

MINUTES

QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING

May 29, 2013 2:04 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*)
David Roberts, Harvest Investment Advisors
Stan Barnes, Managing Partner, Allen, Mooney and Barnes
Peter (PJ) Gardner, AGW Capital Advisors (*via conference call*)

Guests: Patrick Higgins, Intern
Dennis McCarthy, Intern

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

Absent: Richard Donelan, General Counsel

OPENING REMARKS

Katy Wojciecnowski called the meeting to order at 2:03 P.M.

Bert Wilkerson introduced two interns that are working in the Treasury for the summer. Patrick Higgins who recently graduated with his Bachelor's degree in finance and real estate from FSU and Dennis McCarthy who is working on a dual bachelor and master degree in finance at the University of Florida.

APPROVAL OF MINUTES

The February 27, 2013 meeting minutes were presented for approval.

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

FINANCIAL OUTLOOK STATEMENT (*see attached*)

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

Florida's unemployment rate of 7.5% dropped below the national average of 7.6%. Eighteen states have a higher unemployment rate than Florida.

Florida's population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near term, growth is expected to average 1.2% between 2012 and 2015.

Florida's housing is continuing to improve. Building permits activity, an indicator of new construction, is back in positive territory, showing a 32.4% calendar year growth in 2012. For the first two months of 2013 the permits were 50% above the same timeframe in the prior year.

The general revenue forecast for 2012-2013 and future years is projecting between 4% to 6% annual growth.

During the Revenue Estimating Conference held in March 2012, expected revenues for FY 2012-13 were increased by \$153.0 million, or about 0.6% above the earlier forecast, to recognize some of the gains seen up to this point as well as the negative effects of the Sequester. For FY 2013-14, a stronger impact is expected from the Sequester causing anticipated revenues to increase by only \$106.5 million or 0.4 % above the earlier forecast.

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 to a total of \$21.6 billion.

The Pool as a whole exceeded its performance benchmark for the one, three and five year periods. The one year period exceeded by 29 basis points, the three year period exceeded by 20 basis points and the five year period exceeded by 37 basis points annualized.

OVERVIEW OF INTERNAL INVESTMENTS *(see attached presentation)*

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

All internally managed portfolios (with approximately \$12.5 billion in combined market value) outperformed their benchmarks in the 1st quarter. The liquidity portfolio returned 0.04%, outperforming its benchmark by 3 b.p. This portfolio has outperformed its benchmark for the one, three and five year periods. The Bridge portfolio returned 0.19% in the quarter, 1 b.p better than the benchmark while the Intermediate portfolio returned 0.32% beating its benchmark by 2 basis points. The bridge and intermediate portfolios did not perform as well for the longer periods because they were not actively managed during the period from 2008 to 2010. During this period these portfolios were used to provide liquidity due to the financial crises.

During this quarter, the liquidity portfolio benefited from higher yield via curve extension and exposure to credit and agency sectors. The bridge portfolio benefited from interest rate volatility and a strong performance by the financial sector. The intermediate portfolio benefited from 3 to 5 years rates staying stable and the strong performance of the financial sector.

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 and portfolio 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 external program outperformed its benchmark for the one, three and five year periods.

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

TREASURY INITIATIVES *(see attached presentation)*

Portfolio Allocation Update

Pedro Morgado presented an update of the portfolio allocation. At the September 13, 2012 meeting, it was approved to reallocate funds from the Liquidity Portfolio since it was overfunded. We increased the External Investment Program by \$295 million and the funds have been transferred. We increased the Intermediate Portfolio by \$891 million and \$391 million has been transferred. These funds are being transferred as opportunities arise.

Intermediate Portfolio

Pedro Morgado presented an update on the proposed externally managed intermediate duration mandate. The process for selecting managers was provided. Pedro discussed the steps we have already completed and how we will proceed.

New Portfolio Manager

Pedro announces that we hired a new Portfolio Manager for the Bridge Portfolio, Gregory Balls. Gregory will begin working on June 6th.

Other initiatives

Pedro discussed initiatives relating to tri-party repurchase agreements and minor updates to the comprehensive investment policy.

SUMMARY/ QUESTIONS / NEXT MEETING

The Work Group has already set the meetings dates for the rest of the year.

Meeting was adjourned at 4:07 PM.