SBA FLORIDA STATE BOARD OF ADMINISTRATION

Agenda
Investment Advisory Council (IAC)

Tuesday, September 13, 2022, 10:00 A.M.*

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

10:00 – 10:30 A.M.	**1.**	**SBA Governance/Role & Fiduciary Duties of the IAC** *(See Attachment 1)*	*Maureen Hazen,* *General Counsel*
10:30 – 11:30 A.M.	**2.**	**Background on the Asset Liability Study** *(See Attachment 2)*	*Phil Kivarkis,* *Katie Comstock,* *Aon*
11:30 – 12:00 P.M.	**3.**	**Pension Plan Contribution Discussion/Assumptions Conference** *(See Attachment 3)*	*Matt Larrabee* *Milliman*
12:00 – 1:00 P.M.		**Break for Lunch**	
1:00 – 1:05 P.M.	**4.**	**Welcome/Call to Order**	*Tere Canida, Chair*
1:05 – 1:15 P.M.	**5.**	**Opening Remarks/Reports** *(See Attachments 5A – 5E)*	*Lamar Taylor,* *Interim Executive Director & CIO*
1:15 – 3:15 P.M.	**6.**	**Asset Liability Review** *(See Attachment 6)*	*Phil Kivarkis,* *Aon*
3:15 – 3:45 P.M.	**7A.**	**Global Equity Asset Class Review** *(See Attachment 7A)*	*Tim Taylor, SIO,* *Global Equity* *Meghan Brown,* *Senior Portfolio Manager* *Denise Hale,* *Director of Reporting & Analytics*
3:45 – 4:00 P.M.	**7B.**	**Global Equity Asset Class Structural Review** *(See Attachment 7B)*	*John Pirone,* *Weston Lewis,* *Callan*
4:00 – 4:10 P.M.	**8.**	**Review of the Florida Retirement System Pension Plan Investment Policy Statement** *(See Attachments 8A-8B)* **Action Required**	*Lamar Taylor,* *Interim Executive Director & CIO*
4:10 – 4:20 P.M.	**9.**	**Review of the Corporate Governance Proxy Voting Guidelines** *(See Attachment 9)* **Action Required**	*Lamar Taylor,* *Interim Executive Director & CIO*

4:20 – 4:30 P.M.	**10.**	**Asset Class SIO Updates** *(See Attachments 10A-10F)*	*Katy Wojciechowski, SIO* *Fixed Income* *Steve Spook, SIO* *Real Estate* *John Bradley, SIO* *Private Equity* *Trent Webster, SIO* *Strategic Investments* *Dan Beard* *Chief Defined Contributions Programs* *Mike McCauley, Senior Officer* *Investment Programs & Governance*
4:30 – 4:45 P.M.	**11.**	**Major Mandate Performance Review** *(See Attachment 11)*	*Katie Comstock,* *Aon*
4:45 – 4:55 P.M.	**12.**	**IAC Compensation Subcommittee Update** *(See Attachment 12)*	*Tere Canida, Chair*
4:55 – 5:00 P.M.	**13.**	**Audience Comments/2022 Meeting Dates/ Closing Remarks/Adjourn** *(See Attachment 13)*	*Tere Canida, Chair*

*__All agenda items and times are subject to change.__

STATE BOARD OF ADMINISTRATION OF FLORIDA

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POST OFFICE BOX 13300
32317-3300

Date: August 15, 2022

To: Board of Trustees

From: Todd Neville, Audit Committee Chair

Subject: Quarterly Audit Committee Report

The State Board of Administration's Audit Committee met on August 15, 2022. 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
August 15, 2022
9:30 A.M. – Conclusion of Business

1. Call to Order

2. Approve minutes of open meeting held on May 23, 2022

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

4. Presentation of ITN for the 2022 Governance, Risk and Compliance (GRC) Assessment
   a. Approval for final selection of respondents

5. Chief Risk & Compliance Officer Quarterly Report

6. Annual Review of the Charters
   a. Audit Committee
   b. Office of Internal Audit

7. Office of Internal Audit Quarterly Report

8. Office of Interim Inspector General Quarterly Report

9. Other items of interest

10. Closing remarks of the Audit Committee Chair and Members

11. Adjournment

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

August 15, 2022

Table of Contents

Status of the FY 2021-22 Annual Audit Plan

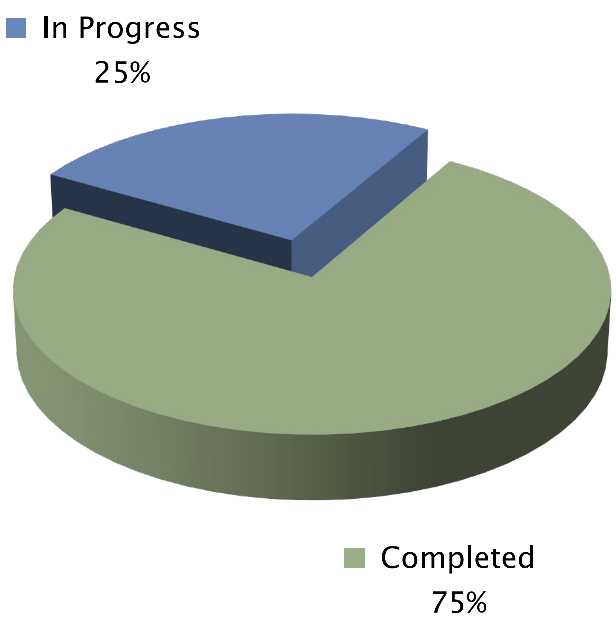
FY 2021-22 Annual Audit Plan

Percent of the Revised Annual Audit Plan Delivered

In Progress does not include the external projects listed on slide 6 for the FY22-23 AAP that have already started during this FY

Status of the FY 2021-22 Annual Audit Plan

Internal Audit and Advisory Engagements

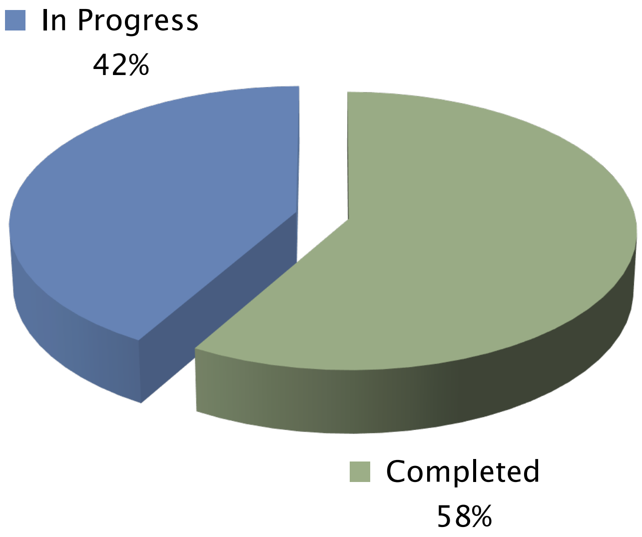


Projects Status	Type	Planned Timing
Completed		
Private Equity	OIA Operational Audit	Q1
Security Configuration and Vulnerability (Carryover)	OIA Advisory	Q1
Follow-up on BDO's Low Risk Findings	OIA Operational Audit	Q2
Contract Management	Continuous Monitoring	Q2
Derivatives Collateral and Cash Management	OIA Operational Audit	Q2-Q3
Periodic Follow-up Audit	OIA Follow-up Audit	Q1-Q4
In Progress		
Performance Reports for Alternative Investments	OIA Operational Audit	Q2-Q3
Identity and Access Management Advisory	OIA Advisory	Q3
Not Started		
None		

Highlighted: Completed since prior quarterly report.

Status of the FY 2021-22 Annual Audit Plan

External Engagement Oversight

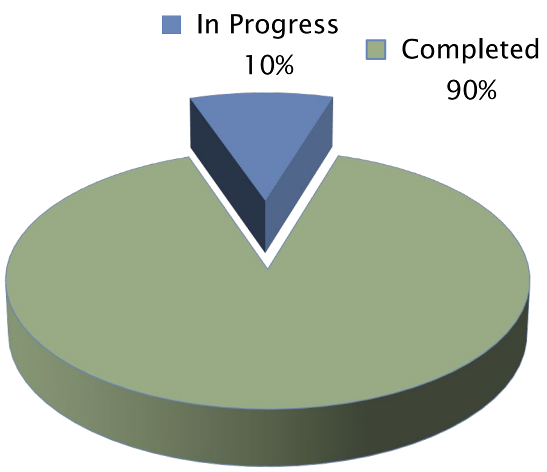


Highlighted: Completed since prior quarterly report.

Project Status	Service Provider	Type	Planned Timing
Completed			
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY20-21	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY20-21	Q1/Q2
Florida PRIME Financial Statement Audit	Auditor General	External Financial Statement Audit for FY20-21	Q1/Q2
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit for FY20-21	Q1/Q2
AG Statewide Financial Statement Audit	Auditor General	External Financial Statement Audit for FY20-21	Q1/Q2
Network Security Assessment, outsourced	BDO	External IT Assessment	Q1/Q3
Florida Growth Fund Initiative	OPPAGA	External Review	Q1/Q2
In Progress (FY 2022-23 Annual Audit Plan)			
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY21-22	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY21-22	Q1/Q2
Florida PRIME Financial Statement Audit	Auditor General	External Financial Statement Audit for FY21-22	Q1/Q2
Florida Hurricane Catastrophe Fund	Crowe	External Financial Statement Audit for FY21-22	Q1/Q2
AG Statewide Financial Statement Audit	Auditor General	External Financial Statement Audit for FY21-22	Q1/Q2
Not Started			
None			

Status of the FY 2021-22 Annual Audit Plan

Special Projects, Risk Assessments, Annual Audit Plan and QAR

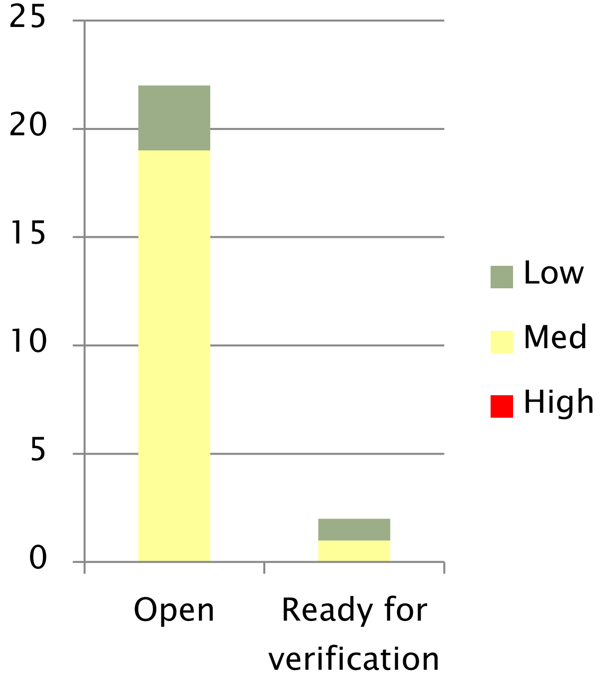


Highlighted: Completed since prior quarterly report.

Project Status	Type	Planned Timing
Completed		
RFQ for Real Estate Pool of Auditors	Part of Evaluation Team	Q1
ITN for FHCF Financial Statement Audit	OIA Special Projects	Q2
ITN for Network Security Assessment	OIA Special Projects	Q2/Q3
Annual Risk Assessment	OIA Risk Assessment	Q4
Annual Audit Plan	OIA Risk Assessment	Q4
Implementation of Internal Audit Solution - AuditBoard	OIA Special Projects	Q2/Q3
ITN for GRC Assessment	OIA Special Projects	Q2/Q4
Complimentary User Entity Control Testing Validation	OIA Special Projects	Q1-Q4
Continuous Risk Assessment	OIA Risk Assessment	Q1-Q4
In Progress		
Annual Quality Assessment Review - Self-Assessment	OIA Quality Assurance	Q4
Not Yet Started		
None		

Status of Management Action Plans/Recommendations

Status of Management Action Plans–Audits



Report Title	Report Date	Risk Rating for Open Recs: High	Risk Rating for Open Recs: Med	Risk Rating for Open Recs: Low	Status: Open	Status: Ready for verification	Status: *Verified during Qtr*
AG - Operational Audit 2017	11/13/2017			1		1	
Strategic Investments Operational Audit	8/19/2019						*1*
Procure to Pay Operational Audit	6/30/2020		4		4		*3*
Real Estate Direct Owned Operational Audit	10/6/2020		1		1		
AG – ITGC and PRIME 2020	10/16/2020		2		2		
AG – ITGC and PRIME 2020 Confidential	10/16/2020		5		5		
AG – FRS Investment Plan Operational Audit 2021	2/22/21		3		3		
Business Continuity and Disaster Recovery Operational Audit	3/19/2021		3		3		
Private Equity Operational Audit 2021	9/9/2021		1	2	3		*3*
Derivatives Collateral and Cash Management Operational Audit	3/31/2022		1	1	1	1	
		0	20	4	22	2	
		0%	83%	17%	92%	8%	

For details, see Appendix A.

Changes highlighted in yellow

Management Action Plans relate 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

Report Title	Report Date	Open	Closed per Mgmt	Total
Governance, Risk Management, and Compliance Assessment (Funston)[1]	1/15/2018	6		**6**
Network Security Assessment 2018 (BDO)[2]	11/15/2018	1		**1**
Network Security Assessment 2019 (BDO)[2]	11/21/2019	5	1	**6**
CIS CSC Framework Gap Assessment Advisory[1]	3/19/2020	12		**12**
Network Security Assessment 2020 (BDO)[2]	1/5/2021	12	2	**14**
Security Configuration and Vulnerability Management Advisory[1]	8/3/2021	24		**24**
Network Security Assessment 2021 (BDO)[2]	2/2/2022	19	11	**30**
		79	14	**93**

Status (applies to Open, Closed per Mgmt, Total columns)

Changes highlighted in yellow

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.

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

Data Analytics

OIA Data Analytics Strategic Goals

1. Risk Assessments	2. Engagement Planning and Execution	3. Continuous Monitoring or Auditing
A. Use data analytics to identify high risk areas to include in OIA's annual audit plan B. Develop continuous monitoring of key risk indicators to determine if changes to the annual audit plan are needed (continuous risk assessment)	A. Utilize existing continuous analytics across the program to further support engagement planning and execution	A. Continue to support sustainability of continuous analytics through additional automation, live connections, and support of SBA's use of data analytics tools and data governance B. Continue to evaluate critical success factors for the program to improve the quality and use of OIA's continuous monitoring and data analytics. C. Evaluate the potential use of Robotics Process Automation for continuous audit projects.

OIA Data Analytics Maturity Model & Progress

Key accomplishments since August 2021

- Held data science training for the department, consistent with CRISP-DM
- Enhanced coverage of our Continuous Risk Assessment (CRA):
  - Further developed and refined Journal Entry Analysis for CRA
  - Incorporated additional analysis into the CRA from Eagle (cancel/correct) and Nexen data (public market holdings)
  - Identified metrics at the SBA that can be leveraged by the OIA when performing its quarterly CRA review
  - Incorporated a process to hold quarterly update meetings to review the CRA results and update the audit plan accordingly if needed
  - Started filling in the CRA coverage map within Logic Manager, linked to our risk assessment

Level 1: Ad hoc occasional use

Level 2: Repeatable analytics

Level 3: Managed and integrated into processes

OIA

Ideal State

Advanced IT needed

Level 4: "Data-driven" approach

Organization /GRC-wide

Level 5: Integrated with "data-driven" GRC processes

Increasing value to the organization

Increasingly automated, well managed and integrated

Key goals/actions to move to the next level

- Identify existing metrics throughout the SBA that can be effectively leveraged in the CRA, while maintaining the sustainability of the program
- Continue to enhance automation in continuous monitoring projects
- Enhance CRA coverage by adding and developing additional indicators
- Encourage the use of data analytics within other GRC departments
- Incorporate an established process to evaluate CRA indicators

Last updated for Audit Committee meeting on 8/15/22

Quality Assurance and Improvement Program (QAIP)

QAIP Program

- The Standards issued by The IIA require that an internal audit department maintain a QAIP.
- The OIA's QAIP contains:
  - Internal assessments that include both ongoing monitoring and periodic assessment.

Ongoing Monitoring	Periodic Assessment
• Progress tracking of Annual Audit Plan • Supervisory review of work papers • Maintenance of recommendations/action plans and status • Maintenance of OIA procedures manual • Engagement-specific QA assessments and related verifications • Completion of required continuing professional education	• Annual internal quality assurance self-assessment for years when an external assessment is not performed. The results are presented in this report. • Annual review of OIA Charter

- External assessments are conducted every five years, under the direction of the Audit Committee, by a qualified, independent reviewer.
  - This Governance, Risk Management and Compliance (GRC) assessment conducted periodically includes OIA in the scope of assessment.
- Quality Initiatives are incorporated into OIA's department goals.
- The CAE updates the Audit Committee on the implementation status of the departmental goals during the quarterly meetings.

OIA's Internal Self-Assessment with Independent Validation

- Standard 1312 requires an external assessment to be conducted at least once every five years. The OIA accomplishes this through a self-assessment with independent validation (SAIV).
- Our last SAIV was completed January 16, 2019 (over 3 years ago). However, we are completing the SAIV this year in order to better align with the GRC assessment moving forward.

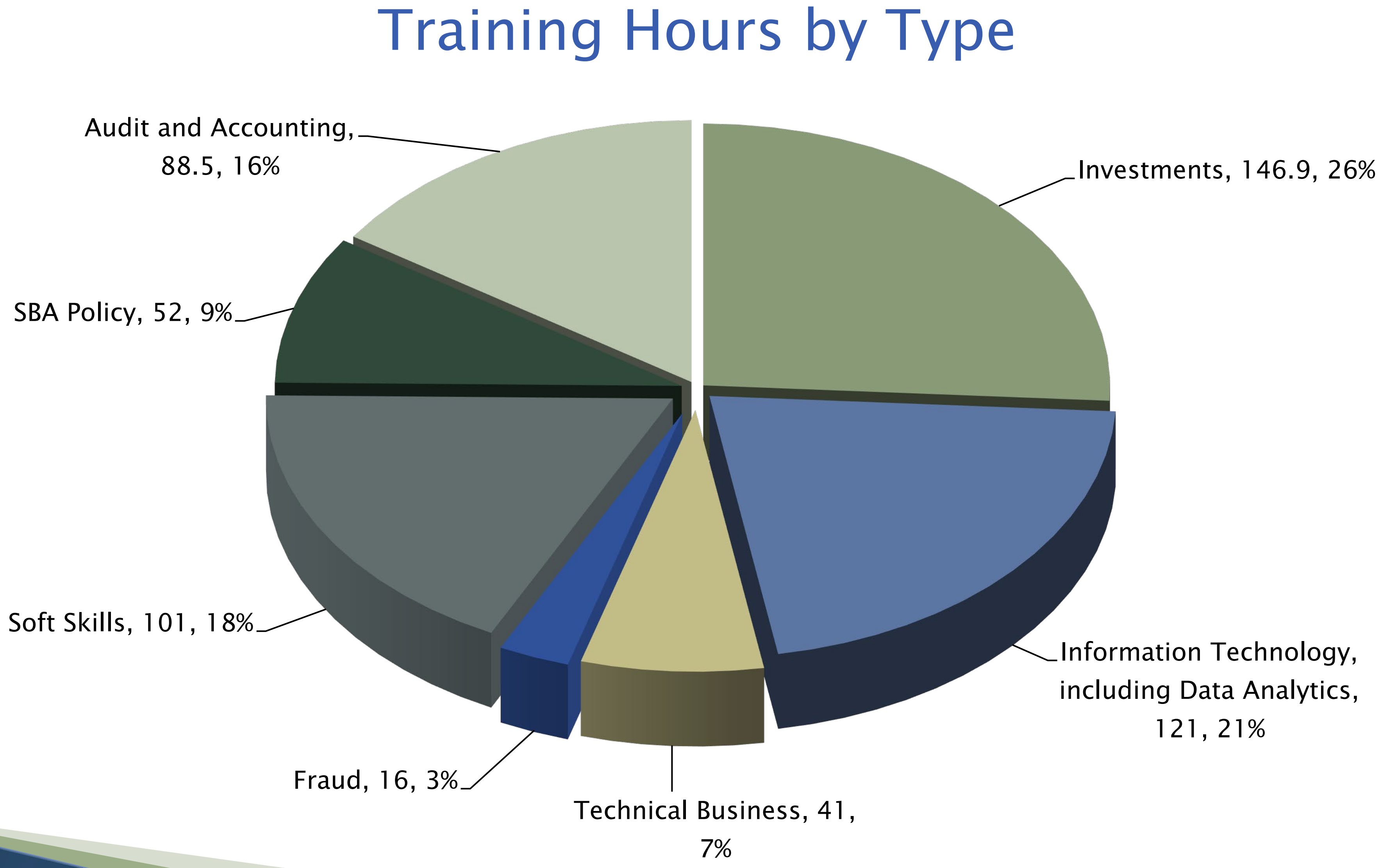
- Status:
  - We have completed much of the work for the self-assessment and expect to generally conform with the *Standards* and the Code of Ethics.
  - The GRC assessment provider, pending approval from the Audit Committee, will perform the independent validation.
  - The final self-assessment report, with the independent validation, will be provided to the Audit Committee with the GRC deliverables.

FY 2021–22 OIA Metrics

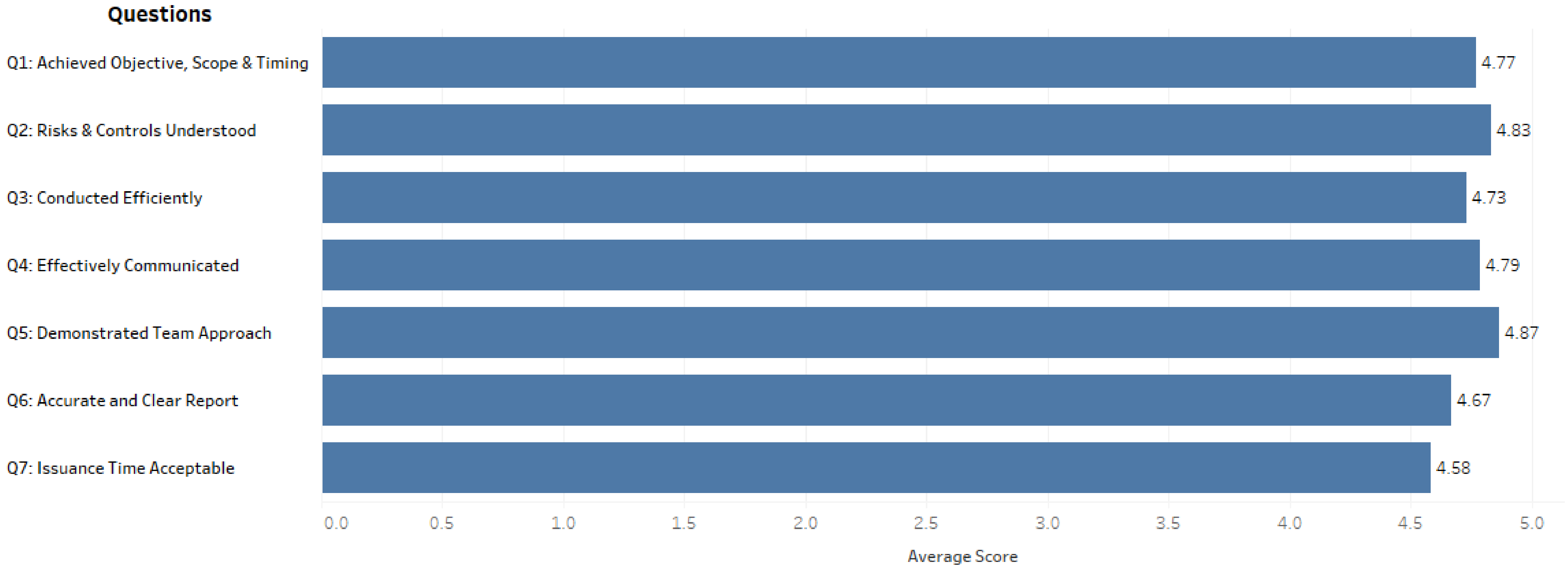
Budget to Actual Comparison FY 2021-22

Category	Budget	Percent	Actual	Percent	Budget to Actual Over / Under	Explanation for any difference greater than 1%
Audit/Advisory Projects	5,360	45.64%	3,883	37.78%	7.86%	Under budget due to staff turnover and more time spent on training. Also, additional time spent on Special Projects due to the implementation of AuditBoard.
Quality Assessment Review	152	1.29%	282	2.74%	-1.44%	Senior Audit Analyst who started the QAR left the SBA and new SAA took over the review starting from the beginning
Oversight of External Auditors	391	3.33%	253	2.46%	0.87%	
Special Projects	657	5.59%	806	7.85%	-2.25%	Implementation of AuditBoard
Risk Assessment	381	3.24%	277	2.70%	0.55%	
Audit Committee	270	2.30%	174	1.69%	0.61%	
Leave and Holidays	2,355	20.05%	2,254	21.94%	1.88%	Staff turnover, so less leave taken
Continuing Education	760	6.47%	878	8.54%	-2.07%	Staff turnover, so more training needed
Administrative	1,417	12.07%	1,471	14.31%	-2.24%	More recruiting hours than expected due to staff turnover
Total	**11,743**	**100%**	**10,277**	**100%**	**100%**	

Professional Staff Training FY 2021-22

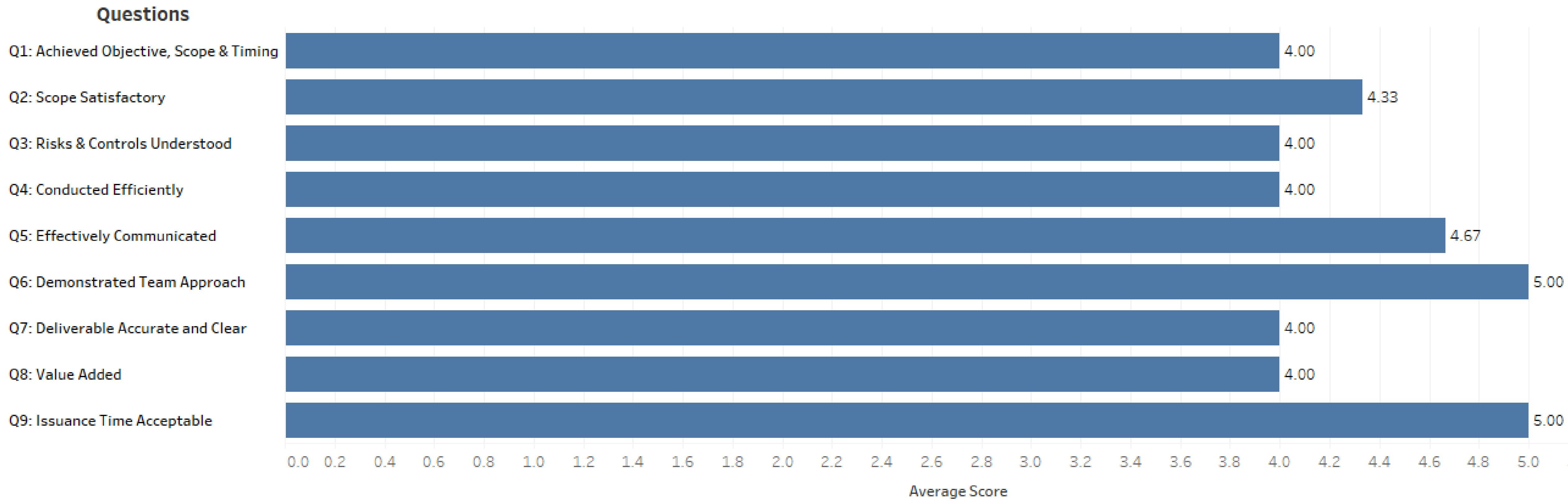


2021-22 Client Survey Results: Audit



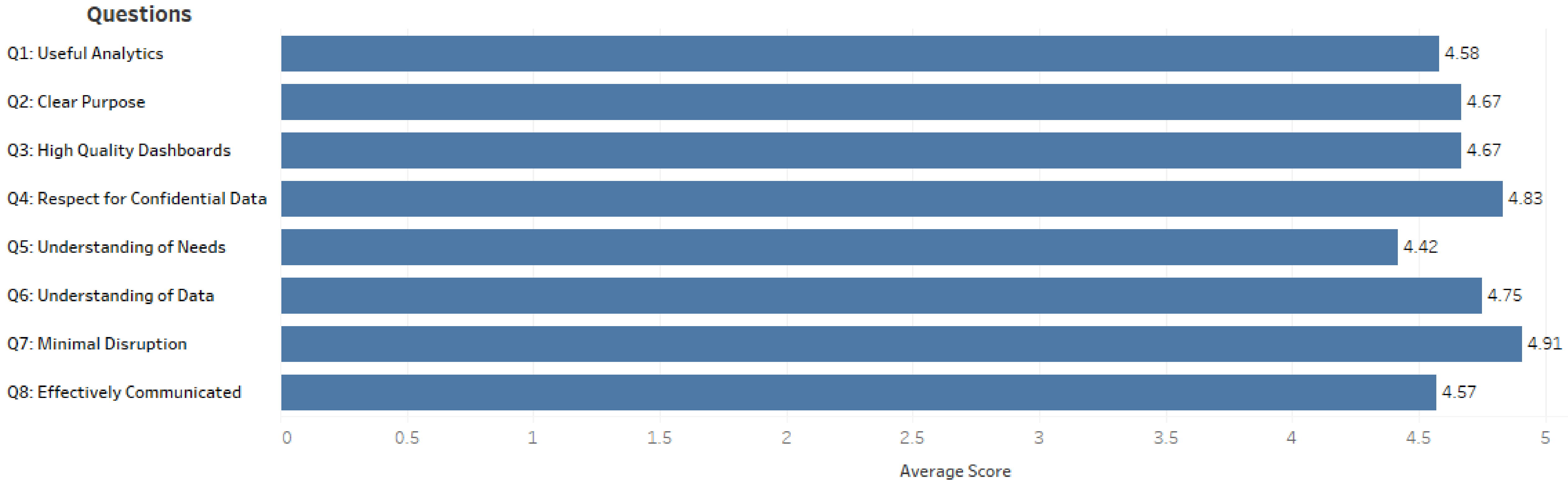
Legend:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

2021-22 Client Survey Results: Advisory



Legend:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

2021-22 Client Survey Results: Data Analytics



Legend:
5 – Strongly Agree
4 – Agree
3 – Neither Agree Nor Disagree
2 – Disagree
1 – Strongly Disagree

Note: Surveys for all continuous analytics are sent annually. Continuous analytics that were put into production after completion of the annual survey, if any, will be reflected in the following year survey results.

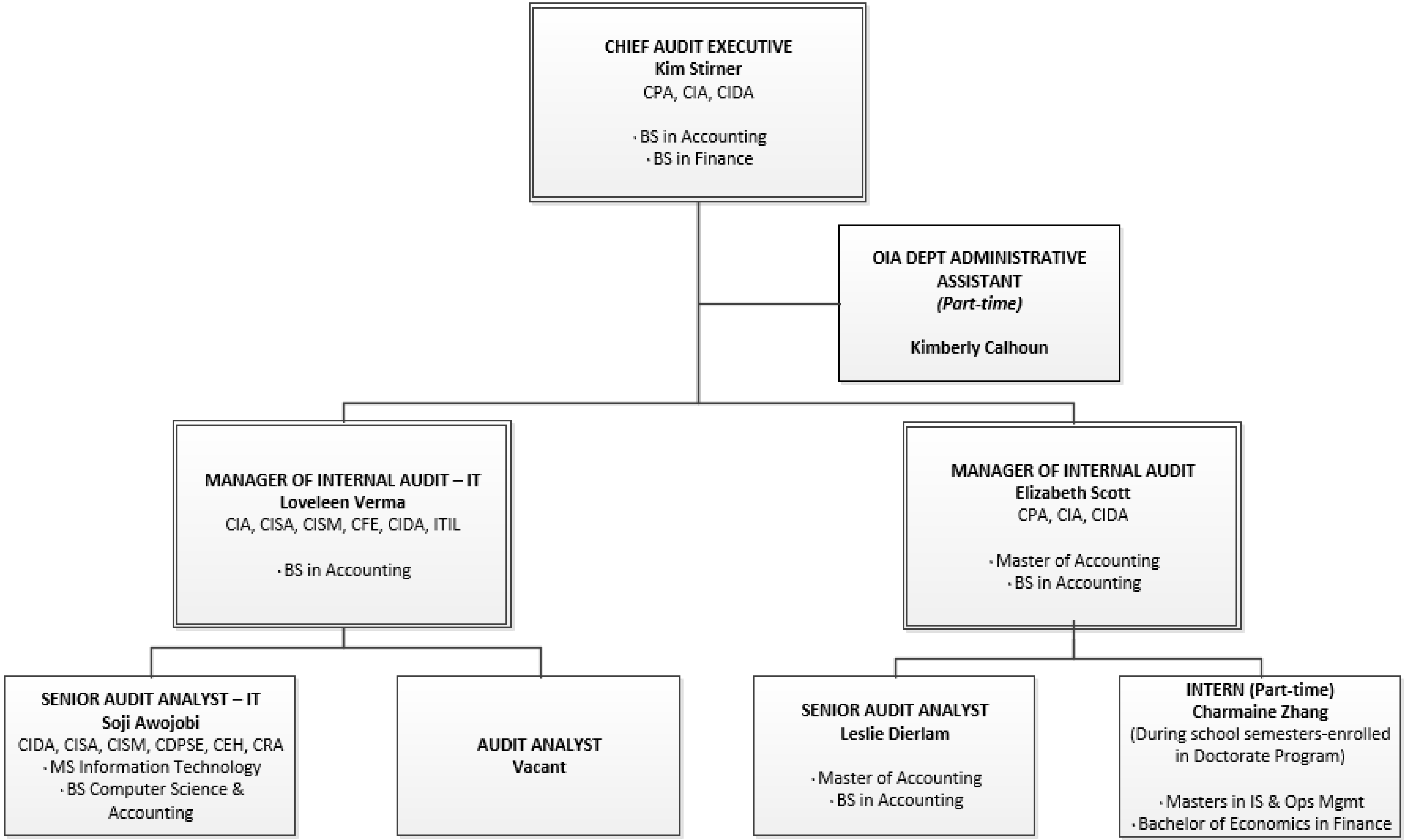
Other OIA Activities

Proposed OIA Department Goals FY 2022-23*

*Will be updated after the completion of the Quality Assurance Self-Assessment with Independent Validation

TOPIC	ACTIVITIES	IMPLEMENTATION EFFORTS	STATUS
INTERNAL AUDIT PROCESSES	Data Analytics: Use for continuous risk assessment (CRA), engagement planning, continuous monitoring and auditing, and evaluate the potential use of robotics process automation for audit projects.	The use of data analytics is underway for engagement planning, continuous monitoring and auditing. Also an RPA is in the queue to assist with the dashboards for continuous monitoring. The CRA development is ongoing.	In progress
INTERNAL AUDIT PROCESSES	Engage consultants (co-source or outsource) to assist with high-risk areas relating to investments and IT audits.	Peraton is engaged to conduct the network security assessment which is scheduled to begin in August 2022. ITCI is engaged on a retainer basis to assist with investment-related audits throughout the fiscal year. Contracting is complete.	Complete
INTERNAL AUDIT PROCESSES	Identify and discuss with management potential areas where we may add value either as advisory/consulting projects or informal initiatives.	The current annual audit plan includes IT/IS related advisory projects.	In progress
INTERNAL AUDIT PROCESSES	Update the pipeline of projects on at least a quarterly basis. Consider agile focused audits and advisory projects.	Set up a tab in our Risk Channel in Teams to document and review pipeline as needed.	In progress
USE OF TECHNOLOGY	Continue to increase automation of continuous data analytics where possible and support the SBA's use of Tableau Server and data governance.	Continue to do this in conjunction with the data analytics activity mentioned above under internal audit processes.	In progress
USE OF TECHNOLOGY	Begin using our new automated workpaper solution, AuditBoard for all audit projects.	Templates have been developed for audit projects. Additional templates for advisory are in progress. We are currently evaluating AuditBoard for recommendation monitoring.	In progress
PEOPLE	Develop a training plan based on knowledge gaps for each member of the OIA to close those gaps.		In progress
PEOPLE	Have at least one team building event during the fiscal year to enhance the team.	Team building event scheduled for August 2022.	In progress
PEOPLE	Fill the open Audit Analyst position.		In progress

OIA Organizational Chart



Other Items for Discussion

- Changes to OIA organizational chart
  - Audit Analyst vacancy – advertising for this position
  - Senior Audit Analyst-IT vacancy as of August 19th
- Audit Committee meeting dates in 2022
  - November 21, 2022
- Audit Committee meeting dates discussion for 2023
  - February 27, 2023
  - May 22, 2023
  - August 21, 2023
  - November 20, 2023

Questions/Comments

OFFICE OF INTERNAL AUDIT

SBA FLORIDA

STATE BOARD OF ADMINISTRATION

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RON DESANTIS
GOVERNOR
CHAIR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

LAMAR TAYLOR
INTERIM EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER

MEMORANDUM

To: Lamar Taylor
From: Michael McCauley
Date: August 24, 2022
Subject: Quarterly Standing Report - Investment Programs & Governance

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GLOBAL PROXY VOTING & OPERATIONS

During the second quarter of 2022, SBA staff cast votes at 6,446 meetings worldwide, voting on ballot items including director elections, audit firm ratification, executive compensation plans, mergers & acquisitions, and a variety of other management and shareowner proposals. These votes involved 16,617 distinct voting items—voting 80.7% "For'' and 16.4% "Against/Withheld," with the remaining 2.9 % involving abstentions. Of all votes cast, 16.5% were "Against" the management-recommended vote. SBA proxy voting occurred in 66 countries, with the top five by meeting volume comprised of United States (2,366), China (680), Japan (663), India (152), and South Korea (11). For the full fiscal year ending June 30, 2022, the table below provides the SBA's major proxy voting statistics across all markets.

Individual Meetings	10,319
Individual Ballots	24,873
Individual Proposals	99,759
Percent Votes "For"	80.5%
Percent Votes "Against"/"Withhold"	16.7%
Percent Votes Not Voted	1.2%
Percent Ballots Not Voted	0.9%
Proxy Paper ID	9,922
Issue Descriptions	285
Companies	8,172
Portfolios	92
Country of Origin	75
Percent Votes Against Management Recommendat..	16.8%
Percent Votes in Favor of Directors	78.2%
Percent Votes in Favor of Auditors	98.8%
Percent Votes in Favor of Merger/Acquisition Items	94.0%
Percent Votes in Favor of Compensation Items	66.9%
Percent Votes in Favor of SHP Governance Issues	38.6%
Percent Votes in Favor of SHP Environmental Issues	19.6%
Percent Votes in Favor of SHP Social Issues	35.5%
Percent Votes in Favor of All SHP Issues	35.4%

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on June 30, 2022, and the next meeting will be held September 14, 2022. 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.

Proxy Voting on Issuers Domiciled in Russia

Voting activities covering securities domiciled in Russia have been affected by the ongoing conflict in Ukraine and significant global sanctions applied to the Russian equity market. As a result, most of the global proxy advisors have either significantly curtailed, or eliminated entirely, their research coverage on the affected securities, including on the annual and special meetings of Russian companies that trade on the Moscow Exchange and in other markets.

For the two proxy research providers used by the SBA—Glass, Lewis & Co. (GLC) and Institutional Shareholder Services (ISS)—both advisors have amended research coverage for corporate issuers that have had various global sanctions regimes applied and/or related research covering individual directors that serve on non-Russian corporate boards that have been sanctioned. In the United States, many Russian companies and affiliated entities have been added to the U.S. Treasury Office of Foreign Asset Control (OFAC) Specially Designated Nationals (SDNs) and Blocked Persons List and are subject to "blocking" or "freezing" sanctions, which generally prohibits transactions with the designated or blocked persons. For example, GLC has stated, "We will not provide a recommendation on the election or re-election of a sanctioned individual to a board of directors, or on the ratification of the acts of a sanctioned individual. We will also not provide research or vote recommendations on proposals that indirectly concern a sanctioned individual, such as en-bloc board ratification or approval of non-executive director fees of a board that includes a sanctioned individual."

Other types of proxy advisor services may be affected as well, such as corporate ratings and vote-execution services. Due to global sanctions applied to Russia's central bank and selected Russian banks from the SWIFT international bank messaging systems, proxy voting agents and proxy advisors' ability to process account voting and investor voting instructions are being affected. Therefore, SBA staff have taken a cautious approach with respect to proxy voting and corporate engagement, maintaining a "take no action" (or TNA) stance on all Russian focused proxy voting—meaning staff will not submit or attempt to execute any voting across any ballot items at Russian issuers. This approach is subject to change, depending on how corporate disclosures, filings, and related sanctions develop in the future.

Increase in Proxy Voting Authority

Over the last nine months, the SBA has transferred the proxy voting authority from several external investment managers, switching each portfolio's shares onto the SBA's internal proxy voting platform. At the end of calendar year 2021, SBA staff was directly responsible for voting approximately 92% of all equity (stock) assets held within the Florida Retirement System (FRS) defined benefit plan. In late Fall of 2021, SBA staff began to revoke the voting authority of several external investment managers and consolidate their accounts. At the end of fiscal year 2022, SBA staff is directly voting approximately 99% of all voteable assets. Managers who had their voting authority transferred to the SBA included several accounts managed by Mondrian, Acuitas, and BlackRock. Due to structural voting limitations, two external investment managers, Genesis and SSGA, continue to vote their own proxy shares. This represents approximately 1% of voteable equity assets within the Florida Retirement System (FRS) pension plan. SBA staff will continue to seek full voting authority on the remaining assets whenever pass-through voting is available.

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 June, SBA staff attended the Pomerantz Corporate Governance Roundtable, speaking on a conference panel and dialogue on a wide variety of shareowner topics.
- In June, SBA staff attended the Society of Corporate Governance National Conference, which covered several governance issues including executive compensation, end-to-end vote confirmation, and the latest proposals on proxy voting.
- In June, SBA staff participated in the Harvard Law School's Corporate Governance Roundtable, covering numerous investor topics and notable academic research.
- In July, SBA staff participated in a quarterly meeting of the Investor Oversight Committee of the Best Practice Principles Group (BPPG), discussing several issues affecting the proxy advisory industry.
- In August, SBA staff participated in a meeting of the Board of Directors of the Council of Institutional Investors (CII), discussing a range of topics affecting the organization.

ACTIVE OWNERSHIP & CORPORATE ENGAGEMENT

The SBA actively engages portfolio companies throughout the year, addressing corporate governance concerns and seeking opportunities to improve alignment with the interests of our beneficiaries. From June through August 2022, SBA staff conducted engagement meetings with several companies owned within Florida Retirement System (FRS) portfolios, including Unilever (regarding Ben & Jerry's) and Bluebell Capital Partners (regarding Cie Financiere Richemont SA).

REVIEW OF 2022 U.S. PROXY SEASON

Fiscal Year Summary

The SBA votes approximately 100,000 proxy ballot items annually, the vast majority of which are considered routine governance items, such as financial statement and dividend approval, auditor ratification, etc. During fiscal year 2021-22, SBA staff cast votes at 10,319 corporate meetings worldwide, involving 8,172 separate companies, voting on ballot items including director elections, audit firm ratification, executive compensation plans, mergers/acquisitions, and a variety of other management and shareowner proposals. These votes involved 99,759 distinct voting items—voting 80.5% "For'' and 16.7% "Against," with the remaining 2.8% involving abstentions. Of all votes cast, 16.8% were "Against" the management-recommended-vote.

SBA proxy voting was conducted across 75 countries, with the top five countries comprised of the United States (3,030 votes), China (1,508), Japan (857), India (624), and South Korea (352). The SBA actively engages portfolio companies throughout the year, addressing corporate governance concerns and seeking opportunities to improve alignment in the best interests of our beneficiaries.

The SBA's corporate governance activities are solely focused on enhancing share value and ensuring that public companies are accountable to their shareowners, with effective boards of directors, transparent company disclosures, accurate financial reporting, and policies that serve to protect and enhance the value of SBA investments. The SBA's focus is on the bottom line, and we gear all companies in which we invest towards policies and practices that lead to improved financial performance. Generally, greater transparency of data and information is supported when possible and all votes are cast as a link to shareowner value.

Highlights from the 2022 proxy season included the continued focus and critical voting on the level and form of executive compensation, "over-boarded" directors continued to receive investor opposition, and a year-over-year decline in shareowner support for some types of environmental and social topic proposals. Investment activities related to special-purpose-acquisition-corporations (SPACs) and numerous initial public offerings (IPOs) from last year marginally increased the number of annual meetings during 2022, many of which were the new firms' first shareowner meetings ever conducted. GLC's research universe in the U.S. covered more than 200 additional U.S. meetings in 2022 compared to 2021, comprising a 6.4% increase, following an 8% increase from 2020 to 2021.

Director Elections—the SBA supported 79.9% of all board nominees at U.S. companies within the Russell 3000 stock index, a decline of 2.1% from last fiscal year. For comparison, GLC recommended their clients support 86% of all similar directors. The largest driver of the SBA's withheld (against) votes was board nominees serving on too many boards simultaneously ("over-boarded" directors), governance concerns involving initial-public-offerings (IPOs), poor board practices and related disclosures, as well as related-party transactions.

Auditor Ratification—the SBA ratified 98.8% of all external auditors among U.S. companies within the Russell 3000 stock index, a slight increase of 0.7% from last fiscal year. Although the ratification of auditors is viewed as a routine voting decision, typically receiving over 95% support from investors, lately some audit firms have failed to receive majority levels of support. Data from Insightia points out that about two dozen audit firms received less than 90% support in 2022, with the sub-group receiving approximately 83% support on average. According to Insightia voting data, shareowners approved audit firms only 80% of the time in 2022, down from 94% a decade ago among the largest companies in the S&P 500 stock index. Many investors, including the SBA, review the split between audit and non-audit fees charged by external auditors to gauge the type and breakdown of work performed by audit firms. When there are relatively high non-audit charges, especially when the non-audit work pertains to general (non-audit) accounting services, an external auditor's independence and objectivity can be impaired. A current Securities and Exchange Commission (SEC) investigation is reviewing the increasing reliance by the largest accounting firms on sales of consulting and tax services, which offer higher margins and greater growth potential than their traditional audit services.

Mergers & Acquisitions—the SBA supported 94% of all merger/acquisition proposals globally, a slight increase of 0.7% from last fiscal year.

Executive Compensation & Say-on-Pay (SOP)—the SBA supported 41.9% of all compensation related ballot items at U.S. companies within the Russell 3000 stock index, an increase of 10% from last fiscal year. Within the same company universe, the SBA supported 41.8% of all SOP ballot items, an increase of 8.3% from last fiscal year. Investors continued to focus on the level of equity grants and the overall size of compensation packages, especially those pay packages involving "mega-grants" and/or one-time retention awards.

Shareowner Resolutions—more than 100 additional shareowner proposals went to a vote during the 2022 proxy season relative to the previous year while simultaneously receiving lower support. According to Morningstar's data on U.S. proxy voting, the number of shareowner resolutions covering environmental or social matters in the United States that were opposed by company boards increased from 145 in the 2021 proxy year to over 250 this year. Out of those 2022 proxy-year resolutions, 140 gained the support of more than 20% of shareowners, 57 gained more than 40% support, and 27 garnered majority support.

The SBA supported 50.1% of shareowner-proposed ballot resolutions at U.S. companies within the Russell 3000 stock index, a decrease of 25% from last fiscal year. Market convention is to classify resolutions by topic, generally into "environmental" issues (e.g., corporate water use, emissions goal setting, etc.), "social" issues (e.g., human capital, lobbying activity, sanctions, etc.), and "governance" issues (e.g., board structure, anti-takeover devices, shareowner rights, etc.). When all shareowner resolutions are broken down into the environmental, social, and governance proposal categories, the SBA supported 29.4%, 42.3%, and 57.4% of all resolutions, respectively. These figures represent year over year declines of 46.5% for environmental resolutions, 43% for social resolutions, and 15.4% for governance related resolutions. The significant declines in SBA support were due to changes made by the SEC last November, which marked a shift in how SEC staff review shareowner submitted ballot resolutions in 2022. This caused the volume and scope of resolutions to change in the first half of 2022, with many voted proposals exhibiting more narrow and prescriptive characteristics in 2022. As a result, the average support for most types of shareowner proposals declined significantly, with average shareholder support for these resolutions dropping from 36% in 2020 to 31% in 2022.

Shareowner resolutions, as opposed to management resolutions, represent less than 1% of total historical SBA proxy voting actions each year. Resolutions involving environmental or social issues are even less frequently voted, comprising only 0.09% and 0.17%, respectively, of our annual proxy votes over the last five years. Virtually all shareowner proposals are "precatory," or advisory in nature, and are therefore not legally binding on corporate boards or management.

HIGHLIGHTED PROXY VOTES

Spirit Airlines—JetBlue Airways prevailed in the months-long bidding war between Frontier Airlines and JetBlue for Spirit Airlines. Spirit's shareowner meeting to vote on the Frontier merger was held on July 27, 2022, after being postponed four times due to lack of sufficient shareowner support to affirm the Frontier offer. The SBA voted against Frontier's cash-and-stock deal worth approximately $2.8 billion which was notably lower than JetBlue's all-cash offer of $3.6 billion. On the day of the shareowner meeting with support still lacking, Frontier and Spirit announced the termination of their merger proposal. The next day, JetBlue and Spirit announced a definitive merger agreement with JetBlue acquiring Spirit for $33.50 per share in cash, including a prepayment of $2.50 per share in cash payable upon Spirit stockholders' approval of the transaction and a ticking fee of $0.10 per month starting in January 2023 through closing. This offer represents an aggregate fully diluted equity value of $3.8 billion and an adjusted enterprise value of $7.6 billion. The deal will also be subject to vote by Spirit's shareowners and to regulatory approval, which Frontier argued would be more difficult than for its proposed merger.

REGULATORY AND MARKET DEVELOPMENTS

Investor Coalition for Equal Votes (ICEV)

The initiative formed by CII and Railpen, a British pension fund representing over $1 trillion in managed assets, successfully lobbied the UK's Financial Conduct Authority (FCA) to maintain current listing standards around dual class share structures. The UK is developing a "single segment regime" for its capital markets to attract innovative and high-growth companies to list on British exchanges. On June 13, 2022, CII and Railpen announced the launch of the Investor Coalition for Equal Votes (ICEV) as a new global investor initiative to advocate for proportionate shareowner voting, and the removal of unequal voting rights at portfolio companies—primarily through the adoption of future dual-class share structures that include time-based sunset provisions. ICEV will engage with pre-initial public offering (IPO) companies and their advisors, as well as potentially with policymakers, commentators, and index providers in priority jurisdictions. This initiative complements CII's draft legislation, which would require dual-class public companies to phase out unequal voting within seven years of IPO, barring a separate majority vote from each class of shares to extend the dual-class structure.

Securities & Exchange Commission (SEC) Rescinds Proxy Advisor Restrictions

On July 13, 2022, the SEC voted to rescind rules requiring the disclosure of proxy advisor recommendations to corporate executives. The Proxy Voting Advice rule, originally proposed in 2020, established new requirements for proxy advisory firms to disclose voting advice to issuers ahead of their clients, as well as ensuring clients were notified of any written responses to their recommendations from companies. The final amendments rescind certain conditions from the rule, with advisers no longer being required to give issuers a first look at proxy advice to be sent to their clients. Amendments also remove a requirement allowing clients of proxy firms to be notified of any written responses to their advice from companies.

One of the largest proxy advisors, ISS, maintains its opposition to all the other remaining elements of the original SEC proposal and has sued the agency to block the regulation. Proxy-voting advice firms, the two dominant industry players being ISS and GLC—provide data and recommendations to a wide variety of institutional investors.

SEC Proposes Amendments to Rule 14a-8 on Shareowner Proposals

In July, the SEC also proposed amended rules under Rule 14a-8, which provide issuers a method by which to omit shareowner proposals from their proxy statements. The proposal revises three of the substantive bases for excluding a shareowner proposal under the rule. Companies can exclude shareowner proposals from their proxy ballots if they meet any of the following criteria: 1) proposal has already been substantially implemented; 2) proposal is duplicative; or 3) proposal is ineligible for resubmission given insufficient investor voting support.

Rule 14a-8(i)(10) currently allows companies to exclude a shareholder proposal that “the company has already substantially implemented.” The proposed amendments would provide that a proposal may be excluded as substantially implemented if, “the company has already implemented the essential elements of the proposal.” Rule 14a-8(i)(11) currently allows companies to exclude a shareholder proposal that “substantially duplicates another proposal previously submitted to the company by another proponent that will be included in the company’s proxy materials for the same meeting.” The proposed amendments would specify that a proposal “substantially duplicates” another proposal if it “addresses the same subject matter and seeks the same objective by the same means.” Rule 14a-8(i)(12) currently allows companies to exclude a shareowner proposal that “addresses substantially the same subject matter as a proposal, or proposals, previously included in the company’s proxy materials within the preceding five calendar years” if the matter was voted on at least once in the last three years and did not receive sufficient shareowner support. The proposed amendments would provide that a proposal constitutes a resubmission if it “substantially duplicates” a prior proposal, and also specify that, as with the duplication exclusion, a proposal “substantially duplicates” another proposal if it “addresses the same subject matter and seeks the same objective by the same means.” These changes would align the “resubmission” standard under Rule 14a-8(i)(12) with the “duplication” standard under Rule 14a-8(i)(11), in consideration of the similar objectives of these exclusions.

STATE BOARD OF ADMINISTRATION
OF FLORIDA

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POST OFFICE BOX 13300
32317-3300

MEMORANDUM

To: Lamar Taylor, Interim Executive Director & CIO

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

Date: August 16, 2022

Subject: Office of General Counsel: Standing Report
For Period June 1, 2022 – August 11, 2022

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 21 new agreements – including 3 for Global Equity; 2 Private Equity investments; 1 for Fixed Income; 1 Strategic Investment; and 4 for Real Estate; (ii) 185 contract amendments, addenda or renewals; and (iii) 1 contract termination.

SBA Litigation.

(a) Passive. As of August 11, 2022, the SBA was monitoring (as an actual or putative passive member of the class) 637 securities class actions. During the period of May 25 -July 31, 2022 the SBA collected recoveries in the amount of $543,752.72 as a passive member in 37 securities class actions.[1]

(b) 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 2 Final Orders, received notice of filing of 3 new cases, and continued to litigate 7 cases that were pending during the periods covered by previous reports. (including one appellate cases).

Other Matters.

[1] Recoveries for August 1 - 11, 2022 were not available as of the date of this report.

(a) Public Records. During the period covered by this report, the General Counsel's Office received 36 new public records requests and provided responses to 27 requests. As of August 11, 2022, the General Counsel's Office continues to work on 8 open requests.

(b) SBA Rule Activities. During the period covered by this report, the SBA did not engage in any rule activity.

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MEMORANDUM

DATE: August 16, 2022

TO: Lamar Taylor, Interim Executive Director & CIO

FROM: Maureen M. Hazen, General Counsel and Acting Inspector General

SUBJECT: Quarterly Report on SBA Inspector General Activities

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The SBA's Inspector General, Ken Chambers, retired on March 31, 2022, and I have been serving as Acting Inspector General since his departure. The SBA Inspector General (IG) is responsible for serving as the organization's ethics officer; conducting certain internal investigations; and handling special projects as directed by the Executive Director & CIO.

<u>Ethics and Training</u>

- 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 use of information technology resources. Employees are also required to complete training courses for public records, confidential information and the Sunshine Law every other year (these were required in 2020) and a fiduciary responsibility course every 4 years. The deadline for completing the courses was June 30, 2022, and all SBA employees are in compliance. 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. In addition to the annual mandatory training classes, employees are also required to complete quarterly on-line training courses concerning cyber security awareness.

- During the period from June 1, 2022 to August 16, 2022, no instances were reported to the Inspector General concerning non-compliance with the SBA gift policy.

SBA Fraud Hotline

Since July 2006, the SBA has utilized an independent provider of SBA Fraud Hotline services. Through an 800 number, SBA employees, service providers, and others 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 contact page, and online reporting is available. In September, 2021, the SBA transitioned to a new hotline service provider, EthicsGlobal.

During the quarter, no complaints were received by the Hotline.

Financial Disclosure Forms

The Commission on Ethics requires certain state employees and officials who meet the reporting requirement to file an annual Financial Disclosure Form. The Financial Disclosure Forms for 2021 were due to the Commission by July 1, 2022. All current SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics.

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MEMORANDUM

DATE: August 1, 2022

TO: Lamar Taylor, Interim Executive Director & CIO

FROM: Sooni Raymaker, Chief Risk & Compliance Officer SR

SUBJECT: Trustee and Audit Committee Report – August 2022

The following is a summary report of Risk Management and Compliance (RMC) activities and initiatives completed or in progress since the last dated report of May 2022 to the current period. All RMC activities, reviews, controls, and processes are continuing to operate effectively and as expected during this reporting period.

The role of the 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.

Compliance Exception:
Due to negative market conditions and lagged alternative market valuations, the 20 percent allocation limit continues to be exceeded in accordance with Section 215.47(15), Florida Statutes, which states: "With no more, in the aggregate, than 20 percent of any fund in alternative investments through participation in an alternative investment vehicle as those terms are defined in s. 215.4401(3)(a), or in securities or investments that are not publicly traded and not otherwise authorized by this section".

Enterprise Risk Management (ERM)
The Risk & Compliance Committee (RCC) will hold its quarterly meeting August 10, 2022, after the date of this report.

The Enterprise Risk Management Plans and associated metrics have been reviewed and updated. Business unit risk owners have reviewed the risks that have been assessed, asked if ratings are current and identify any new risks. Some risk owners have noted additional human resource strain due to vacancies caused by retirements and the longer time it takes to fill positions with the best qualified applicants. The current strain is being adequately managed by cross functional coverage and prioritizing duties and responsibilities. It is noted that this resource strain is being widely felt in many industry sectors, as well as other pension peers and the investment management industry. As risks facing the SBA continue to evolve, ERM has subscribed to the Gartner *Risk Management Leadership Council* as a tool to ensure the SBA's ERM program is well-positioned to adapt to evolving risk, respond accordingly, and ensure best practices in risk management are consistently implemented across the SBA. This service will have the additional benefit of helping advance the ERM program's maturity level while aligning with peer best practices.

Trading and Investment Oversight

The Trading and Investment Oversight Group (TOG) met on July 21, 2022. The group reviewed quarterly internal trading activity, compliance reports and trading counterparty oversight updates. The Designated Futures, Options and Swaps Exchanges/Markets List annual review has been updated as of July 1, 2022.

External Manager Operational Due Diligence (ODD)

During the period, the ODD team reviewed and commented on eight consultant operational due diligence reports on investment managers as part of the investment approval process, which represents approximately $644 million in potential investments. Thirty-one new consultant ODD reports were added to the Manager Operational Risk Oversight page for use by the asset classes since the last meeting.

The ODD team has reviewed the 2021 annual certifications submitted by external investment managers and will provide a summary of key observations and areas of note with the asset classes and the RCC. Additionally, the ODD team is in the process of requesting annual Investment Protection Principles certifications for the SBA broker dealers. The ODD team participated in three Mercer virtual onsite visits and three Hybrid Fixed Income Core Plus Manager interviews. The ODD team conducted two in-person ODD onsite visits during the period which reports will be forthcoming.

Public Market Compliance (PMC)

PMC participated in the User Acceptance Testing for a version upgrade in the Charles River Development compliance system. PMC conducted scenario testing for current functionalities and rule validation. No issues were identified, and the new release was moved to the Production environment on July 17, 2022.

Performance Reporting & Analytics (PRA)

The PRA team is nearing completion of a project to leverage the existing Eagle PACE (a performance management system) to build portfolio composites based on General Investment Performance Standard (GIPS) best practices. The PACE system can aggregate all composites and produce reports with performance returns in a more efficient manner. This will allow the PRA team to reduce reliance on excel spreadsheets or other business intelligence tools to reconcile the official monthly performance data and reporting, relieving the need for ongoing maintenance between the systems. PRA is also reviewing other capabilities of PACE, such as Time Weighted and Dollar Weighted return calculations as well as blended benchmark calculations.

Policy Activity and Regulatory Monitoring
Since the last report, revisions were implemented to three internal policies.

On the regulatory front, in compliance with the Japanese Foreign Exchange and Foreign Trade Act, the SBA reported during the period and its semi-annual periodic report, information related to the established 1% reporting threshold for share ownership or voting rights held in listed companies conducting business in designated Japanese business sectors.

Personal Investment Activity (PIA)
During the period (May 1, 2022, through July 26, 2022), there were 167 requests for pre-clearance by SBA employees, with 133 being approved, 31 being denied (due to blackout restrictions), and 3 being retracted (not traded). There was one violation which was reviewed by the CRCO, Inspector General, SOO-Human Resources, and the ED & CIO.

The first Semi-annual Certification report was sent out to all employees on July 1, 2022. This certification tasks employees with certifying transactions in the personal investment compliance system for a seven-month period from implementation on December 1, 2021 through June 30, 2022.

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Pension Asset-Liability Study: Initial Results

Florida State Board of Administration (SBA)

September 13, 2022

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Executive Summary

Executive Summary

Investment Strategy Cycle: First Step - Asset-Liability Study

Asset-Liability Study: Return-Seeking vs. Risk-Reducing Exposure

- Primary driver of long-term success
- Important to set strategy in the context of plan liabilities
- The SBA has an **81%** return-seeking allocation posture

Asset Allocation Review: Asset Class Utilization

- Translate results of A-L study into an actionable strategic asset allocation
- Current return-seeking asset classes include public equity, private equity, real estate, and strategic investments
- Current risk-reducing assets include cash and intermediate duration fixed income

Structure Review: Structure of Asset Classes

- Assure implementation conforms with stated objectives and risk tolerance
  - Risk-focused approach
  - Efficient, cost effective implementation

Ongoing Review: Performance as planned; no surprises

- Proactive assessment of portfolio and risks
- Related oversight functions: proxy voting, etc.

Today's Goal: Determine if the 81% Return-Seeking allocation continues to be appropriate or if there is merit to altering the risk level

Executive Summary
Asset-Liability Study Key Take-Aways

Portfolio Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- Asset returns (**6.87%**[1,2]) are expected to keep pace with the actuarial assumed rate of return (6.80%)
- The equity risk premium is 3.30%[3] in this 2022 Asset-Liability Study, compared to 3.92% from 2021; the change was driven by the increase in projected fixed income returns outpacing the increase in projected equity returns

Asset-Liability Projection Analysis

- The funded ratio is expected to decrease with FYE 2022 returns before increasing over the course of the projection period in our central expectation (50th percentile outcome)
- Expected returns (6.87%[1,2]) exceeding the actuarial assumed rate of return (6.80%) and shortening the amortization periods help the plan reach **full funding by 2039** in our central expectation (50th percentile outcome)
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

Liquidity Analysis

- The current portfolio is projected to have **sufficient liquidity** in the modeled Base Case, Recession, and Dark Skies scenarios

[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

[2] The portfolio's expected return of 6.87% is based upon current policy target weights for each asset class and the asset classes' expected returns and correlations. The portfolio's expected return is subject to change should the current policy targets change and/or the investment objective of an asset class change. Currently, the State Board of Administration (SBA) is performing a structural review of the Strategic Investments asset class and its role in the portfolio. Results of the structural review may lead to a different investment objective for the asset class and/or changes in policy target weights.

[3] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

2

Analysis

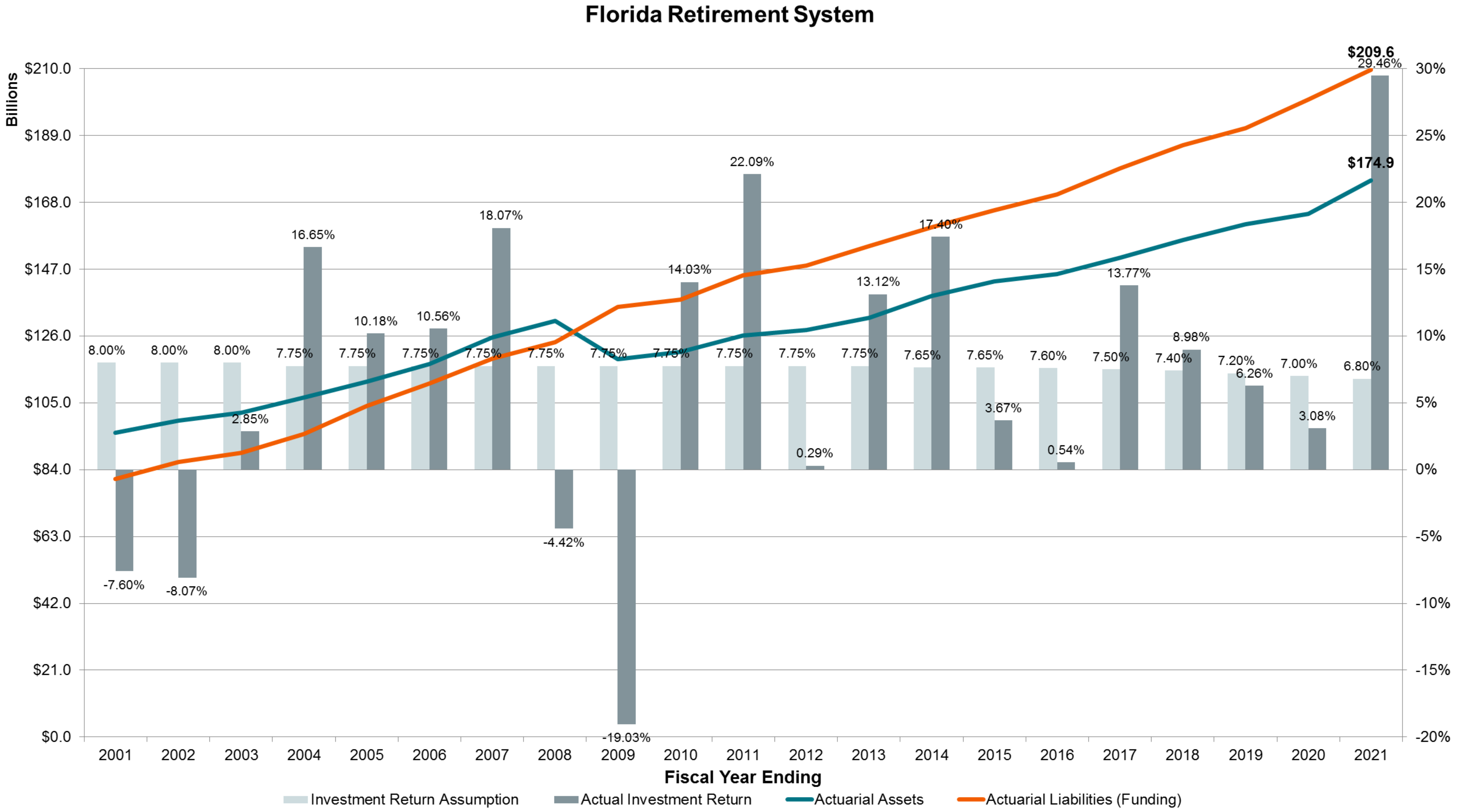
- Asset-Liability Profile
- SBA Approach to Assumption Development
- Portfolio Analysis
- Asset-Liability Projection Analysis
- Liquidity Analysis

AON

Asset-Liability Profile

Section 2: Analysis

Florida Retirement System (FRS)
Historical Information



Sources: Public Plans Data (publicplansdata.org) as of July 2022; 2021 Actuarial Valuation Report

Key Takeaways:

- Orange line represents the actuarial liabilities over time
  - Adding to the increase in liability has been the decrease in the assumed investment return in recent years (light gray bar)
- Blue line represents the actuarial value of plan assets over time
  - Assets reflect smoothing parameters to the actual return on assets (dark gray bar)

Current State Asset-Liability Profile (Estimated as of June 30, 2022)

FRS Projects To Have a Slight Near-Term Hurdle Rate Shortfall

Asset-Liability Snapshot				
	As of 7/1/2021		Est. as of 6/30/2022	
Metric ($, Billions)	**Value**	**Fund %**	**Value**	**Fund %**
Market Value of Assets	$202.1	96.4%	$180.0	82.7%
Actuarial Value of Assets	$174.9	83.4%		
Liability Metrics				
Actuarial Liability (AL) – Funding[1]	$209.6		$217.6	

Asset-Liability Growth Metrics			
Metric ($, Billions)	**Value**	**% Liability**	**% Assets**
AL Discount Cost	$14.8	6.80%	8.22%
AL Normal Cost	$3.0	1.37%	1.66%
Total Liability Hurdle Rate	**$17.8**	**8.17%**	**9.88%**
Expected Return on Assets[2]	$12.4	5.68%	6.87%
Total Contributions	$5.3	2.44%	2.95%
Total Exp. Asset Growth	**$17.7**	**8.12%**	**9.82%**
Hurdle Rate (Shortfall)/Surplus	**-$0.1**	**-0.05%**	**-0.06%**
Est. Benefit Payments	$12.2	5.62%	6.80%

Key Takeaways:

- Pension plan is estimated to be **82.7%** funded on a market value of assets basis as of June 30, 2022
- Asset hurdle rate of **9.88%**, via cash funding and investment returns, needed to maintain or improve funded status
- The Liability Hurdle Rate slightly exceeds the Total Expected Asset Growth rate (EROA plus Contributions) by **6 bps**

Target Asset Allocation as of 6/30/2022		
Metric ($, Billions)	**Value**	**Alloc %**
Return-Seeking		
- Global Equity	$95.4	53%
- Private Equity	$10.8	6%
- Strategic Allocation	$21.6	12%
- Real Estate	$18.0	10%
- Total	$145.8	81%
Risk-Reducing		
- Cash & Short Duration Fixed Income	$1.8	1%
- Core Bonds	$32.4	18%
- Total	$34.2	19%
Total	$180.0	100%

[1] Based on a 6.80% discount rate consistent with the July 1, 2021 actuarial valuation results.

[2] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

Percentages may not sum to 100% due to rounding.

Asset Hurdle Rates (Estimated as of June 30, 2022)

What is the Asset Hurdle Rate?

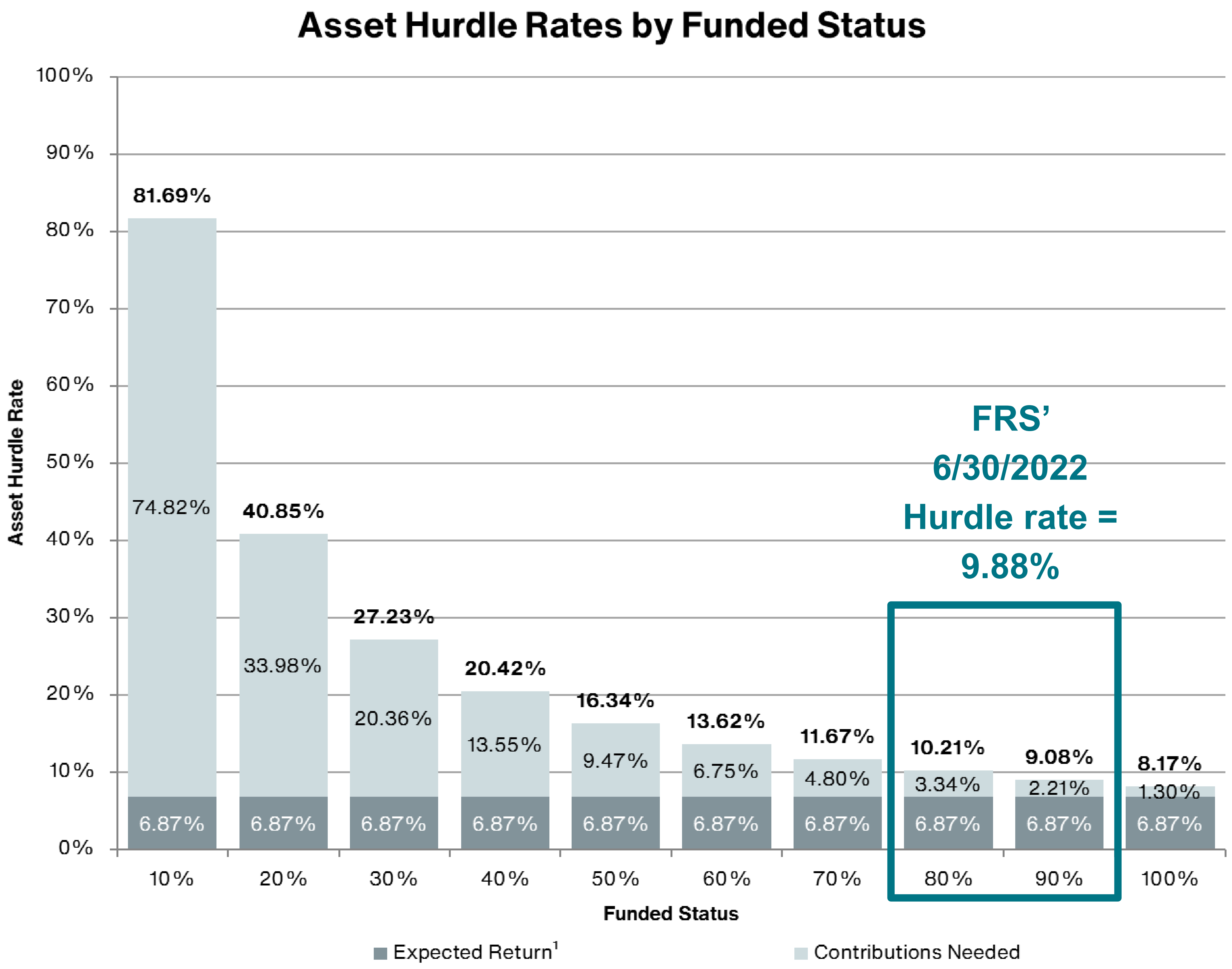
Asset Hurdle Rate is the required rate of asset growth needed to keep pace with the growth of the Plan liabilities

- Assets must grow at this rate or more in order to maintain or reduce a potential funding shortfall
- **Formula = (Normal Cost + Discount Cost) / Funded Ratio**

Assets can grow in two ways:

- Investment returns
- Funding contributions

Asset hurdle rates are expected to decline as the funded status increases



[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.
Percentages may not sum to 100% due to rounding.

SBA Approach to Assumption Development

Section 2: Analysis

Overview

The SBA approach averages the global equity risk premiums[1] from three investment advisors (Aon Investments, Mercer, and Wilshire)

Building block approach is used

- Price inflation and fixed income returns reflect market conditions and yields
- For all other asset classes ("risk assets"), a risk premium is added to fixed income returns

Average risk premium is used to scale Aon Investments' expected returns for the "risk assets"

The difference between Aon Investments' equity risk premium and the average equity risk premium is added to all of the "risk asset" capital market assumptions from Aon Investments to normalize the expected returns

[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

Equity Risk Premium

The SBA averages the global equity risk premiums[1] from three consulting firms[2] and then uses that average risk premium to scale Aon Investments' expected returns for the "risk assets"

2022 Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return) = 3.30%

	Aon Investments	Mercer	Wilshire	Callan[2]	Average
2022 Assumptions (15-year geometric average expected returns)					
- As of Date	June 2022	July 2022	June 2022		
- Global Equity	7.75%	6.97%	6.60%	N/A	7.11%
- Core U.S. Bonds	3.80%	3.57%	4.05%	N/A	3.81%
- Global Equity Risk Premium	3.95%	3.40%	2.55%	N/A	**3.30%**
2021 Global Equity Risk Premium	4.55%	3.67%	3.55%	N/A	3.92%
Change 2022 vs. 2021	-0.60%	-0.27%	-1.00%	N/A	-0.62%
Prior Years:					
- 2020	5.50%	4.77%	5.20%	N/A	5.15%
- 2019	4.55%	3.70%	3.40%	N/A	3.88%
- 2018	4.10%	3.53%	2.90%	3.93%	3.62%

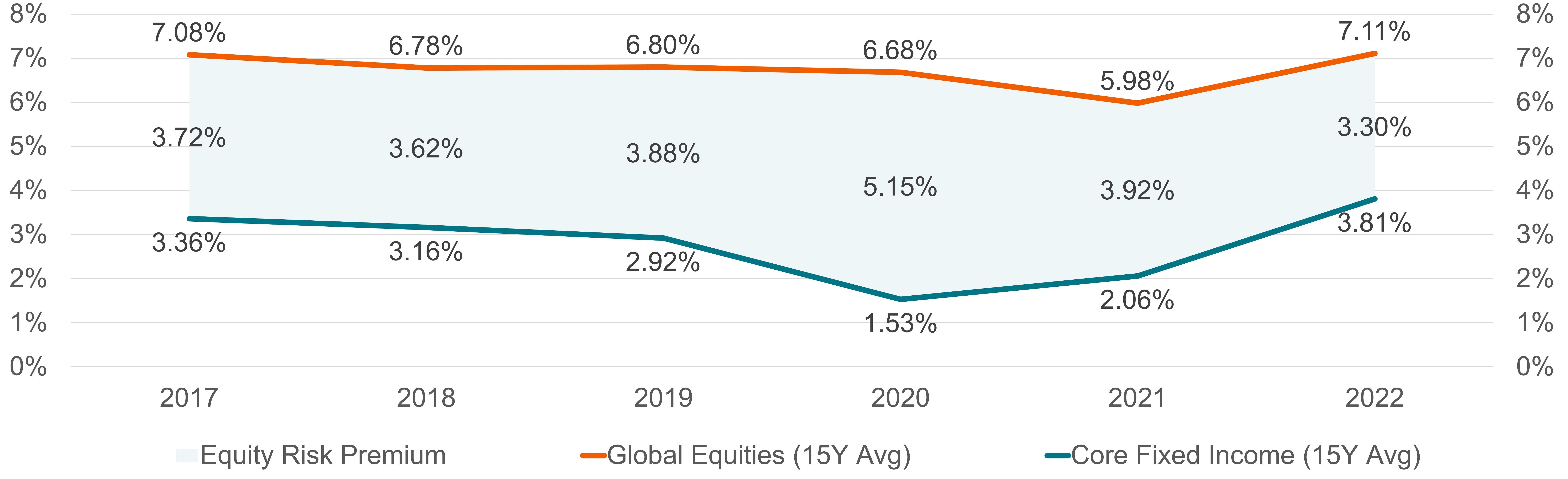
[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk.
[2] Callan was previously included in the averaging but removed starting in 2019 because its capital market assumption date did not coincide with the same timeframe as the other consultants and the asset-liability study; Callan only updates their capital market assumptions once a year while the other consultants update quarterly
Calculations may not sum to total due to rounding

Breakdown of Equity Risk Premium Assumption

The decrease in the 2022 equity risk premium[1] was driven by the increase in projected fixed income returns outpacing the increase in projected equity returns

- Below is a 6-year historical look at the breakdown of the global equity risk premium

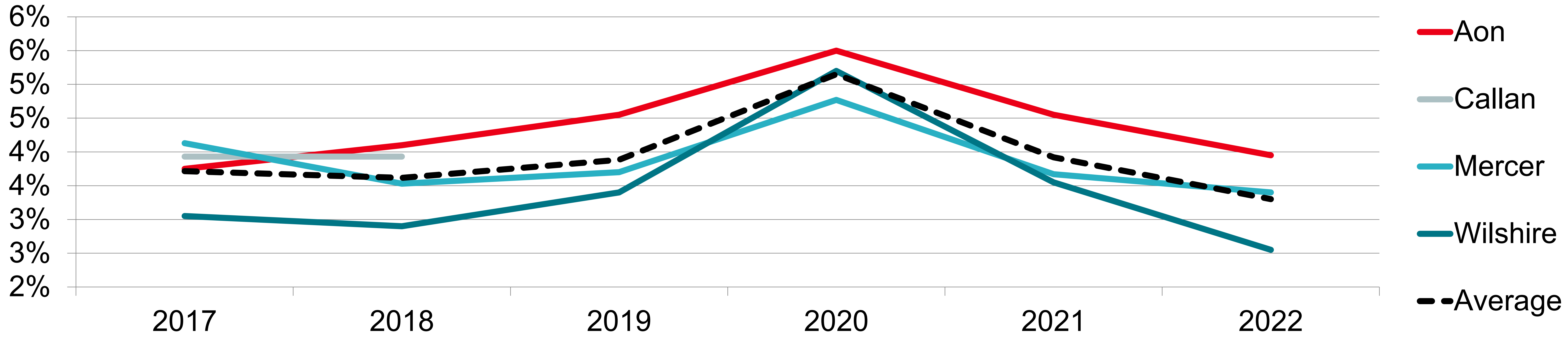
Breakdown of Global Equity Risk Premium



[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

Historical Equity Risk Premium Assumption

Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return)



Equity Risk Premium[1]	Asset-Liability Study					
	2017	2018	2019	2020	2021	2022
Aon	3.75%	4.10%	4.55%	5.50%	4.55%	3.95%
Callan	3.93%	3.93%	N/A	N/A	N/A	N/A
Mercer	4.13%	3.53%	3.70%	4.77%	3.67%	3.40%
Wilshire	3.05%	2.90%	3.40%	5.20%	3.55%	2.55%
Average	3.72%	3.62%	3.88%	5.15%	3.92%	3.30%

Aon Investments' capital market assumptions for risk assets will be scaled by **-65bps** in the 2022 asset-liability study

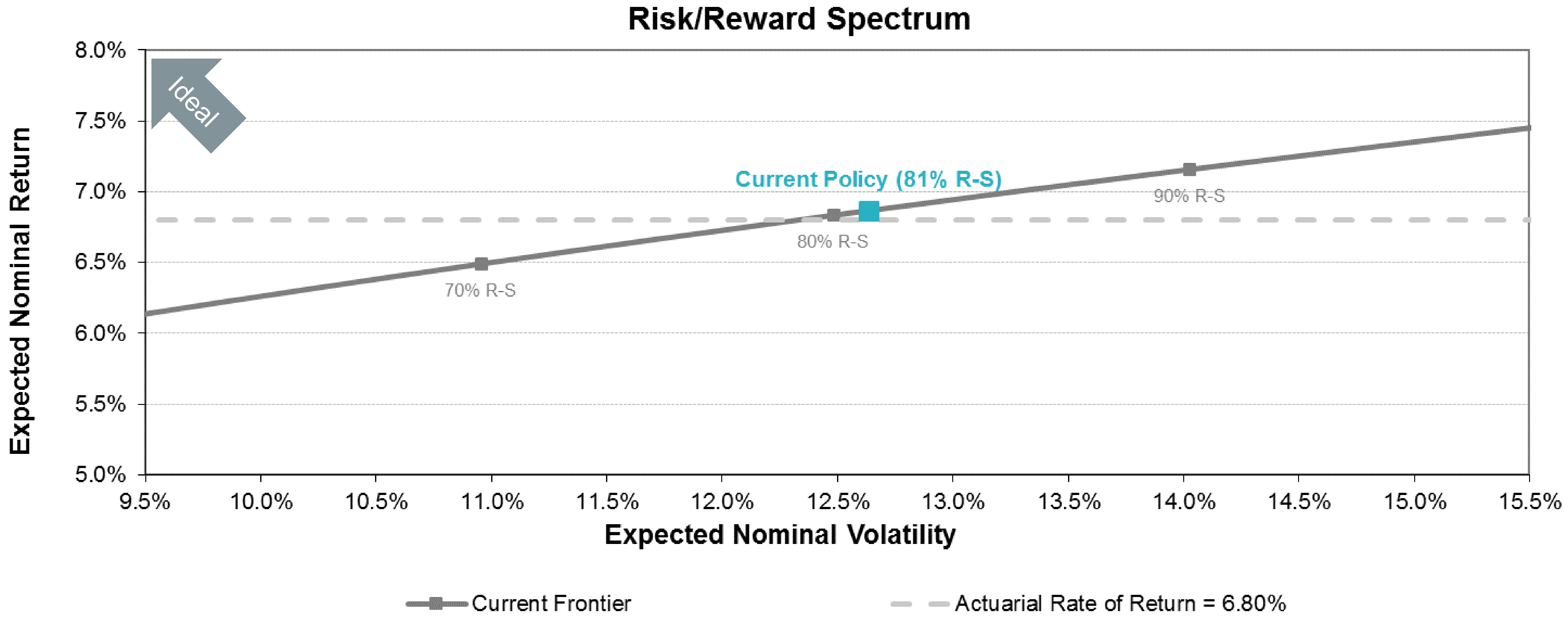
[1] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

Portfolio Analysis

Section 2: Analysis

Portfolio Analysis

Risk/Reward Spectrum



Key Takeaways:

- Current portfolio has an expected return of **6.87%**
- The current portfolio is well-diversified
  - Return-seeking assets are broadly diversified
  - Safety asset allocation should withstand stressed markets

Strategy	Expected Nominal Return[1,2]	Expected Nominal Volatility	Sharpe Ratio	Return-Seeking Assets: Public Equity	Return-Seeking Assets: Private Equity	Return-Seeking Assets: Strategic Allocation	Return-Seeking Assets: Real Estate	Risk-Reducing / Safety Assets: Cash	Risk-Reducing / Safety Assets: Interm. Duration Gov't Bonds	Risk-Reducing / Safety Assets: Interm. Duration Credit Bonds
Current Policy (81% R-S)	6.87%	12.64%	0.314	53%	6%	12%	10%	1%	9%	9%
Current Efficient Frontier										
60% Return-Seeking	6.13%	9.45%	0.341	39%	4%	9%	7%	1%	20%	20%
70% Return-Seeking	6.49%	10.95%	0.328	46%	5%	10%	9%	1%	15%	15%
80% Return-Seeking	6.84%	12.48%	0.315	52%	6%	12%	10%	1%	10%	10%
90% Return-Seeking	7.16%	14.03%	0.304	59%	7%	13%	11%	1%	5%	5%
100% Return-Seeking	7.47%	15.58%	0.293	65%	7%	15%	12%	0%	0%	0%

[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

[2] The portfolio's expected return of 6.87% is based upon current policy target weights for each asset class and the asset classes' expected returns and correlations. The portfolio's expected return is subject to change should the current policy targets change and/or the investment objective of an asset class change. Currently, the State Board of Administration (SBA) is performing a structural review of the Strategic Investments asset class and its role in the portfolio. Results of the structural review may lead to a different investment objective for the asset class and/or changes in policy target weights.

Percentages may not sum to 100% due to rounding.

