

T H E C A B I N E T
S T A T E O F F L O R I D A

Representing:

STATE BOARD OF ADMINISTRATION

The above agency came to be heard before
THE FLORIDA CABINET, Honorable Governor Crist
presiding, in the Cabinet Meeting Room, LL-03,
The Capitol, Tallahassee, Florida, on Tuesday,
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Reported by:
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CHARLIE CRIST
Governor

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

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STATE BOARD OF ADMINISTRATION

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1 P R O C E E D I N G S

2 GOVERNOR CRIST: Attorney General McCollum will be
3 calling in. General, are you on the line?

4 ATTORNEY GENERAL MCCOLLUM: I'm on the line.

5 GOVERNOR CRIST: Great. Thank you very much.
6 Before we get started, why don't we stand and pledge
7 allegiance to the flag of our country.

8 (Pledge of Allegiance)

9 GOVERNOR CRIST: I would like to call to order
10 this special meeting of the State Board of
11 Administration. CFO Sink is present here in the
12 meeting room, and the Attorney General is on the phone
13 with us.

14 We have two items before us on the State Board of
15 Administration agenda today. The first item is to
16 appoint an interim executive director of the SBA. Then
17 that item will be followed by a status report of the
18 Local Government Investment Pool.

19 Item 1, CFO, I understand you have a motion.

20 CFO SINK: Yes. Thank you, Governor. I actually
21 have two motions, so this will be in two parts. During
22 the last week I had an opportunity to meet with
23 representatives of several of the investor groups to
24 hear concerns and, of course, the many, many questions
25 about the ongoing operation of the Local Government

1 Investment Pool. There are operational issues, many
2 legal questions, audit issues.

3 Yesterday I sent a letter to our -- the SBA audit
4 committee, which is composed of three members, each one
5 appointed by the three of us as board members. And I
6 asked them to look into just a number of issues about
7 how we got here. And, of course, the list was
8 certainly not exhaustive, and I know that you and
9 General McCollum will have additional questions, and
10 they'll have their own investigations to do.

11 But it has become apparent that we do have a need
12 for immediate interim leadership at the SBA. So the
13 first part of my motion will be to move that we appoint
14 our former comptroller and the current insurance
15 consumer advocate, General Bob Milligan, as the interim
16 director of the SBA effective tomorrow.

17 And I just wanted to say a few things about the
18 reason that I'm making this motion. In thinking about
19 some of the important aspects of what we need here in
20 the interim going forward, one is credibility and
21 integrity and trust and to rebuild the confidence that
22 we all should have in the operations of our SBA.

23 And certainly Comptroller Milligan has served our
24 state extremely well in his capacity as comptroller and
25 for the past seven or eight months as insurance

1 consumer advocate. Many people may not realize that
2 comptroller -- as comptroller, General Milligan served
3 as a board member of the SBA for eight years. And so
4 he's very familiar with many of the operations of the
5 SBA.

6 He's a proven leader, has a lot of credibility.
7 And perhaps most importantly, he is available to serve
8 in this interim capacity. So that would be --

9 GOVERNOR CRIST: That helps.

10 CFO SINK: My first motion is that I move that we
11 name General Bob Milligan as the interim director of
12 the SBA effective immediately.

13 GOVERNOR CRIST: I second it. Is there any
14 discussion? All in favor say aye.

15 CFO SINK: Aye.

16 GOVERNOR CRIST: Aye.

17 ATTORNEY GENERAL McCOLLUM: Aye.

18 GOVERNOR CRIST: It's a unanimous vote.

19 CFO SINK: Thank you, Governor.

20 GOVERNOR CRIST: Thank you.

21 CFO SINK: My second motion has to do with some --

22 GOVERNOR CRIST: If I could, just for a minute.
23 I'm sorry. Forgive me.

24 CFO SINK: Yeah, go right ahead.

25 GOVERNOR CRIST: I wanted to congratulate you on

1 the motion of General Milligan. I've had the
2 opportunity to serve in government while he was still
3 in government service and as he is now with your
4 office, and he is a man of great integrity and great
5 honor and I think an extraordinary selection to serve
6 in this capacity. He is -- he's just a great guy, and
7 his integrity is beyond reproach. Thank you.

8 CFO SINK: Thank you, Governor. And I know you're
9 going to give him the opportunity to say a few words in
10 just a moment.

11 GOVERNOR CRIST: Of course.

12 CFO SINK: The second motion has three parts. It
13 has a little bit to do with what we as the board would
14 instruct General Milligan to be actively engaged in
15 over the course of the next several weeks.

