MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
February 27, 2013 2:03 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present:	Katy Wojciecnowski, State Board of Administration Bob Doyle, President & Chief Investment Officer, Doyle Wealth Management Inc. Stan Barnes, Managing Partner, Allen, Mooney and Barnes Peter (PJ) Gardner, AGW Capital Advisors (*via conference call)*
Guests:	Richard Donelan, General Counsel
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

OPENING REMARKS

In the absence of the Committee Chair, Bert Wilkerson called the meeting to order at 2:03 P.M.

Two new Committee members were introduced. Stan Barnes who is managing partner with Allen, Mooney & Barnes Investment Advisors, LLC and Peter Gardner with AGW Capital Advisors based out of Tampa, FL.

The first order of business was to elect a Chair and Vice Chair for the year.

Katy Wojciecnowski was nominated to be the Chair and the motion was unanimously passed.
Bob Doyle was nominated to be the Vice Chair and the motion was unanimously passed.

APPROVAL OF MINUTES

The December 6, 2012 meeting minutes were presented for approval.

A Motion was made to approve the meeting minutes and passed unanimously.

FINANCIAL OUTLOOK STATEMENT

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

As of December, 2012, General Revenue forecast for Fiscal Year 2012-13 was increased by $236 million. For Fiscal Year 2013-14, expected revenues were increased by $155.7 million. The revised 2012-13 estimate exceeds the prior year’s collections by over $1.2 billion.

The December unemployment rate for the US was 7.8% and Florida’s was 8.0%. Fifteen states had a higher unemployment rate than Florida.

Florida’s population is expected to grow at an average of 1.2% between 2012 and 2015.

Florida’s housing is generally improving. Building permit activity, an indicator of new constructions, is back in positive territory, showing strong (31.6%) year-over-year growth for the first eleven months of the calendar year.

Florida growth rates are gradually returning to more typical levels. However, drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession.

CURRENT STATE OF THE TREASURY (*see attached presentation*)

Bert Wilkerson presented a PowerPoint presentation providing an overview of the current state of the Treasury. The overview provided information relating to the Treasury Investment Pool balances; Pool breakdown between the various portfolios; investment Pool Fair Value Factor: gross earnings rate; income distributed broken up by entities and monthly income distributed; and administrative fees.

Over the last year the Treasury Investment Pool balance has increased by $1.6 billion. This is a result of the general revenue numbers coming in over what was anticipated.

The Pool as a whole exceeded its performance benchmark for the one, three and five year periods. The one year period exceeded by 51 basis points, the three year period exceeded by 25 basis points and the five year period exceeded by 25 basis points annualized.

The Treasury Investment Pool Distributed $215.5 million in income during the first six months of the current fiscal year.

The individual portfolio balances are within the established ranges except for the liquidity portfolio. The daily inflows and outflows of the Treasury are processed within the liquidity portfolio. With more income coming into the state than going out, the liquidity portfolio is growing. However, there is still $550 million dollars that has been approved to move from the liquidity portfolio into the intermediate portfolio. The liquidity portfolio should be within the approved range once these funds have been transferred.

All of the individual portfolios are within their approved active risk ranges.

OVERVIEW OF INTERNAL INVESTMENTS (*see attached presentation*)

Pedro Morgado presented a PowerPoint presentation on the Internal Investment Program, providing performance for the three portfolios that are managed internally.

Each of the internal investment portfolios met or exceeded the benchmarks for 2012. The Bridge and Intermediate portfolios underperformed for the 3 year period. However, these portfolios were not actively managed during the period from 2008 to 2010 because they were being used to provide liquidity during the financial crisis. Each of the Internal portfolios exceeded their benchmarks for the 5 year period.

During the 4th quarter, the Bridge portfolio and the Intermediate portfolio benefited from being slightly underweight duration as interest rates rose slightly in the quarter. Overweight to credit and to lower quality was also a positive contribution to the performance of these portfolios during the 4th quarter. The Intermediate portfolio however, lost a little performance versus benchmark as lower relative yield and trading costs associated with investing the $230 million in new funds that the portfolio received, outweighed the positive drivers.

OVERVIEW OF EXTERNAL INVESTMENTS PROGRAM (*see attached presentation*)

Ken Gerzina presented a PowerPoint presentation for the External Investment program which included an update on the External Investment Program performance.

All of the managers in the program are outperforming the benchmark for all periods. For the one year period, the program generated 103 basis points of outperformance over the benchmark. For the three and five year period, the program outperformed by 50 and 39 basis points, respectively.

Ken reviewed the overall risk ranking of the managers and the factors that are used to evaluate them. The main factor focused on is the five-year and three-year weighted returns. Those returns are weighted and then assigned an overall weighting. A weighting is then assigned to each of the other factors, Sharpe Ratio, Alpha, Tracking Error, Information Ratio and Standard Deviation of returns, and the manager ranking versus the other managers in the program is calculated for each factor. These individual rankings are then summed to determine the overall risk ranking for each manager.

Pyramis, Delaware and Smith Breeden are the top managers based on the risk-adjusted manager rankings.

TREASURY INITIATIVES (*see attached presentation*)

Reallocation of funds from the liquidity portfolio

Bert Wilkerson presented an update of the reallocation of funds from the Liquidity Portfolio to the Intermediate and External portfolios that were approved at the previous meeting. At the September 13, 2012 meeting, it was approved to reallocate funds from the Liquidity Portfolio since it was overfunded. The External Investment Program was increased by $295 million. All of these funds have been allocated to the Managers. $891 million was allocated to the Intermediate Portfolio. These funds are being transferred as opportunities arise. $341 million has been transferred to date.

Externally managed intermediate mandate

Discussion was started with the Investment Committee on creating a new externally managed intermediate duration investment mandate with approximately $2 billion. This mandate would replace the current Internal Intermediate Portfolio. This mandate would allow Treasury to take advantage of investment opportunities in all eligible asset classes including Mortgage Backed Securities, Asset Backed Securities, Foreign Securities and Municipals in the intermediate (3-5 year) part of the yield curve. While these asset classes are currently permitted under policy, due to limited internal resources and accounting system limitations, the Intermediate Portfolio has not been able to take advantage of these sectors. Outsourcing this portfolio should expand investment opportunities including the ability to better identify company specific risks.

Using an average return of benchmarks that include these asset classes and the fee structure that we currently have on the External Program, we calculated the average excess net returns for the past one, three and five years versus the current Intermediate Portfolio's performance. Based on this calculation, we would have achieved excess returns of 0.47% for one year, 1.03% for three years and 0.30% for five years. This equals approximately $6 million in excess returns for the 5 year period. While past performance does not guarantee future results, we believe this calculation shows that we are missing out on investment opportunities that an external manager with the appropriate resources and expertise could capture.

The Investment Committee members were in support of pursuing this initiative with further information to be provided at the next Investment Committee meeting.

Updates to the Comprehensive Investment Policy

Updates to the Comprehensive Investment Policy were presented. The updates were primarily clarification and clean-up. The updates included removing Mortgage and Asset Backed Securities from the Liquidity and Bridge Policies. These portfolios do not invest in these securities. Municipal and Foreign obligations issuer limits were increased from $10 million to $25 million in the Liquidity Portfolio to match the Corporate limit. Agency and Non-Agency MBS were separated since Agency MBS do not have the credit quality requirement. Asset Backed Commercial Paper was prohibited in the External Program and STIF.

SUMMARY/ QUESTIONS / NEXT MEETING

The Work Group will get back with the committee members with some recommended meeting dates for the rest of the year.

Meeting was adjourned at 4:47 PM.