

MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
November 16, 2011 1:00 P.M.
Hermitage Building, Conference Room 440C

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
Bruce Gillander, Retired

Absent: Susan Schueren, NICA Investment Consultant

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 four members present, the quorum requirement was met.

APPROVAL OF MINUTES

The August 26, 2011 meeting minutes were presented for approval.
Motion was made to approve the meeting minutes and passed unanimously.

FINANCIAL OUTLOOK STATEMENT

Bert presented the updated State of Florida estimates from the Revenue Estimating Committee. In October 2011, the Revenue Estimating Committee revised revenue estimates to forecast a 1.9 billion shortfall for 2012-2013; an \$888 million shortfall for 2013-2014, and a \$787 million shortfall for 2014-2015.

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; breakdown between the various portfolios; gross earnings rate; income distributed broken up by entities and monthly income distributed; administrative fees; and Pool rating.

Over the last quarter the balances in the Treasury have gone down, but they've only gone down by \$200 million, which is only 1.12%. So while the revenue shortfalls this year have been significant, we have not seen that much of a decrease in the balances in the State Treasury.

Melisa Hevey 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; and basket clause investments. There were no major concerns within these areas.

Cherie Jeffries presented the current portfolio allocation versus the target and the portfolio active risk ranges versus the current portfolio risk level. These allocations were within the appropriate ranges as provided in the Comprehensive Investment Policy.

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. Liquidity has outperformed for each of the one, three and five year periods. The bridge and intermediate have outperformed for the five year period but have underperformed for the three and one year periods. The underperformance was due to the Treasury not actively managing these portfolios during this period to assist with liquidity needs. The Treasury began actively managing these portfolios again in the 3rd quarter of 2010 for the Bridge portfolio and the 4th quarter of 2010 for the intermediate portfolio.

The portfolio is currently being invested neutral to the benchmark. The financial markets continue to be volatile as the European markets continue to struggle. This strategy is limiting the volatility in the portfolios and is leading to incremental positive returns for the 3rd quarter.

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. Ken explained that the underperformance since the last quarter was mainly due to the attractiveness of owning Treasuries. He also explained that this quarter is the first since 2008-09 with one year net returns below the benchmark.

Bruce requested that the Investment Committee receive the following information in future meetings:

1. A book cost to current market value comparison
2. Corporate issuer concentration levels for the entire investment pool including securities lending

The Work Group agreed to add the two requests.

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 are high level items that are being changed:

1. Derivative language in the External Investment Program has been clarified.
2. Sector allocation for US Treasuries has been added for the Intermediate and Bridge portfolios.
3. Banker Acceptance obligations has been added to the "Other Restrictions" for all portfolios.

Motion was made to approve the CIP updates and passed unanimously

Portfolio Allocation – Bert provided an update related to Portfolio Allocation.

The scheduled allocations were made in October and November. We will continue to analyze on a monthly basis whether it's prudent for the program to make allocations.

SUMMARY / QUESTIONS / NEXT MEETING

The Committee recommended that future meetings start at 1:30. The Work Group will get back with the committee members with some recommended dates for the next quarterly meeting.

Meeting was adjourned at 2:18 PM.