Portfolio Analysis

Florida Retirement System's Asset Allocation versus Public Peers

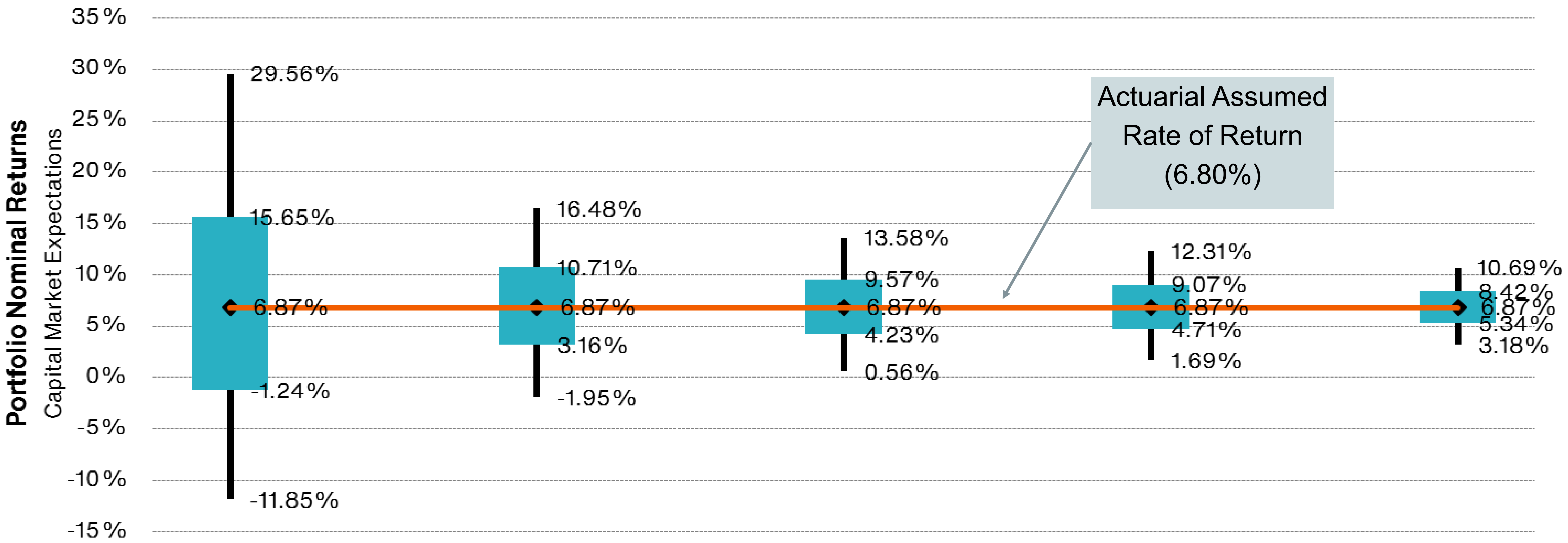
Asset Allocation	FRS	Public Pension Plans (>$5B)*	Total Public Pension Universe*	Wilshire Report on State Retirement Systems **
Equity Exposure				
Global Equity	53.0%	17.5%	15.6%	
Total U.S. Equity	0.0%	15.4%	17.6%	30.3%
Total Int'l Equity	0.0%	10.9%	11.7%	17.7%
Private Markets	6.0%	12.2%	11.4%	9.6%
Total Equity	***59.0%***	***56.0%***	***56.3%***	***57.6%***
Fixed Income Exposure				
U.S. Fixed Income	18.0%	10.2%	11.5%	
High Yield Bonds / Bank Loans	0.0%			
Private Debt	0.0%	1.9%	1.9%	
International / Global Fixed Income	0.0%	9.1%	8.1%	
Emerging Market Debt	0.0%	0.6%	0.7%	
Inflation Protected	0.0%			
Total Fixed Income	***18.0%***	***21.8%***	***22.2%***	***21.7%***
Real Asset Exposure				
Infrastructure	0.0%	1.5%	1.5%	
Commodities	0.0%	0.4%	0.4%	
Real Estate	10.0%	8.7%	8.5%	
Total Real Assets	***10.0%***	***10.6%***	***10.4%***	***12.0%***
Hedge Funds / Opportunistic	12.0%	4.2%	4.1%	
Multi-Asset / Risk Parity	0.0%	0.6%	0.7%	
Money Market / Cash	1.0%	1.6%	1.5%	
Leverage	0.0%			
Other	0.0%	5.2%	4.7%	8.7%
Net Other	***13.0%***	***11.6%***	***11.0%***	***8.7%***
Total	***100%***	***100%***	***100%***	***100%***

* Source: "Greenwich Associates - U.S. Institutional Investors 2021 - Market Trend Data Tables", Greenwich Associates

** Source: "2021 Report on State Retirement Systems: Funding Levels and Asset Allocations", Wilshire

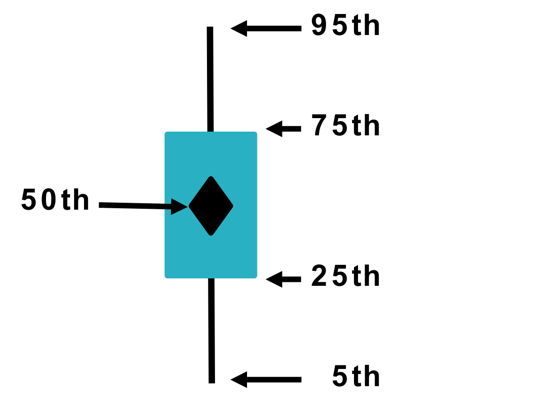
Portfolio Analysis

Range of Nominal Returns[1]



Percentile	Current Policy – 1 Year	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5th	-11.85%	-1.95%	0.56%	1.69%	3.18%
25th	-1.24%	3.26%	4.23%	4.71%	5.34%
50th	6.87%	6.87%	6.87%	6.87%	6.87%
75th	15.65%	10.71%	9.57%	9.07%	8.42%
95th	29.56%	16.48%	13.58%	12.31%	10.69%

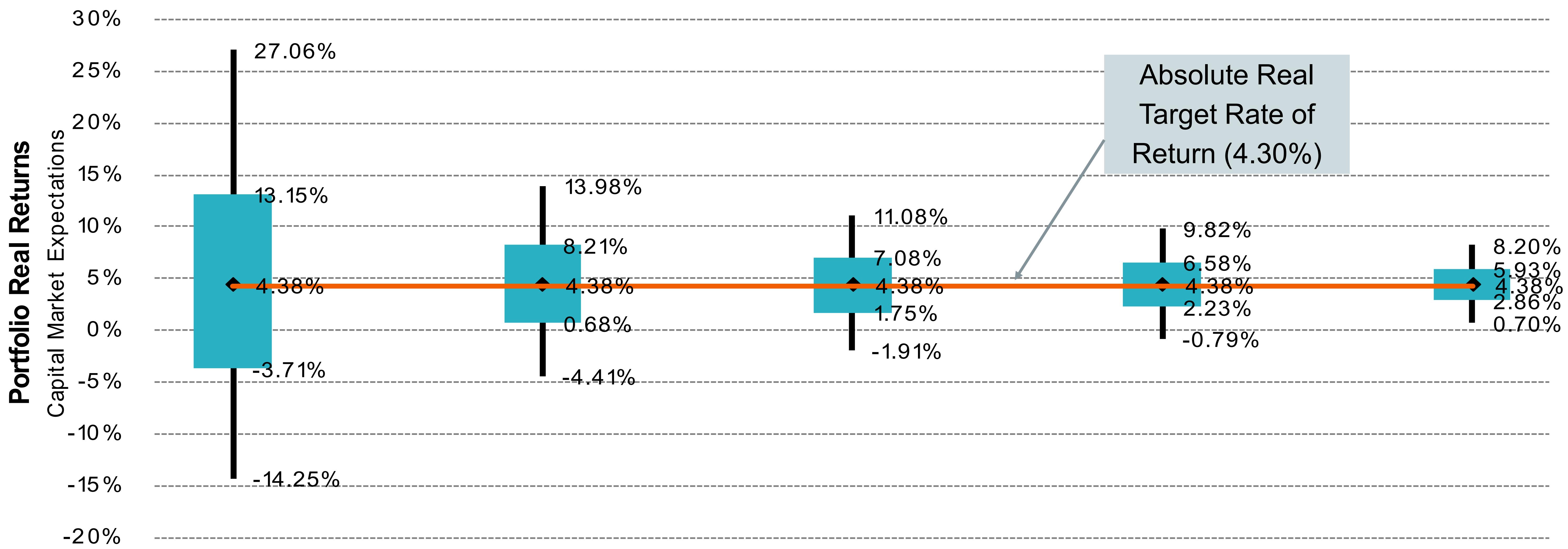
Legend: Distribution of Outcomes



[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

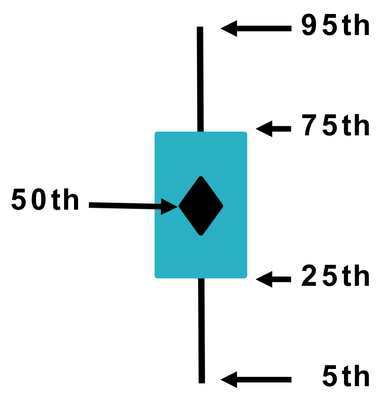
Portfolio Analysis

Range of Real Returns[1]



Percentile	Current Policy – 1 Year	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5th	-14.25%	-4.41%	-1.91%	-0.79%	0.70%
25th	-3.71%	0.68%	1.75%	2.23%	2.86%
50th	4.38%	4.38%	4.38%	4.38%	4.38%
75th	13.15%	8.21%	7.08%	6.58%	5.93%
95th	27.06%	13.98%	11.08%	9.82%	8.20%

Legend: Distribution of Outcomes



[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

Asset-Liability Projection Analysis

Section 2: Analysis

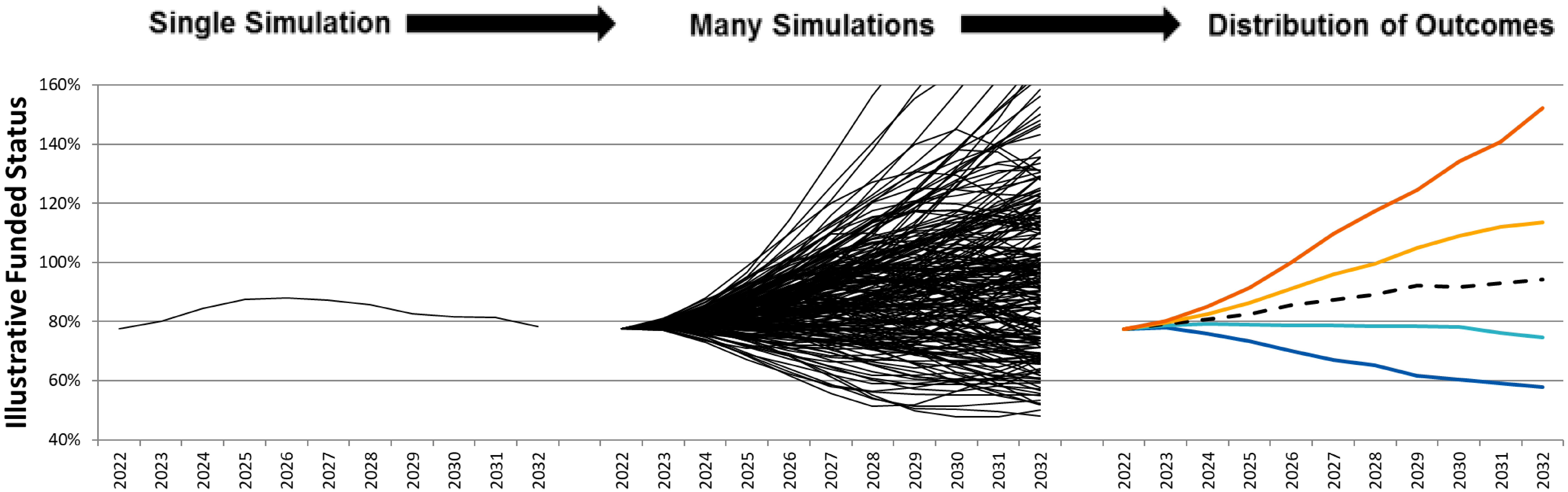
Asset-Liability Simulation Overview

Thousands of simulations plotted in one graph would be impossible to interpret

Instead, we rank the simulations at each point over the future

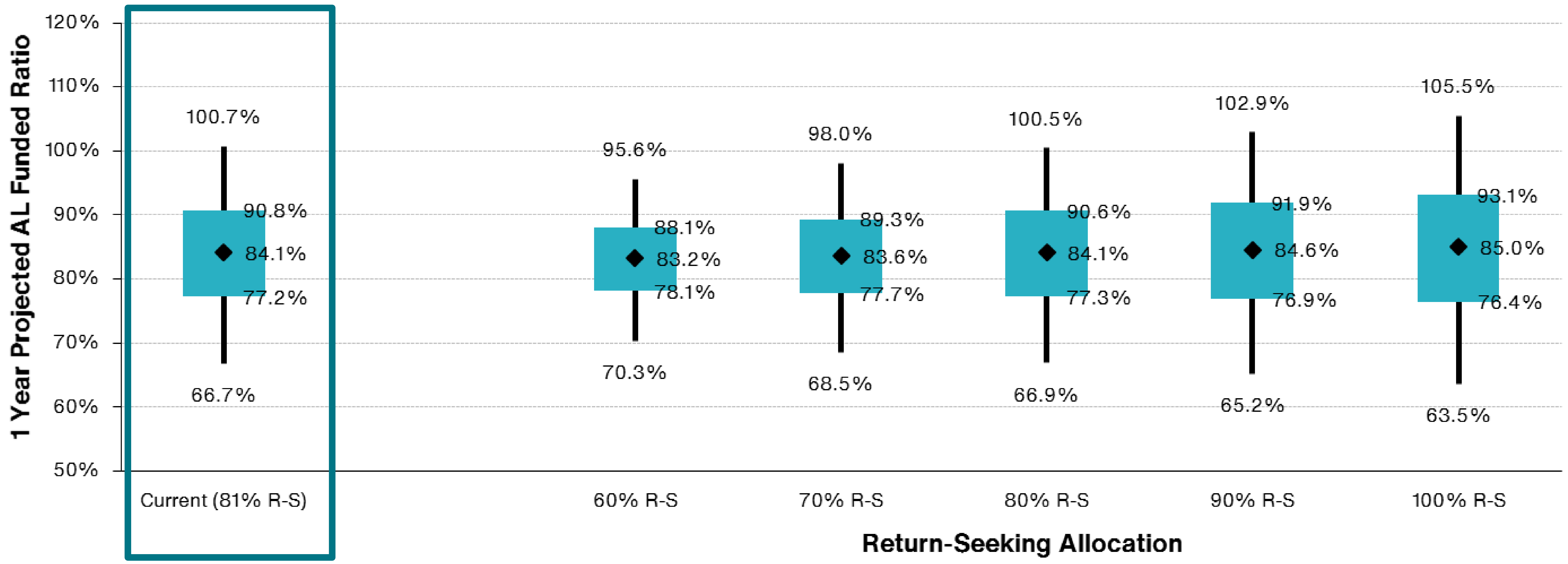
This produces a distribution of outcomes illustrating the degree of uncertainty of a plan's financial position over the projection period

Different investment strategies will produce different distributions of outcomes



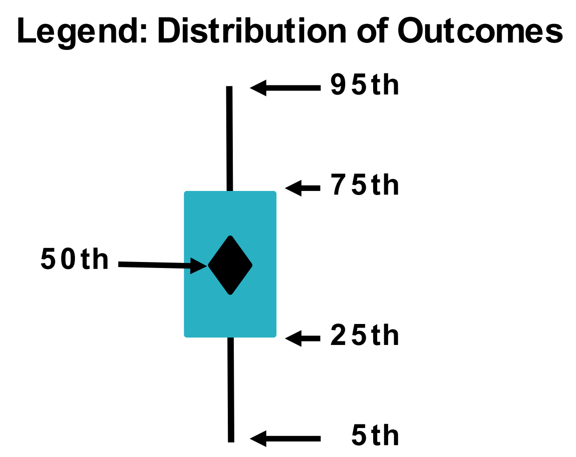
Asset-Liability Projection Analysis

Short-Term (1 Year) | Market Value of Assets / Actuarial Liability Funded Ratio



Key Takeaways:

- Higher risk portfolios are projected to have both more upside and downside potential over a short time horizon (1 year in this exhibit)
- Similarly, lower risk portfolios will have a narrower range of potential outcomes



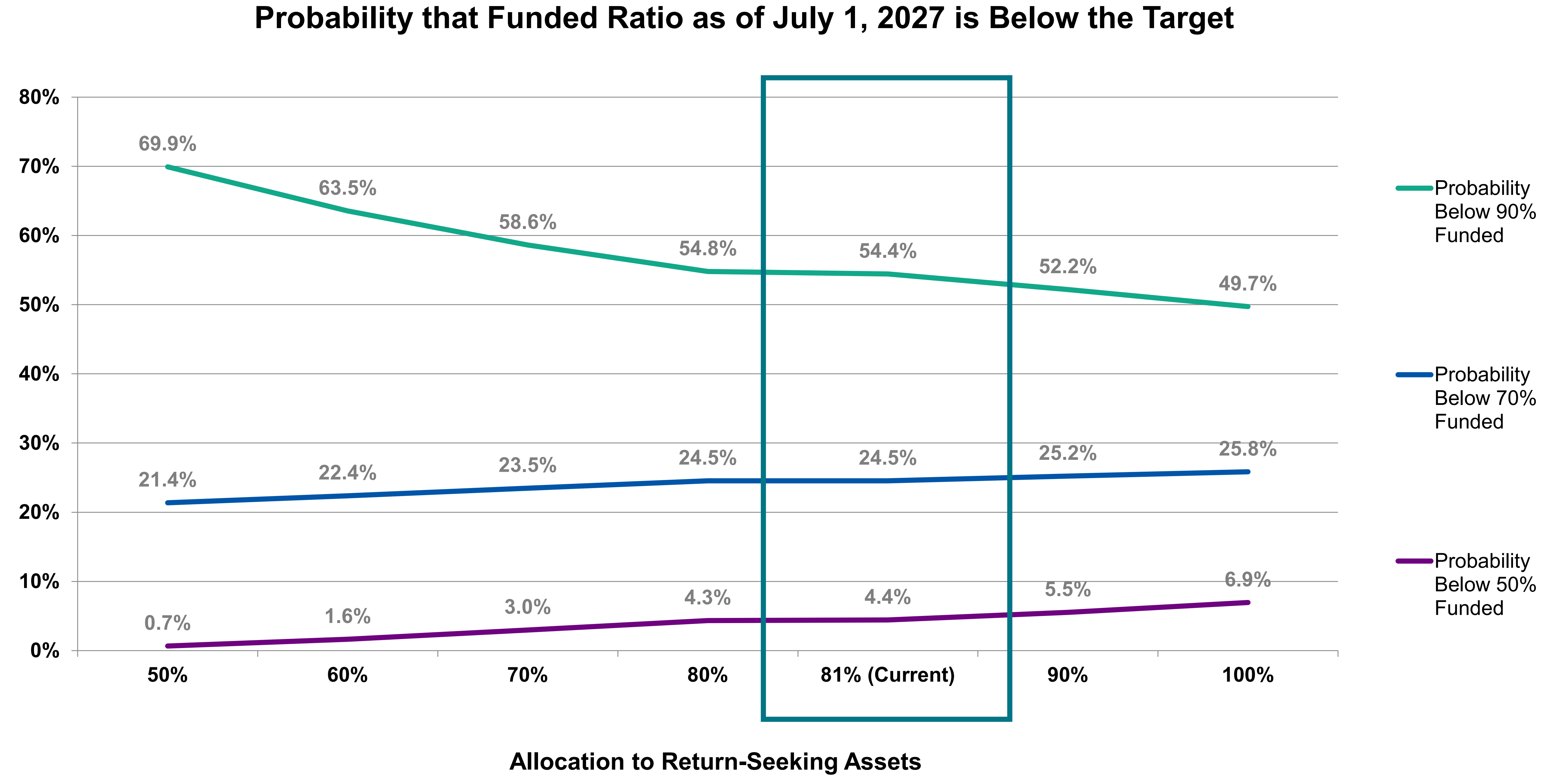
* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Short-Term Funded Ratio Shortfall Analysis (Based on Market Value of Assets)

FRS' funded ratio based on the current allocation projects to the following outcomes after 5 years:

- 54.4% probability of being below 90% funded
- 24.5% probability of being below 70% funded
- 4.4% probability of being below 50% funded



* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Key Takeaways:

90% Funded Status

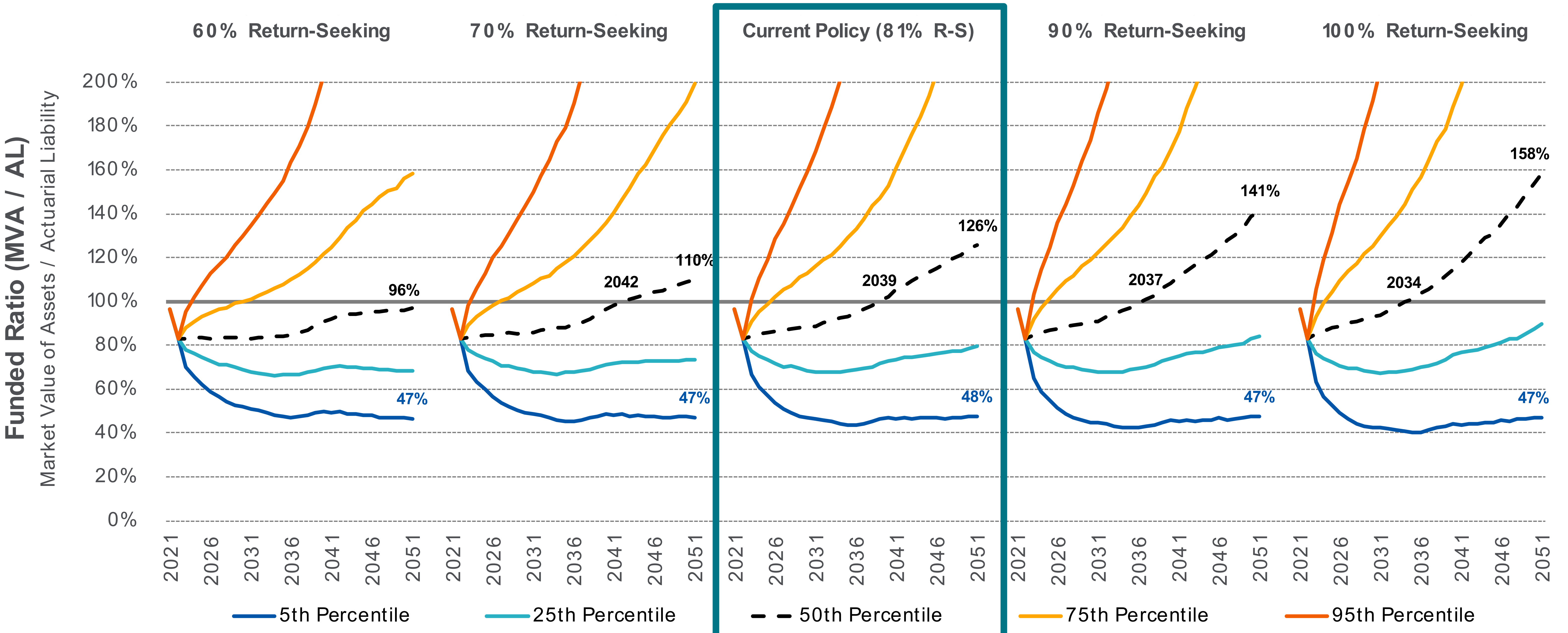
- Dialing up the risk to 90% return-seeking assets will decrease this probability of falling below 90% funded to 52.2%
- Dialing down risk to 70% return-seeking assets will increase the probability to 58.6%

50% Funded Status

- Dialing up the risk to 90% return-seeking assets will increase this probability of falling below 50% funded to 5.5%
- Dialing down risk to 70% return-seeking assets will decrease the probability to 3.0%

Asset-Liability Projection Analysis

Long-Term | Market Value of Assets / Actuarial Liability Funded Ratio



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2031	2041	2051	2031	2041	2051	2031	2041	2051	2031	2041	2051	2031	2041	2051
5th Percentile	51%	49%	47%	49%	48%	47%	47%	47%	48%	45%	45%	47%	43%	44%	47%
25th Percentile	68%	70%	68%	68%	72%	74%	68%	74%	79%	68%	75%	84%	67%	77%	89%
50th Percentile	83%	92%	97%	86%	98%	110%	89%	105%	126%	91%	111%	141%	94%	118%	158%
75th Percentile	101%	125%	159%	108%	140%	199%	116%	160%	>200%	122%	178%	>200%	130%	199%	>200%
95th Percentile	135%	>200%	>200%	150%	>200%	>200%	169%	>200%	>200%	186%	>200%	>200%	>200%	>200%	>200%

* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

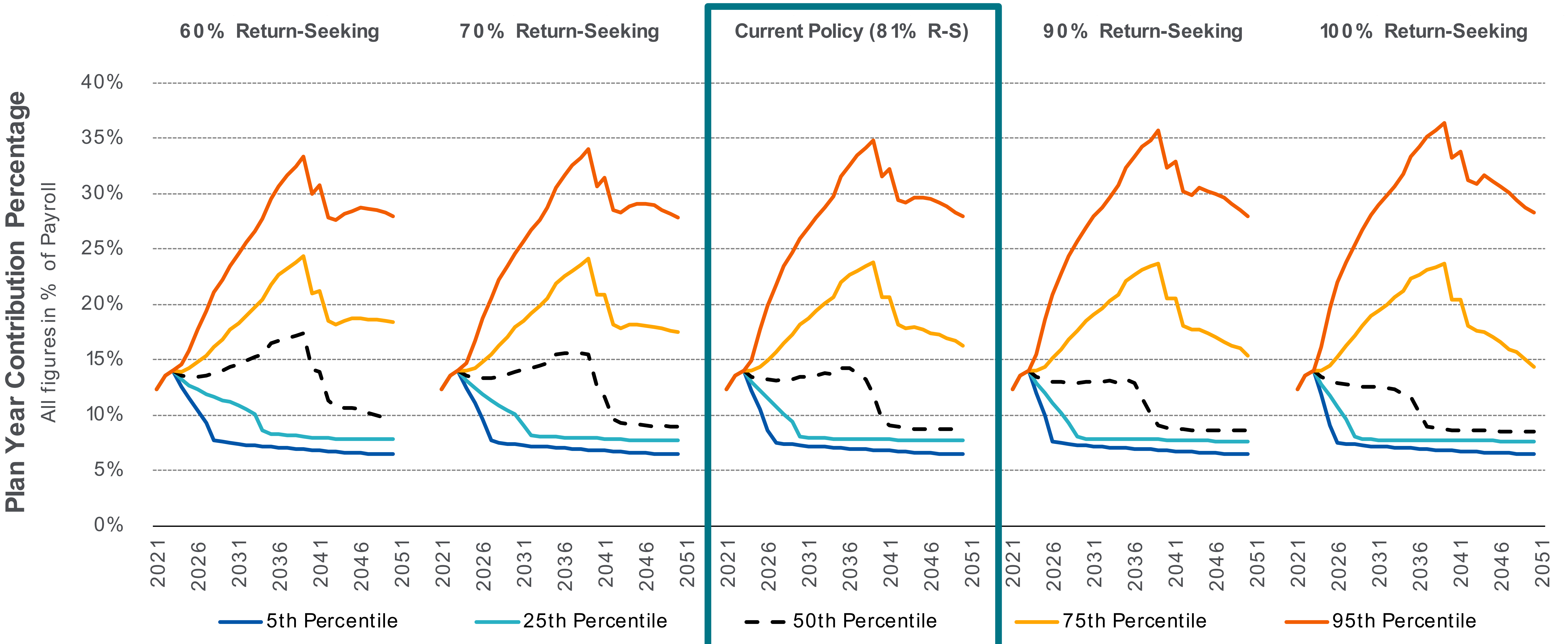
Key Takeaways:

- Under the Current Policy (81% R-S), the funded ratio is expected to decrease with FYE 2022 performance, then increase over the projection period in the central expectation (50th percentile outcome)
- Higher return-seeking allocations will increase the central trendline of funded ratio faster, albeit with more volatility
- Downside risk (5th percentile outcomes) illustrates a small likelihood of significant funded ratio deterioration over the projection period

AON

Asset-Liability Projection Analysis

Employer Contribution Rate ("Blended Rate")



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
5th Percentile	7%	7%	6%	7%	7%	6%	7%	7%	6%	7%	7%	6%	7%	7%	6%
25th Percentile	11%	8%	8%	10%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
50th Percentile	14%	14%	10%	14%	13%	9%	13%	10%	9%	13%	9%	9%	13%	9%	9%
75th Percentile	18%	21%	18%	18%	21%	18%	18%	21%	16%	19%	21%	15%	19%	20%	14%
95th Percentile	23%	30%	28%	25%	31%	28%	26%	32%	28%	27%	32%	28%	28%	33%	28%
Probability > 20%	17%	29%	22%	19%	28%	20%	20%	26%	19%	22%	26%	18%	23%	26%	17%

* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

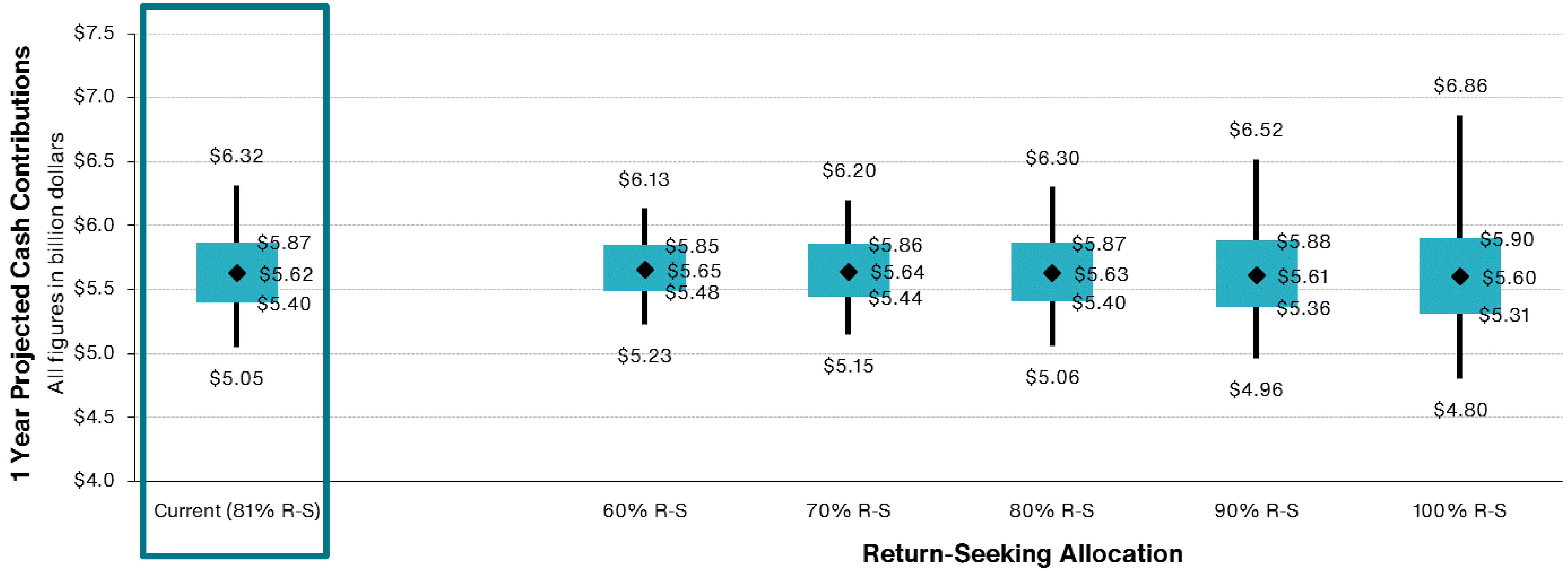
Key Takeaways:

- Employer contribution rate is expected to initially increase with recent asset performance and remain relatively stable before decreasing once amortization bases are fully recognized or the plan reaches full funding
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes
- 95th percentile results show potential contribution rates in excess of 30% over the next two decades, albeit with low likelihoods

AON

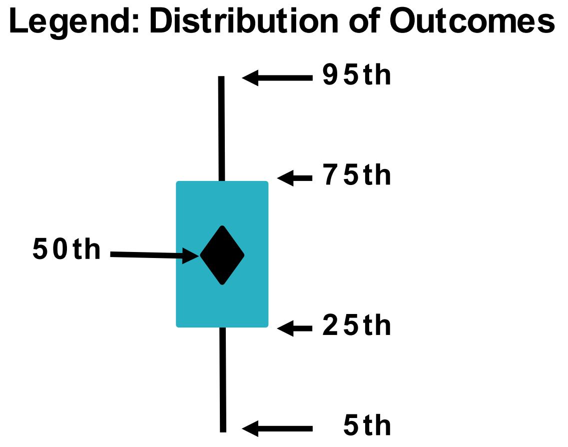
Asset-Liability Projection Analysis

Short-Term Contribution (Employer + Employee) Projections



Key Takeaways:

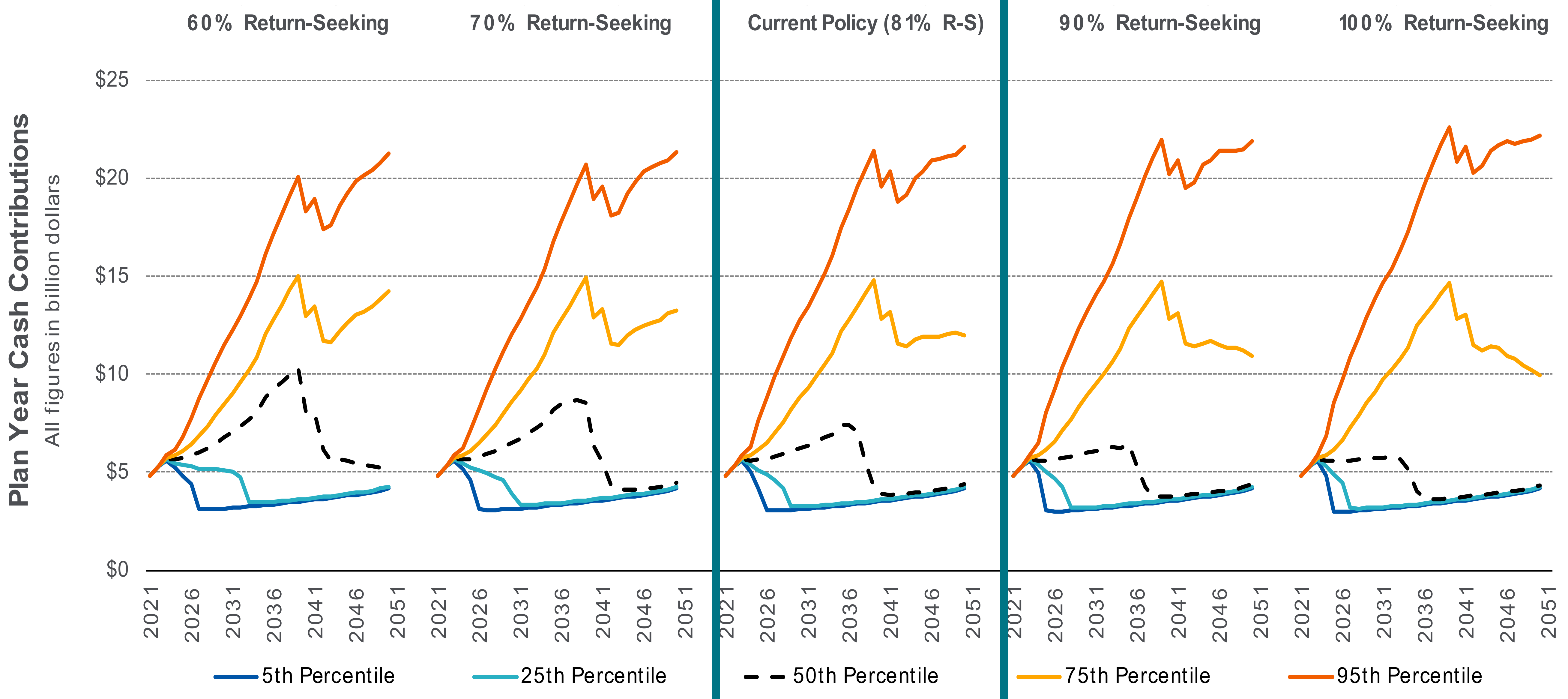
- Higher risk portfolios are projected to have both more upside and downside potential over a short time horizon (1 year in this exhibit)
- Similarly, lower risk portfolios will have a narrower range of potential outcomes



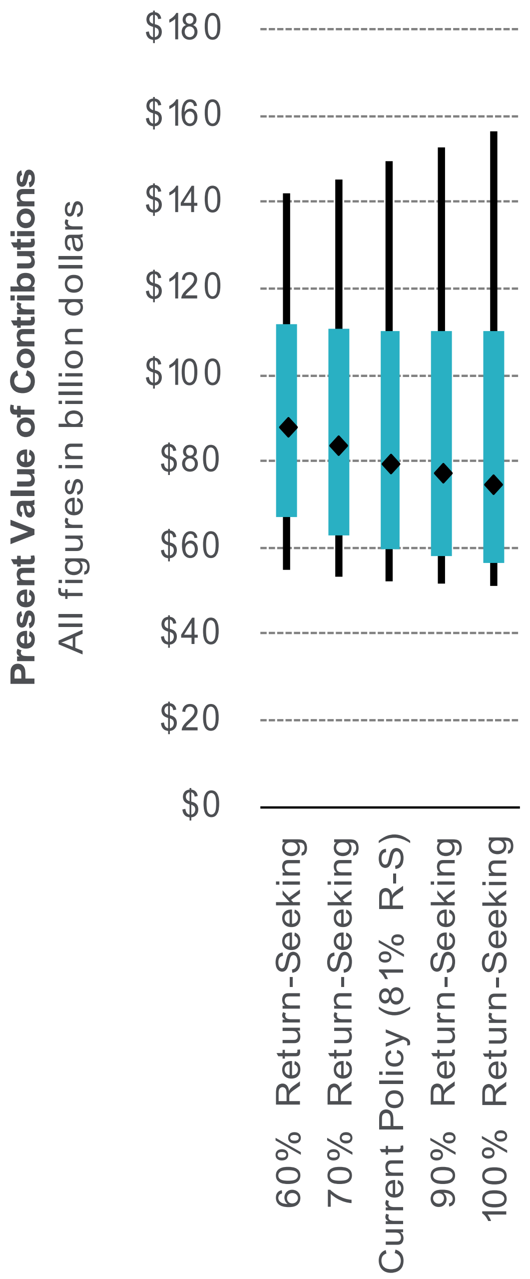
* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Total Contribution Amounts (Employer + Employee)



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
5th Percentile	$3.14	$3.54	$4.18	$3.12	$3.53	$4.17	$3.12	$3.53	$4.16	$3.11	$3.53	$4.16	$3.11	$3.53	$4.16
25th Percentile	$5.09	$3.64	$4.29	$3.90	$3.62	$4.26	$3.24	$3.60	$4.25	$3.21	$3.59	$4.24	$3.19	$3.59	$4.24
50th Percentile	$6.77	$8.15	$5.05	$6.52	$6.33	$4.44	$6.24	$3.87	$4.38	$6.02	$3.77	$4.36	$5.74	$3.72	$4.35
75th Percentile	$8.49	$13.00	$14.20	$8.62	$12.91	$13.25	$8.80	$12.81	$12.01	$8.96	$12.84	$10.95	$9.13	$12.80	$9.95
95th Percentile	$11.47	$18.31	$21.28	$12.07	$18.96	$21.35	$12.72	$19.60	$21.59	$13.27	$20.19	$21.86	$13.85	$20.83	$22.15



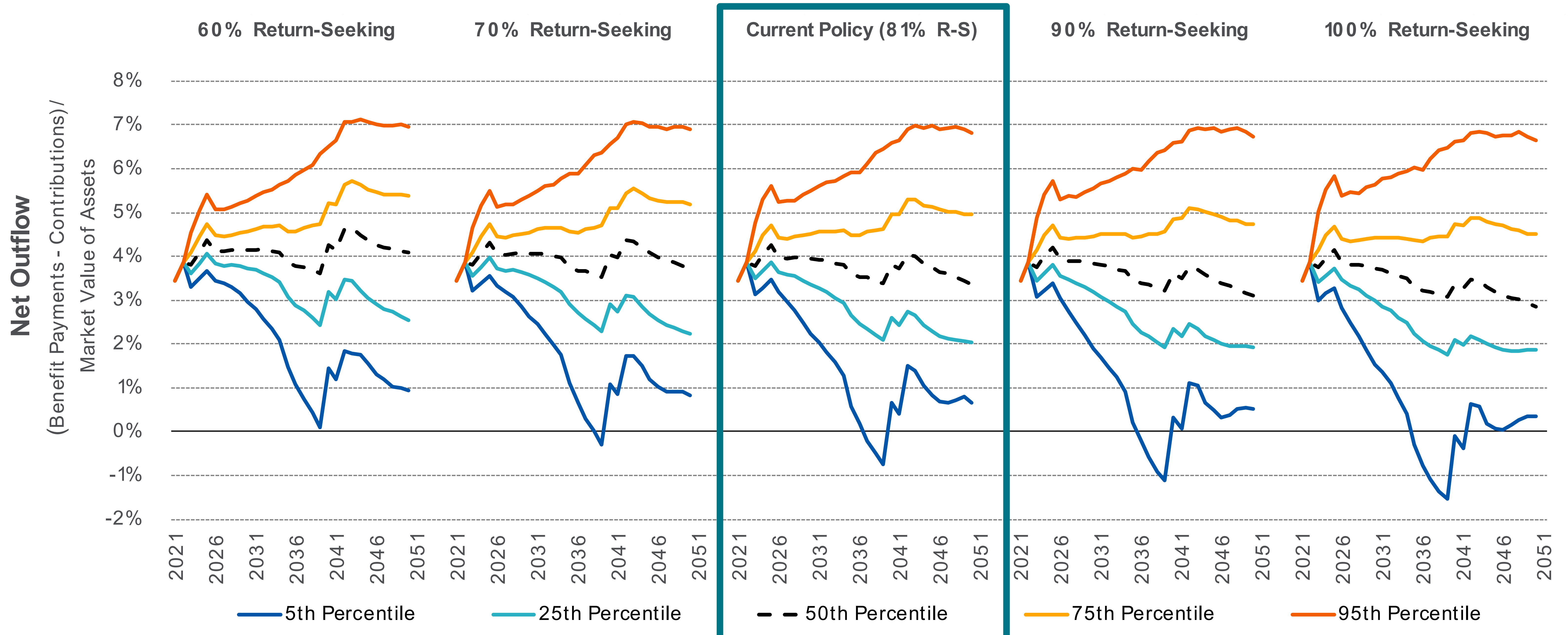
Key Takeaways:

- Total contribution amounts are expected to increase before decreasing once amortization bases are fully recognized or the plan reaches full funding
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes

* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Net Outflow Analysis: (Benefit Payments less Contributions) / Market Value of Assets



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
5th Percentile	3.0%	1.5%	0.9%	2.6%	1.1%	0.8%	2.2%	0.7%	0.6%	1.9%	0.3%	0.5%	1.5%	-0.1%	0.4%
25th Percentile	3.7%	3.2%	2.5%	3.6%	2.9%	2.2%	3.4%	2.6%	2.0%	3.2%	2.3%	1.9%	3.0%	2.1%	1.9%
50th Percentile	4.1%	4.2%	4.1%	4.1%	4.0%	3.7%	3.9%	3.8%	3.4%	3.8%	3.6%	3.1%	3.7%	3.4%	2.9%
75th Percentile	4.6%	5.2%	5.4%	4.5%	5.1%	5.2%	4.5%	5.0%	4.9%	4.5%	4.8%	4.7%	4.4%	4.7%	4.5%
95th Percentile	5.3%	6.5%	7.0%	5.4%	6.6%	6.9%	5.5%	6.6%	6.8%	5.6%	6.6%	6.7%	5.6%	6.6%	6.7%
Probability > 10%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%

* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Key Takeaways:

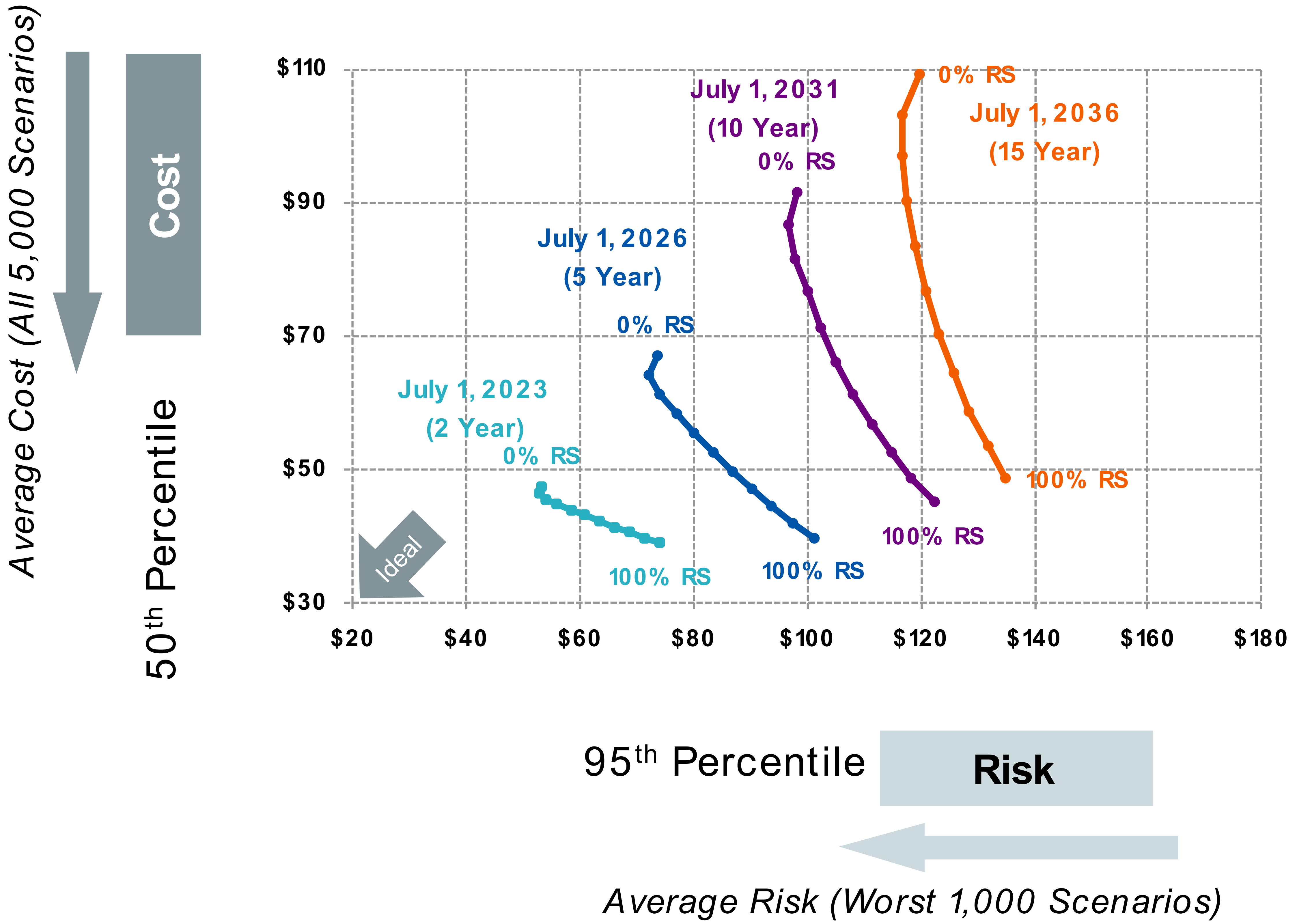
- Net outflows are expected to remain in the 3-4% range over the projection period
- Net outflows of 10%+ can put stress on fund liquidity over time; however, it is not likely over the projection period

Asset-Liability Projection Analysis

Economic Cost Analysis over a 2, 5, 10, and 15-Year Horizon

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 6.80%, $billions



* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Key Takeaways:

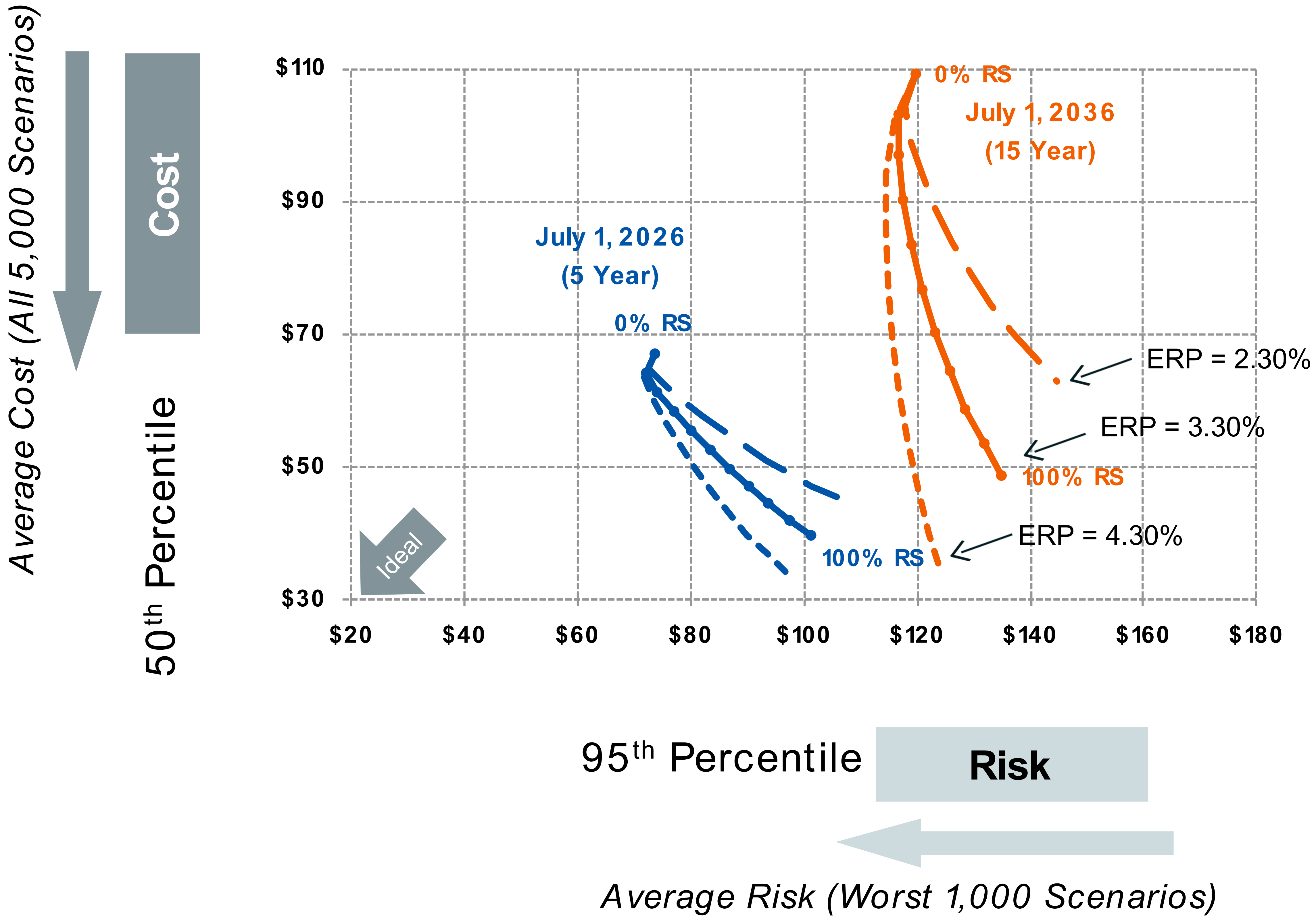
- Short time horizons (2 years) show largely horizontal economic cost curves – i.e., added risk does not result in a significant expected reward/economic cost reduction
- Longer time horizons (15 years) show largely vertical economic cost curves – i.e., added risk does result in a significant expected reward/economic cost reduction

Asset-Liability Projection Analysis

Sensitivity to Equity Risk Premium Assumption

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 6.80%, $billions



* Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied

Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Key Takeaways:

- The dashed lines illustrate how the Economic Cost curve shifts under alternative equity risk premium assumptions over a 5 and 15-year time horizon.
- The longer the time horizon, the more incentivized the program is to take risk (Blue vs. Orange lines): the lines move more vertically, indicating more cost benefit from increasing return-seeking assets
- A similar relationship exists related to the ERP: higher ERP incentivizes more risk taking; as the ERP moves higher, average costs move down and the incremental risk becomes lower

Liquidity Analysis

Section 2: Analysis

Liquidity Analysis
Background

Florida Retirement System's (FRS) liquidity analysis is performed under its Current Policy (81% R-S) portfolio

Intended as a stress-testing model, incorporating the profile of the liabilities as well as expected future contributions

Uses different scenarios for economic environments and other relevant events

Shows how the portfolio's liquidity profile could evolve with a given investment strategy

We categorized investments by liquidity into five buckets

Liquid (Risk-Reducing Assets): less than 3 months needed for return of capital (e.g. publicly traded securities)

Liquid (Return-Seeking Assets): less than 3 months needed for return of capital (e.g. publicly traded securities)

Quasi-Liquid: Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Dark Skies scenario (e.g. many hedge funds, open-end real assets)

Illiquid: Potential lock-up of 5–10 years, depending on economic environment (e.g. closed-end real assets)

Illiquid: Potential lock-up of 10+ years (e.g. typical private equity)

This is intended to be a *conservative* approximation of the actual liquidity properties of the assets

Liquidity Analysis

Asset Allocation and Liquidity Category (Current Policy)

	Asset Class	Target Asset Allocation				
		Liquid	*Quasi-Liquid*	*Illiquid 5-10 Years*	*Illiquid 10+ Years*	*Total*
Return-Seeking	Global Equity	53.00%				53.00%
	Private Equity				6.00%	6.00%
	Real Estate	1.00%	7.65%	1.35%		10.00%
	Strategic Allocation		6.00%	6.00%		12.00%
	Subtotal	54.00%	13.65%	7.35%	6.00%	81.00%
Risk-Reducing/ Safety	Intermediate Duration Fixed Income	18.00%				18.00%
	Cash	1.00%				1.00%
	Subtotal	19.00%	0.00%	0.00%	0.00%	19.00%
	Total	73.00%	13.65%	7.35%	6.00%	100.00%

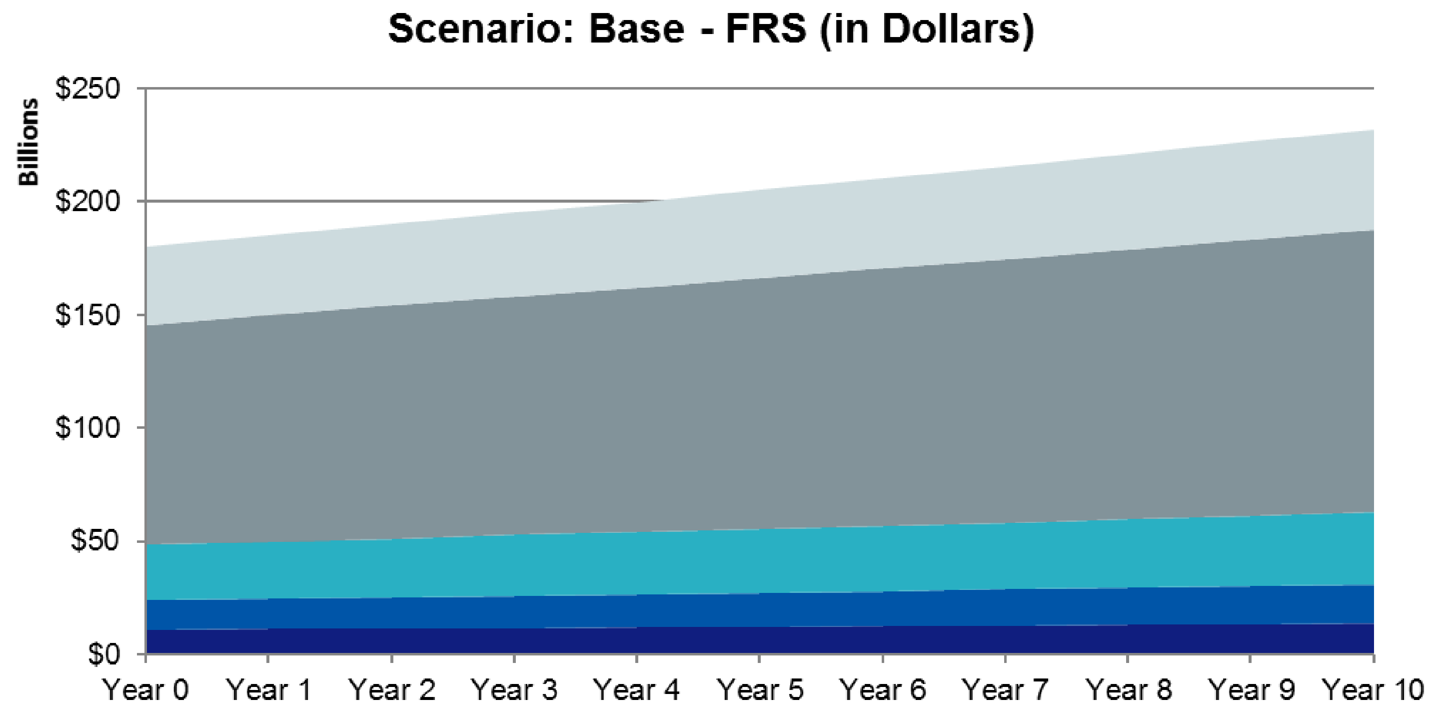
27% illiquid assets

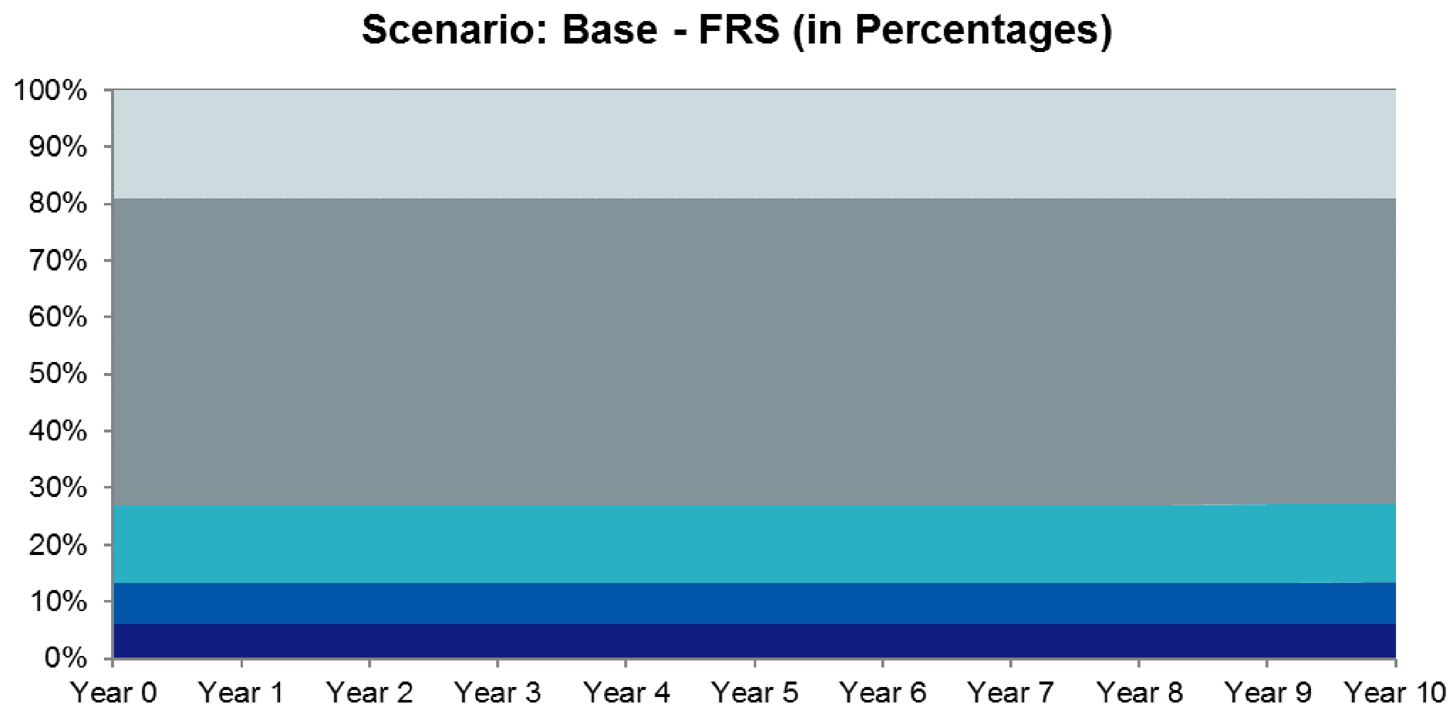
Liquidity Analysis

Current Policy (Assuming Full Actuarial Contributions)

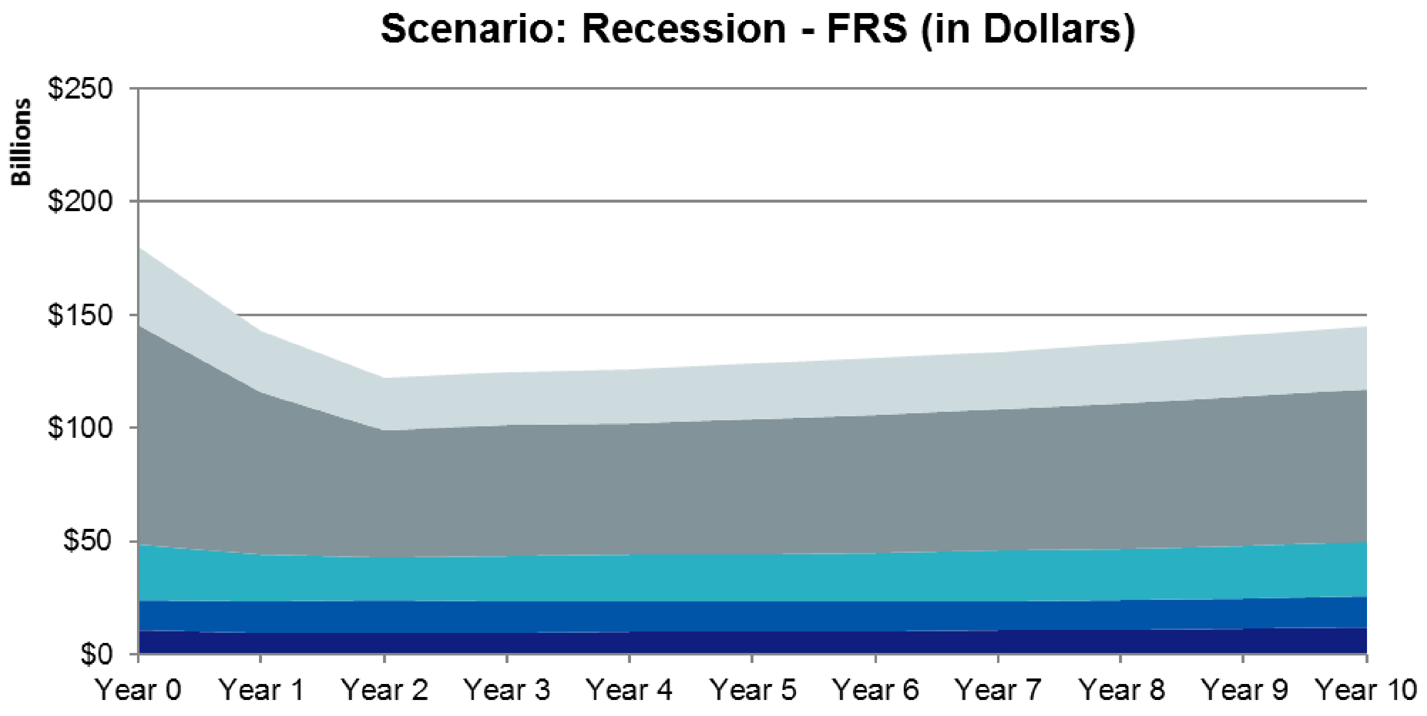
■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)

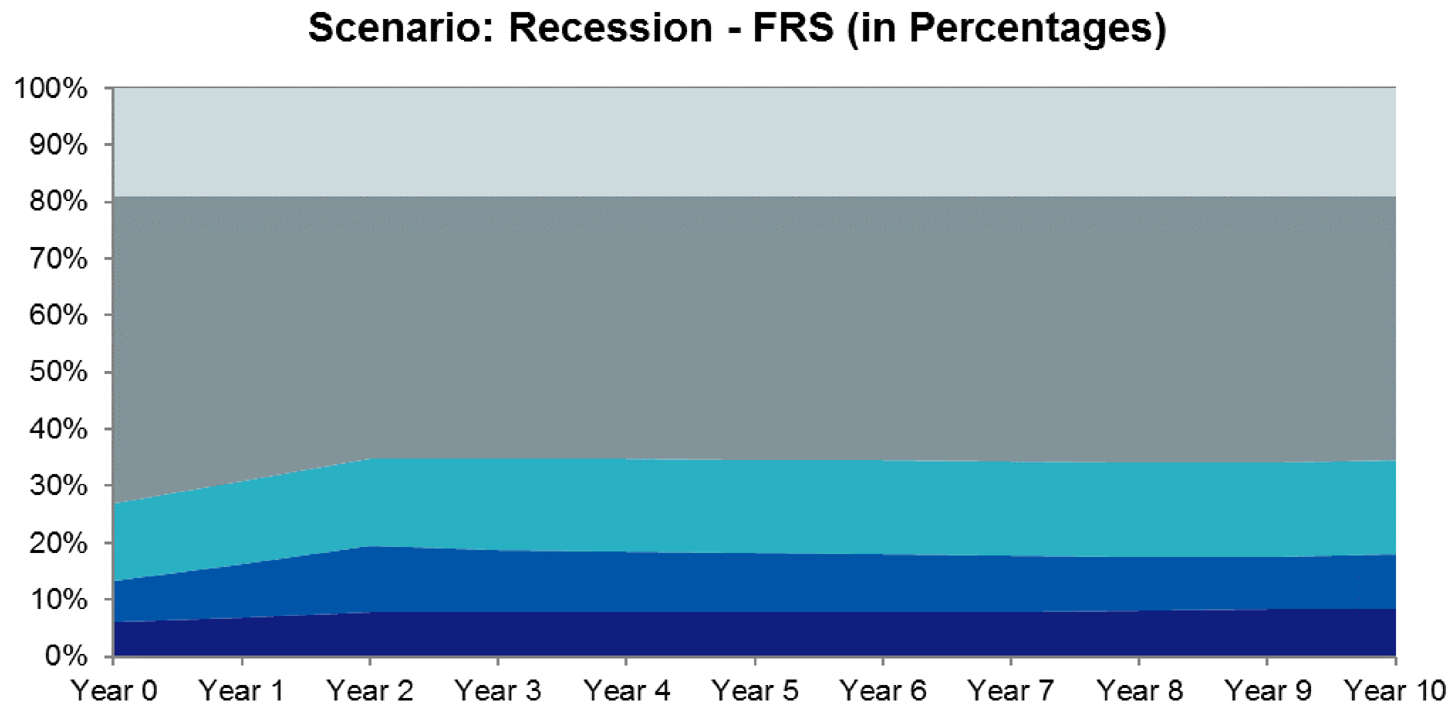
Base Case



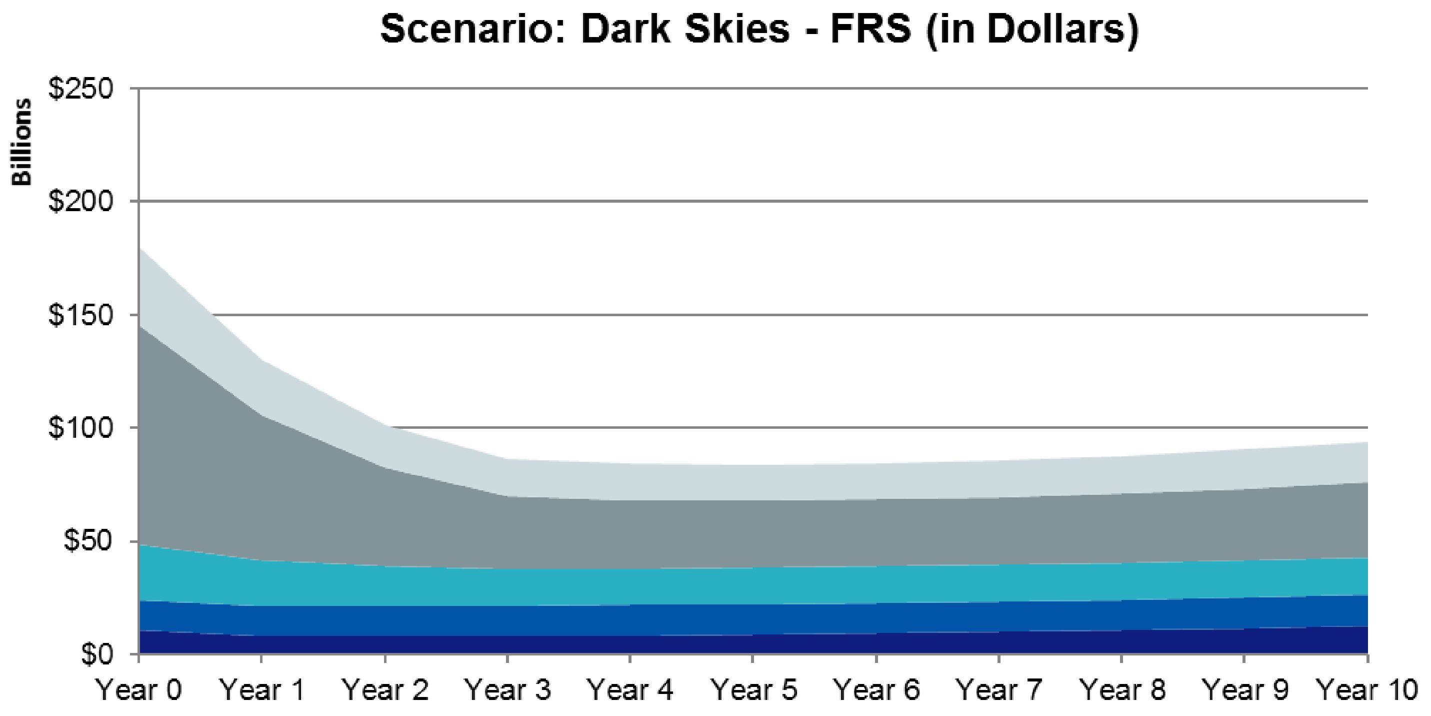


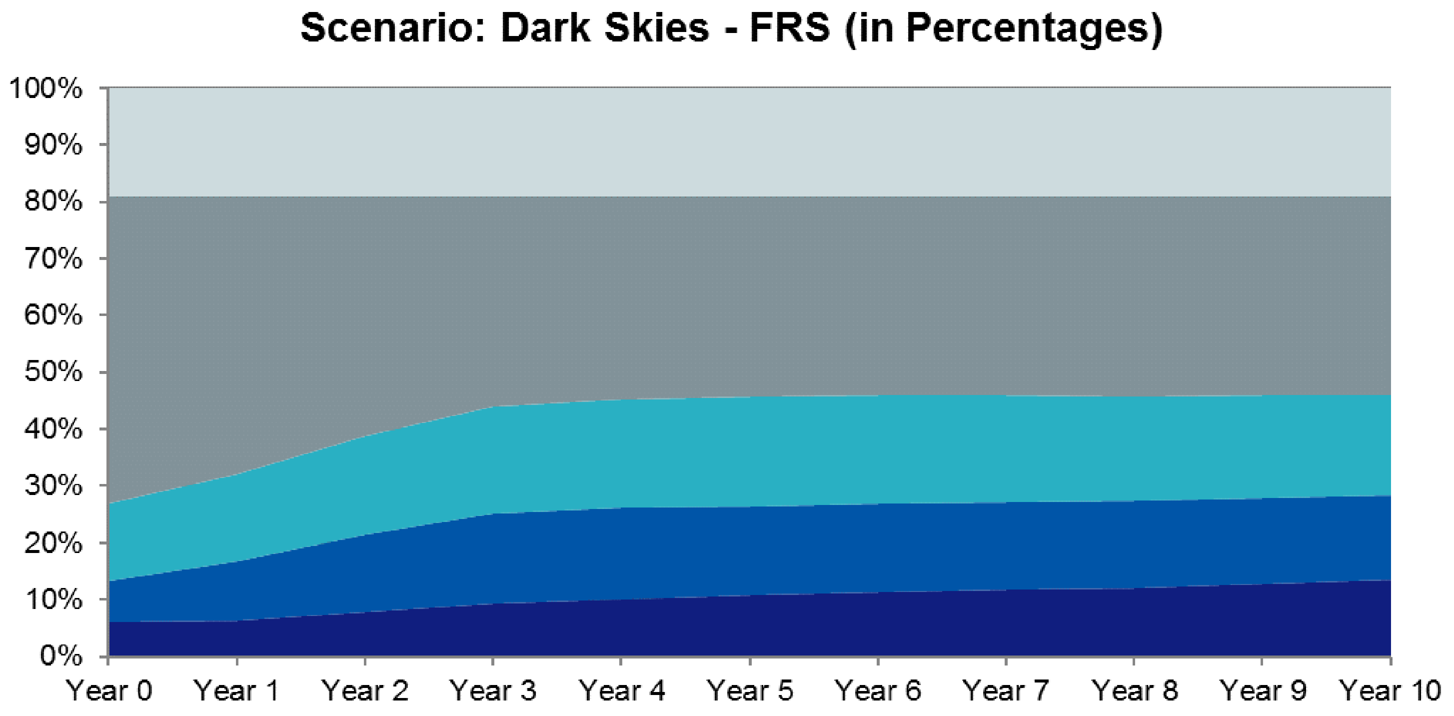
Recession





Dark Skies





Note: Year 0 represents a starting point of June 30, 2022

Liquidity Analysis
Conclusions

FRS has sufficient liquidity in the modeled Base Case, Recession, and Dark Skies scenarios

- The total illiquid and quasi-liquid assets can be maintained near the target allocation with no cash flow problems
- In pessimistic scenarios, the allocation could drift enough from the target allocation that FRS may want to rebalance

This analysis is highly sensitive to the assumed contributions

- If FRS receives less contributions than assumed, especially in a Dark Skies environment, then illiquid investments drift even further from target and the potential for liquidity issues increases

3

Summary & Conclusions

AON

Summary of Results

All Scenarios $ billions	Expected Nominal Return[1]	Expected Nominal Volatility	Sharpe Ratio	30-year Present Value of Gross Contributions (Employee + Employer)		30-year Ending Funded Ratio (MVA / AL)	
				Expected[2]	Downside[3]	Expected[2]	Downside[4]
Current Policy (81% R-S)	6.87%	12.64%	0.314	$79.8	$149.3	126%	48%
Current Frontier							
0% Return-Seeking	3.45%	3.53%	0.157	$122.0	$133.5	53%	40%
10% Return-Seeking	3.96%	3.53%	0.299	$116.1	$130.6	58%	42%
20% Return-Seeking	4.44%	4.20%	0.366	$110.2	$131.0	63%	43%
30% Return-Seeking	4.89%	5.28%	0.378	$104.2	$132.8	69%	44%
40% Return-Seeking	5.33%	6.58%	0.369	$98.2	$135.7	77%	45%
50% Return-Seeking	5.74%	7.98%	0.356	$92.8	$138.7	86%	46%
60% Return-Seeking	6.13%	9.45%	0.341	$88.1	$142.0	97%	47%
70% Return-Seeking	6.49%	10.95%	0.328	$83.7	$145.4	110%	47%
80% Return-Seeking	6.84%	12.48%	0.315	$80.1	$149.1	124%	47%
90% Return-Seeking	7.16%	14.03%	0.304	$77.5	$152.7	141%	47%
100% Return-Seeking	7.47%	15.58%	0.293	$75.0	$156.2	158%	47%

[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

[2] Expected = 50th percentile outcome or central expectation across all 5,000 simulations

[3] Downside = 95th percentile outcome across all 5,000 simulations

[4] Downside = 5th percentile outcome across all 5,000 simulations

Key Takeaways:

- The funded ratio is expected to decrease initially before increasing over the projection period under the Current Policy
- Total contribution amounts are expected to increase before decreasing once amortization bases are fully recognized or the plan reaches full funding
- Adjusting the return-seeking vs. risk-reducing allocation will exhibit a standard risk/reward trade-off of expected costs and risks – longer time horizons will incentivize higher allocations to return-seeking assets

Summary and Conclusions

Portfolio Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- Asset returns (**6.87%**[1,2]) are expected to keep pace with the actuarial assumed rate of return (6.80%)
- The equity risk premium is 3.30%[3] in this 2022 Asset-Liability Study, compared to 3.92% from 2021; the change was driven by the increase in projected fixed income returns outpacing the increase in projected equity returns

Asset-Liability Projection Analysis

- The funded ratio is expected to decrease with FYE 2022 returns before increasing over the course of the projection period in our central expectation (50th percentile outcome)
- Expected returns (6.87%[1,2]) exceeding the actuarial assumed rate of return (6.80%) and shortening the amortization periods help the plan reach **full funding by 2039** in our central expectation (50th percentile outcome)
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

Liquidity Analysis

- The current portfolio is projected to have **sufficient liquidity** in the modeled Base Case, Recession, and Dark Skies scenarios

[1] Expected returns are using AIUSA Q3 2022 30-Year Capital Market Assumptions (CMAs) as of June 30, 2022 adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment), which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

[2] The portfolio's expected return of 6.87% is based upon current policy target weights for each asset class and the asset classes' expected returns and correlations. The portfolio's expected return is subject to change should the current policy targets change and/or the investment objective of an asset class change. Currently, the State Board of Administration (SBA) is performing a structural review of the Strategic Investments asset class and its role in the portfolio. Results of the structural review may lead to a different investment objective for the asset class and/or changes in policy target weights.

[3] Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

Investment Strategy Cycle

Start With an Asset-Liability Study, Focus on Implementation Next, Then Review

Asset-Liability Study: Return-Seeking vs. Risk-Reducing Exposure

- Primary driver of long-term success
- Important to set strategy in the context of plan liabilities
- The SBA has an **81%** return-seeking allocation posture

Asset Allocation Review: Asset Class Utilization

- Translate results of A-L study into an actionable strategic asset allocation
- Current return-seeking asset classes include public equity, private equity, real estate, and strategic investments
- Current risk-reducing assets include cash and intermediate duration fixed income

Structure Review: Structure of Asset Classes

- Assure implementation conforms with stated objectives and risk tolerance
  - Risk-focused approach
  - Efficient, cost effective implementation

Ongoing Review: Performance as planned; no surprises

- Proactive assessment of portfolio and risks
- Related oversight functions: proxy voting, etc.

Today's Focus:

81% Return-seeking

Up Next:

Construction of Return-Seeking Portfolio

4

Appendix

- Additional Asset-Liability Analysis
- Methods & Assumptions
- 2021 Horizon Survey Results
- Liquidity Analysis Detail
- Public Pension Peer Comparison
- How Do Public Pensions Impact Credit Ratings?
- Glossary of Terms
- About This Material

Additional Asset-Liability Analysis

Section 4: Appendix

Asset-Liability Projection Analysis

Detailed Results of Economic Cost Analysis over a 2, 5, 10, and 15-Year Horizon

$ billions	July 1, 2023 (2 Years)		July 1, 2026 (5 Years)		July 1, 2031 (10 Years)		July 1, 2036 (15 Years)	
	Cost	Risk	Cost	Risk	Cost	Risk	Cost	Risk
Current Policy (81% R-S)	$40.6	$69.0	$44.2	$94.0	$52.4	$115.1	$58.3	$128.9
Current Frontier								
0% Return-Seeking	$47.3	$53.4	$67.0	$73.4	$91.4	$98.3	$109.3	$119.6
10% Return-Seeking	$46.5	$52.7	$64.2	$72.1	$86.7	$96.7	$103.3	$116.9
20% Return-Seeking	$45.7	$53.9	$61.4	$74.1	$81.7	$98.0	$96.9	$116.7
30% Return-Seeking	$44.8	$55.9	$58.5	$76.9	$76.6	$100.0	$90.2	$117.6
40% Return-Seeking	$44.0	$58.3	$55.6	$80.1	$71.4	$102.5	$83.4	$119.0
50% Return-Seeking	$43.2	$60.8	$52.6	$83.3	$66.2	$105.2	$76.7	$121.0
60% Return-Seeking	$42.3	$63.4	$49.8	$86.7	$61.4	$108.1	$70.4	$123.2
70% Return-Seeking	$41.5	$66.1	$47.0	$90.1	$56.9	$111.3	$64.5	$125.8
80% Return-Seeking	$40.7	$68.8	$44.5	$93.7	$52.8	$114.8	$58.8	$128.6
90% Return-Seeking	$39.8	$71.4	$42.1	$97.3	$48.8	$118.4	$53.5	$131.7
100% Return-Seeking	$39.0	$74.1	$39.9	$101.1	$45.1	$122.2	$48.7	$134.9

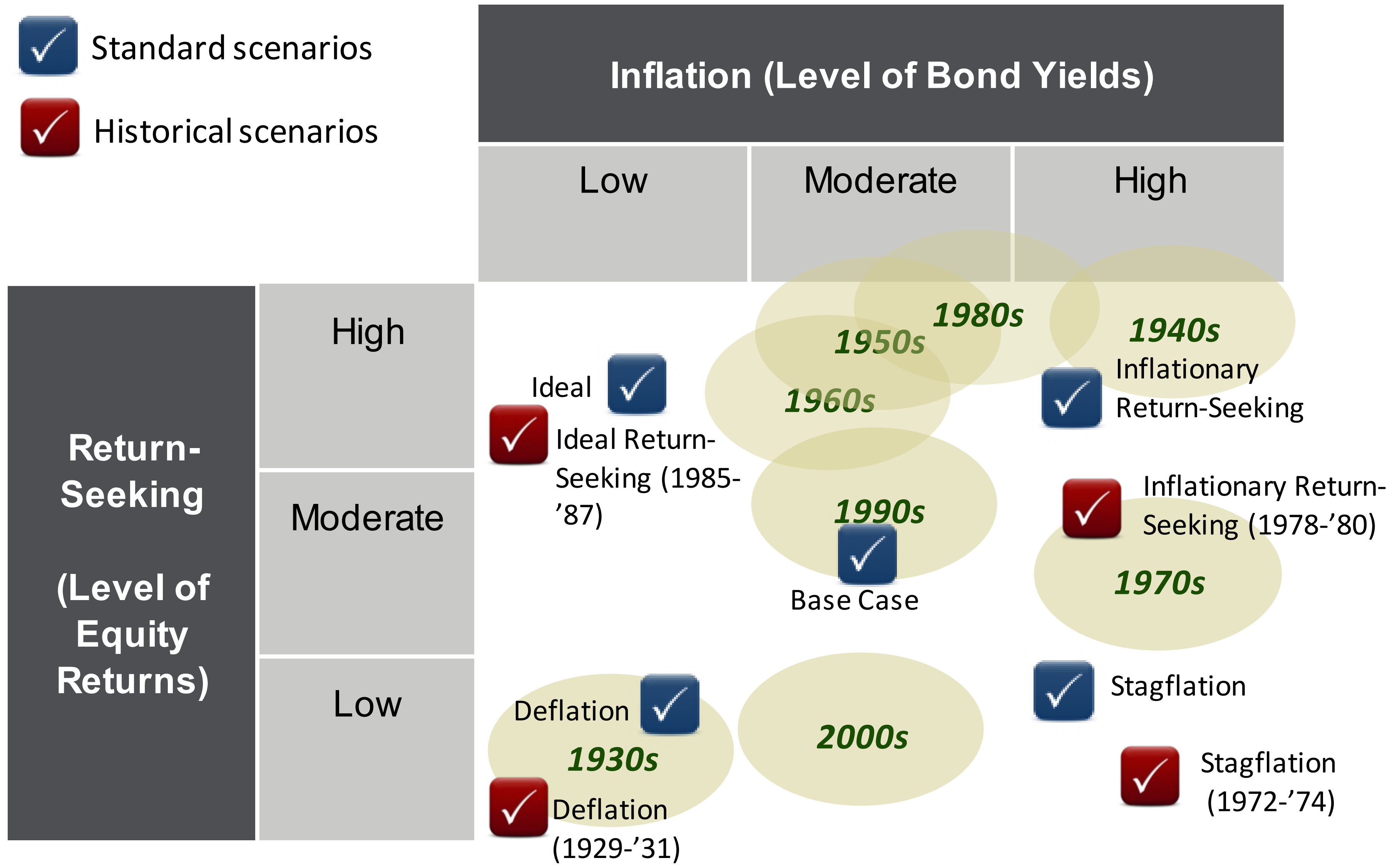
Projections assume constant 6.80% discount rate for pension liabilities for all investment policies studied
Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Asset-Liability Projection Analysis

Scenario Analysis

- Five economic scenarios were modeled in this report
- The economic scenarios vary by the average level of growth and inflation over the forecast period
- The chart below provides historical context for the five scenarios

- Simulations reflecting these characteristics were drawn from the total of all simulations
- Level of Inflation was based on the average yield on 10yr Treasuries
- Level of Growth was based on the average return on Global Equity
- Simulations were then grouped into scenarios based on the deciles of inflation and growth: 1st through 3rd deciles were considered “Low”, 4th through 7th considered “Moderate”, and 8th through 10th considered “High”

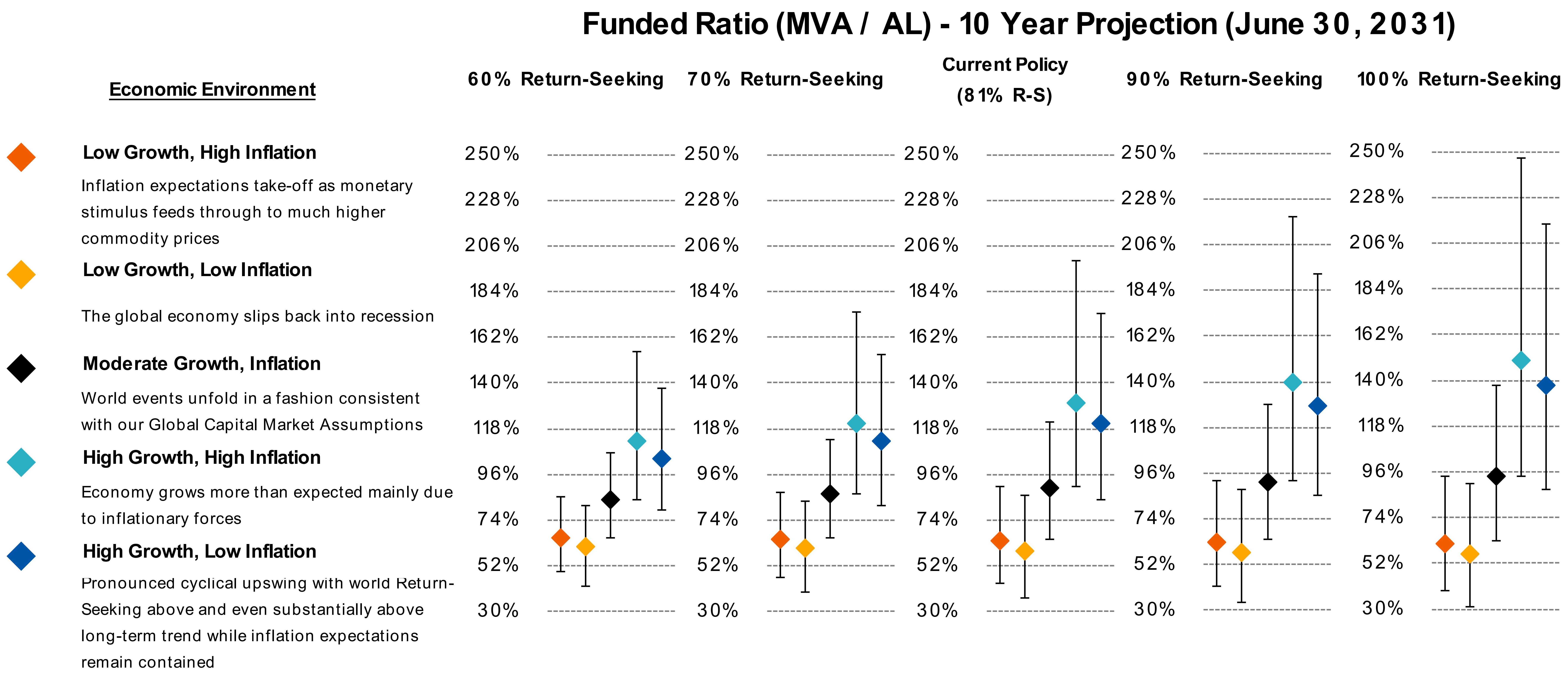


✓ Standard scenarios

Return-Seeking (Level of Equity Returns)		Inflation (Level of Bond Yields): Low, Avg yield = 2.2%	Moderate, Avg yield = 3.4%	High, Avg yield = 5.0%
	High, Avg return = 16.0%	✓ 6% weight	11% weight	✓ 13% weight
	Moderate, Avg return = 9.2%	12% weight	✓ 17% weight	11% weight
	Low, Avg return = 2.4%	✓ 12% weight	12% weight	✓ 6% weight

Asset-Liability Projection Analysis

“What if?" Scenario Analysis | 10-Year Funded Ratio Projections



Key Takeaways:

- The Plan performs best in high growth / high inflation scenarios
- Growth scenarios are expected to be the driving force behind funded ratio projections over the next ten years

Methods & Assumptions

Section 4: Appendix

Actuarial Assumptions and Methods

Data

- Actuarial information was taken from the July 1, 2021 actuarial valuation results

Actuarial assumptions:

- Valuation Rate of Interest = 6.80%
- Inflation = 2.40%
- Payroll Growth = 3.25%
- Actuarial Value of Assets: Reflects a five-year averaging methodology where 20% of the difference between the actual market value and the expected actuarial value of assets is immediately recognized but restricted to a 20% corridor around the Market Value of Assets
- All other assumptions as documented in the Actuarial Valuation Report as of July 1, 2021, unless noted otherwise

Actuarial Assumptions and Methods

Contribution Policy

- Normal Cost plus a level percent amortization of the unfunded liability using a 3.25% salary scale
- New amortization bases are established each year, creating a layered 20-year amortization base
- Blended Contribution Rate = projected combined amount that would be contributed for both the FRS Pension Plan and the FRS Investment Plan based on the total projected payroll for both plans
  - FRS Investment Plan employer rate is assumed to remain level at 7.47%
- Employee contribution rate is assumed to remain level at 3.00%

Projection Assumptions

- Estimated June 30, 2022 liability was adjusted for the difference in actual vs assumed inflation through June 30, 2022; projected liabilities are adjusted for the difference in simulated vs assumed inflation over the projection period
- Future benefit payments and payroll projections (used for GASB 67 purposes) were supplied by the plan actuary and used in our analysis
- Per Staff request, 33% of new entrants are assumed to elect the pension plan with 80% of Special Risk new entrants electing the pension plan and approximately 25% of new entrants from other groups electing the pension plan
- Actual asset experience was factored in using an asset value of $180.0 billion as of June 30, 2022

Actuarial Assumptions and Methods

Blended Contribution Rate

Combined projected contributions for both the FRS Pension Plan and the FRS Investment Plan as percentage of total system payroll

Blended Employer Contribution Rate is less than Pension Plan Employer Contribution Rate since UAL amortization is divided by total payroll rather than pension-only payroll

Penson Plan Employer Normal Cost Rate[1] + UAL Contribution Rate = **Pension Plan Employer Contribution Rate**

Blended Employer Normal Cost Rate + **Blended UAL Contribution Rate** = **Blended Employer Contribution Rate**

Blended Employer Normal Cost Rate

$$\frac{\underbrace{(\text{Employer Normal Cost Rate}^{1} \times \text{Payroll})}_{\text{Pension Plan}} + \underbrace{(\text{Employer Rates} \times \text{Payroll})}_{\text{Investment Plan}}}{\text{Total System Payroll}}$$

Blended UAL Contribution Rate

$$\frac{\underbrace{(\text{UAL Rate} \times \text{UAL Payroll})}_{\text{Pension Plan}}}{\text{Total System Payroll}}$$

[1] Net of expected employee contribution rate of 3.00%

Custom FRS Capital Market Assumptions

As of June 30, 2022 (30 Years)

		Expected Real Return[1]	Expected Nominal Return[1]	Expected Nominal Volatility
	Equity			
1	Global Equity IMI	4.6%	7.1%	18.5%
	Fixed Income			
2	Cash (Gov't)	0.5%	2.9%	2.0%
3	Intermediate Gov't Bonds (4-Year Duration)	0.5%	2.9%	3.5%
4	Intermediate Corporate Bonds (4-Year Duration)	1.6%	4.0%	4.0%
	Alternatives			
5	Strategic (Custom)[2]	5.5%	8.0%	9.0%
6	Real Estate (Custom)[3]	2.5%	5.0%	16.0%
7	Private Equity	6.9%	9.5%	25.5%
	Inflation			
8	Inflation	0.0%	2.4%	2.0%

[1] Expected returns are using Aon Investments Q3 2022 30-Year Capital Market Assumptions adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-65bps adjustment). Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results.

[2] Strategic assumption breakdown is found on the next page

[3] Real Estate assumption was modeled as follows:
- 76.5% Core Real Estate
- 13.5% Non-Core Real Estate
- 10.0% REITs

FRS Capital Market Assumptions – Strategic Investment Allocation
As of June 30, 2022

The Strategic Investment allocation was modeled as follows, per Staff input:

Strategic Investment Allocation	% of Total Asset Allocation	% of Strategic Investment
Commodities	0.38%	3.21%
Global Public Equities	1.05%	8.77%
Hedge Funds - Buy List (Diversified Portfolio of Direct HFs)	1.67%	13.94%
Hedge Funds - CTAs (Buy List)	0.99%	8.27%
Hedge Funds - Distressed Debt (Buy List)	0.45%	3.78%
Hedge Funds - Equity Long/Short (Buy List)	0.27%	2.23%
Hedge Funds - Event Driven (Buy List)	0.14%	1.15%
Hedge Funds - Global Macro (Buy List)	0.24%	2.02%
Infrastructure	1.29%	10.75%
Insurance-Linked Securities (Catastrophe Bonds)	0.57%	4.76%
Non-Core Real Estate	0.33%	2.77%
Private Debt - Commercial Mortgages	0.33%	2.77%
Private Debt - Direct Lending	0.86%	7.20%
Private Equity	0.88%	7.32%
Private Equity - Distressed Debt	1.41%	11.74%
Private Equity - Mezzanine	0.78%	6.52%
Timberland	0.34%	2.81%
Total	12.00%	100.00%

Aon's Capital Market Assumptions

As of June 30, 2022

	Nominal Correlations	1	2	3	4	5	6	7	8
1	Global Equity IMI	**1.00**	0.06	-0.08	0.05	0.87	0.44	0.63	0.08
2	Cash (Gov't)	0.06	**1.00**	0.55	0.43	0.08	0.13	0.07	0.29
3	Intermediate Gov't Bonds (4-Year Duration)	-0.08	0.55	**1.00**	0.80	-0.10	0.01	-0.06	0.01
4	Intermediate Corporate Bonds (4-Year Duration)	0.05	0.43	0.80	**1.00**	0.15	0.06	0.05	0.00
5	Strategic (Custom)	0.87	0.08	-0.10	0.15	**1.00**	0.47	0.71	0.11
6	Real Estate (Custom)	0.44	0.13	0.01	0.06	0.47	**1.00**	0.36	0.07
7	Private Equity	0.63	0.07	-0.06	0.05	0.71	0.36	**1.00**	0.06
8	Inflation	0.08	0.29	0.01	0.00	0.11	0.07	0.06	**1.00**

Aon's Capital Market Assumptions
Background

Long-term (10- and 30-year forecasts) forward-looking assumptions (asset class geometric return, volatility, and correlations)

Building Block approach, primarily based on consensus expectations and market-based inputs

Best estimates of annualized returns (50/50 better or worse)

Market returns: no active management value added (except for certain assets classes, such as hedge funds)

Net of investment fees

Updated quarterly

We show Aon's long-term (i.e., 30-year) capital market assumptions throughout this material

Aon's Capital Market Assumption Framework

Building Block Approach

Expected return estimates for equity and fixed income are developed using a building block approach

Expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation

Where necessary, judgment-based modifications are made to these inputs

Return assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment from our specialist research teams

Example: Public Equities

INCOME (Earnings Yield x Sustainable Payout Ratio)	+	**GROWTH** (Real EPS Growth)	+	**INFLATION**	=	**TOTAL** (Equity Return)
Earnings yield moves directly with market; Sustainable payout ratio is a constant and based on Aon's assumptions		Based on Aon's in-house trend analysis, I/B/E/S estimates and Consensus Economics		Based on consensus forecasts; Primary source is Consensus Economics		FORWARD LOOKING ASSUMPTION

Explanation of Capital Market Assumptions

As of June 30, 2022 (30 Years)

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the second quarter of 2022. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment.

Inflation – Expected Level (2.4%)

Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.4% during the next 30 years.

Real Returns for Asset Classes

Fixed Income

- **Cash (0.5%)** – Over the long run, we expect the real yield on cash and money market instruments to produce a real return of 0.5% in a moderate to low-inflationary environment.
- **TIPS (1.0%)** – We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about 0.0%.
- **Core Fixed Income (i.e., Market Duration)** (1.3%) – We expect intermediate duration Treasuries to produce a real return of about 0.5%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.8%, resulting in a long-term real return of 1.3%.
- **Core Plus Bonds (1.7%)** – Modeled as 20% 5 duration gov't with real return of 0.5% and 80% 5 duration corporate bonds with real return of 2.0%.
- **Long Duration Bonds – Government and Credit (1.9%)** – We expect Treasuries with a duration comparable to the Long Government Credit Index to produce a real return of 1.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.8%, resulting in an expected real return of 1.9%.

Explanation of Capital Market Assumptions
As of June 30, 2022 (30 Years)

- **Long Duration Bonds – Credit (2.4%)** – We expect Treasuries with a duration comparable to the Long Credit Index to produce a real return of 1.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 1.3%, resulting in an expected real return of 2.4%.
- **Long Duration Bonds – Government (1.1%)** – We expect Treasuries with a duration of ~12 years to produce a real return of 1.1% during the next 30 years.
- **High Yield Bonds (3.3%)** – We expect intermediate duration Treasuries to produce a real return of about 0.5%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 2.8%, resulting in an expected real return of 3.3%.
- **Bank Loans (3.7%)** – We expect LIBOR to produce a real return of about 1.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.6%, resulting in an expected real return of 3.7%.
- **Non-US Developed Bonds: 50% Hedged (0.9%)** – We forecast real returns for non-US developed market bonds to be 0.9% over a 30-year period after adjusting for a 50% currency hedge. We assume a blend of one-third investment grade corporate bonds and two-thirds government bonds. We also produce assumptions for 0% hedged and 100% hedged non-US developed bonds.
- **Emerging Market Bonds (Sovereign; USD) (3.3%)** – We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 3.3% over a 30-year period.
- **Emerging Market Bonds (Corporate; USD) (2.7%)** – We forecast real returns for emerging market corporate bonds denominated in US dollars to be 2.7% over a 30-year period.
- **Emerging Market Bonds (Sovereign; Local) (3.9%)** – We forecast real returns for emerging market sovereign bonds denominated in local currency to be 3.9% over a 30-year period.
- **Multi Asset Credit (MAC) (4.4%)** – We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 3.6% plus 0.8% from alpha (net of fees) over a 30-year period.

Explanation of Capital Market Assumptions
As of June 30, 2022 (30 Years)

- **Private Debt-Direct Lending (4.6%) –** The base building block is bank loans 3.7% + spread 0.9% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the nominal cost of financing at LIBOR + 2.5%.

Equities

- **Large Cap U.S. Equity (4.8%)** – This assumption is based on our 30-year outlook for large cap U.S. company dividends and real earnings growth. Adjustments are made for valuations as needed.
- **Small Cap U.S. Equity (5.3%)** – Adding a 0.5% return premium for small cap U.S. equity over large cap U.S. equity results in an expected real return of 5.3%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. equity versus large cap U.S. equity, and is also justified by historical data. In recent years, higher small cap valuations relative large cap equity has reduced the small cap premium.
- **Global Equity (Developed & Emerging Markets) (5.3%)** – We employ a building block process similar to the U.S. equity model using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 5.3% for global equity.
- **International (Non-U.S.) Equity, Developed Markets (5.1%)** – We employ a building block process similar to the U.S. equity model using the non-U.S. developed equity markets that comprise the MSCI EAFE Index.
- **Emerging Market Stocks (5.7%)** - We employ a building block process similar to the U.S. equity model using the non-U.S. emerging equity markets that comprise the MSCI Emerging Markets Index.
- **Equity Risk Insurance Premium Strategies-High Beta (3.8%) –** We expect real returns from 50% equity + 50% cash beta of 3.0% plus 0.8% insurance risk premium over the next 30 years.

Explanation of Capital Market Assumptions

As of June 30, 2022 (30 Years)

Alternative Asset Classes

- **Hedge Fund-of-Funds Universe (2.1%)** – The generic category “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We also assume the *median* manager is selected and also allow for the additional costs associated with Fund-of-Funds management. A top-tier portfolio of funds (hedge fund-of-funds buy-list) could add an additional 1.1% in return at similar volatility based on alpha, lower fees and better risk management.
- **Hedge Fund-of-Funds Buy List (3.2%)** – The generic category of top-tier “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We assume additional costs associated with Funds-of-Funds management. To use this category the funds must be buy rated or we advise on manager selection.
- **Broad Hedge Funds Universe (3.5%)** – Represents a diversified portfolio of direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure.
- **Broad Hedge Funds Buy List (4.8%)** – Represents a diversified portfolio of top-tier direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure. To use this category the funds must be buy rated or we advise on manager selection.
- **Core Real Estate (2.6%)** -- Our real return assumption for core real estate is based a gross income of about 2.6%, management fees of roughly 1%, 25% leverage and future capital appreciation near the rate of inflation during the next 30 years. We assume a portfolio of equity real estate holdings that is diversified by property and by geographic region.
- **Non-Core Real Estate (4.2%)** -- Core real estate is levered approximately 100% as the base building block for this assumption. We subtract financing costs for the leverage and 2% management costs. We also assume nominal alpha of 3% over core real estate. We assume a 50/50 mix of value-add and opportunistic investments.

