OVERVIEW

The Chief Financial Officer is the constitutional officer with the responsibility over the Division of Treasury (Treasury). One of the Treasury’s goals is to effectively invest the operational funds and other financial assets of the state.

Florida law provides that it is the duty of the Chief Financial Officer, consistent with the cash requirements of the state, to keep money in the state treasury fully invested or deposited in order that the state may realize maximum earnings and benefits.

To accomplish this, the Treasury manages a fixed income investment operation for general revenue, trust funds and funds of organizations participating in the Treasury Special Purpose Investment Accounts (SPIA). SPIA is an optional investment program open to any entity established by the Florida Constitution or Florida Statutes. General Revenue, Agency Trust and SPIA funds are combined and invested in five different portfolios. They are:

1. THE LIQUIDITY PORTFOLIO – This portfolio maintains a sufficient level of liquidity, using short term investment instruments, to meet the disbursement needs of the participants. This portfolio sets preservation of principle as the highest priority. The investment performance of this portfolio is compared against the Bank of America Merrill Lynch 0-3 months U.S. Treasury Bill Index on a total return basis to determine its success.

2. THE SHORT DURATION PORTFOLIO – This portfolio supports the Liquidity Portfolio. Its objective is to be actively managed, outperform its benchmark and focus primarily on the one to three year portion of the yield curve. Its performance is evaluated against the Bank of America Merrill Lynch 1-3 year Government/Corporate Index with A or better rating on a total return basis.

3. THE INTERMEDIATE DURATION PORTFOLIO - This portfolio is actively managed, to provide a total net rate of return in excess of its benchmark, while maintaining an effective duration of less than 4.5 years. The Division of Treasury hires multiple fixed-income portfolio managers with different specialties to actively manage the portfolio’s funds. Its investment performance is compared against the Barclay’s Capital Intermediate U.S. Gov/Credit Index on a total return basis.

4. THE LONG DURATION PORTFOLIO – This portfolio is actively managed, provides total net rate of return in excess of its benchmark and maintains an effective duration of less than six years. The program focuses on investments that are broadly diversified across fixed income market sectors and maturities. The Treasury hires multiple fixed-income portfolio managers with different specialties to actively manage the portfolio’s funds. The investment performance of this portfolio is evaluated against the Barclays Capital U.S. Aggregate Bond Index on a total return basis.

5. THE CERTIFICATES OF DEPOSIT PROGRAM Florida law also requires the Treasury to offer funds to qualified public depositories that will pay rates established by the Chief Financial Officer at levels not less than the prevailing rate for United States Treasury securities with a corresponding maturity. Certificates of deposits are made on a bid basis with a minimum bid set at a rate greater than the yield of U.S. Treasury securities with similar maturities.
TREASURY INVESTMENT POOL

**TREASURY HOLDINGS** - The balance of investment holdings as of June 30, 2015 was $22.1 billion, as compared to $21.6 billion on the previous June 30, an increase of $500 million. The increase is primarily due to State revenues exceeding expectations.

The state’s general revenue and trust fund investments combined for 72% of the Treasury Investment Pool, as of June 30, 2015. At the same time, SPIA participants combined for the remaining 28%. These percentages generally equaled the previous year’s allocation of holdings.

During the fiscal year, the liquidity portfolio balance decreased by $300 million. This was a result of funds being transferred to the Short Duration Portfolio to increase pool performance. All other portfolios remained the same.

Florida law allows the Treasury to invest funds in specific high-quality investment sectors. As of June 30, 2015, the Treasury Investment Pool’s sector allocation is represented in the following chart.

**PORTFOLIO EARNINGS** - During the fiscal year, the Treasury was able to provide positive earnings each month. The gross annualized average earnings rate was 1.6%. For the fiscal year, the Treasury recognized earnings of $333.5 million.

The value of each dollar invested with the Treasury (fair value factor) was $1.0013 as of June 30, 2015. A factor greater than $1.00 indicates the market value of the Pool’s investments is greater than the funds invested in the Pool.

**INVESTMENT POOL PERFORMANCE** – As of June 30, 2015, the Treasury Investment Pool outperformed its benchmark for the one, three and five year periods. The chart below represents performance on a total return basis for these periods.
ACTIVITIES

Florida Law, created the Treasury Investment Committee in 2009 to administer the Treasury Investment Program consistent with policies approved by the Chief Financial Officer. The committee also makes recommendations to the Chief Financial Officer on investment policy.

The committee held two public meetings during the 2014-2015 Fiscal Year. Below are highlights from these meetings.

