

# **MINUTES**

## **QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING**

**August 26, 2011 1:07 P.M.**  
**Hermitage Building, Conference Room 440C**

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### **Attendees:**

**Members Present:** Katy Wojciecnowski, State Board of Administration  
Kimberly McMurray, Department of Children and Families  
Richard Donelan, Executive Sr. Attorney, Division of Legal Services  
Susan Schueren, NICA Investment Consultant  
Bruce Gillander, Retired

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

### **OPENING REMARKS**

Bruce Gillander called the meeting to order at 1:07 P.M and established that with the five members present, the quorum requirement was met.

### **APPROVAL OF MINUTES**

The June 24, 2011 meeting minutes were presented for approval.  
*Motion was made to approve the meeting minutes and passed unanimously.*

### **FINANCIAL OUTLOOK STATEMENT** (see attached)

Bert presented to the Committee the General Revenue Fund and Monthly Revenue Report information. As of June 30, 2011, the State's financial condition appears to be improving and a budget surplus is projected for the 2011/2012 fiscal year.

### **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 provides information relating to the Treasury Investment Pool balances; breakdown between the various portfolios; gross earnings rate; income distributed broken up by entities and monthly income distributed; administrative fees; and Pool rating. There were no major concerns to report related to any of these areas.

Melisa presented a PowerPoint presentation on security lending balances and income, monthly security lending income, Special Purpose Investment Account balances, SPIA as a % of the Pool, SPIA activity, certificates of deposit and CD activity, and basket clause investments. There were no major concerns to report related to any of these areas.

### **OVERVIEW OF INTERNAL INVESTMENTS** (see attached presentation)

Cherie Jeffries presented a PowerPoint presentation on the Internal Investment Program's Performance, which shows the performance for the three portfolios that are managed in-house. The presentation provides information relating to internal investments review, internal investment program performance, liquidity portfolio, bridge portfolio, and the intermediate portfolio.

## **OVERVIEW OF INTERNAL INVESTMENTS - CONTINUED** (see attached presentation)

The liquidity portfolio outperformed for all periods. The bridge and intermediate portfolios outperformed their benchmark for the five year period but underperformed for the three and one year periods. This was due to the Treasury not actively managing these portfolios during these periods to assist with liquidity needs. The Treasury began actively managing these portfolios again in June 2010 for the bridge portfolio and August 2010 for the intermediate portfolio. Plus, the financial markets have had extreme volatility during 2011 which has made it difficult to add alpha.

## **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 external managers have been encountering some headwinds with Treasuries rallying in spite of S&P's downgrading of US Treasury debt to AA+ on August 5th. Combined with the sovereign debt problems in Europe, a stagnant job market and the continued troubles in the housing market, investors have flocked to the safety of US Treasuries, causing other asset classes to suffer. When Treasuries are the best performing asset it makes it difficult for the external managers to outperform the benchmark. Currently, managers have added to their allocation in Treasuries and are using them for short term trading opportunities, but they continue to believe there is value in the other fixed income sectors, specifically corporate credit and Commercial Mortgage-Backed Securities.

Performance has lagged slightly over the past quarter, but continues to exceed its benchmark. Only three managers trail the index for the one year period, and every manager has outperformed for all periods greater than one year.

## **OVERVIEW OF CURRENT TREASURY INITIATIVES** (see attached presentation)

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

***Comprehensive Investment Policy (CIP) Document*** – The signed CIP was presented to the Committee. Bert discussed two changes to the policy: 1) The CFO delegated the authority to sign the investment policy to the Director of the Treasury; and 2) a section related to prohibited securities and Protecting Florida's Investment Act was added. Bert asked the Committee to look over the policy during the next quarter to identify any additional changes needed.

***Portfolio Allocation*** – Bert and Ken presented the Portfolio Allocation update to the Committee. Cherie presented the analysis of Treasury's total portfolio at the last meeting. Based upon the analysis, with input from our investment consultant, the Investment Work Group determined that reallocating approximately \$1.5 billion to outperforming External Managers would be the optimum asset allocation for Treasury. The top managers were identified based on their 3-year and 5-year net returns versus the index and their peers. Eight Managers were chosen to receive additional assets.

Much uncertainty has arisen since then, but it was decided that the transfer was still the best path for the total portfolio. The delay in the implementation of the transfers has been deliberate by choice. The Work Group wanted to maintain liquidity in case there was a government default and a possible liquidity crunch, or if SPIA participants began withdrawing some of their balances. Barring any unforeseen events, the allocation process will begin October 3<sup>rd</sup>.

**OVERVIEW OF CURRENT TREASURY INITIATIVES CONTINUED** *(see attached presentation)*

The Work Group decided to conduct the transfers in tranches each month. The first tranche will be \$50 million each to the top three performing managers, then \$50 million to the next three in November, then \$50 million to the last two managers in December. The process will continue on the same schedule through August 2012, at which point the full \$1.480 billion will have been allocated. This schedule permits Treasury to make changes as needed if conditions warrant. Also, managers receiving larger allocations are not faced with an extra \$150-\$200 million that must be invested in a less-than-optimal climate.

**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 2:25 PM.