16 First is to move that we immediately begin a
17 national search for a new executive director. This
18 is -- our SBA manages approximately \$180 billion in
19 assets. It is one of the five largest public pension
20 funds in the country. And we all want the very, very
21 best and most qualified professional to come to manage
22 our SBA. So General Milligan would work on suggesting
23 recommendations for undertaking this national search.
24 So that's part A.

25 Part B is I move that General Milligan determine

1 the best way to listen to our investors and the
2 investment -- and the investor advisory group. The SBA
3 needs to be responding to our investors' interests and
4 increase communication and transparency substantially.

5 And I understand that the investors' group did
6 meet earlier today, raised many good questions that,
7 now that we have an official interim executive
8 director, can be funneled through General Milligan and
9 he can dispense with them and think about them and take
10 action and come back to the board and report to us as
11 appropriate.

12 And then part C is that I move that the SBA, under
13 General Milligan's leadership, begin immediately
14 working on a competitive -- a request for proposal bid
15 for a firm to manage the LGIP going forward.

16 The BlackRock investment company was engaged on an
17 interim basis for 90 days. And so we need to get about
18 the business of finding a permanent manager for the
19 fund as soon as possible. So that's my second motion.

20 GOVERNOR CRIST: Great. We have a motion.

21 ATTORNEY GENERAL McCOLLUM: I second that motion.

22 GOVERNOR CRIST: Thank you, General. All in favor
23 please say aye.

24 CFO SINK: Aye.

25 GOVERNOR CRIST: Aye.

1 ATTORNEY GENERAL McCOLLUM: Aye.

2 GOVERNOR CRIST: Show it approved without
3 objection. And I think -- anything else you wanted to
4 say? General Milligan is -- General, good afternoon,
5 sir, how are you?

6 GENERAL MILLIGAN: I'm fine. Thank you, Governor.

7 GOVERNOR CRIST: Back in the saddle.

8 (Applause.)

9 GENERAL MILLIGAN: On the way up, Governor,
10 somebody suggested they thought that they'd done away
11 with the draft in this country. But Governor and --
12 Attorney General McCollum, sorry you're not with us,
13 but I hope you can hear me.

14 ATTORNEY GENERAL McCOLLUM: I can hear you, and I
15 welcome you aboard, and we're delighted to have you do
16 this, really appreciate it.

17 GENERAL MILLIGAN: Well, thank you. And, CFO
18 Sink, I have, as you might suspect, over the past
19 couple of weeks been following very closely the
20 activities of the board, being an investor in the State
21 Board of Administration, in the Florida retirement
22 fund, and have followed it very closely.

23 And I accept this opportunity to provide some
24 leadership to the SBA and look forward to it with
25 really a thankful heart that you would even consider

1 me.

2 I think most of you know me. I also heard, by the
3 way, the three items that you want me to specifically
4 take cognizance of, and I certainly will. I think most
5 of you know me well enough that I put very high on the
6 importance list people, much like you, Governor.
7 Concern about these investors is what I need to be
8 about.

9 And I need to get on board. I've got a lot to
10 learn and relearn about the operation out at the SBA.
11 But I'll say right now that on the 3rd of January I
12 will hold a meeting out at SBA and meet with any and
13 all investors and the investor advisory group. And we
14 will come to grips with what we need to do to get this
15 operation on the right track.

16 And so, again, I thank you for the opportunity and
17 look forward to serving.

18 GOVERNOR CRIST: Thank you, General. Thank you
19 very much for coming forward.

20 (Applause)

21 GOVERNOR CRIST: At this time Simon Mendelson from
22 BlackRock will provide a status report.

23 MR. MENDELSON: Governor, CFO Sink, I'm joined by
24 my colleague Chris Stavrakos.

25 GOVERNOR CRIST: You guys are all wearing gold

1 ties. Is that an indication of the gold standard being
2 applied to this fund now?

3 MR. MENDELSON: It's the sunshine we expected to
4 see when we came down from New York, and we were not
5 disappointed.

6 Thank you. A quick update then in terms of the
7 goings-on with the LGIP. First of all, as you know, we
8 got the operations underway, as you requested. The
9 fund was split. It was opened last Thursday. It
10 opened on schedule, a little bit early. The fund was
11 down briefly for about 20 minutes due to nothing to do
12 with volume but more of a calculation issue, but it
13 went back up and has been operating entirely according
14 to normal hours since then.

15 We got new accounting procedures into place to
16 track both the separate funds and the liquidity
17 available balance. And since then, we've also been
18 undertaking the management of the assets as well as
19 meeting with some members of the press, meeting the
20 advisory group, et cetera.

21 The page that is up on the screen describes a
22 little bit of what we have experienced since we opened.
23 We did expect to see substantial redemptions on the
24 first day opened. And that is what has, in fact,
25 happened. On the first day out we had redemptions of

1 about \$1.1 billion. Many pool participants had
2 pressing needs that were, if you will, pent-up needs
3 from the fund having been closed.

