MEETING OF

THE STATE BOARD OF ADMINISTRATION

GOVERNOR CRIST AS CHAIRMAN

CHIEF FINANCIAL OFFICER SINK AS TREASURER

ATTORNEY GENERAL McCOLLUM AS SECRETARY

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JO LANGSTON
Registered Professional Reporter

ACCURATE STENOTYPE REPORTERS, INC.
2894 REMINGTON GREEN LANE
TALLAHASSEE, FLORIDA 32308
(850) 878-2221

P R O C E E D I N G S

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GOVERNOR CRIST: Ash Williams, this is your day.

MR. WILLIAMS: Good morning.

GOVERNOR CRIST: The first item we have this morning is the minutes from our July 28 meeting.

ATTORNEY GENERAL McCOLLUM: I move the approval of the minutes.

CFO SINK: Second.

GOVERNOR CRIST: Moved and seconded. Show the minutes approved without objection.

MR. WILLIAMS: The second item we have is some investment performance reports. But perhaps before going into that, we should recognize a couple of visitors, several visitors we have this morning. We have representatives of our Investment Advisory Council. We have the chair and we also -- Mr. Robert Konrad. We also have Rob Gidel with us this morning, and I believe that's it for the IAC this morning.

We also have several members of the Participant Local Government --

CFO SINK: Excuse me, Ash. Would you just have them stand so that we can all see who they are?

MR. WILLIAMS: Certainly.

CFO SINK: We don't know all of them.

GOVERNOR CRIST: Morning, gentlemen. Thanks for being here.

MR. WILLIAMS: We also have several members of the Participant Local Government Advisory Council, the chair Mary Ellen Elia, Mayor Roger Wishner, and I believe Patsy Heffner was going to join us. I have not seen her. She may not be here yet. But our Advisory Council members give very, very generously of their time. They're great partners for the SBA, and we appreciate their involvement.

For purposes of our investment performance reports, we have two representatives of EnnisKnupp, the general consultant for the State Board of Administration. We have Mr. Steve Cummings, who is president and CEO of Ennis, and Mike Sebastian, who is a principal consultant with Ennis.

With that, let me turn things over to Steve and Mike, and they will walk you through performance.

MR. CUMMINGS: Thank you and good morning.

GOVERNOR CRIST: Good morning.

MR. CUMMINGS: I have prepared excerpts from four different reports. As you may recall, one of our responsibilities is to periodically provide total fund or kind of a macro level report to the Investment Advisory Council on the performance of the various investment programs that are overseen by the State Board of Administration.

GOVERNOR CRIST: You are Steve Cummings?

MR. CUMMINGS: I am Steve Cummings.

GOVERNOR CRIST: God bless you.

MR. CUMMINGS: Thank you very much. The first of the four focuses on the FRS, the Florida Retirement System. All of the reports that I'm going to summarize for you today cover the period of time ending June 30th of this year, 2009, with particular focus on the 12 months ending June 30th, 2009.

It's safe to say that this has been an extremely challenging time for all investors, institutional and private. We've seen an unprecedented decline in the stock markets, at least during our tenure together, and a partial recovery in those markets. And as I go through these slides, I think you'll see the impact that this market correction and partial recovery has had on the FRS program.

Jump two slides ahead. This is a graphical representation of the performance of the major capital markets over the 12 months ending June 30, 2009. What we have done here is plot what would have happened to a single dollar invested in the U.S. stock market, the non-U.S. stock market, Treasury bills and fixed income. The interesting story here, of course, is the performance of the U.S. and non-U.S. stock market, from June 2008 through the beginning of 2009, nearly a 50 percent decline in value for every dollar invested.

Now, since that time, obviously, we've seen a substantial recovery in those markets, but we're not yet back to where we started a year ago. So for approximately every dollar invested in publicly traded stocks in June of 2009 we have about 70 to 73 cents in the portfolio today.

CFO SINK: This is the market, right, and not our fund?

MR. CUMMINGS: That's correct.

CFO SINK: Okay, thank you.

MR. CUMMINGS: In a few slides I have some performance information that will compare and contrast the performance of this retirement system's portfolios' actual results to the market portfolio.

CFO SINK: Okay.

MR. CUMMINGS: Speaking of assets, as of June

30, 2009, there was a little less than $100 billion in the Florida Retirement System, represents about a $10 billion increase since the last calendar quarter ending March 31st. Relative to the policy target weights, which I'll show you graphically on the following page, the system was slightly overweighted to non-U.S. equities.

CFO SINK: Excuse me, Governor, is it all right if we just do this more interactive and --

GOVERNOR CRIST: Let freedom ring.

CFO SINK: -- less formal than we do it in a cabinet meeting?

GOVERNOR CRIST: Sure, of course.

CFO SINK: Can you go back to the previous slide?

MR. CUMMINGS: I certainly can. Okay.

CFO SINK: I notice the comment here was the fund was overweight to foreign equity, high yield and real estate asset classes during the -- I guess the last quarter. Is that the quarter referred to?

MR. CUMMINGS: That's correct, the calendar quarter.

CFO SINK: And all the other assets were overweight. So I just had a question, was this some kind of a strategic move or was this just as a result of what was going on in the marketplace and it just happened to fall out that we were overweighted in these other three classes?

MR. CUMMINGS: It's mostly the latter, the result of the different performance of the capital markets relative to one another. If we turn to the following slide, you can get a sense of the operational bounds that have been established around those long-term targets that are the middling points that I refer to when I say we were underweight or overweight relative to those targets.

For instance -- and I apologize for the smallness of the font here. But if you look at the left-most set of bars here, domestic equity, you can see that the actual allocation as of June 30, 2009, was a little over 35 percent of total assets relative to the target, which is the middling number in the left-most bar of 36.7, so a slight underweight.

Now, you'll notice that there's an upper and a lower bound to each of these target asset allocations. In this particular case, the lower bound is 30 and the upper end is 47. Those bounds are designed to do two things. The first is to avoid unnecessarily frequent rebalancing to targets as markets move up or down relative to other markets.

Every time we rebalance the program back to a target, we have to sell one asset and buy another and incur the transaction costs. So to avoid having to do that on a continuous basis, we establish and most investors establish a range around that target that the actual allocation can fluctuate within.

It also provides the opportunity, when markets are behaving unusual, to impart into a portfolio an outlook-based asset allocation position, an overweight or underweight within those bounds to an asset allocation.

In this particular system, the vast majority of the differences between the actual allocations and the target allocations are a result of the market movements. And let me pause there and see if anybody on staff would further illuminate the strategic nature or tactical nature of any positioning of the portfolio currently with regard to the target allocations. Okay so far?

CFO SINK: So we haven't -- and maybe this is for Ash. We haven't had -- have we done any rebalancing, per se, in the past three, six, nine months?

MR. CUMMINGS: Almost certainly yes. The rebalancing -- and I don't have the specific numbers in front of me in terms of how much money was moved from one place to another. But like most institutional investors, when we saw the dramatic decline in the U.S. and non-U.S. equity markets last year, almost all rebalancing regimes called for a sale of fixed income securities and a purchase of equity securities.

Now, the thing that was unusual about the last year -- and it's really the first time we've seen this in the last 20, 25 years -- is the lack of liquidity in the fixed income market made it very, very difficult to automatically rebalance. The idea of rebalancing is to do so very efficiently and very effectively.

So many investors, including the FRS, temporarily suspended some of their rebalancing regimes in response to an unprecedented lack of liquidity. So the idea was to avoid selling the least liquid component of your portfolio right at the bottom of the market. Now, that turned out to be a good thing at the time. But since that, there's been a rebalancing into equities, which partially allowed the system to participate in the rebound of the market since the end of the month of February.

So Ash was just getting ready to add a comment.

MR. WILLIAMS: That's a very good summary. I would add that we did early on do some rebalancing, and ironically I think it's emblematic of investor behavior that back in March we received a letter from one of the employer governments expressing concern about the decline in the markets and suggesting we should position ourselves entirely to preserve capital, which would imply being in United States Treasuries.

We declined that advice, pointed out that we stick to a long-term asset allocation strategy, we rebalanced periodically, within reason, as Steve explained, and that we thought that that was the best long-term course for us to be on. Since that time, the pension fund has, as Steve pointed out, rebounded quit nicely. And through yesterday's close, we're up 12 and a half percent year to date, with the fund now at $106.5 billion. That's up from a low of roughly 83 billion in March of this year.

So the investment discipline and adhering to the asset allocation targets and ranges with periodic rebalancing works. And it's, we think, the right place for us to be as an institution.

MR. CUMMINGS: And as the trustees may recall, periodically the system engages in a comprehensive review of those long-term targets and an assessment of the strategic allocations across these various asset classes, generally, on a comprehensive basis, every two to three years, but there's an annual review of those allocations as well, to ensure that those long-term targets remain the optimal ones for the program.

ATTORNEY GENERAL McCOLLUM: Steve, do you have an opinion as to whether or not our current asset allocation is appropriate for the market as it is today? Obviously, we've gone through a lot. We just heard Ash tell us about different opinions that people have given to him, which if he'd taken that advice, we probably wouldn't be as well off as we are today. But do you have a view on whether the asset allocation overall is appropriate for today's market?

MR. CUMMINGS: We do. That view is most thoughtfully expressed when we are engaged in this asset/liability exercise with the staff, reviewing all the capital markets and the liabilities and making 15-year projections of how they behave to one another.

The one observation that I would make in response to your inquiry, a fundamental tenet of investing has been challenged as a result of the last 12 months. And that is this notion that equity risk shows up in our equities only. I think we have all learned that the equity risk, or the stock market risk, can manifest itself in the fixed income marketplace as a result of the significant stress we've seen in the corporate bond market and the mortgage-backed securities market over the last 12 months. We've also seen stock-market-like risk showing up in very unexpected places, such as money market funds, such as securities lending programs.

So one of the things that our firm and others in the industry are bringing to the table to address these long-term strategic asset allocation questions is a fresh appreciation for the interrelatedness of these investments during periods of market stress.

So the impact of that on the ultimate recommendations we're making to clients is generally a more conservative allocation than we would have made before that. Now, as you may recall, the last time we went through a comprehensive review of the strategic asset allocation, we did recommend and the trustees did approve a reduction in the equity risk of the program. So in many ways this program was actually a little ahead of where we are right now with regard to our other client recommendations.

ATTORNEY GENERAL McCOLLUM: But the recommendation made in reduction of equity risk at that time wasn't based on a fear of where the market was going, was it?

MR. CUMMINGS: No, it was not.

ATTORNEY GENERAL McCOLLUM: You can't predict that a lot of times.

MR. CUMMINGS: No. I wish I could, sir. But, no, it was not. It was based on this 15-year set of projections that we did, looking at the extent to which equities were beneficial to the funded status of this program, given the nature of the liabilities and the contribution streams, which is different for every system.

ATTORNEY GENERAL McCOLLUM: And we also, as I recall, were making more money, if you will, at that time, ironically, than we would be allowed or normally allowed to have holding over in terms of the long-term of the fund, because of the parameters the Legislature has given to us. It was a very robust moment. And as I recall, we cut back in part because we were just making too much money in equities. Am I right about that?

MR. CUMMINGS: Well, we certainly enjoyed quite a run in the stock market, yes. And there was -- I hasten to reiterate the point that you made a moment ago, which was the recommendation to reduce equities was not based on an outlook in anticipation for the corrections that we saw last year.

But you do point out something that is integrally part of these asset/liability studies, which is not just looking at the returns we might expect from various investments in the portfolio, but having a full recognition of the source of contributions and the benefits that they're there to fund. All three of those are critically important to integrate when you're thinking about the risk profile of an investment program such as the FRS.

And that study does exactly that. It looks at the contribution mechanisms and the expectation for how this might change over the years and the benefits that are being funded.

ATTORNEY GENERAL McCOLLUM: Thank you.

MR. CUMMINGS: My pleasure. Shall I proceed?

GOVERNOR CRIST: Yes.

MR. CUMMINGS: Well, let me get to the actual results. This page of text summarizes what is a little easier to see graphically. As you may recall, when we reckon the success of the FRS program, we use a series of benchmarks. One is called the performance benchmark, and the other on this slide is referred to as the absolute nominal target rate of return.

The absolute nominal target rate of return is an inflation-plus benchmark. So we use the Consumer Price Index plus five percent as a recognition that over long periods of time, we would like to see this program produce a return that is equal to or greater than the Consumer Price Index plus five percent.

As you can see, that's been a very tough benchmark to beat over almost every -- in fact, over every time period shown here graphically, the actual result has failed to beat that benchmark, and it's all because of that one-year result that you see in the second set of bars, where the FRS was down, despite the rebound that we've seen so far this year, the one-year return of negative 19 percent.

The benchmark we generally focus most of our attention on when we're reporting to the Investment Advisory Council and staff and to the trustees is the middling bar, labeled performance benchmark.

That's the return that the portfolio would have earned had it been invested purely passively. That's the return of the benchmark, sort of the markets, if you will, of all of the underlying investment components averaged together.

So the difference between the middling grayish bar and the left bluish bar is the impact on the portfolio of the active management, the decisions investment managers are making to try to buy underpriced securities and sell overpriced securities, but also the impact on performance of the actual allocation never being perfectly lined up with the target, those deviations plus or minus, overweight, underweight, if you will, the targets.

So in this case you can see that over recent time periods the return of the FRS has failed to keep pace with the performance benchmark. Once you get to longer time periods, five and ten years, the results look more favorable relative to that benchmark. And I have a slide here, I think, in a few slides, that gives you an idea of the causes of that relative underperformance over the last year.

CFO SINK: Get back -- you explained the absolute nominal target rate of return is CPI plus five. So how do you get a 3.6 number out of that?

MR. CUMMINGS: Because the CPI had an actual negative year-over-year result for the 6/30 to 6/30 period. Right, Mike?

CFO SINK: And if I -- maybe you're going to get into this later, as you alluded to, but it just seems to me, if we're below the benchmark, the one- and three-year benchmark, then shouldn't that trigger some conversation about the managers, the various managers, whether or not they're performing, why they're not performing?

I'd just be interested in knowing what the progression of conversation is either through -- and, Ash, I don't know if this is going to come up in the Investment Advisory Committee report, but it does beg the question of not -- the one- and three-year performance being below the benchmark, and at a time when we have -- we employ, I guess, active managers who are presenting to us that they're going to beat the benchmark, because we're paying and that justifies their fee.

So as the consultant and the advisor to the FRS, what is your opinion of this situation we're in?

MR. CUMMINGS: Your observations and questions are right on the mark. Whenever the aggregate result of a portfolio fails to keep pace with a benchmark, the questions should be raised, why are we seeking to outperform the benchmark paying investment management fees for the privilege of making that attempt if the results do not bear out in the bottom line.

In this particular case -- and this is true of the majority of institutional investors. These results are highly driven by the one-year period that we're looking at. If we roll the clock back a year and look at the results of this portfolio relative to the performance benchmark, you would see the opposite phenomena, some pretty favorable looking results.

So we're trying to -- what we're encouraging clients to do is to evaluate the use of active management in light of what just happened to us over the last 12 months, revisit the appropriateness of continuing to seek to beat the markets, after what we just saw happen to us, but to not make a wholesale abandonment of a strategy that has proved to be beneficial over longer periods of time. And I know FRS is engaging in a comprehensive review of exactly that over the next several quarters.

CFO SINK: Well, Ash, maybe you can address this when you get up to do your presentation.

MR. WILLIAMS: Yes. Two points. First of all, we have on the agenda attribution by asset class coming up, so we're going to go to exactly the question you've raised. It is the right question. We will walk you through that.

And then when we come down to the current initiatives, I will come back and give you detail on what we're going to do going forward to make sure all of our base data on which the investment strategy is based, including asset allocation, what we do actively, what we do passively, what we do internally, what we do externally, all of that is subject to review and recalibration from the ground up, given the amount of change we've seen in the markets. We think that's a completely appropriate set of questions to ask, and that's right where we're headed.

CFO SINK: Okay. Thank you.

MR. CUMMINGS: I made reference to the long-term, and the slide that follows this one gives you the longest time period we have in our presentation today that shows you the performance of the FRS over not only the five- and ten-year periods that we just saw in the previous slide but also the

15- and 20-year periods, where you can see that over those very, very long periods of time, the system was able to produce a return that was superior to the absolute nominal target rate of return, the benchmark plus five percent.

CFO SINK: What do you make of this?

