

MINUTES

QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING

May 7, 2014 1:05 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
David Roberts, Harvest Investment Advisors

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

Absent: Peter (PJ) Gardner, AGW Capital Advisors
Melisa Hevey, Bureau Chief of Funds Management

OPENING REMARKS

Katy Wojciecnowski called the meeting to order at 1:05 P.M.

APPROVAL OF MINUTES

The February 13, 2014 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 and steady pace.

March unemployment was 6.3% as compared to the US average of 6.7%. This was equal to the December rate.

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 market continues to improve. For 2013, new home permits were 33.4% above last year. Existing home sales volume so far in 2014 were 95.9% of 2005 peak. Up from last year's 94.1% increase.

The general revenue forecast for fiscal year 2013-14 is projecting a \$2.2 billion surplus

The general revenue forecast for fiscal year 2014-2015 is projecting collections (\$27.7 billion) to surpass the prior peak in 2005-06 (\$27.1 billion).

These positive indicators provide that the balances within the Treasury should remain stable over the next quarter.

TREASURY INVESTMENT POOL OVERVIEW

Bert Wilkerson presented 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 increased from the previous quarter's balance of \$20.4 billion to \$21.3 billion. The increase was primarily in the trust fund balances.

All other information was in line with expectations.

TREASURY INITIATIVES *(see attached presentation)*

External manager monitoring

Ken Gerzina presented an enhanced method for monitoring the external manager's performance.

Quantitative and qualitative factors were presented. If a manager falls below the quantitative factors or a significant qualitative factor occurs, the manager may be placed on a watch list for a 12 month period. If the manager does not rectify the event that placed them on the watch list during the 12 month period, the manager may be terminated or have their assets reduced.

A ranking system has been developed to help with the quantitative factors. The ranking system will also be used to reward, re-allocate or withdrawal assets from the managers.

The committee members agreed with this new process.

Security lending opportunities

Pedro Morgado presented revenue opportunities that could increase revenues with minimal impact to risk. These opportunities could provide approximately an additional \$1 million in revenue.

The committee members agreed with the expanding security lending options as presented.

Comprehensive Investment Policy updates

Various investment policy updates were presented and agreed with by the Committee.

INVESTMENT POOL REVIEW *(see attached presentation)*

Pedro Morgado presented a review of the Treasury Investment Pool. The review provided information relating to the fixed income markets during the 1st quarter of 2014; Pool distribution by mandate; total returns for the Pool; portfolio allocations; and top 20 holdings.

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 8, 16 and 71 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 *(see attached presentation)*

Internally Managed Portfolios

Pedro Morgado presented 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 portfolios (Liquidity and Short Duration) outperformed their benchmarks for the quarter, one and three year periods. The Liquidity portfolio outperformed its benchmark by 4, 14 and 15 basis points. This portfolio also outperformed its benchmark for the five year period by 16 basis points. The Short Duration portfolio outperformed its benchmark by 6, 13 and 9 basis points, respectively. The Short Duration portfolio underperformed the five year benchmark by 25 basis points, respectively. The five year underperformance is related to the need for this portfolio 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.

Externally Managed Portfolios

Ken Gerzina presented for the Intermediate and Long Duration portfolios which included an update on the portfolio performance and characteristics versus the applicable benchmark.

Since the Intermediate portfolio was transferred to the external managers the end of January 2014, quarterly performance information is not available for the external managers. More detailed performance data will be presented at the next meetings.

The Long Duration Portfolio outperformed its benchmark for the quarter, three and five year periods. The outperformance was 69, 18 and 161 basis points, respectively. The program slightly underperformed the benchmark for the one year period by less than 1 basis point.

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

Western Asset is the only Manager on the watch list and their performance is improving.

SUMMARY / QUESTIONS / NEXT MEETING

Meeting was adjourned at 3:12 PM.