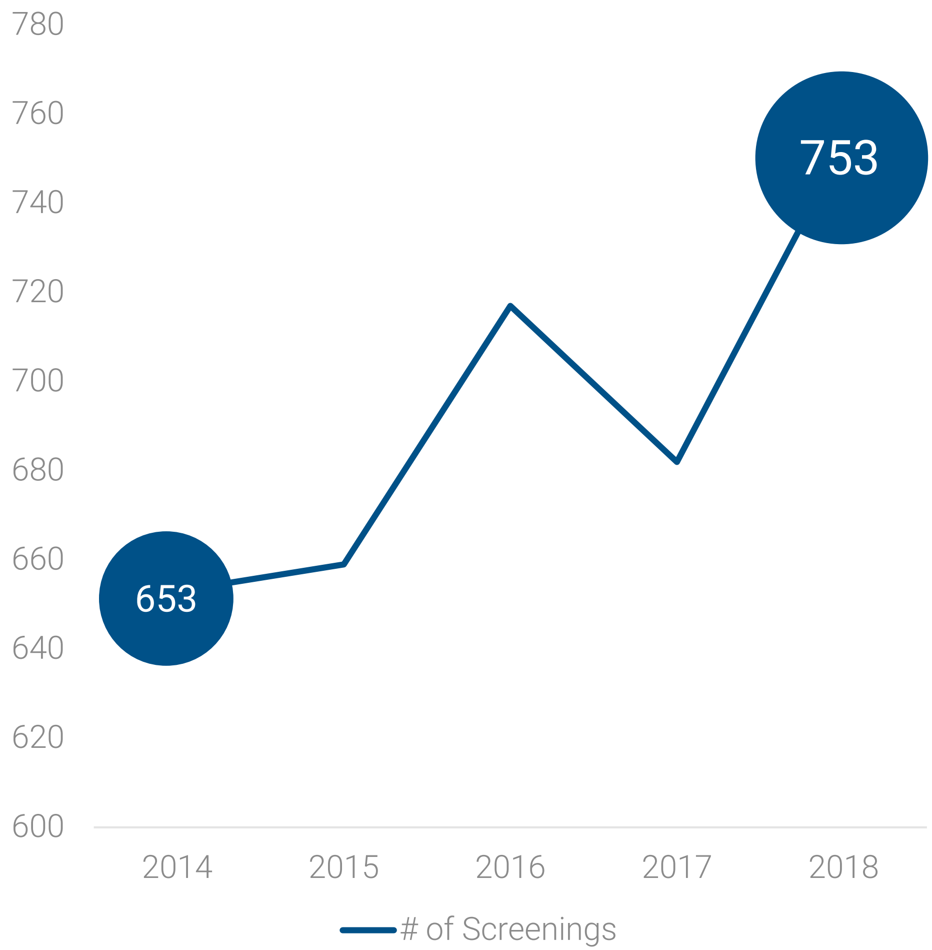
As of September 30, 2018

[1] Demarcation represents the difference between contributed and committed capital on a gross basis

Primary Deal Flow

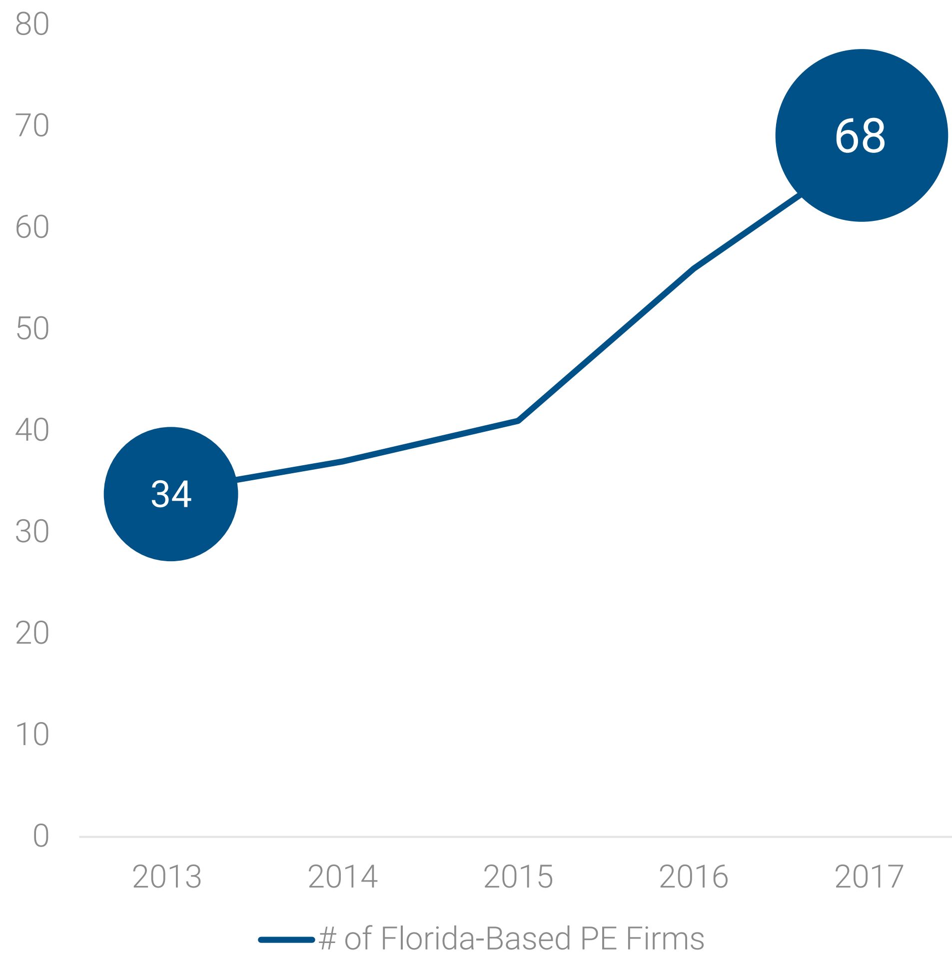
Hamilton Lane continues to see growth in primary opportunities

Primary Opportunities Screened Annually



Source: Hamilton Lane Fund Investment Database (2018)

Florida-Based Private Equity Firms



Source: Pitchbook

Co-Investment Deal Flow

Primary capital drives co-investment and credit deal flow

$27.8B
HL primary commitments in 2017

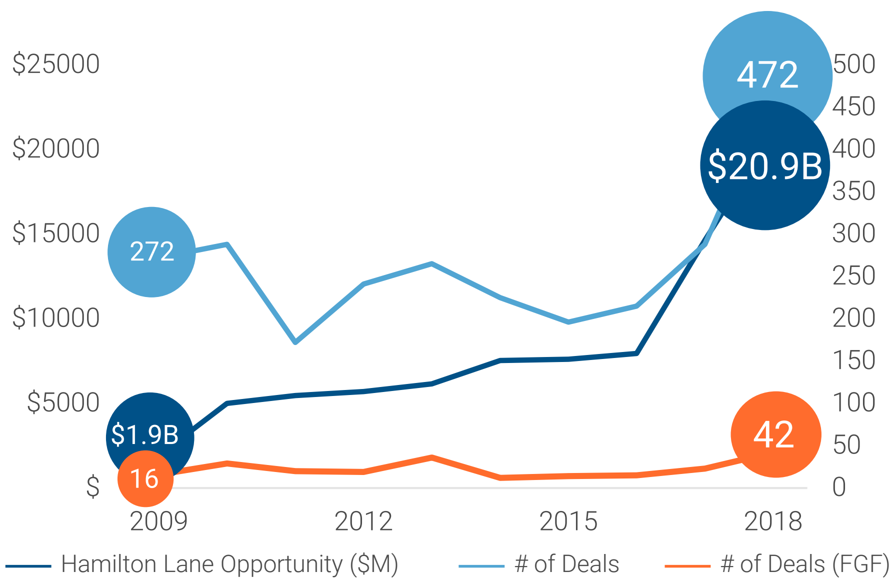
$20.9B
Equity co-investment deal flow in 2018

$1.1B
FGF equity co-investment deal flow in 2018

$6.5B
Credit co-investment deal flow in 2018

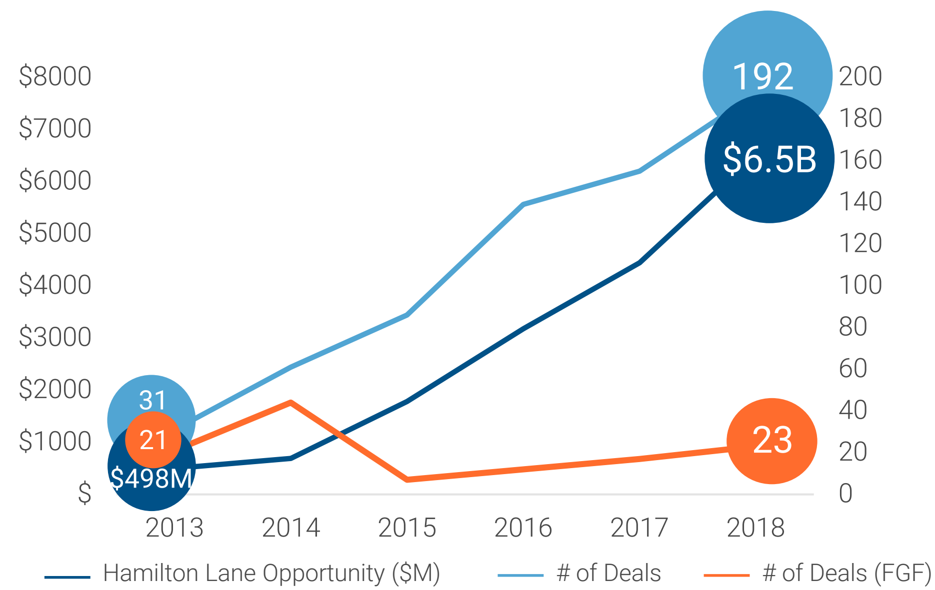
$462M
FGF credit co-investment deal flow in 2018

Equity Deal Flow



Source: Hamilton Lane Fund Investment Database (2018)

Credit Deal Flow

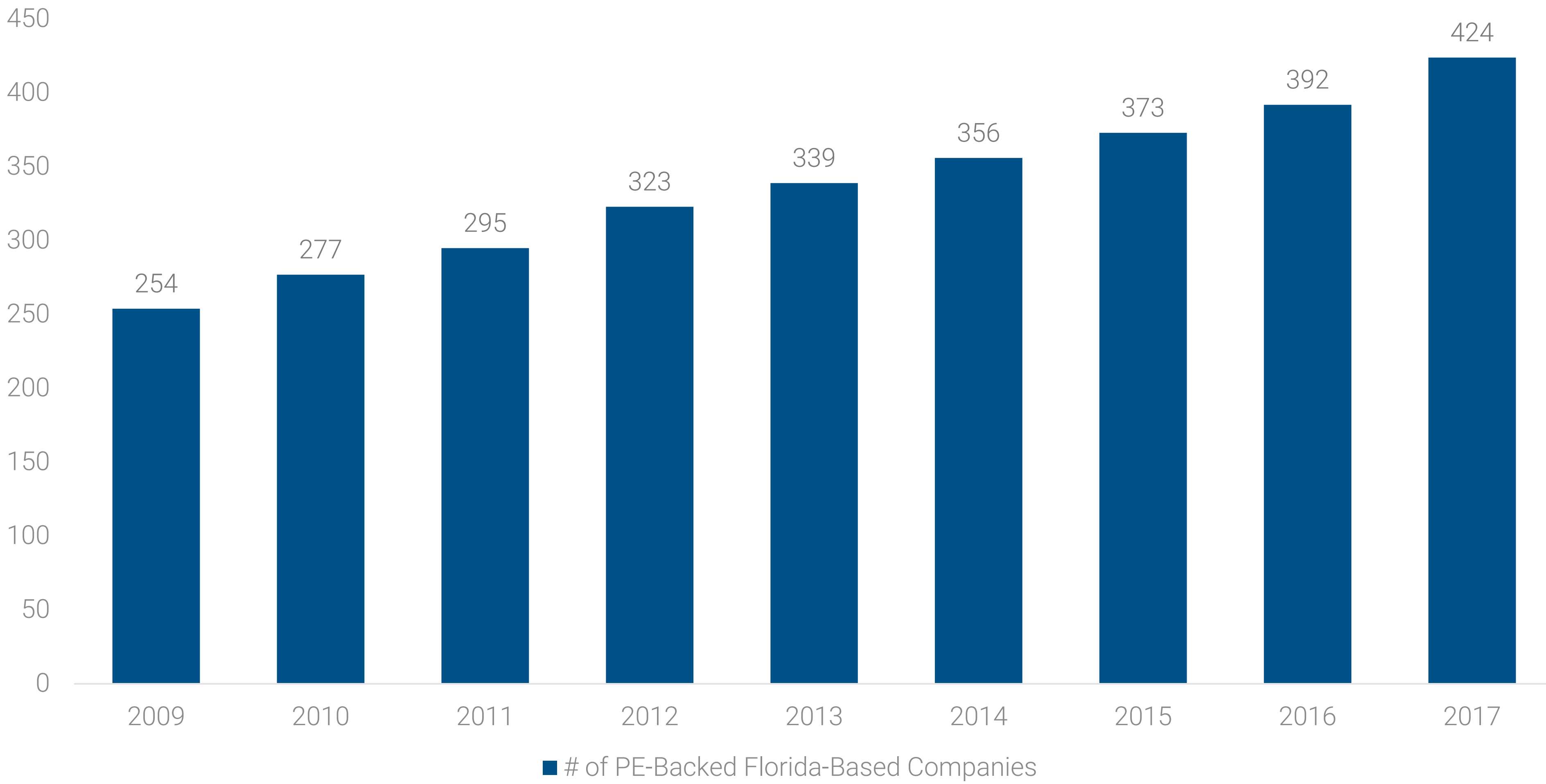


Source: Hamilton Lane Fund Investment Database (2018)

Private Equity Ecosystem in Florida

The number of private equity-backed Florida-based companies continues to grow

Private Equity-Backed Florida-Based Companies

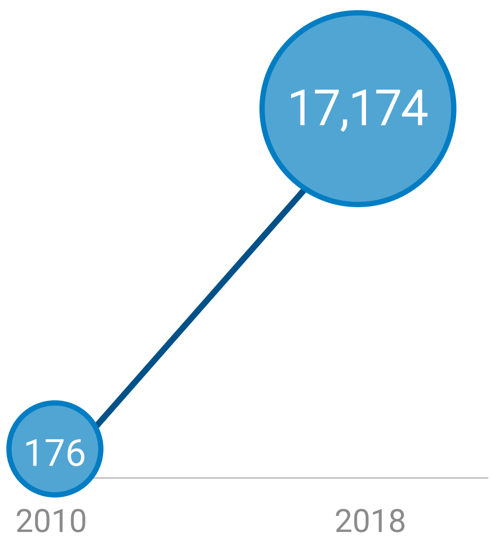


Source: Pitchbook

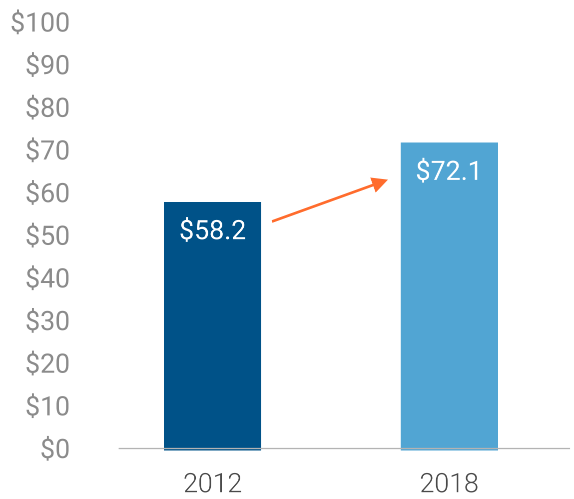
Florida Impact

Florida Growth Fund investments continue to have a positive impact on Florida

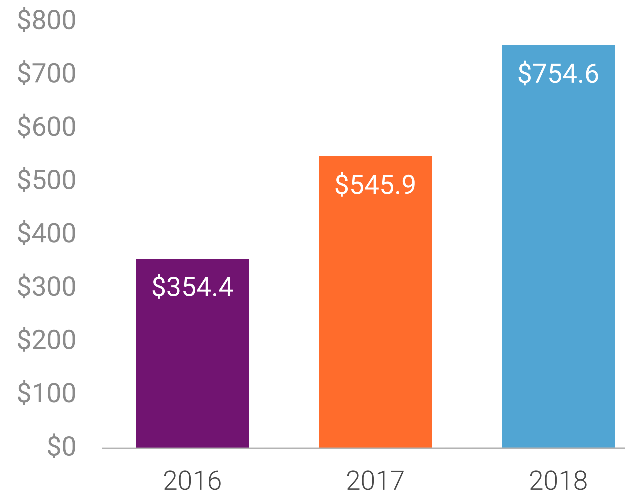
Job Creation



Average Annual Salary ('000s) [1]



Capital Expenditures ($M)



As of June 30, 2018

[1] 2012 was the first year the FGF began tracking average salary

Delivering Growth to Florida

The Florida Growth Fund continues to perform against its objectives

12.1% / 14.8%
FGF I & II Net IRR [1]

Leveraging the Florida-based team, the SBA partnership, and the broader Hamilton Lane platform to access opportunities, resources, and deliver results

$381M
In Distributions [1]

The FGF program has provided $381M of liquidity to the Florida SBA

17K+
Jobs Created [2]

Supporting and growing private investment and economic activity throughout the Florida economy

[1] As of September 30, 2018
[1] As of June 30, 2018

Appendix

Contact Information

Philadelphia
One Presidential Blvd.
4th Floor
Bala Cynwyd, PA 19004
USA
+1 610 934 2222

London
8-10 Great George Street
London SW1P 3AE
United Kingdom
+44 (0) 207 340 0100

Tel Aviv
6 Hahoshlim Street
Hertzelia Pituach, 4672201
Building C 7th Floor
P.O. Box 12279
Israel
+00 972-73-2716610

San Francisco
201 California Street, Suite 550
San Francisco, CA 94111
USA
+1 415 365 1056

New York
610 Fifth Avenue, Suite 401
New York, NY 10020
USA
+1 212 752 7667

San Diego
7817 Ivanhoe Avenue
Suite 310
La Jolla, CA 92037
USA
+1 858 410 9967

Tokyo
17F, Imperial Hotel Tower
1-1-1, Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011
Japan
+81 (0) 3 3580 4000

Miami
999 Brickell Avenue
Suite 720
Miami, Florida 33131
USA
+1 954 745 2780

Hong Kong
Room 1001-3, 10th Floor
St. George's Building
2 Ice House Street
Central Hong Kong, China
+852 3987 7191

Rio de Janeiro
Av. Niemeyer 2, Sala 102
Leblon Rio de Janeiro
Brasil 22450-220
+55 21 3520 8903

Las Vegas
3753 Howard Hughes Parkway
Suite 200
Las Vegas, NV 89169
USA
+1 702 784 7690

Seoul
12F, Gangnam Finance Center
152 Teheran-ro, Gangnam-gu
Seoul 06236
Republic of Korea
+82 2 6191 3200

Sydney
Level 36, Governor Phillip Tower,
1 Farrer Place,
Sydney, NSW 2000
Australia
+61 2 8823 3741

Munich
Leopoldstrasse 8-10
80802 Munich
Germany
+49 89 954537901

Portland
15350 SW Sequoia Pkwy
Suite 260
Portland, OR 97224
USA
+1 503 624 9910

Private Equity Group ("PEG")

March 26, 2019

Presenters

Rob Cousin, *Managing Director, Portfolio Manager,* was one of the investment professionals who founded the Private Equity Group in 1997. Prior to joining the Group, he was a member of AT&T Investment Management Corp.'s team responsible for implementing their $35 billion public equity portfolio. Previously, he was an account manager at The Travelers. Mr. Cousin is a CFA charterholder. He earned his BA from Tulane University and an MBA from the University of Florida. Currently, Mr. Cousin serves on the advisory boards of Austin Ventures, Clarion Capital, Collaborative Fund, Domain Associates, Escalate Capital, Intersouth Partners, GTCR, Kinderhook Capital Partners, Morgenthaler Partners and Quad C Partners. He also serves as board observer for Envirogroup. Mr. Cousin is a board member of the University of Florida Investment Corp.

Tyler Jayroe, *Managing Director, Portfolio Manager,* joined the Private Equity Group in 2005. Prior to joining the Group, he worked as an Executive Compensation Consultant for Aon Consulting, where he helped large companies design performance-based pay packages for their top executives. He previously worked in a variety of capacities for Actuarial Sciences Associates, an employee benefits and compensation consulting firm. Mr. Jayroe holds a BA, magna cum laude, from Vanderbilt University and an MBA from the University of Virginia. Currently, Mr. Jayroe serves on the advisory boards of Atlantic Street Capital, CAI Capital Partners, KarpReilly Capital Partners, Parallel Investment Partners, Post Capital Partners, RLH Equity Partners, Rizvi Traverse Management, Southfield Capital, Tailwind Capital Partners and Warren Equity Partners. Mr. Jayroe also serves as a board observer for Acuity Eyecare Group and Icon Holdings.

Patrick Miller, *Associate,* joined the Private Equity Group in 2014 and has portfolio management, business development and investor relations responsibilities for the SBA Florida mandate. Prior to joining J.P. Morgan Investment Management, he received his BA from Northwestern University where he studied Communications and Business. During the summer of 2013, he interned at J.P. Morgan Investment Management in the Retirement Planned Services division. Mr. Miller holds the FINRA Series 3, 7 & 63 certifications.

Our Private Equity Group is one of the most experienced teams dedicated to building high quality private equity portfolios

Proven strategy and process developed and refined over the past 39 years

EXPERIENCED, COHESIVE TEAM OF INVESTMENT PROFESSIONALS

- PEG was established at JPMorgan Chase & Co. in 1997
- PEG average tenure[1]
  - 29 years: 9 founding members
  - 19 years: 19 senior portfolio managers
  - 14 years: portfolio management team
- Located in New York, London, Hong Kong, Beijing[2], and New Delhi
- Supported by dedicated resources and leveraging the extensive expertise of the broader firm

SIGNIFICANT PRIVATE EQUITY KNOWLEDGE AND INSIGHT

- Approximately $28 billion in assets under management[3]
- Meaningful and long-standing private equity investor[1]
  - U.S. private equity: 1980
  - Europe private equity: 1983
  - Asia private equity: 1985
  - Secondary investments: 1985
  - Direct investments: 1988
- Database has more than 10,000 offerings and active data capture of over 1,300 funds
- Serving on over 200 boards, including funds and direct investments

PROVEN RESULTS AND ALIGNMENT WITH OUR INVESTORS

- Opportunistic approach seeking the highest conviction investments
- Consistent out-performance over multiple cycles
- Dedicated distribution management team to ensure efficient cash returns to investors
- Transparent reporting and comprehensive servicing platform
- Team professionals personally invest 1.25% alongside all investments[4]

1 Includes tenure and investing experience at both PEG and AT&T Investment Management Corporation (ATTIMCO). Portfolio Management team average tenure represents voting eligible members of PEG
2 Beijing Equity Investment Development Management Co., Ltd., a joint venture in China through the PEG's affiliate JPMorgan Asset Management Private Equity (China) LLC, is located in Beijing.
3 Includes private equity commingled vehicles, managed accounts and trusts within J.P. Morgan Asset Management (JPMAM); includes unfunded commitments awarded subsequent to 9/30/2018.
4 The co-investment percentage for PEG professionals is calculated across PEG's platform of products and accounts, and may be greater or less than 1.25% for any particular one. The allocation percentage is reviewed each calendar year, and on an aggregate level it has been at or above 1% for the past 12 years and is expected to remain at or above this level going forward. The co-investment by PEG professionals in a particular product or investment may be limited or discontinued if required by law or policy.
Past performance is no guarantee of future results.

0903c02a8219c327

Our global team is built on experience and continuity

Back row: Luis Espinal, Tyler Jayroe, Frank Muto, Robert Cousin, Thomas McComb, Mark Sterlacci, Stephen Catherwood, Patrick Miller, Fredric Arvinius, Spencer Kubin, Lawrence Unrein, John Sweeney, Richard Egelhof, Anthony Roscigno, Avneet Kochar, Eduard Beit, Michael Lehman, Jarrod Fong, Joseph Knight

Middle row: Gavin Berelowitz, Jonathan Ross, Kashif Sweet, Brendan Cameron, Brian McCann, Courtney Mee, David Taplitz, Sandra Zablocki, Kristopher Nickol, Evrard Fraise, Jinghan Hao, Laureen Costa, Kimberly Clark, Amanda Wilson, Brian Pantelich, Katherine Relle, Louvenia Southerland

Front row: Charles Willis, Miles Healy, Laura Rodgers, Carina Chan, Dana Haimoff, Eun-Ju Lee, Jaclyn Pizzo, Cindy Kendrot, Ashmi Mehrotra, Beverly Dewar, Naoko Akasaka, Meena Gandhi, Mindy Gabler, Yocati Lantigua, Robertus Prajogi, Rebecca Mitchem

Not pictured: Pooja Aier, Nazma Ali, Eric Chan, Carol Chen, Angela Coelho, Evelyn Flores, Irene Koh, Donghoon Lee, Laura Riccardelli, Larissa Soo

As of 3/7/2018. There can be no assurance that the professionals currently employed will continue to be employed by JPMAM or that the past performance or success of any such professional serves as an indicator of such professional's future performance.

J.P.Morgan Asset Management

We are a cohesive team of experienced professionals, aligned with and dedicated to our clients' private equity investments and portfolios

Name	Years of related experience	Years with PEG	Education (undergraduate/graduate)/Professional
Lawrence Unrein[1], Head of Private Equity Group	39	39	SUNY Plattsburgh/Wharton, MBA/CFA, CPA
Pooja Aier	<1	<1	American Univ.
Naoko Akasaka	25	11	Keio Univ.
Fredric Arvinius	13	12	Lund Univ./Lund Univ., MS
Eduard Beit[1]	36	31	Yale Univ./Univ. of Chicago, MBA/CFA
Gavin Berelowitz	25	16	Univ. of Cape Town/CA
Brendan Cameron[1]	36	23	Dartmouth College/Columbia Univ., MBA/CFA
Stephen Catherwood	18	16	Bucknell Univ./CFA
Carina Chai	26	7	Univ. of New South Wales/CFA, CPA
Eric Chan	29	12	Griffin College/Washington/Seattle Univ., MBA
Carol Chen	14	9	Shanghai Institute/Univ. of Manchester, MS/CFA
Laureen Costa[1]	29	25	Bucknell Univ./Dartmouth College, MBA/CFA
Robert Cousin[1]	28	26	Tulane/Univ. of Florida, MBA/CFA
Richard Egelhof	12	5	Boston College/Harvard, JD, Series 7 & 63
Luis Espinal	21	3	Pace Univ.
Jarrod Fong[1]	28	23	UCLA/Univ. of Chicago, MBA
Evrard Fraise	20	13	Georgetown Univ./Columbia Univ., MBA
Mindy Gabler	26	20	Penn St. Univ.
Meena Gandhi	18	13	Univ. of Texas/Columbia Univ., MBA/Series 3, 7, 24, 30, & 63
Dana Haimoff	26	17	Skidmore College/Columbia Univ., MBA
Jinghan Hao	9	6	Central Univ. Fin. and Econ,/Columbia, MA/ Series 7 & 63/CFA
Tyler Jayroe	20	14	Vanderbilt Univ./Univ. of Virginia, MBA
Cindy Kendrot	26	20	College of the Holy Cross/CPA
Joseph Knight	8	1	The College of New Jersey/Series 7 & 63
Avneet Kochar[2]	23	7	Delhi Univ./The College of William and Mary, MBA
Irene Koh	19	11	Natl. Univ. of Singapore/Natl. Univ. of Singapore, MS
Spencer Kubin	8	1	Miami University/CFA, CPA/ Series 3, 7, & 63
Donghoon Lee	<1	<1	Drexel Univ.
Michael Lehman	18	4	McMaster Univ./LSE, M.Sc./Univ. of Toronto, MBA
Brian McCann	20	14	Lehigh Univ./Columbia Univ., MBA/CFA, CPA
Thomas McComb[1]	34	27	VA Tech/Purdue Univ., MS/Univ. of Chicago, MBA/CFA
Courtney Mee	13	10	Princeton Univ./Columbia Univ. MBA/CAIA, Series 3,7, 24 & 63
Ashmi Mehrotra	20	16	Tufts Univ./Series 7 & 63
Patrick Miller	5	5	Northwestern Univ. /Series 3, 7, & 63
Rebecca Mitchem	8	4	Cornell Univ./Series 7 & 63, CFA
Kristopher Nickol[3]	18	12	American Univ./Brooklyn Law, JD
Brian Pantelich	7	1	Penn St. Univ.
Jaclyn Pizzo	11	6	Siena College/ Series 7 & 63, CFA
Robertus Prajogi	21	18	Cornell Univ./Cornell Univ., MS/CFA
Katherine Relle	7	4	Georgetown Univ./LSE, M.Sc./Columbia Univ., MBA
Anthony Roscigno[1]	31	26	Fairleigh Dickinson Univ./Fairleigh Dickinson Univ., MBA
Jonathan Ross	17	3	Duke Univ./ NYU, JD
Mark Sterlacci	14	4	Marist College
John Sweeney	22	9	Siena College/CFA
Kashif Sweet	12	7	Columbia Univ.
David Taplitz	23	18	Univ. of Virginia/New York State, JD
Charles Willis Jr.	20	19	Syracuse Univ./NYU, MS/Columbia Univ., MBA
Amanda Wilson	21	20	Claremont McKenna College/Columbia Univ., MBA
Sandra Zablocki[1]	39	39	Caldwell College

Team highlights:

- Dedicated to the management of the group's private equity funds and separate accounts
- Meaningful and longstanding private equity relationships
  - serving on over 200 boards and advisory boards for funds and direct investments

Team philosophy:

- Built on continuity and experience
- Flat organizational structure
- Interactive consensus-building investment decision making
- Transparent communication and information sharing
- Accountable for investment process, client service and overall business management

1 Includes tenure at both PEG and ATTIMCO 2 Regional Advisor located in New Delhi, India 3 Includes years employed as a consultant to PEG

As of 2/15/2019. There can be no assurance that the professionals currently employed will continue to be employed by JPMAM or that the past success of any such professional serves as an indicator of such professional's future performance.

Broad range of high quality investors

Public organizations/Taft-Hartley

AARP
British Coal Staff Superannuation Scheme
Building Laborers' Local 310 Pension*
Chicago Regional Council of Carpenters Pension Fund*
City of Miami Fire Fighters' and Police Officers' Retirement Trust
City of Omaha Employees' Retirement System
Civilian Employees' Retirement System of the Police Dept. of Kansas City
Commonwealth of Pennsylvania State Employees Retirement
Daytona Beach Police and Fire Retirement System
Denver Public Employees' Retirement System
Fairfax County Uniformed Retirement System
Florida-based Municipal Retirement Plan
Greater Texas IBEW-NECA Annuity Fund*
Indiana Laborers Pension Fund
Iron Workers District Council of Southern Ohio Pension Trust*
Los Angeles County Employees Retirement Association
Miami Fire Fighters' Relief & Pension Fund
Mid America Ironworkers
National Automatic Sprinkler Industry
New Jersey Division of Investment
New York City Employees' Retirement System
New York City Fire Department Pension Fund, Subchapter 2
New York City Police Pension Fund, Subchapter 2
New York State Common Retirement Fund
New York State Teachers' Retirement System
Pipefitters Local No. 636
Police Retirement System of Kansas City
School Employees Retirement System of Ohio
State of Connecticut Retirement Plans & Trust Fund
Teacher Retirement System of Texas
Teachers' Retirement System of the City of New York
Teamsters Benefit Trust
Teamsters Joint Council No. 83 of Virginia Pension Fund
Texas Iron Workers' Pension Plan*
United Benefits Group
Unite Here Retirement Fund
West Palm Beach Police and Fire Retirement System
Western Conference of Teamsters

Insurance organizations

Alfa Life Insurance Company
American Family Mutual Insurance Company
Auto Owners Insurance
Fubon Life Insurance
Mitsui Sumitomo Insurance
Shelter Insurance Employees Retirement Plan
Unum

Corporate organizations

American Electric Power Services Corp
American Express
AT&T Corporation
BAE Systems (British Aerospace)
BASF
Blue Bell Creameries
BP Pension (UK Pension Scheme)
Bridgestone Corporation
Chrysler
Cummins Engine
Dominion Resources
Ecolab
Equifax
Exelon Corporation
Freeport-McMoRan Copper & Gold Inc.
Fortis
Future Value
General Mills*
Goodyear Tire & Rubber Company
Graco
Hormel
Hydro One
Lincoln Electric
Lockheed Martin Corporation
Lyondell Chemical
Macy's
Meiji Yasuda Life
Mosaic Company
National Grid UK Pension Scheme
Pfizer
Rockwell Automation
Royal Bank of Scotland Group
Schneider Electric
SEI
Shiseido
Sony
Sutter Health*
Timken Company
Toshiba America
Virginia Electric & Power Company
Volvo
Xcel Energy

Endowments/Foundations/Charitable organizations

Abilene Christian University
Alcoa Foundation
Bowdoin College*
Canadian Medical Protective Association
Clayton Foundation
Dalhousie University
Ewing Marion Kauffman Foundation*
Fitzwilliam College
Geisinger Health System
Hospice of Palm Beach
Indian Community School of Milwaukee
Kresge Foundation*
North Carolina State University
Northwestern Memorial Hospital*
Palm Beach Atlantic University
Rensselaer Polytechnic Institute*
Shands Teaching Hospital and Clinics
Smithsonian Institute*
Teacher's College, Columbia University
Thomas Jefferson University
Toshiba America Foundation
University of Arizona
University of Chicago
University of Dayton
University of Florida Foundation
University of Pennsylvania
University of the South (Sewanee)
University of South Alabama
University of Wisconsin
US-Japan Foundation
Van Leer Group Foundation
Villanova University
Washington University
The Westminster Schools
The World Bank

Socially responsible/Affiliated organizations

Advocate Health*
Boy Scouts of America
Concordia Plan Services
Dignity Health
Roman Catholic Diocese of Rockville Centre
St Francis Hospital Foundation
The United Methodist Church

*Distribution Management client

The Private Equity Group's client base also includes several Family Offices. The list above is shown for illustrative purposes only. The clients on the above list have been chosen as a representation of the type of clients that invest with the manager. Their inclusion on the list is in no way an endorsement of the advisory services offered by the manager. As of 12/31/2018

Private Equity Group: Client mandate examples

Separate account for California-based public pension plan focused on Emerging Managers

- Client: Public pension plan (TPA of $50bn+) based in California
- Mandate size: Fund I (2010 VY) $150mm, Fund II (2014 VY) $100mm, Fund III (2016 VY) $100mm, Fund IV (2018 VY) $300mm
- Strategy: Separate account portfolio focused on partnership, secondary, and direct investments alongside Emerging Managers

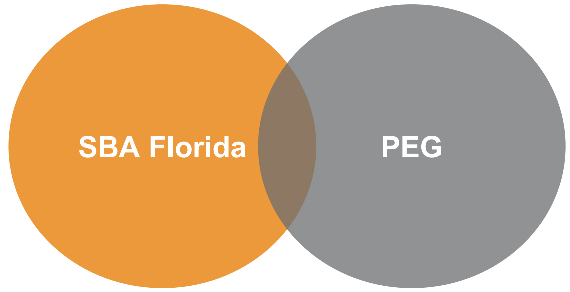
Corporate Finance & direct investment mandate focusing on in-state investments

- Client: Public pension plan (TPA of $130bn+) based in Northeast. Existing advisors include: JPMAM, Stepstone, Fairview, Muller Monroe
- Mandate size: Fund I (2009 VY) $110mm, Fund II (2017 VY) $150mm
- Strategy: Separate account portfolio of in-state funds and direct investments

Venture Capital & Growth Equity mandate

- Client: Public pension plan (TPA of $145bn+) based in Texas. Existing advisors include: JPMAM, BlackRock, Hamilton Lane, Apollo, KKR
- Mandate size: Fund I (2009 VY) $150mm, Fund II (2016 VY) $200mm
- Strategy: Separate account portfolio consisting of venture capital/growth investments

How we envision working with SBA Florida



- Create a return enhancing private equity portfolio
  - Seek to mitigate J-curve
  - Provide economic benefits to Florida
- Partner with SBA to become a “private equity” extension of your investment staff
  - Sourcing, due-diligence and investment recommendations
  - Transparent communication and information sharing (deal memos, global team meetings, etc.)
  - Senior Portfolio Managers made available for real-time perspective on markets, sectors, investments
  - Full administrative servicing (reporting, reconciliations, capital calls, etc.)
  - Commitment modeling and cash flow simulation analysis
  - Management of distributed securities (PEDM)
  - Training and education
- Provide dedicated team focused on client servicing; additionally, SBA Florida will have access to **all deal team Portfolio Managers** to discuss individual investments
- Proactively assist in a myriad of ways to support SBA’s overall alternatives portfolio
  - Can foster SBA’s access to large and opportunistic investments pursued by PEG
  - Act as a sounding board for other potential investments being considered for the broader private equity program

The manager seeks to achieve the stated objectives. There can be no guarantee those objectives will be met.

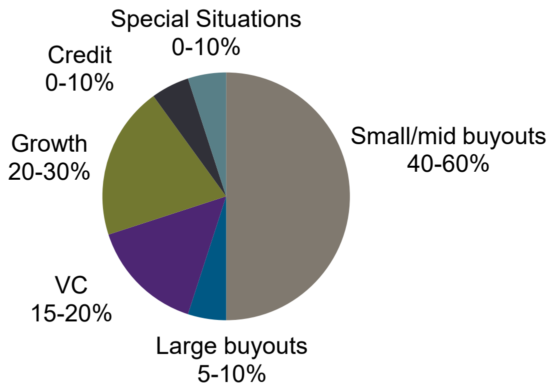
J.P.Morgan
Asset Management

Florida Sunshine State Fund Mandate

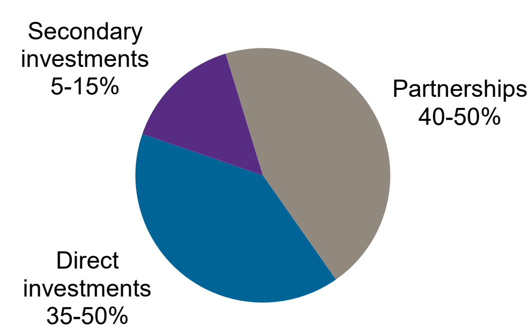
Mandate size: $125 million

- Objective: construct a return-enhancing private equity portfolio focused on technology, growth and buyout in companies with a significant presence in Florida.
- Investment period: 4 years (with the option of one year extension)
- Maximum of 50% of the capital to be committed in any one year of the investment period
- Target ~50% in partnership investments (average bite size of $5 - $15mm) with 8-10 General Partners, single fund exposure limited to 15% of capital committed & General Partner exposure (funds & co-investments) limited to 30% of capital committed
- Target ~50% in direct investments (average bite size of $5 - $10mm) based in Florida, having a significant presence in Florida, or sponsored by a Florida-based manager in the fund
  - Not more than 15% in any single direct co-investment
  - Not more than 30% in credit co-investments
- Not more than 15% in secondary investments

Investment Sector



Investment Type



- Direct & secondary investments are expected to provide return and income enhancement to the portfolio, as well as potential j-curve mitigation
- Target opportunities where we can leverage existing relationships with fund sponsors
- Consider non-traditional deal sources (e.g. strategic family offices, fundless sponsors, JPM’s direct network)

Corporate Finance:

- Focus on small to mid-market and opportunistically larger companies
- Target proven GP teams with sector and strategy focus that can provide an execution and operating advantage
- “Emerging mangers” expected to represent significant component of investments

Venture Capital / Growth:

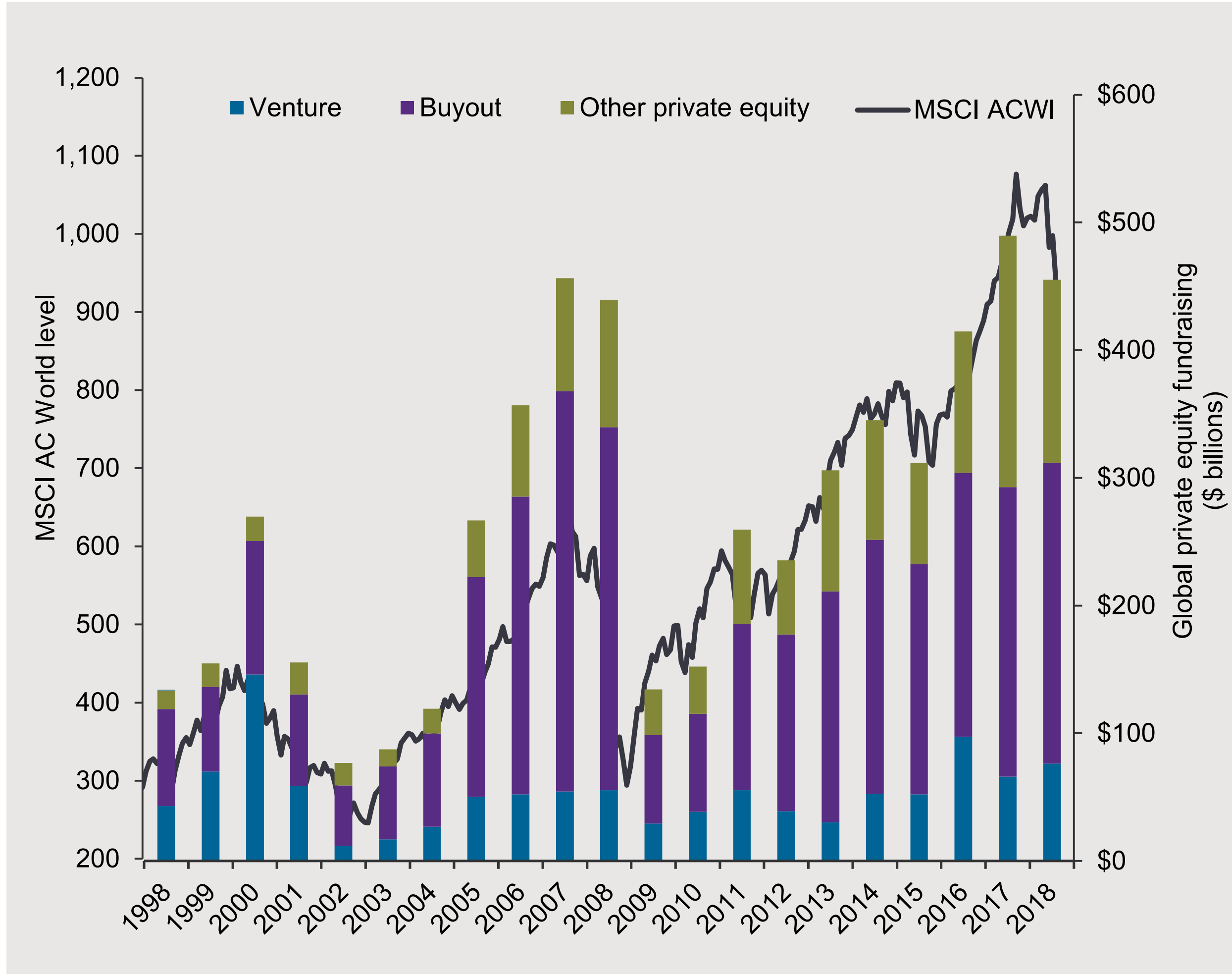
- Focus on areas of innovation
- Target GPs with domain expertise and strong entrepreneurial networks

The manager seeks to achieve the stated objectives. There can be no guarantee those objectives will be met.

J.P.Morgan
Asset Management

The Private Equity Group philosophy

- Bottom-up, opportunistic investment approach seeking the highest conviction ideas
- Be skeptical: assess the unconventional/contrarian perspective with respect to both investment ideas and themes
- Appropriately diversified by stage, sector, geography and vintage year, but without pre-set allocation minimums
- Be aware of market cycles and have a willingness to over- or under-weight sectors or strategies



Source: FactSet, Thomson ONE fundraising global private equity and venture capital, 12/31/2018

J.P.Morgan Asset Management

PEG recent investment and distribution pace

As of December 31, 2018

INVESTMENTS BY VINTAGE YEAR

$ millions	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total: 2008- 2018
Partnerships[1]	1,340	449	624	1,104	679	893	1,066	1,407	607	1,752	1,331	**11,252**
Secondaries[1]	8	724	133	384	64	282	730	6	37	129	73	**2,570**
Directs[1]	75	-	117	1,499	454	332	801	690	613	446	394	**5,421**
Total	**$1,423**	**$1,173**	**$874**	**$2,987**	**$1,197**	**$1,507**	**$2,597**	**$2,103**	**$1,257**	**$2,327**	**$1,798**	**$19,243**

DISTRIBUTIONS BY CALENDAR YEAR

$ millions	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total: 2008- 2018
Partnerships	596	458	958	1,091	1,689	1,702	1,915	2,230	1,815	2,084	2,051	**16,589**
Secondaries	56	62	128	153	329	239	466	441	321	316	174	**2,685**
Directs	88	124	31	144	270	328	3,292	401	395	720	691	**6,484**
Total	**$740**	**$644**	**$1,117**	**$1,388**	**$2,288**	**$2,269**	**$5,673**	**$3,072**	**$2,531**	**$3,120**	**$2,916**	**$25,758**

1 Partnership amounts represent commitments by vintage year. Secondary amounts represent total exposure (NAV + unfunded at the time of purchase) of secondary commitments by calendar year. Direct amounts represent funding by calendar year

Represents all investments for all funds, separate accounts and employee accounts. Includes amounts pending legal close, subject to change.

Past performance is no guarantee of future results.

0903c02a824e8238

Our sourcing generates significant investment opportunities

- Each year we proactively source and review, on average, more than 600 investment opportunities
- We have been very selective in our investment decisions

REPRESENTATIVE DEAL LOG FROM 2008 – 2018

U.S. Corporate Finance	European Corporate Finance	Venture Capital	Asia	Emerging Managers[1]	Secondaries[2]	Direct Investments[2]
1,582 offerings reviewed	843 offerings reviewed	1,316 offerings reviewed	941 offerings reviewed	2,771 offerings reviewed	976 offerings reviewed	1,883 offerings reviewed
807 due diligence	438 due diligence	645 due diligence	452 due diligence	1,441 due diligence		960 due diligence
111 investments	37 investments	109 investments	52 investments	118 investments	62 investments	93 investments

1 Emerging managers are defined as institutional fundraisers I-III

2 Represents Projects, not underlying partnerships, and includes investments pending legal close.

These are examples of the types of investments that may be considered by the PEG and are included solely for illustrative purposes. There can be no assurance as to the type or number of investment opportunities that will be made available to the PEG and, even if available, that such investment opportunities would be selected by the PEG. Time horizon as shown above was chosen for non-performance based reasons.

We are experienced Emerging Manager (EM) investors

As of December 31, 2018

- Invested over $11 billion in emerging investments since inception
- Attractive long term track record
  - 19% IRR and 2.0x for emerging manager investments[1]
  - 16% IRR and 1.8x for women/minority owned investments[1]
- Wide sourcing funnel but highly selective
- Active sourcing through relationships and sponsorship/participation in organizations such as:
  - Association of Asian American Investment Managers
  - Consortium (Plan Sponsor and Minority Manager)
  - National Association of Investment Companies (NAIC)
  - National Association of Securities Professionals (NASP)
  - New America Alliance (NAA)
  - Robert A. Toigo Foundation

EMERGING MANAGER DEAL LOG 2008 – 2018

↓

2,771 OFFERINGS REVIEWED

↓

1,441 DUE DILIGENCE

↓

118 INVESTMENTS

1 Data and performance as of 9/30/2018. Covers the period from 1985 to 2018; includes partnership, secondary and direct investments. Emerging manager investments defined as first, second or third institutional funds or direct investments alongside funds that meet this definition. Women/minority owned investments includes firms owned by women or minorities or with significant women or minority representation. These performance results include the period 1985 through 1997 when members of the Private Equity Group were employed at AT&T Investment Management Corporation (ATTIMCO). Investments were made on behalf of plan participants in defined benefit pension plans managed by ATTIMCO. No representation is being made that past performance results are attributable to J.P. Morgan or that the Private Equity Group at J.P. Morgan will obtain similar returns in the future. In particular, going forward a management fee and incentive fee will be payable to J.P. Morgan that will reduce performance. Performance shown is for the entire portion of the pension plans managed by ATTIMCO and is net of all fees and expenses at the underlying investment level. No portfolio management fee was directly charged to the ATTIMCO private equity portfolio. From 1988 through 1995, Mr. Lawrence Unrein was a member of ATTIMCO's investment committee, responsible for investment objective and strategy. In 1995, Mr. Unrein became the head of the Private Equity Group and was solely responsible for strategy and supervision of investments. In November 1997, Mr. Unrein and substantially all the Private Equity Group joined J.P. Morgan. The Private Equity Group continues to manage, under J.P. Morgan's employ, much of ATTIMCO's private equity portion of the pension plans. Performance is shown net of underlying investment fees and expenses, gross of Advisor fees; if Advisor fees were included, returns would be lower. Past performance is no guarantee of future results.

PEG's exposure to Florida-based companies

From inception through December 31, 2018

- **Over $850 million invested in FL-based companies**

- **Sample list of underlying GPs with FL- based portfolio exposure include:**

  - *Andreessen Horowitz*
  - *Accel Partners*
  - *American Industrial Partners*
  - *Apax Partners*
  - *Atlantic Street Capital*
  - *Baird Capital*
  - *Beecken Petty O'Keefe*
  - *Beekman Investment Partners*
  - *Brynwood Partners*
  - *BVIP*
  - *Centre Lane Partners*
  - *Citigroup Venture Capital*
  - *De Novo Ventures*
  - *Domain Partners*
  - *El Dorado Ventures*
  - *Great Hill Equity Partners*
  - *Greenhill Capital Partners*
  - *Greycroft Partners*
  - *Gridiron Capital*
  - *GTCR*
  - *H.I.G. Capital*
  - *Harbour Group*
  - *Highland Capital*
  - *Intersouth Partners*
  - *InterWest Partners*
  - *KarpReilly*
  - *Kinderhook Capital*
  - *Longworth Venture Partners*
  - *M/C Partners*
  - *Metalmark Capital Partners*
  - *Millpond Equity Partners*
  - *Nautic Partners*
  - *New Enterprise Associates*
  - *New Mountain Capital*
  - *North Bridge Growth Equity*
  - *Palm Beach Capital*
  - *Prospect Partners*
  - *Quad-C Partners*
  - *RLH Investors*
  - *Sanderling Venture Partners*
  - *Silverhawk Capital Partners*
  - *Sterling Capital Partners*
  - *Sofinnova Partners*
  - *Summit Partners*
  - *TA Associates*
  - *Venrock Associates*
  - *Warren Equity Partners*

Source: PEG
The logos presented are registered trademarks of their respective companies.

PEG FL-based direct investments

Magic Leap

OVERVIEW

- **Plantation, FL**
- Augmented Reality ("AR") company, focused on developing leading-edge photonics equipment, enabling virtual content to integrate seamlessly with real world objects in a human's field of vision
- The potential market for AR is very large – industry observers project the market could be as large as $150bn in the next several years
- Highly disruptive to existing modes of interaction between humans and computers

WeWork

OVERVIEW

- **Miami, FL (5 offices)**
- WeWork transforms spaces into dynamic environments for creativity, focus and connection
- WeWork leverages its core competencies in real estate procurement and design, technology, and community services to offer collaborative spaces and services for companies of any size
- WeWork membership base has more than doubled YoY to over 400,000 members

Liberty Medical

OVERVIEW

- **Port St. Lucie, FL**
- Co-investment with Palm Beach Capital
- Liberty Medical is the market leader in the "direct to consumer" distribution of diabetic supplies (e.g., glucose meters, test strips, insulin pumps) as well as other medical supplies including CPAP masks, catheters, and ostomy supplies

BenefitMall / CompuPay

OVERVIEW

- **Miramar, FL**
- Simultaneous acquisition and merger of two leading private companies in the benefits/payroll processing sector (BenefitMall and CompuPay)
- High recurring revenues and strong cash flow characteristics
- Benefit from organic growth of the business and from economic uplift (i.e. increase in employment or interest rates)

REV Group

OVERVIEW

- **Ocala, FL**
- American manufacturer of specialty vehicles the in Fire & Emergency, Recreational Vehicles, and Bus & Industrial sectors.
- Currently operates 27 vehicle brands
- Company has manufactured more than 250,000 vehicles in service today

Orlando, FL location:

- 130,000 square feet
- 3 production lines
- Complete chassis modification
- In-house paint facility
- Harness department
- Vacuum forming

Ocala, FL location:

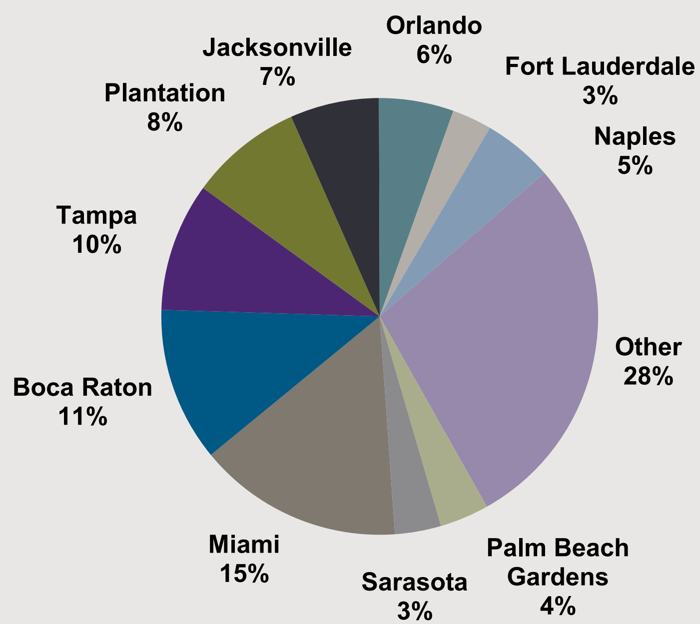
- 56 Acre Campus with 4 manufacturing buildings
- On-site testing – pump, tilt table, aerial stability on both flat ground and a five degree slope, weight scales, waterway flow, bumper turret under truck nozzle spray, others

These examples are included solely to illustrate strategies which have been utilized by PEG. It is expected that the portfolio will include a larger number of investments than the example set forth. There can be no guarantee or assurance that the portfolio will be able to make similar investments on similar terms in the future. Not all investments have had or will have similar results.

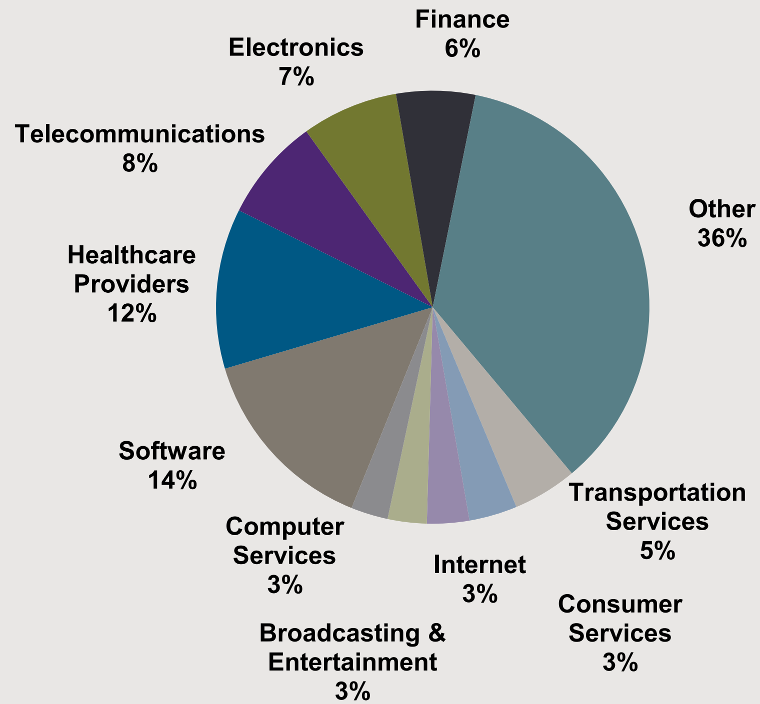
PEG's exposure to Florida-based companies by city and industry

From inception through September 30, 2018

PEG's Florida exposure by city ($)



PEG's Florida exposure by sector ($)

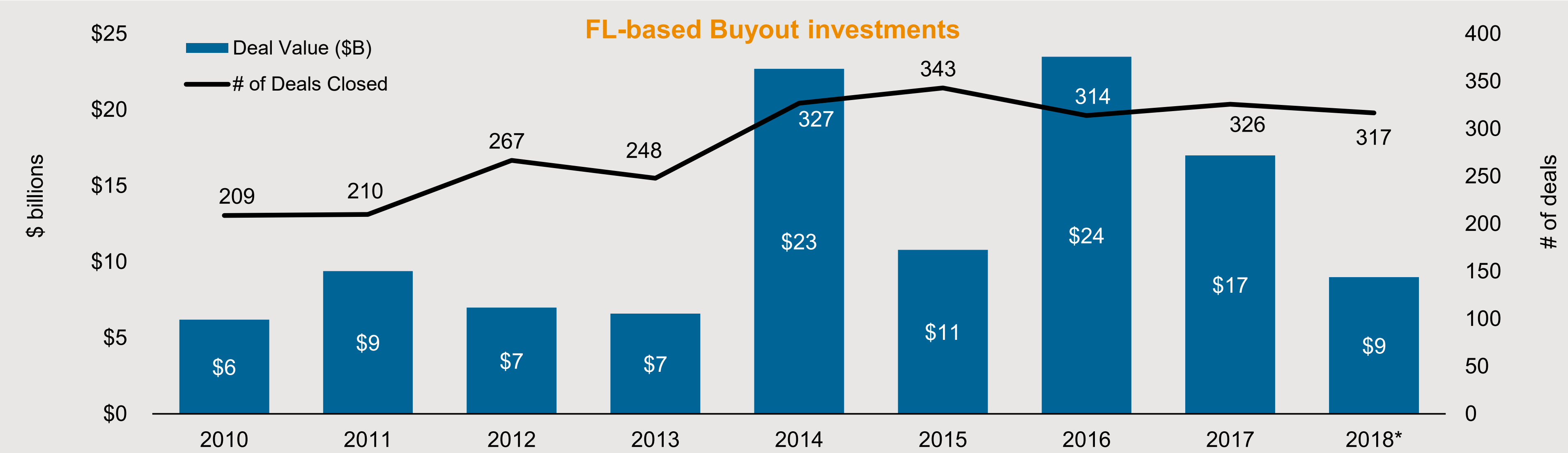


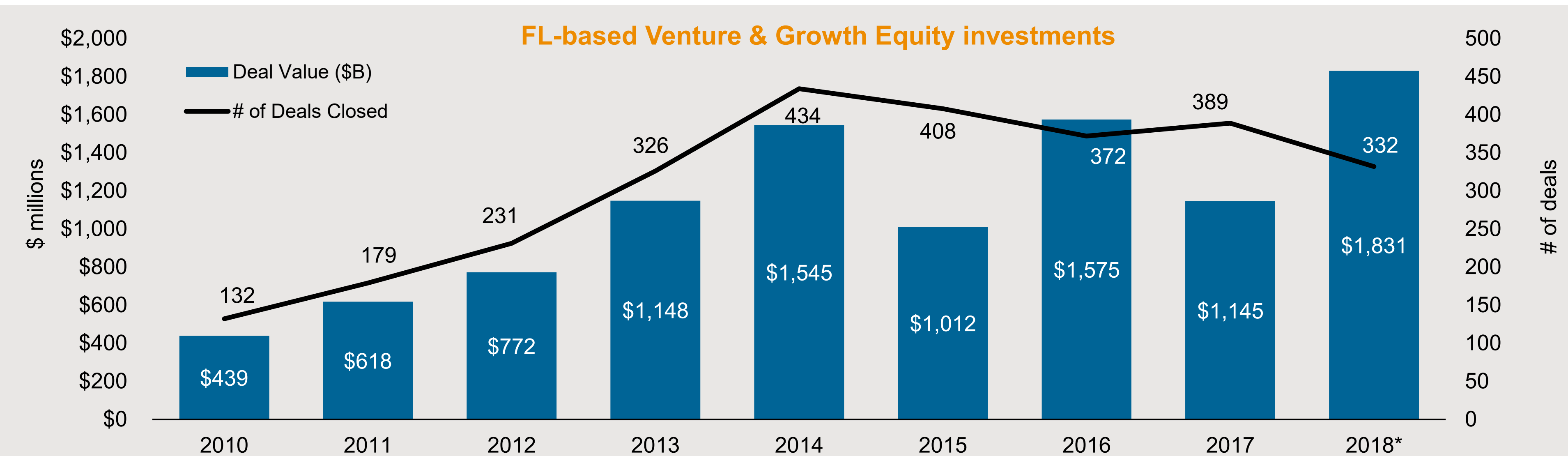
Source: PEG

J.P.Morgan
Asset Management

Appendix

Florida-based deal activity





Source: PitchBook as of 12/31/2018

PEG's exposure to Florida-based companies: summary by city and industry

From inception through September 30, 2018

Largest cities by investment	Invested amount ($)	Largest cities by investment	Invested amount ($)
Miami	128,818,300	Pembroke Pines	2,869,307
Boca Raton	96,502,753	Titusville	2,792,529
Tampa	80,795,279	Gainesville	2,561,152
Plantation	71,571,997	Coral Gables	2,524,713
Jacksonville	56,634,858	Hollywood	2,215,273
Orlando	46,771,750	Ponte Vedra Beach	2,086,531
Naples	44,045,319	Ocala	2,006,839
Palm Beach Gardens	31,631,617	Miramar Beach	1,699,998
Sarasota	29,203,261	Weston	1,688,043
Fort Lauderdale	25,168,634	Heathrow	1,683,000
Clearwater	18,601,073	Belle Glade	1,234,809
Fort Myers	15,480,831	Margate	1,181,828
Fernandina Beach	13,411,451	**Total**	**850,490,015**
Miramar	12,043,655		
Sunrise	11,679,511		
Lake Mary	10,060,779		
Estero	10,000,000		
Miami Lakes	9,391,940		
Tallahassee	8,984,280		
Saint Petersburg	8,286,078		
Other	7,887,929		
Winter Park	7,458,358		
Bunnell	7,174,577		
Alachua	6,834,749		
Port Saint Lucie	6,611,760		
Delray Beach	5,937,505		
Lake Worth	5,337,156		
Pompano Beach	5,050,179		
West Palm Beach	5,036,609		
Coconut Grove	4,642,324		
Casselberry	4,115,652		
Sanford	4,100,655		
Altamonte Springs	4,037,422		
Melbourne	3,639,294		
Cooper City	3,413,635		
Largo	3,293,341		
Maitland	3,260,726		
Pensacola	3,090,377		
Bonita Springs	3,011,352		
Ocoee	2,929,025		

Largest industries by investment	Invested Amount ($)	Largest industries by investment	Invested Amount ($)
Software	121,698,944	Consumer Finance	3,185,589
Health Care Providers	101,710,796	Chemicals	3,129,661
Mobile Telecommunications	65,541,298	Aerospace	3,103,939
Electronic & Electrical Equipment	61,187,885	Industrial Machinery	3,045,859
Specialty Finance	50,145,400	Furnishings	2,979,768
Transportation Services	40,665,315	Automobiles & Parts	2,668,702
Specialized Consumer Services	30,583,402	Industrial Goods & Services	2,648,593
Internet	26,759,609	Telecommunications	2,471,896
Broadcasting & Entertainment	24,780,902	Semiconductors	2,442,048
Fixed Line Telecommunications	23,519,050	Health Care Equipment & Services	1,978,140
Computer Services	21,374,095	Personal Goods	1,872,902
Business Support Services	16,162,396	Information Services	1,634,245
Building Materials & Fixtures	14,582,791	**Total**	**850,490,015**
Medical Supplies	13,765,459		
Apparel Retailers	13,411,451		
Home Construction	13,312,039		
Media Agencies	12,075,691		
Other	12,031,696		
Specialty Retailers	11,902,365		
Food Products	11,580,157		
Medical Equipment	11,431,588		
Delivery Services	10,008,315		
Electronic Equipment	9,479,943		
Recreational Services	8,567,479		
Industrial Suppliers	8,079,618		
Insurance Brokers	7,814,434		
Restaurants & Bars	7,486,194		
Drug Retailers	6,456,159		
Oil Equipment & Services	6,359,358		
General Retailers	6,322,707		
Biotechnology	5,991,180		
Telecommunications Equipment	5,980,350		
Defense	5,804,413		
Property & Casualty Insurance	5,714,195		
Banks	5,177,760		
Publishing	5,025,038		
Pharmaceuticals	4,860,029		
Financial Administration	4,307,824		
Food Retailers & Wholesalers	4,045,438		
Electrical Components & Equipment	3,625,911		

Source: PEG
*Other represents cities and industries that make up less than $1mm in investment amount. Exposure only includes commingled fund exposure.

J.P.Morgan
Asset Management

Selected risks and disclaimers

The following considerations, which summarize some, but not all, of the risks of an investment in the Fund, should be carefully evaluated before making an investment in the Fund. The information set forth under “Risk Factors” and “Potential Conflicts of Interest” in the Private Placement Memorandum of the Fund must be reviewed in its entirety prior to making a decision to invest in the Fund.

General. An investment in a Private Equity Fund involves a high degree of risk as a result of both (i) the types of investments expected to be made by the Fund and by the pooled investment vehicles in which the Fund will invest and (ii) the structure of the Fund and the pooled investment vehicles. There can be no assurance that the investment objectives of the Fund will be achieved or that there will be any return of capital to investors.

Risks of private equity investments. The venture capital companies in which the Fund will seek to invest may be in a conceptual or early stage of development, may not have a proven operating history and may have products that are not yet developed or ready to be marketed or that have no established market. Investments made in connection with acquisition transactions are subject to a variety of special risks, including the risk that the acquiring company has paid too much for the acquired business, the risk of unforeseen liabilities, the risks associated with new or unproven management or new business strategies and the risk that the acquired business will not be successfully integrated with existing businesses or produce the expected synergies.

Illiquidity of private equity investments. The pooled vehicles in which the Fund will invest are highly illiquid, long-term investments. The Fund will be limited in its ability to transfer its interests in, or to withdraw from, such pooled vehicles.

New and emerging managers. The Fund intends to invest its assets with emerging managers. Investments with such sponsors may involve greater risks than are generally associated with investments with more established sponsors. Less established sponsors tend to have fewer resources (including capital and employees) and, therefore, are often more vulnerable to financial failure. Such sponsors may also experience start-up or growth related difficulties that are not faced by established sponsors. Furthermore, assessing the integrity of sponsors with limited experience may necessarily be based on less background information than would be the case with more experienced sponsors. The general risks involved in investing in pooled vehicles may be accentuated in a pooled vehicle with a partnership sponsor that has been established relatively recently.

An Internal Rate of Return – also sometimes called an Asset Weighted Return – measures the performance of a portfolio or investment between two dates, taking into account the amount of capital invested during each time period. An Internal Rate of Return calculation gives greater weight to those time periods where more capital was invested, and takes into account not only the size of cash flows, but also the length of time that each cash flow affected the portfolio. Essentially, an Internal Rate of Return answers the question, “if all the capital had been invested in a money market account instead (but the same contributions and withdrawals were made), what interest rate would have resulted in the same ending value?” These calculations are used where the timing and size of cash flows are important to the validity of the results, for example, when reviewing the returns on individual investment positions. Internal Rates of Return are also used to compute an unleveraged return in order to illustrate the impact of leverage on performance.

The Target Return has been established by J.P. Morgan Investment Management Inc. “J.P. Morgan” based on its assumptions and calculations using data available to it and in light of current market conditions and available investment opportunities and is subject to the risks set forth herein and to be set forth more fully in the Memorandum. The target returns are for illustrative purposes only and are subject to significant limitations. An investor should not expect to achieve actual returns similar to the target returns shown above. Because of the inherent limitations of the target returns, potential investors should not rely on them when making a decision on whether or not to invest in the strategy. The target returns cannot account for the impact that economic, market, and other factors may have on the implementation of an actual investment program. Unlike actual performance, the target returns do not reflect actual trading, liquidity constraints, fees, expenses, and other factors that could impact the future returns of the strategy. The manager’s ability to achieve the target returns is subject to risk factors over which the manager may have no or limited control. There can be no assurance that the Fund will achieve its investment objective, the Target Return or any other objectives. The return achieved may be more or less than the Target Return. The data supporting the Target Return is on file with J.P. Morgan and is available for inspection upon request.

Disclosures

NOT FOR RETAIL DISTRIBUTION: This communication has been prepared exclusively for institutional/wholesale/professional clients and qualified investors only as defined by local laws and regulations.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be recommendation for any specific investment product, strategy, plan feature or other purposes. By receiving this communication you agree with the intended purpose described above. Any examples used in this material are generic, hypothetical and for illustration purposes only. None of J.P. Morgan Asset Management, its affiliates or representatives is suggesting that the recipient or any other person take a specific course of action or any action at all. Communications such as this are not impartial and are provided in connection with the advertising and marketing of products and services. Prior to making any investment or financial decisions, an investor should seek individualized advice from a personal financial, legal, tax and other professional advisors that take into account all of the particular facts and circumstances of an investor's own situation.

Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are those of JPMorgan Asset Management, unless otherwise stated, as of the date of issuance. They are considered to be reliable at the time of writing, but no warranty as to the accuracy, and reliability or completeness in respect of any error or omission is accepted. They may be subject to change without reference or notification to you.

Investments in "Alternative Investment Funds (AIF's) involves a high degree of risks, including the possible loss of the original amount invested. The value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements. Changes in exchange rates may have an adverse effect on the value, price or income of the product(s) or underlying investment. Both past performance and yield may not be a reliable guide to future performance. There is no guarantee that any forecast will come to past.

Any investment decision should be based solely on the basis of any applicable local offering documents such as the Prospectus, annual report, semi-annual report, private placement or offering memorandum. For further information, any questions and for copies of the offering material you can contact your usual J.P. Morgan Asset Management representative.

Any reproduction, retransmission, dissemination or other unauthorised use of this document or the information contained herein by any person or entity without the express prior written consent of J.P. Morgan Asset Management is strictly prohibited.

In the United Kingdom, the Fund(s) are categorized as a Non-Mainstream Polled Investment as defined by the Financial Conduct Authority (FCA). The Fund is not available to the general public and may only be promoted in the UK to limited categories of persons pursuant to the exemption to Section 238 of the Financial Services and Markets Act 2000 (FSMA 2000). This information is only directed to persons believed by JPMorgan Asset Management (UK) Limited to be an eligible counterparty or a professional client as defined by the FCA. Persons who do not have professional experience in matters relating to investments should not rely on it and any other person should not act on such information.

Investors should note that there is no right to cancel an agreement to purchase shares under the Rules of the Financial Conduct Authority and that the normal protections provided by the UK regulatory system do not apply and compensation under the Financial Services Compensation Scheme is not available.

J.P.Morgan Asset Management and/or any of its affiliates and employees may hold positions or act as a market maker in the financial instruments of any issuer discussed herein or act as the underwriter, placement agent or lender to such issuer. The investments and strategies discussed herein may not be suitable for all investors and may not be authorized or its offering may be restricted in your jurisdiction, it is the responsibility of every reader to satisfy himself as to the full observance of the laws and regulations of the relevant jurisdictions. Prior to any application investors are advised to take all necessary legal, regulatory and tax advice on the consequences of an investment in the product(s).

Private Equity: Private Equity Funds invest exclusively or almost entirely in financial instruments issued by companies that are not listed (or that take-over publicly listed companies with a view to delisting them). Investment in private equity funds is typically by way of commitment (i.e. whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make private equity investments). Interest in an underling private equity fund will consist primarily of capital commitments to, and investments in private equity strategies and activities which involve a high level of risk and uncertainty. Except for certain secondary funds, private equity funds will have no operating history upon which to evaluate their likely performance. Historical performance of private equity funds is not a guarantee or prediction of their future performance. Investments in Private Equity are often illiquid and investors seeking to redeem their holdings can experience significant delays and fluctuations in value.

Securities products, if presented in the U.S., are offered by J.P. Morgan Institutional Investments, Inc., member FINRA.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA.; and J.P. Morgan Investment Management Inc., which is regulated by the Securities and Exchange Commission.

State Board of Administration

Real Estate Asset Class Review

Steve Spook, Senior Investment Officer-Real Estate

Lynne Gray, Senior Portfolio Manager-Principal Investments

Michael Fogliano, Senior Portfolio Manager-Externally Managed Investments

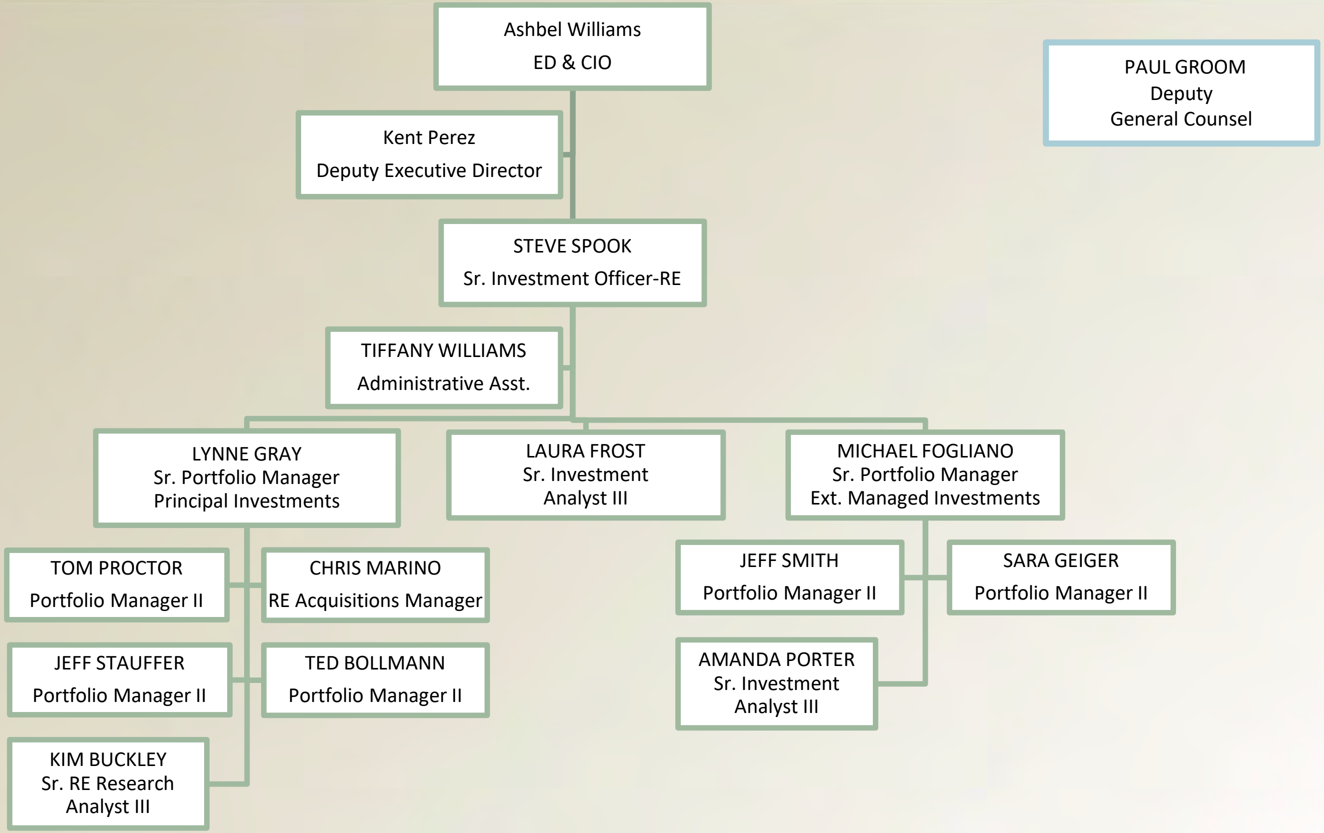
Investment Advisory Council Meeting

March 26, 2019

SBA FLORIDA

STATE BOARD OF ADMINISTRATION

Organizational Chart



Governance

- Executive Director & CIO (ED & CIO)
  - Delegated authority by Trustees to manage the investment of Florida Retirement System assets.
  - Approves Real Estate Annual Investment Work Plan.
  - Approves all new investment managers, direct owned acquisitions/dispositions/financings, new commingled fund investments, investment manager agreements, and joint ventures.
- Deputy Executive Director (DED)
  - Provides guidance and input for above Real Estate activities.
  - Concurrence required prior to submission to ED & CIO.
- Senior Investment Officer-Real Estate (SIO-RE)
  - Delegated authority by ED & CIO to effectuate the preceding and perform ownership responsibilities.

