**Minutes**

**Treasury Investment Council Meeting**

**May 16, 2019 1:04 P.M.**

**Attendees**:

***Members Present:*** Katy Wojciechowski, State Board of Administration (*Chair*)

George Barbar, Mesirow Financial

Peter (PJ) Gardner, AGW Capital Advisors

Eric Levin, SEAMLEV Investments

***Absent:*** Bob Doyle, President & Chief Investment Officer,

Doyle Wealth Mgmt. Inc. (*Vice* *Chair)*

***Treasury Staff:*** Tanner Collins, Director of the Treasury

Pedro Morgado, Chief Investment Officer

Ken Gerzina, Administrator of External Investment Program

Bill Gilbert, Financial Specialist

Megan Murphy, Portfolio Management Analyst

Joe Scavone, Portfolio Manager

Kacy Reddick, Financial Examiner Analyst II

David Wofford, Senior Management Analyst II

***Guest***: Scott Fennell, Deputy CFO

Eileen Neal, Verus Investment Consultant

**Opening** **Remarks**

Kathy Wojciechowski called the meeting to order at 1:04 P.M.

**Approval of minutes**

The November 15, 2018 meeting minutes were presented for approval.

***A motion was made to approve the meeting minutes; there were no changes and it passed unanimously*.**

**Florida Economy Overview** (*see attached presentation*)

Director Tanner Collins presented information from the Office of Economic and Demographic Research relating to the Florida economy.

Florida’s steady economic recovery continues.

November unemployment was 3.3% which is below average as compared to the US average of 3.7%.

Florida’s population grew by 1.74% between April 2017 and April 2018.

Florida housing continues to improve. Documentary Stamp Tax collections saw 3.8% growth in FY 2017-18 over FY 2016-17. Existing home sales volume in the 2014, 2015, 2016 and 2017 calendar years exceeded the 2005 peak year in home sales. This year, 2018, is on course to do the same. All indicators of a growing economy.

**Treasury Investment Pool Overview** (*see attached presentation*)

Tanner 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 (SPIA) participation; a summary of Investment Pool risks; distributed income; security lending income; fair value factor; pool rating; basket clause items; and time deposit activity.

**Investment Pool Balance** - Since May 2018, we have seen steady growth. Receipts are greater than disbursements over the past year. The Investment Pool balance has experienced a steady increase. Pool balance today is at $25.1 billion. A very healthy pool balance and growth due to the influx of receipts and disbursements.

**State Net Receipts** – We started monitoring this more closely after the last Council meeting. This is something we look at in relation to how we distribute our assets and portfolios. In March 2018, we received a steady decline of state net receipts, but during the Sept 18 through March 19 period, we have seen a steady increase which we are monitoring.

**State Operating Accounts** – Take up about 80% of our total full balance. Trust funds make up the majority of this. There was a decline in assets from January through March of this year. We are monitoring them.

**Non-State Operating Accounts** – From March 2018 through March 2019, we have seen a steady decline in our non-state operating accounts from this year; just over $4 million in March 2019. 80% being non-state operating dollars and 17% being non-operating.

**Non-State Operating & Bond Accounts** –This is seasonal, peaks and valleys. Majority of our bond accounts are state agencies and we are seeing a slow decline, but steady.

**Summary of Macro Risks to the Investment Pool** –

* Florida Economy - The unemployment rate continues to be stable, population continues to grow, and housing continues to improve; risk level is low.
* State Net Receipts – Appear to have rebounded. However, with recent natural disasters we will continue to monitor closely; low/medium risk level.
* Pool Balance – The total Pool balance has continued to grow in the past six months due to a net influx of State operating funds; low risk level.
* Non-State Agency SPIA – Non-State Agency Operating accounts remain ultimately stable; low risk level.

**Investment Pool Distributed Income Rate (net)** – Distributed income for last month totaled 2.53%.

**Investment Pool Distributed Income** - Year-to-Date distributed income is $398 million for 2018/19. In April, we distributed $57 million, which puts us at $455 million in distributed income year-to-date. It is projected to be around $550 million by the end of the year. Basically, earnings are up as interest rates have risen.