MR. CUMMINGS: Well, the question that we --

CFO SINK: It's not necessarily a very pretty graph.

MR. CUMMINGS: The five- and ten-year picture certainly is not. The question that we often get asked is what is a long-term, how patient should we be if we're waiting for an investment program to deliver results that meet our benchmarks.

The response used to be a full market cycle, but we stopped saying that back in the eighties because it became unclear what a full market cycle might look like, with the run-up in the publicly traded U.S. equity markets.

What we use as the representation of the long-term is 15 years. It's a very arbitrary number. All of the modeling that I referred to that we do in the asset/liability space focuses on a 15-year time horizon. And it's not because I can tell you that there's a paper that was written that concludes that 15 years is the optimal time frame, but it has always struck us as a nice balance between being sufficiently long to absorb short-term volatility in the markets but not so long as to be an unrealistically hypothetical period of time.

So what I take away from this picture is despite the fact that we had an incredibly adverse investment environment over the last 12 months, that this program has delivered an inflation plus five percent return over the long-run, the 15- and 20-year period.

ATTORNEY GENERAL McCOLLUM: Steve, the other thing that I don't know we can see here but maybe you're going to present, maybe you're not, is a comparison of the performance of this fund versus other comparable funds in the country. Are we beating our performance standards or failing to meet them in a percentage ratio that is better or worse than those that are in other large funds where the same type of effort is being made by very professional people, New York, California and elsewhere?

MR. CUMMINGS: Yes, sir. In fact, the last slide in this particular presentation shows exactly that. If I knew how to jump to it, I would.

ATTORNEY GENERAL McCOLLUM: That's all right. You don't have to. I just want to be sure we're getting there.

MR. CUMMINGS: It's coming. It's coming. Let me stop on this slide to illustrate a feature of this investment program that I've commented to the trustees on in the past, which is a disciplined investment program and a risk-controlled investment program.

This chart plots the cumulative return of the FRS, the Florida Retirement System portfolio relative to that performance benchmark. So when the blue line has an upward slope, it doesn't say anything about what the actual underlying investment market is doing. It is indicating that this portfolio is outperforming that benchmark. And the take-away from this chart is the relative stability of that line. We don't see a lot of big jumps up or down.

What that indicates to us is a portfolio that's well diversified, that is sensitive to the benchmark and not swinging for the fences or taking unusual amounts of non-market risk. Obviously the last couple of quarters have shown a little bit of volatility, and that is pretty much what we see across the board with our other institutional clients as well.

I mentioned a moment ago that I was going to tell you a little bit about what helped and hurt the relative performance. This is a slide we've generally spent a great deal of time on with staff, which breaks down over this particular period, one year ending June 30th and five years ending June 30th, what the attribution to the various investment portfolios was of the relative underperformance.

You can see at the very bottom of the left-hand chart the total fund underperformed the benchmark by 114 basis points, or 1.14 percent. If you added up all of the bars up above, you would get to that 114 basis points of underperformance. So the size of the bars up above by asset class is a function of whether or not that component of the program did better or worse than its respective benchmark. But also it's a function of the footprint that asset has in the portfolio. The larger allocation to that asset class, the more impactful it is on the performance of the fund as a whole.

So for the one-year period in particular you can see that the two largest detractors from relative performance were the strategic investment program and the fixed income program. The fixed income program, like many investors, suffered over the market decline last year by having a greater exposure to the credit and mortgage-backed securities market than the underlying benchmark.

And then the strategic portfolio, there were several stale valuations, is probably the best way to describe it. There are several investments in that program that are only periodically marked to market. A large number of those -- and I don't have the statistic handy, but perhaps somebody from staff does -- have only been priced through March 31st of this year.

So there's a number of investments in here that have fully reflected the downturn in the markets but have not yet been marked to market after the rebound since March. Well, the benchmark has fully rebounded. So we would expect to see the strategic investment picture change somewhat as we get some fresher valuations in that portfolio.

ATTORNEY GENERAL McCOLLUM: What are strategic investments? Give us some examples.

MR. CUMMINGS: Probably to get some detail on that, I would turn to Ash.

MR. WILLIAMS: The strategic investment class was created in 2007 for the purpose of taking advantage opportunistically of opportunities where one would not have a standing asset allocation. So the sorts of things that you would see in the strategic asset class currently would be -- and to exactly Steve's point about valuations, we have several private market vehicles that focus on credit-related opportunities. So these could include bank debt funds and things of that nature.

That is why you have the less frequent valuation and mark to market because these are not investment instruments that one can simply go to an exchange or to a Bloomberg machine and get a daily quote in a liquid market. We take marks periodically as we get them. That information is lagged, in some cases we believe more so than is desirable. But that means that it cuts both ways.

In the case of the bank debt funds, those valuations have come back pretty dramatically as credit spreads have tightened. In other areas of the portfolio, that could work the other way. In real estate, for example, where values have been going down of late, we've probably gotten the benefit of some lag values that don't reflect some declines.

ATTORNEY GENERAL McCOLLUM: So there's some strategic investments in real estate in addition to those that are reflected in real estate in the real estate allocation section.

MR. WILLIAMS: Yes. Well, here would be the example. There aren't investments in real estate, per se, other than in the real estate asset class. But what would be a great example of your point, General, is we have a credit-oriented fund that focuses on real estate related lending. So this would be a case where you would be the senior lender to an investment grade piece of real estate, top of the capital structure, secured, very safe stuff, getting extraordinarily high yields because of the tightness of the credit markets right now.

That's why it's in the strategic class. That's an opportunity that didn't exist three years ago. It probably won't exist in five years. So we want to take advantage of it now, lock up those opportunities and make money over the next several years.

Another example of something that would fit in the strategic class would be hedge funds, for example, or other situations that would allow us to take advantage of opportunities that are transient in nature, but to the extent you can lock them in, you benefit from them.

Think back, if you will, a few months when Warren Buffett entered into special arrangements with companies like Goldman Sachs and General Electric, where he got special securities that paid him a ten percent yield, extraordinary by any measure in companies of that quality. Why did he get that opportunity? Because he had capital. He was willing to deploy it in a time when others were fleeing the capital markets, and he was smart enough to partner up with some of the strongest businesses out there, demand extraordinary terms and get them. And he and Berkshire Hathaway today are benefiting from those positions.

ATTORNEY GENERAL McCOLLUM: Thank you.

CFO SINK: Well, speaking of real estate, there's been a lot of conversation about Peter Cooper Village and the investment, and I do want you to review with the Board just briefly what Peter Cooper Village is and where we stand with Peter Cooper Village. And is that particular asset in the real estate category --

MR. WILLIAMS: Yes.

CFO SINK: -- or in the strategic investment category?

MR. WILLIAMS: It's in the real estate category. Do you want me to walk you through that right now?

CFO SINK: Sure, go ahead.

MR. WILLIAMS: Sure. Peter Cooper Village is the -- Peter Cooper Village and Stuyvesant Town together are residential apartment buildings in New York City. Taken together, they are the largest contiguous piece of residential real estate in Manhattan, roughly 80 acres covering a span from, I want to say 18th or 19th Street north into the low to mid twenties, and all the way east to the river. So you're talking about a gigantic piece of land in New York City.

This is a property that was built originally in the 1940s by Metropolitan Life to provide housing for service people returning from World War II. One of the sets of buildings was built for enlisted men, the other was for officers. That's why they have two different names, but they're essentially the same complex.

It's very unusual property from the standpoint that they are relatively low-rise buildings by Manhattan standards and they are far apart. So there's a campus-like setting with a lot of green space, trees, et cetera. Also unusual because it has self-contained parking. Parking is a scarcity in Manhattan. And in many cases parking there costs more than a residential lease for a whole apartment does in most other places in the U.S. So an apartment complex that has dedicated parking for everybody is a real asset.

Met Life sold the Peter Cooper Village/Stuyvesant Town project, I guess, originally in 2006 to BlackRock and Tishman Speyer. BlackRock is, I believe, the largest asset management firm in the world, very highly regarded, particularly strong reputation in the fixed income area. Tishman Speyer is a New York City based real estate firm, very high profile, very, very capable. To give you an idea of their footprint in Manhattan, some of their properties include Rockefeller Center and the Chrysler Building. These people are not strangers to iconic properties.

The State Board in mid-2007 bought into a partnership as a limited partner. The partnership's GPs, general partners, are Tishman Speyer and BlackRock. The underlying asset of that partnership is the Peter Cooper Village and Stuyvesant Town apartment complex.

The notion of the investment was that these buildings had had not any significant redo since they were built. There had been good ongoing maintenance but there had not been a major updating of the structures. So the thinking was, money could be made on this project over a long-term by doing several things; number one, physically updating apartments as tenants move out, making them new, attractive, improving the buildings, relandscaping the grounds, generally upgrading the property and making it attractive to tenants, young tenants in particular.

This is also a complex that had an extraordinarily high number of tenants who are in rent-stabilized units. Rent stabilization is a phenomenon seen in New York where you have government limitations on the rate at which rents can go up. They also have rent control, which is a more extreme version of stabilization. But the idea is there is a legal limit to the amount by which a landlord can change a rent. And if they make improvements to the building, the improvements can only be passed through to tenants in a certain modest way over a number of years.

Frankly, the history of rent control and rent stabilization is that folks who are in apartments with stabilization or control may not always be there legitimately. Because there is a significant spread between market rents and those in rent-controlled or stabilized units, it's not at all uncommon for there to be a secondary market, if you will, where someone might have a rent-controlled or stabilized unit, move out, sublet it to someone else, not tell the landlord, pocket a little bit of a spread and off you go. Somebody gets a deal on an apartment. Somebody else gets some extra cash flow.

Part of the thinking on this project was, given the high percentage of rent-stabilized units, it would make sense to do an analysis of the tenant roll, figure out to what extent some of these people might be there inappropriately, and gradually convert the rent-stabilized units to market-rent units.

In addition, the average age of tenants there is quite high. It's in the low sixties. It stands to reason, if you're doing a real estate investment with a 10- to 20-year horizon, which is the way these things are looked at, that if you start with a predominance of people who are in their early sixties, then over the next 10 or 15 years, a pretty good number of those people may move out, move in with family, go to assisted living, what have you, in which case the opportunity to roll those apartments from rent-stabilized units to market-rate units is high over a long period of time.

Lastly, the parking situation was an important opportunity for potential forward profit at Peter Cooper/Stuyvesant Town. The reason is, I'm sure you've all been to Manhattan. If you take your car to a parking garage, you drive it in, get a ticket from the attendant. The attendant takes your car and parks it wherever they have a space. That's the standard business model. And those units are generally pretty well full. Parking garages are generally pretty well full most of the time.

Peter Cooper was running on a model dating from the 1940s that was very much the way parking works here at the State Capitol, where each individual has a designated parking place, and that's their space, nobody else can park in it.

The problem with that is, if people are traveling or they don't own a car or whatever, then you've got a parking asset that's sitting there underutilized that could be rented to somebody else if it was managed on a scrambled basis. So part of the other thinking for the upgrade of cash flows at Peter Cooper/Stuy Town, Stuyvesant Town, was that the parking resource could be managed consistent with a modern business model of how parking assets are handled. And the yields, cash flows and profitability would go up dramatically because the resource would be more efficiently utilized and could potentially even take in business from outside the 5,000 residents of Peter Cooper Village.

So that's the background on why the investment was made.

CFO SINK: And how much was it?

MR. WILLIAMS: $250 million.

CFO SINK: Just fast-forward us to where we are today on this.

MR. WILLIAMS: Right. Where we are today is we think that -- we are carrying that investment as a zero on our books. The reason we are doing that is a combination of several things, going back through the key attributes of why that investment was made at the time. First of all, the market generally has softened dramatically. It's no secret what the economy has been. That shows in rents not going up the way they normally would. It shows in the amounts of money that landlords have to put up to get people to sign leases, things like a month's free rent or things of that nature, going up.

People have not moved out at the rate they were anticipated to. I mean, think about it. Anybody who might have been thinking about buying a house in the suburbs probably reconsidered over the past couple of years after what happened to their investment portfolio, et cetera.

Those would be the primary factors. I think the other irritant generally, two things, first of all, market values in real estate on the commercial side have gone down and we think will continue to pretty aggressively over the next year or two. And add to that the fact that you had leverage, which increases the risk in any investment, and there you have the formula for how we went from 250 to zero.

CFO SINK: Well, can I interrupt and just ask you, you weren't here at the time that the decision was made, correct?

MR. WILLIAMS: Correct.

CFO SINK: And I know you and I have had a little bit of conversation about this, but I think this is important for us as overseers to talk about an investment that was made in 2007 and is written down to zero within probably 18 months.

If you had been the executive director of the board at the time, would you have approved this investment, given your in-depth knowledge of New York and the New York market and the reputation of Peter Cooper Village? I know it's somewhat speculative, but I assume that --

MR. WILLIAMS: It is speculative.

CFO SINK: -- you've gone back to rethink this.

MR. WILLIAMS: I do have the benefit of 20/20 hindsight on this, but I would say there are two -- I'll tell you -- I'm going to give you three data points in answer to your question. First is there are two attributes of this investment that I find somewhat troubled. The first is the valuation cushion between what was paid for the property and what it arguably is worth was much thinner than I would have liked. The second thing is the presence of leverage. Those two factors taken together compound the risk.

So this is not something that I would have been enthusiastic about, I don't think. And the way any real estate of this -- the way any investment of this nature works, a partnership investment, it goes through a very lengthy process that comes through asset classes, et cetera, et cetera, and ultimately documents are executed by the executive director, so --

CFO SINK: So would you have been involved? I mean, the way the process works, would you --

MR. WILLIAMS: Oh, sure, I would have been involved, if I'd been there, yeah, absolutely. And I'm certainly familiar with situations we're involved with now, and we've walked away from a couple of them since I've been back.

CFO SINK: Good, very good.

MR. WILLIAMS: We've also moved forward on a couple of things. And I think -- let me go to your key question here, which I think is probably did we have a bad result here that came from a sound process, or did we have a bad process, in which case we've really got something to worry about, or did we have a good process that was not followed, in which case we have something to worry about.

The good news I can offer you, while not minimizing the significance of a $250 million loss on an individual investment, is we have reviewed very carefully the process that was followed. And I believe it was sound. We've also reviewed the way that process was followed by SBA staff. I think that was sound as well. And I've been to New York. I've met with Tishman Speyer. I've met with the BlackRock people, and I've met with Morgan Stanley, who is the outside advisor to the partnership. I've been to Peter Cooper/Stuyvesant Town, walked the properties, been in the units, seen the parking garage, all that stuff.

And I don't want to sound cavalier or glib, but when you make investments, there is risk, and they don't always work. The good news is, if you look at our real estate class, going back over a five-year period or a ten-year period, which is well within the bounds of what Steve said EnnisKnupp's view of an appropriate long-term period is, 15 years, our real estate class is above its benchmark for trailing five- and trailing ten-year periods. So we've done a lot right there.

And I think with any investment, you're going to have a buyer and a seller. Each thinks they're right. And you're also going to have Monday morning quarterbacks who from time to time may look back and say, well, here's why people made a mistake. And the after-the-fact analyst thinks they're smarter still than either the buyer or the seller.

And you know what? That's what makes markets.

People who are capable people with good track records and thoughtful people with resources will look at the same opportunity set and take two different views.

The last data point I want to give you on this is I distinctly remember a morning I think, it was 2006, when I was on the train going from Wilton, Connecticut, to Grand Central Station, sitting next to a good friend of mine who was a senior executive of Met Life. We were both reading The Times, and the story was in there about the sale of Peter Cooper Village and the amount of money that it was sold for.

And I remember poking my friend Peter Jenks in the ribs and saying, Peter, I'll bet you anything this marks the top of the real estate cycle, right here. And whoever bought that building at that price, and bless you for selling it to them at that level, may live to regret this. That is God's truth.

And you can just look back on that experience. And I'll say one other thing. I don't want to put the State Board in an unfair light or an inappropriate light. The other investors who are in this transaction shed a lot of light on the State

Board's thinking. The State Board didn't do this by itself. The other investors who are in this same partnership are the who's who in the world of the institutional investment industry.

And the two general partners, BlackRock and Tishman Speyer, both put up north of $100 million cash into equity themselves. So there is an alignment of economic interests here, and we're not the only ones who have felt pain.