Real Estate Consultant

- Real Estate Consultant
  - Prepares quarterly and annual performance reports
  - Investment provider monitoring and annual review
  - Fund due diligence
  - Research
  - Ad hoc projects

Real Estate Benchmark

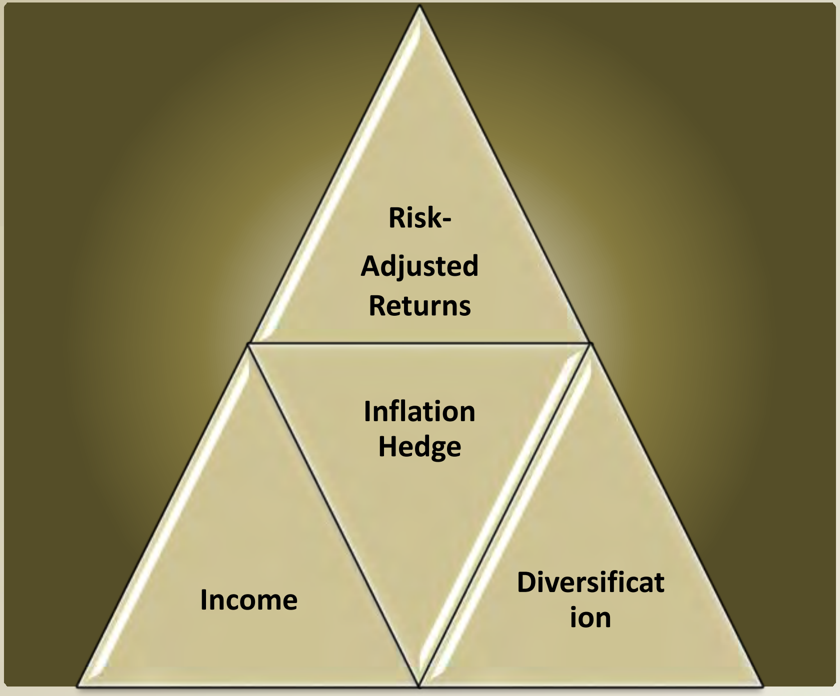
$$\underbrace{(76.5\%\ \text{NFI-ODCE*})}_{\text{Core}} + \underbrace{[13.5\%\ (\text{NFI-ODCE} + 150\ \text{bps})]}_{\text{Non-Core}} + \underbrace{(10\%\ \text{REIT Index**})}_{\text{Public}}$$

(Net of fees)

* (NFI) National Council of Real Estate Investment Fiduciaries Fund Index, (ODCE) Open-end Diversified Core Equity

** (REIT Index) Financial Times Stock Exchange, European Public Real Estate Association, National Association of Real Estate Investment Trusts

Strategic Role of Real Estate



- Designed to provide:
  - Attractive risk adjusted returns
  - Diversification for total fund with low correlation to equities
  - Income focus
  - Inflation hedge

Broad Strategies

PRIVATE REAL ESTATE

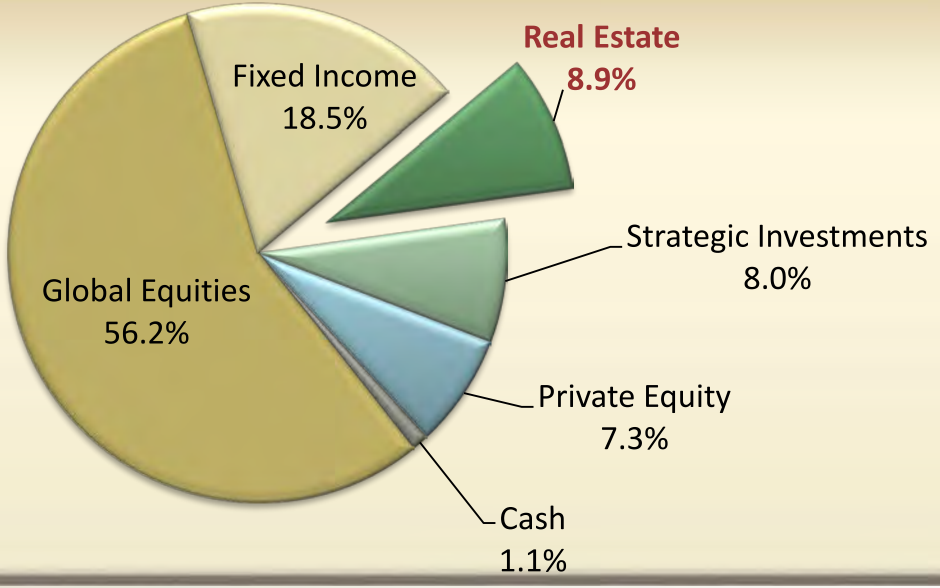
84% Core (Strategic)	16% Non-Core (Tactical)

• Income focused
• Institutional quality
• Stabilized (high occupancy)
• Low immediate capital needs
• Low leverage (less than 50%)
• Domestic
	• Most return from appreciation
	• More value (creation) to include:
	    • Lease-up
	    • Development
	    • Redevelopment
	    • Repositioning
	    • Recapitalization
	• Higher leverage
	• Includes International

Real Estate Portfolio

FRS Pension Plan

As of 9/30/2018



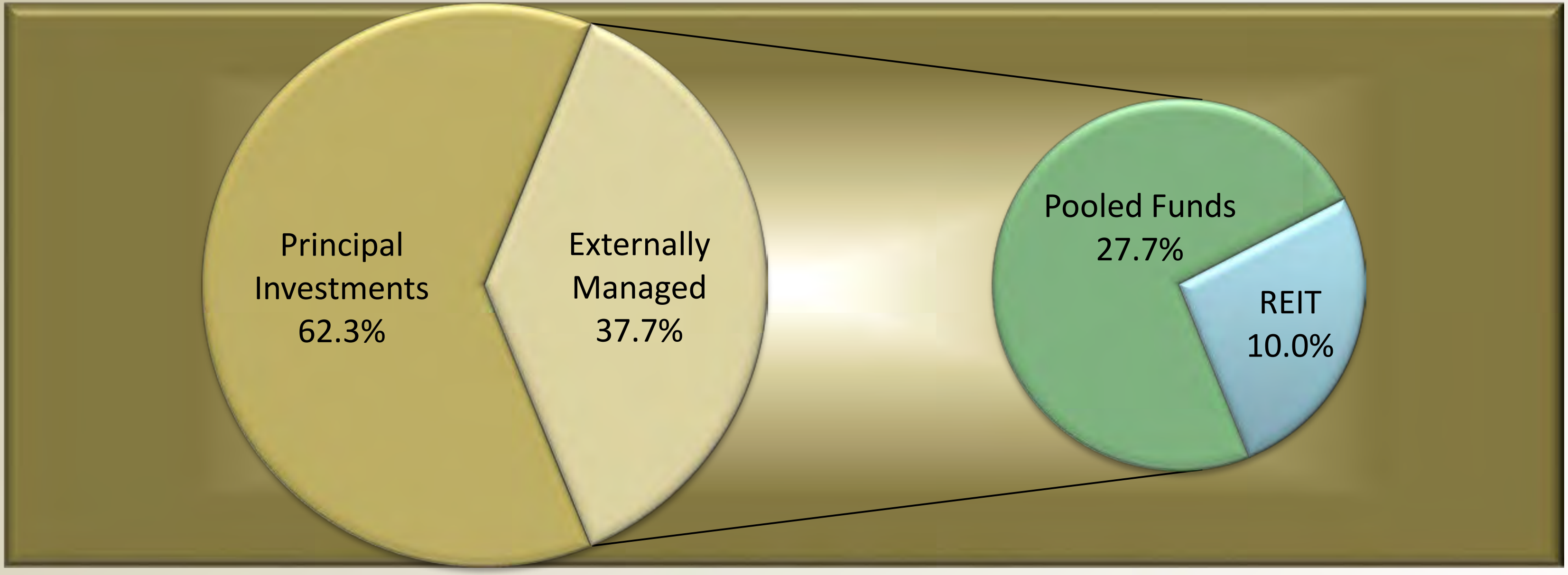
TOTAL FRS
$163,236,426,046

Source: 9/30/2018 SBA IBP Report

Real Estate Portfolio

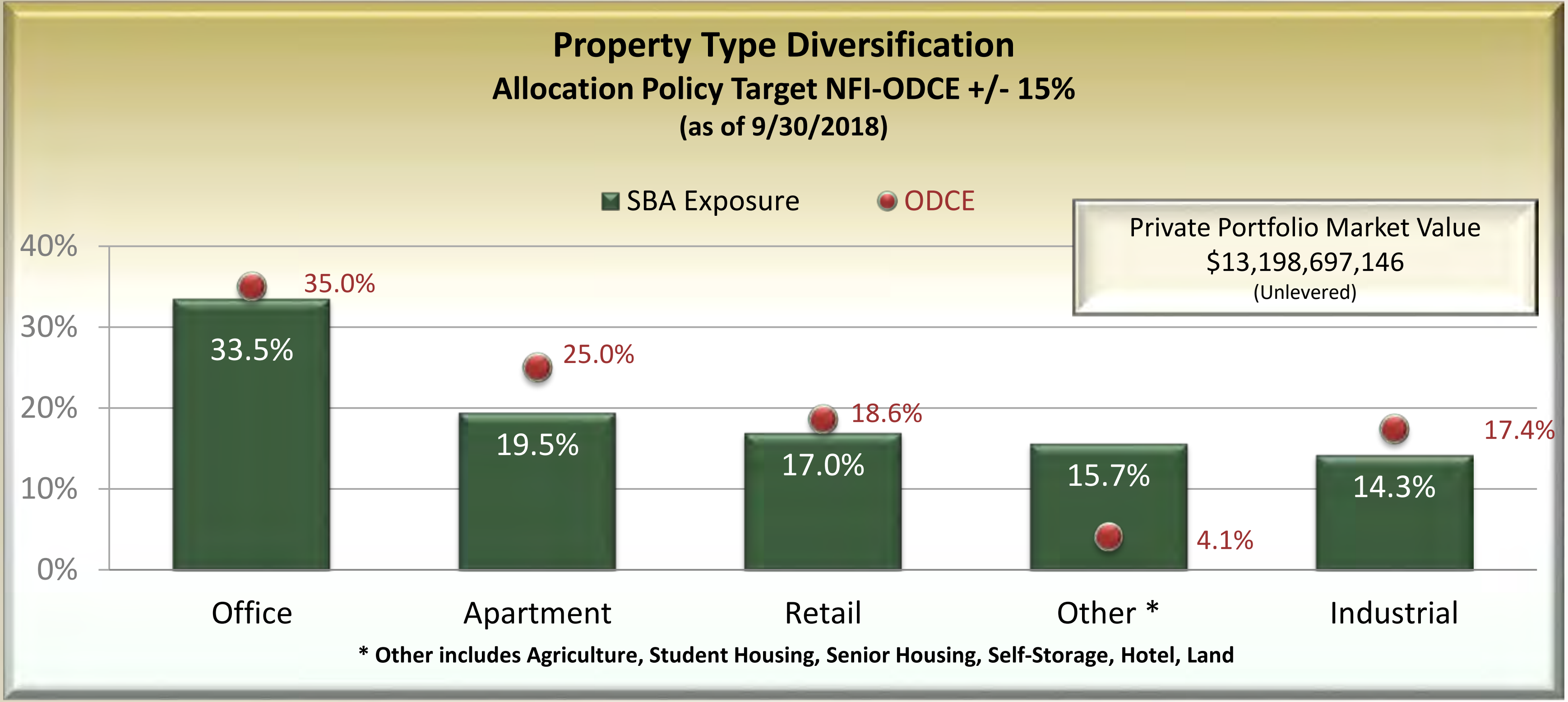
(as of 9/30/2018)

Real Estate Market Value
$14,660,529,021

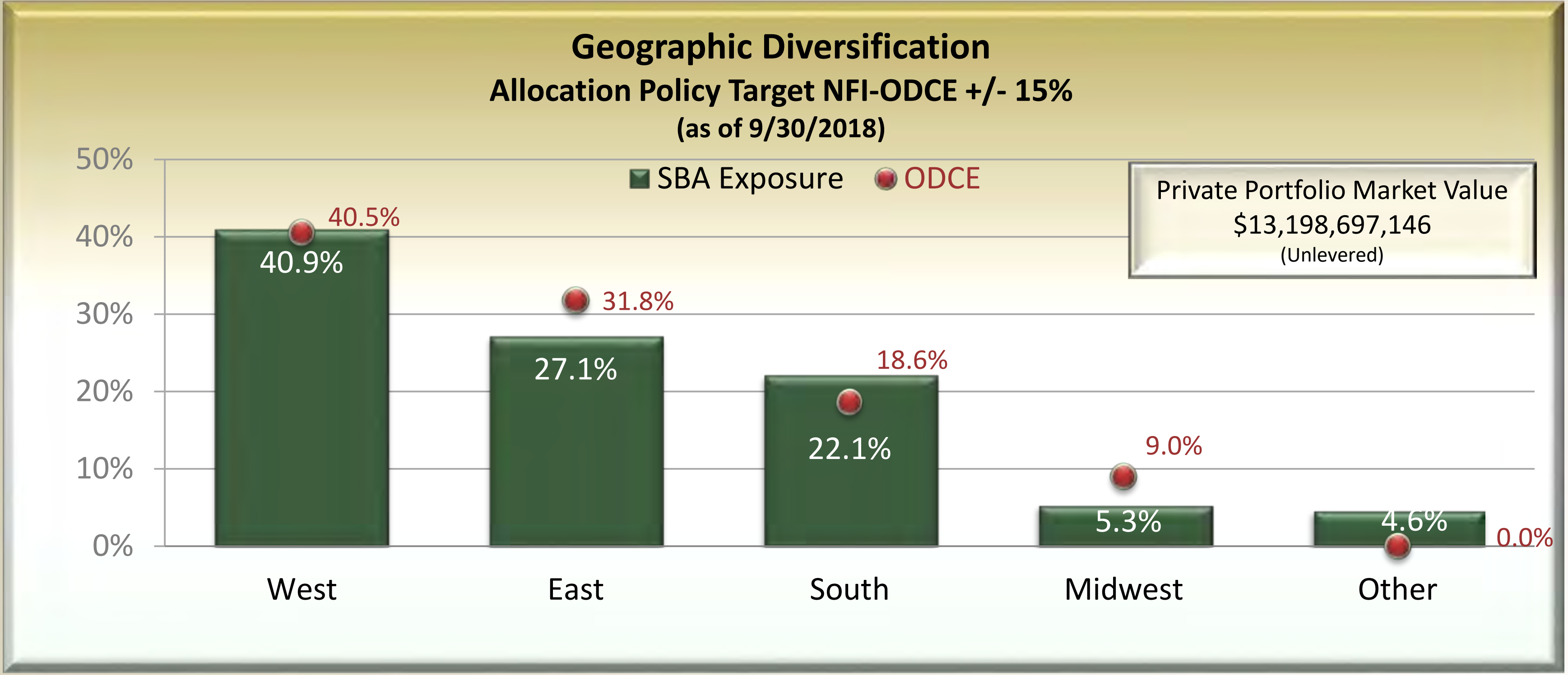


Source: 3Q2018 Townsend Performance Report

Private Market Portfolio



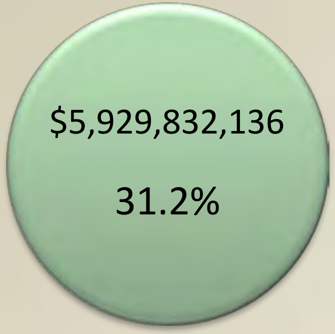
Private Market Portfolio



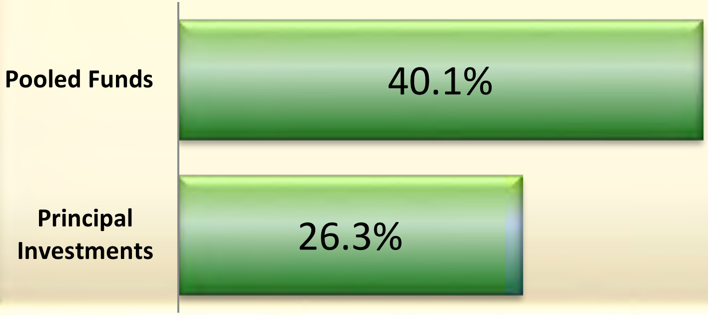
Private Market Leverage as of 9/30/2018

Private Portfolio
Levered Market Value $18,995 M

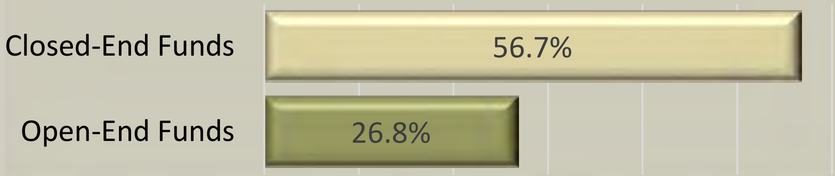
Private Market Leverage



Private Market Portfolio Leverage



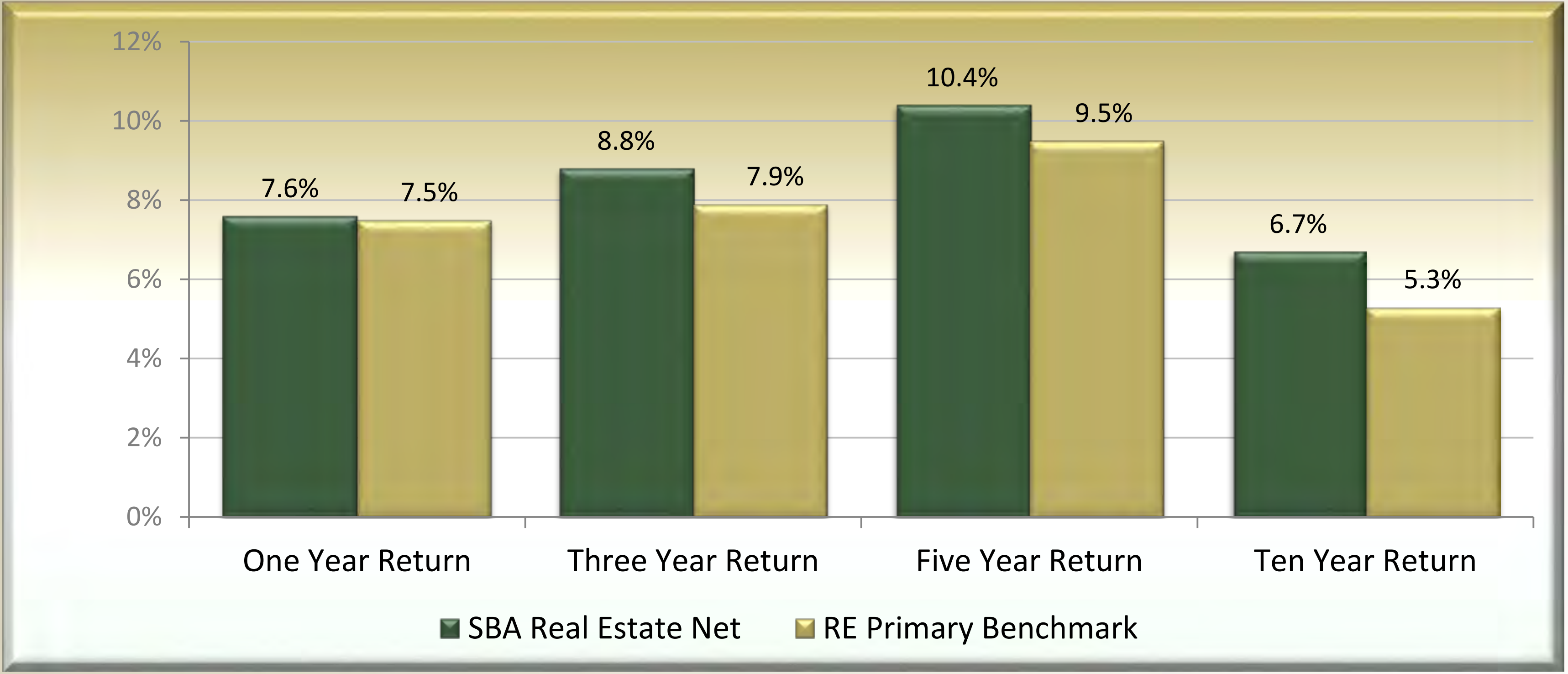
Pooled Funds Leverage



Investment Portfolio Guidelines:
Private Market Portfolio Leverage Limited To 40% LTV.

Real Estate Returns

Data Through September 30, 2018



2018 Activities

Principal Investments Activity

Acquisitions

- $388 million equity in office
- $21 million equity in self-storage
- $125 million equity in multifamily developments
- $77 million equity in retail re-development
- $174 million equity in student housing
- $84 million equity in senior housing partner buyout
- $4 million equity in agriculture

Dispositions

- $31 million equity from industrial
- $2 million equity from self-storage
- $89 million equity from senior housing portfolio
- $169 million equity from medical office portfolio

Financing

- $801 million in loan activity (acquisitions and existing assets) across twenty properties

2018 Activities

Externally Managed Portfolio Activity

Commitments

- $100 million commitment to a Pan Asia value add fund
- $75 million to a US focused secondaries fund
- €75 million to a European opportunistic fund
- $100 million to a European value add/opportunistic fund
- $100 million to a global opportunistic fund

Redemptions

- $194 million from a US core open-end fund (received $105 million to date)

Real Estate Principal Investments Portfolio

Lynne Gray
Senior Portfolio Manager

Principal Investments Portfolio

Objective

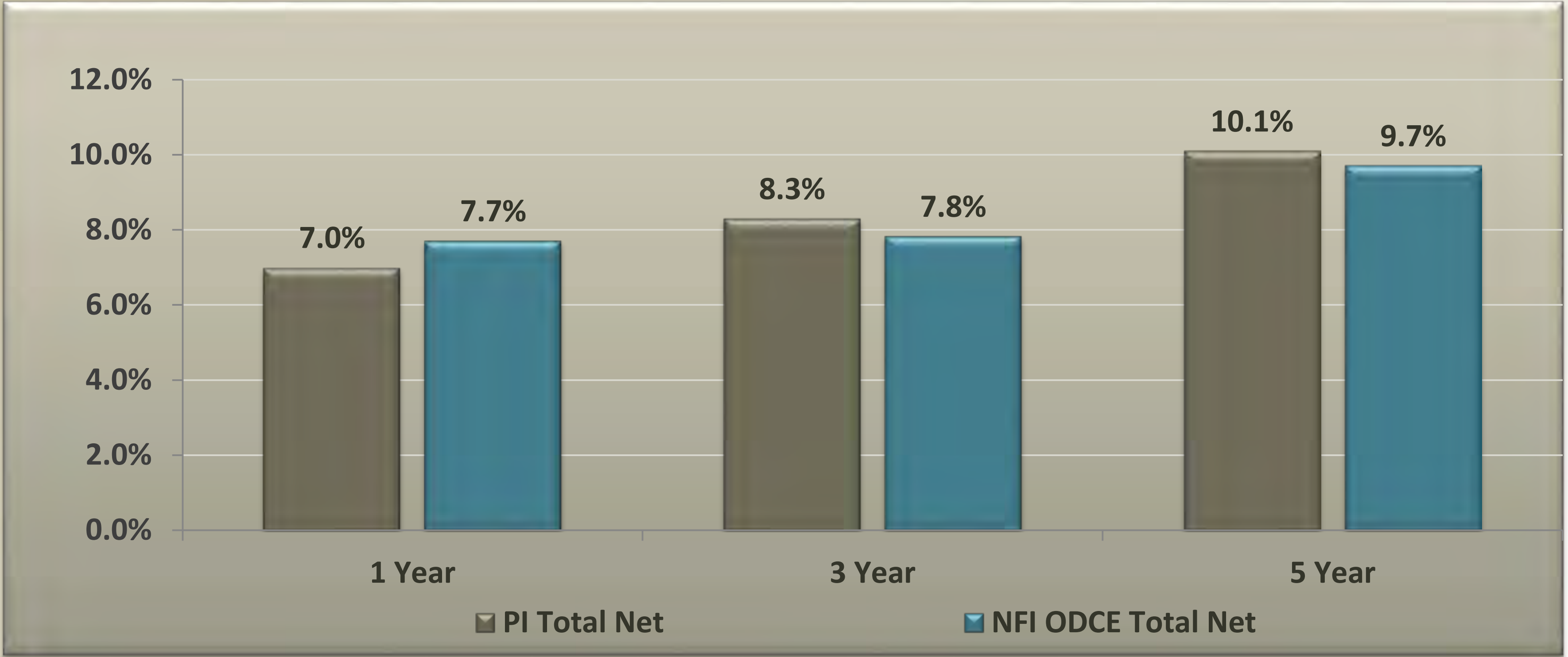
Provide returns that, with an acceptable level of risk, meet or exceed the National Council of Real Estate Investments Fiduciaries Fund Index – Open End Diversified Core Equity (NFI-ODCE).

Investments

Primarily high quality, well-located, stable real estate properties: Apartment, Office, Industrial, Retail and Specialty Sector. The specialty sector includes Agriculture, Student Housing, Senior Housing, and Self Storage.

Non-core strategies, such as development, are permitted.

Principal Investments Portfolio



Data through 09/30/18

Investment Portfolio Guidelines

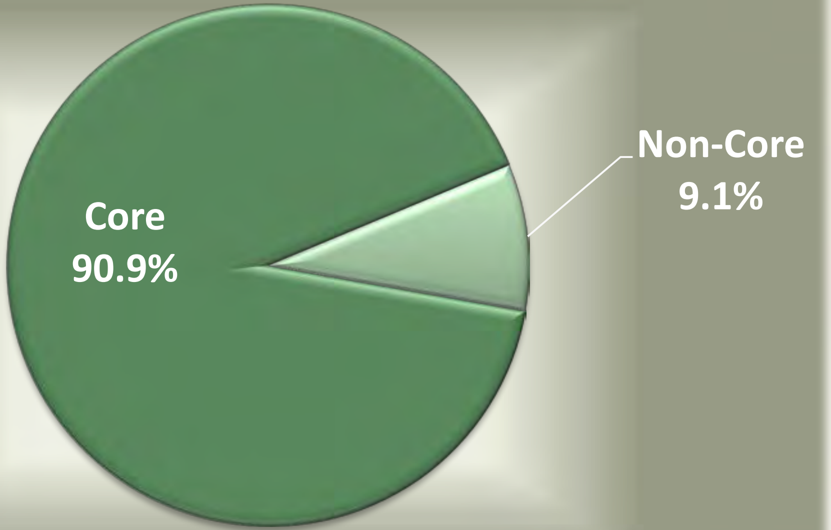
Guidelines for Managing and Monitoring

Portfolio-Level and Asset-Level Risk

- **Risk Profile**
- **Sector**
- **Geography**
- **Leverage**
- **Investment Manager**
- **Single Investment**

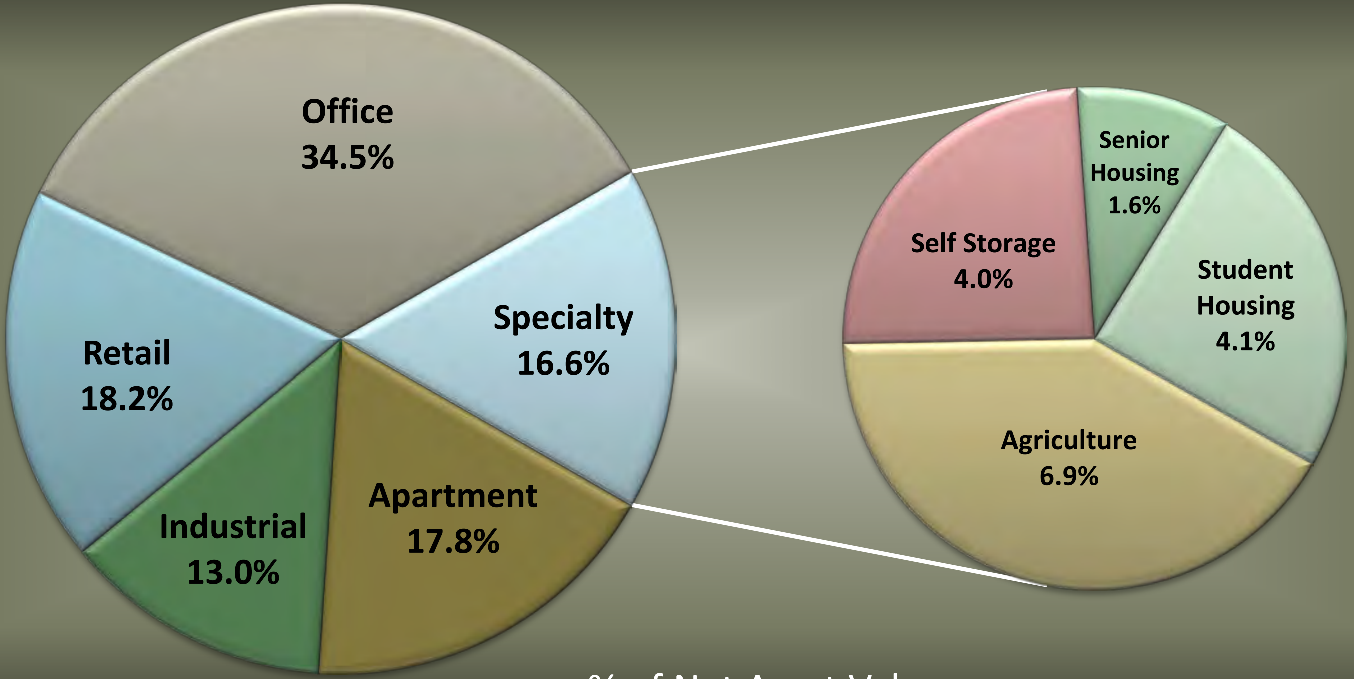
Risk Profile

NAV $9.1 billion as of 09/30/18



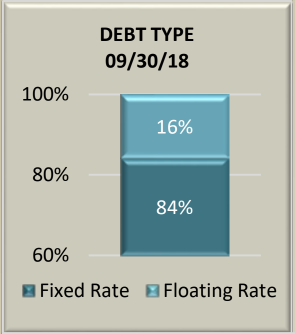
Investment Portfolio Guidelines		
	Target	**Range**
Core	92.5%	85% - 100%
Non-Core	7.5%	0% - 15%

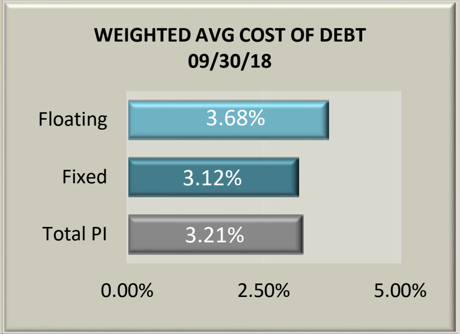
Sector Diversification

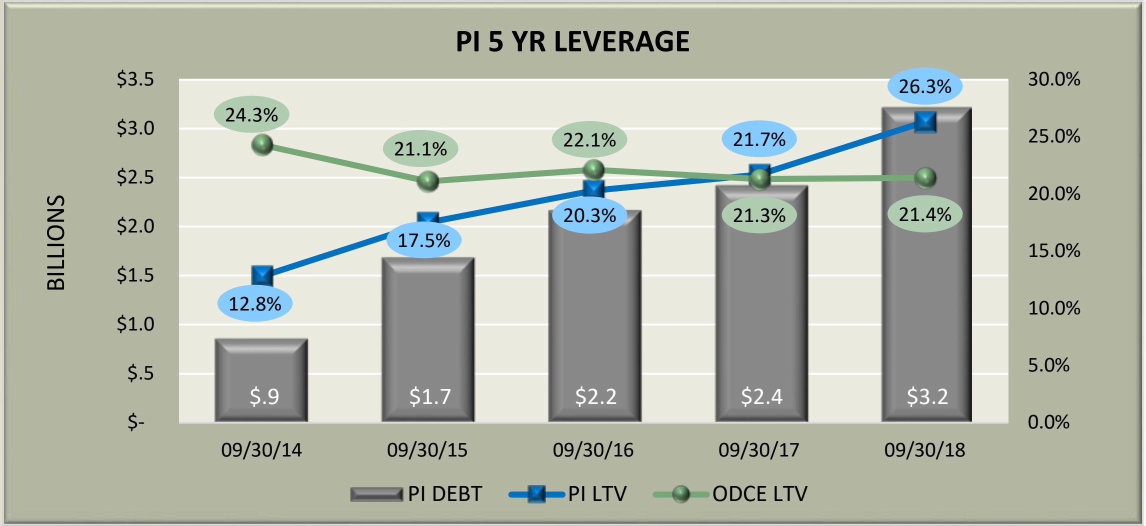


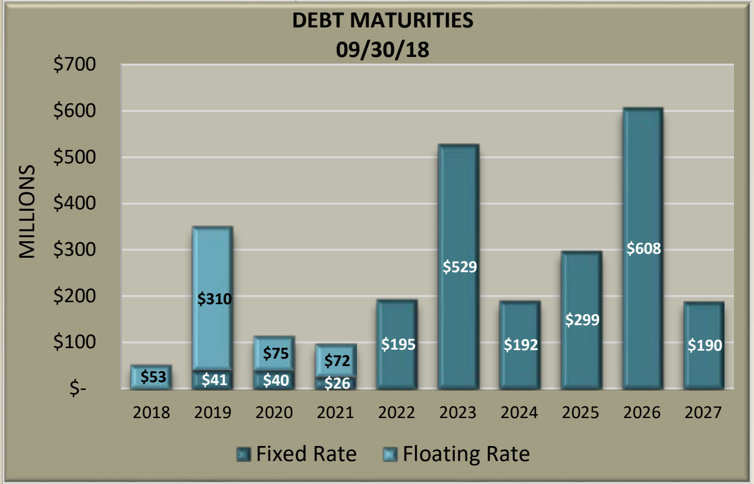
% of Net Asset Value

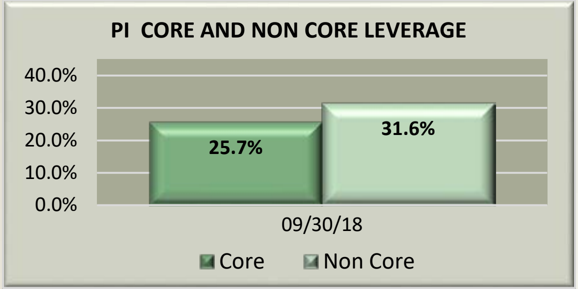
Principal Investments Leverage







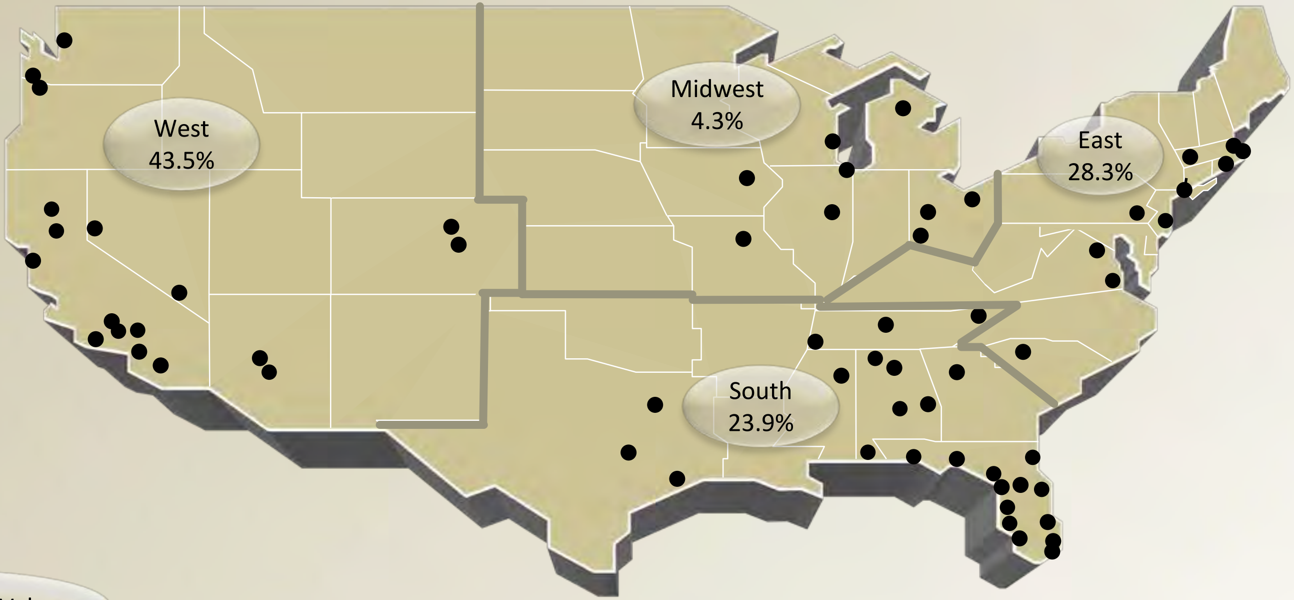




Investment Portfolio Guidelines

- Portfolio Leverage limited to 30% Loan To Value (LTV)
- Individual Asset Level limited to 50% LTV
- JV Individual Asset limited to 70% LTV
- Nonrecourse to the SBA

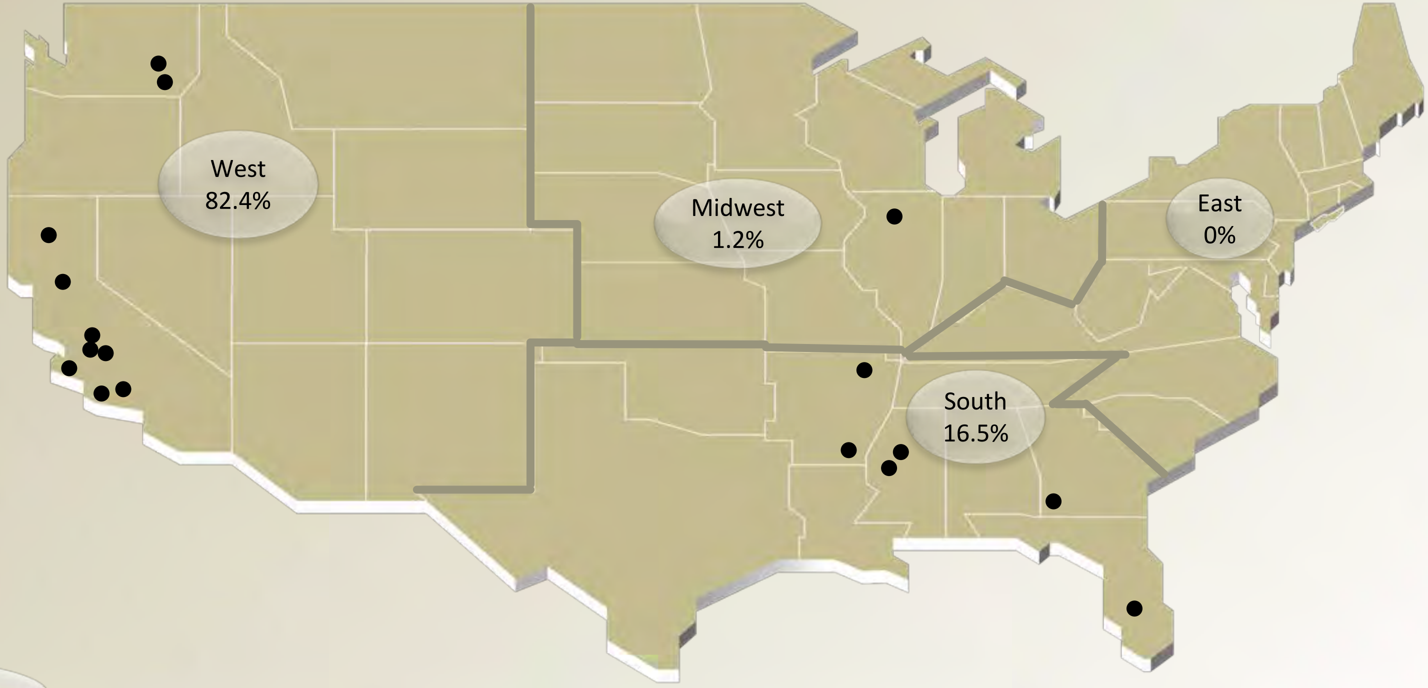
Property Locations



% of Net Asset Value

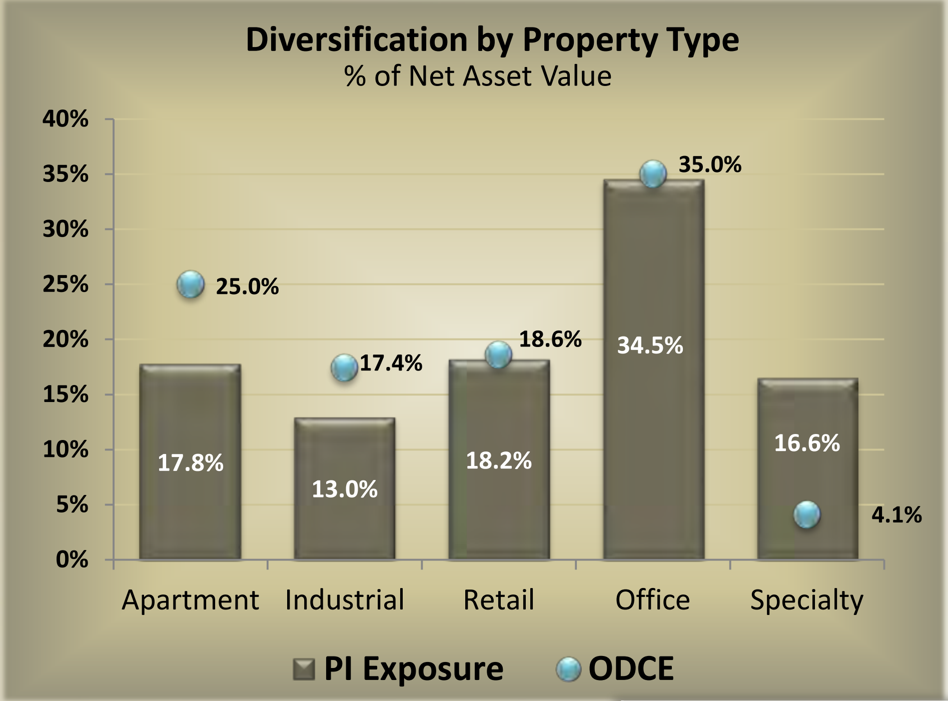
Excludes Agriculture

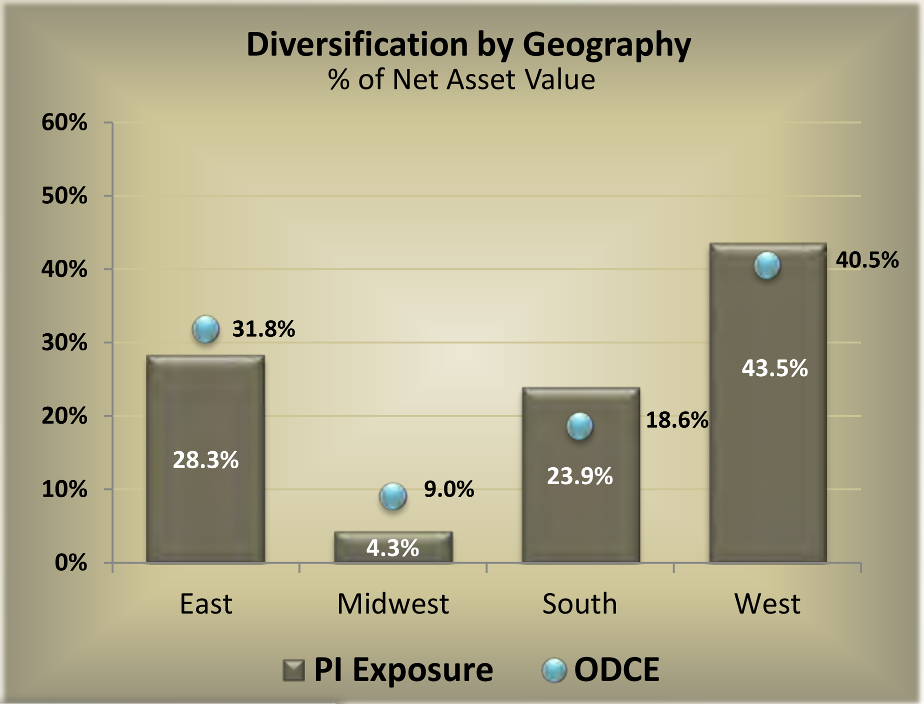
Agriculture Locations



% of Net Asset Value

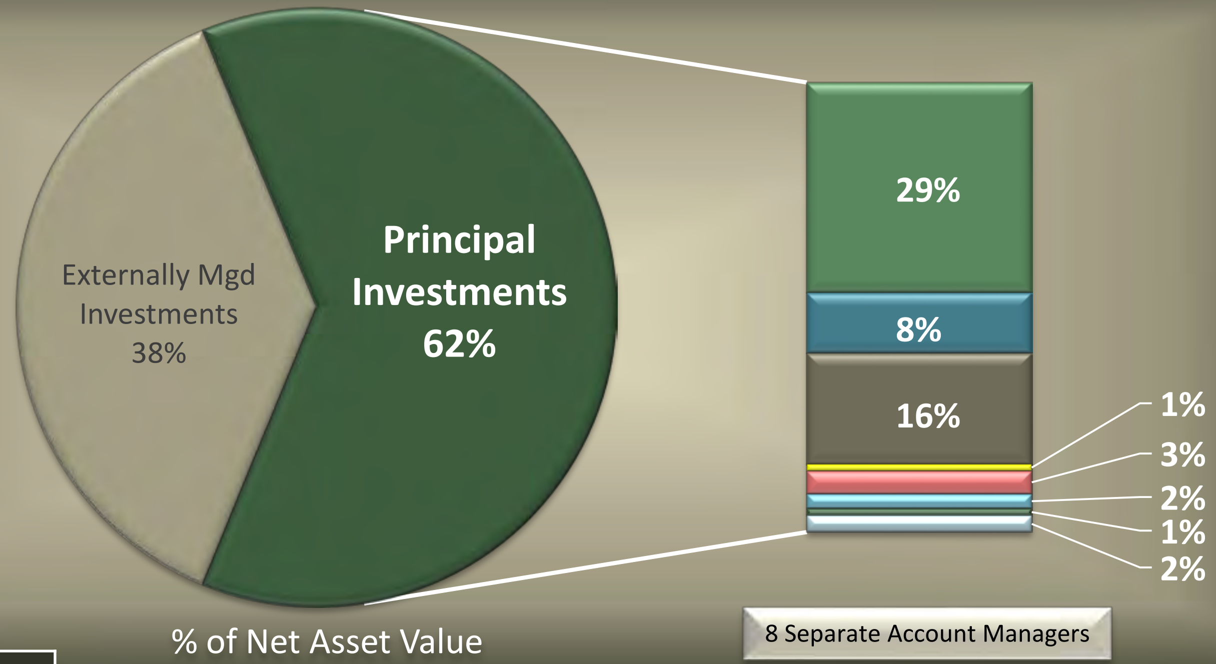
Principal Investments vs Benchmark





Investment Portfolio Guidelines
Range: ODCE +/- 15%

Manager Concentration



Investment Portfolio Guidelines
< 35% AUM per Manager

Metro & Investment Exposure

Top Ten Markets		
Metropolitan Division		% PI NAV
1	Washington, DC	11.3%
2	San Francisco, CA	9.2%
3	Los Angeles, CA	8.2%
4	New York, NY	7.8%
5	Atlanta, GA	5.7%
6	Boston, MA	5.1%
7	Denver, CO	4.0%
8	Seattle, WA	3.7%
9	San Diego, CA	3.1%
10	Ontario, CA	2.9%

Five Largest Investments			
Property Type		Location	% PI NAV
1	Office	Los Angeles, CA	5.9%
2	Office	Atlanta, GA	3.1%
3	Office	Washington, DC	2.9%
4	Apartment	San Francisco, CA	2.8%
5	Office	Denver, CO	2.8%

Investment Portfolio Guidelines

- Metropolitan Division exposure less than 15% of NAV*
- Single investment exposure less than 7% of NAV*

* at the time of acquisition

Summary of Investments

Property Type	# of Properties	Net Asset Value	Square Feet	# Units	# Beds	Planted Acres
Agriculture	28	$627,731,469				35,584
Apartment	18	$1,625,304,816	6,043,825	6,604		
Industrial	51	$1,186,994,154	22,952,651			
Office - Commercial	16	$2,860,941,058	6,378,418			
Office - Medical	20	$294,537,310	1,909,432			
Retail	26	$1,663,132,701	3,695,366			
Self Storage	73	$366,846,898	4,920,626	39,356		
Senior Housing	18	$150,304,516			1,444	
Student Housing	16	$370,999,791		2,615	7,017	
Total	**266**	**$9,146,792,713**	**50,284,431**	**48,575**	**8,461**	**35,584**

Investment Management

PRINCIPAL INVESTMENTS

Active Portfolio Management

- Investment Strategy
- Acquisitions / Dispositions
- Asset Management
- Financing Activity

Third Party Service Providers

Investment Manager
Property Management Companies
Leasing Companies
Investment Brokers

Entity Board of Directors

Audit & Tax Program

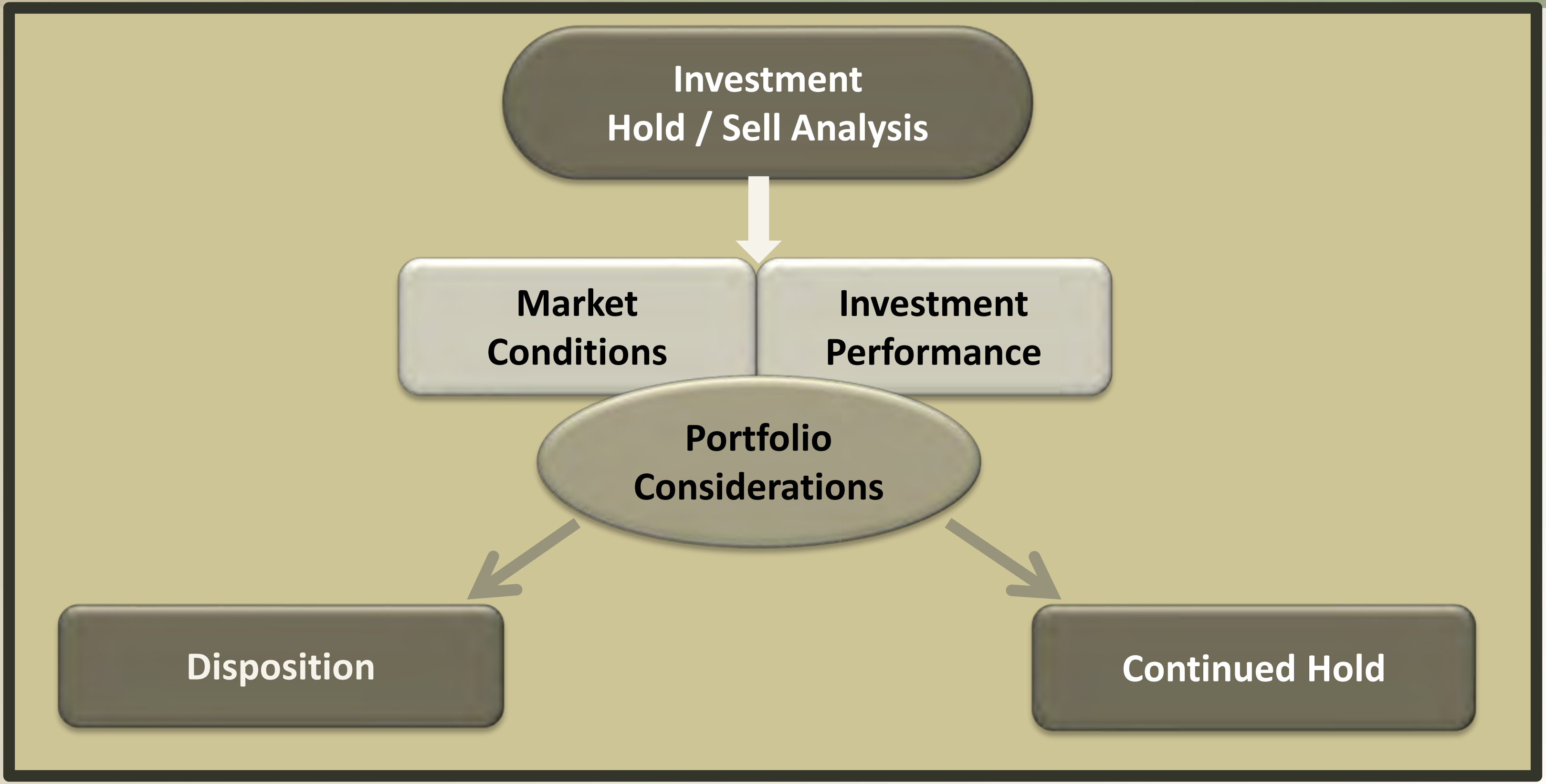
SBA General Counsel

Legal Matters

SBA Accounting

Valuation Program

Strategic Portfolio Refinement



Apartment

Ft. Lauderdale, FL

Seattle, WA

Arlington, VA

Property Sub-Types
- Garden
- Mid-Rise
- High-Rise

Key Considerations
- Urban core districts
- Transit Oriented Location
- Amenity Base
- High Barriers to entry
- Build to core strategy

Industrial

Rutherford, New Jersey

Miami, FL

Denver, CO

Property Sub-Types

- Warehouse
- Distribution Center

Key Considerations

- Location near major population centers and major distribution hubs
- Areas of strong demand driven by e-commerce

Office

Nashville, TN

New York, NY

Washington, DC

Property Sub Types
- Mid-Rise
- High-Rise

Key Considerations
- Location (live/work/play) environment
- Physical condition (ceiling height, floor plates, floor plans)

Retail

Boston, MA

San Francisco, CA

Memphis, TN

<u>Property Sub Types</u>

- Urban and High Street Retail
- Lifestyle Center
- Power and Community Centers

<u>Key Considerations</u>

- Trade Area Demographics
- Metro Area
- Tenant Sales Performance
- Anchor Quality
- Competitive Position
- Supply Constraints

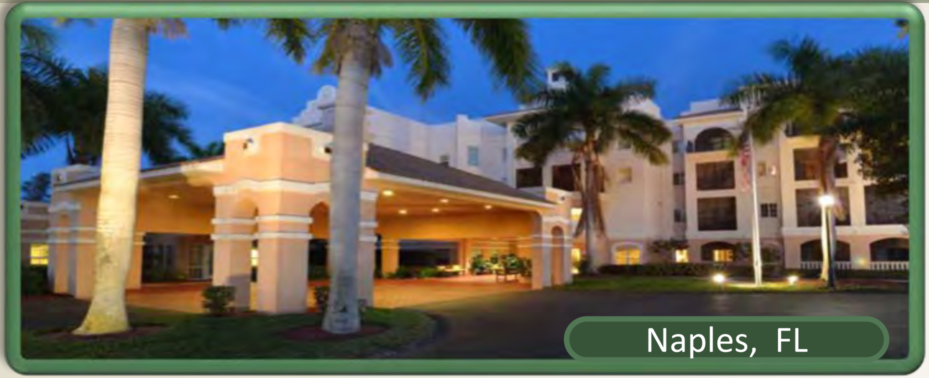
Student Housing

Property Sub Types
- Purpose Built
- Cottage Style

Key Considerations
- University
- Proximity to Campus
- Vintage
- Amenities

Senior Housing

Cincinnati, OH



Naples, FL

Pittsfield, MA

<u>Property Sub Types</u>
- Independent Living
- Assisted Living
- Skilled Living

Triple net leased properties

Agriculture

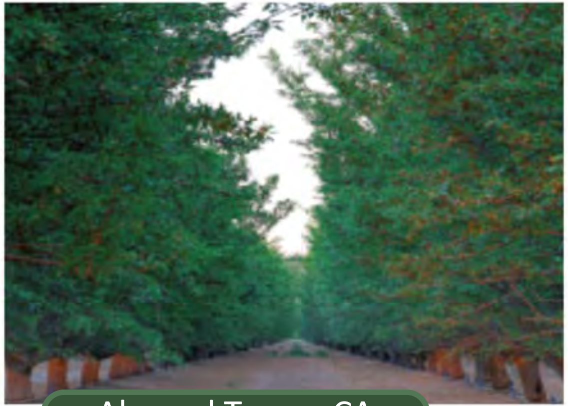

Almond Trees - CA


Table Grapes - CA


Nectarines - CA

Property Sub Types
- Permanent Crops
- Row Crops

Key Considerations
- Commodity Demand
- Location
- Water Supply

Self Storage


Auburndale,FL

Canton, OH


Smithville, NJ


Sacramento, CA

Decatur, AL

Key Considerations
- JV Partner Experience
- Property Location
- Surrounding HH Income
- Population Density

Real Estate Externally Managed Portfolio

Michael Fogliano

Senior Portfolio Manager

Real Estate Externally Managed Portfolio

Investment types

- Pooled funds
- REIT separate accounts

Objectives

- Provide excess returns
- Enhance diversification
- Access to core and non-core investments

Portfolio make-up: Portfolio value $5.4 billion, 47 investments, 23 investment managers

- Open-end funds: $2.7 billion, 10 investments, 8 investment managers
- Closed-end funds: $1.3 billion, 33 investments, 16 investment managers
- REITs: $1.4 billion, 4 investments, 4 investment managers

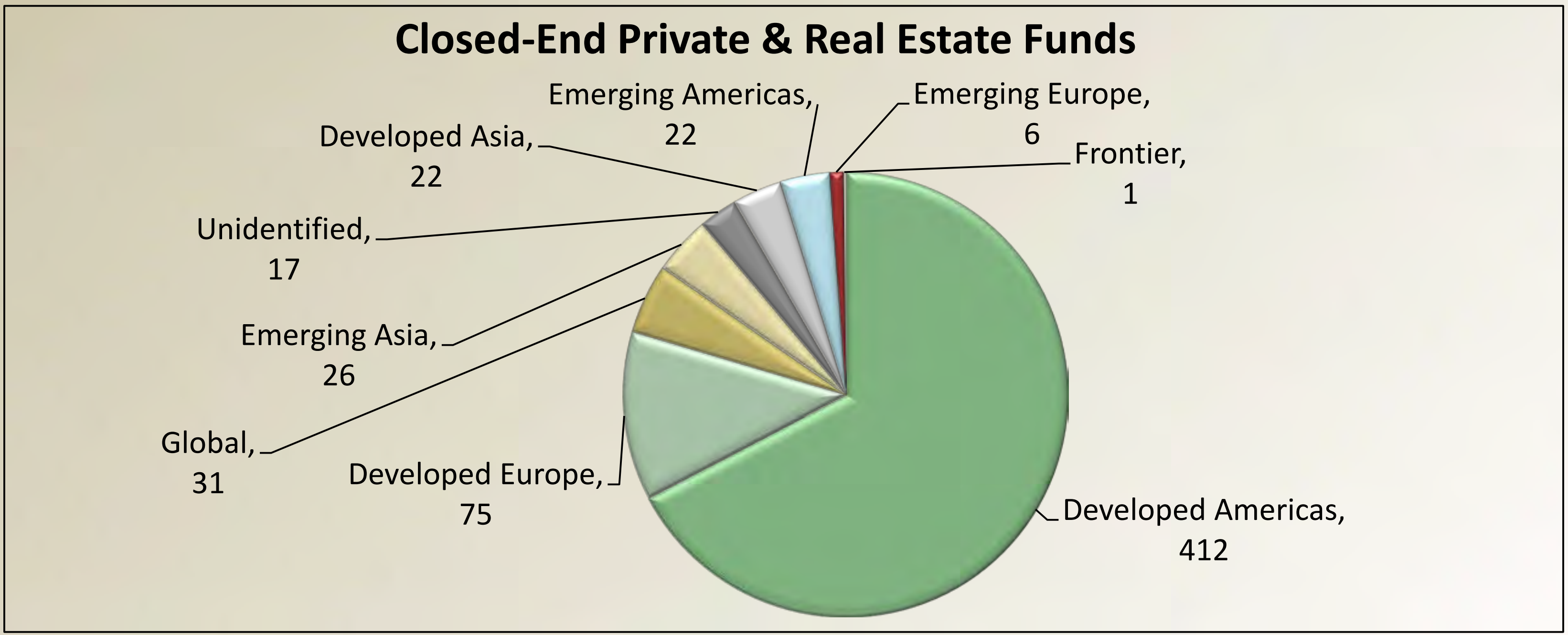
Pooled Funds

Open-End Pooled Funds	
Pros	**Cons**
• Relatively fast exposure • Superior diversification • Lower risk • Liquidity, subject to investor governance and market conditions • Attractive cash returns • Improved transparency	• Little control over execution of strategy

Closed-End Pooled Funds	
Pros	**Cons**
• Greatest number of investment strategies • Diversification by strategy and manager • Alignment of interests • Typically target higher returns • U.S. and International opportunities	• Least control • Least liquidity • Higher fees • Little control of execution of strategy • Typically experiences J-curve effect early in fund life

Closed-End Funds

- Over 600 closed-end funds are actively raising capital today



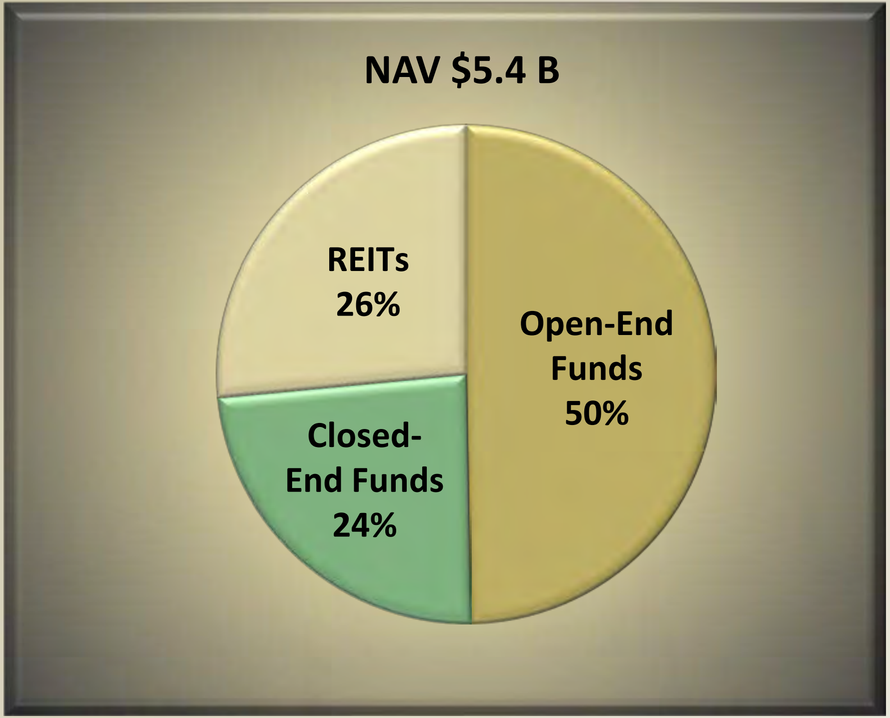
Source: Townsend

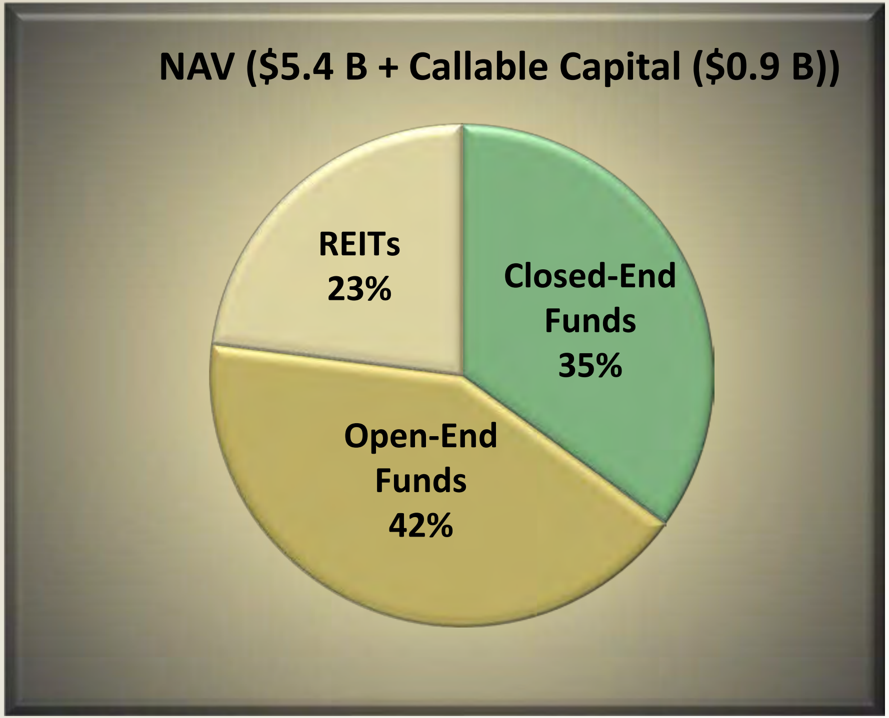
REITs

A REIT, or Real Estate Investment Trust, is a company that invests in real estate or mortgages. A REIT stock is traded on the exchanges, which allows anyone to gain access to large commercial real estate equity or debt strategies.

REITs	
Pros	Cons
• High liquidity • High diversification • Global exposure • Low fees • Not perfectly correlated with private real estate	• More volatile • Subject to local currency fluctuations

Externally Managed Portfolio by Investment Type



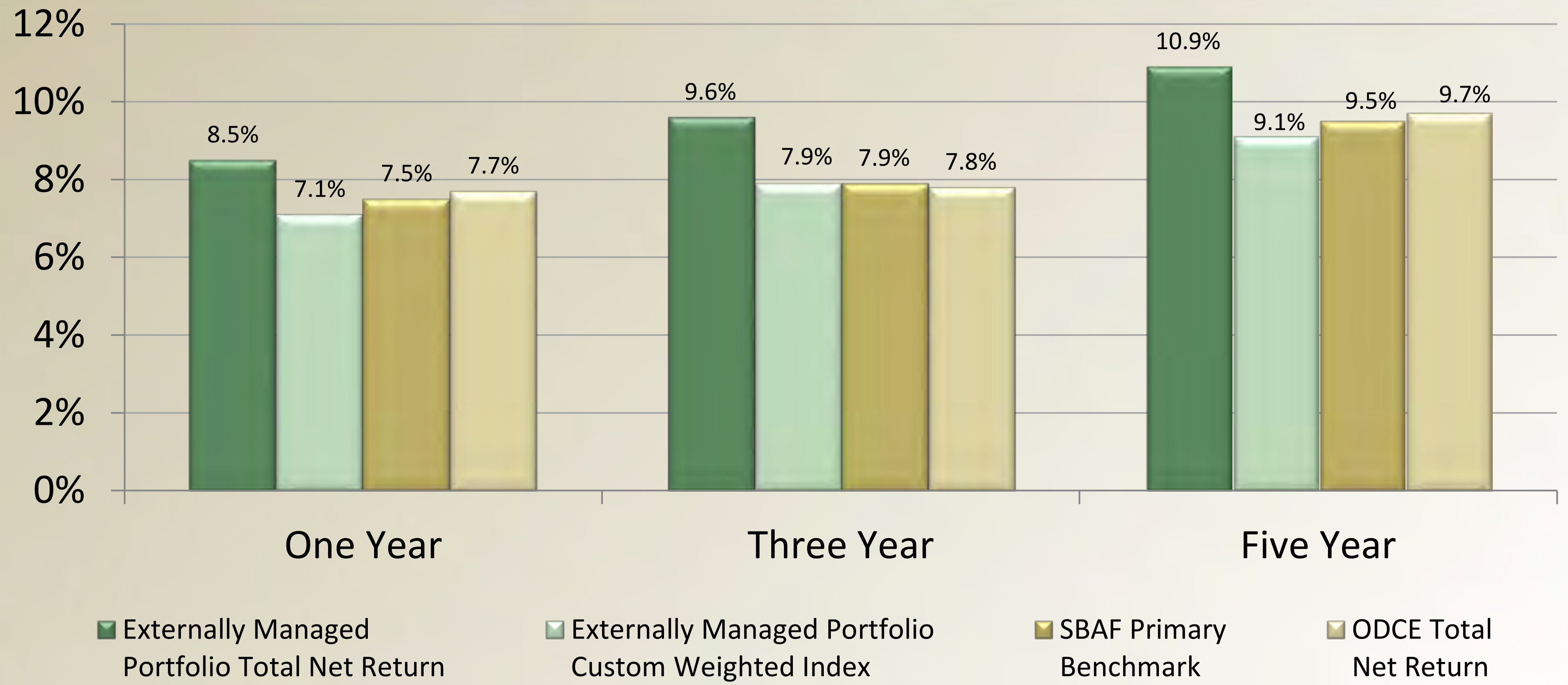


Source: Townsend

As of 9/30/18

Externally Managed Portfolio Returns

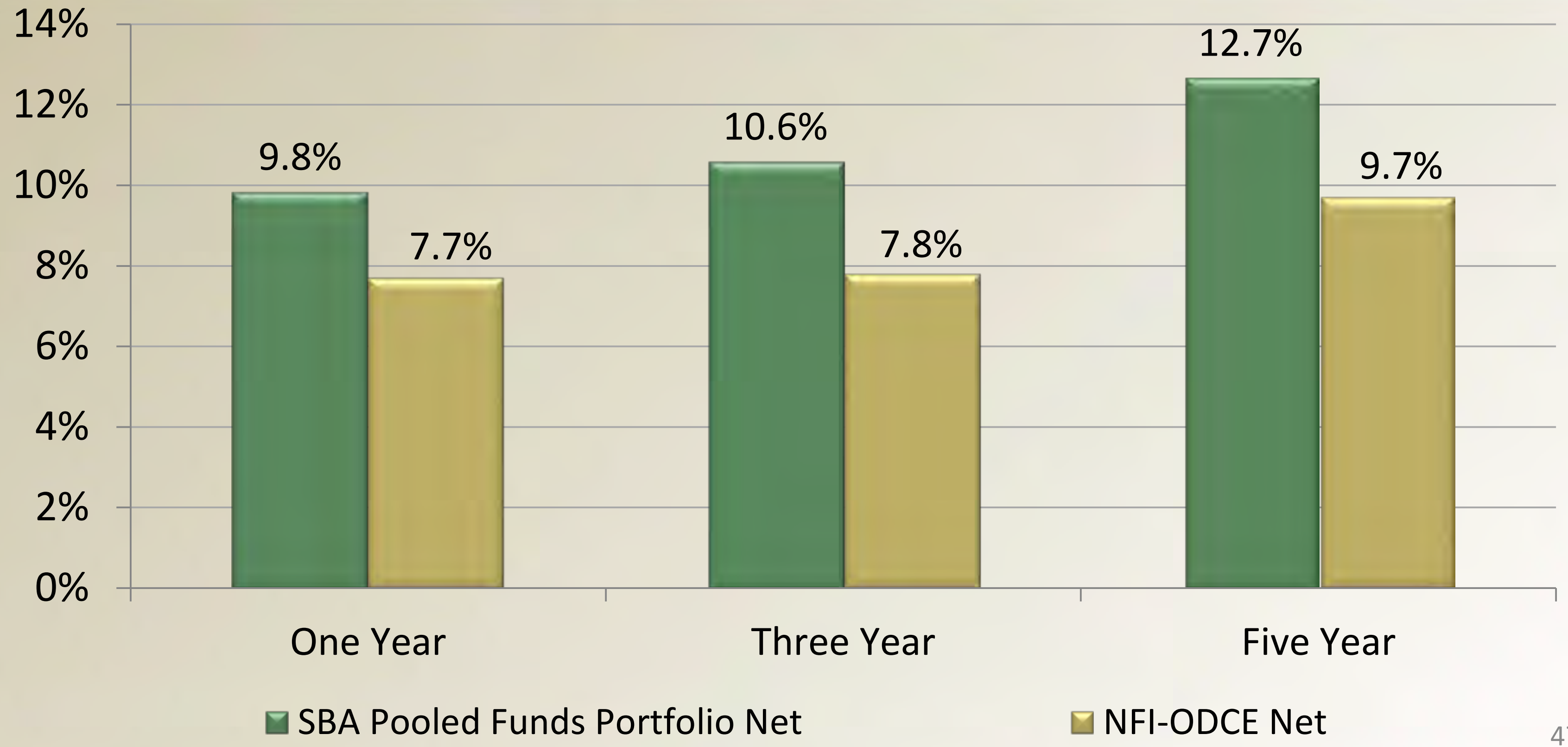
Data through September 30, 2018



Source: Townsend

Externally Managed Pooled Fund Returns

Data through September 30, 2018



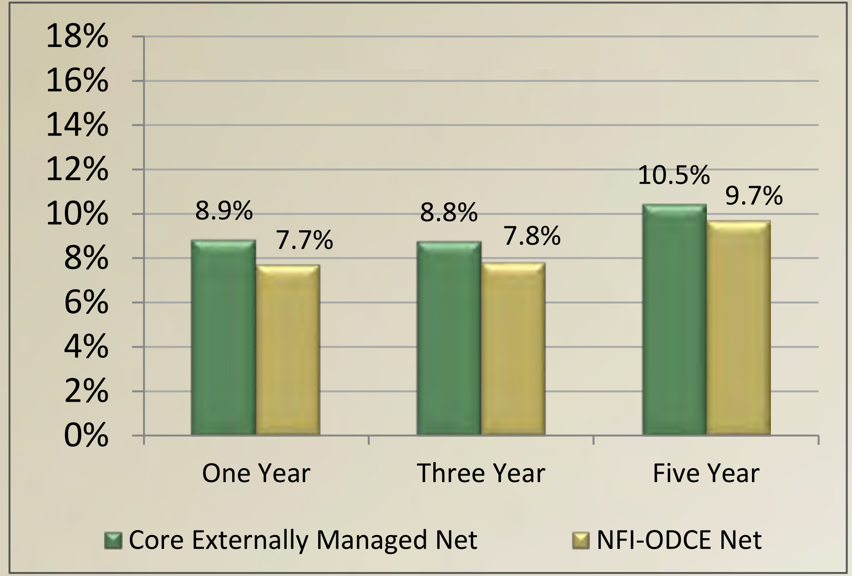
Source: Townsend

Externally Managed Pooled Fund Returns (excludes REITs)

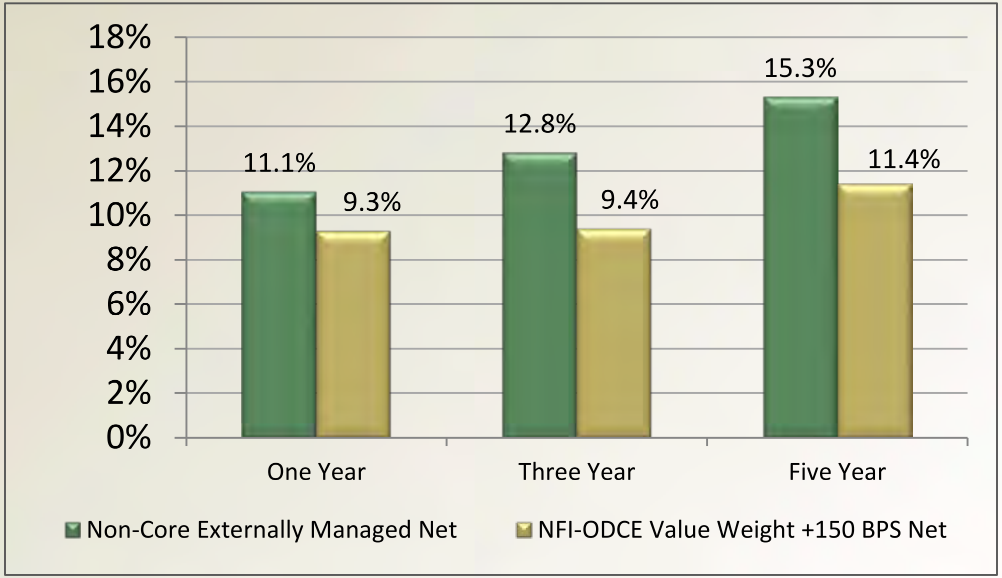
Data through September 30, 2018

Core vs. Non-Core Performance

Core Returns



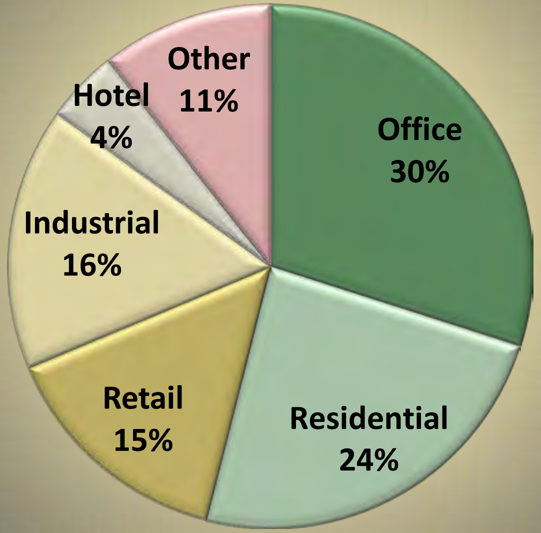
Non-Core Returns



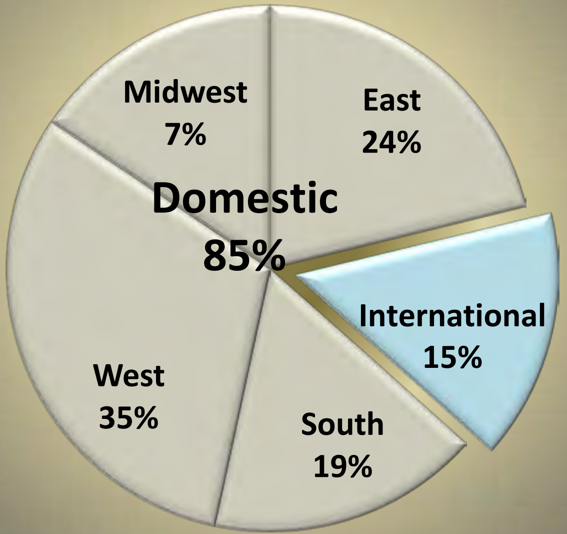
Source: Townsend

Pooled Funds

Property Type Exposure



Geographic Exposure



Source: Townsend

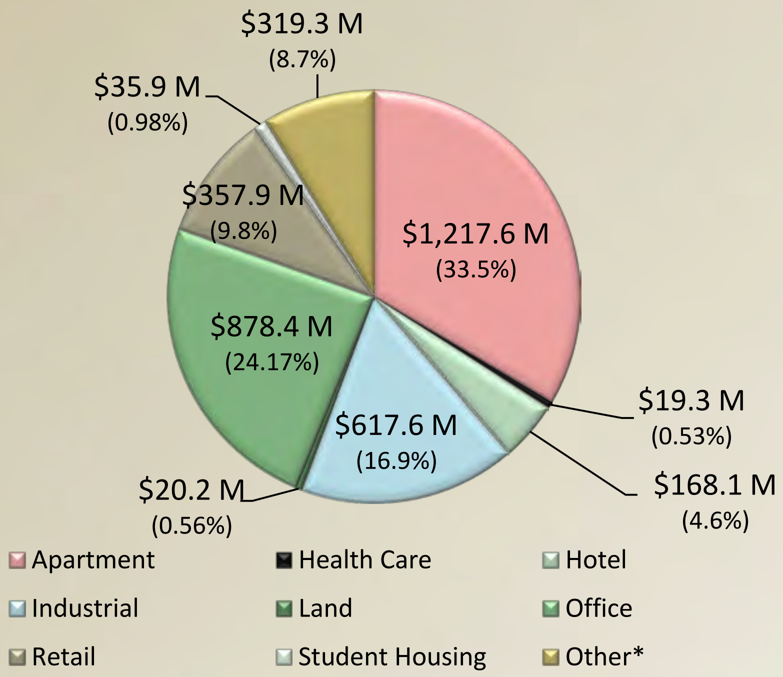
Other includes property types such as data centers, entertainment, for-sale residential, parking, self-storage and senior living.

