

MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
May 22, 2012 1:30 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Bruce Gillander, Retired (*Chair*)
Katy Wojciecnowski, State Board of Administration
Susan Schueren, NICA Investment Consultant
Bob Doyle, President & Chief Investment Officer, Doyle Wealth Management Inc.
David Roberts, CFA, Harvest Investment Advisors

Treasury Staff: Bert Wilkerson, Director of the Treasury
Cherie Jeffries, Administrator of Internal Investment Program
Ken Gerzina, Administrator of External Investment Program

OPENING REMARKS

Bruce Gillander called the meeting to order at 1:34 P.M. Bert Wilkerson announced that Kimberly McMurray is no longer with the committee and taking her place is David Roberts with Harvest Investment Advisors.

ELECT COMMITTEE VICE CHAIR

The first order of business was to elect a new Vice Chair for the Committee.
Susan Schueren was nominated to be the Vice Chair and the motion was unanimously passed.

APPROVAL OF MINUTES

The February 29, 2012 meeting minutes were presented for approval.
Motion was made to approve the meeting minutes and passed unanimously.

FINANCIAL OUTLOOK STATEMENT

Bert presented a handout of the Florida Economic Overview. (*see attached*).

March unemployment for Florida was 9.0% which is favorable in the sense that our highest rates were January and February 2010 at 11.4%. Florida is currently below the national average, which is 8.2%.

Population growth is the state's primary engine of economic growth, fueling both employment and income growth. The population growth has been relatively flat and is anticipated to be relatively flat through 2014. Population growth is anticipated to expand from 2025 to 2030 at a rate of 1.1% annually. That will be in comparison to a national average of 0.9%.

Florida housing is general improving. Year over year improvements have occurred in 2010 and 2011. However, the housing market is still substantially lower than it was in 2005.

General Revenues are coming in over estimates. As of March, revenues were \$151 million over estimate for the fiscal year.

Overall, the Florida economy is improving but at a slow rate.

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

Bert 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 quarter the balances in the Treasury have increased by \$1.4 billion or almost 8%. Of this, \$950 million related to special purpose investment accounts. General Revenue and Trust Funds increased by \$450 million.

Cherie Jeffries continued the presentation with information relating to security lending balances and income; Special Purpose Investment Account (SPIA) balances and activity, including a breakdown of SPIA participants by type; SPIA as a percent of the Pool; Certificates of Deposit balances and activity; basket clause investments; allocation of portfolios versus targets; and portfolio active risk versus targets. Katy Wojciecnowski requested information about security types and maturities held within the Basket Clause pool. Bert suggested having information regarding this at the next meeting.

OVERVIEW OF INTERNAL INVESTMENTS *(see attached presentation)*

Cherie Jeffries presented a PowerPoint presentation on the Internal Investment Program's performance, providing performance for the three portfolios that are managed internally. Each of the internal investment portfolios outperformed the benchmark for the one year period. For the rolling three years, the Liquidity portfolio outperformed the benchmark; however, the Bridge and Intermediate portfolios underperformed due to passive management. All portfolios outperformed for the 5 year period.

The portfolios are currently being invested neutral to the benchmark in regards to duration and maturities. However, the portfolios are overweight in spread product and underweight in Treasuries. The financial markets continue to be volatile as the European markets continue to struggle. This strategy is minimizing the volatility in the portfolios.

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. Performance has improved slightly. The total market value of the External Program was \$6.72 billion at March 31st, an increase of \$52 million from December 2011. Treasury allocated \$400 million to the external program over the last quarter of 2011 and an additional \$400 million in April 2012. Overall, managers have performed well, as the only underperformance is in the one year period. All other periods are above benchmark for all managers, net of fees.

The External Investment Portfolio continues to be a high quality, well diversified portfolio with strategic overweights to select corporate credit, agency mortgage-backed securities and commercial mortgage-backed securities.

OVERVIEW OF CURRENT TREASURY INITIATIVES (see attached presentation)

Bert Wilkerson discussed some of the major initiatives that are being undertaken within the Treasury.

Updates to Comprehensive Investment Policy (CIP) Document – the following items are being changed:

1. Clarify language in the following sections:
 - All securities must be US Dollar denominated
 - Counterparty language in line with S&P guidelines
 - ABS / Sub-Prime Language
 - CD Program Language - Range

Committee agrees with the recommendations.

Risk-Adjusted Performance Incorporated into Manager Evaluation Process – Ken talked about manager evaluation and the migration to a greater emphasis on risk-adjusted performance rather than absolute performance. The criteria that will be the focus of the evaluation is, five and three year weighted performance; Sharpe ratio; alpha; information ratio; standard deviation of returns; and tracking error. This will help us compare all the managers based on their overall performance relative to each other and their portfolio risk levels.

Asset Allocation Update – Ken explained the results of the asset allocation. The committee requested this information be present on the performance sheet.

SUMMARY/ QUESTIONS / NEXT MEETING

Bert discussed a couple of items for the next meeting. On slide 24, for basket clause items, we discussed including the type and average maturity of the basket clause securities. On slide 41, we will add a page showing the risk adjusted returns sorted by managers..

The Work Group will get back with the committee members with some recommended dates for the next quarterly meeting.

Meeting was adjourned at 3:20 PM.