Explanation of Capital Market Assumptions

As of June 30, 2022 (30 Years)

- **U.S. REITs (3.9%)** – Our real return assumption for U.S. REITs is based on income of about 3.9% and future capital appreciation near the rate of inflation during the next 30 years. REITs are a sub-set of U.S. small/mid cap equity universe.
- **Commodities (3.5%)** – Our commodity assumption is for a diversified portfolio of commodity futures contracts. Commodity futures returns are composed of three parts: spot price appreciation, collateral return, and roll return (positive or negative change implied by the shape of the future curve). We believe that spot prices will converge with CPI over the long run (i.e., 2.4%). Collateral is assumed to be LIBOR cash (1.1%). Also, we believe the roll effect will be near zero, resulting in a real return of about 3.5% for commodities.
- **Private Equity (7.6%)** – Our private equity assumption reflects a diversified fund of funds with exposure to buyouts, venture capital, distressed debt, and mezzanine debt.
- **Infrastructure (5.2%)** – Our infrastructure assumption is formulated using a cash flow based approach that projects cash flows (on a diversified portfolio of assets) over a 30-year period. Income and capital growth as well as gearing levels, debt costs and terms, relevant tax and management expenses are all taken into consideration. Our approach produces an expected real return of 5.2% for infrastructure.
- **Equity Risk Insurance Premium Strategies-Low Beta (2.9%) –** We assume real returns from cash of 0.5% + 2.4% from alpha.
- **Alternative Risk Premia (ARP) (5.0%) –** Real return target LIBOR 1.1% plus 3.9% alpha (net of fees)
- **eLDI (2.8%) –** Combination of various long credit strategies (1/6 real estate debt, 1/3 securitized debt, 1/6 CMOs, 1/3 private placements)
- **Closed-End Real Assets (5.5%) –** Modeled as 50% Non-Core Real Estate and 50% Infrastructure

Explanation of Capital Market Assumptions

As of June 30, 2022 (30 Years)

Volatility / Correlation Assumptions

Assumed volatilities are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), we “de-smooth” historical returns before calculating volatilities. Importantly, we consider expected volatility trends in the future – in recent years we assumed the re-emergence of an economic cycle and a loss of confidence in central bankers would lead to an increase in volatility. Correlation assumptions are generally similar to actual historical results; however, we do make adjustments to reflect our forward-looking views as well as current market fundamentals.

2021 Horizon Survey Results

Section 4: Appendix

Benchmarking Our Assumptions vs. Peers

2021 Horizon Survey Results

What is the Horizon Survey?

Since 2010, Horizon Actuarial Services, LLC has conducted a capital market assumption survey of investment firms to aid in determining reasonable assumptions for a pension plan's expected return on assets

- While Aon does not seek to change our approach based on how we stack up to peers, it is a helpful double-check to make sure we are not too far off from others in the industry

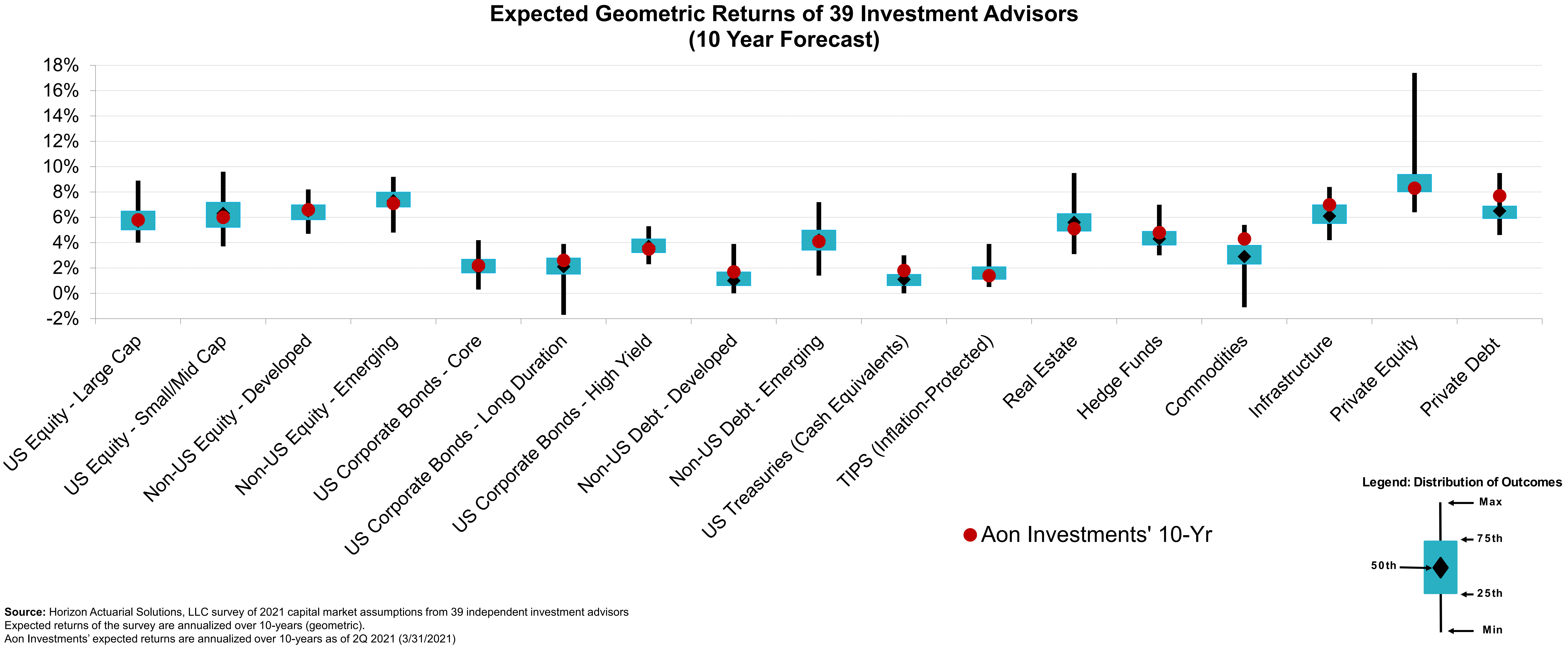
How does Aon compare to the 2021 survey results?

Aon Investments' 2021 10-year forecast assumptions (as of March 31, 2021)

- ***Equities:*** approximately middle of the pack for U.S. and Non-U.S. equities
- ***Fixed Income:*** approximately middle of the pack relative to the survey's median level; higher for U.S. Treasuries
- ***Alternatives:*** approximately middle of the pack relative to the survey's median level; higher for Commodities and Private Debt

Aon Investments' Capital Market Assumptions vs. Horizon Survey

10-Year Forecast



Source: Horizon Actuarial Solutions, LLC survey of 2021 capital market assumptions from 39 independent investment advisors
Expected returns of the survey are annualized over 10-years (geometric).
Aon Investments' expected returns are annualized over 10-years as of 2Q 2021 (3/31/2021)

2021 Horizon Survey Results

Aon Investments vs. Peers (2021 Horizon Survey) | 10-Year Forecast

	Horizon Survey		Aon Investments		Difference	
	10 Year Horizon		10 Year Forecasts		Aon Investments – Horizon Survey	
Asset Class	**Expected Return**	**Expected Risk**	**Expected Return**	**Expected Risk**	**Expected Return**	**Expected Risk**
US Equity - Large Cap	5.7%	16.4%	5.8%	17.0%	0.1%	0.6%
US Equity - Small/Mid Cap	6.3%	20.2%	6.0%	23.0%	-0.3%	2.8%
Non-US Equity - Developed	6.5%	18.3%	6.6%	20.0%	0.1%	1.7%
Non-US Equity - Emerging	7.3%	24.3%	7.1%	27.0%	-0.2%	2.7%
US Fixed Income - Core	2.0%	5.5%	2.2%	4.0%	0.2%	-1.5%
US Fixed Income - Long Duration Corp	2.1%	10.4%	2.6%	9.0%	0.5%	-1.4%
US Fixed Income - High Yield	3.7%	9.9%	3.5%	12.0%	-0.2%	2.1%
Non-US Fixed Income - Developed	1.0%	7.2%	1.7%	5.5%	0.7%	-1.7%
Non-US Fixed Income - Emerging	4.2%	11.3%	4.1%	13.0%	-0.1%	1.7%
Treasuries (Cash Equivalents)	1.1%	1.3%	1.8%	1.5%	0.7%	0.2%
TIPS (Inflation-Protected)	1.4%	5.6%	1.4%	3.5%	0.0%	-2.1%
Real Estate	5.6%	17.6%	5.1%	15.0%	-0.5%	-2.6%
Hedge Funds	4.3%	8.1%	4.8%	9.0%	0.5%	0.9%
Commodities	2.9%	17.3%	4.3%	17.0%	1.4%	-0.3%
Infrastructure	6.1%	17.0%	7.0%	14.5%	0.9%	-2.5%
Private Equity	8.3%	22.3%	8.3%	25.0%	0.0%	2.8%
Private Debt	6.5%	11.4%	7.7%	16.5%	1.2%	5.1%
Inflation	2.0%	2.1%	2.1%	1.0%	0.1%	-1.1%

Notes (Horizon Survey):

Source: Horizon Actuarial survey of 2021 capital market assumptions from 39 independent investment advisors

Expected returns are median annualized (geometric).

Notes (Aon Investments' Forecasts):

Aon Investments' Forecasts are for Q2 2021

- US Equity - Small/Mid Cap forecasts represents Aon Investments' forecasts for US Small Cap
- US Fixed Income - Long Duration forecasts represents Aon Investments' forecasts for Long Duration Credit
- Non-US Fixed Income - Developed forecasts represents Aon Investments' forecasts for Non-US Fixed Income - Developed (50% Hedged)
- Non-US Fixed Income - Emerging forecasts represents Aon Investments' forecasts for Emerging Market Bonds - Sovereign USD
- Real Estate forecasts represents Aon Investments' forecasts for Core Real Estate
- Hedge Fund forecasts represents Aon Investments' forecasts for Direct Hedge Funds (Universe)

2021 Horizon Survey Results

Leading Methodologies & Reasons for Differences

Leading Methodologies

Building Block

Global Capital Asset Pricing Model (Global CAPM)

Surveys

Historical data (as a guide to future)

Black-Litterman (combination of building block and CAPM)

Reasons for Differences

Methodology

Time Horizon

Arithmetic vs. Geometric forecasts*

Alpha (active management)*

Inflation

Investment Fees*

Asset class definition

* While some firms in the Horizon survey responded with arithmetic forecasts, the results have been converted to geometric forecasts for comparison purposes. Additionally, the return expectations included in the Horizon survey are generally market returns that do not reflect active management. Returns for asset classes where passive investments are not available (e.g., hedge funds and private equity) are net of fees.

Liquidity Analysis Detail

Section 4: Appendix

Liquidity Analysis
Background

Florida Retirement System's (FRS) liquidity analysis is performed under its Current Policy (81% R-S) portfolio

Intended as a stress-testing model, incorporating the profile of the liabilities as well as expected future contributions

Uses different scenarios for economic environments and other relevant events

Shows how the portfolio's liquidity profile could evolve with a given investment strategy

We categorized investments by liquidity into five buckets

Liquid (Risk-Reducing Assets): less than 3 months needed for return of capital (e.g. publicly traded securities)

Liquid (Return-Seeking Assets): less than 3 months needed for return of capital (e.g. publicly traded securities)

Quasi-Liquid: Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Dark Skies scenario (e.g. many hedge funds, open-end real assets)

Illiquid: Potential lock-up of 5–10 years, depending on economic environment (e.g. closed-end real assets)

Illiquid: Potential lock-up of 10+ years (e.g. typical private equity)

This is intended to be a *conservative* approximation of the actual liquidity properties of the assets

Liquidity Analysis
Assumptions

Assumptions

- Starting assets based on the reported June 30, 2022 ($180.0 billion)
- The plan's contribution policy is actuarially-based, leveraging the 2022 asset-liability study for projection analysis
- Assumes the portfolio starts at the target asset allocation levels for illiquid assets, maintaining close to the Current Policy portfolio targets over the next 10 years

Liquidity Analysis
Economic Scenarios

Base Case Scenario

- Markets perform consistent with Aon's Capital Market Assumptions (~50th percentile)

Recession Scenario

- Somewhat pessimistic outlook for the markets (~95th percentile)
- Return-seeking assets decline in the first two years with a modest rebound in later years

Dark Skies Scenario

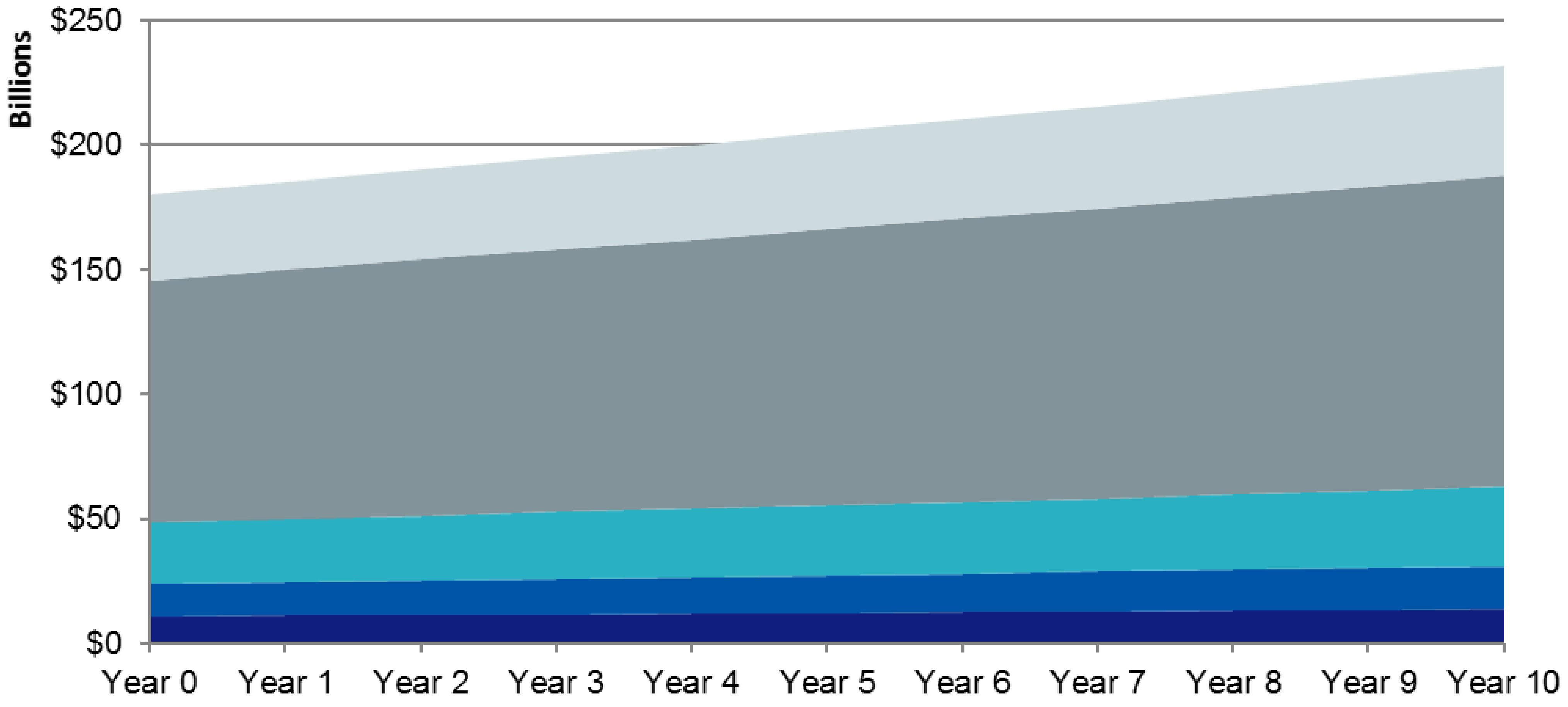
- Very pessimistic outlook for markets (~99th percentile)
- Return-seeking assets decline significantly
- The value of public equities declines approximately 50% over three years, without an immediate rebound

Liquidity Analysis
Base Case Economic Scenario

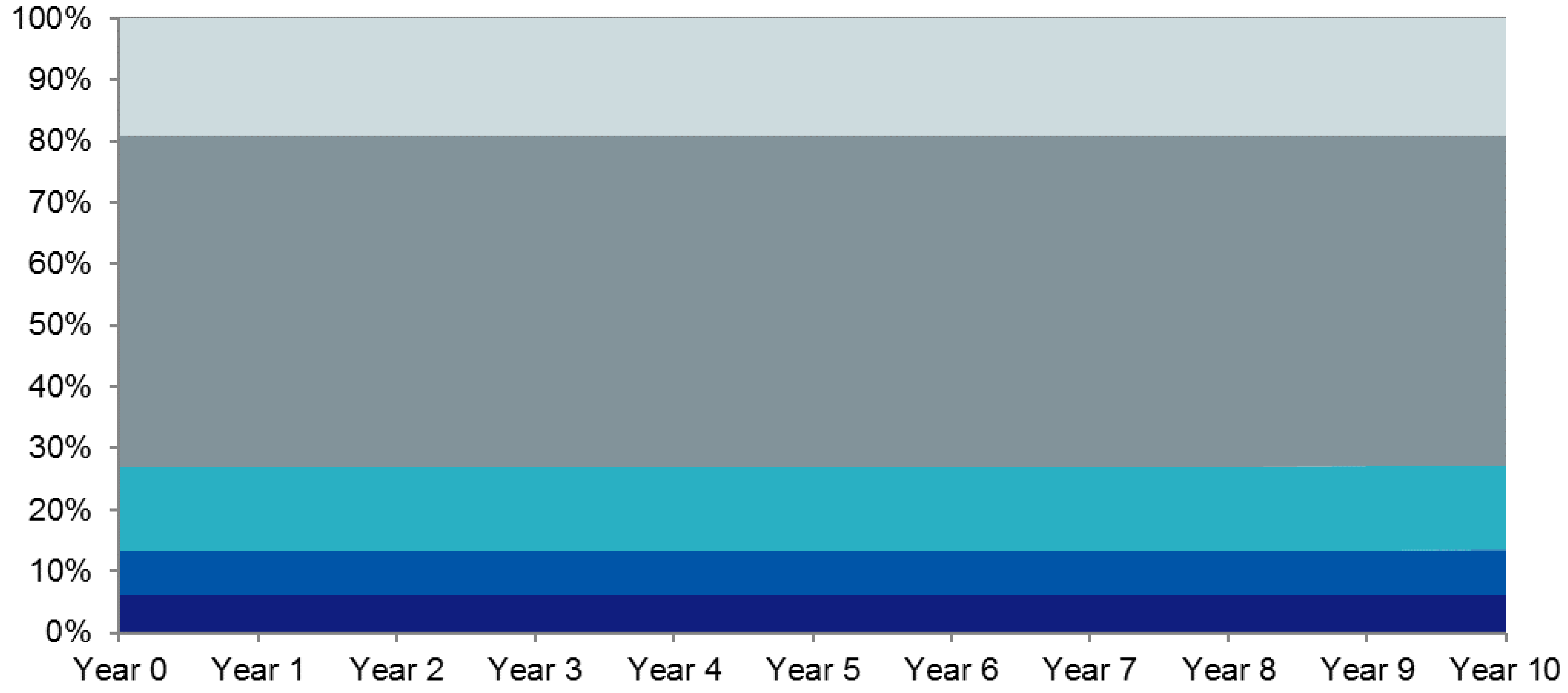
The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected

Illiquid: 10+ Years Illiquid: 5-10 Years Quasi-Liquid Liquid (Return-Seeking Assets) Liquid (Risk-Reducing Assets)

Scenario: Base - FRS (in Dollars)



Scenario: Base - FRS (in Percentages)



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to stay near 27% of the Plan and can be maintained near the target with no cash flow problems

Note: Year 0 represents a starting point of June 30, 2022

Liquidity Analysis
Base Case Economic Scenario

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected

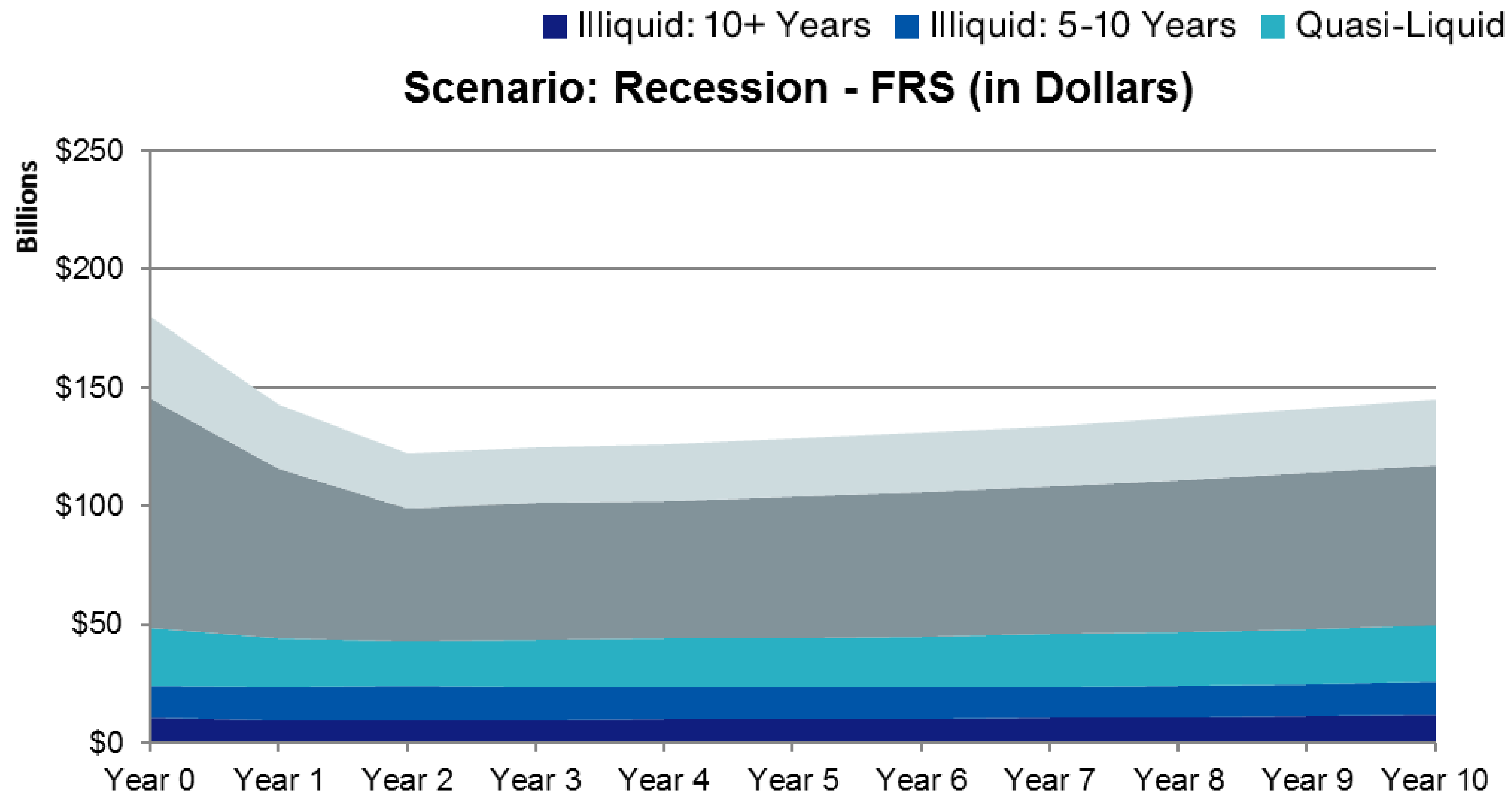
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	54	54	54	54	54	54	54	54	54
Total Liquid	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**	**73%**
Quasi-Liquid	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Illiquid: 5-10 Year Lock-up	7	7	7	7	7	7	7	7	7	7	7
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**	**27%**

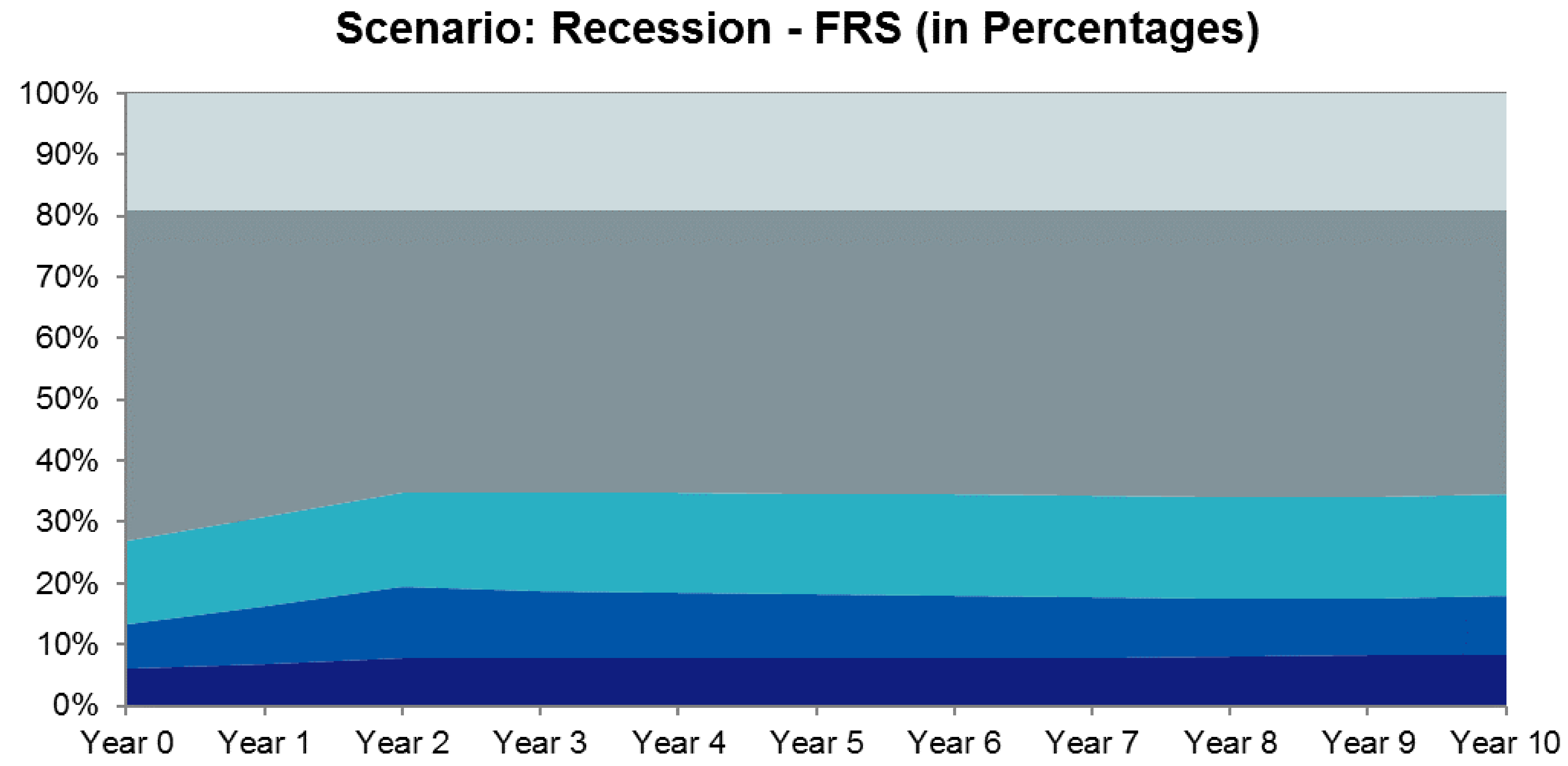
Other Metrics	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Funded Ratio (MVA / AL)	83%	84%	84%	85%	85%	86%	86%	87%	88%	88%	89%
Total Contribution Amt (in $B)	$5.3	$5.6	$5.6	$5.6	$5.8	$5.9	$6.1	$6.2	$6.5	$6.6	$6.8
Blended Rate Contribution	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%

Note: Year 0 represents a starting point of June 30, 2022; Percentages may not sum to 100% due to rounding

Liquidity Analysis
Recession Economic Scenario

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected





Key Takeaway:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 35% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2022

Liquidity Analysis
Recession Economic Scenario

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected

Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	50	46	46	46	46	47	47	47	47	47
Total Liquid	**73%**	**69%**	**65%**	**65%**	**65%**	**65%**	**66%**	**66%**	**66%**	**66%**	**66%**
Quasi-Liquid	14%	15%	15%	16%	16%	17%	17%	17%	17%	17%	16%
Illiquid: 5-10 Year Lock-up	7	10	12	11	11	10	10	10	10	9	10
Illiquid: 10+ Year Lock-up	6	7	8	8	8	8	8	8	8	8	8
Total Quasi + Illiquid	**27%**	**31%**	**35%**	**35%**	**35%**	**35%**	**34%**	**34%**	**34%**	**34%**	**35%**

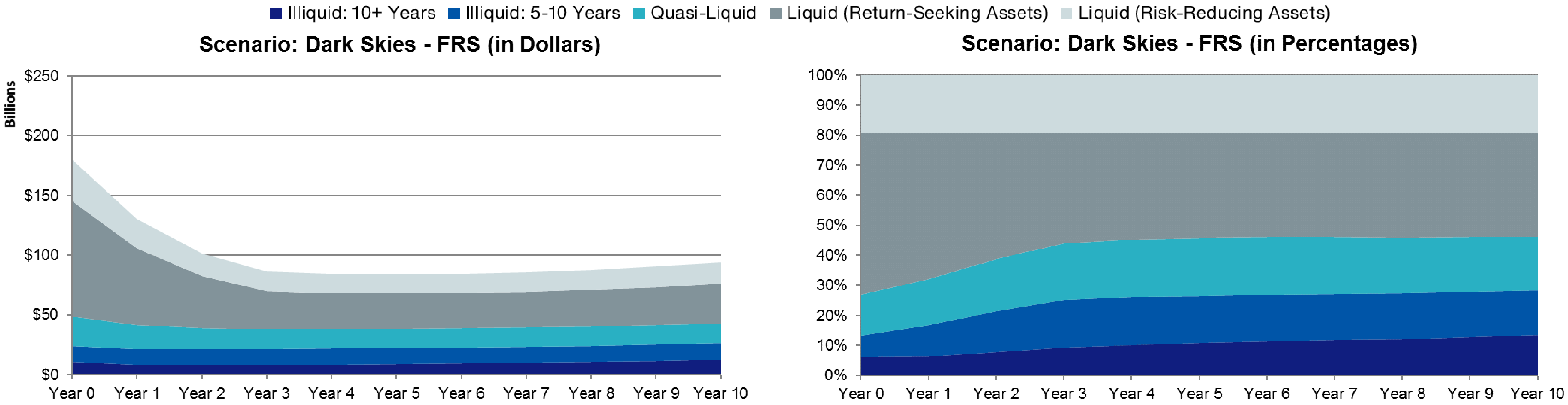
Other Metrics	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Funded Ratio (MVA / AL)	83%	65%	54%	54%	54%	54%	54%	54%	55%	55%	56%
Total Contribution Amt (in $B)	$5.3	$5.6	$6.5	$8.7	$9.2	$9.9	$10.5	$11.1	$11.8	$12.4	$13.1
Blended Rate Contribution	14%	14%	16%	21%	22%	23%	24%	25%	26%	26%	27%

Note: Year 0 represents a starting point of June 30, 2022; Percentages may not sum to 100% due to rounding

Liquidity Analysis

Dark Skies Economic Scenario

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Dark Skies economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 46% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2022

Liquidity Analysis
Recession Economic Scenario

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected

Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	49	42	37	36	35	35	35	35	35	35
Total Liquid	**73%**	**68%**	**61%**	**56%**	**55%**	**54%**	**54%**	**54%**	**54%**	**54%**	**54%**
Quasi-Liquid	14%	15%	17%	19%	19%	19%	19%	19%	19%	18%	18%
Illiquid: 5-10 Year Lock-up	7	10	13	16	16	16	16	15	15	15	15
Illiquid: 10+ Year Lock-up	6	6	8	9	10	11	11	12	12	13	13
Total Quasi + Illiquid	**27%**	**32%**	**39%**	**44%**	**45%**	**46%**	**46%**	**46%**	**46%**	**46%**	**46%**

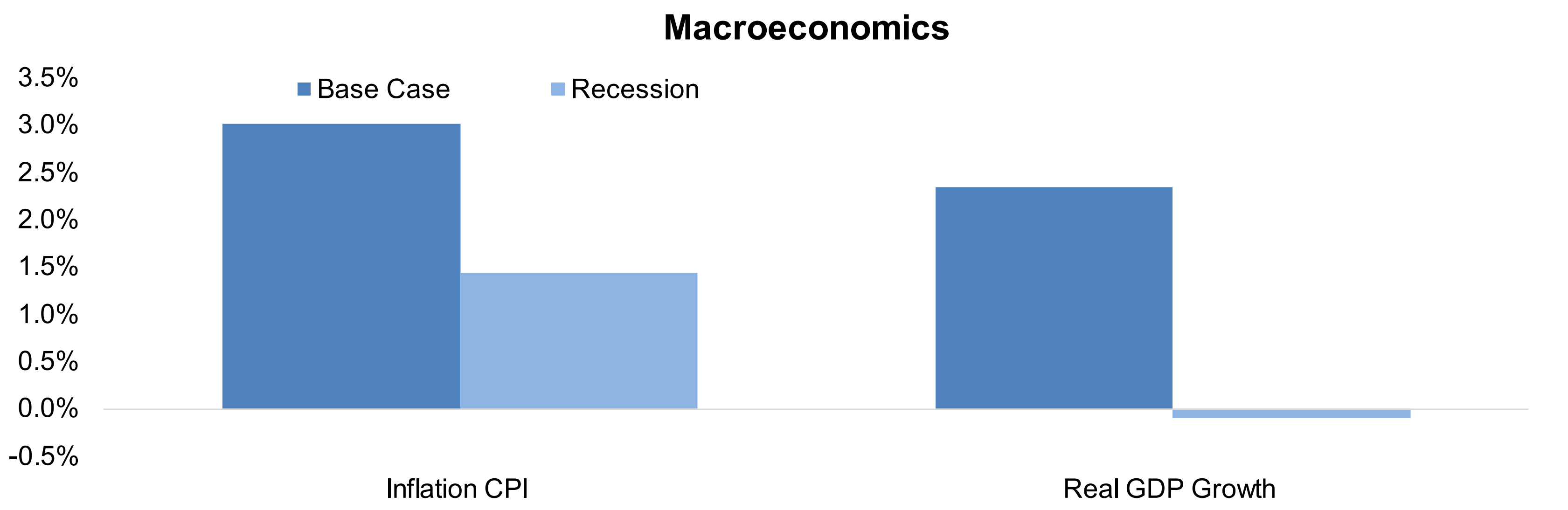
Other Metrics	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Funded Ratio (MVA / AL)	83%	59%	45%	38%	36%	35%	35%	35%	35%	35%	36%
Total Contribution Amt (in $B)	$5.3	$5.5	$7.5	$10.4	$12.1	$12.9	$13.7	$14.6	$15.5	$16.3	$17.2
Blended Rate Contribution	14%	14%	19%	25%	29%	31%	32%	33%	35%	36%	37%

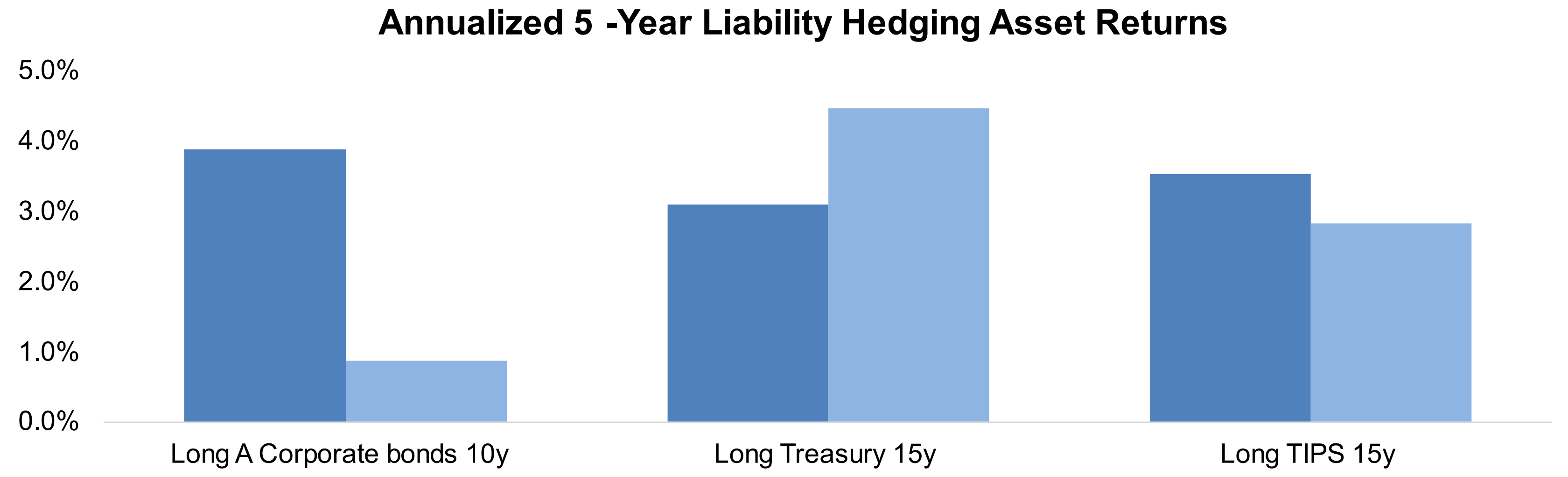
Note: Year 0 represents a starting point of June 30, 2022; Percentages may not sum to 100% due to rounding

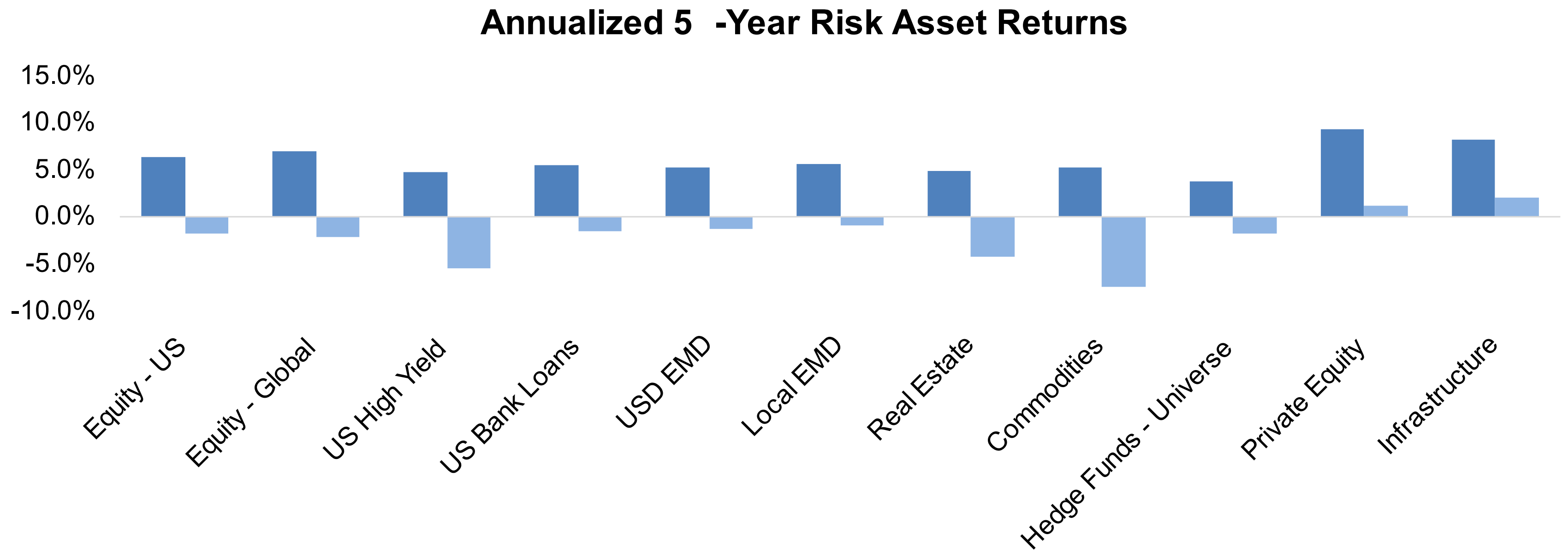
Liquidity Analysis
Recession Scenario Description

The US economy slips back into recession in 2022

- Global growth is much weaker than the base case. Concerns that inflation will remain high for longer lead to central banks rapidly tightening monetary policies.
- Tightening financial conditions, combined with spillover effects from geopolitical volatility and reduced consumer and business spending, as real incomes are squeezed by high inflation, lead to a deep recession in the US in 2022/23.
- The economic slowdown leads to developed economies implementing modest fiscal stimulus measures and monetary policy becomes more accommodative. Policy actions are only partially effective as they are tackling the demand side of the equation.
- Inflation is lower than the base case. However, inflation starts to rise in later years as the post-recession recovery gets underway.
- Treasury yields fall while TIPS yields remain at low levels as the US enters recession. Yields rise in later years as a recovery gets underway. Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Most risk assets make losses in the first two years but rebound in later years as the economy recovers.







Returns from 31 March 2022
Source: Aon
The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Liquidity Analysis
Recession Scenario Data Table

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Yields (BOY)											
Treasury yield 5y	2.5%	0.5%	0.3%	0.8%	1.0%	1.3%	1.3%	1.4%	1.5%	1.6%	1.7%
Long Treasury yield 15y	2.5%	0.6%	0.5%	1.3%	1.4%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%
TIPS yield 5y	-0.8%	-1.7%	-1.8%	-1.6%	-1.5%	-1.4%	-1.3%	-1.2%	-1.0%	-0.9%	-0.7%
Long TIPS yield 15y	-0.3%	-1.4%	-1.4%	-1.1%	-1.0%	-0.8%	-0.7%	-0.6%	-0.5%	-0.4%	-0.2%
Breakeven price inflation 15y	2.8%	2.1%	1.9%	2.3%	2.4%	2.5%	2.5%	2.4%	2.4%	2.3%	2.2%
A Corporate bond yield 5y	3.4%	4.5%	5.0%	4.9%	4.5%	4.3%	4.2%	4.0%	3.8%	3.7%	3.6%
Long A Corporate bond yield 10y	3.5%	4.0%	4.3%	4.6%	4.3%	4.2%	4.2%	4.1%	4.1%	4.1%	4.1%
A Corporate spread 5y	0.9%	4.0%	4.7%	4.1%	3.4%	3.1%	2.8%	2.6%	2.4%	2.2%	1.9%
Long A Corporate spread 10y	1.1%	3.4%	3.9%	3.5%	3.0%	2.8%	2.6%	2.5%	2.3%	2.2%	2.0%

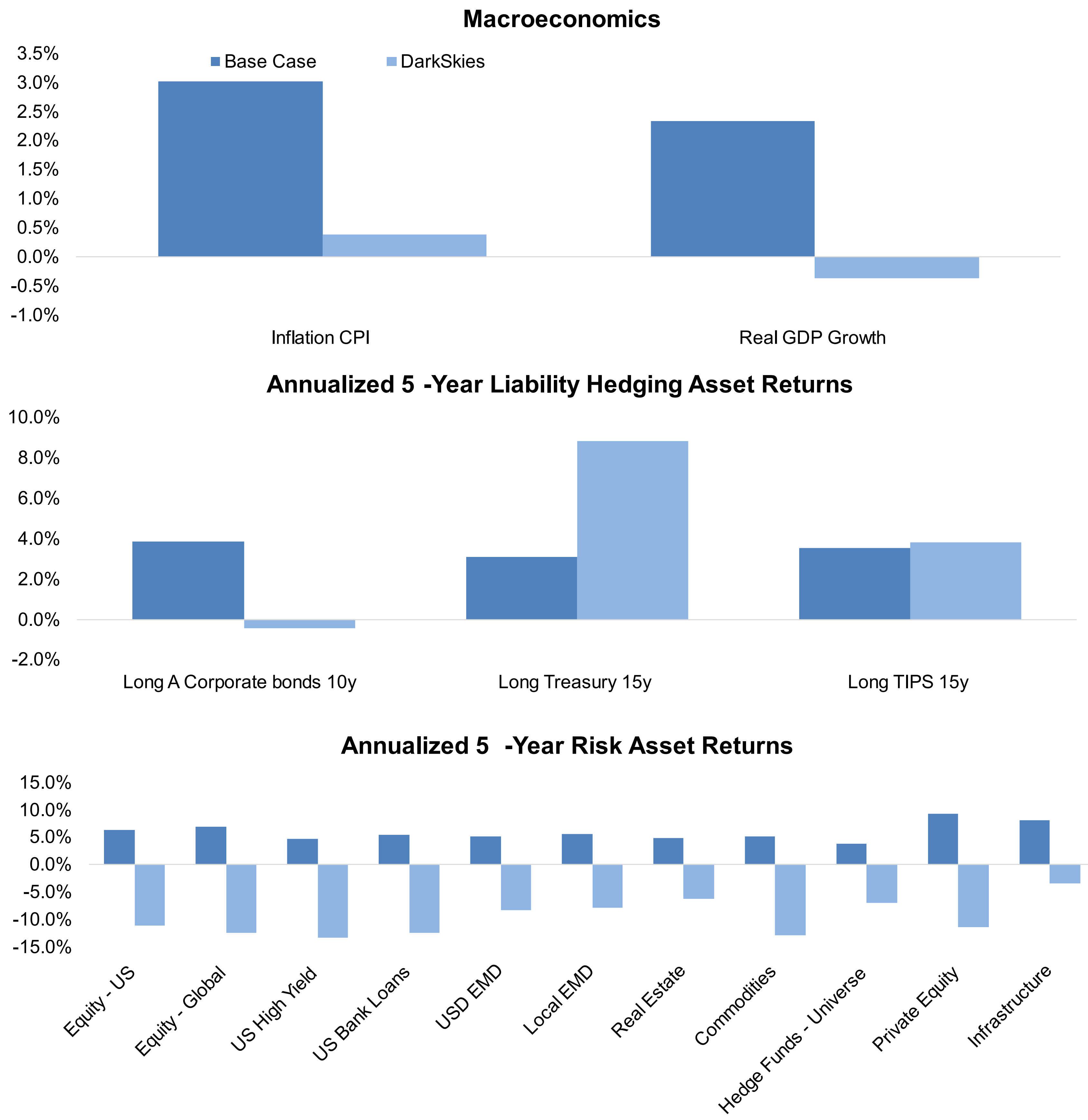
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Expected nominal return on assets											
Equity – US		-18.1%	-10.1%	10.6%	5.7%	5.7%	5.8%	5.8%	5.9%	5.9%	6.0%
Equity – Global		-20.2%	-11.1%	11.7%	6.3%	6.3%	6.3%	6.4%	6.5%	6.5%	6.6%
A Corporate bonds 5y		-1.5%	0.1%	2.8%	4.5%	3.3%	3.6%	3.5%	3.4%	3.2%	3.2%
Long A Corporate bonds 10y		-1.7%	-2.0%	-0.7%	5.6%	3.3%	3.3%	3.6%	3.8%	3.9%	4.1%
Treasury 5y		10.4%	0.4%	-2.5%	-0.7%	-0.4%	0.6%	0.6%	0.5%	0.5%	0.5%
Long Treasury 15y		33.6%	3.2%	-8.9%	-0.3%	-0.5%	1.1%	1.2%	1.4%	1.4%	1.5%
TIPS 5y		5.7%	-0.2%	-1.6%	-1.1%	-0.7%	-0.4%	-0.4%	-0.3%	-0.2%	-0.1%
Long TIPS 15y		21.1%	0.9%	-4.7%	-0.7%	-0.6%	0.0%	0.0%	0.1%	0.1%	0.3%
US High Yield		-20.3%	-14.4%	5.3%	3.2%	1.6%	2.5%	2.6%	2.6%	2.7%	2.7%
Bank Loans		-11.6%	-7.4%	6.1%	3.4%	3.2%	3.4%	3.6%	3.8%	4.1%	4.3%
USD Emerging Market Debt		-13.7%	-8.5%	7.9%	5.0%	4.7%	5.0%	5.0%	5.0%	5.1%	5.1%
Local Emerging Market Debt		-13.3%	-8.1%	8.3%	5.4%	5.1%	5.4%	5.4%	5.4%	5.5%	5.5%
Real Estate		-13.4%	-8.3%	-3.1%	0.3%	4.2%	4.3%	4.3%	4.4%	4.5%	4.5%
Commodities		-27.1%	-21.2%	7.8%	4.4%	4.4%	4.5%	4.6%	4.7%	4.8%	4.8%
Hedge Funds - FoHF – Universe		-14.2%	-8.9%	6.6%	5.5%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Private Equity		-17.9%	-5.4%	14.1%	9.2%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
Infrastructure - US		-4.6%	-0.2%	3.3%	4.1%	7.7%	7.7%	7.8%	7.8%	7.9%	7.9%
Cash		1.5%	0.0%	0.1%	0.5%	0.7%	0.8%	0.9%	0.9%	1.0%	1.1%
CPI		2.4%	1.5%	0.8%	1.1%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%

Scenario information as of March 31, 2022

Liquidity Analysis
Dark Skies Scenario Description

A deep recession followed by a longer period of stagnant growth

- A worsening Russia-Ukraine war, which expands beyond Ukraine's borders, and a renewed flare up of the pandemic, disrupts to the global economy, as additional restrictions are required over the next few years. China experiences a sharp deterioration in economic growth, due to stricter Covid restrictions and structural issues.
- Worsening geopolitical instability and central banks' aggressive monetary tightening has a severe impact on world economic growth. Economic weakness in developed and emerging market economies and severe levels of financial distress (due to high debt levels and political crisis) lead to a global recession followed by stagnation.
- Inflation falls sharply in 2022 and sluggish growth over the following years means that inflation stays low.
- Treasury yields fall and remain at low levels as the US enters recession. Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Risk assets make losses in the first few years. There is no pronounced bounce in growth and the economic situation remains poor for a long time, which weighs on returns in later years.



Returns from 31 March 2022
Source: Aon
The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Liquidity Analysis

Dark Skies Scenario Data Table

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Yields (BOY)											
Treasury yield 5y	2.5%	0.0%	-0.8%	-0.9%	-0.8%	-0.7%	-0.5%	-0.3%	0.0%	0.2%	0.5%
Long Treasury yield 15y	2.5%	0.1%	-0.3%	-0.4%	-0.3%	-0.2%	0.0%	0.2%	0.5%	0.7%	0.9%
TIPS yield 5y	-0.8%	-1.8%	-2.4%	-2.5%	-2.5%	-2.4%	-2.2%	-2.0%	-1.8%	-1.6%	-1.4%
Long TIPS yield 15y	-0.3%	-1.7%	-2.1%	-2.1%	-2.1%	-2.0%	-1.8%	-1.6%	-1.4%	-1.2%	-1.0%
Breakeven price inflation 15y	2.8%	1.9%	1.7%	1.7%	1.7%	1.7%	1.8%	1.9%	1.9%	1.9%	1.9%
A Corporate bond yield 5y	3.4%	5.4%	5.3%	4.9%	4.3%	3.9%	3.8%	3.7%	3.6%	3.6%	3.5%
Long A Corporate bond yield 10y	3.5%	4.5%	4.5%	4.2%	3.8%	3.6%	3.6%	3.6%	3.6%	3.7%	3.7%
A Corporate spread 5y	0.9%	5.5%	6.1%	5.8%	5.1%	4.7%	4.3%	4.0%	3.7%	3.4%	3.0%
Long A Corporate spread 10y	1.1%	4.4%	4.9%	4.7%	4.2%	3.9%	3.7%	3.5%	3.2%	3.0%	2.8%
Expected nominal return on assets											
Equity – US		-27.1%	-19.5%	-10.7%	2.7%	2.7%	3.1%	3.5%	3.8%	4.2%	4.5%
Equity – Global		-30.1%	-21.6%	-11.7%	3.0%	3.0%	3.4%	3.8%	4.2%	4.6%	5.0%
A Corporate bonds 5y		-5.7%	0.4%	0.8%	1.7%	0.4%	-0.2%	0.3%	0.7%	1.0%	1.4%
Long A Corporate bonds 10y		-7.4%	-0.8%	1.7%	3.3%	1.4%	-0.1%	0.5%	1.0%	1.4%	1.9%
Treasury 5y		12.4%	2.0%	-1.5%	-2.0%	-2.4%	-2.7%	-2.4%	-2.2%	-2.0%	-1.8%
Long Treasury 15y		43.3%	7.3%	1.3%	-0.4%	-1.4%	-2.9%	-2.6%	-2.3%	-2.1%	-1.8%
TIPS 5y		4.5%	-0.3%	-2.0%	-2.8%	-2.9%	-2.8%	-2.6%	-2.3%	-2.0%	-1.8%
Long TIPS 15y		24.2%	2.8%	-0.6%	-2.4%	-2.7%	-3.4%	-3.2%	-2.9%	-2.7%	-2.4%
US High Yield		-24.9%	-18.1%	-13.2%	-3.5%	-4.8%	-5.0%	-4.0%	-3.1%	-2.2%	-1.4%
Bank Loans		-24.8%	-20.2%	-12.7%	-1.0%	-1.2%	-0.7%	-0.1%	0.6%	1.2%	1.8%
USD Emerging Market Debt		-20.0%	-14.1%	-8.2%	1.6%	1.1%	1.1%	1.6%	2.0%	2.5%	2.9%
Local Emerging Market Debt		-19.6%	-13.7%	-7.8%	2.0%	1.5%	1.5%	2.0%	2.4%	2.9%	3.3%
Real Estate		-15.0%	-10.7%	-5.1%	-0.8%	1.4%	1.7%	2.1%	2.4%	2.7%	3.1%
Commodities		-34.2%	-26.2%	-2.7%	3.0%	3.0%	3.3%	3.5%	3.7%	3.9%	4.1%
Hedge Funds - FoHF – Universe		-17.0%	-11.9%	-6.2%	0.7%	0.7%	1.0%	1.3%	1.6%	1.9%	2.2%
Private Equity		-29.8%	-21.3%	-10.7%	5.2%	5.2%	5.6%	6.0%	6.4%	6.8%	7.2%
Infrastructure - US		-11.4%	-7.2%	-3.4%	1.6%	4.2%	4.6%	5.0%	5.4%	5.8%	6.2%
Cash		1.5%	-0.4%	-0.7%	-0.7%	-0.7%	-0.6%	-0.4%	-0.2%	0.0%	0.2%
CPI		1.0%	-0.2%	0.2%	0.4%	0.6%	0.8%	0.9%	1.1%	1.3%	1.5%

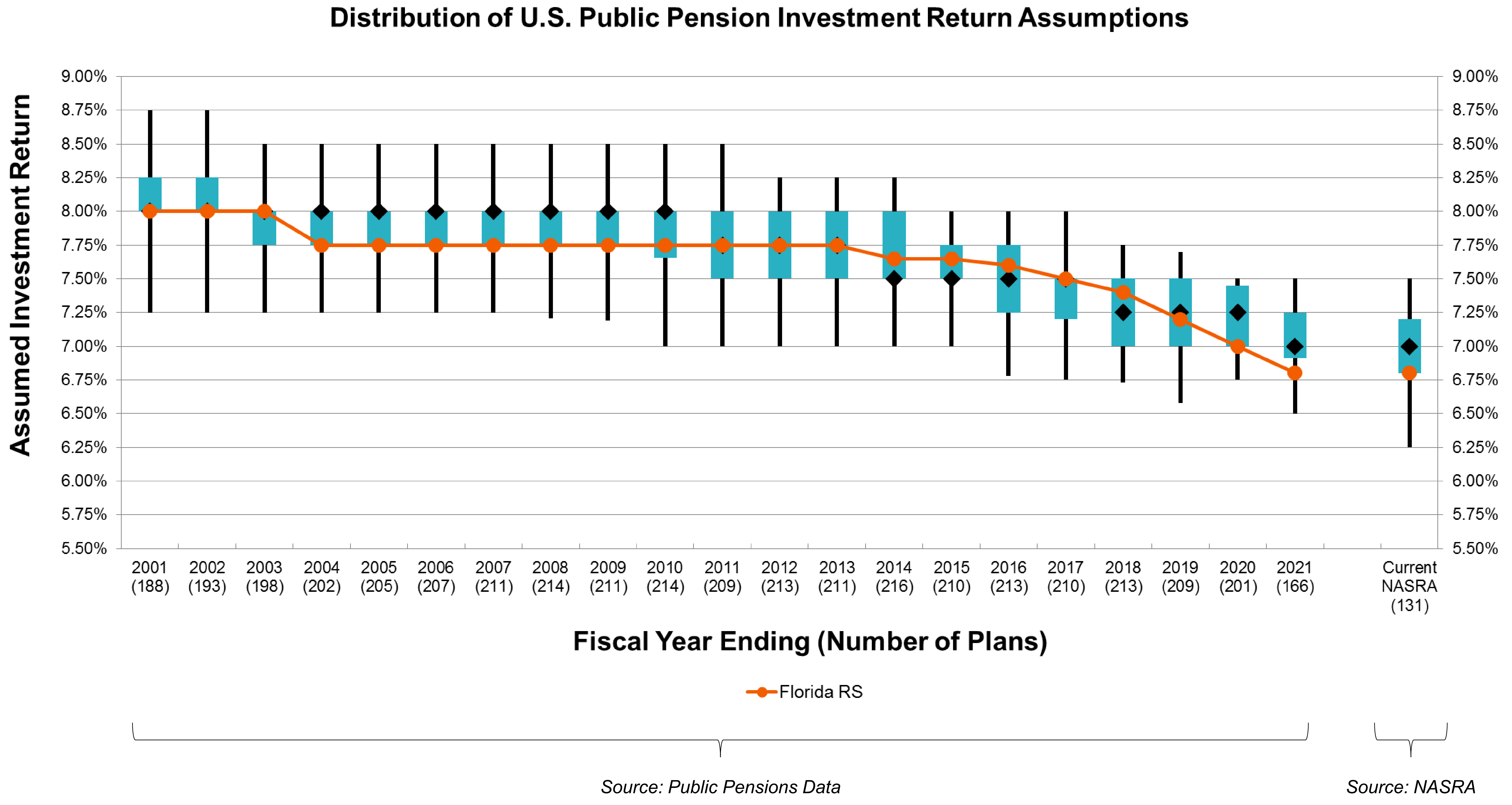
Scenario information as of March 31, 2022

Public Pension Peer Comparison

Section 4: Appendix

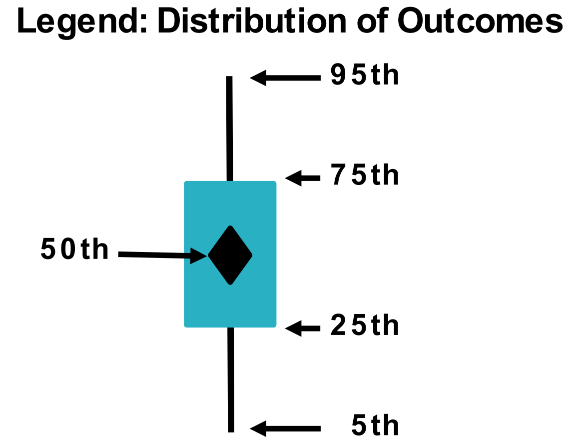
Florida Retirement System (FRS)

Expected Return Assumption versus Peers[1]



Key Takeaways:

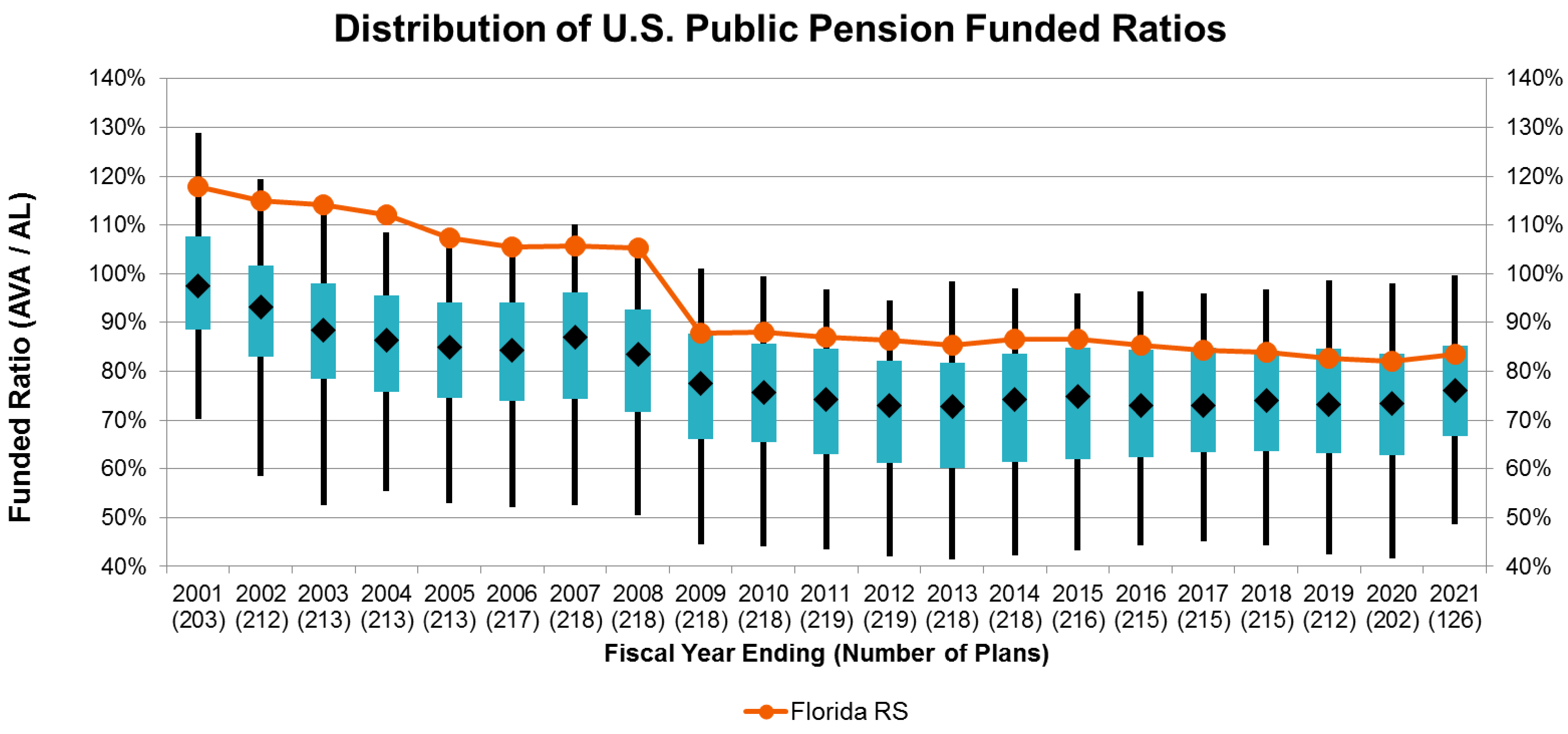
- The historical actuarial assumption trend for investment returns has declined from an 8.00% median in FYE 2001-2010 to 7.00% as of FYE 2021, per Public Plans Data[1]
- Current actuarial assumptions, as tracked by NASRA as of July 2022, have a median actuarial assumption of 7.00%



Sources: Public Plans Data (publicplansdata.org) as of July 2022; NASRA downloadable investment return assumptions as of July 2022
[1] Peers defined as public funds published within publicplansdata.org as of July 2022; Number of plans per year are shown in parentheses

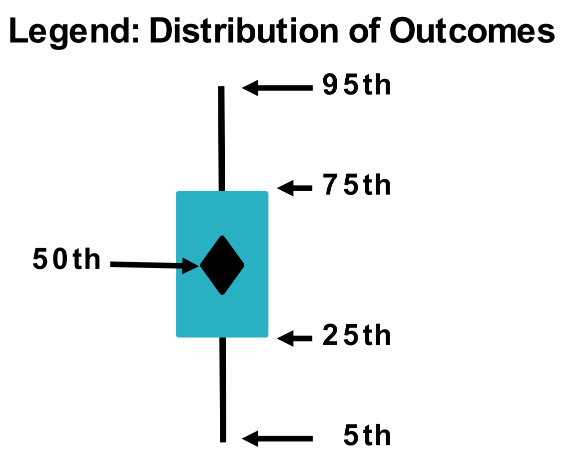
Florida Retirement System (FRS)

Funded Ratio (Based on Actuarial Value of Assets) versus Peers[1]



Key Takeaways:

- The median funded ratio as of FYE 2021 was 76% based on the latest survey data
- FRS' FYE 2021 funded ratio (83%) fell just below the 75th percentile relative to its peers

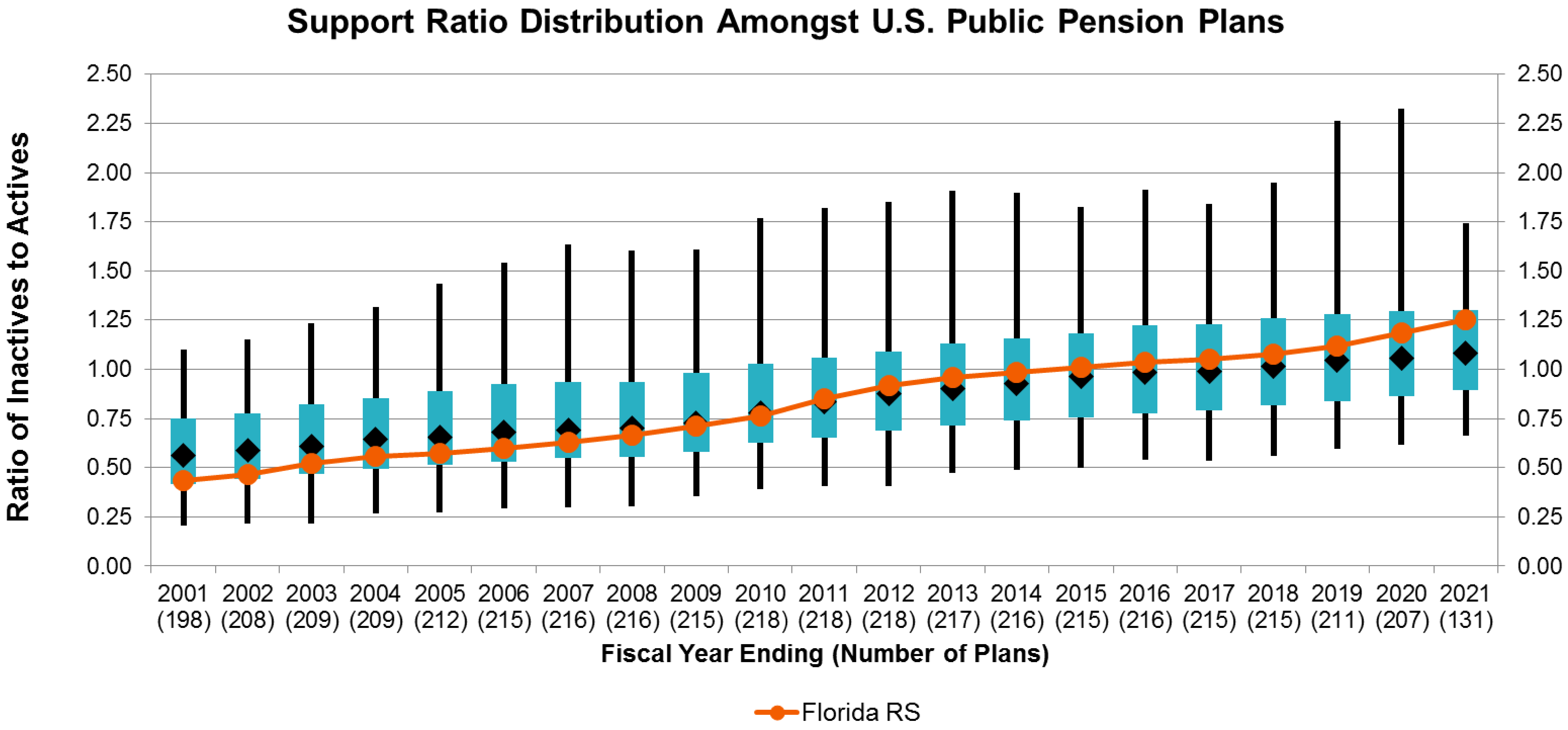


Source: Public Plans Data (publicplansdata.org) as of July 2022

[1] Peers defined as public funds published within publicplansdata.org as of July 2022; Number of plans per year are shown in parentheses

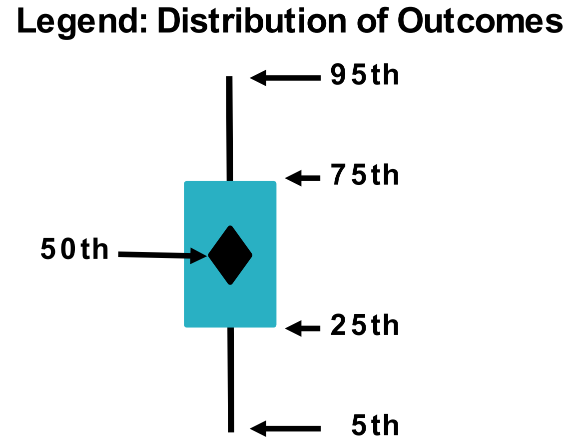
Florida Retirement System (FRS)

Support Ratio versus Peers[1]



Key Takeaways:

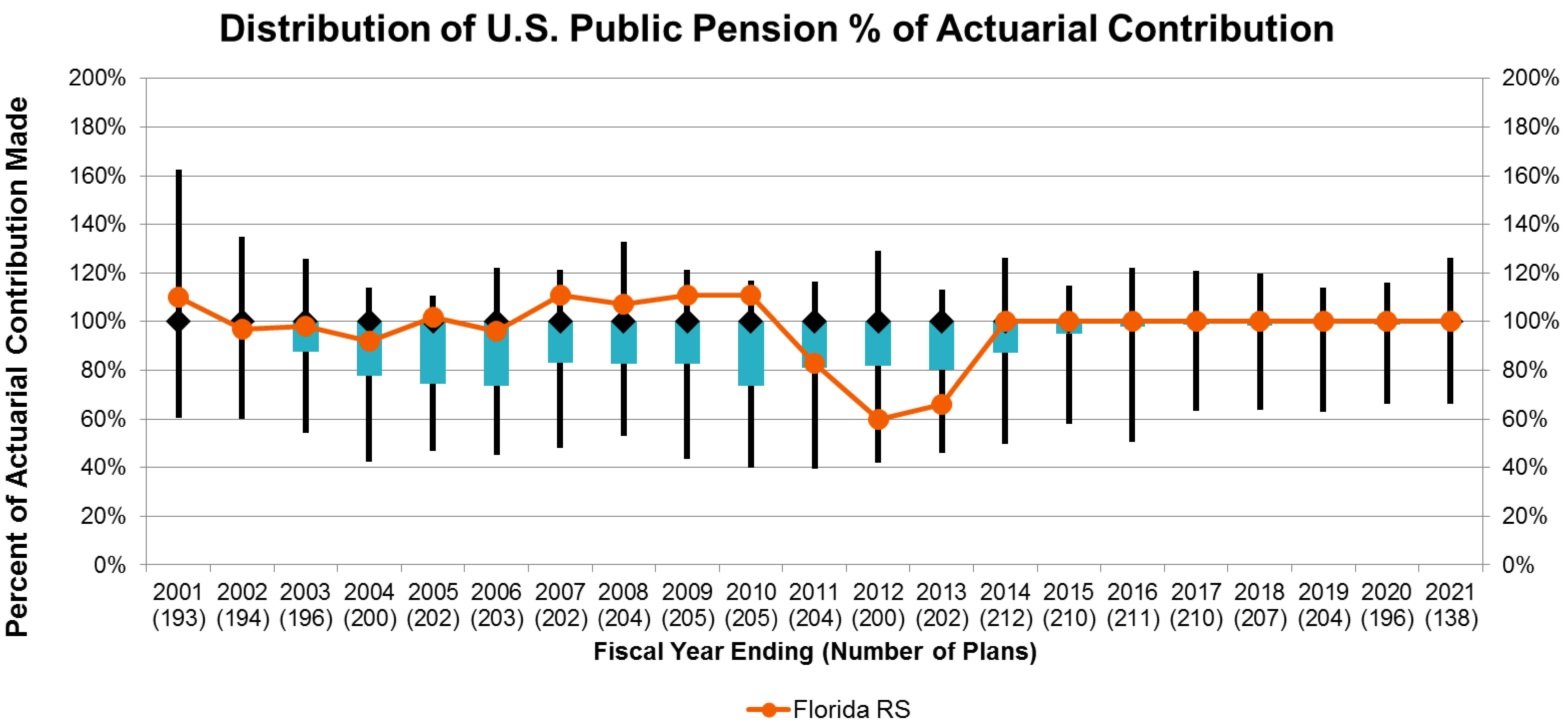
- "Support Ratio" defined as the ratio of inactive participants to active participants
- The ability for new hires to elect the Investment Plan has subdued the increase in active employees, increasing the Support Ratio over time



Source: Public Plans Data (publicplansdata.org) as of July 2022
[1] Peers defined as public funds published within publicplansdata.org as of July 2022; Number of plans per year are shown in parentheses

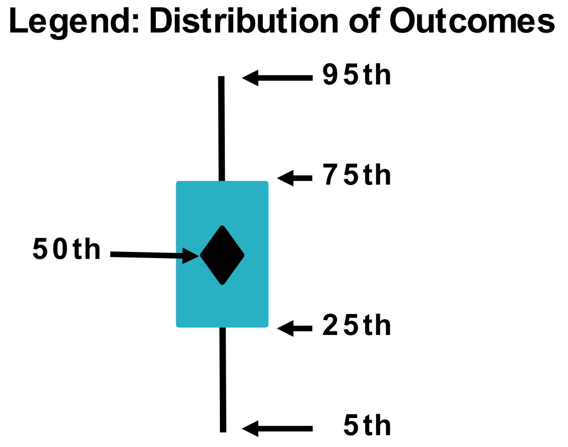
Florida Retirement System (FRS)

Percentage of Actuarial Contribution Made versus Peers[1]



Key Takeaways:

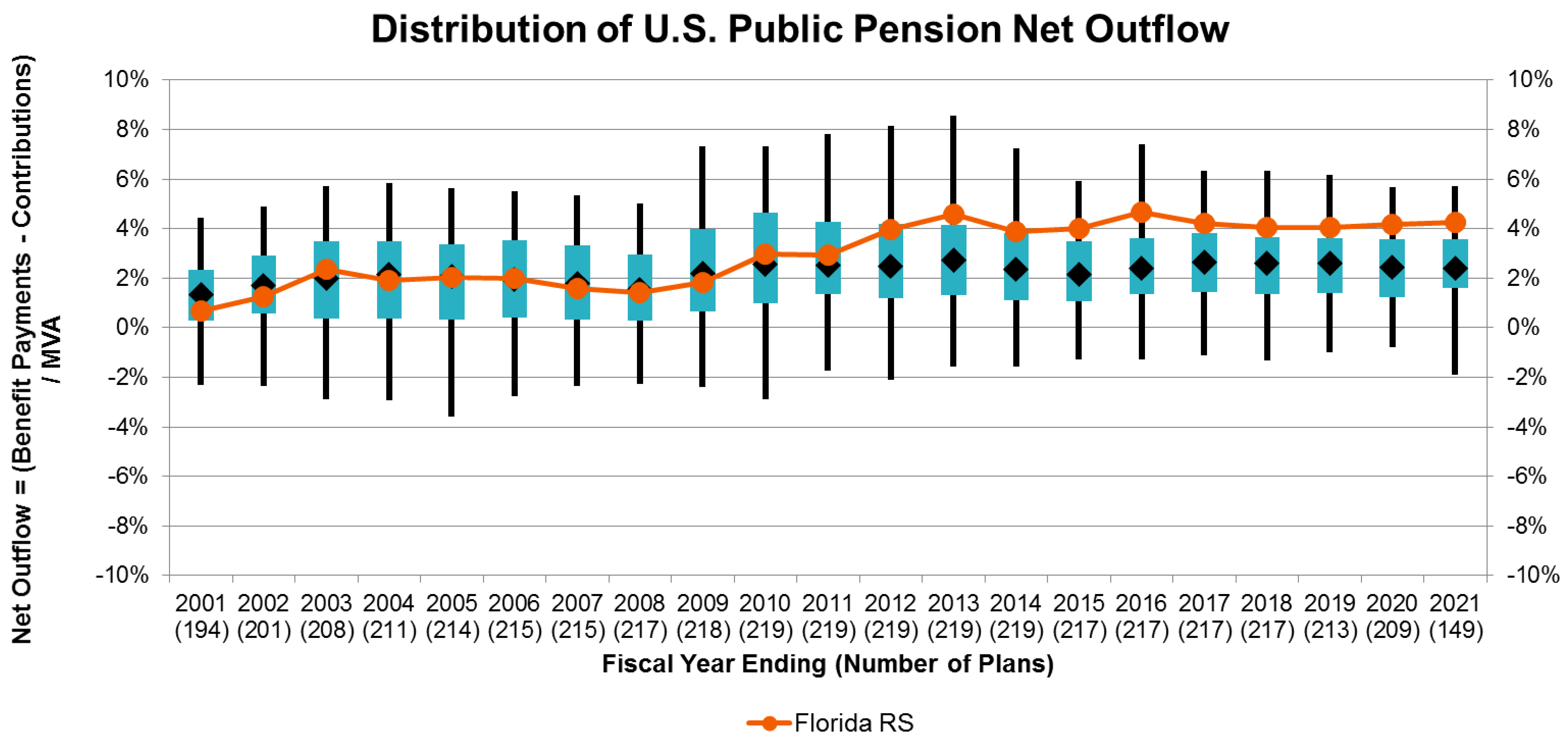
- Median contributions of plans within the data, as a percentage of the actuarial amount, have been approximately 100% since FYE 2001
- FRS has made at least the full actuarial contribution in the last 8 fiscal years



Source: Public Plans Data (publicplansdata.org) as of July 2022
[1] Peers defined as public funds published within publicplansdata.org as of July 2022; Number of plans per year are shown in parentheses

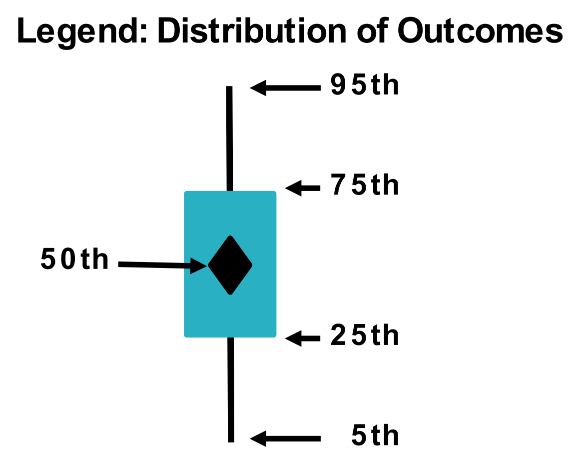
Florida Retirement System (FRS)

Net Outflow versus Peers[1]



Key Takeaways:

- The median net outflow as of FYE 2021 was 2.4% based on the latest survey data
- FRS' FYE 2021 net outflow (4.3%) fell between the 75th and 95th percentile relative to its peers



Source: Public Plans Data (publicplansdata.org) as of July 2022
[1] Peers defined as public funds published within publicplansdata.org as of July 2022; Number of plans per year are shown in parentheses

How Do Public Pensions Impact Credit Ratings?

Section 4: Appendix

How Do Public Pensions Impact Credit Ratings?

Summary and Conclusions

Pension Impact on Credit Ratings

Pension plans have a direct impact on the ultimate state or local credit rating

Rating agencies are not just looking at where public pension plans stand today; they are looking at the expected future trajectory of the plan based on how it is managed

Credit Ratings and Borrowing Costs

Taxpayers in lower credit rated jurisdictions are paying higher borrowing costs and could save money through healthier pension plan management

Call To Action

The Big Three (Fitch, Moody's and S&P) value selecting appropriate actuarial assumptions, avoiding excessive risk taking, and developing an adequate funding policy

While debt priorities and revenue framework to service such debt will vary on a case-by-case basis, every jurisdiction has the ability to thoughtfully develop a funding policy and set appropriate assumptions

These initial steps will help pension stakeholders better understand the true economic costs, improve the funding outlook for public pensions, and potentially reduce borrowing costs and further taxpayer burden

How Do Public Pensions Impact Credit Ratings?

Call to Action: Plan Sponsors Have the Ability to Impact Credit Rating

Below are three specific actions plan sponsors can take today to directly improve the impact a pension plan will have on the credit rating of its locality:

Action	Considerations
1. Conduct an actuarial assumption audit Review reasonability of key assumptions: • Salary scale, Mortality, Retirement rates, Turnover rates	• Assumptions set to plan-specific expectations will lead to lower contribution volatility • Aggressive assumptions may provide short-term relief but may have long-term consequences
2. Consider adjustments to expected return assumption Adjustments should be in line with forward-looking expectations for asset returns	• Contributing an actuarial amount? – Yes: Failing to achieve target returns will necessitate increases in future contributions and make what was intended to be a smooth, budget-friendly progression of contribution increases far more volatile – No: The funding gap will widen and become highly volatile as contribution policy will not add enough dollars to replenish losses
3. Review the plan's funding policy Look far enough into the future to identify potential pain points	• Conduct "tread water"/hurdle rate analysis to ensure short-term contributions are sufficient to keep pace with growth of plan liabilities • Consider asset-liability study to understand range of potential future outcomes rather than a single deterministic scenario

Glossary of Terms

Section 4: Appendix

Glossary of Terms

AVA – Actuarial value of assets (i.e., incorporates smoothing of gains and losses)

Asset Growth Rate or "Hurdle Rate" – The required rate of growth of the assets (through both contributions and investment returns) to keep pace with the growth of the liability

Current Frontier – Uses SBA's mix of asset classes within the return-seeking allocation, then dials the return-seeking allocation up and down from 0% to 100% to illustrate forecasted returns at various return-seeking / safety asset mixes

Economic Cost – Present value of forecasted future contributions + present value of funding shortfall/(surplus) at the end of the projection period

Liability Growth Rate – The projected growth of the liability over the coming year as measured by the sum of the normal cost (new benefit accruals) and discount/interest cost (one less year of discounting at the time value of money)

MVA – Market value of assets (i.e., un-smoothed/economic reality)

Return-Seeking Assets ("R-S") – All non "safety" assets

Safety Assets – Assets where the primary function is risk control/downside mitigation.

Target Asset Allocation – The allocation of assets between return-seeking assets and safety assets

About This Material

Section 4: Appendix

About This Material

This material includes a summary of calculations and consulting related to the finances of Florida State Board of Administration (SBA). The following variables have been addressed:

- Contributions, Economic Cost, Funded Ratio, Liquidity, Net Outflow, Hurdle Rate

This analysis is intended to assist the Investment Committee with a review of the associated issues and options, and its use may not be appropriate for other purposes. This analysis has been prepared solely for the benefit of the Investment Committee. Any further dissemination of this report is not allowed without the written consent of Aon Investments USA Inc.

Our calculations were generally based on the methodologies identified in the actuary's valuation report for SBA. We believe the methodology used in these calculations conforms to the applicable standards identified in the report.

Models are used to develop alternative scenarios based on the underlying valuation model and project financial results under those scenarios. The models were developed by experts outside and within Aon. Where outside models were used, the models were reviewed by experts within Aon. The models were selected as appropriate for these projections by the undersigned.

Experience different than anticipated could have a material impact on the ultimate costs of the benefits. In addition, changes in plan provisions or applicable laws could have a significant impact on cost. Actual experience may differ from our modeling assumptions.

Our calculations were based on data provided by the plan actuary. The actuarial assumptions and methods and plan provisions reflected in these projections are the same as those used for the 2021/2022 fiscal year actuarial valuation for SBA as noted in the actuarial reports, except where noted in this report. Unless specifically noted, our calculations do not reflect any other changes or events after July 1, 2021. Reflecting events after July 1, 2021 would impact the results of the projection.

In conducting these projections, we have relied on plan design, demographic and financial information provided by other parties, including the plan's actuary and plan sponsor. While we cannot verify the accuracy of all of the information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results.

These projections have been conducted in accordance with generally accepted actuarial principles and practices, including applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. The undersigned actuary is familiar with the near-term and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no colleague of Aon Investments USA Inc. providing services to SBA has any direct financial interest or indirect material interest in SBA. Thus, we believe there is no relationship existing that might affect our capacity to prepare and certify this report for SBA.

Aon Investments USA Inc.

Phil Kivarkis FSA, CFA

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Global Equity Update

Tim Taylor, Senior Investment Officer

September 13, 2022

SBA FLORIDA STATE BOARD OF ADMINISTRATION

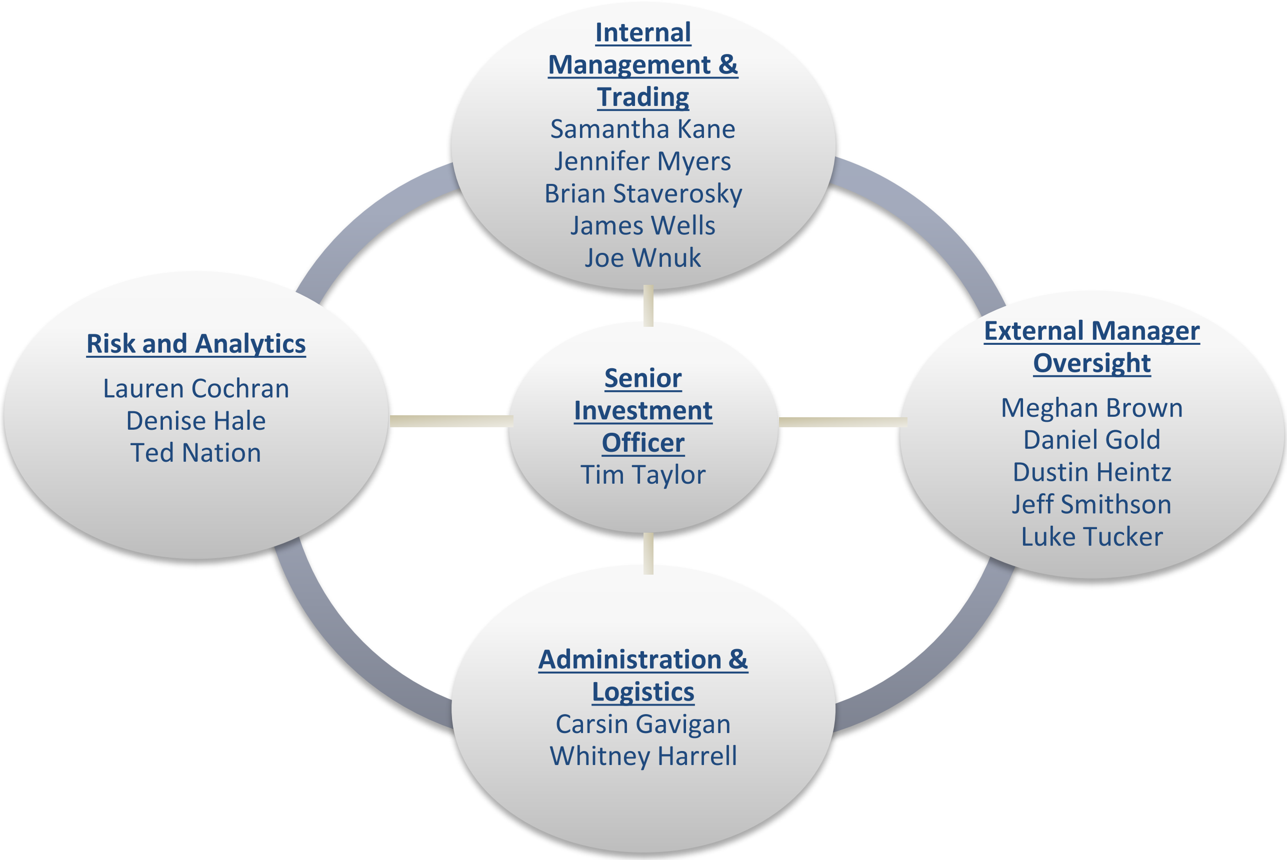
Agenda

Overview	• Team • Policy and Objectives • What We Do to Meet Objectives
Global Equity by the Numbers	• Top-Down Look: Global Equity’s Role in the Total Fund • Delivering on Objectives & Historical Characteristics • Global Equity Structure Details
Performance Review	• Aggregate Returns • Active Aggregate Performance

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Overview

Experienced Staff with Complementary Skills; Significant Overlap & Collaboration



SBA FLORIDA STATE BOARD OF ADMINISTRATION

Investment Policy Statement – Global Equity

Invest to achieve or exceed the return of the benchmark over a long period of time

- Remain well-diversified relative to the benchmark
- Maintain a reliance on low cost passive strategies scaled according to:
  - The degree of efficiency in underlying securities markets
  - Capacity in effective active strategies
  - Ongoing total fund liquidity requirements

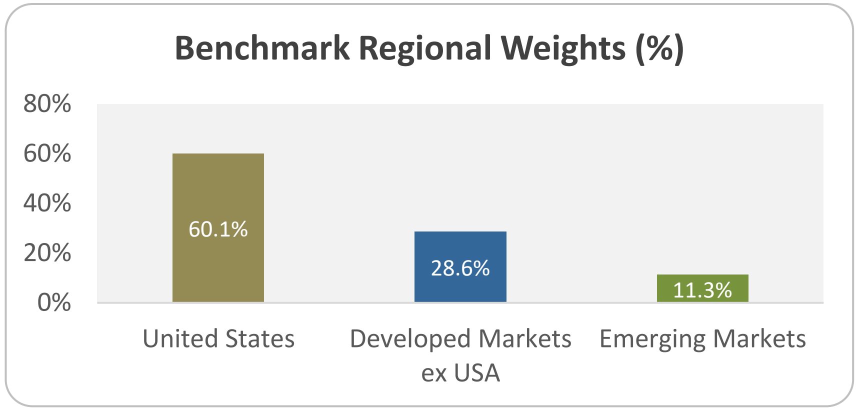
Source: DB Plan Investment Policy Statement

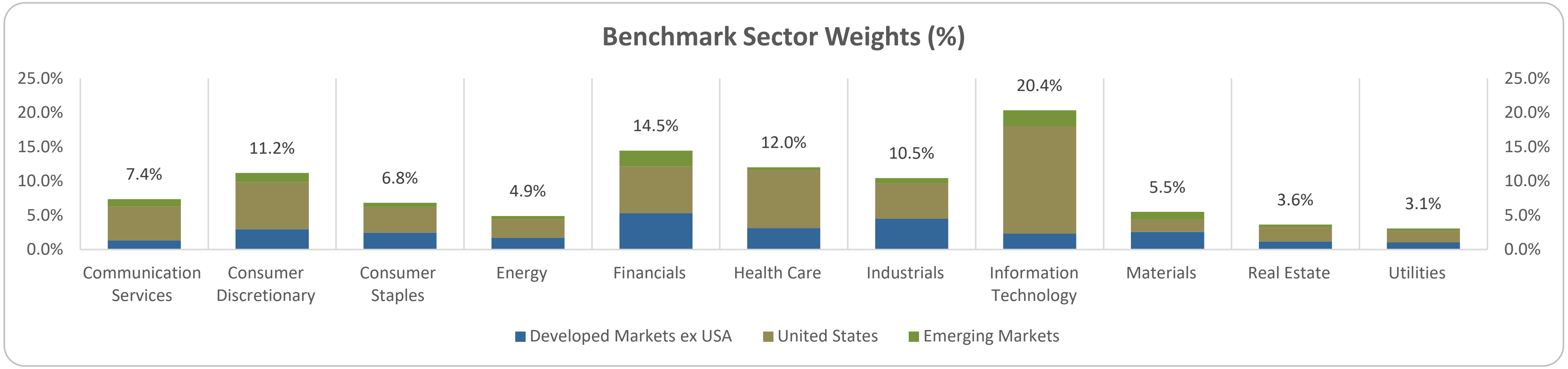
Investment Policy Benchmark

Custom MSCI All Country World Investable Market Index

(MSCI ACWI IMI)

- Large, mid and small capitalization
- In US dollar terms
- Reflects provisions of Protecting Florida's Investments Act (PFIA) and other Florida Legislation
- Includes over 45 countries and over 9,200 securities





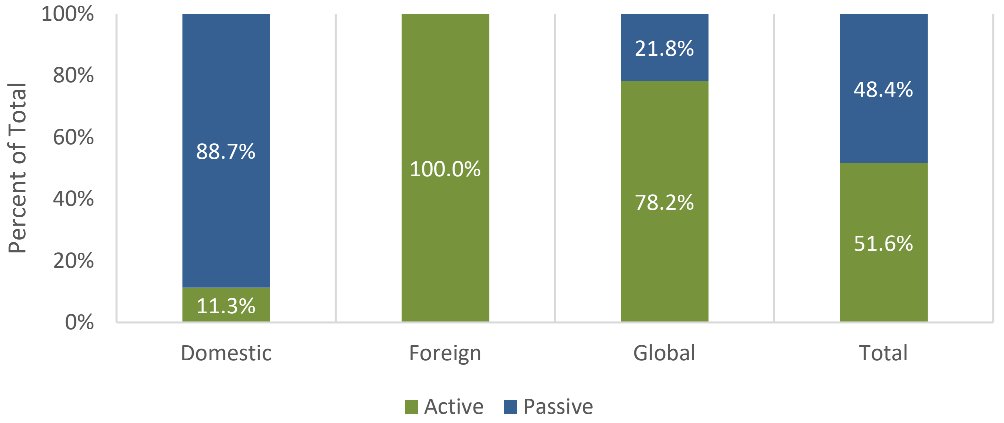
Note: Source MSCI, FactSet. As of June 30, 2022.

Investment Policy: Implementation Snapshot

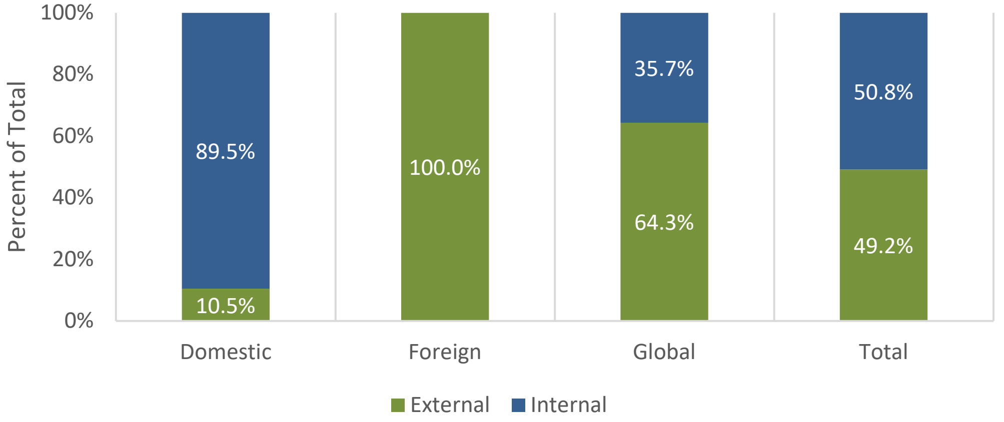
Well Diversified versus Benchmark

- Total AUM: $85bn
- 9,500+ Securities
- 62 Countries
- 46 Currencies
- 7 Internal Strategies (4 passive & 3 active)
- 57 Externally Managed Strategies

Invest to Achieve or Exceed Equity Benchmark



Focus on Return and Low Costs



Opportunistically Invest in Active Strategies

US Microcap	$324M
	Inception 2014
Schiehallion	$239M
	Inception 2019

Note: As of June 30, 2022.