As of 9/30/18

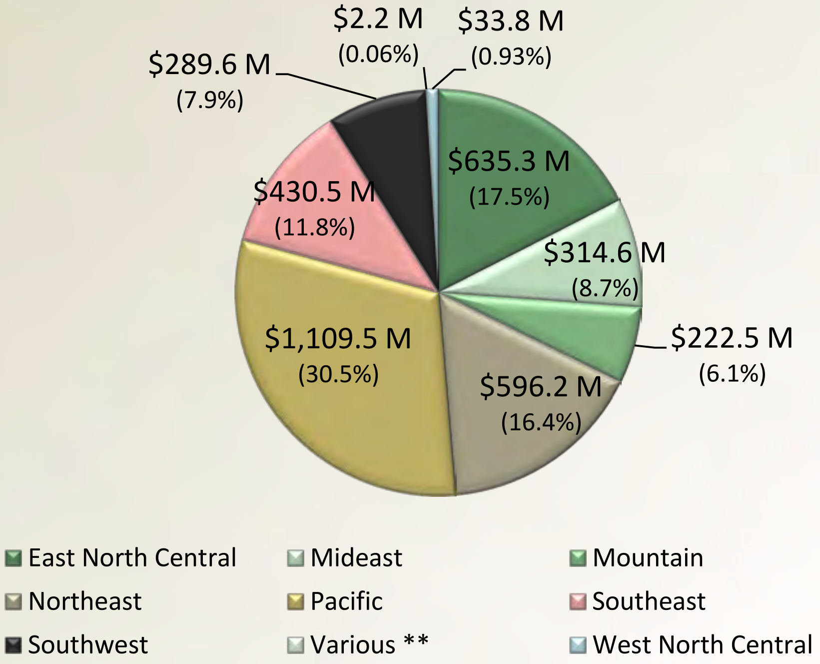
Domestic Exposure (excludes REITs)

Data through September 30, 2018

Property Type



Geography



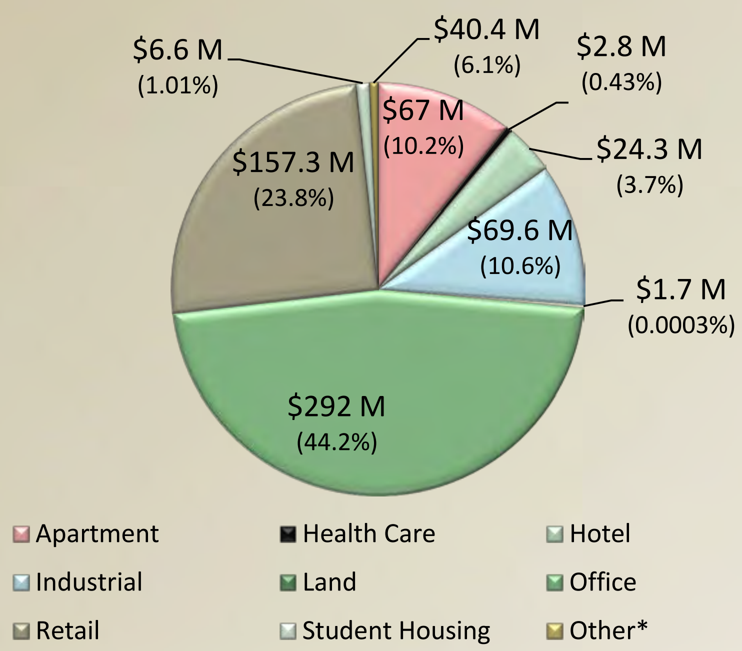
* "Other" includes property types such as data centers, entertainment, for-sale residential, parking, self-storage and senior living.

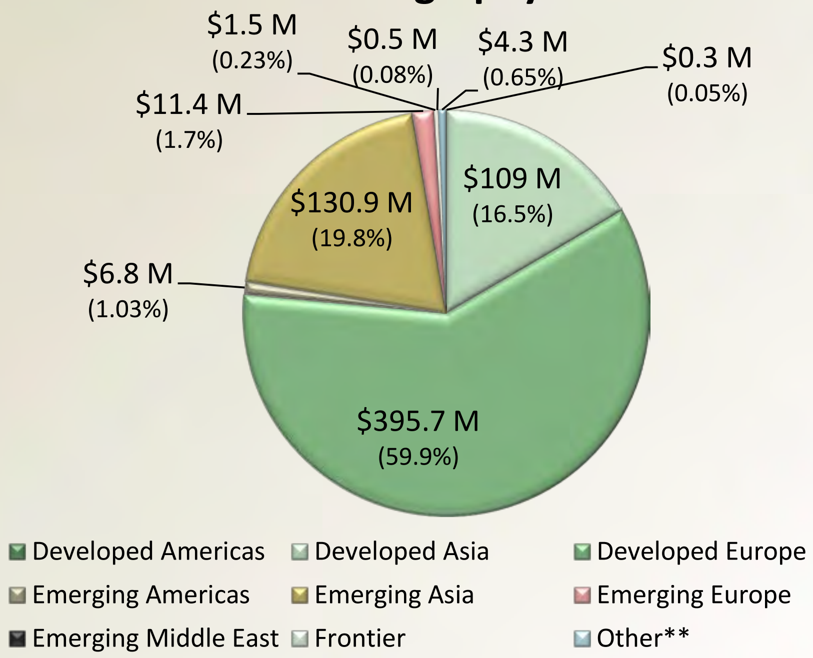
** "Various" consists of hotel assets in various unspecified locations.

Source: Townsend

International Exposure (excludes REITs)

Data through September 30, 2018





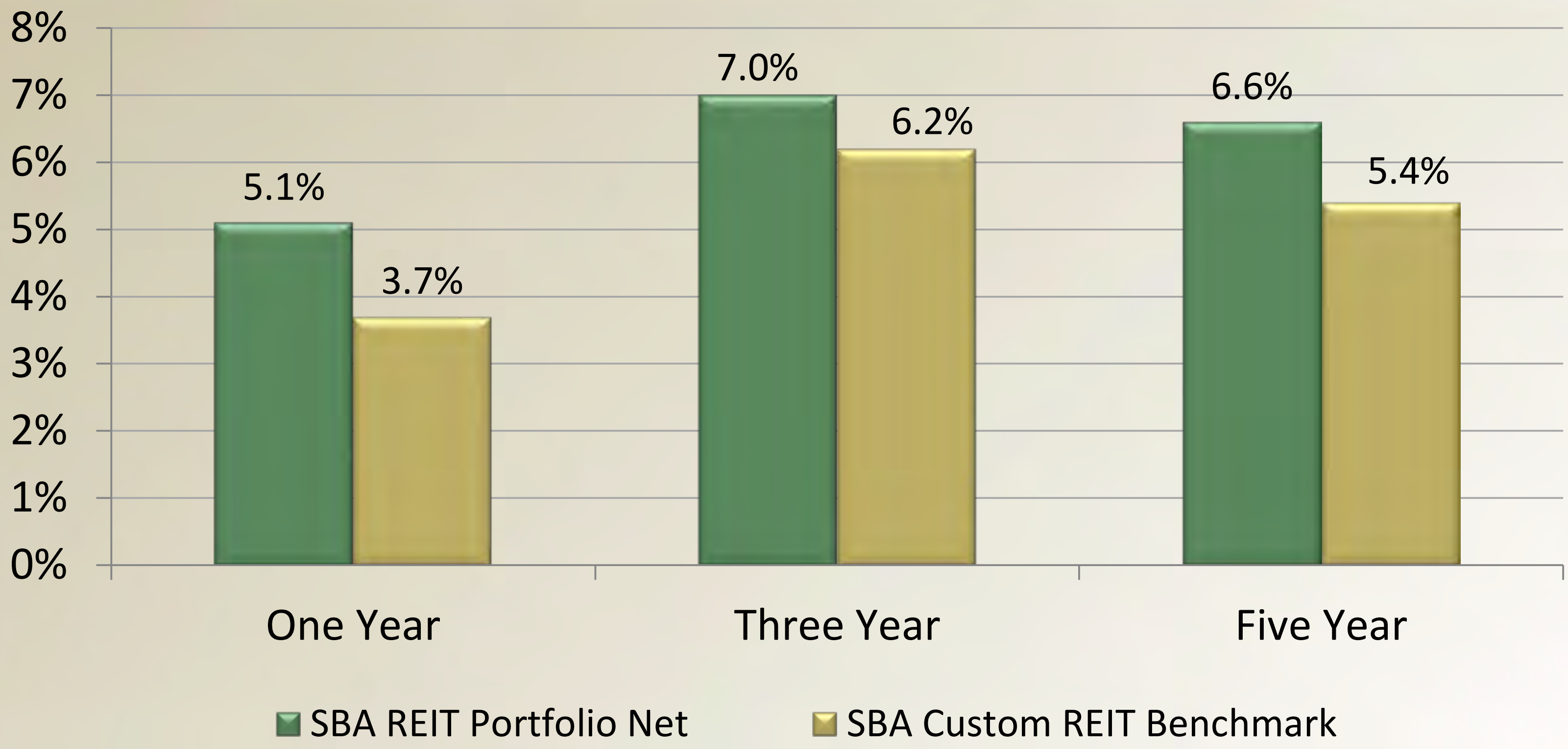
* "Other" includes property types such as data centers, entertainment, for-sale residential, parking, self-storage and senior living.

** "Other" consists of hotel assets in various unspecified locations.

Source: Townsend

Externally Managed REIT Returns

Data through September 30, 2018

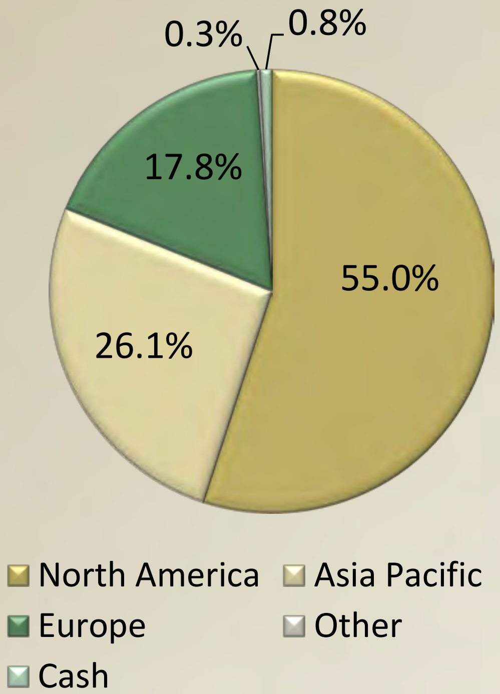


Source: Townsend

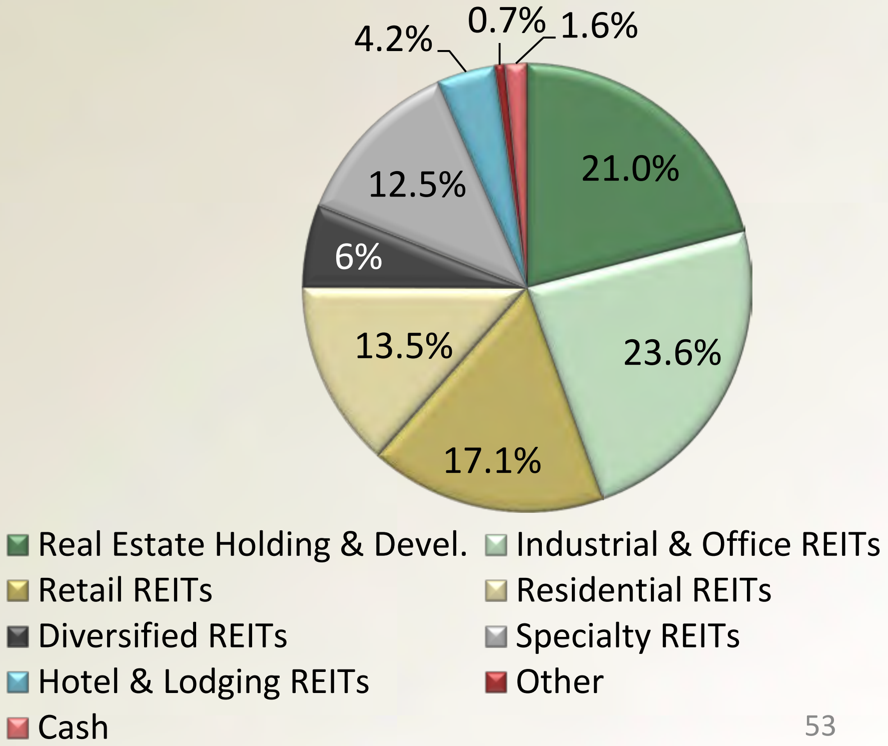
REIT Portfolio

Data through September 30, 2018

Geographic Exposure



Property Type Exposure



Source: Mercer

Externally Managed Portfolio

Portfolio Management

- Portfolio management decisions begin by researching global property sectors and markets
- Review property type, geographic exposure and risk profile to make appropriate portfolio adjustments and rebalancing decisions
- Evaluate investments on a select basis in order to understand risks and take appropriate actions, if necessary
- Review other options to enhance the portfolio including club deals, co-investments, secondaries, and other related strategies

Externally Managed Portfolio

Pooled Funds Process

Pooled Fund Life Cycle

ACQUISITIONS - Source Opportunities	
External	SBAF Staff
• Real Estate Consultant • Placement agents (Industry brokers)	• Industry contacts • Existing partner relationships • Industry conferences and roundtables

Pooled Fund Life Cycle

ACQUISITIONS - Screen Opportunities

- Starts with a conversation via referral source
- Review offering materials
- Discussions with real estate consultant
- Conference call with manager
- Face-to-face meeting
- If still interested, initiate underwriting

Pooled Fund Life Cycle

ACQUISITIONS –Thorough Underwriting Approach

- Engage real estate consultant
- Engage third party provider to conduct operational due diligence on the manager
- Send the newly created SBAF Supplemental Due Diligence Questionnaire to potential fund manager
- Assess fund strategy to current market conditions
- Review organizational stability and platform
- Review prior fund performance & fund terms
- Assess deal pipeline & seed assets (attempt to visit several seed assets)

Pooled Fund Life Cycle

ACQUISITIONS –Thorough Underwriting Approach (continued)

- Review real estate consultant reports
- Review background checks on key employees
- Perform reference checks
- Create on-site interview questions for face-to-face meeting with manager; (Questions accumulated from all due diligence to that point)
- Assess and measure risks for acceptability and attempt to mitigate

Pooled Fund Life Cycle

ACQUISITIONS – Negotiate

- Management and Incentive fees
- Co-investment rights
- Accounting & reporting needs (Accounting DDQ)
- Transfer rights
- Fund restrictions
- Advisory Board seat
- Legal and business terms with internal and external counsel to vet legal and business issues
- Manager confirmation of compliance with SBAF's policies & Florida statutes

Pooled Fund Life Cycle

INVESTMENT MONITORING

- Review quarterly financials and manager reports
- Compare acquisitions to fund strategy & restrictions/guidelines
- Compare fund performance to fund objectives
- Evaluate fund amendments, extension requests, etc.
- Attend annual investor/advisory board meetings
- Review quarterly reports from Townsend
- Produce internal quarterly reports for enhanced asset & portfolio management

Pooled Fund Life Cycle

INVESTMENT MONITORING (continued)

- Quarterly calls with managers
- Frequent calls with Townsend on manager issues, market views and potential new managers
- Quarterly calls with existing managers and potential managers on their market views
- Calls with market research specialists for unbiased market views

TOWNSEND® GROUP
an Aon company

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

The State Board of Administration of Florida (“SBAF”)

Real Estate Portfolio Report

March 2019

TOWNSEND® GROUP
an Aon company

Table of Contents

Real Estate Performance

Real Estate Portfolio Highlights and Significant Events

TOWNSEND® GROUP
an Aon company

PORTFOLIO HIGHLIGHTS

- Real estate performance continues to remain strong and outperform the plans benchmark, exceeding the benchmark on a net basis over the five-year period by 90 basis points.
- As of September 30, 2018, on an invested basis, the Real Estate Portfolio represented 9.0% of total plan assets ($14.7 billion). This is a 20 bps increase in allocation compared to last year (approximately $800 million) due to a combination of new investments and asset appreciation. Given the volatile equity markets starting in 4Q18 we anticipate the Real Estate Portfolio's allocation to increase in the coming quarters (change in denominator and continued strong real estate performance).
- SBAF received $1.1 billion in cash flow distributions (gains, refinancing, income, etc…) as well $418 million of capital returned from asset sales (return "of" capital invested) as of the one-year ending September 30, 2018.

SIGNIFICANT EVENTS

- During 2018, SBAF made approximately $475 million of Externally Managed fund commitments to non-core; as well as approximately $195 million in core fund redemptions/rebalancing. Non-core strategies included the following: Asia value-added, secondary investments in the US, European opportunistic, and global diversified opportunistic opportunities in the US.
- During 2018, SBAF made 22 Principal Investment acquisitions requiring approximately $873 million of equity. This includes buying out a partner in senior housing as well as eleven office, one multifamily, one retail, four self storage, two student housing, one mixed-use, and one agriculture investment. Additionally, the Principal Investments portfolio sold five investments during the calendar year.

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

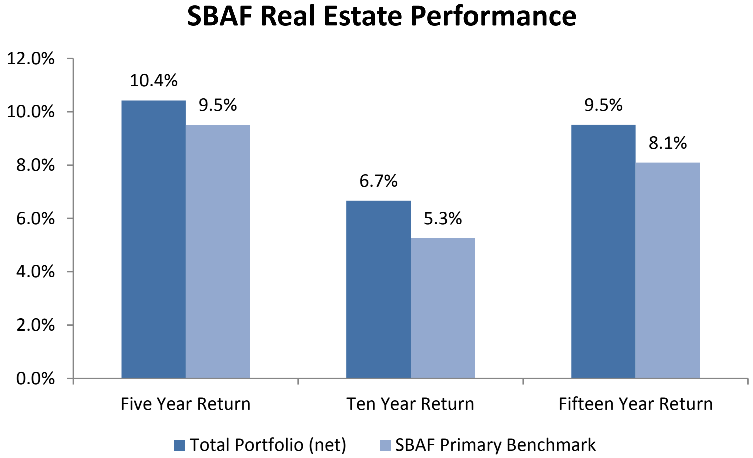
SBAF and Townsend Relationship

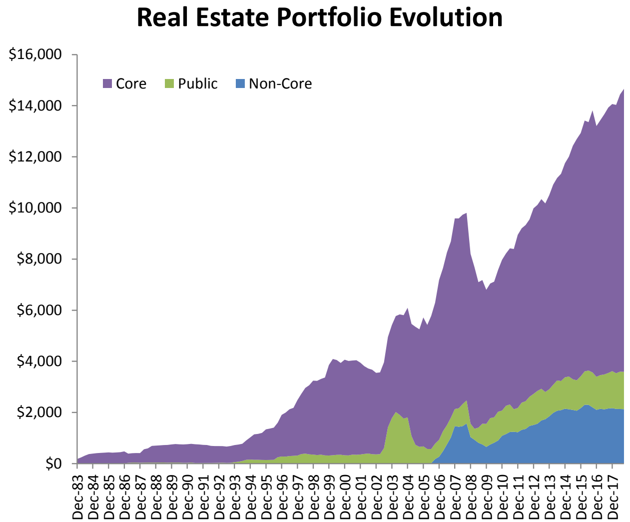
TOWNSEND® GROUP
an Aon company

	Timeline
2004	• Townsend began working with SBAF's Real Estate Portfolio • SBAF had a target Real Estate allocation of 7.0% ($7.5 billion) and an actual funded allocation of 5.6% ($6.0 billion) • Portfolio consisted of US core separate accounts, US core commingled funds, Public Securities and US Farmland investments • Created Real Estate Portfolio investment policy and strategic plan that included up to 30% of the portfolio to invest in non-core investments • Allocation targets and investment constraints/risk metrics to be achieved over time
Last 15 Years	• Increased allocation and portfolio size (10.0% target or $16.3 billion; 9.0% fund allocation or $14.7 billion) • Stabilized and mature portfolio with private portfolio allocated 85/15 core (including agriculture) and non-core investments • Public Securities remains approximately 10% of the real estate portfolio ($1.5 billion) and has been transitioned to a global allocation versus US • Exposure to a combination of US separate accounts, non-core diversified allocator funds, and non-core direct operators • Commitments to 55 unique real estate and agriculture funds across 28 managers • Driven fee savings through Townsend client aggregation; annual fee savings of approximately $700,000 • Generating a 15-year net return of 9.5%; outperforming the NFI-ODCE index by 220 bps (full since inception net return of 8.9% and 1.6x equity multiple) over full market cycles
Forward Looking	• Actively manage separate account, open end and closed end portfolio through rebalancing and evaluation of new opportunities • Continue active oversight of investments and asset management • Enhance portfolio through unique investment opportunities (e.g., new funds, pre-seeded portfolio's, embedded value, etc…) • Evolve ahead of peers by accessing other opportunities

Source: Townsend, NFI-ODCE. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Staff and Townsend Impact on Portfolio





Real Estate Fund Risk Profile		
	3Q 2018	**Townsend Comment**
Market Value (% of Total[1])	$14.7 billion (9.0%)	Prudently moving towards 10% target allocation through consistent vintage year commitments
Control or Liquidity	81% (IMA or Open End)	Decreased overtime due to introduction of closed end non-core investments; however, significant control resides with SBAF
Leverage	31% (private portfolio)	Increased overtime due to non-core commitments and focus on increasing separate account leverage more recently
Unfunded Commitments[1]	$989 million (0.6%)	Unfunded commitments has increased based on recent non-core commitments taking longer to draw down capital
Property Type Exposure	16.5% in alternatives	Increased overtime (5% allocation 15 years ago) as alternative property types become more institutional and income generators
International Exposure	9.1%	Increased overtime (1% allocation 15 years ago) with exposure focused on developed markets in Europe and Asia

[1]Percentage of Total Plan Assets

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

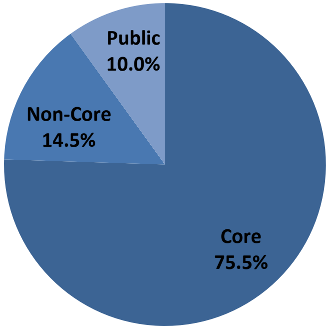
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Total Real Estate Composition

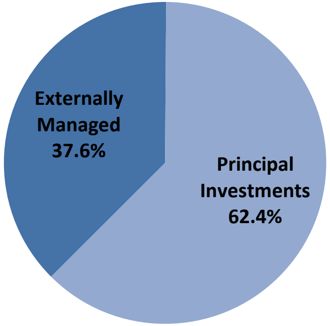
RISK SECTOR AND CONTROL

- The SBAF real estate portfolio is invested in Core, Non-Core, and REIT investments. The Portfolio is further allocated between Principal Investments and Externally Managed investments.
  - Principal Investments - SBAF staff retains key authorities related to approving acquisitions, dispositions, financing activities and annual business plans.
  - Externally Managed - Investments include those where SBAF has given discretion over these decisions to the investment manager (to include pooled funds and REIT separate accounts).

Total Portfolio Composition



Total Portfolio Composition

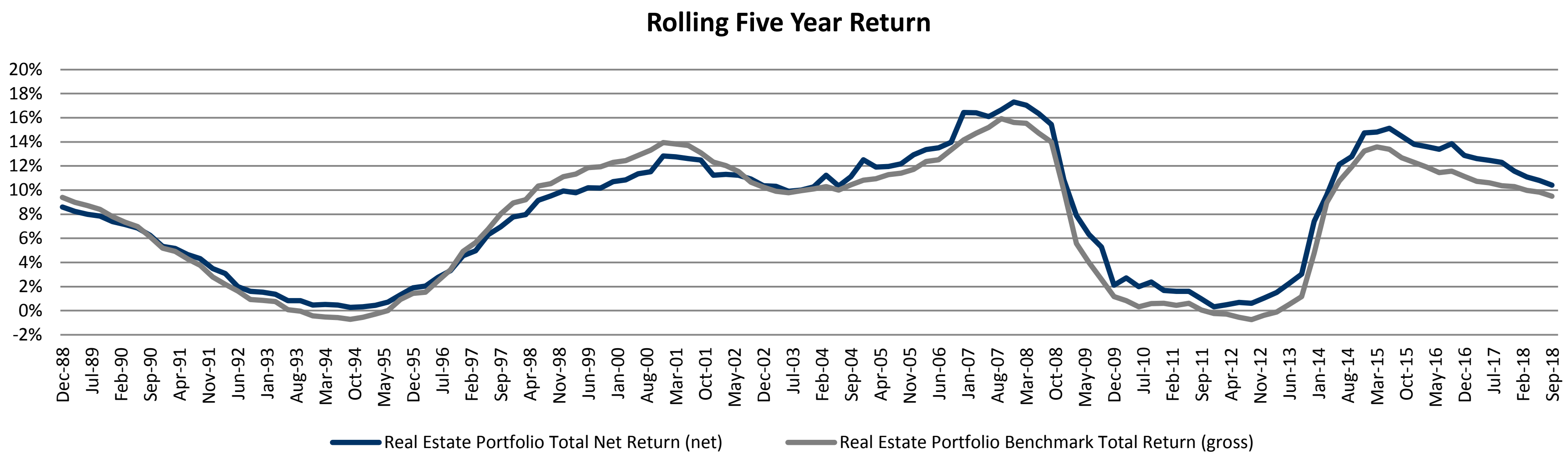


All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Total Real Estate Portfolio Performance

ROLLING FIVE-YEAR RETURN

- The Real Estate Portfolio's five-year total return of 10.4% outperformed the benchmark by 90 basis points.
- The Portfolio has consistently outperformed over the five-year measurement period since 2002.
- Additionally, the Real Estate Portfolio exceeded the benchmark by 140 basis points over both the 10 and 15-year periods, respectively.



All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

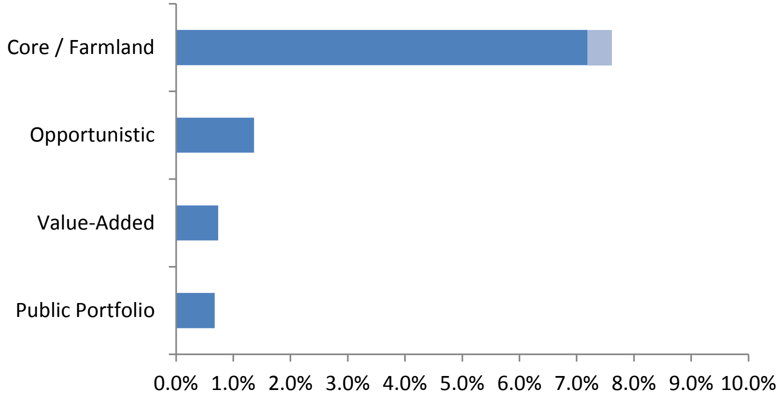
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Total Real Estate Portfolio Performance

CONTRIBUTION TO RETURNS

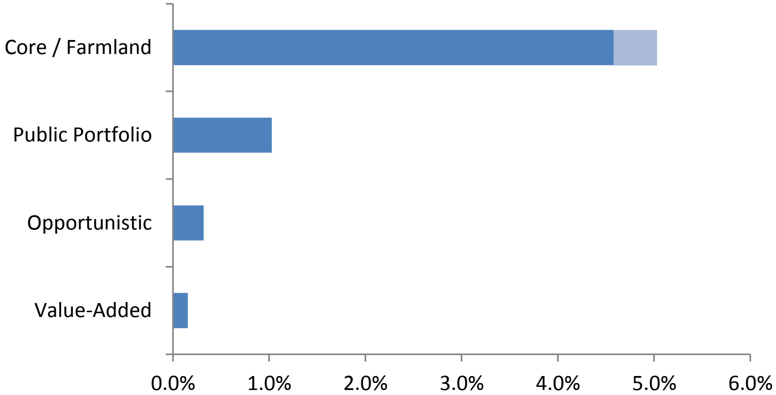
- Portfolio diversification and construction continues to drive outperformance.
- While Public investments have been the smallest contributor to performance over the five-year period, the public portfolio was the second biggest driver of performance over the ten-year period.
- The total portfolio generated net returns over the five and ten-year periods of 10.4% and 6.7%, respectively.
- Core continues to be the driver of performance given size of portfolio and consistent strong returns.

Portfolio Contribution to 5-Year Net Return*



*Note: performance of each sector adds up to the portfolio's total performance.

Portfolio Contribution to 10-Year Net Return*

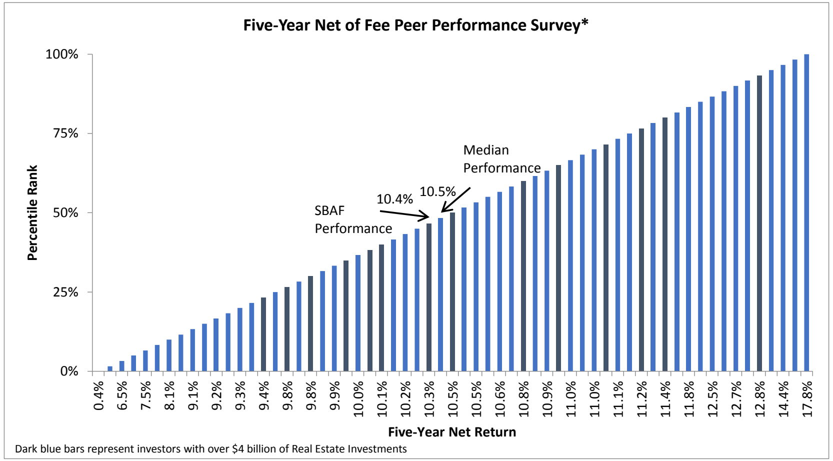


All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

Relative Performance

PEER COMPARISON

- SBAF's five-year net performance versus its peers (61 institutional real estate investors) ranks in the 48th percentile.
- It is important to note, peer portfolio's will vary by investment strategy, investment type, risk appetite and portfolio inception dates.
- SBAF ranks near median versus peers over the five-year measurement period. This lower ranking is due to peers investing in higher risk/return strategies (versus SBAF) during a period of significant economic improvement. While peer performance may outperform currently; it will also come with more volatility. Going forward, both historically and the future expectation is for SBAF to have a more stable and outperforming portfolio over market cycles.



*Peer portfolio's will vary by investment strategy, investment type, risk appetite and portfolio inception dates.

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

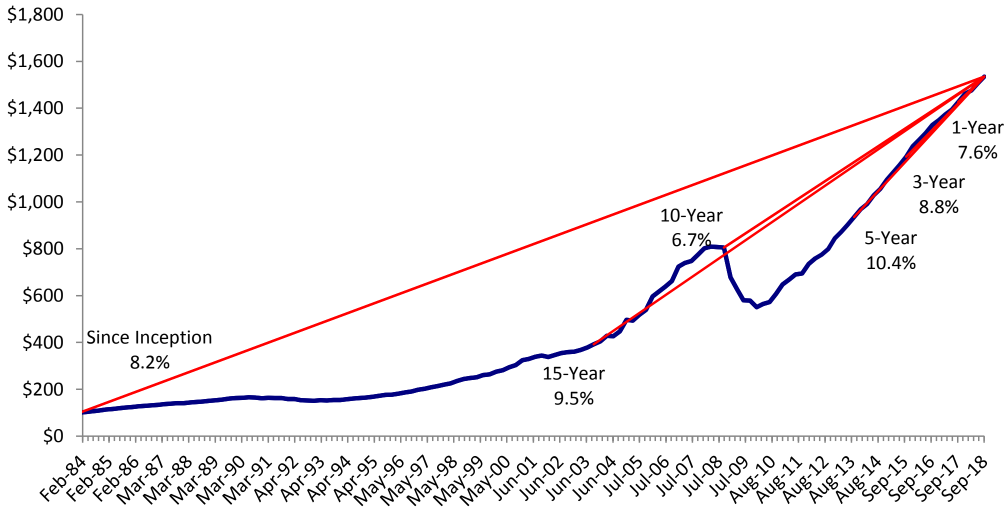
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Total Real Estate Performance

GROWTH OVER TIME

- Returns are impacted by the starting point of the measurement period.
- The shorter term excludes the negative performance experienced during the Global Financial Crisis.
- Over the long-term (multiple market cycles), the portfolio continues to generate strong returns.

Growth of $100 in the Real Estate Portfolio



Figures are based on time weighted net returns

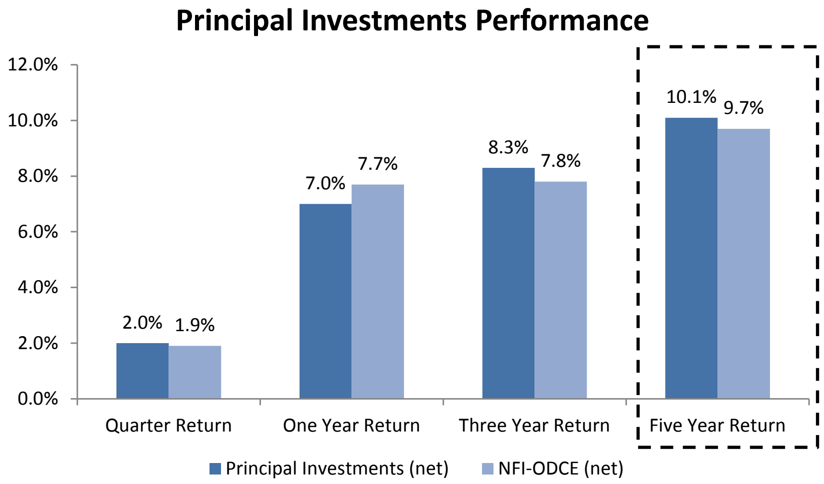
All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

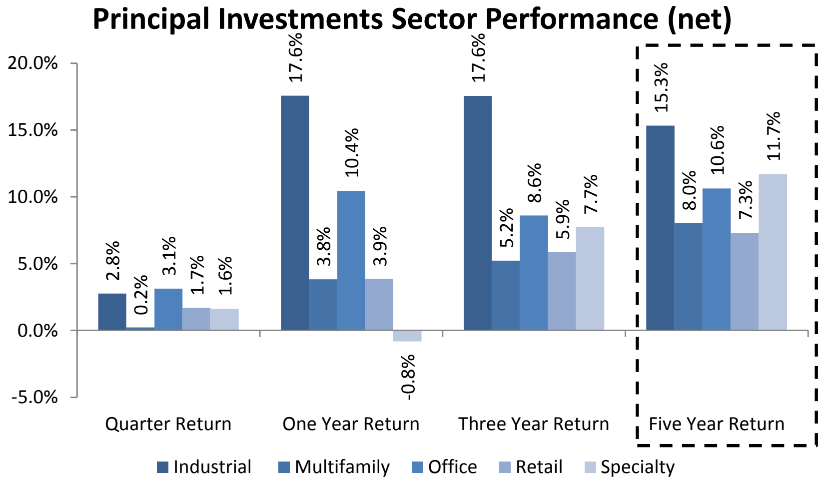
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Drivers of Performance

PRINCIPAL INVESTMENTS

- Principal Investments exposure is diversified across Core (96%) and Non-Core investments (4%).
- While performance over shorter time periods can be volatile, the Principal Investments portfolio has consistently outperformed the NFI-ODCE net benchmark over the time periods measured, including the 10 and 15 year periods.





Source: Townsend, NFI-ODCE.

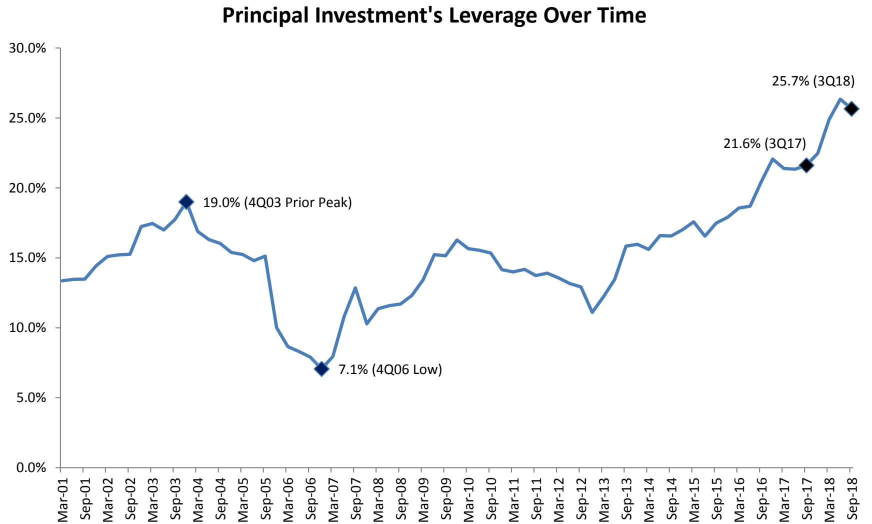
All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Principal Investments

LEVERAGE PROFILE

- The chart below shows the historical quarterly leverage of the Principal Investments portfolio over the last 17+ years.
- The portfolio's leverage as of 3Q18 is near an all time high of 25.7%, versus the NFI-ODCE benchmark leverage of 21.4%.
- SBAF's leverage has steadily increased since the end of 2012 and increased by 410 bps over the last 12 months while the benchmark leverage has decreased over time and remained flat over the short term. Pay down of debt on specific properties during 3Q18, resulted in a slight decrease in leverage.



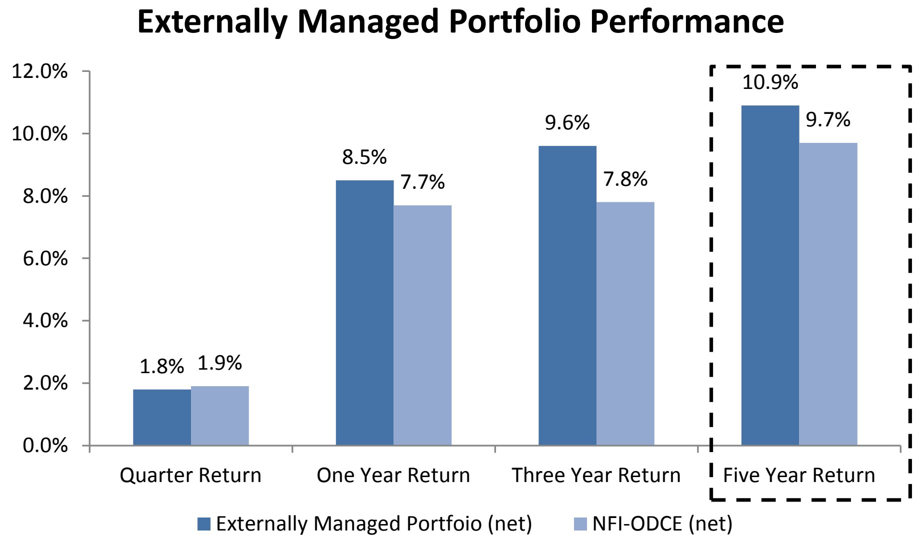
Source: Townsend, NFI-ODCE.

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

Drivers of Performance

EXTERNALLY MANAGED

- The Externally Managed Pooled Fund and REIT Portfolio outperformed the benchmark on a net of fee basis over all time periods measured below, excluding the current quarter. Performance was broad based but significantly driven by opportunistic investments both in the U.S. and Europe.
- Over the five-year period, the aggregated net return outperformed by 120 basis points.



Source: Townsend, NFI-ODCE.

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

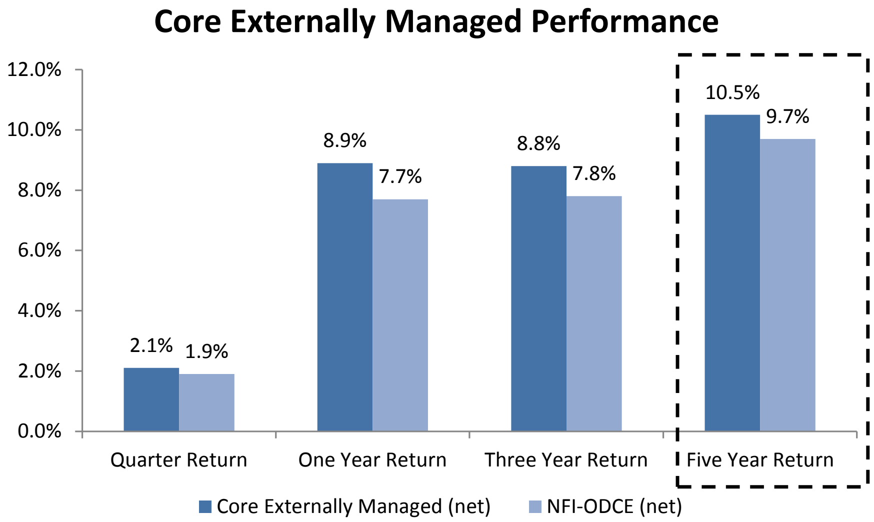
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Drivers of Performance

TOWNSEND® GROUP
an Aon company

EXTERNALLY MANAGED CORE

- Core investments represent approximately 42% of the Externally Managed portfolio.
- The Core portfolio is invested/committed to eight different open end funds and has exposure to over 1,900 individual assets.
- Recent Core performance has been strong outperforming the NFI-ODCE index over all measured periods below.



Source: Townsend, NFI-ODCE.

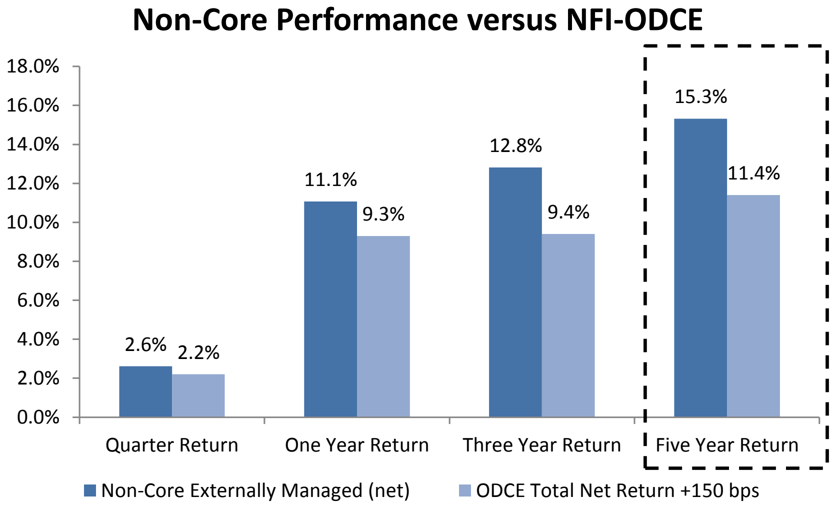
All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Drivers of Performance

EXTERNALLY MANAGED NON-CORE

- Non-Core investments represent approximately 32% of the Externally Managed portfolio.
- Recent Non-Core performance has been strong, significantly outperforming the NFI-ODCE +150 bps index over all measured periods below.
- Non-Core performance drivers are broad based with US, Europe and Global investments all outperforming.



Source: Townsend, NFI-ODCE.

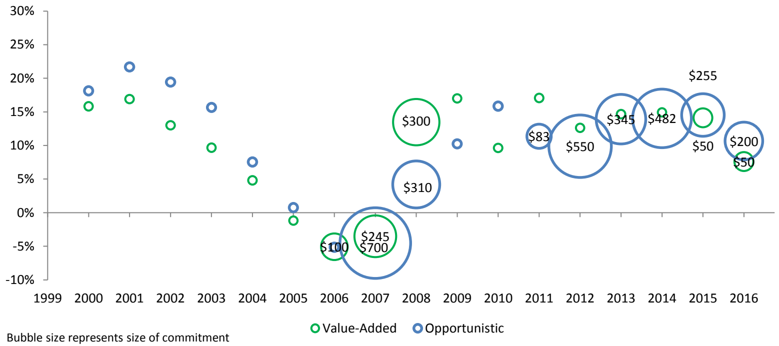
All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

Drivers of Performance

EXTERNALLY MANAGED – NON-CORE VINTAGE YEAR EXPOSURE

- The chart below represents respective value-added and opportunistic index returns as well as SBAF commingled fund commitments by vintage year.
- When appropriate, Townsend continues to favor a combination of diversified allocator fund investments and operator platforms when building a globally diversified portfolio.
- During 2018, SBAF made five fund commitments targeting Asia value-added, secondary investments in the US, European opportunistic, and global diversified opportunistic opportunities in the US. 2017-2018 non-core fund commitments totaling approximately $710 million are not graphed, as limited, or no performance has been generated to date. Additionally, investments made over the past few years are subject to j-curve and therefore returns are less meaningful.

Average Net IRR Returns by Vintage Year and Sector
($ in millions)



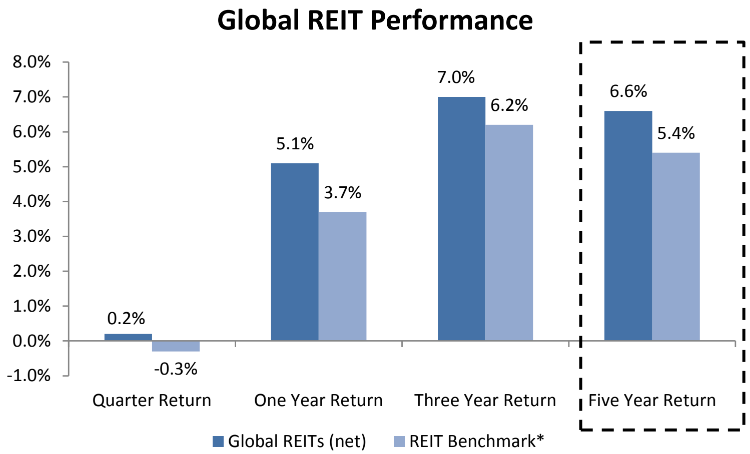
Bubble size represents size of commitment

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Drivers of Performance

EXTERNALLY MANAGED – GLOBAL PUBLIC REITS

- Global REITs comprise approximately 26% of the Externally Managed portfolio.
- The Global Public Investments portfolio remains volatile; however, the portfolio has outperformed the benchmark over all measured periods below, as well as the 10 and 15 year periods.
- Fourth quarter 2018 Global REIT returns were down considerably (-4.8%); however, calendar year-to-date 2019, the Global REIT index has rebounded generating a 10.2% total return (as of 3/1/19).



*EPRA/NAREIT Global Index. Historical benchmark has adjusted with the availability of additional indices and changing portfolio strategy.

All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

Real Estate Portfolio Compliance

TOWNSEND® GROUP
an Aon company

POLICY COMPLIANCE

- The real estate portfolio's investment allocation was in compliance as of September 30, 2018.
- The portfolio is well diversified by property type and geography while maintaining compliance compared to the NFI-ODCE index.

Portfolio Diversification / Compliance

Property[1]	Range (ODCE +/- 15%)	Actual Weight
Apartment	10.0% - 40.0%	19.5%
Industrial	2.4% - 32.4%	14.3%
Retail	3.6% - 33.6%	17.0%
Office	20% - 50.0%	33.5%
Other	0.0% - 19.1%	15.7%
Geography[1]	**Range (ODCE +/- 15%)**	**Actual Weight**
East	16.8% - 46.8%	27.1%
Midwest	0.0% - 24.0%	5.3%
South	3.6% - 33.6%	22.1%
West	25.5% - 55.5%	40.9%
International	0.0%	4.6%
Exposure	**Maximum Exposure**	**Actual Weight**
Single Asset[3]	7%	4.1%
Directed-Owned Manager[2]	35%	29.1%
Pooled Funds[2]	10%	4.1%
REIT Manager[2]	10%	2.7%
Leverage[1]	40%	31.2%

[1] Based on Private Real Estate Portfolio NAV

[2] Based on Total Real Estate Portfolio NAV

[3] Based on Principal Investments Real Estate Portfolio NAV

Portfolio Compliance	Target	Range	Exposure	Compliance
Private Investments	90%	85-95%	90%	Yes
Core Investments	85%	70-100%	84%	Yes
Non-Core Investments	15%	0-30%	16%	Yes
Value-Added Investments			7%	
Opportunistic Investments			9%	
Public Investments	10%	5-15%	10%	Yes

Source: Townsend, NFI-ODCE. All performance is comprised of manager provided data collected by The Townsend Group as of 9/30/18.

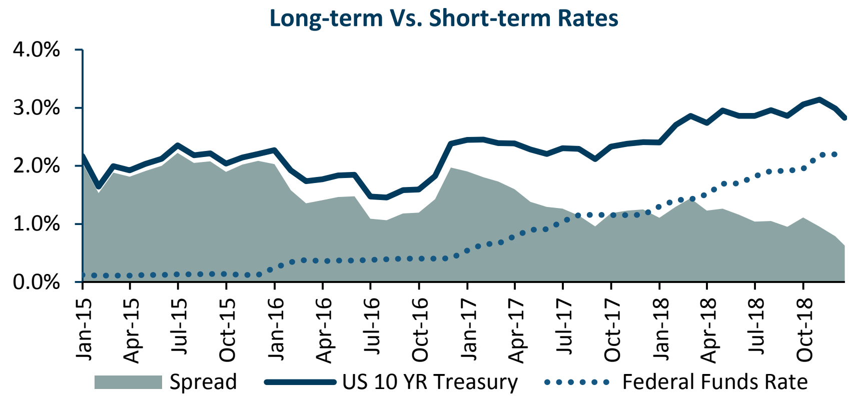
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Investing involves risk, including loss of principal. See back pages for further disclosure and definitions.

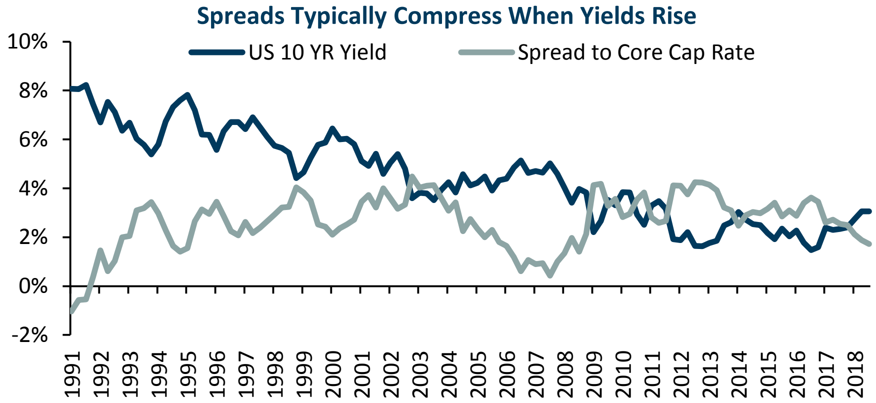
Market Overview

As Rates Rise, Investors Prefer Real Estate Due to Income Growth Potential

TOWNSEND® GROUP an Aon company

- Wage growth has been timid over the last few years, despite a tightening labor market, but is now outpacing inflation
- Inflation and 10-year US government bond yields are both on a gradual rise
- However, the Fed has raised the fund rate by 200 bps since the end of 2015, while the 10-year Treasury yields have moved by only 70-80 bps over the same period flattening the curve
- The market is concerned that the Fed may be increasing the rates faster than necessary which could derail the economic recovery
- Real estate investments offer attractive characteristics in a period of rising interest rates
  - Ability to benefit from inflation by growing rents
  - Current income generation offers downside support to valuations
  - Strong diversification to listed equities, a feature highly desirable during a period of overall valuation uncertainty when rates rise
  - Potential to invest in sectors like senior housing, student housing, and medical office that offer returns with low correlation to the broader economy, an attractive quality over a period when rising rates may introduce economic growth uncertainty





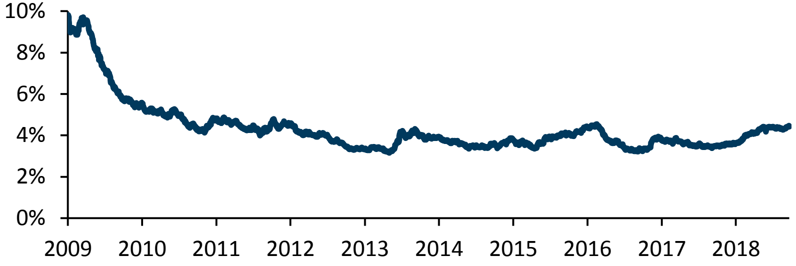
Source: Bloomberg, NCREIF

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

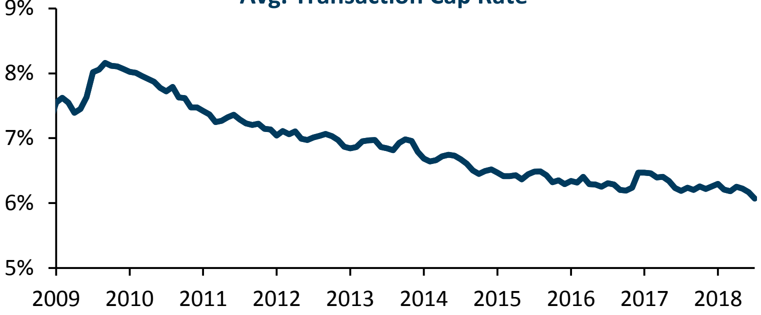
Valuations Stretched Across Asset Classes

TOWNSEND® GROUP
an Aon company

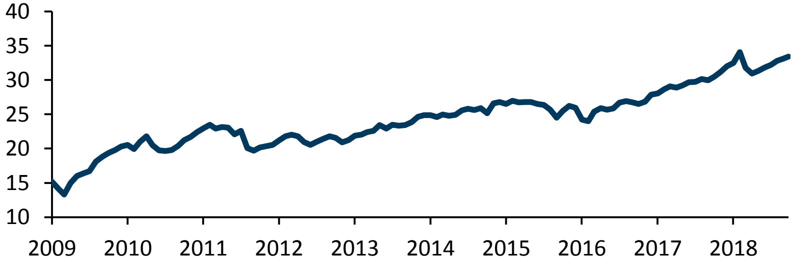
Bonds
Investment Grade Yields



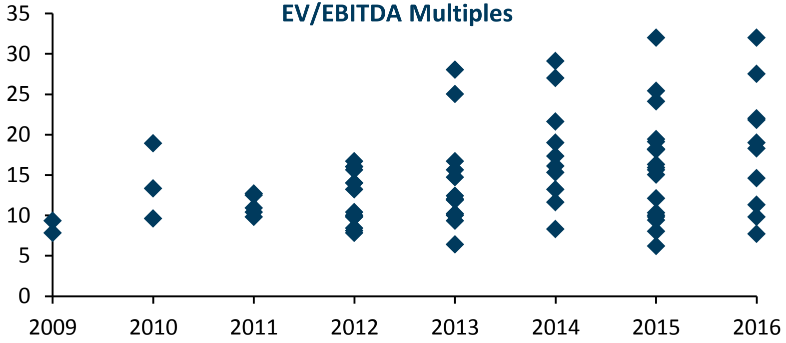
Real Estate
Avg. Transaction Cap Rate



S&P 500
Shiller P/E Ratio

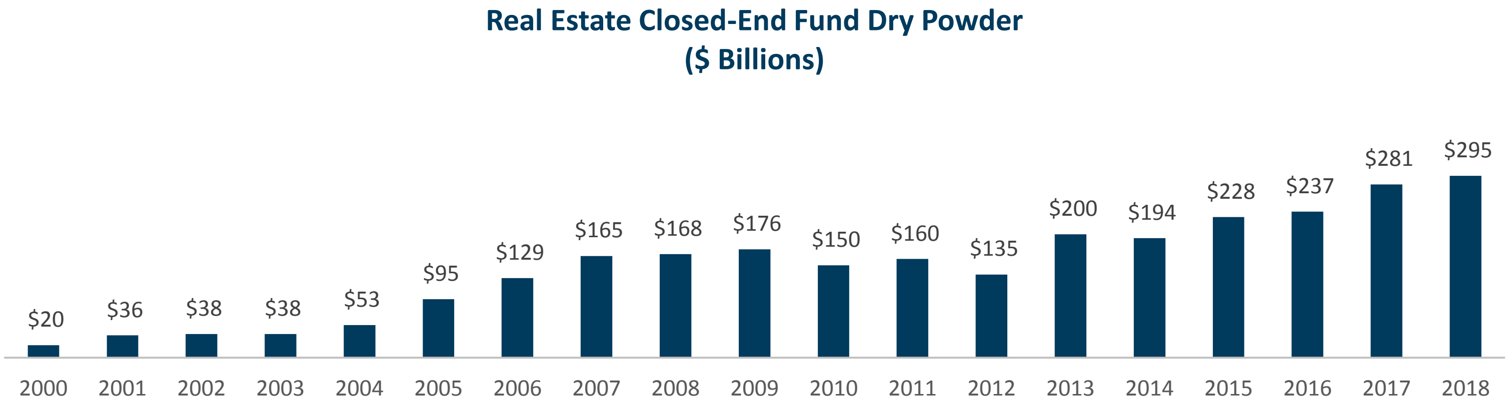


Core Infrastructure
EV/EBITDA Multiples



Source: The Townsend Group, RCA, St. Louis Fed, Multpl, Bloomberg
*Schiller P/E Ratio is a cyclically adjusted measure, which utilizes the 10 year moving average of earnings adjusted for inflation.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Investor Demand for Real Estate Remains High



- While pricing may be considered challenging, there continues to be substantial capital committed and available for investment into real estate
- In the event there is some valuation softness, dry powder sitting on the sidelines should provide a soft landing and add additional liquidity to the real estate market
- The US OECF universe continues to see net deposit queues, indicating demand for assets stretches across risk profiles
- In the current environment, pockets of outsized growth are being priced aggressively and warrant diligent underwriting standards

Source: Preqin

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Global Economic Outlook and Real Estate Investment Opportunities

Macro Factors	U.S.	Europe	China	Japan
GDP ('19)	2.7%	1.6% (U.K. 1.5%, DE 1.6%, FR 1.6%)	6.2%	0.9%
Unemployment ('19)	3.6%	7.9% (U.K. 4.0%, DE 4.9%, FR 8.8%)	4.0%	2.4%
Key Real Estate Themes	Fundamentals diverge significantly across sectors and submarkets Core offers good income and protection against a potential slowdowns Non-Core selectively mispriced	Levered income returns typically higher than in the U.S., but lower growth potential Repositioning opportunities attractive	Slowing growth raising oversupply risks, but continued urbanization trends Leverage preferred equity/mezz structure to lower risk	Low growth despite easing Existing stock old, provides attractive repositioning opportunities Low debt cost offers good leverage, without adding much risk
Office	Select markets offer good rent growth; southern markets witnessing net migration likely to benefit Repositioning and high income-producing investments likely to outperform low cap rate opportunities	Recovery in continental Europe providing modest rent tailwind; attractive income generation potential In the U.K., Brexit-related uncertainty continues to place drag on demand	High supply, credit risk, and slowing economy could lead to pockets of oversupply Prefer assets with repositioning opportunities at attractive basis	Modestly rising rent growth outlook Old stock in good locations in Tokyo/ Osaka offers attractive upgrading opportunities
Industrial	E-commerce and imports driving demand at record high level Supply rising in hotbeds, requiring focus on quality and infill assets	Strong demand from logistic players and e-commerce Yields continue to offer attractive cash returns boosted by low-cost debt	Strong demand for industrial properties conforming to modern standards Limited deal flow due to delay in land availability	Strong demand for modern logistics assets driven by 3PLs Supply building in town peripheries that is likely to limit rent growth
Retail	E-commerce reshaping landscape and forcing consolidation of retailers' space Neighborhood retail presents interesting side play	E-commerce driven reshaping will put retail at risk. E-commerce usage remains muted on the continent but projected to increase	Shift to consumer economy leading to strong demand for productive sites Oversupply in central locations, but Non-Core locations still undersupplied	Select repositioning opportunities appear attractive given poor existing asset quality E-commerce likely to be a headwind
Residential	Rent affordability remains stretched in higher-end apartments; supply glut is being worked through Suburban product offers higher yield and stands to benefits from aging millennials	Most large cities undersupplied with dwellings, but still limited opportunities Select condo conversion and repositioning plays attractive	Urbanization trend driving strong demand albeit very volatile Favor preferred equity/mezz structures to limit risk	Attractive residential development opportunities in high-growth cities like Tokyo and Osaka Secular demand growth for aged care

Actively Pursuing Neutral Selectively Pursuing

Source: The Townsend Group, Consensus Estimates: Bloomberg (December 2018)
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Definitions and 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.

This document has been prepared solely for informational purposes and is not to be construed as investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of preparation, The Townsend Group makes no representation that it is accurate or complete. Some information contained herein has been obtained from third-party sources that are believed to be reliable. The Townsend Group makes no representations as to the accuracy or the completeness of such information and has no obligation to revise or update any statement herein for any reason. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other divisions of The Townsend Group as a result of using different assumptions and criteria. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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.

Neither Townsend nor any of its affiliates have made any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of any of the information contained herein (including but not limited to information obtained from third parties unrelated to them), and they expressly disclaim any responsibility or liability therefore. Neither Townsend nor any of its affiliates have any responsibility to update any of the information provided in this summary document. The products mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors; their value and the income they produce may fluctuate and/or be adversely affected by exchange rates, interest rates, or other factors. Prospective investors in the Fund should inform themselves as to the legal requirements and tax consequences of an investment in the Fund within the countries of their citizenship, residence, domicile, and place of business.

There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results.

Townsend is a wholly owned, indirect subsidiary of Aon plc.

Disclosures/Definitions

TOWNSEND® GROUP an Aon company

GENERAL DISCLOSURES

There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results. Investing involves risk, including possible loss of principal.

Returns reflect the equal-weighted returns calculated during the periods indicated. Note: If including Core, this is value-weighted. In addition, the valuations reflect various assumptions, including assumptions of actual unrealized value existing in such investments at the time of valuation. As a result of portfolio customization/blending and other factors, actual investments made for your account may differ substantially from the investments of portfolios comprising any indices or composites presented.

Due to the customized nature of Townsend's client portfolios, the performance stated may be considered "hypothetical" as it does not reflect the experience of individual client portfolios, but rather aggregate client positions in the stated investment strategy.

NON REGULATORY ASSETS UNDER MANAGEMENT

As of June 30, 2018, Townsend had assets under management of approximately $16.0 billion. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using June 30, 2018 figures where available but may also include March 31, 2018 figures. Assets under management are calculated quarterly and includes discretionary assets under management and 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"). Regulatory AUM is calculated annually and can be made available upon request.

ADVISED ASSETS

As of June 30, 2018, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $138.1 billion. 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. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals. The recent change in Advised Assets is due to a change in the reporting of certain special projects.

Investment Programs & Governance (IP&G)

Michael McCauley
Senior Officer

Investment Advisory Council Meeting – March 26, 2019

Investment Programs & Governance (IP&G)

- Corporate Governance:
  - Proxy Voting
  - Company Engagement
  - Divestment Research
  - Regulatory Feedback
  - Investor Collaboration

- Florida PRIME:
  - Investment Management
  - Investor Reporting

- Non-Pension Client Mandates:
  - DEO trust agreements
  - Other trust agreements
  - Special Corporations

Corporate Governance Activities

PROXY VOTING

- Voting 11,000+ company meetings across 81 markets
- >100,000 independent ballot decisions made in CY18
- Focus on drivers of portfolio performance and corporate value
- Align interests between investors and management

REGULATORY ENGAGEMENT

- Commentary provided to SEC, NYSE, and other industry groups
- Focus on protecting/enhancing investor rights
- Global shareowner initiatives with member organizations

CORPORATE ENGAGEMENT

- Actively engage 100+ companies each year on best practices
- Corporate (issuer) dialogue: letters, phone, and meetings
- External investment managers’ collaboration

Corporate Governance Summary—4Q 2018

Proxy Voting Activity:

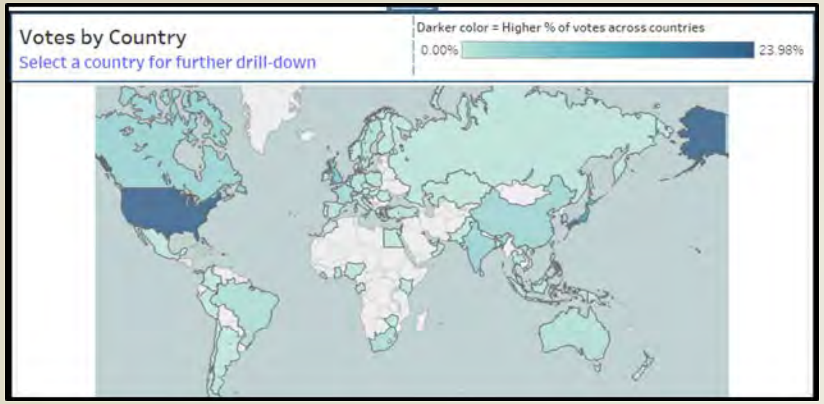
- Voting conducted in 53 markets / 1,181 meetings voted / 7,368 distinct ballot items voted

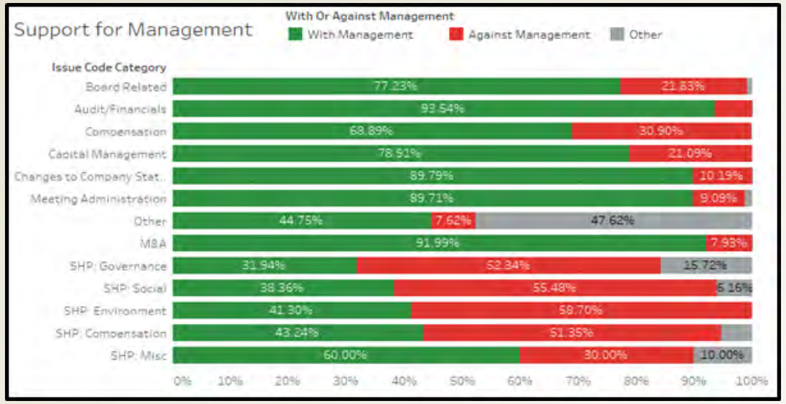
Engagement Activity:

- Corporate outreach with Telefonica, Bank of America, and Southern Co.
- Proxy Contests voted at Detour Gold and Campbell Soup Co.

Enhanced Voting Disclosure:

- New proxy voting "dashboard" includes multi-year voting information, by company/market, etc.





SBA Corp. Gov. Principles & Proxy Voting Guidelines

- Comprehensive and empirically grounded, supporting consistent approach to voting
- SBA policies modeled on best practices, global codes, and state law
- *CG Principles* – high level, global best practice
- *Voting Guidelines* – general rationale and specific factors used by staff to aid decision making
- Policies linked to portfolio value and risk mitigation

SBA Corp. Gov. Principles & Proxy Voting Guidelines / 2019 Updates

- Modify “Election of Directors” policy to clarify that board members’ failure to appropriately respond to risk exposures and take steps to mitigate risks may result in SBA withholding support from directors; and that considerations of board diversity should be balanced against prospective new board members’ time commitments. (Pages 7-8)

- Modify the “Dual Class Stock” policy to clarify that SBA supports the disclosure of voting results broken down by share class where dual class structures exist. (Page 26)

- Modify executive compensation policies and “Share Repurchase” policies to make clear that accounting adjustments and share repurchases (buybacks) should not influence or increase executive compensation payouts. Compensation metrics such as EPS that are dependent on the number of outstanding shares should be adjusted for the impact of buyback programs. (Pages 28/34)

- Modify the “Operations in High Risk Markets” policy to reflect restrictions on supporting trade with Venezuela and other proxy resolutions covered under state law. (Page 41)

Appendix

SBA Corporate Governance Statistics

SBA Proxy Voting Summary—CY2018

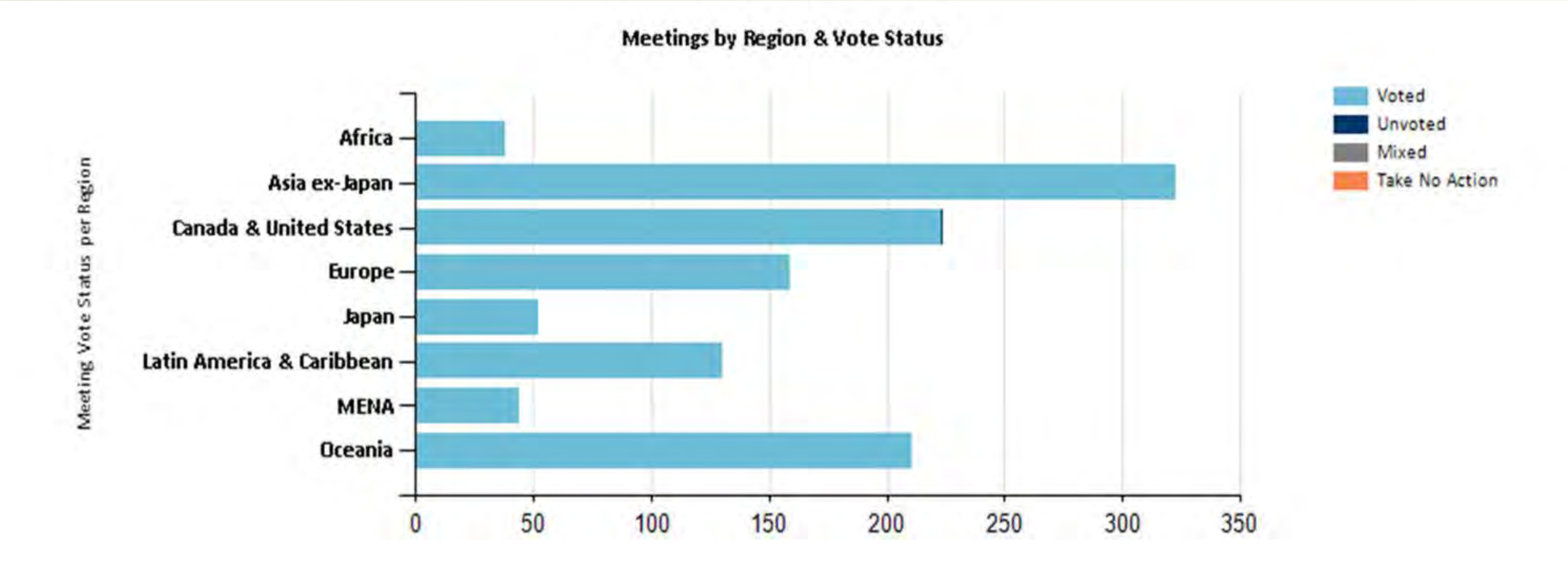
Mojor Vote Decisions by Issue

Darker color = Higher % of votes across each category

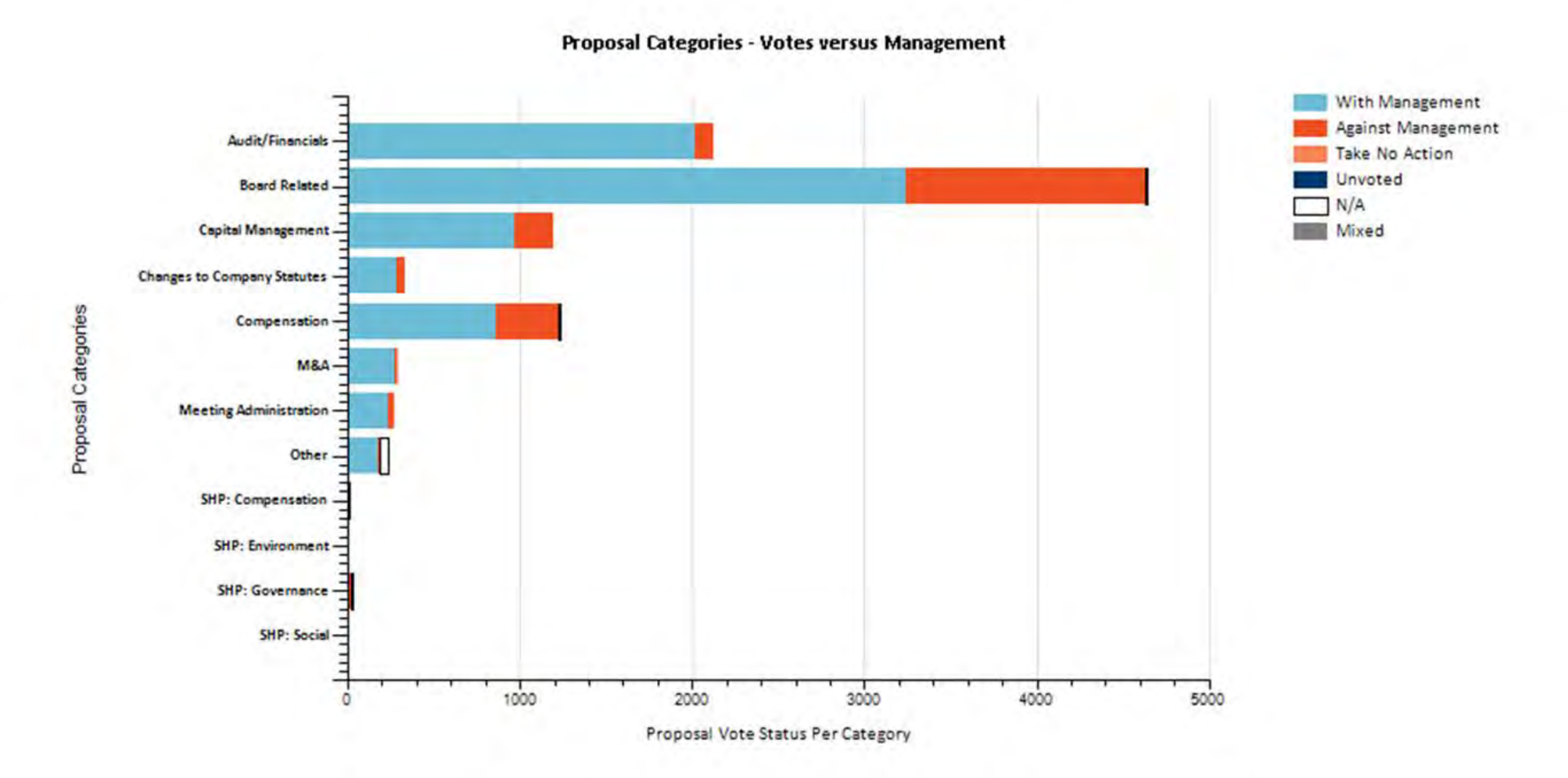
0.09% — 93.58%

Issue Code Category	For	Against & Withhold	Abstain	Grand Total
Audit/Financials	15,061	926	107	16,094
Board Related	43,605	11,669	806	56,080
Capital Management	6,044	1,589	26	7,659
Changes to Company Statutes	3,473	341	53	3,867
Compensation	7,998	3,556	85	11,639
M&A	1,264	89	20	1,373
Meeting Administration	2,839	324	3	3,166
Other	809	213	681	1,703
SHP: Compensation	39	35		74
SHP: Environment	54	37	1	92
SHP: Governance	327	242	27	596
SHP: Misc	3	7		10
SHP: Social	79	66	1	146
Grand Total	81,595	19,094	1,810	102,499

SBA Proxy Voting Summary—4Q 2018



SBA Proxy Voting Summary—4Q 2018



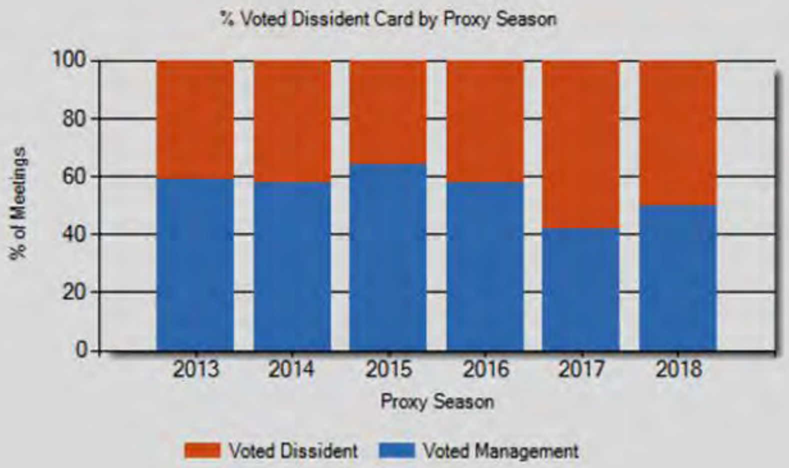
SBA Proxy Voting Summary—4Q 2018

M/S	Category	Sub Category	Resolution Type	No. of Meetings Voted at	For (%)	Agt (%)	Split (%)	Abs (%)	W/H (%)	DNV (#)
M	Board of Directors	Director Re/Elections	Approve Re/Election of Directors	679	74.6	19.1	0.1	1.7	4.5	13
M	Committees & Reporting	Auditors	Auditor Ratification	369	96.1	3.9	0.0	0.0	0.0	0
M	Remuneration	Director Remuneration	Say on Pay/Remuneration Report (Advisory)	361	64.3	35.1	0.5	0.0	0.0	0
M	Corporate Structure	Articles/By Laws	General Changes	147	87.9	9.1	0.6	2.4	0.0	0
M	Committees & Reporting	Financial Statements & Reports	Approve Allocation of Profits / Dividend	124	99.2	0.8	0.0	0.0	0.0	0
M	Corporate Structure	Capital Increase	Approve Capital Increase	118	85.4	14.6	0.0	0.0	0.0	0
M	Committees & Reporting	Financial Statements & Reports	Approve Financial Statements & Statutory Reports	112	95.0	4.1	0.0	0.8	0.0	0
M	Corporate Structure	Capital Reduction	Approve Stock Repurchase/Buyback	106	96.4	0.9	2.7	0.0	0.0	0
M	Remuneration	Director Remuneration	Directors' Remuneration (Binding)	106	93.4	5.7	0.8	0.0	0.0	0
M	Corporate Structure	Mergers & Acquisition	Approve Merger & Acquisition	81	96.7	2.5	0.0	0.8	0.0	0
M	Corporate Structure	Capital Increase	Approve Issuance WITHOUT Pre-emptive Rights	57	79.4	20.6	0.0	0.0	0.0	0
M	General Governance	Shareholder Meetings - General Procedures	Adjourn/Close Meeting	52	92.3	7.7	0.0	0.0	0.0	0
M	Remuneration	Equity Based Plans	Approve/Amend Performance Based Awards	45	90.7	9.3	0.0	0.0	0.0	0
M	Corporate Structure	Related Party Transactions	Approve/Amend Related Party Transactions	43	82.8	10.3	1.7	5.2	0.0	0
M	Remuneration	Equity Based Plans	Approve/Amend Equity Plan	37	86.7	13.3	0.0	0.0	0.0	0

Source: Proxy Insight database as of February 26, 2019.