And the other bit of encouragement I would offer here is that to the extent we had a bad experience on Peter Cooper, that's unfortunate. We regret it, and we've endeavored with all our hearts to make sure we don't do that again and we understand how it happened. The other side of it is that the exact same conspiracy of events that led to our bad experience on Peter Cooper Village is creating a wealth of opportunities over the next couple of years.

And we are positioned right now, with commitments to very capable investment firms that have not called most of their capital, so we are going to be able to be buyers through this downturn, and the very same misery that befell us on Peter Cooper we will capitalize on in other projects. And over the next five, ten, twenty years, I think we're going to make a lot of money out of this.

ATTORNEY GENERAL McCOLLUM: Tell us what's going to happen to Peter Cooper. I mean, you've written it down to zero, but we still own the investment.

MR. WILLIAMS: Absolutely.

ATTORNEY GENERAL McCOLLUM: What's going to happen to it? What's going to happen to the market up there over that time, and are we still going to own it 20 years from now?

MR. WILLIAMS: That would be the $64,000 question, General. The short answer is I don't know. We have looked at a number of workout scenarios. And the real problem you have there is you have a capital structure. You have senior lenders. You have mezzanine lenders. You have equity holders. The equity holders are junior, and that's where we are. Some of the other investors that hold equity with us liked the project so much, they not only bought three, four, five times the equity amount we did, they also bought mezzanine debt. Thank God we're not on that list.

But what could happen here is the equity and the mezzanine could be wiped out with the decline in market value, given the amount of debt that's owed on the project, in which case the senior lenders take the prize. If the markets come back over some period of time, we're still on the horizon, we do still own this equity interest, is there a potential for recovery? Yes. At the current time, do I think that's a strong probability? Not very. Are we actively engaged and trying to figure that out together with all the other LPs? Of course.

CFO SINK: Do we have -- okay. So are there other real estate investments in the portfolio that we're concerned about? Because, you know, the latest *Wall Street Journal* and the articles are about the coming collapse potentially in the commercial real estate market.

MR. WILLIAMS: There will be other problems in real estate, I'm sure, just as there were more than one problem in the fixed income area with illiquid securities. When these things happen, when it rains, everybody gets wet, to keep it simple.

That said, the best answer to that question could perhaps be the following: Our real estate portfolio is divided up into three portions. We have what we call stable holdings, which are basically fully leased properties, where we're basically relying on our return coming out of cash flow. We're not looking for appreciation so much. It's just a cash flow equation.

Then we have enhanced properties, which tend to be partnership vehicles that are a little more expectational. And then we have a high return bucket that is the bucket that the Peter Cooper Village was in, ironically. And those are the ones that rely more on appreciation and may rely more on leverage.

The exposure we have is dramatically tilted in the more conservative direction. And the weight of the portfolio in those two, the middle category and the more expectational one, is roughly half of what the target is. So we are conservatively positioned. And most of the old direct-owned properties we have, meaning we did not buy them through a partnership, we went out, identified assets that we liked, retained people to do the diligence and figure out the valuations, used other intermediaries to negotiate values, bought them outright, commonly without leverage, very low risk, and then used third-party management firms to manage those properties over time. And to the extent we sold them, we used disposition agents to help us out there. I don't think you're going to see a whole lot of problems there.

Where you'll see problems is in partnership investments where the partnership itself has some component of borrowed money involved, leverage. Example would be the following: We have a partnership whose assets include some of the premier resort hotels in the United States, about five of them, I believe. That partnership has a certain amount of borrowed money associated with it, and the loans roll over in 2011.

So the time place to watch is in '11. When those loans have to be renewed, what happens? Have the credit markets opened up? Is the value of the assets back? We all know what's going on with resort hotels these days. Companies are scared to death to hold conferences at Four Seasons, Ritz-Carlton, et cetera, et cetera. Individuals are not traveling and taking lush vacations like they did in the boom years. The hotel business is tough right now. Rates are off everywhere. Room nights are down.

So part of the answer to the question, what happens with that particular investment, is where is market two years from now. We don't know the answer to that. But, again, I remind you, the other side of the glass, half full, half empty, if you're watching for opportunities like that and you've got money and you're ready to go and you see other partnerships who can't roll loans, you're in a perfect position to sweep in with cash and buy assets at the magic price.

CFO SINK: Thank you.

MR. WILLIAMS: Thank you.

GOVERNOR CRIST: Ash, if I could, can you give us sort of a breakdown of how much in the real estate arena is invested in Florida and how much outside Florida?

MR. WILLIAMS: I don't know the Florida piece off the top of my head, but we do have significant Florida holdings.

GOVERNOR CRIST: We do?

MR. WILLIAMS: Oh, yes.

GOVERNOR CRIST: The reason I raise that is, I mean, obviously I'm a Florida fan, and I talk to people all over the country, and a lot of people are now investing in Florida real estate because it's a deal. And one of the things you spoke about earlier was that whenever you have a downturn like this, you have an opportunity also if you have cash, if you have equity.

And it would seem to me that -- and I don't know if I'm speaking of resort hotels, probably not, but in terms of residential real estate primarily, you know, I have acquaintance after acquaintance that see the reduced cost of whether it's homes or condominiums in Florida, and they're taking the opportunity to make that investment because it's a great deal and because they realize it's Florida, and if you -- you know, I can't remember a time in my life, not that I'm the oldest guy in the world, but a time in my life when Florida real estate has been such a deal.

And it occurs to me that if you have cash, if you have equity, that maybe a smart, prudent investment would be in residential real estate in Florida now. What's the old axiom? Buy low, sell high?

MR. WILLIAMS: That's how it's supposed to work.

GOVERNOR CRIST: Anyway, I just pass that on for whatever it's worth.

CFO SINK: Governor, I think that's a very worthy and good idea, particularly --

GOVERNOR CRIST: Plus it helps our state and our people.

CFO SINK: Right. And we have an affordable -- we're going to have an affordable housing issue again. And from a policy standpoint, in terms of how we invest our retirees' dollars, I would encourage the Board to think about maybe making some of these investments in residential housing in which we could get a fair return and yet the monthly -- if it's rental property, the monthly rentals or the sales would be something that would enable us all over the state to assure that we do have affordable workforce housing. And I imagine some states have probably done that kind of investing, haven't they?

MR. WILLIAMS: There's a mixed record there. There have been some bad experiences in that area. But there have been some plays and there have been -- there are things that could be looked at there.

CFO SINK: Well, I would really enjoy being better informed about this, and maybe at our next quarterly board meeting you could come back and share with us some of the more strategic investments that state pension funds have made to support all kinds of economic activity in the state, whether it's supportive housing or -- obviously we have our little -- our fund that we've set up now, the growth fund, to invest in more venture capital type of businesses.

But I agree with the Governor. We ought to be sure that some of our money stays right here at home to support Florida. And that's never been the policy. That was never the policy or the approach of the previous director, and I think that there are -- I know that the results are mixed, have been somewhat mixed, but I'm sure that there are plenty of successes around also.

ATTORNEY GENERAL McCOLLUM: I'd just like to echo what the other two trustees have said in the sense of Florida. But I do think our fiduciary responsibility, Ash, we all understand up here, as you do, is for the highest rate of return we can get for these funds. But the issue for me has always been whether or not we were focused enough and had enough energy put into trying to make those investments in Florida if possible.

And I realize, and we'll get into it, I'm sure, if not today, at other meetings like this. If the managers -- because you contract out a lot of this, is the way it works. We haven't talked about that today. But some of these decisions you are personally making and some of them you're allocating to, as I understand it, funds or managers or whomever.

And I think that from a policy standpoint, what I think we would like, I know I would like, would be to see that if all things are equal and we can get the rate of return and the risk is appropriate, that we do that investment, whatever that asset is, in Florida. And that's not always going to be the case, of course. But it would be something I think all of us up here would desire and I think would be good for the state.

MR. WILLIAMS: Message received. Thank you.

MR. CUMMINGS: I have just a few more slides in this presentation, but I want to be sure that I do not fail to address the peer comparison question that came up earlier, before we talked more about the real estate.

Coming up with a relevant peer comparison is always challenging because these large institutions, of which the Florida Retirement System and the SBA more generally is certainly one, it's very difficult to find a true apples-to-apples comparison. That said, we do the best we can to find a reference point so that we can answer the question that you've raised earlier. We've looked at how the portfolio held up relative to the markets and relative to the inflationary environment long term. How about to other similar investors?

This pie chart compares the allocation of the Florida Retirement System to a universe of other large defined benefit plans. There are a little over 310 plans, representing about $1.8 trillion in institutional assets in this portfolio. The reason I show you this chart is the difference between the return that the Florida Retirement System earns and the median of this universe is a function of two important things.

How well they've participated in the markets is certainly a contributor to those results, but also the differences in the allocation that these funds have to the large segments of the capital markets will also drive different performance results.

And in particular I would draw your attention to the fact that relative to this universe, there is a larger allocation to domestic equity, publicly traded U.S. stocks in the FRS program and non-U.S. equity, labeled here foreign equity, the 20 percent versus the 15 percent figure for this universe of peers, and a correspondingly lower allocation to fixed income securities and importantly to this large ambiguously labeled slice called alternatives on the defined benefit plan universe.

In that slice called alternatives are private equity, allocations to what are currently housed in strategic investments here at the FRS, hedge funds and other investments that defy traditional categorization. So those differences will have something to do with these results as well as the actual success these investors have had in those various asset classes.

So here we have a graphical representation of the FRS return. Now, I should point out that these numbers differ from others that you've seen earlier because we've added fees back in so as to give you an apples-to-apples comparison. These are before adjusting for investment management fees, for all periods on this chart ending June 30 of 2009.

What you see as you scan across this is relative to other large institutional investors, the FRS program has performed in line. Over the quarter and five-year period, it has done better than peers. Over the one-year and ten-year period, slightly less well, and then about on par over the three-year period.

In a very small print at the bottom of the page are percentile ranks, where you can see relative to that universe how the FRS performed relative to those 319 funds on a percentile basis. In this particular representation, lower is better. So you'd prefer to have a lower percentile ranking. And over almost all time periods, you'll see that the FRS results are right in line with the median or typical performance of its peers.

That concludes my comments on the FRS. There are three other brief presentations on other investment programs that are managed by the State Board of Administration. Shall I proceed with them?

CFO SINK: Yeah. I think that you can kind of fly through these remaining ones, because I know we've gotten a little bit behind and there are some other things on the agenda that we're all interested in, too.

MR. CUMMINGS: I will do so. Thank you. The next one is titled Investment Plan Review. This is the Florida Retirement System Investment Plan. This is the optional program, the defined contribution plan. And we've got a comparison here on the first slide with numbers of the results of the investment plan to the typical defined contribution plan and to the aggregation of the benchmarks for the underlying investment options.

And again we're looking at periods of time ending June 30, 2009, one-year, three-year, five-year periods, on both of those measures. Relative to the typical defined contribution plan and relative to the aggregation of the benchmarks, the program has performed well all three time periods, against both benchmarks.

A very important consideration to all investors but particularly those that are in defined contribution plans is keeping an eye on costs. As we all know, a dollar in fees is just as detrimental to your results as a dollar failed excess return. And in this case you can see that we have a very cost-effective program. The investment plan expense ratio of .25 percent compares favorable to the corporate world as well as to the public fund world, shown here on the tables.

These numbers come from a cost effectiveness management benchmarking report. This has become the industry standard by which investment plans are measured from cost effectiveness. And this plan compares very, very favorably relative to its peers.

This next chart drills down a little bit to the actual investment categories in the program and compares the fees paid by your participants with those in the mutual fund industry at large. Without focusing on any one category here, I will simply say that in every category, the investment fees your participants pay are lower than those paid by the mutual fund industries. And the difference between the fees ranges from 15 to 60 basis points annually, or .15 to .6 percent.

I would just make one comment on the balanced fund, which is the third one up from the bottom. Very, very favorable fee structure there of 0.07. There's a lot of money invested in that fund. A large portion of that investment is invested passively in index funds, and the fees on that component of that program are two basis points, or .02 percent per year. Very, very efficient investment program.

Talked a little bit about performance. This chart shows the value added in the investment program here, relative to the U.S. median as well as to a group of peers. In this case, for peers we're focusing on 20 other defined distribution plans with assets of between two and seven billion dollars. As you see, the value added by the FRS investment plan of 83 basis points exceeds not only the U.S. median but its peers as well and ranks -- in this particular case the rankings have been reversed. The higher the number, the better the rank. So in both cases this is a top quartile result.

Taking a quick look at the growth in plan assets. Up until the last fiscal year, we saw fairly steady growth in the assets under management to over $4.3 billion before the market correction reduced that balance to a little over 4 million (sic) at the end of the most recent fiscal year. Perhaps more illustrative is the last slide here, which shows the growth in participation in this program up to nearly 122,000.

Any questions on these brief summary slides on the FRS Investment Plan?

CFO SINK: No.

MR. CUMMINGS: I have two other brief presentations then before surrendering the microphone. The first is on the Local Government Investment --

GOVERNOR CRIST: Steve, I'm sorry, if I might.

MR. CUMMINGS: Yes, sir.

GOVERNOR CRIST: And I apologize. I was out for a minute. But did you do a comparative? I think maybe what the General was thinking of -- I don't want to speak for him, but when I heard his question, I liked it because I thought we were going to see something that compared us to New York, to California, to Michigan, to Illinois. Did you do that?

MR. CUMMINGS: We did an on aggregate basis, compared the results relative to a peer universe at large. We didn't use specific other peers.

GOVERNOR CRIST: And what was the conclusion?

MR. CUMMINGS: It was mixed. You were right in line. Over some periods of time the FRS program slightly exceeded the peer universe. Over other periods it was in line. But there was no dramatic differences in the results of the FRS and its peer group within, I think, 20 basis points over the one-, three- and five-year periods. So very much in line with other large institutional investors.

GOVERNOR CRIST: Thank you.

CFO SINK: I think it would probably be good, for our next quarterly meeting, maybe for them to bring the results of maybe the ten largest public pension funds, so that we can compare also with the other big funds, because this TUCS Universe has funds in it of less than a billion dollars, I believe, if I'm not wrong.

GOVERNOR CRIST: I would encourage what the CFO just articulated, so that there's sort of an apples to apples, if you will, mega states.

MR. CUMMINGS: That is definitely doable. Just to give a quick look, to see what the average size was, the average is about $6 billion. So there are a lot of smaller plans in that universe as well as the mega plans. The mega plan data, we have looked at that from time to time. The challenge we have occasionally is getting it to be contemporaneous with the program because we have to make sure that we've got the same time periods. But we can certainly prepare some kind of report that looks at the mega plans.

CFO SINK: Good, thank you.

ATTORNEY GENERAL McCOLLUM: And, Steve, also I have a question, Governor, and that is that relative to the comparison here, I was under the impression, I think from Ash -- and you can correct me if I'm wrong -- but that if we're looking at the funds like in California, New York, the really big boys, we have been relatively fully funded, in terms of the long haul in the percent of our funding for our pension fund, compared to them. They're like 40 percent, 60 percent, and we're, what, 90 percent now or something like that? We were over a hundred when we got into this mess. And that's not reflected in this report that I can see. Am I right?

MR. CUMMINGS: You're correct. It's not reflected at all in this report, and you're also correct that the funded status of this program compares very favorably with other funds nationally. Now, almost all those funds, I think -- as Ash pointed out, when it rains, everybody gets wet. Almost all those funds have seen a degradation in their funded status. But when the dust clears and we see how the funded status of this program compares to others nationally, I expect you will see the same result that you saw before the market correction, which is that the FRS will compare very favorably on a funded basis to the other mega funds.

GOVERNOR CRIST: Isn't that what we're here to do, get that report?

CFO SINK: Yeah.

GOVERNOR CRIST: Hello.

MR. CUMMINGS: And I don't know the cycle of the actuarial report on the funded status, but perhaps Ash does.

MR. WILLIAMS: Yes. Governor, if I could speak to that, the full actuarial report will be ready toward the end of the year. It's in process now. It's basically a joint venture of the legislative and executive branches. The numbers that General McCollum was referring to earlier were estimates that we did in early 2009, working with EnnisKnupp and an outside actuary for purposes of informing our own investment strategy in light of all the changes in the marketplace.

But the real full-blown joint legislative executive effort on the actuarial analysis that looks at not only the value of the assets but also the cost side, what the experience is with numbers of public employees, wage growth, all that sort of thing, numbers of people vesting, not vesting, et cetera, that all is done jointly between Division of Retirement, State Board, Governor's Office, Legislature, et cetera, et cetera, et cetera. And consensus numbers are put together at yearend.

