MINUTES

QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING

December 5, 2013 2:06 P.M.

Hermitage Building, Conference Room 440C

Attendees:

Members Present: 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
David Roberts, Harvest Investment Advisors

Absent: Katy Wojciecnowski, State Board of Administration (*Chair*)

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

Bob Doyle called the meeting to order at 2:06 P.M.

APPROVAL OF MINUTES

The August 8, 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.

Florida's unemployment rate of 7% dropped from the rate reported at the previous meeting of 7.3%. Florida's rate is below the national average of 7.1%.

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 2012 and 2015.

Florida's housing is continuing to improve. For the first eight months of 2013, building permits activity, an indicator of new construction, was 42.8% greater than 2012. Existing home sales were 42.8% 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 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 current state of the Treasury. The overview provided information relating to the Treasury Investment Pool balances; Pool breakdown between the various portfolios; security lending balances; investment Pool Fair Value Factor; gross earnings rate; income distributed broken up by entities and monthly income distributed; and administrative fees.

The Treasury Investment Pool balance increased from the previous quarter's balance of $20.3 billion to $21.1 billion. The increase was primarily related to small increases in the Trust Fund and SPIA balances during the period.

Pedro Morgado presented information relating to the fixed income markets, the total pool distribution by mandate as compared to the ranges set in policy and the Investment Pool's total return.

The Investment Pool outperformed its benchmark for the one, three and five year periods. The outperformance was 2, 16 and 47 basis points, respectively.

Changes to the portfolio allocation policy were presented and approved by the Committee.

As a result of these changes, 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.

The CD program is slightly underfunded. However, while Treasury is offering funds to the banks through the monthly auction process, the banks are not contracting for the entire amount.

OVERVIEW OF INTERNAL INVESTMENTS (*see attached presentation*)

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 $13 billion in combined market value) outperformed its benchmark for the quarter, one, three and five year periods. The outperformance was 6 b.p., 10 b.p., 10 b.p., and 14 b.p., respectively.

Each internally managed portfolio (Liquidity, Short Duration and Intermediate Duration), with the exception of the Intermediate Duration portfolio, outperformed their benchmarks for the quarter. The Liquidity portfolio outperformed its benchmark by 7 b.p. This portfolio also outperformed its benchmark for the one, three and five year periods. The Short Duration portfolio outperformed its benchmark by 5 b.p while the Intermediate Duration portfolio underperformed by 1 b.p. The Short and Intermediate Duration portfolios did not outperform for three and five year periods due 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 and commercial paper sectors and yield curve positioning. The Short Duration portfolio benefited from a overweight to the corporate sector, specifically financials, and a slight underweight to duration. The Intermediate Duration portfolio benefited from an underweight to duration and overweight to spread sectors.

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 quarter, three and five year periods. The outperformance was 3, 22 and 99 b.p., respectively. The program underperformed the benchmark for the one year period by 12 b.p.

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

Due to potential key management concerns at Western Asset Management, they were placed on watch and we will be reducing their assets by $150 million (approximately 25%). We will continue to monitor them closely for the next 12 months to ensure their performance does not diminish. The $150 million will be distributed to the top three performing managers.

TREASURY INITIATIVES (*see attached presentation*)

Intermediate Portfolio

Pedro Morgado presented an update on the proposed externally managed intermediate duration mandate. We have completed our selection process. We will be allocating $500 million each to four managers. The managers selected were Galliard, IR&M, Sterling and TCW. We are finalizing the contracts and the allocations should occur the beginning of 2014. The Managers performance will be benchmarked against the Barclays Intermediate Gov/Credit benchmark.

Investment Policy Changes

Pedro Morgado presented the final changes to the Intermediate Duration portfolio policy that the new Managers will be following.

External Manager Fee Reduction

Ken Gerzina presented that we requested that each manager review the current fee schedule and see if there are any reductions they would be able to offer. As a result, 9 managers provided enhanced fee schedules that should save the State approximately $300,000 annually.

Initiatives in Process

Bert Wilkerson provided that the Treasury is close to finalizing the new Custody and Securities Lending contract. Bank of New York Mellon is the current vendor and has been selected to continue to provide the services.

SUMMARY/ QUESTIONS / NEXT MEETING

The Committee agreed to have 2014's quarterly meetings on the following dates:

February 13, 2014
May 15, 2014
August 7, 2014
November 6, 2014

Meeting was adjourned at 4:00 PM.