SBA Voting in Proxy Contests—4Q 2018

% Voted Dissident Card by Proxy Season



Support by Dissident

Dissident	PC (#)	Diss (#)	Diss (%)
Paulson & Co. Inc.	2	2	100.0
Third Point Partners	1	0	0.0

Issuer	Meeting Date	Dissident	Board Control?	Card Voted	Winner	ISS	Glass Lewis	Diss (#)	Diss FOR (#)
Detour Gold Corporation	13 Dec 18	Paulson & Co. Inc.	Yes	Dis	Dis Par	UNK	Some Dissidents	8	1
Detour Gold Corporation	11 Dec 18	Paulson & Co. Inc.	Yes	Dis	Meeting Postponed	Man	Some Dissidents	8	1
Campbell Soup Company	29 Nov 18	Third Point Partners	No	Man	Set	Some Dis	Some Dissidents	12	0

Source: Proxy Insight database as of February 26, 2019.

Global Activism

Source: FactSet Research Shark Repellant database as of February 26, 2019.

Table of Contents

About the SBA

The State Board of Administration (SBA) of Florida is an agency of Florida state government that provides a variety of investment services to governmental entities. The SBA has three Trustees: the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. All three of the Trustees of the Board are elected statewide to their respective positions as Governor, Chief Financial Officer, and Attorney General. SBA Trustees are dedicated to ensuring that the SBA invests assets and discharges its duties in accordance with Florida law, guided by strict policies and a code of ethics to ensure integrity, prudent risk management and top-tier performance. The Board of Trustees appoints nine members to serve on the Investment Advisory Council (IAC). The IAC provides independent oversight of SBA's funds and major investment responsibilities.

The SBA is an investment fiduciary under law, and subject to the stringent fiduciary duties and standards of care defined by the Employee Retirement Income Security Act of 1974 (ERISA), as incorporated into Florida law.

The SBA strives to meet the highest ethical, fiduciary and professional standards while performing its mission, with a continued emphasis on keeping operating and investment management costs as low as possible for the benefit of Florida taxpayers.

General Inquiries:
1801 Hermitage Blvd., Suite 100
Tallahassee, FL 32308
Phone: +850-488-4406
Fax: +850-413-1255
Email: governance@sbafla.com
Website: www.sbafla.com

INTRODUCTION

The Florida State Board of Administration (SBA) manages the fourth largest U.S. pension fund and other non-pension trust funds with assets spanning domestic and international capital markets. Our primary function is to represent the interests of our beneficiaries so that they will see fair returns on their investment; therefore, we have a clear interest in promoting the success of companies in which we invest. To ensure returns for our beneficiaries, we support the adoption of internationally recognized governance structures for public companies. This includes a basic and unabridged set of shareowner rights, strong independent boards, performance-based executive compensation, accurate accounting and audit practices, and transparent board procedures and policies covering issues such as succession planning and meaningful shareowner participation. All proposals are evaluated through a common lens by considering both how the proposal might impact the company's financial health as well as its impact on shareowner rights.

Corporate Governance Principles

The SBA believes that, as a long-term investor, good corporate governance practices serve to protect and enhance our long-term portfolio values.[1] In accordance with the Department of Labor Interpretive Bulletin §2509.08-2, stock ownership rights, which include proxy votes, participation in corporate bankruptcy proceedings, and shareowner litigation, are financial assets. They must be managed with the same care, skill, prudence, and diligence as any other financial asset and exercised to protect and enhance long-term portfolio value, for the exclusive benefit of our pension plan participants, clients, and beneficiaries. Pursuant to the provisions set forth in the Employment Retirement Income Security Act of 1974, this is generally referred to as the "duty of loyalty" or the "exclusive purpose" rule. Under this rule, fiduciaries, defined as any person who, in part, "exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets" must act solely in the interest of plan participants and beneficiaries in making decisions concerning the management or disposition of plan assets.[2] While the SBA is exempt from most provisions of ERISA, we agree with this treatment of the value of proxy voting rights and follow the standard as a part of our fiduciary duty. Section 215.47(10) of the Florida Statutes encompass the prudent persons standards and fiduciary responsibilities of the SBA and its employees.

Another significant regulation affecting proxy voting is the U.S. Securities & Exchange Commission's (SEC) Rule 206(4)-6 under the Investment Advisors Act, promulgated in 2003. This SEC Rule made it, "fraudulent for an investment adviser to exercise proxy voting authority without having procedures reasonably designed to ensure that the adviser votes in the best interest of its clients. In the rule's adopting release, the SEC confirmed that an adviser owes fiduciary duties of care and loyalty to its clients with respect to all services undertaken on its client's behalf, including proxy voting."[3] The adopting release states, "The duty of care requires an adviser with proxy voting authority to monitor corporate events and to vote the proxies. To satisfy its duty of loyalty, the adviser must cast the proxy votes in a manner consistent with the best interest of its clients and must not subrogate client interests for its own."[4]

In 2014, the SEC issued a staff legal bulletin, 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 that are often relied upon by proxy advisory firms. In the Bulletin, the SEC outlined several new requirements for proxy advisors, including: 1) requirements to disclose significant relationships or material interests to the recipient of the advice; 2) clarified that advisors are not required to register with the SEC; and 3) clarified that advisors are not required to provide publicly-traded companies time to review proxy advisers' voting recommendations prior to client distribution. Additionally, the SEC outlined several new requirements for fund managers, including: 1) requirements to review their proxy voting policies at least annually to ensure proxies are voted in the best interests of investor clients; 2) requirements to determine whether the proxy advisers they use have the capacity and competency to adequately analyze proxy issues; and 3) clarified that investment advisers that vote client shares are not required to vote all proxies or all

[1] CFA Centre for Financial Market Integrity, "The Corporate Governance of Listed Companies: A Manual for Investors," 2009.
[2] Lannof, Ian D., "DOL Advisory Opinion 2007-07A." Groom Law Group, February 2008.
[3] The Conference Board, "The Separation of Ownership from Ownership," 2013.
[4] "Proxy Voting by Investment Advisers," SEC Final Rule adopted January 31, 2003, effective April 14, 2003; www.sec.gov/rules/final/ia-2106.htm.

proposals on ballots (clarifying SEC Rule 206(4)-6, and confirming existing Department of Labor (DOL) Interpretive Bulletin §2509.08-2).[5]

In 2016, the SEC issued Interpretive Bulletin 2016-1 which emphasized that a fiduciary's obligation to manage plan assets prudently extends to proxy voting, and that it is appropriate for plan fiduciaries to incur reasonable expenses in fulfilling those fiduciary obligations.

Managing stock ownership rights and the proxy vote includes the establishment of written proxy voting guidelines, which must include voting policies on issues likely to be presented, procedures for determining votes that are not covered or which present conflicts of interest for plan sponsor fiduciaries, procedures for ensuring that all shares held on record date are voted, and procedures for documentation of voting records. The following corporate governance principles and proxy voting guidelines are primarily designed to cover publicly traded equity securities. Other investment forms, such as privately held equity, limited liability corporations, privately held REITs, etc., are not specifically covered by individual guidelines, although broad application of the principles and guidelines can be used for these more specialized forms of equity investments.

The primary role of shareowners within the corporate governance system is in some ways limited, although critical. Shareowners have the duty to communicate with management and encourage them to align their processes with corporate governance best practices. This means shareowners have two primary obligations: 1) to monitor the performance of the company and 2) to protect their right to act when it is necessary.

In the 1930's, Benjamin Graham and David Dodd succinctly described the agenda for corporate governance activity by stating that shareowners should focus their attention on matters where the interest of the officer and the stockholders may be in conflict. This includes questions about preserving the full integrity and value of the characteristics of ownership appurtenant to shares of common stock. For example, the right to vote may be diluted by a classified board or by dual class capitalization, and the right to transfer the stock to a willing buyer at a mutually agreeable price may be abrogated by the adoption of a poison pill.

Since management and board composition change over time, while shareowners continue their investment, shareowners must ensure that the corporate governance structure of companies will allow them to exercise their ownership rights permanently. Good corporate management is not an excuse or rationale upon which institutional investors may relinquish their ownership rights and responsibilities.

The proxy voting system must be an even playing field. Neither management nor shareowners should be able to dominate or influence voting dynamics. A 2006 article analyzed the corporate governance implications of the decoupling of voting power and economic ownership through methods such as vote trading and equity swaps, methods largely hidden from public view and not captured by current regulation or disclosure rules. This method has been used by finance-savvy activist hedge funds, for example, who have borrowed shares just before the record date in order to better support proposals they favor, reversing the transactions after the record date. The SBA believes that enhanced disclosure rules are critical to reveal hidden control of voting power.[6]

Management needs protection from the market's frequent focus on the short-term in order to concentrate on long-term returns, productivity, and competitiveness. Shareowners need protection from coercive takeover tactics and directors with personal agendas. Ideal governance provisions should provide both sides with adequate protection. They should be designed to give management the flexibility and continuity it needs to make long-term plans, to permit takeover bids in cases where management performance is depressing long-term value, to ensure that management is accountable to shareowners, and to prevent coercive offers that force shareowners to take limited short-term gains.

---

[5] Securities & Exchange Commission, Staff Legal Bulletin No. 20, "Proxy Voting: Proxy Voting Responsibilities of Investment Advisers and Availability of Exemptions from the Proxy Rules for Proxy Advisory Firms," June 30, 2014.

[6] Hu, Henry T.C. and Black, Bernard S., "Empty Voting and Hidden (Morphable) Ownership: Taxonomy, Implications, and Reforms". As published in Business Lawyer, Vol. 61, pp. 1011-1070, 2006 Available at SSRN: http://ssrn.com/abstract=887183. Also, Christoffersen, S.E.K., Geczy, C.C., Musto, D.K., and Reed, A.V. 2006, "Vote Trading and Information Aggregation."

A study on shareowner activism and corporate governance in the United States found that shareowner opposition has slowed the spread of takeover defenses, such as staggered boards, that require shareowner approval. However, shareowners have failed in their efforts to get companies to roll back takeover defenses and, perhaps more importantly, managers frequently ignore even a majority shareowner vote in favor of a proposal.[7]

Global Standards of Corporate Governance

The SBA believes strongly that good corporate governance practices are important to encourage investments in countries and companies in a globalized economy where gaining access to capital markets is increasingly viewed as critical. Empirical evidence demonstrates the relationship between corporate valuation and corporate governance structures, finding that foreign institutional investors invested lower amounts in firms with higher insider control, lower transparency, and are domiciled in countries with weak investor protections.[8] A comparative analysis of corporate governance in US and international firms shows that the ability of controlling shareowners to extract private benefits is strongly determined by a country's investor protection. Thus, if investor protection is weaker, improvements in firm-level governance will be costlier for the controlling shareowner.[9]

Over the last several years, many countries, international organizations, and prominent institutional investors have developed and implemented international policies on corporate governance and proxy voting issues (e.g., the Organization for Economic Co-operation and Development, and the International Corporate Governance Network).[10] Many of these promulgated guidelines recognize that each country need not adopt a "one-size-fits-all" code of practice. However, SBA expects all capital markets to exhibit basic and fundamental structures that include the following:

1. Corporate Objective

The overriding objective of the corporation should be to optimize the returns to its shareowners over time. Where other considerations affect this objective, they should be clearly stated and disclosed. To achieve this objective, the corporation should endeavour to ensure the long-term viability of its business, and to manage effectively its relationship with stakeholders.

2. Communications & Reporting

Corporations should disclose accurate, adequate and timely information, in particular meeting market guidelines where they exist, to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares. Material developments and foreseeable risk factors, and matters related to corporate governance should be routinely disseminated to shareowners. Shareowners, the board, and management should discuss corporate governance issues. Where appropriate, these parties should converse with government and regulatory representatives, as well as other concerned bodies, to resolve disputes, if possible, through negotiation, mediation, or arbitration. For example, investors should have the right to sponsor resolutions and convene extraordinary meetings. Formal procedures outlining how shareowners can communicate with board members should be implemented at all companies and be clearly disclosed.

3. Voting Rights

Corporations' ordinary shares should feature one vote for each share. Corporations should act to ensure the owners' rights to vote and apply this principle to all shareowners regardless of their size. Shareowners should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or absentia. Votes should be cast by custodians or nominees, in a manner agreed upon with the beneficial owner of the shares. Impediments to cross border voting should be eliminated. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and should have effective means of redress.[11]

---

[7] Black, B., 1998. "Shareowner Activism and Corporate Governance in the United States."
[8] Christian Leuz, Karl V. Lins, and Francis E. Warnock, "Do Foreigners Invest Less in Poorly Governed Firms?" The Review of Financial Studies, 22 (2009).
[9] Aggraval, Reena et al, 2007, "Differences in Governance Practices between US and Foreign Firms: Measurement, Causes, and Consequences", Charles A. Dice Center for Research in Financial Economics, Working Paper 2007-14.
[10] Organization for Economic Co-operation & Development (OECD), "Corporate Governance Factbook," February 2014.
[11] Organization for Economic Cooperation & Development (OECD), Role of Institutional Investors in Promoting Good Corporate Governance, January 11, 2012.

4. Corporate Boards

The Board of Directors, or Supervisory Board, as an entity, and each of its members, as individuals, is a fiduciary for all shareowners, and they should be accountable to the shareowner body as a whole. Each member should stand for election on a regular basis, preferably with annual election cycles. Corporations should disclose upon appointment to the board, and thereafter in each annual report or proxy statement, information on the identities, core competencies, professional or other backgrounds, factors affecting independence, other commitments, and overall qualifications of board members and nominees so as to enable investors to weigh the value that they add to the company. Information on the appointment procedure should also be disclosed annually. Boards should include a sufficient number of independent, non-executive members with appropriate qualifications. Responsibilities should include monitoring and contributing effectively to the strategy and performance of management, staffing key committees of the board, and influencing the conduct of the board as a whole. Accordingly, independent non-executives should comprise no fewer than three (3) members and as much as a substantial majority. Audit, Compensation and Nomination committees should be composed entirely of independent non-executives.

5. Executive & Director Compensation

Remuneration of corporate directors or supervisory board members and key executives should be aligned with the interests of shareowners. Corporations should disclose in each annual report or proxy statement the board's policies on remuneration and, preferably, the remuneration of individual board members and top executives; so that shareowners can judge whether corporate pay policies and practices meet this standard. Broad-based employee share ownership plans or other profit-sharing programs are effective market mechanisms that promote employee participation.

6. Strategic Planning

Major strategic modifications to the core business of a corporation should not be made without prior shareowner approval of the proposed modification. Equally, major corporate changes that, in substance or effect, materially dilute the equity or erode the economic interests or share ownership rights of existing shareowners should not be made without prior shareowner approval of the proposed change. Shareowners should be given sufficient information about any such proposal early enough to allow them to make an informed judgment and exercise their voting rights.

7. Voting Responsibilities

The exercise of ownership rights by all shareowners, including institutional investors should be facilitated. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments. Shareowners, including institutional investors, should be allowed to consult with each other on issues concerning their basic shareowner rights, subject to exceptions to prevent abuse. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies, and others that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

Active Strategies & Company Engagement

The objective of SBA corporate governance engagement is to improve the governance structures at companies in which the SBA owns significant shares in order to enhance the value of SBA equity holdings.

A study on the evolution of shareowner activism in the United States affirms that activism by investors has increased considerably since the mid-1980s due to the involvement of public pension funds and institutional shareowners. The study identifies the potential to enhance value of investments as the main motive for active participation in the monitoring of corporations. However, as shareowner activism entails concentrated costs and widely disbursed benefits, only investors with large positions are likely to obtain a large enough return on their investment to justify the costs.[12] One recent study

[12] Gillan, Stuart L. and Laura T. Starks, 2007, "The Evolution of Shareowner Activism in the United States", Journal of Applied Corporate Finance, Volume 19, Number 1, Winter 2007, Published by Morgan Stanley.

demonstrated strong relative market returns based on investor engagement activities.[13] Researchers found an abnormal one-year return of +1.8% in the year following investor engagements involving environmental, social, and corporate governance factors, with improvements in operating performance and profitability.

The two primary obligations of shareowners are to monitor the performance of the companies and to protect their right to act when necessary. The SBA has neither the time nor resources to micromanage companies in which it holds publicly traded stock. Furthermore, the legal duties of care and loyalty rest with the corporate Board of Directors, not with the shareowners. For these reasons, the SBA views its role as one of fostering improved management and accountability within the companies in which we own shares. Other recent SBA corporate governance activities have included dealing with conflicts of interest within organizations with which we do business.

Department of Labor (DOL) Interpretive Bulletin §2509.08 states that voting proxies is a fiduciary responsibility and that proxies should be treated like any other financial asset, executed in the best interest of beneficiaries in accordance with written guidelines. Additionally, Florida Law may prohibit investment in companies or mandate reporting on certain investments due to geopolitical, ethnic, religious, or other factors. Compliance with these laws and any related reporting requirements have similarities to corporate governance issues and are consolidated organizationally.

Consistent with prudent and responsible investment policy, all or some of the following measures may be instituted when a corporation is found by the SBA to be under-performing market indices or in need of corporate governance reform:

- The SBA will discuss the corporate governance deficiencies with a representative and/or the Board of Directors. Deficiencies may occur in the form of policies or actions, and often result from the failure to adopt policies that sufficiently protect shareowner assets or rights. The SBA may request to be informed of the progress in ameliorating such deficiencies.
- Under SEC Rule 14(a) 8, shareowner proposals may be submitted to companies with identified performance deficiencies. Shareowners proposals will be used to place significant issues on a company's meeting ballot in order to allow all shareowners to approve or disapprove of significant issues and voice the collective displeasure of company owners.[14]
- Any other strategies to achieve desired corporate governance improvements as necessary.

Investor engagement can be classified into three categories, including "Extensive," "Moderate," and "Basic." Extensive engagement is defined as multiple instances of focused interaction with a company on issues identified with a view to changing the company's behavior. The engagements were systematic and begun with a clear goal in mind. Moderate engagement is defined as more than one interaction with a company on issues identified. The engagement was somewhat systematic, but the specific desired outcome may not have been clear at the outset. Basic engagement is defined as direct contact with companies but engagement tended to be ad-hoc and reactive. Such engagement may not have pursued the issue beyond the initial contact with the company and includes supporting letters authored by other investors or groups.

In addition to overseeing the corporate governance of companies in which we invest, the SBA must also govern the accessibility of our own records by these companies. As a beneficial owner of over 10,000 publicly traded companies, the SBA has elected to be an objecting beneficial owner, or an "OBO." By being an OBO, the SBA does not give permission to a financial intermediary to release our name and address to public companies that we are invested in. This keeps our holdings or trading strategies confidential, and allows us to avoid unwanted solicitations.

Recent developments have led many to believe that the distinction between OBO and non-objecting beneficial owners or "NOBO's" should be eliminated. However, the SEC is likely to be cautious in seeking to change the current framework in significant ways.[15] Strong opponents to an elimination of OBO and NOBO distinction are brokers and banks, who have a large incentive to ward off this change due to fee income derived from forwarding proxy materials.

[13] Elroy Dimson, Oguzhan Karakas, and Xi Li, "Active Ownership," December 2012, Moskowitz Prize winner in 2012 by the Berkely-Haas Center for Responsible Business.
[14] Rule 14a-8 is an SEC rulemaking promulgated under the Securities Exchange Act of 1934 and offers a set of procedural requirements governing how and when shareowners may submit resolutions for inclusion in a corporation's proxy statement.
[15] Beller, Alan L. and Janet L. Fisher. "The OBO/NOBO Distinction in Beneficial Ownership: Implications for Shareowner Communications and Voting." Council of Institutional Investors. February 2010.

While shareowner communication can be very important, a number of steps must be taken to address the distinction between OBO and NOBO companies and to respect the privacy of beneficial owners involved. Proposals that eliminate the possibility of anonymity are not supported. It is necessary for any changes made to the current system to accommodate the strong privacy interests of current OBO firms, such as SBA.

Disclosure of Proxy Voting Decisions

SBA discloses all proxy voting decisions once they have been made, typically seven to ten calendar days prior to the date of the shareowner meeting. Disclosing proxy votes prior to the meeting date improves the transparency of our voting decisions. Historical proxy votes are available electronically on the SBA's website.[16]

Proxy Voting and Securities Lending

SBA participates in securities lending in order to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e. on, or prior to, the share's record date). SBA has a fiduciary duty to exercise its right to vote proxies and to recall shares on loan when it is in the best interest of our beneficiaries. The ability to vote in corporate meetings is an asset of the fund which needs to be weighed against the incremental returns of the securities lending program.

Although SBA shall reserve the right to recall the shares on a timely basis prior to the record date for the purpose of exercising voting rights for domestic as well as international securities, the circumstances required to recall loaned securities are expected to be atypical. Circumstances that lead SBA to recall shares include, but are not limited to, occasions when there are significant voting items on the ballot such as mergers or proxy contests or instances when SBA has actively pursued coordinated efforts to reform the company's governance practices, such as submission of shareholder proposals or conducting an extensive engagement. In each case, the direct monetary impact of recalled shares will be considered and weighed against the discernible benefits of recalling shares to exercise voting rights. However, because companies are not required to disclose an upcoming meeting and its agenda items in advance of the record date, it usually is not possible to recall shares on loan.

[16] Reporting is publicly available at www.sbafla.com, including real time voting decisions prior to shareowner meetings.

THE BOARD OF DIRECTORS

Of the voting items that come before shareowners, the matters of the board and its operation are the most pivotal. Shareowners must be able to elect and maintain a board of directors whose main charge is to monitor management on the behalf of shareowners, but who will also sufficiently heed majority shareowner input on matters of substantial importance. These voting items concern the election of the board members, as well as chairmanship and committee service, and the processes that govern the frequency, setting and outcome of elections. The nominees' qualifications, performance, and overall contribution to the board skillset are of great importance to shareowners casting votes on the elections of individuals, particularly in cases of proxy contests.

SBA votes with the intent of electing candidates who are qualified and able to effectively contribute, and we support election processes that allow shareowners in the aggregate to exercise meaningful control over who may serve as board members and under what circumstances. We favor transparent election procedures and structures that sufficiently allow for shareowners to elect and consequently hold directors accountable for their performance.

ELECTION OF DIRECTORS: CASE-BY-CASE

Director elections are of the most important voting decisions that shareowners make. Directors function as the representatives of shareowners and serve a critical role in monitoring management. The SBA generally considers a nominee's qualifications, relevant industry experience, independence, performance and overall contribution to the board when assessing election votes.[17] At the board level, we consider the need for diversity in gender, race, experience, and other appropriate categories. In cases where a proxy contest has resulted in more nominees than available board seats, it's important to assess each candidate's relative expertise and experience, as well as differences in strategic vision if applicable.

The SBA may vote against (i.e., "withhold" support for) director nominees for one or more of the following reasons:

Poor performance or oversight in duties of the board or board committees -- including poor performance in board service at other public companies. Board members exhibiting poor performance may have failed to appropriately monitor or discipline management in cases where failed strategies continue to be implemented or when the board refuses to consider views from a large majority of shareowners, analysts and market participants. In the case of a breakdown of proper board oversight, SBA is likely to vote against all or most members of the board, and in cases where a dissident has launched a proxy contest, SBA may be supportive of the dissident nominees if they present with appropriate qualifications and strategies, as discussed below. Shareowners sometimes target under-performing directors through "vote no" campaigns. An empirical study found that "vote no" campaigns are an effective tool to voice concerns with a particular director and often successfully pressure the company to take action.[18] This underscores that performance is an essential component of governance and should be considered when evaluating director elections.

Boards are expected to conduct internal and external evaluations of their own functioning to assess how well they are performing their responsibilities.[19] These evaluations can be particularly helpful for committees as well, such as in assessing audit committee performance. The audit committee is responsible for independent oversight of the company's financial statements and, in the absence of a separate risk committee, is also often responsible for risk oversight.[20] Regular self-assessments are critical to a productive audit committee. The SBA will consider the audit com-

---

[17] The SBA generally does not consider age as a rationale for withholding votes. Length of service on a board is sometimes a factor in determining independence for a director, but is not used to justify a withhold vote except in rare instances with unusual circumstances. See the guideline for "Limits on board service".
[18] Diane Del Guercio, Laura Seery, and Tracie Woidtke, "Do Boards Pay Attention when Institutional Investor Activists 'Just Vote No,'" available at http://ssrn.com/abstract=575242. The study finds a forced CEO turnover rate of 25 percent in firms targeted with "vote no" campaigns.
[19] A paper by the Global Corporate Governance Forum recommends using board evaluations as open communication to focus on inadequacies, identify strategic priorities and become more efficient through the review of policies and procedures [GCGF, Board Performance Evaluation].
[20] SEC Rule 10A-3 under the Exchange Act mandates that stock exchanges adopt listing standards that require that each member of the audit committee of a listed company has (1) not received compensation from the issuer other than for board services and (2) is not an "affiliated person" of the issuer that either controls, is controlled by, or is under common control with the issuer.

mittee's performance, especially as it relates to oversight and risk management, when voting on individual committee members. Evidence of poor audit committee performance are financial restatements, including as a result of option backdating, un-remediated material weaknesses, and attempts to limit auditor liability through auditor engagement contracts. The severity, breadth, chronological sequence and duration of financial restatements, and the company's efforts at remediation will be examined in determining whether withhold votes are warranted.

Likewise, the function of the nominating and governance committees will be assessed by considering how the committees have approached implementation of governance rules and the impact on shareowners' rights, particularly in cases of bylaw amendments or votes on shareowner and management proposals. When a company goes public with a dual or multi-class share structure without a sunset provision on unequal voting rights such as in the case of an IPO or spinoff, SBA may withhold votes from or vote against directors. Bylaws that create supermajority voting thresholds or limit shareowner rights are generally undesirable, but depends on the context of the individual company. This committee also is responsible for board nominations, and SBA judges this function by the qualifications and diversity of the nominees. This committee should make an effort to seek candidates that are diversified not only in experience, gender and race, but in all other aspects appropriate for the individual company and should disclose these efforts to shareowners.

Members of the compensation committee are judged in accordance with the aspects of the compensation philosophy, plan and implementation. Compensation that is out of line with respect to magnitude, peers, or performance is problematic, as are plans that reward compensation without appropriate performance-based conditions or feature undesirable elements such as gross-ups or single-trigger severance packages.

We may withhold support for individual directors if there are indications that directors are failing or failed to understand company risk exposures and/or take reasonable steps to mitigate the effects of the risk, leading to large losses.

Restricting shareowner rights or failing to sufficiently act on shareowner input -- such as ignoring a shareowner proposal that received majority support of votes cast or attempting to block or limit the ability of shareowners to file precatory or binding proposals or adopt or amend bylaws

Serving on too many boards ("over-boarding') – generally a director who serves on more than 3 company boards and who is employed in a full-time position.[21] Directors with significant outside responsibilities such as serving as CEO of a public company should not exceed one external board membership.[22] Surveys of directors have indicated that the average board membership requires over 200 hours of active, committed work, making service on multiple boards difficult for executives, particularly CEOs, and leading to many investors embracing similar limits as the SBA. -When seeking to improve diversity, boards should choose well-qualified, diverse candidates who are not already committed to three other boards. SBA does not support overextending a director's commitments via over-boarding just to satisfy or improve the diversity characteristics of the board.

Poor attendance at meetings without just cause – less than 75 percent attendance rate.

Lack of independence – most markets should have independent board representation that meets a minimum two-thirds threshold. Independence is defined as having no business, financial or personal affiliation with the firm other than being a member of its board of directors. Directors or nominees that are affiliated with outside companies that conduct business with the company, have significant outside links to senior management, were previously employed by the company or are engaged directly or indirectly in related-party transactions are highly likely to be considered non-independent, depending on the materiality of the circumstances. At controlled companies (where an investor

[21] See Fich, Eliezer M. and Anil Shivdasani, 2006, "Are Busy Boards Effective Monitors?," The Journal of Finance, Vol. 61, No. 2, pp. 689-724 (36), Blackwell Publishing. This study of U.S. industrial firms between 1989 and 1995, found that when a majority of outside directors serve on three or more boards, firms exhibit lower market-to-book ratios, as well as weaker operating profitability. When a majority of outside directors are over boarded, the sensitivity of CEO turnover to performance is significantly lower than when a majority of outside directors are not busy. Investors react positively to the departure of over boarded directors, while firms, whose directors acquire an additional board seat and become over boarded, end up experiencing negative abnormal returns.
[22] Neil Roland, "Directors at troubled companies overbooked, research firm claims" Financial Week, February 25, 2009. This article gives examples of over-boarding problems at struggling U.S. financial institutions.

controls a majority of a firm's equity capital); support may be withheld from directors at boards with less than a one-third proportion of independent directors.

Boards without adequate independence from management may suffer from conflicts of interest and impaired judgment in their decision-making. In addition to poor transparency, directors with ties to management may be perceived to be less willing and able to effectively evaluate and scrutinize company strategy and performance. SBA carefully scrutinizes management nominees to the board, because of the conflict of interest inherent in serving on the board, which in turn is charged with overseeing the performance of senior management. In most markets, we support the CEO of the company as the only reasonable management team member to serve on the board.

Lack of disclosures -- because there are differences in each market as to disclosures and voting procedures for director elections, SBA takes into account practices in the local market, but does not compromise on fundamental tenets such as the right to elect individual directors (as opposed to a slate as a whole) and the need for proof that director candidates can provide independent oversight of management. Global markets increasingly depend on the homogenization of better governance standards to increase shareowner value and liquidity in emerging markets. The protection of fundamental voting rights may be at odds with local market customs in the short run[23], but through voting the SBA aims to encourage companies to adopt minimum-level best practices throughout the portfolio of holdings.

In certain markets where the quality and depth of disclosures about the nominees are less than desirable, we work with other investors to advocate for improvements in these markets as a matter of course. In a few markets, the directors may be proposed as a group in a single bundled voting item, preventing a vote on each director, which is considered a very poor practice in developed economies.

When nominees are bundled or insufficient information is disclosed, we typically oppose the item. When appropriate information is disclosed, we make voting decisions based on the qualifications of the nominee, the performance of the nominee on this or other boards, if applicable, and the needs of the board considering the other nominees' overall skillset.

Minimal or no stock ownership -- in regard to industry or market peers. Companies should adopt a policy covering stock ownership for directors and annually review compliance among members. Certain markets have laws prohibiting ownership or discourage ownership among directors as a potential conflict of interest, so SBA is more nuanced in assessing directors on these markets.

Proxy contests are less typical election events, only occurring in a small fraction of director elections, but require shareowners to judge between competing views of strategic direction for the company. When analyzing proxy contests, the SBA focuses on two central questions: (1) Have the dissidents demonstrated that change is warranted at the company, and if so, (2) will the dissidents be better able to affect such change versus the incumbent board?

When dissidents seek board control with a majority of nominees, they face a high burden of proof and must provide a well-reasoned and detailed business plan, including the dissidents' strategic initiatives, a transition plan that describes how the dissidents will affect change in control, and the identification of a qualified and credible new management team. The SBA compares the detailed dissident plan against the incumbents' plan and compares the dissidents' proposed board and management team against the incumbent team.

Usually dissidents run a "short slate", which seeks to place just a few nominees on the board, not a majority. In these cases, the SBA places a lower burden of proof on the dissidents. In such cases, the SBA's policy does not necessarily require the dissidents to provide a detailed plan of action or proof that its plan is preferable to the incumbent plan. Instead, the dissidents must prove that change is preferable to the status quo and that the dissident slate will add value to board

[23] For instance, Italy amended its "Consolidated Financial Act" to mandate that Italian issuers reserve a certain number of board seats for candidates presented by minority shareowners. This mandate affects Board of Director elections, Supervisory Board elections, and Board of Statutory Auditor elections. See, "Italian Issuers- Guidelines for the election of the Board of Directors (or Supervisory Board) or Board of Statutory Auditors," Trevisan & Associati February 19, 2009 available at http://www.trevisanlaw.it/en_mask.html?5 (last visited March 2, 2009).

deliberations, including by considering the issues from a viewpoint different ~~than~~from current management, among other factors.

PROXY ACCESS: FOR

Proxy access is an important mechanism for shareowners with substantial holdings to nominate directors directly in the company's proxy materials. Generally, we support proposals that have reasonable share ownership (3% or less) and holding history (3 years or less) requirements, allow shareowners to aggregate holdings for joint nominations (permitting groups of at least 20 shareowners), cap the number of shareowner nominees at the greater of 2 or at least 20% of the board seats, and feature other procedural elements that are not unduly burdensome on shareowners seeking to make nominations. The SBA may vote against proposals which contain burdensome or otherwise restrictive requirements, such as ownership or holding thresholds which are set at impractical levels.

SEPARATE CHAIRMAN & CHIEF EXECUTIVE OFFICER (CEO): CASE-BY-CASE

Because the board's main responsibility is to monitor management on behalf of shareowners, it is generally desirable for the chairman of the board to be an independent director, as opposed to the current CEO or a non-independent director such as a former CEO. Most academic evidence concludes that there is more benefit to shareowners when the chair is an independent director.[24] SBA typically supports proposals to provide for an independent board chairman; however, in certain cases where strong performance and governance provisions are evident, SBA may support the status quo of a serving combined CEO and chairman.

When considering whether to support a separate CEO and chairman proposal, SBA takes into account factors such as if there is a designated, independent lead director with the authority to develop and set the agenda for meetings and to lead sessions outside the presence of the executive chair, as well as short and long-term corporate performance on an absolute and peer-relative basis. In order to maintain board accountability, the SBA will not endorse the combined role of CEO and chair unless there is a strong, empowered lead director, superior company performance, and exemplary governance practices in other areas such as shareowner rights and executive compensation.

MAJORITY VOTING FOR DIRECTOR ELECTIONS: FOR

Proxy contests are rare; most elections feature uncontested elections where the number of directors nominated equals the number of board seats. When plurality voting is used as the voting standard in uncontested elections, the members are guaranteed election, no matter how few shareowners supported them. The SBA supports a majority voting standard for uncontested elections because it adds the requirement that a majority of shareowners must vote for each member to be considered duly elected. We prefer for the board to make this requirement in the bylaws of the company, not as a board policy. Policies that require the board members failing to achieve majority support to offer a resignation, which in turn may or may not be accepted by the board or committee, are not acceptable alternatives to a true majority vote standard for uncontested elections.

The SBA strongly endorses the majority voting election standard for the meaningful accountability it affords shareowners and because it provides another element to the system of checks and balances of power within the corporate structure. In contested elections, however, plurality voting remains the most effective voting standards, so all bylaws should specify that the majority voting standard applies only to uncontested elections.

---

[24] Grinstein, Yaniv and Valles Arellano, Yearim, "Separating the CEO from the Chairman Position: Determinants and Changes after the New Corporate Governance Regulation." March 2008; Lorsch, Jay and Zelleke, Andy, " Should the CEO Be the Chairman?" MIT Sloan Management Review, 2005; Ryan Krause, Semadeni, Matthew, "Apprentice, Departure, and Demotion: An Examination of the Three Types of CEO-Board Chair Separation," Academy of Management Journal 55(6), 2012; Tonello, Matteo, John C. Wilcox, and June Eichbaum, "The Role of the Board in Turbulent Times: CEO Succession Planning." The Corporate Board, August 2009; Lucier, Chuck, Steven Wheeler, and Rolf Habbel, "The Era of the Inclusive Leader." The Corporate Board, September/October 2007; "Chairing the Board: The Case for Independent Leadership in Corporate North America," Policy Briefing No. 4, Millstein Center for Corporate Governance & Performance, Yale School of Management, 2009.

ANNUAL ELECTIONS / NON-CLASSIFIED BOARD: FOR

A classified, or staggered, board is one in which directors are divided into three "classes" with each director serving three-year terms. All directors on a non-classified board serve one-year terms and the entire board is re-elected each year. The SBA opposes classified boards and their provisions because we believe that annual accountability will ultimately lead to increased corporate performance. Classified boards decrease corporate accountability by protecting directors from election on an annual basis. Alternatively, the SBA supports changing from a staggered board structure to annual elections for all directors.

Studies performed by economists at the SEC and by academics support the view that classified boards are contrary to shareowner interests, showing negative effects on share value for companies that adopt classified boards.[25] While classified board proponents cite stability, independence, and long-term strategic risk taking as justification for staggered boards, recent research has shown little evidence of such benefits.[26]

REQUIRE MAJORITY OF INDEPENDENT DIRECTORS: FOR

SBA supports a majority independence requirement because shareowners are best served when the board includes a significant number of independent outside directors who will represent their interests without personal conflict. The most important role of the board is to objectively evaluate the performance of senior management, so outside directors with relevant, substantial industry qualifications are most likely to perform well in this role.

SBA considers local market practices, but is likely to vote against current members if less than a majority of independent directors exists. In developed markets, we expect a supermajority of independent directors and consider a two-to-one ratio of independent directors to inside and affiliated directors to be a reasonable standard and will withhold support from individual director nominee who are not independent in those circumstances. Furthermore, SBA supports restricting service on compensation, audit, and governance/nominating committees to independent outside directors only.

ESTABLISH OR SET MEMBERSHIP OF BOARD COMMITTEES: CASE-BY-CASE

SBA supports the audit, compensation, and governance/nominating committees being composed solely of independent board members. Independent directors face fewer conflicts of interests and are better prepared to protect shareowner interests.[27]

Some proposals seek to add committees on specific issues such as risk management, sustainability issues, and even specific issues such as technology and cybersecurity. When voting on proposals suggesting the establishment of new board committees, we assess the rationale for the committee and the process for handling discussions and decisions on such topics currently in place at the company. We support formation of committees that would protect or enhance shareowner rights when the company's current practices are failing to do so adequately.

---

[25] For example, the SEC studied the impact of 649 anti-takeover proposals submitted between 1979 and 1985. The proposals consisted of fair price provisions, institution of supermajority vote requirements, classified board proposals, and authorization of blank check preferred stock. Stocks within the group showed an average loss in value of 1.31 percent. The study also found that the proposals were most harmful when implemented at firms that have higher insider and lower institutional shareholdings.

[26] Faleye, Olubunmi, "Classified Boards, Stability, and Strategic Risk Taking." Financial Analysts Journal, Volume 65, No. 1, 2009. Also see, Lucian A. Bebchuk, "The Myth That Insulating Boards Serves Long-Term Value," Columbia Law Review, Vol. 113, October 2013 and Bebchuk, Lucian, Cohen, Alma, and Wang, Charles C.Y. ; "Staggered Boards and the Wealth of Shareholders: Evidence from a Natural Experiment," Harvard Law School John M. Olin Center Discussion Paper No. 694, June, 2010; Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, "Corporate Governance and Equity Prices." National Bureau of Economic Research Working Paper No. W8449, August 2001; Bates, Thomas W., David A. Becher and Michael L. Lemmon, 2007, "Board Classification and Managerial Entrenchment from the Market for Corporate Control", electronic copy available at: http://ssrn.com/abstract=923408; Jiraporn, Pornsit and Yixin Liu, 2008, "Capital Structure, Staggered Boards, and Firm Value," Financial Analyst Journal, Volume 64, Number 1.

[27] T Aggraval, Reena et al, 2007, "Differences in Governance Practices between US and Foreign Firms: Measurement, Causes, and Consequences", Charles A. Dice Center for Research in Financial Economics, Working Paper 2007-14

In most markets, SBA expects board to have key committees such as compensation, nominating/governance and audit committees. SBA generally encourages companies, especially financial companies, to have a standing enterprise risk management committee of the board with formal risk management oversight responsibilities.[28] We may withhold support for individual directors if there are indications that directors failed to understand company risk exposures and/or failed to take reasonable steps to mitigate the effects of the risk, leading to large losses.

Shareowner advisory committees may advise the board on shareowner concerns and create formal means of communication between company stockholders and company management. SBA generally supports advisory committee proposals, particularly those intended to improve poor corporate governance practices.

SBA is typically unsupportive of proposals that specify establishment of a governmental party committee (as seen in certain proposals to add a Communist party committee for Chinese or Hong Kong state-owned entities) without disclosing board decision-making processes or the respective responsibilities of the party organization and the board. Companies should disclose as much relevant information on the interaction between the company and the government party committee as possible to help shareowners understand the company's decision-making process—particularly in those circumstances where the board allows the party committee to make material decisions. SBA generally votes against such proposals as they may erode the ability of shareowner-elected directors to govern the firm and sever the ties of accountability between the board and shareowners.

CUMULATIVE VOTING: CASE-BY-CASE

Cumulative voting generally is useful to minority shareowners at companies where a large or controlling shareowner or block of shareowners that may act in concert (such as a family-owned company) exists. It guarantees that minority shareowners will be able to elect at least one of their preferred candidates to the board of directors, even if the candidate does not win a majority vote. In contrast, only majority shareowners are guaranteed board representation at companies without cumulative voting.

The SBA will examine proposals to adopt cumulative voting in light of the company's ownership profile (particularly whether there is a majority or near majority voting block) and the presence of other governance provisions such as proxy access and majority voting election requirements that directly address the voting process. A majority vote election standard ensures board accountability in uncontested elections and in some cases mitigates the need for cumulative voting. Although majority voting is meaningful in uncontested elections, it can convolute voting outcomes in contested elections. Cumulative voting, on the other hand, is meaningful primarily in contested elections, and therefore pairs well with proxy access provisions at controlled companies.

The SBA is likely to support cumulative voting proposals at majority-controlled companies to ensure that a single shareowner or small group of shareowners is unable to control voting outcomes in full. The SBA may vote against proposals to adopt cumulative voting if the company has no large shareowner blocks that aggregate easily to majority control and has adopted a full majority voting in elections bylaw (not a resignation policy), as well as proxy access or a similar structure that proactively encourages shareowners to nominate directors to the company's ballot.

REIMBURSE SHAREOWNERS FOR PROXY EXPENSES: CASE-BY-CASE

SBA generally supports proposals requiring reimbursement of proxy solicitation costs for successful dissident nominees. The expenses associated with promoting incumbent directors in a proxy contest are paid by the company, and for parity, dissidents elected by shareowners should have this benefit as well.

---

[28] In 2004, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined Enterprise Risk Management (ERM) as, "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

In some circumstances at firms with no reimbursement policy, dissidents are reimbursed only for proxy solicitation expenses if they gain control of the company and seek shareowner approval for the use of company funds to reimburse themselves for the costs of solicitation. SBA would typically support reimbursement of reasonable costs in these instances.

CONFIDENTIAL VOTING: FOR

SBA supports greater transparency in election tabulations and the use of independent tabulators and inspectors, and we support to concept of end-to-end vote confirmation so that shareowners can be confident that their vote was correctly cast and counted. However, we are respectful of shareowners who may prefer anonymity. In a confidential voting system, only vote tabulators and inspectors of elections may examine individual proxies and ballots—management and shareholders are given only voting totals. The SBA supports resolutions requesting that corporations adopt a policy of confidential voting combined with the use of independent vote tabulators and inspectors of elections because it is the best way to guarantee confidentially. However, the SBA generally does not support resolutions calling for confidential voting if they lack an independent inspector requirement.

In the absence of such policies, shareowners can vote confidentially by registering their shares with third-parties as objecting beneficial owners (OBOs), allowing anonymity in the voting process. In an open voting system, management can determine who has voted against its director nominees (or proposals) and then re-solicit those shareowners before the final vote count. As a result of the re-solicitation, shareowners may be pressured to change their vote. On the positive side, many companies are increasing their interactions with shareowners before the voting occurs through expanded proxy solicitation conversations and other paths of engagement.

MINIMUM STOCK OWNERSHIP: FOR

The SBA typically supports proposals that require directors to own a reasonable minimum amount of company stock.[29] The SBA will consider voting against directors who own no company stock and have served on the board for more than one year. One of the best ways for directors to align their interests with those of the shareowners is to own stock in the corporation, and since director fees are typically paid partially in stock, retention guidelines encourage long-term ownership of these shares. SBA typically expects non-employee directors to maintain ownership of a number of shares having a market value equal to five times their annual retainer.

Boards should establish a policy and annually review and identify the positions covered by directors and executives. The annual review should also provide information to shareowners on whether guidelines are met and describe any action taken for non-compliance. The guidelines should identify what compensation types may be considered as ownership and what holdings are not (such as hedged positions).

NOMINEE QUALIFICATIONS: CASE-BY-CASE

SBA may support proposals concerning nominee qualifications if there is justification for doing so and the criteria include reasonable limits, restrictions, or requirements.

Some boards of directors may unilaterally implement changes to their corporate bylaws or articles aimed at restricting the ability of shareowners to nominate director candidates who receive third-party compensation or payments for serving as a director candidate or for service as a director of the company. Such restrictive director qualification requirements may deter legitimate investor efforts to seek board representation via a proxy contest and could exclude highly qualified individuals from being candidates for board service. When such provisions are adopted without shareowner ratification, the SBA may withhold support from members of the full board of directors or members of the governance committee

[29] Executive stock ownership is covered in the executive compensation section of these guidelines.

serving at the time of the bylaw amendment. However, SBA does support disclosure of all compensation and payments made by a third-party to nominees or directors.

LIMITS ON BOARD SERVICE: AGAINST

The SBA generally votes AGAINST proposals to limit the service of outside directors. While refreshing a board with new outside directors often brings in fresh ideas and a healthy mix of director experience that benefit shareowners, we do not believe arbitrary limits such as tenure limits and mandatory retirement ages are appropriate ways to achieve that goal. They preclude a board's more nuanced examination of its members' contributions and could harm shareowners' interests by preventing some experienced and knowledgeable directors from serving on the board. Age limits in particular are a form of discrimination.

Boards of directors should evaluate director tenure as part of the analysis of a director's independence and overall performance. Some studies indicate a correlation between director tenure and firm performance. A study of companies in the U.S. found that the relationship between average director tenure and firm value was negatively correlated, but highly dependent on tenure levels over time.[30]

SET BOARD SIZE: CASE-BY-CASE

The voting decision for these proposals depends on who is making the proposal and why. On occasion, management proposals seek to limit a shareowner's ability to alter the size of the board, while at the same time, allowing management to increase or decrease the size of the board at its discretion. Corporate management argues that the purpose of such proposals is to prevent a dominant shareowner from taking control of the board by drastically increasing the number of directors and electing its own nominees to fill the newly created vacancies. Other scenarios may include a board's downsizing in response to business changes or acquisitions. The SBA generally supports such proposals when a reasonable rationale is presented for the change. We prefer a shareowner vote for any changes in board size because the directors serving are representatives of the shareowners, and they should collectively determine the size of the board. Often, state law supersedes corporate bylaws by specifying minimum and maximum board size, as well as the process governing changes in board size.

REQUIRE MORE NOMINEES THAN BOARD SEATS: AGAINST

SBA opposes shareowner proposals requiring two candidates per board seat. Proxy access is a preferable mechanism for shareowners to nominate directors when necessary.

DIRECTOR LIABILITY AND/OR INDEMNIFICATION: CASE-BY-CASE (AND ACCORDING TO STATE LAWS)

Indemnification literally means "to make whole." When a corporation indemnifies its directors and officers, the directors are covered by the company or insured by a purchased policy against certain legal expenses, damages and judgments incurred as a result of lawsuits relating to their corporate actions. SBA may vote in favor if the covered acts provide that a "good faith" standard was satisfied. The SBA votes against such proposals if coverage expands beyond legal expenses and to applies to acts that are more serious violations of fiduciary obligation, such as negligence or violating the duty of care.

SUPPORT SHAREOWNER COMMUNICATIONS WITH THE BOARD: FOR

---

30 Huang, Sterling, "Board Tenure and Firm Performance," INSEAD Business School, May 2013.

The SBA generally supports shareowners proposals requesting that the board establish a procedure for shareowners to communicate directly with the board, such as through creating an office of the board of directors, unless the company has done all of the following:

- Established a communication structure that goes beyond the exchange requirements to facilitate the exchange of information between shareowners and members of the board;
- Disclosed information with respect to this structure to its shareowners;
- Heeded majority-supported shareowner proposals or a majority withhold vote on a director nominee;
- Established an independent chairman or a lead/presiding director. This individual must be made available for periodic consultation and direct communication with major shareowners.

ADOPT TWO-TIERED (SUPERVISORY/MANAGEMENT) BOARD STRUCTURE: CASE-BY-CASE

Companies in some countries have a two-tiered board structure, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company's daily operations. At companies with two-tiered boards, shareowners elect members to the supervisory board only; the supervisory board appoints management board members. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by Company law in France and Spain.

The merits of the new structure will be weighed against the merits of the old structure in terms of its ability to represent shareowners' interests adequately, provide for optimal governance structure, and also to generate higher shareowner value.

RATIFY ACTIONS TAKEN BY BOARD DURING PAST YEAR: CASE-BY-CASE

Many countries require that shareowners discharge the board or management for actions taken in the previous year. In most cases, discharge is a routine item and does not preclude future shareowner action in the event that wrongdoing is discovered.[31] Unless there is clear evidence of negligence or action counter to shareowners' interests, the SBA will typically support the proposals. However, in the United States, given the unusual nature of discharge proposals, the SBA will typically vote against proposals that would limit the board or management from any future legal options.

APPROVE PROPOSED/COMPLETED TRANSACTIONS BETWEEN DIRECTORS AND COMPANY: CASE-BY-CASE

Transactions between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related-party transactions and are subject to company law or stock exchange listing requirements that mandate shareowner approval. Shareowner approval of these transactions is critical as they are meant to protect shareowners against abuses of power. Transactions should be completed at arm's length and not benefit directors and/or insiders at company or shareowners' expense. We also support reviews of director transactions by independent committees.

[31] In June 2008, Manifest and Morley Fund Management analyzed governance practices in continental Europe and issued a report that emphasized the country-specific implications of discharging directors. "Directors' Liability Discharge Proposals: The Implications for Shareowners" stressed that the nature and scope of directors' liabilities vary by jurisdiction. "Each market has its own rules, regulations and best practice guidelines against which informed decisions should be measured and carefully weighed." One similarity noted in the report was that "in all the markets covered by the study, a failure to grant a discharge from liability does not have an immediate effect on the liability of directors, but merely leaves the possibility open for the company to initiate an action for liability."

INVESTOR PROTECTIONS

Investor protections encompass voting items that impact the ability of shareowners to access information needed to make prudent decisions about ownership and to exercise their rights to influence the board, election processes, and governance structure of the company. These items fall into categories relating to audits, disclosures, anti-takeover defenses and vote-related mechanisms. SBA is committed to strong investor rights across all of these domains and will exercise our votes to protect and strengthen the rights of shareowners in these crucial areas.

While SBA is deferential to the company and board on many issues affecting the operations of the firm whenever prudent, we are not deferential when it comes to the ability to exercise shareowner responsibilities, which includes monitoring the firm and the board of directors and acting to support change when it is warranted. We require and therefore will support strong audit functioning and detailed disclosures in a variety of areas. Strong investor rights, as well as policies that do not allow board entrenchment, are necessary for investors to protect share value.

Auditors

RATIFICATION OF AUDITORS: CASE-BY-CASE

Most major companies around the world use one of the major international auditing firms to conduct their audits. As such, concerns about the quality and objectivity of the audit are typically minimal, and the reappointment of the auditor is usually a routine matter. In the United States, companies are not legally required to allow shareowners to ratify the selection of auditors; however, a growing number are doing so. Typically, proxy statements disclose the name of the company's auditor and state that the board is responsible for selection of the firm.

The auditor's role in safeguarding investor interests is critical. Independent auditors have an important public trust, for it is the auditor's impartial and professional opinion that assures investors that a company's financial statements are accurate.[32] Therefore, the practice of auditors providing non-audit services to companies must be closely scrutinized. While large auditors may have internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for non-audit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees. In addition to ensuring that the auditor is free from conflicts of interest with the company, it is also important to ensure the quality of the work that is being performed.[33]

One of the major threats to high quality financial reporting and audit quality is the risk of material financial fraud. Several studies have analyzed the nature, extent and characteristics of fraudulent financial reporting, as well as the negative consequences for investors and management.[34] The studies' authors noted that auditing standards place a responsibility on auditors to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

SBA generally supports proposals to ratify auditors unless there is reason to believe that the auditing firm has become complacent in its duties or its independence has been compromised.[35] SBA believes all publicly held corporations should

[32] Hollis Ashbaugh-Skaife, et al, The Effect of SOX Internal Control Deficiencies on Firm Risk and Cost of Equity June 10, 2008.

[33] Joseph Carcello & Chan Li, "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom," Corporate Governance Center at the University of Tennessee, Working Paper, 2012. This study found that when an audit partner's name is included within the audit report, the quality of the audit increases, along with auditor fees.

[34] Mark S. Beasley, Joseph V. Carcello, Dana R. Hermanson, and Terry L. Neal, "An Analysis of Alleged Auditor Deficiencies in SEC Fraud Investigation: 1998-2010," University of Tennessee Corporate Governance Center, May 2013. Also see, Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Fraudulent Financial Reporting: 1998–2007, An Analysis of U.S. Public Companies," 2010.

[35] Jonath Stanley, Auburn University, "Is the Audit Fee Disclosure a Leading Indicator of Clients' Business Risk?," American Association of Accountants Quarterly Journal, 2011. For example, non-audit fees, primarily tax and other consulting fees, can exceed audit fee revenue by a large margin, impairing an audit firm's objectivity. This study examined about 5,000 small sized companies over a seven year period and concluded that rising audit fees were a leading indicator for future deterioration in financial performance as measured by firms' return on assets, determined by both earnings and cash flows.

rotate their choice of auditor's periodically. Shareowners should be given the opportunity to review the performance of the auditors annually and ratify the board's selection of an auditor for the coming year.[36]

The audit committee should oversee the firm's interaction with the external auditor and disclose any non-audit fees completed by the auditor. Audit committees should disclose all factors considered when selecting or reappointing an audit firm, information related to negotiating auditor fees, the tenure of the current external audit firm, and a description of how the audit committee oversees and evaluates the work of their external auditor. Serial or significant restatements are potential indications of a poorly performing auditor, audit committee, or both.

APPOINT INTERNAL STATUTORY AUDITORS (JAPAN, HONG KONG, SOUTH KOREA): FOR

Most votes for auditors in Japan are to approve internal statutory auditors (also known as corporate auditors) rather than external auditors. Statutory auditors have the right to attend board meetings, although not to vote, and the obligation to cooperate with the external auditor and to approve its audit. They are required by law to keep board members informed of the company's activities, but this has become a largely symbolic function. They do not have the ability to remove directors from office. Internal auditors serve for terms of four years, and may be renominated an indefinite number of times. While many investors view statutory auditors in a positive light, they are not substitutes for independent directors.

In Japan, at least half of internal auditors must be independent. While companies have complied with the technical requirements of the law, many have ignored its spirit. It is in shareowners' interests to improve the audit and oversight functions in Japan and to increase the accountability of companies to shareowners. Therefore, the SBA will not support internal auditors specified as independent but with a past affiliation with the company. When a statutory auditor attends fewer than 75 percent of board and auditor meetings, without a reasonable excuse, the SBA will generally vote against the auditor's appointment.

In other capital markets, such as South Korea, proposals seeking shareowner approval for statutory auditors' fees are not controversial. Generally, management should disclose details of all fees paid to statutory auditors well in advance of the meeting date so that shareowners can make informed decisions about statutory auditor remuneration requests. In any market, SBA may vote against the appointment of the auditor if necessary information about the auditors and fees has not been appropriately disclosed.

REMOVE/ACCEPT RESIGNATION OF AUDITORS: CASE-BY-CASE

SBA seeks to ensure auditors have not been pressured to resign in retaliation for their opinions or for providing full disclosure.

AUDITOR INDEMNIFICATION AND LIMITATION OF LIABILITY: CASE-BY-CASE

Auditor indemnification and limitation of liability are evaluated on an individual basis. Factors to be assessed by the SBA include:

- the terms of the auditor agreement and degree to which it impacts shareowners' rights;
- motivation and rationale for establishing the agreements;
- quality of disclosure; and
- historical practices in the audit area.

[36] Under Rule 10A-3(b)(2) of the Securities Exchange Act of 1934, as amended, the audit committee, "must be directly responsible for the appointment, compensation, retention and oversight," of the independent auditor. Section 303A.06 of the New York Stock Exchange Listed Company Manual requires that the audit committees of its listed companies satisfy the requirements of Rule 10A-3. As a result of these requirements, audit committee charters normally include the responsibility for and total discretion to select, evaluate, compensate and oversee the work of any registered public accounting firm engaged in preparing or issuing audit report(s).

SBA will consider voting against auditor ratification if the auditor engagement contract includes provisions for alternative dispute resolution, liability caps, and caps on punitive damages (or the exclusion of punitive damages). Such limitations on liability and indemnification shift the risk from the auditor to the company, and therefore, the shareowners. The staff of the Securities and Exchange Commission (SEC) has stated that it believes caps on punitive damages in audit contracts are not in the public interest and compromises auditor independence.[37] SBA will also consider voting against audit committee members if they have diminished the value or independence of the audit, such as when a company has entered into an agreement with its auditor requiring alternative dispute resolution or punitive liability caps.

APPROVE ACCOUNTING TRANSACTIONS (OTHER THAN DIVIDEND): CASE-BY-CASE

In many international markets, proposals to approve accounting transfers are common and are often required to maintain specified balances in accounts as required by relevant market law. Companies are required to keep specific amounts in each of their reserves. Additionally companies may, in some instances, be required by law to present shareowners with a special auditors' report confirming the presence or absence of any non-tax-deductible expenses, as well as the transfer of these to the company's taxable income if applicable. In the absence of any contentious matters, the SBA is generally in favor.

AUDIT FIRM ROTATION, TERM RESTRICTIONS, AND SCOPE OF ENGAGEMENT PROPOSALS: CASE-BY-CASE

These shareowner proposals typically ask companies to adopt practices that are thought to help preserve auditor independence, such as prohibiting the auditor from providing non-audit services or capping the level of non-audit services and/or requiring periodic rotation of the audit firm. These practices are expected to help maintain a neutral and independent auditor by making the auditor's relationship with the company less lucrative.[38]

While term limits may actually result in higher audit fees, the positive impact would be that a new auditor would periodically provide a fresh look at the company's accounting practices. A practice of term limits also ensures that the audit won't see the company as a never-ending client, and perhaps will be more inclined to flag questionable practices. Despite attracting a lot of attention, mandatory audit rotation has not been required by regulators or by exchange listing standards. [39] SBA weighs the aspects of the individual situation and proposal terms when making voting decisions concerning audit rotation, considering the length of tenure for the auditor, the level of audit and non-audit fees, and the history of audit quality. A history of restatements or atypical fees increases the likelihood of SBA supporting these proposals. Most companies seek shareowner ratification of the auditor, and the lack of this provision would also increase the likelihood of SBA supporting a reasonable proposal.

Disclosures

COMPANY REPORTS OR DISCLOSURES: CASE-BY-CASE

Often, shareowner proposals do not request that companies take a specific action, but instead simply request information in the form of reports or disclosures on their policies or actions. Disclosure requests cover a variety of topics. SBA considers supporting disclosure requests when there is a reasonable expectation that the information would help investors make better risk assessments and for topics that cover issues that could have a substantial impact on shareowner value. We evaluate the company's existing disclosures on the topic and weigh the benefit from additional disclosures against the

[37] U.S. Securities and Exchange Commission, Office of the Chief Accountant: Application of the Commission's Rules on Auditor Independence – Frequently Asked Questions, December 13, 2004.

[38] Max H. Bazerman, George Loewenstein, and Don A. Moore, "Why Good Accountants Do Bad Audits." Harvard Business Review, Vol. 80, Issue 11, Nov. 1, 2002.

[39] The Conference Board Commission on Public Trust and Private Enterprise, "Corporate Governance: Principles, Recommendations and Specific Best Practice Suggestions." Parts 2 and 3, Jan. 9, 2003. PCAOB Concept Release No. 2011-006. August 16, 2011. http://pcaobus.org/Rules/Rulesmaking/Docket037/Release_2011-006.pdf. Jackson, Modrich, and Roebuck, "Mandatory Audit Firm Rotation and Audit Quality," 2007; Chung, H., "Selective Mandatory Rotation and Audit Quality: An Empirical Investigation of Auditor Designation Policy in Korea," 2004. Also see, Martinez and Reis, "Audit Firm Rotation and Earnings Management in Brazil," 2010.

cost to the company, which includes not just the direct cost of compiling information but potential of disclosing sensitive or competitively-damaging information. For each proposal, the SBA considers whether such information is already publicly provided by the company, and we do not support redundant proposal requests.

Common disclosure requests and SBA's evaluation process:

- Environmental and sustainability—SBA generally supports proposals seeking greater disclosure of a company's environmental practices and contingency plans. We also tend to support greater disclosure of a company's environmental risks and liabilities, as well as company opportunities and strengths in this area.
- Greenhouse gas emissions—Companies are already required by the Securities and Exchange Commission (SEC) to disclose material expected capital expenditures when operating in locales with greenhouse gas emission standards. Companies may also be required to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, the impact of which is not limited to negative consequences but should include new opportunities as well.
- Energy efficiency—SBA considers the current level of disclosure related to energy efficiency policies, initiatives, and performance measures; the company's level of participation in voluntary energy efficiency programs and initiatives; the company's compliance with applicable legislation and/or regulations regarding energy efficiency; and the company's energy efficiency policies and initiatives relative to industry peers.
- Water supply and conservation—Companies should disclose crucial water supply issues, as well as contingency planning to ensure adequate supply for anticipated company demand levels. SBA often supports proposals seeking disclosure of water supply dependency or preparation of a report pertaining to sustainable water supply for company operations.
- Political contributions and expenditure—Companies should disclose the amount and rationales for making donations to political campaigns, political action committees (PACs), and other trade groups or special interest organizations. SBA typically considers the following factors:
    - Recent significant controversy or litigation related to the company's political contributions or governmental affairs;
    - The public availability of a company policy on political contributions and trade association spending, including the types of organizations supported;
    - The business rationale for supporting political organizations; and
    - The board oversight and compliance procedures related to such expenditures of corporate assets.
- Operations in protected or sensitive areas—such operations may expose companies to increased oversight and the potential for associated risk and controversy. The SBA generally supports requests for reports outlining potential environmental damage from operations in protected regions unless operations in the specified regions are not permitted by current laws or regulations, the company does not currently have operations or plans to develop operations in protected regions, or the company provides disclosure on its operations and environmental policies in these regions comparable to industry peers.
- Community impact assessments—Controversies, fines, and litigation can have a significant negative impact on a company's financials, public reputation, and even ability to operate. Companies operating in areas where potential impact is a concern often develop internal controls aimed at mitigating exposure to these risks by enforcing, and in many cases, exceeding local regulations and laws. SBA considers proposals to report on company policies in this area by evaluating the company's current disclosures, industry norms, and the potential impact and severity of risks associated with the company's operations.
- Supply chain risks—Often these proposals seek information for better understanding risks to the company through their materials purchasing and labor practices. For example, allegations of sweatshop labor or child labor can harm sales and reputation, so knowledge of the company's policies for preventing these practices are highly relevant to shareowners. SBA considers the terms of the proposal against the current company disclosures and industry standards, as well as the potential severity of risks.

- Corporate diversity—SBA will generally support requests for additional information and disclosures at companies where diversity across members of the board, management and employees lags those of peers or the population. Board members, management and employees with differing backgrounds, experiences and knowledge will enhance corporate performance.[40]

Anti-takeover Defenses

ADVANCE NOTICE REQUIREMENTS FOR SHAREOWNER PROPOSALS/NOMINATIONS: CASE-BY-CASE

SBA generally supports proposals that allow shareowners to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible. Requests to shrink the window and/or move advance notice deadlines to as early as 150 days or 180 days prior to meetings have been presented by a number of company boards in recent years. Such early deadlines hinder shareowners' ability to make proposals and go beyond what is reasonably required for sufficient board notice. In addition, many companies now request shareowner approval of "second generation advance notice bylaws", which require shareowner nominees to submit company-prepared director questionnaires.[41] While the SBA appreciates increased disclosure of the qualifications of nominees (and incumbents), we disapprove of such requirements if they serve to frustrate shareowner-proposed nominees.

AMEND BYLAWS WITHOUT SHAREOWNER CONSENT: AGAINST

The SBA does not support proposals giving the board exclusive authority to amend the bylaws. We also discourage board members from taking such unilateral actions and may withhold votes from board members that do so. Shareowners should be party to any such decisions, a view supported by Delaware courts where a majority of U.S. firms are domiciled.[42] If unusual circumstances necessitate such action, at a minimum, unilateral adoption should incorporate a sunset provision or a near-term window for eventual shareowner approval.

RESTRICT LEGAL RECOURSE METHODS: AGAINST

The SBA generally opposes restrictions on shareowner ability to pursue options of legal recourse. This includes binding or forced arbitration, fee-shifting, and exclusive forum bylaws.[43] Standard access to the court system is considered to be a fundamental shareowner right. SBA generally votes against proposals to establish exclusive forum and supports proposals requesting that exclusive forum provisions be ratified by shareowners. SBA will critically examine the company's rationale for limiting shareowners' rights to legal remedy, including choice of venue and any material harm that may have been caused by related litigation outside its jurisdiction of incorporation in making a voting decision.

POISON PILLS: AGAINST

Poison pills used to be the most prevalent takeover defense among S&P 500 companies, but their utilization has steadily declined since 2002. The vast majority of pills were instituted after November 1985, when the Delaware Supreme Court upheld a company's right to adopt a poison pill without shareowner approval in Moran v. Household International, Inc. Poison pills are financial devices that, when triggered by potential acquirers, do one or more of the following: (1) dilute the acquirer's equity holdings in the target company; (2) dilute the acquirer's voting interests in the target company; or

---

[40] Carter, David A., D'Souza, Frank, Simkins, Betty J., and Simpson, W. Gary, "The Diversity of Corporate Board Committees and Financial Performance," Oklahoma State University, 2007. Also see, Mijntje Lückerath-Rovers, "Women on Board and Firm Performance," April 2010.

[41] Weingarten, Marc and Erin Magnor, "Second Generation Advance Notification Bylaws" Harvard Law School Corporate Governance Forum, March 17, 2009.

[42] Claudia H. Allen, "Delaware Corporations – Can Delaware Forum Selection Clauses in Charters or Bylaws Keep Litigation in the Court of Chancery?," April 18. 2011. Early adopters of the exclusive forum provision chose to enact bylaw provisions without seeking shareowner approval. However, the Galaviz v. Berg decision by the U.S. District Court for Northern California provided that Oracle's exclusive forum provision was unenforceable, in part due to Oracle's failure to bring the provision before shareowners.

[43] In a March 2010 opinion, the Delaware Court of Chancery provided an opportunity for any Delaware corporation to establish the Court as the exclusive forum for "intra-entity" corporate disputes, such as claims of breach of fiduciary duty. Such claims have been used to overturn directors' business judgments on mergers, and other matters. Subsequently, a number of U.S. companies have decided to bring the exclusive forum provision to a shareowner vote, and others have amended their charter or by-law provisions.

(3) dilute the acquirer's equity holdings in a post-merger company. Generally, poison pills accomplish these tasks by issuing rights or warrants to shareowners that are essentially worthless unless triggered by a hostile acquisition attempt. They are often referred to by the innocuous but misleading name "shareowner rights plans".

The SBA supports proposals asking a company to submit its poison pill for shareowner ratification and generally votes against proposals approving or creating a poison pill. The best defense against hostile takeovers is not necessarily a poison pill, but an effective board making prudent financial and strategic decisions for the company.[44] SBA will consider voting against board members that adopt or renew a poison pill unless the pill is subject to shareowner ratification within a year of adoption or renewal.

LIMIT WRITTEN CONSENT: CASE-BY-CASE

The SBA votes against proposals to unduly restrict or prohibit shareowners' ability to take action by written consent and supports proposals to allow or make easier shareowner action by written consent. Most states allow shareowners to take direct action such as adopting a shareowner resolution or electing directors through a consent solicitation, which does not involve a physical meeting. Alternatively, consent solicitations can be used to call special meetings and vote on substantive items taking place at the meeting itself.

LIMIT SPECIAL MEETINGS: CASE-BY-CASE

The SBA votes against proposals that unduly restrict or prohibit a shareowner's ability to call special meetings. We generally support proposals that make it easier for shareowners to call special meetings. Most states' corporate statutes allow shareowners to call a special meeting when they want to present certain matters before the next annual meeting. The percentage of shareowner votes required to force the corporation to call the meeting often depends on the particular state's statutes, as does the corporation's ability to limit or deny altogether a shareowner's right to call a special meeting.

SUPERMAJORITY VOTE REQUIREMENTS: AGAINST

The SBA does not support shareowner proposals that require supermajority voting thresholds. Supermajority requirements can be particularly burdensome if combined with a requirement for the vote result to be calculated using the number of shares outstanding (rather than the votes cast). There have been many instances when a company's requirements called for a proposal to be supported by eighty percent of shares outstanding but failed because just under eighty percent of shares outstanding were voted. This can be particularly problematic for resolutions to approve mergers and other significant business combinations. Voting results should simply be determined by a majority vote of the disinterested shares.[45] SBA supports simple majority voting requirements based on shares voted for the passage of any resolution, ordinary or extraordinary, and regardless of whether proposed by management or shareowners.

ADOPT SUPERVOTING RIGHTS ("TIME-PHASED VOTING"): AGAINST

Time-phased voting involves the granting of super-voting rights to shareowners who have held their stock for some specified period of time, commonly for a period of 3-5 years.[46] The practice is intended to be a reward for long-term shareowners and to make the votes of entities with a short-term focus relatively less effective. However, differential voting rights distort the commensurate relationship between ownership and voting power, and however well-intentioned, the practice ultimately risks harm to companies and their shareowners. By undermining the fundamental connection between voting

[44] Srinidhi, Bin and Sen, Kaustav, "Effect of Poison Pills on Value Relevance of Earnings."
[45] Ravid, S. Abraham and Matthew I. Spiegel, "Toehold Strategies, Takeover Laws and Rival Bidders." Journal of Banking and Finance, Vol. 23, No. 8, 1999, pp. 1219-1242.
[46] Under SEC Rule 19c-4, firms are generally prohibited from utilizing several forms of stock that deviate from a one-share, one-vote standard. Such instances include tracking stocks, different stock classes with asymmetric voting rights (e.g. dual class shares), shares with time-phased voting rights as well as shares of stock with capped voting or even no rights whatsoever. However, under an amendment to the Rule made in 1994, most U.S. companies are exempted from such restrictions under particular circumstances.

power and economic interest, it increases risk to investors rather than reducing it. Further, it creates murkiness in the voting process where transparency is already lacking. While we value our right to vote and at times would even have increased rights under such a policy as a long-term owner, we do not wish to subvert the economic process for our own benefit, and we are concerned the practice has potential for significant harm and abuse. We do not endorse any practice that undermines the fundamental link between ownership and determination: one share, one vote.

LIMIT VOTING RIGHTS: AGAINST

The SBA supports maximization of shareowners' voting rights at corporations. Any attempts to restrict or impair shareowner-voting rights, such as caps on voting rights, holding period requirements, and restrictions to call special meetings, will be opposed.

ABSTENTION VOTING TABULATION: CASE-BY-CASE

Abstentions should count for quorum purposes but should be excluded from voting statistics reporting percentages for and against. Some companies request to count abstentions in with against votes when reporting tabulations. This practice makes for inaccurate voting statistics and defies the intentions of the shareowners casting their votes. We strongly support abstention tabulation for matters of quorum satisfaction only.

TABULATING VOTES: CASE-BY-CASE

The SBA supports proposals that allow for independent third parties to examine and tabulate ballots. We support practices of end-to-end vote confirmation for accuracy and security in casting votes.

ESTABLISH A DISTINCTION FAVORING REGISTERED HOLDERS/BENEFICIAL HOLDERS: AGAINST

An extremely small and shrinking percentage of shareowners hold shares in registered form, nearing only one percent of shares outstanding. SBA does not believe any preference or distinction in ownership holding mechanism is necessary or useful. We oppose the adoption of any policy using distinctions among shareowners based on how shares are held.

CORPORATE STRUCTURE

These proposals seek to make some change in the corporate structure and are often operational in nature. In every case, SBA makes a decision by considering the impact of the change on the financial value and health of the company, as well as its impact on shareowner rights.

These proposals include corporate restructurings, capital structure changes, changes to the articles of incorporation and other various operational items. While many of these proposals are considered to be routine, they are not inconsequential. Some have profound impact on shareowner value and rights. Shareowners should have the opportunity to approve any issuance of shares or securities that carry equity-like claims or rights. Furthermore, companies may bundle non-routine items with routine items in an attempt to obtain a more favorable outcome, so the SBA must examine these proposals on a case-by-case basis. SBA may vote against bundled items in any case if the bundle includes highly negative components.

MERGERS/ACQUISITIONS/SPINOFFS: CASE-BY-CASE

SBA evaluates these proposals based on the economic merits of the proposal and anticipated synergies or advantages. We also consider opinions of financial advisors. Support for the proposal may be mitigated by potential conflicts between management's interests and those of shareowners and negative impacts on corporate governance and shareowner rights. The SBA may oppose the proposal if there is a significant lack of information in order to make an informed voting decision.

For any proposal, the following items are evaluated:

- Economic merits and anticipated synergies;
- Independence of board, or special committee, recommending the transaction;
- Process for identifying, selecting, and negotiating with partners;
- Independence of financial advisor and financial opinion for the transaction;
- Tax and regulatory impacts;
- Corporate governance changes; and
- Aggregate valuation of the proposal.

APPRAISAL RIGHTS: FOR

SBA generally supports proposals to restore or provide shareowners with rights of appraisal. In many states, mergers and other corporate restructuring transactions are subject to appraisal rights. Rights of appraisal provide shareowners who are not satisfied with the terms of certain corporate transactions the right to demand a judicial review to determine a fair value for their shares. If a majority of shareowners approve a given transaction, the exercise of appraisal rights by a minority of shareowners will not necessarily prevent the transaction from taking place. Therefore, assuming that a small minority of shareowners succeed in obtaining what they believe is a fair value, appraisal rights may benefit all shareowners. If enough shareowners dissented and if the courts found a transaction's terms were unfair, such rights could prevent a transaction that other shareowners had already approved.

ASSET PURCHASES/SALES: CASE-BY-CASE

Boards may propose a shareowner vote on the sale or purchase of significant assets; sometimes these proposals are part of a strategy shift driven by changes in the marketplace, problematic corporate performance, or activist-investor campaigns. The SBA evaluates asset purchase proposals on a case-by-case basis, considering the following factors:

- Transaction price;
- Fairness opinion;
- Financial and strategic benefits;

- Impact on the balance sheet and working capital;
- The negotiation history and process;
- Conflicts of interest;
- Other alternatives for the business; and
- Non-completion risk.

APPROVE REORGANIZATION OF DIVISION OR DEPARTMENT/ARRANGEMENT SCHEME, LIQUIDATION: CASE-BY-CASE

Resolutions approving corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. Such resolutions are usually supported unless there are clear conflicts of interest among the various parties or negative impact on shareowners' rights. In the case of routine reorganizations of assets or subsidiaries within a group, the primary focus with the proposed changes is to ensure that shareowner value is being preserved, including the impact of the reorganization on the control of group assets, final ownership structure, relative voting power of existing shareowners if the share capital is being adjusted, and the expected benefits arising from the changes.

Options are far more limited in the case of a distress restructuring of a company or group as shareowners often have few choices and little time. In most of these instances, the company has a negative asset value, and shareowners would have no value remaining after liquidation. SBA seeks to ensure that the degree of dilution proposed is consistent with the claims of outside parties and is commensurate with the relative commitments of other company shareowners.

APPROVE SPECIAL PURPOSE ACQUISITION COMPANY (SPAC) TRANSACTION: CASE-BY-CASE

A SPAC is a pooled investment vehicle designed to invest in private-equity type transactions, particularly leveraged buyouts. SPACs are shell companies that have no operations at the time of their initial public offering, but are intended to merge with or acquire other companies. Most SPACs grant shareowners voting rights to approve proposed business combinations. SBA evaluates these proposals based on their financial impact as well as their impact on shareowners' ability to maintain and exercise their rights.