1. **At the November 2014 meeting**, the Treasury staff presented an overview of Florida’s economy, the Pool’s structure and performance as of September 30, 2015. In addition, the Treasury staff provided updates regarding the Special Purpose Investment Account (SPIA) program.

   a. **SPIA Program updates** – The committee discussed limiting the participation in the SPIA program to component units of the state and implemented a minimum balance “floor” for SPIA participants. The minimum balance would be set as 60% of the previous three months average balances and would require six months notice to liquidate below. These enhancements better align the participants in the pool with the state and help protect the pool from large liquidations occurring with short notice. The updates would result in removing the current caps and open the SPIA program to additional component units. **The committee members agreed that these enhancements were appropriate for the SPIA program.**

2. **At the May 2015 meeting**, the committee heard an overview of the Pool’s structure and performance. In addition, the committee heard about SPIA changes, a Security Lending Expansion Update and portfolio rebalancing.

   a. **SPIA Changes Update** – The SPIA application was successfully updated to accommodate proposed enhancements presented at the November 2014 meeting. The changes went into effect the beginning of April. New SPIA agreements have been sent out to all participants. As the agreements are returned, the participant’s floor is implemented and if appropriate, their investment cap is removed. The participants have six months to execute the new agreements. **The committee had no questions or suggestions relating to this update.**

   b. **Security Lending Expansion Update** – All expansion items that were presented at previous Investment Committee meetings have successfully been implemented. **The committee had no questions or suggestions relating to this update.**

   c. **Portfolio Rebalancing Analysis** – The presentation discussed risk versus reward of rebalancing with a focus on the characteristics of each portfolio. The factors considered were the Florida economy, participant balances, recent allocations, current pool characteristics and market expectations. Three alternatives for rebalancing were presented. Treasury staff recommended the third alternative which decreased the Liquidity portfolio by $600 million, decreased the Long Duration portfolio by $200 million and increased the Short Duration and Intermediate Duration portfolios by $600 and $200 million respectively. **The committee agreed with the analysis and action proposed for rebalancing the portfolios.**

For more information, please see attached Treasury Investment Committee Minutes.
MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
November 5, 2014 1:10 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Katy Wojciechowski, State Board of Administration (Chair)
    Bob Doyle, President & Chief Investment Officer, Doyle Wealth Mgmt Inc. (Vice Chair)
    Peter (PJ) Gardner, AGW Capital Advisors
    David Roberts, Harvest Investment Advisors
    Stan Barnes, Managing Partner, Allen, Mooney and Barnes (via conference call)

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

Guest: Richard Donelan, General Counsel

OPENING REMARKS

Katy Wojciechowski called the meeting to order at 1:10 P.M.

APPROVAL OF MINUTES

The May 7, 2014 meeting minutes were presented for approval.
A motion was made to approve the meeting minutes and passed unanimously.

FLORIDA ECONOMY OVERVIEW

Bert Wilkerson presented information from the Office of Economic and Demographic Research relating to the Florida economy.

Florida’s economic recovery continues at a slow and steady pace.

September unemployment was 6.1% as compared to the U.S. average of 5.9%. This was below the June average of 6.2%.

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 1.3%, unchanged from the previous meeting.

Florida’s housing market continues to improve but slowly. For 2013, new home permits were 33.4% above 2012. However, 2014 is showing some slowing in activity. Existing home sales volume so far in 2014 was 93% of the 2005 peak, down slightly from last year’s 94.1%.
The general revenue receipts provided a $2.3 billion surplus at end of 2013-2014 fiscal year based on August 7, 2014 data.

**TREASURY INVESTMENT POOL OVERVIEW**

Bert Wilkerson also presented an overview of the Treasury Investment Pool. The overview provided information relating to the Treasury Investment Pool:

- Balances
- Participant balances
- Special Purpose Account participation
- Distributed income
- Security lending income
- Fair value factor
- Pool rating
- Basket clause items
- Certificate of deposit activity

The Investment Pool balance continued its growing trend to just over $21 billion dollars. Trust fund and SPIA balances increased during the quarter while general revenue decreased slightly.

Distributed income totaled $230 million for the 2013-2014 fiscal year. For the first quarter of 2014-2015 fiscal year, the pool distributed $77 million.

All other items discussed stayed the same over the quarter or were in alignment with expectations.

**TREASURY INITIATIVES**

In addition, Bert Wilkerson presented a proposal to limit the participation in the SPIA program to component units of the state and implement a minimum balance “floor” for SPIA participants. The minimum balance would be set as 60% of the previous three months average balances and would require six months notice to liquidate below the minimum balance. These enhancements better align the participants in the pool with the state and help protect the pool from large liquidations occurring with short notice. The result is the Treasury could remove the current caps and open the program to additional component units. **The committee members agreed that these enhancements were appropriate for the SPIA program.**

Pedro Morgado presented the updates on Security Lending Expansion. The committee has implemented the expansion items presented at the previous committee meeting. However, it is currently working with the custodian bank on their requirement to accept Trust Receipts as collateral. The custodian bank cannot exclude Trust Receipts as allowable collateral and therefore has not fully implemented the requested changes. The committee will continue to work with them on this issue.

