



# ***Florida PRIME™ Best Practices Review***

Florida State Board of Administration (SBA)

*June 2025*

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# Table of Contents

Executive Summary	1
2025 Participant Survey Results	2
Risk Management Enhancement Update	3
Additional Fund Offering Discussion	4
Investment Policy Statement Review	5

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## Executive Summary

Aon Investments (Aon) conducts a Best Practices Review of Florida PRIME on an annual basis. In this report, we review the 2025 Participant Survey responses, update on risk management enhancements, discuss the potential to expand the pool offerings and review the Investment Policy Statement.

Based on our review, we continue to believe that Florida PRIME is being managed in a manner consistent with best practices and in consideration of participants' best interests.

### **2025 Best Practices Review Key Takeaways**

- Suggested additional investment related disclosures are intended to increase transparency and risk controls for participant decision-making.
- Current circumstances warrant strong consideration for offering additional pool options with varying risk/reward profiles for current and potential participants.
- Investment Policy Statement is comprehensive and covers the appropriate topics.

## 2025 Participant Survey Highlights

On a regular basis, the SBA conducts a survey of Florida PRIME participants to gain a better understanding of the participant base, current usage of available services, and overall satisfaction. The survey also seeks to gauge interest across several components, including the addition of more fund options, and to ensure awareness of participant needs and preferences. As of May 15, 2025, the survey attracted 75 respondents which is a strong response rate based on previous years.

A diversified group of governmental units responded to the survey, primarily representing municipalities, but also counties, special districts and school boards, with respondents roughly evenly split between investment decision-makers and personnel in account operations. Of the respondents, 45% have one account with Florida PRIME and 18% have 2 accounts. The survey indicated that approximately 62% of respondents have a balance of over \$10 million with Florida PRIME, and another 23% indicated having between \$1 million and \$10 million with the pool.

The survey includes questions that relate to how and why participants utilize other competing and complementary liquidity vehicles. Of the respondents, about 59% indicated that their organization has a policy that dictates a maximum allowable allocation to a single investment pool or money market fund. Of those with a policy limit, approximately 32% are restricted to allocating 50% or less to any single governmental investment pool or money market fund. Relatedly, when asked what prevents an organization from using Florida PRIME as the primary source of cash management, about 21% indicated that investment policy restrictions are a major reason and another 6% indicated it is a moderate reason. The greatest response was 30% of respondents who indicated that diversification needs of the cash portfolio was a major or moderate reason. The aggregated responses did suggest that an unattractive current yield was not much of a reason, which is similar to last year's survey. Inadequate participant disclosures, costs, functionality/operational features, and lack of additional investment product offerings were all highly selected as not reasons at all for not using Florida PRIME as a primary source of cash management.

When asked about other investment vehicles used in the past 12 months for cash management, respondents indicated the most used vehicles aside from Florida PRIME are SEC-Registered money market funds at 21%, the Florida Cooperative Liquid Assets Securities System at 20% and the Florida Public Assets for Liquidity Management at 18% of respondents. The survey also asked respondents to rank how competing investment services have added value to the respondent organizations' investment goals. Respondents indicated that risk, defined as perceived risk levels adjusted for the level of return, was the most appealing feature. Yield, defined as the level of interest income, return potential and Available Funds (other complementary investment vehicles to choose from) were the next features being selected as being the most appealing features at 29% and 23%, respectively. Client service and cost were ranked the lowest in terms of value add from competing investment services.

The survey questions surrounding current services related to Florida PRIME continue to receive strong feedback. Related to the Florida PRIME website, 85% of respondents indicated that they visit the site at least once a month and 96% responded that they find the website functionality as very easy to use. The survey also indicated that the majority of participants continue to utilize the website primarily to access account balances/statements and transactions, and approximately 42% of respondents utilize the website to access the Monthly Summary Reports. When asked about the usefulness of multiple communication pieces, the responses also continue to be favorable. The survey indicated that respondents rated the following communications as very useful: monthly account statements (95%), e-mail notifications of withdrawals (84%) and changes to bank instructions (79%). Further, respondents found the following to be at least somewhat useful/very useful: Periodic eNotices (90%), Monthly Summary Reports (89%), and Weekly Market Commentary (86%). Lastly, respondents indicated great satisfaction with the Florida PRIME representatives, with 99% of respondents indicating the representatives were very courteous, very knowledgeable and very responsive.

Overall, the survey results continue to be positive from both operational and service-related perspectives. Responses related to the use of competing investment vehicles indicated that the highest response (36%) was no use of the vehicles listed in the survey. Roughly equally used at around 20% were the Florida Cooperative Liquid Assets Securities System (FL CLASS), the Florida Public Assets for Liquidity Management ("FL PALM") and an SEC-registered money market fund. The survey also indicated that risk and yield continue to be top of mind, but notably, that a large percentage of respondents' organizations have investment policies limiting available funds to invest in a single entity and/or seek diversification from a single cash management source.

