Adopted March 24, 2009

LAWTON CHILES ENDOWMENT FOR CHILDREN AND ELDERS
INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type. For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Stock asset class. As such, it would contain primarily—but not exclusively—the principal asset type.

Asset Type - An asset type is a category of investment instrument such as common stock or bond.

Portfolio - A portfolio is the basic organization unit of the Endowment. Funds are managed within portfolios. A portfolio will contain one principal asset type (common stocks, for example), but may contain small amounts of other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

Annuity - An agreement whereby the investor receives a specified periodic payment over a predetermined time period.

II. OVERVIEW OF THE ENDOWMENT FUND AND THE SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Lawton Chiles Endowment Fund (Endowment), pursuant to s. 215.5601, F.S. as created by Chapter 99-167, L.O.F.

III. THE BOARD

The Board consists of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Board has statutory responsibility for the investment of Endowment assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes and the requirements specific to the Endowment contained in s. 215.5601, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in sections 215.47(9), Florida Statutes.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of Endowment assets.

The mission of the State Board of Administration is to provide superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards.

IV. THE EXECUTIVE DIRECTOR

The Executive Director is charged with the responsibility for managing and directing administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of invested assets.

The Executive Director is charged with developing specific individual investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities.

The Executive Director has investment responsibility for maintaining diversified portfolios, and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints.

The Executive Director is responsible for evaluating the appropriateness of the goals and objectives in this Plan and recommending changes to the Board when appropriate.

V. INVESTMENT OBJECTIVES

The investment objective of the Board is long-term preservation of the real value of the principal (contributed capital) and a specified regular annual cash outflow for appropriation, as nonrecurring revenue, utilizing a thirty-year planning horizon. The Board's principal means for achieving this goal are through defining the terms of the Endowment’s annuity payout structure authorized under law and through investment directives to the Executive Director.

The main object of these investment directives is the asset class. The Board directs the Executive Director to manage the asset classes in ways that, in the Board's opinion, will maximize the likelihood of achieving the investment objective. The Board establishes asset classes, sets permissible shares of the total portfolio's value for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. PAYOUT FORMULA

Liquidation of fund assets to support the legislative appropriations process shall be made according to the following participating annuity structure. At the start of each state budget cycle, a payout amount from the Endowment shall be established for the upcoming fiscal year according to the following formula:

$$\boxed{s_i = (x)s_{i-1} + (1-x)V_i \max[GM - \frac{R+K}{30}, 0]}$$

where: x = 75%

s_i = real payout amount for the upcoming fiscal year;

s_{i-1} = real payout amount for the prior fiscal year, proportionally adjusted for any changes in the amount of contributed principal since the prior fiscal year;

V_i = real value of the endowment at the time s_i is determined;

GM = the expected real geometric return on the endowment's assets, given the asset allocation directed under Section VII;

R = the required change in the fund's net asset value in order for Vi to equal the real value of all contributions to the Endowment at the time s_i is determined; and

K = prudence constant corresponding to a shortfall probability of 20%.[1]

Payouts shall be made no more frequently than quarterly, at the start of each quarter, in pro-rata portions of s_i.

VII. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

In order to achieve the investment goal, the Board sets a relative objective for the Executive Director: achieve or exceed the return on a performance benchmark known as the Target Portfolio over time. The Target Portfolio is a portfolio composed of a specific mix of the authorized asset classes. The return on this portfolio is a weighted-average of the returns to passive benchmarks for each of the asset classes. The expectation is that this return will meet or exceed the target rate of return and will thus assure achievement of the Board's investment objectives.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is failing to earn the target return over long periods of time, and the asset mix is developed to minimize this risk. In selecting the Target Portfolio the Board considers information related to specified future expenditures from the Endowment and historical asset class risk and return characteristics. Potential asset mixes are thus evaluated with respect to their expected return and volatility as well as risk.

Although the target portfolio has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit nor an implicit goal for the managers of the Endowment. These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the target rate of return. The Executive Director is held responsible not for specifically achieving the target rate of return in each period, but rather for doing at least as well as the market using the target portfolio's mix of assets.