Objectives Drive What We Do

	What We Do	Pitfalls We Strive to Avoid
Provide Beta	Manage 48.4% of assets passively.	Becoming an index fund.
Manage Costs	Aggressively, and fairly, negotiate fees.	Overpaying for non-unique alpha.
Diversify Sources of Alpha	Implement/Fund strategies with varying philosophies, processes, geographic focus and sector exposures.	Relying on a specific market condition or environment to drive relative performance.
Maintain Low Active Risk	Manage relative to a risk budget of 75 bps (3-year active risk standard). Focus on aggregate construction using multiple risk lenses.	Taking uncompensated or concentrated risk, or not identifying a notable risk.
Be Selectively Opportunistic	Strategically allocate risk budget based on market efficiency and consider investing in non-traditional strategies.	Allowing large scale to dampen opportunism.
Provide Liquidity	Consistently raise funds with emphasis on enhancing risk/return profile and minimizing transaction costs.	Sacrificing excess return potential by not funding or limiting less liquid strategies.

Navigating 2021-2022's Dynamic Market Environment

Provide Beta	• Strong and consistently rising equity markets are challenging for passive managers (cash drag), combined with continued pressure on historical sources of value-add (e.g. Securities Lending). Calendar year 2022, particularly Q2, represented a significant change in equity market direction.
Manage Costs	• Industry pressure on fees have benefits however create manager risk, particularly when combined with declining markets and poor active performance records. • Advancements continued with respect to inexpensively capturing factor exposures expected to outperform.
Diversify Sources of Alpha	• Growth underperformed Value, however everything was down on an absolute basis. • Rising interest-rate environment, uncertainty over global economic growth, valuation multiples and numerous other uncertainties warrant a diversified portfolio.
Maintain Low Active Risk	• Market volatility remained elevated from historically low levels on uncertainties related to inflation, interest rates, and global economic growth. These risks intensified, and new ones created, after Russia invaded Ukraine in late February 2022.
Be Selectively Opportunistic	• Challenges to active management persisted (benchmark concentration, flight to passive, ETFs). • GE continued non-traditional investments in off-target US Microcap strategy and Public/Private fund. • Dedicated currency program was discontinued after the termination of the prime brokerage platform.
Provide Liquidity	• Challenge of low liquidity persists in market segments with rich alpha potential (e.g. US Microcap and EM Small Cap).

Meeting Objectives By Navigating Dynamic Market Environments

	Market Dynamics	Actions Taken in FY2022
Provide Beta	• Pressure on passive value-add sources	• Continued to develop internal passive management resources, focusing on staff development and efficient trading to minimize transaction costs.
Manage Costs	• Fee pressure	• Aggressively negotiated fees for newly funded strategies, and successfully renegotiated select existing schedules. • Percentage of assets internally managed continued to rise, including active mandates targeting potential alpha-generating factors.
Diversify Sources of Alpha	• Rising Uncertainties • Growth vs. Value	• New fundings included six dedicated Global strategies and one US Small Cap account. • Modest reallocations/restructurings across aggregates.
Maintain Low Active Risk	• Elevated market volatility	• Risk managed within policy bounds despite rising market volatility leading to an increase in active return volatility.
Be Selectively Opportunistic	• Challenges to traditional active management	• Enhanced process and accelerated research focus on non-traditional, potentially off-target, equity-related strategies.
Provide Liquidity	• Liquidity vs Alpha tradeoff	• Raised over $4 Billion in Fiscal Year 2022. GE has raised and distributed $49 billion from the asset class since July 2010 (GE Inception).

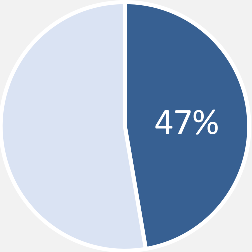
Meeting Objectives: Looking Forward

	Selected Elements of FY2023 Work Plan
Provide Beta	• Continue to strive for world-class management and best execution in internally managed passive and active strategies; support staff development and retention related to these important functions.
Manage Costs	• Further evaluate opportunities to manage strategies internally (e.g. factor index solutions). • Continue to review, negotiate and (as appropriate) renegotiate fees.
Diversify Sources of Alpha	• Work with the consultant as they independently review the investment structure of the asset class; implement changes as appropriate. • Maintain focus on monitoring and restructuring active sub-aggregates as needed while identifying and monitoring external managers with excellent potential.
Maintain Low Active Risk	• Continue to build Analytics capabilities by investing in human capital and systems, enhancing the framework for evaluating risks at the total asset class and sub-aggregate levels.
Be Selectively Opportunistic	• Continue efforts to identify and review non-traditional strategies that may add value to the GE aggregate by improving the risk/return profile of the asset class.
Provide Liquidity	• Use liquidity draws to rebalance / reposition the GE aggregate and address modest structural biases. • Maintain significant exposure to liquid portfolios while selectively adding to less-liquid strategies.

Global Equity By the Numbers

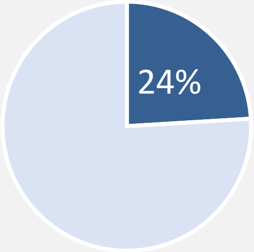
Top Down View: Global Equity's Role in the Total Fund

% of Total FRS Assets



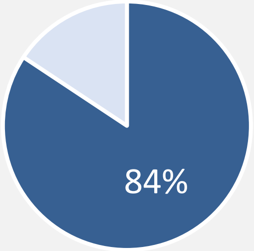
Policy Range:
45% - 75%, With 53% Target

% of Total FRS Assets Internally Managed by GE



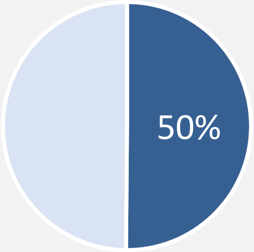
Policy Goal:
Reliance on Low Cost (Passive) Strategies

% of Liquidity Provided by GE in Last 3 Years



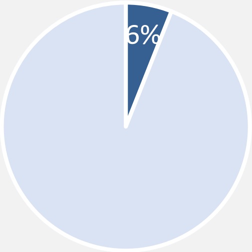
Policy Goal:
Meet Ongoing Funding Requirements
Amount Raised in 3 Years: $19bn

% Contribution to Total FRS 3-Yr Absolute Return



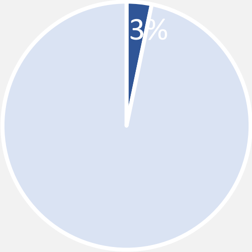
Policy Goal:
Seek Absolute Returns

% Contribution to Total FRS 3-Yr Excess Return



Policy Goal:
Exceed Returns of Benchmark

% Contribution to Total FRS Active Risk



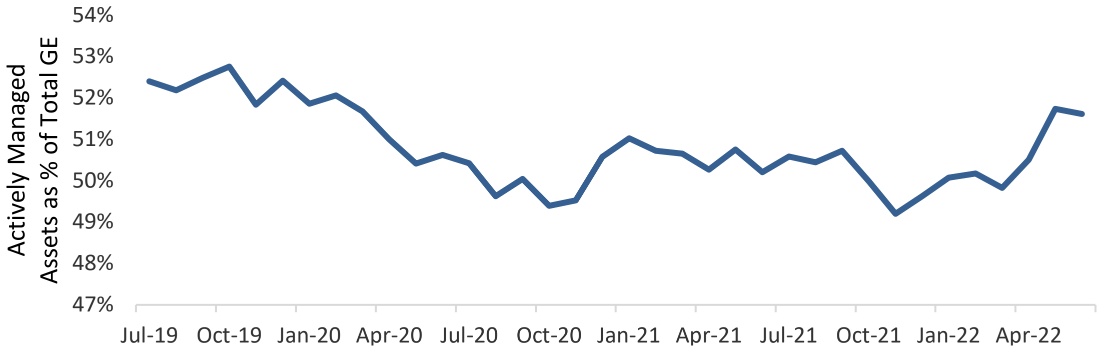
Policy Goal:
Passive with Active Risk in Less Efficient Markets

GE = Rest of Fund

Note: As of June 30, 2022. 3 Year Returns include GE Liquidity and Cash Equitization accounts. % of Active Risk is a measure of GE contribution to total fund, based on 1 year predicted risk.

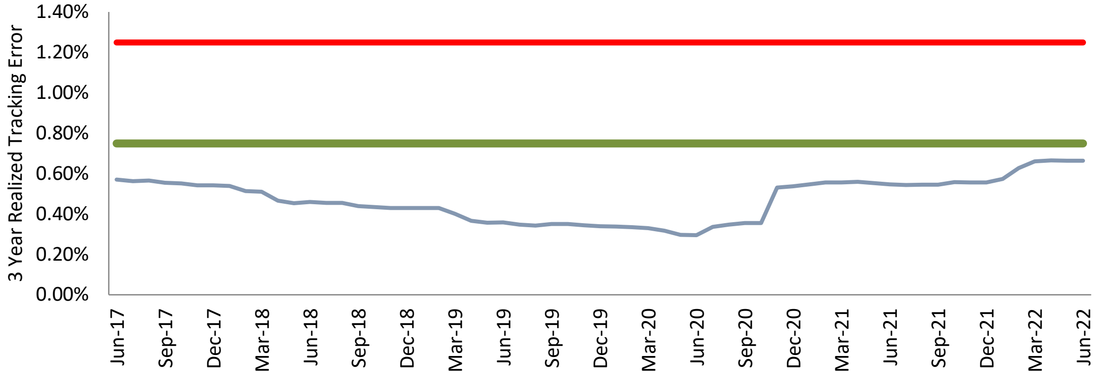
Delivering on Policy and Objectives

Provide Alpha and Beta: % Actively Managed



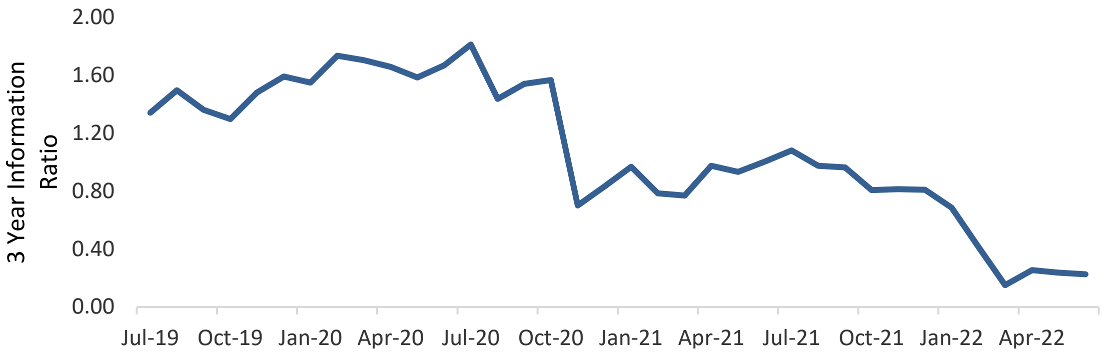
Policy Range: 47% - 57% Active
Current Aggregate Beta: 0.99

Maintain Low Active Risk: Tracking Error Over Time



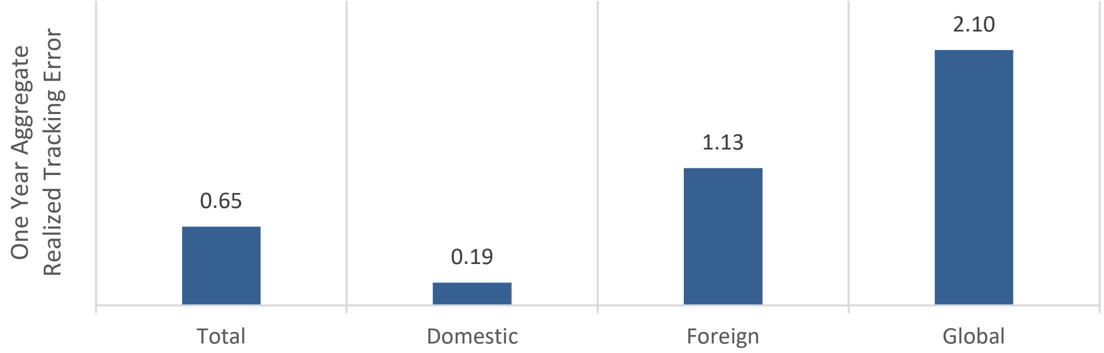
Policy: 0.75% Monitoring Standard and 1.25% Escalation Standard

Take Risk Where Rewarded: Information Ratio



Policy Risk Adjusted Return Standard (3 Year): 0.25
Current 3 Year IR: 0.23

Low Active Risk: Take Tracking Error Where Rewarded



Range Tracking Error for Individual Strategies: 0.06% to 16.02%

Note: As of June 30, 2022. Passive Policy Range is 43% - 53%. Active Risk Budget is measured over rolling 3-year periods.

Structured for Performance Consistency

Global Equity Outperformed Benchmark, net of fees, in 120 of 132 Rolling One-Year Periods

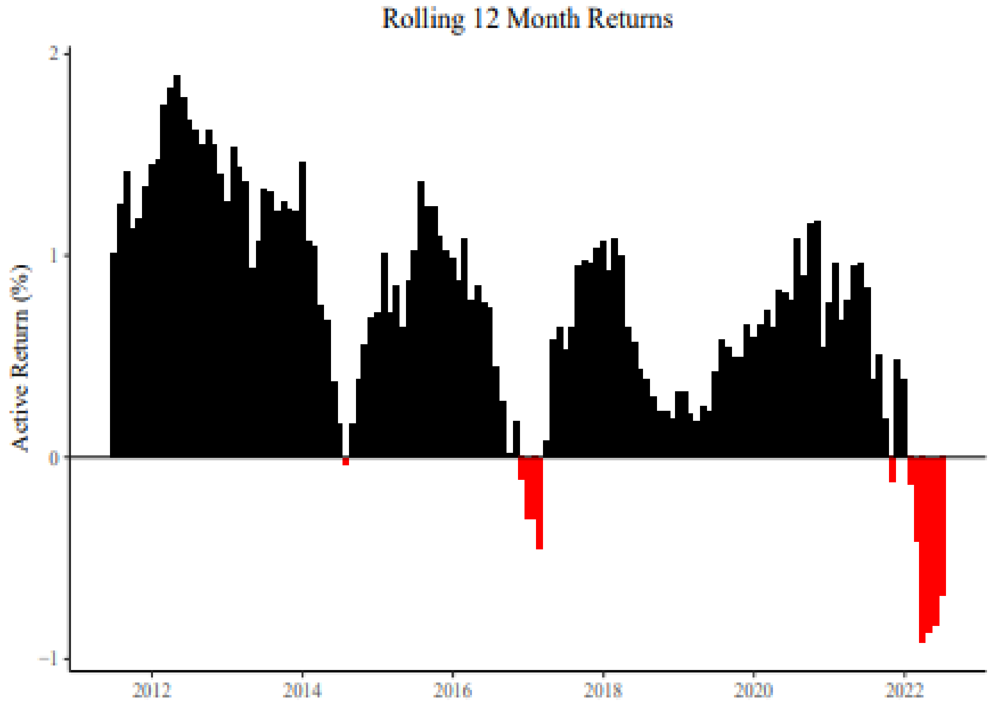
Periods ahead of the benchmark: 120 out of 132

91% Outperformance

0.74% average outperformance

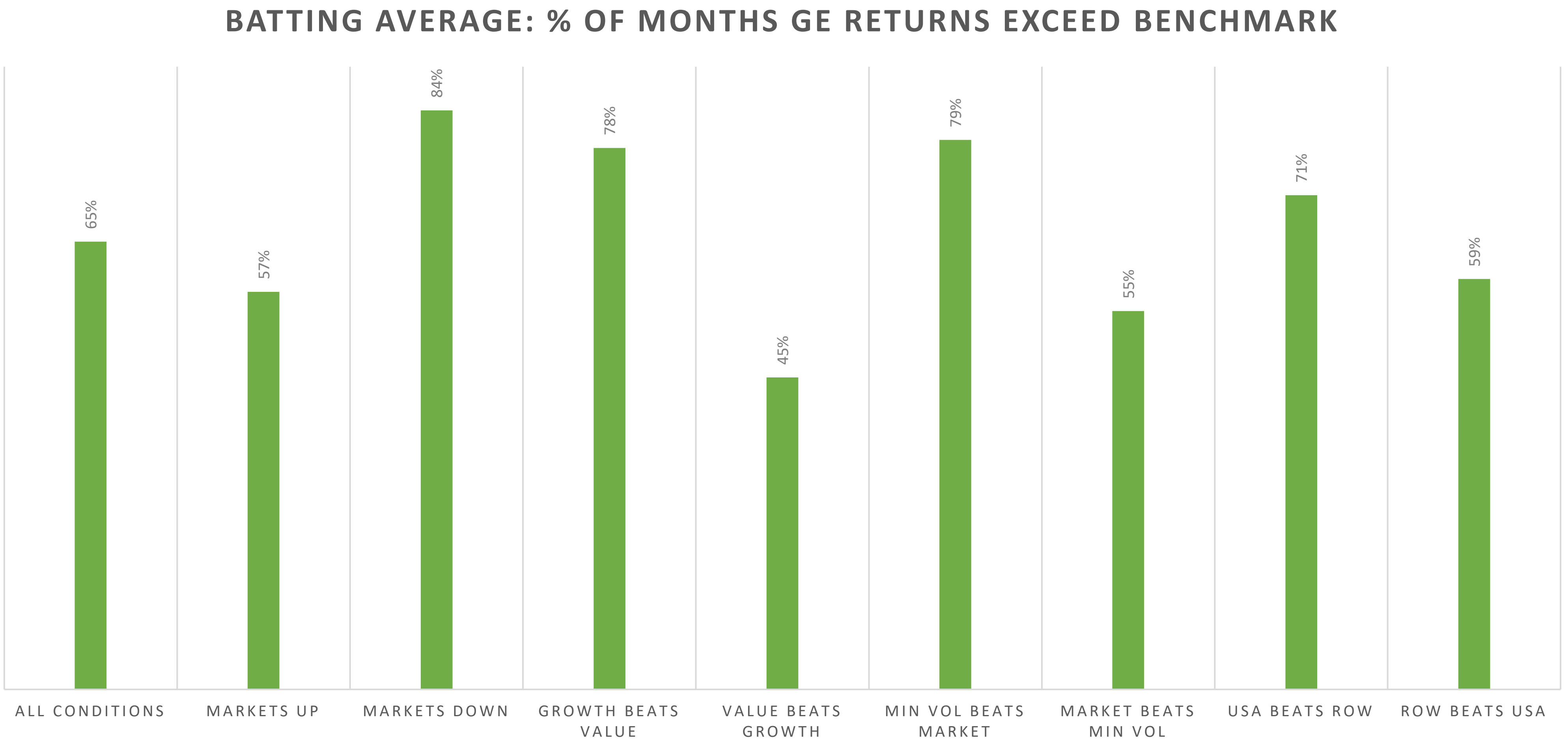
Frequency	(2-1.5%)	(1.5-1%)	(1-0.5%)	(0.5-0%)	0-0.5%	0.5-0.75%	0.75%-1%	1-1.25%	1.25-1.5%	1.5-2.0%
					28					
28					Dec-21					
27					Nov-21					
26					Sep-21					
25					Jul-21					
24					Oct-19	23	23			
23					Sep-19	Aug-21	Jun-21	22		
22					Jun-19	Feb-21	May-21	Oct-20		
21					May-19	Nov-20	Apr-21	Sep-20		
20					Apr-19	Mar-20	Mar-21	Jul-20		
19					Mar-19	Feb-20	Jan-21	Mar-18		
18					Feb-19	Jan-20	Dec-20	Feb-18		
17					Jan-19	Dec-19	Aug-20	Dec-17		
16					Dec-18	Nov-19	Jun-20	Nov-17		
15					Nov-18	Aug-19	May-20	Feb-16	14	
14					Oct-18	Jul-19	Apr-20	Nov-15	Jul-15	
13					Sep-18	May-18	Jan-18	Oct-15	Dec-13	
12					Aug-18	Apr-18	Oct-17	Sep-15	Sep-13	
11					Jul-18	Jul-17	Sep-17	Aug-15	Jul-13	10
10					Jun-18	Jun-17	Aug-17	Jun-15	Jun-13	Jan-13
9				8	Mar-17	May-17	May-16	Jan-15	Mar-13	Oct-12
8				Feb-22	Oct-16	Apr-17	Apr-16	Feb-14	Feb-13	Sep-12
7				Jan-22	Sep-16	Jun-16	Mar-16	Jan-14	Dec-12	Aug-12
6				Oct-21	Aug-16	Apr-15	Jan-16	Nov-13	Nov-12	Jul-12
5			4	Feb-17	Jul-16	Feb-15	Dec-15	Oct-13	Jan-12	Jun-12
4			Jun-22	Jan-17	Sep-14	Dec-14	May-15	Aug-13	Dec-11	May-12
3			May-22	Dec-16	Aug-14	Nov-14	Mar-15	May-13	Nov-11	Apr-12
2			Apr-22	Nov-16	Jun-14	Oct-14	Mar-14	Oct-11	Aug-11	Mar-12
1			Mar-22	Jul-14	May-14	Apr-14	Apr-13	Sep-11	Jul-11	Feb-12

Relative Performance in percentage points



Note: Based on official performance numbers through June 30, 2022. Each date or bar represents a one year period based on rolling monthly returns.

Structured to Perform in a Variety of Market Conditions



Note: Based on Global monthly returns since inception and MSCI Indices.

Diversify Sources of Alpha and Risk: Strategy Types

Diversified for Market Conditions

Defensive Active
Low Beta
High Yield
Earnings Stability

Core Active
Multifactor Quant
Quality Emphasis
Regional Strategies

Upmarket Active
High Growth
Pro-Cyclical

Passive

Diversified by Investment Process

	Fundamental Approach			Traditional Quantitative Approach			Factor/Other
	Growth	Core	Value	Growth	Core	Value	
US LC		☑			☑		
US Small Cap	☑	☑	☑	☑	☑	☑	☑
Developed LC	☑	☑	☑		☑		☑
Developed SC	☑	☑	☑		☑		☑
Emerging	☑	☑	☑		☑		☑
Global	☑	☑	☑		☑		☑

Diversify Alpha: Active Management Structure

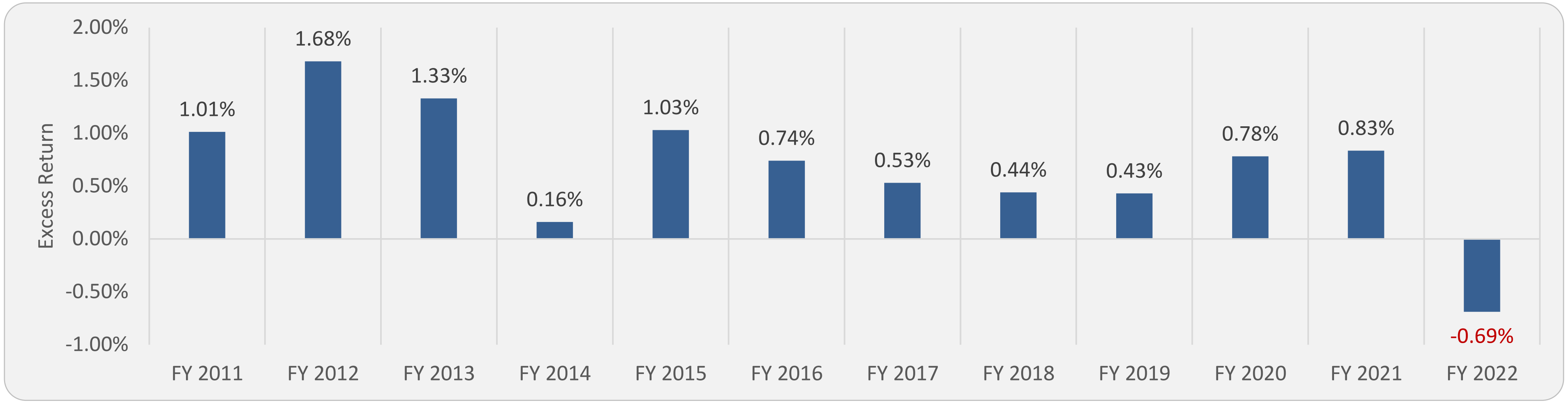
Higher Active Exposures in Segments Where Risk Is Rewarded				
	Total AUM ($mm)	**% Active**	**Average Active Mandate Size ($mm)**	**# of Active Strategies**
US LC	$41,036	7.3%	$994	3
Developed LC	$17,404	100.0%	$1,582	11
Global	$10,903	78.2%	$852	10
Emerging	$9,284	100.0%	$580	16
Developed SC	$3,536	100.0%	$393	9
US SC	$2,704	72.3%	$178	11

Note: As of June 30, 2022. US All Cap passive strategy assets allocated to the US LC and US SC groups in line with the benchmark large cap/small cap split. US SC includes microcap. Emerging includes EM SC and China A share strategies.

Performance Review

Performance: Total Global Equity

Total Global Equity	EMV ($M)	Q2 '22	CYTD	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	Inception
Asset Class Return	$85,151	-15.58%	-20.93%	-17.20%	6.20%	7.00%	7.19%	9.27%	9.64%
Benchmark		-15.88%	-20.42%	-16.51%	6.01%	6.72%	6.80%	8.74%	8.97%
Excess Return		**0.30%**	**-0.52%**	**-0.69%**	**0.19%**	**0.28%**	**0.39%**	**0.52%**	**0.67%**
Tracking Error					0.67%	0.56%	0.54%	0.53%	0.54%
Return/Risk (Information Ratio)					0.23%	0.44%	0.63%	0.87%	1.09%



Note: As of June 30, 2022. GE Inception July 2010.

Performance: Returns by Approach and Region

	Weight (% of Asset Class)	One Year Excess Return	Three Year Excess Return	Five Year Excess Return
By Approach				
Passively Managed Strategies	48.4%	0.12%	0.05%	0.08%
Actively Managed Strategies	51.6%	-1.71%	0.05%	0.14%
By Region				
Domestic (US)	51.4%	0.47%	-0.03%	-0.02%
Foreign	35.5%	-2.79%	0.46%	0.41%
Global	12.8%	-0.40%	-1.72%	-0.97%

SBA FLORIDA STATE BOARD OF ADMINISTRATION

Note: Returns as of June 30, 2022

Performance: By Active Aggregate

Active Strategy Group	Weight (% of Asset Class)	Q2 2022 Excess Return	One Year Excess Return	Three Year Excess Return	Five Year Excess Return	Key Drivers of One Year Excess Returns
Foreign Developed Large Cap	20%	0.17%	-3.60%	0.78%	0.92%	The sharp selloff in higher valuation growth-oriented securities, which had performed exceptionally well during the pandemic, notably detracted from returns. An underweight to the soaring Energy sector also hurt performance. Value-oriented managers generally added positive alpha but at modest levels. Quality stocks did not offer protection during a period of rising uncertainty and tightening monetary policies.
Emerging Markets	11%	-0.91%	-1.71%	0.84%	0.31%	Performance was negatively impacted by Russian holdings after the invasion of Ukraine. Other detractors included an underweight to Saudi Arabia and poor stock selection in Brazil, India and Taiwan. A positive was an underweight to China and good stock selection within the country.
Dedicated Global	10%	1.90%	-0.59%	-2.41%	-1.39%	This aggregate was restructured during the FY with the additions of value- and growth-oriented strategies to complement its existing low volatility emphasis. Active performance lagged a rising market the last half of 2021, and disappointed by not preserving capital during the selloff in the first half of 2022.
Foreign Developed Small Cap	4%	0.65%	-1.32%	-0.29%	-0.44%	The aggregate underperformed due to its underweight to Energy and above benchmark weights in IT, Consumer Discretionary and Health Care. A Quality bias was surprisingly not rewarded during a period of tightening monetary policy. Value-oriented mandates did well, while those with any valuation risk lagged.
US Large Cap	4%	1.92%	3.28%	0.65%	0.02%	Positive contributors included underweights to Mega-Cap stocks and the Information Technology sector. An underweight to Energy was a significant detractor however was offset by strong sector and stock selection elsewhere.
US Small Cap	2%	0.58%	5.34%	2.20%	1.88%	Value and low volatility factor tilts were the strongest contributors in an environment that was generally unfavorable for highly speculative stocks. In particular an underweight to, and stock selection within, the Biotech industry notably contributed to performance.

Note: Returns as of June 30, 2022

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Callan

STATE BOARD OF ADMINISTRATION

September 13, 2022

Florida State Board of Administration (SBA)

Summary of Global Equity Portfolio Analysis

John Pirone, CFA, CAIA, FRM
Capital Markets Research

Weston Lewis, CFA, CAIA
Atlanta Investment Consulting

Background and Overview

Callan was engaged to evaluate the structure of the SBA Global Equity (GE) program:

- Review current Global Equity structure
- Assess GE's current structure relative to benchmarks
- Review Investment Policy Statement alignment with objectives and risk budget measures
- Discuss ideas to potentially add value to the portfolio

Florida State Board of Administration (SBA) Portfolio Analysis

Summary

Active vs. passive considerations

SBA's philosophy is to use passive management to control fees and active management where it has demonstrated success.

Callan considers this best practice and this approach is consistent with most large public equity programs.

Control of unintended risk exposures

SBA mitigates style biases (misfit risk) so that active manager alpha drives plan outperformance relative to the plan benchmark.

Callan considers this best practice, and SBA mitigates style biases to a significantly greater extent than many other large public equity programs.

Use of the 75bps active risk budget

SBA seeks to use active managers where appropriate to increase the impact of active management at the overall plan level.

Callan believes it may be possible to increase the overall program's value add by running the portfolio closer to its 75bp active risk budget.

Active vs. Passive Management

Historical Results

Active management should be considered when the investor believes there will be compensation on a net-of-fee basis.

Historical data can help indicate attractive market segments

- US Large Cap and US Mid Cap strategies have been challenged to beat passive strategies, even gross-of-fees. SBA has aggressively negotiated active manager fees, which “lowers the bar” for success
- SMID Cap, Small Cap, and Micro Cap active strategies have had greater historical success
- Foreign equity is a fertile area to add value through active management
- The historical track record for dedicated global managers is also favorable

Equity Style	Benchmark	Avg. Gross Excess Return over Benchmark
Large Cap Core	Russell 1000	-0.09%
Large Cap Growth	Russell 1000 Growth	-0.05%
Large Cap Value	Russell 1000 Value	0.12%
Mid Cap Core	Russell Midcap	-0.31%
Mid Cap Growth	Russell Midcap Growth	-0.28%
Mid Cap Value	Russell Midcap Value	-0.19%
SMID Cap Core	Russell 2500	0.36%
SMID Cap Growth	Russell 2500 Growth	0.49%
SMID Cap Value	Russell 2500 Value	0.48%
Small Cap Core	Russell 2000	1.34%
Small Cap Growth	Russell 2000 Growth	1.47%
Small Cap Value	Russell 2000 Value	1.27%
Micro Cap	Russell Microcap	2.33%
Developed Large Cap	MSCI EAFE	1.14%
Non-U.S. Large Cap	MSCI ACWI ex USA	1.22%
Developed Small Cap	MSCI EAFE Small Cap	1.02%
Non-U.S. Small Cap	MSCI ACWI ex USA Small Cap	1.28%
Emerging Markets	MSCI EM	0.98%
Broad Global	MSCI ACWI	1.11%
Developed Market Global	MSCI World	1.37%

Based on 20 years of rolling 3 year average annualized returns (Q1 ‘02 - Q1 ‘22) or longest available history

Source: Callan Active vs. Passive Data.

Active vs. Passive Management: Large US Public Pension Plan Implementation

Percentage Active by Asset Class

Asset Class	SBA	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H	Plan I	Plan J	Peer Average
US Large/Mid Cap	**15%**	15%	45%	25%	2%	33%	0%	57%	40%	0%	10%	**23%**
US Small Cap	**72%**	100%	50%	100%	47%	100%	100%	100%	80%	0%	70%	**75%**
Developed Foreign Equity	**97%**	57%	100%	46%	62%	100%	53%	76%	69%	0%	100%	**66%**
Emerging Markets	**100%**	63%	52%	100%	100%	100%	100%	100%	100%	N/A	100%	**91%**

Large US public plans predominantly manage US large cap and mid cap passively
- Weaker empirical support for active management
- Very large asset pools can only deploy so much capital to any given active fund

Large US public plans predominantly manage US small cap actively
- This behavior is consistent with empirical support for small cap active management

Large US public plans predominantly manage developed foreign markets actively
- GE is essentially fully active in this area

Many large US public plans manage all emerging markets actively
- GE is fully active in this area

Peer group data as of December 2020.

Sources of Active Risk in the Equity Structure

Selection Risk

Risk stemming from active managers' bets relative to their benchmarks

– Risk which is expected to be rewarded with alpha if manager is skillful
– The risk you are paying your active managers to take
– This risk at the plan level is reduced as the number of active managers increases due to diversification

Misfit Risk

Risk which results when the overall style exposures of the plan's manager benchmarks differ from the plan's benchmark

– When unintentional, misfit confers additional active risk without any expected return
– Misfit can be controlled by ensuring overall manager style exposures (large vs. small; value vs. growth, U.S. vs. foreign are generally consistent with the plan's benchmark)

Plans should be structured so that the selection risk is far greater than the misfit risk

– This ensures the value add from the plan's active managers drive the plan's results
– Impact of style bets should be second-order

Total Global Equity Selection Risk

Risk budget is predominantly spent in foreign and dedicated global equity

Plan	AUM ($M)	% of Plan	Selection Risk	Contribution to Selection Risk
Domestic Equity	$53,401	52.3%	0.22%	4.1%
Foreign Equity	$35,975	35.2%	1.27%	75.4%
Dedicated Global Equity	$12,754	12.5%	1.28%	20.4%
Total Global Equity	**$102,130**	**100%**	**0.54%**	**100.0%**

The majority of Global Equity's selection risk budget is spent across the foreign and dedicated global equity plans

- GE is currently spending its active risk budget in a logical fashion given the empirical results for active vs. passive in the different sub-asset classes
- GE's existing allocation acknowledges there are more promising opportunities to add alpha outside large cap US equity
- This approach allows GE to maximize portfolio efficiency

Analysis excludes Schiehallion

Total Global Equity Plan Active Risk Profile

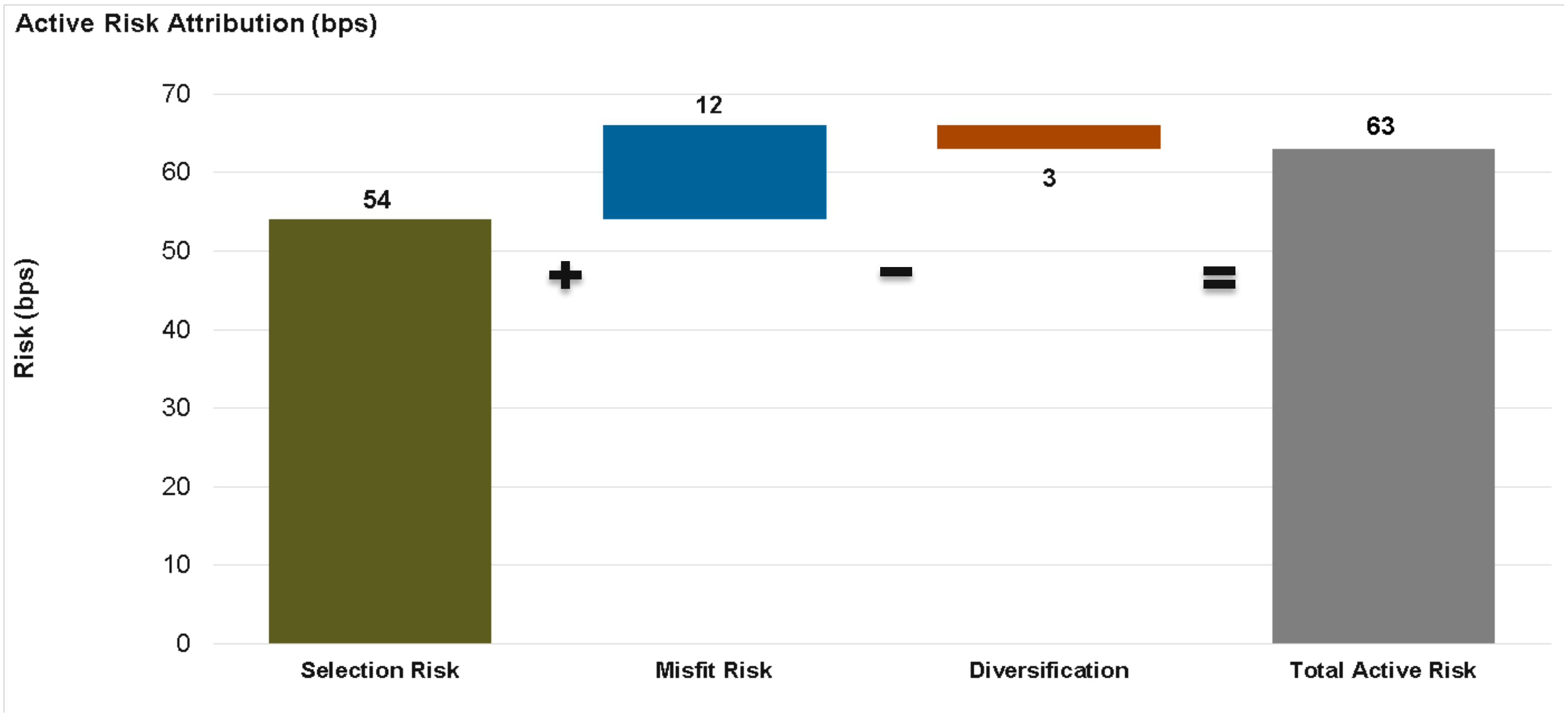
Evaluated vs. MSCI ACWI IMI

At the overall plan level, **total active risk is 63 basis points**

– The primary driver is selection risk (54 bps) which means the bulk of the active risk budget is spent on managers that seek to produce alpha

– Misfit risk (12 bps) is very modest

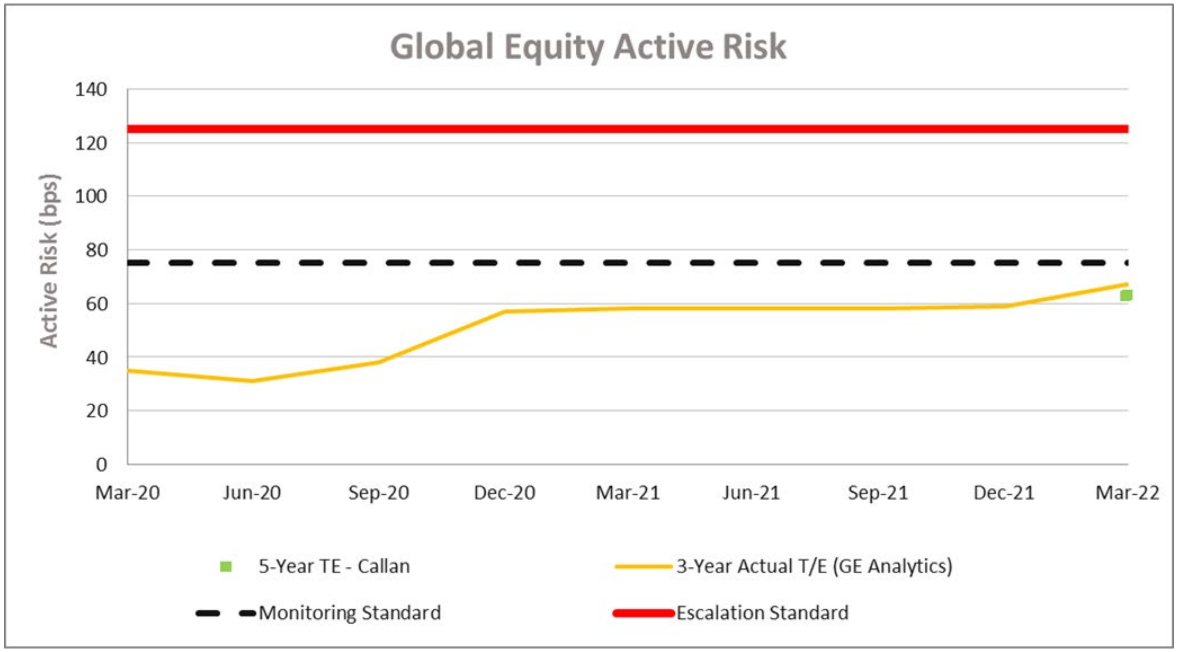
– SBA controls misfit risk to a far greater extent than many large public plans, which is best practice



Analysis excludes Schiehallion.

Active Risk Is Modestly Below Its Target

There may be incremental latitude to seek additional return



SBA's actual active risk has historically been somewhat below its 75bp risk budget target

- In practice, targeting an exact active risk level is challenging because active risk changes as market volatility changes
- Active risk level is materially below the escalation standard of 125 bps

There may be latitude to seek additional return by <u>averaging</u> a 75bp risk target over time

Source for graphic: Q1 2022 SBA Global Equity, Total Asset Class overview, p.23.

Ways to Potentially Add Value to the Portfolio

What is the right number of managers? GE can increase its active risk level by emphasizing the highest conviction investment strategies by lowering allocations to, or the number of “lower conviction” strategies. This may potentially reduce the plan’s information ratio (alpha/tracking error); however, increase the alpha generated.

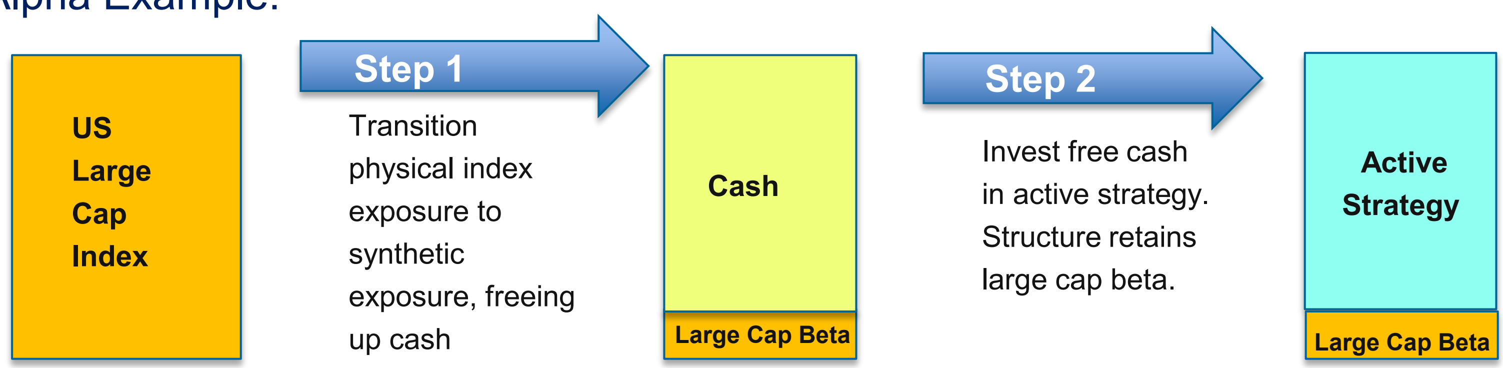
GE may also consider seeking additional returns by increasing its overall use of active management, thereby increasing its active risk level. Consideration should be given to modest redeployment to active management from all existing passive strategies.

Consider using US large cap index assets as a source of funds for one or more portable alpha strategies to seek to add alpha while retaining US large cap beta exposure to control portfolio misfit risk (see illustration below).

On the margin, risk-controlled active US large cap managers could also substitute for index exposures without materially impacting the portfolio active risk budget (e.g., enhanced index strategies).

Active currency managers could also provide the portfolio with additional diversifying sources of alpha.

Portable Alpha Example:



FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

Absolute Real Target Rate of Return - The total rate of return by which the FRS Portfolio must grow, in excess of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), in order to achieve the long-run investment objective.

Asset Class - An asset class is an aggregation of one or more portfolios with the same principal asset type.[1] For example, all of the portfolios whose principal asset type was stocks would be aggregated together as the Global Equity 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 FRS Fund. Funds are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain other asset types as well. The discretion for this mix of asset types is set out in guidelines for each portfolio.

II. OVERVIEW OF THE FRS AND SBA

The State Board of Administration (Board) provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the overall administration of the Florida Retirement System. The Division of Retirement (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels, and providing the statutory guidance for the administration of the FRS.

III. THE BOARD

The State Board of Administration has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman, the Chief Financial Officer, and the Attorney General. The Board has statutory responsibility for the investment of FRS assets, subject to limitations on investments as outlined in Section 215.47, Florida Statutes.

The Board shall discharge its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as contained in Sections 215.44(2)(a) and 215.47(10), Florida Statutes.

[1] The Strategic Investments asset class is an exception, purposefully established to contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

On August 23, 2022, the Board adopted a Resolution directing the following policy language be included in this Investment Policy Statement:

1. STANDARD OF CARE AND EVALUATION OF INVESTMENTS

(a) The evaluation by the Board of an investment decision must be based only on pecuniary factors. As used in this section, "pecuniary factor" means a factor that the board prudently determines is expected to have a material effect on the risk and return of an investment based on appropriate investment horizons consistent with the fund's investment objectives and funding policy. Pecuniary factors do not include the consideration of the furtherance of social, political, or ideological interests.

(b) The board may not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote any non-pecuniary factors. The weight given to any pecuniary factor by the board should appropriately reflect a prudent assessment of its impact on risk and returns.

(c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

2. PROXY VOTING - When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board:

(a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan.

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3. INTERNAL REVIEW

The State Board of Administration will organize and conduct a comprehensive review and prepare a report of the governance policies over the voting practices of the Florida Retirement System Defined Benefit Pension Plan, to include an operational review of decision-making in vote decisions and adherence to the fiduciary standards of the Fund. The State Board of Administration will ensure compliance with the updated Investment Policy Statement and adherence to the proxy voting requirements through the review process of this resolution. The State Board of Administration will submit its report to the Trustees no later than December 15, 2023.

The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

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The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

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 investment 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 will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

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

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 4.0% per annum (compounded and net of investment expenses) should be attained. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is 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 Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, 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 equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund's net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio's potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between 0.47% and 8.73% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -0.65% and 9.96%.

Table 1: Expected Risk in Target Portfolio's Real Returns

Time Horizon	5th Percentile Real Return	10th Percentile Real Return	90th Percentile Real Return	95th Percentile Real Return
10 Years	-1.78%	-0.42%	9.71%	11.22%
15 Years	-0.65%	0.47%	8.73%	9.96%
20 Years	0.03%	1.00%	8.16%	9.22%
25 Years	0.49%	1.37%	7.77%	8.71%
30 Years	0.84%	1.64%	7.48%	8.34%

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 Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real 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 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 ranges for tactical allocations, as shown in Table 2.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	53%	45%	70%
Fixed Income	18%	10%	26%
Real Estate	10%	4%	16%
Private Equity	6%	2%	12%
Strategic Investments	12%	0%	16%
Cash Equivalents	1%	0.25%	5%
Total Fund	100%	--	--

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.[2] An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the 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 FRS Portfolio 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 (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Outflow ($ millions/ % Fund)

	In 5 Years		In 10 Years	
10th Percentile	$ 4,851	3.67%	$ 3,497	3.14%
25th Percentile	$ 6,776	4.15%	$ 6,329	4.03%
Median	$ 7,466	4.54%	$ 8,523	4.60%
75th Percentile	$ 8,079	5.04%	$ 11,561	5.22%
90th Percentile	$ 10,690	5.96%	$ 12,895	6.27%

[2] The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

Asset Class	Index
Global Equity	A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect securities and other investments prohibited by Florida law or that would be prohibited by Florida law if acquired as of the date of the measurement of such Index notwithstanding that the securities or investments were actually acquired before such date
Fixed Income	The Barclays Capital U.S. Intermediate Aggregate Index
Real Estate	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%[3]
Private Equity	The MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act, plus a fixed premium return of 300 basis points per annum
Strategic Investments	A weighted-average of individual portfolio level benchmark returns
Cash Equivalents	Bloomberg Barclays U.S. Treasury Bill: 1-3 Months Index

3 $\overbrace{(76.5\% * \text{NFI-ODCE})}^{\text{Core RE}} + \overbrace{[13.5\% * (\text{NFI-ODCE} + 150 \text{ bps})]}^{\text{Non-Core RE}} + \overbrace{(10\% * \text{REIT Index})}^{\text{Public RE}}$

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the private market asset classes would all "float" against the public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2 Target Allocations

Public Market Asset Classes	Float Allocation Limit	Private Market Asset Classes: Real Estate	Private Equity	Strategic Investments
Global Equity	N/A	50%	100%	75%
Fixed Income	N/A	50%	0%	25%

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. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity, Strategic Investments, and Cash Equivalents asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, the joint Cambridge Associates Global Private Equity and Venture Capital Index pooled return at peer group weights.
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 4.0%.
- For Cash Equivalents, the iMoneyNet First Tier Institutional Money Market Funds Net Index

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and 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. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
  - Financial, operational and investment expertise and resources;
  - Alignment of interests;
  - Transparency and repeatability of investment process; and
  - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 4.0% annualized real rate of return, commensurate with risk.
- Reduce the volatility of FRS Pension Plan assets and improve the FRS Pension Plan's risk-adjusted return over multiple market cycles.
- Outperform the FRS Pension Plan during periods of significant market declines.
- Increase investment flexibility across market environments in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

Other Guidelines

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the "Protecting Florida's Investments Act." Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2016-36, Laws of Florida, an act relating to companies that boycott Israel. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.4725(5), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2018-125, Laws of Florida, an act relating to state investments in or with the government of Venezuela. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.475(3)(a), Florida Statutes.

Subsection 215.475(3)(a) Florida Statutes is consistent with the Resolution adopted by the Trustees of the Board on August 16, 2017. At that meeting, the Board also included in the Resolution the specific direction that the SBA include in this Investment Policy Statement upon review of the IAC in accordance with Section 215.475(2) Florida Statutes, the following: "The SBA will not vote in favor of any proxy resolution advocating the support of the Maduro Regime in Venezuela."

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective upon approval by the Trustees.

FLORIDA RETIREMENT SYSTEM
DEFINED BENEFIT PLAN INVESTMENT POLICY STATEMENT

I. DEFINITIONS

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   (b) The board may not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote any non-pecuniary factors. The weight given to any pecuniary factor by the board should appropriately reflect a prudent assessment of its impact on risk and returns.
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The Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations and rules, to manage the investment of FRS assets. An Investment Advisory Council (IAC) is appointed by the Board. The IAC meets quarterly, and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of investment performance.

The mission of the State Board of Administration is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

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 investment 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 will develop policies and procedures to:

- Identify, monitor and control/mitigate key investment and operational risks.
- Maintain an appropriate and effective risk management and compliance program that identifies, evaluates and manages risks within business units and at the enterprise level.
- Maintain an appropriate and effective control environment for SBA investment and operational responsibilities.
- Approve risk allocations and limits, including total fund and asset class risk budgets.

The Executive Director will appoint a Chief Risk and Compliance Officer, whose selection, compensation and termination will be affirmed by the Board, to assist in the execution of the responsibilities enumerated in the preceding list. For day-to-day executive and administrative purposes, the Chief Risk and Compliance Officer will proactively work with the Executive Director and designees to ensure that issues are promptly and thoroughly addressed by management. On at least a quarterly basis, the Chief Risk and Compliance Officer will provide reports to the Investment Advisory Council, Audit Committee and Board and is authorized to directly access these bodies at any time as appropriate to ensure the integrity and effectiveness of risk management and compliance functions.

Pursuant to written SBA policy, the Executive Director will organize an Investment Oversight Group(s) to regularly review, document and formally escalate guideline compliance exceptions and events that may have a material impact on the Trust Fund. The Executive Director is delegated the authority and responsibility to prudently address any such compliance exceptions, with input from the Investment Advisory Council and Audit Committee as necessary and appropriate, unless otherwise required in this Investment Policy Statement.

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

V. INVESTMENT OBJECTIVES

The investment objective of the Board is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return approximating 4.0% per annum (compounded and net of investment expenses) should be attained. As additional considerations, the Board seeks to avoid excessive risk in long-term cost trends. To manage these risks, the volatility of annual returns should be reasonably controlled.

The Board's principal means for achieving this goal is 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 Board's investment objective within an appropriate risk management framework. The Board establishes asset classes, sets target allocations and reasonable ranges around them for each and establishes performance benchmarks for them. In addition, it establishes a performance benchmark for the total portfolio.

VI. TARGET PORTFOLIO AND ASSET ALLOCATION RANGES

The Board's investment objective is an absolute one: achieve a specific rate of return, the absolute real target rate of return. In order to achieve it, 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 equal or exceed the absolute real target rate of return long-term and will thus assure achievement of the Board's investment objective.

This relative return objective is developed in a risk management framework. Risk from the perspective of the Board is any shortfall of actual investment returns relative to the absolute real target rate of return over long periods of time, and the asset mix is developed to manage this risk. In selecting the Target Portfolio, the Board considers information from actuarial valuation reviews and asset/liability studies of the FRS, as well as asset class risk and return characteristics. In addition, the timing of cash demands on the portfolio to honor benefit payments and other liabilities are an important consideration. Potential asset mixes are thus evaluated with respect to their expected return, volatility, liquidity, and other risk and return measures as appropriate.

The Target Portfolio defined in Table 2 has a long-term expected compound annual real return that approximates the absolute real target rate of return. To achieve the absolute real target rate of return or actuarial return, material market risk must be borne (i.e., year to year volatility of returns). For example, in 2008 the Trust Fund's net managed real return was -26.81% compared to gains of 17.56% in 2009 and 21.48% in 2003. While downside risk is considerably greater over shorter horizons, the natural investment horizon for the Trust Fund is the long-term. Table 1 illustrates a modeled estimate of the Target Portfolio's potential range of real returns that could result over longer-term investment horizons. Over a 15-year investment horizon there is an 80 percent probability that the Target Portfolio will experience a compound annual real return between 0.47% and 8.73% and a 90 percent probability that the Target Portfolio will experience a compound annual real return between -0.65% and 9.96%.

Table 1: Expected Risk in Target Portfolio's Real Returns

Time Horizon	5^{th} Percentile Real Return	10^{th} Percentile Real Return	90^{th} Percentile Real Return	95th Percentile Real Return
10 Years	-1.78%	-0.42%	9.71%	11.22%
15 Years	-0.65%	0.47%	8.73%	9.96%
20 Years	0.03%	1.00%	8.16%	9.22%
25 Years	0.49%	1.37%	7.77%	8.71%
30 Years	0.84%	1.64%	7.48%	8.34%

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 Florida Retirement System Trust Fund (FRSTF). These figures are used solely in developing directives for fund management that will raise the probability of success in achieving the absolute real target rate of return. The Executive Director is held responsible not for specifically achieving the absolute real 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 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 ranges for tactical allocations, as shown in Table 2.

Table 2: Authorized Asset Classes, Target Allocations and Policy Ranges

Asset Class	Target Allocation	Policy Range Low	Policy Range High
Global Equity	53%	45%	70%
Fixed Income	18%	10%	26%
Real Estate	10%	4%	16%
Private Equity	6%	2%	12%
Strategic Investments	12%	0%	16%
Cash Equivalents	1%	0.25%	5%
Total Fund	100%	--	--

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.[2] An asset type is a category of investment instrument such as common stock or bond. For example, all of the portfolios whose principal asset type is bonds would be aggregated together as the Fixed Income asset class. As such, it would contain primarily—but not exclusively—the 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 FRS Portfolio 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 (30) consecutive business days shall be reported to the Board, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

The asset allocation is established in concert with the investment objective, capital market expectations, projected actuarial liabilities, and resulting cash flows. Table 3 indicates estimated net cash flows (benefit payments less employer and employee contributions) and associated probabilities that are implicit in this policy statement, assuming the Legislature adheres to system funding provisions in current law. Additionally, the annualized income yield of the fund is projected to approximate 2% to 3%.

Table 3: Estimated Net Cash Outflow ($ millions/ % Fund)

	In 5 Years		In 10 Years	
10th Percentile	$ 4,851	3.67%	$ 3,497	3.14%
25th Percentile	$ 6,776	4.15%	$ 6,329	4.03%
Median	$ 7,466	4.54%	$ 8,523	4.60%
75th Percentile	$ 8,079	5.04%	$ 11,561	5.22%
90th Percentile	$ 10,690	5.96%	$ 12,895	6.27%

2 The Strategic Investments asset class is an exception, purposefully established to potentially contain a variety of portfolios which may represent asset types and strategies not suitable for inclusion in other asset classes.

VII. PERFORMANCE MEASUREMENT

Asset class performance is measured in accordance with a broad market index appropriate to the asset class. The indices identified in Table 4 are used as the primary benchmarks for the authorized asset classes.

Table 4: Authorized Target Indices

Asset Class	Index
Global Equity	A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect securities and other investments prohibited by Florida law or that would be prohibited by Florida law if acquired as of the date of the measurement of such Index notwithstanding that the securities or investments were actually acquired before such date
Fixed Income	The Barclays Capital U.S. Intermediate Aggregate Index
Real Estate	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%[3]
Private Equity	The MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act, plus a fixed premium return of 300 basis points per annum
Strategic Investments	A weighted-average of individual portfolio level benchmark returns
Cash Equivalents	Bloomberg Barclays U.S. Treasury Bill: 1-3 Months Index

3 $\overbrace{(76.5\% * \text{NFI-ODCE})}^{\text{Core RE}} + \overbrace{[13.5\% * (\text{NFI-ODCE} + 150 \text{ bps})]}^{\text{Non-Core RE}} + \overbrace{(10\% * \text{REIT Index})}^{\text{Public RE}}$

The return on the Target Portfolio shall be calculated as an average of the returns to the target indices indicated in Table 4 weighted by the target allocations indicated by Table 2, but adjusted for floating allocations. The policy allocations for the private market asset classes would all "float" against the public market asset classes (i.e., limited short-term liquidity available for rebalancing and benefit payments means that their policy allocations would equal their actual allocations) as identified in Table 5.

Table 5: Allocations of Private Market (Real Estate, Private Equity and Strategic Investments) Under and Overweights to Public Market (Global Equity, Fixed Income and Cash) Table 2 Target Allocations

Public Market Asset Classes	Float Allocation Limit	Private Market Asset Classes		
		Real Estate	Private Equity	Strategic Investments
Global Equity	N/A	50%	100%	75%
Fixed Income	N/A	50%	0%	25%

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. For asset classes with floating allocations the basis of tactical measurement shall be the asset class's actual share.

Performance measurement of the effectiveness of the implementation of the Private Equity asset class shall be based on an internal rate of return (IRR) methodology, applied over significant periods of time. Performance measurement of the effectiveness of the implementation of the Private Equity, Strategic Investments, and Cash Equivalents asset classes shall be assessed relative to both the applicable index in Table 4 and:

- For Private Equity, the joint Cambridge Associates Global Private Equity and Venture Capital Index pooled return at peer group weights.
- For Strategic Investments, the CPI, as reported by the U.S. Department of Labor, Bureau of Labor Statistics (Consumer Price Index – All Urban Consumers), plus 4.0%.
- For Cash Equivalents, the iMoneyNet First Tier Institutional Money Market Funds Net Index

VIII. ASSET CLASS PORTFOLIO MANAGEMENT

General Asset Class and 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. To obtain appropriate compensation for associated performance risks:

- Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements.
- Private Equity, Real Estate and Strategic Investments asset classes shall utilize a prudent process to maximize long-term access to attractive risk-adjusted investment opportunities through use of business partners with appropriate:
    - Financial, operational and investment expertise and resources;
    - Alignment of interests;
    - Transparency and repeatability of investment process; and
    - Controls on leverage.

Strategic Investments Guidelines

The objective of the asset class is to proactively identify and utilize non-traditional and multi-asset class investments, on an opportunistic and strategic basis, in order to accomplish one or more of the following:

- Generate long-term incremental returns in excess of a 4.0% annualized real rate of return, commensurate with risk.
- Reduce the volatility of FRS Pension Plan assets and improve the FRS Pension Plan’s risk-adjusted return over multiple market cycles.
- Outperform the FRS Pension Plan during periods of significant market declines.
- Increase investment flexibility across market environments in order to access evolving or opportunistic investments outside of traditional asset classes and effective risk-adjusted portfolio management strategies.

Strategic Investments may include, but not be limited to, direct investments authorized by s. 215.47, Florida Statutes or investments in capital commitment partnerships, hedge funds or other vehicles that make or involve non-traditional, opportunistic and/or long or short investments in marketable and nonmarketable debt, equity, and/or real assets (e.g., real estate, infrastructure, or commodities). Leverage may be utilized subject to appropriate controls.

Other Guidelines

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2007-88, Laws of Florida, the "Protecting Florida's Investments Act." Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.473(6), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2016-36, Laws of Florida, an act relating to companies that boycott Israel. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.4725(5), Florida Statutes.

The Executive Director shall develop and implement policies as appropriate for the orderly and effective implementation of the provisions of Chapter 2018-125, Laws of Florida, an act relating to state investments in or with the government of Venezuela. Actions taken and determinations made pursuant to said policies are hereby incorporated by reference into this Investment Policy Statement, as required by subsection 215.475(3)(a), Florida Statutes.

Subsection 215.475(3)(a) Florida Statutes is consistent with the Resolution adopted by the Trustees of the Board on August 16, 2017. At that meeting, the Board also included in the Resolution the specific direction that the SBA include in this Investment Policy Statement upon review of the IAC in accordance with Section 215.475(2) Florida Statutes, the following: "The SBA will not vote in favor of any proxy resolution advocating the support of the Maduro Regime in Venezuela."

IX. REPORTING

The Board directs the Executive Director to coordinate the preparation of quarterly reports of the investment performance of the FRS by the Board's independent performance evaluation consultant.

The following formal periodic reports to the Board shall be the responsibility of the Executive Director:

- An annual report on the SBA and its investment portfolios, including that of the FRS.
- A monthly report on performance and investment actions taken.
- Special investment reports pursuant to Section 215.44-215.53, Florida Statutes.

X. IMPLEMENTATION SCHEDULE

This policy statement shall be effective upon approval by the Trustees.

Corporate Governance Principles
PROXY VOTING GUIDELINES 2022

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

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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.

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INTRODUCTION

The State Board of Administration (SBA) of Florida manages one of the largest U.S. pension funds 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 guidance, 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 (ERISA), 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]

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

[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.

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 1930s, 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 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.[5]

Management needs protection from the market's frequent focus on the short-term 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.

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.[6]

[5] 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."

[6] Black, B., 1998. "Shareowner Activism and Corporate Governance in the United States."

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.[7] 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.[8]

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).[9] 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 maximize 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 endeavor to ensure the long-term viability of its business.

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.[10]

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[7] Christian Leuz, Karl V. Lins, and Francis E. Warnock, "Do Foreigners Invest Less in Poorly Governed Firms?" The Review of Financial Studies, 22 (2009).

[8] 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.

[9] Organization for Economic Co-operation & Development (OECD), "Corporate Governance Factbook," February 2014.

[10] 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 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. 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.

SBA Trustees Resolution

Passed on August 23, 2022

PROXY VOTING. When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board:

(a) Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan.

(b) May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote non-pecuniary factors.

(c) In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

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 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.[11] One recent study demonstrated strong relative market returns based on investor engagement activities.[12] 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) guidance 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:

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[11] 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.

[12] Elroy Dimson, Oguzhan Karakas, and Xi Li, "Active Ownership," December 2012, Moskowitz Prize winner in 2012 by the Berkely-Haas Center for Responsible Business.

- 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 to allow all shareowners to approve or disapprove of significant issues and voice the collective displeasure of company owners.[13]
- 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 "NOBOs" should be eliminated. However, the SEC is likely to be cautious in seeking to change the current framework in significant ways.[14] 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.

While shareowner communication can be very important, 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.

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[13] 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.
[14] 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.

Disclosure of Proxy Voting Decisions

SBA discloses all proxy voting decisions once they have been made, typically a few 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.[15]

Proxy Voting and Securities Lending

SBA participates in securities lending 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.

[15] 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.[16] 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 act.[17] This underscores that performance is an essential component of governance and should be considered when evaluating director elections.

[16] 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".

[17] 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.

Boards are expected to conduct internal and external evaluations of their own functioning to assess how well they are performing their responsibilities.[18] 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.[19] Regular self-assessments are critical to a productive audit committee. The SBA will consider the audit committee'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, unremediated 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 try 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.[20] Directors with significant outside responsibilities such as serving as CEO of a public company should not exceed one external board

[18] 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].

[19] 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.

[20] 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.

membership.[21] 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 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 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 considers 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[22], 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

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[21] 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.

[22] 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).

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 – regarding 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 deliberations, including by considering the issues from a viewpoint different 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 (three 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 two 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.[23] SBA typically supports proposals to

[23] 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

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 considers 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. 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.

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.[24] While classified board proponents cite stability, independence, and long-term strategic

Case for Independent Leadership in Corporate North America," Policy Briefing No. 4, Millstein Center for Corporate Governance & Performance, Yale School of Management, 2009.

[24] 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.

risk taking as justification for staggered boards, recent research has shown little evidence of such benefits.[25][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.

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

[25] 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.

[26] , 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

[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."

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 considering 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.

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 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 because 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 applies to acts that are more serious violations of fiduciary obligation, such as negligence or violating the duty of care.

[30] Huang, Sterling, "Board Tenure and Firm Performance," INSEAD Business School, May 2013.

SUPPORT SHAREOWNER COMMUNICATIONS WITH THE BOARD: FOR

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 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 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 if 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 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.

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[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.

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 rotate their choice of auditors 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.

[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.

[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).

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.

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 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

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[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.

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 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;
    - 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

[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 if Oracle's exclusive forum provision was unenforceable, in part due to Oracle's failure to bring the provision before shareowners.

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.[42] Standard access to the court system is 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 (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.[43] 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

[42] 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.

[43] Srinidhi, Bin and Sen, Kaustav, "Effect of Poison Pills on Value Relevance of Earnings."

corporation to call the meeting often depends on the 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.[44] 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, commonly for a period of 3-5 years.[45] 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 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.

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[44] 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.

[45] 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 circumstances.

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 decides 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 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 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 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;
- 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, if 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 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. [46] Companies

[46] "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.

seeking this approval 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.[47] 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.[48]

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 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 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 the following: Inc., LLP, PLP, LLC, AG, SE. The SBA generally

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[47] Matthew Cain, and Steven Davidoff, "Form Over Substance? The Value of Corporate Process and Management Buyouts," August 2010.

[48] 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.

votes FOR such proposals unless there are concerns with the motivation or financial impact of a change to a firm's corporate structure.

Public Benefit Corporations (PBC) are for-profit corporations that have also adopted a public benefit purpose embedded in its certificate of incorporation. This public benefit is intended to have positive effects on a category of person(s), entities, or communities other than the financial interests of shareowners. When deciding to support or oppose resolutions to convert to a PBC, expected (or actual) accruals to shareholder value will be the primary consideration. Additionally, the SBA will consider company-specific characteristics, the stated rationale for such structure, and the impact on shareholders' rights.

Capital Structure

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 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 because 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, the 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: 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.[49] Several academic studies

[49] 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.

have documented an array of value-destroying effects stemming directly from dual class share structures.[50][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.

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 preemptive 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 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 because 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,

[50] 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

[51]). 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.

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, 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 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 payout is unreasonably low, or the dividends are not sustainable by reserves and cash flow. Payouts 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 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.

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.

[52] Marquardt, Carol, "Managing EPS Through Accelerated Share Repurchases: Compensation Versus Capital Market Incentives." Baruch College-CUNY, September 2007.

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 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 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 would potentially 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 antitakeover 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 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

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.

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[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.

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 (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 if 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 if 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, if 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, 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 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 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 those of management. 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] 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

[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.

[56] 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.

- 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
- Excessive severance or single-trigger change-in-control packages
- Plans that cover non-employee consultants or advisors
- Inappropriate peer group selections resulting in outsized 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.[57] 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.[57] SBA considers the plan's salient features, such as use of evergreen

[57] "Section 162(m) Requirements, Implications and Practical Concerns," Exequity, September 2008;
2006 Employee Stock Purchase Plan Report, Equilar, Inc., 2006.

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

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 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.[58] 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 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 fulfill 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.[59] 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."[60] SBA generally supports

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[58] Securities and Exchange Commission Final Rule, "Listing Standards for Compensation Committees," adopted June 20, 2012, effective July 27, 2012.

[59] 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.

[60] "New Study on Tax Gross-ups," Risk & Governance Weekly, 12/5/08.

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 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 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 pay-outs.

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.[61]

Some executives may receive provision for severance packages, vested shares, salary, bonuses, perquisites, and pension benefits even after death.[62] 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.

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 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.[63] 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.

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[61] 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).

[62] "Companies Promise CEOs Lavish Posthumous Paydays," Wall Street Journal, June 10, 2008.

[63] 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).

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.

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 most 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 considering 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[64], 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, considering 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. 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 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 re-porting on operations in high-risk markets. Such concerns focus on how these business activities or investment may, in truth or by perception, support

[64] http://www.ceres.org/about-us/our-history/ceres-principles

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, 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 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, considering:

- 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 complies 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.[65] 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

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 based on 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.

[65] "Incorporating Labor and Human Rights Risk into Investment Decisions." Aaron Bernstein, Harvard Labor and Worklife Program, Occasional Paper Series No. 2, September, 2008.

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 like 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 regarding 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.[66] SBA's voting approach on mutual fund resolutions is like 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. Most 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

Like 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

[66] 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.

- 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;
- 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 considering:

- 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.[67]

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;

[67] Lucian Bebchuk and Alma Cohen, "Firms' Decisions Where to Incorporate." National Bureau of Economic Research Working Paper 9107, August 2002.

- 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 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.

www.SBAFLA.com

governance@sbafla.com

The State Board of Administration is a body of Florida state government that provides a variety of investment services to clients and governmental entities. These include managing the assets of the Florida Retirement System, the Local Government Surplus Funds Trust Fund (Florida PRIME™), the Florida Hurricane Catastrophe Fund, and over 30 other fund mandates.

State Board of Administration

Fixed Income Update

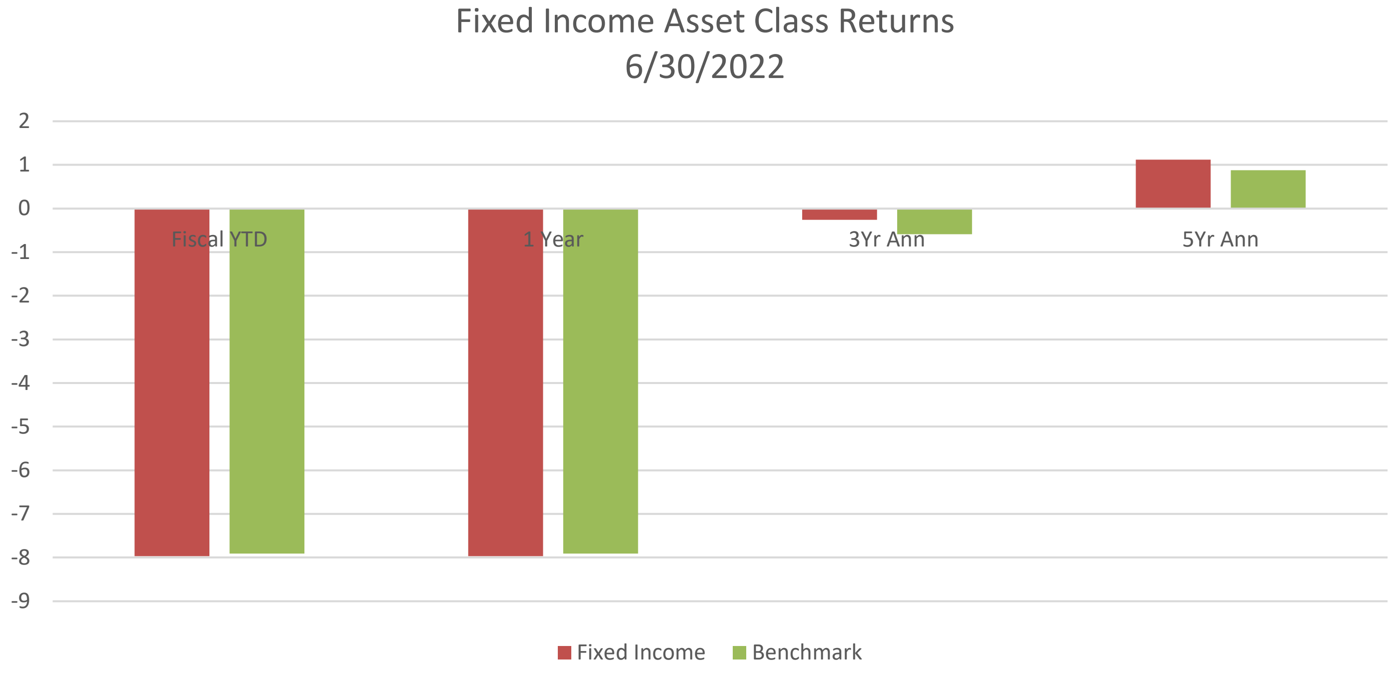
Katy Wojciechowski
Senior Investment Officer Fixed Income

Investment Advisory Council

September 13, 2022

Asset Class Portfolio Performance

Asset class outperformed Benchmark over ALL time periods with low risk and high Information Ratio. For FYTD ended 6/30/22, FI produced returns of (7.97%), for an outperformance of 0.33% over three-year horizon in a very challenged environment



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Fixed Income Review and Outlook September 2022

12 Month Returns for the Fixed Income benchmark – Bloomberg Intermediate Aggregate through 7/31/2022 were (6.58%). **Benchmark returns for the new fiscal YTD are 2.17% through 7/31.**

Annual Absolute and Excess Returns were positive for all spread sectors one month into the new year, as spreads tightened while volatility receded.

Ten-year Treasury yields dropped from 3.02% to 2.65% FYTD through 7/31/2022. Yield on the entire Benchmark is now 3.49% with a 4.51yr duration.

Yield on the broader Barclay's Aggregate is 3.59% with a duration of 6.45yrs.

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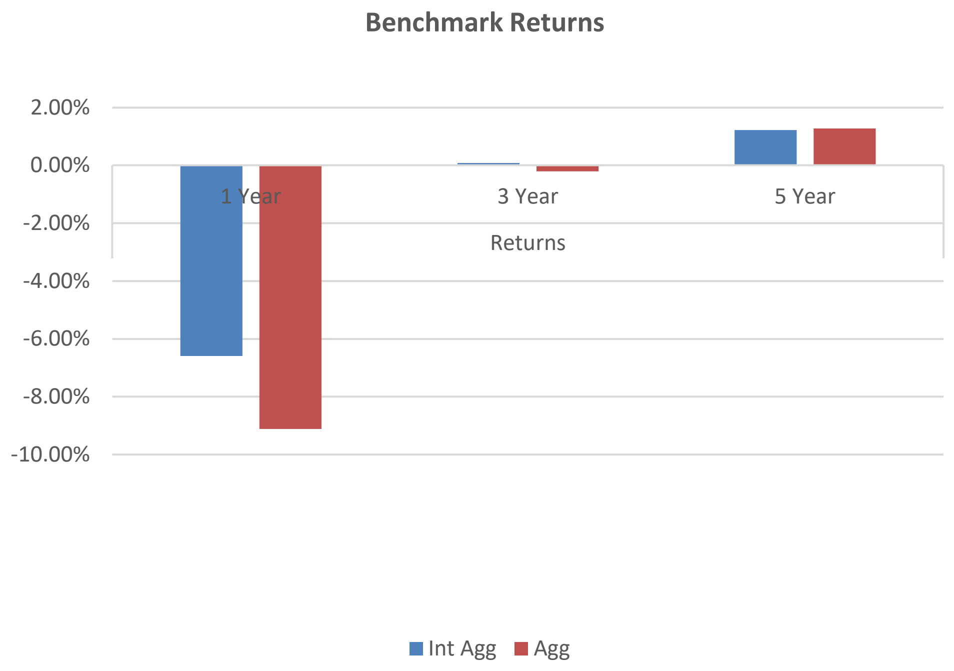
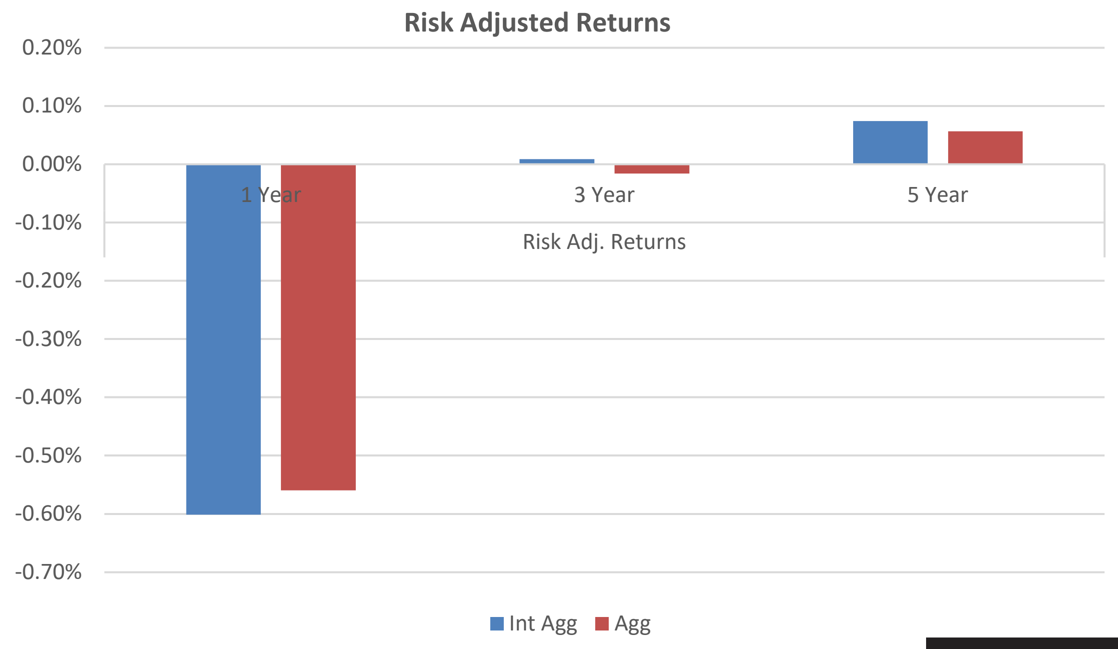
Benchmark Comparison as of 7/31/2022

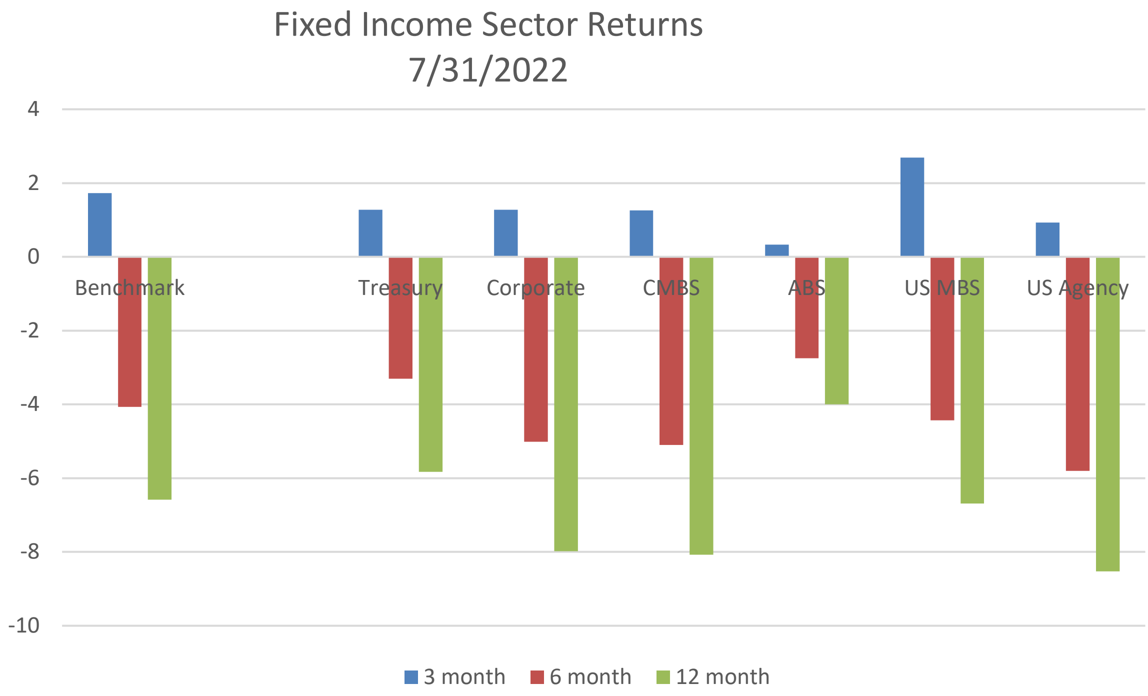




Fixed Income Review September 2022

Fixed Income produced a positive quarter ending 7/31/2022as long duration rates came down and demand for risk assets improved

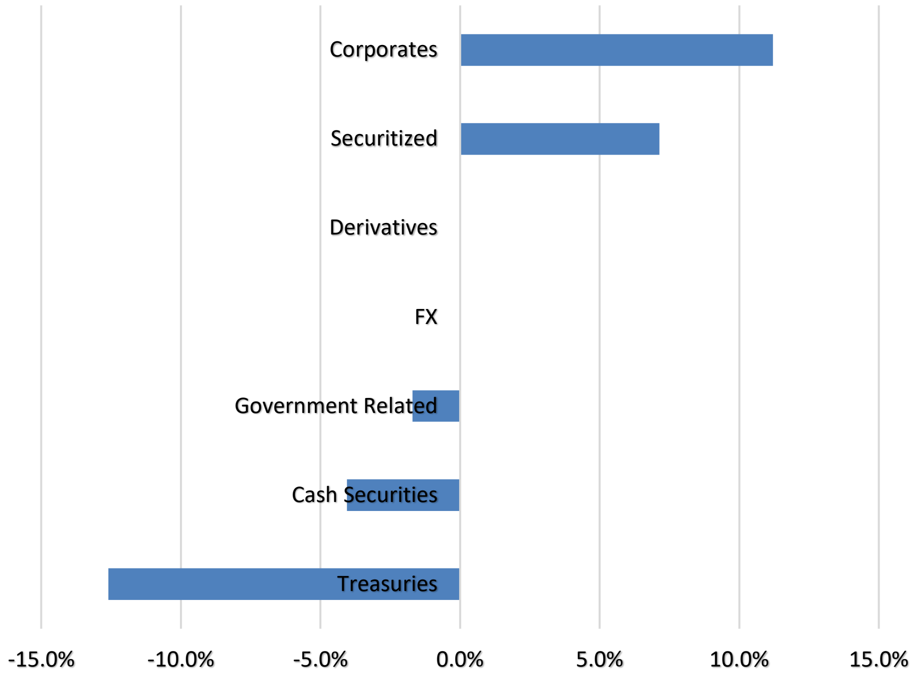
Intermediate Aggregate Option Adjusted Spread

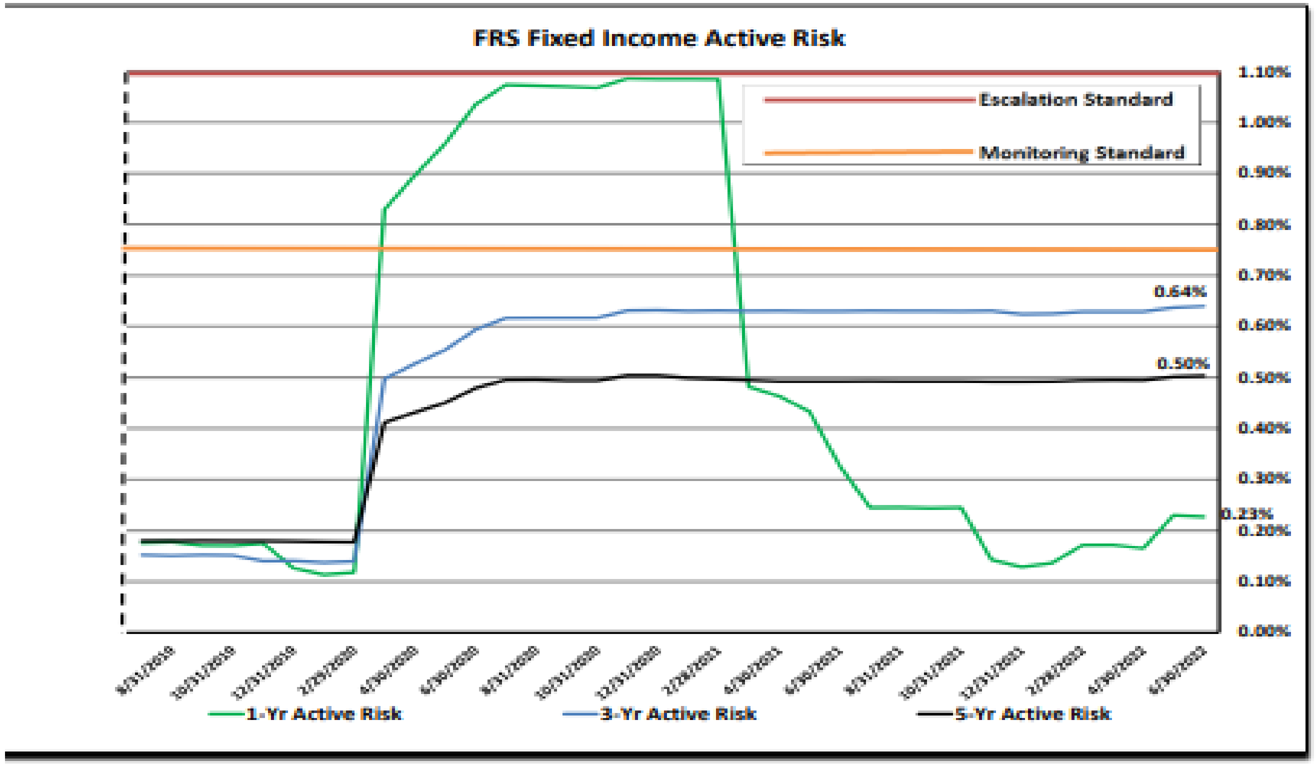


Fixed Income Review September 2022

Portfolio continues to overweight Spread Product, but with lower risk

Fixed Income Sector Allocation 7/29/2022





Fixed Income Review September 2022

Expanded Risk Budget and increased Active Allocation

Add exposure to out of benchmark structured products or other in a dedicated strategy

Continuing to research opportunities outside of our benchmark, barbeling liquidity with yield

Consider opportunity to reduce risk to a rising rate environment, inflation, within overall allocation

Tactically increased allocation to Liquidity portfolio in light of market volatility as Fed continues hiking/QT

Execute on tactical opportunities in out of Benchmark sectors – Core Plus opportunities

Continuing to discuss opportunities ex-US, off benchmark, given limited opportunities in US Fixed Income.

Considering derivative opportunities to increase ability to be nimble

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Real Estate Update

Steve Spook
Senior Investment Officer

Investment Advisory Council Meeting
September 13, 2022

Quarterly Highlights: Real Estate

Market Overview

- Indices continue strong performance. ODCE 1-year 28.3% (net), as of 6/30/2022, is the highest since inception.
- Returns expected to moderate going forward.
- Appreciation is strongly bifurcated with industrial, residential and alternatives the leading performers. Retail and office continue to be out of favor.
- Rising interest rates have led to a repricing of asset values. Best estimates are 0-10% decline in valuations.
- Large bid/ask spreads resulting in transaction volume slow down.
- Negative leverage in high growth sectors for first time since GFC.
- Lenders becoming extremely selective or retreating from market.
- Supply/demand fundamentals still imply strong rent growth for most sectors.

