MINUTES

QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING

February 13, 2014 2:10 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Katy Wojciecnowski, State Board of Administration (*Chair*)
Bob Doyle, President & Chief Investment Officer, Doyle Wealth Mgmt Inc. (*Vice Chair*)
Stan Barnes, Managing Partner, Allen, Mooney and Barnes
Peter (PJ) Gardner, AGW Capital Advisors (*via conf call*)

Absent: David Roberts, Harvest Investment Advisors

Treasury Staff: Bert Wilkerson, Director of the Treasury
Melisa Hevey, Bureau Chief of Funds Management
Pedro Morgado, Chief Investment Officer
Ken Gerzina, Administrator of External Investment Program
Greg Balls, Financial Specialist

OPENING REMARKS

Katy Wojciecnowski called the meeting to order at 2:10 P.M.

APPROVAL OF MINUTES

The December 5, 2013 meeting minutes were presented for approval.
A Motion was made to approve the meeting minutes and passed unanimously.

FLORIDA ECONOMY OVERVIEW

Bert Wilkerson presented information from the Office of Economic and Demographic Research relating to the Florida economy.

Florida's economic recovery continues at a slow by steady pace.

December unemployment rate was 6.2% as compared to the US average of 6.7%. This was down from the August rate of 7%.

Florida's population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near-term, population growth is expected to average 1.3% growth between 2014 and 2015.

Florida's housing is continuing to improve. For 2013, building permits activity, an indicator of new construction, was 32.8% greater than 2012. Existing home sales for 2013 were 94.1% of the 2005 peak. This is up from last year's 84.9% increase.

The general revenue forecast for fiscal year 2013-2014 is projecting a $2.2 billion dollar surplus.

These positive indicates provide that the balances within the Treasury should remain stable.

TREASURY INVESTMENT POOL OVERVIEW

Bert Wilkerson presented a PowerPoint presentation providing an overview of the Treasury Investment Pool. The overview provided information relating to the Treasury Investment Pool balances; participant balances; Special Purpose Account participation; distributed income; security lending income; fair value factor; Pool rating; basket clause items; and certificate of deposit activity.

The Treasury Investment Pool balance decreased from the previous quarter's balance of $21.1 billion to $20.4 billion. The decrease was primarily related to a decrease in general revenue funds during the period.

All other information was in line with expectations.

TREASURY INVESTMENT POOL REVIEW

Pedro Morgado presented a PowerPoint presentation providing a review of the Treasury Investment Pool. The review provided information relating to the fixed income markets during the 4th quarter of 2013; Pool distribution by mandate; total returns for the Pool; portfolio allocations; and top 20 holdings.

US Treasury rates rose during the 4th quarter as a result of improving economic data and the Fed's decision to reduce its current pace of asset purchases. In December, the central bank decided to trim its purchases of US Treasury and agency MBS by $10 billion per month, to $75 billion. General improvement in economic data also provided support for the fixed income assets with all sectors posting strong excess returns during the fourth-quarter. The tightening trend was felt across all sectors but was mostly pronounced in the corporate sector and High Yield (-79 basis points) in particular. An environment of improving economic data and accommodative Fed policy continued to bode well for the sector.

There was almost no change to the pool distribution during the quarter.

The Investment Pool outperformed its benchmark for the one, three and five year periods. The outperformance was 3, 16 and 87 basis points, respectively.

The Short and Intermediate Duration portfolios are currently underfunded. We will be reallocating funds to these portfolios in the near future to bring their balances within the updated ranges.

INDIVIDUAL MANDATES REVIEW

Internally Managed Portfolios

Pedro Morgado presented a PowerPoint presentation on the Internal Investment Program including performance commentary, performance, portfolio characteristics and current strategy for the three portfolios that are managed internally.

The internally managed composite (with approximately $12.3 billion in combined market value) outperformed its benchmark for the quarter, one and three year periods. The outperformance was 4, 12 and 13 basis points, respectively. The composite underperformed for the five year period by 2 basis points.

Each internally managed portfolio (Liquidity, Short Duration and Intermediate Duration outperformed their benchmarks for the quarter, one and three year periods. The Liquidity portfolio outperformed its benchmark by 2, 13 and 15 basis points. This portfolio also outperformed its benchmark for the five year period by 17 basis points. The Short Duration portfolio outperformed its benchmark by 4, 8 and 6 basis points, respectively, while the Intermediate Duration portfolio outperformed by 10, 15 and 4 basis points. The Short and Intermediate Duration portfolios underperformed the five year benchmark by 23 and 78 basis points, respectively. The five year underperformance is related to the need for these portfolios to provide liquidity during the financial crisis.

During this quarter, the Liquidity portfolio benefited from higher yield obtained mostly by exposure to agency discount notes and commercial paper. The Short Duration portfolio benefited from an overweight to the corporate sector, specifically financials. The Intermediate Duration portfolio benefited from an underweight to duration and overweight to spread sectors.

Long Duration Portfolio

Ken Gerzina presented a PowerPoint presentation for the Long Duration Portfolio which included an update on the portfolio performance and characteristics versus the applicable benchmark.

Details provided included the ranking of managers according to their risk-return metrics, credit quality of holdings, asset allocations to the various permissible fixed income sectors and the effective duration of the composite portfolio.

The Long Duration Portfolio outperformed its benchmark for the quarter, three and five year periods. The outperformance was 12, 19 and 186 basis points, respectively. The program underperformed the benchmark for the one year period by 13 basis points.

The risk-adjusted manager rankings provided that Smith Breeden, Prudential and Declaration were the top three managers.

Watch List Update

On December 2nd, Western Asset was place on Treasury's Watch List due to substantial personnel changes to their mortgage team. It was determined that $150 million would be removed from Western Asset and allocated to the top three managers. $75 million was transferred on Jan. 15th and $75 million was transferred on Feb. 12th.

Since being put on watch, Western Asset outperformed the benchmark in December by 11 basis points. We will be monitoring them closely to ensure this positive performance continues.

TREASURY INITIATIVES (*see attached presentation*)

Completed Treasury Initiatives

Treasury signed a new 5 year Custody and Security Lending contract with BNY Mellon effective January 27, 2014.

On January 21, 2014 the four new Intermediate Duration external managers were fully funded.

A new Fee Schedule for the long duration managers was implemented on January 1, 2014. The new fee schedule should result in an annual savings of approximately $500,000.

Initiatives in Process

Improving the guidelines for monitoring the external managers. We will be looking to refine the procedures for evaluating managers, how the managers are placed on the Watch List, the conditions that need to be met to be removed from the Watch List and how to allocate/re-allocate funds among managers.

Expanding the number of Tri-Party Repo Counterparties.

Developing a scenario analysis for potential additional portfolio allocation decisions.

SUMMARY/ QUESTIONS / NEXT MEETING

Meeting was adjourned at 3:48 PM.