Generally, the survey indicates a strong level of satisfaction with the management of the Florida PRIME portfolio. The large majority (94%) of respondents indicated that they are very likely or extremely likely to recommend Florida PRIME to a colleague or other governmental investor. We continue to believe the survey is a great mechanism to obtain feedback from Florida PRIME participants, as well as to express the SBA's awareness and receptiveness to the participant's needs and wants. Note, the results cited above are as of May 15, 2025 and may modestly change once the survey is officially closed.

# Risk Management Enhancement Update

The 2024 Best Practices report highlighted the current and potential risk mitigation tools and procedures used to oversee the Florida PRIME portfolio and used to ensure the safety of participant assets and prudent investment management of the portfolio.

Among the considerations were additional investment-related disclosures to serve as an added risk control for participant decision-making. FL PRIME currently has several avenues where some investment risk disclosures are made, including within the Monthly Summary Reports and fact sheets posted on the Florida PRIME website, as well as within several information documents for participants prior to enrolling, including the Information Statement & Operating Procedures documents.

Notably, the Information Statement highlights the following three principal investment risks related to investing in Florida PRIME:

1. Risk that Florida PRIME will not maintain a Stable Net Asset Value
2. Interest Rate Risks
3. Credit Risks

While FL PRIME is a conservative strategy investing in high-quality, liquid and short-term securities, there are still investment risks and building out these disclosures is a prudent practice. Over the past year, the SBA drafted additional investment related disclosures with an appropriate level of detail.

## The draft disclosures cover the following investment-related risks:

Concentration Risk	Liquidity Risk
Counterparty Risk	Market and Economic Risk
Credit Risk	Redemption Risk
Cybersecurity and Operational Risk	Regulatory Risk
Government Guarantee and Insurance Risk	Reinvestment Rate Risk
Interest Rate Risk	Selection risk
Issuer Risk	Yield Curve Risk
Large Participant Redemption Risk	

The added disclosures further the transparency of the investment risks of investing in FL PRIME and the SBA has always sought full transparency as it relates to portfolio management, holdings and compliance testing.

The Florida PRIME management and governance processes have been continually updated and improved over time. The SBA, Federated, Aon and other independent parties have periodically reviewed the entire compliance process to ensure that the procedures and communications remain effective, relevant, and efficient. The proposed additional disclosures offer an additional layer of risk management for its participants.

## Additional Fund Offerings

Over the past several years, the SBA has regularly considered the efficacy of expanding the pool offerings available to participants. The current Florida PRIME investment pool is the sole cash management solution offered by the SBA for Florida public entities. Florida PRIME offers a safe and moderately conservative cash management solution. Adding additional pool offerings would allow participants to tailor their cash management needs across different risk and return spectrums as appropriate for their specific circumstances.

Over the past 10+ years as the SBA has evaluated additional pool options, the prevailing circumstances did not offer enough compelling rationale to expand the cash management options. Historically, headwinds that prevented additional pool options from being pursued included, the additional operational and administrative complexities, the market environment, the lack of demand from participants, and across certain time periods, the uncertainty related to SEC money market reforms.

As the SBA continuously evaluates the merits for additional funds, the current environment may be more supportive for expanding the lineup of pool options available to participants. Specifically, the SBA has considered expanding the risk and reward spectrum of pools offered via two additional pool options:

- 1) Government-only fund
  - Would provide a lower risk and return option relative to FL PRIME, comprised of only Treasury or government agency securities, eliminating credit risk and offering a weighted average maturity similar to or less than FL PRIME.
- 2) An enhanced cash return fund (perhaps PRIME+ )
  - Would provide a higher risk and return option relative to FL PRIME, targeting a longer duration and weighted average maturity. The exact risk and return profile may vary but enhanced cash funds typically target a weighted average maturity of 180 days to 1 year, compared to the 60-day maximum of the current pool. An enhanced cash option is also managed on a total return basis (variable NAV), as opposed to the constant \$1 NAV basis that FL PRIME currently maintains.

Below we provide considerations regarding the potential for additional pool offerings

### **Support for Additional Offerings**

Most often, the capacity to have options across the risk and return spectrum is generally viewed as a positive aspect. Offering options allows participants to determine the level of risk that is most appropriate for their circumstances and invest accordingly. Further, offering fund options with different risk profiles allows participants to diversify their risk within their cash investments, if desired. We believe these advantages could serve to increase the appeal of the F SBA's offerings. To the extent that additional dollars are attracted, that could also serve to increase the ability to enhance scale and potentially lower costs for the benefit of the participants.