FORMATION OF HOLDING COMPANY: CASE-BY-CASE

The SBA evaluates proposals to create a parent holding company on a case-by-case basis, considering the rationale for the change, any financial, regulatory or tax benefits, and impact on capital and ownership structure. SBA may vote against proposals that result in increases in common or preferred stock in excess of the allowable maximum or adverse changes in shareowner rights.

APPROVE A "GOING DARK" TRANSACTION: CASE-BY-CASE

Deregistrations, or "going-dark" transactions, occur rarely, whereby companies cease SEC reporting but continue to trade publicly. Such transactions are intended to reduce the number of shareowners below three hundred and are typically achieved either by a reverse stock split (at a very high ratio with fractional shares resulting from the reverse split being cashed out), by a reverse/forward stock split (with fractional shares resulting from the reverse split being cashed out), or through a cash buyout of shares from shareowners owning less than a designated number of shares (tender offer or odd-lot stock repurchase). Such transactions allow listed companies to de-list from their particular stock exchange and to terminate the registration of their common stock under the Securities & Exchange Act of 1934, so that, among other things, they do not have to comply with the requirements of the Sarbanes-Oxley Act of 2002. [47] Companies seeking this approval

[47] "Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations," Christian Leuz, Alexander Triantis and Tracy Wang, Finance Working Paper Number 155/2007, European Corporate Governance Institute, March 2008.

tend to be smaller capitalization firms and those with lower quality financial accounting. SBA would consider the impact of the lack of disclosure and oversight and loss of liquidity and shareowner rights in making a decision.

LEVERAGED BUYOUT (LBO): CASE-BY-CASE

A leveraged buyout is a takeover of a company using borrowed funds, normally by management or a group of investors. Most often, the target company's assets serve as security for the loan taken out by the acquiring firm, which repays the loan out of cash flow of the acquired company. SBA may support LBOs when shareowners receive a fair value including an appropriate premium over the current market value of their shares.

When the acquirer is a controlling shareowner, legal rulings have imposed a higher standard of review to ensure that this type of transaction, referred to as an entire fairness review, is fair to existing shareowners. Typically, investor protections include review by an independent committee of the board and/or approval by a majority of the remaining shareowners. Whether a buyout is pursued by a controlling shareowner can impact the valuation and premiums, with one study finding that buyouts in which an independent committee reviewed the deal terms produced 14 percent higher average premiums for investors.[48] However, deals requiring majority-of-the-minority ratification did not significantly impact the level of premium paid to investors. Researchers found that the size of the premium paid changed depending on who initiated the transaction, with significantly lower premiums associated with deals initiated by management. As well, the study's findings mimic other empirical evidence demonstrating that 'go-shop' provisions, whereby additional bidders are solicited, were ineffective and may be used to camouflage under-valued management buyouts.[49]

NET OPERATING LOSS CARRY-FORWARD (NOL) & ACQUISITION RESTRICTIONS: CASE-BY-CASE

Companies may seek approval of amendments to their certificate of incorporation intended to restrict certain acquisitions of its common stock in order to preserve net operating loss carry-forwards (or "NOLs"). NOLs can represent a significant asset for the company, one that can be effective at reducing future taxable income. Section 382 of the Internal Revenue Code of 1986 imposes limitations on the future use of the company's NOLs if the company undergoes an ownership change; therefore, some companies seek to limit certain transactions by adopting ownership limits. Firms often utilize a shareowner rights plan (poison pill) in conjunction with NOL-oriented acquisition restrictions.

While stock ownership limitations may allow the company to maximize use of its NOLs to offset future income, they may significantly restrict certain shareowners from increasing their ownership stake in the company. Such ownership limitations can be viewed as an anti-takeover device. Though these restrictions on shareowners are undesirable, SBA often supports proposals when firms seek restrictions solely in order to protect NOLs. We review the company's corporate governance structure and other control protections in conjunction with the proposal and weigh the negative impact of the restrictions against the financial value of the NOLs (relative to the firm's market capitalization) in making a decision.

CHANGE OF CORPORATE FORM (GERMANY, AUSTRALIA, NEW ZEALAND): CASE-BY-CASE

This proposal seeks shareowner approval to convert the company from one corporate form to another. Examples of different corporate forms include: Inc., LLP, PLP, LLC, AG, SE. The SBA generally votes FOR such proposals, unless there are concerns with the motivation or financial impact of a change to firm's corporate structure.

Capital Structure

---

[48] Matthew Cain, and Steven Davidoff, "Form Over Substance? The Value of Corporate Process and Management Buyouts," August 2010.

[49] Adonis Antoniades, Charles Calomiris, and Donna M Hitscherich, "No Free Shop: Why Target Companies in MBOs and Private Equity Transactions Sometimes Choose Not to Buy 'Go-Shop' Options," November 2013; Guhan Subramanian, "Go-Shops vs. No-Shops in Private Equity Deals: Evidence and Implications," The Business Lawyer, Volume 63, May 2008.

CHANGE AUTHORIZED SHARE CAPITAL: CASE-BY-CASE

The SBA generally supports authorized share capital increases up to 100 percent of the current number of outstanding shares. We will consider additional increases if management demonstrates a reasonable use. It is important that publicly-held corporations have authorization for shares needed for ordinary business purposes, including raising new capital, funding reasonable executive compensation programs, business acquisitions, and facilitating stock splits and stock dividends. Increases beyond 100 percent of the current number of outstanding shares will be carefully scrutinized to ensure its use will benefit shareowners. We apply a stricter standard if the company has not stated a use for the additional shares or has significant levels of previously authorized shares still available for issue. Proposals that include shares with unequal voting rights will likely be opposed.

In the case of rights offerings, SBA considers the dilution and extent to which issued rights may be subscribed, both by SBA individually and other shareowners collectively, and how that may affect or adversely concentrate the level of control if a large single shareowner exists.

Proposals to reduce authorized share capital can result from a variety of corporate actions, ranging from routine accounting measures to reductions pertaining to a significant corporate restructuring in the face of bankruptcy. These proposals can vary significantly from market to market as a result of local laws and accounting standards. In all instances, the SBA considers whether the reduction in authorized share capital is for legitimate corporate purposes and not to be used as an anti-takeover tactic.

STOCK SPLIT OR REVERSE STOCK SPLIT: FOR

Typically SBA supports reasonable proposals for stock splits or reverse stock splits. These proposals often seek to scale back the cost of each share into what is traditionally thought of as a comfortable price and trading zone, which seeks to influence the psychology of the market's perception of price more than anything else. Reverse stock splits may be requested to ensure a company's shares will not be subject to delisting by their exchange's standards, often following a significant negative shock to the share price.

DUAL CLASS STOCK ~~AUTHORIZATION~~: AGAINST

SBA opposes dual-class share structures. The one share, one vote principle is essential to proper functioning of capitalism; dual class shares distort the commensurate relationship between economic interest and voting power and ultimately risk harm to companies and their shareowners.[50] A number of academic studies have documented an array of value-destroying effects stemming directly from dual class share structures.[51] SBA will support proposals asking companies to move away from dual class structures. SBA may withhold votes or cast votes against the election of directors in cases where a company completes an IPO with a dual or multi-class share structure without a reasonable sunset provision on the unequal voting rights. We will generally support proposals that provide for the disclosure of voting results broken down by share class when dual class structures exist.

[50] Bebchuk, Lucian Arye, Kraakman, Reinier H. and Triantis, George G., "Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control from Cash Flow Rights". As published in CONCENTRATED CORPORATE OWNERSHIP, R. Morck, Ed., pp. 445-460, 2000 Available at SSRN: http://ssrn.com/abstract=147590. Masulis, Ronald W., Wang, Cong and Xie, Fei, "Agency Problems at Dual-Class Companies" (November 12, 2006). Available at SSRN: http://ssrn.com/abstract=961158. Tinaikar, Surjit, "The Voluntary Disclosure Effects of Separating Control Rights from Cash Flow Rights" (November 2006). Available at SSRN: http://ssrn.com/abstract=951547.

[51] Kastiel, Kobi, "Executive Compensation in Controlled Companies," Harvard Law School Working Paper, October 2014. Claessens, Stijn & Fan, Joseph P.H. & Lang, Larry, 2002. "The Benefits and Costs of Group Affiliation: Evidence from East Asia," CEPR Discussion Papers 3364, C.E.P.R. Discussion Papers, revised. Bennedsen, Morten and Nielsen, Kasper Meisner, "The Principle of Proportional Ownership, Investor Protection and Firm Value in Western Europe" (October 2006). ECGI - Finance Working Paper No. 134/2006 Available at SSRN: http://ssrn.com/abstract=941054. Gompers, Paul A., Ishii, Joy L. and Metrick, Andrew, "Extreme Governance: An Analysis of Dual-Class Companies in the United States" (May 1, 2008). AFA 2005 Philadelphia Meetings Available at SSRN: http://ssrn.com/abstract=562511 or DOI: 10.2139/ssrn.562511. Cremers, Martijn and Allen Ferrell, "Thirty Years of Corporate Governance: Firms Valuation & Stock Returns" (September 2009). Yale ICF Working Paper No. 09-09. Available at http://ssrn.com/abstract=1279650. Puttonen, Vesa, Ikaheimo, Seppo and Ratilainen, Tuomas, "External Corporate Governance and Performance - Evidence from the Nordic Countries" (January 30, 2007) Available at SSRN: http://ssrn.com/abstract=960431. Jiraporn, Pornsit, 2005, "An Empirical Analysis of Corporate Takeover Defenses and Earnings Management: Evidence from the U.S.", Applied financial Economics (University of Warwick, U.K.), Vol. 15, No. 5, pp. 293-303. Li, Kai, Ortiz-Molina, Hernan and Zhao, Shelly, "Do Voting Rights Affect Institutional Investment Decisions? Evidence from Dual-Class Firms" (November 2007). Available at SSRN: http://ssrn.com/abstract=950295. Dimitrov, Valentin and Jain, Prem C., "Recapitalization of One Class of Common Stock into Dual-class: Growth and Long-run Stock Returns" (September 1, 2004). Available at SSRN: http://ssrn.com/abstract=422080 or DOI: 10.2139/ssrn.422080.

APPROVE GENERAL SHARE ISSUANCE WITH PRE-EMPTIVE RIGHTS: CASE-BY-CASE

General issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareowner meetings for every issuance. Pre-emptive rights guarantee current shareowners the first opportunity to purchase shares of new issuances of stock in the class they own in an amount proportional to the percentage of the class they already own. SBA generally supports issuance requests with pre-emptive rights when the amount of shares requested is less than the unissued ordinary share capital or one-third of the issued ordinary share capital. Issuance authority should be limited to a ~~five year~~five-year timeframe. SBA also considers the issue price and any potential pricing discounts, as well as past issuance practices at the company, in judging the appropriateness of the terms and potential for misuse (such as granting large blocks at a discount to a third party). If insufficient information is disclosed about the issuance and conditions of its implementation, SBA may vote against authorization. Proposals that include shares with unequal voting rights will likely be opposed.

APPROVE GENERAL SHARE ISSUANCE WITHOUT PREEMPTIVE RIGHTS: CASE-BY-CASE

Companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies include, but are not limited to, facilitating stock compensation plans, small acquisitions, or payment for services. Recognizing that shareowners suffer dilution as a result of issuances, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. The SBA generally supports issuance requests without pre-emptive rights up to a maximum of 20 percent above current levels of issued capital. Proposals that include shares with unequal voting rights will likely be opposed.

APPROVE ISSUE OF PREFERRED SHARES: CASE-BY-CASE

"Preferred share" typically refers to a class of stock that provides preferred dividend distributions and preferred liquidation rights as compared to common stock; however, preferred shares typically do not carry voting rights. SBA typically votes against preferred share issues that carry voting rights, include conversion rights, or have "blank check" ability. We typically support issuances without conversion or voting rights when the company demonstrates legitimate financial needs.

Blank check preferred stock gives the board of directors the power to issue shares of preferred stock at their discretion, with voting, conversion, distribution, and other rights set by the board at the time of issuance. Blank check preferred stock can be used for sound corporate purposes like raising capital, stock acquisition, employee compensation, or stock splits or dividends. However, blank check preferred stock is also suited for use as an entrenchment device. The company could find a "white knight," sell the knight a large block of shares, and defeat any possible takeover attempt. With such discretion outside the control of common stock shareowners, the SBA typically opposes any proposals to issue blank check preferred stock.

RESTRUCTURE/RECAPITALIZE: CASE-BY-CASE

These proposals deal with the alteration of a corporation's capital structure, such as an exchange of bonds for stock. The SBA is in favor of recapitalizations when our overall investment position is protected during the restructuring process.

TARGETED SHARE PLACEMENT: CASE-BY-CASE

SBA typically supports shareowner proposals requesting that companies first obtain shareowner authorization before issuing voting stock, warrants, rights or other securities convertible into voting stock, to any person or group, unless the voting rights at stake in the placement represent less than 5 percent of existing voting rights.

SHARE REPURCHASE: CASE-BY-CASE

When a company has excess cash, SBA's preferred method for distributing it to shareowners is through adopting a quarterly dividend. Dividends are an effective means for returning cash and serve as an important signal to the market of earnings stability. Because dividend adoptions and subsequent changes are scrutinized carefully, they serve as an important marker of a company's commitment to return cash to shareowners. Repurchases on the other hand require no commitment to ongoing return of profits to shareowners. Repurchased shares often end up being granted to executives as part of stock compensation packages; this common use of cash is in actuality paying compensation and not a form of profit return to owners. Because of this, SBA strongly prefers dividend adoption over share repurchases. We support repurchases only in cases of unusual cash accumulation, such as from a divestiture of assets. Cash flows from operations that have an expected long-term generation pattern should be committed to owners through quarterly dividends. Repurchases are also supported if the rationale is that management believes the stock is undervalued. Companies should not commit to long term repurchases at any market price; evidence shows that many companies tend to repurchase shares at market-highs with these plans and generally buy at inopportune times. Compensation programs should not depend upon metrics that are impacted by repurchases, or metrics should at least be adjusted to account for the impact of repurchases so that compensation is not affected by these programs.

DECLARE DIVIDENDS: FOR

Declaring a dividend is a preferred use of cash and method of releasing profits to shareowners. SBA generally supports dividend declarations unless the ~~pay-out~~payout is unreasonably low or the dividends are not sustainable by reserves and cash flow. Pay-outs less than 30 percent of net income for most markets are considered low.

TRACKING STOCK: CASE-BY-CASE

The SBA closely examines the issuance of tracking stock shares, particularly corporate governance rights attached to those shares. Normally, tracking stock is a separate class of common stock that "tracks" the performance of an individual business of a company. Tracking stock represents an equity claim on the cash flows of the tracked business as opposed to legal ownership of the company's assets. Tracking stock is generally created through a charter amendment and provides for different classes of common stock, subject to shareowner approval. Due to their unique equity structure, we examine closely all of the following issues when determining our support for such proposals: corporate governance features of tracking stock (including voting rights, if any), distribution method (share dividend or initial public offering), conversion terms and structure of stock-option plans tied to tracking stock.

APPROVE ISSUE OF BONDS, DEBENTURES, AND OTHER DEBT INSTRUMENTS: FOR

Generally, SBA supports debt issuance of reasonable amounts for the purpose of financing future growth and corporate needs. Debt issues may also add a beneficial monitoring component, making managers more accountable for corporate performance because if the company does not perform well financially, the company may not be able to meet its financial obligations. Studies have also examined the relationship between firms' capital structure and the quality of their corporate governance mechanisms, confirming that corporations use debt in place of corporate governance tools.[52] While the SBA recognizes the need to employ various tools to minimize agency costs and align management interests with shareowner interests, corporations must not abdicate their corporate governance duties by expanding leverage.

When companies seek to issue convertible debt or debt with warrants, SBA considers the impact of the potential conversion on existing shareowners' rights when making a decision. We may also support limits on conversion rights to prevent significant dilution of SBA's ownership.

---

[52] Marquardt, Carol, "Managing EPS Through Accelerated Share Repurchases: Compensation Versus Capital Market Incentives." Baruch College-CUNY, September 2007.

PRIVATE PLACEMENTS: CASE-BY-CASE

Private placement is a method of raising capital through the sale of securities to a relatively small number of investors rather than a public offering. Investors involved in private placement offerings typically include large banks, mutual funds, insurance companies and pension funds. Because the private placement is offered to a limited number of investors, detailed financial information is not always disclosed and the need for a prospectus is waived. Moreover, in the United States, the authority does not have to be registered with the Securities and Exchange Commission. The SBA evaluates private placements on a case-by-case basis, voting against if the private placement contains extraordinary voting rights or if it may be used in some other way as an anti-takeover defense.

Operational Items

ADJOURN MEETING: CASE-BY-CASE

SBA generally votes against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. The SBA may support proposals that relate specifically to soliciting votes for a merger or transaction if we support that merger or transaction.

TRANSACT OTHER BUSINESS: AGAINST

This proposal provides a forum for addressing resolutions that may be brought up at the annual shareowner meeting. In most countries, the item is a formality and does not require a shareowner vote, but companies in certain countries include permission to transact other business as a voting item. This discretion is overly broad, and it is against the best interest of shareowners to give directors unbound permission to make corporate decisions without broad shareowner approval. Because most shareowners vote by proxy and would not know what issues will be raised under this item, SBA does not support this proposal.

AMEND SHAREOWNERS' MEETING QUORUM REQUIREMENTS: CASE-BY-CASE

SBA supports quorums of a simple majority. We do not support super-majority quorum requirements.

AMEND BYLAWS OR ARTICLES OF ASSOCIATION: CASE-BY-CASE

The SBA considers the merits of the proposed amendment and its potential impact on shareowner rights and value. Different amendments should not be presented in a bundled format, which would prevent shareowners from making individual decisions on each provision. We may not support a bundled proposal that contains a mix of desirable and undesirable features.

NAME CHANGE: FOR

Changing a company's name is a major step that has likely gone through extensive management consideration and/or marketing research. SBA generally supports these proposals.

RECEIVE/APPROVE/AMEND REPORTS AND AUDITED ACCOUNTS FOR PREVIOUS FINANCIAL REPORTING PERIODS: CASE-BY-CASE

Generally, SBA supports these proposals unless we are aware of serious concerns about the accounting principles used or doubt the integrity of the company's auditor. Annual audits of a firm's financial statements should be mandatory and carried out by an independent auditor.

CHANGE METHOD OF PREPARING ACCOUNTS/DISTRIBUTING FINANCIAL STATEMENTS TO SHAREOWNERS: CASE-BY-CASE

If the changes have been instituted by a nationwide regulation, they will be approved. Otherwise, they will be carefully scrutinized to ensure they are not damaging to our interests. For instance, managers may seek to reclassify accounts to enhance their perceived performance. If this is the case, then managers may earn more in performance-based compensation without adding actual value to the firm.

ADOPT OR CHANGE STAKE DISCLOSURE REQUIREMENT(S): CASE-BY-CASE

Proposals may be submitted to conform to recent changes in home market disclosure laws or other regulations. However, proposed levels that are below typical market standards are often only a pretext for an anti-takeover defense. Low disclosure levels may require a greater number of shareowners to disclose their ownership, causing a greater burden to shareowners and to the company. Positions of more than five percent are significant, however, and would be supported by SBA.

ACCESS TO PRELIMINARY VOTING TABULATIONS CONCERNING SHAREOWNER PROPOSALS: CASE-BY-CASE

The SBA supports equal access by management and shareowner proponents to preliminary voting results of shareowner proposals. Some proponents are concerned that companies may receive preliminary voting results and use the information to target shareowner engagement at a disadvantage to the proponent. Generally, the SBA will not support restricting access to this voting data to either party. Some proposals seek to restrict access while others may seek to place conditions on using the information.

RESTRICT INTER-SHAREOWNER COMMUNICATIONS: AGAINST

The ability to dialogue assists shareowners in seeing each other's perspective and helps owners exercise their rights in a free, capitalist market. SBA would not typically support restrictions beyond those of market regulators. In U.S. markets, the SEC has established enforceable guidelines that govern communications from shareowners or other parties for the purposes of soliciting proxies or pursuing corporate takeover measures.

CHANGE DATE OF FISCAL YEAR-END: FOR

Companies may seek shareowner approval to change their fiscal year end. Most countries require companies to hold their annual shareowners meeting within a certain period of time after the close of the fiscal year. While the SBA typically supports this routine proposal, opposition may be considered in cases where the company is seeking the change solely to postpone its annual meeting.

AUTHORIZE DIRECTORS TO MAKE APPLICATION FOR ONE OR MORE EXCHANGE LISTINGS: FOR

SBA generally supports proposals to authorize secondary share listings, absent evidence that important shareowner rights will not be harmed or restricted to an unreasonable extent. Secondary listings may provide additional funding in other capital markets and/or increase share liquidity.

SET OR CHANGE DATE OR PLACE OF ANNUAL MEETING: FOR

Flexibility is necessary in time and location of board meetings. As such, the SBA typically supports proposals that provide reasonable discretion to the board for scheduling a shareowner meeting. SBA would not support changes if their impact is expected to inhibit participation by shareowners.

CHANGE/SET PROCEDURE FOR CALLING BOARD MEETINGS: CASE-BY-CASE

The SBA embraces full disclosure regarding the procedures for calling board meetings. Therefore, we typically vote FOR improvements in these procedures and the disclosure of these procedures.

ALLOW DIRECTORS TO VOTE ON MATTERS IN WHICH THEY ARE INTERESTED: CASE-BY-CASE

Generally, SBA does not support these proposals unless it is shown that the directors' interests are not material or the proposal conforms to federal regulations or stock exchange requirements.

CHANGE QUORUM REQUIREMENT FOR BOARD MEETINGS: CASE-BY-CASE

SBA may support reasonable changes in quorum requirements for board meetings. We would not support a quorum of less than fifty percent.

REINCORPORATION TO A DIFFERENT STATE: CASE-BY-CASE

Corporations may change the state in which they are incorporated as a way of changing minimum or mandatory governance provisions. A corporation having no business contacts or connections in a state may nonetheless choose that state as its place of incorporation and that state's laws will determine certain aspects of its internal governance structure. The ability of corporations to choose their legal domicile has led many states to compete for revenue from corporate fees and taxes by enacting management-friendly incorporation codes. This competition has encouraged states to support an array of anti-takeover devices and provide wide latitude in restricting the rights of shareowners.

Many companies changed their state of incorporation to Delaware since the 1980s because they viewed it as having a predictable and favorable legal climate for management. In 2007, North Dakota changed its laws of incorporation in an effort to create an environment of corporate governance best practices and strong shareowner rights. SBA will support proposals to shift the state of incorporation to states with net improvements in shareowner protections; however, the opportunity to increase shareowner rights will be weighed against the costs and potential disruption of changing the state of incorporation.[53]

OFFSHORE REINCORPORATION: CASE-BY-CASE

In some circumstances the costs of a corporation's reincorporation may outweigh the benefits, primarily tax and other financial advantages. Reincorporation can also result in the loss of shareowner rights, financial penalties, future detrimental tax treatment, litigation, or lost business. The SBA evaluates reincorporation proposals by examining the economic costs and benefits and comparing governance and regulatory provisions between the locations.

CONTROL SHARE ACQUISITION PROVISIONS: CASE-BY-CASE

[53] Subramanian, Guhan, "The Influence of Anti-takeover Statutes on Incorporation Choice: Evidence on the 'Race' Debate and Anti-takeover Overreaching." Harvard NOM Research Paper No. 01-10, December 2001.

Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights for those shares exceeding set ownership limits may only be restored by approval of either a majority or supermajority of disinterested shares. Thus, control share acquisition statutes effectively require a hostile bidder to put its offer to a shareowner vote or risk voting disenfranchisement if the bidder continues buying up a large block of shares. SBA supports proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareowners. SBA opposes proposals to amend the charter to include control share acquisition provisions or limit voting rights.

CONTROL SHARE CASH-OUT PROVISIONS: FOR

Control share cash-out statutes give dissident shareowners the right to “cash-out” of their position in a company at the expense of the shareowner who has taken a control position. When an investor crosses a preset threshold level, the remaining shareowners are given the right to sell their shares to the acquirer, who must buy them at the highest acquiring price. SBA typically supports proposals to opt out of control share cash-out statutes.

OPT-OUT OF DISGORGEMENT PROVISIONS: FOR

Disgorgement provisions require an acquirer or potential acquirer of more than a certain percentage of a company’s stock to disgorge (or pay back) to the company any profits realized from the sale of that company’s stock purchased 24 months before achieving control status. All sales of company stock by the acquirer occurring within a certain period of time (between 18 months and 24 months) prior to the investor’s gaining control status are subject to these recapture-of-profits provisions. SBA supports proposals to opt out of state disgorgement provisions.

ANTI-GREENMAIL: FOR

Greenmail payments are targeted share repurchases by management of company stock from individuals or groups seeking control of the company. They are one of the most wasteful entrenchment devices available to management. Since only the hostile party receives payment, usually at a substantial premium over the market value of his shares, the practice is discriminatory to all other shareowners of the company. With greenmail, management transfers significant sums of corporate cash to one entity for the purpose of fending off a hostile takeover. SBA supports proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company’s ability to make greenmail payments.

FAIR PRICE AND SIMILAR PROVISIONS IN TWO-TIERED TENDER OFFERS: CASE-BY-CASE

SBA supports proposals to adopt a fair price provision as long as the shareowners’ vote requirement embedded in the provisions is no more than a majority of the disinterested shares. The SBA will vote against all other management fair price proposals. SBA also will typically support shareowner proposals to lower the shareowners’ vote requirement embedded in existing fair price provisions.

FAIR PRICE PROVISION: CASE-BY-CASE

Fair price provisions are a variation on standard supermajority voting requirements for mergers, whereby shareowners vote before a significant business combination can be affected. Fair price provisions add a third option, allowing a bidder to consummate a merger without board approval or a shareowner vote as long as the offer satisfies the price requirements stipulated in the provision. Fair price provisions are normally adopted as amendments to a corporation’s charter. The provisions normally include a super majority lock-in, a clause requiring a super majority shareowner vote to alter or repeal the provisions itself. We typically support management proposals to adopt a fair price provision, as long as the shareowner vote requirement imbedded in the provision is no more than a majority of the disinterested shares. We generally support shareowner proposals to lower the shareowner vote requirement imbedded in existing fair price provisions.

OPT OUT OF ANTI-TAKEOVER LAW: FOR

The SBA does not support corporations opting into state anti-takeover laws (e.g. Delaware). Such laws may prohibit an acquirer from making a well-financed bid for a target, which provides a premium to shareowners. We support proposals to opt-out of state anti-takeover laws.

APPROVE STAKEHOLDER PROVISIONS: AGAINST

Stakeholder provisions or laws permit directors to weigh the interests of constituencies other than shareowners, including bondholders, employees, creditors, customers, suppliers, the surrounding community, and even society as a whole, in the process of corporate decision making. The SBA does not support proposals for the board to consider non-shareowner constituencies or other nonfinancial effects when evaluating making important corporate decisions, such as a merger or business combination.

Evaluating the impact on non-shareowner constituencies provides a board with an explicit basis, approved by the shareowners, which it may invoke to reject a purchase offer that may be attractive in purely financial terms. Some state laws also allow corporate directors to consider non-financial effects, whether or not the companies have adopted such a charter or bylaw provision. SBA would support proposals to opt-out of such provisions.

COMPENSATION

Compensation is an area that merits particular oversight from investors, as it exemplifies the delicate principal-agent relationship between shareowners and directors. Directors create compensation plans, often with the assistance of compensation consultants, which aim to motivate performance and retain management. Ultimately, it is the shareowners that bear the cost of these plans, and as average compensation packages have climbed steadily in value in recent years, shareowners have concern over the level of pay, the lack of disclosure, the role of compensation advisers, and the loyalty of board members to shareowners' interests over management's. Voting against plans with exorbitant pay or poor design is an important shareowner duty, and engagement with companies on their plans and features is a meaningful way for shareowners to protect value and contribute to oversight of their agents.[54]

ADOPT OR AMEND STOCK AWARD OR OPTION PLAN: CASE-BY-CASE

The SBA supports compensation structures that provide incentives to directors, managers, and other employees by aligning their performance and economic interests with those of the shareowners. Therefore, we evaluate incentive-based compensation plans on reasonableness of the total cost to shareowners and the incentive aspects of the plan, as well as the overall design and transparency of the program.

Stock-based incentive plans should require some financial risk. Proper and full disclosure is essential for shareowners to assess the degree of pay-for-performance inherent in plans. Some companies disclose metrics and thresholds that are inappropriately low and easy to attain; other companies refrain from disclosing metrics and/or thresholds at all. When there is insufficient disclosure on plan metrics and compensation levels appear out of line with peers or problematic pay practices are used, SBA will not support the plan.

For plans to provide proper incentives, executive compensation should be linked directly with the performance of the business. Typically, companies use peer groups when developing compensation packages to make peer-relative assessments of performance. A company's choice of peers can have a significant impact on the ultimate scope and scale of executive compensation, and in many cases, companies set executive compensation at or above the fiftieth percentile of the peer group.[55] Problematic issuer-developed peer groups may exhibit the following red flags: 1) too many firms listed (more than 15); 2) bias toward "peers" that are substantially larger and/or more profitable;[56,57] 3) peer groups with unusually high CEO pay, particularly if not direct competitors; 4) groups with too many industries and geographic markets included; and 5) unexplained year-to-year peer group changes. When the basis of compensation uses benchmarks and relative comparisons to an inappropriate peer group selection, SBA is unlikely to support the compensation plan.

When making voting decisions, we look for reasonable compensation levels, both on an absolute basis and relative to peers, alignment between pay and performance, disclosure of performance metrics and thresholds, and fair plan administration practices. We may vote against compensation plans for the following reasons:

- High compensation levels on an absolute or peer-relative basis
- Disconnect between pay and performance
- Poor disclosure of performance metrics, thresholds, and targets
- Heavy reliance on time-based instead of performance-based vesting
- Imbalance between long-term and short-term incentive program payments
- Large guaranteed payments
- Failure to modify compensation award metrics for accounting adjustments or the impact of stock repurchases (buybacks)
- "Long-term" plans with overly short performance measurement and payout periods

[54] CFA Centre for Financial Market Integrity, "The Compensation of Senior Executives at Listed Companies: A Manual for Investors," 2007.
[55] Bizjak, M. John, Lemmon, L. Michael, and Naveen, Lalitha. 2000 "Has the Use of Peer Groups Contributed to Higher Pay and Less Efficient Compensation?"
[56] Faulkender, Michael W. and Yang, Jun, "Inside the Black Box: The Role and Composition of Compensation Peer Groups," (March 15, 2007). AFA 2008 New Orleans Meetings Paper.
[57] Albuquerque, Ana M., De Franco, Gus and Verdi, Rodrigo S., "Peer Choice in CEO Compensation," (July 21, 2009). Available at SSRN: http://ssrn.com/abstract=1362047.

- Excessive severance or single-trigger change-in-control packages
- Plans that cover non-employee consultants or advisors
- Inappropriate peer group selections resulting in out-sized or misaligned pay
- Excessive perquisites
- Lack of stock ownership guidelines for executives
- Tax gross-ups, evergreen issues, or option repricing practices are permitted
- Accelerated or unreasonable vesting provisions
- Dividend payments are made or allowed to accrue on unvested or unearned awards
- Lack of an independent compensation committee or egregious consultant practices
- Poor committee response to investor concerns, proposals or engagements, especially insufficient response to recent low vote outcomes on compensation plan items including say-on-pay votes.

ADVISORY VOTE ON EXECUTIVE COMPENSATION: CASE-BY-CASE

Say-on-pay votes are required in several markets, including the U.S., U.K., Australia, the Netherlands, Sweden, Norway, and Spain. These advisory votes allow investors to provide feedback on the administration of a company's pay program, typically on an annual basis (though in some markets, investors of some companies have voted for lesser frequencies of two or three years). Say-on-pay advisory votes add value because investors can seek accountability if the administration of an approved plan proves to be poor. The combination of compensation plan votes and annual say-on-pay advisory votes allow investors to approve the plans and still weigh in on the actual administration of those plans on a regular basis. SBA uses similar criteria for evaluating say-on-pay proposals as detailed in the "Adopt or amend stock incentive plan" guideline.

ADOPT BONUS 162(M) PLAN (U.S.): CASE-BY-CASE

SBA reviews proposals to adopt performance-based cash bonus plans for executives on a case-by-case basis. These plans are put to a shareowner vote to preserve the tax deductibility of compensation in excess of $1 million for the five most highly compensated executives, pursuant to section 162(m) of the Internal Revenue Code. A vote against these plans does not necessarily prevent the bonus from being paid, but only precludes the ability to take a tax deduction.[58] SBA will vote against these proposals under any of these conditions: misalignment of pay and performance, lack of defined or acceptable performance criteria, or unlimited or excessively high maximum pay-outs.

ADOPT OR AMEND EMPLOYEE STOCK PURCHASE PLAN: CASE-BY-CASE

Employee stock purchase plans (ESPP) are normally broad-based equity plans that allow employees to purchase stock via regular payroll deductions, often at a reduced price. Equity-based compensation can be a useful tool in aligning the interests of management and employees with those of the shareowners. ESPPs provide low cost financing for corporate stock and can improve employee productivity, both of which should, in theory, lead to increased shareowner value. Numerous studies favorably link ESPPs with improved corporate performance.[59] SBA considers the plan's salient features, such as use of evergreen provisions, purchase limits/discounts, pay deductions, matching contributions, holding requirements, tax deductibility, the size and cost of the plan, as well as the company's overall use of equity compensation, in making voting decisions. The plan is generally accepted if the combined amount of equity used across all programs is deemed reasonable.

LINKING PAY WITH PERFORMANCE: CASE-BY-CASE

[58] "Section 162(m) Requirements, Implications and Practical Concerns," Exequity, September 2008.
[59] 2006 Employee Stock Purchase Plan Report, Equilar, Inc., 2006.

These proposals would require the company to closely link pay with performance, using performance measures that are mandated in the proposal language or that must be presented to investors by the company for pre-approval.
When the performance measures are mandated by the proposal language, SBA typically supports proposals that reasonably and fairly align pay with specific performance metrics, require detailed disclosures, or mandate adherence to fair compensation practices. We are less likely to support proposals that require metrics that are a degree removed from ultimate performance measures, such as proposals that require pay to be linked to performance on specific social mandates, absent a compelling argument for their usage.

SBA supports meaningful investor oversight of executive compensation practices and generally supports proposals requiring shareowner approval of specific performance metrics in equity compensation plans. SBA supports prior disclosure of performance metrics including quantifiable performance measures, numerical formulas, and other payout schedules covering at least a majority of all performance-based compensation awards to any named executive officers.

OPTION REPRICING: CASE-BY-CASE, TYPICALLY AGAINST

Option repricing is a contravening of the incentive aspect of plans. If the company has a history of repricing underwater options, SBA is unlikely to vote in support. There are very rare instances where repricing is acceptable, but several strict conditions must be met including a dramatic decline in stock value due to serious macroeconomic or industry-wide concerns and the necessity to reprice options in order to retain and motivate employees.

RECOUP BONUSES OR INCENTIVE COMPENSATION THROUGH CLAWBACK PROVISIONS: CASE-BY-CASE

Most commonly, clawback provisions address situations where the company's restated financial statements show that an executive did not achieve the performance results necessary for the executive to receive a bonus or incentive compensation. SBA recognizes that clawback provisions are an important aspect of performance-based compensation plans. To align executive interests with the interests of shareowners, executives should be compensated for achieving performance benchmarks. Equally, an executive should not be rewarded if he or she does not achieve established performance goals. If restated financial statements reveal that the executive was falsely rewarded, he or she should repay any unjust compensation received.

SBA evaluates these proposals by taking into consideration the impact of the proposal in cases of fraud, misstatement, misconduct, and negligence, whether the company has adopted a formal recoupment policy, and if the company has chronic restatement history or material financial problems.

DISCLOSURE OF WORK BY COMPENSATION CONSULTANTS: FOR

External compensation consultants should be independent to ensure that advice is unbiased and uncompromised. Multiple business dealings or significant revenue from the company may impair the independence of a pay consultant's opinions, advice, or recommendations to the compensation committee. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires that compensation committees analyze the independence of their compensation consultants and advisers and disclose any conflicts of interest concerning such consultants and advisers. Item 407(e)(3)(iv) of Regulation S-K codifies the SEC's proxy disclosure requirement with respect to compensation consultant conflicts of interest, applicable to proxies filed in 2013 and thereafter.[60] Compensation committees are required to assess whether the consultant's work raises any conflicts of interest and, if so, disclose to investors information about the nature of any such conflict and how the conflict is being addressed.
SBA generally supports proposals seeking disclosure regarding the company, board, or compensation committee's use of compensation consultants, such as company name, business relationships, fees paid, and identification of any potential

[60] Securities and Exchange Commission Final Rule, "Listing Standards for Compensation Committees," adopted June 20, 2012, effective July 27, 2012.

conflicts of interest. Additionally, compensation consultants should not be eligible as consultants or advisors on any stock incentive plan at the company.

RESTRICT EXECUTIVE PAY: CASE-BY-CASE

SBA supports levels of compensation that are consistent with the goal of aligning management's interests with shareowners' interests. Absolute limits may inhibit the compensation committee's ability to fulfillfulfil its duties. When the company's executive compensation and performance have been reasonable and in line with that of peers, SBA is unlikely to support proposals seeking an arbitrary cap.

HEDGING AND PLEDGING COMPANY STOCK: CASE-BY-CASE

Companies are increasingly adopting policies that prohibit insiders, such as board directors and senior executives, from hedging the value of their company equity or pledging company shares as collateral to margin accounts. Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset or equity. Stock-based compensation or open-market purchases of company stock should serve to align executives' or directors' interests with shareowners. Hedging of company stock through a covered call, 'cashless' collar, forward sale, equity swap, or other derivative transactions can sever the alignment with shareowners' interests. Some researchers have found negative stock price performance associated with certain hedging activities.[61] Pledging of company stock as collateral for a loan may have a detrimental impact on shareowners if the officer or director is forced to sell company stock, for example, to meet a margin call. The forced sale of significant amounts of company stock may negatively impact the company's stock price and may also violate a company's insider trading policies and 10b5-1 trading plans. In addition, pledging of shares may be utilized as part of hedging or monetization strategies that could potentially immunize an executive against economic exposure to the company's stock, even while maintaining voting rights. Such strategies may also serve to significantly alter incentives embedded within long-term compensation plans.

SBA generally supports proposals designed to prohibit named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging large amounts of stock as collateral for a loan. SBA will evaluate the company's historical practices, level of disclosure, and current policies on the use of company stock.

PROHIBIT TAX GROSS-UPS: FOR

Tax gross-ups are reimbursements to senior executives paid by the company to cover an executive's tax liability. Tax gross-ups are an unjustifiably costly practice to shareowners; it generally takes at least $2.50 and as much as $4 to cover each $1 of excise tax that must be "grossed-up."[62] SBA generally supports proposals for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

REQUIRE SUPERMAJORITY OF INDEPENDENT BOARD MEMBERS TO APPROVE CEO COMPENSATION: AGAINST

SBA generally votes against proposals to seek approval of an amendment to the bylaws in order to provide that a company's CEO's compensation must be approved by a supermajority of all independent directors of the board. Proponents of this proposal argue that approval of this proposal would ensure that the company provides a CEO pay package that is widely supported by its independent directors, increasing the likelihood that the company's independent directors are

[61] J. Carr Bettis, John M. Bizjak, and Swaminathan L. Kalpathy, "Why Do Insiders Hedge Their Ownership and Options? An Empirical Examination," Social Science Research Network, March 2010.
[62] "New Study on Tax Gross-ups," Risk & Governance Weekly, 12/5/08.

kept informed of and feel shared responsibility for CEO compensation decisions. However, SBA supports the compensation committee members as sufficient to be the knowledgeable arbiters of compensation plan terms, metrics and payouts.

MANDATORY HOLDING PERIODS: CASE-BY-CASE

SBA supports proposals asking companies to adopt substantial mandatory holding periods for their executives, as well as requiring executives to meet stock ownership retention of at least a majority of shares granted or otherwise transferred in executive compensation arrangements. When making voting decisions, SBA considers whether the company has any holding period or officer ownership requirements in place and how actual stock ownership of executive officers compares to the proposal's suggested holding period and the company's present ownership or retention requirements.

EXECUTIVE SEVERANCE AGREEMENTS OR GOLDEN PARACHUTES: CASE-BY-CASE

SBA examines a variety of factors that influence the voting decision in each circumstance, such as:

- The value of the pay-outs in relation to annual salary plus certain benefits for each covered employee as well as the equity value of the overall transaction;
- The scope of covered employees along with their tenures and positions before and after the transaction, as well as other new or existing employment agreements in connection with the transaction;
- The scope of change in control agreement as it relates to the nature of the transaction;
- The use of tax gross-ups;
- Features that allow accelerated vesting of prior equity awards or automatic removal of performance-based conditions for vesting awards;
- For new or outside executives, the lack of sunset provisions; and
- The type of "trigger" necessary for plan pay-outs. Single triggers involve just a change in control; double triggers require a change in control and termination of employment.

Ideally, a golden parachute should not incentivize the executive to sacrifice ongoing opportunities with the surviving firm and should be triggered by a mechanism that is outside of the control of management. Likewise, careful structuring can enhance shareowner value and result in higher takeover bids; exorbitant pay-outs may discourage acquirers from seeking the company as a target and result in a lower shareowner value. Plans that include excessive potential pay-outs, single triggers, overly broad change in control applications, and/or accelerated vesting features are typically not supported by the SBA. Occasionally, more detrimental features such as single triggers or overly broad application of the plan to lower level employees may warrant withholding votes from compensation committee members in addition to an against vote on the golden parachute plan. Some research indicates that firms adopting golden parachutes experience reductions in enterprise value, as well as negative abnormal stock returns, both during the inter-volume period of adoption and thereafter.[63]

Some executives may receive provision for severance packages, vested shares, salary, bonuses, perquisites and pension benefits even after death.[64] Most public companies include death benefits with other types of termination-related pay due their CEOs, with variations for whether the person is fired, becomes disabled or dies in office. Death benefits may be layered on top of pensions, vested stock awards and deferred compensation, which for most CEOs already amount to large sums. Though not all companies provide it, the most common posthumous benefit is acceleration of unvested stock options and grants of restricted stock; these accelerated vesting provisions are not supported by SBA proxy voting guidelines. SBA supports their removal from compensation frameworks.

---

[63] Lucian A Bebchuk, Alma Cohen, and Charles C. Y. Wang, "Golden Parachutes and the Wealth of Shareholders," Harvard Law and Economics Discussion Paper No. 683 (October 2012).
[64] "Companies Promise CEOs Lavish Posthumous Paydays," Wall Street Journal, June 10, 2008.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS): CASE-BY-CASE

SERPs are non-qualified, executive-only retirement plans under which the company provides an additional retirement benefit to supplement what is offered under the employee-wide plan where contribution levels are capped. SERPs are different from typical qualified pension plans in two ways. First, they do not receive the favorable tax deductions enjoyed by qualified plans. The company pays taxes on the income it must generate in order to pay the executive in retirement. Therefore, some critics contend that the executive's tax obligation is shifted to the company. Second, SERPs typically guarantee fixed payments to the executive for life. Unlike defined contribution plans, SERPs transfer the risk of investment performance entirely to the firm. Even if the company or its investment performs poorly, the executive is entitled to receive specified stream of payments.[65]

SBA may support proposals to limit their usage if there is evidence of abuse in the SERP program or post-employment benefits that indicate the company is operating the program in excess of peers. SBA also supports the limitation of SERP formulas to base compensation, rather than the extension to variable compensation or other enhancements, and we do not endorse the practice of granting additional years of service that were not worked.

PRE-ARRANGED TRADING PLANS (10B5-1 PLANS): CASE-BY-CASE

The SBA generally supports proposals calling for certain principles regarding the use of prearranged trading plans (10b5-1 plans) for executives. These principles include:

- Adoption, amendment, or termination of a 10b5-1 Plan are disclosed within two business days in a Form 8-K;
- Amendment or early termination of a 10b5-1 Plan is allowed only under extraordinary circumstances, as determined by the board;
- Multiple, overlapping 10b5-1 plans should be prohibited;
- Plans provide that ninety days must elapse between adoption or amendment of a 10b5-1 Plan and initial trading under the plan;
- Reports on Form 4 must identify transactions made pursuant to a 10b5-1 Plan;
- An executive may not trade in company stock outside the 10b5-1 Plan; and
- Trades under a 10b5-1 Plan must be handled by a broker who does not handle other securities transactions for the executive.

Boards of companies that have adopted 10b5-1 plans should adopt policies covering plan practices, periodically monitor plan transactions, and ensure that company policies cover plan use in the context of guidelines or requirements on equity hedging, pledging, holding, and ownership.

DIRECTOR COMPENSATION: CASE-BY-CASE

Non-employee director compensation should be composed of a mix of cash and stock awards, where market practices do not prohibit such a mix. Director compensation plans are evaluated by comparing the cash compensation plus the approximate value of the equity-based compensation per director to a peer group with similar size and enterprise value. The initial compensation that is provided to new directors is also considered. The cash retainer and equity compensation are adequate compensation for board service; therefore, SBA does not support retirement benefits for non-employee directors.

We encourage stock ownership by directors and believe directors should own an equity interest in the companies upon which boards they are members. However, we do not support a specific minimum or absolute ownership levels.

---

[65] Bebchuk, Lucian Arye and Fried, Jesse M., "Pay without Performance: Overview of the Issues" . Journal of Corporation Law, Vol. 30, No. 4, pp. 647-673, 2005. Also see Bebchuk, Lucian A., Cohen, Alma, and Spamann, Holger, "The Wages of Failure" (Working Draft, November 22, 2009).

BUSINESS CONDUCT

SBA often engages with companies outside of the proxy voting process, speaking directly to corporate and board representatives about business conduct decisions relevant to shareowner value, such as in the guidelines discussed below. Most of the guidelines in this section cover proposals that are submitted by shareowners rather than management, but these issues impact the majority of companies regardless of whether they have had shareowner proposals submitted. Therefore, engagement is an extremely effective and important tool for mitigating the widespread and systematic risks inherent in these issues.

SBA considers the vote on these proposals to be an important part of the communication process with management. We support these proposals when their adoption seems prudent in light of the current circumstances and the proposed actions may reasonably be considered to have a cost-effective, protective impact on shareowner value. These topics cover risks such as product safety, environmental impact, and human rights abuses—areas where investors have experienced significant share value losses over time due to missteps in management of these risks. It is our fiduciary duty to engage companies and make prudent voting decisions in the presence of substantial risks, by supporting reasonable proposals and maintaining a dialogue with companies on these topics.

PRODUCT SAFETY: CASE-BY-CASE

Inadequate product safety standards can be catastrophic to brand and market value through lost sales, fines and legal liability. Failure to implement effective safety standards, and to enforce them throughout the supply chain, creates a risk that is difficult to overstate. Generally, SBA supports reasonable proposals requesting increased disclosure regarding oversight procedures, product safety risks, or the use of potentially dangerous or toxic materials in company products. Proposals asking the company to cease using certain production methods or materials will be evaluated based on the merits of the case supporting the actions called for in the proposal. SBA also considers current regulations, recent significant controversy, litigation and/or fines, and the current level of disclosure by the company.

FACILITY SAFETY (NUCLEAR AND CHEMICAL PLANT SAFETY): CASE-BY-CASE

Resolutions requesting that companies report on risks associated with their operations and/or facilities are examined on a case-by-case basis, by considering the company's compliance with applicable regulations and guidelines; the level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and the existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations or facilities.

Some shareowner-sponsored resolutions ask a company to cease production associated with the use of depleted uranium munitions or nuclear weapons components and delivery systems, including disengaging from current and proposed contracts. Such contracts are monitored by government agencies, serve multiple military and non-military uses, and withdrawal from these contracts could have a negative impact on the company's business. SBA evaluates these proposals on a case-by-case basis, but generally leaves decisions on the risk of engaging in certain lines of business up to the board, absent compelling a rationale to intervene.

ANIMAL TESTING AND WELFARE POLICIES: CASE-BY-CASE

Some resolutions ask companies to report on animal welfare conditions or to make changes in procedures relating to the treatment of animals. SBA examines each proposal in the context of current regulations, consumer sentiment, company disclosures, available technology and potential alternatives to the company's present procedures, and the feasibility and cost impact of the proposal when making a voting determination.

ENERGY AND ENVIRONMENT: CASE-BY-CASE

In conjunction with the Ceres principles[66], we are in favor of reasonable proposals for companies taking actions toward energy conservation and environmental solutions. We generally vote in favor of proposals that ask companies to disclose historical, current, or projected levels of pollutants emitted into the environment and to disclose any control measures to shareowners. The SBA evaluates such proposals, taking into account whether the company has clearly disclosed its current policies and plan of action, as well as an analysis of the potential for regulatory and business risks in their operations. Proposals that request a company engage in specific environmental actions are evaluated on the potential to contribute to long-term shareowner value.

Marketing, Sales, and Business Policies

RESTRICTIONS ON PRODUCT SALES, PRICING AND MARKETING: CASE-BY-CASE

Absent compelling arguments that product marketing or pricing has potential to cause damage such as through increased liability or reputational concern, SBA generally allows management to determine appropriate business strategies and marketing tactics.

PRIVACY AND CENSORSHIP: CASE-BY-CASE

As technology has changed, consumers have become more dependent on products that generate significant amounts of personal data, raising concerns over susceptibility to both government surveillance and invasive corporate marketing. In some markets, freedom to access information on the internet is impaired by government decree. Shareowners may make proposals asking companies to limit their own use of consumer-generated data or prohibit access to the data by other entities, such as governments. Proposals may also ask companies to cease certain business lines in countries where governments demand access to the data or the blocking of certain information. Such restrictions may not only violate human rights, but they also decrease the quality of service provided by companies and threaten the integrity of the industry as a whole. Proposals may also ask companies to provide reports on their practices and policies related to these concerns.

The SBA generally votes in favor of reasonable, disclosure-based resolutions relating to policies on data collection and internet access, unless the company already meets the disclosure provisions requested in the proposal. SBA considers the level of current applicable disclosure on the topic, the history of stakeholder engagement, nature and scope of the company's operations, applicable legislation, and the company's past history of controversy and litigation as it pertains to human rights. SBA generally does not support proposals asking companies to modify or restrict their business operations in certain markets, unless under extraordinary circumstances where a considerable threat to the company's operations or reputation exists.

OPERATIONS IN HIGH RISK MARKETS: CASE-BY-CASE

Shareowners may propose that companies adopt guidelines for doing business with or investing in countries where there is a pattern of ongoing egregious and systematic violations of human rights. Shareowners of companies operating in regions that are politically unstable, including terrorism-sponsoring states, sometimes propose ceasing operations or reporting on operations in high-risk markets. Such concerns focus on how these business activities or investment may, in truth or by perception, support potentially dangerous and/or oppressive governments, and further, may lead to potential company reputational, regulatory, or supply chain risks. In accordance with §215.471(2) of Florida Statutes, the SBA votes against all proposals advocating increased United States trade with Cuba~~, or~~ Syria or Venezuela, and SBA will not vote in favor of any proxy resolution advocating the support of the Maduro regime in Venezuela per resolution of the Trustees of the State Board of Administration.. SBA is also prohibited by state law from investing in companies doing certain types of business in Iran and Sudan. ~~SBA will not vote in favor of any proxy resolution advocating the support of the Maduro regime in Venezuela per resolution of the Trustees of the State Board of Administration.~~

[66] http://www.ceres.org/about-us/our-history/ceres-principles

SBA votes on a CASE-BY-CASE basis when evaluating requests to review and report on the company's potential financial and reputation risks associated with operations in high-risk markets, such as a terrorism-sponsoring state or otherwise, taking into account:

- Compliance with Florida state law;
- Compliance with U.S. sanctions and laws;
- Consideration of other international policies, standards, and laws;
- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption;
- Current disclosure of applicable risk assessments and risk management procedures; and
- Whether the company has been recently involved in significant controversies or violations in high-risk markets.

CONFLICT MINERALS: CASE-BY-CASE

As a part of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC mandates that public companies using 'conflict minerals' annually report on the scope of their due diligence of their suppliers, in addition to making disclosures about any payments made to foreign governments for the acquisition or production of these resources. SBA evaluates the scope of proposals going beyond the reports required by the SEC, as well as the economic rationale, and compares it to the expected compliance costs in making a voting decision.

POLITICAL NEUTRALITY: CASE-BY-CASE

These resolutions call for companies to maintain political neutrality. They may also propose that appearance of coercion in encouraging its employees to make political contributions be avoided. The SBA examines proposals requesting the company to affirm political non-partisanship in the workplace on a case-by-case basis. We generally vote against such resolutions provided that the company is in compliance with laws governing corporate political activities and the company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and not coercive.

Codes of Conduct

CODES OF CONDUCT: CASE-BY-CASE

Workplace codes of conduct are designed to safeguard workers' rights in the international marketplace. Advocates of workplace codes of conduct encourage corporations to adopt global corporate standards that ensure minimum wages and safe working conditions for workers at in developing countries. U.S. companies that outsource portions of their manufacturing operations to foreign companies are expected to ensure that the products received from those contractors do not involve the use of forced labor, child labor, or sweatshop labor. A number of companies have implemented vendor standards, which include independent monitoring programs with respected local human rights and religious organizations to strengthen compliance with international human rights norms. Failure to manage the risks to workers' safety and human rights can result in boycotts, litigation and stiff penalties.

When compliance is deemed necessary, SBA favors incorporation of operational monitoring, code enforcement, and robust disclosure mechanisms.[67] SBA prefers to see companies with supply-chain risks proactively engage an independent monitoring organization to provide objective oversight and publicly disclose such evaluation.

NORTHERN IRELAND (MACBRIDE PRINCIPLES): FOR

---

[67] "Incorporating Labor and Human Rights Risk into Investment Decisions." Aaron Bernstein, Harvard Labor and Worklife Program, Occasional Paper Series No. 2, September, 2008.

The MacBride Principles call on companies with operations in Northern Ireland to promote fair employment practices. Signatories of the MacBride Principles agree to make reasonable, good faith efforts to abolish all differential employment criteria whose effect is discrimination on the basis of religion. SBA supports adoption and implementation of the MacBride Principles, along with fair and transparent employment practices by firms operating in Northern Ireland.

HOLY LAND PRINCIPLES: CASE-BY-CASE

SBA supports proposals that seek to end discrimination and underrepresentation in the workplace based on national, racial, ethnic and religious affiliations. When companies cannot reasonably show they are taking steps to accomplish this goal, SBA will support shareowner proposals seeking compliance with these principles.

MUTUAL FUND VOTING

Like shareowners of publicly-held corporations, shareowners of mutual funds are allowed a voice in fund governance. While some funds proscribe annual meetings in their charter documents, all funds must call special meetings of shareowners to amend substantive governance matters such as board composition, investment advisory agreements, distribution agreements, and changes to fundamental investment restrictions. To this end, mutual fund managers issue and solicit proxies similar to the way that stock corporations do.

Mutual fund proxies raise issues that differ substantially from those found in the proxies of public companies. Though mutual fund proxy holders are also frequently asked to elect trustees and ratify auditors, most of the other agenda items are related to the special nature of this type of security. As with elections of directors of corporations, it is preferable to see mechanisms that promote independence, accountability, responsiveness, and competence in regards to the mutual fund. There is evidence demonstrating a positive link between the quality of a mutual fund's board and its future performance and Sharpe ratio.[68] SBA's voting approach on mutual fund resolutions is similar to that of our approach on publicly-traded company resolutions in that votes are cast with an intention of maximizing value and preserving or enhancing investor rights.

Fund Objective and Structure

The principal investment strategy identifies the financial market asset class or sub-sector in which the fund typically invests, e.g. the fund normally invests at least eighty percent of its assets in stocks included in the S&P 500. A fundamental investment restriction identifies prohibited activities, e.g. the fund may not invest more than twenty-five percent of the value of its total assets in the securities of companies primarily engaged in any one industry.

Beyond a fund's investment objectives, fund structure may also affect shareowner value. The majority of investment funds are open-end investment companies, meaning that they have no set limit on the number of shares that they may issue. A change in fee structure or fundamental investment policy requires the approval of a majority of outstanding voting securities of the fund, which under the Federal Investment Company Act of 1940 is defined as the affirmative vote of the lesser of either sixty-seven percent or more of the shares of the fund represented at the meeting, if at least 50 percent of all outstanding shares are represented at the meeting, or fifty percent or more of the outstanding shares of the fund entitled to vote at the meeting. Failure to reach this "1940 Act majority" subjects the funds to additional solicitation and administrative expenses.

ELECTION OF DIRECTORS: CASE-BY-CASE

Similar to the election of directors of corporations, it is preferable to see mechanisms that promote independence, accountability, responsiveness, and competence within the mutual fund. Votes on director nominees should be determined on a case-by-case basis, considering the following factors:

- Director independence and qualifications, including relevant skills and experience;
- Past performance relative to its peers;
- Board structure;
- Attendance at board and committee meetings ;
- Number of mutual funds' boards and/or corporate boards (directorships) upon which a nominee sits; and
- If a proxy contest, Strategy of the incumbents versus the dissidents.

SBA typically withholds votes from directors if:

- They've attended less than 75 percent of the board and committee meetings without a valid reason for the absences;
- They've ignored a shareowner proposal that was approved by a majority of the shares voting;

[68] Carl R. Chen and Ying Huang, "Mutual Fund Governance and Performance: A Quantile Regression Analysis of Morningstar's Stewardship Grade," Corporate Governance: An International Review, 2011, 19(4): 311-333.

- They are non-independent directors and sit on the audit or nominating committees;
- They are non-independent directors, and the full board serves as the audit or nominating committee, or the company does not have one of these committees; or
- The audit committee did not provide annual auditor ratification, especially in the case of substantial non-audit fees or other poor governance practices.

CONVERTING CLOSED-END FUND TO OPEN-END FUND: CASE-BY-CASE

The SBA evaluates conversion proposals on a case-by-case basis, considering the following factors:

- Rationale for the change;
- Past performance as a closed-end fund;
- Market in which the fund invests;
- Measures taken by the board to address the discount; and
- Past shareowner activism, board activity, and votes on related proposals.

INVESTMENT ADVISORY AGREEMENTS: CASE-BY-CASE

Votes on investment advisory agreements are determined by considering the following factors:

- Proposed and current fee schedules;
- Fund category/investment objective;
- Performance benchmarks;
- Share price performance as compared with peers;
- Resulting fees relative to peers; and
- Assignments (where the advisor undergoes a change of control).

When considering a new investment advisory agreement or an amendment to an existing agreement, the proposed fee schedule should be compared with those fees paid by funds with similar investment objectives. Any increase in advisory fees of more than 10 percent of the prior year's fees are judged to determine the long-term impact on shareowner value, and management must offer a detailed, specific and compelling argument justifying such a request.

APPROVE NEW CLASSES OR SERIES OF SHARES: FOR

The SBA generally votes FOR the establishment of new classes or series of shares. Boards often seek authority for a new class or series of shares for the fund to grow the fund's assets. The ability to create classes of shares enables management to offer different levels of services linked to the class or series of shares that investors purchase. Also, fee structures can be varied and linked to the series of shares, which allows investors to choose the purchasing method best suited to their needs. The board can use separate classes and series of shares to attract a greater number of investors and increase the variety of services offered by the fund.

CHANGE FUND'S INVESTMENT OBJECTIVE OR CLASSIFICATION: CASE-BY-CASE

Votes on changes in a fund's objective or classification are determined on a case-by-case basis, considering the following factors:

- Potential competitiveness;
- Current and potential returns;
- Risk of concentration; and
- Consolidation in target industry.

AUTHORIZE THE BOARD TO HIRE OR TERMINATE SUB-ADVISORS WITHOUT SHAREOWNER APPROVAL: AGAINST

SBA generally opposes proposals authorizing the board to hire or terminate sub-advisors without shareowner approval. Typically, the management company will seek authority, through the investment advisor, to hire or terminate a new sub-advisor, modify the length of a contract, or modify the sub-advisory fees on behalf of the fund. These investment decisions are normally made with majority shareowner approval, as determined by Section 15 of the Investment Company Act of 1940. However, funds may apply to the SEC for exemptions to this rule, and the SEC often grants these exemptions. These exemptions are usually structured so that they do not apply to the investment sub-advisory agreement that is in place at the time, but apply to any future sub-advisory agreement into which the fund enters.

MERGERS: CASE-BY-CASE

The SBA generally evaluates mergers and acquisitions on a case-by-case basis, determining whether the transaction enhances shareowner value by giving consideration to:

- Resulting fee structure;
- Performance of both funds;
- Continuity of management personnel; and
- Changes in corporate governance and the impact on shareowner rights.

CHANGE DOMICILE: CASE-BY-CASE

The SBA votes on fund re-incorporations on a case-by-case basis by considering the regulations and fundamental policies applicable to management investment companies in both states. Shareowner rights can be particularly limited in certain states, including Delaware, Maryland, and Massachusetts.[69]

AMENDMENTS TO THE CHARTER: CASE-BY-CASE

The SBA votes on changes to the charter document on a case-by-case basis, considering the following factors:

- The potential impact and/or improvements, including changes to competitiveness or risk;
- The standards within the state of incorporation; and
- Other regulatory standards and implications.

The SBA generally opposes of the following changes:

- Removal of shareowner approval requirement to reorganize or terminate the trust or any of its series;
- Removal of shareowner approval requirement for amendments to the new declaration of trust;
- Removal of shareowner approval requirement to amend the fund's management contract, allowing the contract to be modified by the investment manager and the trust management, as permitted by the 1940 Act;
- Allow the trustees to impose other fees in addition to sales charges on investment in a fund, such as deferred sales charges and redemption fees that may be imposed upon redemption of a fund's shares;
- Removal of shareowner approval requirement to engage in and terminate sub-advisory arrangements; and
- Removal of shareowner approval requirement to change the domicile of the fund.

SHAREOWNER PROPOSALS TO ESTABLISH DIRECTOR OWNERSHIP REQUIREMENT: CASE-BY-CASE

The SBA generally favors the establishment of a director ownership requirement and considers a director nominee's investment in the fund as a critical factor in evaluating his or her candidacy. This decision should be made on an individual

[69] Lucian Bebchuk and Alma Cohen, "Firms' Decisions Where to Incorporate." National Bureau of Economic Research Working Paper 9107, August 2002.

basis and not according to an inflexible standard. If the director has invested in one fund of the family, he/she is considered to own stock in the fund.

SHAREOWNER PROPOSALS TO TERMINATE INVESTMENT ADVISOR: CASE-BY-CASE

Votes on shareowner proposals to terminate the investment advisor considering the following factors:

- Performance of the fund;
- The fund's history of shareowner relations; and
- Performance of other funds under the advisor's management.

ASSIGN TO THE USUFRUCTUARY (BENEFICIARY), INSTEAD OF THE TRUSTEE, THE VOTING RIGHTS APPURTENANT TO SHARES HELD IN TRUST: CASE-BY-CASE

The SBA votes against if the company assigns voting rights to a foundation allied to management.

SHAREOWNER PROPOSALS TO ADOPT A POLICY TO REFRAIN FROM INVESTING IN COMPANIES THAT SUBSTANTIALLY CONTRIBUTE TO GENOCIDE OR CRIMES AGAINST HUMANITY: CASE-BY-CASE

The SBA will evaluate such proposals with an adherence to the requirements and intent of Florida law, including but not limited to the Protecting Florida's Investments Act, which prohibits investment in companies involved in proscribed activities in Sudan or Iran, and other laws covering companies with policies on or investments in countries such as Cuba, Northern Ireland, and Israel.

State Board of Administration

Strategic Investments Asset Class Review

Trent Webster

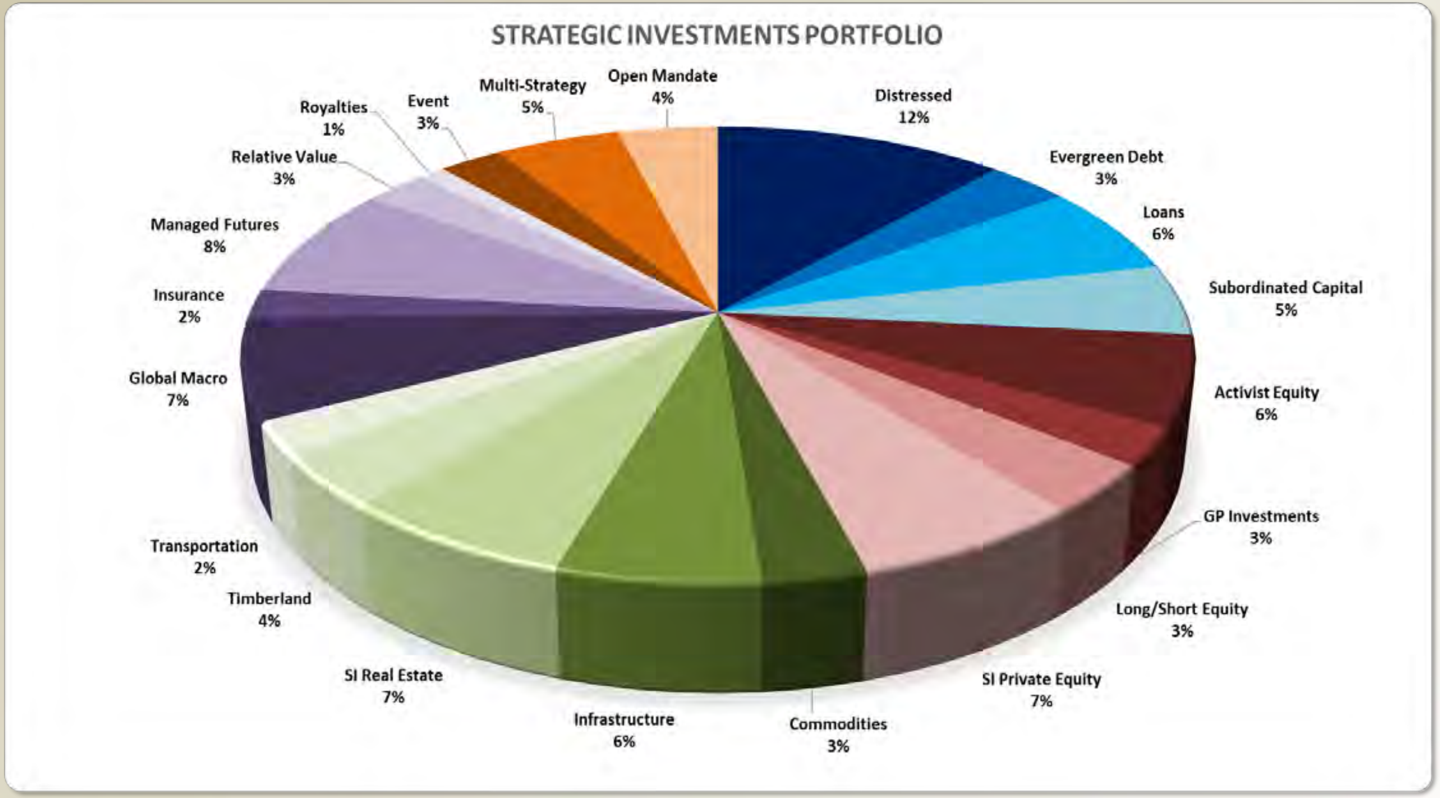
Senior Investment Officer – Strategic Investments

Investment Advisory Council Meeting

March 26, 2019

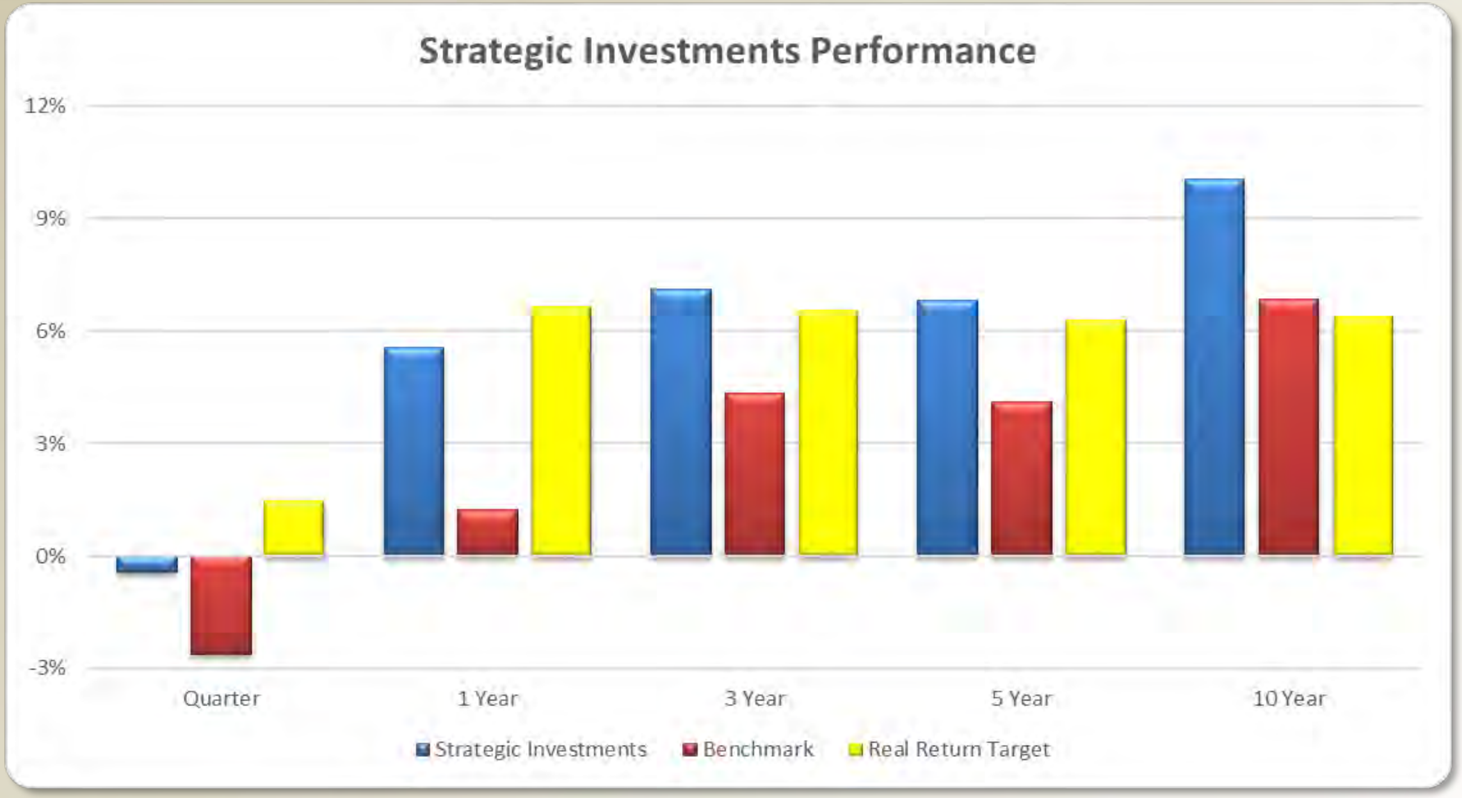
SBA FLORIDA STATE BOARD OF ADMINISTRATION

Portfolio



STRATEGIC INVESTMENTS PORTFOLIO
Open Mandate 4%
Distressed 12%
Evergreen Debt 3%
Loans 6%
Subordinated Capital 5%
Activist Equity 6%
GP Investments 3%
Long/Short Equity 3%
SI Private Equity 7%
Commodities 3%
Infrastructure 6%
SI Real Estate 7%
Timberland 4%
Transportation 2%
Global Macro 7%
Insurance 2%
Managed Futures 8%
Relative Value 3%
Royalties 1%
Event 3%
Multi-Strategy 5%

Performance



Performance

Recent Activity

- Quarterly cash outflow was $262 million, fiscal year-to-date cash inflow has been $683 million
- Eleven new funds totaling $1.125 billion were closed in the most recent quarter
- Four new funds totaling $725 million were closed this quarter
- Ten funds totaling $1.2 billion are in the pipeline

Pipeline

- Four Equity Funds – Two Long/Short Equity, Two SI Private Equity
- Four Real Asset Funds – Two Infrastructure, One Commodities, One SI Real Estate
- Two Diversifying Strategies – Both Royalties

- Six new relationships
- Seven illiquid strategies
- Two hedge funds

Current Focus

- Global equities (were) more attractive
  - Activists
  - Higher beta long/short equity managers
- Emerging Markets equities are attractive
- Emerging Markets infrastructure tailwinds
- Lack of capital in commodities
- Insurance markets hardening?

Global Equity Update

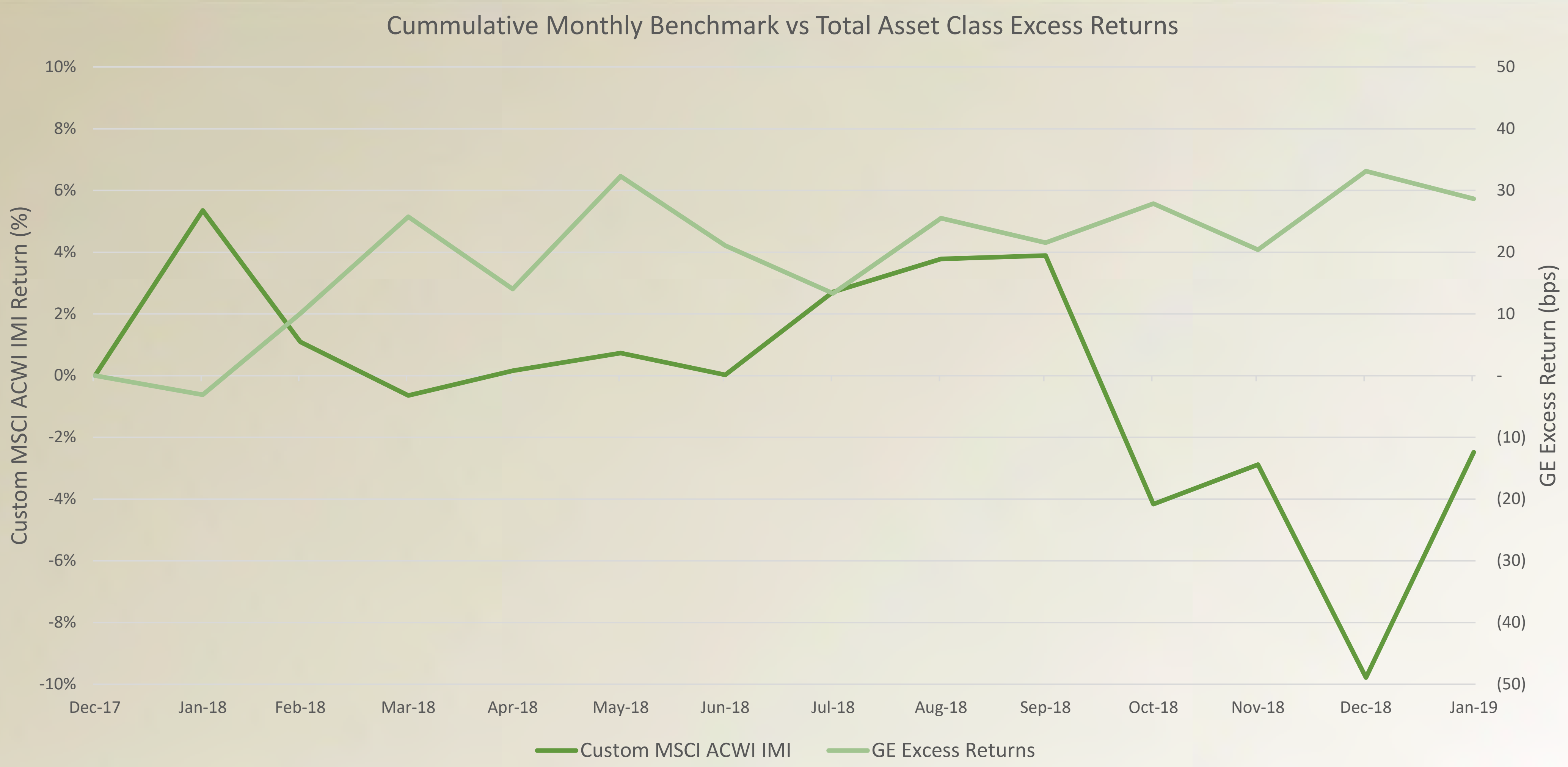
Alison Romano, Senior Investment Officer

Tim Taylor, Senior Investment Officer

Investment Advisory Council

March 26, 2019

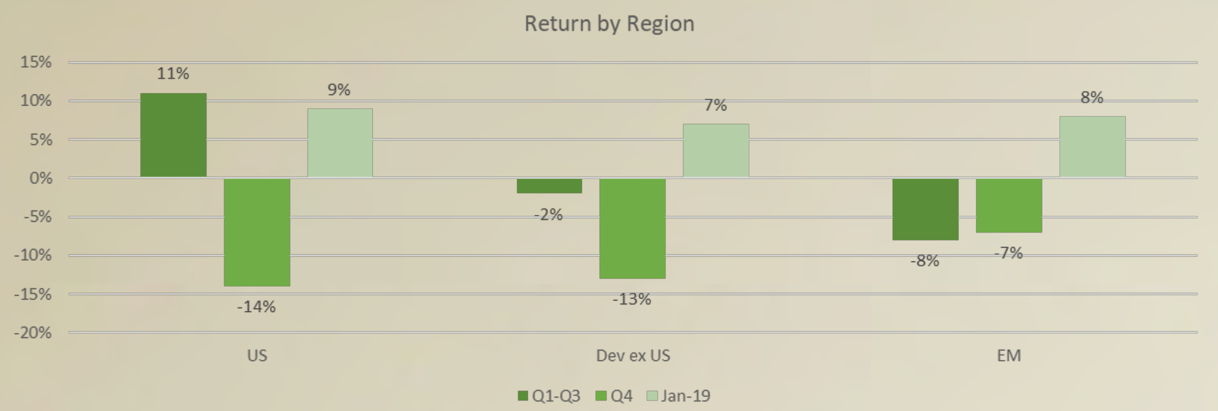
Cumulative Performance



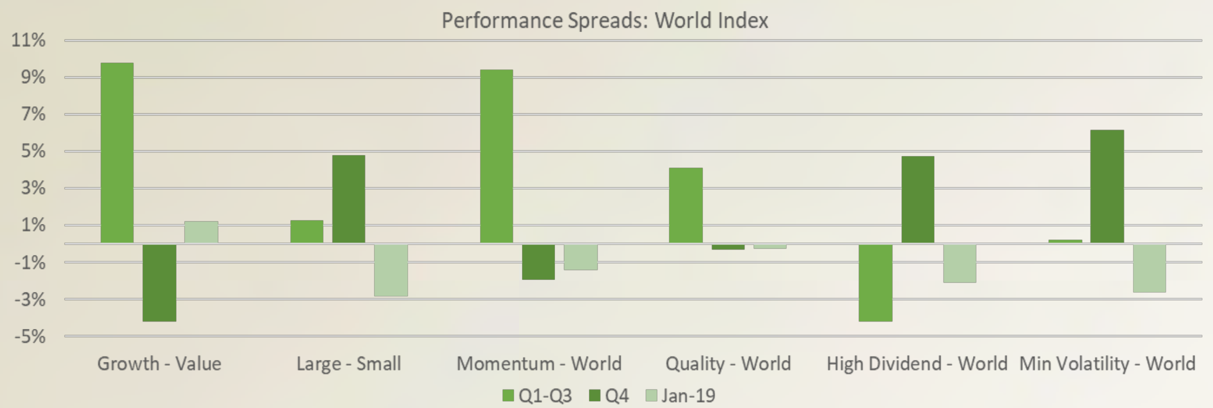
Note: Monthly performance January 31, 2018 through January 31, 2019.