CFO SINK: Well, are those -- is that reporting going to be -- will that be available in time for our next quarterly board meeting? Because we're spending a lot of time today talking about investment performance. That's good. But as a board, we've also got to be concerned about the funding and maybe -- and there's no provision or time really today to do that. Should that maybe be the focus of the agenda for the next meeting, or will it have to be in the spring meeting?

MR. WILLIAMS: Not necessarily. As we're going to say -- we're going to discuss later today, our recommendation is that we move forward with an asset/liability study, derive from that a new asset allocation or an updated asset allocation, active, passive, internal, external, et cetera. That really is what we have control over, and that will get us in the strongest possible position long-term for funding status.

I don't think you can really work backward from funded status once you know the basics of are you in generally good shape or generally bad shape. States that are vastly weaker than we are are forced to embrace a more risky strategy than we are. We are fortunate to have the strength that we do, and I think we can start from a more balanced and conservative posture on the investment side as a consequence.

CFO SINK: So go back and answer the question about, so when are we going to -- when is the information going to be available about the funded status and -- because --

MR. WILLIAMS: The formal --

CFO SINK: The formal process.

MR. WILLIAMS: The formal information that comes statewide -- and Ron Poppell is the expert on this -- I want to say is December of 2009, correct? Correct.

CFO SINK: December. So the next -- the first -- our board meeting for the first quarter of 2010 can be spent really delving into the --

MR. WILLIAMS: Correct.

CFO SINK: -- results of the funded report. Okay.

GOVERNOR CRIST: How we're doing, which is what I think the people would like to know and we as their trustees would like to know. There's no way to sort of accelerate that, do a half year report?

MR. WILLIAMS: That's why we did the estimate, Governor, back in March. And what we came up with was a view that if our asset balance was in the ballpark of $100 million as of 30 June, our estimated funding level would be 93 percent. In fact, at 30 June we were slightly under 100 million, billion. Now we're over 100 billion.

So I think you could say with some reasonable level of confidence our funding level is at least 93 percent.

MR. CUMMINGS: I think that's very safe.

ATTORNEY GENERAL McCOLLUM: And other states, big states are still suffering, we think.

MR. WILLIAMS: Many, I think, are currently in the sixties, based on investment officers I've spoken with.

GOVERNOR CRIST: This is good. If there's a way to reduce that to writing that you can get to us within a week or so, you probably already have it somewhere, that would be beneficial. Then we could share it with the people we work for.

MR. WILLIAMS: We've tried to do that, Governor. And it's not quite that straightforward. As you've seen from our own discussion here, states take a long time. This is a very complex exercise. And not everybody went out as we did and did an estimate proactively. Most states I don't think have done that. So it's not as easy.

Many times the actuarial information we get -- and we ran into this when we were doing the governance survey -- it's quite dated. Frequently it's back to 2007 because that's the last time they did an official analysis. So the data is not quite as easy to capture.

GOVERNOR CRIST: Anything that's pre-'08 leaves out a big important fact, the collapse.

MR. WILLIAMS: We'll do the best we can.

ATTORNEY GENERAL McCOLLUM: While we've digressed here, Steve, before we go on to the local allocation, I failed to ask something about the pension fund, the pie chart that you had at the end of that. When you got the comprehensive, all taking, the total universe of all of the other plans, the allocation over there called "other" in their chart, we've got ours down here, strategic investments and so on, but we don't have "other," and they've got almost 17 percent in "other."

What's in that? Do you have any idea what these others invest in, a sample of what we're talking about?

MR. CUMMINGS: In the slice labeled "alternatives"?

ATTORNEY GENERAL McCOLLUM: Yeah, the alternatives, the ones that they've got -- yeah, alternative class is what it would be, I guess.

MR. CUMMINGS: Mike, do you have any more detail of the composition? I know it's private equity and hedge funds. Do you have any other detail available?

MR. SEBASTIAN: Classified under primarily private equity hedge funds.

MR. CUMMINGS: It's going to be, as Mike Sebastian indicated, primarily private equity hedge funds. One of the challenges in any kind of peer comparison is that a great deal of this information is self-reported. So when these gatherers of data try to combine categorizations to be unambiguous, they end up often needing to lump a lot of very dissimilar investments together.

And this is an example where the TUCS Universe Comparison System, which aggregates this information, is putting together into a very large slice very disparate investments. Private equity can be late stage, early stage. Obviously hedge funds can be very different performers than private equity.

ATTORNEY GENERAL McCOLLUM: So they could be investing in movie productions or something and we would not necessarily be doing that in Florida, but in California they might do that, right?

MR. CUMMINGS: That's right.

ATTORNEY GENERAL McCOLLUM: I just didn't know. That's just so big a piece of theirs, and we don't reflect that in ours. I just was curious.

MR. CUMMINGS: We don't. And it is one of the trade-offs. The larger we draw the circle around peers to provide a performance comparison, the more esoteric and unusual the underlying investments might be. Whereas if we focus in on a single one or two plans that we think are the mega plan peers, we can get a lot of good information about what they're invested in, but then it becomes less relevant to compare the performance on a one-to-one basis.

ATTORNEY GENERAL McCOLLUM: So in Kansas they might be investing in grain elevators and we wouldn't be doing that. I got it.

MR. CUMMINGS: That's right.

ATTORNEY GENERAL McCOLLUM: Please don't let me further interrupt. As far as I'm concerned, you can go on to the local government fund.

MR. CUMMINGS: Well, I know somebody is helping me with IT, fast-forward behind my back here, so if we could get to the Local Government Investment Pool, I think is where we left off. Yes, thank you very much.

There's only a couple of slides here. The first one compares the performance of this pool relative to two benchmarks. A long acronym-filled representation of short-term fixed income yields labeled -- produced by Standard & Poors. It's an aggregation of similar investment funds. The difference between the center bar and the right bar, the brown bar and the green bar, is whether or not fees are taken into consideration.

As you may recall, we were recently asked to review the policies and procedures and benchmarks for all the investment programs under the umbrella of the SBA. And one of our recommendations was to convert the benchmark for this program from the gross or before-fee number to be comparable to the net-of-fee number.

So we've shown both benchmarks here, the old benchmark and the new benchmark. It is the net-of-fee number that we believe is more representative of the performance of this portfolio. And you can see that over all time periods shown here, the investment pool has exceeded the yield on the short-term S & P amalgamation net of fees. So a favorable result here over all time periods.

ATTORNEY GENERAL McCOLLUM: When you say gross and net, what --

MR. CUMMINGS: Investment management fees.

ATTORNEY GENERAL McCOLLUM: Okay, thank you.

MR. CUMMINGS: Gross being without them, the performance being reflective of the investment management fees, and net being an after-fee result.

This slide, I know there's been interest over the last years as to the cash flows. This shows the opening balance, deposits in, participant withdrawals. There's about a one-for-one match-up between deposits and withdrawals. As I think the trustees are aware, this investment program is often used as a parking fund, and cash flows come in and go out fairly frequently.

There were transfers from Fund B of about $22.3 million for the quarter. That's the three months ending June 30th. Earnings of about 12 million, for an ultimate increase in value over the quarter of slightly less than $30 million.

As you can see from this chart here, the vast majority, over 50 percent of the portfolio has a maturity of less than 30 days, very short-term in nature. A hundred percent is either A1 or A1-plus rated, with nearly three-quarters being in the latter category of A1-plus rated securities.

Then lastly, this is a historical cumulation of the distributions. I mentioned that there was a $22.3 million transfer during the second quarter of the year. That's the summation of the last three lines there, the April, May and June figures of 6.6, 8.2 and 7.5, for a cumulative distribution of slightly less than $1.5 billion, or 73 percent of original principal being returned to date.

Any questions before I move on to my last few slides? Hurricane Catastrophe Fund, there are two investment funds here that aggregate up to about a little over $6.5 billion, the operating fund and the 2007 bond proceeds.

First on an operating fund basis, we compare the results of the operating fund to its performance benchmark over the periods of time ending June 30th. As you will no doubt note here, the performance has differed substantially from the benchmark. This portfolio has invested slightly longer in duration than the benchmark and has had a slight exposure to the credit markets and, in particular, over the last year experienced some write-downs in Lehman Brothers and a few other securities whose names are escaping me, and then a few others have been marked to market. So this portfolio was not immune to the credit crisis that occurred last year.

I would draw your attention to the longer time frame here, the ten-year and since inception figure, which goes back to 1996. The results are comparing favorably to the benchmark, even though they do fully reflect the most recent one-year result as well.

And I shouldn't -- I would be remiss to neglect to point out the quarter. Obviously, there's been a bounce-back in the markets that we've seen over the second quarter of this year, and the fund is performing quite favorably on a relative basis since markets have rebounded.

CFO SINK: Well, you just have to say certainly from the perspective of the Cat Fund, which is the fund that we rely on for our liquidity in case of a storm, the one-year results are disturbing.

MR. CUMMINGS: Certainly one-, three- and five-year are all below benchmark, and the one-year dramatically so, absolutely.

GOVERNOR CRIST: Could you talk about the quarter a little bit more in detail, Steve?

MR. CUMMINGS: The quarter -- well, I can talk in general about the market conditions of the quarter. As it relates to the underlying securities in the Cat Fund, I would have to defer to somebody from the SBA staff to go into detail about what securities contributed or detracted --

GOVERNOR CRIST: In general is fine, for me.

MR. CUMMINGS: In general we saw, as the markets turned from February through the full second calendar quarter, was a pretty dramatic rebound in the lowest quality investments, particularly in the stock market. So we saw a very pronounced rebound in all of the areas of the market that were hit most dramatically during the last half of last year.

Now, we all have seen the newspaper reports that tell us that unemployment rates may get worse before they get better. But there's been a significant sense amongst investors that the worst is over as it relates to the capital markets. So what we saw is almost a mirror reversal on the upside during the second quarter of what was hurting us on the downside at the end of last year.

So there was a perfect example of the merits of rebalancing. For those investors that, after seeing the disappointing results of the stock market towards the end of last year and the first few months of this year and the terrible explosion in yield spreads for corporate bonds and mortgage-backed securities, if they moved permanently away from those, they missed a very pronounced rebound that occurred from the end of

February through really the end of the second quarter and has continued on into the third quarter as well.

GOVERNOR CRIST: If you could, you know, as I look at this chart and I look at the quarter, the very first two sets of bars, the light blue and the brown, can you explain to us what 1.5 and the .1 mean in terms of dollars, if that's possible?

MR. CUMMINGS: The operating fund is about 3.1 billion, if I'm correct. So if we've got 3.1 billion -- I may need my partner Mike Sebastian to help me out with the math here. If we've got a relative difference of 1.5 percentage points on what is a $3.1 billion portfolio --

CFO SINK: 45 million.

MR. CUMMINGS: -- about $40 million, thank you, Mike, of additional return since the calendar quarter. Now, that relatively strong performance for the quarter is obviously embedded in that one-year result as well. It's the last of the four quarters in that one-year result. So the pain for the first three quarters was pretty severe, and the rebound has been helpful but not enough to get us back to where we started.

CFO SINK: But in general, if I would see a graph like this against the benchmark, I would think that that would mean that we're -- for the quarterly results, we have higher risk in the portfolio than the benchmark would indicate.

MR. CUMMINGS: That's correct.

CFO SINK: So longer maturities, or does it mean that the assets that were already there have just rebounded in terms of their valuation, that we're just sitting on them because we didn't want to liquidate them? Okay. Ash is behind you shaking his head yes.

MR. CUMMINGS: I think all of the above. It's slightly more duration. It's a very conservative benchmark. The maturities in this program have been slightly longer, so there's duration risk. Slightly more credit exposure, so that when we had the downdraft in the credit markets, the pain that we see in the first year and the rebound in the second quarter was more pronounced than in the underlying benchmark.

ATTORNEY GENERAL McCOLLUM: Isn't it somewhat remarkable in the broad sense that with the downdraft we got and all the problems we've had in the marketplace, that we're not having a more pronounced difference in performance with the three-and five-year period?

In other words, once you get past the one-year, even though we're underperforming, I assume the underperformance is largely due to the downturn that we just had, in the three- and the five-year marks. Is that correct?

MR. CUMMINGS: That's correct.

ATTORNEY GENERAL McCOLLUM: So if we looked out and didn't have that, we'd still be like we are -- we'd be even better for the ten-year and so on. We'd be outperforming our benchmark. So the benchmark really is helpful. But when you have something dramatic going down like this, it's going to distort these charts, right?

MR. CUMMINGS: What a difference a year makes, absolutely. The dramatic difference in those figures for the year have had a profound impact on all of the cumulative --

ATTORNEY GENERAL McCOLLUM: So I would suggest that this would implicate or suggest that management of this is not bad. It's actually good. It's just that we got a downdraft that hit everybody. But if you look at the overall picture, we're actually pretty good.

I don't want to overstate the rosy scenario, but -- and I know the Catastrophe Fund, of course, has got its own problems. But for this purpose, it looks pretty good.

MR. CUMMINGS: One of the things that we often say to investors is, as it relates to the amount of risk you should take in your investment program, relative to a benchmark, relative to your peers, relative to any measure that is meaningful to you, is that that level of riskiness should be as much as you can live with through periods of time when you're punished for being a risk-taker.

And what we're seeing here is a period of time, this past year, where we were punished for being a risk-taker relative to this benchmark. Over the long-run we've benefited from being a risk-taker. The worst thing investors can do is to change their posture or their tolerance towards risk-taking right after they were punished for doing so.

So one of the things that we encourage all of our clients to do is, to the extent you can stay the course and your long-term tolerance for risk-taking remains constant or at least similar to where it was before the downturn in the markets, to not pull away from risk-taking as a result of what happened to us over the last year. But there's no getting around the fact that we got punished this past year and this portfolio dramatically underperformed its benchmark.

CFO SINK: Well, we need to clarify here. The reason that we got punished, as you say, is that this portfolio was, just like the LGIP portfolio, was very negatively impacted by the total write-offs that we had to take on the toxic assets that were purchased, around which there are a number, as we all are aware, a number of issues of how we got into those assets and why. And the Cat Fund in particular was very negatively impacted, probably by some poor decision-making, which we don't need to rehash history.

But you see that everybody else was getting a return of 1.6 percent. So there was enormous risk-taking in this particular portfolio that, in retrospect, probably shouldn't have occurred. That's my editorial comment.

MR. WILLIAMS: Thank you, CFO.

CFO SINK: Which we've rehashed.

MR. WILLIAMS: Right. Just wanted to say, as a postscript to this, we are in process of revising investment guidelines right now for the Cat Fund, working with Raymond James as an outside advisor to the Cat Fund, that will take down the risk because our concern is -- and I think Steve's point was excellent. The last thing you want to do is make a wholesale change in your investment strategy immediately after an underperformance period. People tend to overshoot and go the wrong way.

The flip side is, given the nature of Cat Fund and the possibility that there could be a significant liquidity demand on it at just about any time, we really don't want to be in a position where we're taking significant risk in that portfolio. And we're de-risking it right now for that reason.

GOVERNOR CRIST: I think the maybe bottom line is you want to react appropriately, but you don't want to overreact adversely.

MR. WILLIAMS: Correct, precisely.

MR. CUMMINGS: My last slide -- it's been a lot of fun, very interactive, I appreciate that -- is the second of the two investment programs, which has the same benchmark, a very conservative benchmark. This program is invested more conservatively than the operating fund and has outperformed the benchmark over the quarter and the one-year period. These are the proceeds from the 2007 bond issuance, with maturity, I believe, in October of 2012.

Well, that concludes my prepared remarks. I've taken up more of your time this morning than I intended, but I appreciate your questions.

CFO SINK: Thank you.

GOVERNOR CRIST: Thank you, Steve.

MR. CUMMINGS: Thank you.

MR. WILLIAMS: I think we're ready to move into the Investment Advisory Council report. We have Rob Konrad with us, chairman of the IAC.

CFO SINK: Governor, I'd like to introduce -- come ahead, Rob. I just want to introduce David Grain. David, hold up your hand. David Grain is going to be one of my appointees on the Investment Advisory Council. David has an investment management firm in Sarasota, Florida and, interestingly enough, also served on a similar advisory committee in Massachusetts, where he came from before, and will be submitting his paperwork at one of the next Cabinet meetings. But we're glad to have him here today. Thank you, David.