Performance Summary

- Total Asset Class
    - 1 year: 26.4% (Benchmark 26.3%)
    - 3 year: 11.2% (Benchmark 10.3%)
- Contributors – 1 year
    - Principal Investments selection: Office/Retail/Industrial
    - Principal Investments allocation: Retail Underweight/Alternatives Overweight
    - Externally Managed drivers: Core Industrial/Core Diversified/REITs
- Detractors – 1 year
    - Principal Investments allocation: Office Overweight/Industrial Underweight
    - Externally Managed detractors: Europe retail

Risks and Issues to Consider

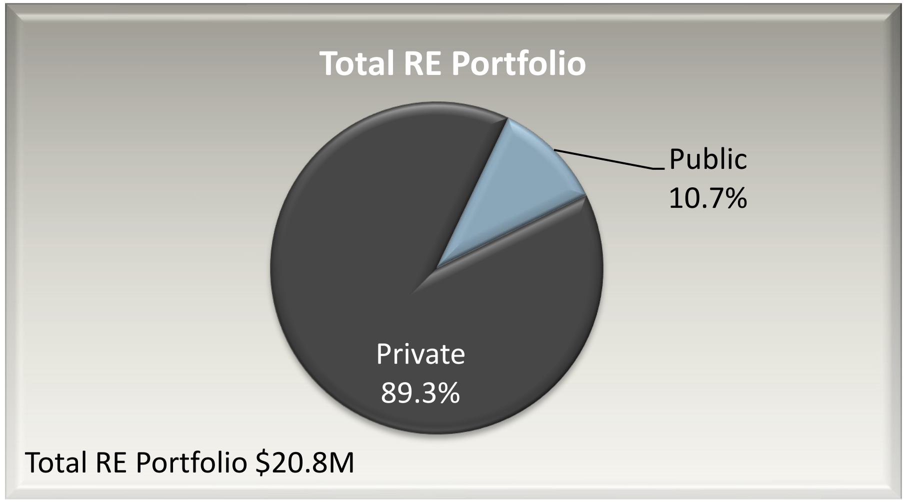
- Interest rates
- Availability of credit
- Inflation – Consumer buying power and construction costs
- Remote work
- Regulatory risk
- Growth of ecommerce
- Recession concerns

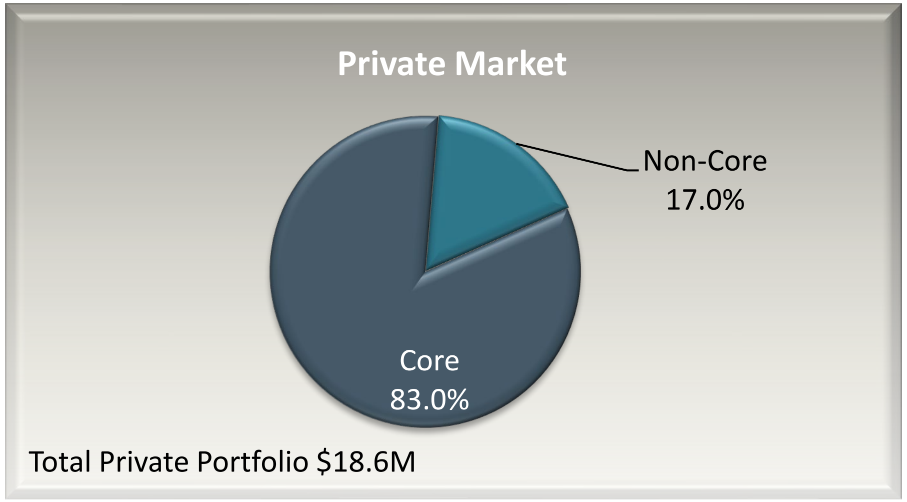
Opportunities and Priorities

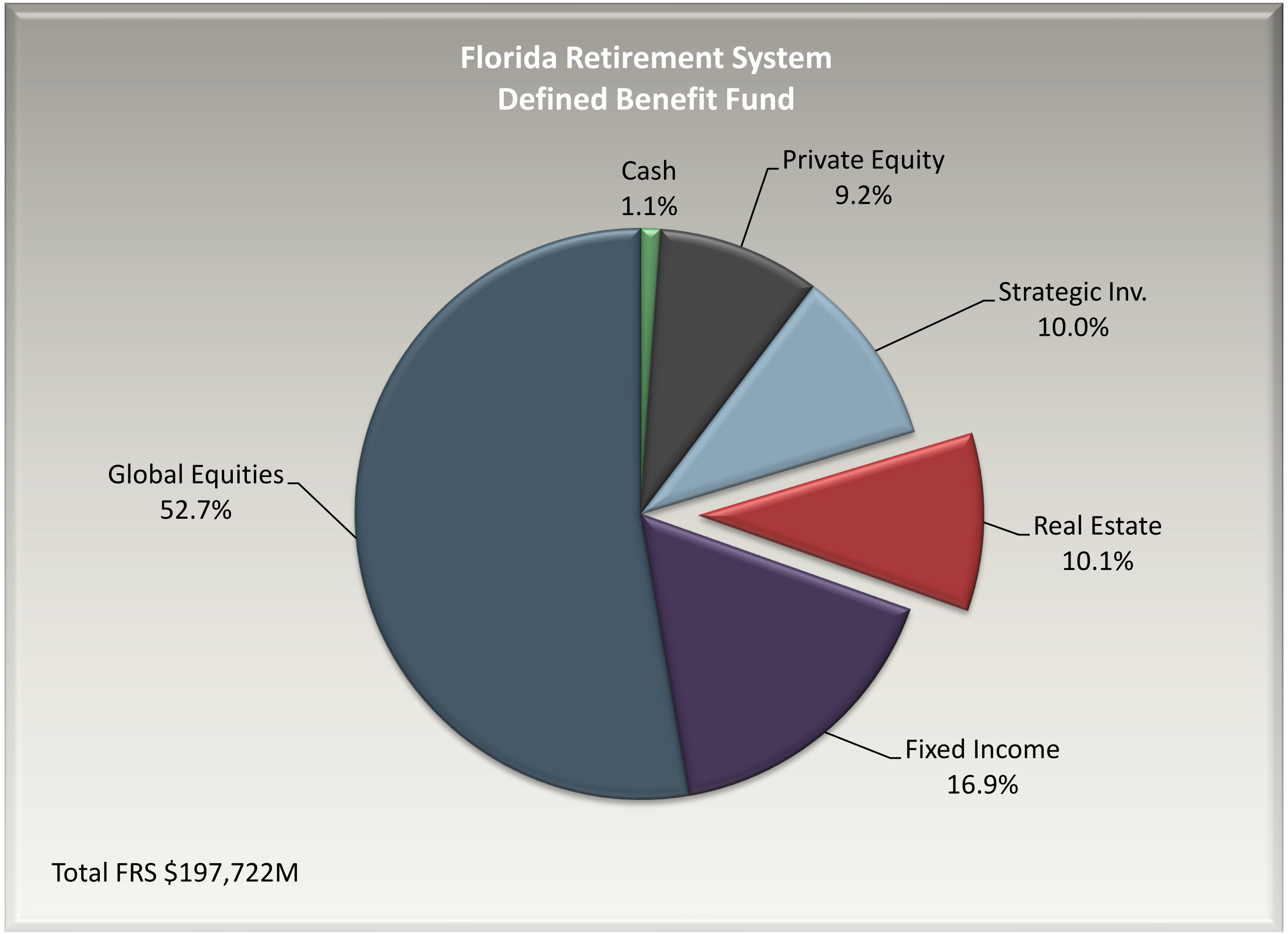
- Increase industrial/living/alternatives allocation
- Decrease office/retail exposure
- Master Credit Facility
- Co-investments
- Recapitalizations

Real Estate Portfolio Sector Allocation

as of 03/31/2022







All 2022Q1 data is preliminary

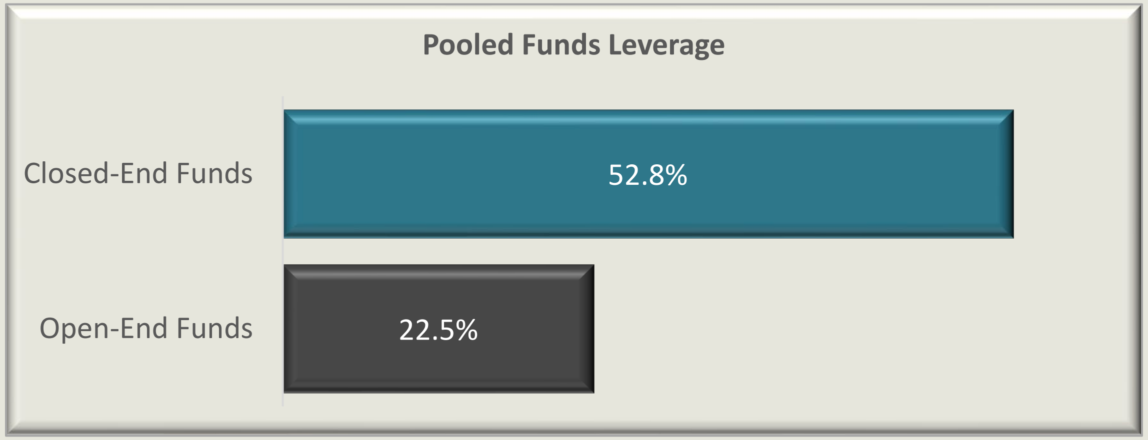
Private Market Leverage

as of 03/31/2022

Private Market Leverage
26.2%

Principal Investments
22.4%

Pooled Funds
35.6%



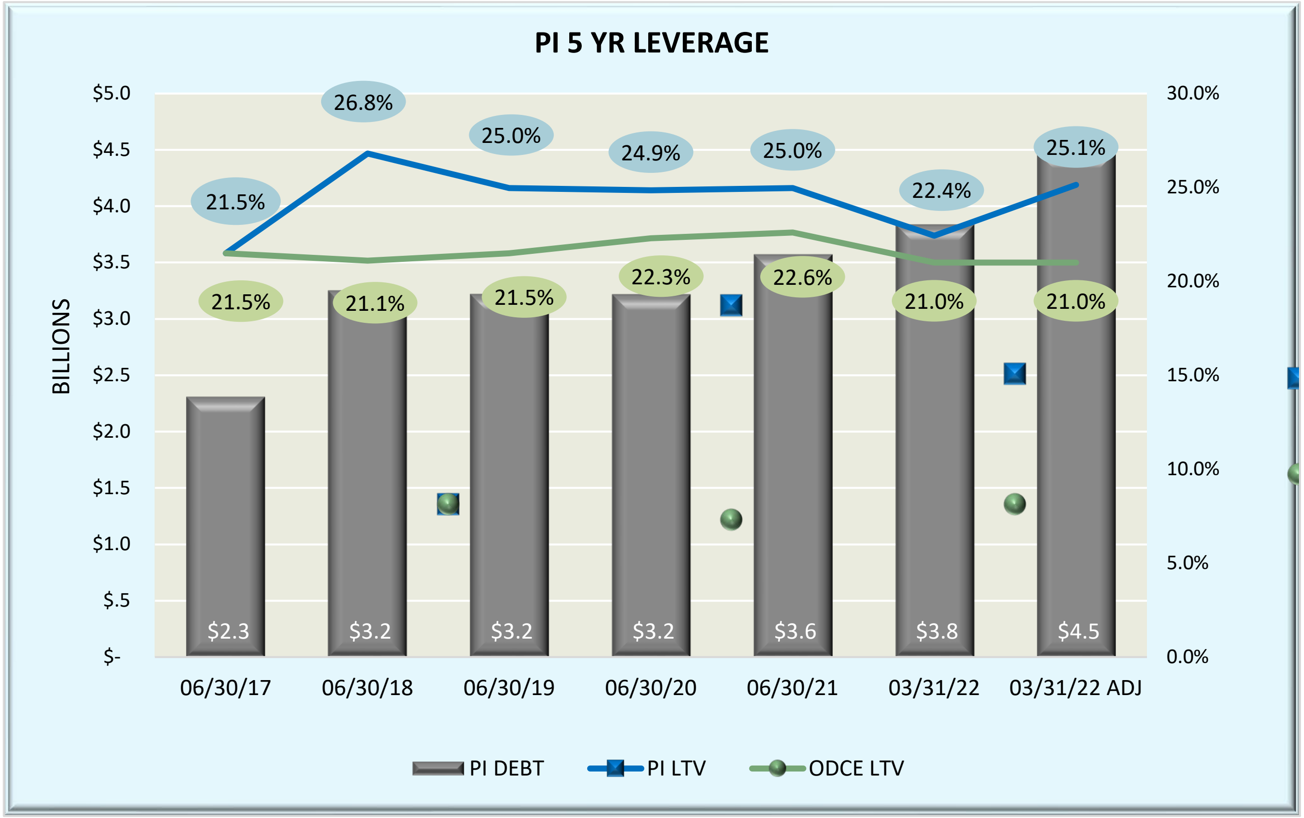
Investment Portfolio Guidelines:

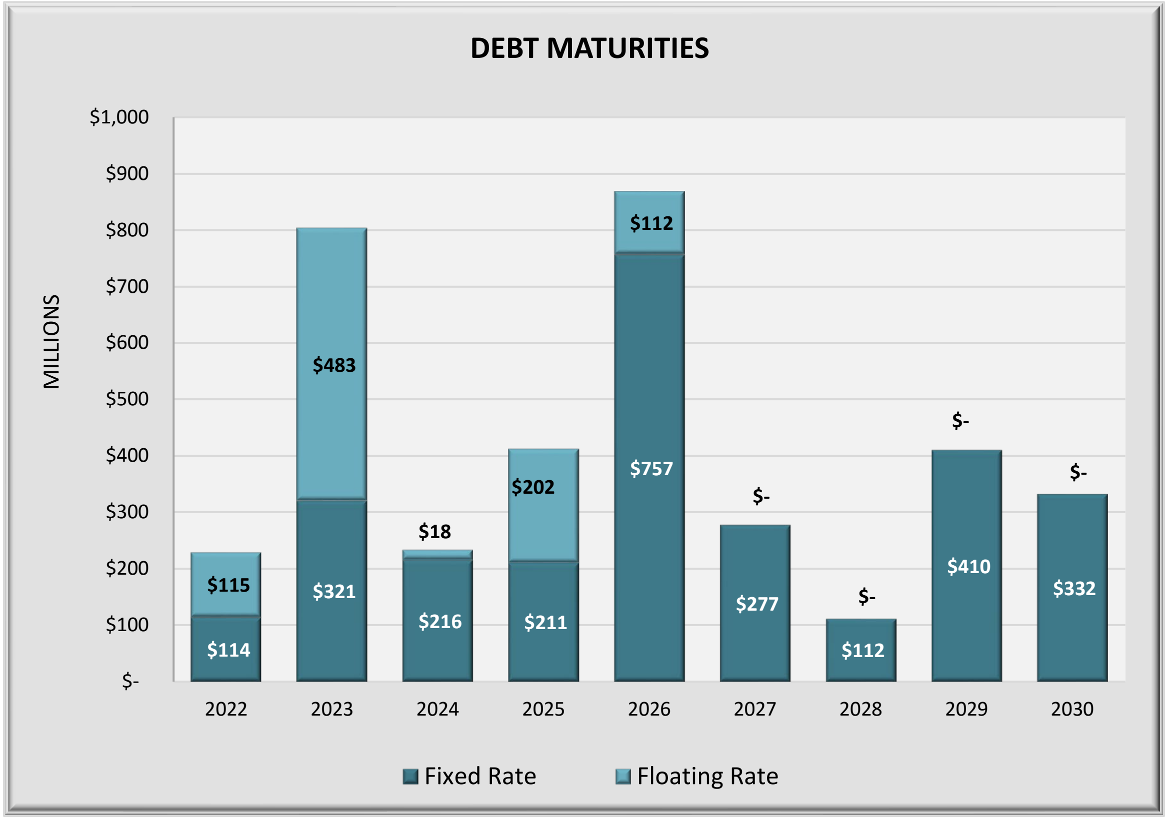
- Private Market Portfolio leverage limited to 40% Loan to Value (LTV).
- Principal Investments Portfolio leverage limited to 30% Loan to Value (LTV).

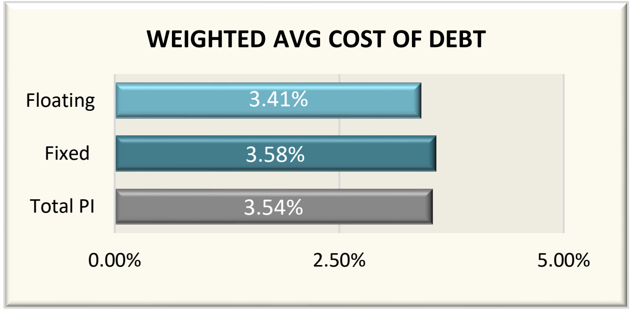
All 2022Q1 data is preliminary

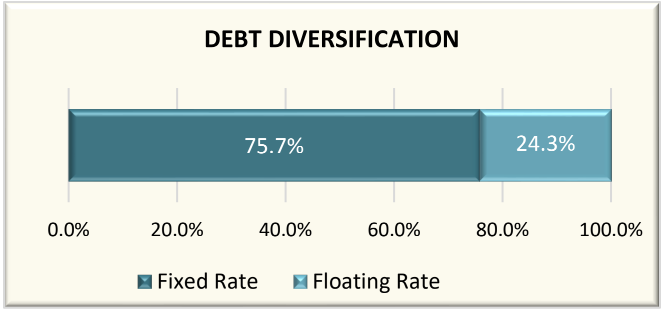
Principal Investments Leverage

as of 03/31/2022









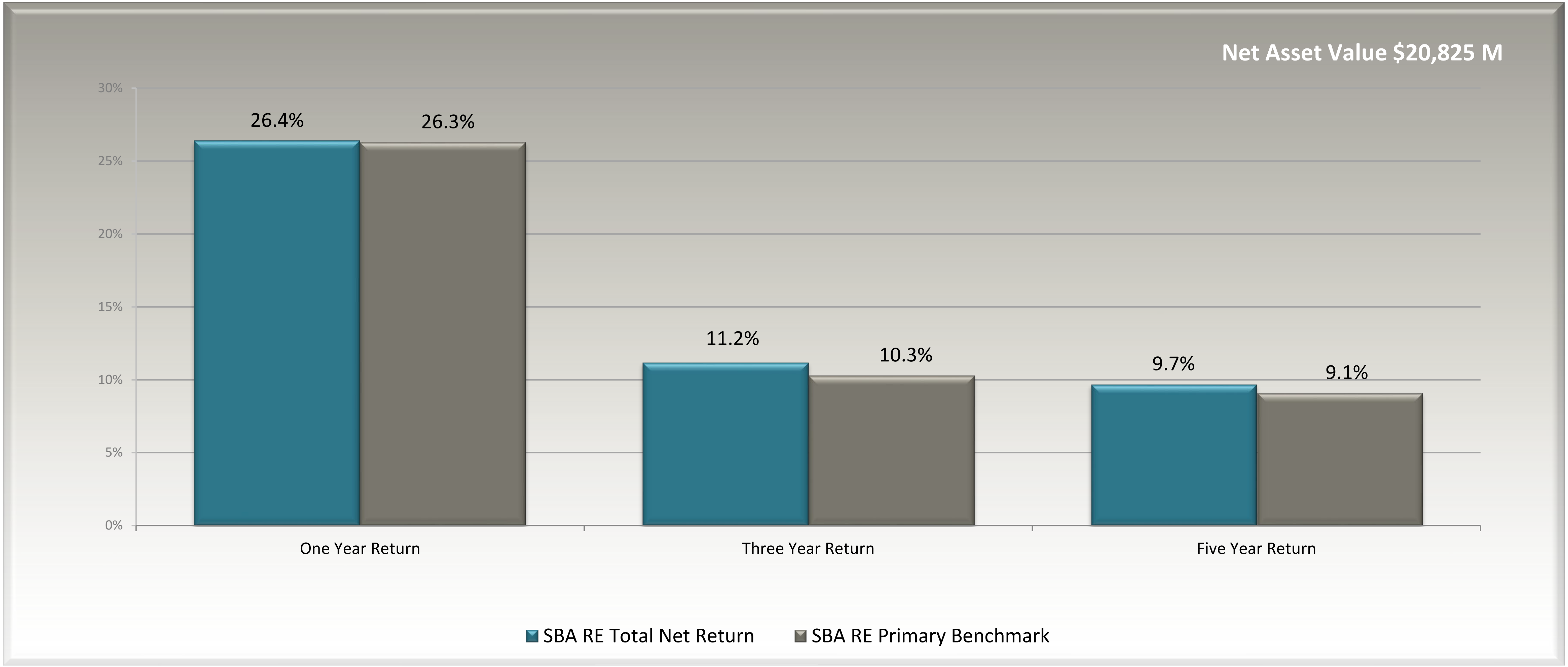
Investment Portfolio Guidelines
- Portfolio Leverage limited to 30% Loan To Value (LTV)
- Individual Asset Level limited to 50% LTV
- JV Individual Asset limited to 70% LTV
- Nonrecourse to the SBA

PI NAV at 03/31/22: $13.2 billion

All 2022Q1 data is preliminary

Total Real Estate Portfolio Performance

as of 03/31/2022

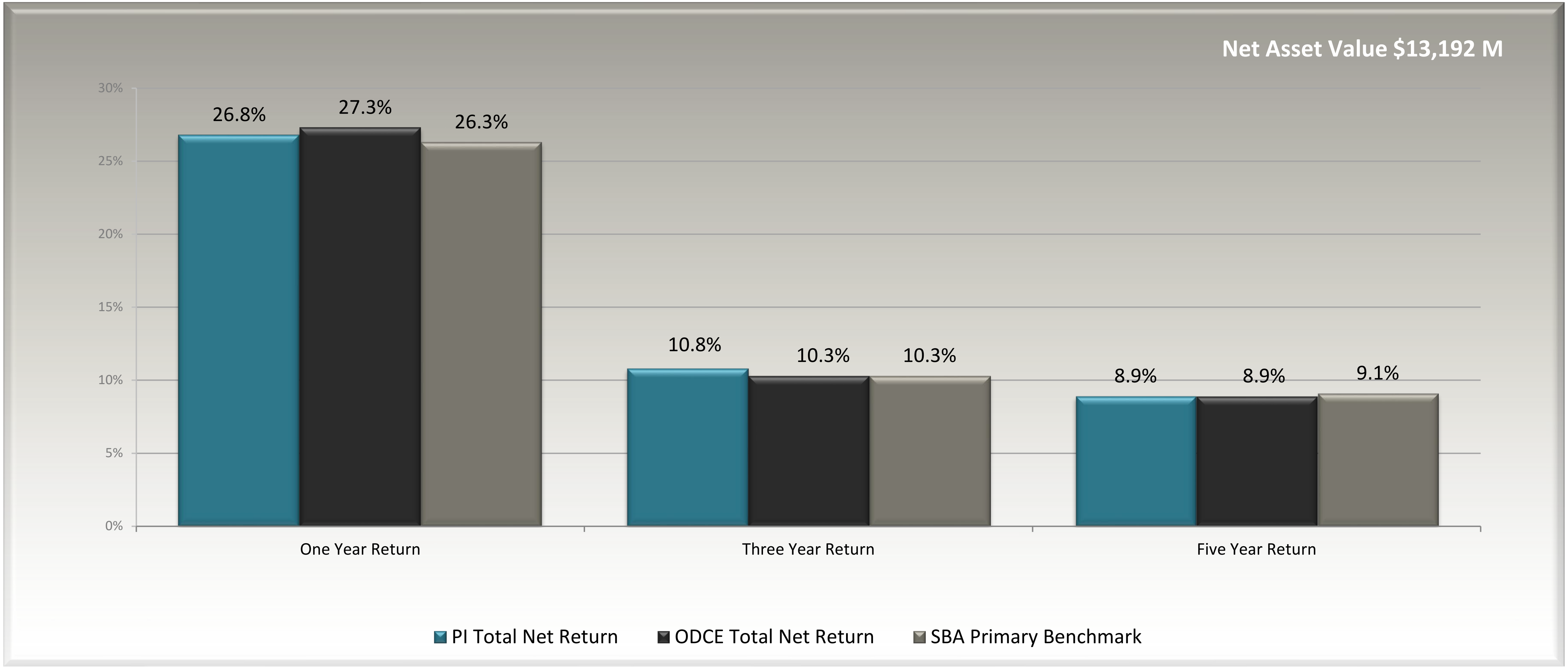


Source: The Townsend Group

All 2022Q1 data is preliminary

Principal Investments Performance

as of 03/31/2022

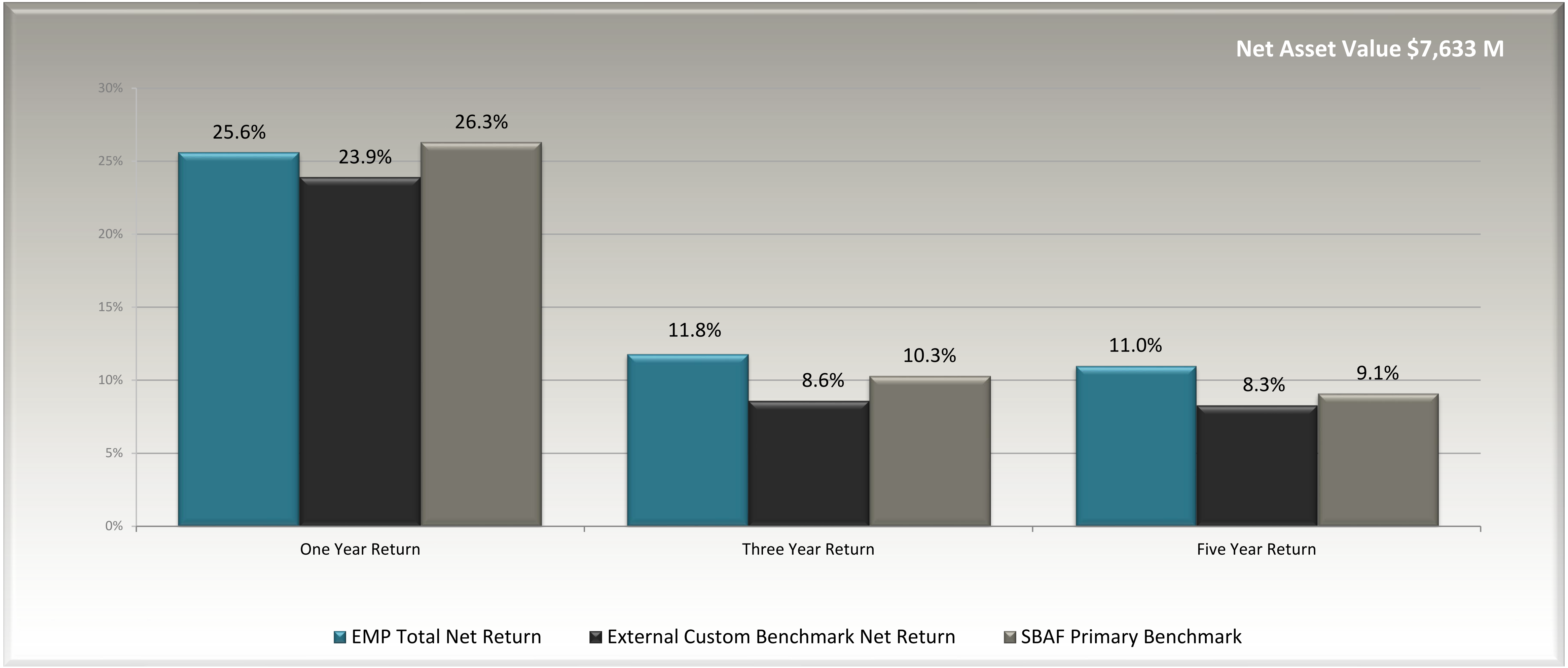


Source: The Townsend Group

All 2022Q1 data is preliminary

Externally Managed Portfolio Performance

as of 03/31/2022

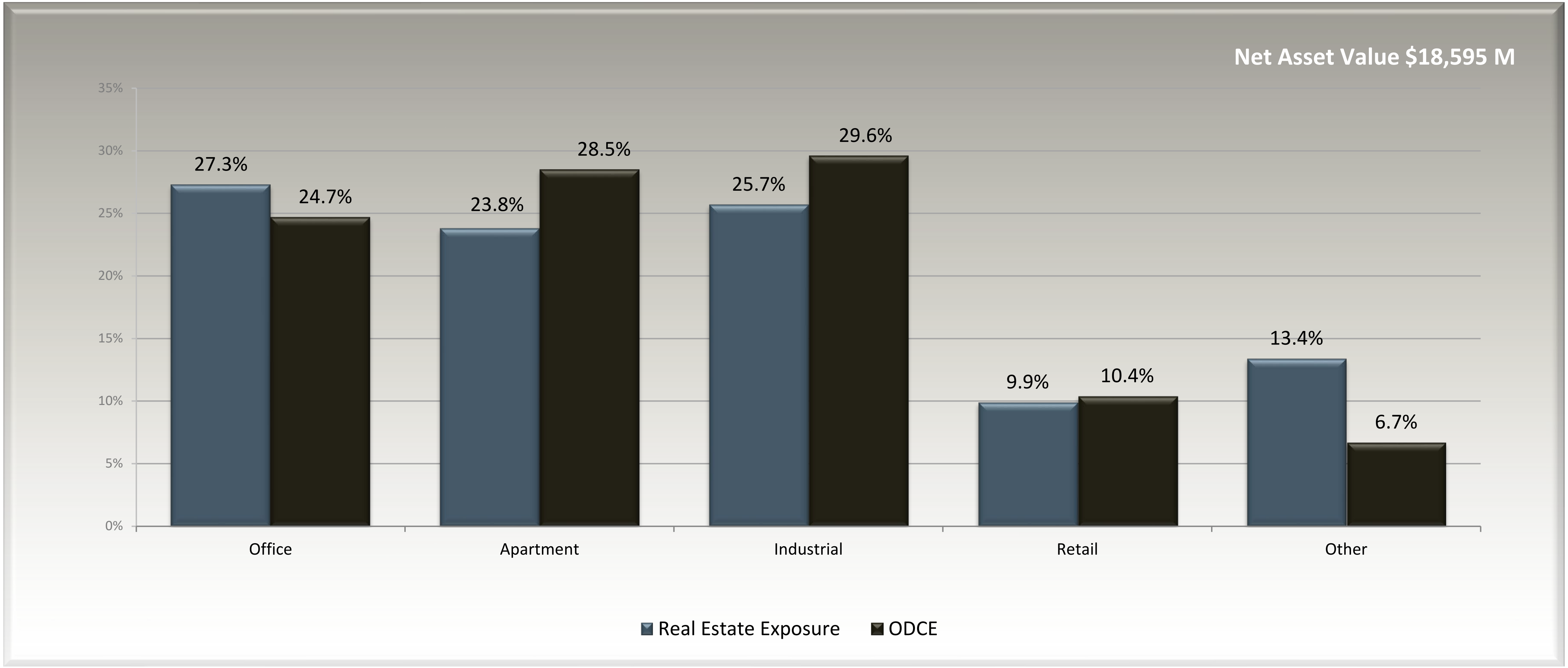


Source: The Townsend Group

All 2022Q1 data is preliminary

Private Market Property Type Diversification

as of 03/31/2022

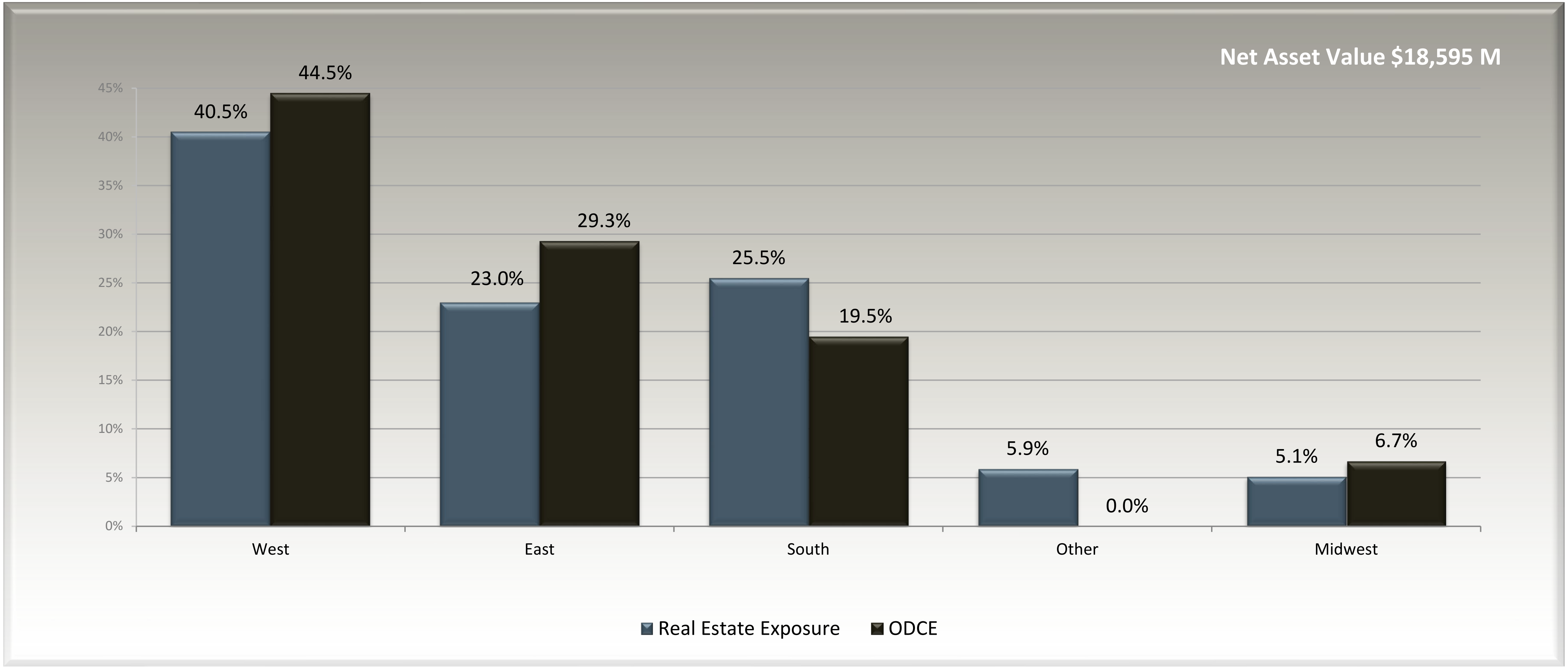


Source: The Townsend Group

All 2022Q1 data is preliminary

Private Market Geographic Diversification

as of 03/31/2022



Source: The Townsend Group

All 2022Q1 data is preliminary

Recent Activity

(Since Last IAC Report)

Principal Investments	Externally Managed
Acquisitions (Price/Equity) • Industrial — $3 million/$3 million **Dispositions (Price/Equity)** •N/A	**New Commitments** • US Diversified Value Add Closed End Fund — $100 million • US Industrial Value Add Closed End Fund — $100 million **Redemptions** • N/A

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Private Equity Asset Class Update

John Bradley, SIO Private Equity

Investment Advisory Council

September 13, 2022

Market/Portfolio Update

- Market/Portfolio Update:
  - Market
    - Private equity activity is slowing after a record run over the last 18 months
      - Q2 M&A volume down 11% from Q1 2022 and 35% from Q2 2021
      - Global IPO activity is down dramatically
      - Fundraising activity is slowing as LPs struggle with allocation issues caused by the “denominator effect”
  - Portfolio
    - PE portfolio down 2.1% for Q1 2022, longer-term performance remains strong on an absolute and relative basis
    - Venture and growth strategies were the worst performers during Q1, distressed was up slightly and other strategies were flat
    - 2022 net cash flow $302 million
      - $1.5 billion in GP distributions
      - $1.2 billion of contributions

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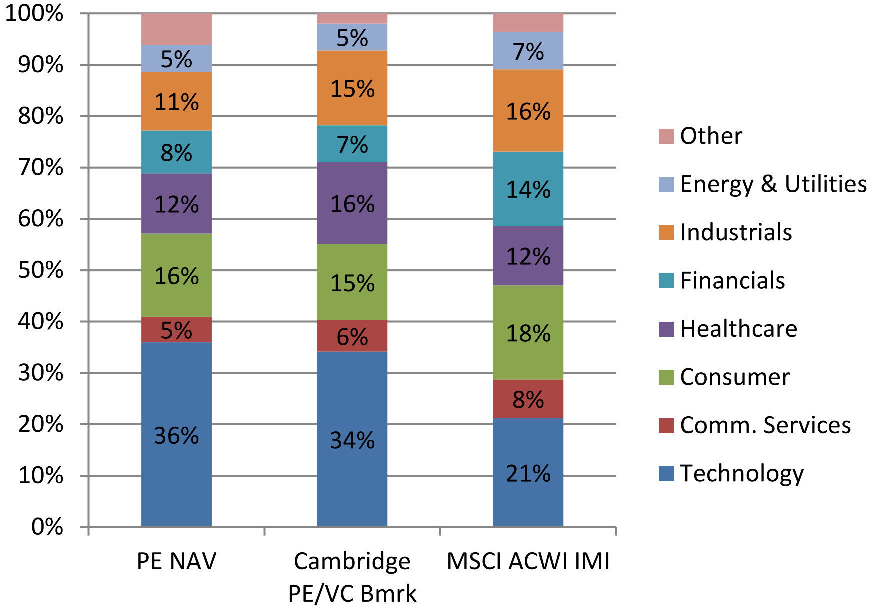
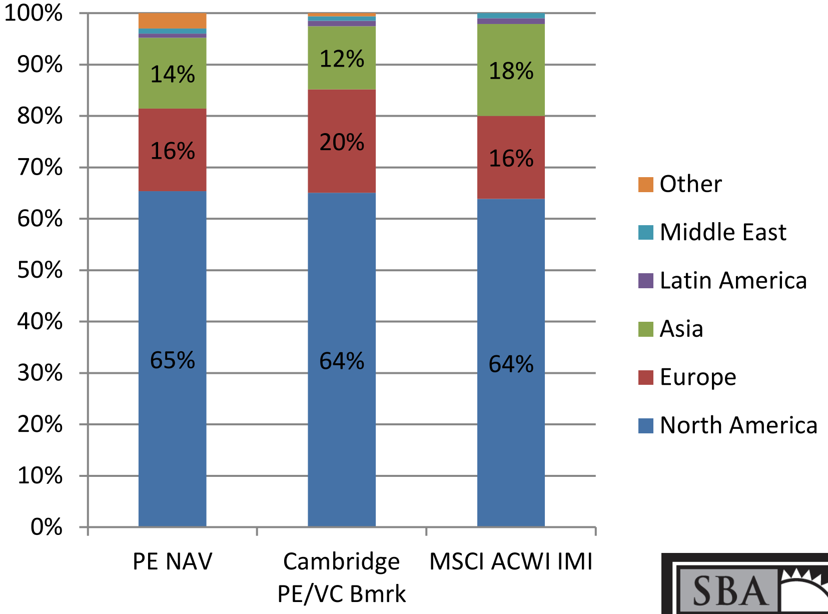
Sector and Geographic Exposure

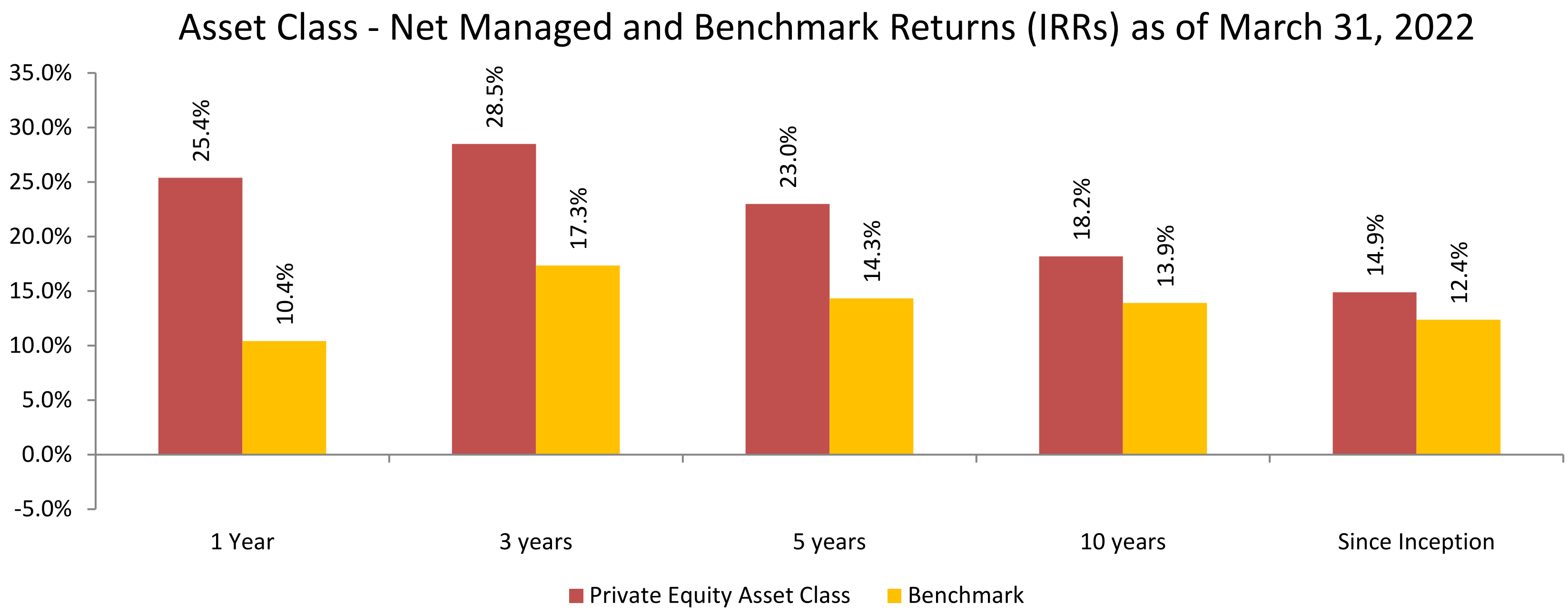
As of March 31, 2022





Source: Cambridge Associates

Private Equity Performance



Note: Asset class IRR performance data is provided by Cambridge Associates. 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.

Please see Appendix for performance of the Legacy or pre-asset class portfolio.

Sub-strategy Performance

As of March 31, 2022

	1yr	3yr	5yr	10yr	Since Inception	Cambridge Median
U.S. Buyouts	22.8%	22.1%	19.9%	17.0%	13.4%	15.1%
Non-U.S. Buyouts	19.4%	23.7%	21.4%	17.7%	14.1%	15.7%
U.S. Venture	31.1%	46.9%	32.9%	23.2%	18.4%	18.8%
U.S. Growth Equity	24.3%	26.5%	22.9%	19.3%	16.3%	16.4%
Non-U.S. Growth Equity	7.2%	15.7%	14.7%	13.2%	11.4%	15.8%
Distressed/Turnaround	29.3%	23.5%	17.3%	15.5%	18.8%	11.9%
Secondaries	36.7%	23.2%	18.3%	14.7%	16.2%	20.0%
Total PE Asset Class	25.4%	28.5%	23.0%	18.2%	14.9%	15.6%

Sub-strategy returns and benchmark returns provided by Cambridge Associates and are calculated net of all fees and expenses. The Cambridge benchmark is the weighted average median return for the respective sub-strategy.

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2022 Commitment Activity

- Commitments totaling $1.1 billion to 12 funds through August 31, 2022
  - $802 million to 8 buyout funds
    - Small 25%, Middle-Market 37%, Large 37%
  - $115 million to 3 venture funds
  - $150 million to 1 secondary fund

  - Geographic Focus
    - US 63%, Europe 9%, Asia 0%, Global 28%

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Appendix

Private Equity Aggregates

Dollar-Weighted Performance (IRRs) as of March 31, 2022

	Inception Date	Market Value (in Millions)	1yr	3yr	5yr	10yr	Since Inception
Total Private Equity	1/27/1989	$18,623.2	25.4%	28.5%	23.0%	17.8%	11.4%
Custom Iran- and Sudan-free ACWI IMI +300bps			10.4%	17.3%	14.3%	13.9%	11.2%
Private Equity Legacy Portfolio	1/27/1989	$2.6	0.0%	1.5%	-6.8%	-19.8%	3.7%
Custom Iran- and Sudan-free ACWI IMI +300bps			9.3%	18.5%	13.9%	14.4%	10.0%
Private Equity Asset Class Portfolio	8/31/2000	$18,620.7	25.4%	28.5%	23.0%	18.2%	14.9%
Custom Iran- and Sudan-free ACWI IMI +300bps			10.4%	17.3%	14.3%	13.9%	12.4%

Note: Asset class IRR performance data is provided by Cambridge Associates. 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.

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State Board of Administration

Strategic Investments Asset Class Review

Trent Webster

Senior Investment Officer – Strategic Investments

Investment Advisory Council Meeting

September 13, 2022

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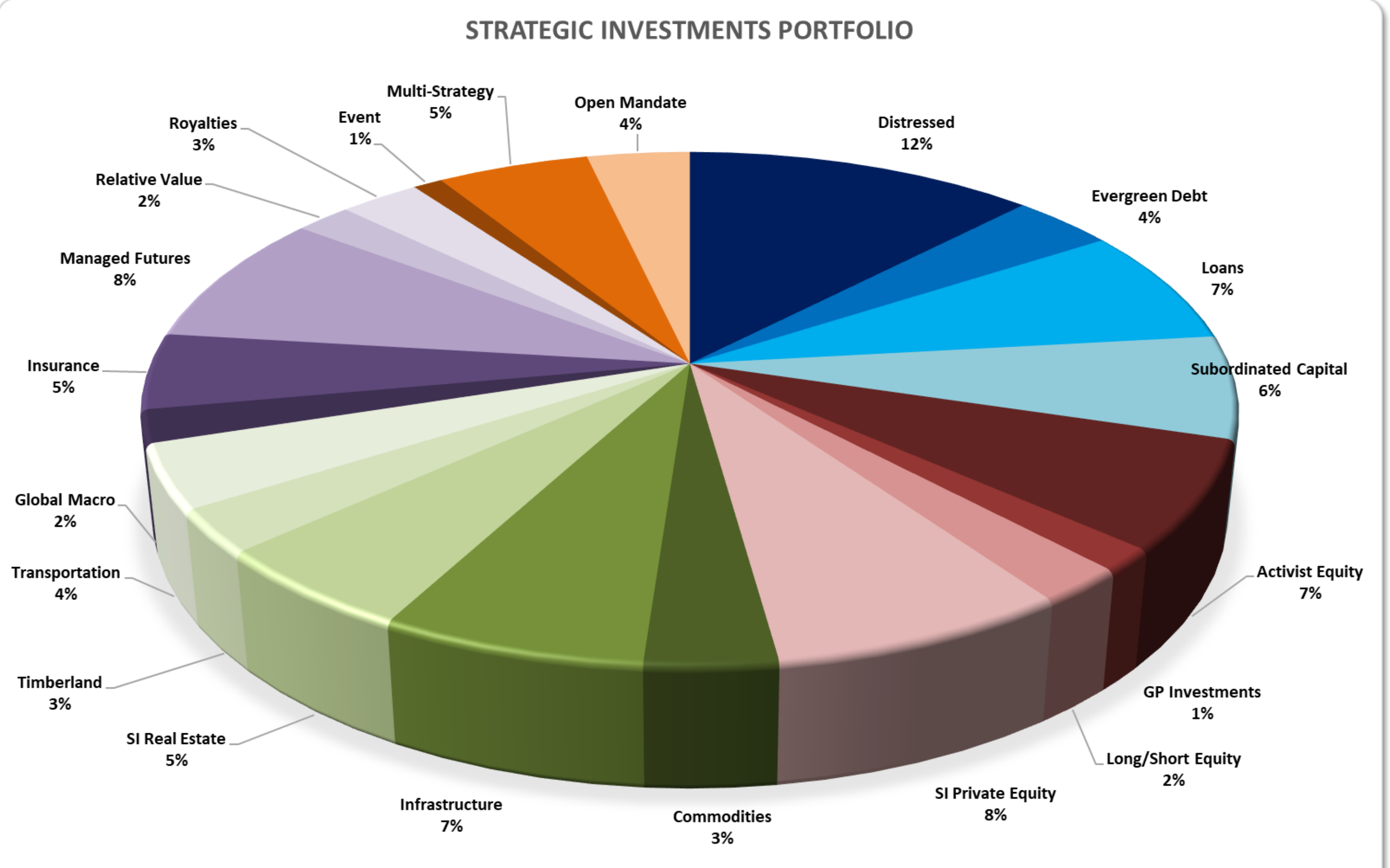
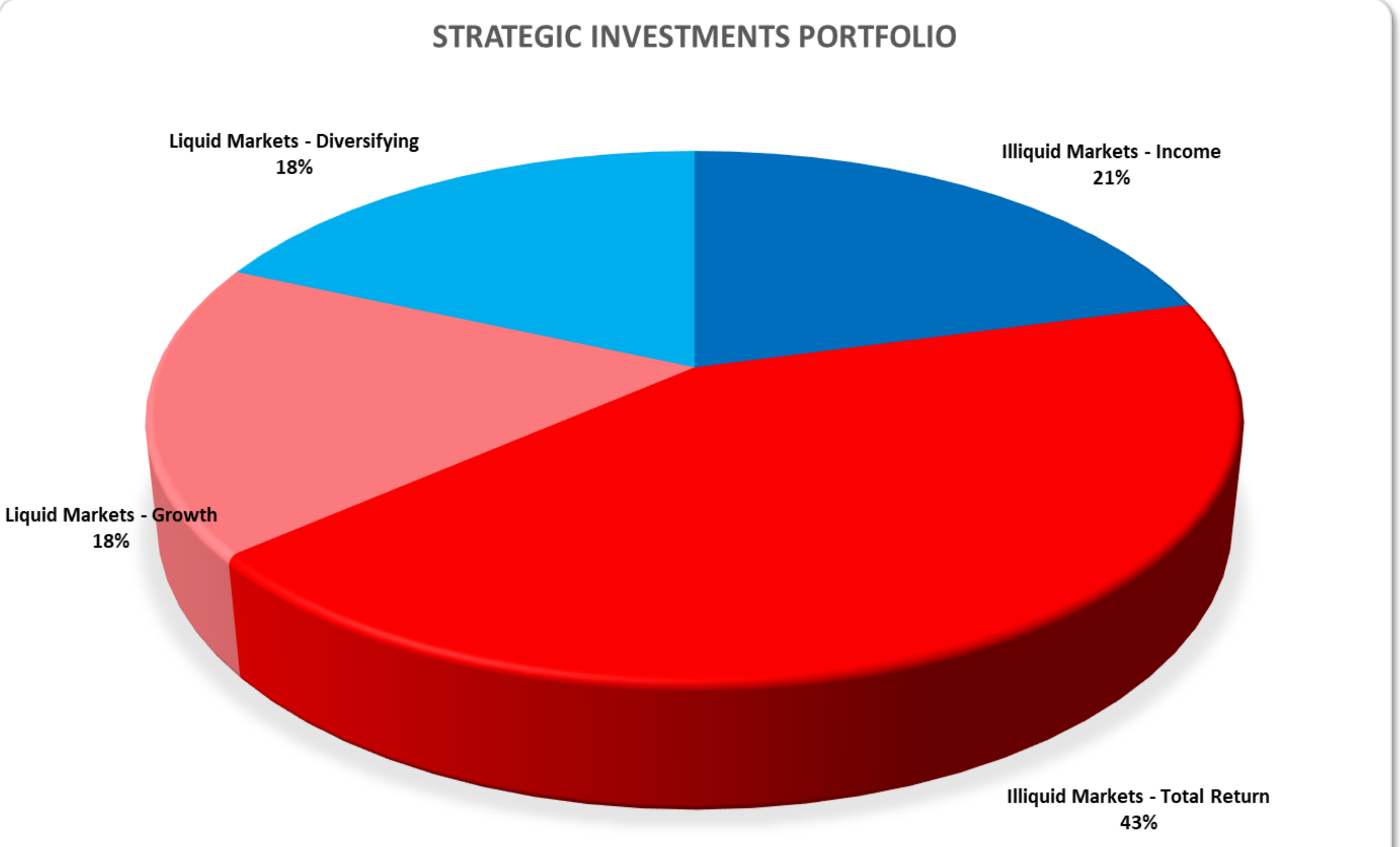
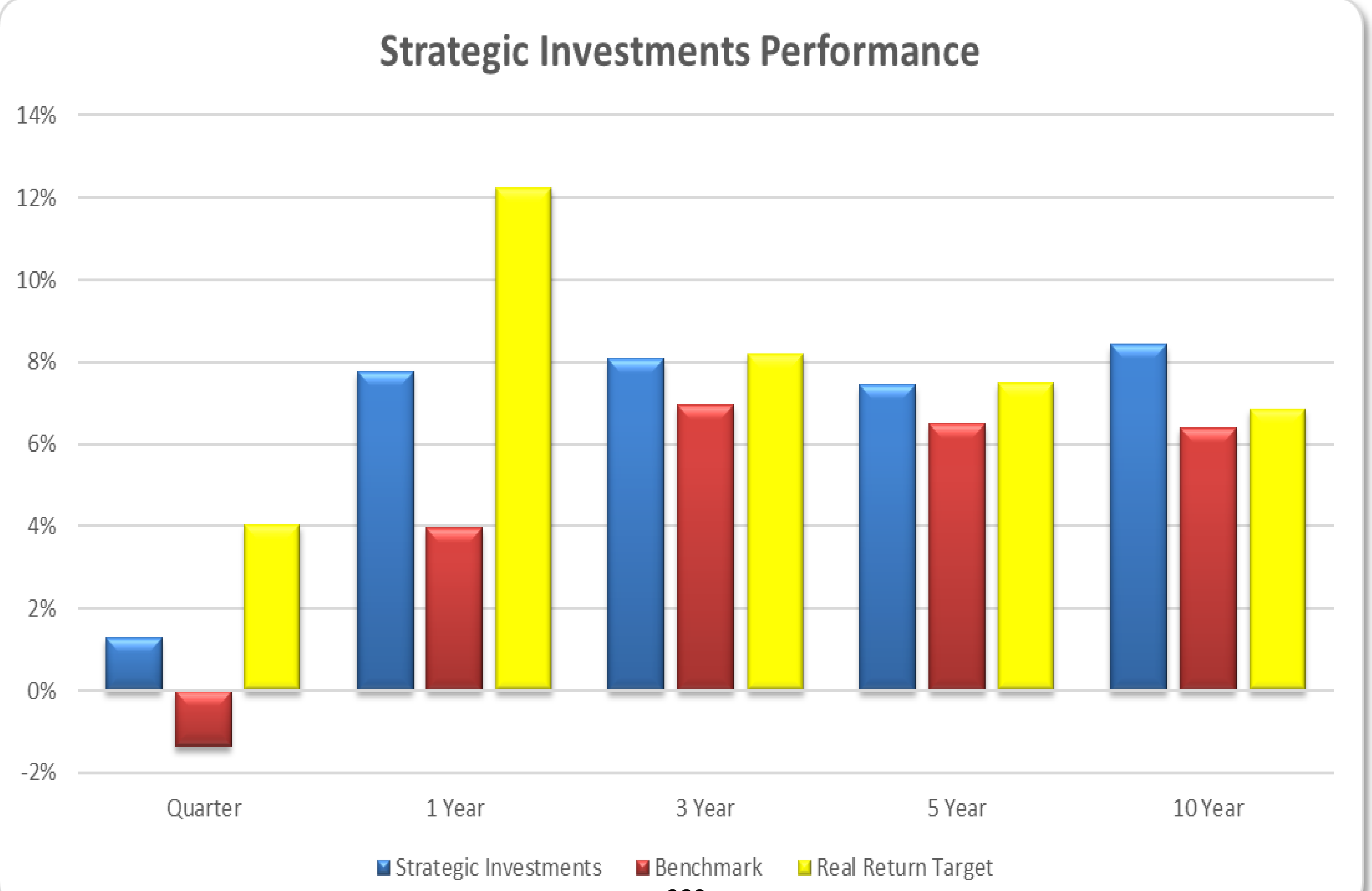
Portfolio


STRATEGIC INVESTMENTS PORTFOLIO
Distressed 12%
Evergreen Debt 4%
Loans 7%
Subordinated Capital 6%
Activist Equity 7%
GP Investments 1%
Long/Short Equity 2%
SI Private Equity 8%
Commodities 3%
Infrastructure 7%
SI Real Estate 5%
Timberland 3%
Transportation 4%
Global Macro 2%
Insurance 5%
Managed Futures 8%
Relative Value 2%
Royalties 3%
Event 1%
Multi-Strategy 5%
Open Mandate 4%

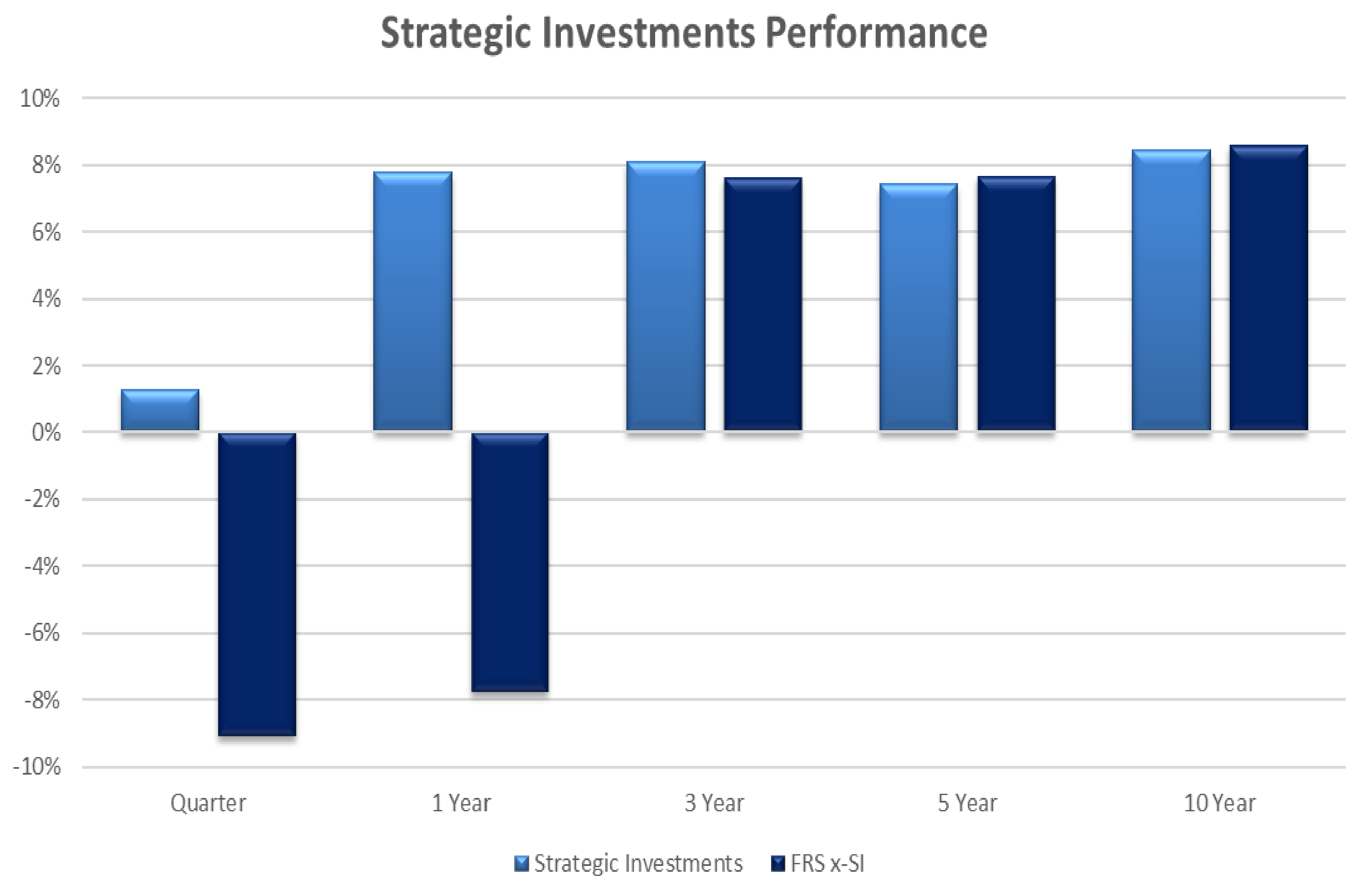
Portfolio


STRATEGIC INVESTMENTS PORTFOLIO
Liquid Markets - Diversifying
18%
Illiquid Markets - Income
21%
Liquid Markets - Growth
18%
Illiquid Markets - Total Return
43%

Performance



Performance



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Recent Activity

- Quarterly cash outflow of $55 million
- Fiscal year cash outflow of $551 million
- Nine funds totaling $1.63 billion closed during the last quarter
- Zero funds closed quarter-to-date
- Sixteen funds totaling $2.535 billion closed this fiscal year
- Four funds totaling $550 million in the pipeline

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Pipeline

- Three Debt funds – Two Loan, one Distressed
- One Real Asset fund – One Commodities

- One new relationship
- Four private markets strategies
- No hedge funds

Current Investment Themes

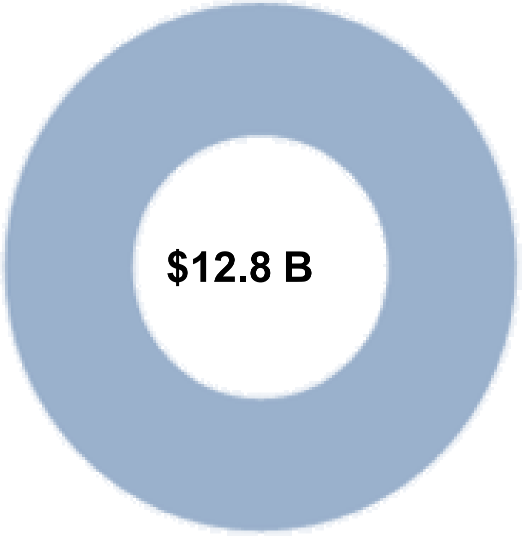
- Credit portfolio should do well absent a severe recession
  - $3.4 billion in unfunded commitments
  - Floating rate performing loans hedges interest rate risk
  - High coupons insulate interest rate risk somewhat
- Real Assets should continue to perform
  - Commodities markets booming
  - Timberland prices rising
- Hedge funds have generated positive returns year-to-date
- Insurance markets remain dislocated

FLORIDA RETIREMENT SYSTEM (FRS) INVESTMENT PLAN

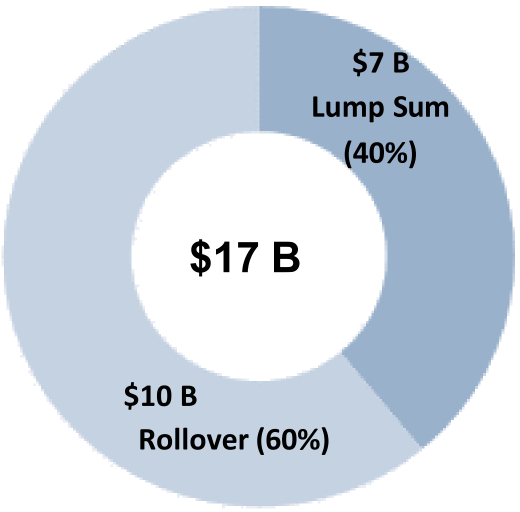
FRS INVESTMENT PLAN SNAPSHOT

(as of June 30, 2022)

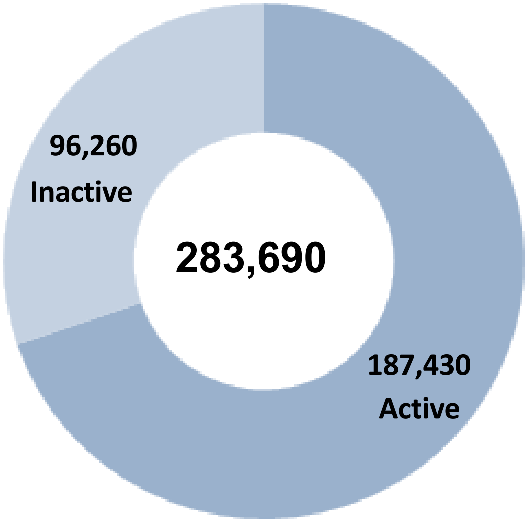
Assets



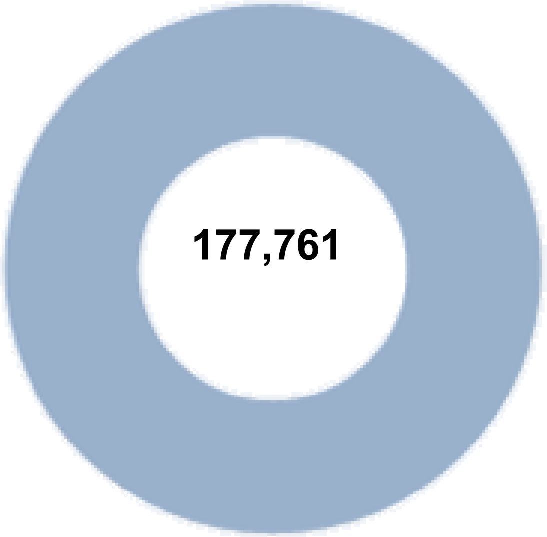
Distributions



Members



Retirees



Average Statistics

Female 64% Male 36%

Age 46

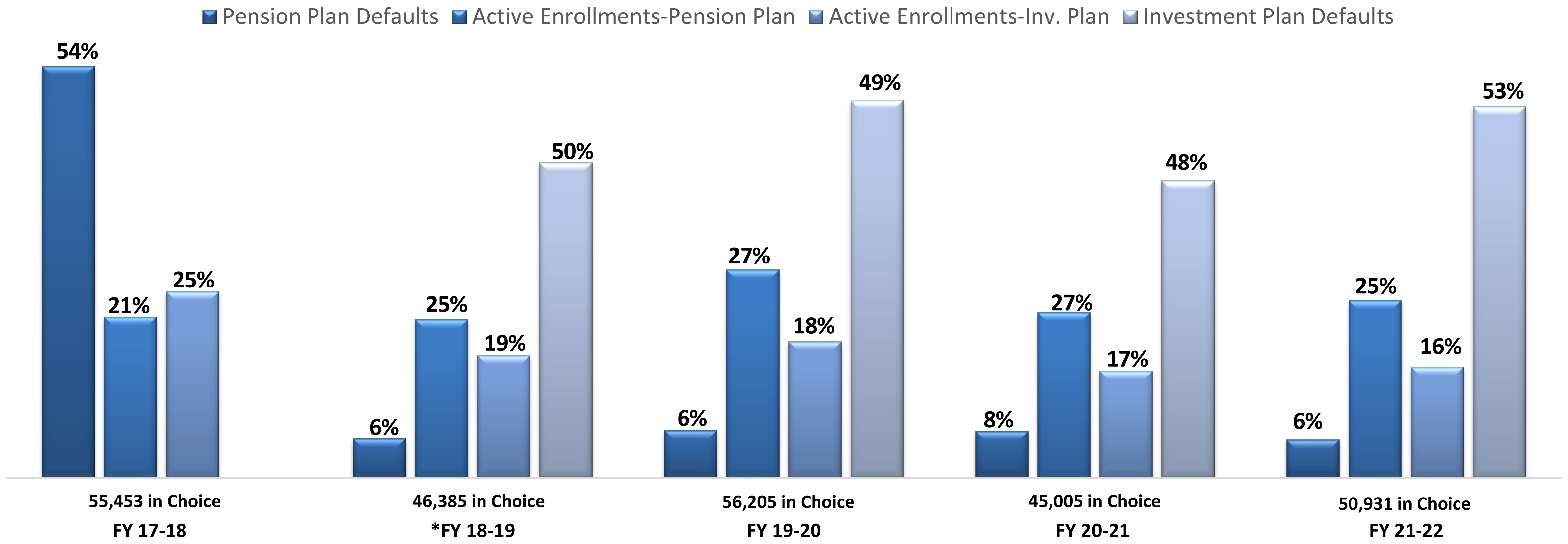
$45,204 balance

5 years of service

SBA FLORIDA STATE BOARD OF ADMINISTRATION

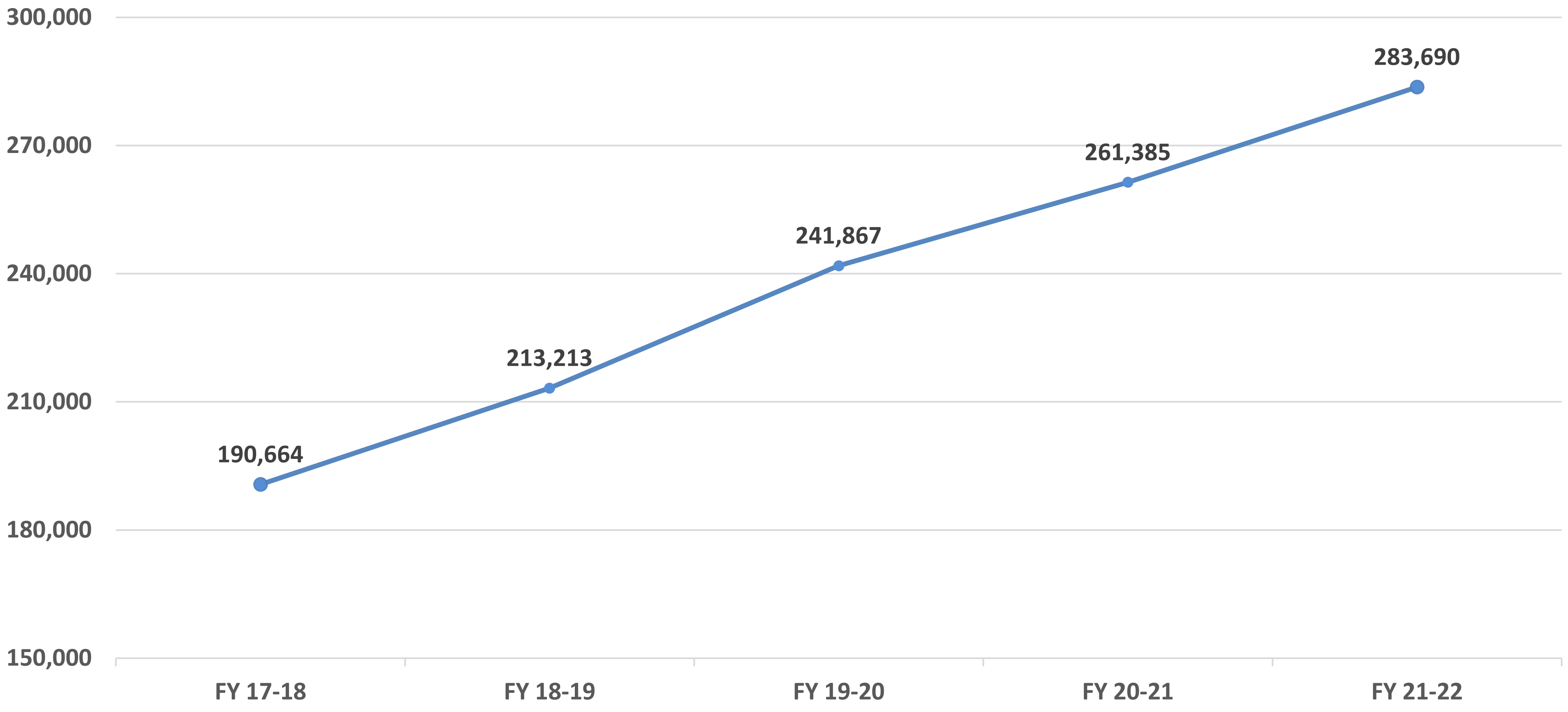
PLAN CHOICE STATISTICS

(as of June 30, 2022)



*Default Change to Investment Plan (except for Special Risk)

INVESTMENT PLAN MEMBERSHIP GROWTH



ASSET CLASS PERFORMANCE

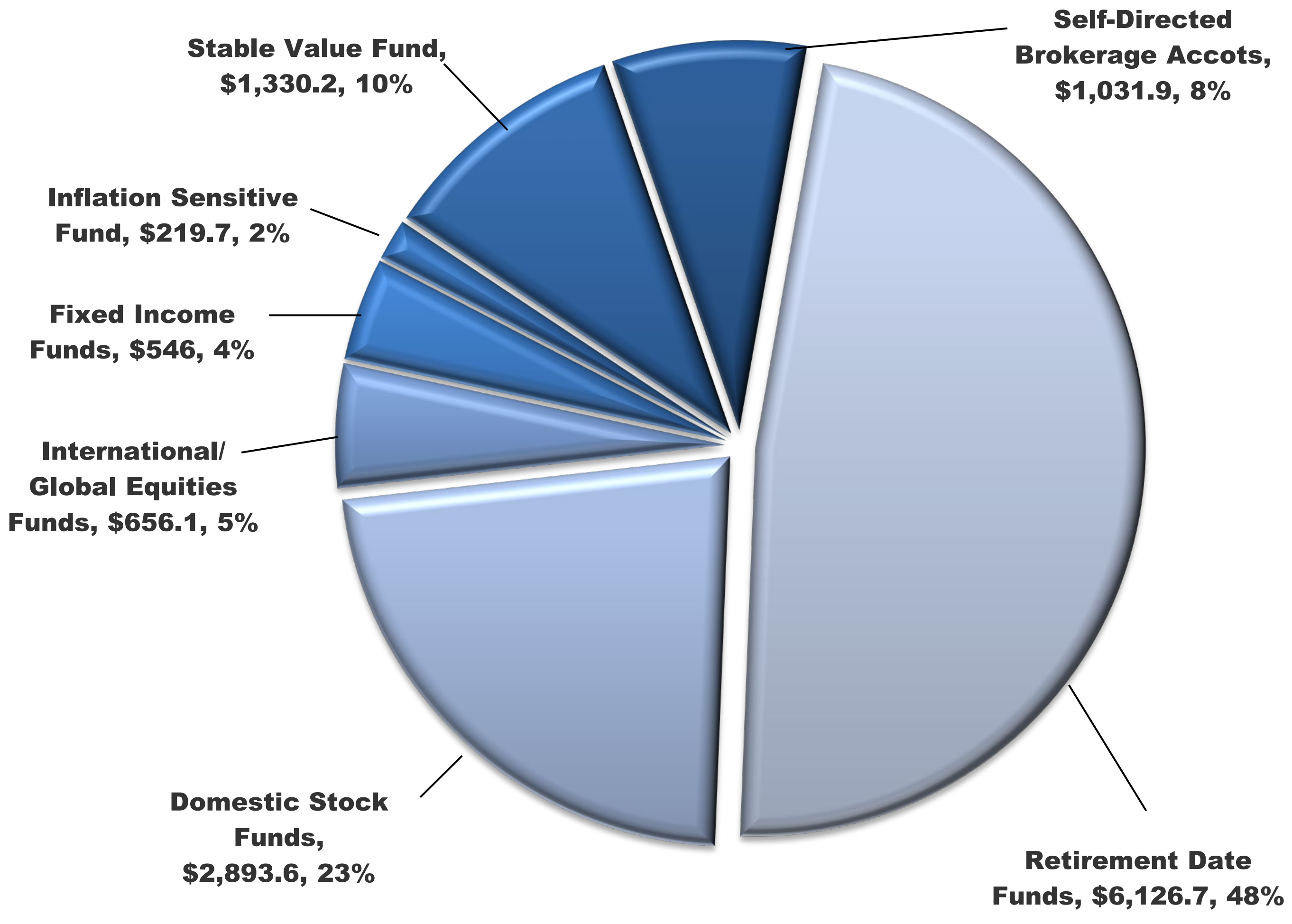
(as of June 30, 2022)

	QTD	FYTD	1 Yr	3 Yr	5 Yr	Incept.
Total Fund	-11.69%	-12.22%	-12.22%	4.95%	5.92%	6.64%
Stable Value	0.41%	1.63%	1.63%	1.99%	2.04%	2.01%
Inflation Protected Assets & TIPS*	-6.93%	0.48%	0.48%	4.82%	4.42%	2.19%
Fixed Income	-5.34%	-10.46%	-10.46%	-0.39%	1.36%	4.03%
Domestic Equities	-17.26%	-16.29%	-16.29%	8.31%	9.47%	9.87%
Global & International Equities	-13.94%	-20.24%	-20.24%	2.75%	3.78%	7.18%
Retirement Date Funds	-10.91%	-10.95%	-10.95%	5.04%	5.78%	5.21%
Real Estate	2.89%	23.71%	23.71%	11.60%	N/A	10.18%
TF x RDFs	-12.53%	-13.58%	-13.58%	4.80%	6.00%	5.75%

*Prior to 2014, TIPS only.
Retirement Date Funds Inception July 1, 2014
TF x RDFs Inception July 1, 2014
Real Estate was added January 1, 2018
Stable Value Fund Inception July 1, 2021

FRS INVESTMENT PLAN AUM

(by Asset Class—in $millions, as of June 30, 2022)



Asset alocation is a result of member investment selection

MyFRS FINANCIAL GUIDANCE PROGRAM

(July 1, 2021-June 30, 2022)

INVESTMENT EDUCATION

EY FINANCIAL PLANNER CALLS	FINANCIAL PLANNING WORKSHOPS	ATTENDANCE FINANCIAL WORKSHOPS	WEBSITE HITS	WEBSITE CHATS
351,943	595	23,294	2,887,195	126,655
+19%	-11%	-6%	-14%	-6%

(% change from previous 12 months)

37 Annuities purchased last 12 months - $4.8 million
208 Total Annuities purchased inception to date - $26.6 million

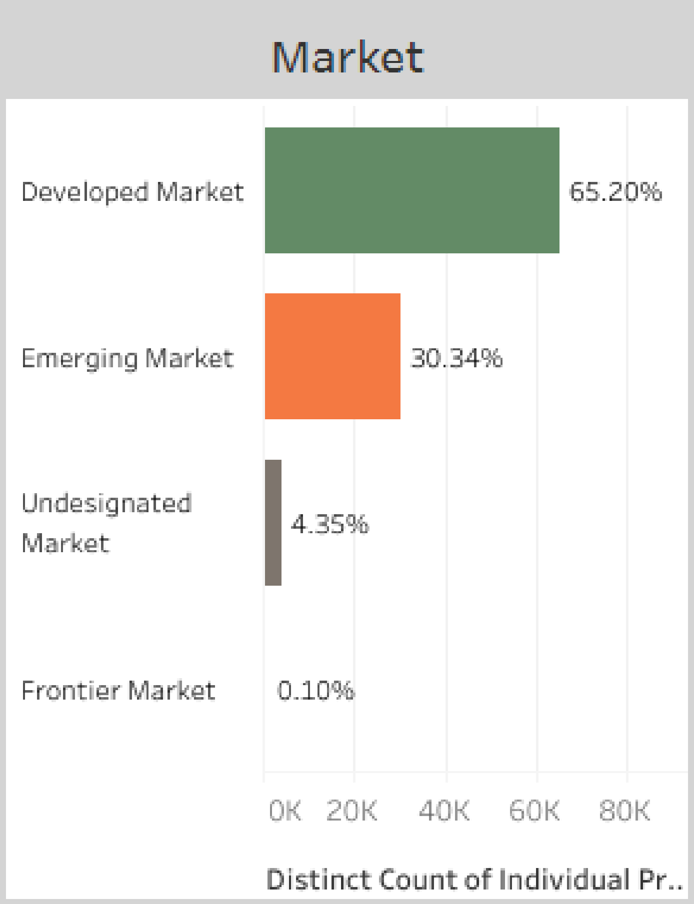
QUESTIONS

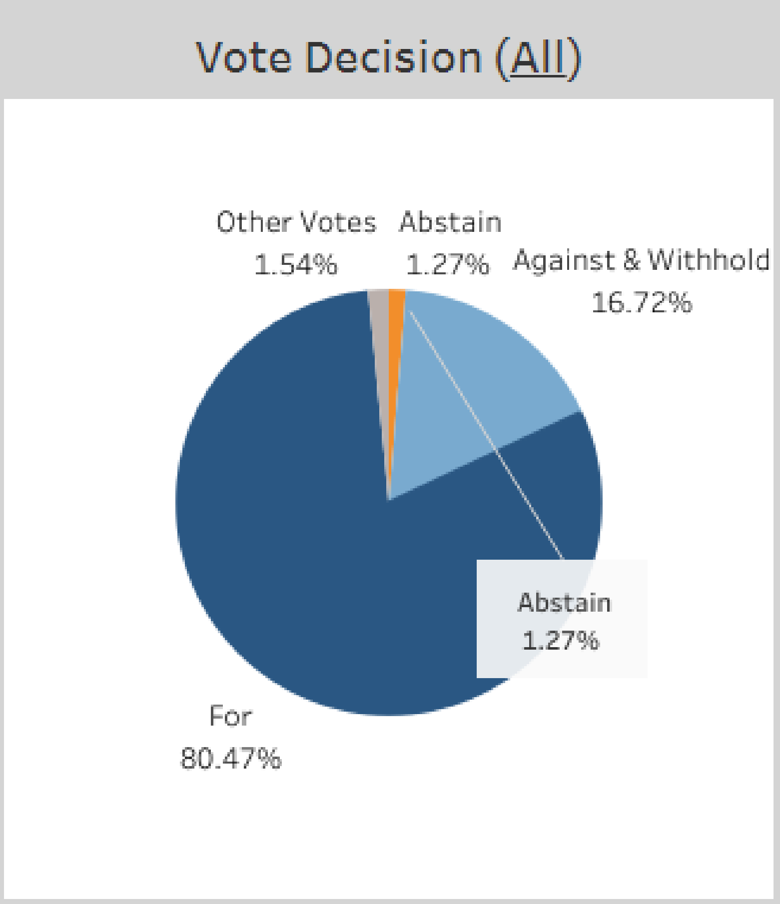
Addendum
SBA Corporate Governance Statistics

Trustees & Investment Advisory Council (IAC) Meetings – September 13, 2022

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

SBA Proxy Voting Statistics FY2022



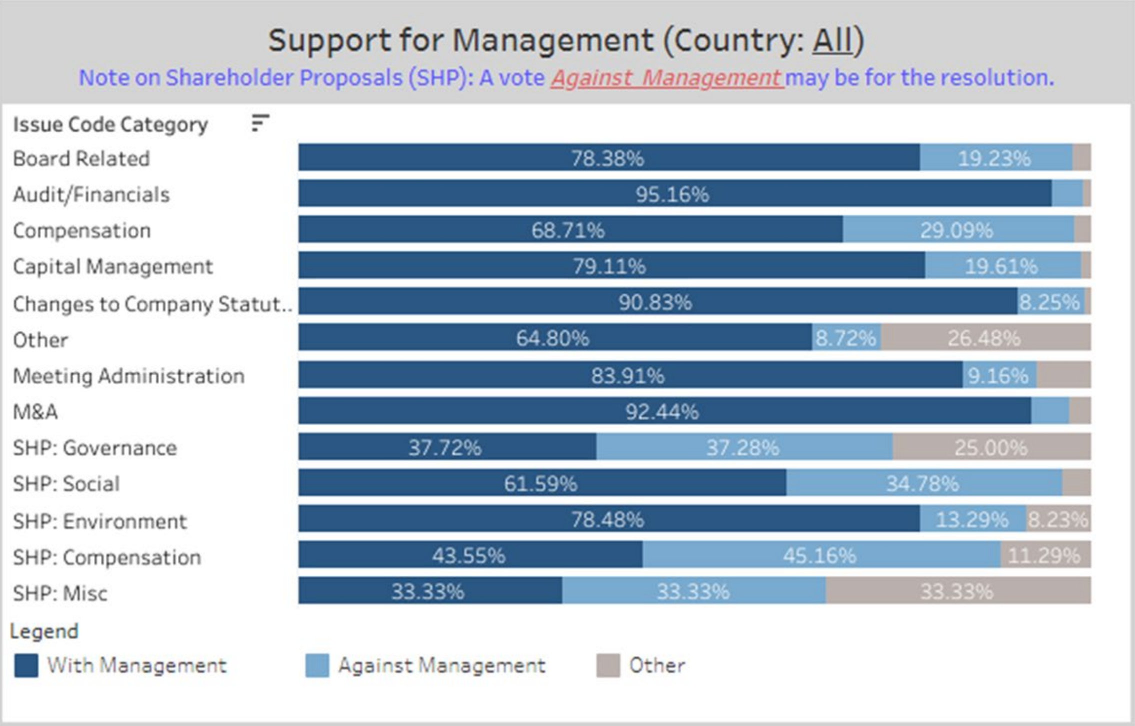


SBA FLORIDA
STATE BOARD OF ADMINISTRATION

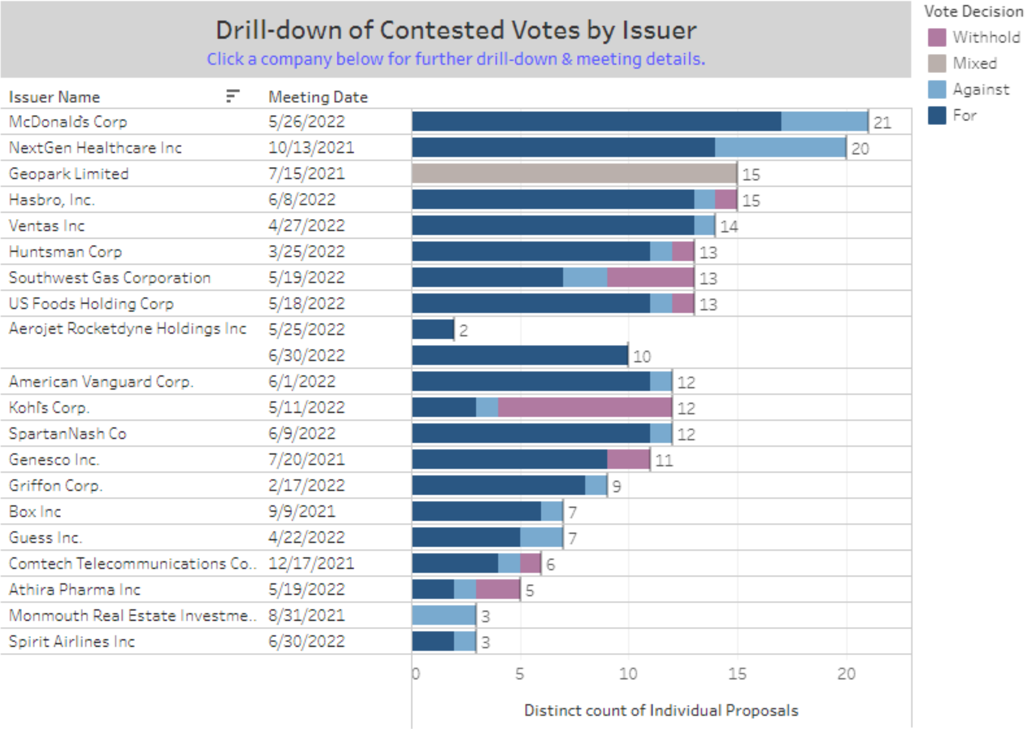
Corporate Governance/Proxy Voting Summary FY2022

SBA Proxy Voting – Major Statistics FY2022

- SBA staff cast votes at 10,319 corporate meetings worldwide, in 75 markets.
- Proxy voting involved 8,172 separate companies and 99,759 distinct voting items.
- Across all global votes—80.5% "For'' and 16.7% "Against," with the remaining 2.8% involving abstentions.
- Of all votes cast, 16.8% were "Against" the management-recommended-vote.



Contested Board Elections



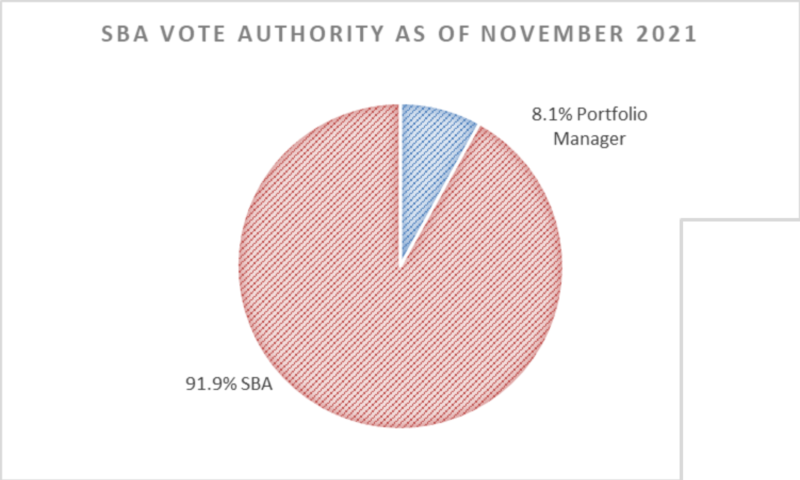
Proxy Voting Aimed at Portfolio Value and Risk Mitigation

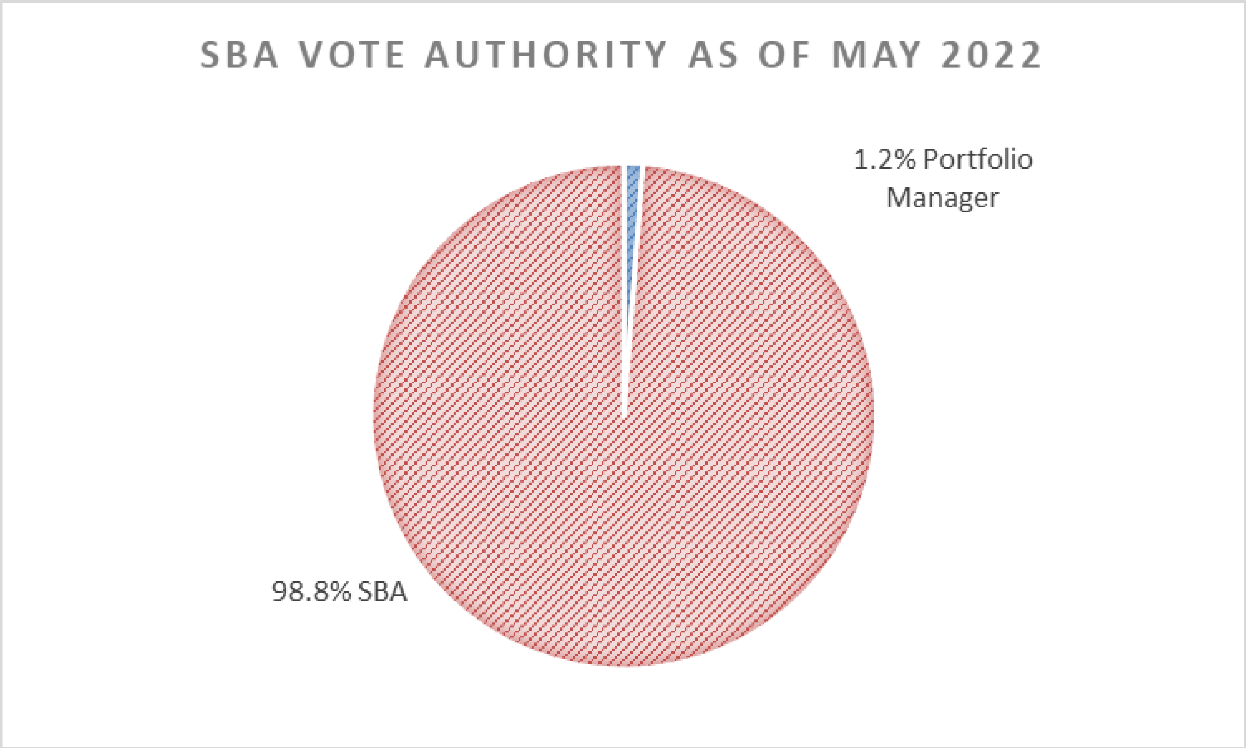
Proxy Voting Summary

Issue Code Category	For		Against & Withhold		Abstain		Other Votes	
	Individual Proposals	% of Total Distinct count o..	Individual Proposals	% of Total Distinct count o..	Individual Proposals	% of Total Distinct count o..	Individual Proposals	% of Total Distinct count o..
Audit/Financials	15,459	95.2%	465	2.9%	137	0.8%	170	1.0%
Board Related	40,831	78.9%	9,846	19.0%	687	1.3%	378	0.7%
Capital Management	5,918	79.1%	1,392	18.6%	75	1.0%	94	1.3%
Changes to Company Statutes	5,141	91.0%	437	7.7%	24	0.4%	48	0.8%
Compensation	7,942	66.9%	3,378	28.5%	47	0.4%	498	4.2%
M&A	1,009	93.1%	44	4.1%	8	0.7%	23	2.1%
Meeting Administration	1,881	84.0%	224	10.0%	9	0.4%	124	5.5%
Other	1,667	73.4%	273	12.0%	245	10.8%	85	3.7%
SHP: Compensation	26	41.9%	32	51.6%	3	4.8%	1	1.6%
SHP: Environment	31	19.6%	117	74.1%	1	0.6%	9	5.7%
SHP: Governance	267	38.6%	293	42.3%	30	4.3%	102	14.7%
SHP: Misc	3	25.0%	6	50.0%	1	8.3%	2	16.7%
SHP: Social	98	35.5%	171	62.0%	1	0.4%	6	2.2%
Grand Total	80,273	80.5%	16,678	16.7%	1,268	1.3%	1,540	1.5%

SBA FLORIDA STATE BOARD OF ADMINISTRATION

Voting Authority Increased in FY2022

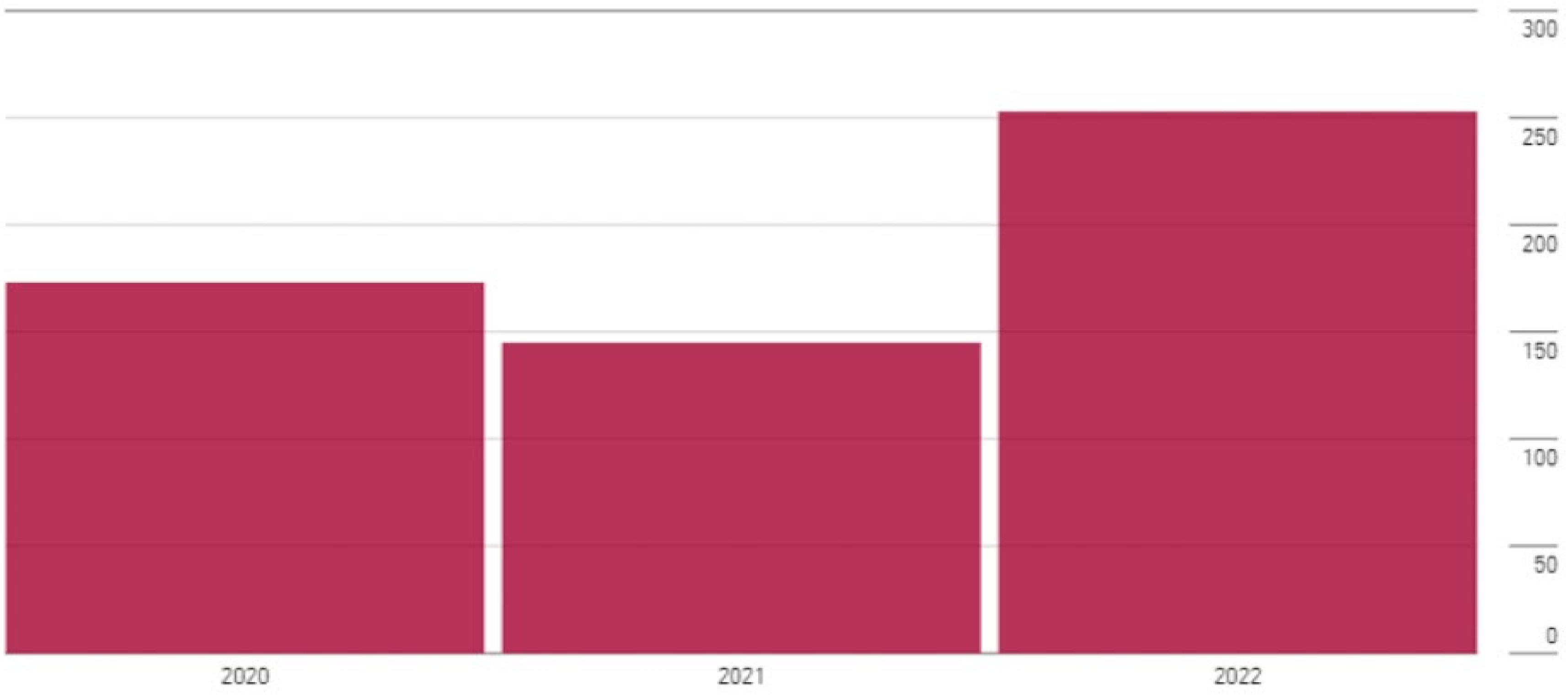




SBA FLORIDA STATE BOARD OF ADMINISTRATION

Environmental/Social Proposals Rose in 2022

Exhibit 1 Number of E&S Shareholder Resolutions: Last Three Proxy Years

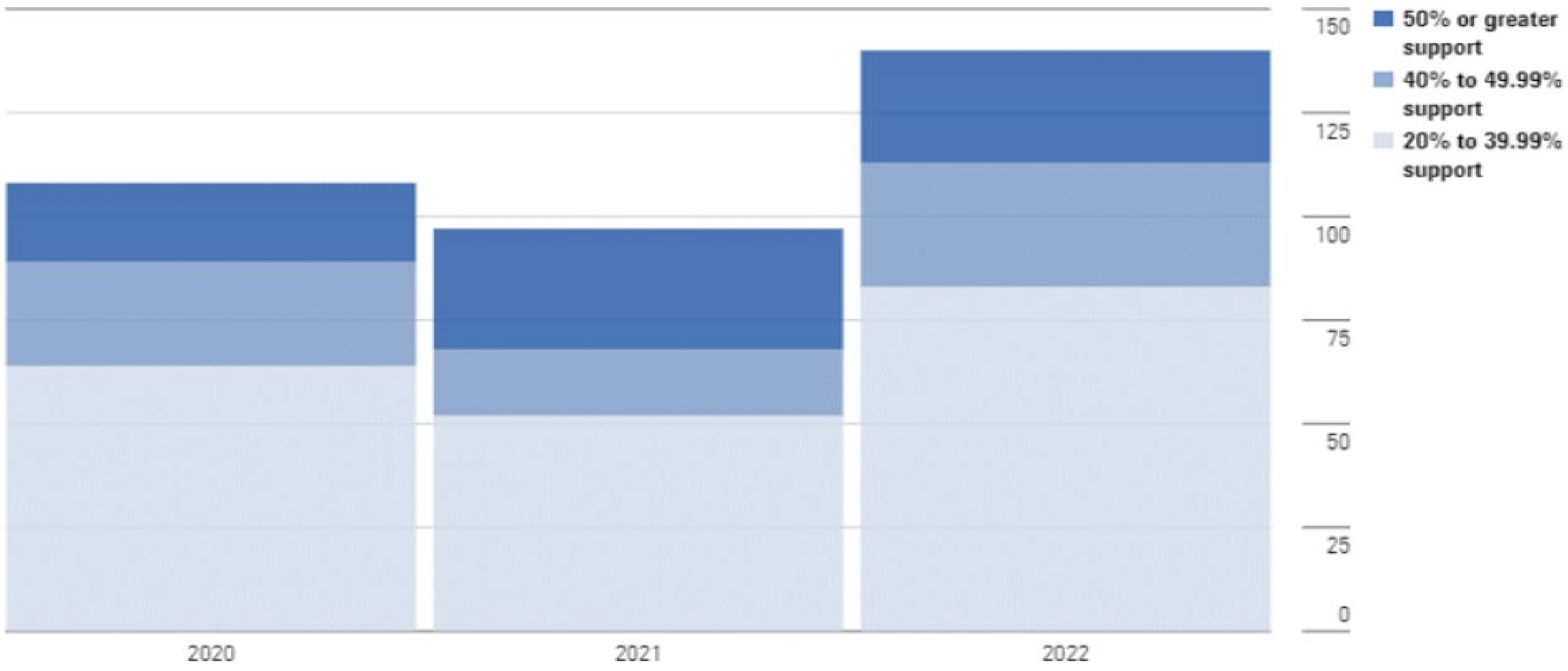


Source: Morningstar data on United States proxy-voting activity. Data as of June 17, 2022, showing 12-month periods to June 30 of each year.
Note: Data comprises E&S resolutions opposed by company boards.

SBA FLORIDA STATE BOARD OF ADMINISTRATION

Proposals Garnering >20% Support Rose in 2022

Exhibit 2 Number of E&S Shareholder Resolutions With Significant Support: Last Three Proxy Years



Source: Morningstar data on United States proxy-voting activity. Data as of June 17, 2022, showing 12-month periods to June 30 of each year.
Note: Data comprises E&S resolutions opposed by company boards.

