MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
December 6, 2012 2:05 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Bruce Gillander, Retired (*Chair*)
Katy Wojciecnowski, State Board of Administration
David Roberts, CFA, Harvest Investment Advisors

Members Absent: Bob Doyle, President & Chief Investment Officer, Doyle Wealth Management Inc.
Susan Schueren, NICA Investment Consultant

Treasury Staff: Bert Wilkerson, Director of the Treasury
Ken Gerzina, Administrator of External Investment Program
Melisa Hevey, Bureau Chief of Funds Management

Guest: Pedro Morgado, Financial Specialist

OPENING REMARKS

Bruce Gillander called the meeting to order at 2:05 P.M.

APPROVAL OF MINUTES

The September 13, 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 October, 2012, General Revenue collections were $250 million over estimates. For the 2013-14 fiscal year, General Revenue is projected to have a $436.8 million surplus. This is $365.5 over the previous projections. (*see attached*)

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 dollars, from $18.2 billion to $19.8. The liquidity portfolio balance decreased while the external portfolio balance increased due to reallocation of funds between the portfolios. The reallocation was approved at the previous meeting because the liquidity portfolio was over allocated. On a total return basis, the Treasury Investment Pool's performance exceeded our benchmark for each of the one year, three year and five year periods. The one year exceeded by 52 basis points, the three year exceeded by 42 basis points and the five year exceeded by 16 basis points.

The Investment Pool generated $143.9 million in income for the previous quarter.

OVERVIEW OF INTERNAL INVESTMENTS (*see attached presentation*)

Pedro Morgado 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 in the third quarter. The quarterly liquidity outperformed by 5 basis points, the bridge by 9 basis points, and the intermediate by 10 basis points.

During the 3rd quarter, the Bridge portfolio and the Intermediate portfolio maintained an overweight position in corporates with a duration neutral strategy. Both portfolios benefited from this strategy as diminishing concerns about the European crisis led to a rally in credit markets. The portfolios also benefited from having a lower credit quality compared to the benchmark.

After the strong summer rally in the corporate sector, the overweight position to this sector is now being reduced in the Intermediate portfolio and slightly reduced in the Bridge portfolio.

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.

The managers remained duration-neutral to their benchmark and maintained their overweights to corporate credit and structured product (i.e. mortgages, commercial mortgage backs, asset backs) as well. They took advantage of new issuance in corporate bonds with many issues trading at a premium shortly after initial settlement. Managers had expected the Federal Reserve to go forth with purchasing agency MBS (QE3) so most added to this sector prior to its announcement. Now they are being more selective as current coupon mortgages trade at large premiums (Ex. Fannie Mae 3% 30-year MBS trade at a $105 dollar price and 3% 30-year Ginnie Maes trade at $106). Managers are cautious in their asset allocations and positioning, making sure they are comfortable with the assets and names in their portfolio, and if not, then selling them.

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.

TREASURY INITIATIVES (*see attached presentation*)

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. The portion allocated to the external portfolio ($295 million) was transferred in September. Transfers of $291 million (of the $891 million allocated) have been made into the intermediate portfolio. There is still has $600 million to be transferred into the intermediate portfolio that we are looking to strategically place. We are looking to increase the allocation to Treasuries and lessen the overweight to the corporate sector.

SUMMARY/ QUESTIONS / NEXT MEETING

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

Meeting was adjourned at 3:40 PM.