Volatility is Back: Multiple Market Reversals

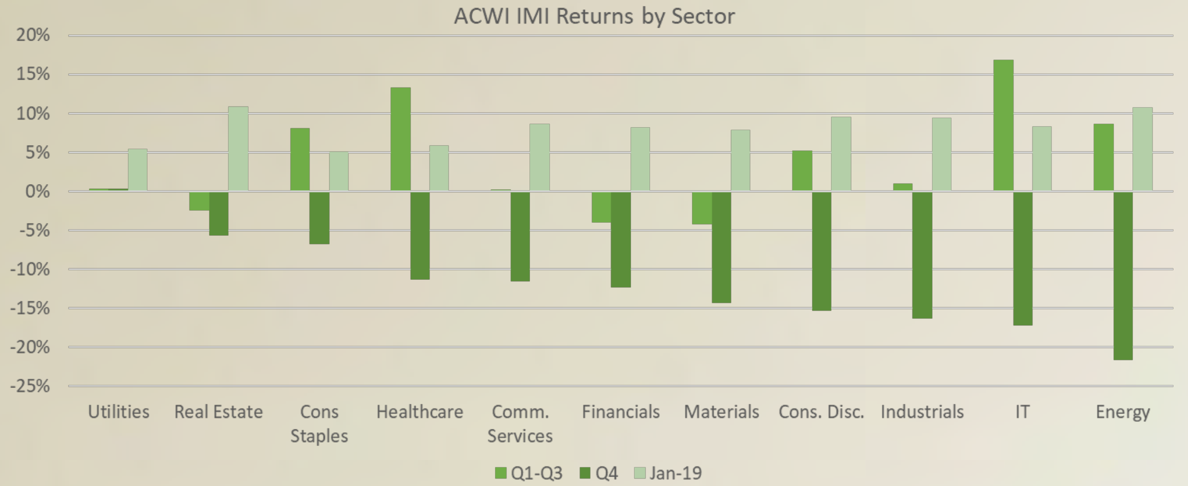
Markets Rebound After Q4 Decline



Significant Factor Reversals Signal Changing Risk Appetite



Cyclicals Selloff in Q4 and Then Bounce Back



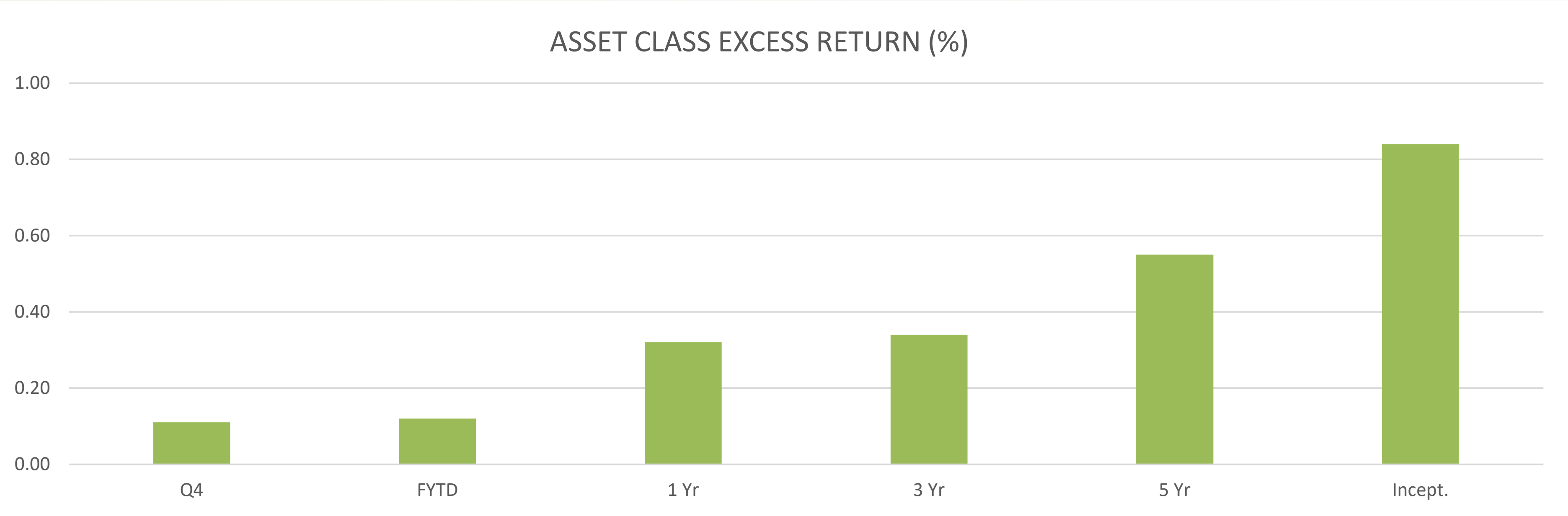
How Does this Volatility Impact Alpha Potential?

Market Headwinds/ Tailwinds	• Utility/Real Estate-led market challenging for some managers • Short periods of fundamentally driven markets sandwiched between macro driven markets are tough to navigate in short term • Sharp reversals in manager performance reinforce concept that winning in long run can mean not giving up too much in unfavorable markets
Impact on GE positioning	• Maintained long term focus • Analyzed sizing, correlations and risks of strategies under various market conditions • Reallocated modestly across some strategies
Changes in Managers' positioning	• Maintained long term focus • Opportunistic buying/repositioning on selloff • Focused on positioning with Brexit uncertainty • Some managers increased portfolio concentration

Note: As of January 31, 2019. Based on Russell indices for domestic markets and MSCI IMI for Developed Ex-U.S. and Emerging Markets.

Aggregate Performance Summary

	4Q18	FYTD	1 Yr	3 Yr	5 Yr	Incept.
Total Asset Class Return	-13.16	-9.80	-9.78	6.82	4.75	9.52
Benchmark	-13.27	-9.93	-10.11	6.49	4.20	8.67
Excess Return	**0.11**	**0.12**	**0.32**	**0.34**	**0.55**	**0.84**
Tracking Error				0.44	0.49	0.50
Return / Risk (IR)				0.68	1.03	1.51



Note: All returns through 12/31/2018. Inception 7/1/10. Benchmark is Custom Iran Sudan Free ACWI IMI Index.

Active Strategy Performance Summary

	Excess Returns by Aggregate					What Happened in 2018
Active Strategy Group	**Weight (% of Asset Class)**	**4Q 2018**	**1 Year**	**3 Year**	**5 Year**	**CY2018 Performance Drivers**
Foreign Developed Large Cap	22%	-0.40%	0.55%	1.58%	1.44%	Benefitted from exposure to Healthcare, Internet, Banks and IT Services, from off benchmark bets in US and Brazil, and from mometum and profitability exposure
Emerging Markets	11%	0.72%	-0.69%	-0.66%	-0.14%	Value's outperformance of growth and quality underperformance made for challenging environment for EM managers in 2018, though aggregate did protect in volatile fourth quarter
Dedicated Global	8%	1.38%	1.18%	-0.03%	0.30%	Defensive positioning with tilts toward size, lower volatility, profitability and yield paid off as did positioning in IT and Healthcare Services
Foreign Developed Small Cap	2%	-0.68%	-1.19%	-1.28%	-0.47%	Challenging year in which only yield and low-vol/beta-based exposures were rewarded while growth and value were punished
US Large Cap	5%	-1.59%	-1.31%	-1.82%	-1.19%	Growth managers performed well while Value managers struggled against size and value headwinds
Currency	4%	0.37%	-0.08%	-0.34%	--	Successful long USD positioning offset by EM currency exposures and a challenging year for traditional Fx factors
US Small Cap	2%	0.35%	3.04%	-0.09%	-0.44%	Signficant outperformance (10%) by growth managers with strong stock selection in Software and Healthcare and Biotech underweight
Total Active Aggregate	53%	0.01%	0.11%	0.05%	0.35%	Helped by overweights to Healthcare Equipment, IT services, US, Brazil, momentum and profitability. Hurt notably by underweight to megacaps as well as dividend yield

Note: All returns through 12/31/2018. Excess returns are relative to strategy group benchmark. Currency weight includes passively managed equity notional. Weights are relative to total equity assets under management.

Update on Initiatives

Provide Alpha

- Implementing aggregate structure enhancements
  - Completed funding of Emerging Market strategy and making additional changes
  - Hired Emerging Market Small Cap manager
  - Completed research on additional internally managed strategies
- Completed evaluation of specific China-A strategies
- Ongoing analysis of select aggregates

Provide Liquidity

- Raised $7.2 Billion in 2018 to support beneficiary payments as well as asset allocation resulting from equity market strength

State Board of Administration

Fixed Income Update

Katy Wojciechowski

Senior Investment Officer Fixed Income

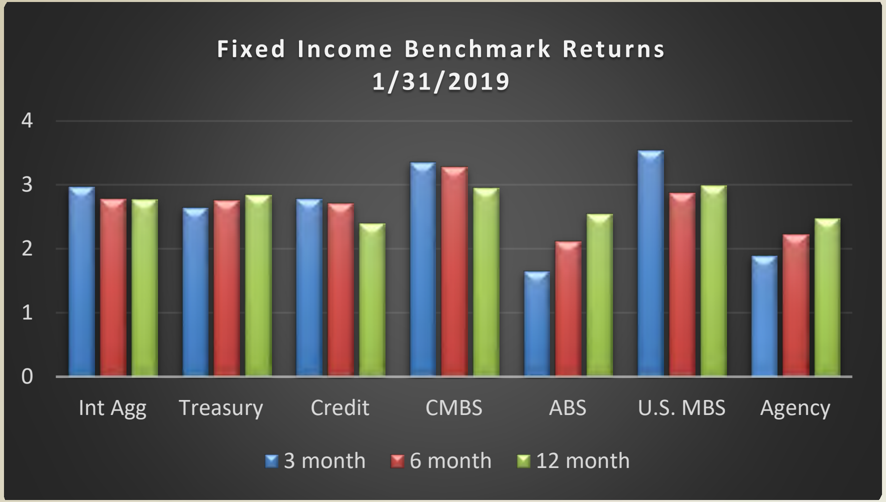
Investment Advisory Council

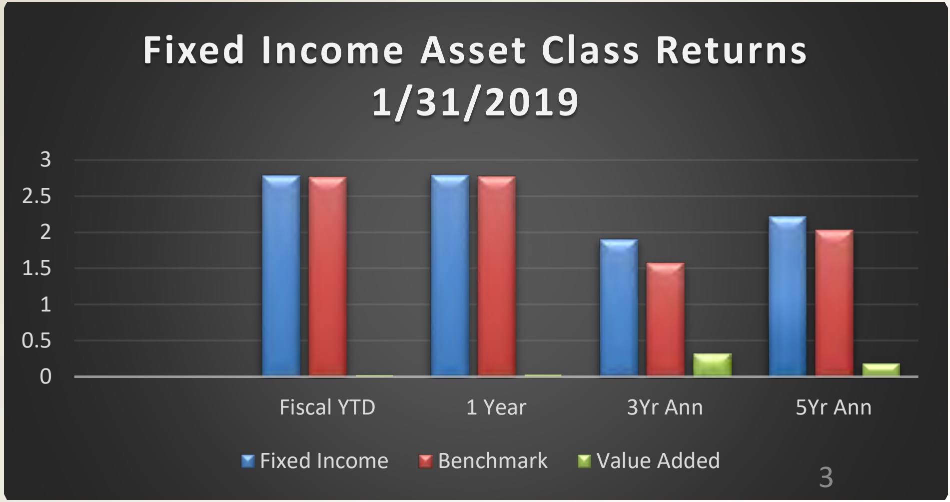
March 26, 2019

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Fixed Income Review and Outlook March 2019

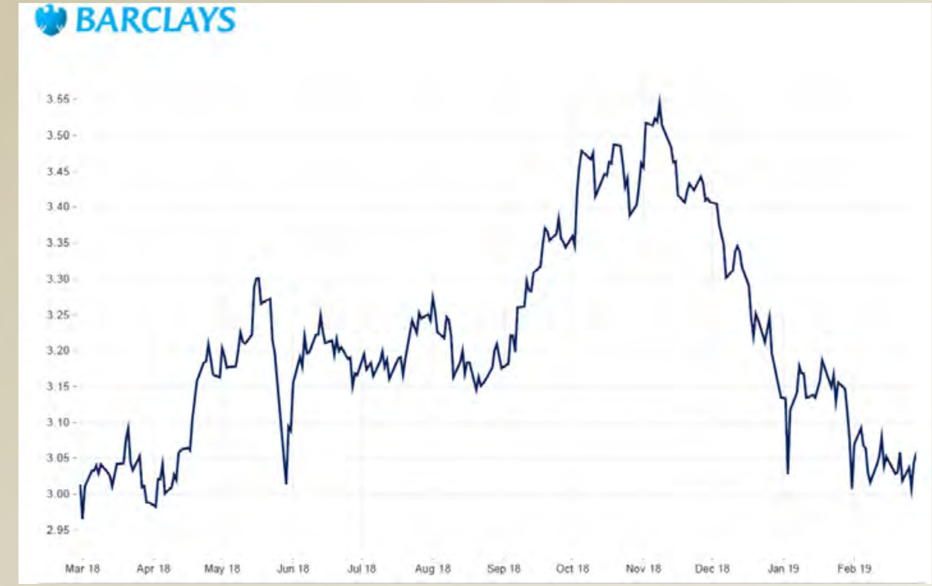
- 12 Month Returns for the Fixed Income benchmark – Barclays Intermediate Aggregate through 1/31/2019 were 2.78%.
  - Annual Absolute Returns were positive for all sectors
  - Treasury yields fell during the period – 2.71 at the end of February vs 3.14 at 10/31/2018
  - Yield on the entire Benchmark is only 3.06% with a 4.19yr duration – higher by only 4bp vs 12 months ago
  - Asset class outperformed Benchmark over ALL time periods with low risk and high Information Ratio



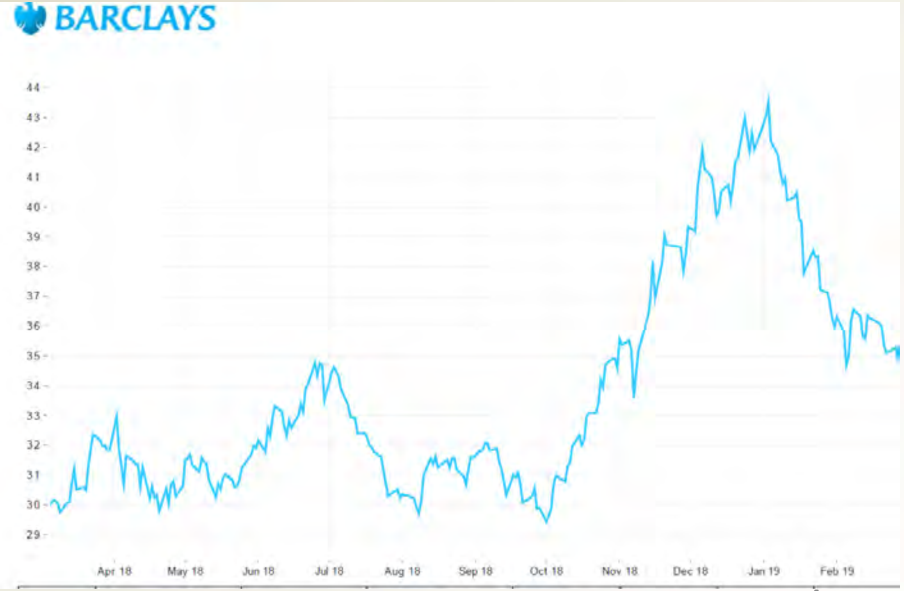


Fixed Income Review
March 2019

Yields fell off in the quarter as some economic headwinds begin to show up with government shutdown and China trade questions

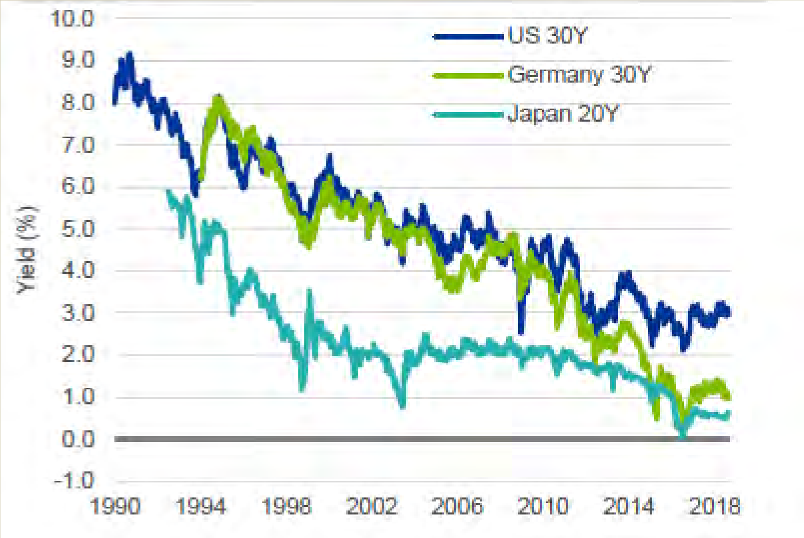


Spreads to Treasuries tighten after year end widening as volatility decreases

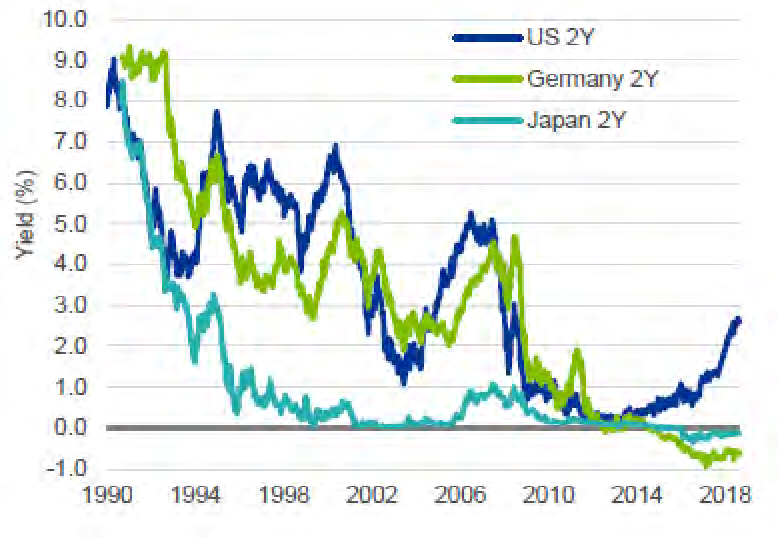


Fixed Income Review
March 2019

- Bigger Picture: Global rates continue at the bottom of their 30+ year range



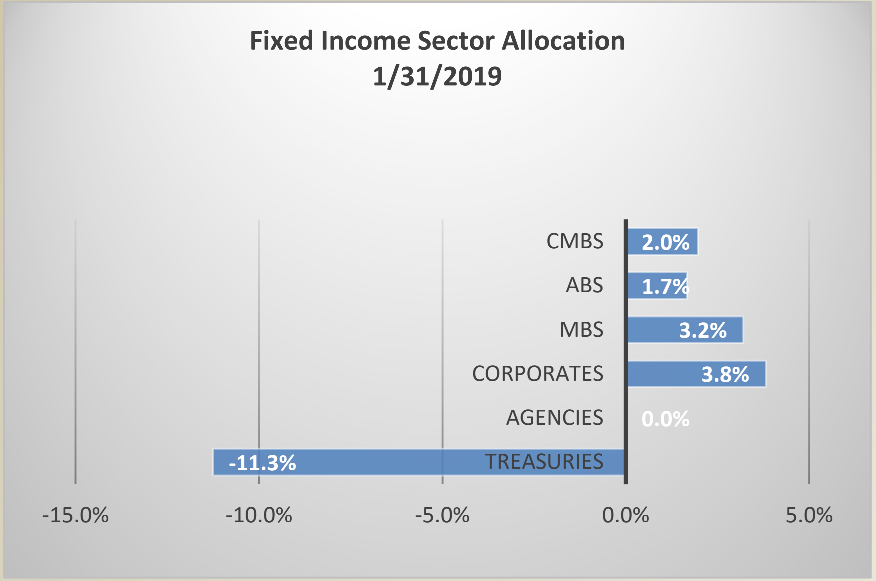
- Front end of the US Curve offers historically attractive levels



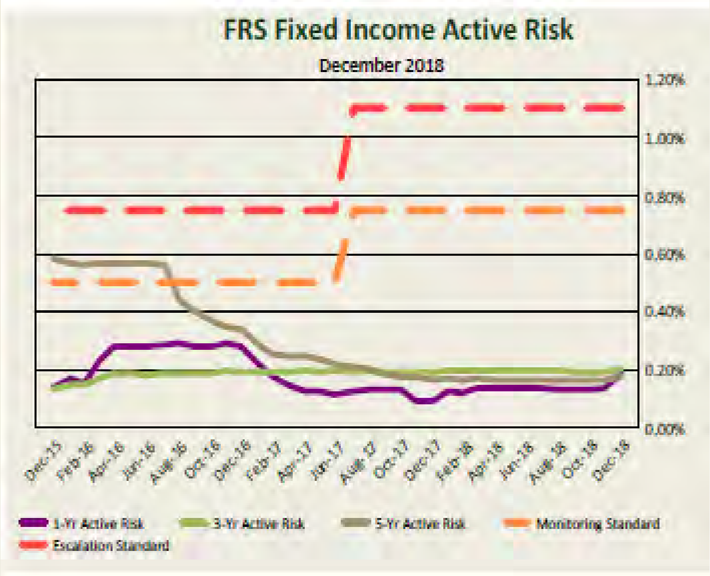
Source: Bloomberg and BlackRock

Fixed Income Review
March 2019

- **Portfolio continues to overweight Spread Product**



- **But overall Active Risk remains low at total allocation level**



Fixed Income Review
March 2019

Looking Forward: Pockets of Value

- Continue to increase active allocation
- Add exposure to out of benchmark structured products or other in a dedicated strategy
    - ***Expanded guidelines with several managers***
  - Consider opportunity to reduce risk to a rising rate environment within overall allocation
    - ***Nearing addition of dedicated shorter duration portfolio***
  - Execute on tactical opportunities, especially in shorter duration securities
    - ***Continuing purchase of short duration securities within Active Core portfolio***

State Board of Administration

Private Equity Asset Class Update

John Bradley, SIO Private Equity

Investment Advisory Council

March 26, 2019

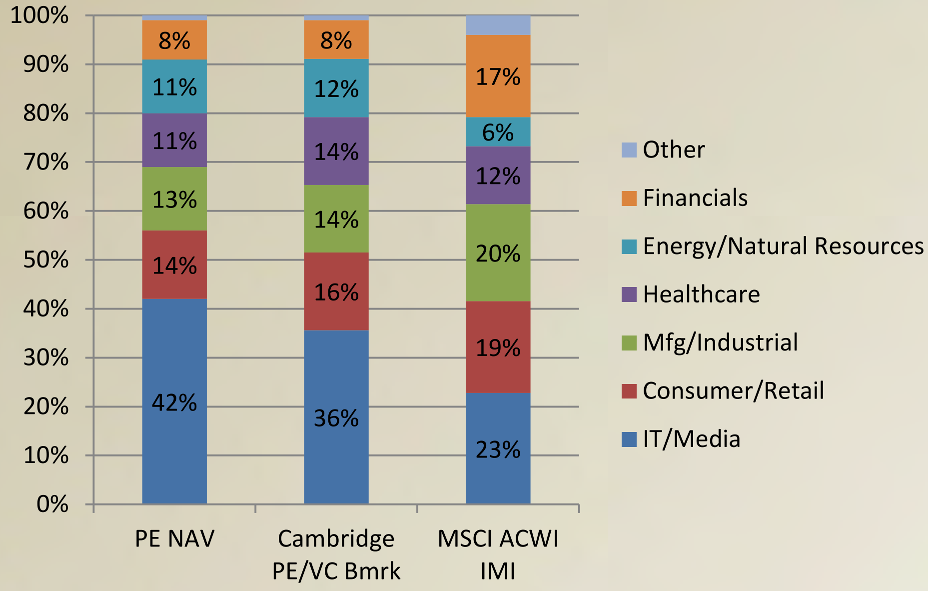
SBA FLORIDA
STATE BOARD OF ADMINISTRATION

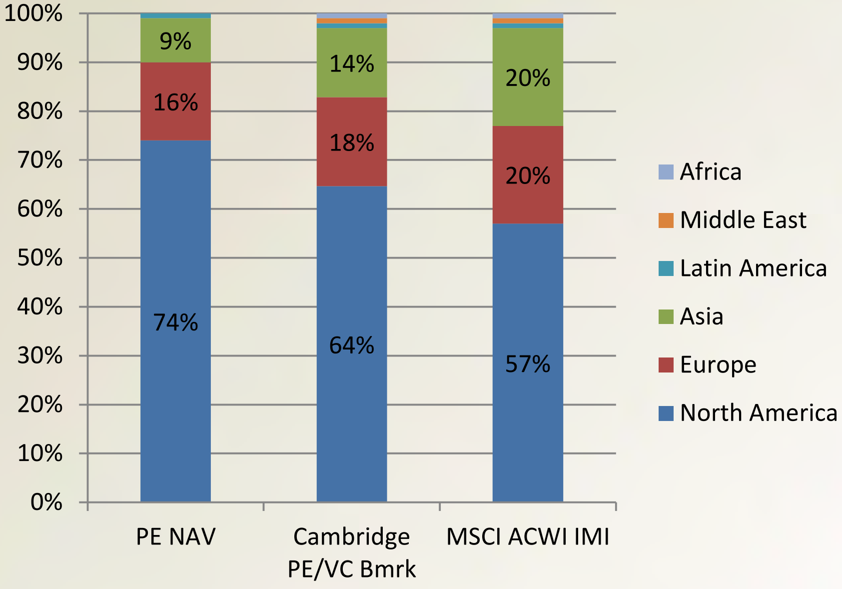
Market/Portfolio Update

- Market/Portfolio Update:
  - Market
    - 2018 was another successful year for private equity
      - Fundraising fell slightly, but 2018 was still the 3rd highest year on record
      - Valuations remain strong, driven by heavy competition for assets
      - Purchase price multiples remain elevated, near record highs
  - Portfolio
    - Growth strategies continue to lead performance over short-term
    - 2018 net cash flow: $1.24 billion
    - PE asset class since inception DPI now at 1.0x

Sector and Geographic Exposure

As of September 30, 2018

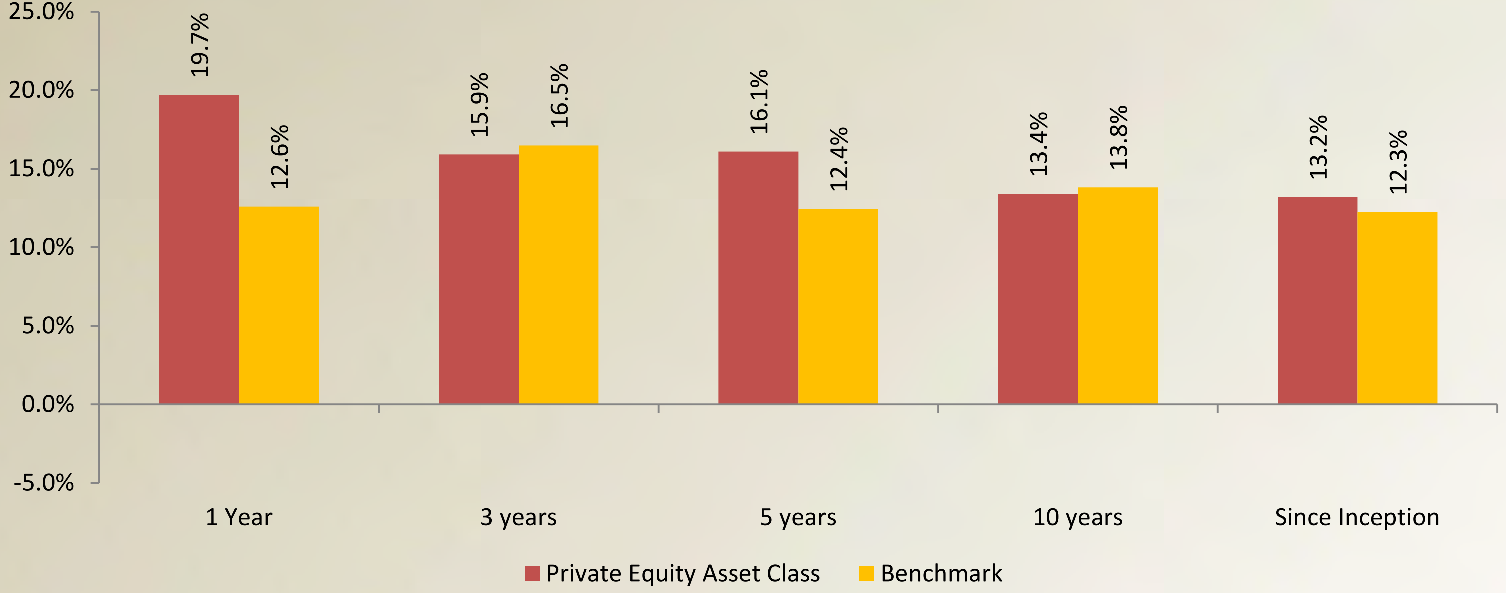




Source: Cambridge Associates

Private Equity Asset Class Performance

Asset Class - Net Managed and Benchmark Returns (IRRs) as of September 30, 2018



Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010 , the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equities asset class and its benchmark was the Domestic Equities target index + 750 bps.

Sub-strategy Performance

As of September 30, 2018

	1yr	3yr	5yr	10yr	Since Inception	Benchmark
U.S. Buyouts	20.6%	17.5%	16.9%	13.4%	12.5%	12.0%
Non-U.S. Buyouts	16.5%	19.1%	15.5%	12.9%	11.6%	9.1%
U.S. Venture	23.5%	12.1%	16.5%	13.4%	11.9%	9.6%
U.S. Growth Equity	24.4%	16.3%	18.6%	15.4%	14.1%	12.7%
Non-U.S. Growth Equity	15.1%	11.1%	10.6%	-	7.6%	12.6%
Distressed/Turnaround	8.5%	16.0%	12.9%	14.5%	19.9%	10.0%
Secondaries	18.7%	12.3%	13.3%	10.8%	16.0%	14.9%
Total PE Asset Class	19.7%	15.9%	16.1%	13.4%	13.2%	11.6%

Sub-strategy returns and benchmark returns provided by Cambridge Associates and are calculated net of all fees and expenses. The Cambridge benchmark is the median return for the respective sub-strategy.

2018 Commitment Activity

- Commitments totaling $1.86 billion to 16 funds through Dec. 31, 2018
  - $946 million to 9 buyout funds
    - Small 23%, Middle-Market 37%, Large 40%
  - $450 million to 2 secondary funds
  - $240 million to 2 distressed funds
  - $227 million to 3 venture funds

  - Geographic Focus
    - US 58%, Europe 16%, Asia 3%, Global 24%

Appendix

Private Equity Aggregates

Dollar-Weighted Performance (IRRs) as of September 30, 2018

	Inception Date	Market Value (in Millions)	1yr	3yr	5yr	10yr	Since Inception
Total Private Equity	1/27/1989	$12,423.5	19.7%	15.8%	16.0%	12.0%	9.7%
Custom Iran- and Sudan-free ACWI IMI +300bps			12.6%	16.5%	12.4%	13.6%	11.0%
Private Equity Legacy Portfolio	1/27/1989	$9.1	-3.7%	-10.8%	-4.8%	-11.7%	3.7%
Custom Iran- and Sudan-free ACWI IMI +300bps			12.5%	16.4%	16.3%	12.2%	10.0%
Private Equity Asset Class Portfolio	8/31/2000	$12,432.6	19.7%	15.9%	16.1%	13.4%	13.2%
Custom Iran- and Sudan-free ACWI IMI +300bps			12.6%	16.5%	12.4%	13.8%	12.3%

Note: Asset class IRR performance data is provided by Cambridge Associates. Benchmark IRRs are provided by the Florida State Board of Administration. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010 , the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equity asset class and its benchmark was the Domestic Equity target index + 750 bps.

FRS INVESTMENT PLAN

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

FRS Investment Plan Snapshot

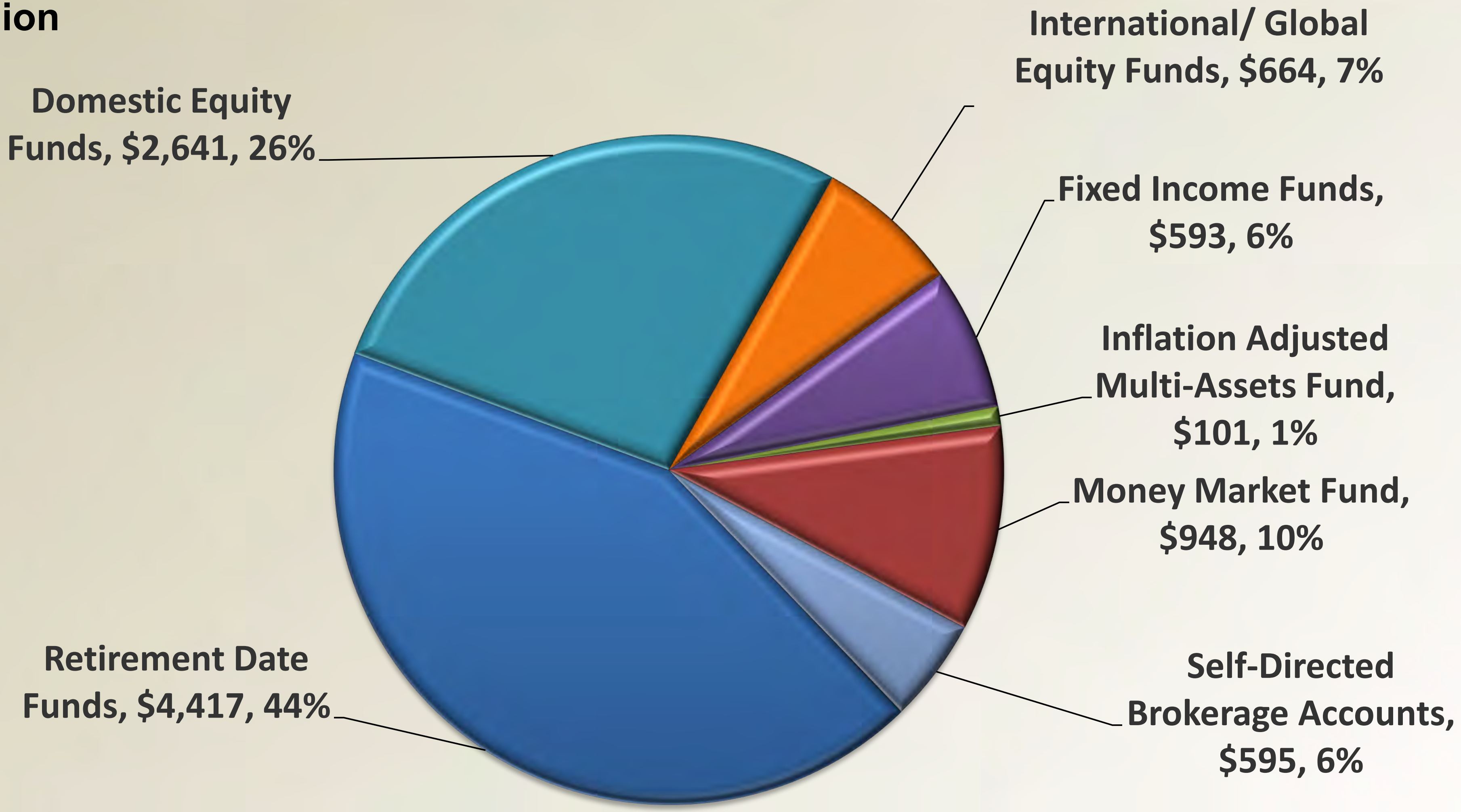
(as of December 31, 2018)

- **Assets:** $9.9 B (6.7% decrease since December 31, 2017)
  - -9.76% - 4th Quarter 2018 Return
  - -5.67% - Calendar Year 2018 Return
  - -6.90% - Fiscal Year to date (Jul 18– Dec 18)
- **Members:** 196,467 (up 6.5% since December 31, 2017)
  - Active – 133,576
  - Inactive – 62,891
- **Average Acct Balance:** $50,691 (11% decrease since December 31, 2017)
- **Average Age:** 46
  - Males – 47 (36% of members)
  - Females – 45 (64% of members)
- **Average Yrs of Service:** 5 (active members)
- **Retirees:** 133,314 (increase of 11% since December 31, 2017)
- **Distributions:** $12.6 B
  - Lump Sum Payouts – 40%
  - Rollovers – 60%

FRS Investment Plan AUM by Asset Class

(as of December 31, 2018 in $ millions)

Total Assets: $9.9 Billion



Asset allocation is a result of member investment selection

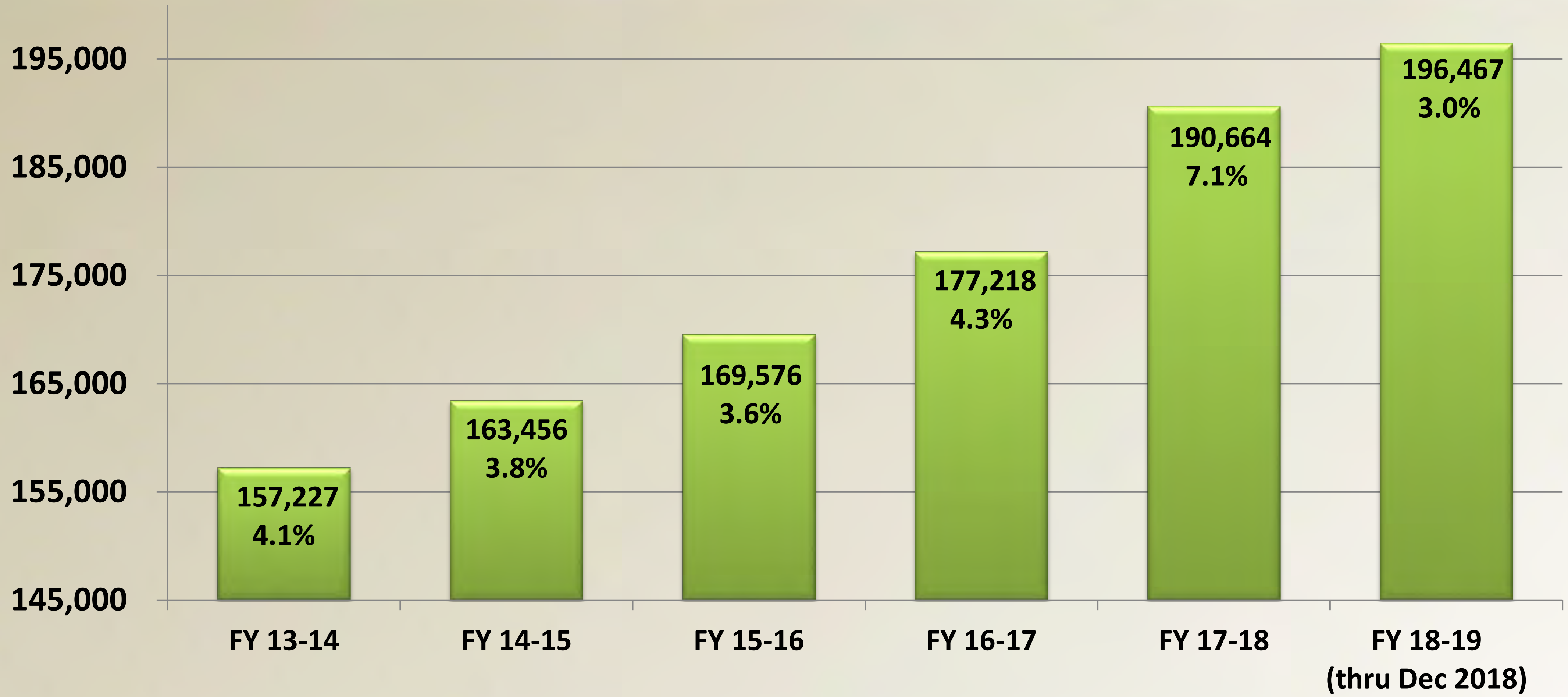
FRS Investment Plan Performance by Asset Class

(as of December 31, 2018)

	QTD	FYTD	1 Year	3 Years	5 Years	Inception
Total Fund	-9.76%	-6.90%	-5.67%	5.83%	4.28%	6.37%
Money Market	0.63%	1.19%	2.16%	1.33%	0.87%	1.55%
Inflation Adjusted Assets & TIPS	-6.03%	-6.37%	-5.52%	2.70%	0.58%	-1.19% (7/1/14)
Fixed Income	0.41%	0.41%	-0.50%	2.50%	2.66%	4.59%
Domestic Equities	-15.57%	-6.49%	8.72%	7.60%	13.67%	9.31%
Global & Intl Equities	-12.25%	-1.53%	-13.46%	5.16%	1.87%	7.33%
Retirement Date Funds	-8.43%	-6.22%	-6.09%	5.99%	8.40%	3.20%
TF x RDFs	-10.91%	-7.50%	-5.31%	5.71	N.A.	4.06% (7/1/14)

FRS Investment Plan Membership Growth

Percent Membership Growth Year to Year



MyFRS Financial Guidance Program
(as of December 31, 2018)

INVESTMENT EDUCATION

EY FINANCIAL PLANNER CALLS	# FINANCIAL PLANNING WORKSHOPS	ATTENDANCE FINANCIAL WORKSHOPS	WEBSITE HITS	WEBSITE CHATS
297,661	527	18,211	2,504,833	59,843
+6%	+6%	+7%	+1%	+97%

(% change from previous 12 months)

17 Annuities purchased last 12 months ($2.17 million)
119 Total Annuities purchased inception to date ($14.6 million)

Questions?

State Board of Administration of Florida

Major Mandate Review
Fourth Quarter 2018

Table of Contents

Executive Summary

- The major mandates each produced generally strong returns relative to their respective benchmarks over both short- and long-term time periods ending December 31, 2018.
- The Pension Plan outperformed its Performance Benchmark during the quarter and over the trailing one-, three-, five-, ten-, and fifteen-year periods.
  - Over the trailing five-year period, Private Equity is the leading source of value added, followed by Global Equity, Strategic Investments, and Real Estate.
  - Over the trailing ten-year period, the Pension Plan's return ranked in the top quartile of the TUCS Top Ten Defined Benefit Plan universe.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods.
- The Lawton Chiles Endowment Fund outperformed its benchmark over the trailing one-, three-, five-, and ten-year periods.
- The CAT Funds' performance is strong over both short-term and long-term periods, outperforming the benchmark over the trailing three-, five-, and ten-year periods.
- Florida PRIME has continued to outperform its benchmark over both short- and long-term time periods.

(This page is left blank intentionally)

Pension Plan: Executive Summary

- The Pension Plan assets totaled $150.6 billion as of December 31, 2018 which represents a $12.6 billion decrease since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed over the quarter and 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 trailing one-, five-, fifteen-, twenty-year period, and outperformed over the trailing ten-, twenty-five-, and thirty-year time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
  - Public market asset class investments do not significantly deviate from their broad market-based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
  - Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, and investment strategy.
  - Asset allocation is monitored on a daily basis to ensure that the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Hewitt Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

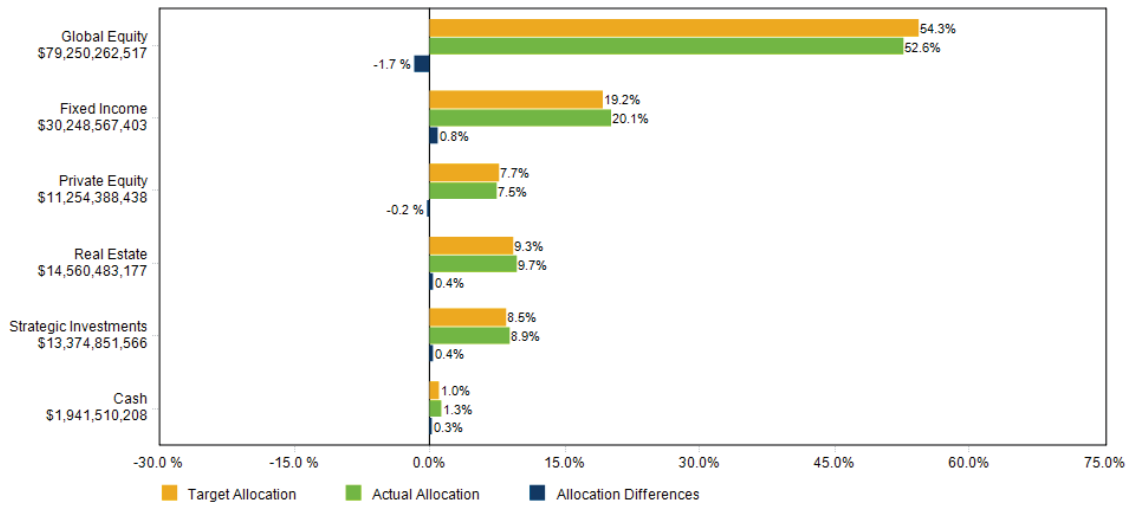
FRS Pension Plan Change in Market Value Periods Ending 12/31/2018

Summary of Cash Flows		
	Fourth Quarter	**Fiscal YTD***
Beginning Market Value	$163,236,430,001	$160,439,358,858
+/- Net Contributions/(Withdrawals)	$(57,241,303)	$(1,971,208,916)
Investment Earnings	$(12,549,125,389)	$(7,838,086,633)
= Ending Market Value	$150,630,063,309	$150,630,063,309
Net Change	$(12,606,366,692)	$(9,809,295,549)

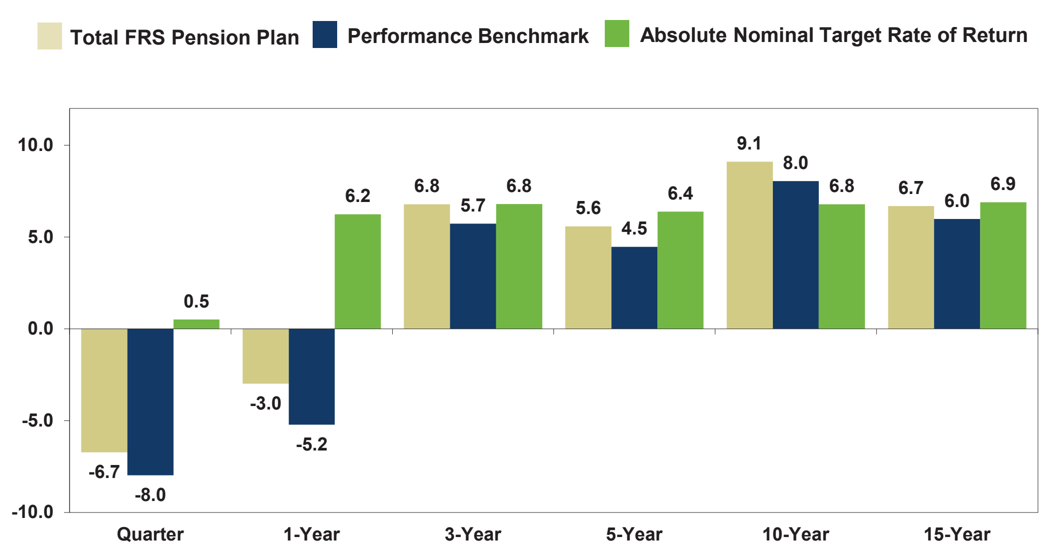
*Period July 2018 – December 2018

Asset Allocation as of 12/31/2018
Total Fund Assets = $150.6 Billion

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	150,630,063,309	100.0	100.0		
Global Equity	79,250,262,517	52.6	54.3	45.0	70.0
Fixed Income	30,248,567,403	20.1	19.2	10.0	26.0
Private Equity	11,254,388,438	7.5	7.7	2.0	9.0
Real Estate	14,560,483,177	9.7	9.3	4.0	16.0
Strategic Investments	13,374,851,566	8.9	8.5	0.0	16.0
Cash	1,941,510,208	1.3	1.0	0.3	5.0

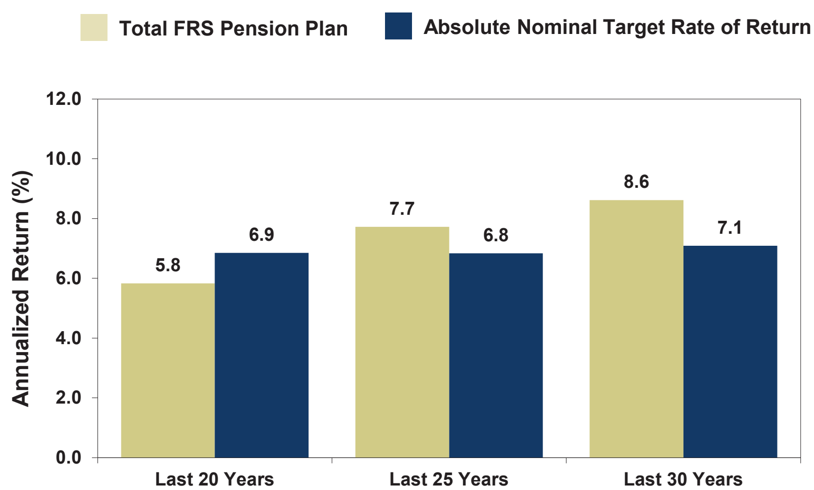


FRS Pension Plan Investment Results
Periods Ending 12/31/2018



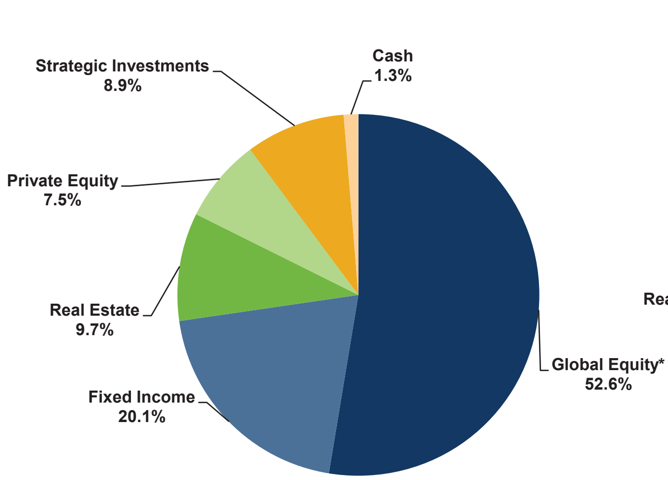
FRS Pension Plan Investment Results
Periods Ending 12/31/2018

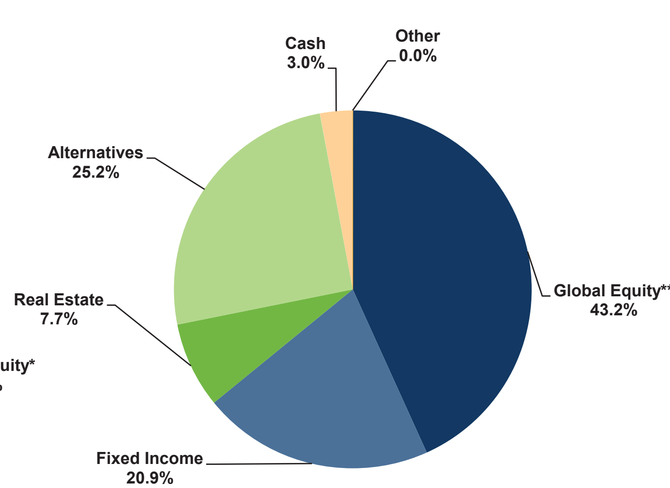
Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective



Comparison of Asset Allocation (TUCS Top Ten)
As of 12/31/2018

FRS Pension Plan vs. Top Ten Defined Benefit Plans



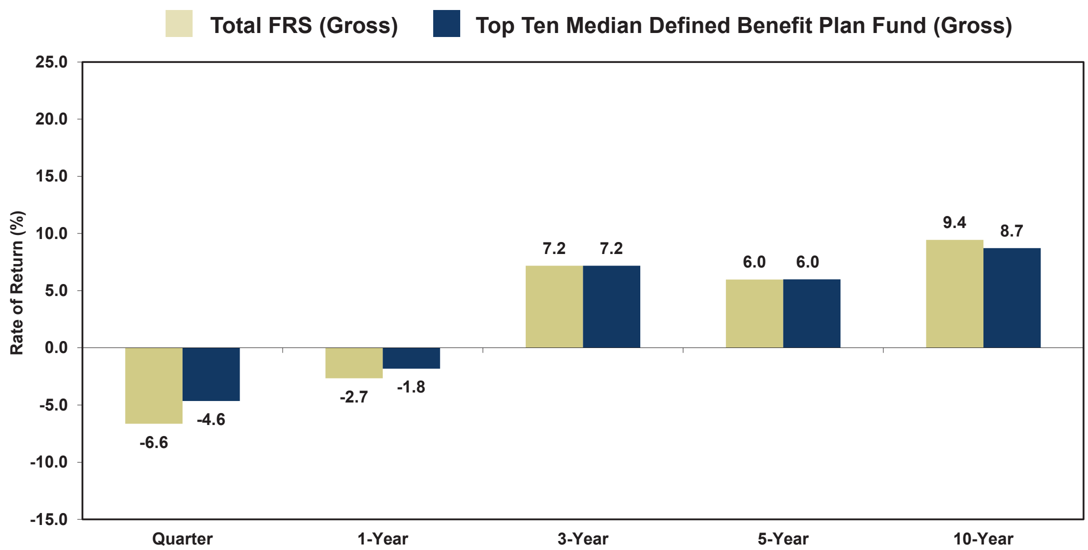


*Global Equity Allocation: 24.9% Domestic Equities; 21.5% Foreign Equities; 5.2% Global Equities; 1.0% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

**Global Equity Allocation: 26.9% Domestic Equities; 16.3% Foreign Equities.

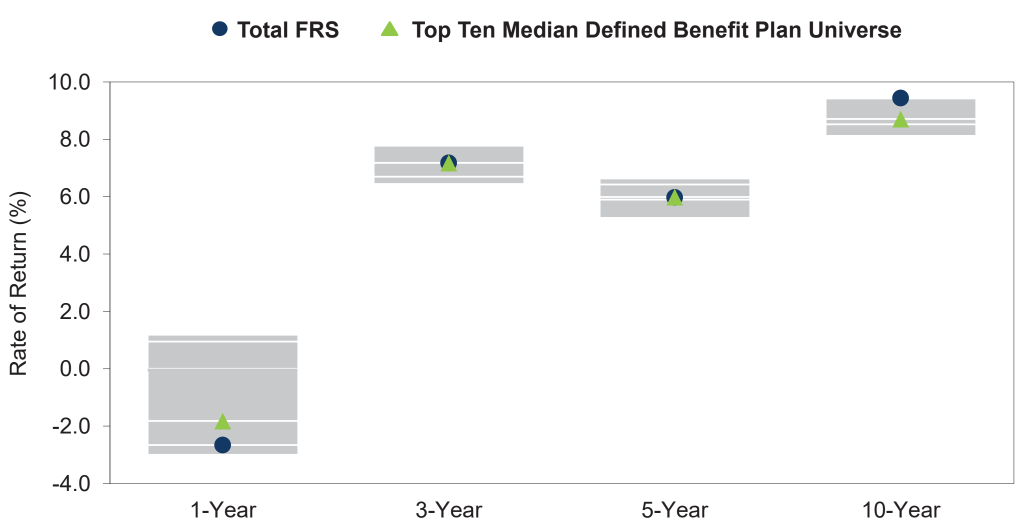
Note: The TUCS Top Ten Universe includes $1,465.3 billion in total assets. The median fund size was $145.4 billion and the average fund size was $146.5 billion.
Note: Due to rounding, percentage totals displayed may not sum perfectly.

FRS Results Relative to TUCS Top Ten Defined Benefit Plans Periods Ending 12/31/2018



Note: The TUCS Top Ten Universe includes $1,465.3 billion in total assets. The median fund size was $145.4 billion and the average fund size was $146.5 billion.

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS) Periods Ending 12/31/2018



FRS Percentile Ranking	75	50	62	5

Note: The TUCS Top Ten Universe includes $1,465.3 billion in total assets. The median fund size was $145.4 billion and the average fund size was $146.5 billion.

Investment Plan: Executive Summary

- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing one-, three-, five-, and ten-year periods. This suggests strong relative performance of the underlying fund options in which participants are investing.

- The FRS Investment Plan's total expense ratio is slightly higher, on average, when compared to a defined contribution peer group and is lower than the average corporate and public defined benefit plan, based on year-end 2017 data. The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. Communication and education costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group.

- Management fees are lower than the median as represented by Morningstar's mutual fund universe for every investment category.

- The FRS Investment Plan offers an appropriate number of fund options that span the risk and return spectrum.

- The Investment Policy Statement is revisited periodically to ensure that the structure and guidelines of the FRS Investment Plan are appropriate, taking into consideration the FRS Investment Plan's goals and objectives.

Total Investment Plan Returns & Cost

Periods Ending 12/31/2018*

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	**-5.7%**	**5.8%**	**4.3%**	**7.5%**
*Total Plan Aggregate Benchmark***	-5.8%	5.7%	4.1%	7.1%
FRS Investment Plan vs. Total Plan Aggregate Benchmark	0.1	0.1	0.2	0.4

Periods Ending 12/31/2017***

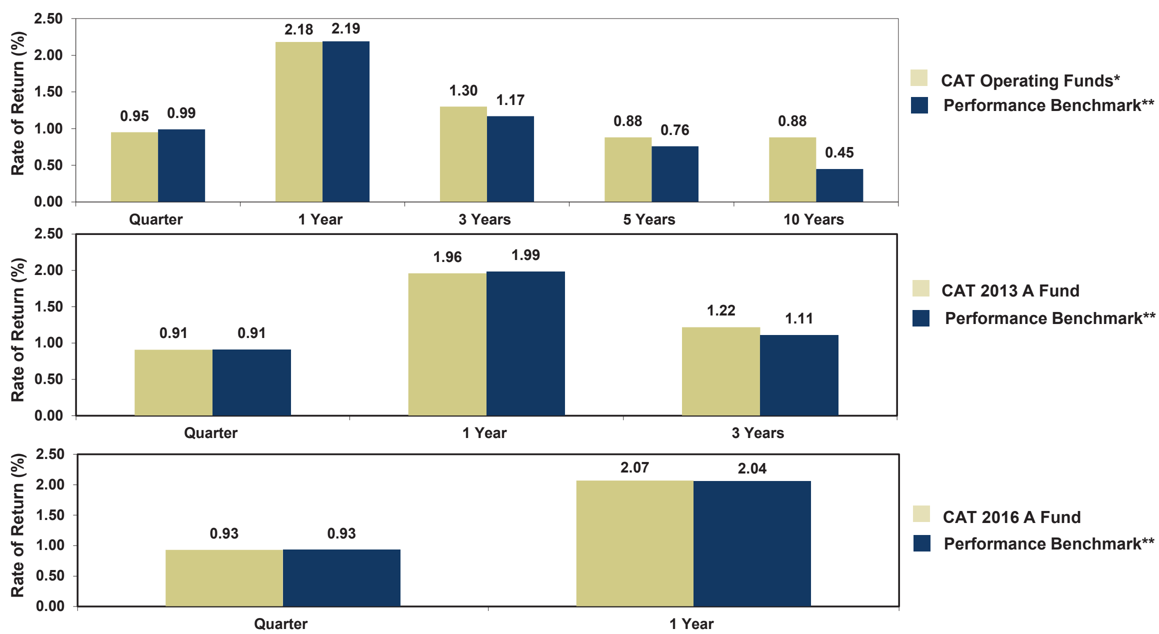
	Five-Year Average Return****	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	**8.3%**	**0.2%**	**0.30%*******
Peer Group	9.6	0.2	0.28
FRS Investment Plan vs. Peer Group	-1.3	0.0	0.02

*Returns shown are net of fees.
**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
***Source: 2017 CEM Benchmarking Report. Peer group for the Five-Year Average Return and Value Added represents the U.S. Median plan return based on the CEM 2017 Survey that included 123 U.S. defined contribution plans with assets ranging from $93 million to $60.3 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 17 DC plans including corporate and public plans with assets between $2.3 - $18.6 billion.
****Returns shown are gross of fees.
*****The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. These latter costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group utilized above.

CAT Fund: Executive Summary

- Returns on an absolute basis continue to be modest given the current low interest rate environment.
- Over long-term periods, the relative performance of the CAT Operating Funds has been favorable as they have outperformed the Performance Benchmark over the trailing three-, five-, and ten-year time periods.
- The CAT 2013 A Fund has generated mixed results relative to its Performance Benchmark, outperforming over the trailing three-year period, and performing in-line with and slightly below its Performance Benchmark over the quarter and trailing one-year periods, respectively.
- The CAT 2016 A Fund has a short performance history thus far, and has performed in line with and slightly ahead of its Performance Benchmark over the quarter and one-year periods.
- All CAT Funds are adequately diversified across issuers within the short-term bond market.
- The Investment Portfolio Guidelines appropriately constrain the CAT Funds to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Adequate liquidity exists to address the cash flow obligations of the CAT Funds.
- The Investment Portfolio Guidelines are revisited periodically to ensure that the structure and guidelines of the CAT Funds are appropriate, taking into consideration the CAT Funds' goals and objectives.

CAT Funds Investment Results
Periods Ending 12/31/2018



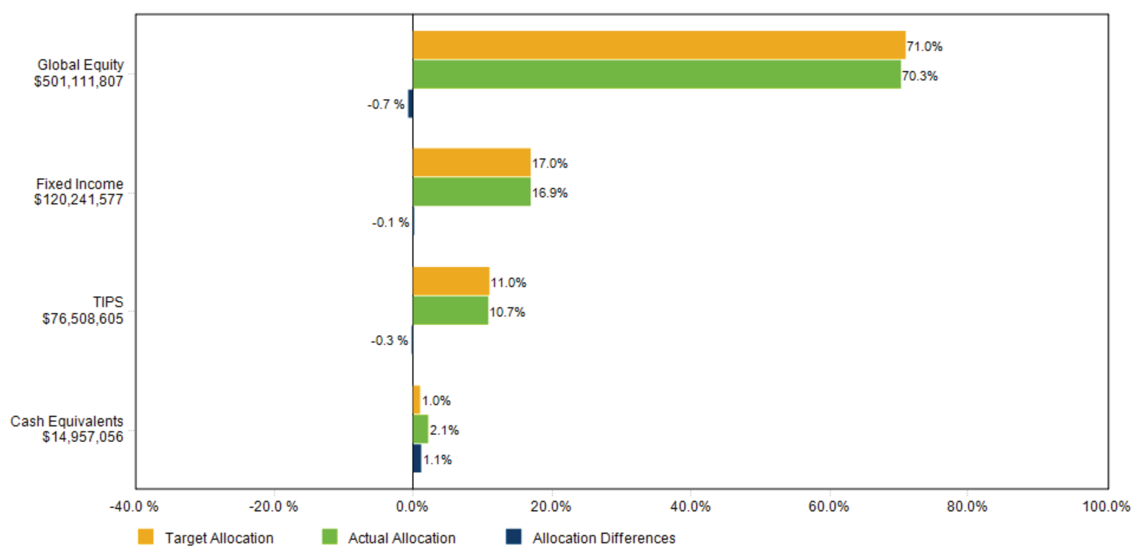
*CAT Operating Funds: Beginning March 2008, the returns for the CAT Operating Funds reflect marked-to-market returns. Prior to that time, cost-based returns are used.
**Performance Benchmark: The CAT Operating Funds were benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month LIBOR. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. From July 2010 to September 2014, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Effective October 2014, it is a blend of the average of the Merrill Lynch 1-Yr US Treasury Bill Index and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Beginning February 2018, the CAT Operating Funds were split into two different sub funds, the CAT Fund Operating Liquidity Fund and the CAT Fund Operating Claims Paying Fund. Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month US Treasury Bill Index, and the CAT Fund Operating Claims Paying Fund benchmark is a blend of 35% of the Bank of America Merrill Lynch 1-3 Year AA U.S. Corporate Bond Index and 65% of Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index. Beginning February 2018, the CAT 2013 A and 2016 A Funds were benchmarked to themselves.

Lawton Chiles Endowment Fund: Executive Summary

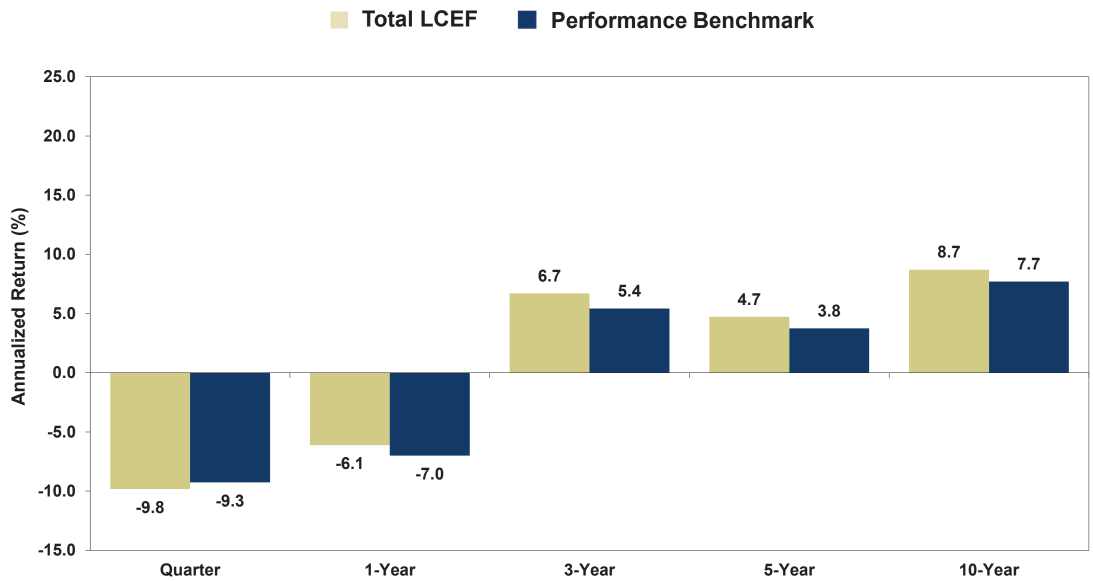
- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
  - The investment objective is to preserve the real value of the net contributed principal and provide annual cash flows for appropriation.
  - The Endowment's investments are diversified across various asset classes including global equity, fixed income, inflation-indexed bonds (TIPS) and cash.
- The Endowment assets totaled $712.8 million as of December 31, 2018.
- The Endowment's return outperformed its Target over the trailing one-, three-, five-, and ten-year time periods and underperformed its Target over the trailing quarter.

Asset Allocation as of 12/31/2018
Total LCEF Assets = $712.8 Million

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
LCEF Total Fund	712,819,046	100.0	100.0		
Global Equity	501,111,807	70.3	71.0	61.0	81.0
Fixed Income	120,241,577	16.9	17.0	12.0	22.0
TIPS	76,508,605	10.7	11.0	6.0	16.0
Cash Equivalents	14,957,056	2.1	1.0	0.0	10.0



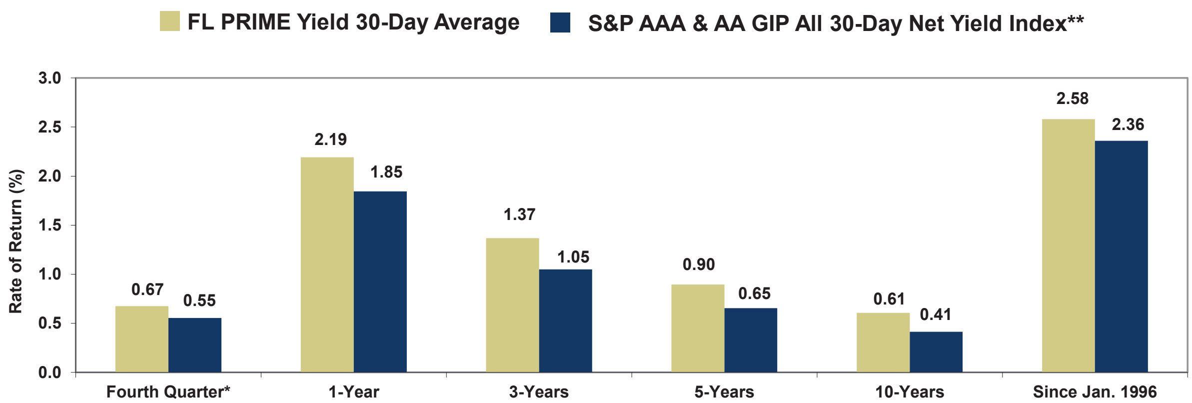
LCEF Investment Results
Periods Ending 12/31/2018



Florida PRIME: Executive Summary

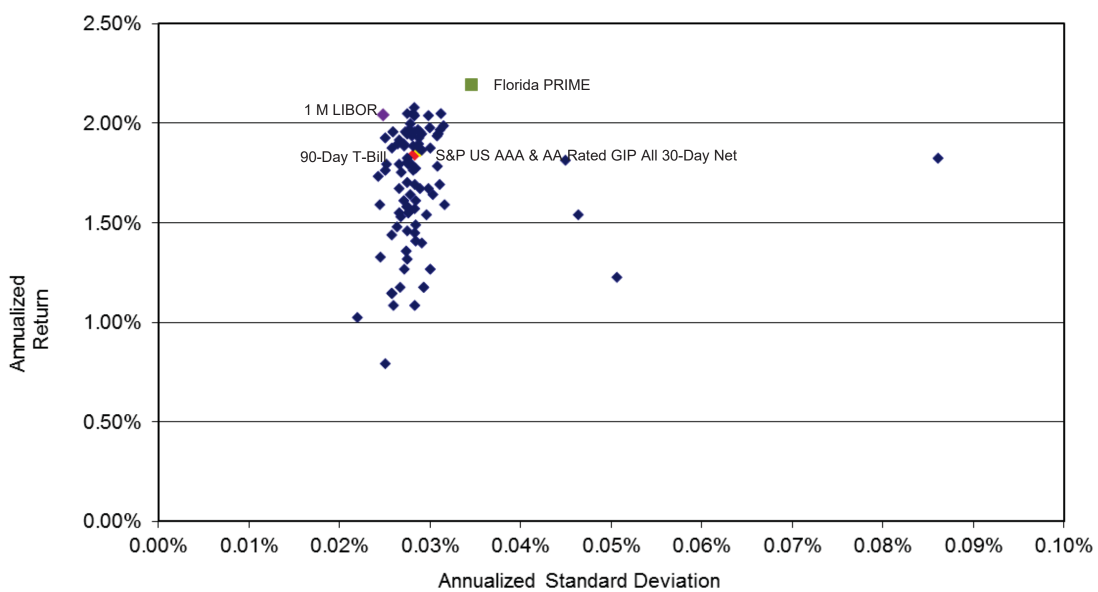
- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately diversified across issuers within the short-term bond market, and adequate liquidity exists to address the cash flow obligations of Florida PRIME.
- Performance of Florida PRIME has been strong over short- and long-term time periods, outperforming its performance benchmark during the quarter and over the trailing one-, three-, five-, and ten-year time periods.
- As of December 31, 2018, the total market value of Florida PRIME was $13.8 billion.
- Aon Hewitt Investment Consulting, 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 12/31/2018

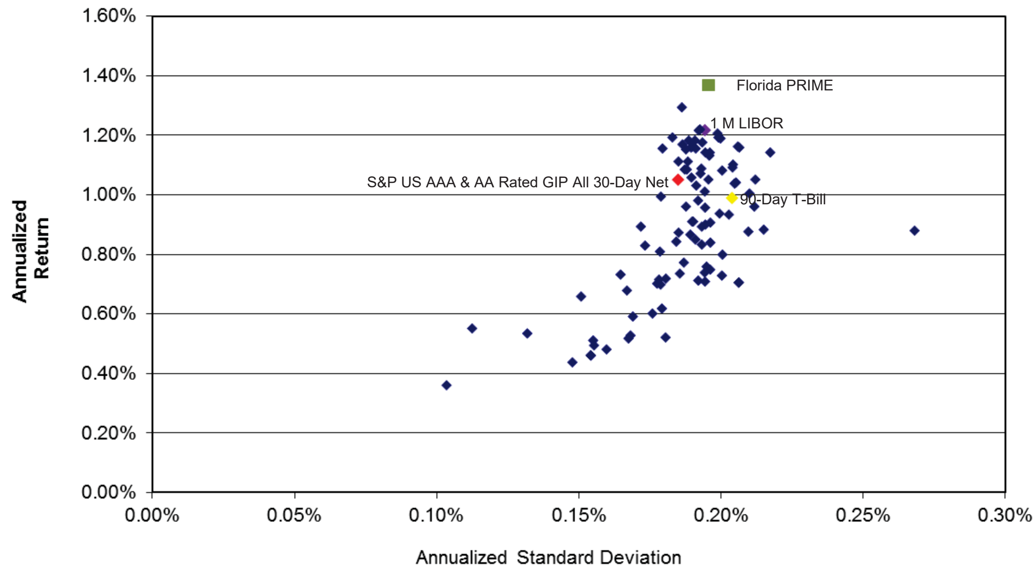


*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

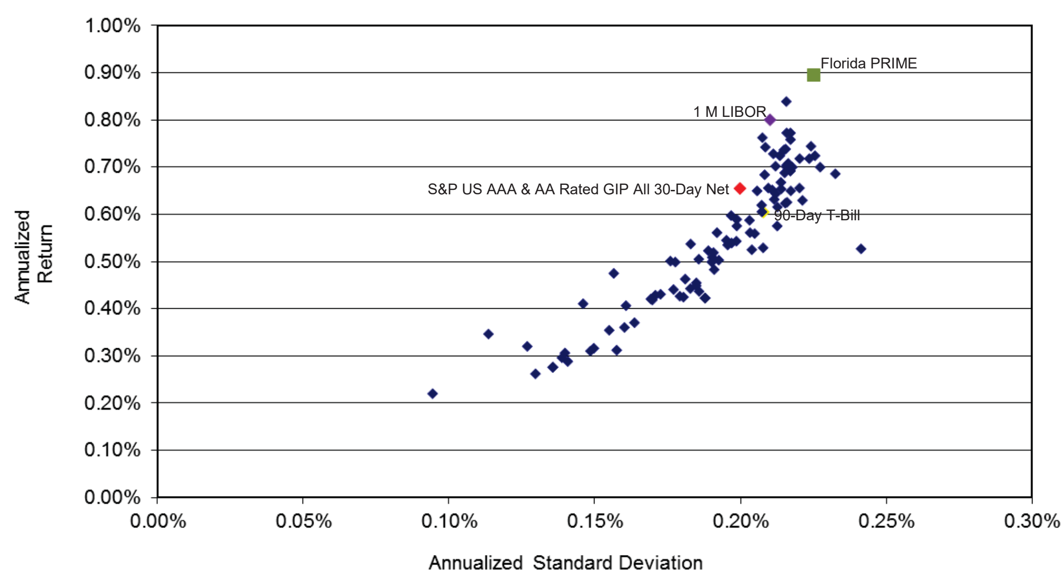
Florida PRIME Risk vs. Return
1 Year Ending 12/31/2018



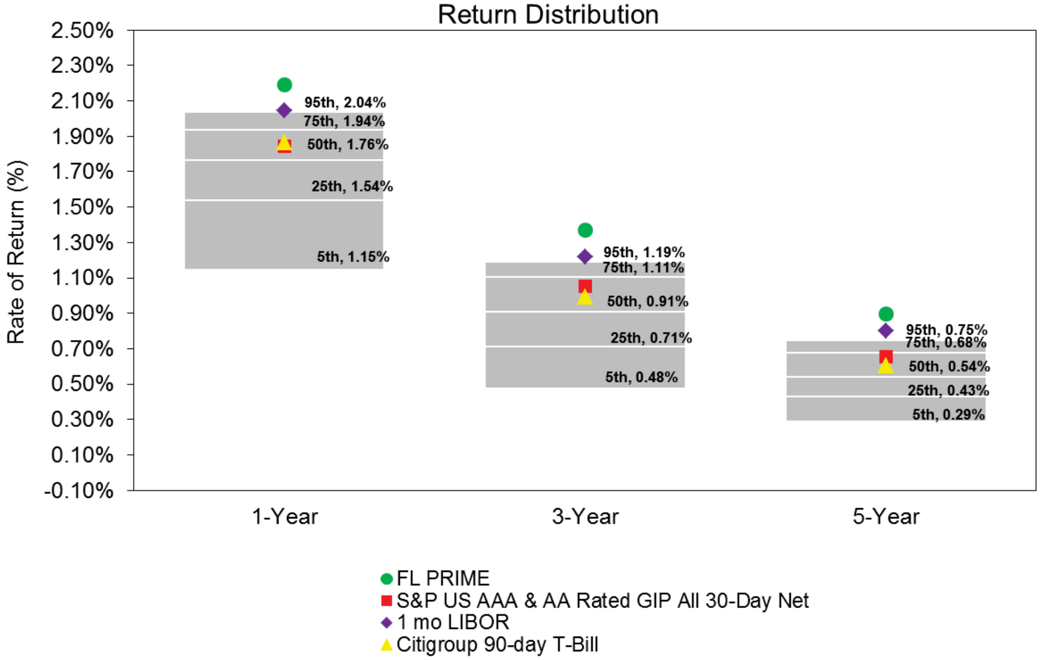
Florida PRIME Risk vs. Return
3 Years Ending 12/31/2018



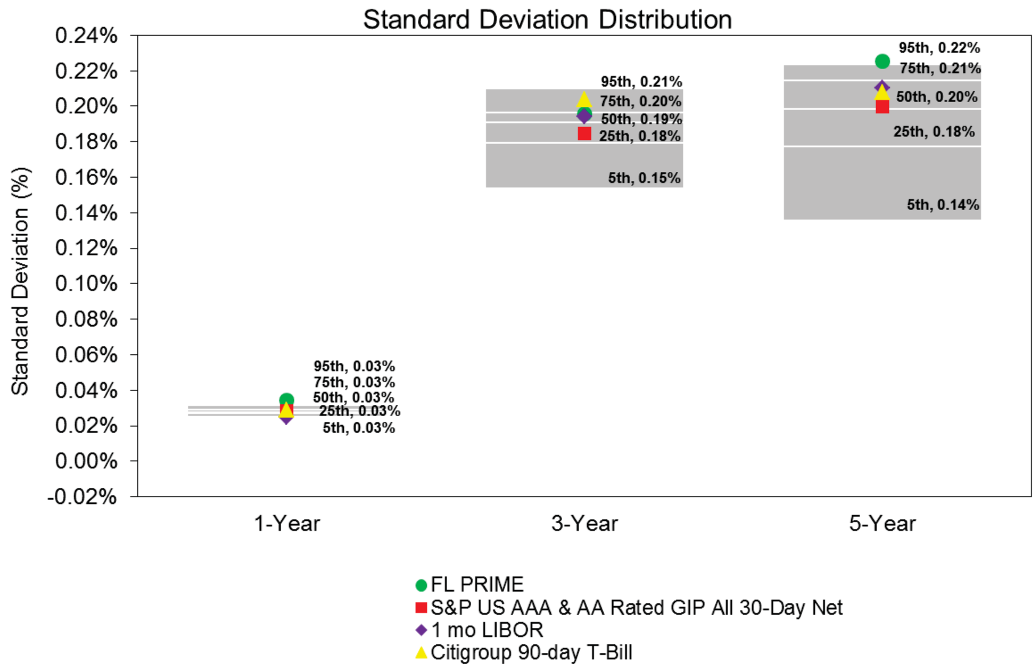
Florida PRIME Risk vs. Return
5 Years Ending 12/31/2018



Return Distribution
Periods Ending 12/31/2018



Standard Deviation Distribution
Periods Ending 12/31/2018



(This page is left blank intentionally)

Appendix

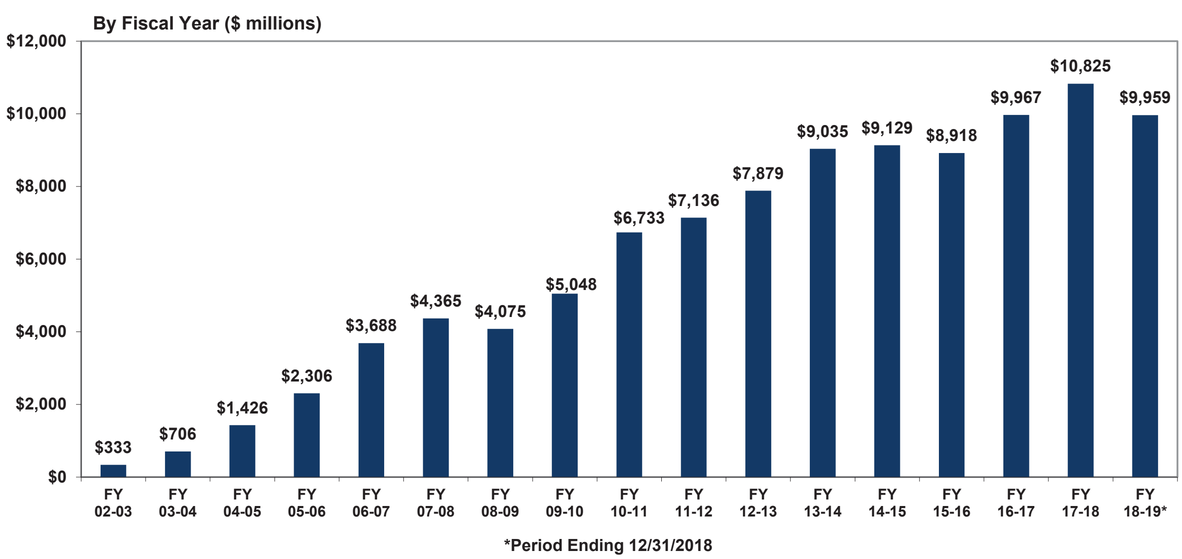
FRS Investment Plan Costs

Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Large Cap Equity	0.15%	0.81%
Small-Mid Cap Equity	0.59%	0.95%
International Equity	0.31%	0.97%
Diversified Bonds	0.15%	0.52%
Target Date	0.15%	0.56%
Money Market	0.06%	0.31%

*Average fee of multiple products in category as of 12/31/2018.