**Cash Collateral Portfolio (Securities Lending) Review**

Pedro Morgado also presented the characteristics of the cash collateral portfolio (Securities Lending) as of the end of September.
INVESTMENT POOL REVIEW

Pedro Morgado also presented a review of the Treasury Investment Pool. The review provided information relating to the fixed income markets during the third quarter of 2014, pool distribution by mandate, total returns for the Pool, portfolio allocations, and top 20 holdings.

There were no significant deviations from the previous month and there were no concerns for the period.

INDIVIDUAL MANDATES REVIEW

Internally Managed Portfolios

In addition, Pedro Morgado presented on the Internal Investment Program’s performance, portfolio characteristics and current strategy for the two internally managed portfolios. The liquidity portfolio outperformed its benchmark for the quarter, one, three and five year periods. The outperformance was three, 13, 13 and 14 basis points, respectively. During the quarter, the liquidity portfolio benefited from higher yields obtained mostly by exposure to agency discount notes and commercial paper and an increased use of term repo.

The short duration portfolio underperformed for the quarter and five year periods by two and 13 basis points, respectively. In contrast, the short duration portfolio outperformed for the one and three year periods by 12 and 9 basis points respectively. The Short Duration portfolio benefited from an overweight to the corporate sector as spreads widened during the quarter and an overweight to financials and lower quality bonds.

There were no other significant deviations from the previous month and there were no concerns for the period.

EXTERNAL MANAGEMENT REVIEW

Ken Gerzina presented on the Intermediate and Long Duration portfolios, which included an update on the portfolio performance and characteristics versus the applicable benchmarks.

Details provided on the portfolios included the ranking of Long Duration managers according to their risk-adjusted return metrics, credit quality of holdings, asset allocations to the various permissible fixed income sectors and the effective duration of the two composite portfolios.

The Intermediate Duration portfolio matched the benchmark for the third quarter and has underperformed for the six month period by three basis points on a net of fee basis.

The Long Duration Portfolio underperformed its benchmark for the quarter, but maintained its outperformance for all other periods.

The risk-adjusted manager rankings reflect Amundi Smith Breeden, Western Asset and Prudential were the top three managers while Goldman Sachs, Smith Graham and Blackrock were the bottom three.

Watch List Update

Western Asset is currently on watch. Western has outperformed the benchmark by 72 basis points for the nine months since being put on watch. As a result, they have become one of our top three managers. We will continue to monitor Western throughout the year to ensure they continue the positive performance.
However, two managers were placed on Watch List. Smith Graham was added due to the recent departure of their Chief Investment Officer and Delaware Investments for underperformance. Delaware’s assets were also reduced by $250 million.

The $250 million will be reallocated to the top four performing managers and will occur in December 2014 and January 2015.

**Summary/ Questions / Next Meeting**

*Meeting was adjourned at 3:28 PM.*
MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
May 5, 2015 1:06 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Katy Wojciechowski, State Board of Administration (Chair)
    Bob Doyle, President & Chief Investment Officer, Doyle Wealth Mgmt Inc. (Vice Chair)
    Peter (PJ) Gardner, AGW Capital Advisors
    David Roberts, Harvest Investment Advisors
    Stan Barnes, Managing Partner, Allen, Mooney and Barnes (via conference call)

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

Absent: Richard Donelan, General Counsel

OPENING REMARKS

Katy Wojciechowski called the meeting to order at 1:06 P.M.

APPROVAL OF MINUTES

The November 5, 2014 meeting minutes were presented for approval.
A motion was made to approve the meeting minutes and passed unanimously.

FLORIDA ECONOMY OVERVIEW

Bert Wilkerson presented information from the Office of Economic and Demographic Research relating to the Florida economy.

Florida’s economic recovery continues at a slow and steady pace.

Unemployment is remaining steady. March unemployment was 5.7% as compared to the U.S. average of 5.5%. This was equal to the December average of 5.7%.

Florida’s population growth is forecast to continue strengthening by showing increasing rates of growth over the next few years. In the near-term, population growth is expected to average 1.45%, a slight increase over the last quarter.

Florida’s housing market continues to improve at a slow pace. Existing home sales volume for 2015 is projected to be 105% of the 2005 peak.