SBA FLORIDA STATE BOARD OF ADMINISTRATION

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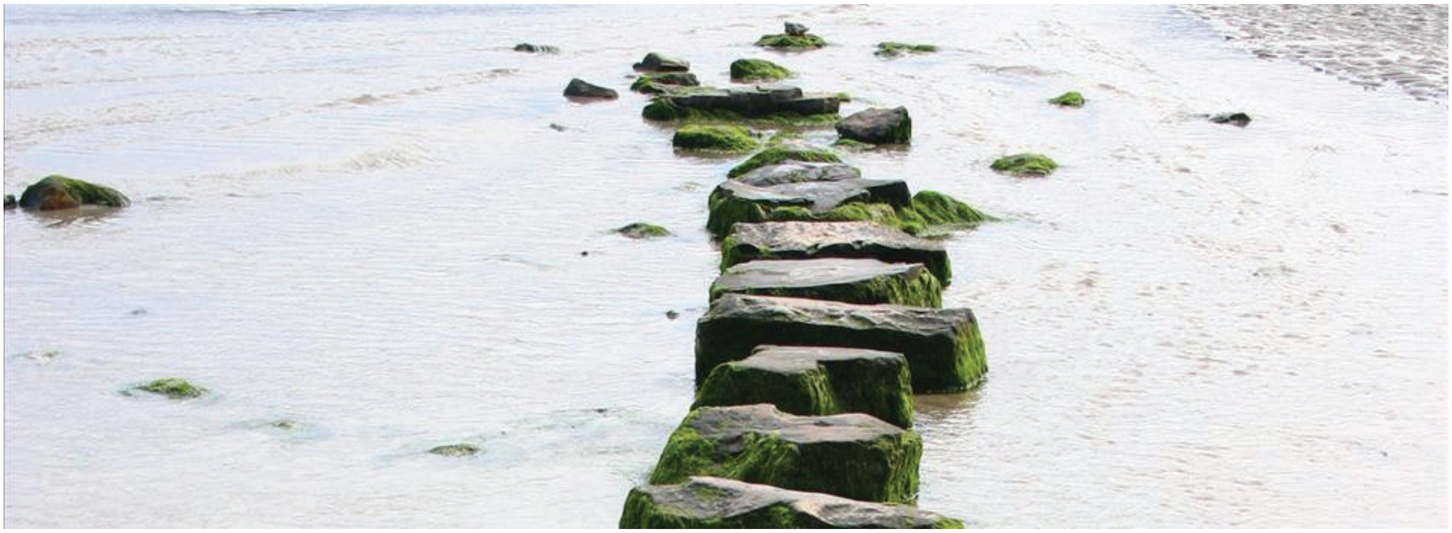

State Board of Administration of Florida

Major Mandate Review

Second Quarter 2022

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 June 30, 2022.
- The Pension Plan outperformed its Performance Benchmark over the quarter and trailing one-, three-, five-, ten-, and fifteen-year periods.
  - Over the trailing five-year period, Global Equity and Private Equity were the leading contributors to relative returns
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing three-, five-, and ten-year periods.
- The CAT Funds' performance is strong over 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.

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Pension Plan: Executive Summary

- The Pension Plan assets totaled $180.0 billion as of June 30, 2022, which represents a $17.8 billion decrease since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed over the quarter and trailing one-, three-, five-, ten-, and fifteen- year periods.
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan outperformed over the trailing ten-year time period and underperformed over the trailing one-, three- and five-year time periods as inflation has surged recently.
- 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 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.

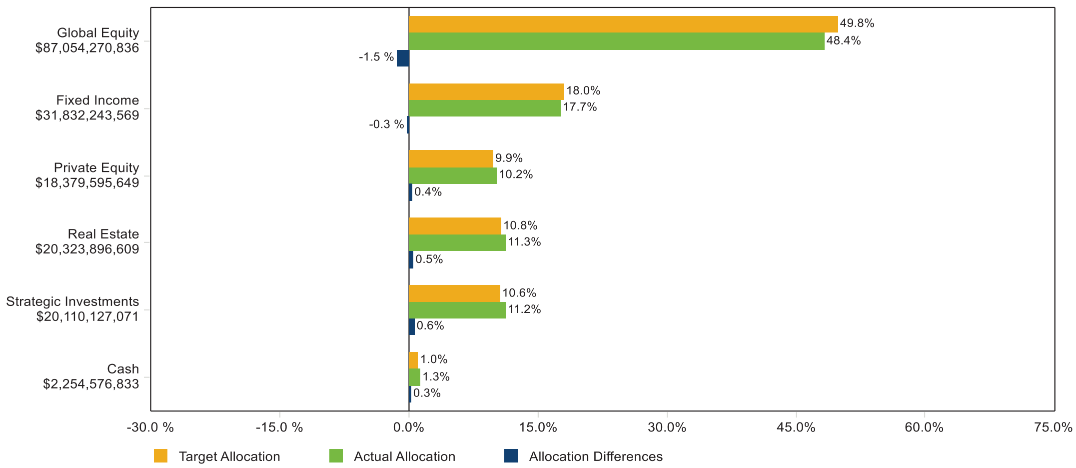
FRS Pension Plan Change in Market Value
Periods Ending 6/30/2022

Summary of Cash Flows		
	Second Quarter	**Fiscal YTD***
Beginning Market Value	$197,722,178,265	$199,600,498,385
+/- Net Contributions/(Withdrawals)	$(1,852,161,469)	$(7,662,775,551)
Investment Earnings	$(15,915,306,231)	$(11,983,012,269)
= Ending Market Value	$179,954,710,565	$179,954,710,565
Net Change	$(17,767,467,701)	$(19,645,787,820)

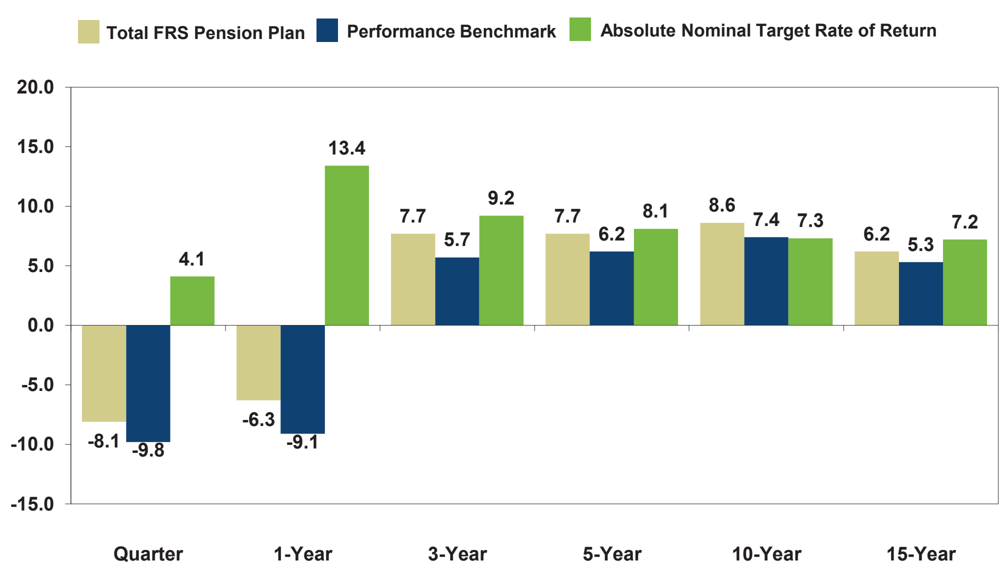
*Period July 2021 – June 2022

Asset Allocation as of 6/30/2022
Total Fund Assets = $180.0 Billion

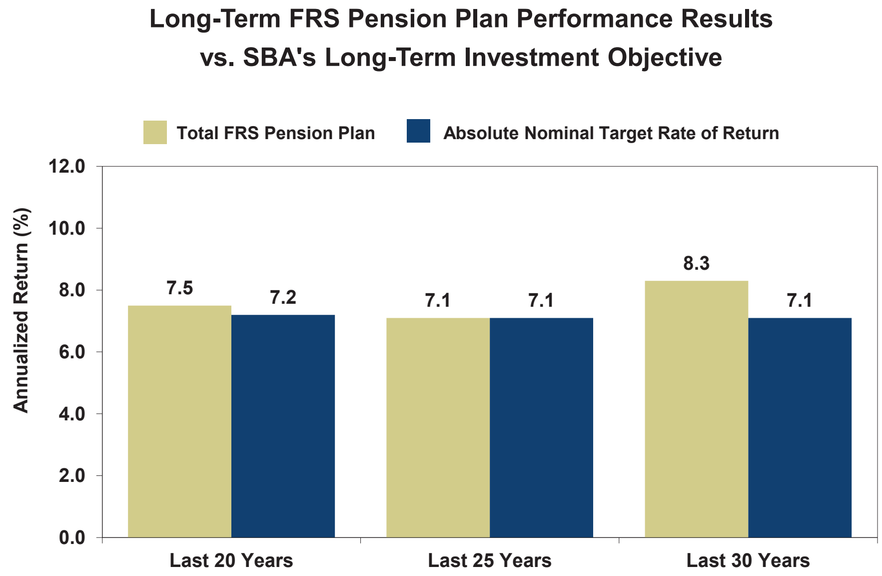
	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	179,954,710,565	100.0	100.0		
Global Equity	87,054,270,836	48.4	49.8	45.0	70.0
Fixed Income	31,832,243,569	17.7	18.0	10.0	26.0
Private Equity	18,379,595,649	10.2	9.9	2.0	10.0
Real Estate	20,323,896,609	11.3	10.8	4.0	16.0
Strategic Investments	20,110,127,071	11.2	10.6	0.0	16.0
Cash	2,254,576,833	1.3	1.0	0.3	5.0



FRS Pension Plan Investment Results
Periods Ending 6/30/2022

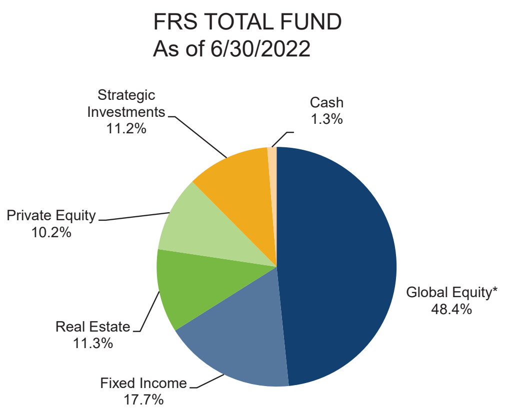


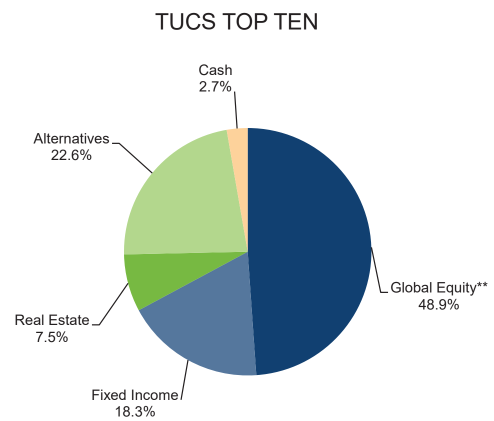
FRS Pension Plan Investment Results
Periods Ending 6/30/2022



Comparison of Asset Allocation (TUCS Top Ten)

FRS Pension Plan vs. Top Ten Defined Benefit Plans



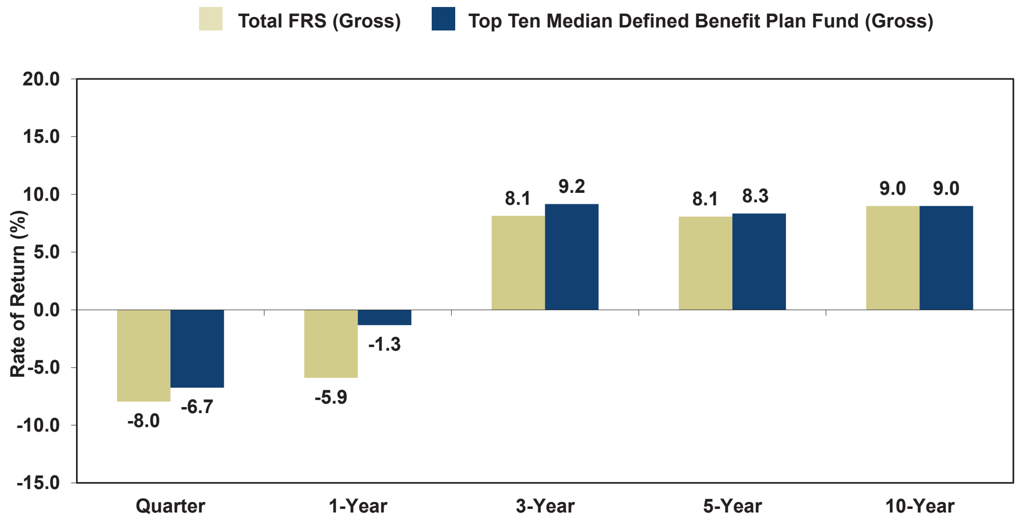


*Global Equity Allocation: 24.3% Domestic Equities; 16.8% Foreign Equities; 6.1% Global Equities; 1.2% Global Equity Liquidity Account. Percentages are of the Total FRS Fund

**Global Equity Allocation: 32.1% Domestic Equities; 16.8% Foreign Equities.

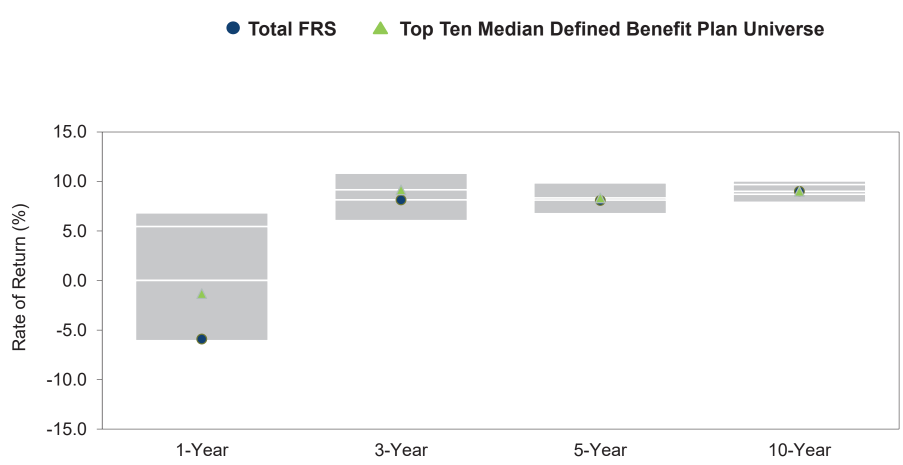
Note: The TUCS Top Ten Universe AA data is as of 4Q'21 as 2Q 2022 data was not finalized at the time of this report. The data set includes $2,042.4 billion in total assets. The median fund size was $196.7 billion and the average fund size was $204.2 billion.
Note: Due to rounding, percentage totals displayed may not sum perfectly.

FRS Results Relative to TUCS Top Ten Defined Benefit Plans
Periods Ending 6/30/2022



Note: The TUCS Top Ten Universe includes $1,908 billion in total assets. The median fund size was $180 billion and the average fund size was $191 billion.

Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)
Periods Ending 6/30/2022



FRS Percentile Ranking	87	87	87	50

Note: The TUCS Top Ten Universe includes $1,908 billion in total assets. The median fund size was $180 billion and the average fund size was $191 billion.

Investment Plan: Executive Summary

- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing 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 in line with peer defined contribution plans, based on year-end 2021 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 6/30/2022*

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	**-12.2%**	**5.0%**	**5.9%**	**6.9%**
*Total Plan Aggregate Benchmark***	*-11.1%*	*4.9%*	*5.7%*	*6.7%*
FRS Investment Plan vs. Total Plan Aggregate Benchmark	(1.1)	0.1	0.2	0.3

Periods Ending 12/31/2020***

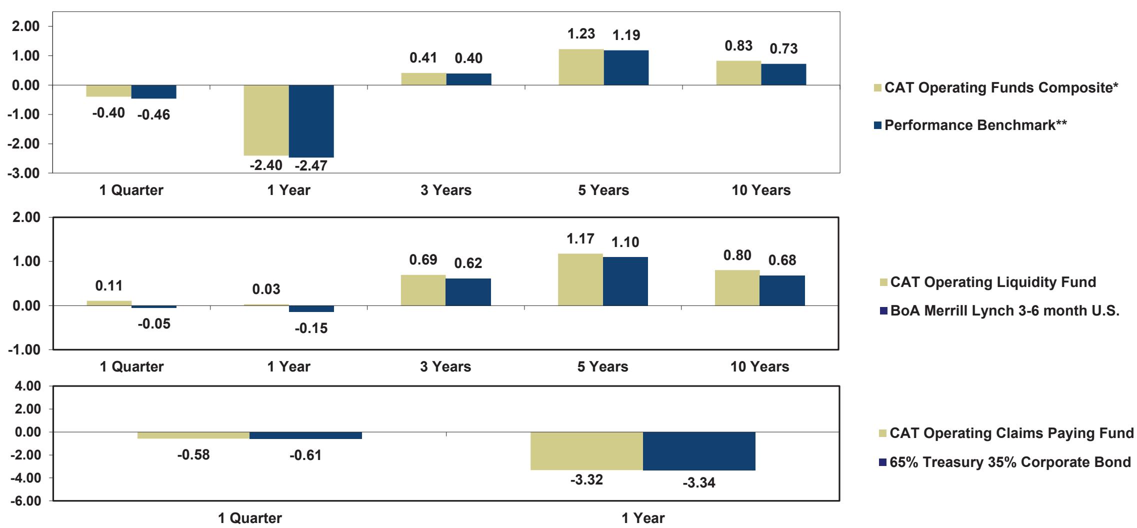
	Five-Year Average Return****	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	**10.1%**	**0.2%**	**0.27%*******
Peer Group	*10.0*	*0.2*	*0.27*
FRS Investment Plan vs. Peer Group	0.1	0.0	0.00

*Returns shown are net of fees.
**Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.
***Source: 2021 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 2021 Survey that included 136 U.S. defined contribution plans with assets ranging from $72 million to $68.7 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 18 DC plans including corporate and public plans with assets between $3.4 - $28.4 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.
- 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.
- 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.

CAT Operating Funds Investment Results
Periods Ending 6/30/2022

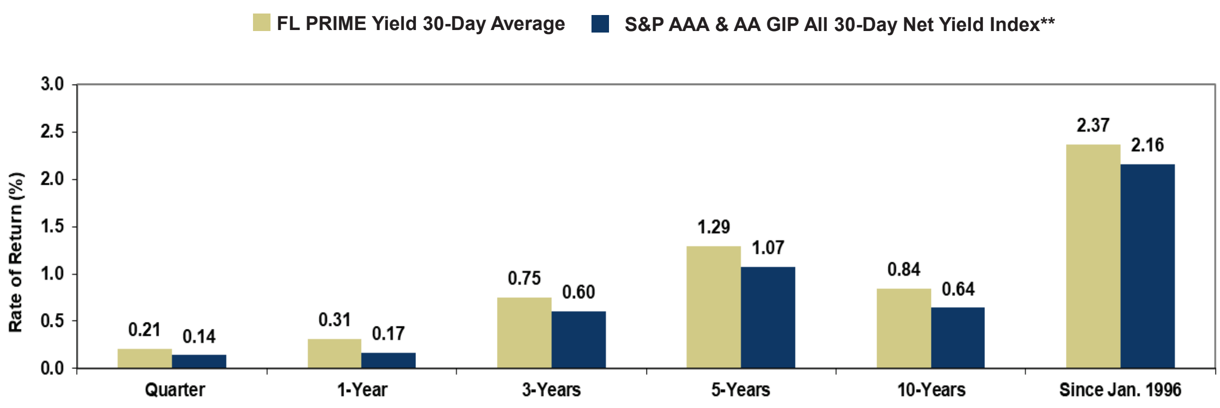


*CAT Operating Funds: Beginning March 2008, the returns for the CAT Operating Funds reflect marked-to-market returns. Prior to that time, cost-based returns are used. Beginning February 2018, the CAT Operating Funds were split into two different sub funds, the CAT Fund Operating Liquidity Fund and the CAT Fund Operating Claims Paying Fund. Performance for each sub fund is shown below.
**Performance Benchmark: Effective January 1, 2021, the CAT Fund Operating Liquidity Fund is benchmarked to the Bloomberg U.S. Treasury Bills 3-6 Months & U.S. Treasury Bills 6-9 Months Custom Blend Index. This benchmark is comprised of 60% of 3-6 month U.S. Treasury Bills and 40% 6-9 month U.S. Treasury Bills Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index. Effective January 1, 2021, the CAT Operating Claims Paying Fund is benchmarked to the Bloomberg U.S. Treasury 1-3 Years & Corporate AA+ ex 144A with Reg S Custom Blend Index. This benchmark is comprised of 65% 1-3 year U.S. Treasury and 35% of 1-3 year Corporate AA or better excluding 144A and Reg S securities. Beginning February 2018, 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. Additional benchmark history can be found in the appendix.

Florida PRIME: Executive Summary

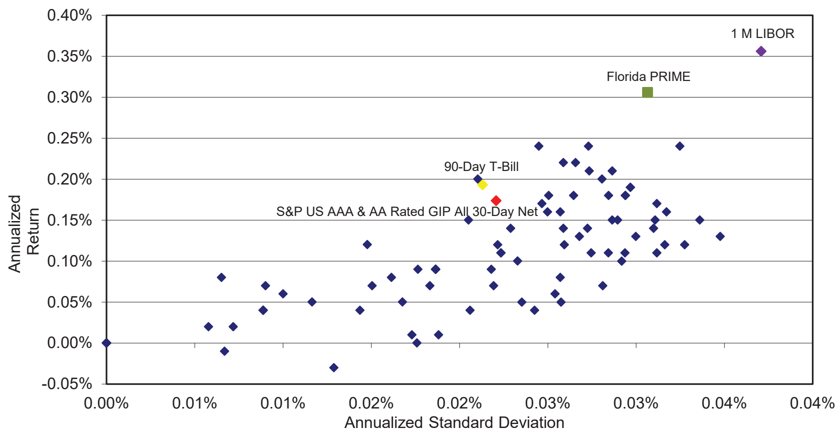
- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately 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 June 30, 2022, the total market value of Florida PRIME was $18.7 billion.
- Aon Investments USA Inc., in conjunction with SBA staff, compiles an annual best practices report that includes a full review of the Investment Policy Statement, operational items, and investment structure for Florida PRIME.

Florida PRIME Investment Results
Periods Ending 6/30/2022

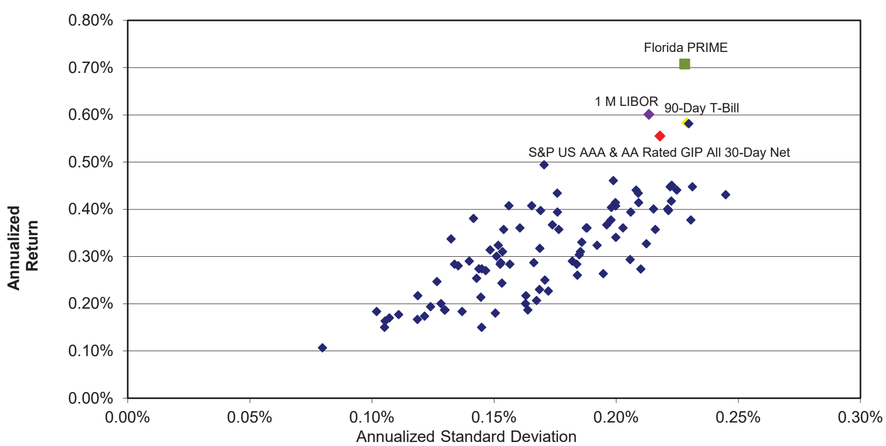


*Returns less than one year are not annualized.
**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

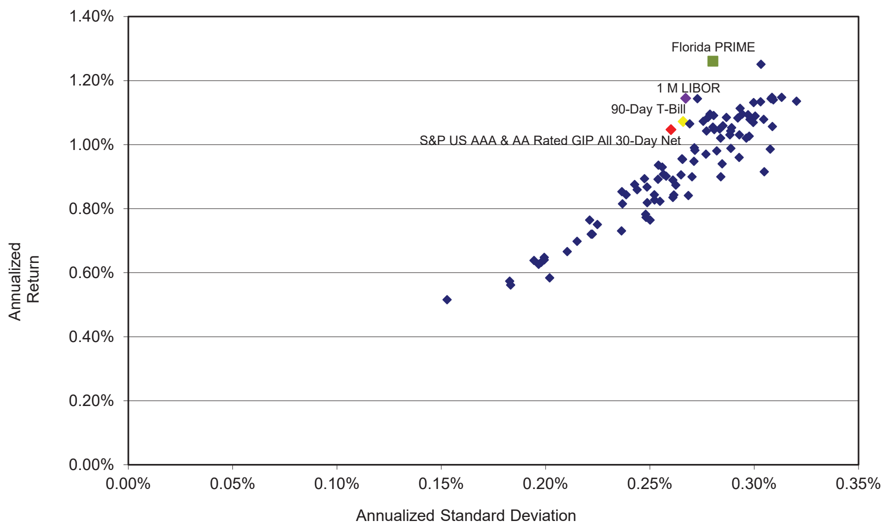
Florida PRIME Risk vs. Return
1 Years Ending 6/30/2022



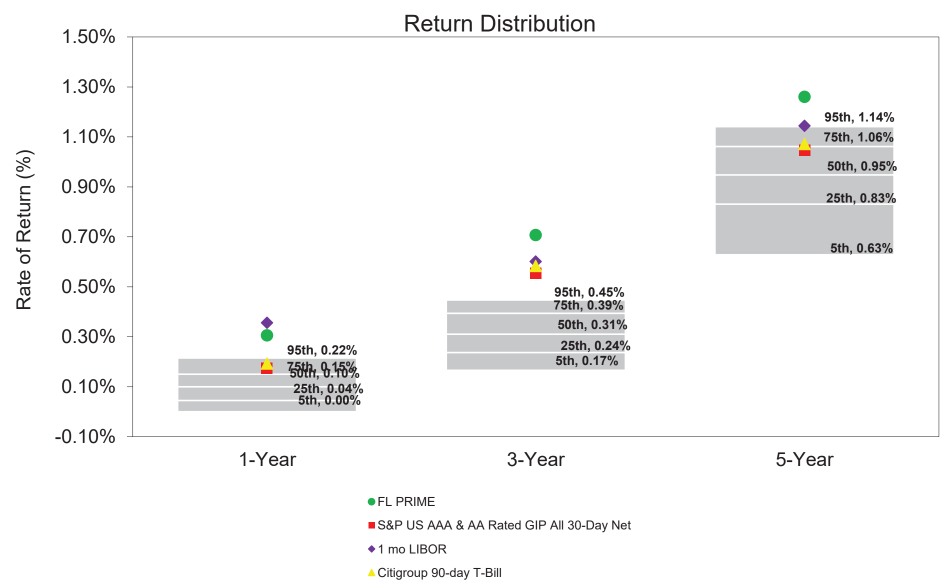
Florida PRIME Risk vs. Return
3 Years Ending 6/30/2022



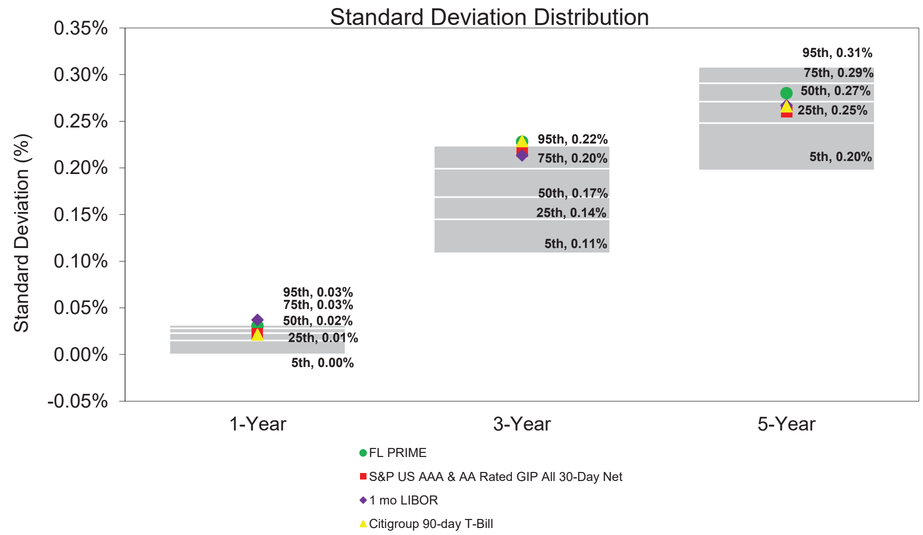
Florida PRIME Risk vs. Return
5 Years Ending 6/30/2022



Return Distribution
Periods Ending 6/30/2022



Standard Deviation Distribution
Periods Ending 6/30/2022



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Appendix

FRS Investment Plan Costs

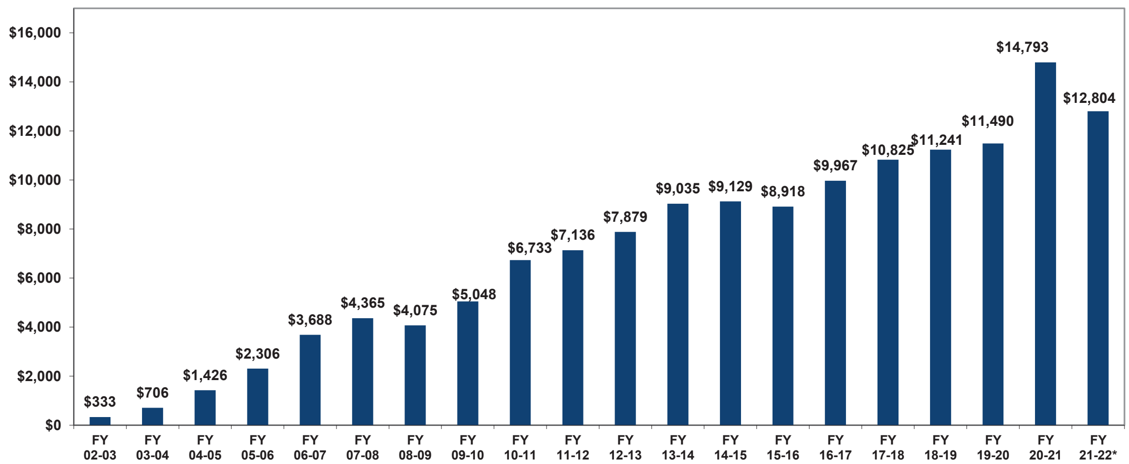
Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Domestic Equity	0.20%	0.84%
International Equity	0.31%	0.94%
Diversified Bonds	0.14%	0.45%
Target Date	0.15%	0.35%
Stable Value	0.19%	0.40%
Inflation Protected Securities	0.36%	0.34%

*Average fee of multiple products in category as of 6/30/2022.

**Source: Aon's annual mutual fund expense analysis as of 6/30/2022.

Investment Plan Fiscal Year End Assets Under Management

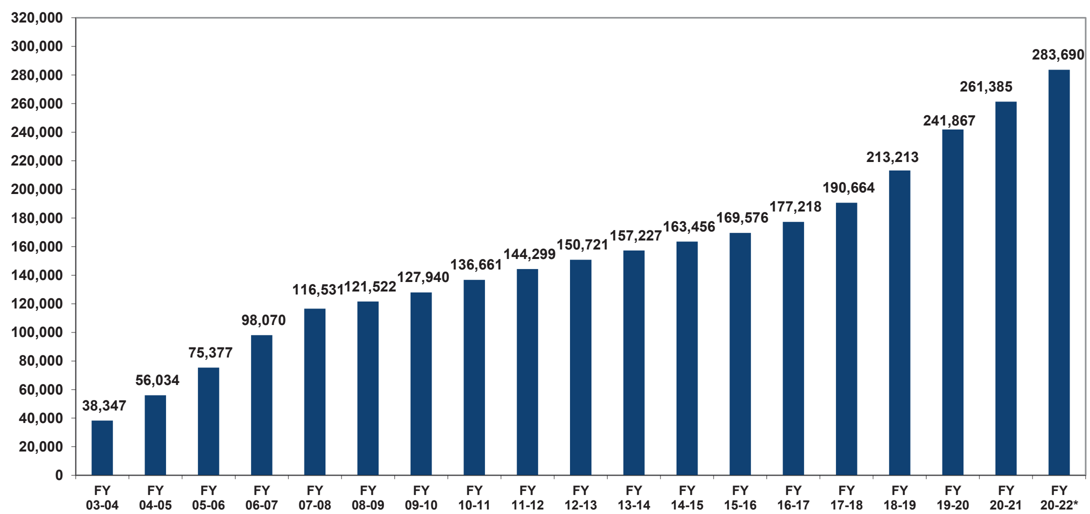
By Fiscal Year ($ millions)



*Period Ending 6/30/2022

Source: Investment Plan Administrator

Investment Plan Membership



* Period Ending 6/30/2022

Source: Investment Plan Administrator

Florida Hurricane Catastrophe Funds Background and Details

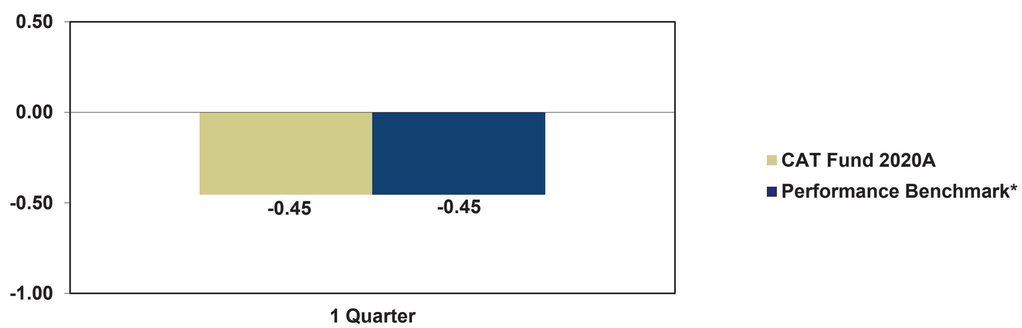
- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.

- The CAT Operating Funds, along CAT 2020 A Fund are internally managed portfolios.
  - CAT 2013 A Fund was liquidated during 4Q 2020
  - CAT 2016 A Fund was liquidated during 3Q 2021

- As of June 30, 2022, the total value of:
  - The CAT Operating Funds was $12.4 billion
  - The CAT 2020 A Fund was $3.4 billion

- History of the CAT Funds Benchmarks: *Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index, and the CAT Fund Operating Claims Paying Fund benchmarked to 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 January 2021, the CAT Fund Operating Liquidity Fund was benchmarked to Bloomberg U.S. Treasuries Bills 3-6 Months & U.S. Treasury Bills 6-9 Months Custom Blend Index. This benchmark is comprised of 60% off the 3-6 month U.S. Treasury Bills and 40% 6-9 month U.S. Treasury Bills., and the CAT Fund Operating Claims Paying Fund is benchmarked Bloomberg U.S. Treasury 1-3 Years & Corporate AA+ ex 144A Reg S Custom Blend Index. This benchmark is comprised of 65% 1-3 year Treasury and 35% of 1-3 year Corporate AA or better excluding 144A and Reg S Securities.*

CAT 2020 A Funds Investment Results
Periods Ending 6/30/2022



*Performance Benchmark: The CAT 2020A Fund is benchmarked to itself.

CAT Operating Funds Characteristics
Period Ending 6/30/2022

Maturity Analysis	
1 to 30 Days	8.21%
31 to 60 Days	3.19
61 to 90 Days	12.43
91 to 120 Days	0.40
121 to 150 Days	2.20
151 to 180 Days	0.96
181 to 270 Days	1.99
271 to 365 Days	7.31
366 to 455 Days	5.00
>= 456 Days	58.31
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	62.48%
AA	16.69
A	20.83
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

CAT 2020 A Fund Characteristics
Period Ending 6/30/2022

Maturity Analysis	
1 to 30 Days	0.89%
31 to 60 Days	0.30
61 to 90 Days	1.27
91 to 120 Days	0.00
121 to 150 Days	1.98
151 to 180 Days	1.89
181 to 270 Days	12.22
271 to 365 Days	16.15
366 to 455 Days	9.56
>= 456 Days	55.74
Total % of Portfolio:	100.00%

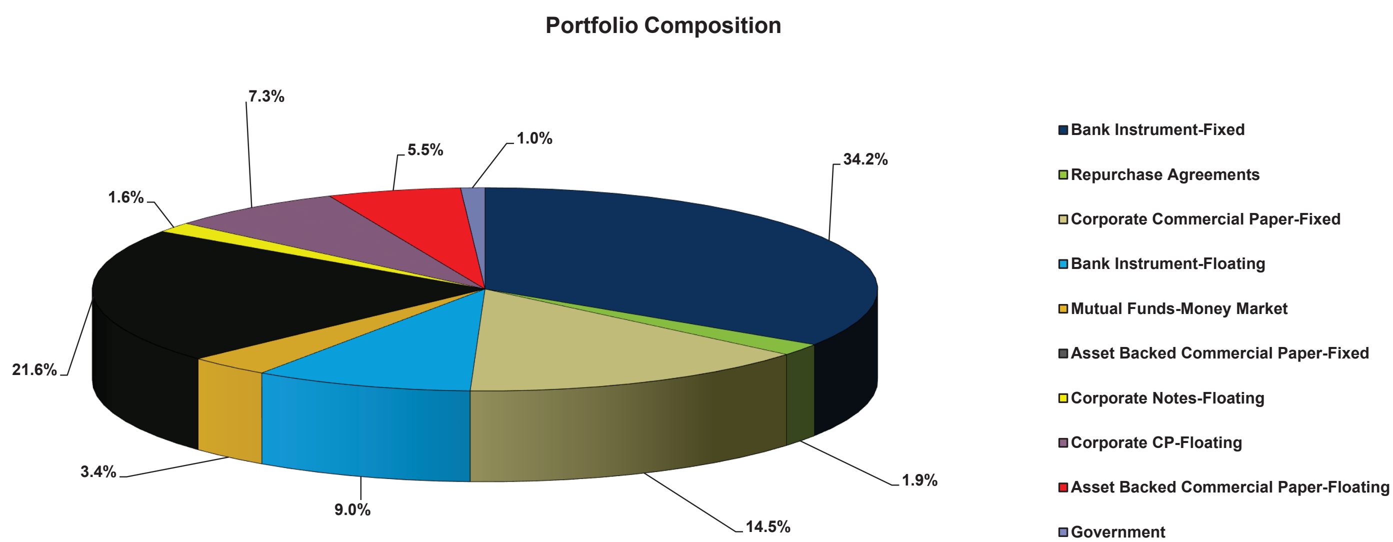
Bond Rating Analysis	
AAA	63.35%
AA	19.20
A	17.45
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

Florida PRIME Characteristics
Quarter Ending 6/30/2022

Cash Flows as of 6/30/2022	Second Quarter	Fiscal YTD*
Opening Balance	$20,212,390,210	17,441,698,421.00
Participant Deposits	$5,308,977,016	30,022,697,043.00
Gross Earnings	$42,001,332	66,351,604.00
Participant Withdrawals	($6,871,659,706)	($28,834,772,829)
Fees	($1,540,770)	($5,806,168)
Closing Balance (6/30/2022)	$18,690,168,082	$18,690,168,082
Change	**($1,522,222,128)**	**$1,248,469,661**

*Period July 2021 – June 2022

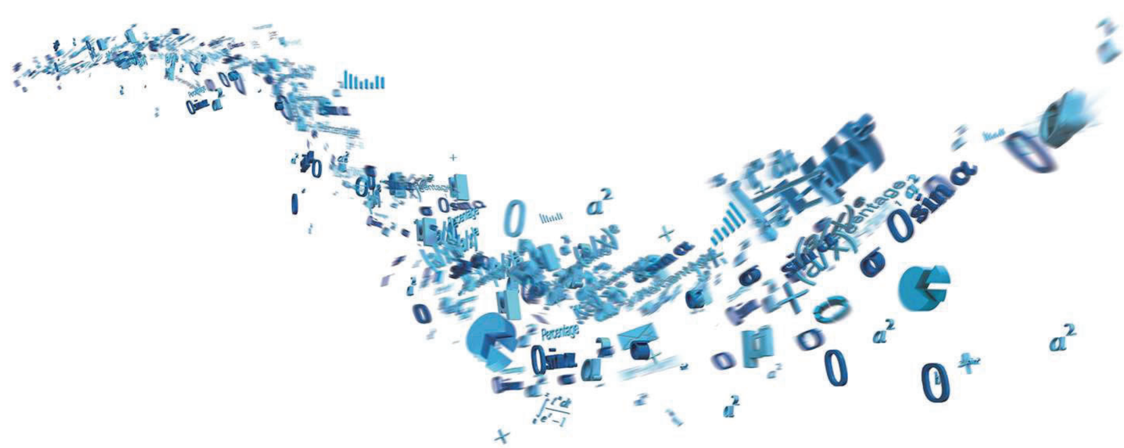
Florida PRIME Characteristics
Quarter Ending 6/30/2022



Florida PRIME Characteristics
Period Ending 6/30/2022

Effective Maturity Schedule	
1-7 Days	61.6%
8 - 30 Days	10.4%
31 - 90 Days	21.2%
91 - 180 Days	4.1%
181+ Days	2.7%
Total % of Portfolio:	**100.0%**

S & P Credit Quality Composition	
A-1+	55.9%
A-1	44.1%
Total % of Portfolio:	**100.0%**



FRS Pension Plan | Second Quarter 2022

Quarterly Investment Review

*Visit the **Investments Thought Leadership Site** (https://insights-north-america.aon.com/investment); sharing our best thinking.*

Visit our new video library with our views on key investment topics for this quarter using access code "aon!"
(https://site-494121.bcvp0rtal.com/category/videos/key-topics-by-investor-type)

Empower Results®

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Empower Results®

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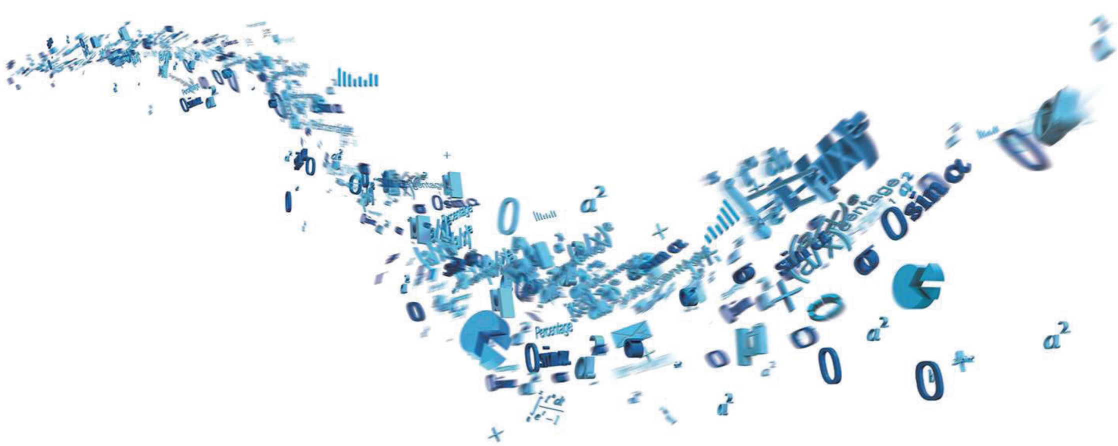
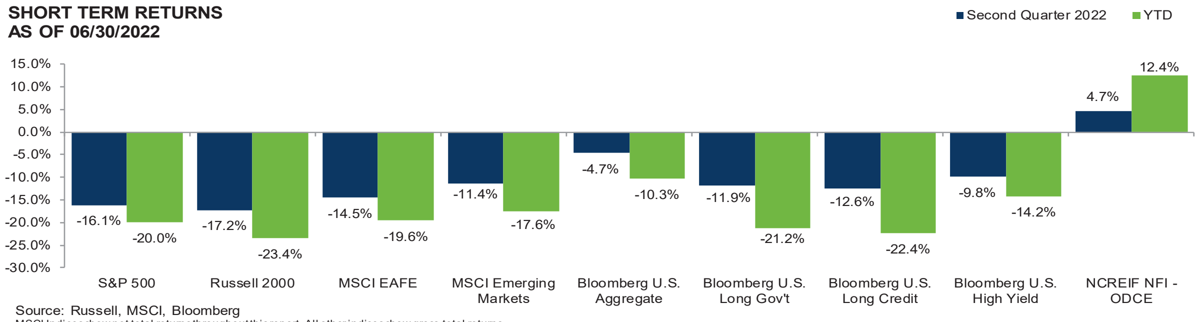
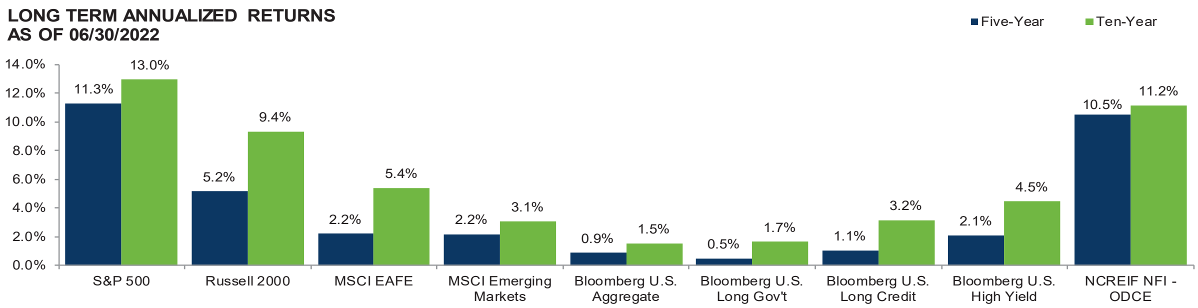


Market Environment

Market Highlights



Source: Russell, MSCI, Bloomberg
MSCI Indices show net total returns throughout this report. All other indices show gross total returns.



Source: Russell, MSCI, Bloomberg

Note: MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

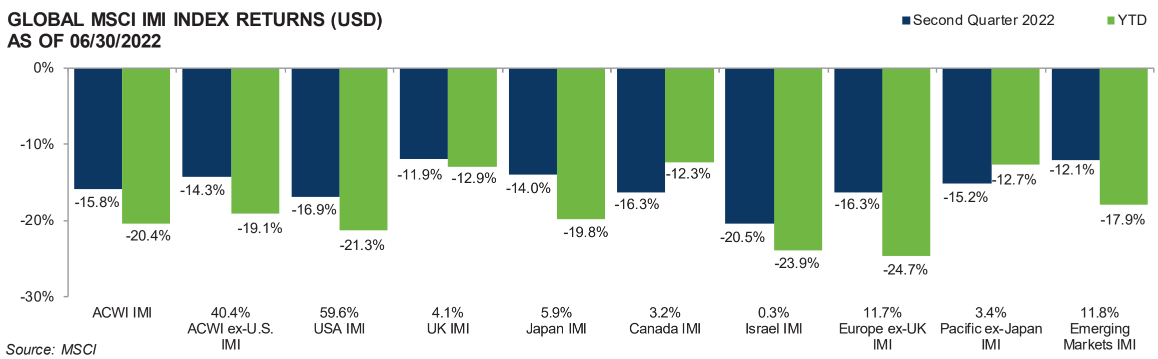
Market Highlights

Returns of the Major Capital Markets

Period Ending 06/30/2022	Second Quarter	YTD	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	-15.83%	-20.44%	-16.52%	5.98%	6.70%	8.71%
MSCI All Country World	-15.66%	-20.18%	-15.75%	6.21%	7.00%	8.76%
Dow Jones U.S. Total Stock Market	-16.84%	-21.33%	-14.24%	9.61%	10.48%	12.47%
Russell 3000	-16.70%	-21.10%	-13.87%	9.77%	10.60%	12.57%
S&P 500	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%
Russell 2000	-17.20%	-23.43%	-25.20%	4.21%	5.17%	9.35%
MSCI All Country World ex-U.S. IMI	-14.28%	-19.08%	-19.86%	1.55%	2.50%	5.01%
MSCI All Country World ex-U.S.	-13.73%	-18.42%	-19.42%	1.35%	2.50%	4.83%
MSCI EAFE	-14.51%	-19.57%	-17.77%	1.07%	2.20%	5.40%
MSCI EAFE (Local Currency)	-7.83%	-11.27%	-6.59%	4.37%	4.27%	8.33%
MSCI Emerging Markets	-11.45%	-17.63%	-25.28%	0.57%	2.18%	3.06%
Equity Factors						
MSCI World Minimum Volatility (USD)	-9.54%	-6.01%	-6.01%	3.58%	6.55%	9.01%
MSCI World High Dividend Yield	-8.48%	-8.06%	-3.32%	5.61%	6.40%	8.36%
MSCI World Quality	-16.80%	-23.79%	-15.83%	10.16%	11.43%	12.01%
MSCI World Momentum	-17.98%	-22.60%	-17.21%	6.97%	10.48%	11.72%
MSCI World Enhanced Value	-11.97%	-12.92%	-10.00%	3.69%	3.72%	7.91%
MSCI World Equal Weighted	-15.62%	-19.93%	-17.78%	3.23%	4.29%	8.11%
MSCI World Index Growth	-21.14%	-28.71%	-22.22%	8.67%	10.32%	11.42%
MSCI USA Minimum Volatility (USD)	-9.15%	-12.56%	-3.21%	6.34%	9.64%	11.65%
MSCI USA High Dividend Yield	-7.45%	-8.84%	-0.84%	7.16%	8.44%	11.19%
MSCI USA Quality	-16.19%	-23.60%	-15.21%	11.05%	13.11%	13.86%
MSCI USA Momentum	-18.02%	-24.04%	-20.02%	5.88%	10.32%	13.44%
MSCI USA Enhanced Value	-12.85%	-16.12%	-11.31%	6.67%	7.14%	11.66%
MSCI USA Equal Weighted	-16.45%	-20.57%	-15.25%	7.72%	8.62%	11.84%
MSCI USA Growth	-22.94%	-29.88%	-21.80%	12.43%	14.09%	14.69%
Fixed Income						
Bloomberg Global Aggregate	-8.26%	-13.91%	-15.25%	-3.22%	-0.55%	0.11%
Bloomberg U.S. Aggregate	-4.69%	-10.35%	-10.29%	-0.93%	0.88%	1.54%
Bloomberg U.S. Long Gov't	-11.89%	-21.20%	-18.42%	-2.94%	0.50%	1.65%
Bloomberg U.S. Long Credit	-12.59%	-22.40%	-21.36%	-2.44%	1.05%	3.17%
Bloomberg U.S. Long Gov't/Credit	-12.27%	-21.88%	-20.14%	-2.32%	1.03%	2.63%
Bloomberg U.S. TIPS	-6.08%	-8.92%	-5.14%	3.04%	3.21%	1.73%
Bloomberg U.S. High Yield	-9.83%	-14.19%	-12.81%	0.21%	2.10%	4.47%
Bloomberg Global Treasury ex U.S.	-11.44%	-17.19%	-19.67%	-5.89%	-2.12%	-1.46%
JP Morgan EMBI Global (Emerging Markets)	-10.55%	-18.83%	-19.25%	-4.33%	-1.00%	2.05%
Commodities						
Bloomberg Commodity Index	-5.66%	18.44%	24.27%	14.34%	8.39%	-0.82%
Goldman Sachs Commodity Index	2.01%	35.80%	45.05%	14.69%	11.67%	-1.83%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	-4.94%	-5.86%	-5.82%	6.10%	5.05%	4.96%
HFRI Fund of Funds[2]	-3.61%	-6.28%	-5.19%	4.05%	3.69%	3.78%
Real Estate						
NAREIT U.S. Equity REITS	-17.00%	-20.20%	-6.27%	4.00%	5.30%	7.39%
NCREIF NFI - ODCE	4.70%	12.42%	29.50%	12.66%	10.54%	11.16%
FTSE Global Core Infrastructure Index	-8.64%	-5.37%	2.88%	5.73%	7.78%	9.06%
Private Equity						
Burgiss Private iQ Global Private Equity[3]			35.76%	25.94%	21.26%	16.77%

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.
[1] Periods are annualized.
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.
[3] Burgiss Private iQ Global Private Equity data is as of September 30, 2021

Global Equity Markets

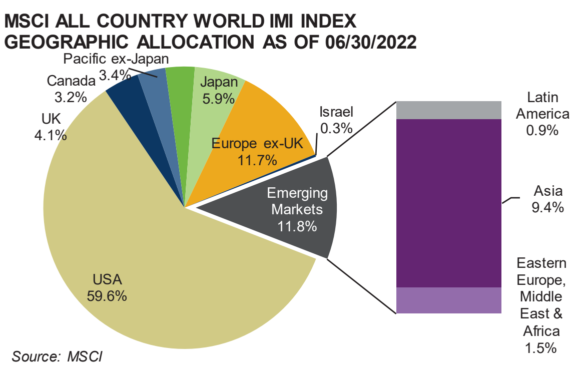


Source: MSCI

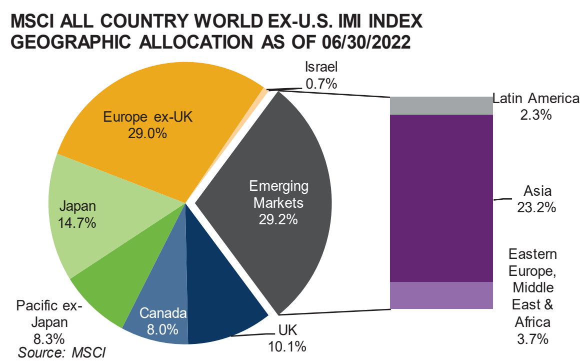
- In Q2 2022 capital markets were dominated by geopolitical uncertainty and higher interest rates amidst soaring inflation. Volatility remained elevated throughout the quarter. U.S. equities were sharply down over the quarter with major equity indices entering correction territory. The MSCI All Country World Investable Market Index (ACWI IMI) returned -15.8% for the quarter and was down 20.4% on a year-to-date basis.
- Across international markets, all the regions were weak over the quarter, with almost all major equity regions posting double-digit losses.
- Europe ex-UK equities were the second worst regional performer with a return of -16.3% due to Europe's proximity and exposure to the fallout from the Russia-Ukraine conflict.
- Emerging Markets returned -12.1% for the second quarter with Brazilian and Korean equities weighing on the region. The Biden administration has put five Chinese companies on an export blacklist for supporting Russian military and defence companies. Meanwhile, the U.S. cabinet has not reached a consensus on the issue of removing Trump-era tariffs on Chinese imports.

Global Equity Markets

Below is the country/region breakdown 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.



Source: MSCI

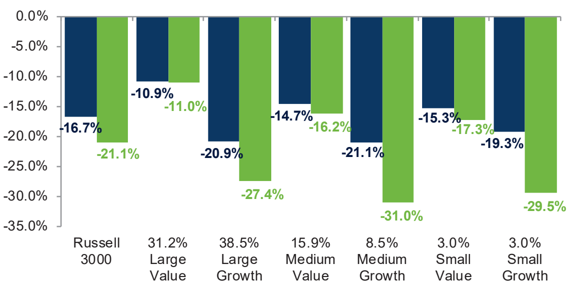


Source: MSCI

U.S. Equity Markets

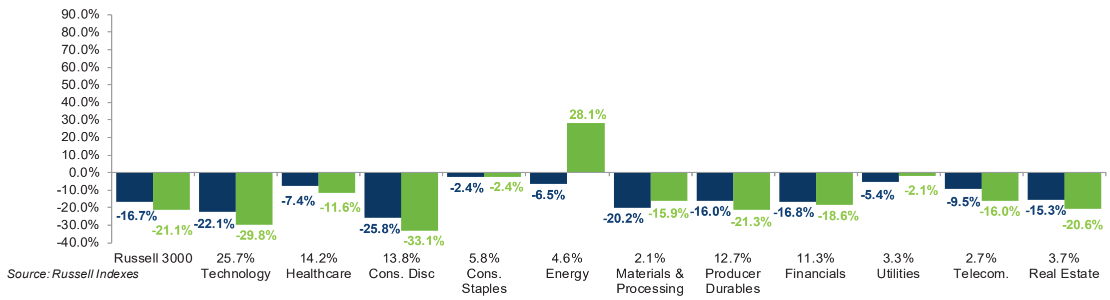
- U.S. equities had a weak quarter with the S&P 500 index falling by 16.1%.
- The Russell 3000 Index fell 16.7% during the second quarter and was down 21.1% on a year-to-date basis. Performance among sectors was negative. Consumer Staples and Utilities were the best performers while the Consumer Discretionary and Technology sectors were the worst performers.
- Large cap stocks have outperformed medium cap stocks over the quarter. On a style basis, value outperformed growth across market capitalizations over the quarter and on a year-to-date basis.

RUSSELL STYLE RETURNS AS OF 06/30/2022



Source: Russell Indexes

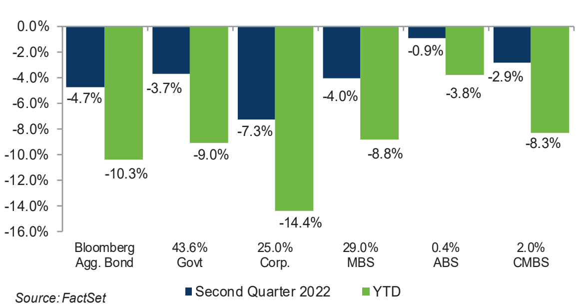
RUSSELL SECTOR RETURNS AS OF 06/30/2022



Source: Russell Indexes

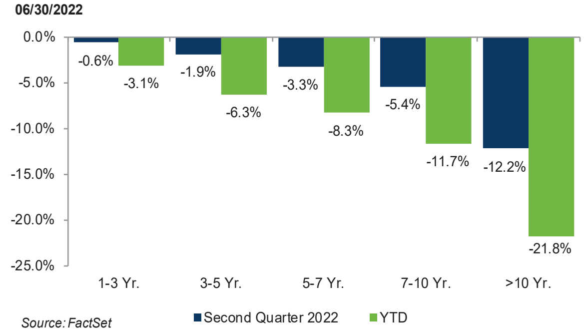
U.S. Fixed Income Markets

BLOOMBERG AGGREGATE RETURNS BY SECTOR AS OF 06/30/2022



Source: FactSet

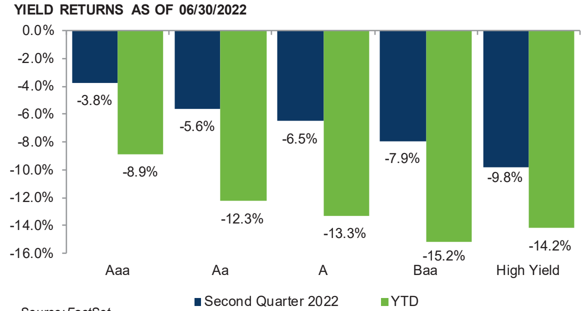
BLOOMBERG AGGREGATE RETURNS BY MATURITY AS OF 06/30/2022



Source: FactSet

- The Bloomberg U.S. Aggregate Bond Index was down 4.7% over the quarter and 10.3% on a year-to-date basis.
- Across durations, all maturities finished the quarter in negative territory.
- Within investment-grade bonds, lower-credit quality underperformed higher-quality issues, with Baa bonds falling by 7.9%. High-yield bonds fell by 9.8%.

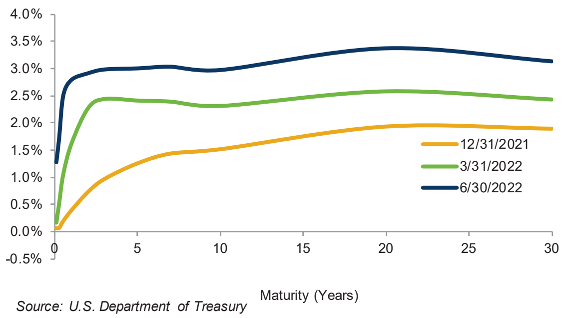
BLOOMBERG AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 06/30/2022



Source: FactSet

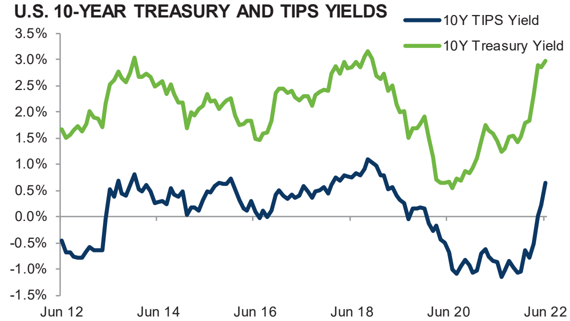
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS

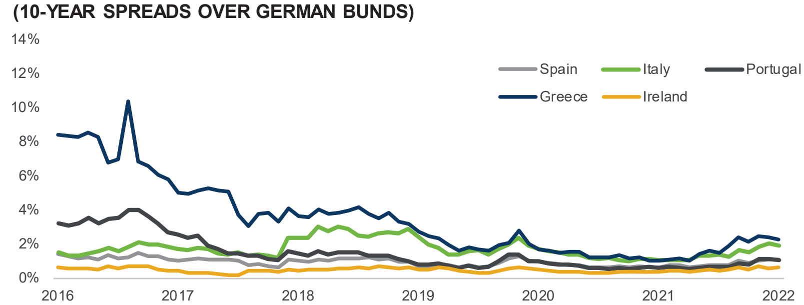


Source: U.S. Department of Treasury

- U.S. Treasury yields saw notable increases across the maturities which moved the yield curve upwards over the quarter. The 10-year Treasury yield was up 66bps to 2.98%, and the 30-year Treasury yield was up 70bps to 3.14% over the quarter.
- As expected, the U.S. Federal Reserve (Fed) increased its benchmark interest rate by 75bps to a range of 1.50–1.75%, the largest rate increase since 1994. Fed chair Jay Powell indicated that a rate hike of 50bps or 75bps is also imminent at the July meeting. According to the median estimate on the Fed dot plot, officials expect the interest rate to reach 3.4% by the end of the year. The Fed announced its plans to shrink its $9 trillion balance sheet in a phased manner by stopping the reinvestment of proceeds from maturing securities from June. The Fed will allow $30 billion of Treasuries and $17.5 billion of mortgage-backed securities (MBS) to mature every month from June. After three months, this pace will increase to $60 billion in Treasuries and $35 billion in MBS.
- Inflation remained elevated as energy and food prices accelerated sharply due to supply-chain disruptions, which have been exacerbated by Russia's invasion of Ukraine. The U.S. annual consumer price index (CPI) remained at a 40-year high as it rose 8.6% year on year in May.
- The 10-year TIPS yield rose by 117bps over the quarter to 0.65%.

European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS
(10-YEAR SPREADS OVER GERMAN BUNDS)



Source: FactSet

- European government bond spreads over 10-year German bunds widened across the Euro Area. The European Central Bank (ECB) president Christine Lagarde signaled that the central bank might raise rates by 50bps in September "if the inflation outlook persists or deteriorates", in addition to a planned 25bps hike in July. However, later in the quarter, the ECB held an emergency meeting to tackle the issue of widening spreads between the bond yields of core and peripheral Eurozone countries after the yields of countries like Italy and Spain touched their highest level in eight years. The ECB indicated that it would flexibly invest the proceeds from its €1.7tn asset purchase program to support peripheral countries with wider spreads.
- German government bund yields rose sharply, up 83bps to 1.38% over the quarter.
- Eurozone inflation hit an all-time high of 8.6% over the year to June.

Credit Spreads

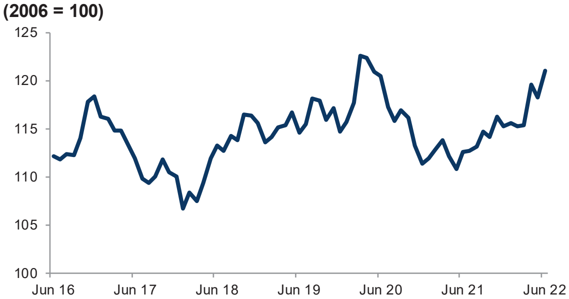
Spread (bps)	06/30/2022	03/31/2022	12/31/2021	Quarterly Change (bps)	YTD Change (bps)
U.S. Aggregate	55	41	36	14	19
Long Gov't	-1	3	0	-4	-1
Long Credit	184	155	130	29	54
Long Gov't/Credit	101	88	74	13	27
MBS	46	24	31	22	15
CMBS	101	85	68	16	33
ABS	75	57	38	18	37
Corporate	155	116	92	39	63
High Yield	569	325	283	244	286
Global Emerging Markets	404	313	285	91	119

Source: FactSet, Bloomberg

- Credit markets declined from risk-averse sentiment during the quarter, with spreads widening.
- High Yield and Global Emerging Markets spreads increased by 244bps and 91bps, respectively.

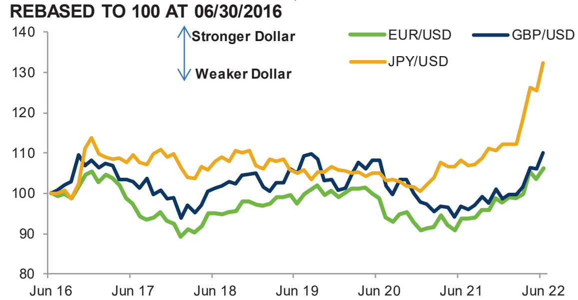
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX (2006 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY REBASED TO 100 AT 06/30/2016

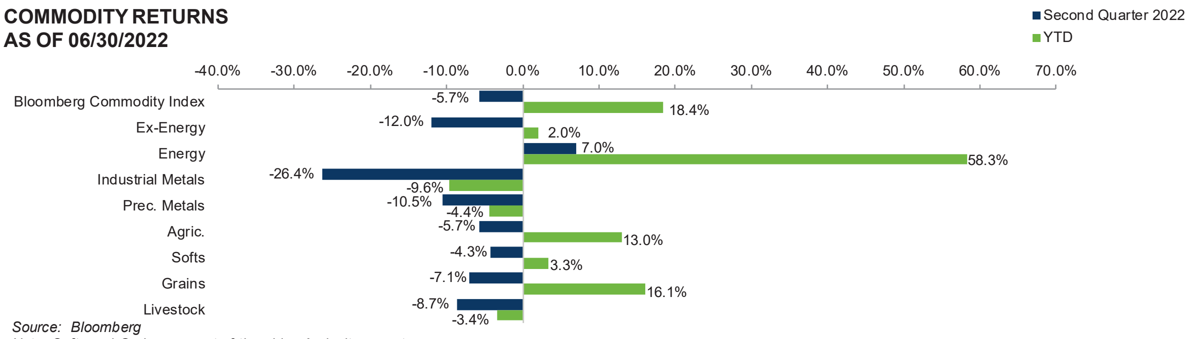


Source: FactSet

- The U.S. Dollar strengthened against all major currencies over the quarter. On a trade-weighted basis, the U.S. dollar appreciated by 4.9%.
- The Sterling depreciated by 8.4% against the U.S. dollar. The Bank of England increased its benchmark interest rate for the second time this quarter, with the policy rate sitting at 1.25%, its highest level in 13 years.
- The U.S. dollar appreciated by 6.4% against the Euro.
- The US dollar appreciated by 11.9% against the yen as the Bank of Japan is still maintaining its ultra-loose monetary policy stance as compared to the current monetary tightening stance of other major central banks.

Commodities

COMMODITY RETURNS
AS OF 06/30/2022

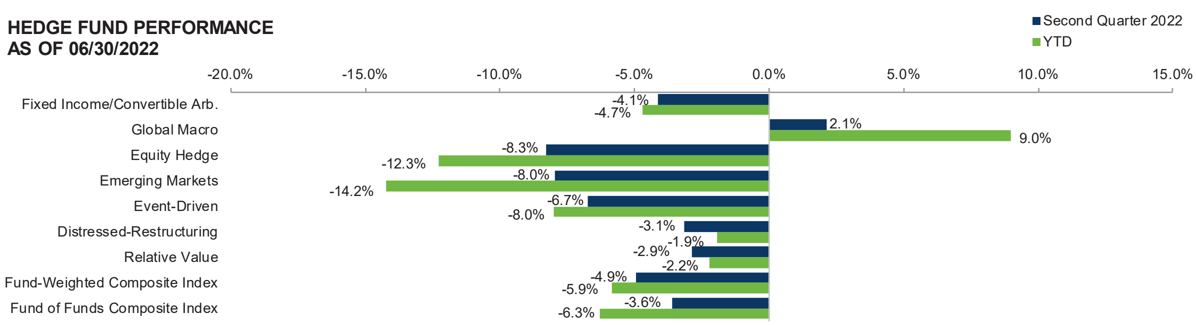


Source: Bloomberg
Note: Softs and Grains are part of the wider Agriculture sector

- Commodity prices were pegged back later in the quarter, after rising for two consecutive months, with the Bloomberg Commodity Index falling by 5.7% for the quarter.
- Energy continued to have outsized gains, with the sector up 7.0% over the quarter and 58.3% on a year-to-date basis. The price of Brent crude oil rose by 6.4% to $115/bbl while WTI crude oil spot prices rose by 5.5% to $106/bbl over the quarter.
- Industrial Metals fell the most over the quarter at -26.4%.
- Meanwhile, OPEC+ agreed to a larger than expected oil production increase due to surging energy prices. The group decided to increase production by 648,000 barrels per day for July and August.

Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE
AS OF 06/30/2022

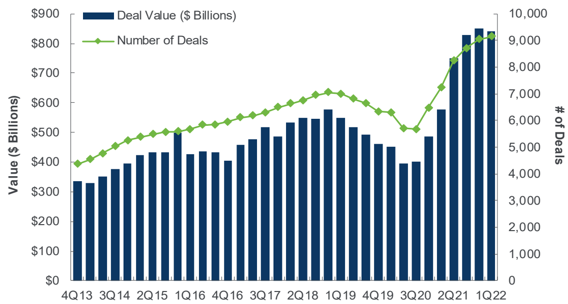


Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.
Source: HFR

- Hedge fund performance was generally negative over the quarter, with only the Global Macro strategy outperforming.
- The HFRI Fund-Weighted Composite and HFRI Fund of Funds Composite Index produced returns of -4.9% and -3.6% over the quarter, respectively.
- Over the quarter, Global Macro was the only one to generate positive returns with returns of 2.1%.
- Equity Hedge and Emerging Markets strategies were the worst performers with returns of -8.3% and -8.0% respectively.
- On a year-to-date basis, all strategies, except for Global Macro, were negative.

Private Equity Market Overview—First Quarter 2022

LTM Global Private Equity-Backed Buyout Deal Volume

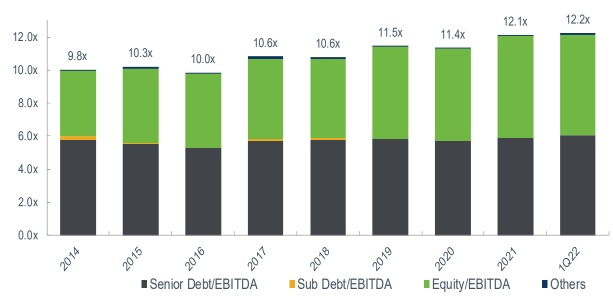


Source: Preqin

- **Venture:** During the quarter, an estimated 3,723 venture-backed transactions totaling $70.7 billion were completed, which was a decrease on a capital and deal count basis over the prior quarter's total of $95.4 billion across 4,098 deals. This was an increase of 59.6% compared to the five-year quarterly average of $44.3 billion. Total U.S. venture-backed exit value totaled approximately $33.6 billion across an estimated 430 completed transactions in Q1 2022, down substantially from $192.5 billion across 537 exits in Q4 2021.
- **Mezzanine:** 6 funds closed on $10.7 billion during the quarter. This was a significant increase from the prior quarter's total of $1.6 billion raised by 7 funds and represented 80.6% of capital raised in full year 2021. Estimated dry powder was $50.0 billion at the end of Q1 2022, up from $48.3 billion at the end of 2021.
- **Fundraising:** During Q1 2022, $270.1 billion was raised by 482 funds, which was roughly equal to capital raised in Q4 2021 but 8.8% lower than capital raised in Q1 2021. Dry powder stood at $2.8 trillion at the end of the quarter, an increase of 0.9% and 28.5% compared to year-end 2021 and the five-year average, respectively.
- **Buyout:** Global private equity-backed buyout deals totaled $191.6 billion in Q1 2022, which was a decrease on a capital basis of 11.3% compared to Q4 2021, but an increase of 33.9% compared to the five-year quarterly average. At the end of Q1 2022, the average purchase price multiple for all U.S. LBOs was 12.2x EBITDA, up from year-end 2021's average of 11.4x and up from the five-year average (11.1x). Large cap purchase price multiples stood at 12.2x, up compared to Q4 2021 level's of 11.2x. The average purchase price multiple across European transactions greater than €1B averaged 11.6x EBITDA at the end of Q1 2022, equal to the multiple seen at year-end 2021. Purchase prices for transactions of €500M million or more remained stable at 11.5x EBITDA, equal to that seen at the end of 2021. Globally, exit value totaled $110.4 billion on 570 deals during the quarter, significantly lower than the $254.3 billion across 839 deals during Q4 2021.

Private Equity Market Overview—First Quarter 2022

U.S. LBO Purchase Price Multiples—All Transactions Sizes

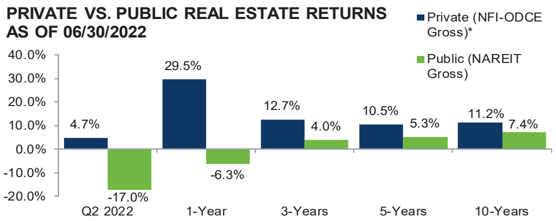


Source: S&P

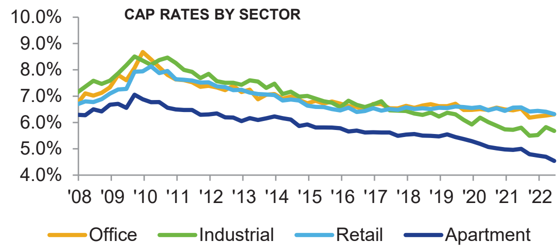
- **Distressed Debt:** The LTM U.S. high-yield default rate was 0.5% as of March 2022, which was in line with December 2021's LTM rate of 0.5%.4 The high-yield default rate is projected to trend higher through 2022. During the quarter, $3.9 billion was raised by 7 funds, down significantly from the $13.2 billion raised by 30 funds during Q4 2021. Dry powder was estimated at $145.3 billion at the end of Q1 2022, which was down 8.3% from year-end 2021. This remained above the five-year annual average level of $130.5 billion.
- **Secondaries:** 14 funds raised $5.3 billion during the quarter, down slightly from the $5.8 billion raised by 14 funds in Q4 2021. This was 50.1% lower than the five-year quarterly average of 10.6 billion.
- **Infrastructure:** $69.7 billion of capital was raised by 20 funds in Q1 2022 compared to $36.7 billion of capital raised by 24 partnerships in Q4 2021. At the end of the quarter, dry powder stood at $330.9 billion, up from last year's record of $313.0 billion. Infrastructure managers completed 566 deals for an aggregate deal value of $72.5 billion in Q1 2022 compared to 733 deals totaling $181.0 billion in Q4 2021.
- **Natural Resources:** During Q1 2022, an estimated 5 funds closed on $0.4 billion compared to 28 funds totaling $14.4 billion in 2021. Energy and utilities industry managers completed 55 deals totaling $33.0 billion in Q1 2022, compared to $34.7 billion across 223 deals in 2021.

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



*Second quarter returns are preliminary
Sources: NCREIF, FactSet



Sources: RCA, AON 6/30/2022

- U.S. Core Real Estate returned 7.4%* in first quarter 2022, equating to a 28.5% total gross return year-over-year. Townsend witnessed a robust recovery across the US economy and US real estate markets in 2021, with a continuation through the first quarter of 2022. Real estate capital markets are highly liquid and competitive for in vogue sectors but have also been surprisingly strong for less favored sectors. Capital raising has exceeded pre-pandemic levels and even exceeded historical highs, resulting in a continued build up of dry powder in the market.
- Global property markets, as measured by the FTSE EPRA/NAREIT Developed Real Estate Index, returned -3.8% (USD) in aggregate during the first quarter and experienced a cumulative increase of 15.4% over the trailing 1-year period. REIT market performance was driven by Asia Pacific (-0.8% USD), North America (-3.9% USD), and Europe (-7.1% USD). The U.S. REIT markets (FTSE NAREIT Equity REITs Index) returned -3.9% in the first quarter. The U.S. 10-year treasury bond yields steepened to 2.3% during the quarter, an increase of 80 basis points over year-end 2021.
- In first quarter 2022, deal volumes across all sectors moderated from a historic high in fourth quarter 2021. The demand for modern logistics networks has outpaced development and now low-single-digit vacancy rates are common across major markets in the US. A mismatch of supply and demand is driving strong rent growth in the industrial sector, as e-commerce still only accounts for approximately 15% of retail sales and is forecasted to grow at close to 10% per annum between 2022-2025. Significant demand combined with an undersupply of modern assets continues to support the development modern logistics properties and refurbishment of well-located older product.
- The strong global economic rebound has stoked inflation beyond economists' expectations and persistent supply chain disruption has been slow to resolve. Commercial real estate construction has been particularly impacted by supply chain disruption and witnessed material prices increases well beyond CPI. Key materials inputs for commercial and residential construction have seen substantial price increases, including Lumber, Copper, and Steel. Real estate provides an inflationary hedge, and the trend is already prevalent in industrial, apartment, and life sciences in terms of rising rent growth. However, not all sectors will benefit from hedge. Office fundamentals likely to remain weak in the near-term
- Townsend has identified high conviction investment themes that are predicated on secular growth trends and strong underlying real estate market fundamentals. These investment themes have commonalities such as anticipated tenant demand growth, natural barriers to supply, and operating complexity that are anticipated to persist medium to long-term.

*Indicates preliminary NFI-ODCE data gross of fees

Total Fund

As of June 30, 2022

Highlights

Executive Summary

- The Total Fund outperformed the Performance Benchmark over the trailing quarter, one-, three-, five-, and ten-year 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 Investments 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

- The Total Fund outperformed the Performance Benchmark over the trailing quarter, one-, three-, five-, and ten-year periods.

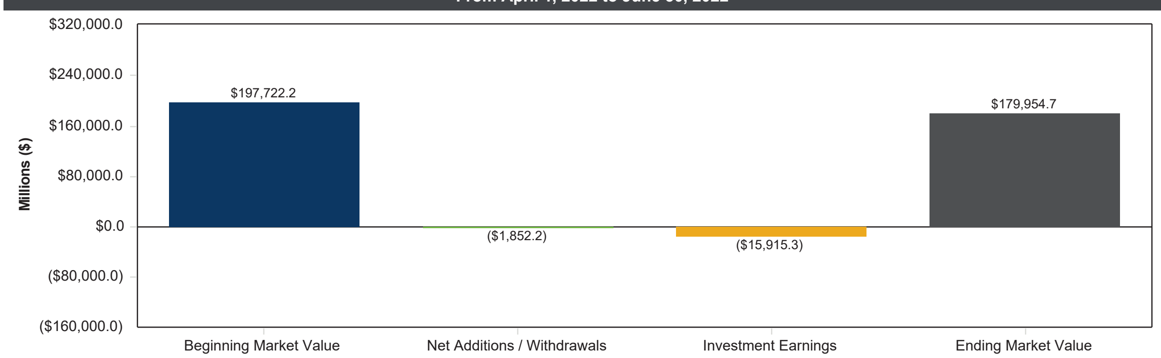
Asset Allocation

- The Fund assets total $180.0 billion as of June 30, 2022, which represents a $17.8 billion decrease since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges and in line with the current policy at quarter-end.

Total Fund **As of June 30, 2022**

Total Plan Asset Summary

Change in Market Value
From April 1, 2022 to June 30, 2022



Summary of Cash Flow

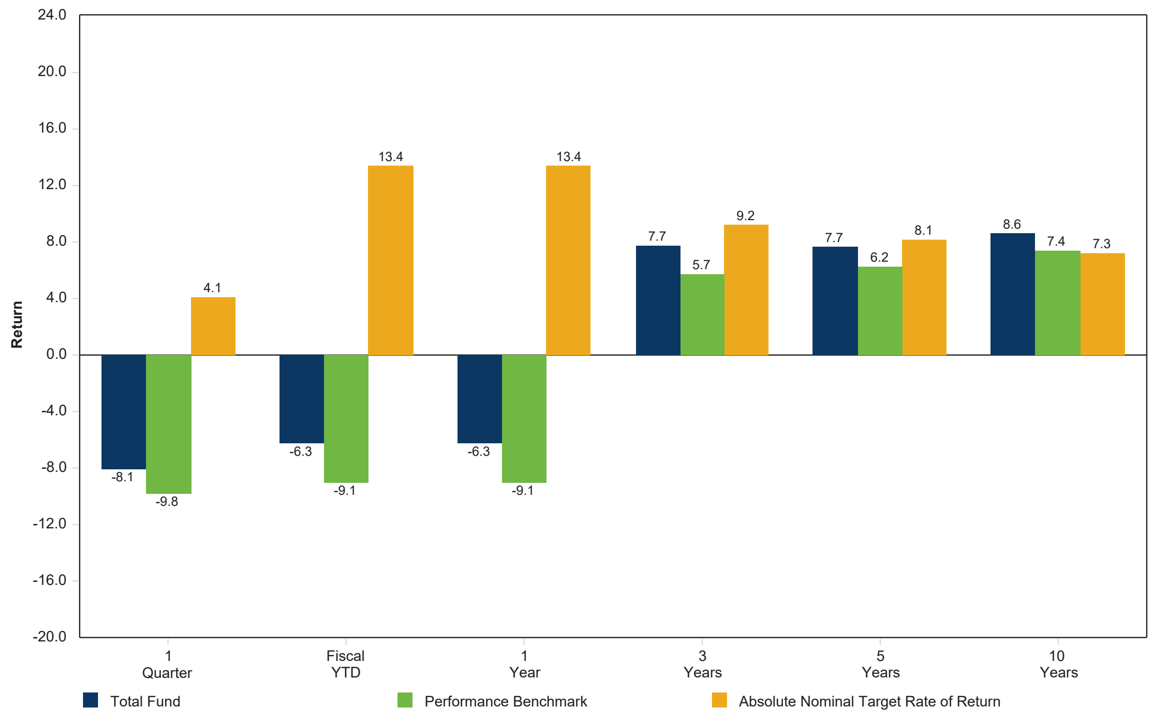
	1 Quarter	Fiscal YTD*
Beginning Market Value	197,722,178,265	199,600,498,385
+ Additions / Withdrawals	-1,852,161,469	-7,662,775,551
+ Investment Earnings	-15,915,306,231	-11,983,012,269
= Ending Market Value	**179,954,710,565**	**179,954,710,565**

*Period July 2021 - December 2021

Total Fund As of June 30, 2022

Total Plan Performance Summary

Return Summary



As of June 30, 2022

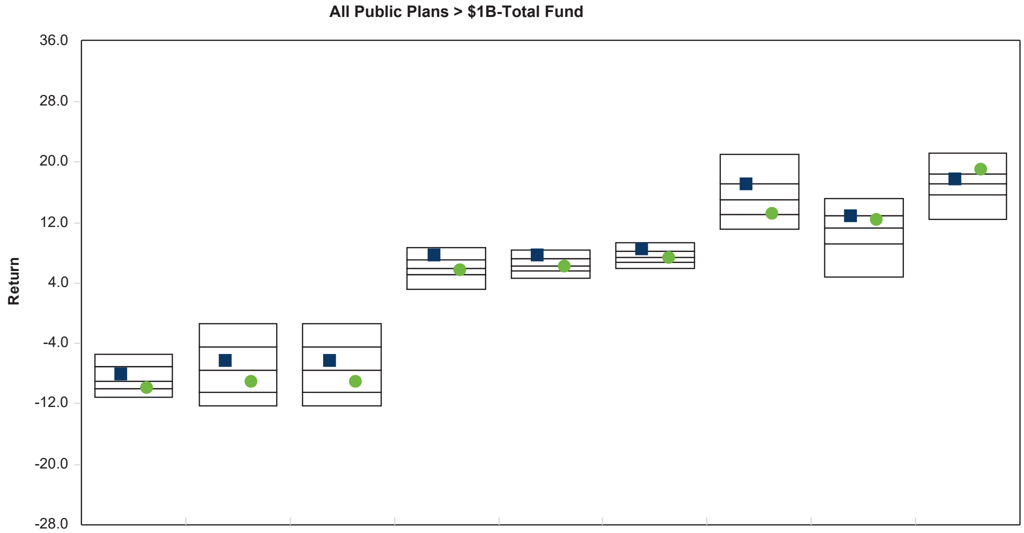
Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value ($)	%	Policy(%)	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years
Total Fund	179,954,710,565	100.0	100.0	-8.1 (42)	-6.3 (39)	-6.3 (39)	7.7 (19)	7.7 (16)	8.6 (10)
Performance Benchmark				*-9.8 (72)*	*-9.1 (63)*	*-9.1 (63)*	*5.7 (57)*	*6.2 (54)*	*7.4 (54)*
Absolute Nominal Target Rate of Return				*4.1 (1)*	*13.4 (1)*	*13.4 (1)*	*9.2 (5)*	*8.1 (10)*	*7.3 (61)*
Global Equity*	87,054,270,836	48.4	49.8	-15.6	-17.1	-17.1	6.2	7.0	9.3
Asset Class Target				*-15.9*	*-16.5*	*-16.5*	*6.0*	*6.7*	*8.7*
Domestic Equities	43,740,487,261	24.3		-16.6	-13.4	-13.4	9.8	10.6	12.5
Asset Class Target				*-16.7*	*-13.9*	*-13.9*	*9.8*	*10.6*	*12.6*
Foreign Equities	30,260,265,997	16.8		-14.3	-22.6	-22.6	2.1	2.9	5.8
Asset Class Target				*-14.4*	*-19.8*	*-19.8*	*1.6*	*2.5*	*5.1*
Global Equities	10,907,622,904	6.1		-14.5	-15.4	-15.4	5.0	6.5	8.9
Benchmark				*-16.0*	*-15.0*	*-15.0*	*6.7*	*7.5*	*9.3*
Fixed Income	31,832,243,569	17.7	18.0	-3.1	-8.0	-8.0	-0.3	1.1	1.6
Asset Class Target				*-2.9*	*-7.9*	*-7.9*	*-0.6*	*0.9*	*1.3*
Private Equity	18,379,595,649	10.2	9.9	1.6	24.2	24.2	29.3	23.9	18.8
Asset Class Target				*-14.8*	*-13.5*	*-13.5*	*9.1*	*9.8*	*12.3*
Real Estate	20,323,896,609	11.3	10.8	3.5	22.4	22.4	10.5	9.2	10.9
Asset Class Target				*4.5*	*22.9*	*22.9*	*9.6*	*8.6*	*9.7*
Strategic Investments	20,110,127,071	11.2	10.6	1.3	7.8	7.8	8.1	7.4	8.4
Short-Term Target				*-1.4*	*4.0*	*4.0*	*7.0*	*6.5*	*6.4*
Cash	2,254,576,833	1.3	1.0	0.2	0.2	0.2	0.6	1.1	0.7
Bank of America Merrill Lynch 3-Month US Treasury Index				*0.1*	*0.2*	*0.2*	*0.6*	*1.1*	*0.6*

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 June 30, 2022

Plan Sponsor Peer Group Analysis



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2021	2020	2019
■ Total Fund	-8.1 (42)	-6.3 (39)	-6.3 (39)	7.7 (19)	7.7 (16)	8.6 (10)	17.2 (26)	12.9 (26)	17.8 (32)
● Performance Benchmark	-9.8 (72)	-9.1 (63)	-9.1 (63)	5.7 (57)	6.2 (54)	7.4 (54)	13.3 (73)	12.4 (34)	19.1 (18)
5th Percentile	-5.3	-1.4	-1.4	8.7	8.4	9.4	21.0	15.2	21.2
1st Quartile	-7.0	-4.4	-4.4	7.0	7.2	8.2	17.2	13.0	18.4
Median	-8.9	-7.6	-7.6	6.0	6.3	7.5	15.0	11.3	17.1
3rd Quartile	-9.9	-10.5	-10.5	5.2	5.6	6.8	13.1	9.2	15.6
95th Percentile	-11.1	-12.2	-12.2	3.1	4.7	6.0	11.2	4.8	12.4
Population	64	63	63	61	61	58	133	158	159

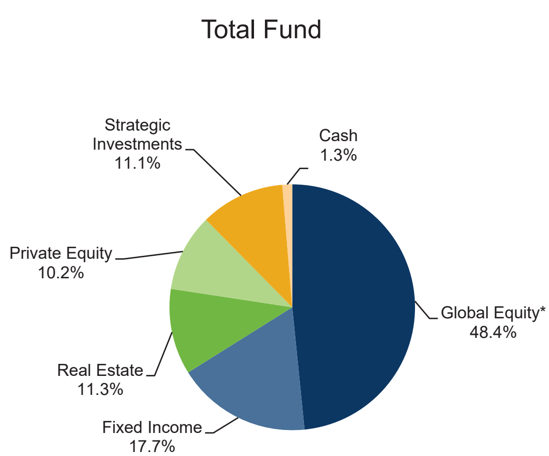
Parentheses contain percentile rankings.

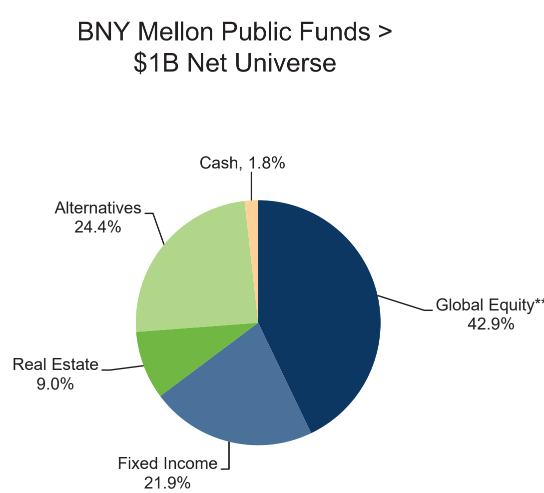
AON Empower Results®

Total Fund

As of June 30, 2022

Universe Asset Allocation Comparison





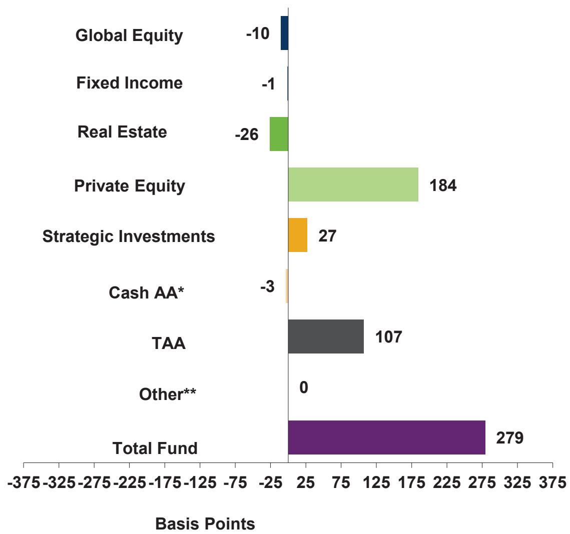
*Global Equity Allocation: 24.3% Domestic Equities; 16.8% Foreign Equities; 6.1% Global Equities; 1.2% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

**Global Equity Allocation: 27.6% Domestic Equities; 15.2% Foreign Equities.

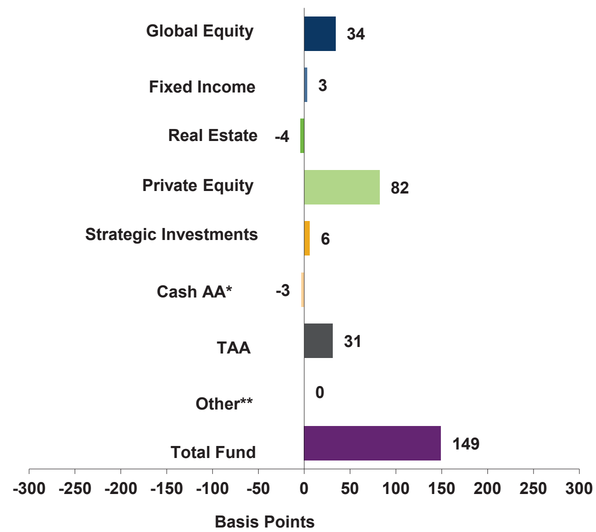
AON Empower Results®

Total Fund As of June 30, 2022

Attribution



1-Year Ending 6/30/2022



5-Year Ending 6/30/2022

*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.

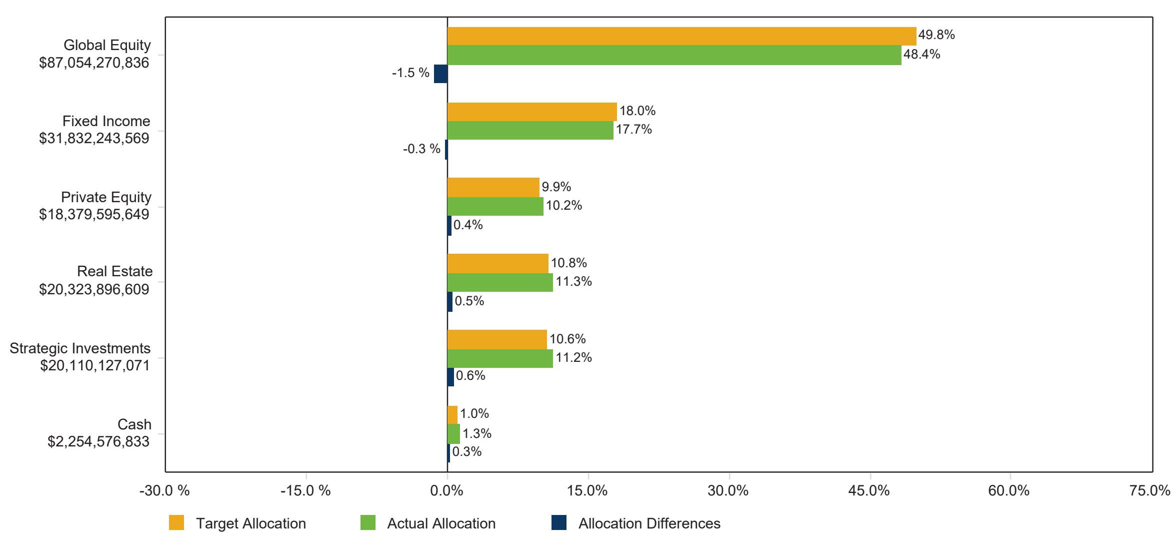
**Other includes legacy accounts and unexplained differences due to methodology.