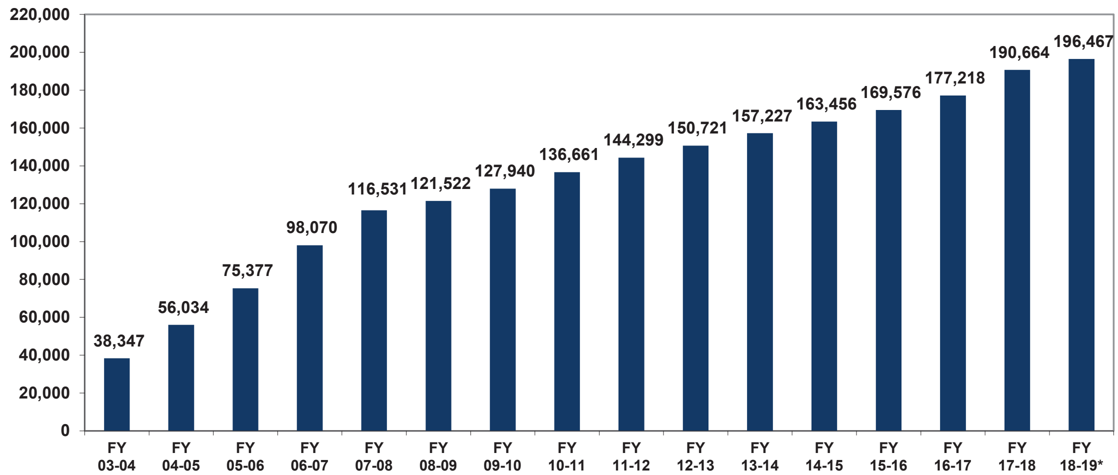
**Source: AHIC's annual mutual fund expense analysis as of 12/31/2017.

Investment Plan Fiscal Year End Assets Under Management



Source: Investment Plan Administrator

Investment Plan Membership



***Period Ending 12/31/2018**

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.
- The CAT Operating Funds, along with CAT 2016 A Fund and CAT 2013 A Fund are internally managed portfolios.
- As of December 31, 2018, the total value of:
  - The CAT Operating Funds was $14.6 billion
  - The CAT 2016 A Fund was $1.2 billion
  - The CAT 2013 A Fund was $1.0 billion

CAT Operating Funds Characteristics
Period Ending 12/31/2018

Maturity Analysis	
1 to 30 Days	4.86%
31 to 60 Days	5.94
61 to 90 Days	10.34
91 to 120 Days	2.06
121 to 150 Days	5.49
151 to 180 Days	3.62
181 to 270 Days	5.51
271 to 365 Days	3.41
366 to 455 Days	2.32
>= 456 Days	56.45
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	73.20%
AA	11.70
A	15.10
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

CAT 2013 A Fund Characteristics
Period Ending 12/31/2018

Maturity Analysis	
1 to 30 Days	0.52%
31 to 60 Days	0.00
61 to 90 Days	4.58
91 to 120 Days	2.86
121 to 150 Days	0.00
151 to 180 Days	0.00
181 to 270 Days	11.47
271 to 365 Days	5.10
366 to 455 Days	10.55
>= 456 Days	64.92
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	88.23%
AA	9.88
A	1.89
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

CAT 2016 A Fund Characteristics
Period Ending 12/31/2018

Maturity Analysis	
1 to 30 Days	0.25%
31 to 60 Days	0.00
61 to 90 Days	0.00
91 to 120 Days	0.00
121 to 150 Days	0.00
151 to 180 Days	44.23
181 to 270 Days	0.11
271 to 365 Days	0.53
366 to 455 Days	5.11
>= 456 Days	49.77
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	70.28%
AA	22.27
A	7.45
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

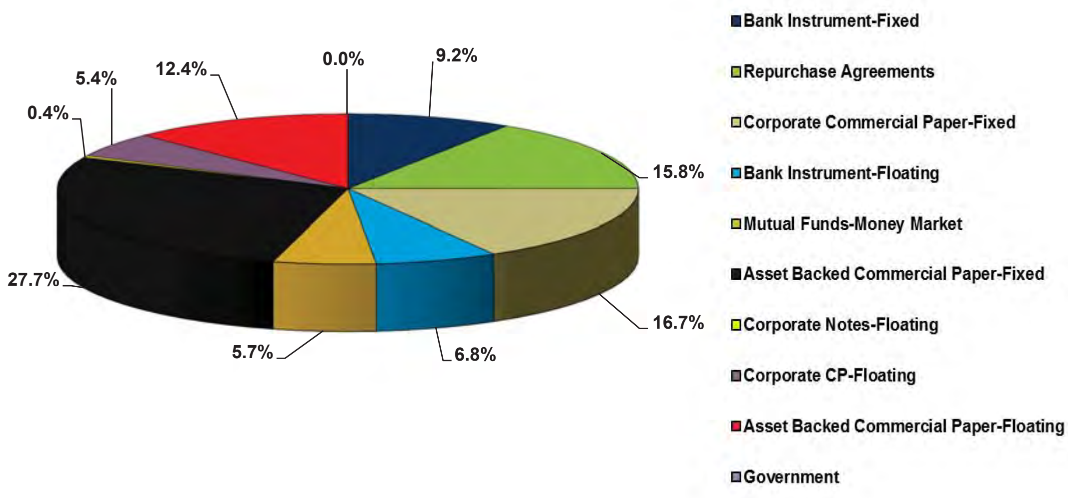
Florida PRIME Characteristics
Quarter Ending 12/31/2018

Cash Flows as of 12/31/2018	Fourth Quarter	Fiscal YTD*
Opening Balance	$9,463,357,981	$10,512,100,060
Participant Deposits	$11,899,166,275	$15,479,535,270
Gross Earnings	$65,938,010	$128,974,209
Participant Withdrawals	($7,589,604,649)	($12,280,886,215)
Fees	($884,208)	($1,749,915)
Closing Balance (12/31/2018)	$13,837,973,408	$13,837,973,408
Change	**$4,374,615,427**	**$3,325,873,348**

*Period July 2018 – December 2018

Florida PRIME Characteristics
Quarter Ending 12/31/2018

Portfolio Composition



Florida PRIME Characteristics
Period Ending 12/31/2018

Effective Maturity Schedule	
1-7 Days	46.4%
8 - 30 Days	15.9%
31 - 90 Days	27.0%
91 - 180 Days	8.6%
181+ Days	2.1%
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
A-1+	61.8%
A-1	38.2%
Total % of Portfolio:	**100.0%**

FRS Pension Plan | Fourth Quarter 2018

Quarterly Investment Review

Visit the Aon Retirement and Investment Blog *(http://retirementandinvestmentblog.aon.com); sharing our best thinking.*

(This page is left blank intentionally)

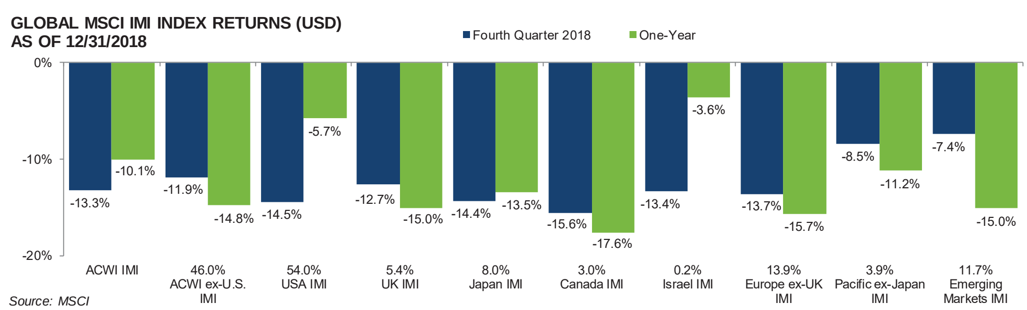
Table of Contents

Empower Results®

(This page is left blank intentionally)

Market Environment

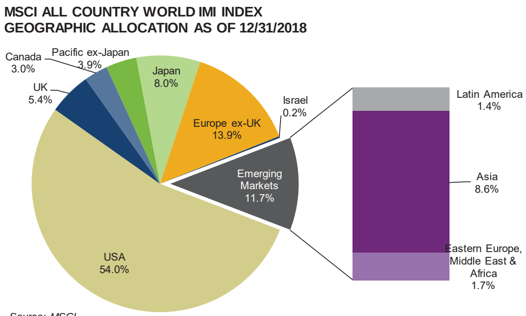
Global Equity Markets



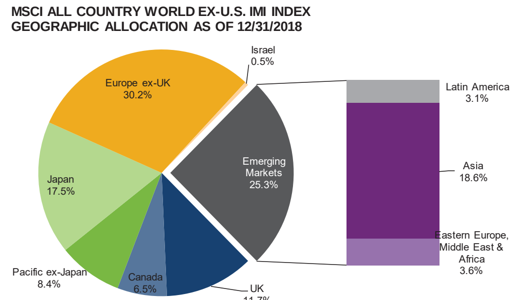
Source: MSCI

- Global equities were rocked by rising concerns of slowing global growth and trade wars in Q4 2018. Economic releases continued to underwhelm with measures of economic activity reflecting a slowing global growth environment. In local currency terms, the MSCI AC World Investable Market Index returned -13.1% while U.S. dollar strength led to a slightly lower return of -13.3% in U.S. dollar terms.
- Falling oil prices and poor performance from Canadian Financials, combined with a weakening of the Canadian dollar on the back of a more dovish stance from the Bank of Canada, resulted in the Canadian equity market being the weakest performer over the quarter.
- Emerging market equities outperformed relative to their developed market peers. This is despite the ongoing U.S.-China trade saga and building concerns over global growth. In Brazil, the election win for Jair Bolsonaro came as a surprise and was welcomed by markets due to his party's pro-market focus and reform agenda. From a sector perspective, financial stocks were the main outperformers with a comparatively small decline of -0.9% over the quarter.

Global Equity Markets



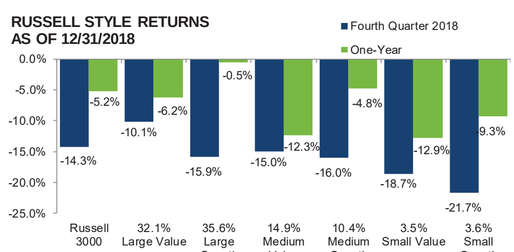
Source: MSCI



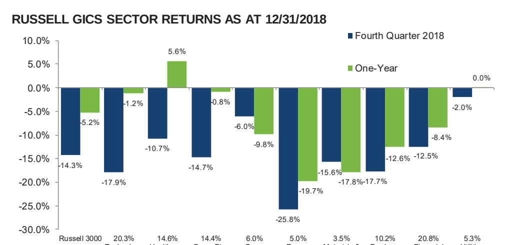
Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global and international equity markets as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.

U.S. Equity Markets



Source: Russell Indexes

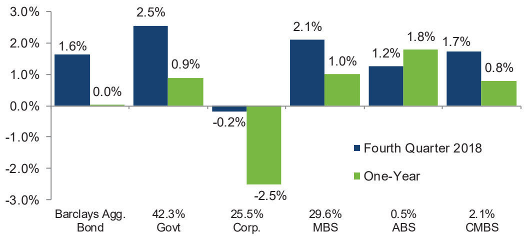


Source: Russell Indexes

- Up until November 2018, U.S. equities had generated high single-digit returns. However, all the gains were reversed towards the end of the quarter. The Dow Jones Total Stock Market Index dropped by 14.4% in the fourth quarter, translating into an overall 5.3% fall for the year. Most notably, Information Technology stocks, which had been such a strong driver for the U.S. market, moved sharply lower over the quarter. Earnings growth expectations, particularly in the tech sector where optimism was perhaps excessive, were revised down.
- The Russell 3000 Index fell 14.3% during the fourth quarter and 5.2% over the one-year period.
- All sectors generated negative returns over the quarter. In particular, Energy (-25.8%) and Technology (-17.9%) were the worst performing sectors in Q4 2018.
- Performance was negative across the market capitalization spectrum over the quarter. In general, small cap stocks underperformed both medium and large cap stocks over the quarter. Growth stocks underperformed their Value counterparts in Q4 2018. Over the last 12 months, Value stocks continued to lag their Growth stock equivalents significantly.

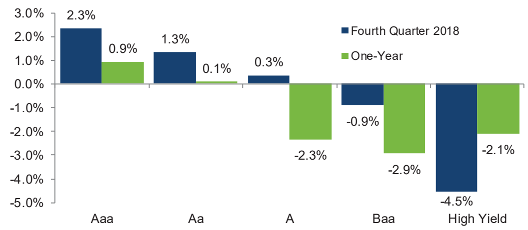
U.S. Fixed Income Markets

BLOOMBERG BARCLAYS AGGREGATE RETURNS BY SECTOR AS OF 12/31/2018



Source: FactSet

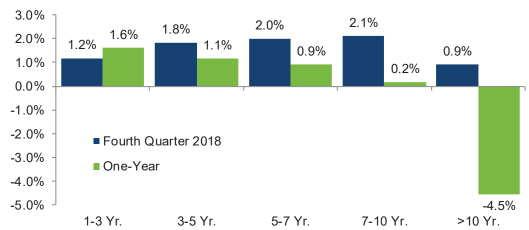
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 12/31/2018



Source: FactSet

- The Bloomberg Barclays U.S. Aggregate Bond Index rose over the quarter. Government bonds were the best performer at 2.5% whilst corporate bonds were the worst performer at -0.2%.
- Performance was positive across all investment-grade credit qualities, with the exception of Baa bonds which fell 0.9%. High yield bonds fell the most at -4.5%. In investment grade bonds, Aaa bonds was the major outperformer with a return of 2.3%.
- Intermediate maturity bonds outperformed short and long maturity bonds over the quarter. Intermediate maturity bonds returned 1.8-2.1% while short and long maturity bonds returned 1.2% and 0.9%, respectively, in Q4 2018.

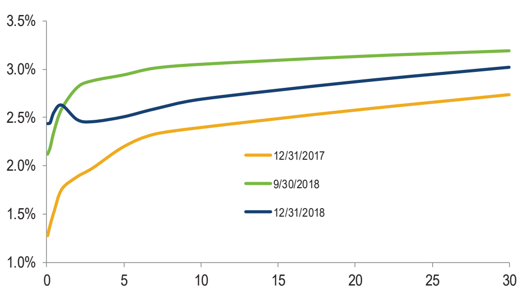
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY MATURITY AS OF 12/31/2018



Source: FactSet

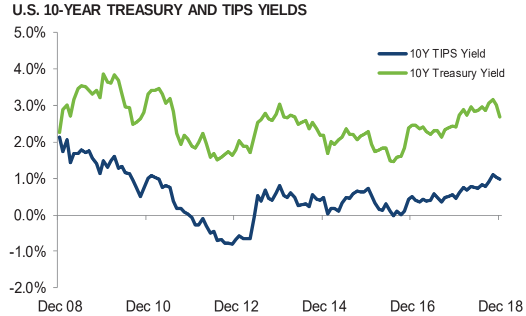
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS

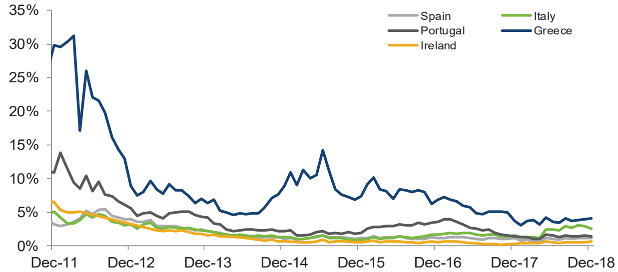


Source: U.S. Department of Treasury

- The U.S. nominal yield curve continued to flatten in the fourth quarter. Amidst rising short-end yields and falling long-end yields, the U.S. yield curve flattened the most since 2007 and the spread between the U.S. 2-year and 5-year treasury yields dropped below zero for the first time since 2007. The spread between the 2-year and 10-year yields also touched its lowest level since 2007. The spread between 10-year and 2-year yields ended the quarter at just 21bps.
- The 10-year U.S. Treasury yield ended the quarter at 2.69%, 36bps lower than at the start of the quarter in which the U.S. Federal Reserve (Fed) hiked its federal funds rate by 25bps to a range of 2.25-2.5%. While starting the quarter with a more hawkish stance and indicating that several more hikes would be needed in the future, the Fed later back-tracked with comments intimating U.S. rates are not far from reaching the Fed's neutral rate estimate.
- The 10-year TIPS yield rose by 7bps over the quarter and ended the period at 0.98%.

European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS
(10-YEAR SPREADS OVER GERMAN BUNDS)



Source: FactSet

- Bond spreads over 10-year German bunds rose across the eurozone (except for Italy). The European Central Bank (ECB) kept its policy rate unchanged but ended their quantitative easing programme which has seen trillions of euros used to purchase European debt and cheapen financing in the bloc.
- Italian government bond yields fell by 43bps to 2.75% over the quarter as the Italian Government succumbed to the European Commission and lowered its budget target to 2.04% instead of the initially proposed 2.4%. At their peak, spreads between 10-year Italian and German bonds briefly reached their highest level since 2013 at 319bps.
- Portuguese sovereign bond yields fell by 16bps to 1.71% supported by Moodys' upgrade of the country's credit rating to investment grade.
- Greek government bond yields rose by 21bps to 4.35% as fears grew over the ability of the Greek banks to reduce their large portfolios of bad debt and tensions increased between the ruling Syriza party and their coalition partner, Independent Greeks (Anel), over a naming deal with neighboring Macedonia.

Credit Spreads

Spread (bps)	12/31/2018	9/30/2018	12/31/2017	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	54	39	36	15	18
Long Gov't	2	2	2	0	0
Long Credit	200	153	139	47	61
Long Gov't/Credit	113	90	83	23	30
MBS	35	28	25	7	10
CMBS	86	60	62	26	24
ABS	53	38	36	15	17
Corporate	153	106	93	47	60
High Yield	526	316	343	210	183
Global Emerging Markets	330	273	215	57	115

Source: FactSet, Bloomberg Barclays

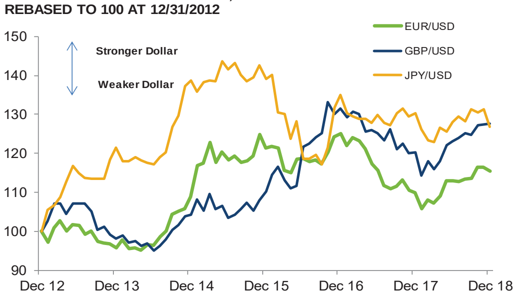
- During the fourth quarter, spreads over U.S. Treasuries generally widened across all maturities. Much of the move occurred in December as investors sought to switch to less-risky assets, such as U.S. treasuries, as fears over tightening financial conditions and ongoing global trade tensions took over.
- High Yield bond spreads widened the most over the quarter, widening by 210bps, followed by Global Emerging Markets bonds spreads which widened by 57bps. Unlike the 2015/6 high yield shakeout, spread widening was not dominated by poor returns from the energy sector but was more widespread.

Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1973 = 100)

Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 12/31/2012

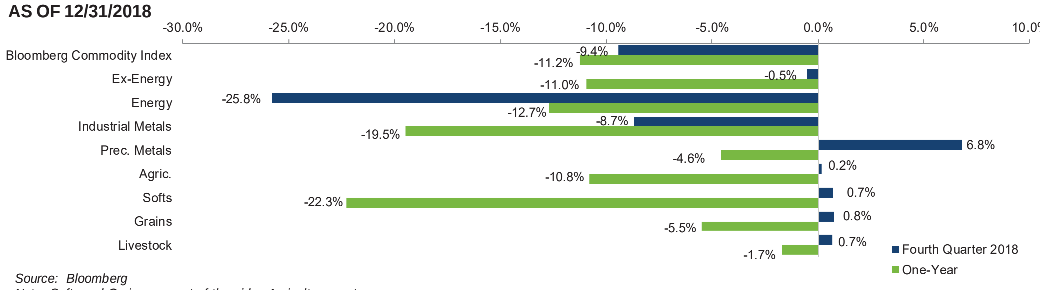


Source: FactSet

- The U.S. dollar continued on an upward trend as it rose 1.8% on a trade-weighted basis over the quarter.
- Benefiting from the relative strength of the U.S. economy and tightening monetary policy, the U.S. dollar appreciated against most major currencies with the exception of the Japanese yen, which appreciated strongly across the board – benefiting from the risk-off environment.
- With time ticking precariously down to 29 March (the day in which the UK leaves the EU, subject to no extension or removal of Article 50) and no resolution in sight, sterling was generally weak.
- Both the Bank of England and Bank of Japan kept their monetary policy unchanged at their respective meetings during the quarter. In Europe, the ECB confirmed that it would end its quantitative easing program at its December meeting despite a weakening in European economic data.

Commodities

COMMODITY RETURNS
AS OF 12/31/2018

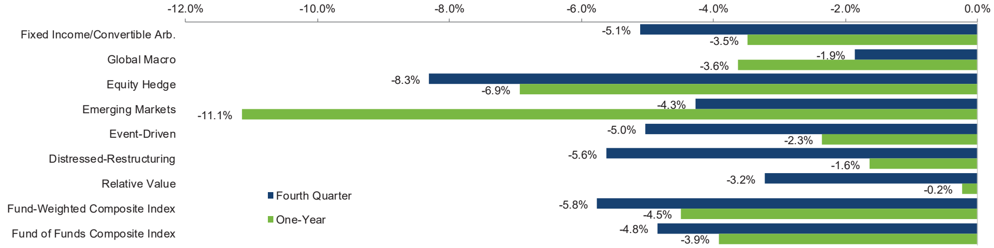


Source: Bloomberg
Note: Softs and Grains are part of the wider Agriculture sector

- Commodities fell significantly over the quarter with the Bloomberg Commodity Index returning -9.4%.
- Energy was the worst performing sector over the quarter with a return of -25.8% as crude oil prices fell sharply. The agreement to cut crude oil production by OPEC and Russia late in the quarter was not enough to stymie tumbling crude oil prices, brought lower by U.S. inventories rising faster than expected, a slowdown in the Chinese economy, the unexpected waiver on Iranian oil importer sanctions and of course the weaker outlook for global growth. The price of Brent crude oil fell by 35.0% to $54/bbl and the price of WTI crude oil fell by 38.0% to $45/bbl.
- Precious Metals was the best performing sector in Q4 2018 with a return of 6.8%. The price of gold increased 7.3% to $1,278.30$/ozt as investors moved towards 'safe-haven' assets.
- The Agriculture sector returned 0.2% over the quarter. Within the Agriculture sector, Softs and Grains returned 0.7% and 0.8%, respectively.

Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE
AS OF 12/31/2018

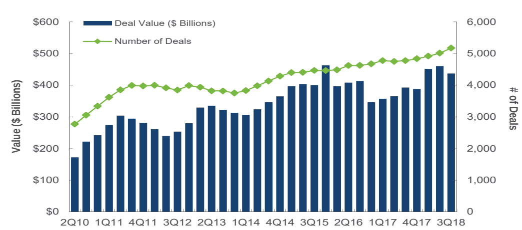


Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was negative across all strategies in the fourth quarter. Over the quarter, Equity Hedge and Distressed-Restructuring were the worst performers with a return of -8.3% and -5.6%, respectively, whilst Global Macro and Relative Value were the best performers at -1.9% and -3.2%, respectively.
- In October, Equity Hedge was the worst performer, led lower by poor Energy/Basic Materials Index and Technology Index returns. Relative Value strategies, in particular fixed-income-based funds, were able to benefit from the volatility and fell the least over the month.
- In November, Relative Value strategies continued to outperform led by Credit Multi-strategy and Volatility funds. However, Emerging Markets were the best performer led higher by Asian equities. Global Macro funds underperformed, driven lower by falling commodity prices.
- In December, Equity Hedge was again the worst performer as the strategies, with the notable exception of Market Neutral funds, followed global equity markets lower. Global Macro funds were the best performer, buoyed by strong performance from short equity and commodity positions within Systematic Diversified funds.

Private Equity Market Overview – Q3 2018

LTM Global Private Equity-Backed Buyout Deal Volume



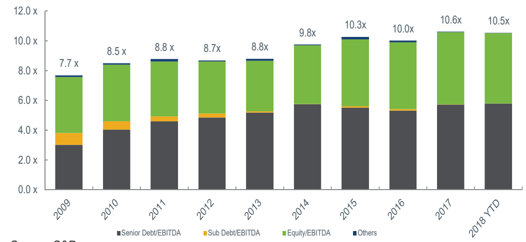
Source: Preqin

- **Fundraising:** In Q3 2018, $181.9 billion was raised by 299 funds, which was up 20.8% on a capital basis but down 22.9% by number of funds from the prior quarter.[1] This also marks a decline of 30.0% by number of funds but an increase of 2.3% by capital raised over Q3 2017. Dry powder stood at $1.84 trillion at the end of the quarter, up 14.3% and 35.3% compared to year-end 2017 and the five year average, respectively.[1]
- **Buyout:** Global private equity-backed buyout deals totaled $97.7 billion in Q3 2018, which was down 22.5% from the prior quarter but up 26.7% from the five year average.[1] At the end of Q3 2018, the average purchase price multiple for all U.S. LBOs was 10.5x EBITDA, down from 10.6x as of the end of 2017.[2] Large cap purchase price multiples stood at 10.5x, up compared to the full-year 2017 level of 10.4x.[2] The weighted average purchase price multiple across all European transaction sizes averaged 10.7x EBITDA in Q3 2018, equal to the 10.7x seen at year-end 2017. Purchase prices for transactions of €1.0 billion or more decreased from 11.7x at Q2 2018 to 11.3x in Q3 2018. Transactions between €500.0 million and €1.0 billion were flat from Q2 2018, and stood at 10.8x at the end of Q3 2018.[2] Globally, exit value totaled $90.5 billion during the quarter, significantly lower than the $111.8 billion in exits during Q2 2018. Q3's total was primarily driven by trade sales ($64.1 billion, up quarter-over-quarter) and through sales to GPs ($20.7 billion, down quarter-over-quarter).
- **Venture:** During the third quarter, 1,325 venture backed transactions totaling $28.0 billion were completed, which was an increase on a capital basis over the prior quarter's total of $24.0 billion across 1,564 deals. This was 62.4% higher than the five-year quarterly average of $17.2 billion, but 9.4% lower than the five-year quarterly average by number of deals.[3] Total U.S. venture backed exit activity totaled approximately $20.9 billion across 182 completed transactions in Q3 2018, down from $31.8 billion across 225 exits in Q2 2018.[3]
- **Mezzanine:** Ten funds closed on $1.4 billion during the quarter, significantly down from Q2 2018's total of $15.3 billion raised by eight funds and the five year quarterly average of $5.4 billion.[1] Estimated dry powder was $58.0 billion at the end of Q3 2018, up by $7.0 billion from Q4 2017 and higher than the $53.1 billion high seen at year-end 2016.[1] Fundraising remains robust with an estimated 76 funds in market targeting $21.3 billion of commitments.[1]

Sources: [1] Preqin [2] Standard & Poor's [3] PwC/CB Insights MoneyTree Report [4] PitchBook/NVCA Venture Monitor [5] Fitch Ratings [6] Thomson Reuters [7] UBS
Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

Private Equity Market Overview – Q3 2018

U.S. LBO Purchase Price Multiples – All Transactions Sizes



Source: S&P

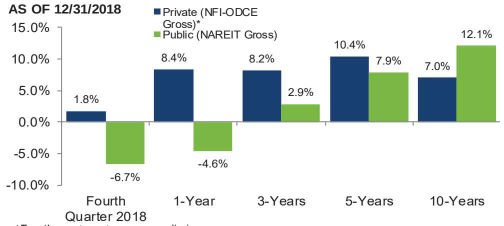
- **Distressed Debt:** The LTM U.S. high-yield default rate was 2.02% as of September 2018, which was up from December 2017's LTM rate of 1.27%.[4] During the quarter, $6.8 billion was raised by 13 funds, significantly lower than the $18.5 billion raised during Q2 2018. This was the lowest amount raised since Q3 2016.[1] Dry powder was estimated at $119.5 billion at the end Q3 2018, which was up 14.5% from Q4 2017. This remained above the five-year annual average level of $97.2 billion.[1]
- **Secondaries:** Seven funds raised $4.0 billion during the third quarter, up from $3.1 billion raised by twelve funds in Q2 2018, but lower than the $13.4 billion raised in Q3 2017.[1] At the end of Q3 2018, there were an estimated 46 secondary and direct secondary funds in market, targeting approximately $56.8 billion.[1] Dry powder stood at $64.0 billion through 1H 2018, down from Q4 2017's total of $77.0 billion.[5]
- **Infrastructure:** $46.6 billion of capital was raised by 26 funds in Q3 2018 compared to $18.9 billion of capital raised by 17 partnerships in Q2 2018. At the end of the quarter, dry powder stood at an estimated $173.3 billion, up from the prior quarter's total of $161.0 billion. Infrastructure managers completed 506 deals with an estimated aggregate deal value of $238.7 billion in Q3 2018 compared to 663 deals totaling $238.2 billion a quarter ago.[1]
- **Natural Resources:** During Q3 2018, seven funds closed on $6.4 billion compared to seven funds having raised $2.7 billion in Q2 2018. Energy & utilities industry managers completed approximately 104 deals totaling an estimated $30.2 billion through Q3 2018. Dry powder is estimated at $59.3 billion for Q3 2018, down 5.7% from Q2 2018's level.[1]

Sources: [1] Preqin [2] Standard & Poor's [3] PwC/CB Insights MoneyTree Report [4] PitchBook/NVCA Venture Monitor [5] Fitch Ratings [6] Thomson Reuters [7] UBS

Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

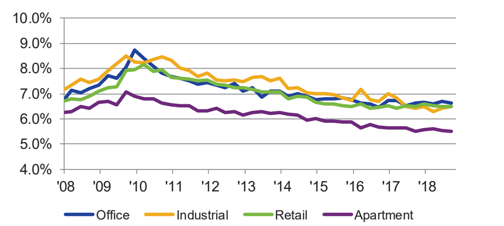
U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 12/31/2018



*Fourth quarter returns are preliminary
Sources: NCREIF, FactSet

CAP RATES BY SECTOR



Sources: RCA, Aon

- U.S. Core real estate returned 1.76%* over the fourth quarter, equating to 8.4% total gross return year-over-year, including a 4.2% income return. Net income growth is expected to be the larger driver of the total return on a go forward basis given the current point of the real estate cycle.
- Global property markets, as measured by the FTSE EPRA/NAREIT Global Developed Real Estate Index, fell 5.5% (USD) in aggregate during the fourth quarter, declining 4.7% for the full year. Sector weakness was largely attributed to a broader equity market decline in Q4 (MSCI World Index down 13.3%) due to a host of macro concerns which resulted in a broad-based sell-off which also negatively impacted listed real estate share prices. Asia/Pacific was the top performing region with a slight loss of 0.3%, followed by North America declining 5.9% and Europe which fell 10.0%. The U.S. REIT markets (FTSE NAREIT Equity REITs Index) declined 6.7% in the fourth quarter, falling 4.6% for 2018. The sector declined 8.2% in December alone, which was generally on par with the broader U.S. equity market (S&P 500 lost 9.0%). While the 10-year U.S. Treasury bond yield fell to 2.7% after starting the quarter above 3.0%, the movement was unable to support REIT share prices. As of quarter end, the U.S. REIT dividend yield stood at 4.6%.
- According to RCA, through August 2018 the U.S. property market has experienced price growth of 7.7% year-over-year across major sectors. Further, transaction volume was up 46% over the same period.
- Return expectations have normalized, with go forward expectations in line with historical norms. Rising interest rates have led to asset value correction fears across various asset classes. However, according to Preqin, there remains a record amount of dry powder ($295 billion) in closed-end vehicles seeking real estate exposure, which should continue to lend support to valuations and liquidity in the commercial real estate market.
- Aon prefers investments that offer relatively strong rental income growth, or value-add potential with near-term income generation prospects. It is critical to identify sub-sector and sub-market driven themes in the current environment; unlike the last 6-7 year period, as assets are no longer trading at deep discounts to replacement value. Real estate investments should seek levers of NOI growth that are not predicated on continued market uplift. For example, an investment thesis can focus towards sectors benefiting from secular changes (e.g., Industrial and e-commerce), acquiring in-place rents below current market terms, and improving operational efficiency.

*Indicates preliminary NFI-ODCE data gross of fees

Aon
Proprietary
Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.

AON Empower Results®

Total Fund

As of December 31, 2018

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.
- Aon Hewitt Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

Performance Highlights

- During the quarter, the Total Fund outperformed the Performance Benchmark. The Total Fund outperformed the Performance Benchmark during the trailing one-, three-, five-, and ten-year periods.

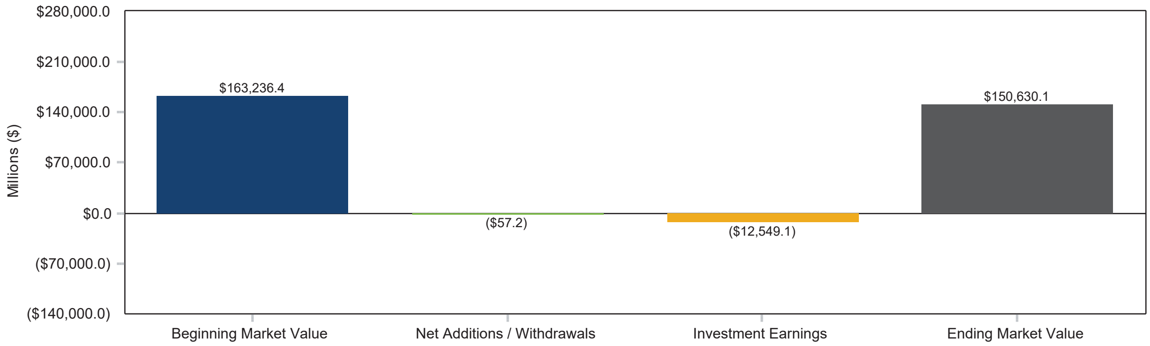
Asset Allocation

- The Fund assets total $150.6 billion as of December 31, 2018, which represents a $12.6 billion decrease since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges at quarter-end.
- The Fund was modestly underweight to global equity, with a corresponding overweight to fixed income.

Total Fund As of December 31, 2018

Total Plan Asset Summary

Change in Market Value
From October 1, 2018 to December 31, 2018



Summary of Cash Flow

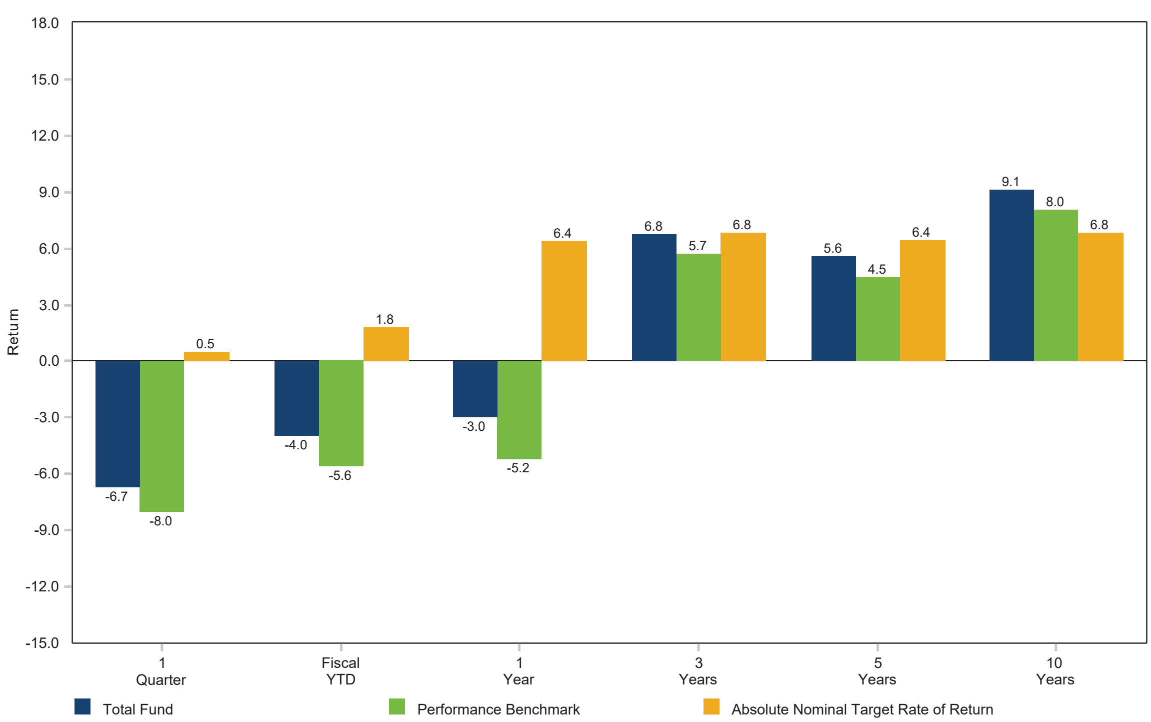
	1 Quarter	Fiscal YTD*
Total Fund		
Beginning Market Value	163,236,430,001	160,439,358,858
+ Additions / Withdrawals	-57,241,303	-1,971,208,916
+ Investment Earnings	-12,549,125,389	-7,838,086,633
= Ending Market Value	150,630,063,309	150,630,063,309

*Period July 2018 - December 2018

Total Fund As of December 31, 2018

Total Plan Performance Summary

Return Summary



As of December 31, 2018

Asset Allocation & Performance

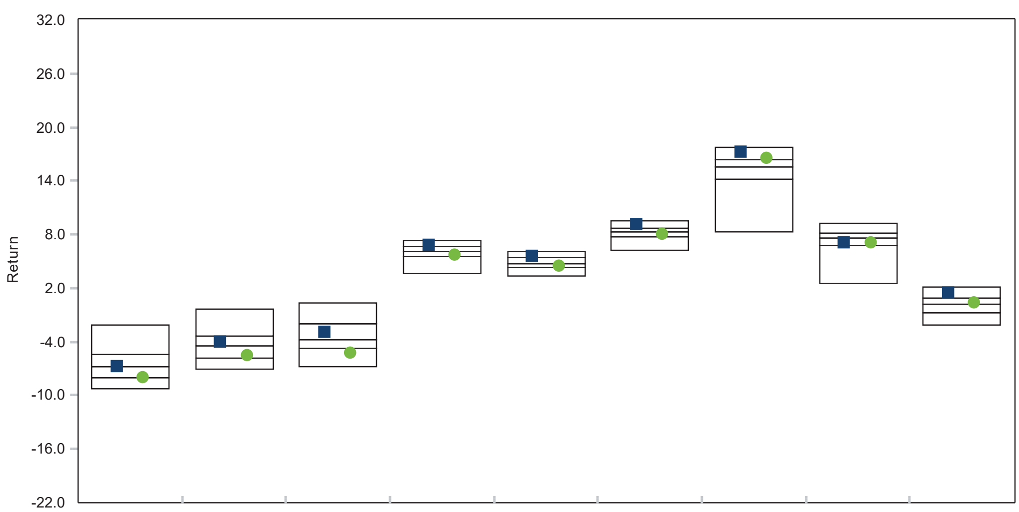
	Allocation			Performance(%)					
	Market Value ($)	%	Policy(%)	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years
Total Fund	150,630,063,309	100.0	100.0	-6.7 (49)	-4.0 (37)	-3.0 (37)	6.8 (18)	5.6 (12)	9.1 (15)
Performance Benchmark				-8.0 (75)	-5.6 (74)	-5.2 (80)	5.7 (69)	4.5 (64)	8.0 (66)
Absolute Nominal Target Rate of Return				0.5 (3)	1.8 (1)	6.4 (1)	6.8 (16)	6.4 (2)	6.8 (93)
Global Equity*	79,250,262,517	52.6	54.3	-13.2	-9.8	-9.8	6.9	4.8	10.4
Asset Class Target				-13.3	-9.9	-10.1	6.5	4.2	9.6
Domestic Equities	37,541,173,223	24.9		-14.4 (45)	-8.2 (19)	-5.2 (22)	8.8 (30)	7.8 (18)	13.3 (18)
Asset Class Target				-14.3 (44)	-8.2 (19)	-5.2 (25)	9.0 (27)	7.9 (16)	13.2 (29)
Foreign Equities	32,452,783,876	21.5		-11.9 (43)	-12.0 (66)	-14.9 (73)	4.9 (37)	1.6 (37)	8.0 (10)
Asset Class Target				-11.9 (42)	-11.6 (56)	-14.8 (72)	4.4 (51)	0.9 (72)	7.0 (66)
Global Equities	7,788,890,340	5.2		-12.3	-8.0	-7.9	6.4	4.8	9.8
Benchmark				-13.3	-9.1	-8.8	6.4	4.5	9.9
Fixed Income	30,248,567,403	20.1	19.2	1.7 (3)	1.9 (5)	1.0 (9)	1.9 (84)	2.3 (76)	4.6 (52)
Asset Class Target				1.8 (3)	1.9 (2)	0.9 (9)	1.7 (89)	2.1 (81)	3.3 (95)
Private Equity	11,254,388,438	7.5	7.7	3.9	9.3	19.1	15.9	15.7	11.7
Asset Class Target				-11.2	-8.9	-7.1	9.5	7.4	14.4
Real Estate	14,560,483,177	9.7	9.3	1.4 (67)	3.0 (62)	6.4 (72)	8.3 (47)	10.1 (48)	7.2 (1)
Asset Class Target				1.2 (73)	2.8 (65)	6.6 (66)	7.6 (72)	9.4 (73)	5.6 (52)
Strategic Investments	13,374,851,566	8.9	8.5	-0.4	2.2	5.5	7.1	6.8	10.1
Short-Term Target				-2.6	-1.3	1.2	4.3	4.1	6.8
Cash	1,941,510,208	1.3	1.0	0.6	1.1	1.9	1.1	0.8	0.7
Bank of America Merrill Lynch 3-Month US Treasury Index				0.6	1.1	1.9	1.0	0.6	0.4

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.

As of December 31, 2018

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-Total Fund

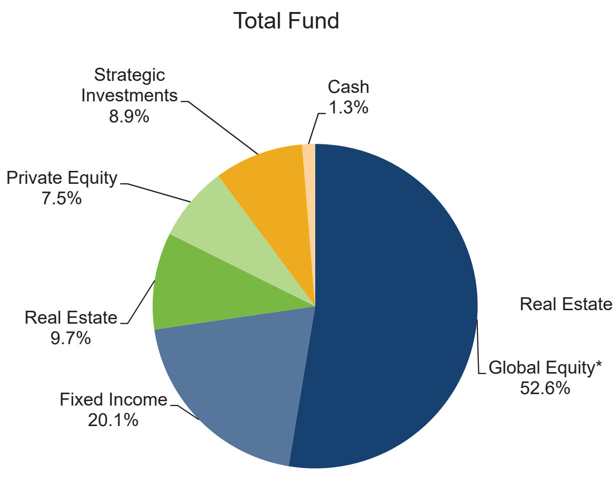


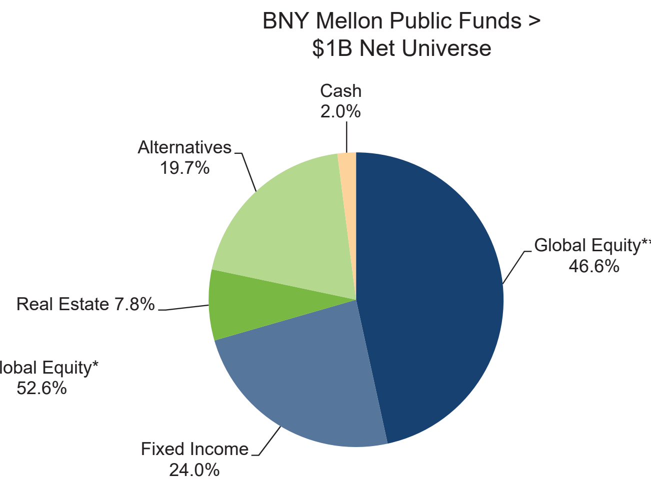
	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2017	2016	2015
■ Total Fund	-6.7 (49)	-4.0 (37)	-3.0 (37)	6.8 (18)	5.6 (13)	9.1 (16)	17.2 (10)	7.1 (68)	1.4 (14)
● Performance Benchmark	-8.0 (75)	-5.6 (74)	-5.2 (80)	5.7 (69)	4.5 (64)	8.0 (66)	16.5 (25)	7.1 (69)	0.3 (42)
5th Percentile	-2.1	-0.3	0.3	7.4	6.0	9.6	17.8	9.3	2.1
1st Quartile	-5.5	-3.3	-2.0	6.6	5.4	8.8	16.4	8.1	1.0
Median	-6.8	-4.4	-3.7	6.1	4.7	8.3	15.6	7.6	0.2
3rd Quartile	-8.0	-5.8	-4.8	5.6	4.3	7.7	14.1	6.8	-0.8
95th Percentile	-9.2	-7.0	-6.8	3.7	3.3	6.2	8.2	2.5	-2.1
Population	132	132	131	130	128	121	102	107	86

Parentheses contain percentile rankings.

Total Fund As of December 31, 2018

Universe Asset Allocation Comparison



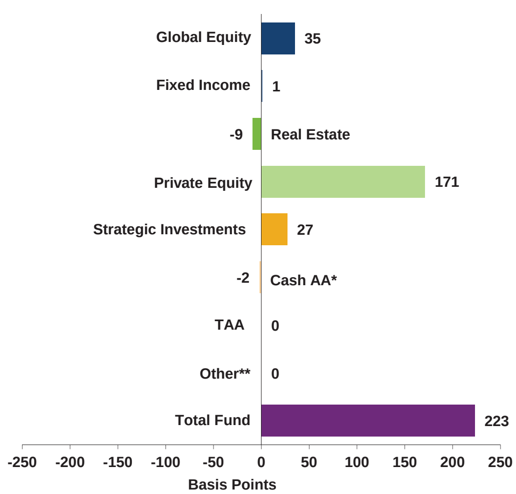


*Global Equity Allocation: 24.9% Domestic Equities; 21.5% Foreign Equities; 5.2% Global Equities; 1.0% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

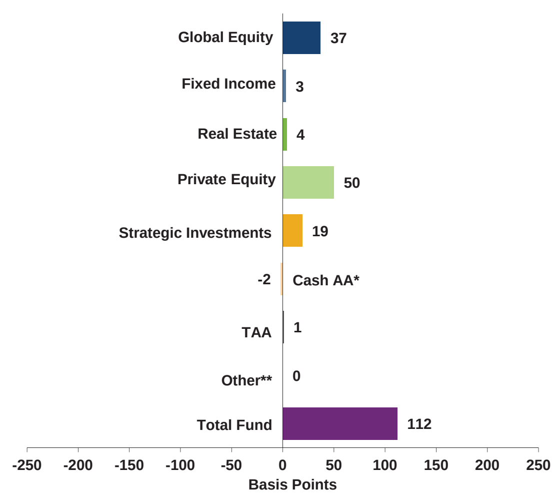
**Global Equity Allocation: 27.3% Domestic Equities; 19.3% Foreign Equities.

Total Fund As of December 31, 2018

Attribution



1-Year Ending 12/31/2018



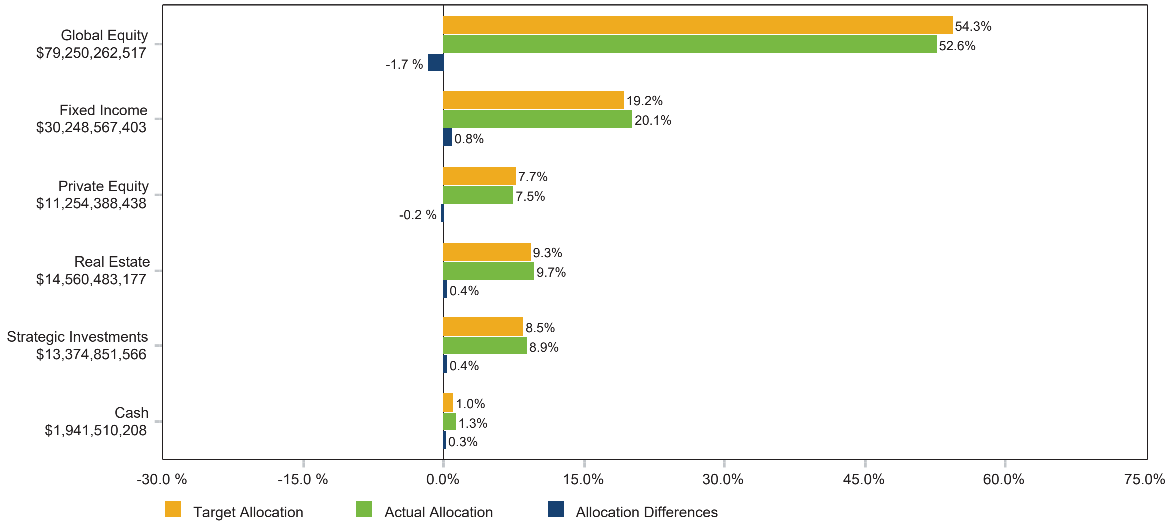
5-Year Ending 12/31/2018

*Cash AA includes Cash and Central Custody, Securities Lending Account income from 12/2009 to 3/2013 and unrealized gains and losses on securities lending collateral beginning June 2013, TF STIPFRS NAV Adjustment Account, and the Cash Expense Account.

**Other includes legacy accounts and unexplained differences due to methodology.

Asset Allocation Compliance

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	150,630,063,309	100.0	100.0		
Global Equity	79,250,262,517	52.6	54.3	45.0	70.0
Fixed Income	30,248,567,403	20.1	19.2	10.0	26.0
Private Equity	11,254,388,438	7.5	7.7	2.0	9.0
Real Estate	14,560,483,177	9.7	9.3	4.0	16.0
Strategic Investments	13,374,851,566	8.9	8.5	0.0	16.0
Cash	1,941,510,208	1.3	1.0	0.3	5.0



(This page is left blank intentionally)

Global Equity

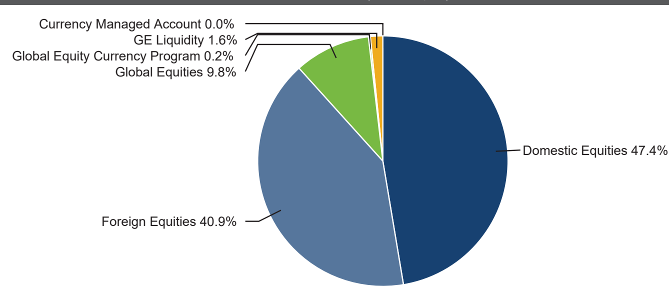
Aon Empower Results

Global Equity* As of December 31, 2018

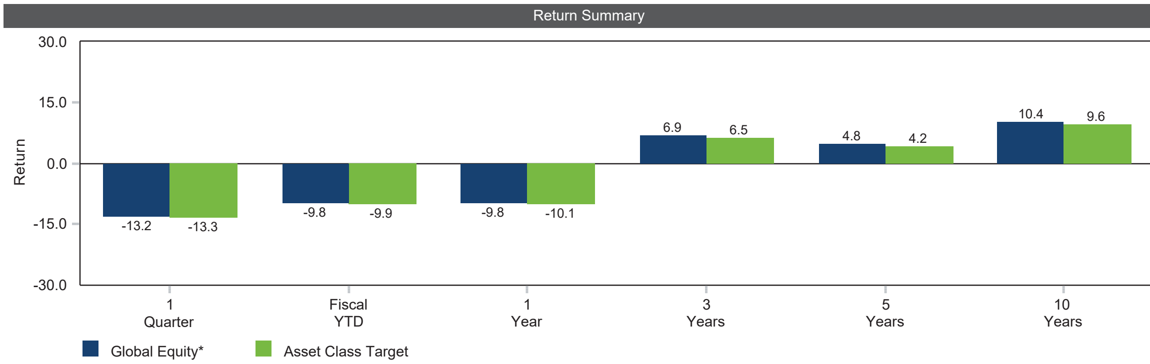
Global Equity* Portfolio Overview

Current Allocation

December 31, 2018 : $79,250M



Return Summary



* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

Aon Empower Results

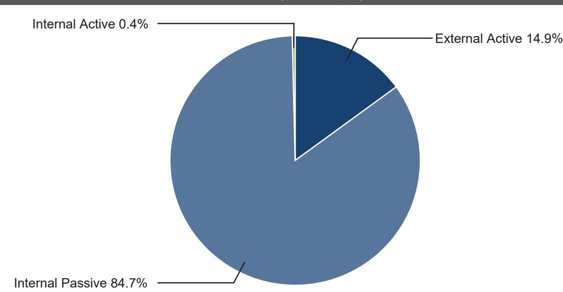
Domestic Equit ies

Domestic Equities As of December 31, 2018

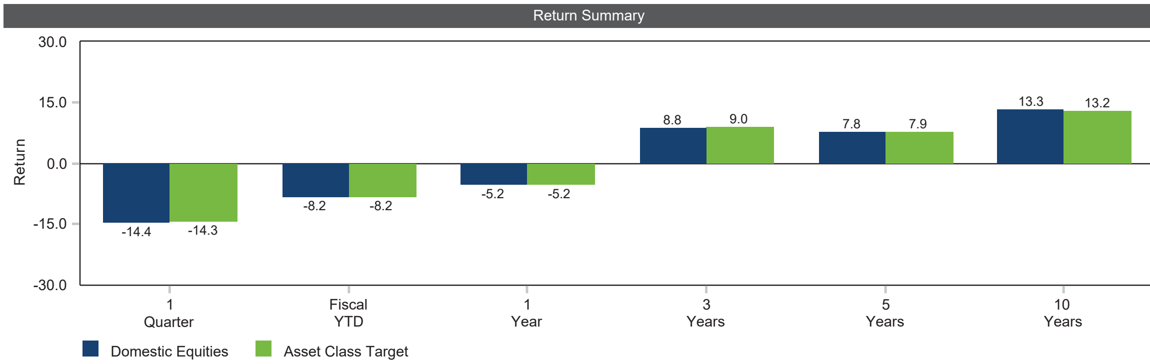
Domestic Equities Portfolio Overview

Current Allocation

December 31, 2018 : $37,541M



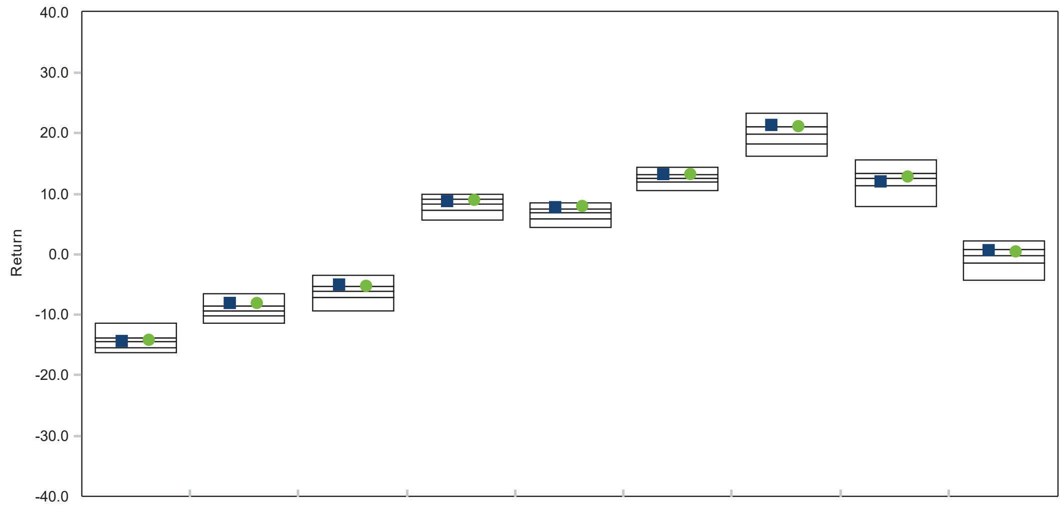
Return Summary



As of December 31, 2018

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-US Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2017	2016	2015
■ Domestic Equities	-14.4 (45)	-8.2 (19)	-5.2 (22)	8.8 (30)	7.8 (18)	13.3 (18)	21.2 (22)	11.9 (63)	0.6 (31)
● Asset Class Target	-14.3 (44)	-8.2 (19)	-5.2 (25)	9.0 (27)	7.9 (16)	13.2 (29)	21.1 (26)	12.7 (46)	0.5 (33)
5th Percentile	-11.4	-6.4	-3.4	9.9	8.6	14.4	23.3	15.6	2.3
1st Quartile	-13.8	-8.5	-5.3	9.1	7.6	13.2	21.1	13.4	0.8
Median	-14.5	-9.4	-6.1	8.2	7.0	12.6	19.9	12.5	-0.3
3rd Quartile	-15.4	-10.2	-7.1	7.4	5.9	12.0	18.3	11.3	-1.5
95th Percentile	-16.3	-11.4	-9.4	5.6	4.5	10.6	16.3	7.9	-4.2
Population	59	58	54	52	50	34	57	56	45

Parentheses contain percentile rankings.

Empower Results®

(This page is left blank intentionally)

Empower Results®

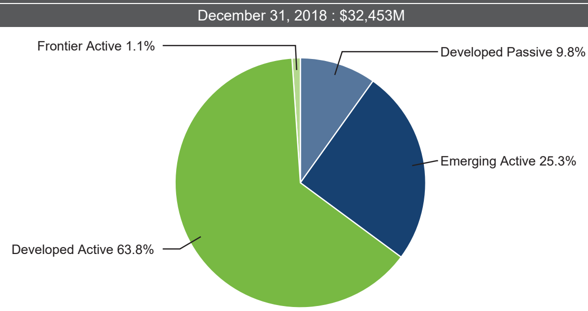
Foreign Equit ies

Foreign Equities As of December 31, 2018

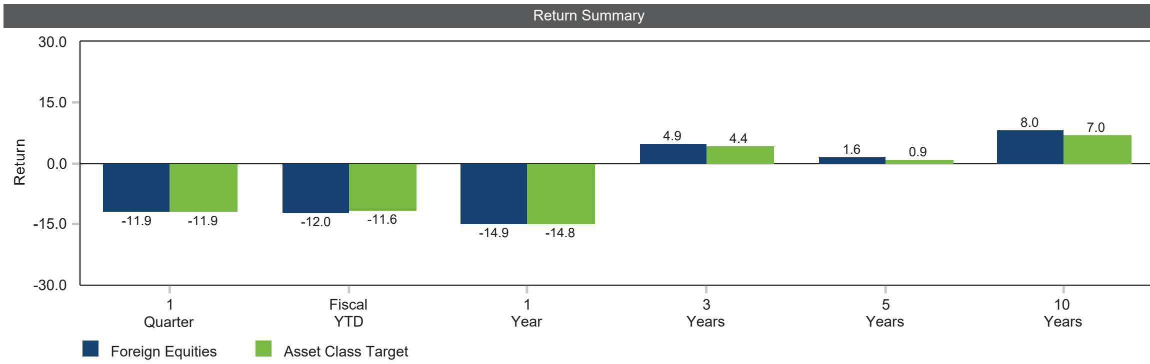
Foreign Equities Portfolio Overview

Current Allocation

December 31, 2018 : $32,453M



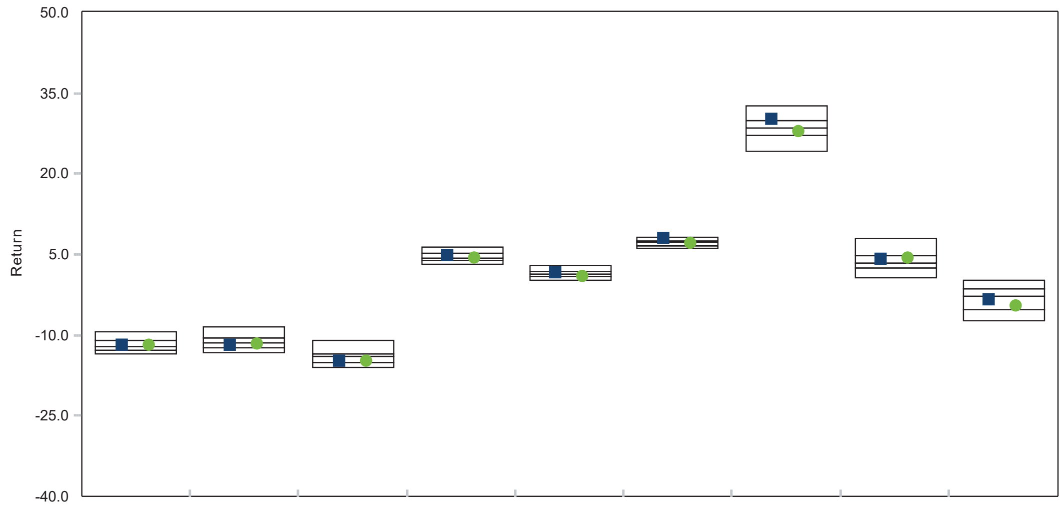
Return Summary



As of December 31, 2018

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-Intl. Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2017	2016	2015
■ Foreign Equities	-11.9 (43)	-12.0 (66)	-14.9 (73)	4.9 (37)	1.6 (37)	8.0 (10)	30.2 (19)	4.1 (38)	-3.4 (59)
● Asset Class Target	-11.9 (42)	-11.6 (56)	-14.8 (72)	4.4 (51)	0.9 (72)	7.0 (66)	27.9 (62)	4.3 (34)	-4.5 (73)
5th Percentile	-9.5	-8.4	-10.9	6.4	3.0	8.2	32.7	8.1	0.1
1st Quartile	-11.1	-10.6	-13.4	5.3	1.9	7.6	29.8	4.7	-1.3
Median	-12.1	-11.4	-14.0	4.4	1.2	7.2	28.6	3.4	-2.8
3rd Quartile	-12.7	-12.3	-15.0	3.8	0.8	6.7	27.2	2.5	-5.3
95th Percentile	-13.5	-13.4	-15.9	3.1	0.3	6.1	24.2	0.6	-7.3
Population	57	57	56	54	50	32	58	57	40

Parentheses contain percentile rankings.

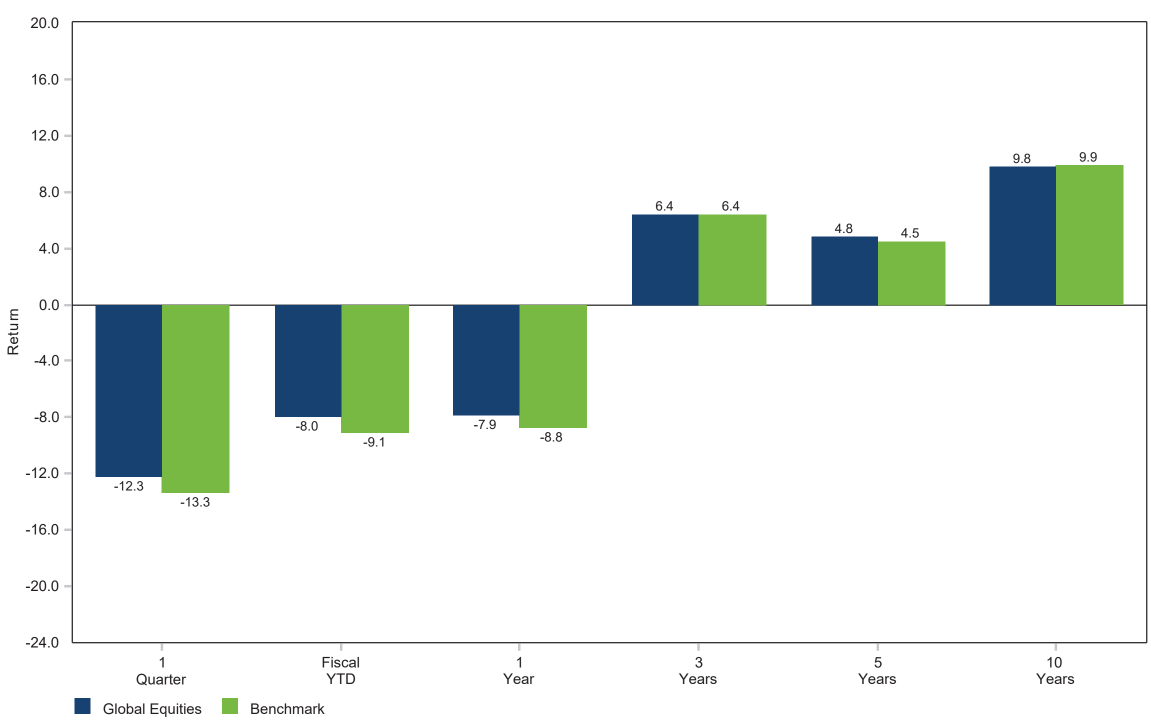
(This page is left blank intentionally)

Global Equities

Global Equities As of December 31, 2018

Global Equities Performance Summary

Return Summary

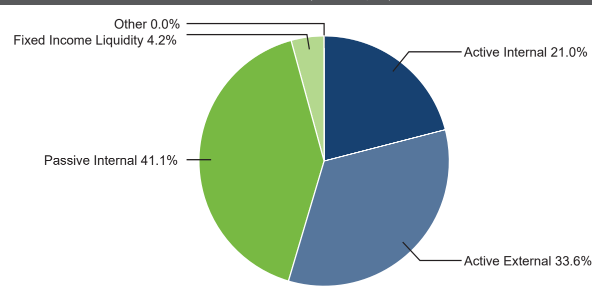


Fixed Income

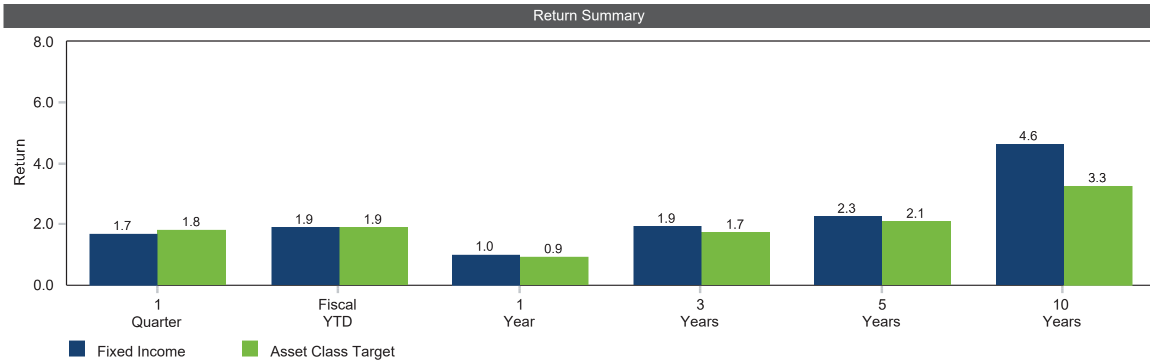
Fixed Income Portfolio Overview

Current Allocation

December 31, 2018 : $30,249M



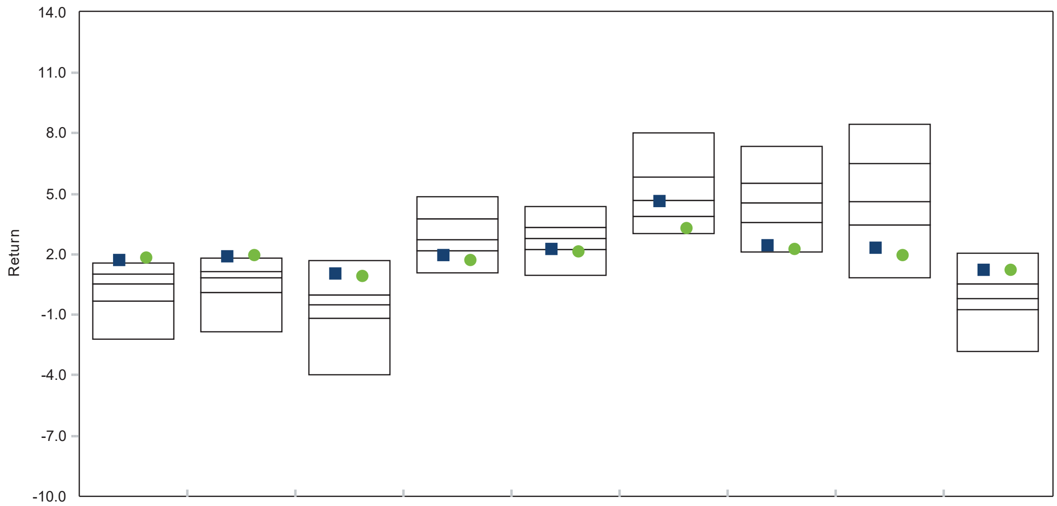
Return Summary



As of December 31, 2018

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-US Fixed Income Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2017	2016	2015
■ Fixed Income	1.7 (3)	1.9 (5)	1.0 (9)	1.9 (84)	2.3 (76)	4.6 (52)	2.4 (93)	2.3 (88)	1.2 (11)
● Asset Class Target	1.8 (3)	1.9 (2)	0.9 (9)	1.7 (89)	2.1 (81)	3.3 (95)	2.3 (94)	2.0 (92)	1.2 (11)
5th Percentile	1.6	1.8	1.7	4.9	4.4	8.0	7.4	8.5	2.0
1st Quartile	1.0	1.2	0.0	3.8	3.4	5.8	5.5	6.5	0.5
Median	0.5	0.8	-0.5	2.7	2.8	4.7	4.6	4.6	-0.2
3rd Quartile	-0.3	0.1	-1.2	2.2	2.3	3.9	3.6	3.5	-0.8
95th Percentile	-2.2	-1.9	-4.0	1.1	1.0	3.0	2.1	0.8	-2.8
Population	58	58	57	56	54	36	60	60	43

Parentheses contain percentile rankings.

AON Empower Results®

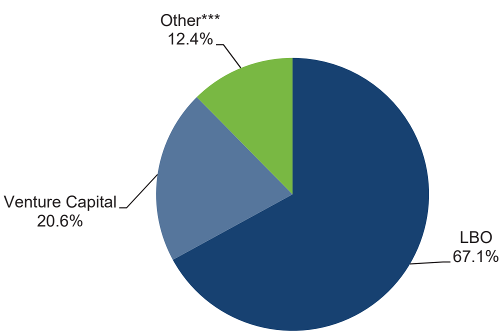
(This page is left blank intentionally)

AON Empower Results®

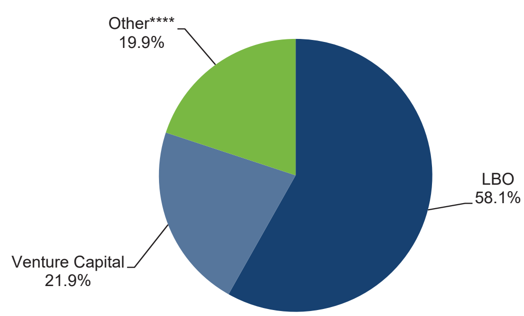
Private Equity

Overview

FRS Private Equity by Market Value*



Preqin Private Equity Strategies by Market Value**

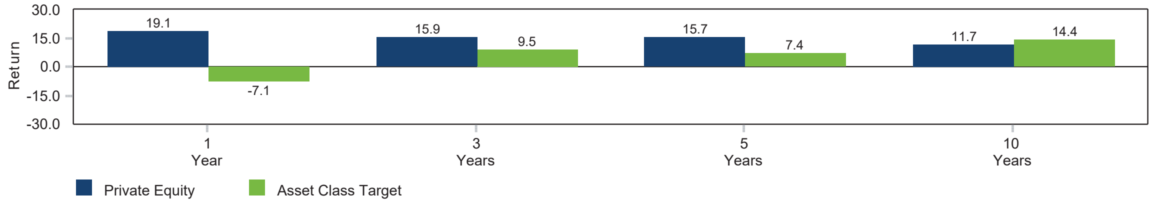


*Allocation data is as of December 31, 2018.
**Allocation data is as of June 30, 2017, from the Preqin database.
***Other for the FRS Private Equity consists of Growth Capital, Secondary, PE Cash, and PE Transition.
****Other for the Preqin data consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations.
Preqin universe is comprised of 10,000 private equity funds representing $3.8 trillion.

