



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

Florida State Board of Administration (SBA)

*June 2018*

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## Executive Summary

Aon Hewitt Investment Consulting (AHIC) conducts a Best Practices Review of Florida PRIME on an annual basis. In this report, we provide a summary of the most recent Governance, Risk Management, and Compliance Assessment and report on the discontinuation of the Participant Local Government Advisory Council. Typically our report provides an overview of the results from the annual participant survey; however, this year the survey will be conducted later in the year and we will include our evaluation of the survey results in our 2019 Best Practices Review.

We also reviewed the Investment Policy Statement and did not have any recommendations for changes.

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.

### 2018 Recommendations

- We do not have any recommendations at this time.

## Compliance Review

The compliance policies that govern the Florida PRIME investment pool and corresponding compliance procedures represent a robust, multilayered approach to ensuring the portfolio remains in compliance with the criteria contained in the Investment Policy Statement. The effectiveness of the compliance procedures is crucial to the success of Florida PRIME in preserving and protecting participants' assets. The Florida PRIME procedures have been continually updated and improved over time, as the portfolio and industry continue to evolve. We believe it is important to periodically take a step back and review the entire compliance process to ensure that the procedures remain effective, relevant, and efficient.

In the 2017 Best Practices Review, AHIC conducted a comprehensive review of the compliance procedures and policies that govern the management of the Florida PRIME Investment Pool. The review included an evaluation of the compliance practices followed by Federated, S&P, and the SBA. The observations from our review were threefold. First, that Federated has established thorough and effective compliance procedures, which together with their past performance, has provided us with full confidence in their ability to manage the portfolio successfully and in compliance with the applicable guidelines. Second, that the SBA has developed a very comprehensive compliance program that both ensures the policies in place for Florida PRIME are in line with best practices and provides independent verification that the portfolio is constantly managed in compliance with the governing policies. Lastly, after reviewing the compliance process as a whole, our review identified a few potential areas where efficiencies could be gained through streamlining processes and refocusing redundant efforts towards more effective activities.

Subsequent to our review, the SBA underwent its Triennial Governance, Risk Management and Compliance Assessment conducted by a third party consultant. This Assessment covered all major mandates managed by the SBA, including Florida PRIME. To no surprise, the Assessment identified the SBA as a high performing organization with strong governance and compliance practices and did not find any material issues. The assessment also provided some suggestions for the SBA to consider surrounding its compliance structure and practices. At the time our 2018 Best Practices Review was being written, the SBA was still digesting and responding to the results of the Triennial Assessment which covers the entire organization, of which Florida PRIME is only one aspect. Therefore, AHIC will postpone making any parallel recommendations until any potential changes resulting from the Assessment have been implemented.

Importantly, we reiterate that the compliance policies that govern the Florida PRIME investment pool and corresponding compliance procedures represent a robust, multilayered approach to ensuring the portfolio remains in compliance with the criteria contained in the Investment Policy Statement. AHIC maintains ongoing communication with the SBA Staff in order to stay apprised of any potential changes to the compliance procedures governing Florida PRIME.

# Investment Policy Review

On a periodic basis, AHIC conducts a review of 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. The purpose of the periodic 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 an investment program

Included in AHIC's 2016 best practices review was a comprehensive review of the Florida PRIME IPS and recommendations for modifications to align the IPS with the recently released GASB 79 guidelines. The modifications were all generally modest as Florida PRIME has stayed current with the guidelines issued by GASB over time.

As part of the 2018 review, AHIC reviewed the IPS and continues to find that the topics covered continue to be relevant and cover the components that are critical to the success of the management of Florida PRIME 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.

During the 2018 review, two modest reference edits, noted below, were identified and will be updated.

1. Within Section I. Purpose and Scope: Reference to Fund B will be removed as Section 218.421 was repealed earlier this year and the Fund B Trust Fund has been terminated.
2. Within Section II. Overview of Florida PRIME: A citation to Section 215.47(9) needs to be corrected to Section 215.47(10) to reflect the correct reference to the applicable fiduciary standards.

While it is not expected that the IPS will change frequently, it is a living, breathing document that should be reviewed periodically to ensure it remains appropriate and relevant. Overall, we continue to believe the Florida PRIME IPS is robust and in line with the goals and objectives of investment pool, and continue to find the Policy to be an effective guiding document for the management of Florida PRIME.

## Participant Local Government Advisory Council

The Participant Local Government Advisory Council (PLGAC) was formed in 2009 to provide additional oversight to the Florida SBA on Florida PRIME and was statutorily repealed on March 30, 2018. The PLGAC consisted of members from local governments appointed by the Board of Trustees and advised the SBA on matters related to Florida PRIME including participant communication, investment policy statement, investment approach, compliance policies and procedures, and other matters that need their attention. As we entered the ninth year since the formation of the PLGAC, the recommendation by the existing members of the PLGAC was to repeal the Council. The recommendation was also to continue to instead rely on the oversight and advice provided by the Investment Advisory Council (IAC). The IAC will continue to review Florida PRIME performance and risk on a quarterly basis and the Best Practices Review on an annual basis, as they do in the current structure. Aon Hewitt agrees with this approach. Since we began our Best Practices Review, the Florida PRIME has implemented many changes and enhancements to ensure that participants are receiving the best a local government investment pool can offer in terms of investment strategy, investment risk, oversight and compliance, education, communication, and technology. We have made very few recommendations in the past couple years as a result of our review, which is an indication that Florida PRIME has reached a target state wherein it is functioning at the very highest level, performing well, and delivering to participants what they need. For all these reasons, we are supportive of the repeal of the PLGAC and the suggested continued reliance on the IAC for continued oversight and council to the SBA on Florida PRIME.