MR. KONRAD: Welcome, David. My name is Rob Konrad. I am chairman of the Investment Advisory Council. Thank you, Governor Crist, and to the Board for allowing the IAC to participate in today's meeting. What I'd like to do is briefly review the objective of the IAC, touch upon some of our recent activity and provide some thoughts of what we'll be looking at in the months ahead.

First, as we enter September, I'd like to look back quickly 12 months ago to September of 2008. This marked the failure of several of the large financial institutions, which marked really the acceleration of the financial crisis. I mention this only because the SBA was currently in transition at the time, in search of a new executive director.

The IAC as a whole would like to commend the trustees for the choice of Ash Williams. Ash's prior tenure at the SBA, coupled with his private sector experience, provided Ash with a unique skill set for the job. And the IAC has been pleased with his leadership through a very difficult investment environment.

The IAC provides independent strategic level oversight and guidance to the SBA's funds and major investment responsibilities. Meeting quarterly, the IAC provides oversight and policy guidance toward a goal of ensuring that the SBA can meet its long-term financial obligations, attempting to minimize the probability of shortfall.

Toward this end, the IAC requests research from the SBA staff and reviews and evaluates potential changes related to investment policies for the SBA's major initiatives, asset allocation targets and allowable variance for the FRS Trust Fund, investment performance and attribution, the performance and cost effectiveness of the FRS Pension Plan and the FRS Investment Plan relative to their public fund peers, the evolution of investment opportunities and vehicles and how these relate to the SBA's initiatives.

And we address other areas as may be directed by the Legislature, the trustees or requested by IAC members themselves. Looking back over the Council's past three meetings, December of '08, March and June of '09, the IAC's activity reflects its commitment to these priorities through a review and consideration of the FRS Pension Plan investments, performance and attribution, the FRS Pension Plan asset and liability update and confirmation of the asset allocation targets, the FRS private equity portfolio and the establishment and implementation of the Florida Growth Fund, review of the policies and products -- policies, products and performance of the FRS Investment Plan and a review of the SBA's budget.

I'd like to thank the trustees for approving the IAC's requested changes to the SBA's budget. This has allowed the SBA to move forward with several recommendations from the Council and other committees.

The Council has reviewed the Local Government Investment Pool, now Florida Prime's legal compliance, investment performance, investment policy and best practice adoption during a joint session with the Participant Local Government Advisory Council.

We reviewed adjustments to the Lawton Chiles Endowment Fund's investment policy statement to reflect the legislative-driven changes to the fund size and liquidity requirements. And we reviewed known and potential impacts of the financial crisis on the SBA's portfolios and the future opportunities that may flow therefrom.

Looking forward and given the changes we've recently seen in the financial markets and the global economy, I believe the IAC will be working with staff to be sure any needed adjustments to the SBA's investment policies are made and that the SBA is focused and positioned to take advantage of opportunities that have been created as a result of a global recession, continuing asset and risk repricing, ongoing de-leveraging and the fragmented credit market.

I'd be happy to answer questions you may have.

ATTORNEY GENERAL McCOLLUM: I do generally. Do you go by Robert or --

MR. KONRAD: Rob is great.

ATTORNEY GENERAL McCOLLUM: Rob? Okay. Rob. Being the chairman of the Council, it's a very important role, and all of us up here who have the appointees like we do are very reliant on you. Today we've been going through a process ourselves of asking a lot of questions. And we would like to, of course, continue to do that.

But how do you proceed? In other words, you give us a summary of what you've done. But do council members burrow in and question similar to what we're doing today, or you are -- you're the more professionals. We're sort of the policymakers up here and the trustees, but you're the professionals.

When you ask questions or when you get involved, how do you do it? Do y'all meet as a group? Do you go out on your own to talk to the staff at the SBA other than Ash? How do you proceed? How do you do this analysis you sort of summarized today?

MR. KONRAD: Sure. We meet quarterly. And there's an agenda typically, and we dig into the details at that time. They're very detailed meetings.

ATTORNEY GENERAL McCOLLUM: Are they all-day meetings?

MR. KONRAD: For the most part. With the Sunshine Law, we're really prohibited from meeting as a group outside of those meetings, but we do have the opportunity and the SBA has been providing and been very helpful, whenever we have questions on any of the initiatives or any issues we may have or questions we may have, in providing research and doing studies for us.

So we typically, the members of the IAC have been digging in pretty deeply, especially if there's any things that we might have questions on.

CFO SINK: Again, thank you for your service, and all the rest of the volunteers who spend so much time. I had a copy in here of your agenda for coming up, September. And I see that you do have an hour set aside to do a real estate investment review. Is this Terry Ahern, the Townsend Group, is that one of our consultants, or what's the relationship?

MR. KONRAD: Yes. The Townsend Group is our real estate consultants. And the Townsend Group is one of the top real estate, institutional real estate consultants in the U.S.

CFO SINK: I'd just personally like to encourage you-all to look carefully and think carefully, given the state of the real estate markets today, but also our expectation that there is going to be some fall-out in the commercial real estate portfolios, and help assure us, because as the General said, you're the experts that we've all appointed to be on the IAC.

And also you have an opportunity now to speak directly to the board members, and I'd just like to hear kind of unfiltered, what are some of the things that you think that we as the Board ought to be looking at, thinking about, maybe some of the conversations that have come up in your IAC, or just you personally? This is your chance to talk to us directly, because we operate in the sunshine, too.

MR. KONRAD: Sure.

CFO SINK: And this is the only chance we have to hear from the members of the IAC.

MR. KONRAD: Well, I've been a member for two years now of the IAC. And certainly, if you look back from 2007 until today, it's been a treacherous time in the financial markets. And I must say with the transition that took place at the SBA and the process that was in place and was followed and the fact that with Ash coming in and the implementation of that process and the fact that this group did not panic, it did not capitulate and it stayed the course, I think the beneficiaries of this fund are much better off because of that. And I've been very pleased with that, been very pleased with Ash and very pleased with the process he's brought to the table.

As far as our talk today, I would, I guess, caution, and one thing that's come to mind is, as a fiduciary -- and we talk about the Florida Growth Fund and investing within the state of Florida, I think it's important, as General McCollum touched upon, I think all of us who are fans of Florida would very much like to see, on an all-else-is-equal basis, certainly those investments take place within the state.

At the same time, as fiduciaries, the duty is to provide the best risk-adjusted returns in order to meet the needs of the beneficiaries. I guess I would caution moving too far in that direction. I think it's certainly prudent to take a look and see if there's capacity in those investments within the state. But I think one must be cautious when looking at that. As Ash touched upon in the past, there have been some mixed results, and certainly we wouldn't want to have a negative effect on any of our investments for that reasoning.

CFO SINK: Thank you. That's good advice.

GOVERNOR CRIST: Rob, I want to thank you for your service, as well as my colleagues have done. You've done an extraordinary job, and we appreciate that very much, and thank you for all the time you've put into it as well.

MR. KONRAD: Thank you.

ATTORNEY GENERAL McCOLLUM: Governor, Rob Gidel is here, as well as Rob, our chairman. And I know he's come a long way. I wondered if I could ask, or we could ask him if he has observations. He's been on the Council now for a short time, but he's been over looking at it, as I recall. Because he's my appointee, I recall very well he has an extensive background with other pension plans. I may be surprising him with this.

Rob Gidel, would you like to give us at least an impression you have, join the Rob and Rob team here?

MR. GIDEL: Well, first of all --

CFO SINK: Excuse me, General. Rob, could you just -- I don't know. Could you give me a little bit of your background? Is that all right?

MR. GIDEL: Sure. Before I do that, however, I am thrilled that you have appointed David Grain to join me on this panel. David and I not only worked together on a transaction, and I was on a board in which he was CEO. His background is extraordinary and will complement my background, so I'm very --

CFO SINK: I'm relieved.

MR. GIDEL: -- happy to see him in the audience. Let me make a couple of observations. Without going through memory lane, since 1985 I've been involved with managing, both in a structured product and as a fiduciary, for over 25 state pension funds, direct relationships with the California STRS and PERS, the teacher retirement system of Texas, Virginia, Maryland, New York Common and Teachers, among a number of other large pension funds.

Made presentations to them in their chambers, as I'm doing to you today. Very familiar individually with both the asset allocation specialists, like Steve and his group, as well as tactical allocation specialists. Terry Ahern, for example, who will make a presentation to our committee in a couple of weeks, I've worked with for over 25 years and I call him a friend. I'm very familiar with these people individually, as to what they do, how they think.

But what I think is important to take away from these meetings today is that -- and I think I'll make one kind of anecdote from my career, and that for after about seven years of directly managing the funds for Washington and Oregon, I moved to Texas with the Bass family, who as you may be aware, have significant personal wealth of their own.

And I was used to asset allocation models and investing part of their capital to achieve what really is the mission of all of us, and that is to accrue and accrete enough assets and liquidity to fund the retirement obligations for the over 110,000 people that depend on us. That's what our job is.

These kinds of models -- and we talk about two percent or five percent over the CPI Index, and we look at a seven percent rate, is actually quite a difficult benchmark when you think of having to invest $100 billion in the market every day to achieve seven percent. If we could just simply put that in a certificate of deposit and go home, we would do that. Unfortunately, the investment markets don't allow us to do that.

And the anecdote I'd like to share with you is, having spent ten years of my life investing with folks like Steve and others who are challenged to come up with models and strategies and execution of investment vehicles to achieve that, I moved to Texas. These folks had $6 billion of individual assets themselves. And so when I asked them what their opportunity cost of capital was so that I could invest their money appropriately, they looked at me and said 40.

And I took -- I was quite taken aback from that in the sense that to invest $6 billion at 40 percent is impossible. Well, the reaction was, we choose oftentimes not to invest. We don't have the opportunity, the alternative to exit these markets, to exit and basically make tactical shifts in allocations just because we have our own personal experiences with investing or we choose not to, just simply because of past or what we believe are future opportunities.

We have to depend on a lot of different expertise, both past, present and future. And so the message I would like to give you today is that I spent a whole day with the SBA staff. I think I have the experience and I'd like to think the expertise, both good and bad experience, by the way, to understand the fixed income folks and their strategies and their capabilities to execute. I understand foreign equity markets. I understand strategic and tactical and private equity markets because I've invested in those personally as well as on behalf of clients.

And so I think I have the capability of understanding whether Ash and his folks are capable of managing these kinds of -- this amount of capital. And I can tell you that I'm very highly confident in not only who they picked as consultants, the way they talk about the strategies themselves, the amount of risk they're willing to take, the reward expectations they have. And we're going to continue to test them, as will David when he joins us, and Rob, as I get to know him better.

It's all a function of our own personal

experience. It's not -- you know, California approaches their asset allocation model and their liabilities very different than Florida. For example, the demographics and the liabilities that the State of California has to meet is very different than Florida, much more difficult, as it is different for a teacher retirement system that doesn't involve federal or state employees. They're all different.

So as a consequence, when Ash and the consultants sit down to evaluate what is the right strategy to fund these liabilities, it's not only thoughtful, it has to be to our point of view. And so I think for me individually, I need to not only apply what I know and what I've used on behalf of other clients, I need to understand Florida. And so in that case, we're all learning. And that's going to change, particularly as the markets change.

But that's basically how I approach this and I think as the other members will. And based on what experience I have in the past, I can tell you that I'm highly confident in the staff. I'm highly confident in the consultants. And the fact that we sit above 90 percent funded in the asset allocation model today is just outright extraordinary. So with that, that's kind of my observation. Is there anything I can --

CFO SINK: That's very helpful. Thank you.

ATTORNEY GENERAL McCOLLUM: It is. Thank you very much, Rob. Appreciate you coming up today.

MR. WILLIAMS: We are ready to move on. Why don't we then move forward to the Participant Local Government Advisory Council report. We have the chairman, Mary Ellen Elia.

MS. ELIA: Well, good morning.

GOVERNOR CRIST: Good morning.

CFO SINK: We know who you are, but for the purpose of the audience and the record --

MS. ELIA: I will. Mary Ellen Elia. I'm superintendent of schools in Hillsborough County.

GOVERNOR CRIST: Yes, you are.

MS. ELIA: Yes, I am. It's a pleasure to be here with you today. And I know I speak for the other investors in now the Prime Fund and what was previously the Local Government Investment Pool. As you may be aware, Hillsborough County schools and other public agencies in Hillsborough County were very heavily invested and, as a matter of fact, still are.

I would say to you that the Local Government

Investment Council, we have had two meetings and a third is scheduled later this month. I'd like to thank very much the IAC and the support that the experts have in working with us and providing us the information that's, I think, necessary for us to have the kind of confidence that is important for the Local Government Investment Pool or Prime Fund.

I'd also like to underscore what we all believe, I think, is that Ash Williams has done a great job in taking over a difficult situation that we all faced. And I also would like to emphasize the -- I think the support that the pool has, the Advisory Council has in Federated. We're very pleased with the support they've given, the response that has come from the investment survey that was done, and the kind of look different, the grade of communication and the support that we have as investors.

We have, of course, reviewed the financial operations and the investment policies and are keeping a close watch on Fund B, perhaps not the nicest thing that we do, but at least we -- as was noted in the previous report, there has been a substantial amount that's been returned. And we feel like we at least are comfortable that Federated has a handle on what's happening and keeping a close watch on where we are.

The other things that I'd like to point out, the Investment Advisory Council and of course the Participant Local Government Advisory Council work together in that we review, with their expertise, the investment policies, and looking at the legal compliance as well as best investment practices. The investment policy guidelines reflect the best practice, we believe. And a portion of our June meeting, I think I mentioned, was joint with them, so that we could look at exactly what their recommendations as experts in this field were.

We're working also in partnership with the SBA to provide the best value for the Florida local governments. I believe it's important for us, in the context of the difficulties that we have had over the last 18 months, to look at the Prime Fund as a viable place for local governments to invest, that we have liquidity and that it is not a high-risk investment. And we're working very closely with Federated and with SBA and Ash so that we can get that word out.

People are concerned. And I think it's important that we communicate more than normal, more than what might be acceptable in other circumstances, so that people feel more comfortable and understand that we are keeping very close ties and that you are keeping close ties on what's happening in SBA and particularly with the Local Government Investment Pool.

So I appreciate the appointment, and I also know that the other members of my committee, our council, are very pleased to be there and part of this, since we really take seriously, as do you, the importance of this for our own local governments.

CFO SINK: Let me ask a question about the -- I noticed that the fund was about $6 billion right now, and kind of the last quarter, whatever the distributions were about the same as what the deposits were. But as we all learned, the critical point in time for the fund will be over the course of the next three or four months, as those tax collections start to come in, and reaching kind of a peak in, I think, March or April.

MS. ELIA: Right.

CFO SINK: So what are you hearing in terms of -- are you thinking that these public entities and tax collectors will be using the Florida Prime Fund or -- and that we'll see increasing balances, or are -- I know that there are some other competing funds that have been marketed and set up. At the end of the day, one of the questions we all ask is whether or not the SBA should even be in this business. So what is your sense from the potential depositors out there?

MS. ELIA: I am on the superintendents' organization executive committee, and it comes up often. And I have expressed my concern. And in fact, when you look at other investments that districts and other entities may have had and you look at the returns that we're getting, in a safe environment, we're right there. And so that's my story. I've been very vocal in presenting that.

And I think that the change of kind of the look of the fund, the communication that's been put in place, the reputation that Federated has will over the long-run support this -- the continuation and the growth of the fund.

ATTORNEY GENERAL McCOLLUM: Mary Ellen -- and we heard the presentations earlier from Knupp and so forth. It looks to me like that if this fund has the confidence back in it that it previously had before the pool got the bad reputation of that subprime, that the very fact that the cost is so much lower of doing business here than I would assume any local government could get on any short-term investment anywhere else, that that would itself be a reason for being here, because you've got to be able to get a better rate of return overall in this pool. Is that what you feel?

MS. ELIA: Yes, I absolutely do. However, as you can imagine, those of us who are not in this investment only as a secondary role have to feel that comfort level with the decisions that are made. And I think that that has certainly affected what's happening with the pool and why you have not seen as many investments as you previously would have, or the number of people that have kind of pulled back and remained kind of watchful.

I think over the next six months that you're going to see more people are looking at that and doing comparisons. We obviously have diversified some, and we're right in the ballpark with our SBA LGIP investment. So I think it's important for people to see that. I often say now that there's more scrutiny on what's happening with our funds here than there is anywhere else. And I feel very comfortable with that.

