



STATE OF FLORIDA
CHIEF FINANCIAL OFFICER
ALEX SINK

May 5, 2009

Ash Williams, Executive Director
State Board of Administration
Post Office Box 13300
Tallahassee, Florida 32317-3300

Dear Director Williams:

For the past two years, I have called on the State Board of Administration to strengthen its financial safeguards over its investments, to improve its transparency in its communications with its investors, and to reform the governance of its operations. I have called for these reforms because in my three decades of serving on various public and private Boards of Directors, I have learned first hand the importance of good corporate governance. For a business to succeed, it must be honest and forthcoming with its investors and shareholders, and it must carry out its work with ethics, integrity, and total transparency. As one of three trustees of the State Board of Administration (SBA), it is my fiduciary obligation to hold the SBA and its leadership to these same high standards. The people of Florida, whose money the SBA invests, expect nothing less.

After the trustees accepted the resignation of the previous Executive Director of the SBA last year, I called for a series of reforms to restore confidence in the management of the SBA. Enclosed is a copy of the ten recommendations I called for in March of 2008 to strengthen the oversight of the SBA's investments. Some of these actions may require legislative or constitutional changes, but some of these proposals can be implemented by the Executive Director.

At our upcoming Board meeting on May 13, I will call for a discussion of the status of these reform proposals. I am also planning to make a motion for the trustees to consider expanding the Board of the SBA to include investment and financial professionals. This change would bring additional oversight to the SBA, and would require amending Florida's Constitution. Finally, I will make a motion for the trustees to convene quarterly meetings of the SBA Board of Trustees at a separate time from Cabinet business to discuss only SBA Board of Trustees' matters. A separate Board of Trustees meeting would enable the trustees to receive more extensive reports from you and your staff regarding the SBA's operations and investments, including reports from the SBA's Audit Committee, and the SBA's Investment Advisory Council.

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I look forward to discussing these items with you and my colleagues next week.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Sink". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.

Alex Sink

cc: The Honorable Charlie Crist, Governor
The Honorable Bill McCollum, Attorney General

Ten Proposals to Strengthen Safeguards over Florida Investments

From Florida's cities and counties to our retired state and local government employees, millions of Floridians expect sound professional financial management at the State Board of Administration (SBA). The SBA, a constitutional entity of Florida state government, manages 30 investment funds, comprising over \$184 billion in assets. Standard and Poor's has consistently ranked Florida's pension fund at or among the top states, and a recent Pew Charitable Trust analysis praised Florida as a "national leader" and a "top performer" as one of only five states with a fully-funded pension.

As one of three trustees, CFO Sink is presenting ten proposals to strengthen financial safeguards at the SBA and provide greater protection to the people's investments. CFO Sink's ten proposals provide a framework of ideas designed to:

- Protect investors;
- Increase transparency; and
- Improve governance.

Protecting Florida's Local Government Investments

1. Determine if there is a Basis for a Lawsuit Regarding Investments Sold to the State by Investment Firms

- Perform Litigation Analysis for SBA Trustees to determine if legal remedies with regard to the purchase of downgraded or defaulted investments are available.

Reforming the Local Government Investment Pool (LGIP)

2. Continue Recent Stabilization of Local Government Investment Pool

- Provide Investors with Convenient SBA-administered Local Government Investment Pool.
- Utilize Independent Financial Firm (currently Federated) to Manage Assets at Competitively Negotiated Fee.
- Maintain AAAM Rating of Fund A by Standard and Poor's.

3. Expand and Formalize Role of Local Government Investment Pool Members

- Allow Investors to Serve as Trustees of the LGIP.
 - New Board will Approve Investment Strategies & Guidelines.
- Formalize Local Government Investment Pool Advisory Committee.
 - Majority of Advisory Committee Members must be Investors.
 - Other Members to Include Accounting and/or Investment Experts.
 - Advisory Committee to Meet Quarterly (at a minimum); Will Recommend Approved Investment Classes, Review/Approve Competitively-Bid Contracts.