Empower Results®

Total Fund As of June 30, 2022

Asset Allocation Compliance

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	179,954,710,565	100.0	100.0		
Global Equity	87,054,270,836	48.4	49.8	45.0	70.0
Fixed Income	31,832,243,569	17.7	18.0	10.0	26.0
Private Equity	18,379,595,649	10.2	9.9	2.0	10.0
Real Estate	20,323,896,609	11.3	10.8	4.0	16.0
Strategic Investments	20,110,127,071	11.2	10.6	0.0	16.0
Cash	2,254,576,833	1.3	1.0	0.3	5.0



Empower Results®

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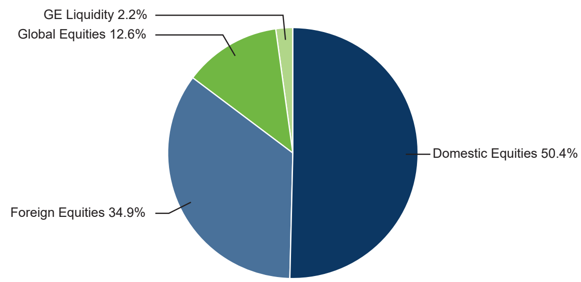
Global Equity

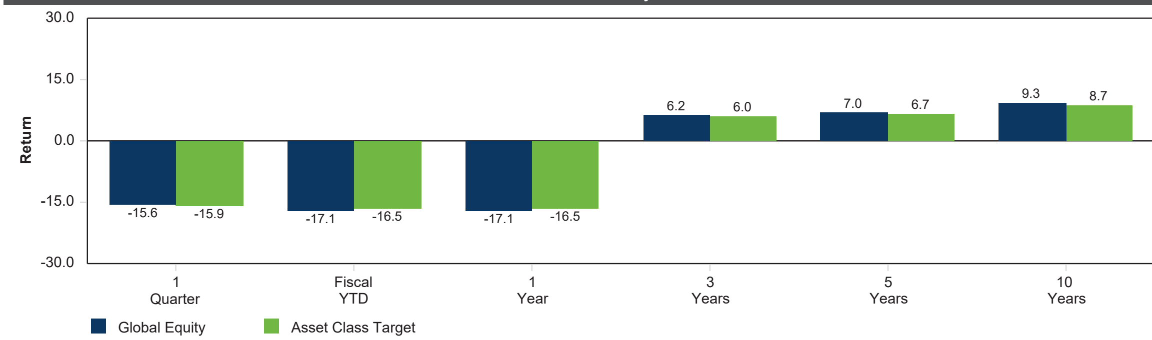
Global Equity* Portfolio Overview

Current Allocation

June 30, 2022 : $86,812M

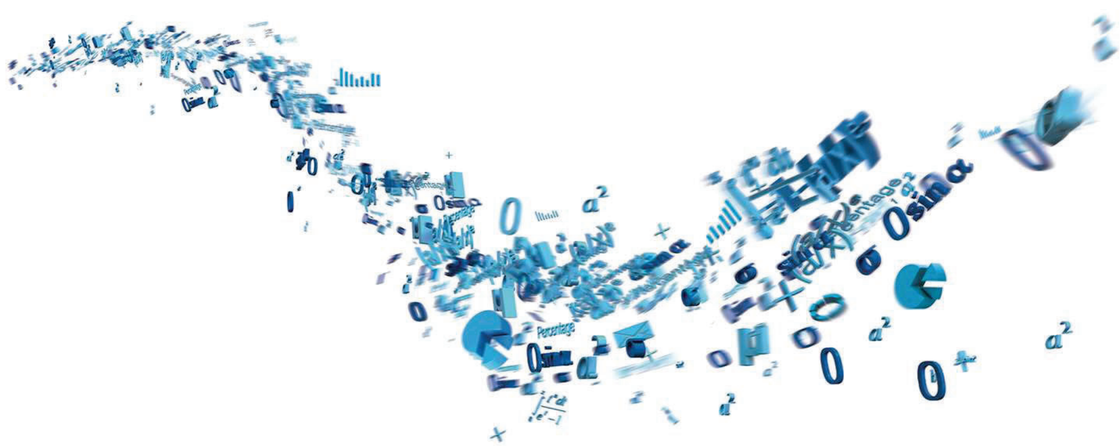


Return Summary



* 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.

Empower Results®



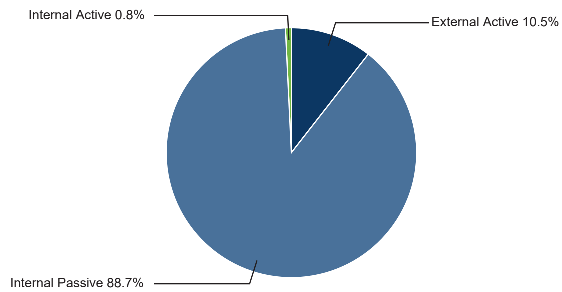
Domestic Equities

Empower Results®

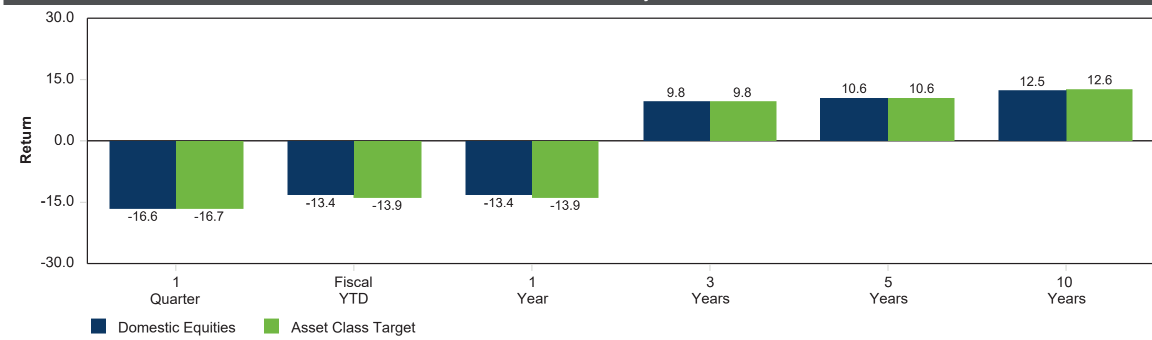
Domestic Equities Portfolio Overview

Current Allocation

June 30, 2022 : $43,740M

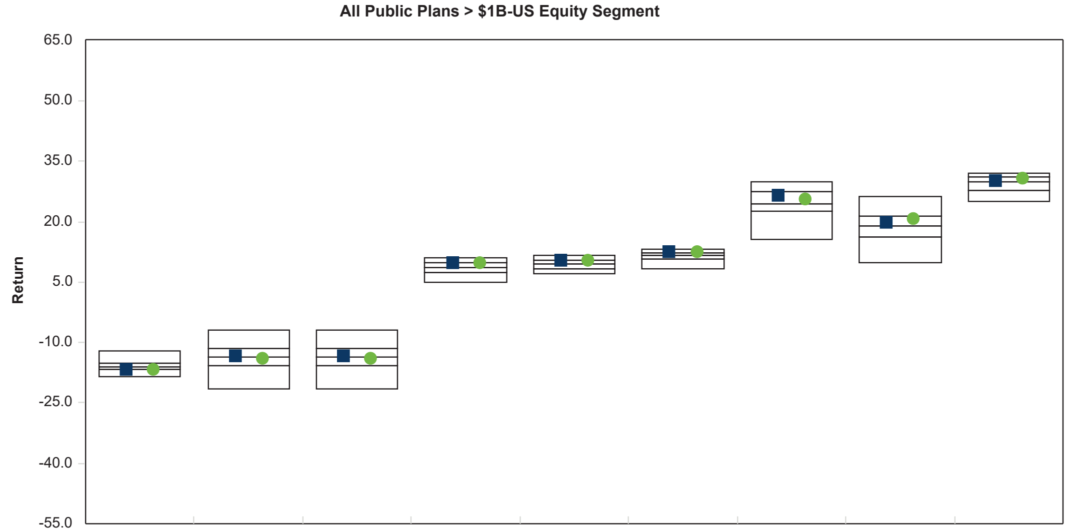


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > $1B-US Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2021	2020	2019
■ Domestic Equities	-16.6 (71)	-13.4 (46)	-13.4 (46)	9.8 (27)	10.6 (21)	12.5 (20)	26.6 (30)	19.9 (40)	30.4 (38)
● Asset Class Target	-16.7 (74)	-13.9 (52)	-13.9 (52)	9.8 (25)	10.6 (21)	12.6 (19)	25.7 (38)	20.9 (29)	31.0 (28)
5th Percentile	-12.2	-7.0	-7.0	11.0	11.7	13.1	30.0	26.4	32.2
1st Quartile	-15.1	-11.4	-11.4	9.8	10.3	12.4	27.5	21.5	31.2
Median	-16.0	-13.7	-13.7	8.6	9.4	11.7	24.3	18.9	30.1
3rd Quartile	-16.7	-15.6	-15.6	7.4	8.2	10.8	22.6	16.1	27.7
95th Percentile	-18.6	-21.4	-21.4	5.0	7.2	8.4	15.7	10.0	25.0
Population	53	52	52	44	40	30	56	55	52

Parentheses contain percentile rankings.

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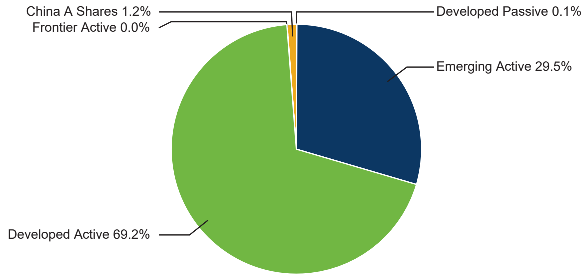
Foreign Equities

Foreign Equities As of June 30, 2022

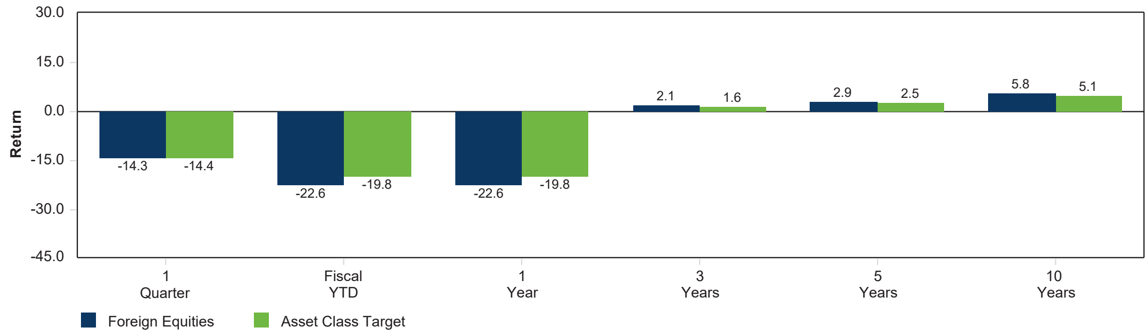
Foreign Equities Portfolio Overview

Current Allocation

June 30, 2022 : $30,260M



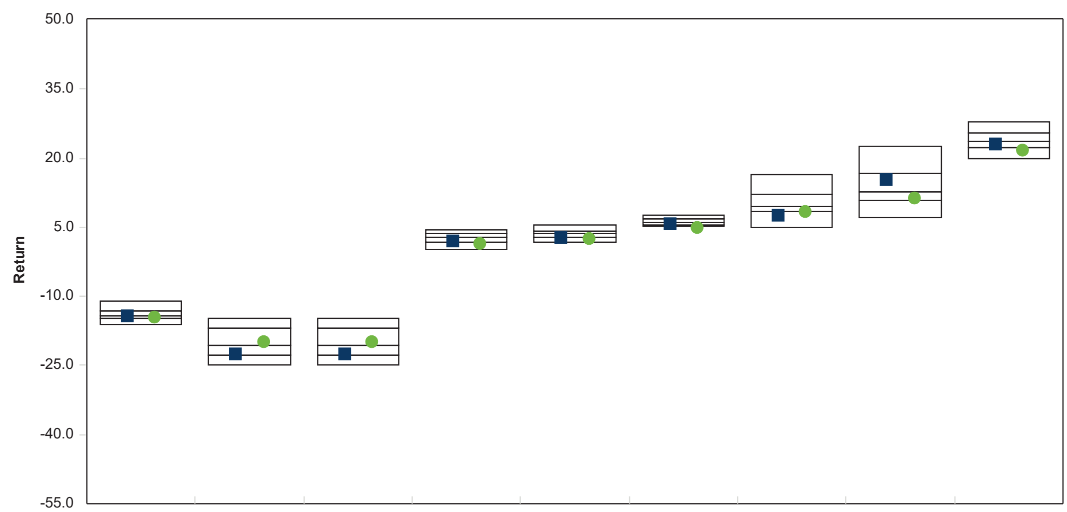
Return Summary



As of June 30, 2022

Plan Sponsor Peer Group Analysis

All Public Plans > $1B-Intl. Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2021	2020	2019
■ Foreign Equities	-14.3 (56)	-22.6 (75)	-22.6 (75)	2.1 (64)	2.9 (78)	5.8 (71)	7.6 (80)	15.4 (34)	23.1 (63)
● Asset Class Target	-14.4 (59)	-19.8 (48)	-19.8 (48)	1.6 (77)	2.5 (85)	5.1 (98)	8.4 (71)	11.3 (64)	21.7 (84)
5th Percentile	-11.1	-14.7	-14.7	4.5	5.5	7.5	16.5	22.4	27.9
1st Quartile	-13.2	-17.0	-17.0	3.6	4.2	6.7	12.2	16.8	25.5
Median	-14.1	-20.5	-20.5	2.9	3.7	6.1	9.6	12.8	23.7
3rd Quartile	-14.8	-22.7	-22.7	1.7	2.9	5.5	8.3	10.7	22.4
95th Percentile	-16.1	-24.9	-24.9	0.0	1.7	5.3	4.9	7.1	20.0
Population	54	54	54	48	46	36	56	58	53

Parentheses contain percentile rankings.

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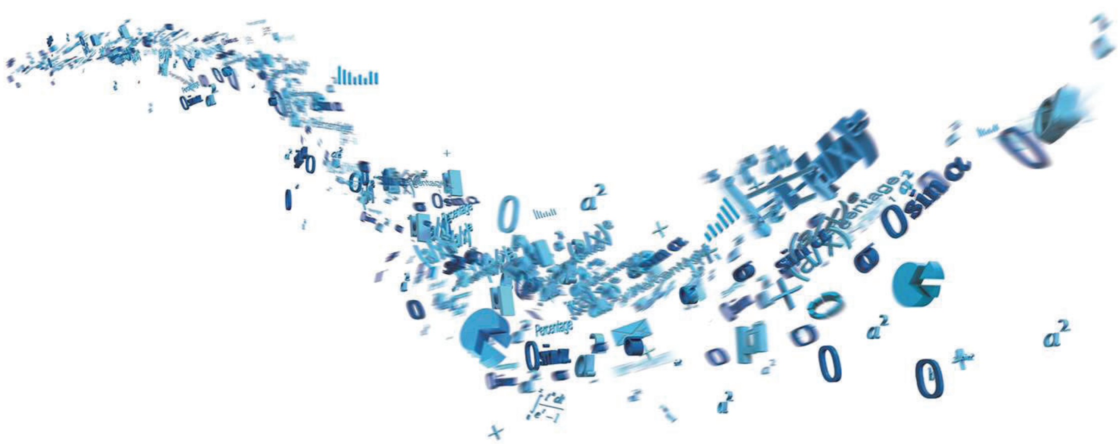
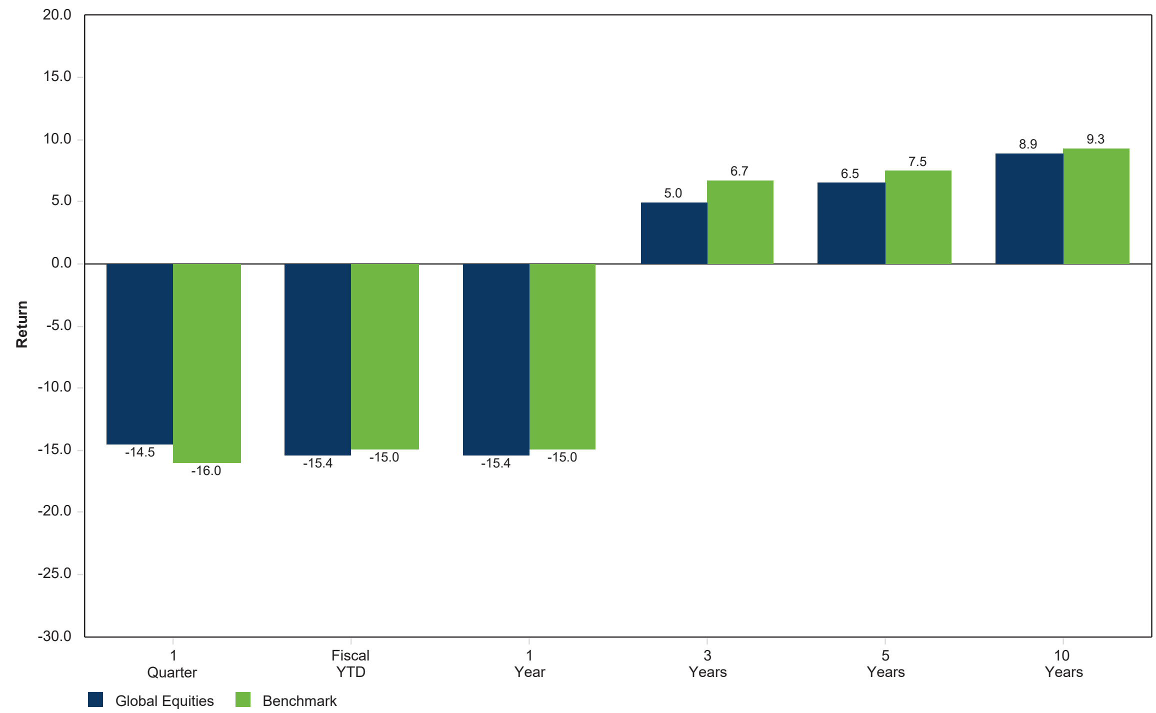
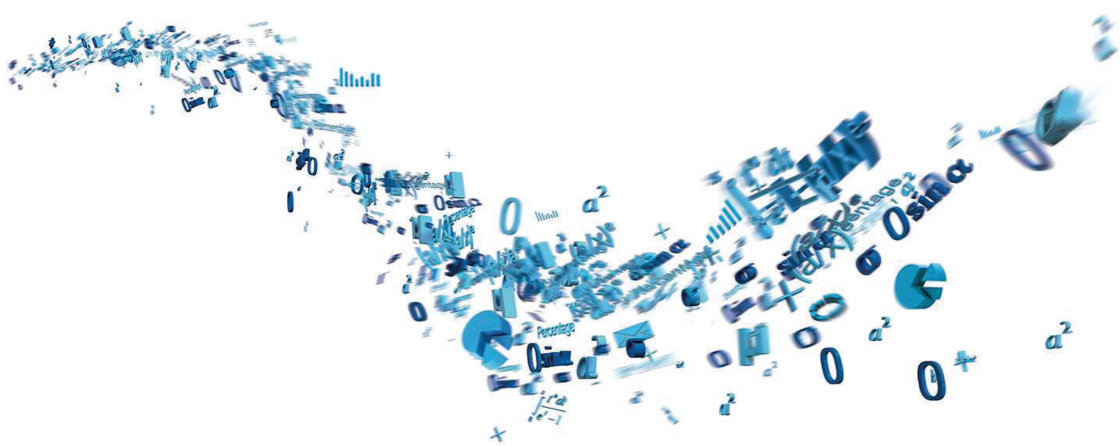


Global Equities

Global Equities Performance Summary

Return Summary





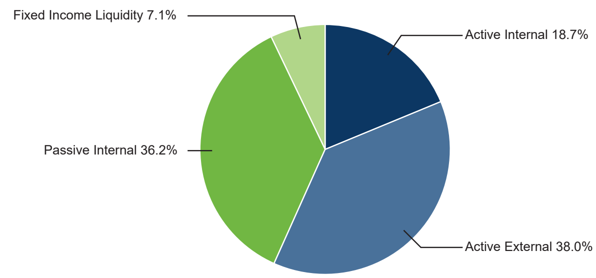
Fixed Income

As of June 30, 2022

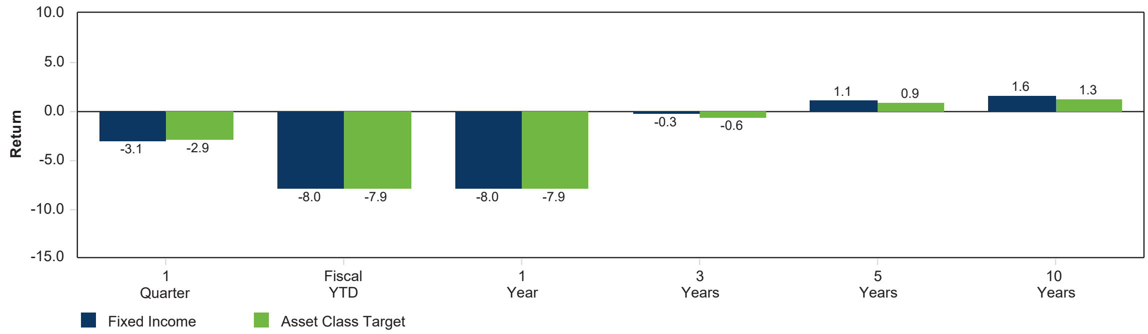
Fixed Income Portfolio Overview

Current Allocation

June 30, 2022 : $31,832M



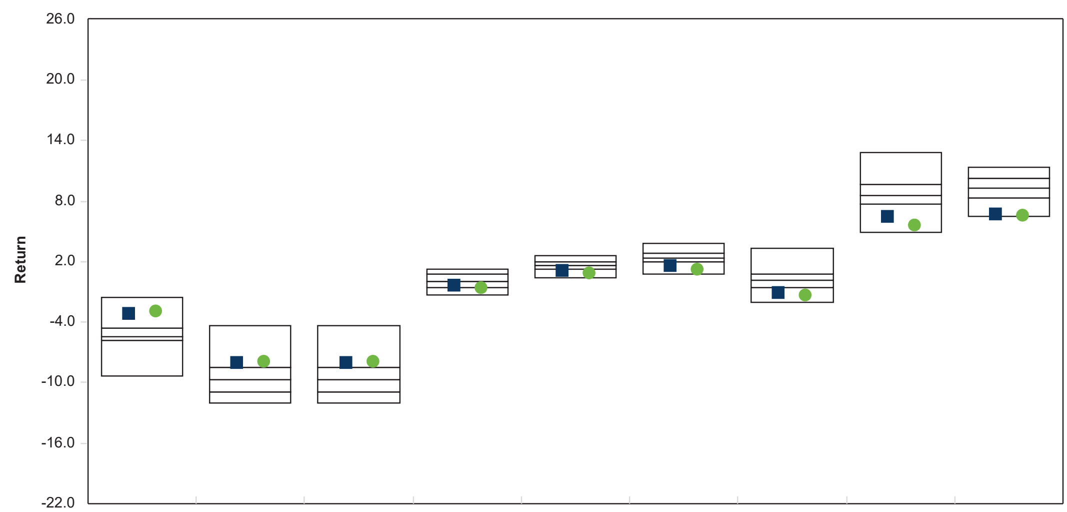
Return Summary



As of June 30, 2022

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	2021	2020	2019
■ Fixed Income	-3.1 (10)	-8.0 (20)	-8.0 (20)	-0.3 (66)	1.1 (87)	1.6 (92)	-1.0 (86)	6.6 (87)	6.7 (95)
● Asset Class Target	-2.9 (9)	-7.9 (20)	-7.9 (20)	-0.6 (80)	0.9 (90)	1.3 (93)	-1.3 (91)	5.6 (90)	6.7 (95)
5th Percentile	-1.5	-4.3	-4.3	1.3	2.6	3.8	3.3	12.9	11.4
1st Quartile	-4.6	-8.5	-8.5	0.7	2.0	2.8	0.8	9.7	10.3
Median	-5.4	-9.7	-9.7	0.1	1.7	2.4	0.1	8.6	9.3
3rd Quartile	-5.8	-10.9	-10.9	-0.6	1.3	2.0	-0.6	7.7	8.4
95th Percentile	-9.4	-12.0	-12.0	-1.3	0.4	0.8	-2.0	4.9	6.5
Population	55	54	54	47	43	36	58	59	53

Parentheses contain percentile rankings.

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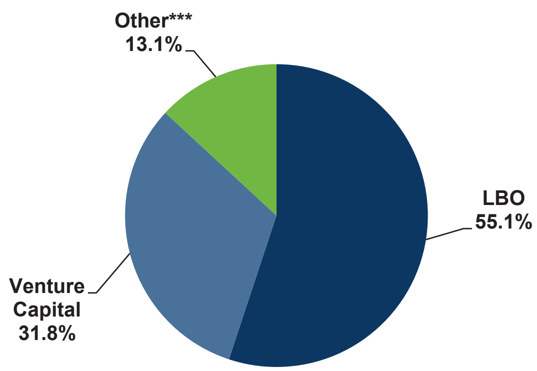
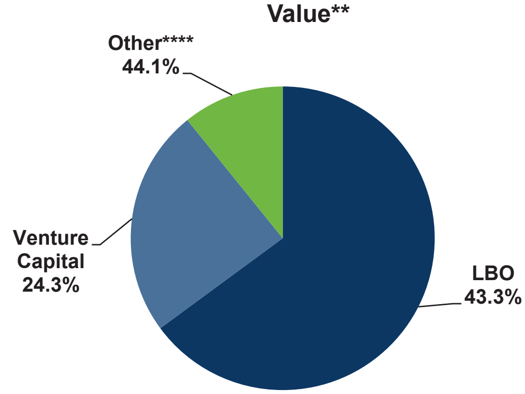
Private Equity

Overview

FRS Private Equity by Market Value*



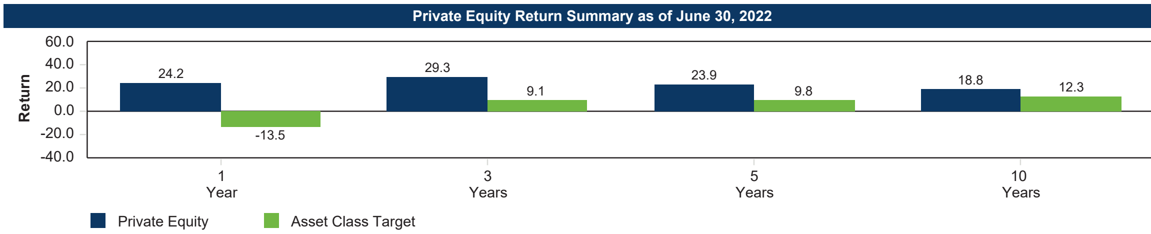
Preqin Private Equity Strategies by Market Value**



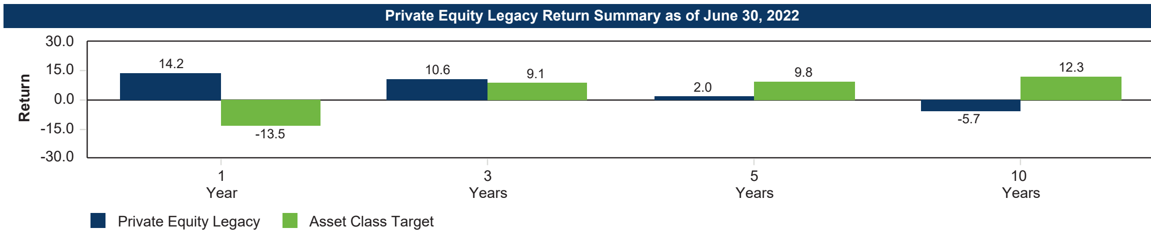
*Allocation data is as of June 30, 2022.
**Allocation data is as of June 30, 2019, from the Preqin database.
***Other for the FRS Private Equity consists of Growth Capital, Secondary, PE Cash, and PE Transition.
****Other for the Preqin data consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations.
Preqin universe is comprised of 10,000 private equity funds representing $4.8 trillion.

Time-Weighted Investment Results

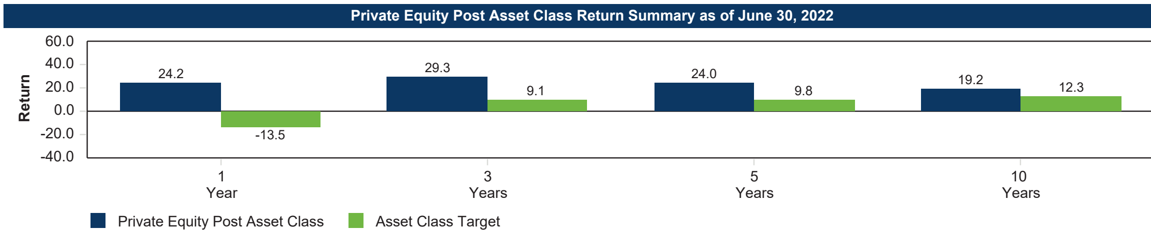
Private Equity Return Summary as of June 30, 2022



Private Equity Legacy Return Summary as of June 30, 2022



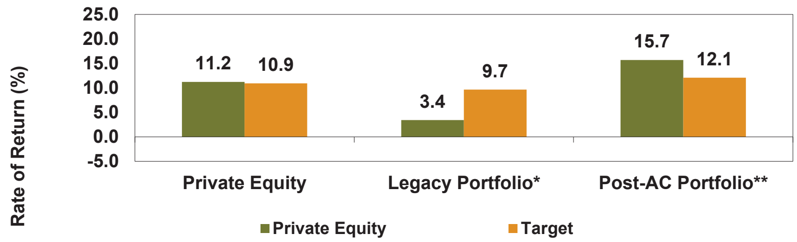
Private Equity Post Asset Class Return Summary as of June 30, 2022



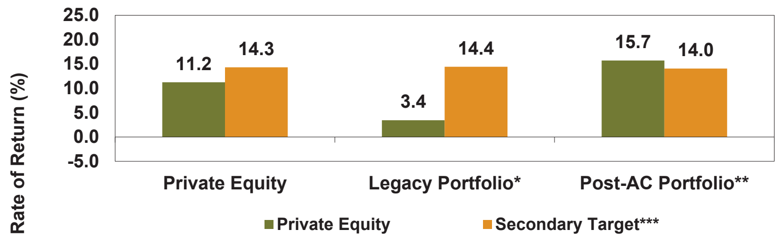
Private Equity

Dollar-Weighted Investment Results

As of June 30, 2022



As of June 30, 2022



*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.

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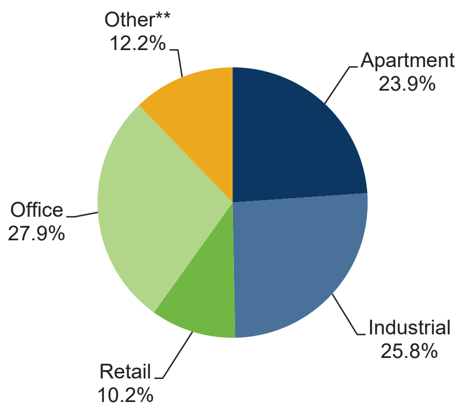
Real Estate

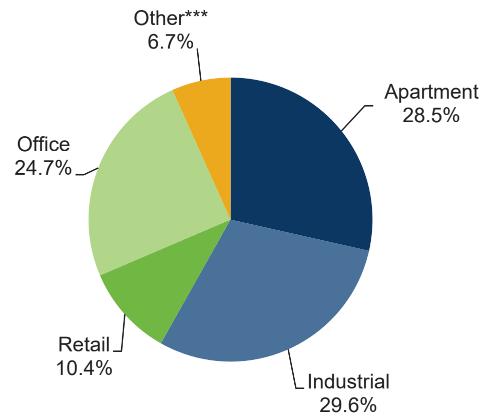
Empower Results®

Overview

FRS*



NFI-ODCE Index*

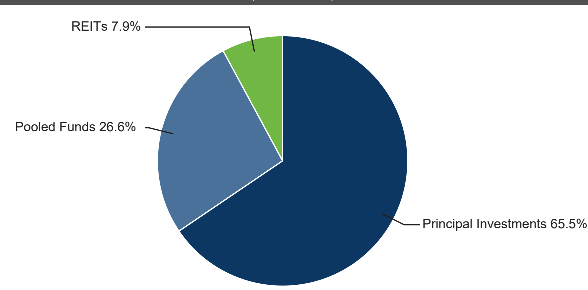


*Property Allocation data is as of March 31, 2022. The FRS chart includes only the FRS private real estate assets. Property type information for the REIT portfolios is not includ
**Other for the FRS consists of Hotel, Land, Preferred Equity, Agriculture, Self-Storage and Senior Housing.
***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Healthcare, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

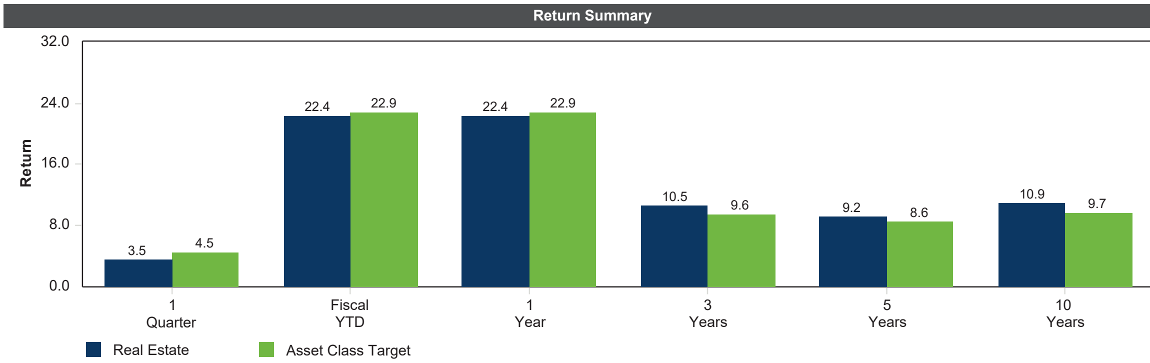
Real Estate Portfolio Overview

Current Allocation

June 30, 2022 : $20,324M

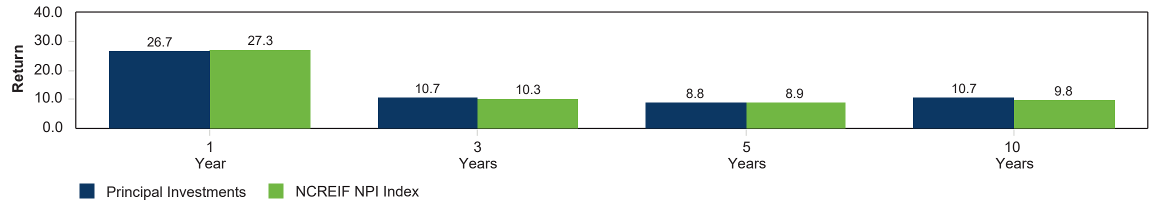


Return Summary

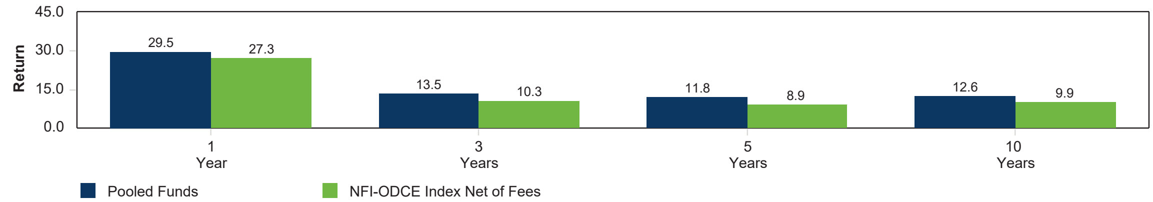


Real Estate

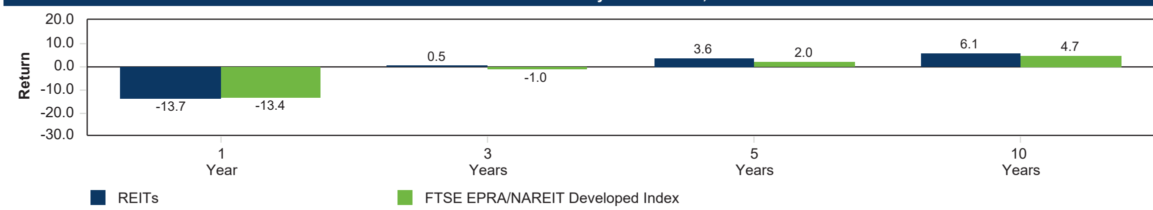
Principal Investments Return Summary as of June 30, 2022



Pooled Funds Return Summary as of June 30, 2022



REITs Return Summary as of June 30, 2022



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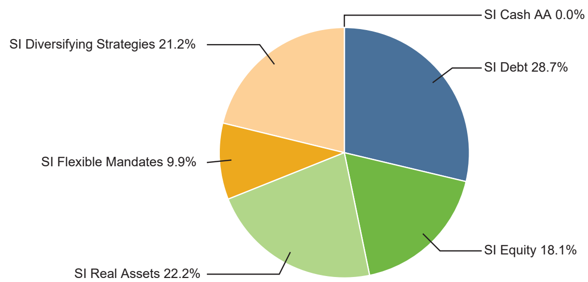
Strategic Investments

Empower Results®

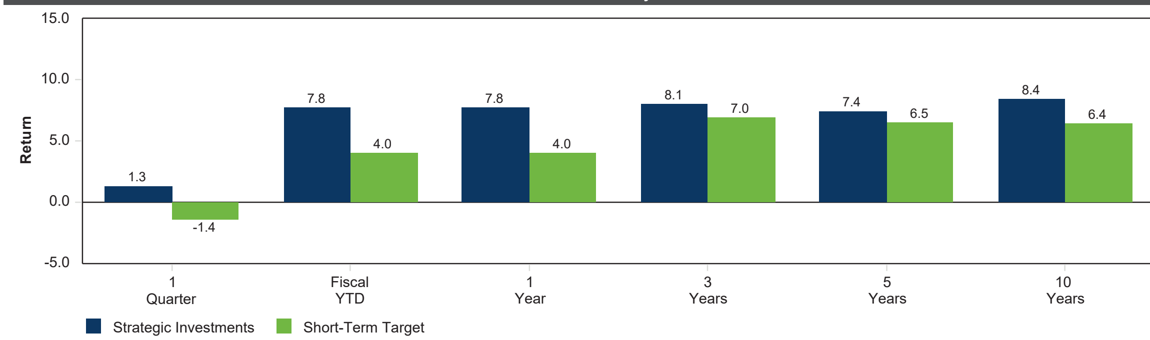
Strategic Investments Portfolio Overview

Current Allocation

June 30, 2022 : $20,110M



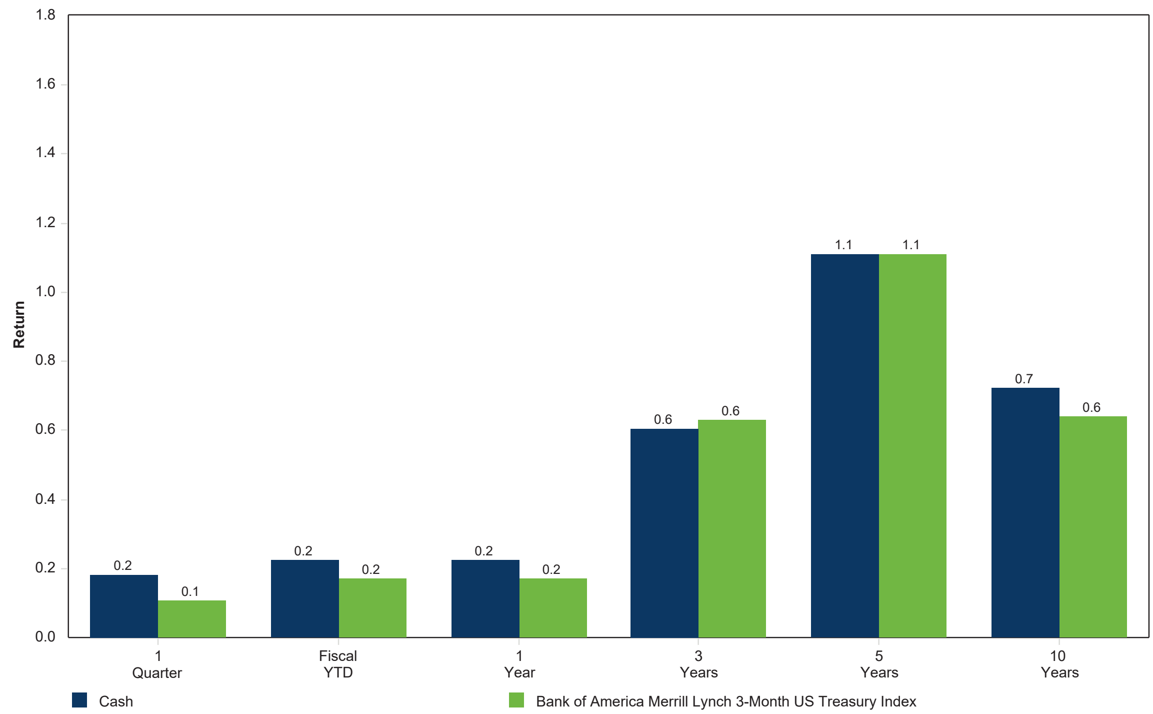
Return Summary



Cash

Cash Performance Summary

Return Summary



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Appendix

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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 (MSCI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect securities and other investments prohibited by Florida law or that would be prohibited by Florida law if acquired as of the date of measurement of such Index notwithstanding that the securities or investments were actually acquired before such date. 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. Prior to July 1, 2018, a Performance Benchmark-Long-term, 4.5% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmark.

Total Cash

Performance Benchmark- Bloomberg Barclays U.S. Treasury Bill: 1-3 month index. Prior to October 1, 2020, it was the 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

Bloomberg Barclays U.S. Treasury Bill: 1-3 month Index- Consists of U.S. Treasury Bills that have a remaining maturity of greater than or equal to 1 month and less than 3 months

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 150 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 $2.0 trillion as of quarter-end and the average market value was $13.2 billion.

Domestic Equity- A universe comprised of 52 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 $1.0 trillion as of quarter-end and the average market value was $18.5 billion.

Foreign Equity- A universe comprised of 55 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 $1.0 trillion as of quarter-end and the average market value was $18.5 billion.

Fixed Income- A universe comprised of 55 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 $19.5 billion.

Real Estate- A universe comprised of 42 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 $24.1 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.

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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.

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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-advisors' investment management fees and include 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 Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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Refer to Hedge Fund Research, Inc. www.hedgefundresearch.com for information on HFR indices.

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200 East Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

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FRS Investment Plan | Second Quarter 2022

Quarterly Investment Review

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Visit our new video library with our views on key investment topics for this quarter using access code "aon!"
(https://site-494121.bcvp0rtal.com/category/videos/key-topics-by-investor-type)

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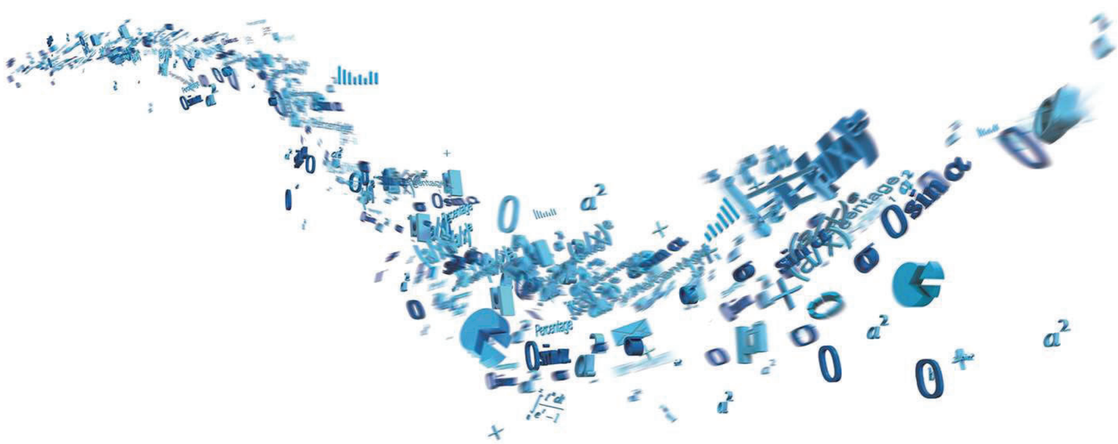

FRS Investment Plan

As of June 30, 2022

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
FRS Investment Plan	**12,804,177,475**	**100.0**	**-11.7**	**-16.0**	**-12.2**	**5.0**	**5.9**	**6.9**
Total Plan Aggregate Benchmark			*-11.6*	*-15.1*	*-11.1*	*4.9*	*5.7*	*6.7*
Retirement Date	**6,126,723,214**	**47.8**						
FRS Retirement Fund	637,392,544	5.0	-8.3 (48)	-10.9 (31)	-7.5 (7)	4.1 (1)	4.6 (1)	4.5 (57)
Retirement Custom Index			*-8.5 (62)*	*-10.6 (26)*	*-7.5 (7)*	*3.7 (1)*	*4.4 (8)*	*4.3 (62)*
FRS 2020 Retirement Date Fund	500,250,701	3.9	-8.6 (13)	-11.3 (4)	-7.8 (3)	4.4 (1)	5.1 (10)	5.8 (88)
2020 Retirement Custom Index			*-9.1 (29)*	*-11.4 (5)*	*-8.2 (5)*	*4.1 (16)*	*4.9 (24)*	*5.6 (90)*
FRS 2025 Retirement Date Fund	860,144,312	6.7	-9.5 (15)	-12.6 (11)	-9.0 (8)	4.8 (3)	5.6 (7)	6.8 (63)
2025 Retirement Custom Index			*-10.1 (39)*	*-12.9 (12)*	*-9.6 (9)*	*4.4 (18)*	*5.3 (24)*	*6.5 (74)*
FRS 2030 Retirement Date Fund	831,016,406	6.5	-10.3 (12)	-13.8 (10)	-10.2 (11)	5.1 (8)	5.9 (26)	7.6 (46)
2030 Retirement Custom Index			*-11.0 (32)*	*-14.1 (10)*	*-10.8 (12)*	*4.7 (28)*	*5.6 (46)*	*7.3 (61)*
FRS 2035 Retirement Date Fund	806,324,791	6.3	-11.1 (11)	-15.0 (7)	-11.4 (8)	5.2 (30)	6.1 (38)	8.2 (46)
2035 Retirement Custom Index			*-11.8 (16)*	*-15.2 (7)*	*-11.9 (9)*	*5.0 (39)*	*5.9 (64)*	*7.9 (54)*
FRS 2040 Retirement Date Fund	736,493,216	5.8	-11.9 (8)	-16.0 (7)	-12.5 (11)	5.4 (38)	6.3 (53)	8.4 (48)
2040 Retirement Custom Index			*-12.6 (11)*	*-16.3 (7)*	*-13.0 (12)*	*5.2 (55)*	*6.1 (69)*	*8.1 (73)*
FRS 2045 Retirement Date Fund	733,749,695	5.7	-12.7 (12)	-16.9 (11)	-13.4 (14)	5.5 (56)	6.4 (68)	8.5 (68)
2045 Retirement Custom Index			*-13.2 (20)*	*-17.1 (12)*	*-13.7 (15)*	*5.4 (64)*	*6.3 (76)*	*8.3 (93)*
FRS 2050 Retirement Date Fund	490,877,322	3.8	-13.0 (7)	-17.3 (6)	-13.6 (11)	5.8 (51)	6.5 (66)	8.6 (76)
2050 Retirement Custom Index			*-13.6 (15)*	*-17.4 (7)*	*-13.9 (12)*	*5.6 (60)*	*6.4 (73)*	*8.4 (85)*
FRS 2055 Retirement Date Fund	332,850,175	2.6	-13.2 (9)	-17.5 (5)	-13.7 (11)	5.9 (49)	6.6 (72)	8.6 (85)
2055 Retirement Custom Index			*-13.7 (17)*	*-17.4 (5)*	*-13.9 (12)*	*5.6 (59)*	*6.4 (74)*	*8.4 (93)*
FRS 2060 Retirement Date Fund	197,624,053	1.5	-13.2 (1)	-17.4 (1)	-13.7 (5)	5.9 (58)	6.6 (-)	-
2060 Retirement Custom Index			*-13.7 (3)*	*-17.4 (1)*	*-13.9 (5)*	*5.6 (87)*	*6.4 (-)*	-
Stable Value	**1,330,187,904**	**10.4**						
FRS Stable Value Fund	1,330,187,904	10.4	0.4 (46)	0.8 (46)	1.6 (45)	-	-	-
ICE BofA US Treasuries 1-3 Year Index			*-0.5 (91)*	*-2.8 (92)*	*-3.3 (93)*	-	-	-

As of June 30, 2022

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
Real Assets	**219,698,040**	**1.7**						
FRS Inflation Sensitive Fund	219,698,040	1.7	-6.9	-5.3	0.5	4.8	4.4	2.0
FRS Custom Multi-Assets Index			*-7.3*	*-4.7*	*0.4*	*3.9*	*4.2*	*1.9*
Fixed Income	**546,028,646**	**4.3**	**-5.3 (60)**	**-10.7 (45)**	**-10.5 (37)**	**-0.4 (28)**	**1.4 (17)**	**2.1 (19)**
Total Bond Index			*-5.0 (39)*	*-10.3 (26)*	*-10.1 (17)*	*-0.7 (41)*	*1.1 (37)*	*1.8 (41)*
FRS U.S. Bond Enhanced Index Fund	211,272,311	1.7	-4.8 (32)	-10.4 (32)	-10.4 (36)	-0.9 (56)	0.9 (52)	1.6 (64)
Blmbg. U.S. Aggregate			*-4.7 (24)*	*-10.3 (32)*	*-10.3 (25)*	*-0.9 (59)*	*0.9 (55)*	*1.5 (67)*
FRS Core Plus Bond Fund	334,756,335	2.6	-6.0 (59)	-11.5 (63)	-11.2 (55)	-0.3 (39)	1.5 (23)	2.7 (12)
FRS Custom Core-Plus Fixed Income Index			*-5.6 (45)*	*-11.0 (42)*	*-10.7 (37)*	*-0.6 (62)*	*1.2 (51)*	*2.3 (31)*
Domestic Equity	**2,893,635,184**	**22.6**	**-17.3 (74)**	**-22.4 (70)**	**-16.3 (69)**	**8.3 (49)**	**9.5 (38)**	**12.2 (25)**
Total U.S. Equities Index			*-16.7 (69)*	*-21.1 (61)*	*-14.1 (58)*	*9.0 (39)*	*9.7 (35)*	*12.1 (26)*
FRS U.S. Stock Market Index Fund	1,301,858,358	10.2	-16.7 (69)	-21.1 (60)	-13.9 (57)	9.8 (27)	10.6 (20)	12.6 (16)
Russell 3000 Index			*-16.7 (69)*	*-21.1 (60)*	*-13.9 (57)*	*9.8 (28)*	*10.6 (21)*	*12.6 (16)*
FRS U.S. Stock Fund	1,591,776,826	12.4	-18.3 (79)	-24.5 (76)	-20.1 (78)	-	-	-
Russell 3000 Index			*-16.7 (69)*	*-21.1 (60)*	*-13.9 (57)*	-	-	-
International/Global Equity	**656,053,909**	**5.1**	**-13.9 (62)**	**-20.2 (59)**	**-20.2 (49)**	**2.8 (29)**	**3.8 (21)**	**6.6 (19)**
Total Foreign and Global Equities Index			*-14.4 (68)*	*-19.2 (51)*	*-19.3 (43)*	*2.1 (36)*	*3.1 (30)*	*5.8 (29)*
FRS Foreign Stock Index Fund	241,190,345	1.9	-13.1 (51)	-18.6 (45)	-19.4 (43)	1.9 (40)	2.9 (34)	5.8 (30)
MSCI All Country World ex-U.S. IMI Index			*-14.3 (67)*	*-19.1 (50)*	*-19.9 (46)*	*1.6 (46)*	*2.5 (42)*	*5.4 (39)*
FRS Foreign Stock Fund	141,385,867	1.1	-14.7 (70)	-25.1 (81)	-27.7 (79)	1.5 (48)	3.1 (30)	6.3 (22)
MSCI AC World ex USA Index (Net)			*-13.7 (59)*	*-18.4 (45)*	*-19.4 (44)*	*1.4 (51)*	*2.5 (42)*	*4.8 (55)*
FRS Global Stock Fund	273,477,697	2.1	-19.0 (75)	-27.1 (70)	-22.2 (68)	8.1 (21)	9.4 (11)	11.2 (11)
MSCI AC World Index (Net)			*-15.7 (57)*	*-20.2 (47)*	*-15.8 (48)*	*6.2 (39)*	*7.0 (36)*	*8.8 (45)*
FRS Self-Dir Brokerage Acct	**1,031,850,577**	**8.1**						

The returns for the Retirement Date Funds, Inflation Sensitive Fund, and Core Plus Bond 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 1/2/2014. No performance calculations will be made for the SDBA.

As of June 30, 2022

Asset Allocation & Performance

	Performance(%) 2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
FRS Investment Plan	**14.1**	**13.1**	**20.5**	**-5.7**	**16.4**	**8.0**	**-0.9**	**4.9**	**15.2**	**10.5**
Total Plan Aggregate Benchmark	*14.2*	*11.7*	*20.0*	*-5.8*	*15.5*	*8.5*	*-1.3*	*4.9*	*14.6*	*9.7*
Retirement Date										
FRS Retirement Fund	9.6 (1)	10.2 (38)	14.8 (36)	-3.7 (69)	10.8 (24)	6.2 (18)	-2.6 (100)	4.4 (69)	3.5 (88)	10.7 (14)
Retirement Custom Index	*8.9 (9)*	*9.6 (61)*	*14.5 (40)*	*-3.8 (69)*	*10.4 (41)*	*6.2 (18)*	*-1.8 (87)*	*3.6 (85)*	*3.4 (88)*	*8.5 (86)*
FRS 2020 Retirement Date Fund	10.5 (10)	10.5 (69)	16.3 (67)	-4.4 (51)	14.0 (29)	7.4 (22)	-2.1 (100)	4.4 (100)	9.6 (98)	12.4 (73)
2020 Retirement Custom Index	*10.0 (22)*	*10.2 (72)*	*16.0 (73)*	*-4.5 (53)*	*13.3 (49)*	*7.1 (25)*	*-1.6 (85)*	*3.9 (100)*	*9.7 (98)*	*11.0 (93)*
FRS 2025 Retirement Date Fund	11.7 (14)	11.4 (72)	18.2 (75)	-5.2 (51)	16.1 (25)	8.0 (22)	-1.7 (79)	4.5 (100)	13.7 (77)	13.5 (62)
2025 Retirement Custom Index	*11.3 (24)*	*11.2 (74)*	*17.8 (82)*	*-5.3 (56)*	*15.5 (39)*	*7.6 (26)*	*-1.5 (72)*	*4.2 (100)*	*13.8 (76)*	*12.4 (88)*
FRS 2030 Retirement Date Fund	12.8 (29)	12.0 (76)	19.8 (80)	-6.0 (46)	18.0 (27)	8.5 (20)	-1.3 (60)	4.5 (96)	18.1 (64)	14.6 (53)
2030 Retirement Custom Index	*12.4 (40)*	*12.0 (76)*	*19.4 (82)*	*-6.0 (47)*	*17.3 (46)*	*8.0 (28)*	*-1.5 (63)*	*4.4 (96)*	*18.2 (64)*	*13.8 (71)*
FRS 2035 Retirement Date Fund	13.8 (66)	12.6 (85)	21.1 (81)	-6.7 (45)	19.8 (21)	9.1 (16)	-1.4 (54)	4.4 (100)	22.0 (58)	15.8 (36)
2035 Retirement Custom Index	*13.4 (72)*	*12.7 (84)*	*20.8 (87)*	*-6.8 (46)*	*18.9 (48)*	*8.3 (37)*	*-1.7 (62)*	*4.3 (100)*	*22.0 (58)*	*15.2 (67)*
FRS 2040 Retirement Date Fund	14.6 (80)	13.3 (77)	22.5 (77)	-7.5 (51)	20.9 (24)	9.2 (14)	-1.4 (49)	4.4 (96)	22.3 (58)	15.8 (51)
2040 Retirement Custom Index	*14.3 (85)*	*13.4 (75)*	*22.1 (82)*	*-7.5 (51)*	*20.4 (42)*	*8.6 (45)*	*-1.7 (65)*	*4.3 (96)*	*22.4 (58)*	*15.2 (73)*
FRS 2045 Retirement Date Fund	15.4 (90)	13.8 (77)	23.4 (81)	-8.0 (57)	21.5 (24)	9.4 (25)	-1.5 (52)	4.4 (100)	22.3 (70)	15.8 (45)
2045 Retirement Custom Index	*15.1 (91)*	*13.9 (75)*	*23.0 (87)*	*-8.0 (57)*	*21.2 (41)*	*8.9 (38)*	*-1.7 (64)*	*4.3 (100)*	*22.4 (70)*	*15.2 (97)*
FRS 2050 Retirement Date Fund	16.1 (88)	14.0 (75)	24.0 (82)	-8.4 (66)	21.6 (26)	9.5 (24)	-1.5 (61)	4.4 (95)	22.3 (66)	15.8 (60)
2050 Retirement Custom Index	*15.8 (94)*	*14.1 (72)*	*23.6 (83)*	*-8.4 (66)*	*21.3 (49)*	*8.9 (42)*	*-1.7 (66)*	*4.3 (96)*	*22.4 (66)*	*15.2 (88)*
FRS 2055 Retirement Date Fund	16.4 (86)	14.3 (69)	24.1 (88)	-8.4 (60)	21.5 (40)	9.3 (35)	-1.4 (53)	4.4 (100)	22.3 (86)	15.8 (67)
2055 Retirement Custom Index	*16.0 (92)*	*14.1 (79)*	*23.7 (90)*	*-8.4 (60)*	*21.3 (56)*	*8.9 (39)*	*-1.7 (64)*	*4.3 (100)*	*22.4 (85)*	*15.2 (98)*
FRS 2060 Retirement Date Fund	16.4 (80)	14.5 (78)	24.2 (-)	-8.3 (-)	-	-	-	-	-	-
2060 Retirement Custom Index	*16.0 (89)*	*14.1 (81)*	*23.7 (-)*	*-8.4 (-)*	-	-	-	-	-	-
Stable Value										
FRS Stable Value Fund	-	-	-	-	-	-	-	-	-	-
ICE BofA US Treasuries 1-3 Year Index	-	-	-	-	-	-	-	-	-	-

AON Empower Results®

As of June 30, 2022

Asset Allocation & Performance

	Performance(%) 2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Real Assets										
FRS Inflation Sensitive Fund	12.8	4.0	13.0	-5.5	8.1	6.0	-7.9	3.2	-9.1	9.1
FRS Custom Multi-Assets Index	*11.5*	*2.3*	*13.0*	*-5.5*	*8.1*	*6.2*	*-5.0*	*1.8*	*-8.9*	*6.6*
Fixed Income	**-0.3 (15)**	**8.0 (54)**	**9.8 (22)**	**-0.1 (36)**	**4.4 (22)**	**4.7 (12)**	**0.3 (59)**	**4.7 (77)**	**-1.1 (24)**	**6.0 (47)**
Total Bond Index	*-0.7 (27)*	*7.2 (83)*	*9.2 (47)*	*-0.1 (30)*	*3.9 (42)*	*4.3 (18)*	*0.1 (72)*	*4.9 (76)*	*-1.2 (25)*	*4.8 (72)*
FRS U.S. Bond Enhanced Index Fund	-1.7 (68)	7.8 (62)	8.7 (61)	0.0 (23)	3.6 (58)	2.7 (66)	0.7 (26)	6.2 (29)	-2.0 (63)	4.4 (73)
Blmbg. U.S. Aggregate	*-1.5 (62)*	*7.5 (71)*	*8.7 (61)*	*0.0 (24)*	*3.5 (63)*	*2.6 (66)*	*0.5 (37)*	*6.0 (39)*	*-2.0 (66)*	*4.2 (77)*
FRS Core Plus Bond Fund	-0.1 (23)	8.6 (55)	11.0 (18)	-0.5 (40)	5.3 (28)	5.7 (15)	0.1 (47)	4.6 (73)	0.8 (14)	11.1 (16)
FRS Custom Core-Plus Fixed Income Index	*-0.3 (32)*	*7.6 (75)*	*10.0 (41)*	*-0.4 (36)*	*4.2 (69)*	*4.9 (33)*	*0.2 (43)*	*5.1 (50)*	*0.8 (14)*	*7.8 (74)*
Domestic Equity	**24.6 (57)**	**20.0 (35)**	**30.1 (38)**	**-6.5 (49)**	**20.8 (49)**	**13.7 (30)**	**0.7 (32)**	**11.5 (47)**	**35.2 (43)**	**16.9 (34)**
Total U.S. Equities Index	*25.9 (44)*	*18.9 (38)*	*30.0 (38)*	*-6.5 (49)*	*19.6 (57)*	*14.9 (23)*	*-0.5 (42)*	*11.1 (51)*	*34.0 (52)*	*16.5 (39)*
FRS U.S. Stock Market Index Fund	25.7 (46)	21.0 (31)	31.1 (28)	-5.2 (36)	21.2 (43)	12.9 (35)	0.6 (32)	12.6 (31)	33.6 (56)	16.5 (40)
Russell 3000 Index	*25.7 (46)*	*20.9 (31)*	*31.0 (28)*	*-5.2 (36)*	*21.1 (46)*	*12.7 (37)*	*0.5 (33)*	*12.6 (33)*	*33.6 (56)*	*16.4 (41)*
FRS U.S. Stock Fund	22.9 (65)	-	-	-	-	-	-	-	-	-
Russell 3000 Index	*25.7 (46)*	-	-	-	-	-	-	-	-	-
International/Global Equity	**9.5 (49)**	**15.2 (40)**	**23.7 (38)**	**-13.5 (32)**	**28.6 (49)**	**4.5 (44)**	**-2.6 (47)**	**-3.2 (43)**	**21.6 (36)**	**18.6 (52)**
Total Foreign and Global Equities Index	*9.8 (47)*	*11.7 (51)*	*22.3 (47)*	*-14.0 (39)*	*27.3 (58)*	*4.9 (41)*	*-4.4 (54)*	*-3.0 (42)*	*20.6 (41)*	*16.6 (70)*
FRS Foreign Stock Index Fund	8.6 (53)	11.5 (51)	22.3 (47)	-14.7 (45)	28.3 (51)	5.3 (38)	-4.4 (54)	-4.5 (57)	20.5 (42)	17.6 (60)
MSCI All Country World ex-U.S. IMI Index	*8.5 (53)*	*11.1 (53)*	*21.6 (53)*	*-14.8 (47)*	*27.8 (54)*	*4.4 (44)*	*-4.6 (55)*	*-4.2 (53)*	*21.0 (39)*	*16.4 (71)*
FRS Foreign Stock Fund	2.8 (71)	25.3 (17)	27.4 (21)	-14.9 (49)	31.2 (40)	1.0 (68)	-0.5 (36)	-2.3 (35)	20.6 (41)	19.6 (41)
MSCI AC World ex USA Index (Net)	*7.8 (56)*	*10.7 (55)*	*21.5 (54)*	*-14.2 (41)*	*27.2 (59)*	*4.5 (43)*	*-5.7 (59)*	*-3.9 (48)*	*15.3 (56)*	*16.8 (69)*
FRS Global Stock Fund	18.1 (45)	33.8 (23)	30.5 (25)	-5.6 (21)	29.3 (18)	2.2 (84)	5.6 (12)	3.7 (53)	27.1 (43)	21.0 (14)
MSCI AC World Index (Net)	*18.5 (40)*	*16.3 (45)*	*26.6 (47)*	*-9.4 (52)*	*24.0 (41)*	*7.9 (47)*	*-2.4 (57)*	*4.2 (47)*	*22.8 (66)*	*16.1 (38)*

The returns for the Retirement Date Funds, Inflation Sensitive Fund, and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

AON Empower Results®

FRS Investment Plan **As of June 30, 2022**

Asset Allocation

Asset Allocation as of 6/30/2022

	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	Real Assets	Stable Value	Brokerage	Total	% of Total
FRS Retirement Fund	93,696,704	86,047,993	209,064,755	248,583,092			637,392,544	5.0%
FRS 2020 Retirement Date Fund	94,047,132	87,043,622	146,073,205	173,086,742			500,250,701	3.9%
FRS 2025 Retirement Date Fund	214,175,934	197,833,192	228,798,387	219,336,800			860,144,312	6.7%
FRS 2030 Retirement Date Fund	250,135,938	230,191,544	192,795,806	157,893,117			831,016,406	6.5%
FRS 2035 Retirement Date Fund	278,182,053	256,411,284	158,845,984	112,885,471			806,324,791	6.3%
FRS 2040 Retirement Date Fund	284,286,382	262,191,585	116,365,928	73,649,322			736,493,216	5.8%
FRS 2045 Retirement Date Fund	305,239,873	281,759,883	85,848,714	60,901,225			733,749,695	5.7%
FRS 2050 Retirement Date Fund	213,040,758	196,350,929	39,270,186	42,215,450			490,877,322	3.8%
FRS 2055 Retirement Date Fund	145,455,526	134,138,621	24,298,063	28,957,965			332,850,175	2.6%
FRS 2060 Retirement Date Fund	86,361,711	79,642,493	14,426,556	17,193,293			197,624,053	1.5%
Total Retirement Date Funds	**$ 1,964,622,010**	**$ 1,811,611,145**	**$ 1,215,787,583**	**$ 1,134,702,476**	**$ -**	**$ -**	**$ 6,126,723,214**	**47.8%**
FRS Stable Value Fund					1,330,187,904		1,330,187,904	10.4%
Total Stable Value	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,330,187,904**	**$ -**	**$ 1,330,187,904**	**10.4%**
FRS Inflation Sensitive Fund				219,698,040	-		219,698,040	1.7%
Total Real Assets	**$ -**	**$ -**	**$ -**	**$ 219,698,040**	**$ -**	**$ -**	**$ 219,698,040**	**1.7%**
FRS U.S. Bond Enhanced Index Fund			211,272,311				211,272,311	1.7%
FRS Core Plus Bond Fund			334,756,335				334,756,335	2.6%
Total Fixed Income	**$ -**	**$ -**	**$ 546,028,646**	**$ -**	**$ -**	**$ -**	**$ 546,028,646**	**4.3%**
FRS U.S. Stock Market Index Fund	1,301,858,358						1,301,858,358	10.2%
FRS U.S. Stock Fund	1,591,776,826						1,591,776,826	12.4%
Total Domestic Equity	**$ 2,893,635,184**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,893,635,184**	**22.6%**
FRS Foreign Stock Index Fund		241,190,345					241,190,345	1.9%
FRS Global Stock Fund		273,477,697					273,477,697	2.1%
FRS Foreign Stock Fund		141,385,867					141,385,867	1.1%
Total International/Global Equity	**$ -**	**$ 656,053,909**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 656,053,909**	**5.1%**
FRS Self-Dir Brokerage Acct						1,031,850,577	1,031,850,577	8.1%
Total Self-Dir Brokerage Acct						**$ 1,031,850,577**	**$ 1,031,850,577**	**8.1%**
Total Portfolio	**$ 4,858,257,194**	**$ 2,467,665,054**	**$ 1,761,816,229**	**$ 1,354,400,516**	**$ 1,330,187,904**	**$ 1,031,850,577**	**$ 12,804,177,475**	**100.0%**
Percent of Total	**37.9%**	**19.3%**	**13.8%**	**10.6%**	**10.4%**	**8.1%**	**100.0%**	

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund and Core Plus Bond 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.

As of June 30, 2022

Multi Time Period 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	**4.95**	**13.23**	**0.38**	**0.69**	**0.14**	**102.41**	**102.66**
FRS Retirement Fund	4.07	8.54	0.43	0.50	0.81	103.09	99.83
FRS 2020 Retirement Date Fund	4.44	9.48	0.43	0.58	0.63	100.80	97.45
FRS 2025 Retirement Date Fund	4.83	10.89	0.43	0.59	0.65	100.50	97.49
FRS 2030 Retirement Date Fund	5.07	12.21	0.41	0.61	0.51	100.25	98.04
FRS 2035 Retirement Date Fund	5.24	13.35	0.40	0.63	0.39	100.00	98.33
FRS 2040 Retirement Date Fund	5.42	14.46	0.39	0.64	0.33	99.88	98.52
FRS 2045 Retirement Date Fund	5.53	15.41	0.38	0.65	0.19	99.99	99.28
FRS 2050 Retirement Date Fund	5.77	15.99	0.39	0.66	0.21	99.92	99.14
FRS 2055 Retirement Date Fund	5.89	16.18	0.39	0.63	0.36	100.62	99.61
FRS 2060 Retirement Date Fund	5.95	16.18	0.40	0.64	0.44	100.80	99.54
FRS Stable Value Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Inflation Sensitive Fund	4.82	9.09	0.49	0.90	1.02	104.26	95.62
FRS U.S. Bond Enhanced Index Fund	-0.91	4.61	-0.32	0.20	0.13	102.74	101.96
FRS Core Plus Bond Fund	-0.34	5.89	-0.14	1.71	0.21	120.08	113.06
FRS U.S. Stock Market Index Fund	9.82	19.37	0.55	0.05	0.78	100.15	100.03
FRS U.S. Stock Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Foreign Stock Index Fund	1.91	17.87	0.16	1.38	0.25	101.19	99.78
FRS Global Stock Fund	8.12	20.23	0.45	N/A	N/A	N/A	N/A
FRS Foreign Stock Fund	1.49	19.09	0.14	N/A	N/A	N/A	N/A

The returns for the Retirement Date Funds, Inflation Sensitive Fund, and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

As of June 30, 2022

Multi Time Period 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	**5.92**	**11.88**	**0.45**	**0.61**	**0.35**	**102.60**	**102.20**
FRS Retirement Fund	4.62	7.42	0.49	0.45	0.56	102.73	100.88
FRS 2020 Retirement Date Fund	5.14	8.41	0.50	0.50	0.55	101.24	98.65
FRS 2025 Retirement Date Fund	5.59	9.71	0.49	0.51	0.60	100.93	98.40
FRS 2030 Retirement Date Fund	5.88	10.92	0.47	0.53	0.50	100.62	98.64
FRS 2035 Retirement Date Fund	6.13	12.00	0.46	0.55	0.46	100.57	98.88
FRS 2040 Retirement Date Fund	6.29	13.01	0.45	0.56	0.35	100.29	99.02
FRS 2045 Retirement Date Fund	6.39	13.84	0.44	0.56	0.20	100.17	99.49
FRS 2050 Retirement Date Fund	6.53	14.36	0.43	0.58	0.23	100.16	99.37
FRS 2055 Retirement Date Fund	6.60	14.48	0.44	0.56	0.32	100.58	99.69
FRS 2060 Retirement Date Fund	6.61	14.48	0.44	N/A	N/A	N/A	N/A
FRS Stable Value Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Inflation Sensitive Fund	4.42	8.02	0.44	1.08	0.24	102.64	100.67
FRS U.S. Bond Enhanced Index Fund	0.90	4.07	-0.03	0.16	0.17	101.52	101.26
FRS Core Plus Bond Fund	1.54	4.89	0.11	1.34	0.29	114.03	109.61
FRS U.S. Stock Market Index Fund	10.64	17.53	0.60	0.04	1.02	100.15	100.01
FRS U.S. Stock Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Foreign Stock Index Fund	2.85	16.01	0.19	1.23	0.28	100.88	99.26
FRS Global Stock Fund	9.40	17.85	0.53	N/A	N/A	N/A	N/A
FRS Foreign Stock Fund	3.10	17.07	0.20	N/A	N/A	N/A	N/A

The returns for the Retirement Date Funds, Inflation Sensitive Fund, and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Empower Results®

Appendix

Empower Results®

Benchmark Descriptions

Retirement Date Benchmarks - A weighted average composite of the underlying components' benchmarks for each fund.

FTSE 3 Month T-Bill Index - An index that measures the average return of the last three-month U.S. Treasury Bill issues.

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.

Bloomberg 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.

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.

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 ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 24 emerging countries, but excluding the U.S.

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.

Descriptions of Universes

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Stable Value Fund - A stable value universe calculated and provided by Lipper.

FRS U.S. Bond Enhanced Index Fund - A broad market core fixed income universe calculated and provided by Lipper.

FRS Core Plus Bond Fund - A broad market core plus fixed income universe calculated and provided by Lipper.

FRS U.S. Stock Market Index Fund - A multi-cap U.S. equity universe calculated and provided by Lipper.

FRS U.S. Stock Fund - A multi-cap U.S. equity universe calculated and provided by Lipper.

FRS Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

FRS Foreign Stock Fund - A foreign blend universe calculated and provided by Lipper.

FRS Global Stock Fund - A global stock 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.

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-advisors' investment management fees and include 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 Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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SBA FLORIDA
STATE BOARD OF ADMINISTRATION

Investment Advisory Council Compensation Subcommittee Conference Call

September 6, 2022

Agenda
Investment Advisory Council (IAC) Compensation
Subcommittee Conference Call

Tuesday, September 6, 2022

1.	**Welcome/Call to Order/Approval of Minutes of September 14, 2021 Meeting** **(Attachments 1A and 1B)**	Vinny Olmstead, Chair
2.	**Opening Remarks**	Vinny Olmstead, Chair
	Opening Remarks	Lamar Taylor, Interim Executive Director & CIO
3.	**Discussion of Evaluation of Performance of Interim ED/CIO** **(Attachment 2)**	Vinny Olmstead, Chair
4.	**SBA Compensation Update** **(Attachment 3)**	Lamar Taylor, Interim Executive Director & CIO
5.	**Other Business/Audience Comments/Closing Remarks/Adjournment**	

Attachment 1A

MINUTES
INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE CONFERENCE CALL
September 14, 2021

A special meeting of the Investment Advisory Council (IAC) Compensation Subcommittee was held on Tuesday, September 14, 2021, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the September 24, 2020 meeting is hereby incorporated into these minutes.

IAC Members:	Vinny Olmstead, Chair (Via Teams) Peter Collins (Via Teams) Peter Jones (Via Teams) Robb Turner (Via Teams) Bobby Jones (Via Teams)
SBA Employees:	Ash Williams, Executive Director/CIO Alison Romano Kent Perez Lamar Taylor Amy Walker
Consultants:	Josh Wilson – Mercer (Via Teams)

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES OF SEPT. 24, 2020 MEETING

The meeting was called to order at 1:00 PM. Mr. Vinny Olmstead, Chair, IAC Compensation Subcommittee, welcomed everyone. Mr. Olmstead introduced Peter Collins and Gary Wendt as the other members of the Compensation Subcommittee and welcomed Peter Jones to the call as well.

Mr. Olmstead made a motion to approve the minutes from the September 24, 2020 IAC Compensation Subcommittee conference call; Mr. Peter Collins seconded the motion. The minutes were unanimously approved.

OPENING REMARKS

Mr. Olmstead made opening remarks stating that although there are several hours set aside for the meeting, it shouldn't take that long and gave a brief overview of the meeting agenda and briefly discussed the purpose of the meeting. Mr. Olmstead also pointed out that this year's meeting is slightly different in that Ash will be retiring on September 30, 2021; and went over a few of Ash's accomplishments since his return to the SBA in 2008. Mr. Collins also added to Mr. Olmstead's comments. A brief discussion regarding a recommendation to the Trustees to reward Ash even though the Plan doesn't necessarily allow for that since he is retiring this month and Plan awards happen in December. Thereafter, Lamar Taylor added context for the Subcommittee Members for their consideration in making any recommendation. A full report of the discussion can be found in the official meeting transcript.

Mr. Ash Williams, ED/CIO, thanked the committee for their kind remarks and highlighted a few of the things that members had said (i.e., the success that the SBA has had reflecting a significant team of professionals, the existence of the subcommittee and its rational, fact-based support and the support of Mercer). Ash also discussed the compensation plan and how it differs in government vs. private companies, and the importance of Mercer in this process.

RECAP OF ED/CIO'S FY2020-21 INCENTIVE PLAN DESIGN

Mr. Josh Wilson discussed in more detail the construct of the incentive compensation plan and the ED/CIO's evaluation. Numerous questions were raised regarding the incentive compensation plan. Those questions by committee members were answered by Mr. Wilson and Mr. Williams.

PRESENTATION OF RESULTS OF ED/CIO'S EVALUATION AND MERCER'S SALARY RECOMMENDATION

Mr. Wilson discussed the results of the ED/CIO evaluation and explaining that there were high performance scores for Mr. Williams and positive comments for the job that Mr. Williams is doing. He provided details on the evaluation process. Mr. Wilson discussed what the recommendation would have been this year, a merit increase not a market adjustment, based on the fact that the market has moved only slightly, not dramatically. This is a point of information only since Mr. Williams is not eligible for the merit increase due to his retirement on 9/30/21. A lengthy discussion by subcommittee members yielded questions that were answered by Mr. Wilson. Details of this discussion are included in the official meeting transcript.

FORMULATION OF RECOMMENDATION TO IAC AND TRUSTEES and ACTION REQUESTED: APPROVAL OF RECOMMENDATION

Mr. Olmstead made a motion for the maximum merit increase with Mr. Collins providing a second.

DISCUSSION REGARDING OVERALL SBA INCENTIVE COMPENSATION PLAN

Mr. Lamar Taylor and Ms. Alison Romano discussed the overall compensation plan. Before delving into the plan, however, Mr. Taylor recapped "charges" to SBA staff that came out of the subcommittee meeting (determine latitude for amendments to the plan with respect to modifications that would allow the maximum payout, despite Ash's retirement). Mr. Taylor then recapped the work of the subcommittee in 2020 and the resulting work from Mercer on the incentive compensation plan. Mercer's work produced a finding that the SBA's plan is doing what the IAC wanted it to have in terms of being able to attract and maintain talent. Mr. Taylor fielded questions from subcommittee members, as did Mr. Williams. Ms. Romano discussed risk governors aspect of the plan and challenges faced with tracking error. A lengthy discussion was held and questions by subcommittee members were answered by Ms. Romano.

OTHER BUSINESS/AUDIENCE COMMENTS/CLOSING REMARKS/ADJOURNMENT

Mr. Taylor asked if there were in attendees in the Hermitage Room that wanted to ask questions or make comments. As there were none, the meeting was concluded at 2:50 p.m.

____

Vinny Olmstead, Chair
IAC Compensation Subcommittee

Dated: _____________________________

Attachment 1B

IAC Meeting

September 14, 2021

PHIPPS REPORTING

Raising the Bar!

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL

COMPENSATION SUBCOMMITTEE

WEB CONFERENCE CALL

TUESDAY, SEPTEMBER 14, 2021
1:04 P.M. - 2:50 P.M.

LOCATION:

VIA WEB CONFERENCE

Stenographically Reported By:

JO LANGSTON, RPR

Job No.: 170674

APPEARANCES

IAC MEMBERS:

VINNY OLMSTEAD

PETER COLLINS

PETER JONES

ROBB TURNER

BOBBY JONES

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR/CIO

ALISON ROMANO

LAMAR TAYLOR

KENT PEREZ

AMY WALKER

CONSULTANTS:

JOSH WILSON - (Mercer)

INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE
WEB CONFERENCE CALL
* * *

MR. OLMSTEAD: Let's go ahead and start, if that's okay. So welcome to everybody on the call. Obviously, the IAC Compensation Committee. My name is Vinny Olmstead. I think this is my third or fourth year in a row as chair. I'd like to also introduce Mr. Peter Collins, who is one of the members, subcommittee members also. And Peter has been on for, I think, three or four years also.

And the third one of us, which would have provided great consistency, is Gary Wendt. And if he doesn't jump on, we'll certainly get him up to speed at the appropriate time. And I think, at least from the IAC team, we also have Peter Jones on the call.

I will let Ash and Mercer at a later point introduce those folks on their respective teams who are appropriately to be introduced. So that's the quick hello and welcome.

First thing to take care of is the September 24, 2020, subcommittee minutes. So I reviewed them in detail. I'm sure my colleagues

have. And I'd like to put forth a motion to approve those minutes. And, Peter, if you could second it.

MR. COLLINS: Sorry. I'm on mute. Second.

MR. OLMSTEAD: Great. So those are approved. At least I assume, because there's two out of three of us, we should be good on that front, even though Gary is not here.

So the agenda today, I think we have a good number of hours lined up. I doubt it will take that long because we have this process down pat. Our agenda today will include some remarks by myself, remarks by the CIO and Director Ash Williams, a recap and presentation by Josh and the folks from Mercer, who have been along for this ride for a very long time, since 2012, I think.

And then it will culminate with a recommendation by the subcommittee, which ultimately will be drafted in a memo and provided to the trustees, who need to review and endorse what we're doing here.

Just as a quick reminder, this committee is charged with a few things, and it explicitly revolves around the CIO and director, in this

case Ash Williams, compensation. And although there are a few components to his compensation, what this committee is charged with is, A, opining, after we do a survey and get Mercer's feedback, on the variable component of his incentive pay, and then historically also on any merit increases to the director's salary.

Just as a side note, there's also an organizational component to his compensation. So the director has a base and a variable pay. The variable pay is broken down into two pieces, one which is personal, one which is organizational. The organizational component is 100 percent formulaic, dictated by achieving certain goals, which will be done once the audit is complete.

I think they seem to be going in the right direction. It has been a great year. But that will be done -- that typically gets done sometimes toward the end of November, I believe, with payouts that happen in December. That's the typical process.

One additional reminder is the variable comp is usually paid over a two-year period. That's the typical protocol. So our job in this call is to, A, come up with a recommendation on the personal or subjective piece, and then typically -- we'll talk about this in a minute -- make a recommendation on merit pay. As everybody knows, this year is a little bit different. So I think everyone should know that Ash has opted to retire and will be done on September 30th, 2021, so just a few more weeks away.

So a few words on that front is this is -- we all know this is a great loss for the State of Florida. The folks on the IAC have been with Ash for a few years but not all the way back to 2008 when he came. But he's created a great legacy for himself and has done a wonderful job for the State of Florida, and we're going to really miss him.

I did want to point out just a few accomplishments of Ash since he returned in 2008. These are, again, worthwhile repeating. But the fund value increased from $99 billion to $199 billion as of June 30, 2021, investment gain of $167 billion and benefit payments of $67 billion, big numbers. The return on the fund, the plan, is 10.28 percent, beating out the benchmark of 9.41, which sounds like just a skinny one point, but that skinny one point added

$14 billion in value.

And so not only are the numbers great, but Ash also did a great job of putting a fantastic team together, keeping a team together, and can't thank him enough for the job that he's done.

I don't know. Peter, Gary is not here. You're welcome to throw out any comments real quick on that front, but I did think it was important just to acknowledge all of the performance at a lot of levels from Ash.

MR. COLLINS: Yeah. And I think one of the biggest legacies Ash will leave is this committee and the work that this committee does in recognizing the employees at the board.

When Ash first started -- forget about the first time he was here, but even the second time, comp was way behind. We were losing people. We were losing really good people, and it became a training ground for people that wanted to go somewhere else. And that's never easy to maintain stability and maintain long-term focus, if you have those people changing all the time.

So I think the biggest -- one of the biggest legacies he will leave is totally restructuring the comp system, which is not easy in a state

government entity, especially when we get into the numbers that we're talking about here relative to some of the other agencies.

But it was because of Ash and his determined -- his determination to do it, and it was the right thing to do, that we're sitting here today. So I just thank you, Ash, on behalf of the State of Florida and all the employees but certainly the pension beneficiaries, for doing that.

MR. OLMSTEAD: Yeah. Peter, that's a great point. Thank you. That was not a quick process. I think 2012 this process started. So it's a long process that we've been through. And I think to complement what you're saying there, Peter, is this plan, for the most part, has achieved what it was set out to do. Right? It's reward success, attract and keep talent. And it has done a good job of that, even though it wasn't quick to put in place.

Another point of it, I think, one of the interesting -- you know, a drawback on the plan, which sort of has surfaced a little bit, is the fact that the -- some may not know this on this call, and I think it's important to know also, is

that because Ash is retiring on September 30th, the plan calls for any payout on incentive only to occur if you're a current employee.

So we're sitting here having a call about incentive pay that can't be paid out because Ash has spent many, many years and at his ripe young age is retiring. And so it's a little -- I'm not saying there's anything wrong with the plan, but there is -- something does seem a little bit remiss on that front.

And I'll remind everybody of one other thing, is that last year, due to the absurd volatility from COVID, the whole team forgo their variable compensation last year also. And so you look at the job that, bluntly, Ash has done over all of these years, earning this variable pay, bluntly, and then not being eligible for any of this pay moving forward. So this doesn't seem at all equitable.

I wasn't aware of this, not that I probably could have done anything about it. But in the world of being fair and unfair, this obviously does not seem fair. You know, this was for last year's -- this is for last year's comp and the year before's comp.

And so I think it's worth a discussion. I'm going to make a sort of quasi recommendation here, that I think we should go through the process one way or another here, sit down with Mercer, make the recommendation that we would make on the sort of subjective piece of Ash's compensation.

And I also think we should -- look, a governmental world is a little bit different, and this plan is set up in a certain way. There may be tax, fiduciary, IRS implications that we don't understand. But I'm going to recommend that we take a look at those.

And if there's any way that we as a committee can make a recommendation to the trustees that they somehow or another find a way to reward Ash for what he has done, I think we need to do it.

And so I'll let Peter comment and Lamar or someone, maybe correct me if that interpretation is wrong. I don't think it hurts to ask, assuming there's not some sort of broader implications to the plan that could happen. But I think Ash is in full deservance, especially of the formulaic pay that he hasn't received.

So I'll pause there for a second. That's probably new to a few folks, Peter Jones, and I know Peter Collins has a little bit of familiarity with it, but I'll pause there and see if there's any comments.

MR. COLLINS: The thing I would say on that, Mr. Chairman, is this is an oversight and a technicality that wasn't really thought of when we designed this plan. It certainly would not have been the intention of the group to have this happen when we designed the plan.

So I think it's just a matter of us getting with Mercer, making the recommendation for the amendment. I don't know that it would take -- if it takes something more than amending that plan to remove this particular provision that you have to be there, still be employed to get it, if we can amend that, then I'm not sure that we have to go to the trustees for special approval for Ash's particular situation.

I think it's also -- it's also a problem for interim. And, again, it's not something that -- it was just an oversight. If somebody is interim and they've earned something, then just because their title is interim doesn't mean they

shouldn't get it. I think that we have to clean up both of those.

I'd be interested to see what the response is from staff on what we would have to do to correct this and how we would go about that process. But I think that we definitely shouldn't have a problem going to the trustees and saying, Look, we need to fix this.

MR. TAYLOR: Vinny, if it's okay with you, I can try to add a little bit of context.

MR. OLMSTEAD: Yes, please.

MR. TAYLOR: I think clearly a lot of great points. It's hard to conceive of every potential fact pattern as you're kind of going into designing the documents. It's hard to kind of think about where you're going to be five, six years or so from where you start. And that's just the nature of transaction drafting. So all good points.

The issue -- the particular issue that I think we're running up against is this concept called substantial risk of forfeiture, which is a tax provision, and it is what keeps plans, what you call, I guess, the unqualified space, from generating income to individuals that are in the

plan before they actually get paid.

And because we've got accruals and such that are actually happening here in this particular plan, that substantial risk of forfeiture helps keep people outside of some particularly potentially pernicious tax issues. But that's generally why that's there. It's more of a tax issue for the participants themselves to have it there.

In terms of whether or not that can be changed, to be perfectly honest with you, I'm not familiar enough. I don't believe there's anything specifically in the plan that would contemplate that, but it's certainly something that we could discuss with the general counsel's office and possibly with outside counsel, Groom, who helped us draft the plan to begin with, and see what latitude may exist from a tax standpoint there.

In terms of the logistics, my familiarity with the plan right now is this was a plan that was actually executed by the trustees themselves, and so changes to the plan would -- and that is actually addressed in the plan, is the amendments to the plan have to be made by the trustees. So

to the extent there is an amendment called for, I think it would be something that would have to be raised to the trustees and --
MR. COLLINS: Can I interrupt you here for a second and ask a question?
MR. TAYLOR: Sure.
MR. COLLINS: So in this particular case -- and I know this isn't just about Ash, but in this particular -- whoever it was in Ash's position, would an amendment to the comp plan carving out an allowance for retirement, being an allowed absence, if you will, or an allowed departure, would an amendment as simple as that take care of this issue, or do we have to get more specific?
MR. TAYLOR: Yeah. It's an interesting question. Kind of an answer there, the plan actually does have a retirement provision in it. And that was -- and it's a provision that says that in the year in which you become retirement eligible, which basically means the year in which you turn 65, the payout for you in that year is 100 percent of the payout. It's not the 50 percent and 50 percent. You get 100 percent of the payout in that year.
And that actually occurred in this case back

in 2019. So that was when that retirement -- and you can, under the tax rule, have sort of a one-time retirement-based provision that permits some sort of special circumstances for retirement. It doesn't necessarily jeopardize the taxed asset plan. And so that was actually embedded in the plan and in this case was triggered in 2019.
MR. COLLINS: Sorry. I'm on mute. So I'm a little confused. So if it's got an allowance, then what is our issue in this particular case?
MR. TAYLOR: Well, because the allowance was triggered in 2019, and so there was a 100 percent payout in that year of 100 percent of what was earned. And so -- but sort of the catch there is that if an individual who becomes retirement eligible continues to stay in employment and continues to stay in the plan, then you're kind of at the mercy of, well, you're leaving money on the table essentially the year that you retire, if you leave before --
MR. COLLINS: Right, okay. Okay. But just because you're eligible doesn't mean you do retire. I mean, if you don't retire, then it shouldn't somehow have triggered you shouldn't

get your bonus.
MR. OLMSTEAD: He's still being penalized because he's leaving in December versus September. I mean, he earned it for the previous -- like the way I look at it, he earned it for the previous year, right, July 1, 2020, to June 30, 2021.
And now we're all the way in September, it hasn't been paid out yet. He retires. If it's paid out in December, it just seems inequitable either way, whether you take that provision into account or not into account. If he waited until this year to use that provision, guess what. He still wouldn't have gotten paid.
So the inequity is he's still not getting paid for compensation that he fully deserves, especially based on performance. I get if he was leaving to go to CalPERS or something and I wouldn't want to pay him. But he's -- it's been a long time and he's retiring.
Again, hopefully we can try to come up with some clever solution around something that probably is not going to happen a lot and sort of reward him for what he's done.
MR. COLLINS: I'll go back to my comment

before. I think we just need an amendment to the plan that we need to put in front of the trustees and have them approve that amendment. And if we approve that amendment, we don't have to get into them directly approving some amount for some person. Right? Is that a correct statement?
MR. TAYLOR: To be perfectly honest with you, I don't know, Peter. Honestly, I have to go back to the lawyers there, those that are still practicing lawyers, and ask the question in terms of what really is the latitude in terms of the amendments you could offer in this case.
I think the -- because, again, what you want to avoid is embedding something that does not continue to permit the substantial risk of forfeiture provision in the plan, because then you may, in going forward, sort of set a tax trap for whoever is actually in that plan.
And so the amendment may be some sort of one-off override, some sort of ability for the board to exercise some discretion to, in certain circumstances, take some action. So I think it's hard to say exactly what the parameters of that amendment may be. But certainly we can go to general counsel and Groom, ask the question to

see what latitude is available.

MR. COLLINS: That's what I think we should do, Mr. Chairman. We just need to see from external counsel what we need to do to amend the plan, and then we just need to recommend it and talk to the trustees about it, I think.

MR. OLMSTEAD: Yeah. It sounds like we need a follow process that staff will go to general counsel, internal and potentially external, see if there's -- see how this can happen. And what we as a compensation committee would do is make a recommendation that we make it happen. And if we -- let's push on this front, and we'll see what happens.

I think if you take that step back, I don't think anybody in their right mind would say this is what the intent was or that this is the right thing to do or this is equitable, and in fact would say, wow, look at the $14 billion, which I know it's more than Ash, it's a team, but when you're at the helm, you deserve to get rewarded as though you're at the helm. And so let's make it happen.

MR. COLLINS: Yeah. And I would just say, whatever we can do to that end is better, I

think, than us coming out -- I'm just worried about a little headline risk or people not wanting to take a little headline risk of somebody getting paid on the way out the door, you know, some large amount of money.

Even though it was earned, even though it's part of the comp plan, I'd just like to see if we could avoid that headline risk by just amending the plan to make up for a provision that might seem innocuous.

MR. PETER JONES: Mr. Chairman, can I ask a quick question, please?

MR. OLMSTEAD: Of course. Peter Jones.

MR. PETER JONES: You made a reference to the fact that incentive comp wasn't paid a year ago because of the extra volatility that triggered a provision that prevented that being paid. So it makes me wonder. Is there another -- I know these comp plans are complicated.

Is that another flaw in our comp plan? Should we look at that provision and reconsider it as a performance -- we had a lot of volatility. That can happen again. But if the team does a good job, those deserving of

incentive comp should still receive it.

MR. OLMSTEAD: I think that is being addressed. Lamar, why don't you comment on that. Peter, good observation. Lamar, why don't you comment on that.

MR. TAYLOR: Yeah. And that's actually later on in, I think, item 8. We've kind of got this coming up, and Alison and I were going to kind of go through that. We can do it now, if you want, or we can wait until item 8 and we can sort of go through it in detail.

But that was absolutely one of the issues that was raised last year. Alison and team have done a lot of work on thinking through that. And so we can talk about that then, or we can talk about it now if you want to.

MR. OLMSTEAD: Let's stick with the agenda, and we'll hit that later. I don't think it's going to help or hurt to do it now versus later, and I know that the Mercer folks are on. So I think we know our marching orders on this one, so let's keep moving the agenda along.

The next piece is Ash, who is going to provide some opening remarks, and then Ash will hand it over to Josh Wilson at Mercer. We will

have a discussion on Ash, and then we'll hand it back to Lamar and Alison to go through the current plan recommendations there. So, Ash, all yours.

MR. WILLIAMS: Thank you, Mr. Chairman, and thank you all for your kind remarks. I really appreciate it. A couple of things were said earlier that were absolutely true and are worthy of magnifying. Number one is the success that the SBA has had reflect those of a significant team of professionals who have accepted their responsibilities and run with them with vigor and competence and integrity and accomplished really great things over a long, long period of time.

So as much as I'd like to go out and wave my own flag, maybe I had a role in getting those people where they are and keeping them there and fueling them in a way that they were motivated and rewarded to do the right things, but at the end of the day, I'm just another cog in this whole thing.

The other thing I would say is something, back to something Peter Collins touched on, which is the very existence of this committee and the rational, fact-based, objective, merit-based conversation we're having, with the good support from Mercer, this is something that for a new member like Robb Turner, this is probably something that seems rational.

Every private company you've ever been involved with has a comp committee. There's always a rational linkage between reward and expected result, and there's a consequence for failure, usually termination, and there's a consequence for success, which is usually some kind of reward.

And that's what keeps the wheels of free markets turning smoothly and gets rid of bad ideas and reinforces good ideas and magnifies them. That's part of the reason this country has dominated the world for the past hundred or so years.