I have to say, however, that there are some people that just feel like this was a negative thing and they are going to have a more difficult time getting over it. So we'll have to wait and see. I think there's a number of people clearly that want to make sure that the fund is alive and well and progresses.

You know, it kind of hit this particular entity earlier. And so people have to get beyond thinking that this was the big problem and that this fund did things that other places might have been more secure. We've certainly now seen that in fact that wasn't the case.

So I think that we're on the right track. I appreciate the oversight that the trustees have shown, particularly in the last year, to make sure that we have investment firms in that are really knowledgeable and work with us and understand the necessity of having that kind of trust.

ATTORNEY GENERAL McCOLLUM: Mary Ellen, it is certainly true what the CFO said. If we're not needed, the State doesn't need to be in the business. But if as you seem to indicate this morning, local government leaders, those of you who are involved with it right now, feel that we are providing an opportunity for a better rate of return and at least a sound, if not more sound vehicle for helping local governments with these funding mechanisms, then we want to continue to be here for you.

So it's encouraging to hear what you say. It sounds like we are providing that service and that over time your expectations, as would ours, be that there will be more coming back to it and that it will prosper and benefit from the greater oversight that we are now doing. And that's the conclusion I draw from your comments.

MS. ELIA: Absolutely.

ATTORNEY GENERAL McCOLLUM: Thank you.

MS. ELIA: Thank you.

CFO SINK: Roger -- excuse me. Roger, did you want to -- Governor, this is Roger Wishner, the other member of the committee. I think you were the only two members.

MR. WISHNER: Thank you and good morning. Roger Wishner, the mayor of the great city of Sunrise. I want to also thank you-all for your service that you're providing to the people of Florida, especially as trustees for this. I want to echo Mary Ellen's comments, as well as I'm very supportive. I found out about this when I got reelected back to the commission when I left the Legislature in '07, found out we had $282 million invested in this, and obviously we know history has shown that the downturn of the economy and bad investments that were made obviously cost us quite a bit of money.

I actually served on the special committee dealing with the Enron, when we were investing back in the old days in Enron, and saw the problems that existed when you make bad decisions with information that you didn't receive.

Recently we had a meeting in Orlando of the Florida League of Cities, which is a culmination of all of the local governments getting together. And I asked Ash Williams, as well as Federated, if they would put a booth up there to advertise or promote this fund.

And one of the things I found surprising -- and I spent quite a bit of time, by the way, working at the booth and bringing in the elected officials that I recognized and knew. But one of the things I found out is very few of them understand or really know about this fund. And that's a big problem. And I think one of the things I'd like to say to you is we really need to do a better job at marketing this.

This is a great place to park local government money for a short period of time, with a decent return. And I believe it's safe at this point, with all the changes that have been made, that you've all put into place as well as the Legislature. But I think the key is is that a lot of people, especially at the local level, mayors, commissioners and council people don't really know about this.

And I think one of the things we need to do if we're going to continue, as was asked earlier, whether we should be in this business, and the answer is, I believe, yes, because it is a place for us local government people to put our money and know that it's there, and we can pull it out whenever we need it, when we have to spend like, for example, we're doing right now, about a $400 million water and sewer reinvestment program because our utility system is so old right now. And so we know that we can put our money there, our reserve money, and we know we can get it to spend it on those services.

But going back to it, I really think it's important that we discuss the issue, I think amongst the IAC as well, and that is, is how do we reach out to those local government people, whether or not they're the chief financial officers of the city, whether they're city managers or whether they're whoever their financial advisors are. But that's really where I think we need to go if we're going to pump this up.

And on the issue of whether people will come back, I think they will. I think cities and counties and school boards will come back and put their money in there if they believe that we are safe. And I believe if we market it the right way, we can prove that to them, and then I think we can get those monies back. And as you know, the more money in there, the better the return we can work on.

CFO SINK: Thank you.

MR. WISHNER: So thank you.

ATTORNEY GENERAL McCOLLUM: Before you walk away, it sounds to me like that it is something, Mayor, that you've looked at very seriously. And it would be interesting to know if before all of this happened, a couple of years ago, what percentage of the local government entities that could have invested in the pool had done so. I bet it's fairly small, even though it's much larger in dollar amounts, it was then than it is now.

I think that your point about educating and allowing people more knowledge of that I think is a great suggestion. And I know I for one as a trustee would encourage Ash and the other team and your advisory group to work at making that knowledge. I know the three of us can do that when we go around and talk to leagues of cities and other groups that are representing various entities that make these kind of decisions. So thank you for calling it to our attention.

MR. WISHNER: Thank you.

MR. WILLIAMS: Thank you, Mayor, Chairman. We now have the Audit Committee. And it should be noted that the Audit Committee has turned out in full force. We have its entire membership with us today. Kimberly Ferrell, Melinda Miguel and our distinguished chairman, Mr. Bill Sweeney.

MR. SWEENEY: Ash has already introduced the other members of the committee, Melinda Miguel from the Governor's Office and Kim Ferrell from the General's office. They are the brains of the committee. And I'm the old member of the committee.

First of all, I would like to thank you for your budget support recently. These were requirements that we thought very important to execute audit recommendations that have been made in the past, some of them as long as four or five years ago. So I think that when we get recommendations, we need to bring them to you and you need to consider them seriously so that we are complying with our fiduciary duties with respect to the fund.

I would like to say we have not only a brief report but we have over the last five years a small summary of audit findings, and we didn't submit them. It's a very good cure for insomnia. We didn't want you to feel that you'd have to read all these. The audit committee is going through these carefully, and over the last four or five years we've had as many as 300 recommendations. We have audited or have, excuse me, implemented about 150.

We are behind schedule. If you look at our submission for this meeting, it was a list of the meetings that, although I wasn't on the committee last year, you can see there were 34 meetings. And, of course, a lot of them were due to the disruptions in the market.

And so we are back full force, looking to implement these audit recommendations. And I say that they're external audit and internal audit recommendations. As any of us who have been audited know that not all these recommendations are something we would agree with. So we are working with Ash and the management to look at things and maybe modifying some of the recommendations to fit our course.

But we are behind. And while I'm somewhat reluctant to pass another accolade on to Ash, someone might think we're in Vatican City and we're going to have three puffs of white smoke here in a minute. But Ash has changed the course of staff and they are working substantially on the recommendations, and we hope by the next meeting that we will have a much more substantial report as to the compliance of the outstanding recommendations.

I think that there are some other things that we will be looking at. For example, from time to time there are external auditors who are not involved with consulting projects that the Board has hired. And I think in order to maintain the independence of -- and this includes the auditor general -- that these people are going to need to report directly to us at least initially, so that we do not get their reports secondhand.

It often helps to sit down with these auditors when they're giving their initial findings so that you can sort of assess their demeanor and understand what they're saying before they have met with staff and -- I'm reluctant to use the word bludgeoned, but enlightened as to the staff's position. We need to have that position explained to us initially.

I think there are some other things that we might be looking for. And the Audit Committee is not quite as sexy as some of the market participants. We're more involved with process. We don't make investment recommendations. We're trying to do process. We feel that we do have responsibilities to inquire of anything that may cause risk to our trustees and our beneficiaries.

With that, we may be looking at things like liquidity. The fund, the pension fund itself has become -- when I was here with the Division of Bond Finance, the fund was immature, and that is, the contributions paid out whatever we were paying to the beneficiaries. Now the fund has to pay in addition to the contributions.

And so as university endowments have found out here recently, they thought they were under a different thing and that they were able to invest in perpetuity. They have found out that their beneficiaries were much in need of liquidity. And so we will be looking at certain factors of liquidity, since our fund is going to have to be paying and matching the contribution in order to meet the obligations. And after all, the whole purpose is to extinguish the liabilities for the pension fund.

And one of the things that I would like us to bring to you -- and maybe we will meet with the actuaries -- is to also discover what exactly are the assumptions of the pension fund and what are the bases of it. And I think the trustees, it's just as important, because that's the basis of an unfunded liability.

And when the rating agencies first rated all the state jurisdictions, they did it by just looking at gross unfunded liability calculation. It was subsequently pointed out to them that by changing a few assumptions, you can liquidate the liability with a pencil. So I think it's going to be important for us to bring that to your attention.

And the other big study that apparently is -- that is going on is a risk management. I am reluctant to say that we will ever come up with a risk management program that is going to be foolproof. Obviously these markets, products in the markets evolve rapidly. We now have flash trading. We don't -- it's just almost impossible. None of the firms on the Street seem to be able to do risk management. And we've had some notable failures, including the firm that I used to work for, Lehman Brothers.

In conclusion, I would like to also say that one of the principal tenets of an audit committee is to make sure that the financial people have continuing education, that is, the staff people. And that's as a general principle. In this particular nonprofit business that we have, we also have professionals. We are not in the widget-making business. We have professionals that are accountants and investment people. And I think that we will be working with Ash to try to develop -- something that I feel particularly important is a continuing education for the staff people at the SBA.

In these troubled budget times, it's difficult to find money to send people off. And I think with some prudent forethought, we can pick venues where people can actually find out what's going on, particularly from the advantage of a buy side person. We don't seem to have as much trouble with -- sale people seem to find us very easily -- to find out how they have addressed their problems.

And I think that it is incumbent upon us to make sure, since we are -- we have one advantage in that we're isolated and we have a -- but the disadvantage is that I think it would be incumbent upon us to make sure that our staff people have continuing education, and I would hope that we will address that shortly.

We would be happy to ask -- or answer any of your questions, comments, advice.

CFO SINK: Well, the time is getting short, Bill, but thanks for your service, and Kimberly and Melinda. We've been through a challenging time the past year. Will you be prepared at the next board meeting to make some commentary about the Deloitte compliance study that's underway?

MR. SWEENEY: I'm not sure how far that will be by the next meeting. I'm not sure when the next meeting is.

CFO SINK: Probably in December sometime.

MR. SWEENEY: We will be if we have the information.

CFO SINK: Obviously we're paying them a good sum of money to come and review our total compliance environment at the Board, and it's something that's really important for us, and particularly for the audit committee because you're our independent voice really reporting directly to the Board here.

MR. SWEENEY: I think that on the corporate level, people are very reluctant to serve on audit committees with Sarbanes. I think it's been likened to being a lexicographer or parsing English sentences when you were in the fifth grade. But thank you very much.

GOVERNOR CRIST: Thank you.

MR. WILLIAMS: Thank you, Bill. Mindful of our time, we will keep the pace brisk. We have a legal report from SBA's general counsel, Tom Beenck, and Deputy General Counsel Maureen Hazen.

MR. BEENCK: Good morning. My name is Tom Beenck. I'm the general counsel at the Board. The legal staff at the State Board of Administration faced a perfect storm of an aging population all reaching retirement age in roughly the same period of time over the last seven months. We went from five lawyers down to three to start this year. One of those three retired May the 1st, which left us with two lawyers.

So from January to today we've been in the process of trying to restaff up the legal staff at the Board. I'm happy to say that we have hired four assistant general counsels. The last of our hirings started this morning. So I think we've got full staff. We have three support staff in the general counsel's office. We have a good, wide background of lawyers, having transactional background, state experience and private law firm experience.

So I think we are now poised going forward to do a good job handling the day-to-day legal requirements and duties that face the Board, as well as some special products which had been put on a back burner due to our staff shortages in the last year, year and a half.

To address one of those special projects, I'd like to have my deputy general counsel, Maureen Hazen, come up.

MS. HAZEN: Thank you, Tom. Good morning. I'm Maureen Hazen, deputy general counsel. It's a pleasure to be here with you this morning. I'll just keep this brief but wanted to update you on an exciting project that we have going on at the Board. We have recently commenced work on a search to update the pool of law firms who are eligible to serve as securities litigation counsel for the SBA.

In light of recent developments and discussions, pay to play, we think that this is an exciting project. We're working with a consulting firm, EK&A on this project. And based on our initial take, it looks like this is going to be an industry best practices. We're really going to be setting an example for how we conduct this project.

The project is important, really fulfills two separate objectives of the Board. First is a prudence objective. As a fiduciary, the SBA has a duty to ensure that all of its experts, including its counsel, are the most qualified and effective counsel out there to represent the SBA and the funds that it manages, including with respect to securities litigation.

It has been several years since the pool has been revised. And so our office, general counsel's office thinks it's prudent to do that at this time and are excited about interviewing firms and seeing which firms are out there, what kind of cases they are in fact litigating and just what's going on in that particular industry.

The other thing, the other objective that this fulfills is basically the integrity of the process.

We are planning to conduct a search in a prudent, competitive and transparent process. We've engaged the consultant to assist us. And we believe that having a process that's open and transparent like that will really inspire confidence in both the SBA and its members.

And we're also very excited that we're going to be working with a member of each of your three offices who will be participating in the selection committee, Kent Perez, Rob Wheeler and Dan Sumner. So we're looking forward to that.

I'm happy to answer any questions. I know we're short on time but . . .

CFO SINK: I do have a question for the legal department. Certainly I understand, under the Sunshine Law, that we can meet in private if we think it's necessary to talk about litigation matters. But it has been reported that the brokers that were involved in selling the questionable securities into the SBA, the LGIP and the other entities that purchased the same securities, that we had engaged a lawyer to determine whether or not we thought we had a case.

And I'd just like to have some update, whatever is appropriate here in the public forum, of where we stand on possibly recouping some of the losses that -- some of the losses that we incurred.

MS. HAZEN: Well, we have identified three broker-dealers that sold potentially securities that were not registered under the Securities Act of 1933. The significant one is Lehman Brothers, which now is in bankruptcy, and another significant one is J.P. Morgan. Less significant in dollar amount is Credit Suisse.

J.P. Morgan, we've engaged Mike Pucillo, from Berman, DeValerio, about a year ago to conduct negotiations of that, and those discussions are still ongoing.

CFO SINK: Are we making progress?

MS. HAZEN: I believe that we've made progress in that front. We have had a couple of meetings, and we have some more meetings to discuss settlement negotiations in the coming weeks.

GOVERNOR CRIST: What about Lehman?

MS. HAZEN: Well, Lehman Brothers, we filed a claim in the -- the Lehman Brothers entity that sold the commercial paper is Lehman Brothers, Inc., the broker-dealer entity. That entity is in insolvency proceeding under the Securities Investor Protection Act, which is a little bit different substantively than the main Lehman Brothers Holdings bankruptcy. So it's a little bit different proceeding and it's on a different track than the main Lehman Brothers Holdings bankruptcy.

But we did file a claim for sale of unregistered securities in January, and we are still waiting to hear a response from the trustee in that case. And in fact the information in the market on how that particular proceeding is progressing has been very slow coming. So we're just in line with everybody else waiting for an update from the trustee and the court.

GOVERNOR CRIST: For J.P. Morgan, I think you said you've hired outside counsel to assist?

MS. HAZEN: We did. We engaged counsel about a little over a year ago to assist just with the settlement negotiations, and those talks are ongoing.

GOVERNOR CRIST: Is there any other way to be more aggressive as it relates to Lehman, to make sure that we get in line, as close to the front of the line as possible?

MS. HAZEN: We've done everything that we can. Back when we were investigating how to present the claim, we did a lot of research on whether or not we could characterize the claim as a customer claim, which would have given us significant preferential treatment. But it was concluded that that wasn't feasible and in fact could possibly subject us to sanctions. So we ended up -- just thought it was the most prudent course of action to go ahead and file it just as a general customer claim, which means it is an unsecured claim.

Because of the amount of information, or lack thereof, about the Lehman Brothers SIPA proceeding, it's really hard to tell at this point whether there will be anything that's recoverable or not. Of course, in an interest of just clear disclosure, we are informing the public that because it's a bankruptcy, there's -- we are not sure whether anything will be recoverable and to expect the worst.

GOVERNOR CRIST: Right. But we're not sure that there isn't or couldn't be.

MS. HAZEN: That's absolutely correct. We don't know at this point.

GOVERNOR CRIST: I've sued corporations before, and they claimed bankruptcy just to escape having to give up the dough.

MS. HAZEN: That's right. I don't know what kind of assets are in Lehman Brothers, Inc., the broker-dealer entity. That information has not been as open at this point as the main Lehman Brothers Holdings, but it will be out there once the trustee and the court works through it.

And as far as the preference, I mean, the customer claims that have preferential treatment in that proceeding are, you know, a relatively low dollar amount, but there are probably a lot of customers. But, so, we have a significant claim so --

GOVERNOR CRIST: Like people.

MS. HAZEN: Yes.