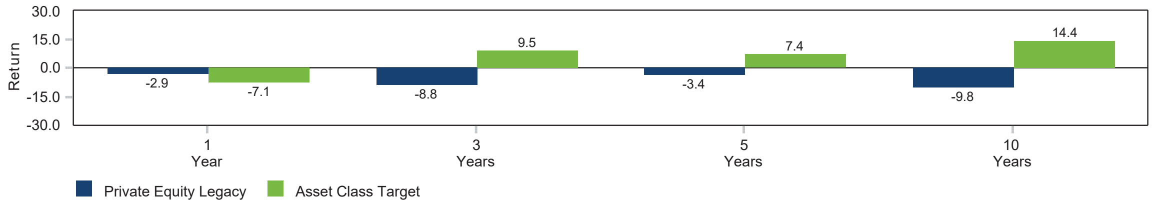
Private Equity

Time-Weighted Investment Results

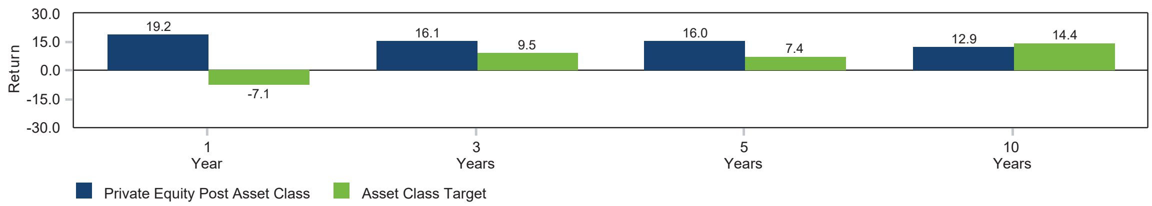
Private Equity Return Summary as of December 31, 2018



Private Equity Legacy Return Summary as of December 31, 2018



Private Equity Post Asset Class Return Summary as of December 31, 2018

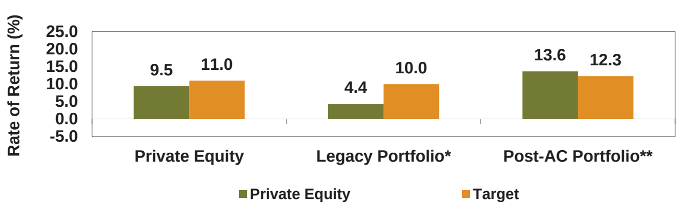


Private Equity

Dollar-Weighted Investment Results

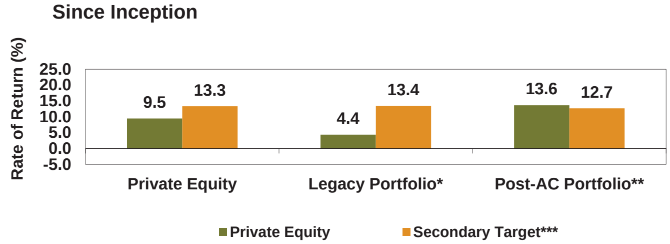
As of September 30, 2018

Since Inception



As of September 30, 2018

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.

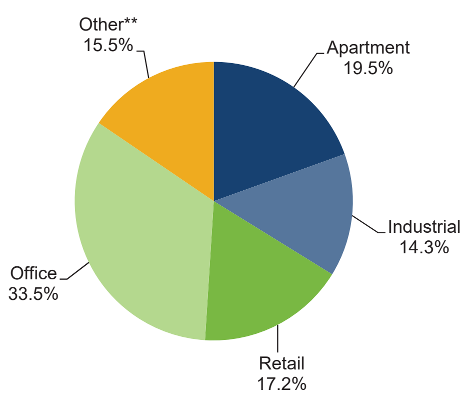
Real Estate

Aon Empower Results

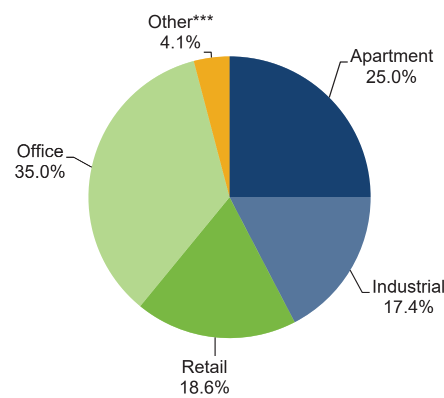
Real Estate **As of September 30, 2018**

Overview

FRS*



NFI-ODCE Index*



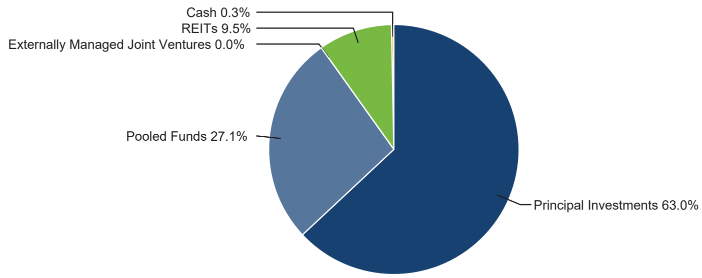
*Property Allocation data is as of September 30, 2018. The FRS chart includes only the FRS private real estate assets. Property type information for the REIT portfolios is not included.
**Other for the FRS consists of Hotel, Land, Preferred Equity, Agriculture, Self-Storage and Senior Housing.
***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Health Care, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

Aon Empower Results

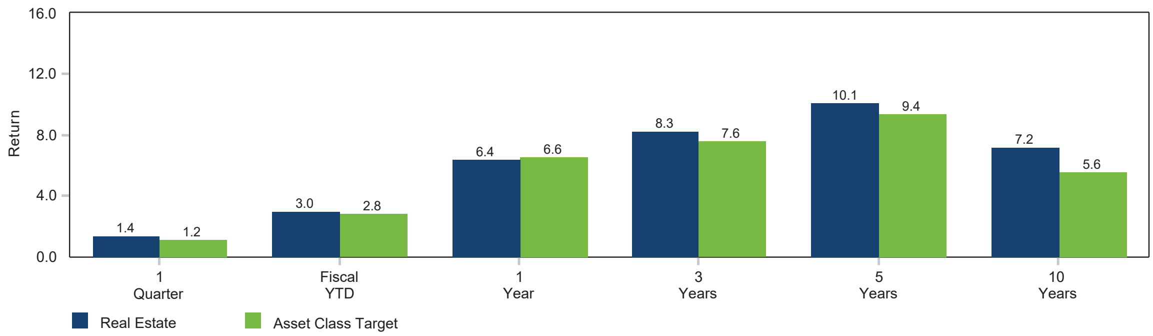
Real Estate Portfolio Overview

Current Allocation

December 31, 2018 : $14,560M

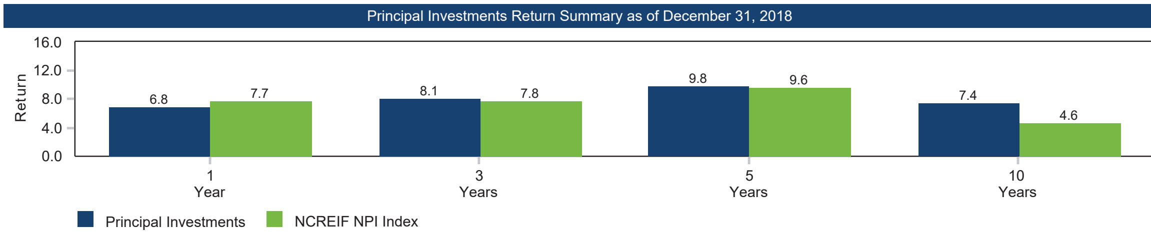


Return Summary

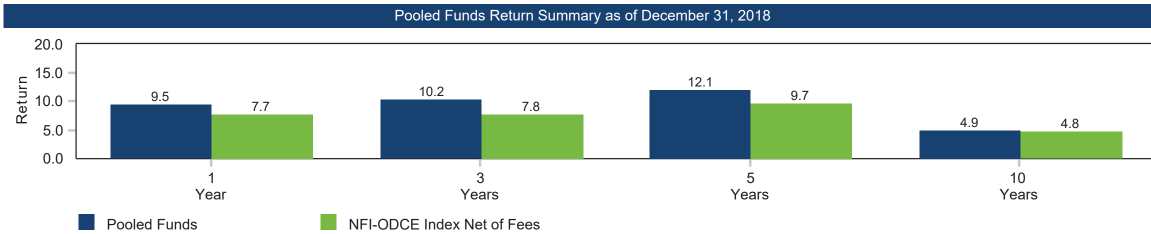


Real Estate

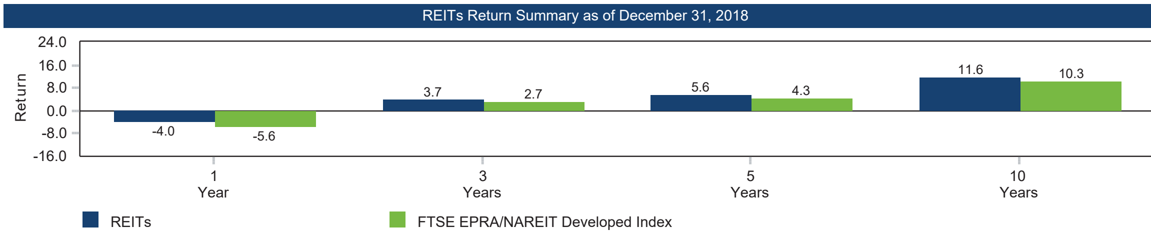
Principal Investments Return Summary as of December 31, 2018



Pooled Funds Return Summary as of December 31, 2018



REITs Return Summary as of December 31, 2018

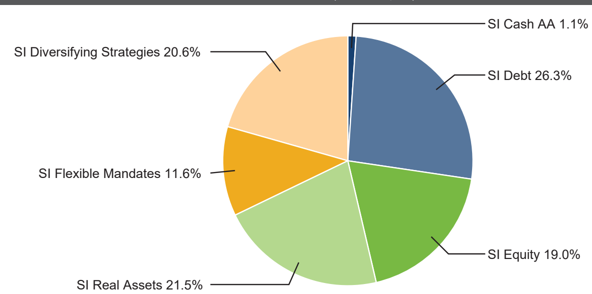


Strategic Investments

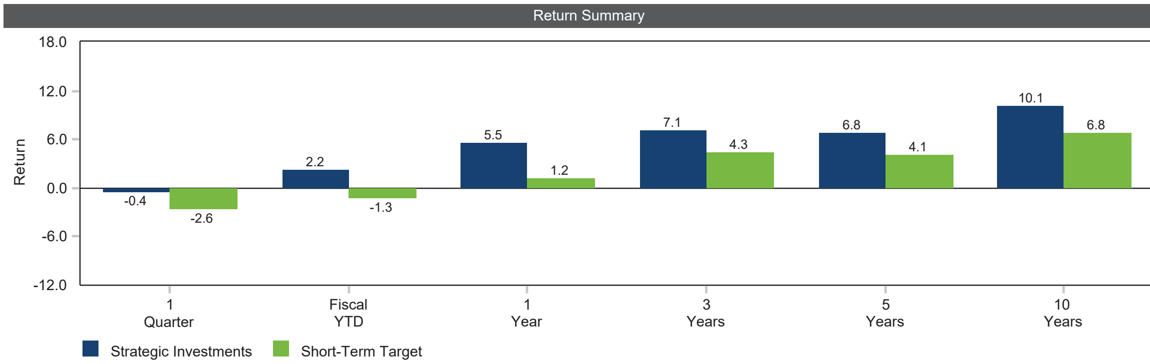
Strategic Investments Portfolio Overview

Current Allocation

December 31, 2018 : $13,375M



Return Summary

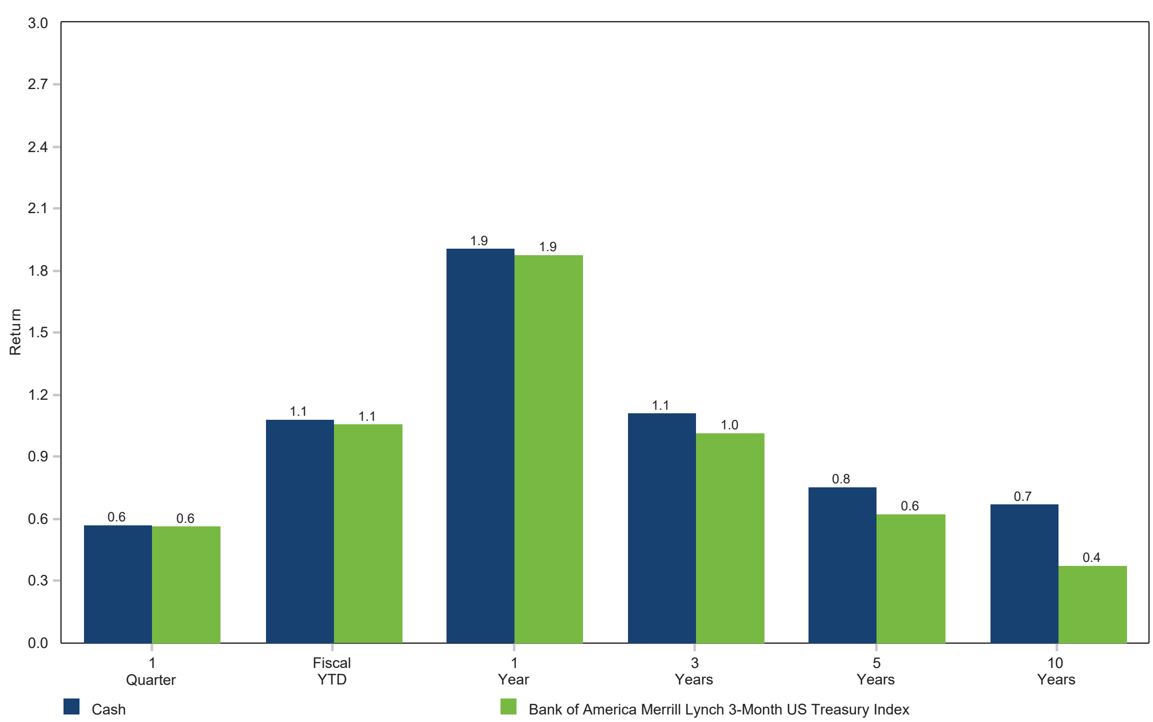


Cash

Cash As of December 31, 2018

Cash Performance Summary

Return Summary



Appendix

Appendix

Total FRS Assets

Performance Benchmark- A combination of the Global Equity Target, the Barclays Capital U.S. Intermediate Aggregate Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the Bank of America Merrill Lynch 3-Month US Treasury Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Please refer to section VII. Performance Measurement in the FRS Defined Benefit Plan Investment Policy Statement for more details on the calculation of the Performance Benchmark. Prior to October 1, 2013, the Performance benchmark was a combination of the Global Equity Target, the Barclays Aggregate Bond Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the iMoneyNet First Tier Institutional Money Market Funds Net Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Prior to July 2010, the Performance Benchmark was a combination of the Russell 3000 Index, the Foreign Equity Target Index, the Strategic Investments Target Benchmark, the Barclays Aggregate Bond Index, the Real Estate Investments Target Index, the Private Equity Target Index, the Barclays U.S. High Yield Ba/B 2% Issuer Capped Index, and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. During this time, the short-term target policy allocations to Strategic Investments, Real Estate and Private Equity asset classes were floating and based on the actual average monthly balance of the Strategic Investments, Real Estate and Private Equity asset classes. The target weights shown for Real Estate and Private Equity were the allocations that the asset classes were centered around. The actual target weight floated around this target month to month based on changes in asset values.

Total Global Equity

Performance Benchmark- A custom version of the MSCI All Country World Investable Market Index, adjusted to exclude companies divested under the provisions of the Protecting Florida's Investments Act (PFIA). Prior to July 2010, the asset class benchmark is a weighted average of the underlying Domestic Equities, Foreign Equities and Global Equities historical benchmarks.

Total Domestic Equities

Performance Benchmark- The Russell 3000 Index. Prior to July 1, 2002, the benchmark was the Wilshire 2500 Stock Index. Prior to January 1, 2001, the benchmark was the Wilshire 2500 Stock Index ex-Tobacco. Prior to May 1, 1997, the benchmark was the Wilshire 2500 Stock Index. Prior to September 1, 1994, the benchmark was the S&P 500 Stock Index.

Total Foreign Equities

Performance Benchmark- A custom version of the MSCI ACWI ex-U.S. Investable Market Index adjusted to exclude companies divested under the PFIA. Prior to April 1, 2008, it was the MSCI All Country World Index ex-U.S. Investable Market Index. Prior to September 24, 2007, the target was the MSCI All Country World ex-U.S. Free Index. Prior to November 1, 1999, the benchmark was 85% MSCI Europe, Australasia and Far East (EAFE) Foreign Stock Index and 15% IFCI Emerging Markets Index with a half weight in Malaysia. Prior to March 31, 1995, the benchmark was the EAFE Index.

Total Global Equities

Performance Benchmark- Aggregated based on each underlying manager's individual benchmark. The calculation accounts for the actual weight and the benchmark return. The benchmarks used for the underlying managers include both the MSCI FSB All Country World ex-Sudan ex-Iran Net Index and MSCI FSB All Country World ex-Sudan ex-Iran Net Investable Market Index (IMI).

Appendix

Total Fixed Income

Performance Benchmark- The Barclays Capital U.S. Intermediate Aggregate Index. Prior to October 1, 2013, it was the Barclays U.S. Aggregate Bond Index. Prior to June 1, 2007, it was the Fixed Income Management Aggregate (FIMA). Prior to July 1, 1999, the benchmark was the Florida High Yield Extended Duration Index. Prior to July 31, 1997, the benchmark was the Florida Extended Duration Index. Prior to July 1, 1989, the Salomon Brothers Broad Investment-Grade Bond Index was the benchmark. For calendar year 1985, the performance benchmark was 70% Shearson Lehman Extended Duration and 30% Salomon Brothers Mortgage Index.

Total Private Equity

Performance Benchmark- The MSCI All Country World Investable Market Index (ACWI IMI), adjusted to reflect the provisions of the Protecting Florida's Investments Act, plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2014, the benchmark was the domestic equities target index return (Russell 3000 Index) plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2010, it was the domestic equities target index return plus a fixed premium return of 450 basis points per annum. Prior to November 1, 1999, Private Equities was part of the Domestic Equities asset class and its benchmark was the domestic equities target index return plus 750 basis points.

Total Real Estate

Performance Benchmark- The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%. Prior to July 1, 2014, the benchmark was a combination of 90% NCREIF ODCE Index, net of fees, and 10% FTSE EPRA/NAREIT Developed Index, net of fees. Prior to July 1, 2010, it was a combination of 90% NCREIF ODCE Index, gross of fees, and 10% Dow Jones U.S. Select RESI. Prior to June 1, 2007, it was the Consumer Price Index plus 450 basis points annually. Prior to July 1, 2003, the benchmark was the Dow Jones U.S. Select Real Estate Securities Index Un-Levered. Prior to November 1, 1999, the benchmark was the Russell-NCREIF Property Index.

Total Strategic Investments

Performance Benchmark- Long-term, 4.0% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmarks.

Total Cash

Performance Benchmark- Bank of America Merrill Lynch 3-Month US Treasury Index. Prior to July 1, 2018 it was the iMoneyNet First Tier Institutional Money Market Funds Net Index. Prior to July 1, 2010, it was the iMoneyNet First Tier Institutional Money Market Funds Gross Index. Prior to June 1, 2007, it was the return of the Merrill Lynch 90-Day (Auction Average) Treasury Bill Yield Index.

Appendix

Description of Benchmarks

Bank of America Merrill Lynch 3-Month US Treasury Index- Consists of U.S. Treasury Bills maturing in 90 days.

Barclays Capital U.S. Intermediate Aggregate Bond Index - A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

Consumer Price Index (CPI) - The CPI, an index consisting of a fixed basket of goods bought by the typical consumer and used to measure consumer inflation.

FTSE EPRA/NAREIT Developed Index - An index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposure and development of income-producing real estate. This index covers the four primary core asset classes (Industrial, Retail, Office, and Apartment).

MSCI All Country World Investable Market Index - A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. This investable market index contains constituents from the large, mid, and small cap size segments and targets a coverage range around 99% of free-float adjusted market capitalization.

NCREIF ODCE Property Index - The NCREIF ODCE is a capitalization-weighted, gross of fee, time-weighted return index. The index is a summation of open-end funds, which NCREIF defines as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests.

Russell 3000 Index - A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This represents most publicly traded, liquid U.S. stocks.

Appendix

Description of Universes

Total Fund - A universe comprised of 86 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 $1.6 trillion as of quarter-end and the average market value was $19.1 billion.

Domestic Equity - A universe comprised of 58 total domestic equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.1 trillion as of quarter-end and the average market value was $19.8 billion.

Foreign Equity - A universe comprised of 56 total international equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.2 trillion as of quarter-end and the average market value was $20.6 billion.

Fixed Income - A universe comprised of 57 total fixed income portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.1 trillion as of quarter-end and the average market value was $19.0 billion.

Real Estate - A universe comprised of 38 total real estate portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised $1.0 trillion as of quarter-end and the average market value was $26.5 billion.

Private Equity - An appropriate universe for private equity is unavailable.

Strategic Investments - An appropriate universe for strategic investments is unavailable.

Appendix

Explanation of Exhibits

Quarterly and Cumulative Excess Performance - The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

Ratio of Cumulative Wealth Graph - An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis - An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and includes the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by AHIC's investment advisory fees or other trust payable expenses you may incur as a client. AHIC's advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

The information contained herein is proprietary and provided for informational purposes only. It is not complete and does not contain certain material information about making investments in securities including important disclosures and risk factors. All securities transactions involve substantial risk of loss. Under no circumstances does the information in this report represent a recommendation to buy or sell stocks, limited partnership interests, or other investment instruments.

The data contained in these reports is compiled from statements provided by custodian(s), record-keeper(s), and/or other third-party data provider(s). This document is not intended to provide, and shall not be relied upon for, accounting and legal or tax advice. AHIC has not conducted additional audits and cannot warrant its accuracy or completeness. We urge you to carefully review all custodial statements and notify AHIC with any issues or questions you may have with respect to investment performance or any other matter set forth herein.

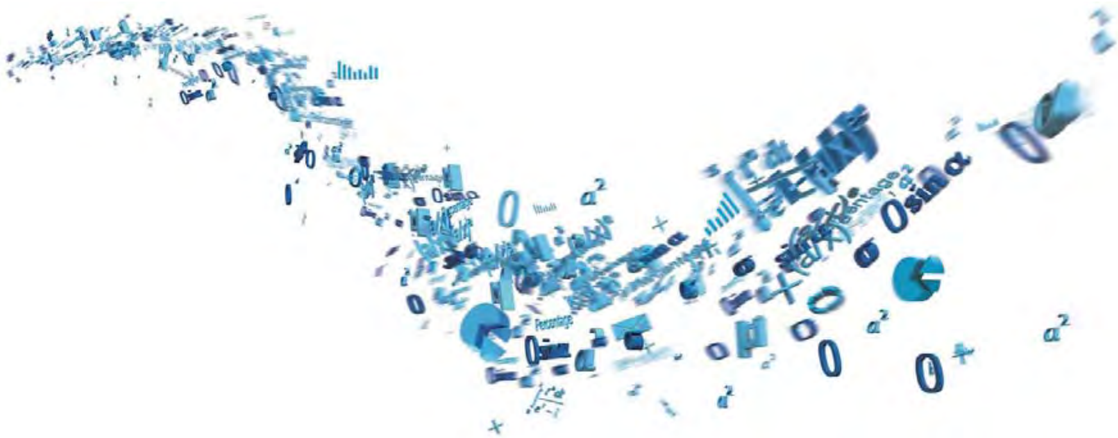
The mutual fund information found in this report is provided by Thomson Reuters Lipper and AHIC cannot warrant its accuracy or timeliness. Thomson Reuters Lipper Global Data Feed provides comprehensive coverage of mutual fund information directly to Investment Metrics, AHIC's performance reporting vendor, via the PARis performance reporting platform. Thomson Reuters Lipper is the data provider chosen by Investment Metrics, and as such, AHIC has no direct relationship with Thomson Reuters Lipper.

Refer to Hedge Fund Research, Inc. www.hedgefundresearch.com for information on HFR indices.

FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" and "FTSE4Good®" are trademarks of the London Stock Exchange Group companies and are used by FTSE International Limited under license. The FTSE indices are calculated by FTSE International Limited in conjunction with Indonesia Stock Exchange, Bursa Malaysia Berhad, The Philippine Stock Exchange, Inc., Singapore Exchange Securities Trading Limited and the Stock Exchange of Thailand (the "Exchanges"). All intellectual property rights in the FTSE/ASEAN Index vest in FTSE and the Exchanges. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Aon Hewitt Investment Consulting, Inc. ("AHIC") is a federally registered investment advisor with the U.S. Securities and Exchange Commission ("SEC"). AHIC is also registered with the Commodity Futures Trade Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The AHIC Form ADV Part 2A disclosure statement is available upon written request to:

Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer



FRS Investment Plan | Fourth Quarter 2018

Quarterly Investment Review

Visit the Aon Retirement and Investment Blog (http://retirementandinvestmentblog.aon.com); sharing our best thinking.

Empower Results®

(This page is left blank intentionally)

Table Of Contents

(This page is left blank intentionally)

FRS Investment Plan

As of December 31, 2018

Asset Allocation & Performance

	Allocation		Performance(%)				
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years
FRS Investment Plan	9,959,214,528	100.0	-9.8	-5.7	5.8	4.3	7.5
Total Plan Aggregate Benchmark			-9.4	-5.8	5.7	4.1	7.1
Retirement Date	4,416,657,260	44.3					
FRS Retirement Fund	354,016,566	3.6	-4.8 (57)	-3.7 (53)	4.3 (58)	2.9 (74)	6.2 (79)
Retirement Custom Index			-4.5 (54)	-3.8 (55)	4.1 (60)	2.8 (76)	5.9 (87)
FRS 2015 Retirement Date Fund	286,323,723	2.9	-5.1 (43)	-3.8 (54)	4.7 (35)	3.2 (80)	6.7 (90)
2015 Retirement Custom Index			-4.8 (32)	-3.9 (57)	4.4 (65)	3.0 (87)	6.5 (92)
FRS 2020 Retirement Date Fund	551,437,535	5.5	-6.1 (41)	-4.4 (53)	5.4 (10)	3.7 (56)	7.6 (56)
2020 Retirement Custom Index			-5.8 (36)	-4.5 (55)	5.1 (36)	3.5 (65)	7.3 (72)
FRS 2025 Retirement Date Fund	655,299,406	6.6	-7.3 (42)	-5.2 (46)	6.0 (4)	4.1 (43)	8.3 (84)
2025 Retirement Custom Index			-7.1 (31)	-5.3 (51)	5.6 (34)	3.8 (58)	8.1 (93)
FRS 2030 Retirement Date Fund	609,873,712	6.1	-8.4 (34)	-6.0 (44)	6.4 (10)	4.4 (45)	9.1 (47)
2030 Retirement Custom Index			-8.2 (29)	-6.0 (45)	6.0 (27)	4.1 (61)	8.9 (62)
FRS 2035 Retirement Date Fund	570,070,924	5.7	-9.4 (16)	-6.7 (37)	6.8 (5)	4.6 (40)	9.8 (45)
2035 Retirement Custom Index			-9.2 (14)	-6.8 (38)	6.3 (28)	4.3 (68)	9.5 (69)
FRS 2040 Retirement Date Fund	493,384,742	5.0	-10.4 (15)	-7.5 (39)	6.9 (8)	4.7 (50)	9.8 (48)
2040 Retirement Custom Index			-10.2 (12)	-7.5 (39)	6.5 (25)	4.4 (68)	9.6 (63)
FRS 2045 Retirement Date Fund	475,764,217	4.8	-11.1 (16)	-8.0 (49)	6.9 (8)	4.7 (56)	9.8 (76)
2045 Retirement Custom Index			-10.9 (14)	-8.0 (49)	6.7 (24)	4.5 (61)	9.6 (89)
FRS 2050 Retirement Date Fund	275,648,033	2.8	-11.5 (29)	-8.4 (55)	6.8 (14)	4.6 (59)	9.8 (70)
2050 Retirement Custom Index			-11.4 (27)	-8.4 (55)	6.6 (36)	4.4 (65)	9.6 (72)
FRS 2055 Retirement Date Fund	131,507,753	1.3	-11.5 (19)	-8.4 (53)	6.8 (21)	4.6 (62)	-
2055 Retirement Custom Index			-11.4 (16)	-8.4 (53)	6.6 (42)	4.4 (71)	-
FRS 2060 Retirement Date Fund	13,330,651	0.1	-11.5 (19)	-8.3 (52)	-	-	-
2060 Retirement Custom Index			-11.4 (16)	-8.4 (53)	-	-	-

As of December 31, 2018

Asset Allocation & Performance

	Allocation		Performance(%)				
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years
Cash	948,056,607	9.5	0.6 (1)	2.2 (1)	1.3 (1)	0.9 (1)	0.6 (1)
FRS Money Market Fund	948,056,607	9.5	0.6 (1)	2.2 (1)	1.3 (1)	0.9 (1)	0.6 (1)
iMoneyNet 1st Tier Institutional Net Index			0.5 (36)	1.8 (17)	1.0 (18)	0.6 (18)	0.4 (15)
Real Assets	101,251,303	1.0					
FRS Inflation Adjusted Multi-Assets Fund	101,251,303	1.0	-6.0	-5.5	2.7	0.6	3.6
FRS Custom Multi-Assets Index			-4.8	-5.5	2.8	1.0	3.5
Fixed Income	592,789,006	6.0	0.7 (61)	-0.1 (94)	3.0 (5)	2.8 (1)	4.4 (25)
Total Bond Index			0.9 (40)	-0.1 (94)	2.7 (9)	2.6 (2)	3.9 (41)
FRS U.S. Bond Enhanced Index Fund	215,431,775	2.2	1.6 (91)	0.0 (63)	2.1 (22)	2.6 (38)	3.6 (13)
Blmbg. Barc. U.S. Aggregate			1.6 (90)	0.0 (63)	2.1 (22)	2.5 (39)	3.5 (19)
FRS Intermediate Bond Fund	94,720,861	1.0	1.3 (17)	0.7 (63)	2.1 (23)	2.1 (6)	3.9 (42)
Blmbg. Barc. U.S. Intermediate Aggregate			1.8 (1)	0.9 (53)	1.7 (54)	2.1 (6)	3.1 (65)
FRS Core Plus Bond Fund	282,636,371	2.8	0.3 (59)	-0.5 (45)	3.5 (22)	3.0 (36)	6.2 (26)
FRS Custom Core-Plus Fixed Income Index			0.6 (49)	-0.4 (38)	2.9 (44)	2.8 (49)	5.7 (37)
Domestic Equity	2,640,884,845	26.5	-15.6 (59)	-6.5 (45)	8.7 (26)	7.6 (27)	13.7 (21)
Total U.S. Equities Index			-15.1 (54)	-6.5 (45)	8.7 (25)	7.3 (31)	13.0 (34)
FRS U.S. Stock Market Index Fund	932,579,435	9.4	-14.3 (55)	-5.2 (58)	9.1 (39)	8.0 (42)	13.3 (37)
Russell 3000 Index			-14.3 (55)	-5.2 (58)	9.0 (41)	7.9 (44)	13.2 (40)
FRS U.S. Large Cap Stock Fund	900,630,135	9.0	-15.9 (77)	-7.0 (63)	8.4 (42)	8.1 (34)	13.9 (23)
Russell 1000 Index			-13.8 (45)	-4.8 (39)	9.1 (28)	8.2 (31)	13.3 (31)
FRS U.S. Small/Mid Cap Stock Fund	807,675,276	8.1	-18.1 (48)	-8.2 (34)	8.6 (23)	6.6 (18)	14.7 (18)
FRS Custom Small/Mid Cap Index			-18.5 (55)	-10.0 (45)	7.9 (29)	5.4 (34)	11.0 (88)

Empower Results®

As of December 31, 2018

Asset Allocation & Performance

	Allocation		Performance(%)				
	Market Value ($)	%	1 Quarter	1 Year	3 Years	5 Years	10 Years
International/Global Equity	664,924,614	6.7	-12.2 (53)	-13.5 (29)	5.2 (39)	1.9 (31)	7.6 (41)
Total Foreign and Global Equities Index			-12.0 (51)	-14.0 (33)	4.7 (41)	1.3 (40)	6.8 (52)
FRS Foreign Stock Index Fund	264,642,353	2.7	-12.0 (51)	-14.7 (40)	4.9 (40)	1.0 (45)	6.6 (56)
MSCI All Country World ex-U.S. IMI Index			-11.9 (50)	-14.8 (41)	4.4 (45)	0.8 (52)	6.5 (61)
FRS Global Stock Fund	253,505,807	2.5	-13.1 (51)	-5.6 (20)	7.6 (20)	6.4 (14)	11.7 (19)
MSCI All Country World Index Net			-12.8 (46)	-9.4 (46)	6.6 (36)	4.3 (41)	9.2 (51)
FRS Foreign Stock Fund	146,776,453	1.5	-12.6 (42)	-14.9 (56)	4.1 (9)	1.9 (1)	7.7 (1)
MSCI All Country World ex-U.S. Index			-11.5 (11)	-14.2 (37)	4.7 (5)	1.0 (1)	6.2 (25)
FRS Self-Dir Brokerage Acct	594,650,894	6.0					

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.
Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

Empower Results®

As of December 31, 2018

Asset Allocation & Performance

	Performance(%)								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
FRS Investment Plan	-5.7	16.4	8.0	-0.9	4.9	15.2	10.5	0.7	10.6
Total Plan Aggregate Benchmark	-5.8	15.5	8.5	-1.3	4.9	14.6	9.7	0.9	10.2
Retirement Date									
FRS Retirement Fund	-3.7 (53)	10.8 (52)	6.2 (59)	-2.6 (100)	4.4 (82)	3.5 (96)	10.7 (59)	3.4 (10)	11.5 (55)
Retirement Custom Index	-3.8 (55)	10.4 (58)	6.2 (59)	-1.8 (98)	3.6 (89)	3.4 (96)	8.5 (78)	5.0 (1)	9.9 (84)
FRS 2015 Retirement Date Fund	-3.8 (54)	12.0 (39)	6.7 (44)	-2.5 (97)	4.4 (77)	5.5 (88)	11.3 (45)	2.1 (21)	11.5 (61)
2015 Retirement Custom Index	-3.9 (57)	11.2 (60)	6.5 (52)	-1.8 (89)	3.7 (92)	5.7 (88)	9.6 (87)	3.2 (1)	10.4 (85)
FRS 2020 Retirement Date Fund	-4.4 (53)	14.0 (24)	7.4 (22)	-2.1 (91)	4.4 (78)	9.6 (74)	12.4 (39)	0.6 (40)	12.2 (63)
2020 Retirement Custom Index	-4.5 (55)	13.3 (47)	7.1 (32)	-1.6 (79)	3.9 (87)	9.7 (74)	11.0 (74)	1.5 (21)	11.2 (86)
FRS 2025 Retirement Date Fund	-5.2 (46)	16.1 (26)	8.0 (14)	-1.7 (80)	4.5 (86)	13.7 (73)	13.5 (45)	-0.7 (36)	12.5 (88)
2025 Retirement Custom Index	-5.3 (51)	15.5 (39)	7.6 (20)	-1.5 (76)	4.2 (91)	13.8 (73)	12.4 (72)	-0.3 (27)	11.8 (93)
FRS 2030 Retirement Date Fund	-6.0 (44)	18.0 (30)	8.5 (18)	-1.3 (62)	4.5 (82)	18.1 (52)	14.6 (35)	-2.1 (52)	13.0 (85)
2030 Retirement Custom Index	-6.0 (45)	17.3 (48)	8.0 (33)	-1.5 (66)	4.4 (83)	18.2 (51)	13.8 (55)	-2.0 (51)	12.5 (91)
FRS 2035 Retirement Date Fund	-6.7 (37)	19.8 (27)	9.1 (17)	-1.4 (50)	4.4 (84)	22.0 (39)	15.8 (24)	-3.0 (48)	13.7 (79)
2035 Retirement Custom Index	-6.8 (38)	18.9 (54)	8.3 (43)	-1.7 (66)	4.3 (84)	22.0 (39)	15.2 (48)	-3.1 (50)	13.3 (89)
FRS 2040 Retirement Date Fund	-7.5 (39)	20.9 (28)	9.2 (17)	-1.4 (54)	4.4 (83)	22.3 (49)	15.8 (37)	-3.0 (39)	13.7 (78)
2040 Retirement Custom Index	-7.5 (39)	20.4 (45)	8.6 (43)	-1.7 (69)	4.3 (84)	22.4 (49)	15.2 (51)	-3.1 (39)	13.3 (84)
FRS 2045 Retirement Date Fund	-8.0 (49)	21.5 (26)	9.4 (18)	-1.5 (51)	4.4 (82)	22.3 (62)	15.8 (40)	-3.0 (27)	13.7 (86)
2045 Retirement Custom Index	-8.0 (49)	21.2 (39)	8.9 (36)	-1.7 (63)	4.3 (82)	22.4 (62)	15.2 (71)	-3.1 (28)	13.3 (89)
FRS 2050 Retirement Date Fund	-8.4 (55)	21.6 (32)	9.5 (20)	-1.5 (57)	4.4 (81)	22.3 (54)	15.8 (37)	-3.0 (20)	13.7 (83)
2050 Retirement Custom Index	-8.4 (55)	21.3 (52)	8.9 (37)	-1.7 (64)	4.3 (82)	22.4 (54)	15.2 (59)	-3.1 (21)	13.3 (87)
FRS 2055 Retirement Date Fund	-8.4 (53)	21.5 (47)	9.3 (27)	-1.4 (54)	4.4 (81)	22.3 (72)	15.8 (45)	-	-
2055 Retirement Custom Index	-8.4 (53)	21.3 (55)	8.9 (33)	-1.7 (63)	4.3 (81)	22.4 (71)	15.2 (75)	-	-
FRS 2060 Retirement Date Fund	-8.3 (52)	-	-	-	-	-	-	-	-
2060 Retirement Custom Index	-8.4 (53)	-	-	-	-	-	-	-	-

AON Empower Results®

As of December 31, 2018

Asset Allocation & Performance

	Performance(%)								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	2.2 (1)	1.2 (1)	0.6 (1)	0.2 (1)	0.1 (1)	0.2 (1)	0.3 (1)	0.2 (1)	0.3 (2)
FRS Money Market Fund	2.2 (1)	1.2 (1)	0.6 (1)	0.2 (1)	0.1 (1)	0.2 (1)	0.3 (1)	0.2 (1)	0.3 (2)
iMoneyNet 1st Tier Institutional Net Index	1.8 (17)	0.9 (17)	0.3 (19)	0.0 (20)	0.0 (23)	0.0 (23)	0.1 (23)	0.1 (23)	0.2 (7)
Real Assets									
FRS Inflation Adjusted Multi-Assets Fund	-5.5	8.1	6.0	-7.9	3.2	-9.1	9.1	7.4	11.7
FRS Custom Multi-Assets Index	-5.5	8.1	6.2	-5.0	1.8	-8.9	6.6	4.6	13.0
Fixed Income	-0.1 (94)	4.4 (2)	4.7 (8)	0.3 (81)	4.7 (1)	-1.1 (84)	6.0 (36)	6.7 (1)	7.6 (30)
Total Bond Index	-0.1 (94)	3.9 (3)	4.3 (9)	0.1 (89)	4.9 (1)	-1.2 (87)	4.8 (62)	7.4 (1)	7.0 (35)
FRS U.S. Bond Enhanced Index Fund	0.0 (63)	3.6 (30)	2.7 (1)	0.7 (36)	6.2 (35)	-2.0 (16)	4.4 (12)	7.9 (66)	6.7 (47)
Blmbg. Barc. U.S. Aggregate	0.0 (63)	3.5 (31)	2.6 (1)	0.5 (46)	6.0 (36)	-2.0 (17)	4.2 (14)	7.8 (66)	6.5 (48)
FRS Intermediate Bond Fund	0.7 (63)	2.4 (20)	3.1 (22)	0.9 (25)	3.4 (13)	-0.5 (63)	4.9 (59)	5.9 (12)	7.0 (35)
Blmbg. Barc. U.S. Intermediate Aggregate	0.9 (53)	2.3 (33)	2.0 (68)	1.2 (9)	4.1 (1)	-1.0 (82)	3.6 (79)	6.0 (11)	6.1 (48)
FRS Core Plus Bond Fund	-0.5 (45)	5.3 (25)	5.7 (27)	0.1 (48)	4.6 (88)	0.8 (20)	11.1 (16)	4.6 (89)	10.1 (27)
FRS Custom Core-Plus Fixed Income Index	-0.4 (38)	4.2 (61)	4.9 (40)	0.2 (42)	5.1 (79)	0.8 (20)	7.8 (51)	7.6 (32)	9.1 (43)
Domestic Equity	-6.5 (45)	20.8 (48)	13.7 (28)	0.7 (34)	11.5 (43)	35.2 (44)	16.9 (33)	0.3 (38)	20.4 (21)
Total U.S. Equities Index	-6.5 (45)	19.6 (56)	14.9 (22)	-0.5 (44)	11.1 (47)	34.0 (55)	16.5 (37)	-0.1 (41)	19.3 (27)
FRS U.S. Stock Market Index Fund	-5.2 (58)	21.2 (56)	12.9 (26)	0.6 (54)	12.6 (34)	33.6 (39)	16.5 (39)	1.0 (39)	17.1 (19)
Russell 3000 Index	-5.2 (58)	21.1 (57)	12.7 (26)	0.5 (55)	12.6 (34)	33.6 (40)	16.4 (39)	1.0 (39)	16.9 (21)
FRS U.S. Large Cap Stock Fund	-7.0 (63)	25.5 (24)	9.3 (58)	2.7 (30)	12.8 (42)	36.4 (22)	17.2 (24)	1.2 (45)	17.8 (19)
Russell 1000 Index	-4.8 (39)	21.7 (43)	12.1 (33)	0.9 (43)	13.2 (33)	33.1 (47)	16.4 (31)	1.5 (41)	16.1 (31)
FRS U.S. Small/Mid Cap Stock Fund	-8.2 (34)	16.3 (55)	19.9 (25)	-1.1 (36)	8.6 (28)	37.1 (46)	18.7 (26)	-0.9 (37)	29.6 (25)
FRS Custom Small/Mid Cap Index	-10.0 (45)	16.8 (51)	19.6 (26)	-4.2 (71)	7.7 (34)	22.0 (98)	15.3 (53)	1.1 (22)	21.3 (85)

AON Empower Results®

As of December 31, 2018

Asset Allocation & Performance

	Performance(%) 2018	2017	2016	2015	2014	2013	2012	2011	2010
International/Global Equity	-13.5 (29)	28.6 (50)	4.5 (42)	-2.6 (49)	-3.2 (42)	21.6 (33)	18.6 (53)	-11.3 (23)	10.1 (73)
Total Foreign and Global Equities Index	-14.0 (33)	27.3 (60)	4.9 (38)	-4.4 (56)	-3.0 (41)	20.6 (39)	16.6 (72)	-11.3 (23)	10.1 (73)
FRS Foreign Stock Index Fund	-14.7 (40)	28.3 (54)	5.3 (37)	-4.4 (56)	-4.5 (55)	20.5 (39)	17.6 (63)	-11.8 (27)	9.2 (77)
MSCI All Country World ex-U.S. IMI Index	-14.8 (41)	27.8 (56)	4.4 (42)	-4.6 (56)	-4.2 (51)	21.0 (36)	16.4 (72)	-12.2 (30)	8.9 (78)
FRS Global Stock Fund	-5.6 (20)	29.3 (17)	2.2 (81)	5.6 (13)	3.7 (44)	27.1 (41)	21.0 (15)	-7.4 (47)	13.0 (55)
MSCI All Country World Index Net	-9.4 (46)	24.0 (39)	7.9 (46)	-2.4 (56)	4.2 (40)	22.8 (60)	16.3 (37)	-5.5 (35)	11.8 (60)
FRS Foreign Stock Fund	-14.9 (56)	31.2 (5)	1.0 (63)	-0.5 (27)	-2.3 (17)	20.6 (60)	19.6 (37)	-13.3 (59)	9.8 (27)
MSCI All Country World ex-U.S. Index	-14.2 (37)	27.2 (22)	5.0 (10)	-5.3 (76)	-3.4 (19)	15.8 (80)	17.4 (67)	-13.3 (60)	11.6 (14)
FRS Self-Dir Brokerage Acct									

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.
Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

Aon Empower Results®

FRS Investment Plan **As of December 31, 2018**

Asset Allocation

Asset Allocation as of 12/31/2018	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	Real Assets	Cash	Brokerage	Total	% of Total
FRS Retirement Fund	52,040,435	47,792,236	116,117,434	138,066,461			354,016,566	3.6%
FRS 2015 Retirement Date Fund	45,239,148	41,803,264	90,478,296	108,803,015			286,323,723	2.9%
FRS 2020 Retirement Date Fund	111,390,382	102,567,381	158,814,010	178,665,761			551,437,535	5.5%
FRS 2025 Retirement Date Fund	170,377,845	157,271,857	170,377,845	157,271,857			655,299,406	6.6%
FRS 2030 Retirement Date Fund	188,450,977	174,423,882	137,831,459	109,167,394			609,873,712	6.1%
FRS 2035 Retirement Date Fund	201,805,107	185,843,121	107,743,405	74,679,291			570,070,924	5.7%
FRS 2040 Retirement Date Fund	194,393,588	179,098,661	74,007,711	45,884,781			493,384,742	5.0%
FRS 2045 Retirement Date Fund	199,820,971	184,596,516	51,382,535	39,964,194			475,764,217	4.8%
FRS 2050 Retirement Date Fund	120,458,190	111,086,157	20,122,306	23,981,379			275,648,033	2.8%
FRS 2055 Retirement Date Fund	57,468,888	52,997,624	9,600,066	11,441,174			131,507,753	1.3%
FRS 2060 Retirement Date Fund	5,825,494	5,372,252	973,138	1,159,767			13,330,651	0.1%
Total Retirement Date Funds	**$ 1,341,445,533**	**$ 1,237,480,701**	**$ 936,475,068**	**$ 887,925,308**	**$ -**	**$ -**	**$ 4,416,657,260**	**44.3%**
FRS Money Market Fund					948,056,606		948,056,607	9.5%
Total Cash	**$ -**	**$ -**	**$ -**	**$ -**	**$ 948,056,606**	**$ -**	**$ 948,056,607**	**9.5%**
FRS Inflation Adjusted Multi-Assets Fund				101,251,303	-		101,251,303	1.0%
Total Real Assets	**$ -**	**$ -**	**$ -**	**$ 101,251,303**	**$ -**	**$ -**	**$ 101,251,303**	**1.0%**
FRS U.S. Bond Enhanced Index Fund			215,431,775				215,431,775	2.2%
FRS Intermediate Bond Fund			94,720,861				94,720,861	1.0%
FRS Core Plus Bond Fund			282,636,371				282,636,371	2.8%
Total Fixed Income	**$ -**	**$ -**	**$ 592,789,006**	**$ -**	**$ -**	**$ -**	**$ 592,789,006**	**6.0%**
FRS U.S. Stock Market Index Fund	932,579,435						932,579,435	9.4%
FRS U.S. Large Cap Stock Fund	900,630,135						900,630,135	9.0%
FRS U.S. Small/Mid Cap Stock Fund	807,675,276						807,675,276	8.1%
Total Domestic Equity	**$ 2,640,884,846**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,640,884,845**	**26.5%**
FRS Foreign Stock Index Fund		264,642,353					264,642,353	2.7%
FRS Global Stock Fund		253,505,807					253,505,807	2.5%
FRS Foreign Stock Fund		146,776,453					146,776,453	1.5%
Total International/Global Equity	**$ -**	**$ 664,924,613**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 664,924,614**	**6.7%**
FRS Self-Dir Brokerage Acct						594,650,894	594,650,894	6.0%
Total Self-Dir Brokerage Acct						**$ 594,650,894**	**$ 594,650,894**	**6.0%**
Total Portfolio	**$ 3,982,330,378**	**$ 1,902,405,314**	**$ 1,529,264,074**	**$ 989,176,611**	**$ 948,056,606**	**$ 594,650,894**	**$ 9,959,214,528**	**100.0%**
Percent of Total	**40.1%**	**19.1%**	**15.4%**	**9.9%**	**9.5%**	**6.0%**	**100.0%**	

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.
Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

Aon Empower Results®

As of December 31, 2018

Multi Timeperiod Statistics

	3 Years Return	3 Years Standard Deviation	3 Years Sharpe Ratio	3 Years Tracking Error	3 Years Information Ratio	3 Years Up Market Capture	3 Years Down Market Capture
FRS Investment Plan	5.83	7.53	0.65	0.50	0.37	102.10	101.15
FRS Retirement Fund	4.25	4.45	0.72	0.36	0.37	101.11	98.92
FRS 2015 Retirement Date Fund	4.75	4.82	0.77	0.37	0.85	102.54	97.52
FRS 2020 Retirement Date Fund	5.40	5.63	0.78	0.39	0.85	103.04	99.31
FRS 2025 Retirement Date Fund	5.97	6.52	0.76	0.45	0.81	102.37	98.32
FRS 2030 Retirement Date Fund	6.35	7.35	0.73	0.47	0.72	102.50	99.58
FRS 2035 Retirement Date Fund	6.82	8.17	0.72	0.53	0.95	103.94	100.50
FRS 2040 Retirement Date Fund	6.88	8.77	0.68	0.54	0.61	102.02	99.62
FRS 2045 Retirement Date Fund	6.93	9.13	0.67	0.63	0.35	100.58	98.43
FRS 2050 Retirement Date Fund	6.84	9.34	0.64	0.62	0.42	100.94	98.66
FRS 2055 Retirement Date Fund	6.79	9.32	0.64	0.62	0.33	100.54	98.59
FRS 2060 Retirement Date Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Money Market Fund	1.33	0.19	6.38	0.03	13.28	133.93	N/A
FRS Inflation Adjusted Multi-Assets Fund	2.70	5.15	0.34	1.33	-0.03	103.91	107.16
FRS U.S. Bond Enhanced Index Fund	2.10	2.87	0.39	0.07	0.68	100.64	99.49
FRS Intermediate Bond Fund	2.07	2.12	0.50	0.61	0.56	104.42	91.17
FRS Core Plus Bond Fund	3.45	2.78	0.86	0.64	0.87	112.51	103.69
FRS U.S. Stock Market Index Fund	9.06	11.34	0.73	0.04	1.88	100.31	99.77
FRS U.S. Large Cap Stock Fund	8.44	12.57	0.63	2.65	-0.16	105.82	115.72
FRS U.S. Small/Mid Cap Stock Fund	8.59	14.07	0.58	1.33	0.46	100.01	95.40
FRS Foreign Stock Index Fund	4.85	11.44	0.38	1.39	0.30	99.02	95.54
FRS Global Stock Fund	7.65	11.33	0.62	3.41	0.31	107.20	101.71
FRS Foreign Stock Fund	4.08	11.90	0.31	3.37	-0.15	96.83	99.38

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

AON Empower Results®

As of December 31, 2018

Multi Timeperiod Statistics

	5 Years Return	5 Years Standard Deviation	5 Years Sharpe Ratio	5 Years Tracking Error	5 Years Information Ratio	5 Years Up Market Capture	5 Years Down Market Capture
FRS Investment Plan	4.28	7.40	0.52	0.47	0.46	101.72	99.83
FRS Retirement Fund	2.87	4.74	0.49	0.69	0.11	102.62	102.68
FRS 2015 Retirement Date Fund	3.17	5.10	0.51	0.63	0.26	102.96	101.61
FRS 2020 Retirement Date Fund	3.65	5.88	0.53	0.51	0.37	102.72	101.15
FRS 2025 Retirement Date Fund	4.10	6.71	0.54	0.46	0.53	101.47	98.84
FRS 2030 Retirement Date Fund	4.40	7.55	0.52	0.43	0.55	101.51	99.28
FRS 2035 Retirement Date Fund	4.64	8.47	0.50	0.48	0.77	102.50	99.63
FRS 2040 Retirement Date Fund	4.66	8.96	0.48	0.50	0.52	101.27	99.19
FRS 2045 Retirement Date Fund	4.68	9.19	0.48	0.56	0.34	100.26	98.43
FRS 2050 Retirement Date Fund	4.63	9.31	0.46	0.56	0.38	100.47	98.56
FRS 2055 Retirement Date Fund	4.61	9.30	0.46	0.55	0.35	100.29	98.50
FRS 2060 Retirement Date Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Money Market Fund	0.87	0.22	5.17	0.03	7.72	142.76	N/A
FRS Inflation Adjusted Multi-Assets Fund	0.58	5.84	0.02	1.68	-0.20	108.58	115.35
FRS U.S. Bond Enhanced Index Fund	2.63	2.79	0.71	0.09	1.21	101.61	99.20
FRS Intermediate Bond Fund	2.10	2.05	0.72	0.54	0.02	99.78	99.02
FRS Core Plus Bond Fund	3.00	2.80	0.84	0.59	0.39	108.54	108.98
FRS U.S. Stock Market Index Fund	8.00	11.17	0.69	0.04	2.07	100.31	99.76
FRS U.S. Large Cap Stock Fund	8.11	12.14	0.65	2.58	0.01	104.48	107.77
FRS U.S. Small/Mid Cap Stock Fund	6.58	13.41	0.50	1.75	0.67	102.95	96.18
FRS Foreign Stock Index Fund	1.03	11.71	0.09	1.29	0.18	98.32	96.64
FRS Global Stock Fund	6.42	11.12	0.56	3.19	0.66	104.55	88.81
FRS Foreign Stock Fund	1.86	11.36	0.16	3.74	0.22	91.14	84.82

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund, and U.S. Small/Mid Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

AON Empower Results®

Appendix

As of December 31, 2018

Benchmark Descriptions

Retirement Date Benchmarks - A weighted average composite of the underlying components' benchmarks for each fund.

iMoneyNet 1st Tier Institutional Net Index - An index made up of the entire universe of money market mutual funds. The index currently represents over 1,300 funds, or approximately 99 percent of all money fund assets.

FRS Custom Multi-Assets Index - A monthly weighted composite of underlying indices for each TIPS and Real Assets fund. These indices include Barclays U.S. TIPS Index, MSCI AC World Index and the Bloomberg Commodity Total Return Index, NAREIT Developed Index, S&P Global Infrastructure Index, S&P Global Natural Resources Index.

Total Bond Index - A weighted average composite of the underlying benchmarks for each bond fund.

Barclays Aggregate Bond Index - A market value-weighted index consisting of government bonds, SEC-registered corporate bonds and mortgage-related and asset-backed securities with at least one year to maturity and an outstanding par value of $250 million or greater. This index is a broad measure of the performance of the investment grade U.S. fixed income market.

Barclays Intermediate Aggregate Bond Index - A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of $250 million or greater.

FRS Custom Core-Plus Fixed Income Index - A monthly rebalanced blend of 80% Barclays U.S. Aggregate Bond Index and 20% Barclays U.S. High Yield Ba/B 1% Issuer Constrained Index.

Total U.S. Equities Index - A weighted average composite of the underlying benchmarks for each domestic equity fund.

Russell 3000 Index - A capitalization-weighted index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

FRS Custom Small/Mid Cap Index - A monthly rebalanced blend of 25% S&P 400 Index, 30% Russell 2000 Index, 25% Russell 2000 Value Index, and 20% Russell Mid Cap Growth Index.

Total Foreign and Global Equities Index - A weighted average composite of the underlying benchmarks for each foreign and global equity fund.

MSCI All Country World ex-U.S. IMI Index - A capitalization-weighted index of stocks representing 22 developed country stock markets and 24 emerging countries, excluding the U.S. market.

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 47 developed and emerging countries, including the U.S. and Canadian markets.

MSCI All Country World ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 24 emerging countries, but excluding the U.S.

Descriptions of Universes

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Money Market Fund - A money market universe calculated and provided by Lipper.

FRS U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Lipper.

FRS Intermediate Bond Fund - A broad intermediate-term fixed income universe calculated and provided by Lipper.

FRS Core Plus Bond Fund - A core plus bond fixed income universe calculated and provided by Lipper.

FRS U.S. Stock Market Index Fund - A large cap blend universe calculated and provided by Lipper.

FRS U.S. Large Cap Stock Fund - A large cap universe calculated and provided by Lipper.

FRS U.S. Small/Mid Cap Stock Fund - A small/mid cap universe calculated and provided by Lipper.

FRS Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

FRS Global Stock Fund - A global stock universe calculated and provided by Lipper.

FRS Foreign Stock Fund - A foreign large blend universe calculated and provided by Lipper.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Empower Results®

Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and includes the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by AHIC's investment advisory fees or other trust payable expenses you may incur as a client. AHIC's advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

The information contained herein is proprietary and provided for informational purposes only. It is not complete and does not contain certain material information about making investments in securities including important disclosures and risk factors. All securities transactions involve substantial risk of loss. Under no circumstances does the information in this report represent a recommendation to buy or sell stocks, limited partnership interests, or other investment instruments.

The data contained in these reports is compiled from statements provided by custodian(s), record-keeper(s), and/or other third-party data provider(s). This document is not intended to provide, and shall not be relied upon for, accounting and legal or tax advice. AHIC has not conducted additional audits and cannot warrant its accuracy or completeness. We urge you to carefully review all custodial statements and notify AHIC with any issues or questions you may have with respect to investment performance or any other matter set forth herein.

The mutual fund information found in this report is provided by Thomson Reuters Lipper and AHIC cannot warrant its accuracy or timeliness. Thomson Reuters Lipper Global Data Feed provides comprehensive coverage of mutual fund information directly to Investment Metrics, AHIC's performance reporting vendor, via the PARis performance reporting platform. Thomson Reuters Lipper is the data provider chosen by Investment Metrics, and as such, AHIC has no direct relationship with Thomson Reuters Lipper.

Refer to Hedge Fund Research, Inc. www.hedgefundresearch.com for information on HFR indices.

Aon Hewitt Investment Consulting, Inc. ("AHIC") is a federally registered investment advisor with the U.S. Securities and Exchange Commission ("SEC"). AHIC is also registered with the Commodity Futures Trade Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The AHIC Form ADV Part 2A disclosure statement is available upon written request to:

Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer

Lawton Chiles Endowment Fund | Fourth Quarter 2018

Quarterly Investment Review

Visit the Aon Retirement and Investment Blog (http://retirementandinvestmentblog.aon.com); sharing our best thinking.

Empower Results®

(This page is left blank intentionally)

Table of Contents

Empower Results®

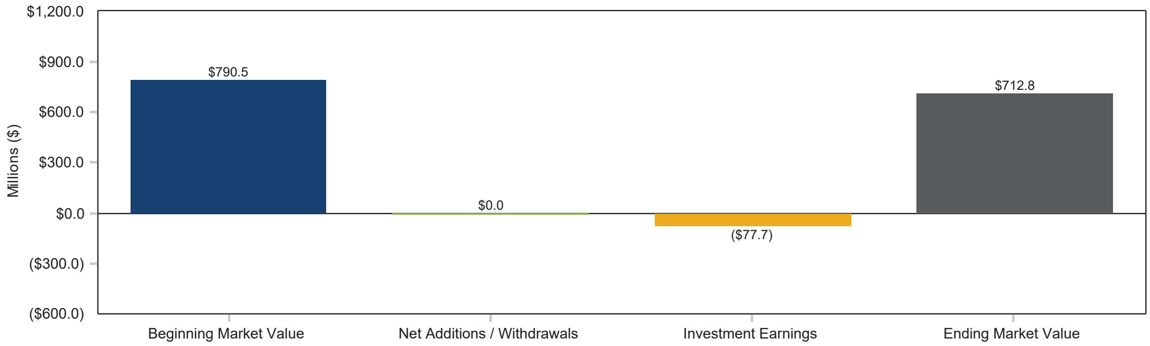
(This page is left blank intentionally)

LCEF Total Fund

LCEF Total Fund As of December 31, 2018

Total Plan Asset Summary

Change in Market Value
From October 1, 2018 to December 31, 2018



Summary of Cash Flow

	1 Quarter	FYTD*
LCEF Total Fund		
Beginning Market Value	790,504,502	763,121,861
+ Additions / Withdrawals	-	-
+ Investment Earnings	-77,685,457	-50,302,815
= Ending Market Value	712,819,046	712,819,046

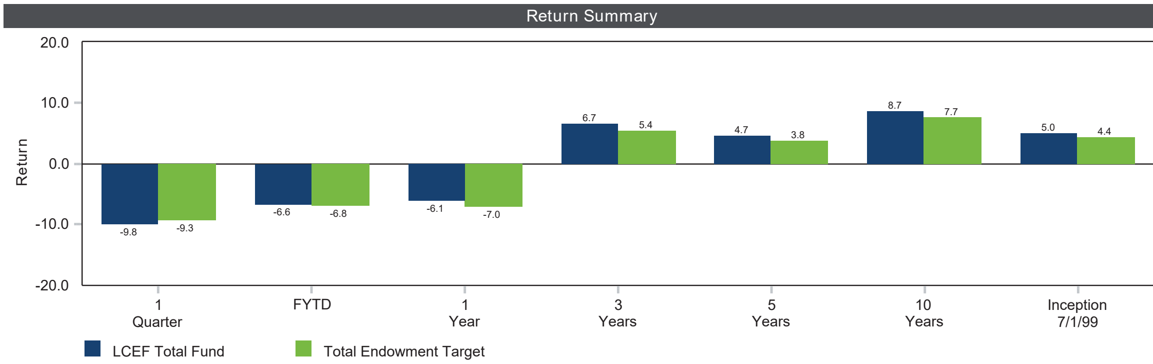
*Period July 2018 - December 2018

Empower Results®

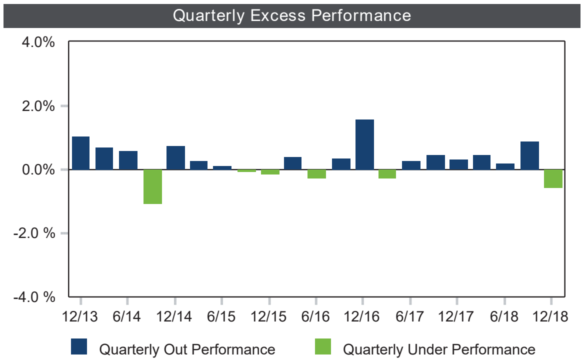
LCEF Total Fund As of December 31, 2018

Total Plan Performance Summary

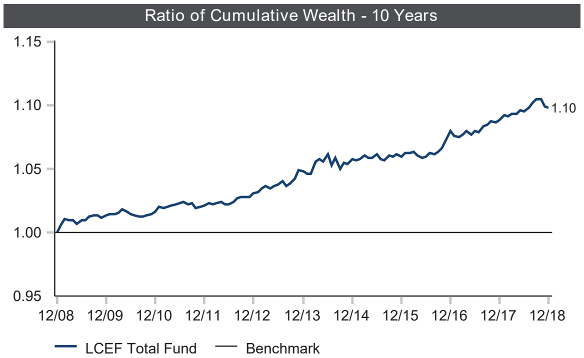
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



Empower Results®

As of December 31, 2018

Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value ($)	%	Policy(%)	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years
LCEF Total Fund	712,819,046	100.0	100.0	-9.8 (92)	-6.6 (76)	-6.1 (68)	6.7 (17)	4.7 (31)	8.7 (24)
Total Endowment Target				-9.3 (81)	-6.8 (81)	-7.0 (85)	5.4 (57)	3.8 (56)	7.7 (57)
Global Equity*	501,111,807	70.3	71.0	-13.7	-9.3	-8.5	8.3	5.6	11.8
Global Equity Target				-13.3	-9.8	-9.8	6.6	4.2	10.4
Fixed Income	120,241,577	16.9	17.0	1.6 (8)	1.7 (5)	0.1 (56)	2.1 (63)	2.6 (43)	3.5 (81)
Blmbg. Barc. U.S. Aggregate				1.6 (8)	1.7 (5)	0.0 (57)	2.1 (68)	2.5 (49)	3.5 (81)
TIPS	76,508,605	10.7	11.0	-0.4	-1.2	-1.1	2.3	1.8	3.9
Barclays U.S. TIPS				-0.4	-1.2	-1.3	2.1	1.7	3.6
Cash Equivalents	14,957,056	2.1	1.0	0.6	1.3	2.3	1.4	1.0	1.1
S&P US AAA & AA Rated GIP 30D Net Yield Index				0.6	1.1	1.8	1.0	0.7	0.5

Benchmark and universe descriptions are provided in the Appendix.

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

As of December 31, 2018

Calendar Year Performance

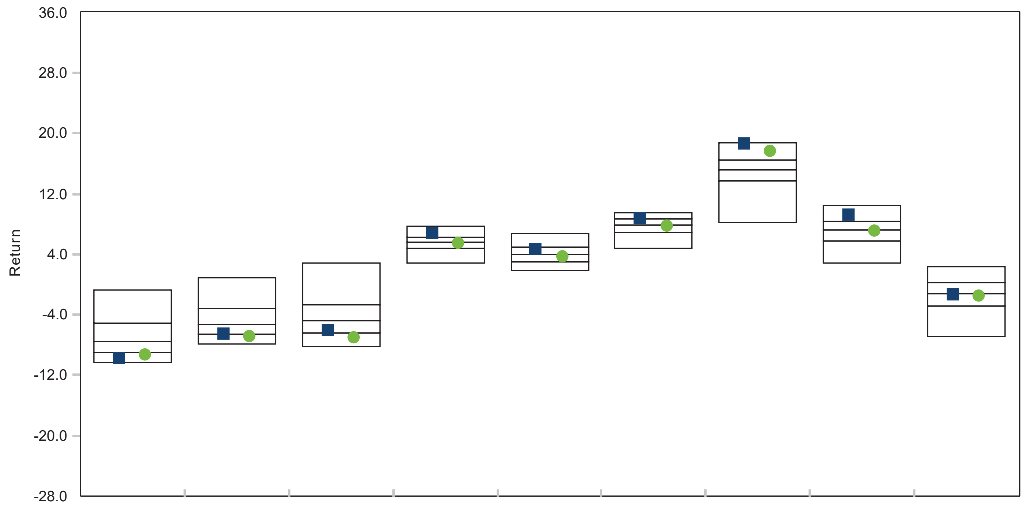
	Performance(%)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
LCEF Total Fund	-6.1 (68)	18.5 (7)	9.2 (15)	-1.4 (54)	5.2 (49)	14.7 (47)	13.2 (36)	1.9 (21)	14.0 (19)	21.2 (46)
Total Endowment Target	-7.0 (85)	17.7 (11)	7.0 (55)	-1.6 (57)	4.3 (62)	12.8 (62)	12.2 (63)	1.5 (25)	13.7 (25)	19.6 (56)
Global Equity*	-8.5	24.5	11.4	-1.9	5.3	27.1	20.4	-1.1	17.0	30.8
Global Equity Target	-9.8	24.1	8.4	-2.4	3.9	24.1	19.4	-2.2	16.1	30.5
Fixed Income	0.1 (56)	3.7 (42)	2.7 (67)	0.6 (39)	6.0 (27)	-1.8 (74)	4.6 (86)	7.6 (41)	7.0 (85)	4.6 (98)
Blmbg. Barc. U.S. Aggregate	0.0 (57)	3.5 (49)	2.6 (67)	0.5 (40)	6.0 (27)	-2.0 (75)	4.2 (89)	7.8 (40)	6.5 (93)	5.9 (94)
TIPS	-1.1	3.2	4.8	-1.2	3.5	-8.7	7.2	13.6	6.1	13.3
Barclays U.S. TIPS	-1.3	3.0	4.7	-1.4	3.6	-8.6	7.0	13.6	6.3	11.4
Cash Equivalents	2.3	1.2	0.7	0.5	0.2	0.2	1.3	0.1	2.0	2.6
S&P US AAA & AA Rated GIP 30D Net Yield Index	1.8	0.9	0.4	0.1	0.0	0.1	0.1	0.2	0.3	0.7

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.

As of December 31, 2018

Plan Sponsor Peer Group Analysis

All Endowments-Total Fund

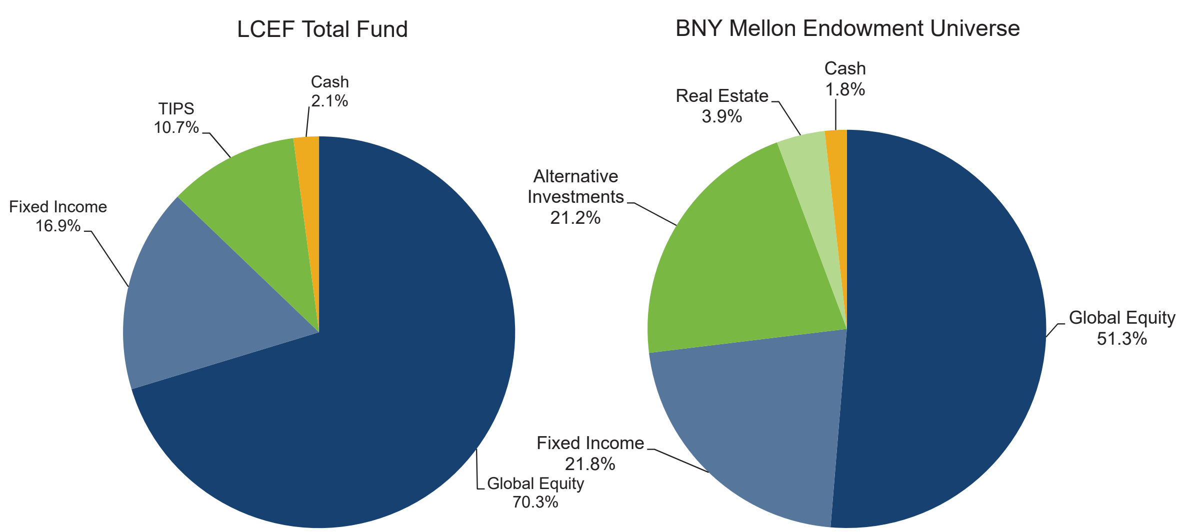


	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years	2017	2016	2015
■ LCEF Total Fund	-9.8 (92)	-6.6 (76)	-6.1 (68)	6.7 (17)	4.7 (31)	8.7 (24)	18.5 (7)	9.2 (15)	-1.4 (54)
● Total Endowment Target	-9.3 (81)	-6.8 (81)	-7.0 (85)	5.4 (57)	3.8 (56)	7.7 (57)	17.7 (11)	7.0 (55)	-1.6 (57)
5th Percentile	-0.6	1.0	2.9	7.8	6.8	9.6	18.8	10.5	2.4
1st Quartile	-5.2	-3.2	-2.6	6.3	5.0	8.7	16.4	8.4	0.2
Median	-7.6	-5.3	-4.8	5.6	4.0	7.8	15.2	7.2	-1.2
3rd Quartile	-9.0	-6.6	-6.4	4.8	3.0	7.0	13.7	5.9	-2.9
95th Percentile	-10.2	-7.9	-8.2	2.9	1.9	4.7	8.2	2.9	-6.9
Population	292	290	283	253	228	147	293	288	276

Parentheses contain percentile rankings.

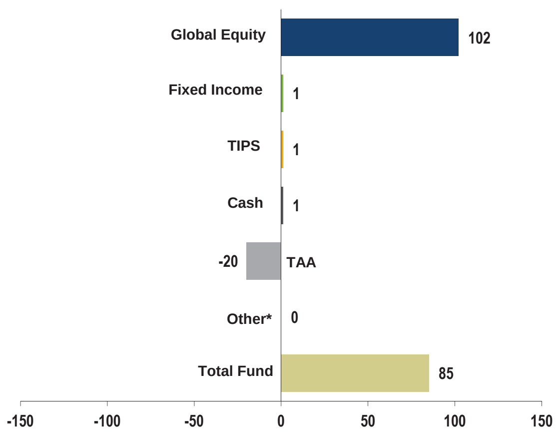
LCEF Total Fund **As of December 31, 2018**

Universe Asset Allocation Comparison



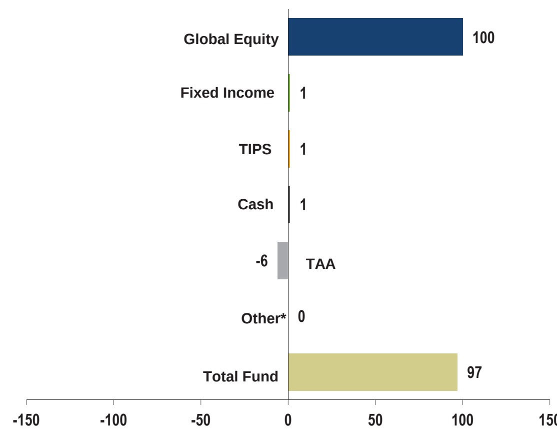
LCEF Total Fund | As of December 31, 2018

Attribution



Basis Points

1-Year Ending 12/31/2018



Basis Points

5-Year Ending 12/31/2018

*Other includes differences between official performance value added due to methodology and extraordinary payouts.

AON Empower Results®

Appendix

AON Empower Results®

Benchmark Descriptions

LCEF Total Fund

Total Endowment Target - A weighted blend of the individual asset class target benchmarks.

Total Global Equity

MSCI ACWI IMI ex-Tobacco - From 7/1/2014 forward, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. From 10/1/2013 to 6/30/2014, a custom version of the MSCI ACWI IMI adjusted to reflect a 55% fixed weight in the MSCI USA IMI and a 45% fixed weight in the MSCI ACWI ex-USA IMI, and excluding certain equities of tobacco-related companies. From 9/1/2012 to 9/30/2013, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. Prior to 9/1/2012, the benchmark is a weighted average of both the Domestic Equities and Foreign Equities historical benchmarks.

Total Domestic Equities

Russell 3000 Index ex-Tobacco - Prior to 9/1/2012, an index that measures the performance of the 3,000 stocks that make up the Russell 1000 and Russell 2000 Indices, while excluding tobacco companies.

Total Foreign Equities

MSCI ACWI ex-US IMI ex-Tobacco - Prior to 9/1/2012, a capitalization-weighted index representing 46 countries, but excluding the United States. The index includes 23 developed and 24 emerging market countries, and excludes tobacco companies.

Total Fixed Income

Barclays Aggregate Bond Index - A market value-weighted index consisting of the Barclays Credit, Government, and Mortgage-Backed Securities Indices. The index also includes credit card, auto, and home equity loan-backed securities. This index is the broadest available measure of the aggregate investment grade U.S. fixed income market.

Total TIPS

Barclays U.S. TIPS - A market value-weighted index consisting of U.S. Treasury Inflation-Protected Securities with one or more years remaining until maturity with total outstanding issue size of $500 million or more.

Total Cash Equivalents

S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index - An unmanaged, net-of-fees, market index representative of the Local Government Investment Pool. On 10/1/2011, the S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index replaced the S&P U.S. AAA & AA Rated GIP 30-Day Gross Yield Index, which was previously used from 4/30/08 - 9/30/11. Prior to 4/30/08, it was the average 3-month T-bill rate.

Universe Descriptions

LCEF Total Fund
A universe comprised of 634 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 $368.2 billion as of quarter-end and the average market value was $580.8 million.

Total Fixed Income
A universe comprised of 41 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 $285.0 billion as of quarter-end and the average market value was $7.0 billion.

Explanation of Exhibits

Quarterly and Cumulative Excess Performance - The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

Ratio of Cumulative Wealth Graph - An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

Performance Comparison - Plan Sponsor Peer Group Analysis - An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisor's investment management fees and includes the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by AHIC's investment advisory fees or other trust payable expenses you may incur as a client. AHIC's advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

The information contained herein is proprietary and provided for informational purposes only. It is not complete and does not contain certain material information about making investments in securities including important disclosures and risk factors. All securities transactions involve substantial risk of loss. Under no circumstances does the information in this report represent a recommendation to buy or sell stocks, limited partnership interests, or other investment instruments.

The data contained in these reports is compiled from statements provided by custodian(s), record-keeper(s), and/or other third-party data provider(s). This document is not intended to provide, and shall not be relied upon for, accounting and legal or tax advice. AHIC has not conducted additional audits and cannot warrant its accuracy or completeness. We urge you to carefully review all custodial statements and notify AHIC with any issues or questions you may have with respect to investment performance or any other matter set forth herein.

The mutual fund information found in this report is provided by Thomson Reuters Lipper and AHIC cannot warrant its accuracy or timeliness. Thomson Reuters Lipper Global Data Feed provides comprehensive coverage of mutual fund information directly to Investment Metrics, AHIC's performance reporting vendor, via the PARis performance reporting platform. Thomson Reuters Lipper is the data provider chosen by Investment Metrics, and as such, AHIC has no direct relationship with Thomson Reuters Lipper.

Refer to Hedge Fund Research, Inc. www.hedgefundresearch.com for information on HFR indices.

Aon Hewitt Investment Consulting, Inc. ("AHIC") is a federally registered investment advisor with the U.S. Securities and Exchange Commission ("SEC"). AHIC is also registered with the Commodity Futures Trade Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The AHIC Form ADV Part 2A disclosure statement is available upon written request to:

Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Suite 1500
Chicago, IL 60601
ATTN: AHIC Compliance Officer

2019

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		

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		

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						

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				

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	

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						

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			

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

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					

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		

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

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				

Blue is Proposed IAC Meeting

Yellow is Proposed Cabinet Meeting