General revenue is projected to have a two billion dollar surplus at the end of the 2014-2015 fiscal year.
**Treasury Investment Pool Overview**

Bert Wilkerson also presented an overview of the Treasury Investment Pool. The overview provided information relating to the Treasury:

- Investment Pool balances
- Participant balances
- Special Purpose Investment Account (APIA) participation
- Distributed income
- Security lending income
- Fair value factor
- Pool rating
- Basket clause items
- Certificate of deposit activity

The Investment Pool balance continued its growing trend to just under $24 billion dollars. Trust fund, general revenue and SPIA balances all increased during the quarter. In contrast, the non-state agency SPIA balances continued to decrease during the period ending at approximately 21.7% of the pool. During the period no new SPIA accounts opened.

Distributed income totaled $272 million for the 2014-2015 fiscal year through March. This is already greater than the amount distributed for the entire previous fiscal year.

All other items discussed stayed the same over the quarter or were in alignment with expectations.

**Treasury Initiatives**

**SPIA Changes Update**

In addition, Bert Wilkerson presented an update on SPIA changes that were presented at the last meeting on November 5, 2014. The SPIA application has successfully been updated to accommodate the changes. The changes went into effect at the beginning of April, 2015. New SPIA agreements were sent out to all participants. As the agreements return, the participants’ floors will be implemented and if appropriate, their investment caps removed. The participants have six months to execute the new agreements. The committee had no questions or suggestions relating to his update.

**Security Lending Expansion Update**

Pedro Morgado presented an update on the Security Lending Expansion that was presented at the last meeting on November 5, 2014. All expansion items that were presented at the previous Investment Committee meeting has successfully been implemented. An overview of the security lending program was also presented. The committee had no questions or suggestions relating to his update.

**Portfolio Rebalancing Analysis**

Pedro Morgado also presented the Treasury’s analysis of portfolio balances and potential reallocations. The presentation discussed risk versus reward of rebalancing with a focus on the characteristics of each portfolio. The factors considered were the Florida economy, participant balances, recent allocations, current pool characteristics and market expectations.
Three alternatives for rebalancing were presented. Treasury staff recommended the third alternative which decreased the Liquidity portfolio by $600 million, decreased the Long Duration portfolio by $200 million and increased the Short Duration and Intermediate Duration portfolios by $600 and $200 million, respectively. **The committee agreed with the analysis and decision that was proposed for rebalancing the portfolios.**

**INDIVIDUAL MANDATES REVIEW**

**Fixed Income Market Review**

Pedro Morgado gave an overview of the fixed income markets during the quarter. There was a bullish flattening of the yield curve on mixed economic numbers, low or negative yields in other major developed economies and accommodative policies by central banks. In addition, fixed income spreads were broadly unchanged during the first quarter.

**LIQUIDITY AND SHORT DURATION PORTFOLIOS**

Pedro Morgado presented on the Liquidity and Short Duration portfolios’ performance, characteristics and current strategies.

The liquidity portfolio outperformed its benchmark for the quarter, one, three and five year periods. The outperformance was eight, 15, 14 and 14 basis points, respectively. During the quarter, the liquidity portfolio benefited from higher yields obtained mostly by exposure to agency discount notes and commercial paper and an increased use of term repo.

The short duration portfolio outperformed for the three month, one year and three year periods by three, 10 and nine basis points, respectively while underperforming for the five year period by three basis points. The portfolio benefited from yield curve positioning in the three to five year area of the curve.

There were no other significant deviations from the previous quarter and there were no concerns for the period.

**INTERMEDIATE AND LONG DURATION PORTFOLIOS**

Ken Gerzina presented on the Intermediate and Long Duration portfolios which included an update on portfolio performance and characteristics versus the applicable benchmarks.

The presentation included ranking Long Duration managers according to their risk-adjusted return metrics, credit quality of holdings, asset allocations to the various permissible fixed income sectors and the effective duration of the two composite portfolios.

The Intermediate Duration portfolio underperformed the benchmark for the quarter, six month and one year periods by 11, 13 and 17 basis points, respectively.

The Long Duration Portfolio outperformed the benchmark for the three month, three year and five year periods. However, the portfolio underperformed the benchmark for the one year period.

The risk-adjusted manager rankings indicated Amundi Smith Breeden, Well and Western Asset were the top three managers while Goldman Sachs, Smith Graham and Blackrock were the bottom three.

**Watch List Update**
Currently on watch are Smith Graham and Delaware. Both managers have exceeded the benchmark for the three month periods. Therefore, no further action is necessary at this time.

Blackrock and Goldman Sachs were placed on watch list due to underperformance. $200 million was reallocated from Blackrock and given to Galliard. $125 million was reallocated from Goldman Sachs with $75 million given to Prudential and $50 million given to Western Asset.

The committee members had no questions or comments relating to the actions taken.

Summary/ Questions / Next Meeting

Meeting was adjourned at 3:12 PM.