GOVERNOR CRIST: Fellow Floridians. What may be low to somebody may be a lot to somebody else. So if there's a way to pursue it more aggressively, I would encourage that, please.

CFO SINK: What are any other general areas that you have pending legal matters?

MS. HAZEN: Well, the significant portion of our work is negotiating contracts, investment contracts on behalf of the SBA. And to date we've negotiated about 65 new contracts, many of which are investment agreements, particularly for the strategic investment asset class because that's a relatively new asset class. And then we also have over a hundred addenda to existing contracts that we've negotiated. And that's the significant bulk of our day-to-day legal work.

CFO SINK: Do you have any rule-making underway?

MS. HAZEN: We do. We -- the local government -- with the approval of the new guidelines for the Local Government Pool, at some point we will be undergoing a rule with respect to adopting those guidelines formally. We also have some rule-making going on in the defined contribution investment plan program. That will be going on in the next -- over the next six months or so.

MR. BEENCK: And the Cat Fund.

MS. HAZEN: And the Cat Fund.

CFO SINK: Thank you.

MS. HAZEN: Thank you.

MR. WILLIAMS: Thank you. Next we have an inspector general's report, Bruce Meeks.

MR. MEEKS: Good morning. My name is Bruce Meeks, and I am the inspector general at the SBA. In my IG role, I also serve as the organization's ethics officer. And in that vein I'd like to make a few remarks regarding the SBA's ethics program.

First of all, common to most state entities, our ethics policy provides guidance and expectations related to gifts, expenditures from lobbyists, from principals and others, information on avoidance of conflicts, financial disclosure, outside and secondary employment, honorarium events and the like. But a little bit different from other public entities, our ethics program is very dynamic, it's robust, and it is a living, breathing program. And I'll share a little bit more about that with you.

I'd also like to let you know that in July of this year we made a fairly significant change to our ethics policy. At that time we revised the policy to include an affirmative duty of all staff to immediately escalate and report instances of material error, misrepresentation or omission in internal or external reports or communications. And those escalations and reports are -- have to be reported to either the executive director, the general counsel or myself.

Mandatory ethics training is required each year for all SBA employees. And at the conclusion of taking the ethics course, the employees must certify to compliance with the requirements and standards of the code and the policy. In addition to a general code of ethics and policy, we also have other related policies in place that you would expect as appropriate for a large institutional investment organization such as the SBA.

The SBA's personal investment activity policy imposes clear restrictions on how employees may conduct purchases and sales of certain securities in their own personal portfolios in a manner that does not allow exploitation of non-public information to the employee's personal advantage.

All senior managers at the SBA, as well as all employees in the asset classes in front office, the employees who work in economics and investment policy section and the employees in the defined benefit program, excuse me, the defined contribution program, those employees must come to me and seek preclearance before they can buy and sell certain securities. And in turn, if I choose to buy or sell certain securities, I have to go to the general counsel for the same preclearance.

Again, on an annual basis the personal investment activity policy training is mandatory for all affected persons as well as the SBA's policy on insider trading.

In July of 2006 the SBA launched its fraud hotline. The fraud hotline, the intake provider is an independent third party, and they provide intake of tips, of reports and complaints through a toll-free 800 number which is prominently displayed on the SBA's home page on its Intranet.

Through that vehicle employees may report anonymously any fraud, theft or financial misconduct. And plans are underway in the very, very short-term for us to expand that service to allow tips and reports to also be received by external vendors and service providers. That's a best practice that is being recommended by the Association of Certified Fraud Examiners.

Now, with respect to ethical standards and guidelines for external service providers, we continue to enforce the investment protection principles adopted by the trustees in 2002. Although originally geared toward broker-dealers and money managers, the concept, the investment protection principles concept was expanded in 2006 to include our investment consultants and expanded in 2008 to include Federated Investors, the external manager for Florida Prime.

The investment protection principles compliance process requires an annual written certification by the firms to their adherence to a set of principles related to avoidance or disclosure of conflicts, unbiased and independent investment decision-making and adherence to fiduciary and ethical standards. This exercise keeps to the forefront the priority placed on independence and transparency in investing SBA assets.

And if there are any questions, I'll be glad to entertain them.

ATTORNEY GENERAL McCOLLUM: If I could, that's a very comprehensive report. Has there been any fraud at the SBA of any type uncovered in the last five years?

MR. MEEKS: No, General. No, there has not. And that is something -- if you were to ask me what do I worry about most at the SBA, it would be the occurrence of fraud. And one of the things that we've learned from the biannual report that's produced -- it's a report to the nation. It's produced by the Association of Certified Fraud Examiners.

And what the report says conclusively is that the best way to detect fraud is through tips and through anonymous reporting. And it's better than internal controls, internal audits and external audits.

And what we've tried to create is an environment where employees feel free to come forth, you know, with those reports. I have a very open-door policy. Employees come by to see me all the time. Fortunately, 99 percent of what they come by to see me is not anything that I'm too concerned about. But I have to listen to everything in order to get that one percent that I need to take care of.

ATTORNEY GENERAL McCOLLUM: Do you have meetings with or association with other inspector generals who are similarly situated in other major pension funds around the country? Do you have any interaction?

MR. MEEKS: Yes and no, General. I am involved with the Association of Inspectors General, which is a national organization, and Melinda Miguel is an officer in that organization. I'm involved there, but most of those IGs don't do what I do. So I'm involved with that group. It helps me more with my investigative duties.

But I'm also a member of the Association of Certified Fraud Examiners, and there I'm not dealing so much with IGs, but I'm dealing with compliance people who do a similar kind of function in an investment organization, which typically is not a government organization.

ATTORNEY GENERAL McCOLLUM: One of the reasons I ask that is, and you obviously have answered it by the relationship, you have some knowledge of this, but is our absence of fraud, which is good, I suppose -- at least we don't know about it if it's there. But is that comparable to other situations in the country in terms of these type funds internally, or do you have any feel for that?

MR. MEEKS: I think that we are pretty much in line for an organization of our size. General, I think there are about 175 or so employees, regular employees at the SBA. And when I'm at these conferences and I'm talking with the Wilshires of the world and these big global money management organizations, it's very difficult for me to compare.

But I am not taking the lack of reporting -- I think it's a good sign, but I'm doing everything I can to encourage individuals to come forward if there's, in fact, something out there. And occasionally, General, by the way, I will occasionally conduct a test call, usually in the presence of our chief operating officer, just to make sure that the hotline is, in fact, working and that if I make the report, that I will have that report escalated to me within the hour. And every time that I have tested that process, it has worked. So I know that there's nothing wrong with the process.

ATTORNEY GENERAL McCOLLUM: Thank you.

MR. WILLIAMS: The next item on our agenda is an update on the Hurricane Catastrophe Fund '09 capacity. We've touched on this in a prior meeting, so I won't take you through all the slides. Suffice it to say we're better off than we were at the onset of this year by about 11 and a half billion dollars. Dr. Nicholson is here from the Cat Fund, as is Anne Bert, so if you have any questions for them while they're here, we can certainly cover them.

GOVERNOR CRIST: Yes, I do. Dr. Nicholson, if you could just give us a brief rundown of where we are, I think it would be helpful.

MR. NICHOLSON: Good morning. The important information that affects the Cat Fund has to do with the coverage being provided this year as well as the coverage selected by insurers. For this hurricane season we have -- I've illustrated in charts four, five and also in chart six, the structure of the Cat Fund this year, if you will.

What has occurred is that the Legislature reduced the temporary increase in coverage limit, which was $12 billion, to $10 billion. As of June of -- we actually gave the companies until the end of June to make their selection, since this was late-passed legislation. So we found that 5.6 billion of the 10 billion that was offered was actually selected. So 4.4 billion was not selected. So that was done by approximately, I think, 73 companies out of 195 companies that participate in the Cat Fund.

There was some other coverage that was optional that was offered for some of the smaller companies, the limited apportionment companies and some that have participated in the insurance capital buildup incentive program. There were 25 companies to take advantage of that coverage. And that represented a capacity of about $441 million.

So the bottom line in terms of what was available this year and what was selected is that the total amount was $23.173 billion overall, counting the coverage that was -- the optional coverage that was selected. However, the situation stands that we're looking at our capacity this year being about 16 billion. So we do have a shortfall from our statutory maximum of about $7.2 billion.

Our last chart in this presentation just kind of shows the change from January to June. And Ash had mentioned this at one of the last meetings, is that there's an improvement in the reduction of that gap, so to speak, of about $11 billion. So I've laid out kind of the reasons for that.

We did have an increase in our ability to bond, and our bond estimates went up by about $5 billion. The Legislature took 2 billion off the top. Companies didn't select 4.4 billion of coverage. And we had an increase in our cash balance due to the legislation, also allowed a doubling basically of the cost of the optional coverage at the top of the Cat Fund and also a five percent charge onto the mandatory premium that upped our anticipated premiums by end of year to be $4.5 billion cash balance.

So we're in a lot better position market-wise than what we anticipated earlier. And I think that the reinsurance markets have been very orderly. We really haven't seen a major crisis develop like we did in 2006. It's still a long way to go, but I think we're in pretty good shape.

GOVERNOR CRIST: Just to summarize, I guess, I want to make sure I'm hearing you right, that since January we've increased the Cat Fund by 11 billion in capacity?

MR. NICHOLSON: No.

GOVERNOR CRIST: No.

MR. NICHOLSON: Since January, the difference in the resources that we had and the maximum amount that the Cat Fund could provide under the law has reduced by about $11 billion. So we've had an improvement that way. The reduction in the maximum limit provided by law has come down because of the Legislature, and then the coverage that we did offer companies, they didn't select it all. So they left some on the table, so to speak. So we've actually -- the difference in those two has shrunk. So the gap has been reduced by $11 billion.

GOVERNOR CRIST: So we're $11 billion to the good or to the bad?

MR. NICHOLSON: To the good.

GOVERNOR CRIST: To the good.

MR. NICHOLSON: Expectation-wise, because what has happened is this -- the coverage that we haven't been able to provide has been taken up in the private market. So I think we've probably seen a shift of capacity of about 6.4 billion to the private market, and that's been fairly orderly. I haven't heard of any problems associated with that.

GOVERNOR CRIST: What do you attribute that to?

MR. NICHOLSON: Well, that's all listed here.

GOVERNOR CRIST: The law?

MR. NICHOLSON: The law, $2 billion; the companies' choices, about $4.4 billion. And then there are some other things listed here on the chart.

GOVERNOR CRIST: Is the total -- I'm sorry.

CFO SINK: Well, I was going to weigh in here. Why do you -- what is the speculation about why the companies didn't take the four and a half billion dollars from our fund as opposed to go out and -- I assume they purchased it some other place.

MR. NICHOLSON: Well, I think that's pretty clear. The financial markets, as we reported both in our bonding estimates in October, last October, and also this May, indicated that we could only bond for so much. We were looking at $3 billion of potential bonding in October. Now we're looking at $8 billion in May, as a total. So our total capacity estimate was $16 billion, roughly, this

May.

So the companies looked at that figure, said we don't -- we believe it. We don't think you can provide the total amount of statutory required coverage because of the bond market, so we're not going to select Cat Fund coverage, we're going to buy it in the private market. So I think that's what happened.

GOVERNOR CRIST: So the total capacity in May was 16 billion?

MR. NICHOLSON: That's correct.

GOVERNOR CRIST: Do we know what it is today?

MR. NICHOLSON: I would assume it's about the same. The critical thing in terms of our capacity is what is our capacity going to be when we have a hurricane and we have to go out to the bond markets. So that's an estimate. We'll estimate it again in October. But it's probably going to be a moving number that changes somewhat every day, and there's probably going to be a lot of variability even in that number from day to day.

GOVERNOR CRIST: I'm sure there will. But isn't it true that before the Cat Fund is triggered and the State has to pay the first dollar, the industry must pay, what is it, just over 7 billion?

MR. NICHOLSON: The industry has to --

GOVERNOR CRIST: Industry retention, I think they call it?

MR. NICHOLSON: Yeah, the deductible for the industry in the aggregate is about $7.2 billion before they trigger the Cat Fund.

GOVERNOR CRIST: So if you add 16 and 7, what do you get, 23 billion, in essence --

MR. NICHOLSON: That's correct.

GOVERNOR CRIST: -- that's available to us in one form or another in the event of a catastrophic storm?

MR. NICHOLSON: Right.

GOVERNOR CRIST: Twenty-three billion. Okay. Thank you.

ATTORNEY GENERAL McCOLLUM: Do you know, Jack, if the private market for reinsurance, if the rates have come down? Is that a factor at all in this, or do they just find, as you suggested, the private insurers, that it was not prudent to be buying from us?

MR. NICHOLSON: Well, my understanding is that the rates have gone up by about 15 percent, or that was the estimate last spring. Now, I don't know what has actually happened because I'm not privy to the transactions and the discussions in the private market. But what I have heard is the markets have been orderly. What that means, we haven't really seen major gaps and concerns that the markets weren't able to operate and provide the coverage.

ATTORNEY GENERAL McCOLLUM: So what in essence it is is we have availability now more, which we may not have before in the private sector, for the purchase of reinsurance by the primary insurers, but the cost is greater. They're choosing greater than what they were paying in the private marketplace, as well as greater than what they'd be paying if they bought it through us. So presumably they're going to be wanting to or having to pass those costs on to the consumer. Is that a fair conclusion?

MR. NICHOLSON: I think so.

ATTORNEY GENERAL McCOLLUM: Okay, thank you.

GOVERNOR CRIST: Just to follow up and be clear, you mentioned about a rate increase of some kind. And what were you talking about?

MR. NICHOLSON: I was talking about the legislation that was just passed had two effects on the Cat Fund in terms of building up our cash balance for the future. One was a five percent factor that is going to be increasing five percent per year, up to 25 percent over the next five years, but it's called a cash buildup factor. And that was put into our rates this time. As well as the cost of the temporary increase in coverage limit, the coverage on top of the Cat Fund, the optional coverage, was increased this year by a factor of two. It was normally about two and a half cents per hundred. It was five cents per hundred this year, and it will be a factor of three next year, four, five and six over the next several years.

So the idea, I think, from talking to people in the Legislature, it was to phase out the optional coverage. It was normally supposed to end this year, would be the last year. They decided to phase it out over six years, but at the same time increase the price so that at the end of that time it was more in line with the private market.

GOVERNOR CRIST: To be distinguished from what the insurance commissioner's office has informed us of a 16 percent decrease in insurance rates to individual home owners across the board on average in our state. Different rate you're talking about.

MR. NICHOLSON: Right. I'm talking about the Cat Fund.

GOVERNOR CRIST: Thank you.

MR. WILLIAMS: Thank you, Jack. Why don't we move on. Let's go to tab four, an update on major initiatives and ongoing projects. The first thing we have is something that we touched on right at the beginning of our meeting, which is going back and looking at the fundamentals of the environment we're in and how we meet our responsibilities looking forward in that environment.

What I'm talking about here is an exercise that's normally done only every three to five years, which is an asset-liability review. And from that we derive what we want our target asset allocation to be, and then as a subset of that asset allocation effort, we also decide how much of our assets we want to manage passively and how much we want to manage actively.

The last part of the work is to determine, once we decide how we want to manage our money, where we want to manage it. Do we want to do it ourselves or do we want to put it outside.

Given the very, very dramatic changes we've been through in the financial markets in the recent past, we think it's appropriate to do go ahead and do a ground-up analysis on all of these subjects now with the partnership of our Investment Advisory

Council and the trustees, of course, and recalibrate all our instruments, make sure we all understand why we've chosen the investment course we're on and why we're confident that it's the right course to be on.

We will, for that reason, go ahead and commence this activity later this year. We'll be talking about it at the next IAC meeting. This is a very, very significant amount of work that will take place over a number of months, but I think it puts us in the right position, which is don't assume anything, don't just do things the way they were done yesterday. We're in a new world. Let's look at it, understand it and chart our course from there.

CFO SINK: Ash, I continue to be concerned about the number of other mandates that you have, about 30, isn't it, or something like that?

MR. WILLIAMS: In aggregate, yes.

CFO SINK: Will that be a subset of this project or not or an outgrowth or a -- I mean, you have to look at how you manage these other mandates as well at some point, don't you?

MR. WILLIAMS: It could be. The work we would do on the asset allocation side, which would go into what expected returns are for different asset classes and subclasses looking into the future, would certainly inform our investment strategy choices for all our mandates.