4. Increase Transparency and Communication About Investments

- Provide Investors and the Public with Weekly Valuation Reports.
- Communicate with Investors All Decisions Made by LGIP Trustees or Local Government Investment Pool Advisory Committee.

Reforming the State Board of Administration

5. Enact New Ethics and Disclosure Legislation for Investment Advisors to State Agencies.

- Require Financial Firms to Disclose to the State Board of Administration if they are Selling or Offering Advice Inconsistent with their own Investment Strategies.
- Consider Texas Model: Requires full disclosure of “all direct or indirect pecuniary interests” that a financial advisor has in a transaction when it is connected with any financial advice the advisor provides to the state.

6. Strengthen Statutory and Performance Requirements for Executive Director of the State Board of Administration

- Expand Florida Statutes Section 215.441 to include minimum qualifications for State Board of Administration Executive Director.
 - Consider Virginia Model, which requires “extensive experience in any two or more of the following areas: domestic equity or fixed-income securities, international equity or fixed-income securities, cash management, alternative investments, managed futures or large real estate investments.”
- Establish Full and Timely Reporting Requirements, Including Any and All Information Necessary to Make Informed Decisions about SBA Investments.
 - Increase Current Quarterly Reporting Requirement to Monthly Reporting on All Investment Matters.
- Continue Performance Contract with Executive Director.

7. Expand State Board of Administration to Include Two Appointed Financial Professionals

- Amend Florida’s Constitution to Add Two Appointed Financial Professionals to the Board of the SBA.
- Require One Appointment to have Extensive Accounting and/or Auditing Experience; This Board Member will Chair the SBA’s Audit Committee.
- Require One Appointment to have Extensive Investment Experience; This Appointment will Chair the SBA’s Investment Advisory Committee.
- Confirm Appointments with a 2-1 Vote of Elected Trustees; Governor must be on prevailing side.
- Appointed Board Members will Deliver Quarterly Reports to SBA Trustees and the Public about the Audit and Investment Committees.

8. Strengthen and Restructure the State Board of Administration's Audit Committee

- Require Audit Committee to Appoint and Approve the Budget of the Internal Auditor.
- Require Timely Management Responses to Audit Reports-- within 90 Days.
- Designate one SBA Trustee as Chair of Audit Committee and Expand Audit Committee to Five Members (at least three members from the private sector).
- Implement Sarbanes Oxley Requirements where Applicable—New Accounting and Investing Standards Required of All Public Company Boards.
 - Federal Government Instituted these Accounting Reform and Investor Protections After Major Corporate Scandals such as Enron and WorldCom.
 - Establish a Confidential Hotline for the Anonymous Submission of Questionable Practices.
- Provide Written Reports and Public Presentations to SBA Trustees on Quarterly Basis.
- Allow, with SBA Board Approval, for the Hiring of Consultants and Financial Professionals as Needed to Fulfill Responsibilities.

9. Enhance State Board of Administration's Investment Advisory Committee

- Designate one SBA Trustee as Chair of Investment Advisory Committee.
- Require At Least One Member of the Committee to be an FRS-Participant.
- Charge Committee with Closely Scrutinizing New Products and Approving Types of Investments Used
- Give Annual Recommendation on Asset Allocations to SBA Trustees.
- Require Investment Decisions About Downgraded Assets to be Communicated to SBA Trustees within Two Weeks.
- Provide Written Reports and Public Presentations to SBA Trustees on Quarterly Basis.

10. Segregate Risk Management Functions from Investment Decisions

- Provide Strategic Overview of Broad Range of Risk Management Issues.
- Establish Separate Team within State Board of Administration to Solely Review Investment Mandates, New Products and Downgrades.
- Require Disclosure of Findings to State Board of Administration's Investment Advisory Committee and Trustees on a Timely Basis.