It is also interesting to note that the responses from the annual participant survey consistently have indicated that the level of yield and risk continue to be the characteristics most important to the selection of cash investment pools. The 2025 survey<sup>1</sup> indicated that the yield (level of interest income, return potential) was the most appealing feature for 44% of respondents. Risk (perceived risk levels adjusted for level of return) and liquidity (full daily liquidity versus some restriction on daily account transactions) were both listed as the most appealing feature for 28% and 27% of respondents, respectively. Additionally, when asked how competing investment services (funds other than FL PRIME) added value, yield, risk and available funds (other complementary investment vehicles to choose from) were selected roughly equally (one-third of respondents each). Lastly, roughly 30% of respondents indicated that diversification needs is a major reason preventing use of Florida PRIME as the primary source of cash management services. These results from the survey respondents are supportive of expanding the pool options.

Lastly, while it is expected that the fund offerings would be for the long-term, it is important to consider the current market environment. For most of the time in the past when additional funds were considered, the U.S. was in a very low-interest rate environment, which posed expected challenges for both a government only option and an enhanced cash option. The market environment is much different today, with 3-month T-Bills yielding over 4.0% at the end of April 2025. In this environment, there is more variability in the expected yield between a government only and an enhanced cash fund option. Additionally, there is more balance to the direction of yields from current levels than a few years ago when the direction was (mostly) only up, which would have resulted in underperformance of the pool relative to FL PRIME. Thus, while we do not recommend attempting to time a release of a new option, we do view the market environment today as more favorable than in was in the past for offering multiple cash management solutions.

### **Considerations for Additional Pool Offerings**

Among the largest considerations for the SBA when evaluating expanding the pool offerings is the additional operational and administrative complexities that would come alongside their release. The SBA is responsible for administering the FL PRIME pool. Assuming a similar structure, the SBA would also be responsible for the ongoing recordkeeping, custody, administration, valuation, return calculations, cash flow management and compliance monitoring, among other items, for the additional funds as well. It is also important to note that launching an enhanced cash fund option, with the ability to invest farther out on the yield curve, would bring additional complexities. The accounting for an enhanced cash fund would need to be on a total return basis (floating NAV), as opposed to the constant \$1 NAV basis used today for FL PRIME and that would be used for a government-only option. Lastly, communication pieces and education opportunities would need to be well thought out to ensure participants fully understand the risks and opportunities across the available options, in order to make informed decisions.

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<sup>1</sup> Results as of May 15, 2025. Final survey results may differ slightly after accounting for any additional responses between May 15<sup>th</sup> and the survey close.

## **Conclusion**

We believe there is merit to further evaluating the potential benefits to participants of providing additional fund options across the risk and reward spectrum. Interest from the Participant Survey indicate yield and risk are the main considerations for an additional pool option. Further, stabilization around money market reforms and a new market environment relative to the previous 10+ years offers further support to evaluate the efficacy of additional pool offerings. There does need to be due consideration given to the immense administrative effort and resources needed to successfully launch additional fund offerings, as well as comfort with the risk of less than anticipated traction into any new fund offering. That said, it is common for state organizations to offer multiple pool options for their local participants and the diversification benefits and additional optionality to customize risk and return preference are compelling considerations. Aon supports the continued evaluation of pursuing additional fund options.

# Investment Policy Review

On an annual basis, Aon reviews the Florida PRIME Investment Policy Statement (IPS). The objective of the IPS is to set forth the objectives, strategy, guidelines, and overall responsibilities for the oversight and prudent investment of Florida PRIME assets. While the IPS reviewed on a regular basis, we do not anticipate frequent changes to the document. The purpose of the review is to ensure the document reflects the evolving investment portfolio, current legal and regulatory developments, and best practices. A well-written and unambiguous document is critical to the success of any investment program.

The Florida PRIME IPS addresses the major areas listed below:

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| I. Purpose and Scope                             | VII. Portfolio Securities and Special Transactions |
| II. Overview of Florida PRIME                    | VIII. Risks Associated with Florida PRIME          |
| III. Roles and Responsibilities                  | IX. Controls and Escalation Procedures             |
| IV. Amortized Cost Accounting                    | X. Deposits and Withdrawals                        |
| V. Investment Objective                          | XI. Management Reporting                           |
| VI. Investment Strategies & Specific Limitations |  |

Aon finds the IPS to be comprehensive and appropriate for the management and oversight of Florida PRIME. We believe the items above are relevant and critical to the success of the management of the pool's assets. The investment objective of the pool and the roles and responsibilities are clearly defined. The IPS provides the necessary specifics and supplemental guidelines for a clear understanding of the investment strategy, making direct and clear reference to the appropriate GASB guidelines for appropriate fiduciaries to follow and understand. We believe the IPS thoroughly defines the risks that are associated with investing in Florida PRIME and find the detailed control procedures provide the comfort of prudent safe-keeping and oversight of assets. The SBA has been diligent with staying current with overall best practices in managing the Florida PRIME assets and has consistently ensured the IPS is up to date with the current regulatory, legal, and investment environments.

Overall, we continue to believe the Florida PRIME IPS is robust and in line with the goals and objectives of the investment pool and continue to find the Policy to be an effective guiding document for the management of Florida PRIME.