You are correct, there has been a tremendous proliferation of investment mandates at the State Board in recent years. That's a consequence of the Legislature assigning a very wide range of activities to us. And you have a situation that's often seen in life where you have the top three or four of our mandates comprise probably 95 percent plus of our assets under management.

But then you have a large number of relatively minor or small dollar accounts. I don't want to minimize them. As the Governor pointed out earlier, what seems minimal to one person is a lot to somebody else. So I don't minimize the importance of that trust responsibility on any account. But the question can be raised, does it make sense for some of these, particularly the smaller mandates, to go outside.

CFO SINK: Well, maybe that's a -- I won't prolong it today, but maybe that's something that we can discuss at a future board meeting and get your thinking around these other mandates.

MR. WILLIAMS: Right. I think that's an appropriate priority. A little technological help here. What do we need to do?

Okay. So the next major area that we will be coming into is another one we touched on earlier today, which is moving forward with establishing an enterprise risk management and compliance function that's completely independent from the investment management function.

Again, as was pointed out earlier, this was made possible by the support you showed in the budget, for having Deloitte finish up their work. I think what you can look for, when we report to you toward the end of the year on our progress, is a number of specific things that I'll touch on in a minute. But let me first just make clear what this is about.

Risk comes in many forms. And as investors all over the world learned in the past year, there are all kinds of sources of risk. It's not as simple as simply market risk or interest rate risk. There is communication risk. There's reputational risk.

Look at the experience we had with the local pool and some of the comments we heard from our Participant Local Government Advisory Council members earlier today. If you don't have appropriate communications and trust is in any way impaired, it takes a long time to get it back and to regain the rapport you'd like to have with your clients.

So you can see on this slide a list of all the different kinds of risk that we want to take into consideration in everything we do, not just for portfolio decisions but communications decisions and the way we conduct our business overall. And these are all perspectives of risk to the enterprise, that is, the State Board of Administration. So we want to integrate those into our decision-making and also into our compliance process and conduct that compliance process at a high enough level that it's integral to the fabric of our organization.

The Deloitte & Touche review to date has found -- made a couple of key findings. The first is that our operations and our compliance program generally are pretty consistent with what are going on in other major institutions; but not surprisingly, the second point, that there are certain areas we can improve on.

And if we move forward, some of the specifics of what that will come down to in integrating the risk management and compliance functions will be setting up an independent and dedicated compliance function with a chief risk and compliance officer position. Our intention is to have that report directly to me, given its importance. And I think that's important because our senior investment officers report in directly to Kevin SigRist, the deputy executive director.

So this creates a channel of independence that Deloitte felt was appropriate and a high enough level of embrace that we can get things done and they get heard immediately.

CFO SINK: When do you think you'll implement this?

MR. WILLIAMS: We're working on it now, and I think we're going to be way down the road by the end of this year. And our expectation is, what we're working on now -- and we're going to be working with the IAC on this -- is how to do the implementation in terms of the balance of using internal people to fill these roles versus going outside.

I think our initial predisposition is we can get a lot of this done using internal folks, which has two huge advantages. Number one, you don't have the learning curve of bringing in someone from the outside who doesn't know the public fund environment, doesn't know our organization, et cetera. So you have a much faster launch, if you will, of the program.

Number two is cost. As you can imagine, given the misery that's been felt in the financial markets worldwide in the past couple of years, risk and compliance officers today are as sought after as programmers were in the year leading up to Y2K. They're expensive and they're scarce.

So I think we can get a better deal, if you will, on the resource going internal and we can get a faster launch on the program. But we'll reserve final judgment on that until we've heard the thoughts of the IAC. So I think look for a lot of progress in this area by calendar yearend '09.

The next area I'd like to touch on is a securities lending review. We've talked in some prior meetings about experiences. This is another area where people learned a lot about risk over the past couple of years that they didn't know existed. Securities lending is a comparatively esoteric area. It's a province of institutional investing where security assets that one owns can be of interest to other financial institutions for very logical reasons that they would need to borrow them.

Commonly, if you lend someone a security, they give you back cash as collateral, and that cash is commonly more than a dollar for dollar value of the security you've lent. That cash collateral is then reinvested during the time that the security is out on loan, and the cash proceeds on that reinvestment earning stream are shared by the institution that lends the securities, in this case the SBA, and the third party that provides the securities lending service.

In our case, we use three outside vendors who do lending and collateral reinvestment for us; Bank of New York Mellon, Wachovia and Dresdner. Basically the experience over the past couple of years, when institutions all over everywhere had problems with illiquidity, surprises with structured products, et cetera, is that people figured out, hey, the risk in securities lending that's really most relevant isn't getting the security back that you lent out, it's losing money on the investment of the cash collateral. Investing cash was traditionally thought of as a virtually riskless activity. We now know that's not the case.

So what has been our experience? Securities lending has been a very profitable area for the Board over time. Over the past six fiscal years we've earned $462 million in lending activity.

We had, during the toughest part of the liquidity collapse in the downturn, unrealized losses that we conservatively estimated to be $580 million, a lot of money. We have since done a lot of work on that portfolio ourselves. We've also brought in Callan Associates, which is a global consulting firm with particular expertise in this area.

And we've concluded that the vast majority of that exposure, $411 million, is likely to remain just that, an unrealized loss. Markets are coming back. Presuming that continues on the trajectory we anticipate, we are still going to have net earnings from securities lending activity over time, but our net earnings will potentially go down from 462 million to 293 million. The difference between the two being we think, worst case, $169 million of what we're now showing as unrealized losses could become realized ultimately. We think that's conservative. And if we're right, then we still have net gains of just under $300 million.

I raise the fundamental question, though, gee, you've had a program where you made money for a number of years. Then you potentially lost some money. Do you really want to be on that roller-coaster with this kind of activity or would you rather save your primary risk-taking for the parts of your portfolio and your investment activity where you can add alpha, or non-market-correlated gains.

The answer is we don't want to take big risk in securities lending. We are going to be bringing to the Investment Advisory Council at our next meeting the final report of Callan. We briefed the Audit Committee on this last week. Our recommendation will be to de-risk the securities lending activity by changing the nature of lending we do, which will reduce the scope of the activity overall, and by very significantly tightening the investment policy guidelines for the reinvestment of cash securities lending collateral.

What that will mean is, going forward, our expected earnings from lending will go down, but it will be a much more level stream, and the potential for a downside surprise on a reinvestment loss will be essentially gone. Our judgment is that's the right way to go. But, again, until we get the final say with the blessing of the IAC, we'll come to you at the appropriate time with that decision.

ATTORNEY GENERAL McCOLLUM: May I interrupt you just a minute to make a comment, Ash? You referred now on both these last two items to you're going to the IAC. I just want to underscore the importance of the Investment Advisory Council. We had very brief presentations from them today. But they are a very integral part of being our eyes and ears, the trustees, for the day-to-day decision-making that you do in terms of making changes in policy in terms of asset allocation and that sort of thing, and coming up with this kind of a review. Am I right?

MR. WILLIAMS: You're exactly correct. And I would extend the same status to the Participant Local Government Advisory Council within the realm of the Florida Prime Fund. I'll give you an example. You remember not too long ago we had to do a restatement on Pool B valuations.

ATTORNEY GENERAL McCOLLUM: Right.

MR. WILLIAMS: I got on the phone, spoke with every single member of the Participant Local Government Advisory Council within a space of about 36 hours of the event being discovered, made sure they were all fully aware of it. That way, to the extent they got inquiries from any of their peers in the local government financial circle, they would have the facts, be comfortable with where we were, and to the extent they had questions, challenges, et cetera, they had an opportunity to transmit those to me immediately.

It's very much the same way with the IAC. We can't, obviously, have any sort of collective dialogue of the IAC, because of the sunshine laws, in between quarterly meetings. But it's not at all uncommon for me to talk to individual members of the IAC on a regular basis in the normal course of business. And these are smart people with a lot of experience. And to the extent we can get an objective confirmation of a view or a perception or a worry that we have, they're a tremendous sounding board, and that's why they're there.

ATTORNEY GENERAL McCOLLUM: Well, the reason I raised it is because we three trustees can have these quarterly meetings, we see you occasionally, of course, at Cabinet meetings. But it's the IAC and it's the Advisory Pool members that really are carrying on a lot of the function of oversight for us and for this institution. And it's just important for everybody to understand that. I think we all do, but they're here today, some of them. We really want to reinforce our thanks for doing this and also our realization that they're performing an extraordinarily important task.

MR. WILLIAMS: Exactly right. And I think, given the magnitude of the financial responsibility we bear, you can't have too many good minds on the task, and it's a very valuable contribution.

Moving on, strategic investments. Effective May 1, 2007, the trustees authorized up to a 10 percent allocation in the strategic area. We talked a little bit earlier today about what the focus of this asset class is, so we won't really go through that again.

Suffice it to say that we are building the class currently. I think this is the most interesting area of the portfolio. CFO mentioned earlier the question of how much do you do actively and how much do you do passively. I'm a great believer that you should only -- you should focus your active investment activity in those areas where there's a potential to really earn some outperformance to the market.

For that reason our core exposures in U.S. equity and credit markets are heavily passive, roughly 80 percent passive, because the whole idea of trying to beat the crowd in very efficient markets like U.S. equities, very tough bet, and the likelihood of sustaining that over time is not good.

Where that possibility does exist is in this area, where you can do various niche plays, take advantage of transient illiquidity, take advantage of assets that are temporarily unloved and out of favor and beaten down in value, and come in and buy things cheaply, partner with the smartest people you can find in the world and move forward from there.

And given our size and I dare say the State Board's good reputation, we're considered a highly desirable investment partner, and we can access some of the top talent in the world. And when we partner with top talent firms, we deal directly with the top of the firm. You'll notice you didn't have somebody who had just come to work for EnnisKnupp in the last six months here today. You had the president and chief executive and a principal consultant. That's the way most of our relationships tend to be.

So we're excited about this area. You will see in this chart on page ten, we show the market value of what we've already got working for us in this area. And then the next column, I think, is the more pregnant one with potential, market value plus unfunded commitments.

These vehicles in the strategic class to date have been largely non-marketable partnerships, and they are done in a committed capital format, meaning the day you sign an investment agreement, you don't fund it in full. You commit to contribute capital as that investment manager finds opportunities. The reason the difference between 3,452 and 5,418 is exciting to me is that we're in an environment where things are going to continue to be tough for a while. And in some segments they may get tougher before they get better.

So having that committed but unfunded capital is powerful stuff because the only thing that has to happen to put that money to work is for one of our managers to see a target that they find compelling and to tell us, okay, we're going to do so and so, wire us the money, and we'll do it. That's great because it means we don't have a long lead time on putting money to work.

If we move over to the next graph, you can see a display of some of the consulting firms we're working with in different areas. You will notice that we use different consultants for different areas. That's somewhat unusual. A lot of pension funds partner with one major consulting firm and that's it.

Our view is that while there are a lot of wonderful firms out there, and obviously EnnisKnupp is high on that list in our perception, not everybody is the best in the world in every single area. So we use a team approach on our consultants, and we will go to different firms based on our perception of their expertise in particular areas. So you'll see, for example, Mercer here for infrastructure, Townsend for real estate or timberland, Hamilton Lane for private equity and distressed debt.

We think that's a good approach and it's served us well. I would not rate all of these different areas on this list equally in terms of their attractiveness. These are areas that we're looking at because they're the right areas to look at in the field, but the relative attractiveness of any given subclass at any time is a function of its valuation and what the relative risk is we see there now.

So, for example, infrastructure and timberland are both areas that are potentially richly valued now, and the credit environment is particularly negative for infrastructure right now. So those are in process. We've talked to managers. We're doing interviews, but remains to be seen whether we'll actually pull the trigger. We want to see the stars line up just so before we're willing to pull the trigger and go into something new.

In the multi-sector and hedge fund strategy area, we're in the final strokes of a new consulting relationship now. Presuming that goes the way we think it's going to go, we're going to have another world class consultant join our roster that has particularly strong background in the hedge fund and venture capital area. We will then be in a position to go forward with structuring the way we want exposure to those areas.

The creation and launch of the Florida Growth Fund obviously jump-starts us into the VC area on a fund of fund basis. This consultant would be able to help us with any direct venture capital fund investments we might choose to make outside a fund of fund structure.

Likewise, on the hedge fund side, our exposure there could be gained in either or a combination of two ways. One would be funds of hedge funds. The second would be direct hedge fund investments. It's common historically at the State Board, when a new asset class is entered, to use a fund of fund approach while gaining familiarity with that area, to assist in our own internal diligence capabilities as we grow familiarity and knowledge with a particular area.

The jury is out on that one at this point. That's exactly the sort of thing we would work through with the IAC. But I think it's reasonable to think this one will also be well down the road by the end of this year.

The Florida Growth Fund, progressing nicely there. I think we mentioned at the last trustees' meeting that Hamilton Lane is in process of opening two offices in Florida, one in Fort Lauderdale, one in Orlando. They have recently brought on Mr. Greg Baty who will be working full time for Hamilton Lane, based here in Florida. Stanford undergrad, Stanford graduate school, strong experience in the venture capital area out in the Silicon Valley. I think it will be a great extension of our staff, and I believe that Hamilton Lane will be adding at least one other full-time professional in Florida as well.

As you can see from the pipeline summary on the chart here, a number of funds have been screened. A number of them have been called from those screenings and are now being put through the full due diligence process. Target sectors consistent with the direction of the legislation; technology, health care and alternative energy.

We've also looked at a number of co-investment opportunities. Word is continuing to spread about the existence of this program. I think there's a tremendous amount of excitement out there, and I think that the fact that, given the downturn and the problems with liquidity, particularly in endowment and foundation land, which has been one of the primary sources of venture capital funding historically, the State of Florida stepping up at this point in time with a growth fund is, in the venture capital world, it's a global event. This is the biggest play that's out there in this field right now. So I think we should have our pick of a number of good opportunities.

ATTORNEY GENERAL McCOLLUM: If I could comment, too, Ash. I think that of all the things that you're doing right now, although everything is a fiduciary responsibility to get a good return, this is perhaps the most significant benefit to Florida, Florida's economy that we're doing and you're doing. And I really think it's a terrific opportunity, to get a return as well as to provide that kind of investment that we talked about for a long time. So thank you.

MR. WILLIAMS: You're quite welcome. Corporate governance, we submitted our annual corporate governance report to the trustees in a prior meeting. So I won't take you through all the detail here. What I wanted to do today was just say that in between now and the next proxy season, we want to hold a couple of workshops for the benefit of you and your staff to familiarize you fully with the existing proxy voting guidelines that we have. And I'd like to be in a position by the next proxy season that those guidelines have all been taken to you and approved formally, as I think they should be.

Corporate governance is a strong chapter in the history of the SBA. The State of Florida and the SBA trustees were founding members of the Council of Institutional Investors. We've had, I think, two if not three different executive directors who have chaired the executive committee of the council. I'm one of them. And this is an area where we've got a rich history, and I think we want to continue it, and we'll probably all agree on that. So look for us to provide more in the future there.

We're also going to provide one of the self-animated PowerPoint presentations like the one we did for our beneficiaries on the strength of the pension fund back in March. We're going to be preparing one of those on the proxy voting process. We're also going to be doing one for the Cat Fund, showing where we are in terms of strength there.

The last item, also on the subject of governance, but this more inward-looking, the SBA governance research project. Following your instructions in the May 13 meeting, a working group of your staff, together with myself and Mike McCauley at the SBA, have done a number of things. We set up a research methodology through which we would contact a number of other public and private investment institutions and also lawyers, financial consultants and investment managers, all of whom have perspective on what tend to be the keys to accomplishment and excellence in investment management over time.

And we have now captured, through a combination of surveys and interviews, a great deal of information on this. Drafting is proceeding. Amber Hughes is here. Amber did, I guess, the first draft on this last week and got it out to the members of the group. We are all going to be sending in our edits. And the time table is for us to have a draft report to you, I believe, by the 8th of this month and for the final report to be taken up on the 15th.

The nature of our effort is purely fact-gathering. There will be no recommendations. That's your territory, not ours. But I think we'll have you well informed for the 15th. That covers our agenda. So unless there are other questions, I think we're good.

GOVERNOR CRIST: Thank you, Ash.

MR. WILLIAMS: Thank you.

GOVERNOR CRIST: Good job.

(Whereupon the meeting was concluded at 12:15 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 2 through 153, 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 or counsel, nor am I interested in this proceeding or its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of September 2009.

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JO LANGSTON
Registered Professional Reporter