4 Most people's redemptions stayed within the
5 allowed sort of available liquidity balance, the
6 portion you could redeem without any implications, the
7 15 percent or \$2 million, whichever is greater, rule.
8 Most people stuck to that.

9 A small number chose to redeem. And that did
10 generate about \$1.6 million in redemption fees that are
11 now in the pool. Those will, of course, be used for
12 the benefit of the remaining -- the other participants.

13 We have begun to see some subscriptions. Some
14 money has flowed into the fund, although those are
15 still quite small numbers, I believe \$7 million the
16 other day. And I don't know if we know the most recent
17 numbers of inflows, small numbers. But still we take
18 that as a positive sign. We did not expect large
19 inflows right out of the chute.

20 So I guess, in summary, the other good news, I
21 guess, is the track record of redemptions. If you
22 think, we started at about 1.1 billion, then that cut
23 in half, 560 million out the second day -- you can see
24 that in the data here -- down to only 55 million out
25 the third day. So the trend is in the right place. I

1 believe we had comparable, 70-ish million of
2 redemptions today. So we're seeing a declining pattern
3 of redemptions. And hopefully, over time, we'll see
4 subscriptions start to come in.

5 Other updates, we are going to announce or did
6 announce today at the advisory meeting that we do have
7 the loan program we had discussed in place. Wachovia
8 has stepped up and is ready to meet the demand. A
9 number of financial institutions stepped up.
10 Wachovia's plan -- and Coleman Stipanovich of the SBA
11 made the decision as well. Theirs covered the most
12 number of participants. It had the least number of
13 restrictions. It had the lowest minimums. And so it
14 seemed to be the broadest proposal we were given.

15 So there will be on the Web site as of tomorrow a
16 link that participants can go to to get the terms sheet
17 and find the contact people at Wachovia. We are not
18 endorsing that as the only plan. We are encouraging
19 participants to consider their other options as well.
20 But that will be available for them to borrow against
21 their shares should they need near-term liquidity.

22 GOVERNOR CRIST: Can you give the site, the Web
23 site?

24 MR. MENDELSON: It's the -- what's the Web site
25 for the -- it's sbafla.com? Sbafla.com.

1 GOVERNOR CRIST: Thank you.

2 MR. MENDELSON: And it should be up there by
3 tomorrow at the latest, the lending program. And other
4 than that -- so we've -- I guess my other summary I
5 would say is that our view is we have succeeded on the
6 first task, I think, which is to restore calm. But
7 we've clearly not restored confidence yet. And that is
8 the next task.

9 And confidence, to me, would be seen by real
10 substantial inflows and people sort of getting back to
11 business as usual. And that is the task going forward.
12 And it will take a number of things to do that. We
13 talked about securing a AAA rating on the fund, and we
14 are beginning work on that. Chris can comment on that.

15 It's going to come from lots of conversations with
16 participants. Again, we met the advisory group today.
17 We need to continue to dialogue and be transparent.
18 And then it will come from time as the fund begins
19 gradually to return to more normal operation. And
20 that's where the confidence will start to come.

21 So that is where we are. We're happy to take
22 questions if you have any.

23 GOVERNOR CRIST: Chris, did you want to
24 present and then --

25 MR. STAVRAKOS: If you have any questions, I'm

1 happy to address them specifically, but I think Simon
2 covered most of it.

3 GOVERNOR CRIST: Okay. CFO?

4 CFO SINK: Governor, the thought did occur to me
5 that -- I believe I've heard that -- I mean, obviously
6 you all have been hard at work for this last ten days
7 or so. But I did, I believe, get a report, you should
8 confirm this, that our operations team at the SBA has
9 just really been outstanding. You might want to
10 comment on them, because I do want to give them kudos.

11 MR. STAVRAKOS: Absolutely right, CFO. This would
12 not have been possible without the support and
13 cooperation of the SBA operations and technology team.
14 They've done incredible work, have enabled us to put in
15 place and execute the plan that we recommended
16 initially to you in very, very quick order.

17 As I think you may recall, when you asked whether
18 or not we would be able to reopen the fund on Thursday,
19 I hedged a little bit. And they really covered my bet
20 for me because they were there working tirelessly to
21 adapt the systems, put the rules in place and divide up
22 the assets. So it was a really first-class job.

23 CFO SINK: Thank you.

24 GOVERNOR CRIST: I want to thank you, too. You
25 know, you've really presented a stabilizing element to

1 what's happened with this fund, and we Floridians
2 appreciate it very much.