In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the target allocation based on market conditions and the investment environment for the individual asset classes. The Executive Director shall adopt an asset allocation policy guideline which specifies the process for making these tactical decisions. The guideline

[1] More specifically, K = the inverse of the standard normal cumulative distribution for a probability of 20% or less times the expected risk of the portfolio times the square root of the planning horizon (30 years).

shall concentrate on the analysis of economic conditions, the absolute values of asset class investments and the relative values between asset classes.

The Board establishes the Target Portfolio as being composed of the following Asset Classes and Target Allocations and, additionally, the Board establishes ranges for the actual allocations to limit the risk of deviating significantly from the long-run investment plan.

Table 1

Asset Class	Target Allocation	Policy Range
Domestic Equities	59%	54-64%
Fixed Income	17%	12-25%
Foreign Equities	12%	6-18%
Inflation-Indexed Bonds	11%	6-16%
Cash Equivalents	1%	0-10%

For purposes of determining compliance with these Policy Ranges, an Asset Class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type. As a standard management practice, portfolio managers are expected to meet their goals for all assets allocated to their portfolio.

It is expected that the Endowment will be managed in such a way that the actual allocation mix will remain within these ranges. Investment strategies or market conditions which result in an allocation position for any asset class outside of the enumerated ranges for a period exceeding thirty days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

Notwithstanding the prior paragraph, in the event of a mandated payout from the Endowment that is expected by the Executive Director to require an accumulation of cash that exceeds ten percent of the market value of the Endowment, all asset classes' Target Allocations will float and Policy Ranges will not be applicable. During such an event, Target Allocations will be equal to the actual month-end average balances for the respective asset classes as determined by the custodian. Actual allocations will be reported monthly to the Board. Once the mandated payout has been made, Target Allocations and Policy Ranges will revert to the values in Table 1.

In adopting this plan, the board recognizes that no additional contributions are anticipated under current law.

VIII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The following indices are used as benchmarks for the authorized asset classes:

Table 2

Asset Class	Index
Domestic Equities	The Russell 3000, excluding the equities of tobacco-related companies.
Fixed Income	The Barclays Capital U.S. Aggregate Bond Index
Foreign Equities	The Morgan Stanley Capital International Investable Market Index, excluding the U.S., in dollar terms, net of withholding taxes on non-resident institutional investors and excluding the equities of tobacco-related companies.
Inflation-Indexed Bonds	The Barclays Capital U.S. Treasury Inflation Note Index.
Cash Equivalents	The Standard & Poor's U.S. AAA & AA Rated Government Investment Pool All 30 Day Gross Yield Index

The return on the Target Portfolio shall be calculated as an average of the returns to the Target Indices indicated in Table 2 weighted by the Target Allocations indicated by Table 1, (recognizing that Table 1 is suspended if a mandated payout from the Endowment is of sufficient size).

Performance measurement of asset allocation performance shall be made by comparing the actual asset allocation times the return for the appropriate indices to the target allocation times the index returns.

IX. ASSET CLASS PORTFOLIO MANAGEMENT

General Portfolio Guidelines

The Executive Director is responsible for developing asset class and individual portfolio policies and guidelines which reflect the goals and objectives of this Investment Policy Statement. In doing so, he is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes, except as limited by this Plan or SBA Rules. The Executive Director shall develop guidelines for the selection and retention of portfolios, and shall manage all external contractual relationships in accordance with the fiduciary responsibilities of the Board.

All asset classes shall be invested to achieve or exceed the return on their respective benchmarks over a long period of time. The portfolios shall also be well diversified with respect to the benchmark.

X. REPORTING

The Board directs the Executive Director to coordinate the preparation of regular reports of the investment performance of the Endowment by the Board's independent performance measurement firm.

The Executive Director shall also make a status report to the Governor, the Speaker of the House of Representatives, the President of the Senate, the chairpersons of the respective appropriations and substantive committees of each chamber, and the Revenue Estimating Conference monthly.

XI. SBA ADMINISTRATIVE COST

Administrative costs will be deducted from the fund at a rate not greater than that charged by the SBA for managing Florida Retirement System assets.

XII. IMPLEMENTATION SCHEDULE

This plan shall be effective April 1, 2009.