

MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING

August 8, 2013 2:10 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*)
Stan Barnes, Managing Partner, Allen, Mooney and Barnes

Absent: Peter (PJ) Gardner, AGW Capital Advisors (*via conference call*)
David Roberts, Harvest Investment Advisors

Guests: Richard Donelan, General Counsel
Dennis McCarthy, Intern

Treasury Staff: Bert Wilkerson, Director of the Treasury
Pedro Morgado, Chief Investment Officer
Ken Gerzina, Administrator of External Investment Program
Greg Balls, Financial Specialist

OPENING REMARKS

Katy Wojciecnowski called the meeting to order at 2:10 P.M.

APPROVAL OF MINUTES

The May 29, 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 7.1% dropped from the rate reported at the previous meeting of 7.5%. Florida's rate is below the national average of 7.6%.

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 1.2% growth between 2012 and 2015.

Florida's housing is continuing to improve. For the first five months of 2013, building permits activity, an indicator of new construction, is back in positive territory, running nearly 50% above the same timeframe in the prior year, but the level is still low by historic standards.

The general revenue forecast for fiscal year 2012-2013, which ended on June 30th, is showing a \$2.5 billion dollar budget surplus for the fiscal year. For fiscal year 2013-2014 the forecast is projecting a \$1.7 billion dollar overage.

The general revenue growth forecast has not changed from the last meeting. General Revenue's growth was almost 6% for 2012-2013. General Revenue is projected to grow approximately 4 to 4 1/2% each year for the next three years.

With all of these indicators being positive, we are projecting stable balances in the Treasury.

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; 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 decreased from the previous quarter's balance of \$21.6 billion to \$20.9 billion. The decrease primarily related to SPIA balances decreasing by \$2.5 billion during the period.

The Investment Pool outperformed its benchmark for the one, three and five year periods. The outperformance was 18, 19 and 28 basis points, respectively.

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 second quarter, performance, portfolio characteristics and current strategy for the three portfolios that are managed internally.

All internally managed portfolios (with approximately \$12 billion in combined market value), with the exception of the Bridge portfolio, outperformed their benchmarks in the 1st quarter. The liquidity portfolio outperformed its benchmark by 1 b.p. This portfolio has also outperformed its benchmark for the one, three and five year periods. The Bridge portfolio underperformed its benchmark by 2 b.p while the Intermediate portfolio outperformed by 5 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 obtained mostly by exposure to agency and commercial paper sectors. The bridge portfolio benefited from a slight underweight to duration. However, the overweight to spread sectors and lower credit quality securities detracted from earnings. The intermediate portfolio benefited from an underweight to duration and shorter exposure in the yield curve.

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 Smith Breeden, Pyramis and Prudential were our top three managers.

TREASURY INITIATIVES *(see attached presentation)*

Portfolio Allocation Update

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. \$891 million was allocated to the Intermediate portfolio. These funds are being transferred as opportunities arise.

Intermediate Portfolio

Pedro Morgado presented an update on the proposed externally managed intermediate duration mandate. Pedro discussed the steps we have already completed and how we will proceed.

Treasury Committee Annual Report

The annual report was sent to the Investment Committee members prior to the meeting for review. The group discussed the format and content of the report.

A Motion was made to approve the Annual Report and passed unanimously.

SUMMARY/ QUESTIONS / NEXT MEETING

Pedro introduced, Greg Balls, the new Portfolio Manager recently hired within the Treasury to manage the Bridge and Intermediate portfolios.

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

Meeting was adjourned at 3:45 PM.