3 I think the administration in Washington has
4 actually taken some steps to address the subprime
5 arena. And so we're grateful for that as well. You
6 know, all hands on deck at a time like this is
7 important, and we appreciate the calm that you have
8 provided and the prudent planning that you have
9 instituted.

10 ATTORNEY GENERAL McCOLLUM: Governor, I have a
11 comment or two I'd like to make, if I could.

12 GOVERNOR CRIST: Of course, General.

13 ATTORNEY GENERAL McCOLLUM: This is Bill McCollum.
14 Yes. I think BlackRock has done a terrific job, but I
15 think there's something that we ought to at least raise
16 today and be aware of, and that is this Bloomberg News
17 article December 4th entitled "State pension fund's
18 risky debt at a billion dollars." And it's an article
19 not about the investment pool, but it's about the
20 Florida Retirement System pension fund.

21 And the article implies in there things that I
22 think are really broad generalities. And I know you
23 and CFO Sink read it, just as I did, and some pretty
24 gross overstatements.

25 And from my knowledge of this -- and I'm sure you

1 all would agree with it -- the Florida retirement fund,
2 the system itself may have some assets in it that might
3 be similar to what we have in the investment pool, but
4 there are no investments, I understand, in FRS that are
5 backed by subprime mortgages.

6 I think of the \$138 billion in our state
7 retirement system pension fund, only about 756 million,
8 or half of one percent, consist of lower grade
9 investments. And it's my belief that even if those
10 investments were divested tomorrow, if we had to sell
11 them, which I don't think we're likely to have to sell
12 them at all, that the impact would be minimal on the
13 profitability and the rate direction and the rate of
14 growth and rate of return of this pension fund, which
15 as we all know, has been the most impressive in the
16 United States over the last several years.

17 So I'm a little worried that in looking at the
18 investment pool and all this discussion and then having
19 this article, that some of our pension holders, some of
20 our public servants, current state employees may be
21 unnecessarily worried about the retirement system. And
22 I, for one, just want it on the record that I don't
23 believe and I don't think we should allow it to go
24 unchallenged. If there is any similar type of problem
25 with our pension fund -- there's two different things.

1 We're talking about long-term investments in the state
2 retirement system. We're talking about a very
3 short-term investment pool for local governments that
4 we're dealing with that BlackRock has been working
5 with.

6 So at least I'd like to go on the record as being
7 very concerned about that article and hope we put to
8 rest the type of comments that might unsettle those who
9 are state employees and pension holders in the bigger
10 fund.

11 GOVERNOR CRIST: Thank you very much, General,
12 appreciate your input. CFO, did you have anything to
13 add?

14 CFO SINK: Yeah. I'm sorry, Governor. Simon,
15 were you going to make a comment about Fund B? I
16 believe you were --

17 MR. MENDELSON: Related to?

18 CFO SINK: Jim? The fiduciary responsibilities --

19 MR. MENDELSON: Oh, yes.

20 CFO SINK: -- under Fund B.

21 MR. MENDELSON: Well, there was a question raised
22 at the advisory group meeting about the status of the
23 November interest. Is that the issue? And the
24 question was raised, well, what was the disposition of
25 the November interest.

1 And what we told the advisory group is that our
2 understanding is the trustees had, at the last meeting,
3 basically elected to discharge what they see as their
4 fiduciary duty to the existing shareholders to protect
5 the fiduciary -- as fiduciaries for the remaining
6 shareholders, they need to garner the full assets of
7 the existing fund and, based on that, had made the
8 decision to put the November interest amount into Fund
9 B in order to protect the fund participants against
10 potential future losses.

11 And so we understand that was the decision that
12 was made, and we discussed it at the advisory group
13 meeting today.

14 CFO SINK: Okay. I think we just wanted that on
15 the record.

16 MR. MENDELSON: Yes, okay.

17 GOVERNOR CRIST: Thank you very much. I also want
18 to thank Senator Deutch for being here. Ted, it's
19 always good to see you, and thank you again for your
20 divestment bill, appreciate it.

21 And, Senator Silver, who I had the privilege of
22 serving with in the Florida Senate, thank you for being
23 with us. Is there any other comment for today? We
24 stand adjourned. Thank you.

25 (Whereupon, the meeting was concluded at 4:00 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter,
do hereby certify that the foregoing pages 3 through 18,
both inclusive, comprise a true and correct transcript of
the proceeding; that said proceeding was taken by me
stenographically and transcribed by me as it now appears;
that I am not a relative or employee or attorney or counsel
of the parties, or a relative or employee of such attorney
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IN WITNESS WHEREOF, I have hereunto set my hand
this 13th day of December 2007.

JO LANGSTON
Registered Professional Reporter