**Minutes**

**Treasury Investment Council Meeting**

**May 19, 2021 - 9:35 a.m.**

**Attendees**:

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

(*via GoToMeeting/* George Barbar, Mesirow Financial

*conference call*) Bob Doyle, Doyle Wealth Management, Inc

PJ Gardner, AGW Capital Advisors

Ray Graziotto, Seven Kings Management, Inc.

***Absent:*** Tanya McCarty, Bureau Chief of Funds Management

Eric Levin, SEAMLEV Investments

Scott Fennell, Deputy CFO

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

Pedro Morgado, Chief Investment Officer

Ken Gerzina, Administrator of External Investment Program

Bill Gilbert, Portfolio Manager

***Treasury Staff:*** Megan Murphy, Portfolio Manager

(*via GoToMeeting/* Kacy Wilson, Portfolio Management Assistant

*conference call*) David Wofford, Compliance Officer

Joe Scavone, Portfolio Manager

Jaedin Renfroe, Financial Specialist

**Opening** **Remarks**

Kathy Wojciechowski called the meeting to order at 9:35 A.M.

**Approval of minutes**

The January 27, 2021 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 Recovery** (*see attached presentation*)

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

January and February, unemployment dropped to 2.8% (the lowest recorded by EDR since 1976). With the Coronavirus outbreak, the rate spike to 13.8% in April 2020. As of December, of this year we are around 6.1%.

In Florida, the percentage of those unemployed for less than 5 weeks had grown from 32.3% in February to 44.2% in April, before falling back to 29.5% in November.

Population growth is typically the state’s primary engine of economic growth, fueling both employment and income growth.

* As a result of the pandemic, population growth is expected to slow to 297,851 new residents (1.38%), reflecting both slower net migration and a speed‐up in the expected negative natural increase (more deaths than births). Between 2021 and 2025, growth is forecast to average 1.36%.

Tanner provided the Council with a graph of Florida Treasury’s State Receipts and Disbursements for the six-month period ending March 2021 and detailing the prior periods back to March 2016.

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

Tanner presented an overview of the Treasury Investment Pool. The overview provided information relating to Treasury Investment Pool balances; participant balances; Special Purpose Investment Account (SPIA) participation; distributed income; pool rating.

**Investment Pool Balance** - March 2021 – Pool reached an all-time high of $30.7 billion with the help of Cares Act Funding.

**State Operating Accounts** – Remain close to 80% of the Total Pool.

**Non-State Operating & Bond Accounts** – Significant increase in total dollars but remain less than 15% of the Total Pool while Bond Accounts represented just 7% at the end of March 2021.

**Investment Pool Distributed Income Rate (net) -** The increase in interest rates has led to lower realized gains being distributed and to a decline in the distributed income rate.

**Investment Pool Distributed Income -** Treasury has distributed $448 million for the 2020-21 fiscal year-to-date as of March 31st.

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

Pedro updated the Council on the progress thus far on the Bloomberg AIM Order Management System:

Work continues on finalizing implementation. Future benefits will be substantial in Investments / Portfolio Management / Compliance / Middle Office / Accounting:

**Positives:**

Already using new system for all internal trading. Eliminated middle office steps.

**Remaining Challenges:**

Working in AIM to enhance system:

* Some type of securities / transactions not yet properly processed. Pricing of securities.

Compliance:

* Work continues on finishing coding all the rules

Accounting:

* Working with PALM to finish development of a new Inv. ACG system ahead of the July 2021 go live date.

**Miscellaneous Update** (*see attached presentation*)

Effective May 3rd, 144A securities were allowed as result of the recent SEC update to Accredited Investor Definition:

* Managers have added 45 144A securities since we granted permission
* 36 corporate issues and 9 MBS
* This will permit managers to participate in exchange offers of acquired firms

Started open trading anonymous network to trade agencies and corporate bonds in late February for the internally managed portfolios:

* MKTX was our #1 counterparty for 2020 and 20% of all trades had no dealer cover.
* Total cost savings of $185,000 for the year off 58 High Yield corporate trades.

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

Pedro

**Fixed Income Market Review:** Pedro interest rates (mostly medium and long-term) rose significantly as economic activity rebounded during the final quarter of 2020 and first quarter of 2021. Supported by an extremely accommodative Fed, ample liquidity and strong profit recovery, risk sectors did extremely well with corporate High Yield leading the gains with a 207 basis point spread tightening.

**Investment Pool Q4 2020 & Q1 2021 Total Returns (excl. Time Deposits):** The rally in spread sectors was not enough to mitigate the impact of higher long term rates. The Total Pool returned a negative 0.68% led by a 2.28% negative return in the Long Duration portfolio.

**Investment Pool Q4 2020 & Q1 2021 Total Returns vs. Benchmarks (excl. Time Deposits):** Both the Total Pool as well as each portfolio outperformed their respective benchmarks over the past six months.

**Investment Pool Total Return (excl. Time Deposits):** Total Pool returns have outperformed the benchmark for 1, 3 and 5-year periods.

**Individual Mandate Key Characteristics:** **:** Intermediate and Long Duration portfolios have seen a slight duration extension while duration for the internally managed accounts has remained constant. With the influx of federal moneys and a somewhat more cautious view on spread sectors, all portfolios have increased their exposure to liquid U.S. Government securities. Yield has declined significantly across all portfolios vs. year ago level. However, the Intermediate and Long Duration have seen their yields recover during the past six months.

**Portfolio % vs. Allocation Ranges as of May 13, 2021:** All portfolios were within their respective allocation ranges, although the Short and Intermediate Duration portfolio were close to the permissible minimum (10%).

**Portfolio Rebalancing Decisions:** Pedro indicated that in the period of February through April a total of $2.1 billion was reallocated from the Liquidity account into the Ultra Short, Short and Intermediate Portfolios.

Ken Gerzina

**Intermediate Duration Portfolio Net of Fee Performance as of March 31, 2021:** Ken presented the returns for the period ending March 31, 2021 reflecting outperformance for all periods. Manager performance recovered tremendously with all managers outperforming the index for all time frames.

**Long Duration Portfolio Net of Fee Performance as of March 21, 2021:** Ken repeated the exercise for the Long Duration managers showing outperformance by all Manager but one versus the benchmark out to 7 years.

Pedro:

**Total Pool Distribution by Mandate:** The Total Pool balance has grown steadily over the past year and now exceeds $30 billion. Treasury has received approximately $5.8 billion in CARES Act money with the majority going into the Liquidity pool.

**Total Pool Characteristics:** Over 71% of the Total Pool is invested in US Government securities which is the largest asset allocation. Corporate credit makes up 14% and no other asset sector is greater than 3%. Duration has been reduced to 2.52 years and the pool yield has increased to 0.66%.

**Top 10 Non-US Govt Holdings at March 31, 2021:** The Pool is well diversified with the largest non-U.S. Government holding representing just 0.54% of the Pool (Bank of America).

**Basket Clause:** The basket clause has remained fairly stable at $58 million in market value which is only 0.16% of the Total Pool

**Pool Rating:** The pool is easily under the AA-f rating from Standard & Poors.

**Summary/ Questions / Next Meeting**

Next meeting will be announced for some time in November, 2021.

*Meeting was adjourned at 11:03 A.M.*