**Time Deposits Activity** -One of the changes was the way we are getting to the interest rate that we offer. The Work Group decided to determine the spread quarterly instead of monthly. They look at demand, market conditions, what yield we are earning on other products. We use a two-year T-bill, plus 30 basis points. This process seems to be working well with our banks.

**Treasury Initiatives** (*see attached presentation*)

Pedro Morgado and Ken Gerzina commented briefly on several changes since the prior meeting, including:

* New Investment Consultant, Eileen Neal, with VERUS Investments Consulting
* CIP Review - Most Relevant Updates:
* Added flexibility on U.S. Agencies investments for Internally managed portfolios:

removed list of permitted U.S. government agency debt.

* Added restrictions on Subprime Auto ABS for Intermediate and Long Duration Portfolios:

Bank entity issuer only, weighted average life less than two years, minimum per issue size of $500 million and minimum of $2 billion outstanding, and limited to sequential pay trusts.

* New benchmark for the Intermediate Portfolio, effective June 1st: New Benchmark - Bloomberg Barclays US Intermediate Aggregate Bond Index
* Modifications to Article XXII: External Managers Evaluations, less punitive

**Miscellaneous Updates** (*see attached presentation*)

Staff update:

* Kacy Reddick joined the Investment team as the new Assistant PM Analyst.
* Megan Murphy was promoted to Short Duration Portfolio Manager, her third promotion in two years.
* Bill Gilbert joined on as the new Liquidity Portfolio Manager; previously had finance and investment accounting experience.

**Securities Lending Review** (*see attached presentation*)

Pedro gave an overview of the securities lending program as of March 31, 2019.

**Investment Pool Review** (*see attached presentation*)

Pedro recapped the prior six-month period’s economic conditions and recent developments.

**Liquidity, Ultra-Short and Short Duration Portfolios** (*see attached presentation*)

Bill Gilbert presented the Liquidity portfolio, Joseph Scavone presented data on the Ultra Short Duration portfolio and Megan Murphy presented the Short Duration portfolio. The presentations included performance and attribution, portfolio characteristics and current strategy for the three portfolios.

**Intermediate and Long Duration Portfolios** (*see attached presentation*)

Ken presented the Intermediate and Long Duration portfolios which included an update of the Composite portfolios’ performance and characteristics versus the applicable benchmarks. He highlighted the consensus views of the managers’ outlook as follows:

* Expect US growth in the 2 - 2.5% range (downgraded from 2.5 - 2.75%) and inflation to remain subdued.
* Federal Reserve seen on hold, potential for rate cut later in the year.
* No recession forecasts, but slower growth, both domestic and global.
* Strong labor market persists in 2019 with hope for wage inflation.
* Treasury 10-year yields to remain range-bound, 2.25 - 2.50%
* Absolute returns cannot continue at current levels (Agg YTD March 2.94%).
* Credit spreads could grind tighter, fundamentals still positive, managers trimming longer bonds and migrating to the belly of the curve.
* Preference for up-in-quality assets (consumer ABS & CMBS).

**Watch List Update**

* Terminated Smith Graham and Macquarie in February 2019.
* Placed Insight Investment on Watch List & reduced assets by $50 MM.
* Reallocated assets totaling $391.5 million to Sterling, Galliard, Manulife & Wells.

**Compliance Semi-Annual Review** (*see attached presentation*)

David Wofford reviewed briefly the Compliance Enhancements, Liquidity, Ultra Short Duration, Short Duration, and Securities Lending portfolios, including the following future initiatives.

Intermediate/Long Duration Portfolios Enhancements (External Managers)

* In depth compliance reviews
* Improve monthly review process
* Create compliance monitoring reports
* Include external manager reviews into the monthly Investment group meetings

**The Committee members had no questions or comments relating to the managers.**

**Summary/ Questions / Next Meeting**

Next meeting will be announced at a future date.

*Meeting was adjourned at 3:01 PM.*