But in public pension land, this was anything but the norm. And just to magnify a couple of points that were made earlier. When I got back to the SBA in the fourth quarter of 2008, compensation at the Florida State Board of Administration was in the 25th percentile of public funds in the United States. That's all public funds.

And you consider that we're one of the largest and always have been and have always managed substantial assets in house, have always had a complex portfolio, that just made no sense. And when I came back -- here are some numbers for you.

In the 12 years I had been in New York on the private side, the assets of the SBA had increased, I think, four- or fivefold before declining in the great financial crisis. And the number of mandates managed had gone up by a factor of about five.

So the client base and the complexity of handling different mandates, all of them with customized benchmarks, different risk and liquidity preferences, et cetera, all that had changed. Yet over that time, the budget of the SBA had essentially remained flat for 12 years, 12 years we're talking about here, and the head count had gone down.

And I remember reading those metrics when I was looking at coming back and thinking, wow, we used to put a lot of time and effort into staying current and getting people on the road and training and being opinion leaders and making

sure the systems were tight and current and best practices were followed. What has gone on here? I mean, the mantra that's been followed has basically been one of, let's take the general mantra government is bad and let's shrink it and it will be better.

The problem is you're treating an asset management institution like it's government. And if there's one value that I hope I can leave on the SBA is we do not want to think of ourselves as running the way the government runs. We want to think about ourselves as running like a decent asset management -- not a decent, an excellent asset management institution runs.

And so one of the early things we had to wrestle with was getting this comp thing fixed. And with the help of the IAC, the very active involvement of the IAC, the support of several generations of trustees -- and I think where this thing really, really took root was when Rick Scott was governor.

Obviously, Governor Scott had strong private sector roots, and by virtue of his corporate history and his family office experience, he knows a little bit about the power of proper

asset management skills and good fiduciary talent, and he was fully supportive of this initiative.

And Mercer's role can't be underestimated. Bringing in a third-party expert that was independent, et cetera, contractual fiduciary to the board, all that good stuff, was absolutely critical.

And the proposition we made of a fact-driven, data-driven, merit-based mechanism to link -- to first of all set up what expectations for performance and reward should be.

Secondly, to execute those in ways that meet the appropriate standards of transparency, public records, public meetings, et cetera, for operating in a government environment as we have in Florida, with incredibly powerful public meeting and public record laws, was no small thing.

And it took six years of busting the pick on hard rock to get this thing done, six years. I mean, I don't know how long it took Nelson Mandela to get squared away in South Africa, but it felt sort of like that, not to minimize his

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travails compared to this. Not comparable at all, I know.

But at any rate, that's what's been involved here. And the fact that we got this done, the fact that we have implemented it now through multiple sets of trustees successfully, flawlessly, and interestingly, the only press we've ever had, the only press we've ever had on this has been press that has said, Wow, these people are getting paid some bonus money. You know what? We read through the materials, and if you look at what the performance is they've turned in, this is a great deal for the taxpayers. We're glad they're getting the money. Who would have thought? That just doesn't happen in press land.

So I can also tell you this program has been emulated or attempted to be emulated by a number of our peers in public pension land because it does work, and it is a source of pride for me and for all. Are there aspects of it that we could tune up? Sure there are. And we're going to get to that in item 8. And Lamar and Alison will give you a thorough report on the work we've done there.

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And we're, what, six years into the program, I guess, and full implementation, and the normal path is to review everything for best practice about every five years. So we're right on cycle for that. And we're looking at a number of variables here.

So I think you're following the right path. I'm not going to conflict myself by egging you on on something that I've got a conflict the size of a boxcar on. And I will say, for the record, I wasn't part of teeing this up. But we'll come back to that.

But I think the importance of this, the value of the work you're doing here cannot be overstated. And if more of government could set up the kind of accountability that this process provides, we'd be better off.

And, of course, the other half of that accountability is the negative side. And that is, if somebody doesn't perform or, worse, they do something wrong or bad, especially if it's knowing, it's our responsibility to deal with it at the executive management level. And I think we have done that religiously.

And if you look at the turnover that's taken

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place in our investment officers and our management team throughout the SBA, if there's one pattern that's been unambiguously clear over the past decade-plus that we've been on deck managing this ship, it is that if somebody breaks the rules, ignores the policy, disregards direction, causes bad outcomes, they will be escorted off the ship, period, full stop, and it won't take long.

And that culture, that investment meritocracy is what produced the results that, Vinny, you opened with. And that's what we need to protect and preserve here. And I want to thank every one of you, plus all of our colleagues at the SBA who made this happen. Thanks.

MR. COLLINS: Vinny, I think you're on mute.

MR. OLMSTEAD: I am. Ash, thanks. I agree with those comments. Josh, are you -- and, Mercer, you're up. I'm not sure if you're going to put your presentation up, but if you could, that would be great.

MR. WILSON: Amy, can you put up the appropriate slides, or what's the best thing to do here?

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MS. WALKER: I can get them in just a minute. If you have them handy, I can turn over presenting to you.

MR. WILSON: Why don't we wait for you to do it, otherwise, I'm sure I'll -- my technology skills are second behind Ash, so we'll wait. But let me go ahead and just talk. I think the first thing I'm going to talk about is just the construct of the plan, which I believe Chairman Olmstead kind of gave an overview of, which is the incentive plan for the ED/CIO is based on two components. One is organizational and one is individual.

Together, for the ED/CIO, the target incentive is 35 percent of their base salary. At the current time, the ED/CIO's salary is 592,250 and the target is 35 percent. That's target of 207,288. It's broken down, 85 percent based on organizational and 15 percent based on individual. Roughly broken down, that's about 30 percent of the total amount is -- or 30 percent of the 35 percent is based on organizational, and 5 percent of the 35 percent is based on individual.

The organizational obviously is purely

financial, and we can talk about the results of that. What we talk about generally here in the compensation subcommittee is the individual component. And the way that's calculated every year is based on feedback from the IAC members. This year we had three. In the past we've had four. Ambassador Chuck Cobb was on last year but is no longer on the subcommittee.

So we base it on the feedback we gather, and it's based on four components. And we'll go over those in a second. And then looking at the overall results, just historically they've been very strong for Ash, and I think this year might be a new high for Ash, so he's going out like Michael Jordan, if you will.

So any questions on the plan overall? You can see here the targets and the maximums. The maximum is, just for reference, 150 percent of target. We might want to talk about this a little bit later, but that's a little bit below where we see the market in terms of maximums. Typically the maximum is two times target. In our case, when we designed this plan in, I think it was 2014, was the last time we touched it, we decided to be more conservative and go with one

and a half times target to get to maximum.

From a dollar perspective, that goes from 207,288 to 310,931 in terms of maximum opportunity. And you can see how it breaks down between organizational and individual.

One note, and we'll get to this later, the plan was designed conservatively. We were introducing something that had not been done effectively before the IAC pushed it, along with Mr. Williams. So we introduced a very conservative plan, most conservative at the top of the house, because that's what gets the most attention.

And the plan has been working, from my perspective, very well. Turnover has been down. Performance has been great. And I think -- and I look at the different states that I work with, different organizations. One of the things that you can predict success with is lack of turnover and consistency in senior leadership.

When you have that, you generally end up with good results. And certainly I have seen that with the SBA since the day we started working with you in 2012. Ash has built an incredible team around him. Even if people have

turned over due to normal turnover, like retirement or people moving away, the people that have been backflow have been fantastic and have not missed a beat.

So it's been an absolute pleasure to have worked with the SBA for the last nine years, and we hope to continue that going forward. Any questions on the incentive plan design?

Okay. Then perhaps we can move to the actual evaluation. So here, if I could just stop for one second, this is sort of the process -- go back a little bit there. Go up a little bit. Stop right there.

So if I can draw your attention to the second sort of main paragraph, which are the criteria for performance evaluation. And there's four of them. The first one is overall mission. The second one is people. Third is efficiencies, infrastructure and operations. And the fourth area is interaction with the IAC and the audit committee. And those are the four areas that Ash was -- the ED/CIO was evaluated on and has been consistently.

As we look at this over the years, there's nothing we would change here. Obviously we

commend the fact that "people" is in there. It's not necessarily in every plan that we see. It should be obvious, but it's not.

So now if we can go down to the actual the evaluation. Terrific. So you can see here the three members that completed the survey were Mr. Wendt, Mr. Collins and Mr. Olmstead. As mentioned before, last year we also had Ambassador Chuck Cobb, but he has since retired. So some of the numbers might look a little different. That's because we have a denominator of three versus four. We can go to the next page.

MR. OLMSTEAD: Hey, can I ask a quick question there?

MR. WILSON: Of course.

MR. OLMSTEAD: And I think I brought it up last year. Is there anything that would -- I like obviously a subcommittee. We don't want the entire IAC. Is there anything that precludes us from actually getting surveys out to each of the IAC members and then reviewed and aggregated by the subcommittee?

MR. WILSON: I don't think so, no.

MR. OLMSTEAD: I think it's fine that it's three. I just think in the long run, it may not be a bad idea. I mean, it doesn't take that long to complete it. It validates representation by each of the trustees and their appointees. And then -- you know, three is great, but one number sort of skews things.

So if you had nine people filling it out, it seems like the math would work a little bit better. So I took that into consideration as I went through it this year. I think, even if I weren't on the comp committee, I certainly wouldn't mind spending the half hour to 45 minutes it takes me to complete this.

MR. WILSON: Sure, makes perfect sense. Any other questions on this page, then we'll move on? Okay. So we can go to the next page, please. What you have here is the summary of the ratings, the amalgamation of the four last year and three this year ratings on the different categories.

You can see '21 is in the middle column and 2020 is in the right-hand column. Across the board, actually, the scores were higher this year than last year. And it's out of four, so you can see top marks in everything except for interaction with the committees. And as we go to

the individual pages, you'll see the commentaries that were made. So we can go to the next page.

MR. OLMSTEAD: When I looked at this last page, not this page, the page before it, I was trying to figure out whether, Ash, you're doing a much better job or if Ambassador Cobb was just a really hard grader.

MR. COLLINS: Yeah.

MR. WILSON: You can see the overall mission criteria listed here. I won't read it to you. But Ash received a 4 out of 4 here, and you can see some of the commentaries provided by the committee below.

MR. COLLINS: By the way, these comments, I'm not a big one for commenting on those things, so if there's three people on the committee, the two comments are probably not from me.

MR. WILSON: On the people side, I think all of us would agree that Ash is a fantastic people manager, and as evidenced by the staff and the consistency, et cetera, et cetera, so not surprising here.

And I think a lot of reflection on the pandemic and how SBA operated during that, no small task, what was done. And, again, the

highest possible rating was achieved.

Here was the one area where a top score was not achieved, and you can see the commentary there. And finally, the overall rating given by each of the members was a 4 out of 4, with no commentary. I think the 4 out of 4 speaks for itself.

MR. TURNER: I'm sorry. Can you go back to that slide about interaction with the committees? Right here. I was just curious. How much of this is on Ash and how much of this is on some of the members? Because, honestly, you'd have to make an effort as an IAC member to have more interaction as well.

That was one of the things that stood out in this to me, is it did come out as a lower rating. Sorry, Ash. But I wondered how much of that was on us as IAC members versus, you know, Ash. For you more seasoned IAC members, what do you guys think?

MR. COLLINS: Here's how I view this. We're a board and we shouldn't -- we're not operating the board. We're just an advisory board. So, you know, Ash is the CEO. He does his board meetings. I'm not sure what people want, right,

that are scoring him lower than that. I'm not sure what they want. Do they want him to call periodically? Do they want to have more interaction at the meetings? I'm not really sure.

So it's a great question that you asked, and I think it might be an educational thing. We didn't come up with this category. I think Mercer came up with this category, in conjunction with the staff and maybe the original people that put the comp plan together. I came in just as we were approving the comp plan, so I wasn't involved in the design.

So I'm not really sure how you even really measure this. I could have five conversations with Ash a month and come away unsatisfied. So is that bad communication? I don't think so. I'm just not happy about the communication. So I'm not sure exactly what we're measuring.

MR. OLMSTEAD: Peter, just from my perspective, I'm not sure if the subset should be interaction or should it be do I, as an IAC member, fully understand my job and what I'm supposed to know. So you sort of get thrown into this position. You go through a full day of training. And then you show up once a quarter.

So you're sort of a little bit wondering, you know, what you can say to whom, when you can talk with a group or not a group. It's sort of -- it's an interesting process, different than public boards and private -- other private boards.

And so the category I think would be important is, you know -- and this is probably a subset -- is are we educating the IAC members well enough so they know exactly what they are doing. My understanding of the job of the IAC of all of the above took a few years to get there, and then it exponentially increased when I became vice-chair and chair, just because I had more exposure.

And so my advice back to whomever follows up with this -- and if I had an in-retrospect comment on this, which I didn't, it would be, you know, continuously keep folks up to date on what they should and shouldn't be doing and how they should be looking at some of this type of stuff.

Again, I still gave, in this particular case, the highest grade, but I think there is an opportunity to -- whether it be interaction or

education, to continuously keep up with the IAC members, especially as they're coming up the learning curve.

MR. WILLIAMS: Mr. Chairman, can I offer a comment on this?

MR. OLMSTEAD: Please do.

MR. WILLIAMS: Thank you. So let me just give one perspective that may be helpful on this. First of all, I think -- I know my experience has been, especially during 2020, because of the pandemic, because of escalated China issues, escalating other issues we had that involved the pension fund that had roots elsewhere in society -- can you say politics -- we had a number of situations where we needed to keep the IAC informed, get your guidance, have you inside the circle of decision-making and be able to truthfully reflect to the trustees that your guidance had been sought and captured, and with the benefit of it, we were reasoning together and came up with whatever solution we were recommending.

The amount of contact that we had with the IAC during 2020 is probably among the highest there's ever been, going back to the late 1980s.

And the reason was all these weird things that kept coming up. And because we were meeting by video, it was much easier to do. So that's point one.

Point two is, the IAC for many, many years was six individuals, which made for much, much easier communications, because it was six calls to talk to every single person individually. Now it's nine.

And I remember how that happened. That initiative came forward. Just to be blunt with everybody, one of the greatest resources we have is the quality of our governance. And several generations of trustees ago we had a trustee who wanted to change the governance of the Florida State Board to match that of CalPERS.

Now, I will withhold judgment on the wisdom of that move or explaining it, but at the time it came up, I did get actively involved in coming up with some alternatives. And one of the alternatives was to expand the IAC from six to nine.

Now, what has been the result of that? It's just a whole lot harder to manage all the communications. And as we've seen, you know,

some IAC members are going to be actively engaged and are going to participate, whether they're involved in a particular subcommittee or not. Others, less so.

The other thing to remember is we're in a state with a really strong public meetings law. I can't be an intermediary for more than one trustee for any discussion -- I mean more than one IAC member or trustee for any discussion that may come ahead of that entire group, which means the only way I can communicate with everybody is just do one-offs as needed or call a meeting and notice it and make it accessible to the public, or make nine consecutive phone calls if I want to talk to everybody.

And I don't need to tell you, we're all busy and moving around and everything else, and getting nine consecutive calls scheduled is no small thing. You've got to really want to do it. So it could be we need a little clarification on this, but I can tell you without qualification, I'm available seven days a week for everybody. And a number of you know, because we've done calls over weekends or at night or whatever on various things, when something needs doing, we do

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it, period, make it happen, no questions, no business hours, holidays, anything else, just make it happen. So --

MR. OLMSTEAD: And, Ash, that's a good point. You are always -- you respond to, whether it be my text or email, faster than I respond to yours. And whether it be you or trying to understand something from John Bradley, I do think the reaction time is exceptional.

MR. WILLIAMS: Thank you. Well, where I was going with that comment, if we really want to change the degree of interaction, one thing that we might think about is, over time, evolving the IAC to a smaller institution and size. We could do that without disadvantaging any of the current members, just use the natural roll-off of seniority, as terms expire, to go back to the six, if we want to do that, and we could change the law at the appropriate time.

MR. OLMSTEAD: But the reality is, you got one point off from one person here and still a high grade. I don't think this is a -- I honestly -- although that's a fair point to discuss, I wouldn't interpret this as an overly negative thing, especially given the fact that

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when it came to overall, 4 out of 4, so great job.

MR. COLLINS: Ash, is it a law or is it a trustee policy that it went to nine?

MR. WILLIAMS: Florida Statutes.

MR. COLLINS: Okay. I agree with you. I mean, nine is a lot. And we can get into some governance conversation later. I'm just going to -- I'll let that pass.

MR. OLMSTEAD: Yeah, let's save that for another day.

MR. WILSON: I think, from my perspective, when you ask for subjective opinions, you might get them. Right? So you catch someone on a bad day. That's sort of the good and bad of the subjective portion, which is partly why it's not 95 percent. It's 15 percent. And I think the overall rating, to me, is what really matters.

I just think it's -- I wouldn't make too much of one person deciding this was something they wanted to pick. But, again, overall, 4 out of 4, I think -- and this has been consistent. I think Ash -- since we started this process, Ash's individual ratings have been fantastic.

Any questions on the evaluation process or

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outcomes? I think I'm going to turn it over to Ash to talk about himself.

MR. COLLINS: See, all of us are being good, Ash. None of us even took the bait and swung at that.

MR. WILLIAMS: Yeah, no issue. I already made my comments, and I'm good with all of this. Thank you.

MR. OLMSTEAD: I think the next -- correct me if I'm wrong here, but I think the next piece of business is for the subcommittee, which is Peter and I -- happy to have other folks discuss it, but I think the intent now is twofold. I don't know, Mercer, if you have more comments before we get to the discussion or if you're done with your prepared remarks.

MR. WILSON: Well, if I can, I just wanted to talk about, as we talk about actual salary, you know, what we've done historically is recap it. So as mentioned, when we started working with the SBA in 2012, the total compensation for the ED/CIO was $325,000. That was salary. There was no bonus. And that was well below median.

And we've spent the last eight years-plus trying to get the ED/CIO -- along with the rest

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of the staff, right? We're talking about the ED/CIO, but we didn't put an incentive plan in place just for that. We put an incentive plan in place for all of the investment positions, to make sure that they are competitive with the market. We just talk about the ED/CIO here.

And over time, we have increased it. It's been a journey. That's absolutely for sure. What we've done is we've looked at the market in a variety of ways and we've made recommendations, and the IAC has taken those under consideration and awarded increases, both merit and market, along the way.

So if you scroll down, last year we recommended -- I think we'd actually gotten to a level of salary last year where we said Mr. Williams is caught up to the market. And that was when he was at 575. And you can look at this data right here. There's four points that we looked at last year. This is last year's data.

MR. OLMSTEAD: Are you all seeing the slides?

MR. COLLINS: Yeah.

MR. TURNER: Yeah, I can see them.

MR. OLMSTEAD: My are frozen, must be.

Okay.
MR. WILSON: So there were four data points we looked at last year, about a year ago. We looked at the median of the top five public funds. And those are CalPERS, CalSTRS and two from New York and Teachers Retirement System of Texas. The median salary is 450. And for those of you who know the details, you have sort of haves and have-nots. The New York retirement funds are the ones that have not, and the CalSTRS, CalPERS and Texas are the haves.
If you look at a slightly larger group, it was about 14 public pension funds. The 75th percentile was 566,000. When you look at even a broader set with 20, the 75th percentile was 515. And when you looked at Mercer's pension fund, which is a little bit different than the other groups you've been looking at, the median -- or sorry -- the 75th percentile was 586.
So at that point, what the recommendation was from Mercer to the IAC was, you don't need a market adjustment point. We recommend a merit increase. And I believe the IAC then recommended a movement from 575 to 592,250, which is where we are today.

If we were making recommendations this year, if Mr. Williams was not retiring, we would recommend the same. Based on the performance that you just saw, with an overall rating of 4 out of 4, we would recommend a merit increase based on that. Mr. Williams' salary is consistent with the 75th percentile of the market. The market has moved a little bit this year, but it has not moved dramatically. So we would recommended a merit increase, not a market adjustment.
MR. OLMSTEAD: Hey, Josh, one of the things I struggled with last year, which I struggled with this year, too, is total comp is different than base salary. And so you made a comment earlier that, you know, X percent of the CIO's comp is variable, and some others have 2X.
And so it's hard for us, I think, to even begin to weigh in on whether it makes sense or not unless we understand the total package. And so I know -- I'm not sure. I know there were some challenges last year to getting that. I still think, in perpetuity here, understanding total comp is much better than understanding just fixed salary.

MR. WILSON: Absolutely. And we appreciate that. We came back last year after the meeting with a memo to the group. And let me just recap some of that and then give you some data that we have from some of our other clients.
We looked at the top 14. Right? So we looked at this number two bullet, the larger public pension fund peer group that had a median of 566 -- I'm sorry -- a 75th percentile of 566 for just salary. When we looked at those, the maximum amount of total compensation, which means the salary plus the max bonus they could achieve, was a million one, rounded off. It was 1,079,000, but rounded off to a million one. That was the maximum they could achieve if they maxed out their incentive plan.
That same number for Ash now, including the increase you gave him on salary to 592,250, would be 903. So you're comparing a million one for the other 13 public pensions to 900,000 for the SBA.
If you want some individual data points, let me give you those. For CalPERS, for example, the maximum is 1.7 -- sorry, a target, because that's how we did this -- 1.8 million for CalPERS. And

that includes a salary of about 560,00. Now, the job is open right now, to be fair, but the salary, the last salary was 560,000. They have a target incentive.
Now, remember, your target incentive is 35 percent. Their target incentive is 100 percent with a two times upside, so up to 200 percent. And -- and this is unusual, so it's worth hearing for the IAC.
They're putting in a long-term incentive plan, LTI, to boost the competitiveness of that job. The total package at median is 1.7 million, 1.8 actually, 1.77, and at maximum, it would be about 2.3 million. That's a data point. CalSTRS --
MR. COLLINS: -- a long-term incentive in there, and I think the last four people have lasted, what, three years max individually?
MR. WILSON: On one hand, they don't have to pay it out. On the other hand, I think their intention is to stop that turnover. Right? As I mentioned before, one of the biggest indicators we see of long-term strong performance is a stable leadership management team. And, clearly, you've not seen that in CalPERS.

CalSTRS' numbers, about a $575,000 salary. Again, a 100 percent incentive target, so a total cash target of 1.1 million. We mentioned Texas Teachers. They just had turnover about two years ago when Britt Harris left to go to University of Texas. So he went from a $160 billion fund to a $40 billion endowment, made a lot more money to do that. But the new replacement for him, Jase Auby, has a salary of 450, a target incentive of 63 percent, and total cash of 733.

Wisconsin, which is slightly smaller than Florida, at this point probably significantly smaller than Florida, they had a CIO who came from you, David Villa, who passed away earlier this year, but his last salary reported was about 670,000 at base, a 50 percent incentive, for a total package of about a million. And there are some other ones like that.

So you can see from -- you know, you look at large and leading. The salary, I think, is perfectly competitive. As I mentioned before, when we put the incentive plan together, we created it to be conservative. It has achieved the goals, but it is still conservative. Others have moved up and others have added pieces, like

the long-term incentive.

So when we look at the total compensation, you're probably closer to the median, maybe even slightly below when you look at large and leading pension funds, mostly because the short-term incentive target and sort of upside is a little bit lower, more conservative, than some peers.

MR. OLMSTEAD: Josh, that's very helpful. I would recommend next year adding that into the presentation, because I think it gives us some wonderful context.

MR. WILSON: Sure.

MR. OLMSTEAD: And is helpful. And if there's any way -- I think the other piece that may be helpful is tenure. Tenure is a component to me, which, again, someone one year versus somebody like Ash, who has been doing this 13 years with a consistent track record, is another variable that may be interesting to understand, not for today, but I appreciate the comments there and would incorporate that, because what I think we can see here is that we're at least getting to competitive, although we still may be a little bit behind, maybe a little bit behind market, especially on the performance side, where

we're at 50 percent and some of the others are somewhere between 60 and 100 percent.

MR. TURNER: Josh, I think on top of that, when you -- that was helpful. If you could put the -- next year, when you lay that out, put the actual results of those various pension plans, too, so we can compare and contrast.

MR. WILSON: Yeah. I mean, one of the things in our line of work is, you know, results are going to vary year to year. So we tend to look at targets, because someone is going to have a good year, someone is going to have a bad year. You don't want to penalize your person one way or another. So we do look at targets.

But I think looking at overall performance, if you look at a longitudinal study, helps you understand, should you be where you are. Is there a disconnect between pay and performance and those types of things. I think everyone would agree. If you look at Florida's performance over the long term, it's been very strong. No issues with paying -- you know, plus tenure. No issues with paying a salary at the 75th percentile.

I bet if you had to do it over, you'd all

wish, hey, maybe I wish we had more of an upside so that if you knocked it out of the park like Florida has done, you could reward the people who did it. But hindsight is always 20/20.

MR. OLMSTEAD: Okay. Josh, any more info?

MR. WILSON: No, sir. Happy to take any questions.

MR. OLMSTEAD: I'm good. Peter?

MR. COLLINS: I'm good.

MR. OLMSTEAD: Peter Jones, any other questions for Josh or Mercer?

MR. PETER JONES: Not from me. This is Peter Jones. Thank you.

MR. TURNER: Not from Robb either. Very helpful. Thanks.

MR. OLMSTEAD: So I think now it's time to discuss the individual component. I don't know if you can bring the page up that Mercer showed where it was the summary of salary and individual component at the threshold, target and maximum. I have it in front of me.

This individual component ranges from 15,547 at threshold, target 31,094 and maximum 46,640. And I think, Peter Collins, you and I probably need to have a discussion, and I'm happy to have other people's input, on what we hope to be is an individual component that's paid out that very well may -- equally could not be paid out, but I think we should go on the record on that front.

So, Peter Collins, if you have some comments there, I obviously have some opinions on this but would love to hear you, too.

MR. COLLINS: So are you on -- so I'm looking at the -- okay. So they put it on the screen. So I'm looking at the same thing in the materials that were sent to me.

So explain this table to me again. I know we do this every year, Josh, and I'm sorry, but explain this table to me, the total incentive opportunity. And I know we're only talking about the individual component here, right?

MR. WILSON: Correct.

MR. COLLINS: So explain the threshold, the target and the maximum.

MR. WILSON: So forget the total line for now, the 35 percent line. Ignore that, because that's just the sum of the two lines below it. The organizational component is determined entirely by objective performance. Right? So how the fund does is where this breaks down.

There's a target outperformance level for threshold, a target outperformance level for target and a target outperformance level for maximum.

MR. COLLINS: And we don't have any input on those metrics, right? Those are just --

MR. WILSON: Those are formulaic, right. So as the SBA performs, the incentive plan gets funded accordingly. So if you blow the doors off it -- you know, if it's somewhere between target and maximum, you interpolate on a straight-line basis.

So what you're talking about here is the individual component, which ranges from -- let's forget the -- a percentage basis, the target is 5.25 percent, which is 15 percent of 35. The minimum, if you said he's doing an acceptable job but it's really not great, we're going to give him the least amount possible that's not zero, it would be 2.62 percent. If you say he's actually killing it and we're going to give him the highest possible, it's 7.875 percent of the total.

From a dollar perspective -- so this is the same table twice, one with dollars, one with

percentages. If you look at the bottom table with dollars, your decision as an IAC is either zero or, if you're going to pay something, you're going to pay something between 15,547 and 46,640.

If you said he's doing just an average job or meets expectations, you might say we're going to be in the middle at 31,094. Based on where you rated him, presumably you'd be somewhere between -- somewhere towards the top of the scale, maybe at the top at 46,640. If he'd had mediocre performance but you wanted to give him something, you might angle more towards 15,547. Does that help?

MR. COLLINS: Yes. Vinny, I don't have any other comment, other than to say, based on performance, I'm certainly comfortable recommending the maximum, the 46,640. We all know the challenges last year. We all know the incredible volatility. And we know the performance, the end of the -- the ultimate performance of the fund.

And I don't think there's -- I couldn't imagine splitting hairs between $31,000 and $46,000. And it's hard to say that they're not -- he's not on target. And so we're picking

some range between that target and maximum. So I would certainly be comfortable recommending the maximum.

MR. OLMSTEAD: Yeah. And given the fact that it was overall 4 for 4, I think it's hard to argue --

MR. COLLINS: Yeah.

MR. OLMSTEAD: -- the maximum. Out of curiosity, on the individual component or the organizational component that is formulaically driven, does the formula drive threshold versus target versus maximum?

MR. WILSON: There's a level of outperformance. I believe it's 5, 25 and 50. Does that sound right? So it's 5 basis points of outperformance at the threshold, 25 basis points of outperformance over the benchmark at target and 50 at maximum. And that drives it entirely. So it's just a formulaic calculation.

MR. OLMSTEAD: Got it. And so us deciding maximum here doesn't mean on the organizational side it's maximum. That's purely formulaic, just to be clear.

MR. WILSON: Correct.

MR. OLMSTEAD: So, Peter, I think you and I are on the same page. I don't think there's any dispute here that the maximum has been earned on the subjective side. And I would -- I don't know if we need to make a motion, but I would make -- I assume we need a motion and a second, but I'll make a motion for the maximum.

MR. COLLINS: I'll second it.

MR. OLMSTEAD: We can both say aye.

MR. COLLINS: Aye.

MR. OLMSTEAD: And even if Gary voted against it, we have a two for one vote, so we're in good shape, which I am 100 percent positive Gary would be supportive.

MR. COLLINS: Yeah.

MR. OLMSTEAD: All right. Well, okay, so I think we're good. So we're up to approval on that piece of it.

And I think the last, before we have any other business or audience comments or all the other fun stuff, which I doubt we will have, is Lamar and Alison are going to talk to us about the very question that Peter Jones asked about earlier, which is the overall SBA incentive compensation plan. So I hand it over to you all.

MR. TAYLOR: Absolutely. So we'll go there.

I guess just to kind of -- just a little bit of a recap in terms of kind of where we got, in terms of charges. The committee would like the staff to go back to general counsel's office and counsel to determine the latitude for amendments with respect to modifying the plan to permit an award notwithstanding Ash's retirement this year, and that as an element of whatever that is, to the extent there's a payout, you would recommend maximum incentive -- the qualitative component be maximum as a payout. Those are the two takeaways so far from the --

MR. COLLINS: I think that's right as far as I'm concerned, Mr. Chairman. I don't know if you wanted something additional.

MR. OLMSTEAD: No.

MR. TAYLOR: All right. Very good. Bear with me just a second. I'll get the slides.

MR. COLLINS: We're finally going to get to hear from Alison?

MR. TAYLOR: And I know this is going to be a little bit harder to see, but it's item 8 in the materials that we sent around. It's Attachment 4, item 8 on the agenda.

So if you recall last year, when the

compensation subcommittee met, there were a couple of things we discussed. One, we discussed the fact that the compensation plan did not trigger because of the risk inception that was an element of the plan. We discussed that at length.

We also discussed the fact that a few years ago, the SBA undergoes a periodic governance risk and compliance review, and as part of that review, the firm that completed that review recommended that we take a look at the incentive compensation plan for purposes of just evaluating its function and how well it was performing as well as potentially the composition of that plan, thinking about expanding its membership to include other members besides the investment class to the plan.

So with that in mind, the committee tasked us with sort of engaging Mercer to do that review, take a look at it, see where we stack relative to the market, and see what we could come back with with respect to a handful of categories; eligibility, plan targets, performance measurement, performance standards, payout and risk governors. So those are the

items that are in this two- or three-page document that is provided in the materials.

I will say Mercer actually did a lot more work than that. There is a substantial document that has a tremendous amount of data in it that's largely survey-based that really sort of got into some additional granularity on those points. But this is a summary of the feedback that Mercer compiled for us.

So I'm going to talk a little bit about basically everything except the risk governor piece of it, which Alison is going to talk about in terms of the work that they have done there.

But the high-level takeaway is, by and large, it seems that the plan -- and you've heard this already from Josh, that the plan is doing pretty much what you wanted it to do. It's having the effect you wanted it to have in terms of being able to attract and maintain talent.

To the extent there could be some improvement, it would be in the target level of organizational performance and payout. And as Josh mentioned, I think some of the things that he talked about that apply specifically to the executive director and CIO really apply at large to the participants in general, so that what you're seeing here is that our target payouts in our plan are typically lower, from a percentage of salary, than our peers. And the maximum of that, the leverage, so to speak, the times you can earn that over is also slightly lower than target.

So all in, the incentive component relative to our peers is slightly lower. Again, maybe slightly different results on total cash comp, although the data that we get when we looked at salaries and incentives, we also trail a little bit the market on a total cash comp basis, although our salaries are competitive. At least on the data that we're given, our base salaries are now competitive with market. And that's due to the support of the compensation subcommittee as well as the trustees in the budget process.

With respect to eligibility and composition, we are at market. To the extent we would look at expanding that, that would not be market, at least not now. There are outliers. There are some plans that have included every one of their employees, but that is not the standard.

I think pretty much across the other

categories, by and large, I think it looks like we are at market. And so I think basically the takeaway here is we seem to be doing well. If there's areas for improvement, it would be on the payouts.

I would say that what we are not -- you know, what we're seeing from an actual recruitment and retention standpoint here at the board is actually pretty good. We're not at the point where we're actually seeing staff leave over this issue.

We have not had issues recruiting staff to the SBA at this point. Our time to fill is slightly up, but where it was relative to 2016, it's substantially lower than when we were starting out with the incentive compensation plan. So we're not seeing any sort of actual adverse effects of where we stand out in the market with respect to the incentive compensation plan.

And so I think at this point, in light of where things are, maybe the takeaway with respect to these items is just sort of keep monitoring it, watching it, seeing where the market moves, and basically the extent to which we start to

have issues with its primary purpose, which is recruitment and retention, you come back and revisit this in a more comprehensive way.

And so at least that's sort of my takeaway there. And I can pause now, at least on those points. I know Alison has got a lot to deal with with respect to this, governors. But that's an element of the plan that -- the plan has a risk component to it, but it actually relates to -- refers to our risk budget policy. So the risk governors are not necessarily embedded in the plan. They're things that we can go outside the plan document.

That was a lot of information thrown at you. I can pause now and take any questions. And I don't know if Josh wants to weigh in, too, in terms of just making sure I sort of summarized their points accurately.

MR. WILSON: I thought it was great. I think the big debate you have is on eligibility. Right? As everyone can imagine, the plan is currently open to investment professionals. And you can look at the definition of what's an investment professional and that no one works on an island and investment professionals couldn't

do their job unless they had other professionals helping them do their job. These are the kind of discussions that we have with all of our clients.

Some plans include everyone down to the administrative assistants. Some plans are exclusively the CIO and one or two others. And so there's no right answer there. It's more of an organizational and political decision. But that's the only commentary I think I might want to add.

MR. COLLINS: Mr. Chairman, just one question. Lamar, as you all look down the road in the next couple of years, what do we need to be keeping our eye focused on? What are the areas that we need to watch out for in comp and being -- so that we don't have a -- we're not getting out of balance? In your review of everything, what might be changing quicker than you think?

MR. TAYLOR: Yeah. That's a great question. I think right now, the next few years will be really interesting. What we're starting to see or at least the concern that I have, with HR reporting to us, is it will be interesting to see the salary data coming back this year.

There's a lot of competition for talent, and we're seeing that in the financial markets. I think it will be real interesting to see where base salaries -- in terms of, to the extent we're recruiting people, whether base salaries play a part in that.

I think work style is going to be an interesting aspect as well. We've already kind of gotten a lot of feedback from people in the interview process. One of the first questions they want to find out is, Well, do you permit any sort of remote work? What's your attitude about the flexibility around remote work? How many days do you need to be in the office?

Right now we are remote on a voluntary basis, but overall, our objective, our plan is to have everybody back in the building. We're a small shop. I think we perform better when everybody is here in the office. We have the ability to communicate much more effectively.

So I think right now our stance is we prefer having people here. That has been a gating item from some of the people that have wanted to participate in the interview. They've heard that and said, Thank you, but I'll withdraw from

consideration. We still have gotten good candidates and we are still --

MR. COLLINS: And is that a health thing, or is that an "I don't want to move" thing?

MR. TAYLOR: It's a little bit of both. The interesting thing is -- we've kind of gotten a little bit of both, and people just would like to just stay in a different city and try to remote in.

From a market perspective, even those firms that have gone with some sort of flexibility around remote work, it's almost -- it's generally like so many days out of the office. It's not like they're saying, You can work in New York City and remote in to Florida. They want you in the city. You just don't have to commute to work three out of the five days.

My perspective, Tallahassee is not a major commuting nightmare like Atlanta or Miami or New York or anything like that, so you don't really have a problem commuting into the office. We're still going to have the issue of getting people to Tallahassee largely. If they don't have a tie here, a connection here, it can be a little bit of an adjustment.

Having a competitive salary and a competitive incentive compensation plan will help with that. We have seen people, when we get them, they'll come for a while and they'll leave. And that's fine. If we can get people three or four or five years, that's still very helpful.

But in terms of what I think we need to watch out for, I think this issue of work style and the persistence of that and that becoming a competitive advantage or disadvantage in terms of remote work is something that I think we -- it's to be seen how material that is to our ability to recruit and retain folks.

Having a competitive compensation structure, which with a base salary and incentive compensation -- but, honestly, I think the most important thing is ensuring that we've got a good culture, because we might be able to get people with salary and incentive compensation, but you keep them because you've got a good place to work.

And that really has been what Ash has built over the last 13 years, is a place where people want to be and they want to work, and it's a culture of achievement and accountability.

And I think that's more of an intangible that's really kind of a little bit more difficult for the compensation subcommittee to necessarily affect directly, although from a -- just keeping tabs on turnover, et cetera, would obviously be relevant for the comp subcommittee just to sort of stay abreast of.

So I think on balance we're doing well. The trustees are supporting the initiatives to increase compensation and maintain a competitive base salary. So that's helpful. And if that were to start to wane, we would certainly hope the IAC would help us out with those issues.

MR. WILLIAMS: Let me pipe in on that, Lamar. I think those are all great points. And there's another variable on this remote business, remote working business that's going to give this issue legs. And that is, as we look at what's going on in the asset management industry broadly, we're seeing a migration of asset management firms out of high-cost, high-tax locations, most notably California and to some degree a couple of other markets, New York, et cetera, into the Southeast and into Florida.

And I know the CEOs of a number of firms who are in the process of doing this. And some, even though they may be keeping their headquarters in one of the traditional money center locations, they're moving huge resources into Florida. Whether it's Miami, Tampa, Jacksonville, et cetera, they're coming.

And as part of what you're going to see relating to those moves is they are going to be letting people phase moves. They're going to have links to other parts of their organization that are elsewhere in the world that will be functioning remotely. There will be a transitional period where they're doing recruiting, et cetera.

And all of this business of what is the work relationship, what is the locus, how much of it is physical, how much of it is virtual, those are all inputs to the recruitment and retention game. So I don't think this issue is going away, and it's certainly not specific to us. It's just one that we're going to have to manage going forward.

One other comment on this, and that is, one aspect of remote work that seldom gets mentioned is that when I look back over the history of major financial frauds, a number of them share a

characteristic. And the characteristic is somebody, some office or some team was operating remotely. Think Amaranth, if you remember the failure of the Amaranth hedge fund some years ago. The supervisory systems weren't what they were believed to be. I think our systems are pretty darn good, but I don't want to find out the hard way they're not.

My point is simply, the more people you have operating remotely, the more risk you have that somebody is not just off the property, they're off the reservation, in terms of what they're doing. And you don't want to find that out the hard way with a blowup.

MR. COLLINS: I agree with all that.

MR. TAYLOR: So that's all I had to say on sort of the -- all of the factors other than the risk governors on the plan. I'll kind of leave it to Alison, if she wants to weigh in on the risk governors piece of it.

MS. ROMANO: Sure. Thanks, Lamar, and thanks, Peter and Vinny, for teeing up the topic at the very beginning of this meeting. It's clearly saving the most interesting topic for last here.

So as you mentioned in the beginning of the call, the risk budget and the trigger that ensued coming out of the volatility of last year resulted in the ICP payment not being made. So what I want to do today is provide a brief update on how we're thinking about that, describe what happened going into 2020 and the way we were measuring risk, what temporary changes we've made and what we think we're going to do longer term, as it relates predominantly to the risk budget because it's the right way to manage risk, but with the benefit that that ties to incenting the right behavior as it relates to the ICP.

So looking back, in terms of how we manage risk, as you all know very well, we manage risk in a multifaceted way, diversification of assets, diversification of factors, currencies, geographies, et cetera. We have diligence managers to manage risk, and we also have a number of complex analytical systems to look at historical risk or projections of risk.

So that is a holistic approach, but as it relates to our risk budget, which then has ties to the ICP, we use a metric, a three-year annual tracking error. And that is a benchmark-relative

term. It's looking at the volatility of excess returns over the benchmark.

It's a perfectly reasonable metric, one of many. But there are shortcomings of that, and we saw those shortcomings in 2020 as volatility in the market picked up.

So first let me describe, the way our risk budget works is we have that tracking error -- we had the tracking error target of 2 percent of the total fund level. That's the escalation standard. So anything above that escalation standard not only would necessitate discussion to figure out potentially how to bring that down, how to adjust, how to think about it, but it also means that the ICP trigger is hit and a payment isn't made.

Why did we exceed that 2 percent in 2020 and what are the shortcomings of that tracking error? Well, first, tracking error, as I said, is a benchmark-relative metric. So that means, for instance, for a public market asset class, like fixed income or global equity, when the market becomes more volatile, even if we're still managing risk, the tracking error often goes up. So regardless of our efforts, tracking error could move.

For private markets, it's even trickier because, as you know, there's valuation lag. So if there's a public market benchmark that's moving around a lot and valuation lags with the private market return, again, the tracking error numbers are going to spike. So that's just the nature of the way those numbers are calculated but something to keep in mind.

The second challenge with tracking error is, when we think about managing our risk, we look long term. We think about correlations long term across asset classes. We think about risk of those asset classes and asset types over the long term.

Tracking error with a three year number will go out of whack when correlations between asset classes and correlations between the active returns among those asset classes go to one, as we saw in the March 2020 time frame. So, again, without us doing anything, those numbers will go up.

The third issue is actionability of tracking error. So for the public markets, they manage tracking error. They look at it every single

day. They think about what tracking error was and what it's projected to be, and they can adjust holdings with that in mind. That's not the way private markets do operate or should operate, because we don't want to be forced to make trades in illiquid assets at suboptimal prices because we are temporarily above a tracking error target.

Likewise, we don't want to pull back on making certain investments for current tracking error issues because we all know that the investments we make today are going to impact the returns five and, in private equity's case, maybe ten years from now. So while tracking error is a good measure, it's an imperfect measure.

What do we do temporarily because we trigger that measure? Well, the senior leaders' group recommended, and then Ash approved, an increase in that escalation standard. So whereas it had been at 2, we raised it to four and a half. So that's the standard that we've been operating under for the last fiscal year ending now June 2021.

The reason that we raised it is because, again, we're still focused on managing risk, but

it's a three year tracking error number. So the spike in volatility that we saw in the first half of March will be with us in that statistic for several years to come.

And to maybe give you a sense of where the numbers are at, in December of 2019, our tracking error was at 1.22 percent. June of 2020, so just after the volatility crept in, it was 2.03. That was above the 2 limit, barely but yet triggered the ICP to not be paid. Currently, we're at 2.23 percent. So, again, it's crept up a little bit, not because we did anything differently but because it encompasses a larger portion of that volatile period.

So for this ICP period, the 2.23 is elevated from what it had been historically, but it's still within what we have set as our escalation standard so should not be triggered from an ICP payment perspective.

MR. COLLINS: So let me -- so can I interrupt you for a second?

MS. ROMANO: Sure.

MR. COLLINS: So going to four and a half, what was it at its highest volatility? What was the tracking error at its highest through the

downturn?

MS. ROMANO: On a three year basis, where we're at now, it's close to the high. It's continued to creep up. So it's about -- we're currently at 2.23. The reason that we set it what probably seems high relative to what we've experienced is, you know, we set it -- we raised it mid-2020, and we knew if we had a creep back in market volatility in general, that we could continue -- rather than it be 2.23 percent, maybe we would be at 3 percent.

So we were trying to plan, during an uncertain period of market volatility, for that eventuality, that there could continue to be some dislocation in the market.

MR. COLLINS: Yeah. So that's not my question. My question is, when it got triggered, what was the high? So if your rolling average is 2.23, what was it in the high in the last year?

MS. ROMANO: So a one year tracking error? Sure. Our one year tracking error right now for the total fund is at 1.69. Let me get you the -- the high for one year was about three and a quarter.

MR. COLLINS: Three and a quarter. So what you're saying is, in order -- if you're going to make this change, you're making it for a reason other than hopefully just gaming the system, right? But you want to make sure that if you raise it to, say, 3, that because of those periods of really high tracking error, you would still have triggered that threshold that would have said you couldn't pay the ICP.

So going to four and a half, you're saying that over that three year period, you're still going -- it's going to be higher than 2.23 but you're picking a value that it will be below.

MS. ROMANO: Yes. But it's not -- there was no -- we're not trying to game the system.

MR. COLLINS: No, I'm not saying you are, but I'm just -- I guess my biggest question is, why go all the way to four and a half? If the high was three and a quarter, why do we need to go all the way to four and a half?

MS. ROMANO: Sure. Again, it was because as less -- it's a three year number. So as less volatile months rolled off and more volatile months were rolling on and we didn't have a window into exactly how volatile the market would be, we thought four and a half percent -- and

this was a discussion among us in conjunction, in talking to our consultant as well, to make sure we were picking a reasonable number. We thought four and a half was reasonable.

And there are differences in looking at one and three year periods. They're not quite comparable, just the way that the math works. So what we were focusing on was the right number for that three year period, which matches the three year performance period under which ICP is set.

Maybe it might be helpful to tell you where we're going, because this isn't the right metric, I think, on a long-term basis to be using.

MR. COLLINS: Okay.

MS. ROMANO: For all the reasons I outlined, tracking error isn't a good metric. We spoke with consultants about what our peers are doing. We spoke with our peers about what they are doing. Focus on the discussion on what they're doing for their risk budget obviously has implications for ICP.

What is standard practice is not to use tracking error for private markets. So the direction that we're going is focusing on managing risk in a way that's actionable. So

that is what we'll call actionable tracking error for our public market asset classes, because they do manage risk in that manner relative to a benchmark, and they can adjust as need be.

For private markets, we're going to take a different approach and use guardrails. Again, this is very consistent with what our peers do. To give you an example, for real estate, we'll put guardrails around exposure to property type and sector. In fact, we already have those guardrails in some of our asset allocation policies. They're just not tied directly to the risk budget.

But they're the way that, for instance, real estate manages risk, because it's where their exposures are and how they're changing those exposures. So we will put into place those types of guardrails on a go-forward basis. And if certain of those metrics are exceeded, that's when the trigger would be hit in terms of payment for the ICP. Much more consistent with peers but, most importantly, much more aligned with how we can effectively manage risk in multiple market types and over the long term.

MR. COLLINS: So are you going to compare

something for us to look at on that?

MS. ROMANO: Yeah. So the way this works is Ash has delegated authority or executive director delegated authority on the risk budget, and that is something that we set. And like I said, that's always done in conjunction with input from the asset class consultant. The ICP makes reference to the risk budget. So technically, those changes could be made within our organization on the risk budget.

MR. COLLINS: I'm not asking for us --

MS. ROMANO: We will obviously share the information with you as we finalize the numbers.

MR. COLLINS: Yeah. That would be great. I'm not asking for us -- something for us to approve, just something to -- I'm a little dense when it comes to this topic, so I need to read it probably.

MS. ROMANO: More than happy at any point, if you have questions, in more detail to go through it. That's all I had, unless there were any other questions.

MR. OLMSTEAD: I guess the question is, what's the follow-up on this?

MR. TAYLOR: So at least in terms of the

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overall idea of a review of the incentive compensation plan, I think that has been done. Mercer did that, provided it to us, provided the feedback to the committee.

And I think that the takeaway is it's working well. It is a bit conservative, but it was designed to be a bit conservative. And so it's really something that just needs to be sort of reviewed periodically to make sure we're staying consistent with the objective. And to the extent we start seeing any sort of issues in recruitment and retention, we would certainly bring that to the committee's attention and see if there's a need to make adjustments.

As far as the risk item goes, as Alison pointed out, the incentive compensation plan just simply refers to the SBA's risk budget policy and the asset classes, and Alison is in the process of modifying that to move to a more actionable framework, and we'll share that information with you as it's developed. Is that fair, Alison?

MS. ROMANO: Yeah, correct.

MR. TAYLOR: So I think that's really it. I think there's nothing -- no action item for the committee at this time, unless you just wanted to

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weigh in or comment on it.

MR. OLMSTEAD: Okay.

MR. TAYLOR: I think that's all for us on item 8. The other item, item 9 is Attachment 5 in the materials. It's information only. Happy to go through any of that in detail if you'd like. It's just sort of an update on where we stand both on the incentive payout over time as well as where we stand on our salaries on a competitiveness or compa-ratio basis.

MR. OLMSTEAD: I appreciate you putting it in there. I don't have any questions on it. If anybody else does, that's fine. Otherwise, I think we're good. I did appreciate that being in there, though, so not that it wasn't reviewed, but just no need to go through it.

Okay. So I assume there's no audience comments or other business at this juncture?

MR. TAYLOR: Amy, is anybody in the Hermitage Room that has indicated they want to make a comment?

MS. WALKER: No. Nobody is here. Thank you.

MR. TAYLOR: I think that's it.

MR. COLLINS: I guess we should have asked

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that at the beginning.

MR. OLMSTEAD: No. If you wait long enough, they don't ask questions.

MR. COLLINS: No. I meant if there was anybody there.

MR. OLMSTEAD: Oh, anybody there. All right. I assume we can, at this juncture, thank everybody who attended, did a lot of preparation, Mercer, Lamar and Alison, a lot of hard work here, and we truly appreciate it. Great year to Ash and team. And we know our follow-up items on the -- on our ask regarding the CIO. But, Peter, unless you have anything else, or others, I think we are good to go.

MR. COLLINS: Yeah. I don't. The only thing I would say is just to reiterate that not only are we looking at possibly an amendment to take care of a retirement but also an interim title.

MR. TAYLOR: All right. We'll add that to the list, Peter.

MR. WILLIAMS: Thank you, Mr. Chairman, thank you all.

MR. OLMSTEAD: Bye all.

(The meeting concluded at 2:50 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA
COUNTY OF LEON

I, JO LANGSTON, RPR, certify that I was authorized to and did stenographically report the foregoing web conference meeting, and that the transcript is a true and complete record of my stenographic notes.

Dated this 20th day of September 2021.

Jo Langston
JO LANGSTON, RPR

Attachment 2

STATE BOARD OF ADMINISTRATION OF FLORIDA

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

POST OFFICE BOX 13300
32317-3300

August 26, 2022

Mr. Vinny Olmstead
Chair, IAC Compensation Subcommittee
2770 Indian River Boulevard, Suite 501
Vero Beach, FL 32960

Dear Vinny:

In preparation for the September 6, 2022, IAC Compensation Subcommittee meeting, I have prepared for the Committee's consideration the following self-assessment. Fifteen percent of the compensation awarded under the incentive compensation plan applicable to a permanently appointed Executive Director & CIO is based on a qualitative assessment of the incumbent's performance around four areas: (1) Overall Mission, (2) People, (3) Efficiencies/Infrastructure/Operations, and (4) Interaction with the Investment Advisory Council and the Audit Committee. As Interim Executive Director and CIO, I am not permitted to participate in any of the SBA incentive compensation plans; therefore, the formal evaluation process, intended to provide documentary support for the IAC's recommendation to the Trustees regarding the qualitative component of the ED/CIO's Incentive Compensation Plan, is not applicable this year.

Nevertheless, I would greatly value the thoughts and feedback from the Subcommittee on my performance since my appointment. Please see the following self-assessment relating to the four areas referenced above. I have also included herein the standard reporting on SBA salary and incentive compensation for review and discussion at the September 6, 2022, SBA IAC Compensation Subcommittee meeting.

Author's Note: The self-assessment that follows is written largely in the first person. This is because in most cases, I am the one responsible for representing the SBA in leading the issues, and I am rightfully held accountable for the results, good or bad. However, the successes of the SBA are a team effort and are always a function of the many talented, intelligent, and first-rate individuals here at the board, which I have had the honor and privilege of working alongside over the past 20 years. I remain keenly aware of that fact.

1. Overall Mission

The evaluation of this category should reflect the degree to which the incumbent has:

- Assured appropriate alignment with the investment policy of the SBA's mandates (e.g., the FRS Defined Benefit Pension Plan, the Florida Retirement System (FRS) Investment Plan, Florida PRIME, Florida Hurricane Catastrophe Fund (FHCF), etc.), considering the long-term needs of the relevant fund, the risk tolerance of the SBA Trustees and the perceived market environment;

- Provided leadership for effective functioning of the SBA, FHCF and the Investment Plan; and,
- Maintained/strengthened (a) the reputation/brand and performance of the SBA in relation to its large public pension plan peers, (b) external communications, and (c) issue management.

Below are a list of activities and accomplishments I believe are relevant to this category:

- **<u>Continued advocacy for more conservative assumptions for pension plan funding</u>**

As required by Section 121.0312, Florida Statutes, at the October 7, 2021, Actuarial Assumptions Estimating Conference, I provided comments on behalf of the SBA with respect to the assumptions used in determining the employer contribution rates for the Florida Retirement System. In line with a letter submitted by the SBA to the legislature in August of 2021, I advocated for lowering the assumed rate of return used to discount the pension liability to 6.80% from 7.00% as well as for reducing the amortization period on the unfunded liability to 20 years from 25 years. I am happy to report that these recommendations, with the support of the IAC and the Trustees, were adopted by the Assumptions Conference. Together, these changes in assumptions were responsible for an estimated additional $610 million in contributions to the Pension Plan.[1]

In addition to the above recommendations, the SBA also proposed legislation to:

- Mandate adopting an actuarial rate of return assumption that corresponds to a rate deemed reasonable by the pension plan's actuary as reported (per GASB 67) in the State of Florida's Annual Consolidated Financial Report;
- Switch to amortizing unfunded liabilities based on a level dollar amortization method and away from a level percent of pay method; and
- Increase employer and employee contribution rates, given the relatively low employer and employee contribution rates in Florida as compared to peer plans.

Although these ideas were not adopted, with the support of the IAC and the Trustees, the SBA will continue to advocate for appropriate, conservative assumptions in the actuarial funding process to help ensure sufficient funding of pension liabilities into the future.

- **<u>Continued to support Florida's insurance market through involvement in the Reinsurance to Assist Policyholders Program</u>**

In May of this year, Governor DeSantis called a special session to address various issues adversely affecting the Florida residential property insurance market. One of these items was the affordability and availability of reinsurance coverage in the private market. Considering the SBA administers the Florida Hurricane Catastrophe Fund (FHCF), there were legislative proposals that could directly or indirectly impact the FHCF. The staff of the FHCF and I worked with the Florida legislature and Trustees' staff to evaluate proposed statutory language that would provide coverage to companies below the FHCF industry retention. The Florida Legislature created the Reinsurance to Assist Policyholders (RAP) program that was signed into law by Governor DeSantis on May 26, 2022. The RAP program, administered by the SBA, provides a $2 billion layer of coverage to qualifying companies over a two-year period. The RAP coverage sits below the FHCF projected industry retention of $8.5 billion and is funded from the state's General Revenue at no cost to the companies.

[1] Numbers derived from Milliman's Blended Proposed Statutory Normal Cost Plus UAL for 2022-2023 Plan Year report, dated December 1, 2021, Table 1 and Milliman's 2021 FRS Actuarial Assumptions Conference Presentation, both available at Florida Retirement System Actuarial Assumption Conference Florida Retirement System (state.fl.us).

Throughout the development of this legislation, the FHCF team and I worked closely with consulting actuaries to ensure that the language in the statute was administrable by the SBA and would not result in duplicative coverage with the FHCF mandatory layer. For the 2022-2023 contract year, 69 of 148 insurance companies will be participating in RAP, and the FHCF has executed contracts in place for those insurers. The remaining insurers will defer their participation in RAP until the 2023-2024 contract year.

- **<u>Sought a legislative increase in the alternative investment statutory cap</u>**

During the regular 2022 legislative session, SBA staff and I worked closely with legislators and their staff to increase the SBA's legal limitation on alternative investments to 30%. Currently, Section 215.47(15), Florida Statutes, limits the SBA's investments of any fund in alternative investments to 20%. Alternative investments are defined to include private equity funds, venture funds, distressed funds, hedge funds, direct investments in portfolio companies and other similar non-public investments. Essentially, this includes the investments we make in the Private Equity and Strategic Investments asset classes.

As we indicated to the legislature, an increase is necessary due to the expected improved risk-adjusted return benefits from additional allocation to these investments, particularly in areas such as private credit and investments with lower correlation to public equities. Further, due to the unexpected significant run-up in valuations of these investments, particularly our venture funds, the SBA was already approaching its 20% cap.

Under my direction, the SBA presented to several House and Senate committees during the legislative process. Ultimately, the bill did not pass. Since the session, as I have reported, the SBA has slightly exceeded its 20% cap on alternative investments. We are managing this by foregoing new alternative investment commitments while the SBA is above the cap. Given the importance of having the authority to continue allocating funds to alternative investments, the SBA plans to go back to the Florida legislature next session to seek an increase in the alternatives cap.

- **<u>Responded to increasing risks posed by China and Emerging Markets in the wake of Russia's invasion of Ukraine</u>**

On December 21, 2021, the Board of Trustees tasked me with conducting a survey of the FRS's investments in Chinese companies and report back to them at the March Trustees' meeting. The concern expressed by the Trustees was to ensure the SBA was monitoring and mitigating the financial risk associated with investments tied to the Chinese Communist Party.

As reported to the Trustees in March 2022, the SBA's investments in Chinese companies are a function of the SBA's exposure to Emerging Markets, which is (a) in line with other public plans our size; and (b) consistent with a globally diversified equity strategy. Further, the degree of exposure to these companies remains relatively small at less than 3% of the FRS. The SBA maintains risk assessment and mitigation procedures to address the financial, legal and compliance risks associated with these investments. Importantly, however, prior to providing that report at the March 2022 Trustees' meeting, Russia invaded Ukraine, which resulted in unprecedented global financial sanctions against Russian individuals and Russian companies. China has remained aligned with Russia throughout the crisis, although it has complied with the sanctions.

At the March 2022 Trustees' meeting, I announced that until further notice the SBA would suspend any new investment strategies involving China or in Emerging Markets that included China. This announcement followed China's refusal to condemn Russia after their invasion of Ukraine and their continued alliance, which could cause potential impact on the valuations of the SBA's investment in Chinese companies. This suspension remains in place as we continue to monitor the risks inherent in these investments. To the extent any investment limitations involving China are proposed in this upcoming legislative session, we will endeavor to work with the sponsors of any such legislation to educate them on any potential impact on the funds we manage.

- **Underscored SBA's proxy voting activities are focused exclusively on the economic best interest of FRS beneficiaries and increased percentage of proxies voted in house**

On December 21, 2021, during the Trustees' meeting, the Trustees tasked me with (a) reviewing the SBA's Proxy Voting Guidelines and underscoring that when the SBA votes proxies, it is doing so with the objective of maximizing the economic best interests of FRS beneficiaries; and (b) increasing the percentage of proxies related to the Pension Plan that are voted directly by the SBA team.

Every year for the Pension Plan, SBA staff vote over 100,000 ballot items for more than 10,000 security positions. Historically, and prior to December 2021, SBA staff voted approximately 92% of all votable proxies held by the Pension Plan. Subsequent to the Trustees' directive, the SBA worked to transfer voting power from the remaining investment managers to SBA staff. At the March 2022 Trustees' meeting, I was happy to report that SBA staff now votes 99% of all votable proxies for the Pension Plan, and we are continuing to work on transferring the remaining 1% of votable proxies to the SBA team.

In addition to voting proxies within our organization, SBA staff compiled a set of voting guidelines to which they adhere when recording proxy votes. If any changes are made to these guidelines, they are reviewed and approved by the IAC and ultimately adopted by the Trustees. After the December 2021 meeting, the SBA staff and I conducted a thorough review of these guidelines, as directed by the Trustees. As reported in the June 2022 meeting, these guidelines were presented for Trustee approval. The updated guidelines state the overriding purpose of the corporation is to maximize shareholder value over time, and this principle drives our proxy votes.

- **Commenced structural review of Strategic Investments asset class**

In the spring of 2022, the SBA engaged a vendor to conduct a structural review of the Strategic Investments asset class. I, and the Deputy CIO at the time, initiated this review in light of (a) the maturation of the asset class; (b) the multiple objectives of the asset class; (c) the changing landscape of investment opportunities in private markets; and (d) the recommendation by the SBA's asset allocation consultant that the SBA increase the allocation to alternative investments, particularly those in the Strategic Investments asset class.

The overall purpose of the review is to determine how well the Strategic Investments asset class has accomplished its objectives to date and whether, in light of changing market conditions, any aspect of the asset class objectives or portfolio construction practices need to be revisited. The SBA has received preliminary feedback and is in the process of evaluating. Once this process has been completed, we will report the final conclusions and recommendations to the IAC as near as possible to the asset/liability discussion by Aon.

- **Continued to grow participation in the Investment Plan while enhancing user experience**

For the fiscal year ending June 30, 2022, participation in the Investment Plan increased 8.5% or 22,305 from the previous fiscal year-end. As of March 31, 2022, there is a total of 272,274 current participants in the plan, which include 179,513 active participants, i.e., employees who are still drawing a salary and who, along with their employer, are continuing to contribute to the plan. Nearly 50% of all non-special risk new hires default into the plan, a trend that began with the change of default retirement plans in 2018 and has not since abated.

Additionally, there were many enhancements made to the user experience for new and existing members. This past year, the FRS website was redesigned to make it more user-friendly and to add additional educational resources. Also, electronic election forms were provided for members to select the plan they prefer, and a new online chat provider was introduced for employees to have access to a virtual representative. Lastly, this past year, the Investment Plan replaced the money market fund with a stable value fund, which has served members well in light of rising interest rates.

- **<u>Continued to see significant further growth in Florida Prime</u>**

As of June 30, 2022, the total market value of Florida PRIME™ was approximately $18.7 billion and has increased approximately $500 million, largely due to the attractive investment yield on the heels of a rise in the Fed funds rate. Additionally, Florida PRIME™ hit a decade-high of $20.7 billion in January 2022, and the pool has increased by $1.25 billion, representing a growth rate of 7.2% through FY21 to FY22.

The performance of Florida PRIME™ has been consistently strong over short-term and long-term periods. For the period ending June 30, 2022, Florida PRIME™ generated *excess* returns (performance above the pool's benchmark) of approximately 15 basis points (0.15 percent) over the last 12 months, 14 basis points (0.14 percent) over the last three years, and 21 basis points (0.21 percent) over the last five years. Additionally, Florida PRIME™ has outperformed all other government investment pools statewide. Through the five-year period ending **March 31, 2022**, Florida PRIME™ ranked in the top 1% among all registered money market funds within iMoneyNet's First Tier Institutional Fund Universe.

- **<u>Successfully completed another budget funding cycle</u>**

The Trustees approved the SBA's 2022-2023 operating budget at the June 22, 2022, Trustees' meeting. Overall, the increase for the SBA amounted to 8.8%, with an increase of 5.7% of salaries for recruitment and retention funds, which will be used to continue to mitigate human capital risk in line with the compensation program guidelines developed with IAC and Trustee support in 2013. In addition to funding to mitigate human capital risk, the 2022-2023 budget includes significant funding for infrastructure and IT enhancements, including funds for critical software and hardware upgrades, further implementation of cloud-based enterprise software solutions, and the replacement of end-of-life servers and network storage devices.

2. People

The evaluation for this category should reflect the degree to which the incumbent has:

- Developed subordinate staff
- Recruited and retained key talent

The SBA has not been immune to a challenging recruitment and retention environment. Over the past year, the SBA lost nine employees to retirement, had its Deputy CIO was recruited away in April, and is anticipating the loss of at least one key senior leader in the first quarter of 2023. Additionally, almost 12% of the SBA workforce is in DROP (the State's early retirement incentive program) or are eligible to retire by the end of calendar year 2023.

Although we have seen the number of applications for open positions decrease over the past year, the SBA is still attracting high quality candidates for open positions. During the Fiscal Year ending June 30, 2022, the SBA filled 46 positions, including five asset class analysts, three asset class portfolio managers, and a key investment staff professional in the Investment Plan. Additionally, the SBA has promoted 11 colleagues internally, five colleagues moved laterally to different departments, and 30 new colleagues have joined the SBA team. We are in the process of continuing to fill several key management positions, and given the continued support from the IAC and the Trustees in funding our recruitment and retention budget requests, I am optimistic that we will continue to attract the necessary high caliber talent.

3. Efficiencies/Infrastructure/Operations

The evaluation for this category should reflect the degree to which the incumbent has:

- Assured the development of organizational structures, systems and processes that enable effective functioning of the SBA, the FHCF, and the Investment Plan;

- This includes areas such as communication of knowledge; development and institutionalization of systems and structures to enhance performance and control risk; efficient acquisition and use of data and other resources; business continuity planning, etc.

The SBA has made many strides in improving efficiencies, expanding upon current infrastructure, and streamlining our operations. Below you will find a list of new and in-progress initiatives to improve the internal and external monitoring functions of the SBA.

- **<u>Aladdin eFront Alternative Investments Portfolio Management</u>**
  In July 2022, The SBA introduced Aladdin's eFront investment portfolio management to enhance the management of alternative investments. With eFront, the SBA team has the ability to manage private assets in our portfolio and understand risk and performance attribution while gaining more transparency into every level of our investments.

- **<u>StarCompliance Personal Trading Compliance</u>**
  Compliance with personal investments is a top priority of the SBA and strictly enforced. Any conflict of interest between personal investments and professional responsibilities are prohibited, and SBA colleagues are to exercise caution and always place the interests of the SBA before their own. In December 2021, the SBA implemented StarCompliance to assist the SBA's compliance officers with efficiently detecting personal trading conflicts. The StarCompliance Personal Trading product assesses personal trade requests made by employees against a rules engine that has been configured to enforce SBA-specific policies. Unlike traditional and manual affirmations and declinations, employees are given an immediate automatic decision, or their request is prompted for a multi-level review.

- **<u>Cloud Disaster Recovery Solution</u>**
  The SBA is in the process of fully implementing a Cloud Disaster Recovery solution for enhanced business continuity and resiliency. The SBA's disaster recovery data center is currently located in Jacksonville. Under typical circumstances, we would fail-over operations to the data center in Jacksonville in the event of a threat in Tallahassee; however, that has since become a risk, since Jacksonville and Tallahassee have both been threatened by the same storm in recent years. As a result, we are seeking to implement a cloud-based disaster recovery solution that will eliminate the risk that a physical location will be in harm's way. This solution is slated to be completed by the end of this fiscal year.

- **BitSight ThirdPartyTrust Risk Management**
  Reducing cybersecurity risk and remediating gaps and vulnerabilities is a critical process that allows the SBA's security team to effectively control and monitor the SBA's exposure to outside management. Implemented this year, BitSight ThirdPartyTrust is an effective tool that assists our team in the validation of security controls and allows for continuous risk monitoring of the SBA's contracted vendors, providing additional protection to the SBA and our systems.

- **Workiva for Florida Hurricane Catastrophe Fund**
  Workiva, implemented July 2022, has provided a cloud-based platform that streamlines the annual financial statement preparation process for the FHCF. Additionally, this program has automated many work process examinations by providing a central repository for all parties.

- **PeopleSoft Time & Labor and Absence Management –**
  This solution replaced an older version of the PeopleSoft time and labor system. Prior to this new solution, our IT team was very limited in making modifications to accommodate enhancement requests. The new modules were implemented to eliminate manual processes and provide a more streamlined payroll process. The project also included a move from monthly to biweekly payroll to leverage payroll processing efficiencies.

- **Investment Adviser Examination**
  The SBA retained Renaissance Regulatory Services, Inc. (RRS) to conduct an Investment Adviser Examination. Although the SBA is not subject to direct regulation by the Securities and Exchange Commission (SEC), at the request of the SBA's management team, RRS planned this review based on the scope of a SEC regulatory examination. The SBA requested a comprehensive review to ensure its policies and procedures are reasonably designed and adequate to address its unique compliance and operational risks and take into consideration relevant SEC expectations and industry best practices (Compliance Program Analysis). The scope of the review included process design, workflow, systems, and key controls for the SBA's internally managed public market asset classes (fixed income and global equities, including review of foreign exchange and derivatives practices). The review also included an examination the SBA's policies and procedures to ensure consistency across documentation, obedience to regulatory requirements, and adherence to industry best practices. The review consisted of document inspection and analysis, observations of practices and operations, interviews with the SBA's staff, and an on-site examination beginning on June 1, 2022, and ending on June 3, 2022, that covered the period from July 1, 2020, through December 31, 2021. RRS' review of the in-scope areas did not reveal material weaknesses in compliance or operational controls. However, RRS identified areas for enhancement that would further strengthen the SBA's compliance program and bring its operations more in line with SEC-regulated entities and industry best practices. Management will review and prioritize recommendations for implementation.

4. Interaction with the Investment Advisory Council and the Audit Committee

The evaluation for this category should reflect the degree to which the incumbent has:

- Provided requested information and transparency.
- Maintained effective working relationships with individual IAC members and the Council as a whole, and with members of the Audit Committee on matters within the concern of each body.

The IAC and Audit Committee members have an integral role in the success of the SBA. I fully believe that regular communication and interaction with both parties should be and remain a top priority. With a portfolio exceeding $228 billion, the importance of policy oversight and feedback on new investment strategies lead the SBA in achieving long-term objectives. All of this could not be done without an open line of communication between the SBA and each IAC member. I remain committed to expanding transparency and building a strong foundation with each of our members, so that in turn, appropriate guidance can be provided to not only me, but also the SBA team. I trust that I have built a relationship with each of you where you feel you are able to have a meaningful conversation about any business conducted at the SBA and on behalf of our shareholders. I remain focused on ensuring that we continue to coordinate and maximize returns for the economic best interest of our beneficiaries.

In closing, I would like to thank each of the Compensation Subcommittee members for their time and effort in providing critical feedback and counsel to me as Interim Executive Director & CIO and to the entire SBA team through your participation on the IAC at large. I am happy to answer questions of members individually should anyone have any additional questions or requests ahead of the September 6th Compensation Subcommittee Meeting. I look forward to seeing you soon.

Best regards,

Lamar Taylor
Interim Executive Director & CIO

Attachment 3

2021-2022 SBA Compensation Update

SBA Incentive Compensation Update

	FY2016-2017	FY2017-2018	FY2018-2019	FY2019-2020†	FY2020-2021	FY2021-2022
Total Eligible Positions	63	63	63	64	66‡	71[1]
Total Participants Receiving an Award	59	54	58	0	58	67
Maximum Possible Quantitative Award	$1,783,384	$1,831,456	$1,962,033	$2,182,470	$2,123,588	$2,398,277
Actual Quantitative Award (Paid over 2 years)	$1,610,799	$1,648,299	$1,783,358	$0	$1,742,585	N/A
Maximum Possible Individual Award	$343,442	$350,144	$369,655	$417,468	$403,005	$453,666
Actual Individual Award (Paid over 2 years)	$296,867	$311,107	$335,657	$0	$335,029	N/A
Maximum Possible Award	$2,126,827	$2,181,600	$2,331,688	$2,599,938	$2,526,594	$2,851,943
Actual Total Award Earned (Paid over 2 years)	$1,907,665	$1,959,406	$2,119,014	$0	$2,077,615	N/A
Total Earned Quantitative ÷ Max Possible	90%	90%	91%	0%	82%	N/A
Total Earned Individual ÷ Max Possible	86%	89%	91%	0%	83%	N/A
Total Earned ÷ Max Possible	90%	90%	91%	0%	82%	N/A
% Participants Earning Max Possible	63%	69%	37%	0%	83%	N/A
Total Awards Paid in December following FY	$1,728,304	$1,886,568	$2,063,465*	$0	$1,041,234*	N/A
Total Awards Deferred to December after next FY	$953,833	$979,703	$922,488	$0	$1,009,224	N/A

† Incentive payouts were not triggered because the SBA had active risk compliance exceptions in FY2019-2020 due to extraordinary volatility in the market due to the Covid-19 pandemic. Maximum figures were reduced from last year's report due to the resignation of an eligible participant.

‡ In 2020-2021, two new Quantitative Analyst positions were added in Private Equity.

* More than 50% of earned awards were paid out due to individuals reaching age 65 in the calendar year and triggering 100% payout pursuant to the Plan Document.

[1] In 2021-2022 5 positions added to eligibility; 1 Sr Investment Analyst in FI, 1 Sr Investment Analyst in IPAA, 1 Manager of Investment Analytics in ODCP, 1 Investment Analyst in RE, and 1 Portfolio Manager 1 in RE

SBA Base Compensation Comparison for 2020 & 2021 Salary Adjustments

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2020 Adjustments	December 2021 Adjustments	December 2020 Adjustments	December 2021 Adjustments	December 2020 Adjustments	December 2021 Adjustments
Total Employees	170	172	113	120	57	52
Employees as % of Total Employees	-	-	66%	70%	34%	30%
SBA Compa-Ratio (Total Salaries ÷ Total Midpoints)	97%	101%	101%	103%	93%	99%

The table above reflects adjustments to SBA employees only and excludes ineligible employees, position reclassifications, and the ED/CIO adjustment.

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2020 Adjustments	December 2021 Adjustments	December 2020 Adjustments	December 2021 Adjustments	December 2020 Adjustments	December 2021 Adjustments
Aggregate Rate Increase	$868,523	$1,067,558	$366,276	563,583.62	$502,248	503,974.81
Median Base Pay Increase	$3,800	$4,700	$3,000	$4,000	$8,779	$10,395
Average Base Pay Increase	$5,109	$6,207	$3,241	$4,156	$8,811	$10,166
Median % of Base Pay Increase	4.0%	5.0%	4.0%	5.0%	6.1%	6.0%
Average % of Base Pay Increase	4.9%	6.0%	4.0%	5.0%	6.8%	8.5%

The table above reflects adjustments to SBA employees only and excludes ineligible employees, position reclassifications and the ED/CIO adjustment.

SBA Base Compensation Adjustments December 2021 – Latest Cycle

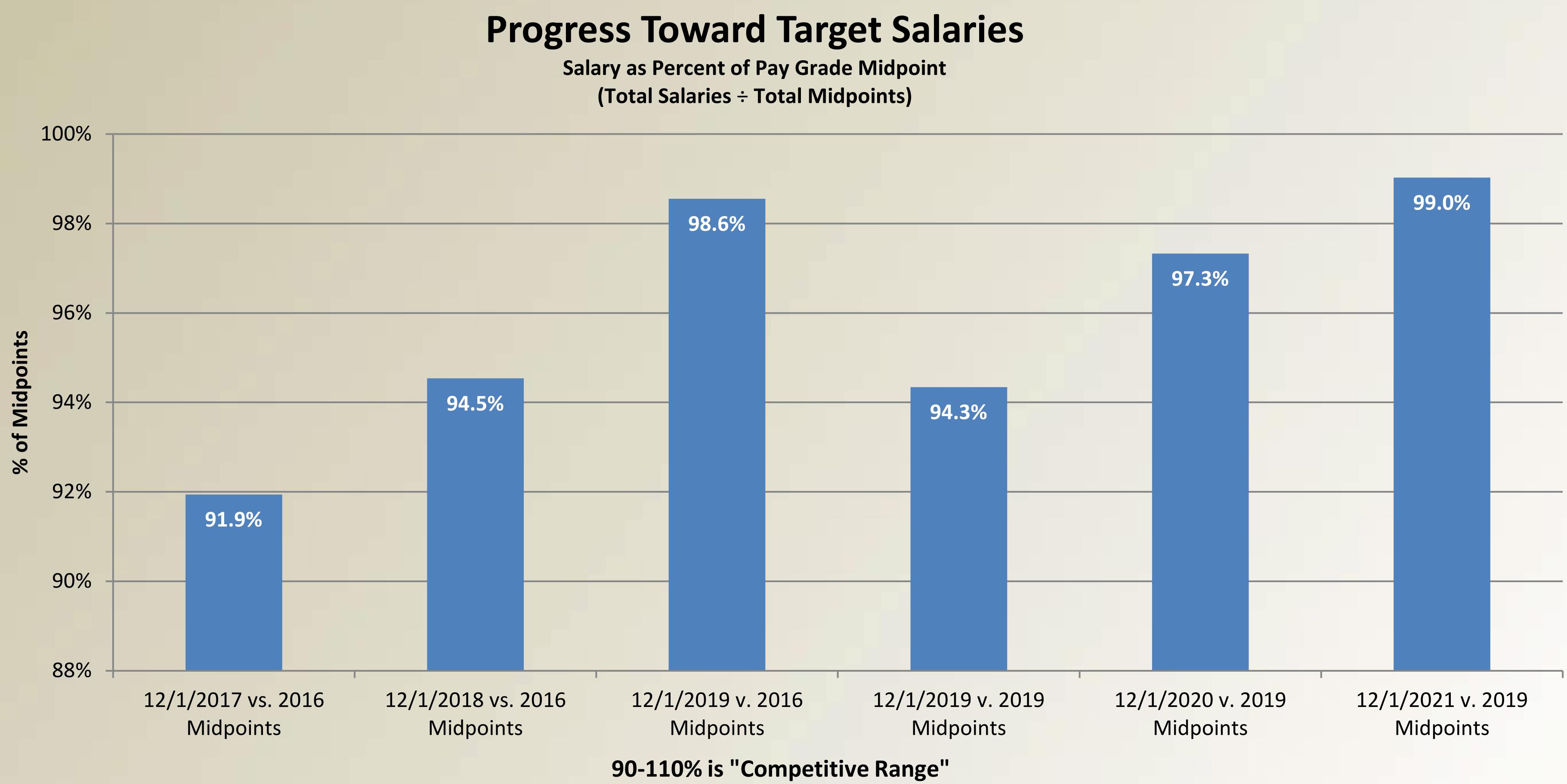
Distribution Update

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
% of Increase	**# of Employees**	**% of Employees**	**# of Employees**	**% of Employees**	**# of Employees**	**% of Employees**
0% - 3%	14	8%	9	8%	5	10%
3.1% - 6%	120	70%	91	76%	29	56%
6.1% - 10%	21	12%	12	10%	9	17%
Greater than 10%	17	10%	8	7%	9	37%

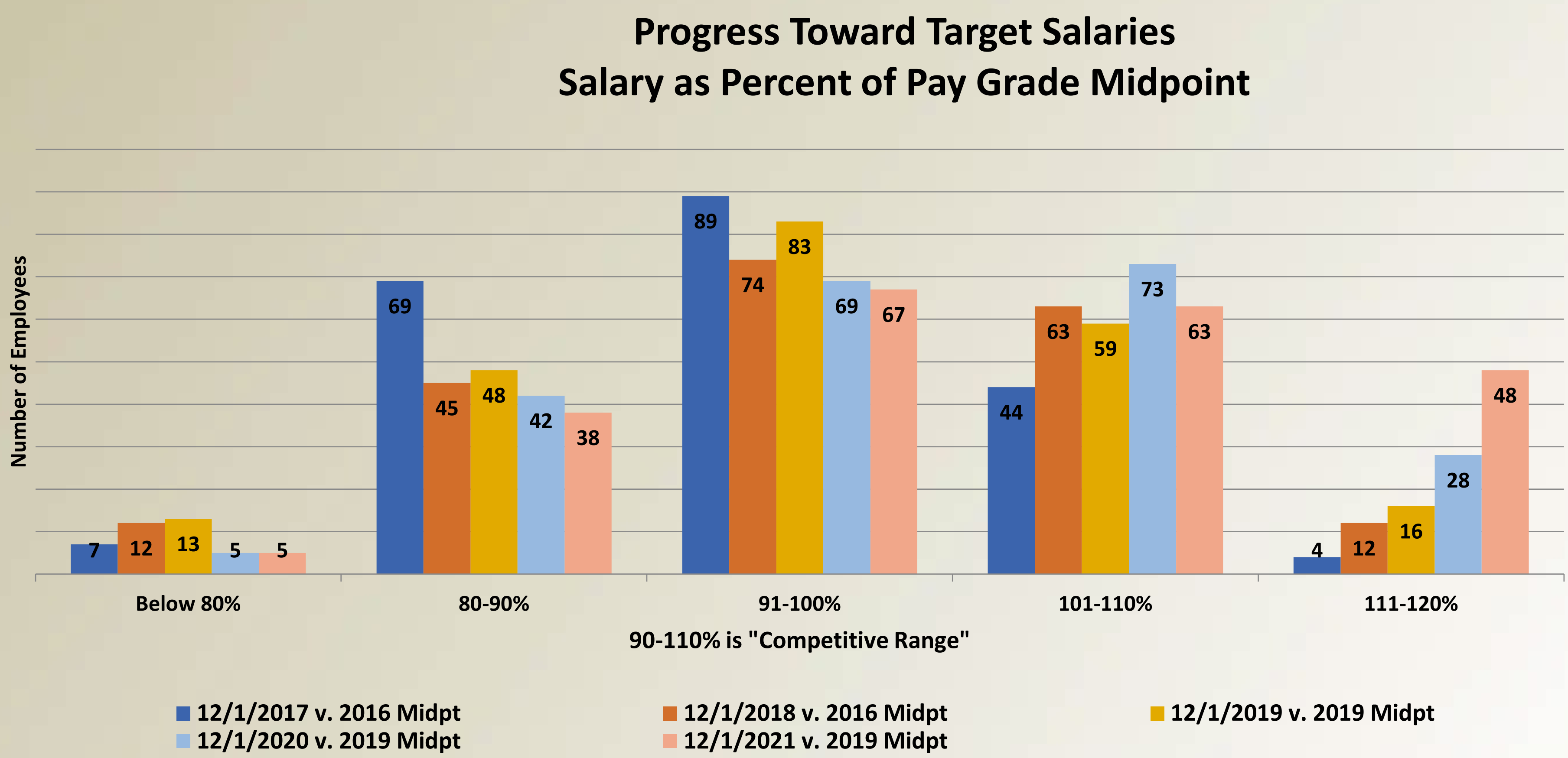
The table above reflects adjustments to SBA employees only and excludes ineligible employees, position reclassifications and the ED/CIO adjustment.

Progress Toward Target Salaries

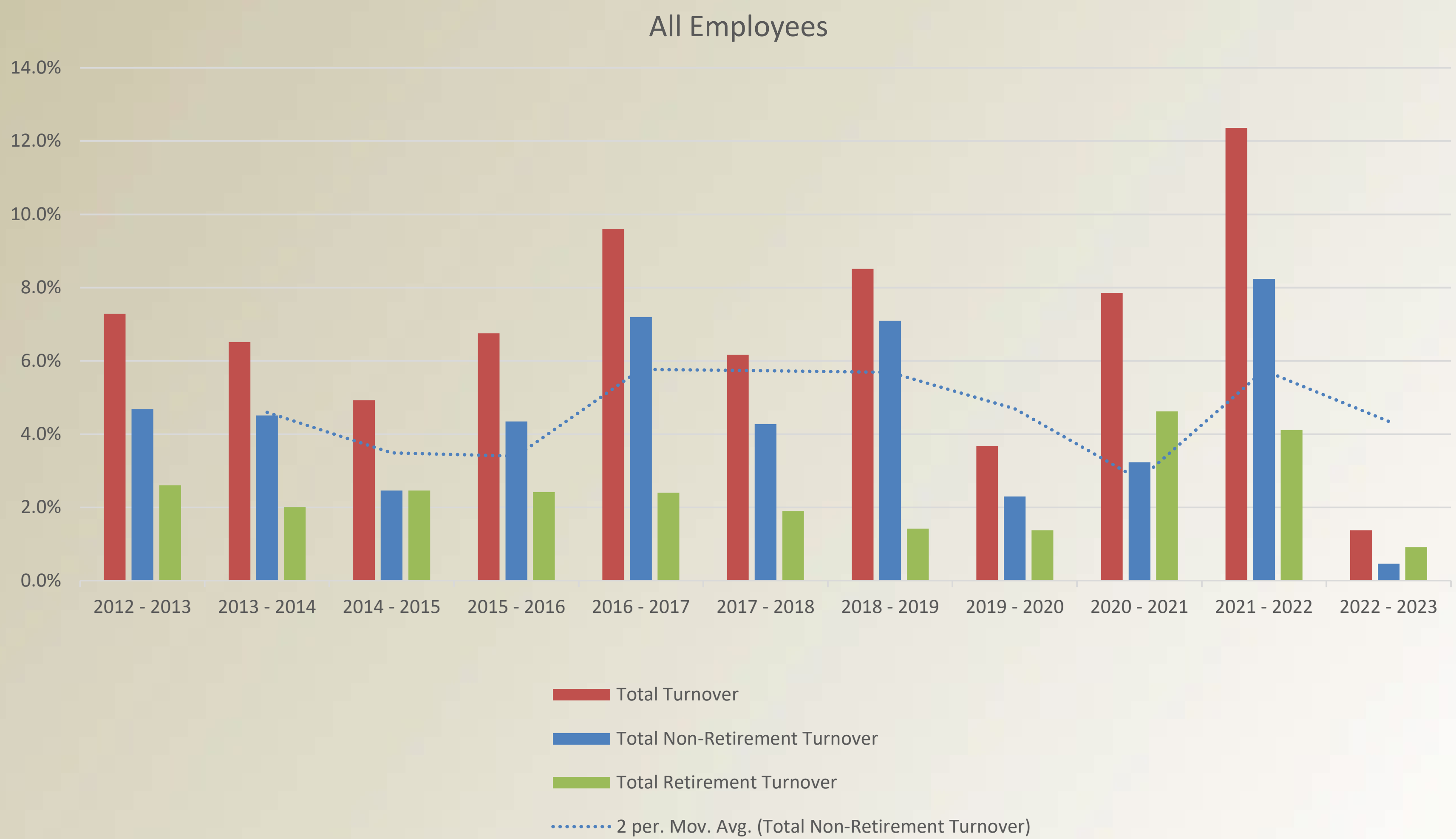
(Organization-wide Compa-Ratio)



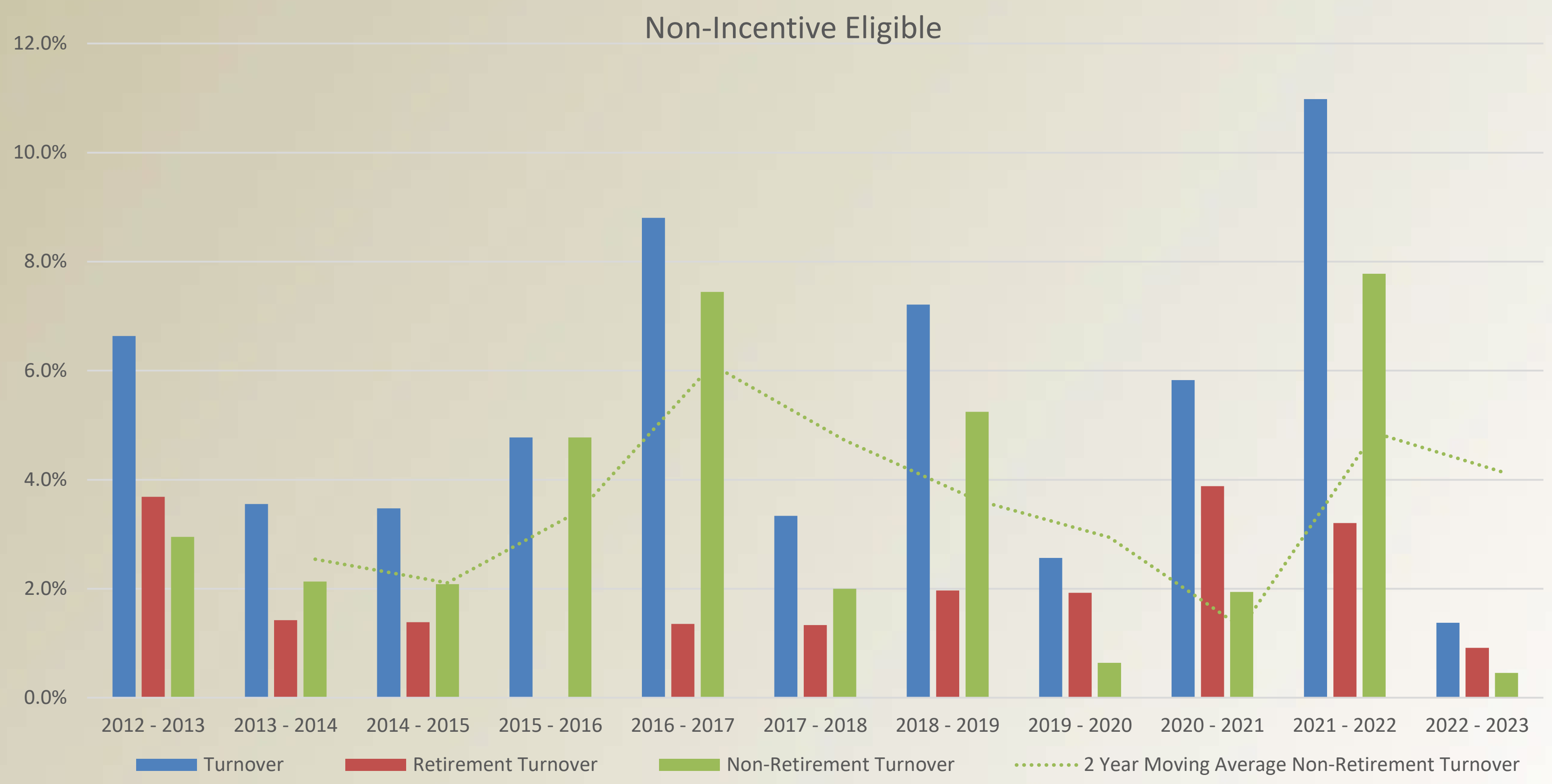
Progress Toward Target Salaries
(Distribution of Employees by Compa-Ratio)



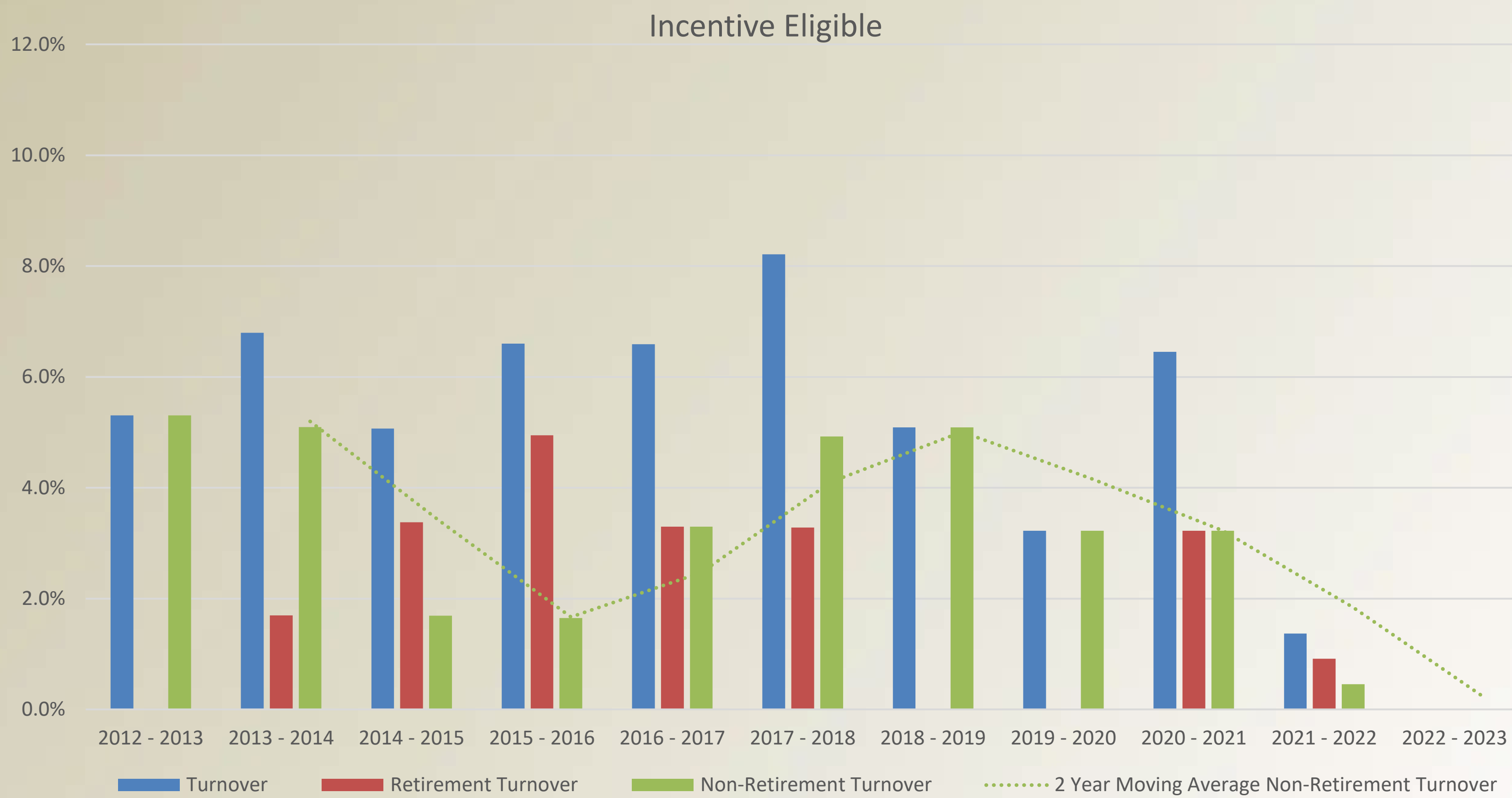
Turnover for all SBA, ODCP, and FHCF Staff



Turnover for all SBA, ODCP, and FHCF Non-Incentive Eligible Staff



Turnover for all SBA, ODCP, and FHCF Incentive Eligible Staff



Projected Retirements by December 2028 for all SBA, ODCP, and FHCF Staff

- 75 (34.4%) of 218 employees are eligible to retire by the end of 2028.
- 43 (57.3%) of the 75 employees eligible to retire are manager/supervisor-level and above.
- There are 43 (51.8%) manager/supervisor-level and above employees eligible to retire of the 83 total manager/supervisor-level and above employees. This means that 51.8% of the SBA's manager/supervisor-level and above positions could be replaced by the end of 2028.
- Of the 75 employees eligible to retire, 17 (22.7%) are already in DROP. Of the 17 in DROP, 9 (52.9%) are manager/supervisor-level and above.
- Of the 75 employees eligible to retire, 17 (22.7%) are in an asset class and 58 (77.3%) are in operations.
- There are 67 filled incentive eligible employees with 22 (32.8%) eligible to retire by the end of 2028.

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2022

January

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April

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3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

July

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

October

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

February

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28					

May

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

August

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

November

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

March

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

June

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

September

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

December

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Blue is Proposed IAC Meeting

Yellow is Proposed Cabinet Meeting